Yardi Matrix

National Industrial Report

July 2024

Development Pipeline Slows

- Following two years of record industrial deliveries, the development pipeline has slowed in recent quarters. The amount of new stock coming to market will decline during the next couple of years, but the long-term outlook for industrial development remains bright.

- The size of the industrial supply pipeline has shrunk for six straight quarters as deliveries have outpaced starts. More than 1.1 billion square feet began construction between 2021 and 2022, but starts fell to 357.5 million last year. Through the first six months of 2024, only 97.8 million square feet have been started. This slowdown has been driven by normalizing demand from tenants, the record level of new supply recently delivered or set to be delivered, higher costs of construction loans and economic uncertainty.

- The reshoring of manufacturing will have a significant impact on industrial real estate supply over the long run. Many of the projects that have broken ground in recent years are manufacturing facilities. According to Yardi Matrix, between 2018 and 2021, manufacturing accounted for 7-8% of square feet started annually. In 2022 and 2023, manufacturing's share jumped to more than 13%, and so far in 2024 it accounts for 16.1%.

- Data from the Census Bureau confirms this surge in manufacturing development. In May, annualized construction spending on manufacturing facilities totaled $234.1 billion. That is more than double the amount of spending two years prior and triple the amount in May 2021. However, the rapid pace of growth appears to be over, as May's figure was up 20.3% year-over-year and 1.3% month-over-month. Manufacturing returning stateside will propel the industrial sector because much of this spending is on semiconductor plants that will allow additional advanced manufacturers to set up shop in the U.S. The ripple effects from the current spending boom will be felt throughout this decade.

- We anticipate that the new development pipeline will grow again in the next few years, albeit not at the historical levels seen recently. Developers remain interested in adding industrial space, as the planned portion of the pipeline currently has 561.2 million square feet. Once the market absorbs recently completed stock and the cost of capital begins to decrease, we expect that many of these projects will see shovels in the ground. Manufacturing, data centers, and the long-term shift to e-commerce and omnichannel retail all remain positive drivers for industrial development.

Rents and Occupancy: Rent Growth Slower in Midwest

- National in-place rents for industrial space averaged $8.04 per square foot in June, an increase of four cents from May and up 7.5% over the past 12 months.
- The Inland Empire continues to lead the nation for rent growth, with in-place rents increasing 12.5% over the past 12 months, followed by Los Angeles (12.0%), Miami (10.8%) and New Jersey (9.6%).
- The Midwest continues to see the lowest rent growth, with in-place rents increasing 2.5% in Kansas City, 3.4% in St. Louis, 3.6% in Detroit and 4.0% in Chicago. Absent the supply constraints placed on port markets, new supply is responsive to demand increases in the middle of the country. This suppresses rent growth and prohibits owners from capturing the eye-popping rental growth rates seen along the coasts.
- The national vacancy rate was 6.1% in June, up 50 basis points from the previous month. Vacancy rates continue to move upward due to slowing demand and a historic wave of new supply hitting the market.
- The average rate for new leases signed in the past 12 months was $10.56 per square foot, $2.52 more than the average for all leases. The largest premium for a new lease was in Miami, where it costs tenants $5.78 more per square foot than the market's average for all leases. Los Angeles ($4.24 per foot), Bridgeport ($3.86) and Dallas ($3.73) also had substantial premiums for new leases.
- Midwestern markets also had some of the lowest premiums for new leases, with a new lease in St. Louis costing $0.20 more than the market average, while Kansas City cost $0.68 more, the Twin Cities $1.26, Cincinnati $1.30 and Chicago $1.31.

