CommercialEdge

National Industrial Report

April 2024

Supply Chains Back in Spotlight

- The major bottlenecks that plagued supply chains in 2021 and 2022 have long since dissipated, but recent events that interrupted global shipping lanes in Baltimore and the Panama Canal serve as a reminder of the ripple effects caused by disruptions.

- The collapse of the Francis Scott Key Bridge in Baltimore will impact trade of goods and commodities and increase traffic at other ports along the Eastern Seaboard, but it won't lead to massive disruptions in the global supply chain like those that occurred when the Ever Given got stuck in the Suez Canal in 2021. Overall, the Port of Baltimore is the East Coast's fifth busiest and the top port for automobile imports. Its status as the nation's farthest inland port also makes it a leader in imports of farm equipment and exports of coal. Ships are being rerouted to other coastal ports, and temporary openings have allowed some smaller ships that were stuck to leave. While the port's main channel is set to fully reopen at the end of May, reconstruction of the bridge will take much longer. Truck shipping in the region will remain muddled, and some firms may continue rerouting cargo in order to avoid issues transporting items once they are removed from ships.

- While the impact of the bridge collapse will remain mostly localized along the East Coast, other significant threats to global supply chains have emerged this year. Two of the world's key shipping corridors currently face huge disruptions. The Panama Canal has been operating at reduced capacity this year due to a drought in the region, which has reduced availability of water to fill the canal's locks. The average number of daily ship crossings through the canal was down by roughly 33% year-over-year during the first quarter. As Central America begins its rainy season, supply-chain managers are holding their breath in hopes that the drought will come to an end. Even if it does, however, activity isn't likely to return to normal before the end of the year. Across the globe, the Yemen-based Houthi militia has been firing missiles at ships in the Red Sea and the Gulf of Aden.

- Firms that learned lessons about supply-chain resiliency during the COVID-19 pandemic will be more prepared for these mounting challenges. While these risks do not yet appear to be a major cause for concern, they are worth monitoring. Not only did supply-chain disruptions create imbalances in the industrial sector but they were also a major driver of inflation reaching levels not seen in four decades. If supply-chain disruptions cause inflation to rise once again, a soft landing becomes much less feasible and the chance of a recession is higher.

Rents and Occupancy: Vacancy Rates Continue to Tick Up

- National in-place rents for industrial space averaged $7.85 per square foot in March, an increase of 17 cents from February and up 7.3% year-over-year.

- In-place rent growth was highest in Miami (11.9% increase over the last 12 months), which barely edged out the Inland Empire (11.8%). It's been uncommon for a market outside of Southern California to lead the nation in rent growth in recent years. SoCal continues to hold the third (Los Angeles, 11.2%) and fourth (Orange County, 10.8%) spots.

- Rent growth is slower in landlocked markets, with Kansas City (3.8%), Detroit (4.0%), St. Louis (4.5%) and Denver (4.6%) all among the five markets with the lowest increases in in-place rents. Houston (4.5%) was the only market with a sea port among the bottom 10.

- The national vacancy rate was 5.2% in March, up 20 basis points from the previous month. The increase in vacancy rates in recent quarters can be attributed to a few causes. Historic levels of new supply have been delivered in recent years, with more than 1 billion square feet added to the market between 2022 and 2023 alone. The e-commerce boom that fueled so much of the demand for space has cooled of late. Tenants have been much more hesitant to sign leases in the face of inflation, interest rate increases and economic uncertainty. Occupiers are more focused on controlling costs than they were in previous years, which has cooled the leasing velocity that pushed vacancies to record lows coming out of the pandemic.

- The average rate for new leases signed in the last 12 months was $10.43 per square foot, $2.58 more than the average for all leases.

Average Rent by Metro

Market	Mar-24 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.85	7.3%	$10.43	5.2%
Miami	$11.28	11.9%	$17.10	4.6%
Inland Empire	$9.89	11.8%	$17.30	6.0%
Los Angeles	$14.31	11.2%	$19.39	7.2%
Orange County	$15.44	10.8%	$19.75	4.3%
New Jersey	$10.49	8.7%	$13.56	6.1%
Seattle	$11.13	8.5%	$14.37	6.7%
Phoenix	$8.70	7.9%	$11.26	3.7%
Atlanta	$5.67	7.8%	$8.59	4.6%
Nashville	$5.90	7.5%	$9.05	3.3%
Boston	$10.22	7.2%	$11.97	8.1%
Dallas–Fort Worth	$5.91	6.7%	$8.49	5.1%
Baltimore	$7.85	6.7%	$10.75	6.3%
Portland	$9.51	6.5%	$10.90	3.9%
Bridgeport	$8.94	6.0%	$11.61	5.1%
Tampa	$7.59	6.0%	$10.59	7.4%
Bay Area	$13.10	5.9%	$17.45	4.5%
Columbus	$4.70	5.9%	$6.03	2.4%
Central Valley	$6.15	5.9%	$9.02	3.9%
Philadelphia	$7.67	5.6%	$9.62	4.9%
Twin Cities	$6.90	5.5%	$7.82	5.4%
Cincinnati	$4.73	5.1%	$6.06	4.9%
Memphis	$3.92	5.1%	$4.45	5.5%
Indianapolis	$4.60	5.0%	$6.35	3.2%
Charlotte	$6.66	4.9%	$8.07	3.6%
Chicago	$6.06	4.7%	$8.07	6.1%
Denver	$8.33	4.6%	$9.20	7.0%
St. Louis	$4.66	4.5%	$5.96	5.4%
Houston	$6.54	4.5%	$7.72	5.7%
Detroit	$6.79	4.0%	$6.77	4.5%
Kansas City	$4.96	3.8%	$5.57	2.4%

