Yardi® Matrix

National Industrial Report

June 2023

Firms Look to Mexico for Nearshoring

- As firms look for ways to reduce risk by adding redundancy, resilience and diversification to their supply chains, nearshoring to Mexico has emerged as a solution many companies have embraced.

- China's zero-covid policy, which would periodically shut down part of the country, helped fuel many of the shipping backlogs and supply chain bottlenecks that persisted in 2021 and 2022. Yet nearshoring is not solely a response to problems caused by the coronavirus; it has been building for years due to mounting tensions between the U.S. and China, tariffs imposed by the Trump administration, and the simple need to get products faster.

- Nearshoring of manufacturing and supply chains to Mexico has also been brewing for a while, and Mexico—not China—is the most active importer into the U.S. so far this year. Through April, more than $153 billion in goods were imported from Mexico, while China ($133 billion) was the third-largest importer behind No. 2 Canada ($139 billion). Last year, imports from China totaled $536 billion, ahead of Mexico ($455 billion) and Canada ($437 billion). While Canada is also a nearshoring partner with U.S. firms, multinational corporations have shown a preference for Mexico due to low labor costs, abundant land and closer proximity to major U.S. population centers.

- According to data from the Bureau of Transportation Statistics, the Laredo, TX border gateway is by far the busiest for goods shipments. In 2021, Laredo accounted for 37% of truck container border crossings and 46% of rail containers. The movement of goods through this border port, along with other entry points scattered along southeastern Texas, has driven demand for industrial space along the central Texas corridor that runs through San Antonio, Austin and Dallas. El Paso, across the border from Juarez, also has seen a spike in industrial demand due to nearshoring. The under-construction supply in the market represents more than 10% of stock, including multiple large logistics parks and a 2.2 million-square-foot distribution center for TJ Maxx.

- We anticipate the nearshoring movement to continue apace as firms look for ways to mitigate the fragility in supply chains that was exposed during the last few years. Auto manufacturing has long accounted for a major share of Mexico's exports—an estimated 9 out of 10 cars built in the country are exported, and many cars assembled in the U.S. rely on parts made in Mexico—but in the coming years, the type of manufacturers in Northern Mexico will become more diverse.

Rents and Occupancy: Uptick in Vacancies as New Properties Deliver

- National in-place rents for industrial space averaged $7.29 per square foot in May, an increase of 11 cents from April and up 7.4% year-over-year.
- Port markets continued to have the largest rent gains in May, led by in-place rents that rose 17.1% in the Inland Empire, 12.8% in Los Angeles, 10.0% in New Jersey, 9.7% in Boston and 9.2% in Orange County.
- The national vacancy rate in May increased 20 basis points from the previous month to 4.3%. Record levels of new supply have been delivered in recent quarters at the same time that demand has normalized relative to the heights seen during the pandemic. More than 1 billion square feet have been delivered since the start of 2021, with more than 200 million square feet coming online in the first five months of 2023 alone. While much of that space has been absorbed, some markets may see an upturn in vacancy during the coming quarters. We anticipate that markets with low barriers to entry for new development will face the highest risk of oversupply, while port markets will continue to see low vacancy rates.
- The average rate for new leases signed in the last 12 months rose to $9.50 per square foot through May, $2.21 more than the average for all leases.
- The largest spreads between in-place rents and new leases were found in coastal port markets: the Inland Empire (new leases cost $8.10 more per square foot), Los Angeles ($6.45), Boston ($4.87), Orange County ($4.79), Bridgeport, Conn. ($4.47) and New Jersey ($3.90). Midwestern markets recorded the lowest spreads between new and in-place leases, with new leases in Kansas City and St. Louis costing slightly less than the local market average for all leases.

Average Rent by Metro

Market	May-23 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.29	7.4%	$9.50	4.3%
Inland Empire	$8.61	17.1%	$16.71	2.2%
Los Angeles	$12.83	12.8%	$19.28	3.4%
New Jersey	$9.66	10.0%	$13.56	3.1%
Boston	$9.43	9.7%	$14.30	6.4%
Orange County	$13.62	9.2%	$18.41	4.5%
Bridgeport	$8.41	8.4%	$12.88	4.2%
Phoenix	$8.12	8.3%	$9.47	3.7%
Miami	$10.16	8.1%	$13.62	4.3%
Seattle	$10.16	7.6%	$12.36	4.0%
Bay Area	$12.23	7.4%	$15.25	3.9%
Atlanta	$5.26	7.3%	$6.25	2.7%
Portland	$9.10	7.2%	$11.06	3.9%
Dallas–Fort Worth	$5.53	7.0%	$6.70	5.8%
Philadelphia	$7.13	6.4%	$9.46	3.9%
Central Valley	$5.79	5.9%	$7.55	3.5%
Nashville	$5.60	5.7%	$8.56	2.7%
Baltimore	$7.37	5.3%	$9.40	3.9%
Detroit	$6.65	4.4%	$7.90	3.4%
Cincinnati	$4.63	4.3%	$5.22	3.6%
Columbus	$4.28	4.1%	$5.38	1.7%
Denver	$8.19	4.1%	$9.00	7.0%
Tampa	$7.11	3.8%	$7.78	6.3%
Kansas City	$4.66	3.8%	$4.30	4.1%
Chicago	$5.80	3.6%	$7.02	5.0%
Twin Cities	$6.44	3.4%	$6.68	5.4%
Indianapolis	$4.36	3.3%	$4.92	2.7%
Memphis	$3.72	3.0%	$4.04	5.7%
Houston	$6.29	2.9%	$6.51	9.1%
Charlotte	$6.32	2.6%	$6.73	3.1%
St. Louis	$4.40	2.3%	$4.04	4.5%

