National Industrial Report

May 2023

East Coast Ports Threaten Western Dominance

- After a prolonged period of bottlenecks and backlogs, the supply chain has normalized and the new normal for major U.S. ports appears to be emerging.

- Import volume fell 11.8% year-over-year in March, according to the U.S. Census Bureau. Consumer demand for goods has fallen steadily over recent quarters as pandemic restrictions have eased, allowing people to spend money on services again, while inflation has eaten away at discretionary income. Further depressing import volumes is the process of destocking. In response to supply-chain backlogs, many companies beefed up inventories. Inventory-to-sales ratios have remained elevated so far this year, and imports are unlikely to rebound until some existing inventories are cleared.

- Volume at nearly all major ports declined year-over-year in the first quarter, reflecting issues including the slowdown of consumer trade. But the impact has been more pronounced at ports in the Western U.S. Through April 2023, container volumes were down year-over-year in eight of the top nine U.S. ports, with Houston (up 3.4%) the lone exception, according to local port authorities and Savills. Year-over-year volume was down at other major ports between 9.0% (Virginia) and 31.5% (Los Angeles). West Coast ports were down compared to pre-pandemic levels, while the major ports in other parts of the country remain up from 2019 levels.

- Since the Panama Canal Expansion was completed in 2016, ports along the East Coast and in the Gulf of Mexico have been expanding and looking to win shipping business away from the Southern California ports, which handle roughly 40% of imports from Asia. The Georgia Port Authority, for example, expedited $500 million in capacity expansion projects last year.

- Eastern seaports have benefited from capital improvements, while Western ports have struggled with backlogs, a lack of industrial space and labor issues that spooked shipping companies. The labor contract that covers more than 22,000 workers at 22 ports along the West Coast expired in July and a new collective bargaining agreement has yet to be achieved, although a tentative agreement was made on key issues in April and a full agreement appears to be within reach. The impact on West Coast industrial markets so far is minimal, as vacancy rates remain razor-thin and rent growth is robust. In the Inland Empire, in-place rents have grown 18.2% over the last 12 months, with a vacancy rate of 1.9%, while Los Angeles has seen 12.3% growth and a 2.0% vacancy rate.

Rents and Occupancy: Demand for Space Slows but Remains Positive

- National in-place rents for industrial space averaged $7.18 per square foot in April, an increase of three cents from March and up 7.3% year-over-year.
- Large coastal markets continue to see the largest gains in the average rate of in-place rents, which have grown by 18.2% in the Inland Empire, 12.3% in Los Angeles, 9.7% in New Jersey and 9.2% in Boston.
- The national vacancy rate in April increased 20 basis points from the previous month to 4.1%. Industrial occupancy remains solid despite record-level new supply being delivered in recent years and an under-construction pipeline that represents 3.4% of stock.
- The lowest vacancy rates in the country are in Columbus (1.7%), the Inland Empire (1.9%), Los Angeles (2.0%) and Charlotte (2.4%).
- The average rate of new leases signed in the last 12 months rose to $9.58 per square foot through April, $2.40 more than the average for all leases.
- Occupier demand and absorption are cooling as consumer spending takes a hit from rising inflation and as companies tighten their belts as consensus economic forecasts call for a recession to start in the second half of 2023. To be sure, demand remains well to the positive side, but it is braking somewhat, particularly among consumer-related businesses. Firms that operate in the e-commerce and brick-and-mortar retail segments are trying to conserve cash and have become more conservative in projecting space needs. A prime example is Amazon, which has contracted occupied space slightly in recent months by canceling some announced expansion plans, subleasing space and closing some facilities. Amazon remains the biggest industrial user and continues to expand, but it has slowed its growth, reflecting the more cautious environment.

