CommercialEdge

National Industrial Report

April 2021

Phoenix Benefits From Southern California Overflow

- It is no secret that Southern California has the hottest industrial markets in the country, in large part due to extraordinary growth in e-commerce that has led the Port of Los Angeles to set a new record for volume every month. The Inland Empire (8.2%) and Los Angeles (6.9%) had the highest rent growth over the last 12 months, and although Orange County's growth has been slower (2.8%), it has the highest rental rates in the country at $11.11 per square foot.

- Being less than a day's drive from the busiest port in the country while offering cheaper rents than the Inland Empire has led Phoenix to become a market in high demand for major tenants. Amazon, Nikola, Red Bull and Five Below all have facilities underway. Taiwan Semiconductor Manufacturing Co. is planning a massive site in North Phoenix; the first phase is 3.8 million square feet. Gatorade recently signed a lease for 750,000 square feet of warehouse and distribution space currently under construction in Tolleson Corporate Park, expanding PepsiCo's presence in the area.

- Tolleson Corporate Park is only one of the locations in the western part of the metro experiencing massive supply growth due to its ideal location. One-half of the 14.0 million square feet under construction is located in the Phoenix-West submarket, nearest to I-10, which offers access to Southern California to the west and Phoenix Sky Harbor International Airport to the east.

- A robust new supply pipeline has, for now at least, kept a lid on Phoenix's rent growth. Average rents increased only 3.4% over the last 12 months, while vacancies sit at 6%. Despite soft rent growth, investors are bullish on Phoenix. Transactions totaling $396 million have already been recorded for the first quarter, with assets selling at an average of $140 per square foot, more than double their average price five years ago. 17017 West Indian School Road in Goodyear, with Daimler Trucks North America's parts distribution facility as sole tenant, traded for $43.1 million, or $163.50 per square foot.

- Not all of the growth in Phoenix's industrial market can be attributed to its proximity to Southern California; local demographics also play a role. The Phoenix-Mesa-Chandler Metropolitan Statistical Area added the third most residents of any metro in the country over the past decade, increasing by more than 750,000 (18.0%). This not only provides quality labor supply for the industrial employers but increases demand for more localized assets like last-mile delivery and cold storage.

Rents and Occupancy: Music City's Booming Industrial Market

- The national average rate for industrial real estate increased 4.4% over the last 12 months to $6.53 per square foot in March.
- Rents increased the most over the year in the Inland Empire (8.2%), Los Angeles (6.9%) and Nashville (6.6%). Rents saw the lowest growth in Detroit (-0.5%), St. Louis (0.0%) and Kansas City (0.9%).
- The vacancy rate remained unchanged at 6.1%, indicating that new space is being absorbed even as more than 10% of all stock has been delivered since 2016. Vacancies were the lowest in the Inland Empire (2.1%), Orange County (3.6%), Los Angeles and New Jersey (both 4.1%). Vacancies were the highest in Boston (11.6%), Houston (11.0%) and Detroit (9.4%).
- Nationally, new leases signed over the last 12 months cost $0.85 more than the average lease. The premium for new leases was highest in New Jersey ($2.31 per square foot), Seattle ($1.99) and Boston ($1.92).
- With some of the fastest rental rate growth in the country, Nashville may still be the hottest market in the Southeast. Compared to the market average, new tenants are paying $0.99 more per square foot for leases signed over the last 12 months, a premium of nearly 20%. The Music City has delivered 20.2 million square feet since the start of 2016, 12% of stock, and has not had a problem with absorption, as the vacancy rate is 5.5%.
- Nashville does not look to be slowing down anytime soon, and this is reflected in the sales figures: $165.1 million of sales have been recorded for the first quarter, at an average price of $72.85 per square foot. If this pace continues, both numbers could shatter previous records for the market. On the new supply front, Amazon is building a 3.6 million-square-foot facility in Wilson County, and Facebook currently has a data center totaling 982,000 square feet in Sumner County.

