Yardi Matrix

National Industrial Report

April 2023

Industrial Maintains Strong Performance

- The current narrative around commercial real estate is overwhelmingly negative, but the industrial sector continues its strong performance. Average industrial property rents have increased every month over the last year and stood at an all-time high of $7.15 per square foot as of March. Vacancy rates remain extremely low across the country, averaging 3.9% nationally, and are 5.0% or more in only seven of the top 30 industrial metros. Demand for space may be moderating as large users reconfigure distribution chains in an attempt to deal with rising costs, but it remains firmly positive. Transaction activity has slowed as in other property sectors, but the price per unit of industrial sales reached record levels in the first quarter of 2023.

- Arguably, the biggest headwind the industry faces is the increase in interest rates—namely, the impact on pricing and the ability to refinance loans originated when mortgage coupons were lower. Given the rise in mortgage rates and tightening underwriting standards enacted by banks in recent quarters, many properties refinanced today might qualify for 20-25% less proceeds than they did at origination.

- Loans on industrial properties that encompass nearly 14% of total space nationally are set to mature between now and the end of 2025, according to Yardi Matrix. That includes at least 20% of stock in Atlanta, Kansas City, Phoenix and Memphis, and more than 15% of the stock in the Inland Empire and the Bay Area. However, unlike the office sector, where vacancy rates are rising and rents are soft owing to the growing work-from-home trend, industrial fundamentals are solid. For example, Columbus and Atlanta have a relatively high percentage of maturing loans by total stock, but the vacancy rate in those markets is less than 3%. Many industrial loans coming up for refinancing will have the benefit of increased revenue during loan seasoning. Plus, industrial remains in demand among most lenders and investors.

- To be sure, industrial is not immune to the hit in property values and valuation uncertainty arising from rising interest rates. Total industrial property returns in the NCREIF Property Index in the fourth quarter of 2022 were -3.5%, including -4.3% appreciation, the first negative quarter for the property type since 2009. The NPI's industrial returns are likely to slide further in the first quarter as appraisals factor in the weaker capital conditions. To put the numbers in context, though, industrial annual total returns in the NPI as of year-end 2022 were 14.6% for one year, 22.4% over three years and 11.8% over 20 years. Industrial significantly outperformed the total index over each time period.

Rents and Occupancy: Industrial Rent Growth Still Rising

- National in-place rents for industrial space averaged $7.15 per square foot in March, up 7.1% year-over-year, according to Yardi Matrix. During the first quarter of 2023, national average rents increased by 14 cents, or 2.0%.

- Large coastal markets continue to lead the way in rent growth. Metros with the highest year-over-year increases in asking rents through March include the Inland Empire (16.3% year-over-year), Los Angeles (13.1%), Boston (9.7%), New Jersey (8.6%), Bridgeport (8.3%) and Orange County (7.6%). Eighteen of the top 30 metros recorded year-over-year growth of 5.2% or more, and St. Louis, at -2.0%, was the only metro to post negative growth.

- The national vacancy rate in March was unchanged from the previous month at 3.9%. Industrial occupancy remains solid despite a pullback in leasing in some quarters of the market and the wave of supply that has come online in recent years and remains ongoing.

- The lowest vacancy rates in the country are mostly found in the Midwest and West: Columbus (1.2%), the Inland Empire (1.7%), Phoenix (2.0%) , Los Angeles (2.3%) and Indianapolis (2.4%). Northeast consumer hubs New Jersey and Bridgeport (2.6%) also sport low vacancy rates.

- The average rate of new leases signed in the last 12 months rose to $9.24 per square foot through March, up 15 cents from the previous month and $2.09 more than the average for all leases.

- New leases in California metros continue to mushroom. Metros with the largest spreads between new leases and the market average lease include Los Angeles ($7.51), the Inland Empire ($7.46) and Orange County ($4.88).

