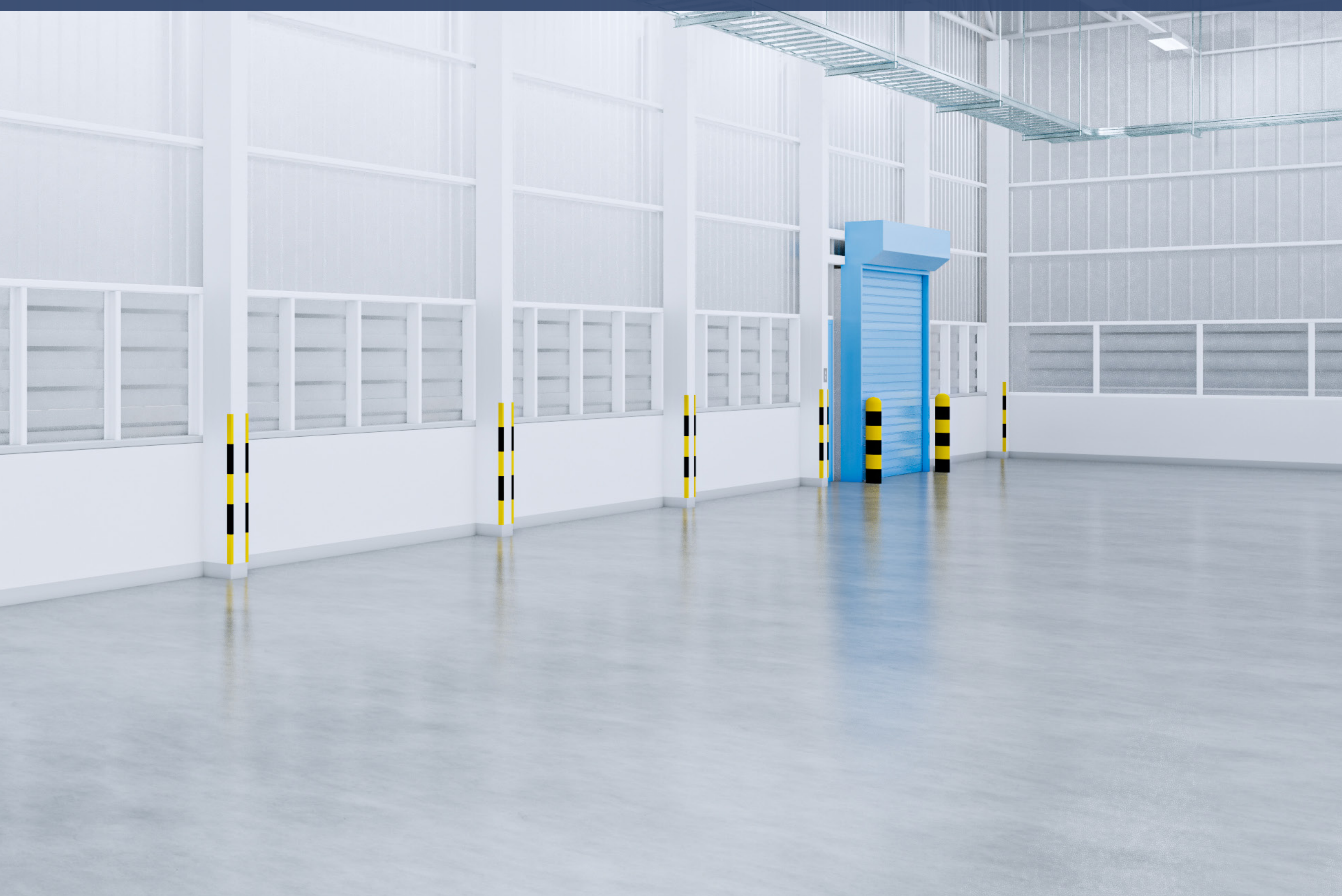
CommercialEdge

National Industrial Report

January 2023



Industrial Outlook Solid for 2023

- Industrial went through a massive shift in recent years. Demand skyrocketed, vacancies plummeted and investors drove up average sale prices by more than 50% in three years. But 2023 may be when things finally normalize. This year we expect that the sector will cool somewhat but continue to expand and remain one of the more attractive asset classes in commercial real estate.

- Rising interest rates and a looming recession will slow leasing activity as businesses pause expansion plans and grapple with a higher cost of borrowing. Supply-chain normalization will lead to less need for increased inventories than was common in recent years, further slowing leasing. Still, import flow will continue to drive demand in already tight port markets, and we anticipate the overcrowding of Southern California ports and industrial markets will lead to increased demand for industrial space along the East Coast in markets like New Jersey, Houston and Savannah-Hilton Head.

