National Industrial Report

December 2023

2023: A Transformative Year

- This was a year of transition for the industrial sector. Port activity returned to normal, manufacturing surged in North America, and interest rate hikes dampened the pace of both transactions and new development.

- This past year saw further easing of the strains ports experienced during the pandemic. The largest ports were extremely stressed in previous years, but have seen activity return to pre-pandemic levels in 2023. The ports of Los Angeles and Long Beach, for example, handled 17% fewer containers through October than they had through the same period last year. While there are many reasons for this, one of the biggest has been subdued demand for goods. Consumer preferences rotated back toward services once the pandemic ended, and inflation has eaten away at consumers' discretionary income.

- The other factor behind port activity normalizing this year is the nearshoring and reshoring of manufacturing. Manufacturers want to avoid the kind of disruptions seen in 2020 and 2021, and are increasingly looking to move operations to North America. The past year may prove to be a major turning point in U.S. trade, with Mexico surpassing China as the country's No. 1 trade partner. In October, 15.5% of export volume was from Mexico while 15% was from China, according to the Census Bureau. Within the United States, production of electric vehicles and their batteries has led to dozens of large manufacturing facilities breaking ground throughout the Midwest and Southeast.

- Interest rate hikes continued in 2023, putting downward pressure on transaction volume and new development, both of which had record-setting years in 2021 and 2022. Through the end of November, $48.6 billion in industrial sales had taken place, following $129 billion in 2021 and $101.2 billion in 2022. Despite the downturn in sales volume, the average sale price of an industrial property had a modest increase of 6% in 2023, moving from $123 per square foot to $130.

- More than 508 million square feet were delivered through the end of November, already the most for a calendar year tracked by Yardi Matrix. With a month left in the year and a lag in collecting some data, this year will far surpass the previous record of 506 million square feet of new deliveries set last year. The new-supply wave will crest soon, however, as starts have fallen precipitously in 2023. This year saw 282.4 million square feet in starts, down from 598 million square feet in 2022. Starts slowed as the year went on and interest rates continued to rise. The third quarter saw 66.2 million square feet of starts, following 93.1 million in the second quarter and 100.6 million in the first quarter.

Rents and Occupancy: New Supply Pushes Up Vacancy Rates

- National in-place rents for industrial space averaged $7.60 per square foot in November, an increase of four cents from October and up 7.7% year-over-year.
- Southern California continued to outpace the rest of the country for in-place rent growth, having the only three markets where rents grew by double digits in the last 12 months. Rents increased 15.2% in the Inland Empire, 12.7% in Los Angeles and 11.6% in Orange County.
- The national vacancy rate was 4.6% in November, unchanged from the previous month. After sitting near 4% during the first half of the year, it ticked up in the second half, due partly to normalizing demand and partly to record levels of new supply being delivered. The Inland Empire has seen vacancy rates jump from below 2% at the start of the year to 4.9% in November.
- The average rate for new leases signed in the last 12 months rose to $10.26 per square foot, $2.66 more than the average for all leases.
- Coastal markets also have the largest spread between in-place rents and new leases. The Inland Empire has seen a new lease signed in the last 12 months cost $9.77 more per square foot than the market average. The premium being paid by tenants signing a new lease is $6.46 per foot in Los Angeles, $5.73 in the Bay Area, $5.56 in Miami and $5 in Orange County. Midwestern markets have essentially no premium for new leases. St. Louis actually had a negative spread in November, with new leases averaging 21 cents less than the average for all leases. Other Midwestern markets had a minor differential between new and existing rents, including Detroit (5 cents more per foot for a new lease), the Twin Cities (33 cents) and Kansas City (49 cents).

Average Rent by Metro

Market	Nov-23 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.60	7.7%	$10.26	4.6%
Inland Empire	$9.48	15.2%	$19.25	4.9%
Los Angeles	$13.69	12.7%	$20.15	6.3%
Orange County	$14.58	11.6%	$19.58	4.7%
Miami	$10.46	9.3%	$16.02	4.6%
New Jersey	$10.06	9.1%	$14.21	5.1%
Boston	$10.02	9.0%	$11.32	7.9%
Seattle	$10.66	9.0%	$15.65	5.6%
Portland	$9.49	8.1%	$11.46	4.0%
Bridgeport	$8.71	7.8%	$10.63	4.2%
Phoenix	$8.48	7.8%	$10.28	2.8%
Bay Area	$12.83	7.7%	$18.56	4.2%
Nashville	$6.04	7.3%	$8.83	2.4%
Atlanta	$5.51	7.2%	$8.34	3.6%
Dallas–Fort Worth	$5.67	7.0%	$7.38	4.3%
Philadelphia	$7.52	6.2%	$10.01	3.8%
Columbus	$4.64	6.2%	$5.96	1.6%
Baltimore	$7.67	5.9%	$10.02	5.1%
Indianapolis	$4.53	5.6%	$5.33	3.2%
Twin Cities	$6.67	5.4%	$7.00	5.4%
St. Louis	$4.59	5.3%	$4.38	6.7%
Central Valley	$6.03	5.2%	$9.73	3.7%
Memphis	$3.84	5.2%	$3.95	4.2%
Charlotte	$6.39	4.9%	$6.78	3.0%
Kansas City	$4.73	4.6%	$5.22	3.7%
Tampa	$7.22	4.6%	$9.20	6.7%
Denver	$8.24	4.3%	$9.30	5.8%
Cincinnati	$4.76	4.2%	$5.77	6.6%
Houston	$6.39	4.1%	$7.53	6.6%
Chicago	$5.83	3.7%	$7.21	3.4%
Detroit	$6.66	3.6%	$6.71	5.5%

