Yardi Matrix

National Industrial Report

January 2024

Solid Industrial Outlook for 2024

- After running hot for the last several years, the industrial real estate market cooled considerably in 2023. In 2024, we anticipate a year of stabilization and normalization for the sector.

- In 2024, rent growth will decelerate and vacancy rates will climb, as record levels of new supply work their way through the market. Despite Mexico overtaking China as the United States' top trading partner in 2023, last year ended much like it started. Coastal port markets continued to see the biggest gains for in-place rents, headlined by those in Southern California. All three markets in the region finished the year with double-digit growth of in-place rents. While rent growth may drop into the single digits for these markets in 2024, we expect them to remain at or near the top of rent growth metrics. In recent months, shipping activity at the ports of Los Angeles and Long Beach has rebounded from the weak first half of 2023, and now is back near pre-pandemic levels.

- The new-supply pipeline will continue to slow this year. Deliveries peaked in 2023 following a historic ramp-up in starts that only ended when interest rates began to climb in the latter part of 2022. Despite the deceleration of new development, long-term demand drivers for industrial real estate remain positive. Reshoring and nearshoring of manufacturing will reshape the industrial sector over the long run, but many of those impacts will not yet be seen in 2024. Construction spending on new manufacturing facilities has nearly tripled in the last two years, according to the Census Bureau. Much of this spending is concentrated in computer chip and electric car manufacturing, and while the sites will take years to deliver, once complete they will fuel demand for supplementary firms along supplier and logistics networks. Further bolstering the long-term supply outlook, many of the gains that e-commerce made during the pandemic have become entrenched, permanently altering how goods get from retailers to consumers.

- Higher interest rates will continue to diminish transaction activity, with capital more expensive and underwriting tighter than in years past. Investment volume fell by roughly half in 2023, but average sales prices saw a slight increase, growing 4.7% year-over-year. Something of a bid-ask gap has formed in the sector, with strong fundamentals allowing owners to feel comfortable holding properties, whereas buyers may be hesitant to pay historically high prices while debt is expensive. A stabilized cost of capital may help the gap narrow and spur investment activity in 2024, but we do not expect this year to see a large increase in transaction volume.

Rents and Occupancy:
Port Markets Continue to Dominate Rent Growth

- National in-place rents for industrial space averaged $7.70 per square foot in December, an increase of 10 cents from November and up 7.4% year-over-year.

- In-place rents increased the most in Southern California during 2023. The Inland Empire saw rents increase 14.9%, Los Angles had gains of 12.7% and Orange County was up 11.3%.

- Rent growth was slowest in the Midwest, with Detroit (3.0% growth of in-place rents over the last 12 months), Chicago (3.8%) and Kansas City (3.9%) recording some of the lowest gains. Demand is solid in these markets, but abundant land on the outskirts of the metro area allows for a quick supply response, limiting the rent increases seen in port markets.

- The national vacancy rate was 4.6% in December, unchanged from the previous month. The national vacancy rate jumped 70 basis points from the beginning of the year as historic levels of new supply were delivered to the markets at the same time that demand for space began to cool.

- The average rate for new leases signed in the last 12 months was $10.26 per square foot, $2.56 more than the average for all leases.

- Unsurprisingly, coastal markets also experienced the largest spreads between existing rents and leases signed within the last 12 months. The Inland Empire saw a $7.54 per square foot spread between new and existing leases, the largest in the nation. It was followed by Los Angeles ($6.52), the Bay Area ($5.77), Miami ($5.59) and Seattle ($5.01).

Average Rent by Metro

Market	Dec-23 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.70	7.4%	$10.21	4.6%
Inland Empire	$9.59	14.9%	$17.13	5.0%
Los Angeles	$13.90	12.7%	$20.42	5.1%
Orange County	$14.99	11.3%	$18.20	4.8%
Miami	$10.69	9.8%	$16.28	4.4%
Seattle	$10.70	8.6%	$15.71	5.3%
New Jersey	$10.07	8.2%	$13.48	4.8%
Phoenix	$8.50	8.0%	$10.02	3.2%
Portland	$9.42	7.8%	$9.09	4.1%
Bay Area	$12.89	7.1%	$18.66	4.2%
Atlanta	$5.58	7.1%	$8.07	3.7%
Dallas - Fort Worth	$5.77	7.1%	$8.07	4.3%
Boston	$10.40	6.9%	$11.67	8.4%
Baltimore	$7.66	6.5%	$10.15	5.6%
Columbus	$4.59	6.5%	$5.85	3.0%
Philadelphia	$7.67	6.2%	$9.89	4.7%
Bridgeport	$8.92	5.8%	$11.35	3.1%
Twin Cities	$6.73	5.7%	$7.78	4.8%
Central Valley	$6.10	5.5%	$9.72	3.9%
Indianapolis	$4.56	5.3%	$5.78	3.3%
Charlotte	$6.60	5.1%	$7.97	3.5%
Cincinnati	$4.76	4.8%	$6.47	5.9%
St. Louis	$4.58	4.8%	$4.10	7.7%
Memphis	$3.78	4.4%	$4.53	4.4%
Denver	$8.37	4.4%	$9.38	6.2%
Tampa	$7.36	4.2%	$9.62	6.0%
Houston	$6.47	4.2%	$7.52	5.3%
Kansas City	$4.83	3.9%	$5.06	2.7%
Chicago	$5.96	3.8%	$7.10	4.0%
Nashville	$5.84	3.4%	$8.40	3.1%
Detroit	$6.92	3.0%	$6.99	4.9%

