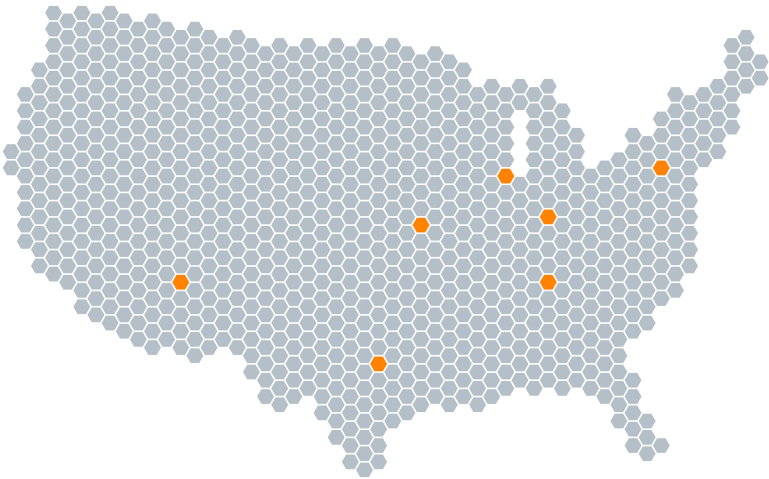
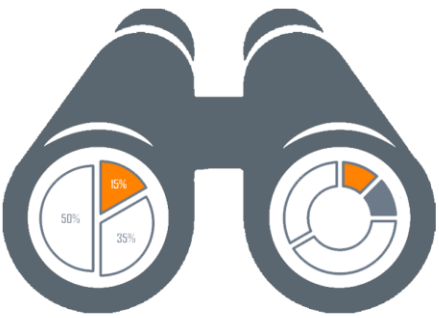


COMMERCIAL REAL ESTATE

# U.S. MARKET | Industrial

Q3 2022

# THE VIEW FROM HERE



Inland distribution hubs outperformed, partly due to space being available



Development expected to decelerate due to elevated replacement costs and lender tightening



