CommercialEdge

National Industrial Report

November 2024

High-Tech Space the Future of Industrial

■ Automation and artificial intelligence are increasingly becoming crucial for industrial real estate tenants looking for high-quality assets that can meet the demands of tomorrow.

■ During the early pandemic, industrial occupiers expanded their footprints rapidly. Demand for space was soaring due to e-commerce's explosion, and firms were looking to increase inventories following months of shortages. Today, after both online sales growth and supply chains have normalized, logistics firms and retailers are more focused on optimizing their existing networks and making sure their space can meet the requirements of automation and AI.

■ Access to power is one of the biggest challenges for the industrial sector due to the power-intensive nature of automation, AI, advanced manufacturing and data centers. Tenants will be increasingly interested in solar and other sustainable energy sources in coming years to decouple themselves from power grids, especially in high-temperature locations that can be susceptible to brownouts. This is especially true for advanced manufacturing and other facilities that require climate control.

■ Amazon will soon begin testing attaching automated micro-fulfillment centers to Whole Foods, with the first such center being built in Plymouth Meeting, Pa., a suburb of Philadelphia. If the concept proves successful, it could expand to Whole Foods locations across the country. One of the reasons Amazon acquired the grocery chain in 2017 was that its meticulous site selection gave the e-commerce giant physical locations in densely populated, high-income areas. Amazon is looking for ways to increase its omnichannel retail offerings, to better compete in both the grocery space and with Target and Walmart, which functionally both operate micro-fulfillment centers at their stores.

■ Manufacturers, looking to increase efficiency and precision in the production of goods, are also moving rapidly to bring automation and AI into industrial real estate. While automation has been used for some time in manufacturing, machine learning and deep learning have the potential to improve quality control, predictive maintenance and inventory management, among other applications.

■ Automation and AI are not a cure-all, requiring highly skilled human workers for operation and maintenance, as well as thorough contingency plans in case of system failures. The availability of labor, power and water will slow the rollout of facilities powered by automation and AI, but we expect that in the long term, most firms will require facilities with infrastructure to handle high-tech systems.

Rents and Occupancy:
Miami Takes Top Spot for Rent Growth

- National in-place rents for industrial space averaged $8.22 per square foot in October, up six cents from September and 6.8% over the past 12 months.

- In-place rent growth was highest in Miami, where rates increased 11.0% over the past 12 months. More than 15 million square feet of new, high-quality space has delivered since 2022, leading to an increased average rent as tenants sign expensive leases in these properties. This month marks one of the few times in the last five years that a Southern California market wasn't first in rent growth. Southeastern markets also continued to see strong growth, with in-place rents growing 9.0% in Atlanta over the past 12 months and 8.7% in Nashville.

- The national vacancy rate was 7.2% in September, up 20 basis points from August. The national vacancy rate, which hovered near 4% during most of the previous few years, has steadily increased this year. New supply and softening demand have combined to send rates upward in nearly every market.

- The average rate for new leases signed in the past 12 months was $10.30 per square foot, $2.08 more than the average for all leases. The spread between the rate for a new lease and the overall rate for in-place rent was largest in Miami, where tenants signing a lease over the past 12 months paid a premium of $5.25 per foot.

- The spread between new and existing leases also illuminates slowing demand in Southern California. New leases cost $3.17 more per foot in the Inland Empire and $2.59 more in Los Angeles. While these spreads are larger than in many other markets, they are significantly lower than a year ago, when the difference was $9.32 per foot in the Inland Empire and $6.99 in Los Angeles.

Average Rent by Metro

| Market	Oct-24 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$8.22	6.8%	$10.30	7.2%
Miami	$12.07	11.0%	$17.32	8.5%
Inland Empire	$10.69	10.3%	$13.86	7.3%
New Jersey	$11.33	10.2%	$15.25	7.8%
Atlanta	$6.06	9.0%	$8.97	6.1%
Los Angeles	$15.05	8.8%	$17.64	9.5%
Nashville	$6.25	8.7%	$9.35	4.9%
Seattle	$11.51	8.2%	$12.00	7.6%
Dallas	$6.17	8.1%	$8.79	8.3%
Phoenix	$9.09	7.3%	$12.57	6.4%
Orange County	$15.95	7.0%	$18.02	4.3%
Baltimore	$8.18	6.9%	$10.76	8.7%
Boston	$10.92	6.6%	$13.46	10.5%
Charlotte	$6.94	6.6%	$10.57	4.3%
Philadelphia	$7.95	6.6%	$10.43	6.6%
Columbus	$4.99	6.4%	$6.72	6.6%
Portland	$9.80	6.2%	$10.94	5.0%
Central Valley	$6.43	5.9%	$8.43	5.9%
Cincinnati	$5.00	5.0%	$6.05	5.8%
Indianapolis	$4.85	5.0%	$6.44	9.1%
Bay Area	$13.49	4.9%	$14.54	7.4%
Bridgeport	$9.37	4.8%	$13.24	3.7%
Denver	$8.72	4.8%	$10.08	9.6%
Tampa	$7.81	4.7%	$9.22	9.4%
Houston	$6.78	4.5%	$8.05	6.9%
Memphis	$3.98	4.5%	$4.74	6.8%
Chicago	$6.22	4.4%	$7.36	8.3%
Twin Cities	$7.15	4.1%	$8.29	6.6%
Detroit	$7.15	2.6%	$8.08	4.4%
St. Louis	$4.86	2.5%	$4.38	7.6%
Kansas City	$4.76	2.4%	$5.51	5.6%