Average Rent by Metro

Market	June-24 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$8.04	7.5%	$10.56	6.1%
Inland Empire	$10.25	12.5%	$13.68	6.4%
Los Angeles	$14.80	12.0%	$19.04	7.7%
Miami	$11.57	10.8%	$17.35	4.6%
New Jersey	$10.85	9.6%	$13.83	7.1%
Phoenix	$9.00	9.1%	$12.36	5.2%
Orange County	$15.69	8.6%	$17.43	4.9%
Atlanta	$5.79	8.2%	$8.83	5.7%
Seattle	$11.18	7.9%	$12.33	7.2%
Columbus	$4.94	7.9%	$7.16	3.7%
Boston	$10.68	7.7%	$14.23	8.8%
Tampa	$7.76	7.3%	$10.87	7.0%
Nashville	$6.04	7.1%	$9.03	4.2%
Baltimore	$8.08	6.9%	$11.26	6.7%
Dallas	$5.99	6.8%	$9.70	6.5%
Portland	$9.79	6.5%	$11.49	4.3%
Charlotte	$6.79	6.3%	$10.35	3.8%
Bridgeport	$9.19	6.2%	$13.05	3.5%
Philadelphia	$7.79	5.8%	$9.82	5.2%
Indianapolis	$4.74	5.8%	$7.26	5.0%
Bay Area	$13.34	5.7%	$16.24	5.5%
Memphis	$3.98	5.6%	$4.62	6.5%
Twin Cities	$6.99	5.4%	$8.25	5.7%
Central Valley	$6.23	5.4%	$9.14	6.5%
Cincinnati	$4.88	5.4%	$6.18	5.1%
Denver	$8.33	4.5%	$10.24	8.4%
Houston	$6.62	4.3%	$7.97	7.4%
Chicago	$6.23	4.0%	$7.54	7.0%
Detroit	$6.89	3.6%	$8.77	4.1%
St. Louis	$4.83	3.4%	$5.03	6.9%
Kansas City	$4.88	2.5%	$5.56	4.0%

Source: Yardi Matrix. Data as of June 2024. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.

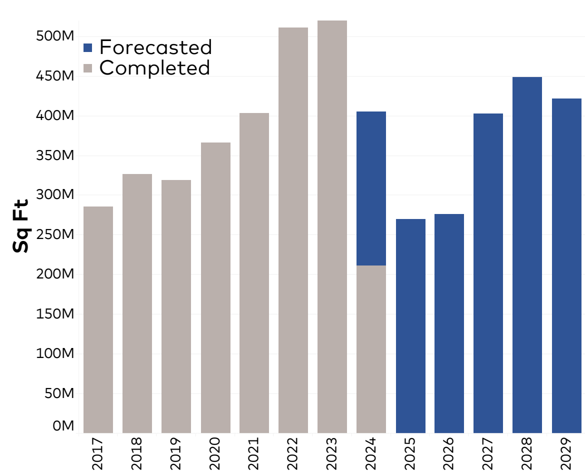
Supply:
Dallas Pipeline Slows

- Currently, 375.7 million square feet of industrial space, representing 1.9% of stock, are under construction, according to Yardi Matrix. An additional 561.2 million square feet are currently in the planning stages of development.

- After a period of blistering supply growth, the Dallas pipeline appears to finally be hitting the brakes. The market has delivered 126.4 million square feet of new industrial supply since the start of 2022, expanding its stock by 13% over the past 10 quarters.

- Remarkably, the vacancy rate in Dallas sits at 6.5%, even after adding so much new stock. We expect that Dallas development will pick up again once the new stock is absorbed and the cost of financing a construction loan decreases. While the boom seen in recent years will not be replicated, the market is poised to continue expanding in coming years due to in-migration and the nearshoring of manufacturing. Texas is the fastest-growing state in the nation, adding nearly half a million residents in 2023, driving demand for industrial space. Perhaps more crucially, Dallas' location makes it a hub for imported goods manufactured in Mexico. With more than 43 million square feet in the planning stages, it won't be long before the pipeline begins to grow again.

