Yardi Matrix

National Industrial Report

September 2023

New Supply Slowdown on the Horizon

- The impressive run of new industrial supply is set to slow in 2024 and 2025, but long-term demand drivers will continue to fuel development in the sector for years to come.

- A delivery slowdown is on the horizon, with starts falling sharply this year. Just 204.3 million square feet of industrial space have been started so far in 2023, down from 614.1 million last year and 586 million in 2021. A convergence of factors is leading to the slowdown. Demand for industrial space has normalized from the significant levels seen in previous years. Interest rate hikes and stricter lending standards have made construction financing more expensive and harder to come by. Spec development has become a riskier proposition due to inflation hitting material and labor costs as well as general economic uncertainty. Despite all these headwinds, the long-term outlook for industrial development remains positive.

- Logistics demand has normalized and e-commerce sales growth has returned to its prepandemic trendline, yet many of the responses to the pandemic and ensuing supply-chain issues are now deep rooted within the economy. To avoid disruption, many firms moved from just-in-time inventory management to just-in-case, which reduces exposure to supplier delays but requires more warehouse space. Further, online sales require more logistics space than brick-and-mortar, because distribution networks need to be larger and decentralized to deliver goods quickly.

- The reshoring and nearshoring of manufacturing will be a massive driver of industrial demand going forward. Annualized construction spending on manufacturing facilities totaled $202 million in July, a year-over-year increase of more than 70%, according to the Census Bureau. Massive, multibillion-dollar semiconductor and electric vehicle facilities are being built across the country, driven in large part by government incentives and geopolitical trends. The clustering of supplier networks in markets that have these large facilities—locations including Phoenix, Austin, Columbus, Georgia and South Carolina—will fuel additional development. Nearshoring of manufacturing will also drive demand, with markets such as San Antonio and El Paso set to grow rapidly due to increased levels of trade with Mexico.

- Even with normalized demand, competition for space will increase once deliveries slow in 2024 and 2025. We anticipate that starts will pick up again in 2026.

Rents and Occupancy:
Port Markets Continue Rent Growth Dominance

- National in-place rents for industrial space averaged $7.45 per square foot in August, an increase of 6 cents from July and up 7.5% year-over-year.
- The highest rent increases continue to be in port markets, with Southern California leading the way yet again. The region claimed the top three spots nationally, with in-place rents growing 19.2% over the last 12 months in the Inland Empire, 11.8% in Los Angeles and 10.5% in Orange County. Despite labor disruptions and slowing global trade leading to a decline in the total number of containers handled in the last year, the combined activity at the ports of Los Angeles and Long Beach far outpaces other regions of the country. On the East Coast, in-place rents grew 10.4% in Boston, 10.1% in Miami, 9.3% in New Jersey and 8.9% in Bridgeport.
- The national average vacancy rate in August was 4.4%, unchanged from the previous month.
- The average rate for new leases signed in the last 12 months rose to $9.91 per square foot through August, $2.46 more than the average for all leases.
- Coastal port markets have seen the largest spreads, with the greatest premiums for new leases found in California. New leases averaged $9.31 per square foot more in the Inland Empire than the average cost for all leases, the largest spread in the nation. Los Angeles ($7.06), the Bay Area ($7.00) and Orange County ($5.36) also saw large spreads between new leases and the average rate. Outside of California, tenants are paying large premiums for a new lease in Miami ($4.69) and New Jersey ($4.40).

Average Rent by Metro

Market	Aug-23 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.45	7.6%	$9.91	4.4%
Inland Empire	$9.13	19.2%	$18.44	3.3%
Los Angeles	$13.18	11.8%	$20.24	4.6%
Orange County	$14.05	10.5%	$19.41	3.9%
Boston	$9.78	10.4%	$10.39	7.4%
Miami	$10.48	10.1%	$15.17	4.0%
New Jersey	$9.91	9.3%	$14.31	6.1%
Bridgeport	$8.53	8.9%	$10.32	2.6%
Seattle	$10.44	8.5%	$13.21	4.1%
Portland	$9.12	8.3%	$11.26	4.4%
Phoenix	$8.31	7.9%	$10.18	3.2%
Bay Area	$12.48	7.3%	$19.48	3.8%
Nashville	$5.84	7.0%	$8.58	2.0%
Dallas–Ft Worth	$5.60	6.9%	$7.30	3.9%
Philadelphia	$7.35	6.7%	$9.13	4.2%
Atlanta	$5.40	6.5%	$6.33	3.5%
Baltimore	$7.53	5.2%	$9.73	6.4%
Central Valley	$5.88	4.8%	$8.75	2.9%
Twin Cities	$6.57	4.8%	$7.30	5.6%
Tampa	$7.23	4.6%	$8.35	6.6%
Cincinnati	$4.67	4.5%	$5.61	5.3%
Columbus	$4.45	4.5%	$6.18	1.8%
St. Louis	$4.51	4.2%	$4.41	5.8%
Chicago	$5.85	4.1%	$7.30	3.7%
Houston	$6.34	3.9%	$6.96	8.4%
Denver	$8.22	3.8%	$9.04	5.7%
Memphis	$3.79	3.6%	$3.98	4.5%
Charlotte	$6.45	3.5%	$6.43	4.6%
Kansas City	$4.67	3.3%	$4.87	4.3%
Detroit	$6.57	3.3%	$6.67	3.0%
Indianapolis	$4.41	3.0%	$5.16	2.5%