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

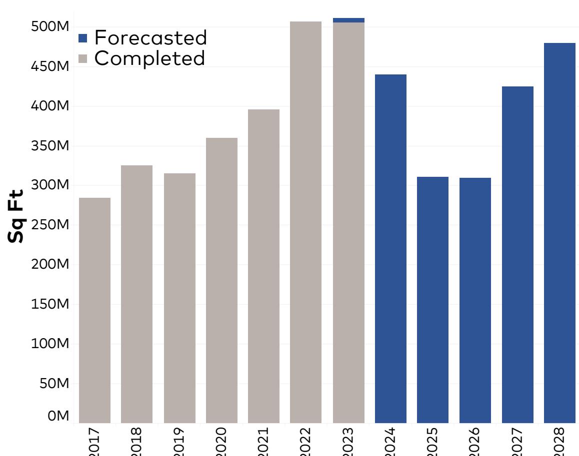
Supply:
Slowdown Hits Even the Hottest Markets

- Industrial supply under construction currently totals 505.2 million square feet, representing 2.7% of stock, according to Yardi Matrix.

- Due to the increased cost of financing and falling demand for new space, industrial starts have decreased by nearly half this year. Amidst the slowdown, Dallas and Phoenix continued to lead the nation in new industrial development. The two markets combined account for more than 17% of all starts nationwide, with Dallas seeing 26 million square feet of starts and Phoenix 22.6 million. Yet even starts in these markets are way down from last year, when 49 million square feet were started in Dallas and 41.3 million in Phoenix.

- Both Dallas and Phoenix have benefited from the nearshoring of manufacturing and subsequent increased trade activity with Mexico. The vast majority of the starts in these two markets have been concentrated in distribution and logistics properties. Nearly 90% of all Dallas starts were in this sector, and although Phoenix is emerging as a manufacturing hub, 78% of its starts were logistics or distribution space. In Phoenix, 27% of all square footage underway is manufacturing, but only 2.5 million square feet were started this year.

National New Supply Forecast



Source: Yardi Matrix. Data as of November 2023

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	505,152,862	2.7%	6.3%
Phoenix	47,652,668	12.6%	36.6%
Dallas	41,413,373	4.5%	10.4%
Inland Empire	24,815,483	3.9%	11.0%
Charlotte	12,033,672	3.8%	9.2%
Seattle	10,845,290	3.8%	4.7%
Denver	9,579,382	3.7%	6.7%
Kansas City	9,965,971	3.6%	17.7%
Houston	17,133,177	2.9%	4.7%
Philadelphia	10,767,853	2.5%	7.2%
Tampa	5,813,428	2.2%	6.7%
Indianapolis	7,529,550	2.1%	6.1%
Central Valley	6,873,917	2.0%	3.0%
Bay Area	5,678,648	1.9%	6.1%
Columbus	5,485,665	1.9%	3.6%
Nashville	3,827,354	1.8%	3.5%
Chicago	17,041,979	1.6%	3.8%
Detroit	8,612,581	1.6%	2.6%
New Jersey	8,484,060	1.5%	3.8%
Memphis	4,372,245	1.5%	3.8%
Bridgeport	3,146,344	1.5%	2.9%
Atlanta	5,316,564	1.0%	2.9%
Cincinnati	2,777,252	1.0%	2.0%
Boston	2,114,308	0.9%	1.9%
Portland	1,546,966	0.8%	2.1%
Cleveland	2,531,775	0.7%	1.0%
Los Angeles	4,439,972	0.6%	2.1%
Orange County	903,629	0.5%	0.9%
Twin Cities	1,111,524	0.3%	1.9%
Baltimore	717,602	0.3%	2.2%