Industrial continues to post highest investor returns of major property sectors

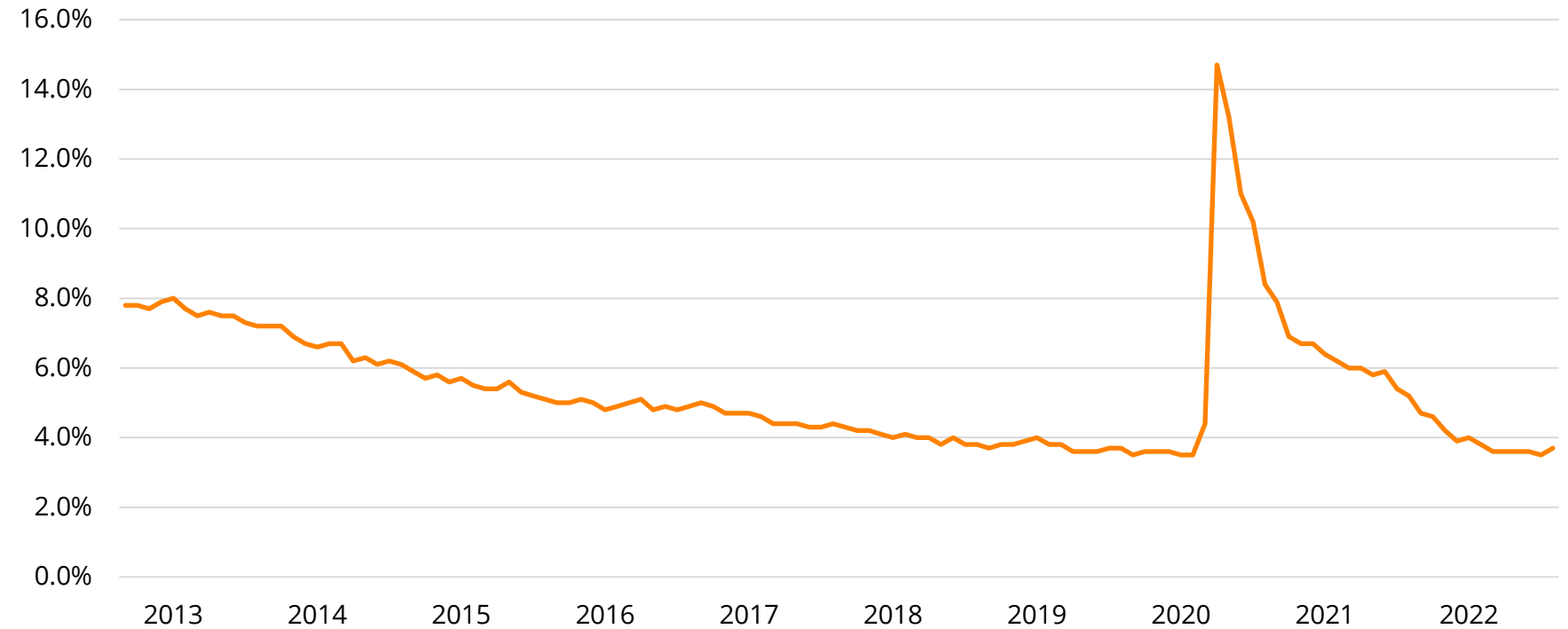


## ECONOMIC HIGHLIGHTS

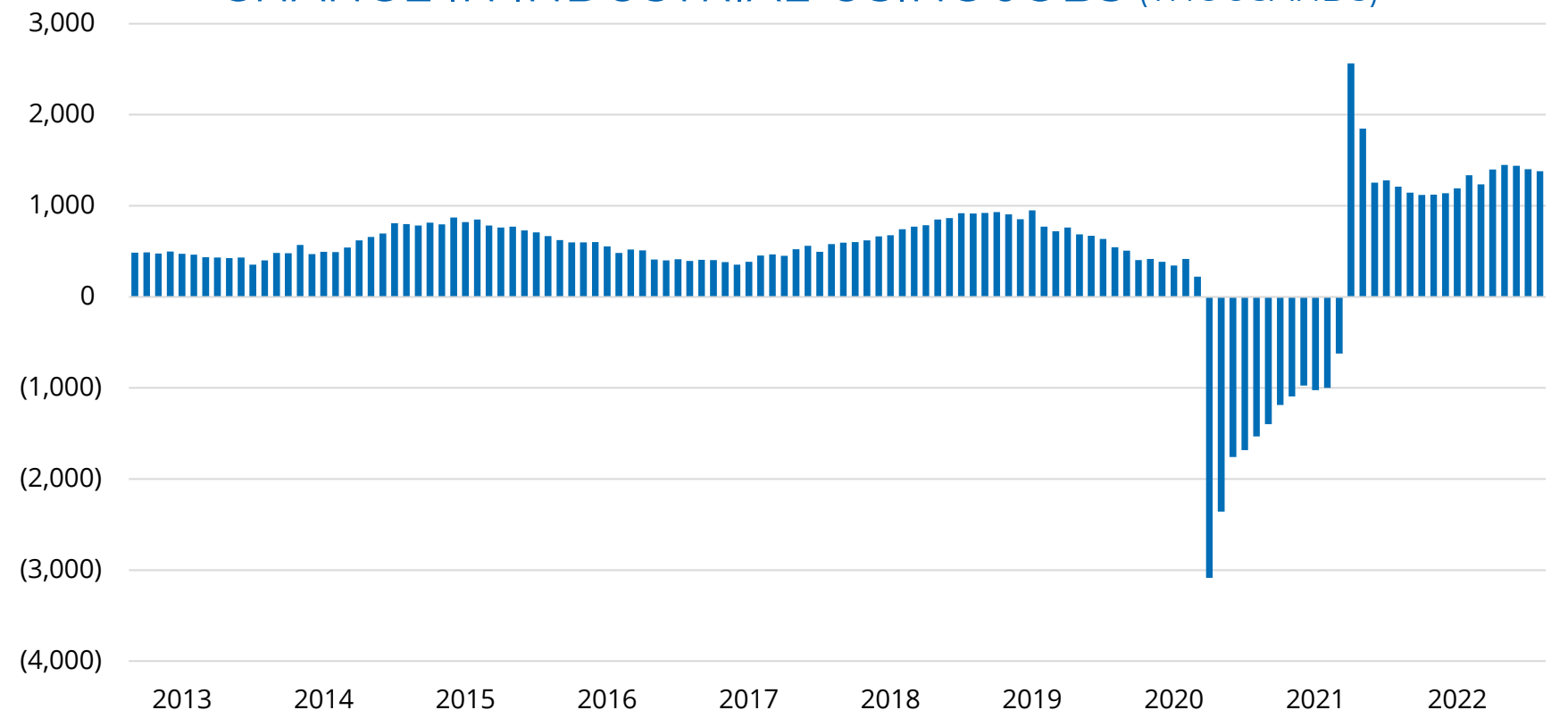
- The U.S unemployment rate remained unchanged at 3.6% during the quarter and improved by 150 basis points when compared year-over-year.
- Jobs supporting the industrial real estate sector increased by 4.4% during the past 12 months.
- After posting solid growth throughout the year, trucking employment may be slowing, reporting only a small gain in August.
- The manufacturing sector finally surpassed pre-pandemic job levels during the quarter, recording the highest total since 2008.
- U.S. companies are increasingly seeing the benefits of reshoring, though face challenges in finding skilled labor and manufacturing space availabilities.
- Rising interest rates are impacting consumers as spending moderated a bit late in the quarter.
- Retailers are hopeful that consumers continue to spend through the holiday season to alleviate high inventory levels amassed earlier in the year.
- Following record-setting levels during the first half of the year, especially on the east coast, port volumes are beginning to ease as imports fell in September.