National New Supply Forecast



Source: Yardi Matrix. Data as of June 2024

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	375,695,805	1.9%	4.7%
Phoenix	39,067,437	9.8%	21.8%
Kansas City	13,234,960	4.6%	17.0%
Memphis	10,000,000	3.4%	3.9%
Columbus	9,886,647	3.2%	4.1%
Denver	8,185,195	3.0%	4.4%
Charlotte	9,087,737	2.8%	7.0%
Central Valley	8,915,428	2.5%	3.0%
Philadelphia	8,878,909	2.0%	4.6%
Atlanta	10,858,054	1.9%	3.5%
Dallas–Ft. Worth	15,728,196	1.6%	6.1%
Detroit	7,731,576	1.3%	1.9%
Bay Area	4,007,732	1.3%	3.0%
Tampa	3,632,849	1.3%	4.7%
Portland	2,512,721	1.3%	1.9%
Indianapolis	4,331,777	1.2%	3.4%
Nashville	2,490,971	1.2%	3.1%
Houston	6,975,023	1.1%	4.4%
New Jersey	6,397,007	1.1%	2.9%
Seattle	3,333,679	1.1%	3.9%
Baltimore	2,434,696	1.1%	2.6%
Chicago	10,257,839	0.9%	2.1%
Boston	2,178,647	0.9%	2.5%
Inland Empire	4,841,491	0.7%	7.6%
Los Angeles	4,028,766	0.6%	2.2%
Cleveland–Akron	2,486,696	0.6%	0.8%
Cincinnati	1,425,000	0.5%	0.8%
Minneapolis	1,031,835	0.3%	1.2%
Orange County	481,809	0.2%	0.8%
Bridgeport	231,000	0.1%	1.1%

Source: Yardi Matrix. Data as of June 2024

Economic Indicators:
Producer Prices Tick Upwards

- Producer prices increased 0.2% in June and 2.6% year-over-year, according to the Bureau of Labor Statistics. The Producer Price Index (PPI) was driven by gains in the Final Demand for Services portion of the index, which increased 3.5% in the year and 0.6% in the month. The Final Demand for Goods portion of the index rose just 1.1% year-over-year and decreased 0.5% in the month of June.

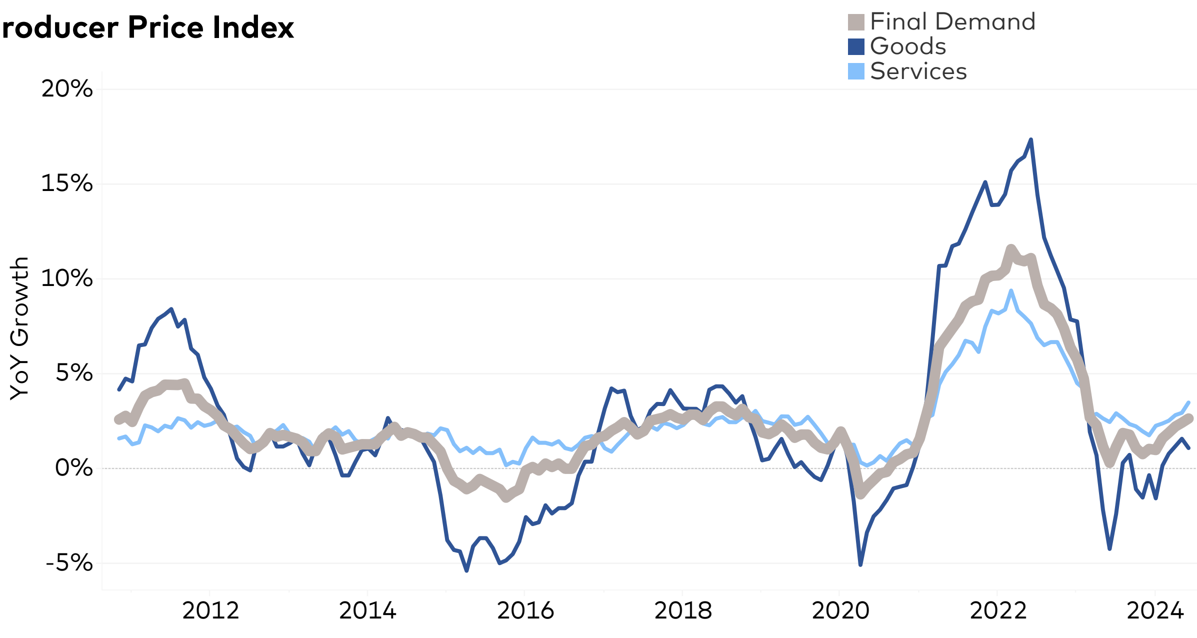
- For now, a small uptick in producer prices should not alter expectations that the Federal Reserve will begin cutting interest rates this fall. Increases in the prices paid by both producers and consumers have stabilized over the past year, although all metrics of inflation, including the Fed's preferred measure of personal consumption expenditure (PCE), remain slightly above the central bank's target rate of 2%. June marked the largest year-over-year increase of the PPI in 15 months, and the index bears monitoring, as it can be a leading indicator of the increases in other Indices.