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

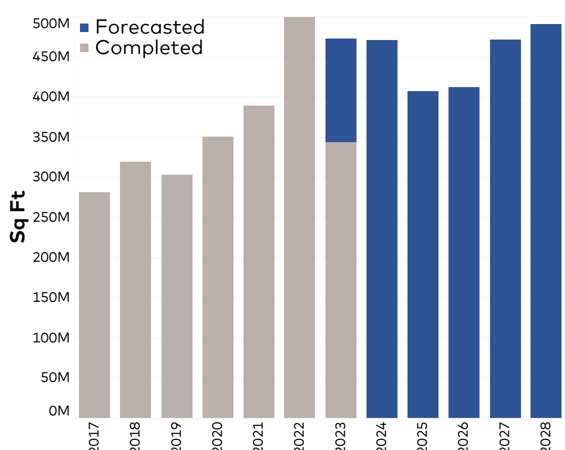
Supply:
Houston's Large Logistics Pipeline

- Some 566.7 million square feet of industrial supply are under construction, according to Yardi Matrix.

- Through August, 344.1 million square feet of industrial space have been delivered in the U.S. this year. While industrial space is being built across the country, much of the new space is concentrated in relatively few markets. The top 15 markets account for more than half of all deliveries this year. Dallas (32.1 million square feet) is by far the most active market for deliveries, nearly double second-place Phoenix (17.4 million).

- Houston has seen the third most deliveries of any market this year, with 14.6 million square feet of industrial space added to the market through the end of August. The vast majority of this space is in logistics parks, whether it be new builds or expansions to existing centers. Lovett Industrial, for example, so far this year has completed four buildings at Interchange 249 totaling more than 1.8 million square feet, part of a planned 3.1 million-square-foot development. The new-supply wave is not yet over, either. Houston has another 21.2 million square feet under construction, representing 3.6% of stock.

National New Supply Forecast



Source: Yardi Matrix. Data as of August 2023

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	566,714,839	3.1%	7.0%
Dallas–Ft Worth	51,885,402	5.8%	11.1%
Phoenix	51,313,856	14.1%	34.5%
Inland Empire	31,812,072	5.1%	16.5%
Chicago	23,417,751	2.3%	4.7%
Houston	21,203,211	3.6%	6.0%
Philadelphia	16,771,184	3.9%	8.7%
Charlotte	13,731,574	4.5%	11.4%
Denver	11,430,188	4.5%	6.6%
Columbus	9,921,182	3.4%	9.1%
Indianapolis	8,845,668	2.5%	6.7%
New Jersey	8,232,908	1.5%	3.8%
Detroit	8,224,692	1.5%	3.0%
Bay Area	7,452,284	2.6%	4.5%
Kansas City	7,219,316	2.6%	16.4%
Central Valley	6,580,909	1.9%	3.3%
Atlanta	5,628,916	1.0%	2.9%
Tampa	5,457,383	2.1%	6.7%
Twin Cities	4,757,787	1.4%	3.5%
Seattle	4,043,976	1.4%	4.6%
Los Angeles	3,718,712	0.5%	1.5%
Cincinnati	3,622,578	1.3%	2.4%
Nashville	2,715,950	1.3%	4.1%
Boston	2,467,025	1.0%	2.2%
Memphis	1,895,290	0.7%	1.0%
Baltimore	1,748,414	0.8%	2.6%
Cleveland–Akron	1,533,755	0.4%	1.8%
Bridgeport	1,194,593	0.6%	1.9%
Portland	1,084,694	0.6%	2.5%
Orange County	1,029,369	0.5%	0.9%