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

Supply:
Pipeline Continues to Slow

- Currently, 358.8 million square feet of industrial space, or 1.8% of stock, are under construction nationally, according to CommercialEdge.

- The deceleration of the pipeline continued in the third quarter. Industrial completions totaled 310.2 million square feet year-to-date through October, but just 69.3 million were delivered in the third quarter, compared to 119.3 million in the first quarter and 101.5 million in the second. While a lag in collecting all data means the third quarter could increase, this slowdown reflects the drop-off in starts that began last year and has continued in 2024. More than 1.1 billion square feet were started between 2021 and 2022, but last year starts fell to 352.1 million and CommercialEdge has logged just 184.4 million year-to-date in 2024.

- In Dallas, starts sit at 13.3 million square feet year-to-date, after averaging 42.6 million a year between 2021 and 2023. Phoenix has 10.7 million so far this year, after an average of 32.5 million in the previous three years. The Inland Empire, conversely, saw its big slowdown occur last year, when just 7.0 million square feet were started, after more than 57 million broke ground between 2021 and 2022. The market has rebounded slightly this year, with 9.0 million square feet of starts through October.

National New Supply Forecast
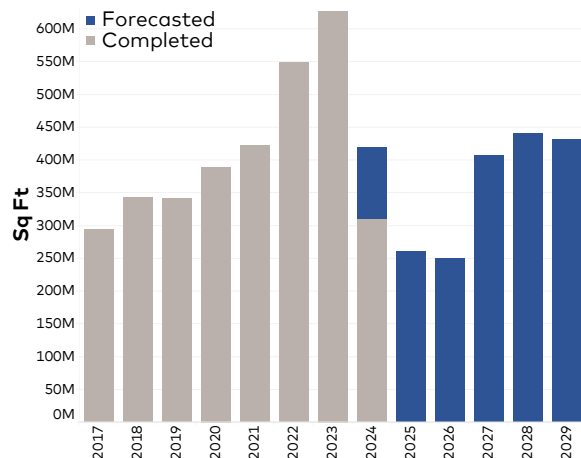
Source: Yardi Matrix. Data as of October 2024

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	358,825,990	1.8%	4.3%
Phoenix	28,107,781	6.7%	15.8%
Kansas City	11,733,367	4.0%	15.0%
Charlotte	6,282,517	1.9%	6.7%
Denver	6,882,117	2.5%	6.1%
Inland Empire	10,234,638	1.5%	5.4%
Houston	11,622,956	1.8%	5.2%
Dallas	16,462,682	1.7%	5.1%
Philadelphia	12,689,337	2.8%	5.0%
Tampa	1,895,657	0.7%	4.7%
Memphis	10,518,000	3.5%	4.0%
Columbus	8,088,271	2.6%	3.9%
Atlanta	9,039,241	1.6%	3.7%
Seattle	2,391,328	0.8%	3.7%
Indianapolis	3,860,006	1.0%	3.1%
Bay Area	2,976,809	1.0%	3.0%
Nashville	3,069,664	1.4%	2.9%
Boston	1,927,284	0.8%	2.8%
New Jersey	7,222,760	1.2%	2.6%
Baltimore	2,792,533	1.3%	2.5%
Central Valley	5,546,254	1.5%	2.1%
Los Angeles	4,975,920	0.7%	2.0%
Detroit	7,702,187	1.3%	1.9%
Chicago	6,943,510	0.6%	1.8%
Portland	2,275,241	1.1%	1.8%
Orange County	916,991	0.5%	1.3%
Twin Cities	1,922,666	0.6%	1.1%
Cleveland	2,656,622	0.7%	0.8%
Cincinnati	1,439,315	0.5%	0.8%
Bridgeport	431,443	0.2%	0.8%