Economic Indicators

National Employment (June) 158.6M 0.1% MoM ▲ 1.7% YoY ▲	**ISM Purchasing Manager's Index** (June) 48.5 -0.2 MoM ▼ 2.1 YoY ▲
Inventories (April) $2,545.2B 0.3% MoM ▲ 1.0% YoY ▲	**Imports** (May) $269.7B -0.8% MoM ▼ 5.7% YoY ▲
Core Retail Sales (May) $515.5B 0.1% MoM ▲ 2.6% YoY ▲	**Exports** (May) $169.6B -1.7% MoM ▼ 2.5% 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, Yardi Matrix

Transactions:
Southern California Still in Demand

- Industrial sales totaled $25.1 billion through the first half of the year, according to Yardi Matrix data, with properties trading at an average of $139 per square foot. Demand for industrial assets remains strong, with the average sale price of an industrial property up 12.9% over 2023.

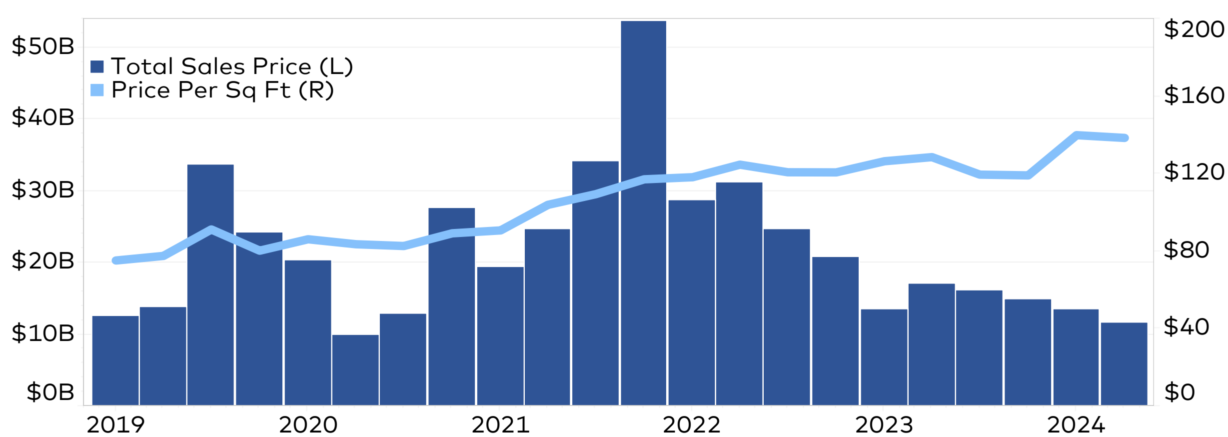
- Southern California has been the most in-demand region for industrial real estate during this decade. The ports of Los Angeles and Long Beach are the two busiest in the nation, and the region's large population has driven demand for warehouse, distribution and manufacturing facilities. Consequently, the region's three markets—Los Angeles, Orange County and the Inland Empire—have been at or near the top of in-place rent growth for years. Even as vacancy rates have crept upward in these markets due to normalizing tenant demand, properties are still highly sought after by investors. Earlier this year, Rexford paid $1 billion for 3 million square feet across 48 properties in Los Angeles and Orange County. While the Inland Empire has seen a surge of new supply in recent years, Los Angeles and Orange County are very constrained by land availability. The properties that Rexford acquired are 98% occupied, according to reports, a figure that is unlikely to decrease, given the state of those markets.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 6/30)
National	$139	$25,122
Bay Area	$570	$2,285
Dallas–Fort Worth	$152	$2,006
Los Angeles	$311	$1,581
Chicago	$98	$1,314
New Jersey	$256	$1,063
Phoenix	$165	$1,049
Inland Empire	$227	$893
Houston	$102	$763
Atlanta	$118	$714
Denver	$146	$661
Orange County	$340	$651
Twin Cities	$95	$618
Seattle	$230	$464
Charlotte	$71	$421
Tampa	$132	$401
Baltimore	$133	$366
Central Valley	$129	$366
Columbus	$79	$334
Boston	$158	$275
Cincinnati	$80	$242
Portland	$169	$237
Indianapolis	$98	$219
Nashville	$153	$213
Philadelphia	$107	$187
Cleveland	$49	$139