Source: Yardi Matrix. Data as of August 2023

Economic Indicators:
E-Commerce Picks Up Again in Second Quarter

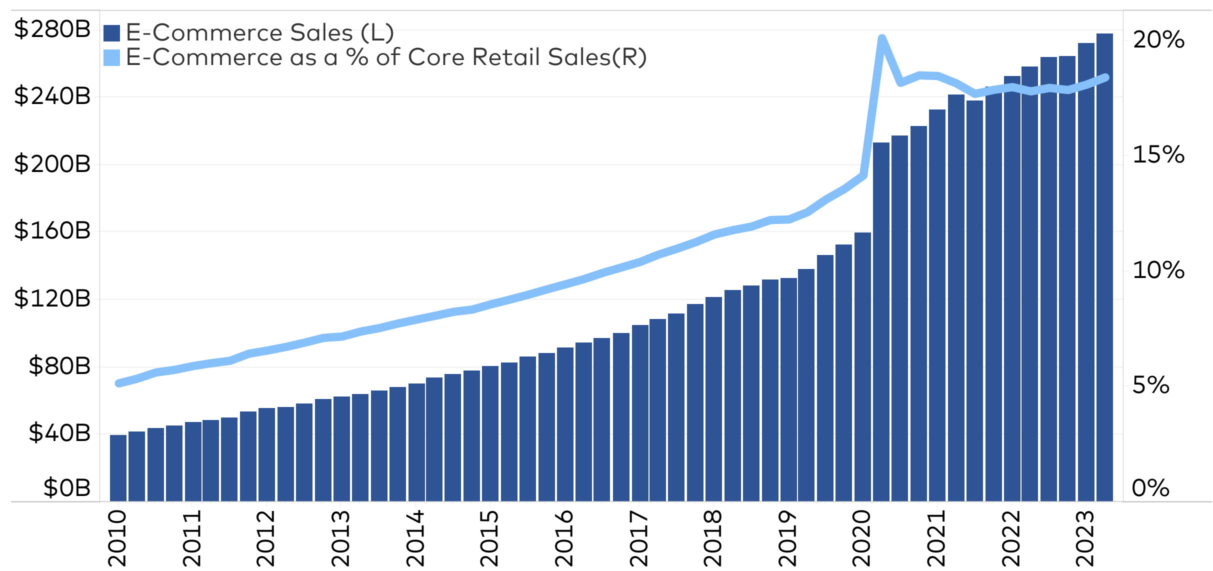
- A total of $277.6 billion of e-commerce sales occurred during the second quarter of the year, an increase of 2.1% over the previous quarter and 7.5% over the year, according to the Census Bureau.
- E-commerce's share of core retail sales (excluding food, automobiles and gasoline) increased to 18.4% from 18.1% in the first quarter. This was the highest mark e-commerce has attained since the first quarter of 2021. Following the initial pandemic-driven spike in 2020, its share of core retail sales had decreased in the majority of subsequent quarters, but it has increased in both quarters with data available so far this year.
- E-commerce's share of core retail sales now sits squarely on its prepandemic trendline. While many believed in 2020 that the crisis would shift the trend ahead by a few years, that does not seem to be the case.

Economic Indicators

National Employment (August) 156.4M 0.1% MoM ▲ 2.0% YoY ▲	**ISM Purchasing Manager's Index** (August) 47.6 1.2 MoM ▲ -5.3 YoY ▼
Inventories (June) $2,537.2B -0.1% MoM ▼ 1.8% YoY ▲	**Imports** (July) $258.3B 2.1% MoM ▲ -5.4% YoY ▼
Core Retail Sales (July) $508.0B 0.7% MoM ▲ 4.7% YoY ▲	**Exports** (July) $168.4B 2.0% MoM ▲ -7.9% YoY ▼

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

Quarterly E-Commerce Sale



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

Transactions:
Inland Empire Remains Prime Investor Target

- Industrial sales totaled $33.7 billion through the end of August, with properties trading at an average of $136 per square foot.

- Investors continue to target facilities in Southern California because despite a minor slowdown, the region is still the largest logistics cluster in the nation. The Inland Empire has remained the most active industrial sales market in the country in 2023, with its $3.4 billion in sales accounting for nearly 10% of national sales volume. The market has seen in-place rents grow 19.2% in the last 12 months and sports a 3.3% vacancy rate despite 74.1 million square feet delivering (12.1% of stock) since the start of 2020.