Average Rent by Metro

Market	Mar-23 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.15	7.1%	$9.24	3.9%
Inland Empire	$7.77	16.3%	$15.86	1.7%
Los Angeles	$11.80	13.1%	$20.06	2.3%
Boston	$8.74	9.7%	$11.53	7.4%
New Jersey	$9.00	8.6%	$12.98	2.6%
Bridgeport	$7.75	8.3%	$11.15	2.6%
Orange County	$12.74	7.6%	$18.08	3.7%
Miami	$9.61	7.6%	$13.36	2.9%
Phoenix	$7.72	7.5%	$9.00	2.0%
Atlanta	$4.99	7.3%	$5.85	2.9%
Bay Area	$11.93	7.0%	$14.10	3.8%
Seattle	$9.64	6.7%	$11.22	4.5%
Portland	$8.61	6.2%	$11.10	3.7%
Dallas–Fort Worth	$5.27	6.1%	$7.04	5.0%
Detroit	$6.11	5.9%	$8.23	3.7%
Baltimore	$7.13	5.8%	$8.94	3.0%
Central Valley	$5.62	5.7%	$7.44	4.0%
Philadelphia	$6.77	5.5%	$8.21	3.9%
Cincinnati	$4.38	5.2%	$4.98	4.6%
Tampa	$6.90	4.4%	$8.02	6.3%
Nashville	$5.53	4.4%	$9.03	3.0%
Denver	$7.95	4.1%	$8.53	7.2%
Kansas City	$4.43	3.9%	$4.43	4.1%
Indianapolis	$4.28	3.8%	$4.81	2.4%
Twin Cities	$6.25	3.7%	$6.72	5.9%
Memphis	$3.59	3.7%	$3.56	5.7%
Chicago	$5.59	3.6%	$6.74	4.4%
Charlotte	$6.32	3.2%	$7.16	3.7%
Columbus	$4.15	3.2%	$5.41	1.2%
Houston	$6.11	3.0%	$6.38	7.9%
St. Louis	$4.45	-2.0%	$4.46	2.9%

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

Supply:
Deliveries High, but Pipeline Wanes

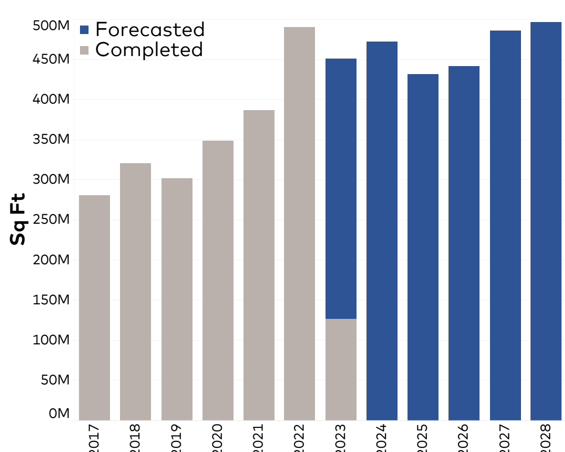
- Nationally, 636.6 million square feet of new industrial space are under construction, down from the 667.5 million square feet under construction a month ago and 742.3 million square feet at the beginning of the year. The waning pipeline is likely a sign of things to come.

- Some 127.0 million square feet of properties were delivered in the first quarter. If that pace continues, it would shatter last year's record 489 million square feet of deliveries, but we expect completions to decelerate during the rest of the year.

- While the boom in industrial demand is by no means over, the record development pace of the last few years is almost certain to moderate. For one thing, some companies—such as Amazon—are reducing estimates of space needed going forward and cutting back on new projects. Some retailers are using store space as a way of reducing demand for new logistics space. And while supply-chain issues have diminished, projects are taking longer from start to finish.

- The decelerating pipeline is also due to commercial banks tightening lending standards for construction loans and financing being less available than it was in recent years.