Average Rent by Metro

Market	Mar-21 Average Rent	12-Month Change	Avg Rate Signed Last 12-Month	Vacancy Rate
National	$6.53	4.4%	$7.38	6.1%
Inland Empire	$6.22	8.2%	$7.66	2.1%
Los Angeles	$9.80	6.9%	$11.34	4.1%
Nashville	$4.99	6.6%	$5.98	5.5%
Seattle	$8.48	6.0%	$10.47	6.9%
Bay Area	$10.48	5.8%	$11.15	7.1%
South Carolina	$5.64	5.7%	$5.99	8.3%
New Jersey	$7.53	5.0%	$9.84	4.1%
Denver	$7.42	4.4%	$8.37	8.3%
Miami	$8.40	4.0%	$9.38	5.8%
Atlanta	$4.43	3.7%	$5.19	5.1%
Dallas-Fort Worth	$4.60	3.5%	$5.14	4.7%
Boston	$7.62	3.5%	$9.54	11.6%
Phoenix	$6.87	3.4%	$6.57	6.0%
Philadelphia	$6.05	3.4%	$7.02	4.9%
Chicago	$5.18	2.9%	$6.40	7.4%
Orange County	$11.11	2.8%	$11.96	3.6%
Twin Cities	$5.72	2.3%	$5.21	7.4%
Houston	$5.70	1.9%	$6.39	11.0%
Kansas City	$4.16	0.5%	$3.83	4.7%
St. Louis	$3.92	0.0%	$3.38	6.7%
Detroit	$5.69	-0.5%	$4.13	9.4%

Source: CommercialEdge. Data as of March 2021. Rent data provided by Yardi Market Insight

Supply:
Pipeline Strong in Most Markets

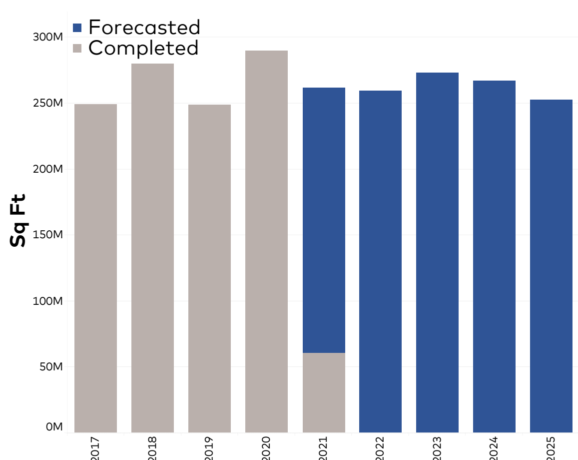
- Nationally, 367.8 million square feet of new industrial supply is under construction and an additional 418.1 million square feet is currently in the planning stages.

- So far this year, 60.5 million square feet of new space has been delivered, with another 201.1 million square feet forecasted to be finished by year end, according to Yardi Matrix.

- The largest pipelines are in metros with strong demand for industrial space and no geographic constraints limiting land supply. These markets include Phoenix (14.0 million square feet under construction, 5.4% of stock), Dallas (28.4 million, 3.9%), Memphis (12.2 million, 5.1%) and Denver (9.6 million, 5.0%).

- The smallest pipelines in the country on a percentage of stock basis are in one of two groups: port markets where land is at a premium—like Los Angeles, Orange County, New Jersey and Boston—and Midwestern markets where rent growth and sales prices indicate demand has not exploded as in other areas of the country. These markets include Cleveland (1.4 million square feet under construction, 0.5% of stock) and Minneapolis (1.4 million, 0.5%).

National New Supply Forecast



Source: Yardi Matrix. Data as of March 2021

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	367,754,833	2.6%	5.6%
Phoenix	13,964,617	5.4%	13.3%
Dallas–Fort Worth	28,380,671	3.9%	9.6%
Denver	9,550,704	5.0%	8.5%
Seattle	4,452,807	1.9%	8.4%
Charlotte	7,263,906	3.2%	8.0%
Indianapolis	9,794,517	3.6%	7.4%
Kansas City	7,385,520	3.4%	7.3%
Philadelphia	10,538,236	3.3%	7.2%
Nashville	7,922,025	4.7%	7.0%
Memphis	12,163,632	5.1%	6.7%
Columbus	7,070,461	2.9%	6.1%
Inland Empire	15,680,195	2.7%	5.9%
Houston	17,275,539	3.4%	5.9%
Central Valley	8,011,474	2.9%	5.6%
Tampa	4,419,335	2.6%	5.5%
Boston	1,552,813	0.8%	5.4%
Baltimore	2,857,965	1.6%	4.9%
New Jersey	8,668,698	1.9%	4.8%
Portland	3,484,300	2.3%	4.5%
Chicago	19,852,194	2.3%	4.3%
Bay Area	5,545,954	2.0%	4.2%
Atlanta	10,205,778	2.2%	3.8%
Detroit	9,615,080	2.2%	3.4%
Cincinnati	5,820,256	2.5%	3.2%
Los Angeles	6,326,919	0.9%	2.8%
Bridgeport	2,252,740	1.4%	2.2%
Twin Cities	1,379,775	0.5%	1.7%
Orange County	610,326	0.3%	1.4%
Cleveland	1,358,250	0.5%	0.9%