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

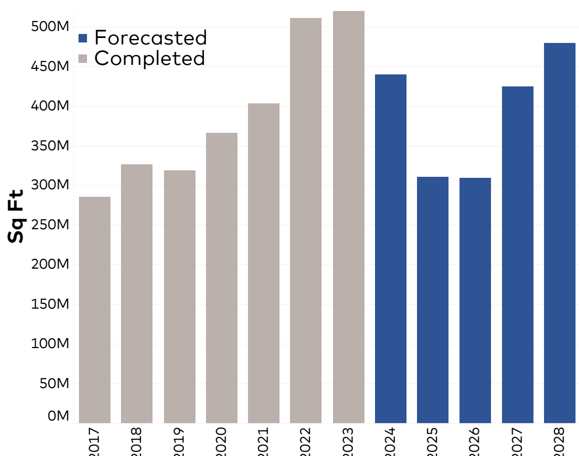
Supply:
Texas Leads 2023 Starts

- Industrial supply under construction currently totals 462.9 million square feet, representing 2.4% of stock, according to Yardi Matrix.

- After hitting a high of 742.3 million square feet in December 2022, the industrial new-supply pipeline has shrunk every consecutive month as projects deliver and new projects break ground at a slower rate than in previous years. The slowdown—driven by normalizing demand, increased borrowing costs and tighter lending standards for construction loans—comes at the right time for a sector that was at risk of being overbuilt. The past two years both eclipsed 500 million square feet of new deliveries, a historically high mark for industrial development.

- Texas had the highest concentration of starts in 2023, with three markets in the top five for starts. Dallas (28.4 million square feet) led the country, with Houston in third place (14.1 million) and Austin in fifth (10.0 million). These three markets combined to account for more than 17% of all starts nationwide last year. Texas will continue to see high levels of starts in the coming years due to abundant land and the impact of increased trade with Mexico.

National New Supply Forecast



Source: Yardi Matrix. Data as of December 2023

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	462,884,264	2.4%	5.9%
Phoenix	42,462,814	11.1%	35.6%
Kansas City	10,811,914	3.9%	17.7%
Charlotte	11,509,879	3.7%	8.2%
Dallas	33,628,610	3.6%	9.1%
Memphis	10,725,940	3.6%	4.5%
Denver	8,138,756	3.1%	5.9%
Inland Empire	19,399,089	3.0%	10.2%
Houston	12,477,240	2.1%	4.0%
Philadelphia	9,225,644	2.1%	6.8%
Tampa	5,565,070	2.1%	6.4%
Indianapolis	7,160,048	2.0%	5.0%
Central Valley	6,873,917	2.0%	3.1%
Bay Area	5,752,835	1.9%	6.0%
Columbus	5,449,899	1.8%	3.6%
Bridgeport	3,526,034	1.7%	3.3%
Nashville	3,146,344	1.5%	2.9%
New Jersey	8,043,211	1.4%	3.7%
Detroit	7,862,191	1.4%	2.5%
Seattle	4,015,026	1.4%	3.6%
Chicago	13,175,139	1.3%	2.6%
Atlanta	6,513,456	1.2%	3.3%
Cincinnati	2,597,149	0.9%	1.9%
Boston	2,086,624	0.9%	1.9%
Portland	1,546,966	0.8%	2.1%
Los Angeles	4,300,658	0.6%	2.0%
Cleveland	2,481,775	0.6%	1.0%
Twin Cities	1,495,836	0.4%	1.2%
Baltimore	884,262	0.4%	1.6%
Orange County	471,675	0.2%	0.7%

Source: Yardi Matrix. Data as of December 2023

Economic Indicators:
Producer Prices Continue to Cool

- The Producer Price Index, which measures the prices that producers pay for goods and services, fell 0.1% in the month of December. The goods portion of the index fell 0.4%, while services was unchanged. Core PPI, which excludes volatile food and energy prices, was unchanged. On an annual basis, producer prices increased 1.0%, with services increasing 1.8% and goods decreasing 0.8%.