Average Rent by Metro

Market	Apr-23 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.18	7.3%	$9.58	4.1%
Inland Empire	$7.88	18.2%	$16.60	1.9%
Los Angeles	$11.69	12.3%	$19.72	2.0%
New Jersey	$9.14	9.7%	$13.87	2.9%
Boston	$8.90	9.2%	$14.23	6.9%
Miami	$9.64	8.0%	$13.59	3.4%
Phoenix	$7.68	7.8%	$9.76	3.1%
Bridgeport	$7.87	7.8%	$13.04	4.0%
Orange County	$12.87	7.7%	$18.19	4.1%
Seattle	$9.65	7.4%	$13.27	4.5%
Bay Area	$11.89	7.3%	$14.87	3.8%
Atlanta	$4.99	7.1%	$5.96	3.1%
Dallas	$5.30	7.0%	$6.94	5.5%
Portland	$8.61	6.8%	$10.98	3.8%
Detroit	$6.27	6.4%	$8.56	3.3%
Philadelphia	$6.84	6.0%	$9.58	4.2%
Baltimore	$7.18	5.6%	$8.91	3.5%
Tampa	$6.88	5.1%	$7.62	5.9%
Central Valley	$5.63	4.9%	$7.36	3.6%
Nashville	$5.22	4.9%	$9.31	3.7%
Cincinnati	$4.46	4.6%	$5.28	4.2%
Charlotte	$6.24	3.8%	$7.06	2.4%
Kansas City	$4.35	3.7%	$4.32	5.4%
Denver	$8.01	3.7%	$8.46	6.7%
Memphis	$3.62	3.7%	$3.75	5.6%
Twin Cities	$6.29	3.6%	$6.93	5.7%
Chicago	$5.62	3.4%	$6.86	4.2%
Columbus	$4.18	3.1%	$5.34	1.7%
Indianapolis	$4.25	3.1%	$5.15	2.6%
Houston	$6.11	3.0%	$6.36	8.4%
St. Louis	$4.42	1.6%	$4.37	4.0%

Source: Yardi Matrix. Data as of April 2023. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.

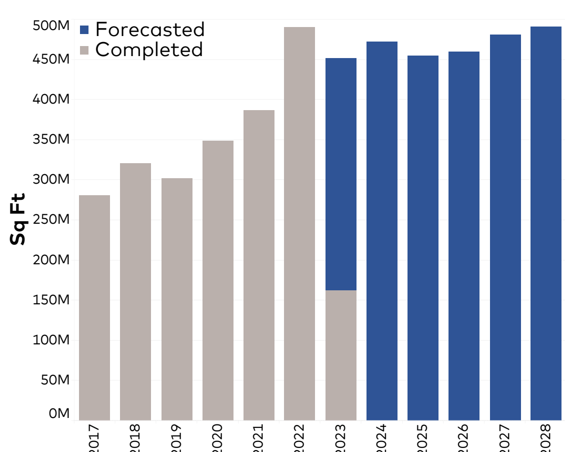
Supply:
New Construction Starts Slowing

- Nationally, 616.4 million square feet of new industrial space are under construction. An additional 721.9 million square feet are in the planning stages of development.

- The first four months of the year saw 162.4 million square feet of industrial space delivered. Dallas–Fort Worth has had the highest amount of deliveries this year, with 17.6 million square feet of new space coming online. This is more than twice the amount of the second-highest market, Indianapolis, which has delivered 8.3 million square feet so far in 2023.

- While the amount of space under construction is high, new starts are slowing, with 86.8 million square feet of new stock beginning construction this year. This slowdown partially reflects concerns about slowing demand. However, the biggest reason for reduced starts is tightened bank underwriting standards in the wake of the recent failures at SVB Bank, Signature Bank and others. Construction debt remains somewhat unavailable, as banks are financing relationship customers; private equity is taking up some slack, but terms and cost are far less favorable for borrowers. That means some projects won't pencil out or will need more equity to proceed.