Source: Yardi Matrix. Data as of November 2023

Economic Indicators:
Slower Holiday Sales Growth Expected

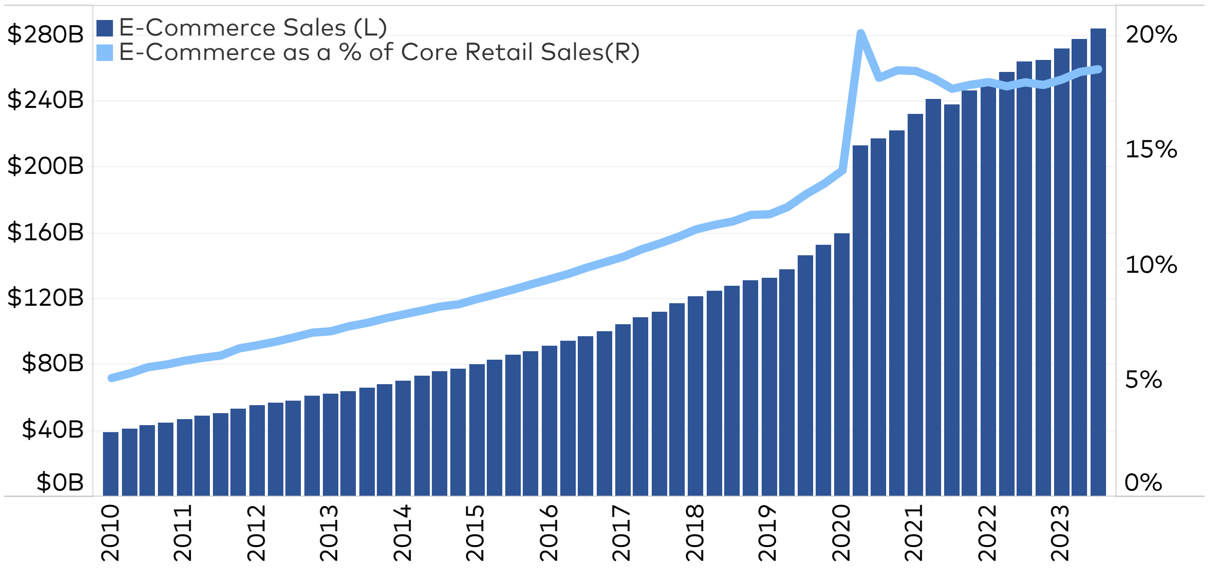
- E-commerce sales totaled $284.1 billion in the third quarter, according to the Census Bureau, increasing 2.3% over the previous quarter.
- E-commerce's share of core retail sales (which excludes gasoline, automobiles and their parts) increased slightly, from 18.4% to 18.5%. Black Friday and Cyber Monday sales will likely boost e-commerce figures when the fourth quarter data becomes available next year.
- Inflation has eaten away at incomes for the last two years, and while price increases have moderated in recent months, the impact is still being felt. Real incomes remain below pre-pandemic levels and spending growth has lagged behind GDP growth for four of the last five quarters. These factors have led many retailers to temper expectations for the holiday season. The National Retail Federation predicted that holiday sales will increase 3-4% this year, slower growth than seen in 2021 and 2022. Despite this, core retail sales were up 0.6% in November.

Economic Indicators

National Employment (November)	ISM Purchasing Manager's Index (November)
157.1M	46.7
0.1% MoM ▲	0.0 MoM
1.8% YoY ▲	-2.3 YoY ▼
Inventories (September)	**Imports** (October)
$2,553.1B	$263.3B
0.2% MoM ▲	0.1% MoM ▲
1.0% YoY ▲	-3.9% YoY ▼
Core Retail Sales (October)	**Exports** (October)
$513.9B	$173.5B
0.1% MoM ▲	-1.8% MoM ▼
3.3% YoY ▲	-1.2% 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:
Atlanta Holds Steady in Face of Slowdown

- Industrial sales totaled $48.6 billion through the end of November, according to Yardi Matrix data, with properties trading at $130 per square foot.

- In 18 of the top 30 markets, the sales volume is less than half of what it was year-to-date through November last year. Only one top market, the Bay Area, has seen more sales in 2023. Despite volume falling, average sales prices are holding up in many markets. In 12 of the top 30, the average price per square foot in 2023 has increased from 2022. In 11 other markets, prices have decreased less than 10 percent. Denver, with the biggest drop in average sale price, has seen a 24% decline in 2023.

