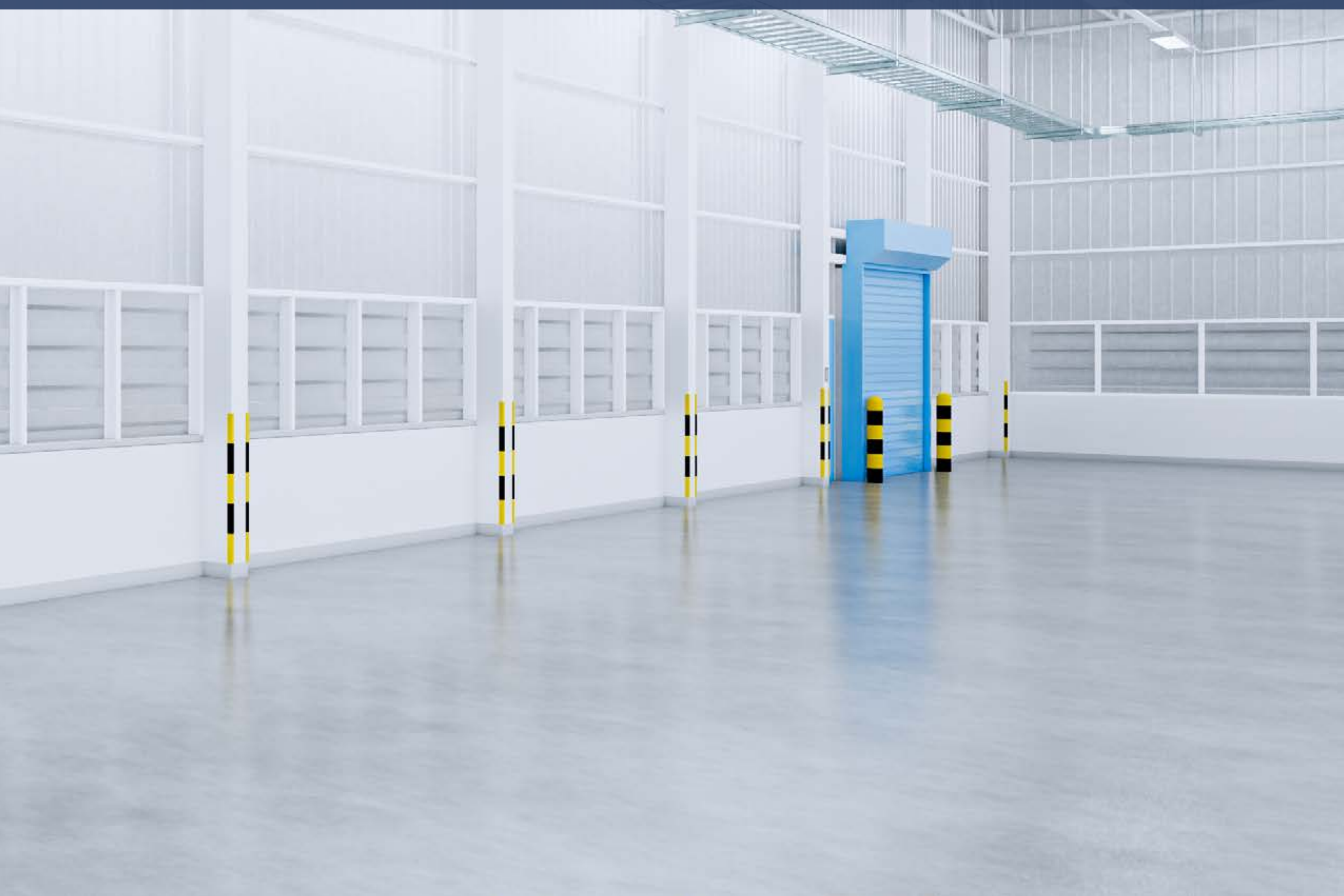
CommercialEdge

National Industrial Report

May 2022



Industrial Strong in Volatile Economy

- Despite slowing economic growth and persistent inflationary pressures, demand for industrial space seems poised to remain strong. Drivers of industrial demand—including healthy consumer spending, the ongoing supply chain hurdles, and the need to bring the nation's stock up to snuff to support modern logistics usage—are not likely to be affected in the near term.

- U.S. GDP turned negative (-1.4%) in the first quarter in part due to lower inventory restocking and growth in imports. But economic growth is expected to bounce back going forward and finish the year at about 3%. Among the reasons for optimism are that consumers continued to spend in the first quarter, with purchases up 2.7%, and that business investment was also strong, up 9.2%. Supply chain issues continue to be a drag on growth, although the backups at ports are easing somewhat.