National New Supply Forecast



Source: Yardi Matrix. Data as of March 2023

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	636,599,327	3.5%	7.3%
Phoenix	54,530,746	15.7%	35.0%
Dallas–Fort Worth	59,773,840	6.8%	12.2%
Denver	12,766,548	5.1%	7.8%
Inland Empire	27,174,593	4.4%	8.8%
Charlotte	13,389,518	4.4%	10.6%
Philadelphia	18,163,712	4.3%	9.6%
Indianapolis	14,088,327	4.1%	8.9%
Columbus	11,623,483	4.0%	6.7%
Houston	20,856,772	3.6%	6.5%
Tampa	7,787,311	3.5%	8.7%
Seattle	8,585,897	3.0%	5.2%
Bay Area	7,774,749	2.7%	4.6%
Cincinnati	7,431,481	2.7%	4.0%
Chicago	26,280,207	2.6%	5.9%
Kansas City	6,588,242	2.5%	15.8%
Boston	5,929,523	2.5%	3.4%
New Jersey	10,679,029	1.9%	4.1%
Detroit	10,284,455	1.9%	3.3%
Central Valley	6,609,450	1.9%	3.5%
Nashville	3,904,418	1.9%	3.8%
Atlanta	9,591,599	1.8%	2.9%
Baltimore	3,735,953	1.8%	3.5%
Memphis	3,621,750	1.3%	2.2%
Twin Cities	3,972,358	1.2%	3.4%
Cleveland	2,848,493	0.7%	2.2%
Portland	1,378,565	0.7%	2.0%
Bridgeport	1,265,924	0.6%	1.7%
Los Angeles	3,460,049	0.5%	2.1%
Orange County	570,858	0.3%	0.7%

Source: Yardi Matrix. Data as of March 2023

Economic Indicators:
Producer Inflation Nears Pre-Pandemic Levels

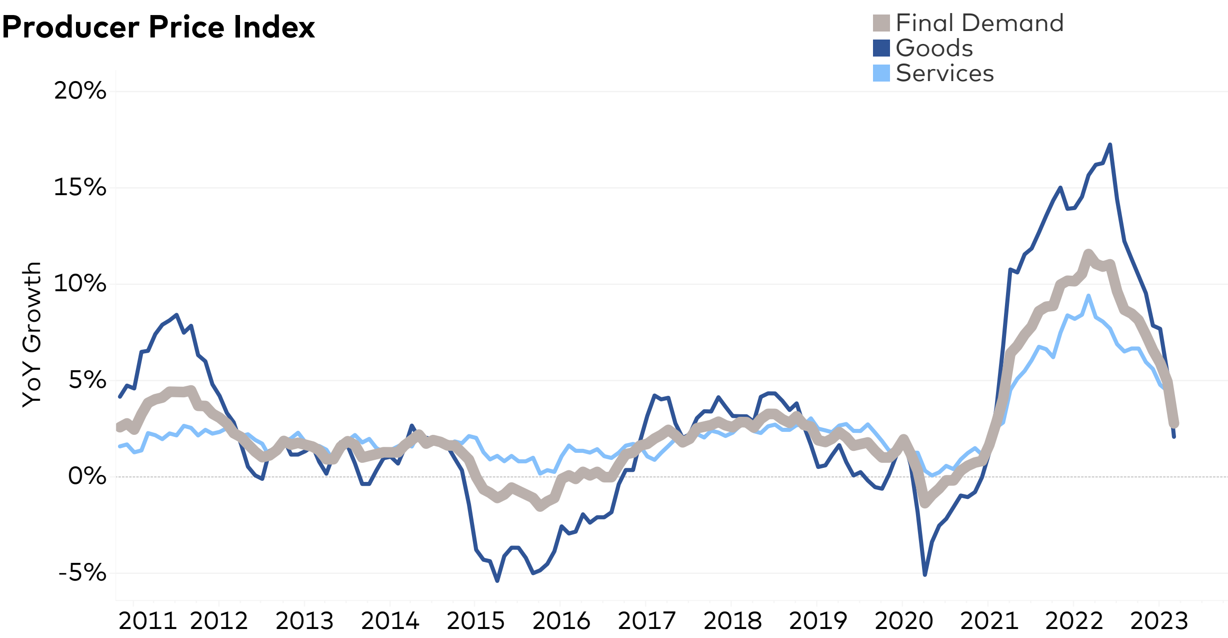
- Producer costs, which exploded in the early days of the pandemic, have come down to pre-pandemic levels, a good sign for the economy and commercial real estate.
- The year-over-year increase in the Producer Price Index's final demand metric, compiled by the Bureau of Labor Statistics, fell in March to 2.8%, well below 2021 peaks and the lowest level since January 2021. The PPI measures the inflation of costs for producers of goods and services. Shipping and labor issues that created the pandemic-era PPI increases are easing.
- Higher producer costs are a big contributor to inflation and erode consumer purchasing power. As products become more expensive, consumers buy less for their money, which reduces demand for industrial, logistics and retail space. Lower producer costs contribute to deceleration in the Consumer Price Index and could factor into the Federal Reserve's decision on whether to put the brakes on further interest rate increases.