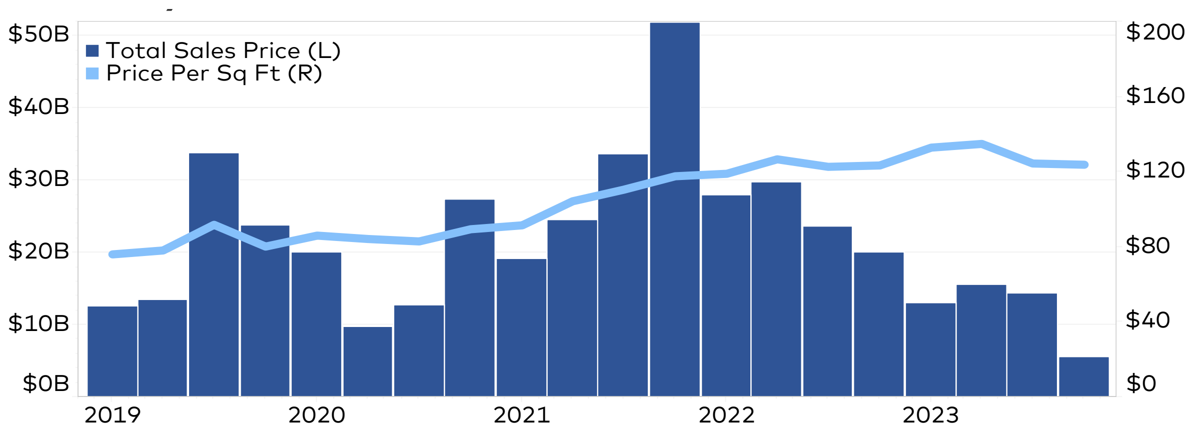
- In Atlanta, volume has fallen 56% while sales prices have slipped 7%. Atlanta has been a hot industrial market in recent years, seeing robust demand from tenants and investors alike. The highway network that extends from the city allows distributors to reach ports along the coast as well as population centers in the Southeast, an area with strong in-migration. Stockbridge recently sold a 585,637-square-foot outdoor distribution facility in Gwinnett County for $40 million. Atlanta was also a key market in Prologis' $3.1 billion portfolio acquisition from Blackstone's Link Logistics.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 11/30)
National	$130	$48,578
Los Angeles	$315	$3,896
Inland Empire	$250	$3,864
Dallas	$129	$2,865
New Jersey	$215	$2,539
Bay Area	$336	$2,337
Houston	$130	$2,313
Phoenix	$158	$2,016
Chicago	$89	$1,975
Atlanta	$106	$1,270
Twin Cities	$96	$917
Orange County	$309	$895
Charlotte	$94	$804
Boston	$150	$739
Philadelphia	$113	$736
Tampa	$119	$686
Indianapolis	$101	$676
Cincinnati	$101	$645
Columbus	$79	$592
Baltimore	$122	$555
Bridgeport	$88	$512
Detroit	$73	$469
Seattle	$199	$465
Kansas City	$82	$373
Denver	$130	$364
Nashville	$127	$340

Source: Yardi Matrix. Data as of November 2023

Quarterly Transactions



Source: Yardi Matrix. Data as of November 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.

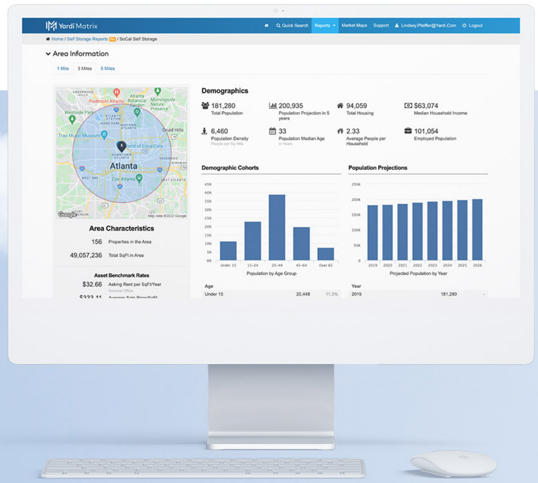
Stage of the supply pipeline:

- 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.

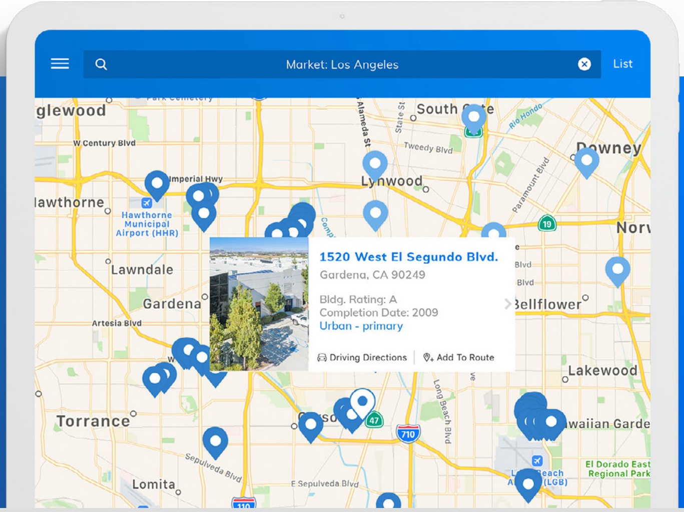
Yardi® Matrix

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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