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

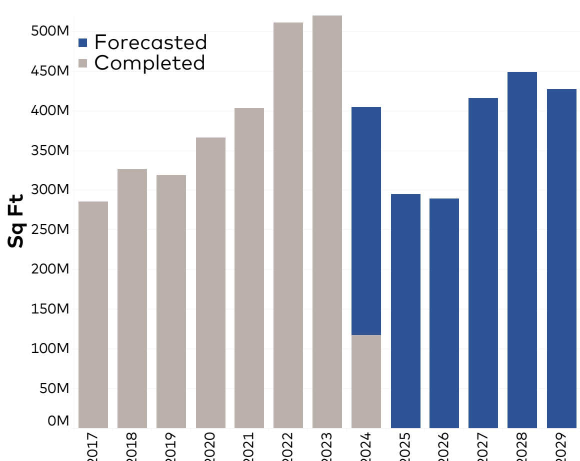
Supply:
Inland Empire Development Slows

- Currently, 405.9 million square feet of industrial space, representing 2.1% of stock, are under construction, according to CommercialEdge. The under-construction pipeline is roughly two-thirds the size it was at this time last year, as new starts have dried up in response to normalizing demand and a rising cost of capital.

- No market has experienced the drop-off in construction more keenly than the Inland Empire. The amount of space under construction has fallen by two-thirds, to 9.2 million square feet from 27.2 million square feet at this time last year. Over that same period, the vacancy rate has increased to 6.0% from 1.7%. After years of rapidly adding space—more than 90 million square feet since 2020—the market finally has some slack.

- The Inland Empire still has a large pipeline of planned projects (45.8 million square feet), suggesting that construction starts will pick up once capital becomes more widely available and vacancy rates begin to move downward again. However, the industrial boom of recent years led to significant local pushback against new development from community and environmental groups as well as local governments. Future projects in the nation's second-largest market may face an uphill battle.

National New Supply Forecast



Source: Yardi Matrix. Data as of March 2024

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	405,948,761	2.1%	5.3%
Phoenix	41,761,563	10.8%	27.9%
Dallas–Ft Worth	24,520,135	2.6%	7.7%
Charlotte	12,317,461	3.9%	8.7%
Atlanta	11,582,183	2.1%	4.2%
Chicago	11,397,141	1.1%	2.7%
Kansas City	11,355,163	3.9%	15.9%
Memphis	10,000,000	3.4%	3.9%
Inland Empire	9,232,988	1.4%	8.5%
Denver	7,899,716	2.9%	4.6%
Philadelphia	7,738,482	1.7%	5.2%
Central Valley	7,681,565	2.2%	2.9%
Detroit	7,581,399	1.3%	2.4%
New Jersey	7,475,777	1.3%	2.9%
Columbus	7,162,783	2.3%	4.1%
Houston	6,932,779	1.1%	4.4%
Tampa	4,680,587	1.7%	5.9%
Seattle	4,503,656	1.5%	4.6%
Bay Area	4,367,530	1.5%	5.7%
Indianapolis	3,765,203	1.0%	4.0%
Los Angeles	2,990,267	0.4%	2.4%
Boston	2,495,820	1.0%	2.3%
Cleveland	2,420,000	0.6%	0.9%
Portland	2,036,733	1.0%	2.2%
Nashville	2,004,105	0.9%	3.5%
Cincinnati	1,868,197	0.6%	1.1%
Twin Cities	911,229	0.3%	1.2%
Baltimore	787,875	0.4%	1.8%
Orange County	724,872	0.4%	1.1%
Bridgeport	274,000	0.1%	1.2%

Source: CommercialEdge. Data as of March 2024

Economic Indicators: Producer Prices Creep Back Up

- Producer prices rose 2.1% year-over-year, the highest increase in 11 months, according to the Bureau of Labor Statistics. Despite the annual rate ticking up, the Producer Price Index saw significant deceleration in March from the previous month. After growing 0.6% in February, the PPI increased just 0.2% in March. Services increased by 2.1% year-over-year, while the goods portion of the index increased 0.9%.