- Inflation remains the biggest economic headwind. The annual consumer price index fell slightly to 8.3% in April, near 40-year highs. Higher prices cut into consumer purchases and the Federal Reserve's efforts to curb inflation by raising interest rates could eventually push the economy into a recession, possibly in 2024. The war in Ukraine is contributing to persistently high energy prices, and there seems to be no quick end in sight. In the short term, though, the U.S. economy continues to pump out new jobs, with total employment nearing pre-pandemic levels. And consumer balance sheets remain healthy from personal savings and growth in the value of stocks (at least until recently) and homes, which portends continued strong spending, a good sign for retail and industrial real estate.

- Amid the economic volatility, Industrial fundamentals remain exceptionally strong. Increased consumer spending and international trade create demand for industrial space, especially in major port areas including Southern California, the New York-New Jersey corridor, and Miami. There aren't enough modern logistics facilities to meet demand in those and other metros around the country, which means occupancy rates are high and rents are growing well above historical levels around the country.

- Meanwhile, the new supply pipeline is extraordinarily robust. The supply-demand imbalance was noted by Prologis last week in a research article that opined that the industrial market was severely undersupplied. Based on a methodology that includes the Purchasing Managers Index, job growth, core retail sales, and inventories, Prologis calculated that the U.S. has 16 months of available industrial inventory, well below what is needed to meet the needs of businesses. As a result, Prologis forecast rents and the supply pipeline to continue rising at elevated levels.

Rents and Occupancy:
Rent Growth Accelerating Due to Strong Demand

- National in-place rents for industrial space averaged $6.47 per foot in April, unchanged from March and up 4.4% over the last 12 months.

- Bullish demand-supply fundamentals are producing acceleration in the average lease rate. Leases signed in the last 12 months averaged $7.48 per square foot, up 13 cents from March and a full dollar more than the average rate of an existing lease.

- Coastal metros dominated the list of markets with the highest average lease rates signed over the last year, led by Orange County, where new leases signed over the last year averaged $15.55 per square foot. Other top metros include Los Angeles ($13.94), the Bay Area ($12.16), Miami ($10.25), New Jersey ($10.20), and Inland Empire ($10.03).

- Although the 12-month change in the average rate of in-place leases was also dominated by coastal markets, St. Louis (at 7.4%) posted the highest increase in the category. The top 5 was rounded out by Central Valley, Calif., (7.0%), Los Angeles (6.6%), Inland Empire (6.3%), and Orange County and Phoenix (both 5.7%). Acela corridor metros New Jersey and Philadelphia (both 5.3%), Baltimore (5.1%), and Boston (4.8%) all placed above the national average, as did Nashville (5.1%) and Dallas (4.7%).

- The national vacancy rate in April was 5.0%, also unchanged from the previous month. The vacancy rate has dropped 120 basis points since January 2021 due to demand from businesses with growing space needs.

- Seven markets, most of them located on the coasts, have vacancy rates of 3.0% or less. Inland Empire remains just about fully leased, with an 0.8% vacancy rate. Other coastal markets with exceptionally low rates include Los Angeles (2.1%), New Jersey (2.8%), Central Valley (2.9%) and Miami (3.0%). Indianapolis (2.1%) and Columbus (2.3%) represent the Midwest among low-vacancy metros.

Average Rent by Metro

Market	April-22 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$6.47	4.4%	$7.48	5.0%
St. Louis	$4.15	7.4%	$5.21	8.7%
Central Valley	$5.32	7.0%	$7.38	2.9%
Los Angeles	$10.47	6.6%	$13.94	2.1%
Inland Empire	$6.75	6.3%	$10.03	0.8%
Orange County	$11.81	5.7%	$15.55	3.5%
Phoenix	$7.08	5.7%	$7.33	4.0%
New Jersey	$8.23	5.3%	$10.20	2.8%
Philadelphia	$6.35	5.3%	$7.05	6.3%
Nashville	$5.36	5.2%	$6.74	3.2%
Baltimore	$6.75	5.1%	$7.91	5.9%
Boston	$8.30	4.8%	$9.87	9.9%
Dallas	$4.83	4.7%	$5.55	4.0%
Bay Area	$11.07	4.2%	$12.16	6.4%
Portland	$8.14	4.1%	$8.65	6.6%
Atlanta	$4.68	4.1%	$5.20	4.0%
Seattle	$9.03	3.9%	$9.22	6.9%
Denver	$7.78	3.8%	$7.39	7.5%
Tampa	$6.44	3.6%	$7.41	7.4%
Twin Cities	$6.03	3.5%	$6.36	7.8%
Cincinnati	$4.16	3.2%	$4.35	9.2%
Detroit	$5.61	3.1%	$5.98	5.7%
Charlotte	$5.64	3.1%	$6.35	6.2%
Miami	$9.01	2.8%	$10.25	3.0%
Indianapolis	$4.01	2.8%	$4.38	2.1%
Kansas City	$4.34	2.6%	$4.19	5.6%
Chicago	$5.34	2.3%	$5.59	5.1%
Memphis	$3.56	2.3%	$3.55	6.0%
Columbus	$3.95	2.0%	$3.72	2.3%
Houston	$5.82	1.2%	$5.40	9.8%