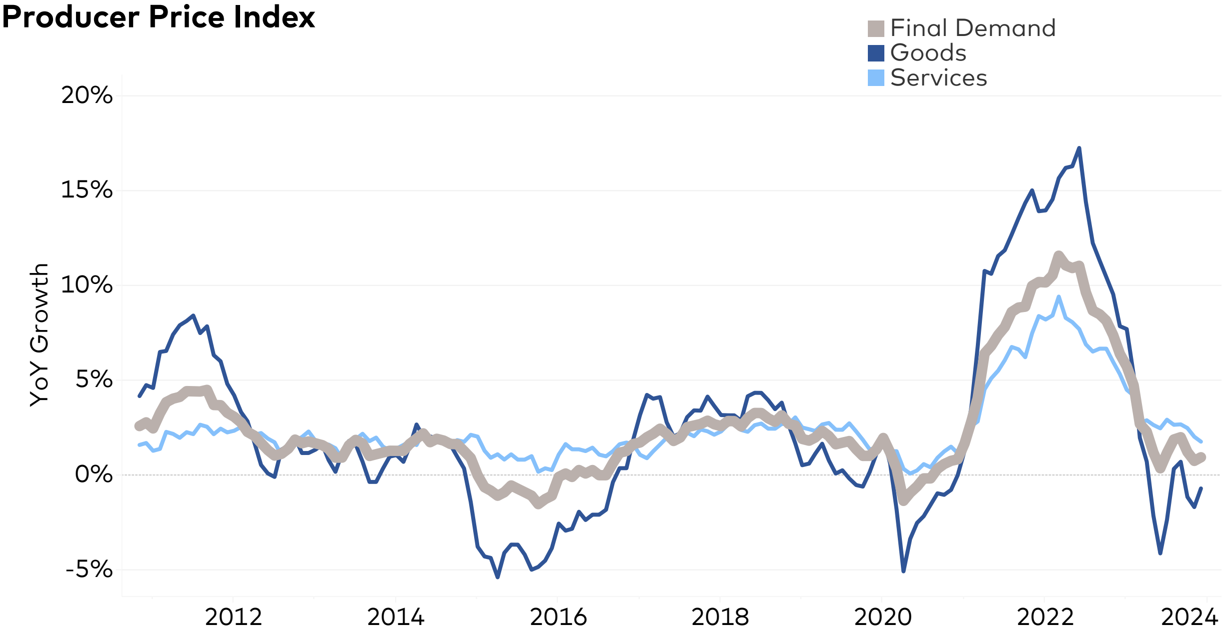
- The Federal Reserve's fight against inflation led to numerous interest rate increases last year. Price increases seem to be tamed, but it remains to be seen if the Fed can pull off a soft landing or if a contraction is in the cards. Fortunately, a stabilizing PPI indicates that consumer prices won't be rising due to supply-side pressures anytime soon, and future rate hikes remain unlikely for the time being. Cooling prices on the supply side of the economy are good news for the industrial sector, as well. With producer prices stabilized, it may allow occupiers to consider expansions and new leases that were untenable when the prices they paid were increasing by 10% a year. .

Economic Indicators

National Employment	**ISM Purchasing Manager's Index**
(December)	(December)
157.2M	47.4
0.1% MoM ▲	0.7 MoM ▲
1.7% YoY ▲	-1.0 YoY ▼
Inventories	**Imports**
(October)	(November)
$2,550.0B	$257.4B
-0.1% MoM ▼	-2.3% MoM ▼
0.6% YoY ▲	0.4% YoY ▲
Core Retail Sales	**Exports**
(November)	(November)
$516.7B	$168.0B
0.6% MoM ▲	-3.1% MoM ▼
5.2% YoY ▲	-2.6% YoY ▼

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

Producer Price Index



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

Transactions:
Sales Prices Decline in Second Half of 2023

- Industrial sales totaled $52.1 billion in 2023, according to Yardi Matrix data, with properties trading at an average of $129 per square foot. So far, 2023 volume is half what it was in 2022 and 60% less than 2021. A lag in collecting data means that last year's number is not final and will increase as year-end deals get recorded, but wherever it finishes will be well below the previous two years. Increased interest rates are the primary reason behind the drop in sales volume, with multiple hikes of the benchmark last year by the Federal Reserve increasing the cost of capital for real estate investors.