- Interest rate hikes will also continue to put downward pressure on transaction volume. CommercialEdge has logged $88.3 billion in industrial sales for 2022, down from $125.7 billion in 2021. Year-over-year sales volume was up in the first half of last year, but fell quickly in response to rate increases by the Federal Reserve. We expect that sales volume will remain muted in 2023, but could quickly rebound once rate hikes stop and the market adjusts to the new environment.

- E-commerce will continue to create industrial demand in 2023, albeit at lower levels than seen during previous years. Online purchases will continue to grow their share of retail sales, and big-box retailers will continue to embrace digital and omnichannel sales. Amazon's 2022 pullback will not be reversed this year, and consequently there will be less demand for multimillion-square-foot distribution centers this year than during the first two years of the pandemic. However, we expect that demand for last-mile distribution facilities will grow, especially for well-located facilities in high-growth markets.

- New industrial supply hit record levels in 2022, and we expect 2023 to set another high-water mark. In the 118 markets covered by CommercialEdge, more than 450 million square feet were delivered last year and 713 million square feet are under construction. Despite historic levels of new supply, it was not enough to keep up with demand. The average vacancy rate for the top 30 markets fell steadily throughout the year, currently sitting at 3.9%. We expect that due to a cooling economy and healing supply chains, absorption will be positive this year, but lower than in previous years.

Rents and Occupancy: Southern California Drives Largest Gains

- National in-place rents for industrial space averaged $7.03 per square foot in December, growing 6.3% year-over-year and three cents over the previous month, according to CommercialEdge.

- The Inland Empire led the country in rent growth, with rents increasing 14.2% over the last 12 months. Although backlogs that were plaguing the ports of Los Angeles and Long Beach eased during 2022, demand for space in Southern California continued to be hot and vacancy rates remained tight. Los Angeles was the second-fastest market for rent growth at 10.4%, and Orange County was fourth with 7.3% growth in the last 12 months. The demand for industrial space in Southern California has been so intense that there has been spillover into Phoenix, a six-hour drive from the ports of Los Angeles and Long Beach, where rents have grown 7.1% over the last 12 months despite 21.3 million square feet being delivered in 2022 and an astounding 55.0 million (18.3% of stock) underway.

- The national vacancy rate measured 3.9% in December, up 10 basis points from November but down 180 basis points over the last 12 months.

- The lowest vacancy rates in the nation were in the Inland Empire (1.1%), Nashville (1.8%), Columbus (1.8%), Indianapolis (2.3%) and Los Angeles (2.4%).

- The national average rate of leases signed in the last 12 months was $8.84 per square foot, $1.81 more than the average for all in-place leases.

- The largest spreads between new leases and the market average were in Los Angeles ($7.24 more per square foot), the Inland Empire ($5.66), Orange County ($4.96), Nashville ($3.75) and New Jersey ($3.53).

Average Rent by Metro

Market	Dec-22 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$7.03	6.3%	$8.84	3.9%
Inland Empire	$8.05	14.2%	$13.71	1.1%
Los Angeles	$12.03	10.4%	$19.27	2.4%
New Jersey	$9.15	8.4%	$12.68	2.6%
Orange County	$12.95	7.3%	$17.91	3.0%
Bay Area	$11.96	7.1%	$12.76	4.2%
Phoenix	$7.73	7.1%	$8.70	3.3%
Atlanta	$5.08	6.9%	$5.68	3.3%
Seattle	$9.74	6.6%	$10.61	5.7%
Boston	$8.95	6.5%	$10.63	7.2%
Miami	$9.72	6.3%	$13.05	3.0%
Philadelphia	$6.76	6.0%	$8.24	4.6%
Dallas–Fort Worth	$5.26	5.8%	$6.35	3.8%
Cincinnati	$4.51	5.6%	$4.99	6.7%
Baltimore	$7.20	5.6%	$9.23	3.9%
Portland	$8.73	5.6%	$10.17	4.6%
Nashville	$5.23	5.0%	$8.98	1.8%
Central Valley	$5.55	4.9%	$7.27	3.2%
Detroit	$6.17	4.8%	$6.56	3.5%
Indianapolis	$4.29	3.6%	$5.28	2.3%
Twin Cities	$6.24	3.3%	$6.44	6.0%
Columbus	$4.14	3.2%	$4.74	1.8%
Kansas City	$4.49	3.2%	$4.38	3.3%
Denver	$7.85	3.2%	$8.25	5.5%
Tampa	$6.74	2.9%	$7.08	7.6%
Charlotte	$6.19	2.8%	$6.42	3.3%
Memphis	$3.56	2.6%	$3.73	4.8%
Chicago	$5.61	2.6%	$6.39	4.1%
Houston	$6.23	2.1%	$6.48	7.7%
St. Louis	$4.32	2.1%	$4.40	5.5%