## HISTORICAL

### UNEMPLOYMENT RATE



### CHANGE IN INDUSTRIAL-USING JOBS (THOUSANDS)

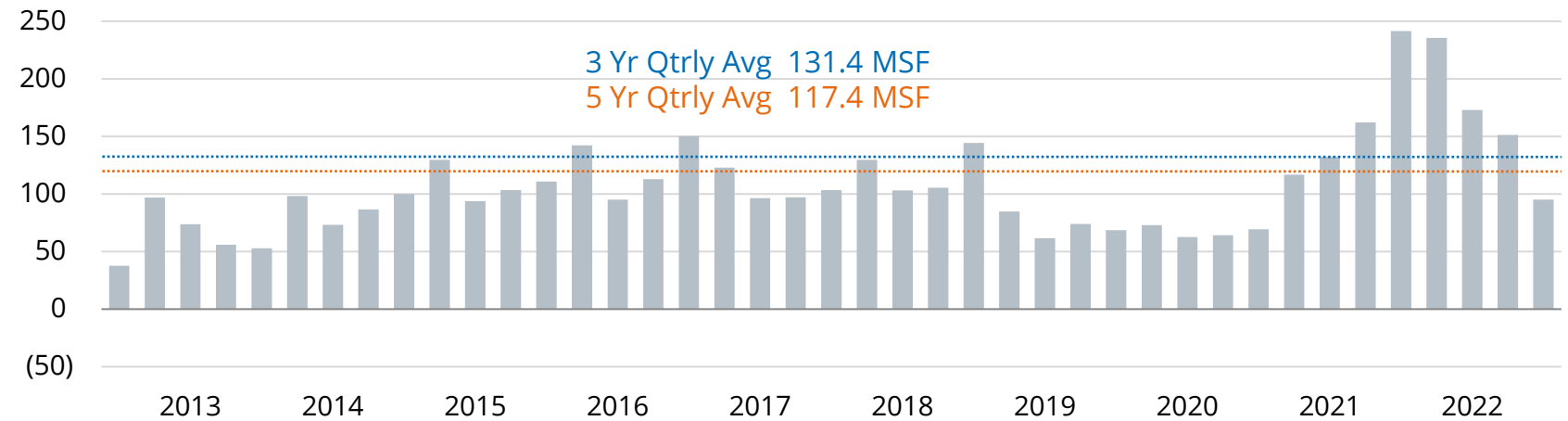


## MARKET HIGHLIGHTS

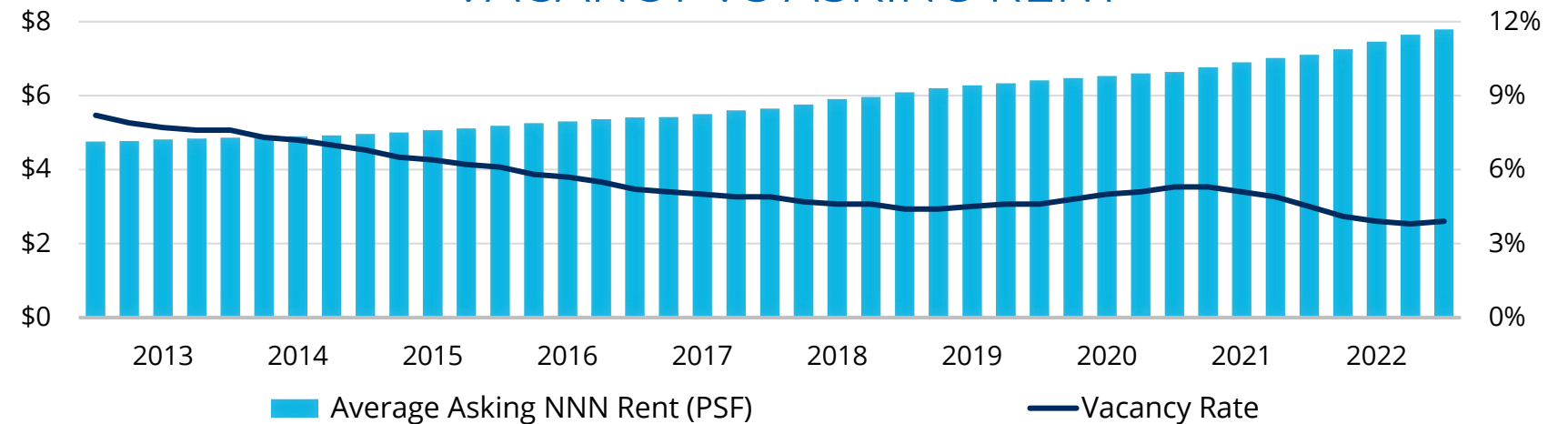
- Occupancy levels continued to improve, though leasing activity decelerated, and quarterly net absorption was at its lowest level in two years.
- All markets recorded occupancy growth over the past 12 months, with more than one-third absorbing more than 10 MSF of space.
- During the quarter, positive net absorption was recorded in 40 of 44 markets, including 28 regions which posted more than 1 MSF of growth.
- The average asking rent set a record for YoY growth for the third consecutive quarter, increasing by nearly 10% during the past 12 months.
- Nearly all reported markets recorded rent growth of 7% or greater YoY; 25% of markets registered a 12-month increase greater than 20%.
- Deliveries outpaced net absorption for the first time since Q4 2020, and as a result, the vacancy rate ticked up slightly.
- Nearly 970 MSF is under construction, and slightly more than one-third of that product is pre-leased, a figure that has been declining, albeit slowly.
- Packed warehouses and slowing consumer demand have contributed to falling import volumes at the ports, helping to ease some of the supply chain issues.
- Sales for Amazon’s recent Prime Day were down considerably when compared to its July event. However, online sales are projected to remain strong as consumers have gotten accustomed to shopping from home.