Source: CommercialEdge. Data as of March 2021

Economic Indicators:
Manufacting Index Reaches High Not Seen Since 1980s

- The Institute for Supply Management's (ISM) monthly survey hit its highest level since 1983 in March. The index, where a value above 50 indicates expansion in the manufacturing sector, was at 64.7 in March. The survey of purchasing managers at more than 300 manufacturing firms is a key leading economic indicator and its current reading signifies that this year will see robust growth in both manufacturing and the broader economy. The New Orders Index grew to 68.0, the highest reading since January 2004, and the ISM noted that 15 of the 18 manufacturing industries surveyed reported growth in new orders.

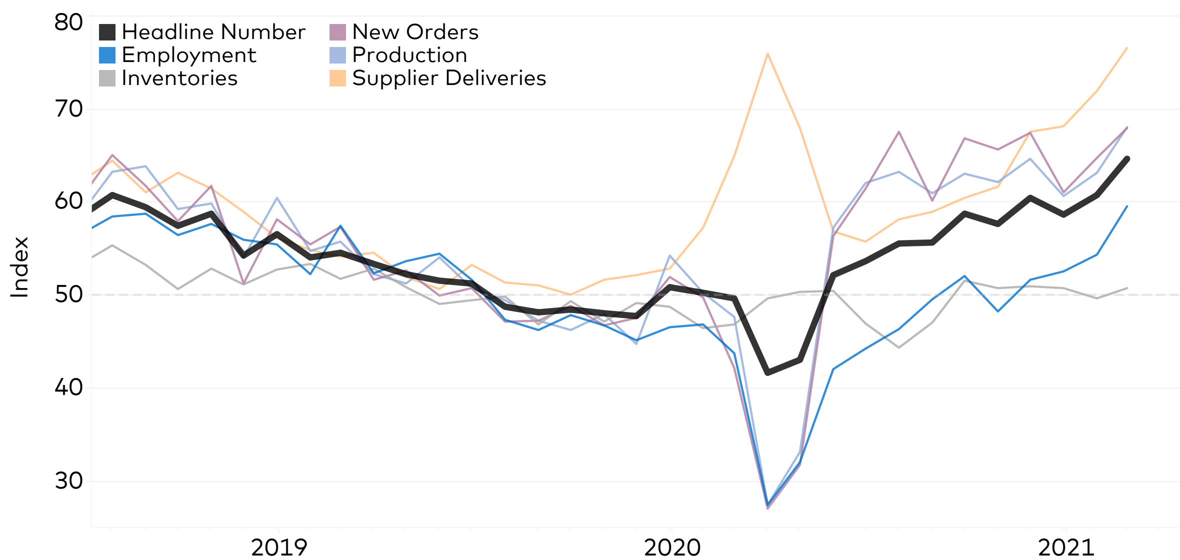
- Despite optimism for expansion in the sector, there are still risks that could dampen manufacturing's outlook. Foremost among these is the global shortage of semiconductors. If the shortage drags into next year as some expect, it could cause bottlenecks in the production of a wide array of items, from automobiles to appliances and personal electronic devices.

Economic Indicators

National Employment	ISM Purchasing Manager's Index
(March)	(March)
144.1M	64.7
0.6% MoM ▲	3.9 MoM ▲
-4.5% YoY ▼	15.0 YoY ▲
Inventories	**Imports**
(January)	(February)
$2,000.7B	$219.1B
1.2% MoM ▲	-0.9% MoM ▼
-0.9% YoY ▼	10.3% YoY ▲
Core Retail Sales	**Exports**
(February)	(February)
$405.4B	$131.1B
-3.1% MoM ▼	-3.5% MoM ▼
6.2% YoY ▲	-5.1% YoY ▼

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

ISM Manufacturing Purchasing Managers Index



Sources: Institute for Supply Management

Transactions:
Southern California Assets in Demand

- Nationally, $8.1 billion in transactions have been logged for the first quarter of the year. There is a lag in recording all sales activity, but the final numbers for the first quarter will likely land below the $10.9 billion of sales in the first quarter of 2020. While total volume may be lower than last year, the average price of assets has skyrocketed, increasing 29.1% over the year to $110.04 per square foot.