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

Supply:
Pipeline Remains Robust with Emerging Headwinds

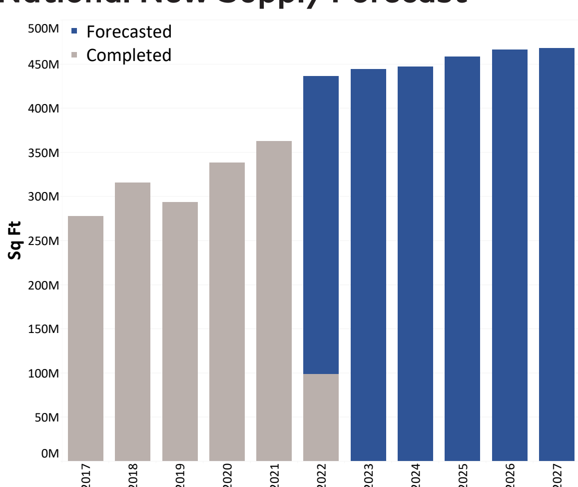
- Nationally, 640.1 million square feet of industrial stock is under construction, with more than 650 million square feet in the planning stages. The amount of supply under construction represents a 3.7% increase in total stock nationally.

- Commercial Edge forecasts that the development pipeline will remain robust, with roughly 450 million square feet of space to be delivered annually over the next five years.

- Although we expect no let-up in demand anytime soon, the development pipeline has some headwinds. The cost of construction and the availability of supplies and labor will continue to be an issue for developers. The end result will be lengthening delivery times and increasing costs, which will lead to higher rents. Some industrial developers report delays because there is so much competition for materials.

- Amazon has dominated the development pipeline in recent years, either as the developer or the tenant in many large new logistics properties. After a disappointing performance in the first quarter of 2022, however, Amazon said that it would slow down its rush to own or occupy new distribution facilities. Even so, the number of businesses looking to expand should maintain the overall strong demand.

National New Supply Forecast



Source: Yardi Matrix. Data as of April 2022

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	640,140,051	3.7%	7.7%
Phoenix	41,526,819	14.6%	35.0%
Indianapolis	26,217,149	8.3%	12.7%
Dallas	52,674,765	6.3%	10.9%
Columbus	16,751,448	6.1%	9.4%
Inland Empire	33,611,705	5.6%	10.8%
Denver	11,526,604	4.7%	6.6%
Nashville	8,940,490	4.6%	5.9%
Kansas City	10,022,794	4.0%	19.6%
Houston	19,102,843	3.5%	6.2%
Memphis	9,226,546	3.4%	5.3%
Philadelphia	13,647,046	3.4%	12.5%
Charlotte	9,374,926	3.3%	10.4%
Seattle	8,867,464	3.2%	6.9%
Boston	6,945,367	3.0%	3.8%
Atlanta	12,447,582	2.4%	4.3%
Central Valley	7,717,716	2.4%	4.3%
Chicago	23,966,478	2.4%	6.4%
New Jersey	13,109,879	2.4%	5.2%
Cincinnati	6,069,854	2.3%	3.2%
Tampa	4,567,427	2.2%	4.5%
Baltimore	4,328,654	2.1%	3.9%
Detroit	10,421,283	2.0%	3.7%
Bay Area	4,448,343	1.6%	4.2%
Portland	2,461,534	1.3%	2.9%
Orange County	2,329,575	1.2%	1.8%
Bridgeport	2,247,215	1.1%	2.1%
Twin Cities	3,564,055	1.1%	3.5%
Cleveland - Akron	2,596,646	0.7%	1.5%
Los Angeles	3,344,152	0.5%	2.4%

Source: CommercialEdge. Data as of April 2022

Economic Indicators: Industrial Sectors Post Job Gains in April

- The U.S. economy posted strong employment gains in April, up 428,000 jobs, and has now recovered all but 1.2 million jobs from its pre-pandemic peak. Industrial-related categories fared well in April, with transportation and warehousing adding 52,000 to payrolls. The bulk of those were added in warehousing and storage (16,800), couriers and messengers (14,900), and truck transportation (13,000).