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

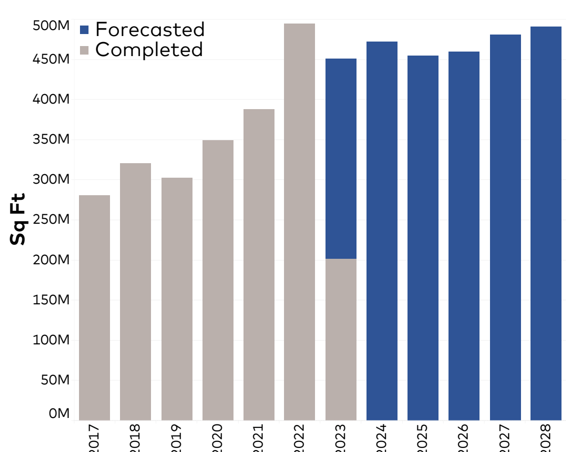
Supply:
Phoenix, Dallas Lap Rest of Field for Starts

- Nationally, 618.9 million square feet of industrial space is under construction, representing 3.4% of stock. So far this year, 202.0 million square feet of industrial space has been delivered.

- Due to rising interest rates and tightening credit standards, industrial construction starts have slowed in recent quarters. Through the first five months of 2021, construction started on 211.6 million square feet of industrial supply, and 240.5 million had started through the first five months of last year. By contrast, only 109.6 million square feet of new product had started through May 2023. While a lag in collecting complete data means that this number will increase somewhat, it is safe to say that starts have slowed significantly.

- While starts are low across the board, two markets continue to outpace the nation. Phoenix has had more than 13.5 million square feet of industrial starts, while in Dallas, 13.0 million square feet has gotten underway. Those two markets account for nearly a quarter of all industrial space started this year. No other market has seen more than 5.5 million square feet of space start in 2023.

National New Supply Forecast



Source: Yardi Matrix. Data as of May 2023

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	618,942,810	3.4%	7.2%
Phoenix	58,442,907	16.6%	38.2%
Dallas–Fort Worth	53,790,335	6.0%	11.6%
Charlotte	16,363,332	5.4%	11.6%
Inland Empire	33,120,220	5.3%	9.7%
Denver	11,678,916	4.6%	7.1%
Philadelphia	18,392,323	4.4%	9.3%
Columbus	11,852,702	4.1%	8.7%
Houston	22,099,847	3.8%	6.6%
Indianapolis	12,492,460	3.6%	8.9%
Tampa	8,814,224	3.4%	7.7%
Cincinnati	7,358,426	2.7%	3.8%
Bay Area	7,600,792	2.6%	4.6%
Boston	5,701,050	2.4%	3.7%
Chicago	23,349,524	2.3%	4.9%
Seattle	6,370,802	2.2%	5.0%
New Jersey	11,345,316	2.0%	4.1%
Kansas City	5,359,606	2.0%	14.9%
Central Valley	6,407,205	1.9%	3.6%
Atlanta	9,280,892	1.7%	3.0%
Nashville	3,460,450	1.7%	3.8%
Detroit	8,253,734	1.5%	3.2%
Minneapolis	4,349,710	1.3%	3.6%
Baltimore	2,733,684	1.3%	3.5%
Memphis	2,902,290	1.0%	2.0%
Portland	1,274,245	0.7%	2.3%
Los Angeles	3,158,331	0.5%	2.0%
Cleveland	2,097,755	0.5%	2.0%
Bridgeport	1,117,991	0.5%	2.1%
Orange County	950,335	0.5%	0.9%

Source: Yardi Matrix. Data as of May 2023

Economic Indicators:
E-Commerce Grows in First Quarter

- $272.6 billion of e-commerce sales occurred in the first quarter of the year, a 3.0% increase over the previous quarter, according to the Census Bureau. This was the largest quarterly increase since the fourth quarter of 2021.