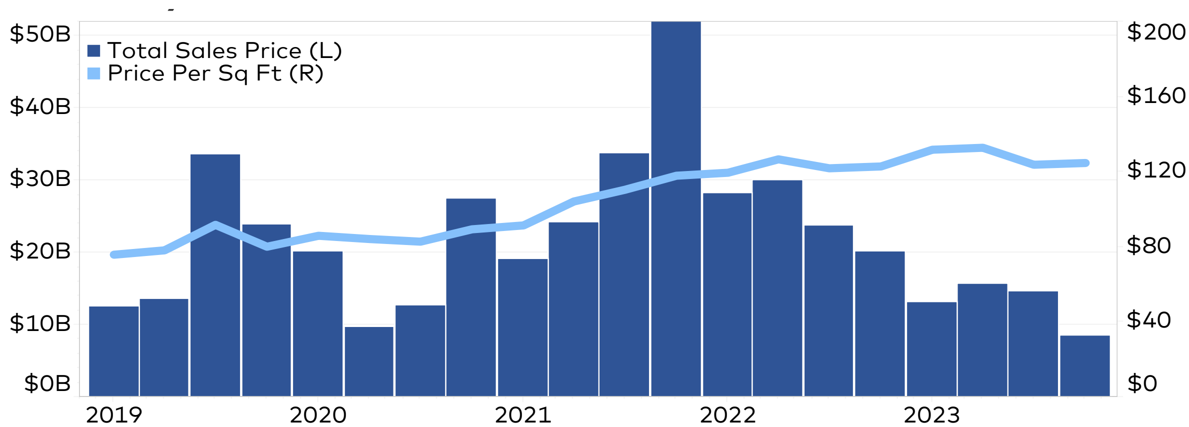
- While interest rate hikes dampened sales volume last year, the impact on the average sales price was less noticeable. After historic increases in 2021 and 2022, the average industrial sales price per foot slowed in 2023, avoiding the sharp price declines seen in other asset classes. However, it would be wrong to say that higher rates had no impact on pricing. The average price per square foot fell in the latter half of 2023 as mortgage rates rose and increased borrowing costs. In the first half of the year, industrial properties traded at an average of $132 per foot, falling to $124 in the second half.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	$129	$52,113
Los Angeles	$314	$3,964
Inland Empire	$248	$3,887
Dallas	$129	$3,358
New Jersey	$218	$2,731
Bay Area	$334	$2,333
Chicago	$92	$2,257
Houston	$122	$2,256
Phoenix	$159	$2,057
Atlanta	$107	$1,320
Orange County	$296	$1,025
Twin Cities	$97	$963
Philadelphia	$120	$946
Boston	$142	$827
Indianapolis	$99	$801
Charlotte	$93	$795
Tampa	$120	$722
Columbus	$79	$709
Baltimore	$128	$697
Cincinnati	$100	$651
Bridgeport	$88	$512
Seattle	$198	$481
Detroit	$71	$477
Denver	$128	$399
Nashville	$129	$377
Kansas City	$81	$362

Source: Yardi Matrix. Data as of December 2023

Quarterly Transactions



Source: Yardi Matrix. Data as of December 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.

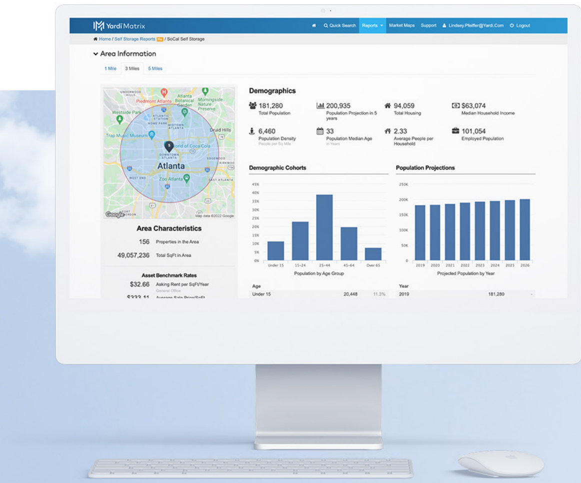
Stage of the supply pipeline:

- 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.

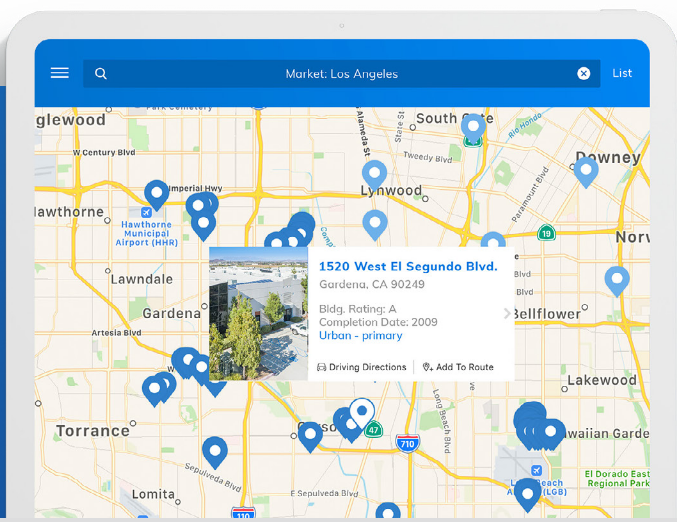
Yardi® Matrix

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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