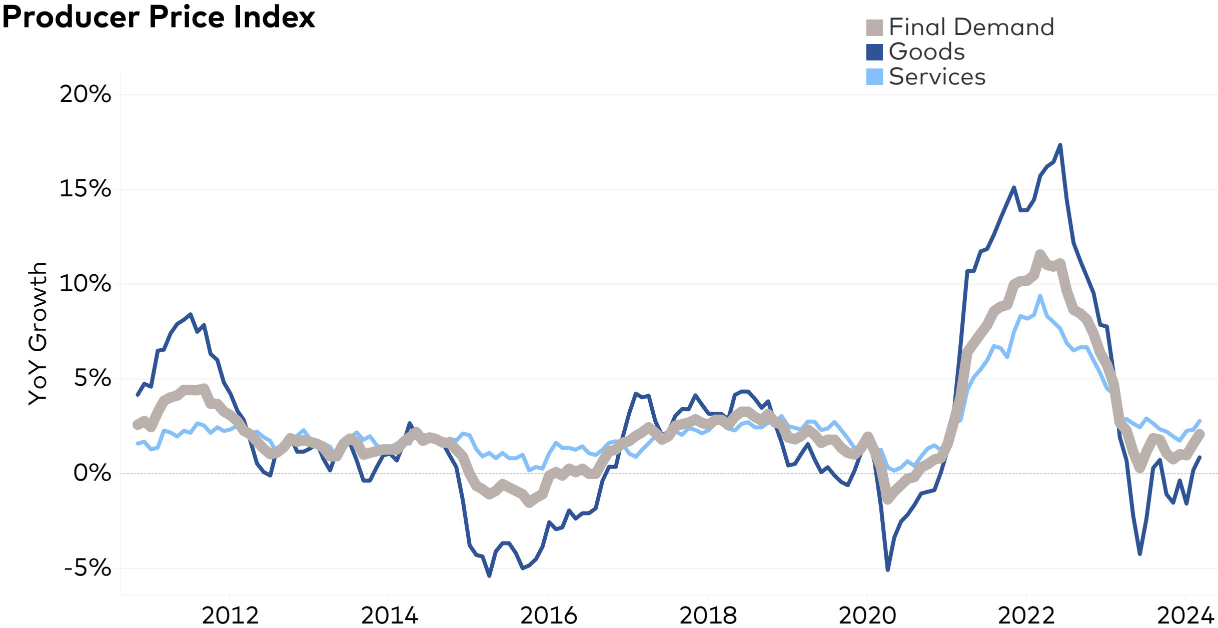
- If the PPI continues to move upwards, it could be bad news for the industrial sector and the overall economy. Producers saddled with higher costs for goods and services are much less likely to sign new leases or renewals with increases. At a time when firms are looking to reduce costs, increases in input prices could lead to reduction in real estate costs. The PPI is also a leading indicator for the more closely watched Consumer Price Index. Consumer prices have increased more than expected in recent months, and if increases in producer prices are passed through to consumers, it may lead to the Fed holding off on interest rate cuts through the summer.

Economic Indicators

National Employment (March) 158.1M 0.2% MoM ▲ 1.9% YoY ▲	**ISM Purchasing Manager's Index** (March) 50.3 2.5 MoM ▲ 3.8 YoY ▲
Inventories (January) $2,556.1B 0.1% MoM ▲ 0.5% YoY ▲	**Imports** (February) $268.1B 1.8% MoM ▲ 2.2% YoY ▲
Core Retail Sales (February) $516.0B 0.5% MoM ▲ 2.6% YoY ▲	**Exports** (February) $176.7B 2.9% MoM ▲ 2.8% 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, CommercialEdge

Transactions:
Bay Area Sale Large Enough to Swing National Figures

- Industrial sales totaled $10.0 billion in the first quarter of 2024, according to Commercial Edge data, with properties trading at an average of $147 per square foot.

- Both the number of transactions and total sales volume have fallen this year, as pricing remains uncertain. However, the average sale price increased by more than 22% in the first quarter from Q4 2023, though that was skewed by one large deal.

- The Bay Area leads the nation in sales volume in 2024, thanks to the Swiss firm Lonza Group's $1.2 billion purchase of a biotechnology manufacturing facility at 1000 New Horizons Way in Vacaville. That one sale accounted for 12% of all national volume in the first quarter, while the building's $2,810-per-foot sale price was large enough to increase the national average price, which otherwise would have been $130 per foot. The building was placed on the market last year by Genentech, which has made drugs for cancer, arthritis and COVID-19 there.