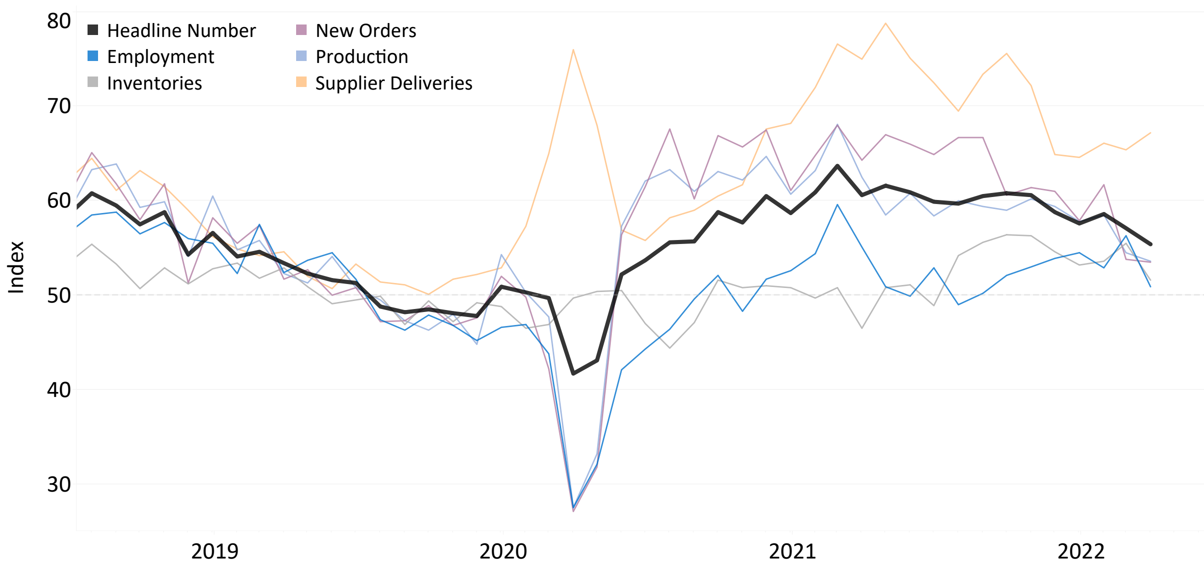
- Other economic metrics were mostly favorable. Imports rose 12.0% month-over-month in March and are up 26.5% year-over-year, while exports were up 7.3% month-over-month in March and have risen 18.7% year-over-year. Core retail sales rebounded from a weak month in February to increase 0.7% month-over-month in March and are up 5.9% year-over-year. One indicator that was not positive in April is the ISM PMI, formerly the purchasing manager's index, which fell slightly to 55.4 in April. Although the index continues to represent an expansionary economy, it has trended downward in recent months.

Economic Indicators

National Employment (April) 151.3M 0.3% MoM ▲ 4.6% YoY ▲	**ISM Purchasing Manager's Index** (April) 55.4 -1.7 MoM ▼ -5.2 YoY ▼
Inventories (February) $2,270.3B 2.8% MoM ▲ 12.4% YoY ▲	**Imports** (March) $298.8B 12.0% MoM ▲ 26.5% YoY ▲
Core Retail Sales (March) $476.2B 0.7% MoM ▲ 5.9% YoY ▲	**Exports** (March) $170.7B 7.3% MoM ▲ 18.7% YoY ▲

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

ISM Manufacturing Purchasing Managers Index



Sources: U.S. Census Bureau, CommercialEdge

Transactions:
Record Deal Flow to be Tested by Rate Hikes

- Nationally, $19.0 billion of industrial transactions were logged by CommercialEdge through April this year. That number could increase over time due to the lag in collecting data, but deal flow still is likely to trail last year's record numbers.

- The national average sale price of an industrial asset through April is $135 per square foot, 20% higher than the $113 per foot average for the full year in 2021. The growth reflects red-hot investor demand for industrial properties, especially as other commercial property types such as office and retail present questions about demand and future values.

