CommercialEdge

National Industrial Report

August 2022

Supply Chain Woes Beset Industrial

- Supply chains have dominated the spotlight in recent months as backlogs and bottlenecks have fueled inflation to 40-year highs. Among the culprits causing the disruption: a stronger-than-anticipated post-pandemic rebound in demand; shutdowns in China due to the country's "zero-COVID" policies that halted operations in factories; a truck driver shortage that began long before the pandemic but was exacerbated by the virus and new regulations to tighten drug and alcohol compliance and limit drivers to 11 consecutive hours on the road; and ships waiting to offload containers at ports.

- Supply-chain challenges are emphasizing the need to be well located and pay a premium for space in port markets, which are seeing the largest gains for in-place rents in 12 months, led by the Inland Empire (8.7%), Boston (8.0%), New Jersey (7.8%), Los Angeles (7.0%) and Orange County (6.8%). Vacancy rates are likewise lowest in port markets. Southern California is the tightest region—the Inland Empire sits at 0.8%, Los Angeles 1.9% and Orange County 3.1%. The United States is a consumption-driven economy, and most goods come into the country from elsewhere. Estimates peg transportation as accounting for at least half of companies' supply-chain costs. Although energy prices have fallen of late, those costs are still elevated compared to historical averages.

- Supply-chain bottlenecks have delayed the timetable for new industrial property deliveries, causing something of a vicious cycle to emerge. New industrial supply that would ease some headaches is being delayed, placing further stress on the supply chain. Amazon in recent years has dominated the markets for steel and other supplies used in warehouse construction, leading to industry-wide delays in delivery times for the material needed to build new properties. The company's recent pullback on industrial leasing and construction should help alleviate some pressures on the new-supply market.

- Recent supply-chain stresses have illuminated exactly how dependent the U.S. is on other countries for both raw materials and finished products. As a result, firms are now exploring reshoring and near-shoring of manufacturing, which would reshape supply chains but also lead to new challenges. Port markets could find some relief from more goods being made at home, but that would increase exports. U.S. rail and highway infrastructure will need to be upgraded to handle the increased domestic and cross-border movement of goods. In the near and medium term, current issues will be here to stay, as supply chains are massive, complex systems that take a long time to fundamentally change.

Rents and Occupancy: New Leases More Expensive Than Ever

- National in-place rents for industrial space averaged $6.60 per foot in July, up three cents from June and 5.3% over the last 12 months.

- Rents continued to grow fastest in port markets, with the Inland Empire (8.7% increase in in-place rents over the last 12 months) leading the way, followed by Boston (8.0%), New Jersey (7.8%), Los Angeles (7.0%) and Orange County (6.8%).

- New leases cost $1.45 more per foot than the average in-place lease. Leases signed in the last 12 months average $8.05 per square foot.

- The gap between the average lease rate and leases signed in the last 12 months has never been higher. That creates a hefty premium for new leases and signals that the average rent will continue to grow at a robust clip in coming years.

- Southern California has the highest gap between new and existing leases. In Los Angeles the gap is $4.89 per square foot, while the average is $4.56 in the Inland Empire and $4.38 in Orange County. Other coastal port markets seeing large spreads between the average rate and the rate of new leases include New Jersey ($3.76), Boston ($2.50) and Miami ($1.75).

- Only a handful of markets, all of which are inland markets with no geographic constraints on new supply—Kansas City, Denver, St. Louis—saw new leases that actually cost less than the market average for in-place rents.

- The national vacancy rate in July was 4.4%, falling 20 basis points on the month.

- Vacancy rates were lowest in the Inland Empire (0.8%), Columbus (0.9%), Los Angeles (1.9%) and Indianapolis (2.1%). The highest vacancy rates could be found in Tampa (8.7%), Houston (8.6%), Boston (8.4%) and the Twin Cities (7.8%).