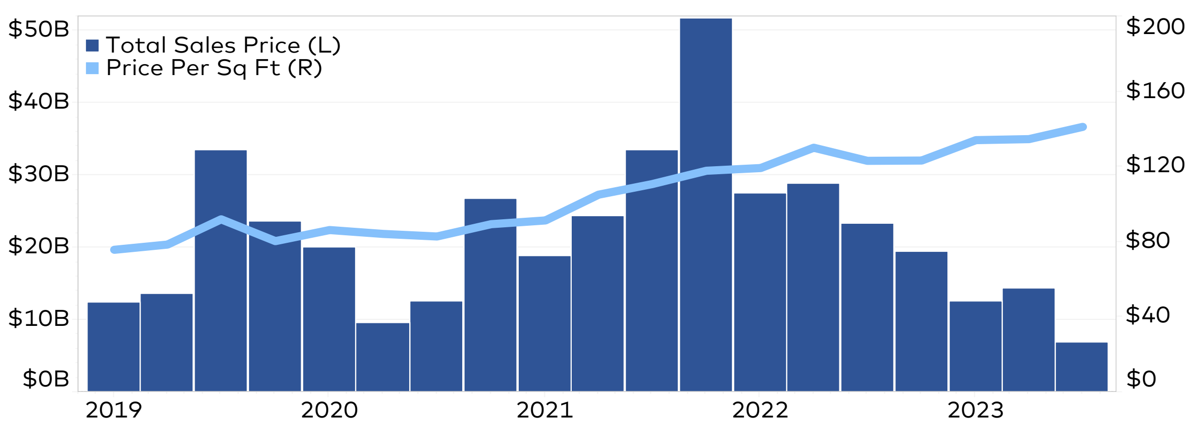
- In the largest sale in the Inland Empire this year, Rexford Industrial purchased a 1.1 million-square-foot property in Fontana for $365 million ($331 per square foot) from its current occupier, Tireco, in a sale-leaseback. Interestingly, another tire company, Goodyear, also participated in a sale-leaseback of its distribution center in the market this year, with CIRE Equity acquiring the 829,000-square-foot property for $67.5 million. More owner-occupiers may look to capitalize on sky-high demand and increase cash flow by executing sale-leasebacks themselves.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 08/31)
National	$136	$33,739
Inland Empire	$264	$3,366
Los Angeles	$346	$2,394
Bay Area	$332	$1,978
Houston	$142	$1,688
Dallas	$124	$1,641
New Jersey	$241	$1,607
Phoenix	$167	$1,453
Chicago	$85	$1,158
Atlanta	$118	$858
Orange County	$327	$653
Twin Cities	$93	$605
Philadelphia	$115	$600
Cincinnati	$100	$553
Baltimore	$126	$505
Tampa	$119	$502
Boston	$134	$472
Bridgeport	$100	$464
Charlotte	$88	$437
Detroit	$75	$428
Columbus	$85	$404
Seattle	$196	$354
Indianapolis	$86	$332
Denver	$129	$214
Nashville	$115	$193
Central Valley	$81	$158

Source: Yardi Matrix. Data as of August 2023

Quarterly Transactions



Source: Yardi Matrix. Data as of August 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.

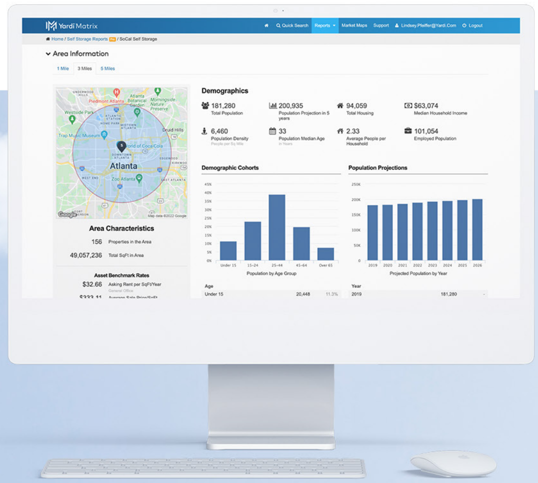
Stage of the supply pipeline:

- 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.

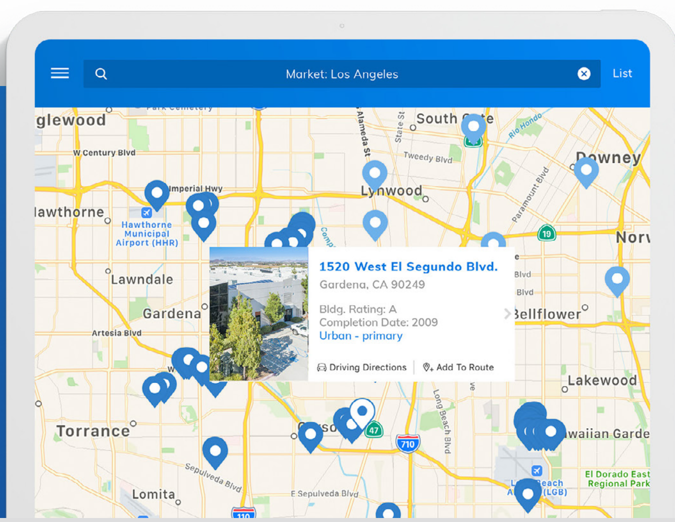
Yardi® Matrix

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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