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

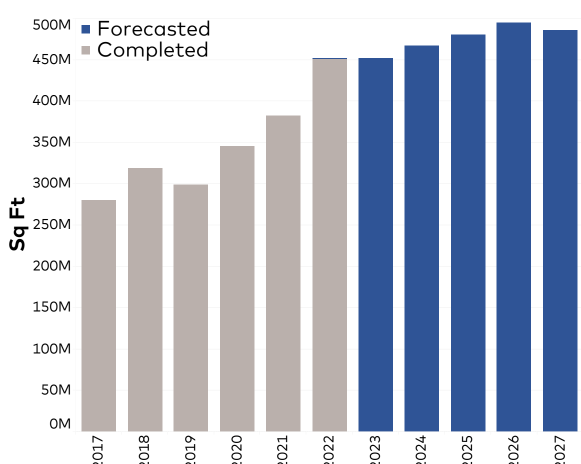
Supply:
Record Amount of New Supply Delivered in 2022

- Nationally, 713.0 million square feet of industrial stock are under construction, representing 4.0% of stock. An additional 698.4 million square feet are currently in the planning stage of development.

- Last year saw more than 450 million square feet of industrial supply delivered, a record for new development. The markets with the most supply delivered last year were Dallas (31.5 million square feet), Indianapolis (24.8 million), Chicago (23.4 million), Phoenix (21.3 million) and the Inland Empire (20.4 million). While industrial development is widespread across the country, those top five markets accounted for 27% of all new stock in 2022.

- In 2022, 25 of the 118 markets covered by CommercialEdge had their highest levels of new development since at least the turn of the century. Indianapolis, Phoenix, Savannah-Hilton Head (14.6 million square feet), Kansas City (11.7 million), New Jersey (11.1 million) and Austin (10.4 million) were among the markets that saw record levels of new industrial stock delivered in 2022. With more new supply than ever currently under construction, we anticipate that 2023 will be another record-setting year for industrial deliveries.

National New Supply Forecast



Source: Yardi Matrix. Data as of December 2022

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	713,043,281	4.0%	7.9%
Phoenix	55,041,676	18.3%	39.1%
Dallas	64,227,128	7.5%	13.5%
Columbus	16,477,771	5.8%	8.4%
Denver	13,473,307	5.4%	8.2%
Indianapolis	17,864,174	5.3%	10.8%
Inland Empire	30,939,713	5.0%	9.8%
Philadelphia	19,953,093	4.9%	12.9%
Charlotte	14,651,838	4.9%	12.4%
Houston	23,179,367	4.1%	7.2%
Kansas City	10,531,610	4.0%	17.4%
Seattle	10,097,865	3.6%	6.3%
Cincinnati	9,257,457	3.4%	4.7%
Memphis	8,123,160	2.9%	5.5%
Chicago	27,908,079	2.8%	6.3%
Central Valley	9,513,432	2.8%	4.0%
Boston	6,474,398	2.7%	3.6%
Nashville	5,500,830	2.7%	3.6%
Bay Area	6,911,743	2.4%	4.6%
Tampa	5,139,506	2.4%	7.8%
New Jersey	12,410,659	2.3%	4.6%
Baltimore	4,315,781	2.1%	3.2%
Detroit	10,075,020	1.9%	2.8%
Atlanta	10,111,504	1.9%	3.8%
Twin Cities	5,742,122	1.8%	4.1%
Bridgeport	1,842,168	0.9%	2.4%
Portland	1,717,474	0.9%	2.8%
Cleveland	3,222,036	0.8%	2.3%
Orange County	1,179,603	0.6%	1.0%
Los Angeles	3,304,971	0.5%	2.3%

Source: CommercialEdge. Data as of December 2022

Economic Indicators:
Producer Prices Cool in December

- Wholesale prices for goods and services fell in December, according to the Bureau of Labor Statistics. The headline Producer Price Index—which measures the prices paid by business—fell by 0.5% in December and finished 2022 up 6.2% on the year. The decline in December was the biggest drop in the PPI since April 2020. The goods component of the index fell 1.6% in the month (up 7.9% year-over-year) and service increased 0.1% (up 5.0% year-over-year). Much of the decline was driven by decreases in energy prices. Core PPI, which excludes food and energy, increased by 0.1% in the month (5.5% year-over-year).