Source: Yardi Matrix. Data as of June 2024

Quarterly Transactions



Source: Yardi Matrix. Data as of June 2024

Definitions

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

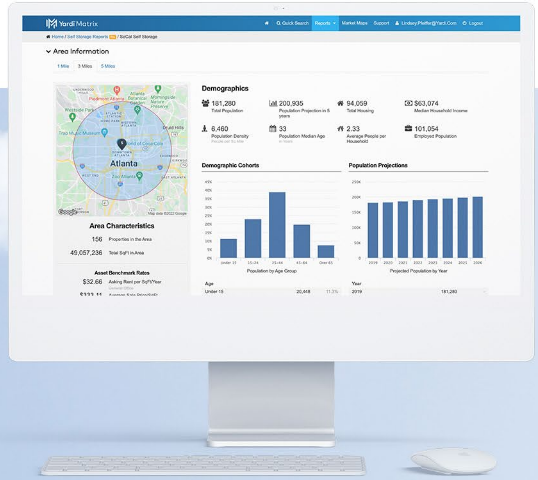
- Average Rents—Provided by Yardi Market Insight, a cutting-edge service that uses anonymized and aggregated data from other Yardi platforms to provide the most accurate rental and expense information available.
- Vacancy—The total square feet vacant in a market, including subleases, divided by the total 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.

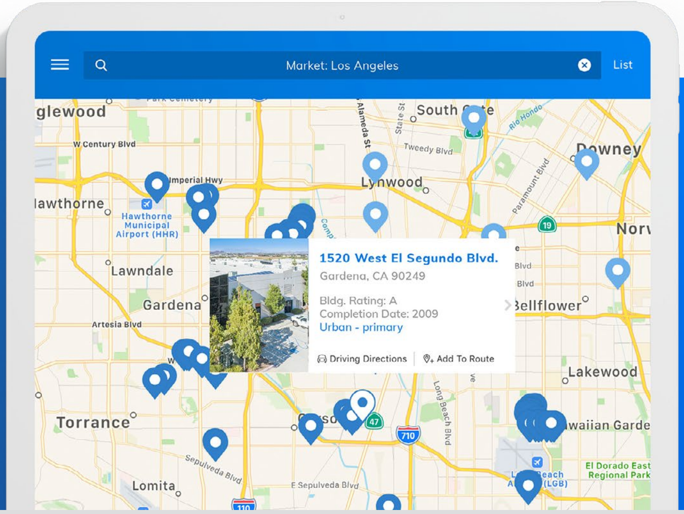
Yardi Matrix



Power your business with the industry's leading data provider

INDUSTRIAL KEY FEATURES

- Active in 118 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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