Source: CommercialEdge. Data as of October 2024

Economic Indicators:
Warehouse Employment Slips Again

■ After seeing a minor recovery during the first half of the year, the warehousing and storage sector of the labor market has experienced three straight months of job losses, according to the Bureau of Labor Statistics. After reaching a high of 1,942,000 workers in May 2022, the sector posted losses in 17 of the next 18 months, shedding more than 175,000 workers (-9%) over that time span. It appeared that this trend had reversed this year, as six of the first seven months of 2024 saw the sector add jobs. Yet that growth was weak, with only 16,900 jobs added year-to-date through July. Between July and October, all of those gains were wiped out, as more than 17,000 jobs were lost in the sector.

■ The decline in warehouse employment appears to be driven by a lack of workers. Surveys of logistics operators in recent years have consistently reported a high share of respondents dealing with labor shortages. These shortages could lead to firms accelerating the push for automation in their warehouses.

Economic Indicators

National Employment	**ISM Purchasing Manager's Index**
(October)	(October)
159.0M	46.5
0.0% MoM	-0.7 MoM ▼
1.4% YoY ▲	-0.4 YoY ▼

Inventories	**Imports**
(August)	(September)
$2,583.7B	$285.0B
0.3% MoM ▲	4.0% MoM ▲
2.5% YoY ▲	9.3% YoY ▲

Core Retail Sales	**Exports**
(September)	(September)
$530.1B	$176.0B
1.2% MoM ▲	-1.8% MoM ▼
3.9% YoY ▲	0.6% YoY ▲

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

Warehousing and Storage Employment
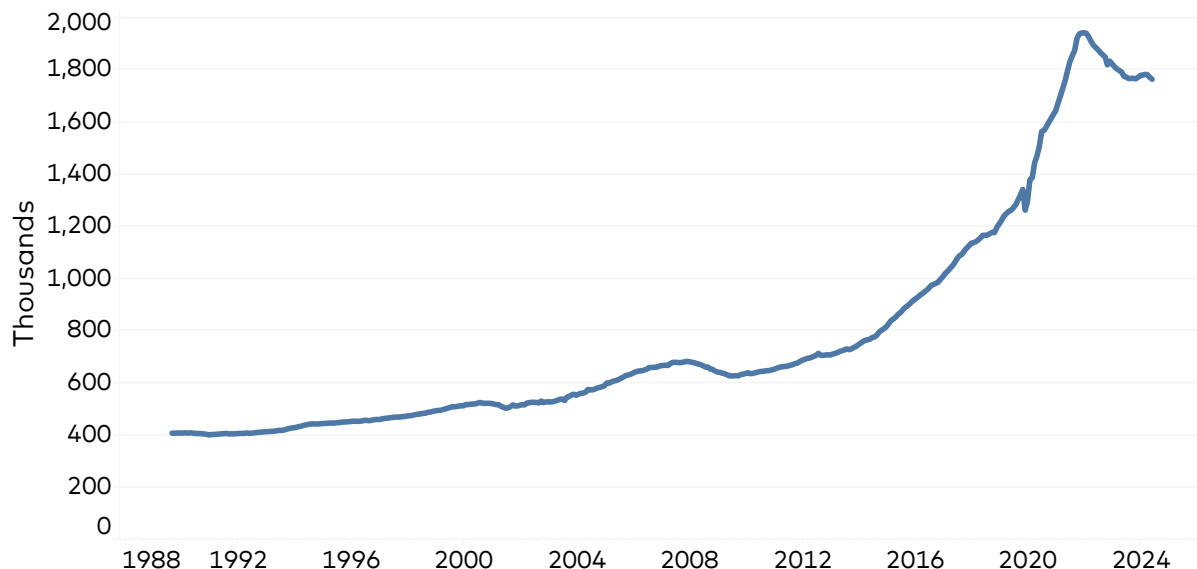
Sources: U.S. Census Bureau, CommercialEdge

Transactions:
Where Deal Volume Is Rising and Falling

■ Industrial transactions totaled $49.2 billion through the end of October, according to CommercialEdge, with properties trading at an average of $129 per square foot. Through the first three quarters of 2024, sales volume is down $1.1 billion compared to the first three quarters of 2023. A lag in the collection of all sales means that the third quarter number could still tick up a bit. Yet even if it doesn't, we expect that interest rate cuts should help drive some sales activity and 2024 will finish ahead of 2023 when all is said and done.