- E-commerce's share of core retail sales (excluding food, automobiles and gasoline) increased in the quarter, moving from 17.9% to 18.2%. This was the first time since the second quarter of 2021 that e-commerce's share of core retail sales eclipsed 18%. Following the spike at the start of the pandemic, the share hovered under that 18% mark for many quarters.

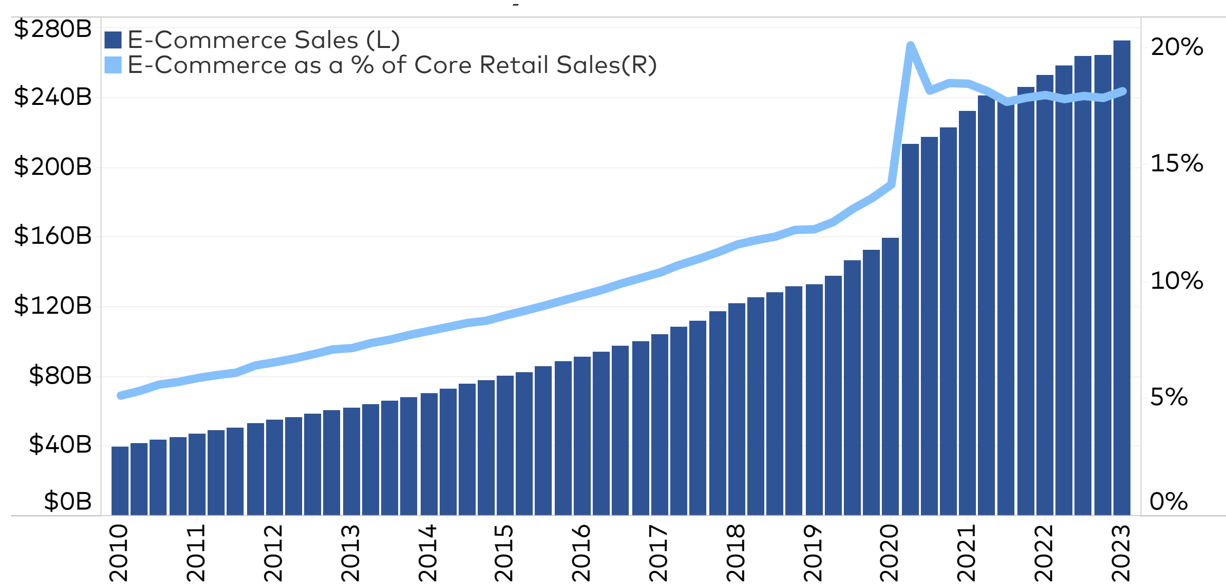
- A one-quarter increase does not make a trend, but the bump in both e-commerce sales volume and its share of core retail sales is welcome news for a sector that ran hot in 2020 and 2021 but has cooled since.

Economic Indicators

National Employment (May)	ISM Purchasing Manager's Index (May)
156.1M	46.9
0.2% MoM ▲	-0.2 MoM ▼
2.7% YoY ▲	-9.2 YoY ▼
Inventories (March)	**Imports** (April)
$2,539.8B	$263.2B
-0.2% MoM ▼	2.0% MoM ▲
6.2% YoY ▲	-6.7% YoY ▼
Core Retail Sales (April)	**Exports** (April)
$499.5B	$167.1B
0.5% MoM ▲	-5.3% MoM ▼
3.8% YoY ▲	-4.9% YoY ▼

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

Quarterly E-Commerce Sales



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

Transactions:
L.A. Is Not Just a Port Market

- $16.3 million of industrial transactions have been logged this year, according to Yardi Matrix. The sector remains an attractive asset class, but sales have fallen swiftly in the last year as the Fed raised rates and the e-commerce boom ended. Due to higher costs of capital and tighter credit conditions, we anticipate many owners will hold properties for the time being.

- Although sales volume remains on a downward trend, prices have remained relatively stable, with the national average price per square foot for an industrial transaction sitting at $129 in the second quarter, down just 1.3% from the second quarter last year.