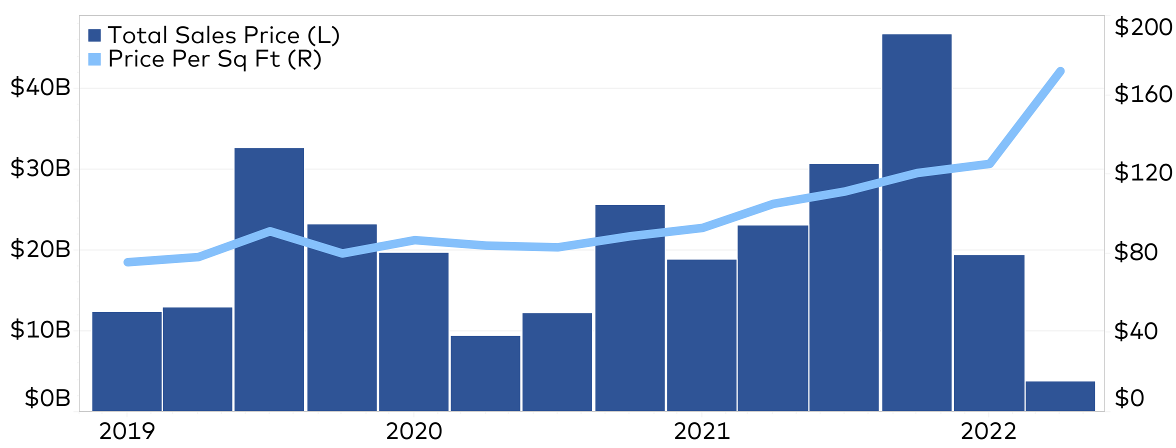
- Record-high industrial prices and transaction activity are set to be tested by the increase in interest rates and financing costs. The 10-year Treasury rate has increased by about 150 basis points since the beginning of the year. Debt coupons have inceased correspondingly, reducing the premium between mortgage coupons and industrial acquisition yields. Because demand for industrial is so robust, and rents are expected to keep increasing, investors have been paying high prices. Deal flow could moderate if banks become more conservative and reduce leverage or if buyers demand higher yields to make up for their increased cost of capital.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 04/30)
National	$134.10	$18,573
Houston	$181.16	$2,156
Chicago	$89.65	$1,358
Los Angeles	$278.16	$1,318
Phoenix	$283.73	$1,287
New Jersey	$176.90	$1,244
Philadelphia	$103.37	$894
Dallas	$97.07	$866
Denver	$158.99	$720
Inland Empire	$262.53	$576
Nashville	$171.22	$495
Tampa	$116.92	$475
Bay Area	$226.46	$391
Seattle	$210.86	$366
Baltimore	$133.69	$354
Columbus	$70.20	$314
Twin Cities	$90.77	$313
Atlanta	$117.06	$286
Orange County	$345.26	$226
Boston	$183.53	$222
Detroit	$55.43	$222
Indianapolis	$54.50	$206
Cincinnati	$69.90	$205
Memphis	$50.35	$191
Kansas City	$50.16	$182
Charlotte	$104.20	$178

Source: CommercialEdge. Data as of April 2022

Quarterly Transactions



Source: CommercialEdge. Data as of April 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:

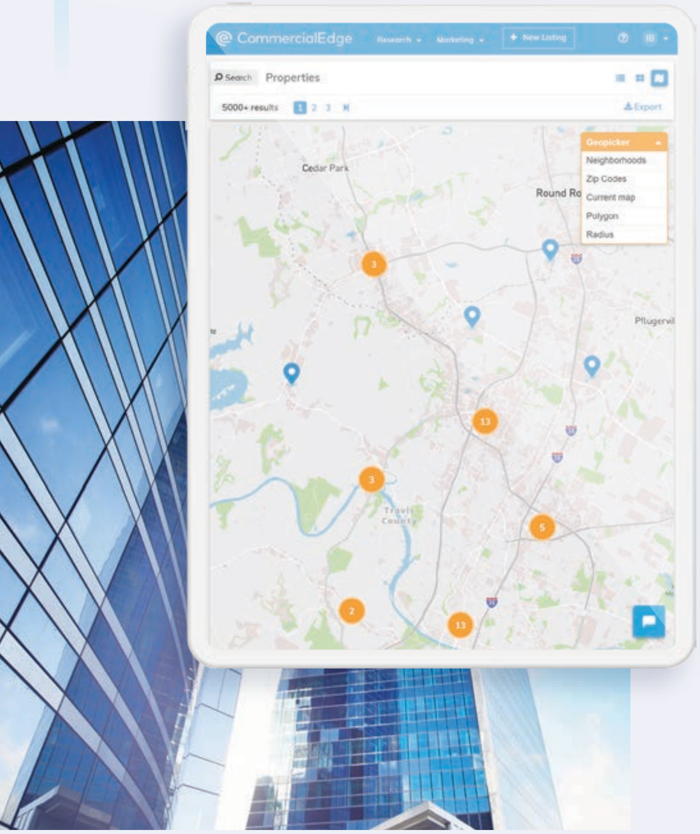
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

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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