Economic Indicators

National Employment (March)	ISM Purchasing Manager's Index (March)
155.6M	46.3
0.2% MoM ▲	-1.4 MoM ▼
2.7% YoY ▲	-10.7 YoY ▼
Inventories (January)	**Imports** (February)
$2,479.6B	$262.2B
-0.1% MoM ▼	-2.2% MoM ▼
11.1% YoY ▲	-1.6% YoY ▼
Core Retail Sales (February)	**Exports** (February)
$508.9B	$169.2B
0.0% MoM	-4.8% MoM ▼
7.9% YoY ▲	5.7% 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 Activity Drops as Prices Hit New High

- Transaction activity took a big hit in Q1 2023, with investors and buyers remaining far apart on pricing while debt financing is more difficult to find. A total of $7.7 billion of sales were completed in the first quarter, according to Yardi Matrix. While that number is likely to increase due to the lag in collecting data, it is well below the $20.5 billion completed in the same quarter last year and the lowest first quarter volume since 2016, when $5.9 billion of transactions were closed.

- Commercial property sales are constrained by the rising cost of mortgage debt and growing pessimism about rent growth owing to expectations of an economic slowdown. That impacts industrial even though the sector has performed relatively well compared to property types such as office and retail.

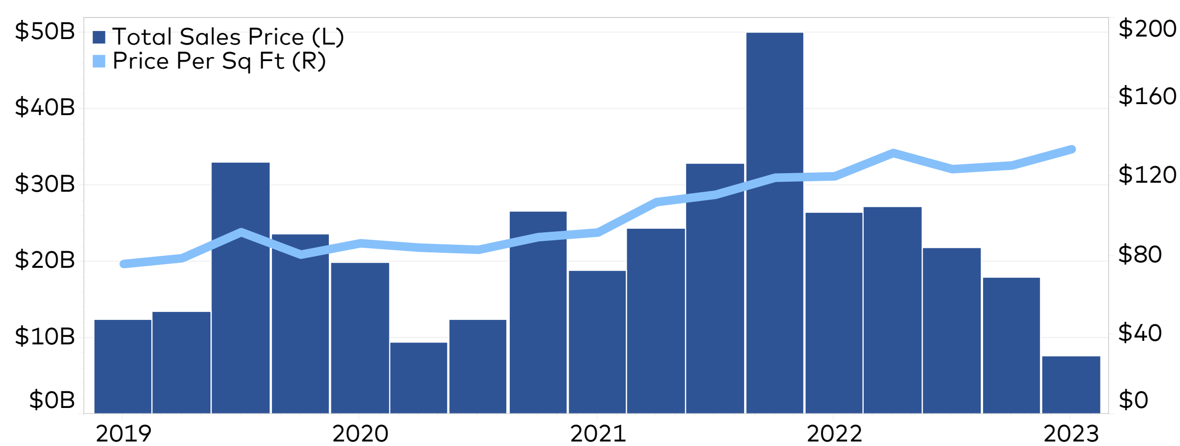
- Even as sales have slowed, the average price continues to increase. In Q1 2023, it totaled $133.77, topping the $128.58 average in 2022 and the highest quarterly per-square-foot price ever recorded. The highest sales prices per square foot in Q1 were recorded in the Bay Area ($490), Los Angeles ($509), Orange County ($302), the Inland Empire ($252) and New Jersey ($219).