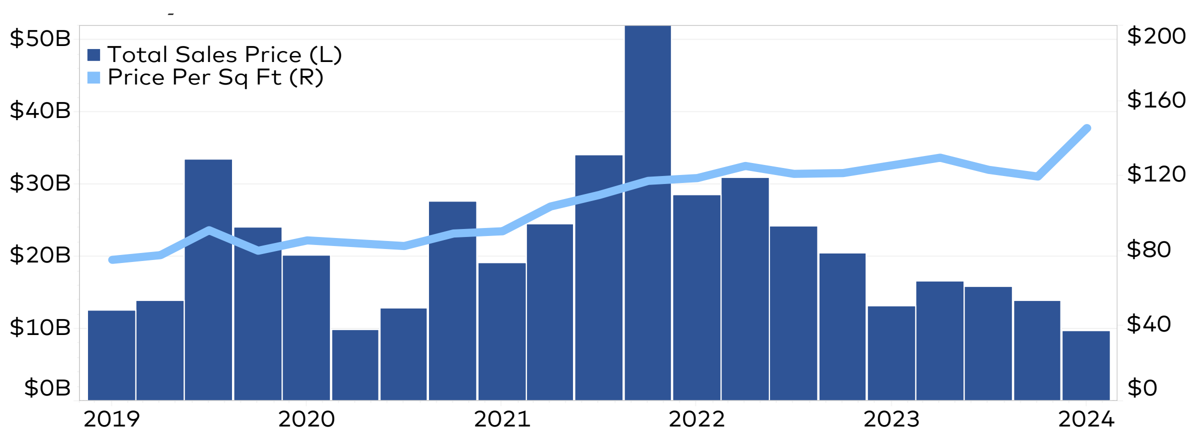
- We expect biotechnology and biomanufacturing to continue to be an in-demand sector in the Bay Area.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 3/31)
National	$147	$9,970
Bay Area	$777	$1,682
Dallas–Fort Worth	$145	$831
Chicago	$97	$585
Los Angeles	$325	$545
New Jersey	$306	$520
Inland Empire	$212	$382
Phoenix	$176	$361
Denver	$133	$343
Houston	$120	$314
Charlotte	$74	$216
Atlanta	$113	$205
Seattle	$253	$201
Columbus	$74	$151
Twin Cities	$106	$130
Boston	$175	$121
Central Valley	$127	$121
Cincinnati	$78	$94
Cleveland	$50	$80
Baltimore	$122	$71
Indianapolis	$62	$64
Tampa	$136	$64
Philadelphia	$92	$64
Detroit	$72	$63
Orange County	$326	$57
Portland	$247	$56

Source: CommercialEdge. Data as of March 2024

Quarterly Transactions



Source: CommercialEdge. Data as of March 2024

Definitions

CommercialEdge 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:

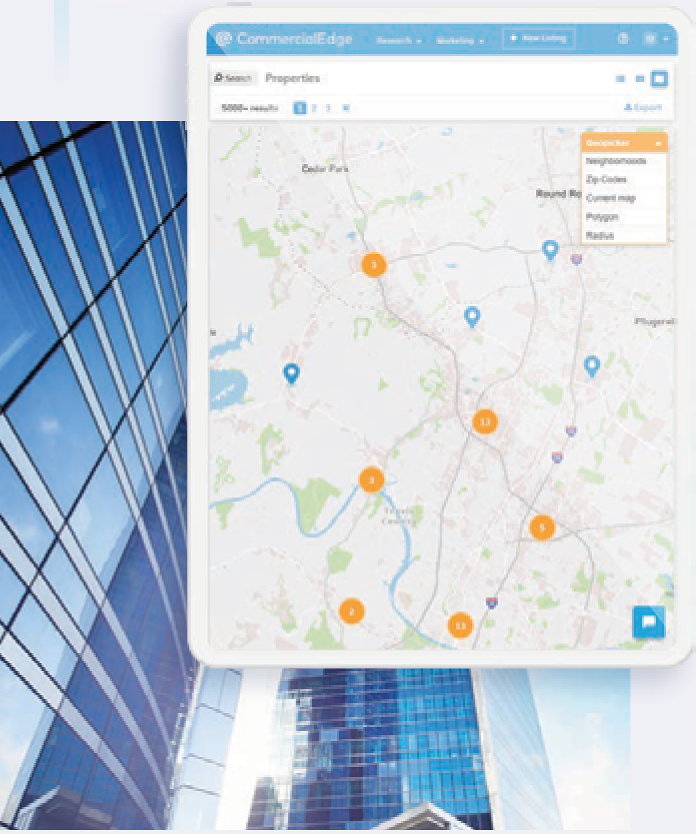
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

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.

CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

CommercialEdge provides the industrial segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



Key features:

- Continually growing nationwide coverage with 162 markets currently included
- Researched and verified data, powered by a team of 400 experienced property research specialists
- Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research
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