Average Rent by Metro

Market	Jul-22 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$6.60	5.3%	$8.05	4.4%
Inland Empire	$6.91	8.7%	$11.47	0.8%
Boston	$8.55	8.0%	$11.05	8.4%
New Jersey	$8.45	7.8%	$12.21	2.9%
Los Angeles	$10.74	7.0%	$15.63	1.9%
Orange County	$12.11	6.8%	$16.49	3.1%
Detroit	$5.76	6.2%	$6.02	5.0%
Bay Area	$11.36	5.9%	$12.96	5.3%
Philadelphia	$6.43	5.8%	$7.96	5.8%
Phoenix	$7.22	5.5%	$7.82	3.7%
Central Valley	$5.50	5.4%	$6.55	2.5%
Portland	$8.32	5.4%	$9.57	5.2%
Baltimore	$6.77	5.3%	$8.35	4.3%
Atlanta	$4.71	5.2%	$5.44	3.0%
Dallas–Fort Worth	$4.94	5.2%	$6.09	4.1%
Seattle	$9.11	5.2%	$9.95	6.9%
Nashville	$5.32	5.0%	$6.25	2.2%
Miami	$9.08	4.3%	$10.83	3.7%
Twin Cities	$5.99	4.1%	$6.83	7.8%
Cincinnati	$4.17	3.9%	$4.53	4.2%
Memphis	$3.50	3.8%	$3.55	5.7%
Tampa	$6.53	3.3%	$7.98	8.7%
Chicago	$5.45	3.2%	$5.92	4.7%
Charlotte	$6.22	3.1%	$6.43	5.1%
St. Louis	$4.19	2.9%	$4.01	7.2%
Indianapolis	$4.03	2.8%	$4.48	2.1%
Denver	$7.70	2.6%	$7.35	7.3%
Kansas City	$4.38	2.5%	$3.98	3.8%
Columbus	$4.01	2.5%	$4.43	0.9%
Houston	$5.95	1.5%	$5.98	8.6%

Source: CommercialEdge. Data as of July 2022. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.

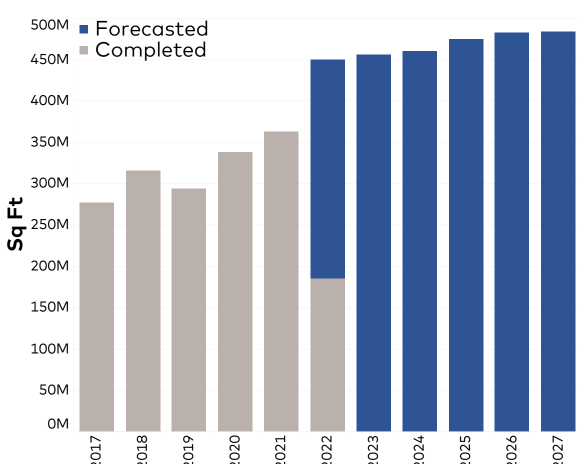
Supply:
Columbus an Emerging Data Center Hub

- Nationally, 695.7 million square feet of industrial space are under construction, representing 4.0% of stock. Another 661.9 million square feet are in the planning stage of development.

- Despite rising interest rates that increase the cost of capital for developers and a slowdown in e-commerce growth, ground is still being broken on new industrial projects at a ferocious pace. Nearly 200 million square feet of space have already been delivered this year, and the amount of space under construction increased by 28 million square feet in June.

- One of the larger pipelines in the nation is in Columbus, which not only has a strong logistics presence but is an emerging data center hub, as well. Columbus is attractive for data centers due to its standing as a regional economic center and one of the largest cities in the Midwest, along with Ohio's tax incentives. The largest projects under development in the market are two separate 1.5 million-square-foot data centers owned by Google, with the search engine behemoth investing more than $1 billion in the area. Columbus already has 11.6 million square feet of data center space, with operators that include tech giants Meta and Amazon.