National New Supply Forecast



Source: Yardi Matrix. Data as of April 2023

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	616,425,390	3.4%	7.3%
Phoenix	57,147,632	16.3%	39.5%
Dallas	56,374,299	6.4%	11.8%
Inland Empire	32,615,357	5.2%	9.8%
Charlotte	14,624,781	4.9%	11.2%
Denver	11,643,464	4.6%	7.7%
Columbus	13,163,852	4.5%	7.3%
Philadelphia	17,677,319	4.2%	9.6%
Houston	21,434,855	3.7%	6.5%
Indianapolis	10,971,692	3.1%	8.4%
Tampa	7,897,721	3.0%	7.3%
Seattle	8,092,245	2.9%	5.1%
Cincinnati	7,986,059	2.9%	4.0%
Bay Area	7,736,919	2.7%	4.6%
Boston	5,864,523	2.5%	3.8%
Chicago	24,491,402	2.4%	5.7%
Kansas City	5,929,200	2.2%	15.5%
Central Valley	6,609,450	1.9%	3.5%
New Jersey	9,250,089	1.7%	3.9%
Detroit	9,604,036	1.7%	3.2%
Atlanta	9,135,783	1.7%	3.0%
Nashville	3,460,450	1.7%	3.6%
Baltimore	3,320,539	1.6%	3.4%
Memphis	3,621,750	1.3%	2.2%
Twin Cities	3,825,358	1.2%	3.4%
Cleveland	2,548,493	0.7%	2.1%
Portland	1,338,565	0.7%	2.0%
Bridgeport	1,156,891	0.5%	1.7%
Los Angeles	3,074,121	0.4%	2.0%
Orange County	570,858	0.3%	0.7%

Source: Yardi Matrix. Data as of April 2023

Economic Indicators:
Warehouse and Storage Employment Levels Off

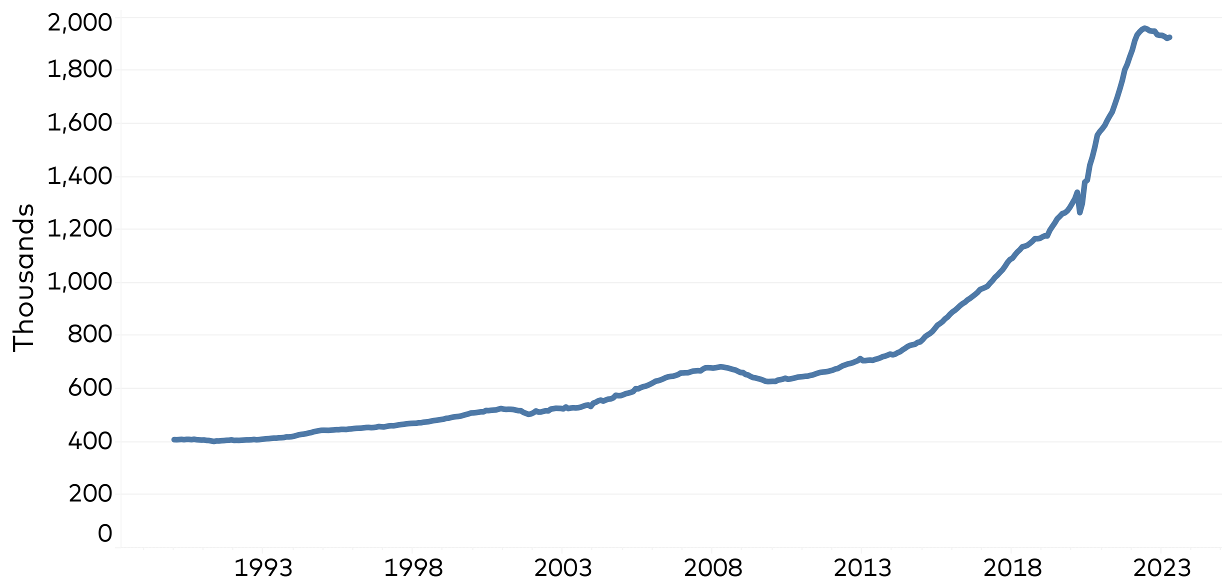
- After decreasing for nine consecutive months, the warehousing and storage subsector added 4,000 jobs in April, according to the Bureau of Labor Statistics.
- Warehousing and storage employment was already growing quickly in the second half of the last decade, but the pandemic-driven e-commerce boom led the subsector to add workers at a frenzied pace. The leading firm in this space is of course Amazon, which expanded rapidly during the pandemic, looking to add new facilities and workers as fast as it feasibly could. However, last year Amazon admitted it overexpanded and it has since slowed its hiring and paused or delayed massive new fulfillment centers. Warehousing and storage employment is now only slightly ahead of its pre-pandemic trendline.
- Despite the subsector cooling in recent months, there are twice as many warehousing and storage workers in April as there were at the end of 2016.