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 03/31)
National	$133.77	$7,668
Bay Area	$489.76	$1,048
Inland Empire	$251.73	$1,019
New Jersey	$219.46	$345
Phoenix	$206.35	$306
Cincinnati	$180.30	$288
Houston	$153.33	$233
Boston	$132.43	$218
Charlotte	$98.45	$209
Philadelphia	$118.46	$189
Bridgeport	$147.08	$183
Los Angeles	$509.10	$180
Atlanta	$115.59	$173
Chicago	$101.00	$154
Indianapolis	$152.57	$151
Columbus	$87.00	$144
Twin Cities	$79.77	$142
Dallas–Fort Worth	$112.23	$123
Seattle	$205.01	$99
Portland	$140.56	$74
Denver	$117.80	$62
Orange County	$301.97	$58
Detroit	$40.02	$58
Memphis	$75.30	$56
Baltimore	$107.96	$43
Central Valley	$55.25	$31

Source: Yardi Matrix. Data as of March 2023

Quarterly Transactions



Source: Yardi Matrix. Data as of March 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:

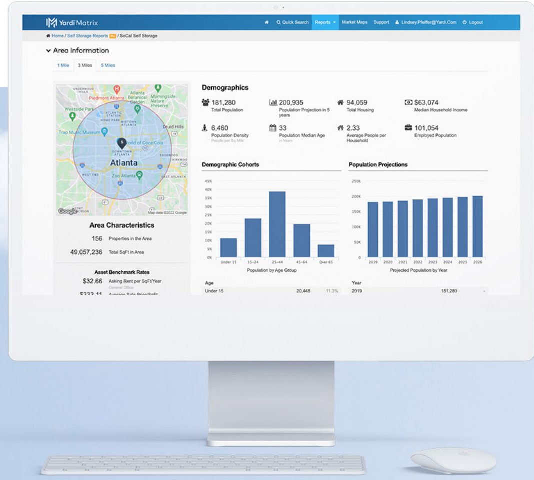
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.

- 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.

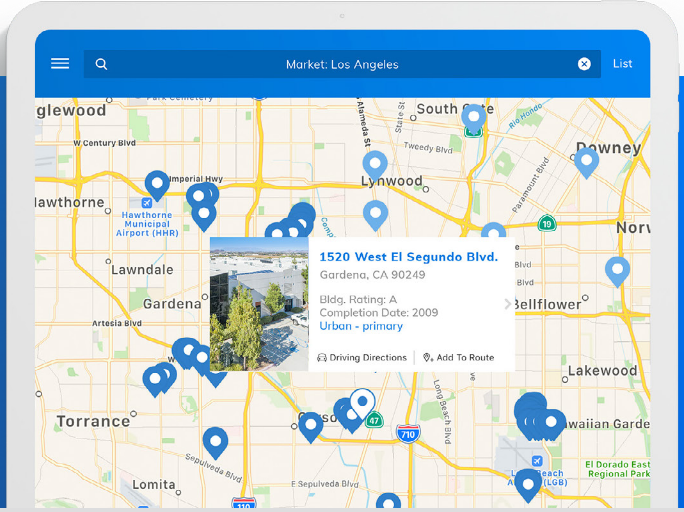
Yardi Matrix

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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