National New Supply Forecast



Source: Yardi Matrix. Data as of July 2022

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	695,705,747	4.0%	7.8%
Phoenix	45,244,626	15.6%	36.7%
Indianapolis	25,179,822	7.8%	12.4%
Dallas	61,410,407	7.3%	11.2%
Columbus	17,943,300	6.5%	9.6%
Inland Empire	35,588,191	5.9%	11.2%
Denver	13,061,907	5.4%	7.4%
Nashville	9,592,436	4.9%	6.1%
Charlotte	13,720,412	4.8%	13.3%
Kansas City	10,948,094	4.3%	18.6%
Memphis	10,566,680	3.8%	5.1%
Seattle	9,930,928	3.6%	6.4%
Houston	18,525,152	3.4%	6.3%
Boston	7,365,207	3.2%	3.9%
Philadelphia	12,722,287	3.1%	12.2%
Central Valley	10,091,239	3.1%	4.7%
Baltimore	6,053,986	3.0%	4.9%
New Jersey	14,833,486	2.8%	4.2%
Tampa	5,966,954	2.8%	5.3%
Chicago	26,311,814	2.7%	6.4%
Cincinnati	6,639,607	2.5%	3.7%
Atlanta	11,561,111	2.2%	4.5%
Bay Area	6,019,552	2.1%	4.3%
Detroit	9,620,405	1.8%	3.7%
Twin Cities	5,781,839	1.8%	3.7%
Orange County	2,832,365	1.5%	2.0%
Bridgeport	2,306,643	1.1%	2.0%
Portland	1,917,781	1.0%	3.1%
Cleveland	2,913,652	0.8%	1.6%
Los Angeles	3,074,363	0.4%	2.3%

Source: CommercialEdge. Data as of July 2022

Economic Indicators:
Blistering Warehouse Employment Growth Decelerates

- The pandemic-driven surge in e-commerce led to corresponding growth in employment in the warehousing and storage subsector of the labor market, but as the e-commerce boom has slowed in recent months, so has employment. The subsector, which is "primarily engaged in operating warehousing and storage facilities for general merchandise, refrigerated goods, and other warehouse product," currently employs nearly 1.8 million workers and has grown by 42% since the start of the pandemic, according to the Bureau of Labor Statistics (BLS). From April 2020 through September 2021, the subsector added an average of 24,600 jobs per month. Between October 2021 and July of this year, however, the monthly average growth slowed to 9,700.

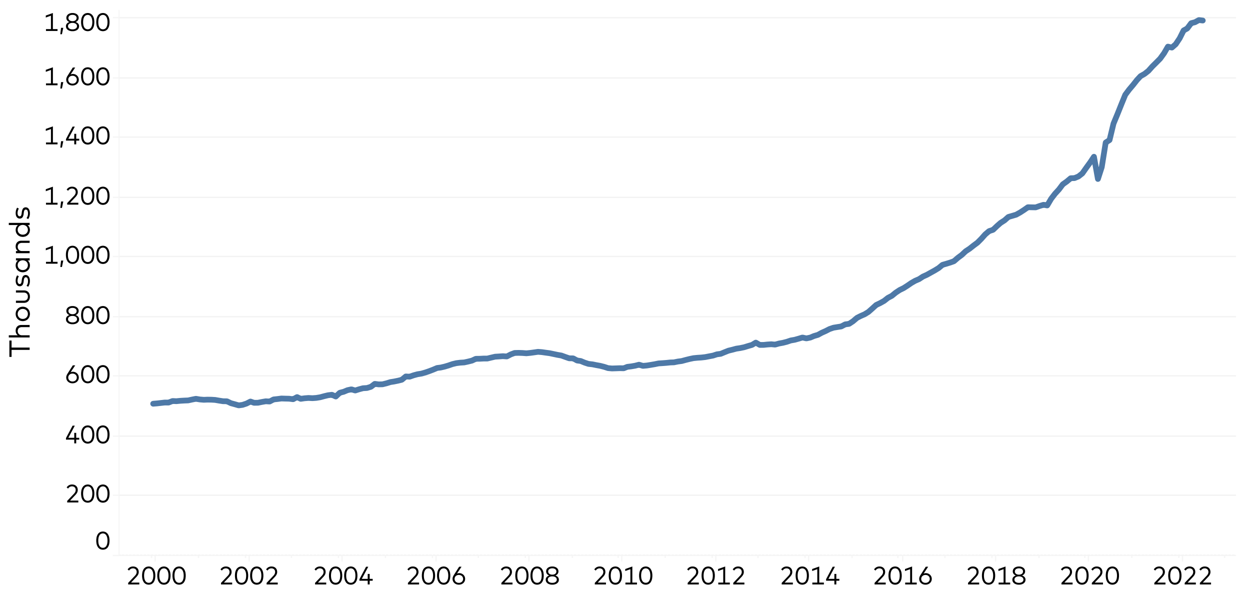
- According to the BLS, average wage growth in the subsector has slowed, as well. Average hourly earnings for warehousing and storage workers grew $2.21 (10.6%) between the beginning of 2020 and the end of 2021. This year, hourly wages have fallen 89 cents (-3.9%).