Economic Indicators

National Employment (April) 155.7M 0.2% MoM ▲ 2.6% YoY ▲	**ISM Purchasing Manager's Index** (April) 47.1 0.8 MoM ▲ -8.8 YoY ▼
Inventories (February) $2,471.6B 0.2% MoM ▲ 9.1% YoY ▲	**Imports** (March) $260.9B -0.5% MoM ▼ -11.8% YoY ▼
Core Retail Sales (March) $499.4B -0.3% MoM ▼ 5.1% YoY ▲	**Exports** (March) $174.3B 3.1% MoM ▲ 2.6% YoY ▲

Sources: Bureau of Labor Statistics; Institute for Supply Management, U.S. Census Bureau; Bureau of Economic Analysis; Moody's Analytics

Warehousing and Storage Employment



Sources: U.S. Census Bureau (BOC), Yardi Matrix

Transactions:
Property Values Cool in 2023

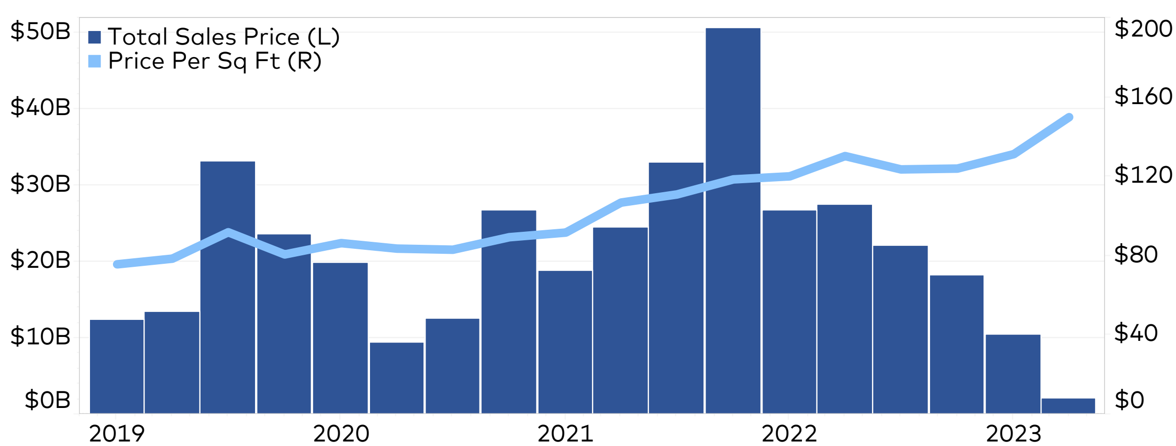
- Nationally, there were $12.6 billion of industrial transactions through the first four months of the year, according to Yardi Matrix.
- While total sales volume has fallen since the Federal Reserve began raising interest rates last year, the average sale price of an industrial property has continued to grow, rising from $124 per square foot in 2022 to $134 so far this year, an increase of 7.7%. This mark is solid, given the current environment, but noticeably down from previous years. The average sale price increased 26.6% between 2020 and 2021 and 13.7% between 2021 and 2022.
- While industrial property values have cooled, they are still better than most other property classes. In 1Q 2023, industrial had its first negative quarterly return in the MSCI/PREA U.S. AFOE Quarterly Property Fund Index. Industrial's appreciation return was -1.6% in the quarter, compared to -3.9% for the entire index. Industrial's 1Q 2023 total return was -0.9%, compared to -3.1% for the entire index. Over the last year, industrial has returned 3.4% in the MSCI/PREA index compared to -1.3% for the entire property index, and over three years industrial has returned 21.0% compared to the index's 8.4% return.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 04/30)
National	$134.10	$12,608
Inland Empire	$275.11	$1,664
Bay Area	$333.15	$802
Los Angeles	$403.66	$783
Phoenix	$191.34	$484
New Jersey	$202.86	$473
Houston	$134.86	$466
Chicago	$76.54	$414
Dallas	$100.72	$372
Cincinnati	$180.30	$288
Detroit	$68.78	$269
Philadelphia	$105.97	$265
Orange County	$316.20	$255
Charlotte	$102.19	$246
Atlanta	$106.83	$234
Boston	$134.07	$231
Twin Cities	$88.37	$215
Columbus	$88.15	$199
Indianapolis	$94.70	$192
Bridgeport	$141.80	$191
Seattle	$226.05	$172
Tampa	$108.34	$112
Nashville	$104.90	$88
Portland	$140.56	$74
Denver	$119.44	$63
Memphis	$69.39	$62