■ Dallas has seen the biggest increase in transaction volume, with $1.1 billion more in industrial sales through the first three quarters of 2024 than in the same period in 2023. Chicago ($678.2 million), Denver ($622.9 million), the Bay Area ($601.5 million) and Miami ($584.2 million) have likewise seen large upticks in sales volume through the third quarter.

■ Conversely, deal volume is falling the most in Southern California, which ran red hot in the first few years of the decade but has experienced softer demand recently. Los Angeles' sales volume was down $2.2 billion compared to the first three quarters of last year, while the Inland Empire's was down $1.3 billion.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 10/31)
National	$129	$49,187
Dallas	$113	$3,764
Bay Area	$465	$2,972
Chicago	$100	$2,605
Houston	$108	$2,560
Los Angeles	$292	$2,374
Phoenix	$159	$2,229
New Jersey	$223	$2,046
Atlanta	$116	$1,988
Inland Empire	$265	$1,636
Denver	$142	$1,123
Seattle	$213	$981
Philadelphia	$126	$981
Twin Cities	$94	$963
Orange County	$315	$823
Nashville	$132	$808
Columbus	$79	$794
Tampa	$126	$751
Charlotte	$78	$683
Boston	$158	$512
Cincinnati	$68	$486
Baltimore	$130	$458
Central Valley	$111	$434
Cleveland	$53	$338
Portland	$169	$307
Memphis	$54	$294

Source: CommercialEdge. Data as of October 2024

Quarterly Transactions
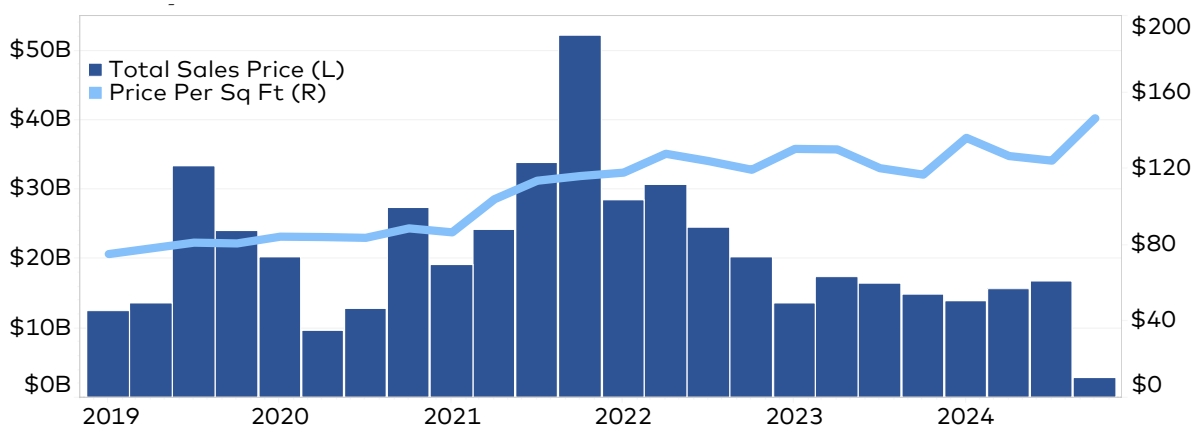
Source: CommercialEdge. Data as of October 2024

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.
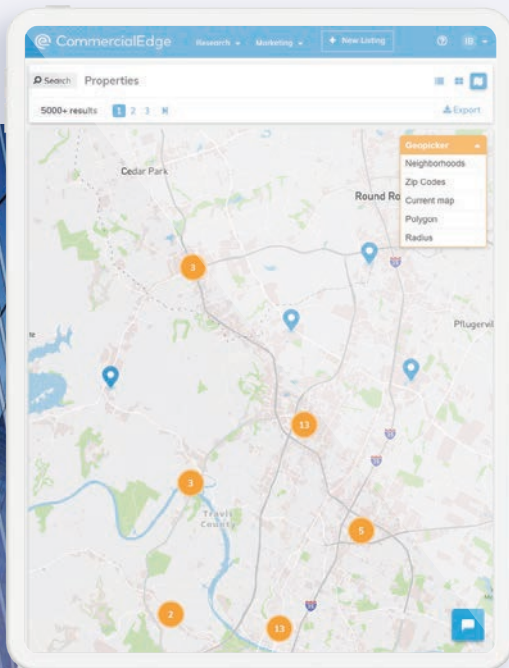
Key features:

- ⊘ 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
Nationwide property and listing data all in one place, specifically engineered for **CRE professionals**.

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