Economic Indicators

National Employment	ISM Purchasing Manager's Index
(July)	(July)
152.5M	52.8
0.3% MoM ▲	-0.2 MoM ▼
4.2% YoY ▲	-7.1 YoY ▼
Inventories	**Imports**
(May)	(June)
$2,381.9B	$282.5B
1.4% MoM ▲	-0.5% MoM ▼
17.7% YoY ▲	18.6% YoY ▲
Core Retail Sales	**Exports**
(June)	(June)
$482.8B	$183.0B
0.7% MoM ▲	2.0% MoM ▲
6.6% YoY ▲	25.1% 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:
Los Angeles Again Leads Nation in Sales Volume

- Nationally, there were $49.9 billion of industrial sales through the end of July, according to CommercialEdge.

- With 138 transactions totaling $3.3 billion, Los Angeles leads the nation in industrial sales volume in 2022, as it did last year. Unsurprisingly, most of the activity in the market has been clustered in submarkets close to the ports of Los Angeles and Long Beach. The San Gabriel Valley submarket had 33 transactions totaling $694.9 million as of July, the Gateway Cities had 29 sales totaling $824.9 million, and South Los Angeles had 26 sales totaling $412 million. The largest transaction in the market this year was TA Realty's $92 million purchase of 120 Puente Ave. in the San Gabriel Valley from Classic Beverage of Southern California, which remains in place for now.