Source: Yardi Matrix. Data as of April 2023

Quarterly Transactions



Source: Yardi Matrix. Data as of April 2023

Definitions

Yardi Matrix collects listing rate and occupancy data using proprietary methods.

- Average Rents—Provided by Yardi Market Insight, a cutting-edge service that uses anonymized and aggregated data from other Yardi platforms to provide the most accurate rental and expense information available.
- Vacancy—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations. Also provided by Yardi Market Insight.

Stage of the supply pipeline:

- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

Yardi Matrix

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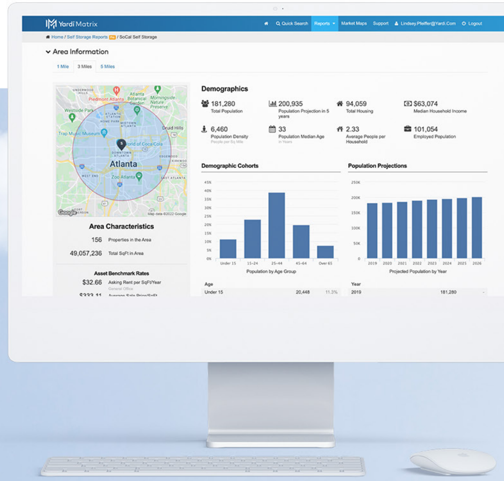
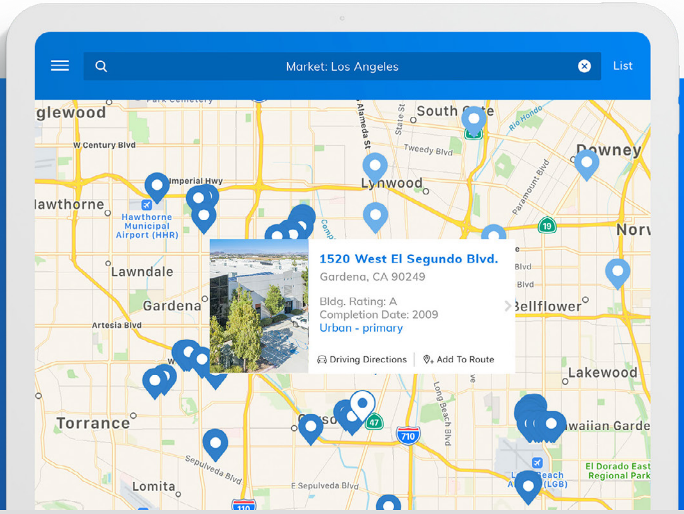


INDUSTRIAL KEY FEATURES

- Active in 107 markets across the U.S., covering over 16 billion square feet
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Pierce the LLC with true ownership and contact info at the asset and portfolio level
- Gain new supply pipeline information at the asset, competitive set and market level
- Anonymized transacted rents and expense comps



Yardi Matrix Industrial delivers comprehensive property-level data, allowing you to make informed business decisions faster than ever.

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