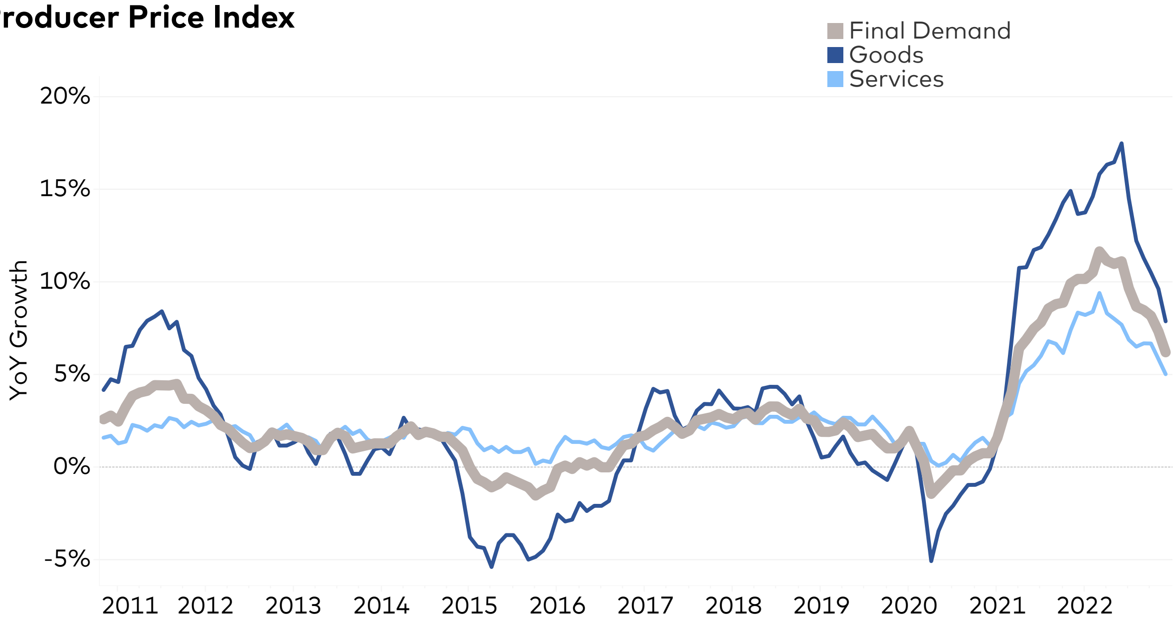
- The Fed's interest rate hikes have been aggressive in an attempt to bring down inflation, and the latest readings of the PPI and Consumer Price Index indicate that the rate increases may be working. Price pressures such as supply-chain backlogs have eased, and the outlook for inflation in 2023, while higher than averages seen in recent decades, looks to be much tamer than 2022.

Economic Indicators

National Employment (December) 153.7M 0.1% MoM ▲ 3.0% YoY ▲	**ISM Purchasing Manager's Index** (December) 48.4 -0.6 MoM ▼ -10.4 YoY ▼
Inventories (October) $2,468.3B 0.3% MoM ▲ 16.5% YoY ▲	**Imports** (November) $254.9B -7.5% MoM ▼ 0.0% YoY
Core Retail Sales (November) $498.6B -0.2% MoM ▼ 6.7% YoY ▲	**Exports** (November) $170.8B -3.0% MoM ▼ 9.1% 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), CommercialEdge

Transactions:
Deal Flow Slows in Second Half of 2022

- There were $88.3 billion in industrial transactions during 2022, according to CommercialEdge. Due to a lag in collecting sales data, the 2022 number will continue to climb, but last year is certain to finish below 2021's $125.7 billion in sales.