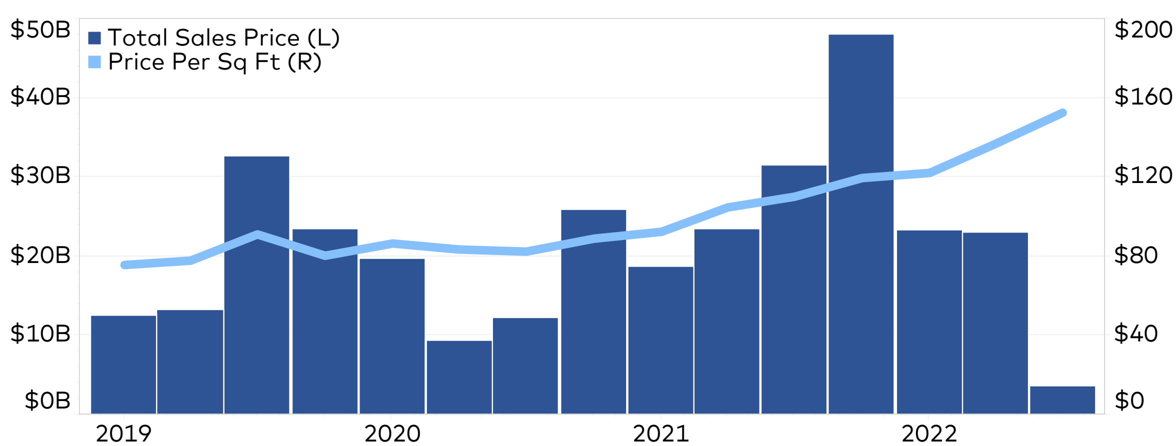
- Although Los Angeles has the highest sales volume, the run-up in average sale prices in the market has cooled in 2022. The average price per square foot of a building in the market this year is $291, a slight decrease from the $297 in 2021. Despite the decline, the average sale price in the market is more than 50% higher than in 2019, when industrial properties traded at an average of $191 per foot.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 07/31)
National	$130	$49,854
Los Angeles	$291	$3,280
Houston	$153	$3,116
Inland Empire	$336	$2,865
Dallas	$99	$2,501
Chicago	$89	$2,453
Phoenix	$230	$2,145
New Jersey	$169	$2,050
Philadelphia	$117	$1,611
Bay Area	$239	$1,597
Denver	$169	$1,240
Boston	$177	$1,059
Tampa	$137	$932
Atlanta	$106	$926
Seattle	$245	$708
Baltimore	$126	$699
Columbus	$75	$673
Nashville	$159	$671
Orange County	$364	$661
Indianapolis	$80	$637
Charlotte	$106	$591
Twin Cities	$99	$581
Memphis	$62	$471
Detroit	$61	$450
Portland	$174	$428
Kansas City	$49	$403

Source: CommercialEdge. Data as of July 2022

Quarterly Transactions



Source: CommercialEdge. Data as of July 2022

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:

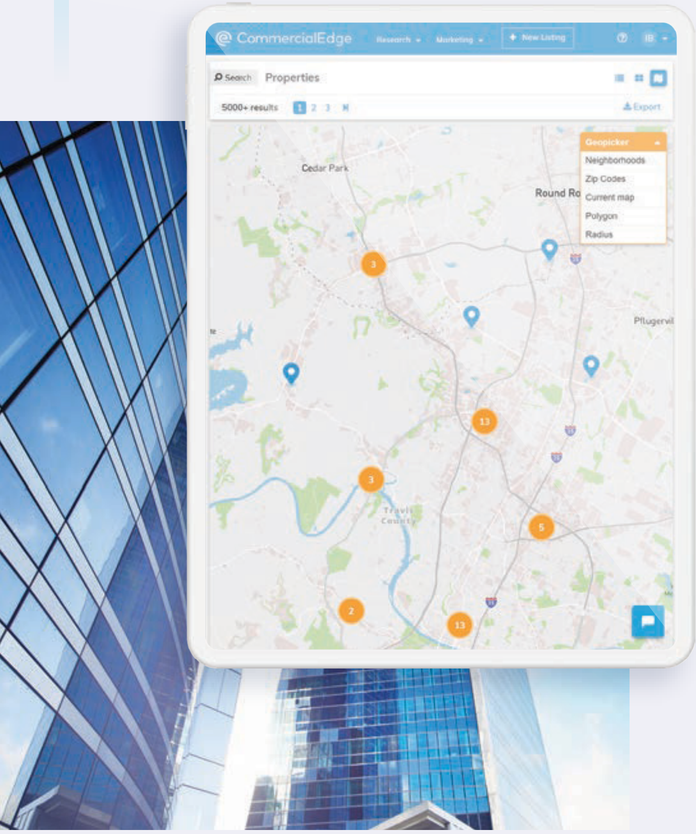
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

Sales volume and price-per-square-foot calculations 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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Contacts

Peter Kolaczynski
Manager, Commercial
Peter.Kolaczynski@Yardi.com
(800) 866-1124 x2410

Matt Gleason
Senior Account Executive, Commercial
Matthew.Gleason@Yardi.com
(800) 866-1124 x7763

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(800) 866-1124 x2419

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