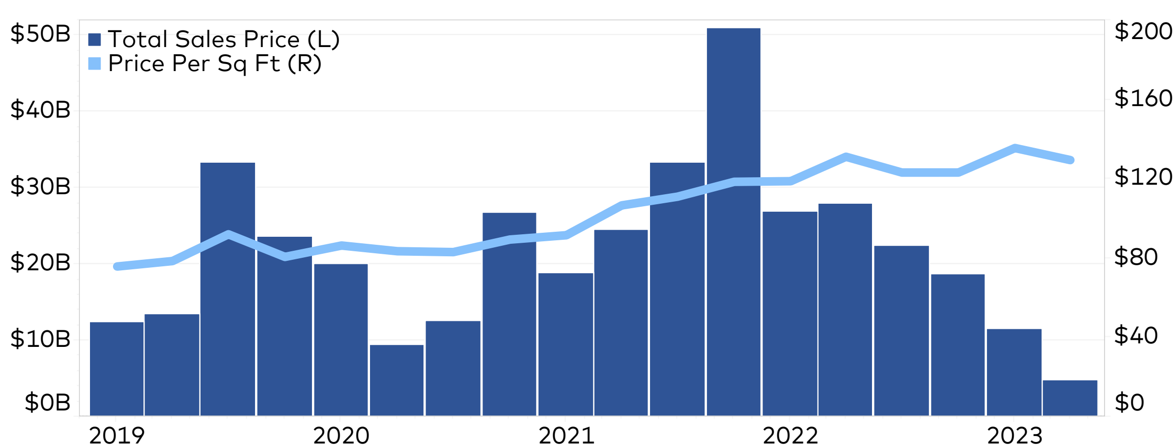
- Los Angeles has recorded the second most sales volume of any market so far this year, and it is not solely driven by nearby ports. The market's standing as the largest entertainment hub in the nation impacts the industrial sector in the city as well. The largest sale in Los Angeles this year is GI Partners' $211 million purchase of 12800 Culver Blvd., a 185,000 square-foot-property with data storage, digital content distribution capabilities and satellite arrays. In an $85 million deal, Nuveen bought 2160 7th Street, which was recently converted from a produce company's distribution facility to a production studio.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 05/31)
National	$134	$16,289
Inland Empire	$270	$1,893
Los Angeles	$417	$1,106
Bay Area	$379	$1,083
Phoenix	$171	$836
New Jersey	$217	$684
Houston	$123	$601
Dallas - Fort Worth	$108	$590
Chicago	$78	$506
Charlotte	$95	$335
Atlanta	$108	$321
Twin Cities	$91	$315
Philadelphia	$109	$302
Cincinnati	$166	$294
Detroit	$70	$293
Orange County	$323	$284
Boston	$134	$244
Columbus	$90	$232
Tampa	$117	$219
Indianapolis	$92	$209
Bridgeport	$123	$199
Seattle	$231	$180
Baltimore	$104	$178
Denver	$138	$120
Memphis	$79	$106
Cleveland	$45	$94

Source: Yardi Matrix. Data as of May 2023

Quarterly Transactions



Source: Yardi Matrix. Data as of May 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.

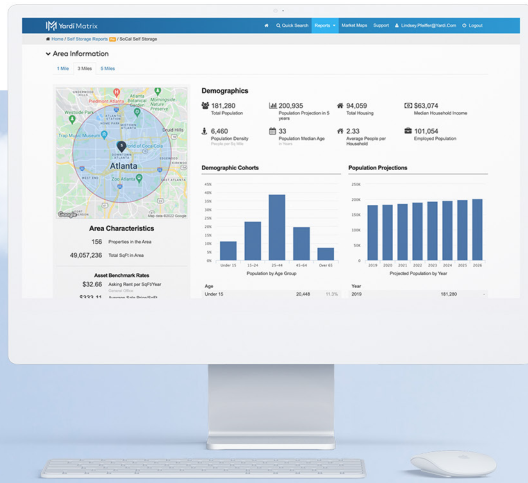
Stage of the supply pipeline:

- 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.

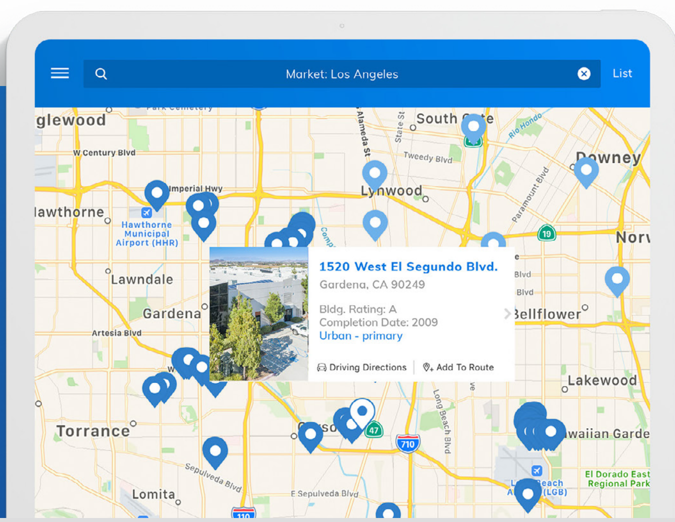
Yardi® Matrix

Power your business with the industry's leading data provider



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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