- Southern California has seen incredible demand for industrial assets in the last few years, and for the most part the trend is continuing this year. Los Angeles and the Inland Empire combined accounted for more than 15% of all sales volume in the country in the first quarter. With the Port of Los Angeles experiencing record volumes and the strongest rent growth in the country, demand for these assets will remain strong for the foreseeable future.

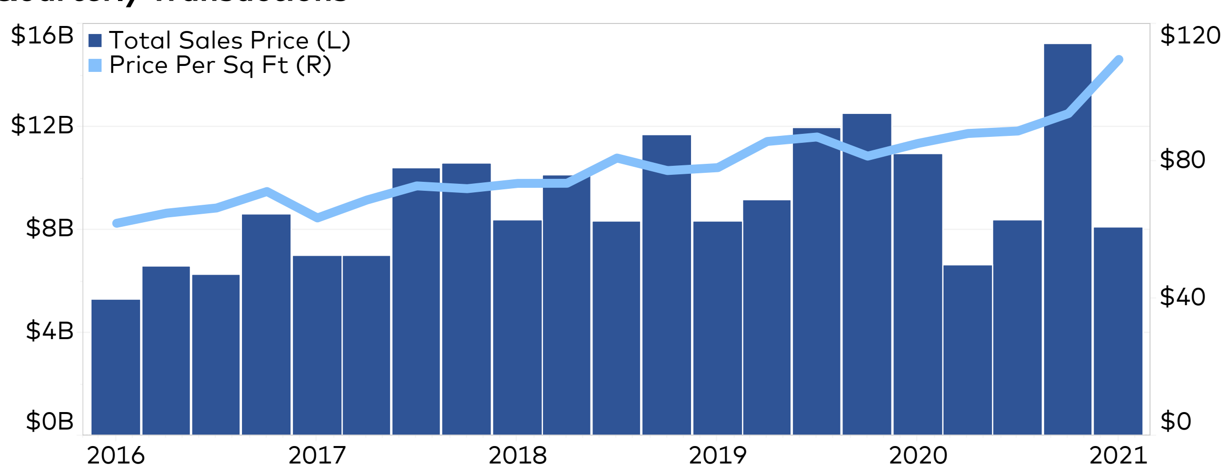
- Oddly, Orange County has so far yet to experience a similar flurry of activity this year, after the fourth quarter of 2020 saw $425 million in sales at an average of $231 per square foot. With strong demand for industrial assets in the region and a virtually nonexistent new supply pipeline (0.6 million square feet under construction, 0.3% of existing stock), we expect activity to resume in the market later this year.

Sales Activity

Market	YTD Sales (Mil, as of 03/31)	YTD Sales Price PSF
National	$8,113	$110.04
Los Angeles	$775	$185.23
New Jersey	$581	$276.87
Inland Empire	$484	$156.15
Chicago	$407	$73.93
Phoenix	$369	$140.09
Philadelphia	$312	$72.70
Baltimore	$282	$108.30
Seattle	$267	$204.30
Boston	$239	$132.94
Bay Area	$237	$141.16
Columbus	$221	$56.67
Nashville	$165	$72.85
Denver	$157	$133.07
Central Valley	$132	$92.97
Tampa	$111	$65.68
Bridgeport	$90	$90.89
Dallas–Fort Worth	$89	$87.29
Twin Cities	$75	$85.11
Atlanta	$62	$70.11
Houston	$56	$65.38
Kansas City	$44	$68.07
Indianapolis	$32	$42.92
Orange County	$30	$237.83
Memphis	$25	$30.04
Cincinnati	$25	$45.21
Cleveland–Akron	$19	$40.57
Charlotte	$11	$52.89

Source: CommercialEdge. Data as of March 2021

Quarterly Transactions



Source: CommercialEdge. Data as of March 2021

Definitions

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- Average Rents—Provided by Yardi Matrix Expert, 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.

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 do not always include portfolio transactions or those with unpublished dollar values.

Supply statistics exclude owner-occupied properties.

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