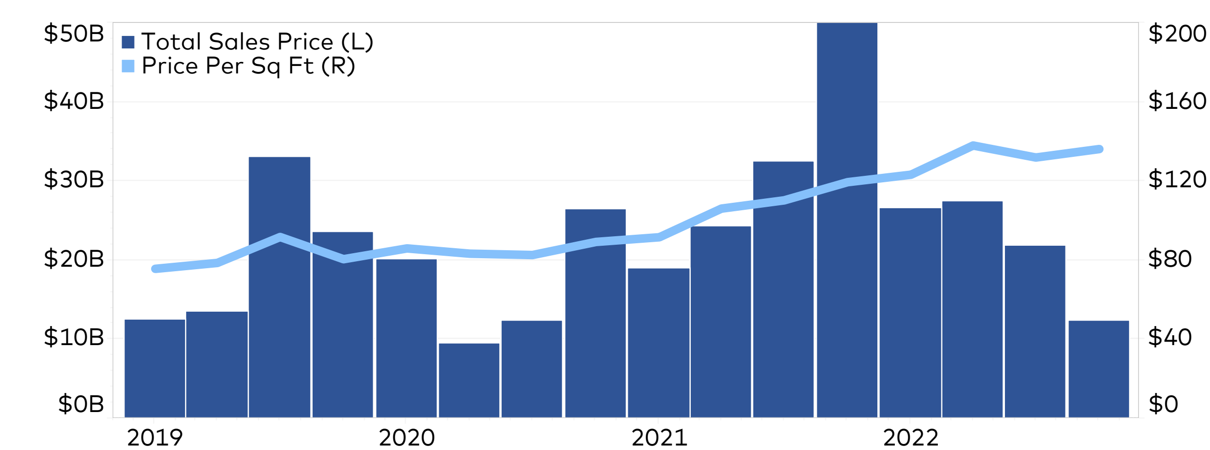
- Rising interest rates are the main reason that sales volume fell in the second half of 2022, but the fact that industrial properties are much more expensive than they were even a few years ago is also a factor. The average sale price of an industrial building has skyrocketed, from $83 per square foot in 2019 to $132 in 2022 (an increase of 57%). Even as rents have increased rapidly, investor appetite for industrial has pushed prices high enough to diminish opportunities for yield. Investors may now need to assume current rent growth will continue for the foreseeable future in order for deals to pencil out, given current prices and borrowing costs. Under these circumstances, we expect transaction volume to continue to slow in 2023, although once the Fed pauses interest rate hikes it may provide enough stability to the market for deal flow to pick up steam again. With demand for industrial space still elevated and supply still playing catch-up, we do not expect prices to fall much, if at all, this year.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	$132	$88,295
Dallas	$180	$8,783
Los Angeles	$287	$5,096
Inland Empire	$289	$4,988
Chicago	$87	$4,156
Houston	$131	$4,022
New Jersey	$182	$3,423
Phoenix	$198	$3,175
Philadelphia	$121	$2,664
Atlanta	$110	$2,657
Bay Area	$232	$1,915
Boston	$180	$1,786
Denver	$163	$1,785
Seattle	$246	$1,630
Indianapolis	$89	$1,373
Detroit	$76	$1,315
Tampa	$128	$1,307
Orange County	$369	$1,145
Columbus	$78	$1,097
Baltimore	$108	$1,078
Nashville	$147	$1,075
Twin Cities	$102	$1,044
Charlotte	$99	$1,014
Memphis	$57	$838
Central Valley	$92	$640
Kansas City	$53	$631

Source: CommercialEdge. Data as of December 2022

Quarterly Transactions



Source: CommercialEdge. Data as of December 2022

Definitions

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- Average Rents—Provided by Yardi Market 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:

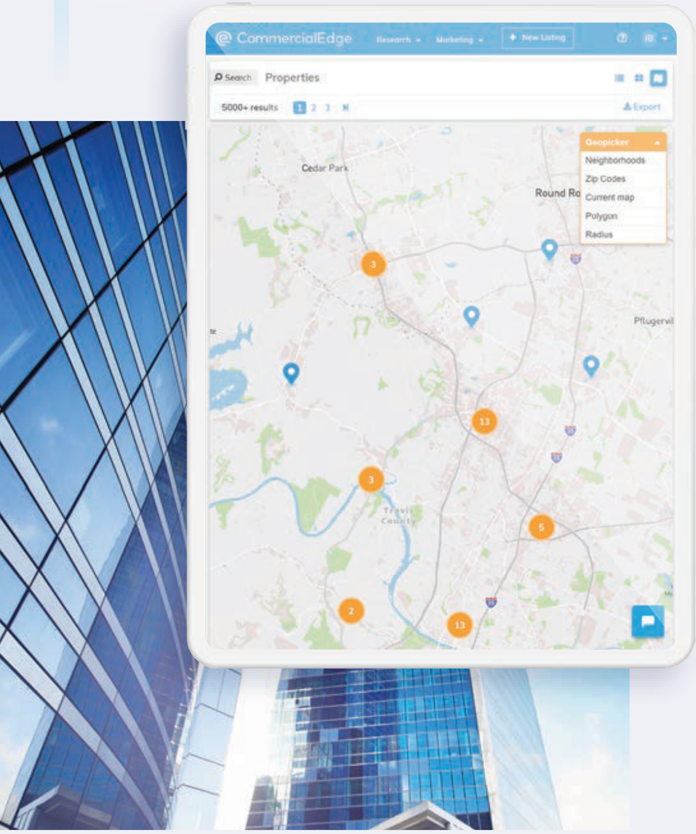
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

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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