## HISTORICAL

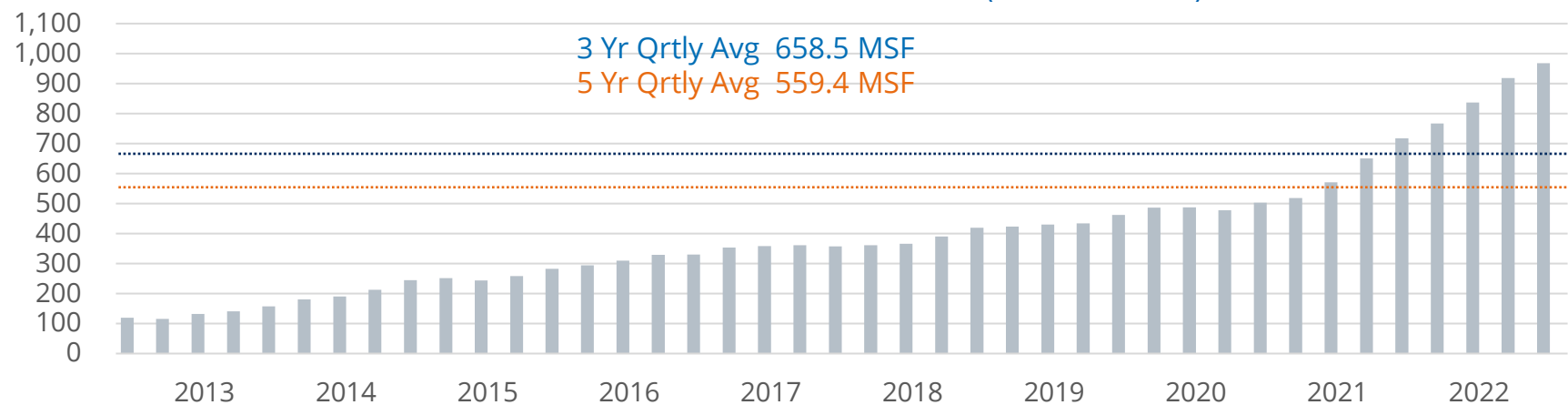
### NET ABSORPTION (MILLION SF)



### VACANCY VS ASKING RENT

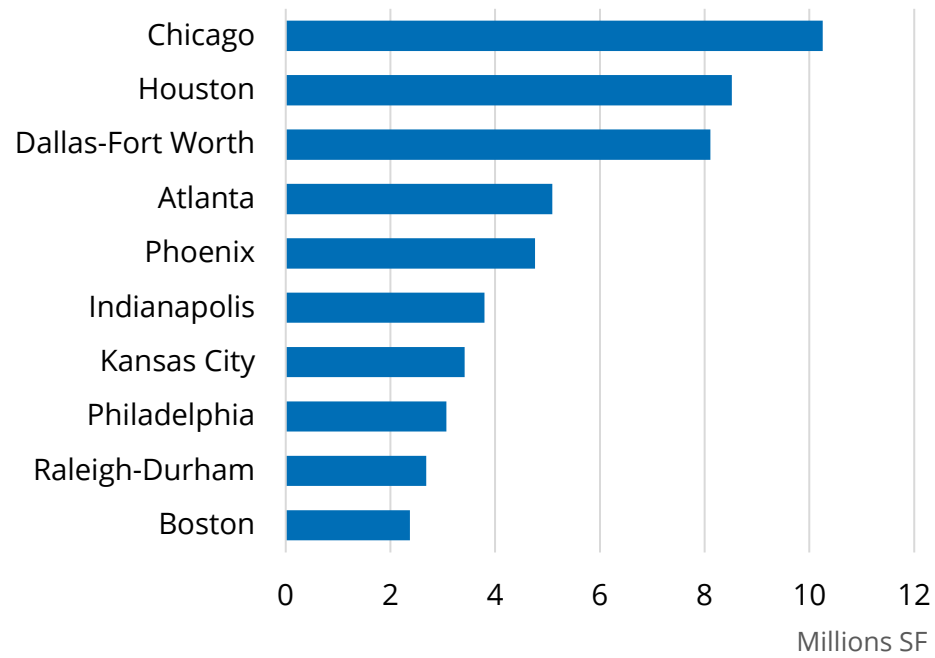


### UNDER CONSTRUCTION (MILLION SF)



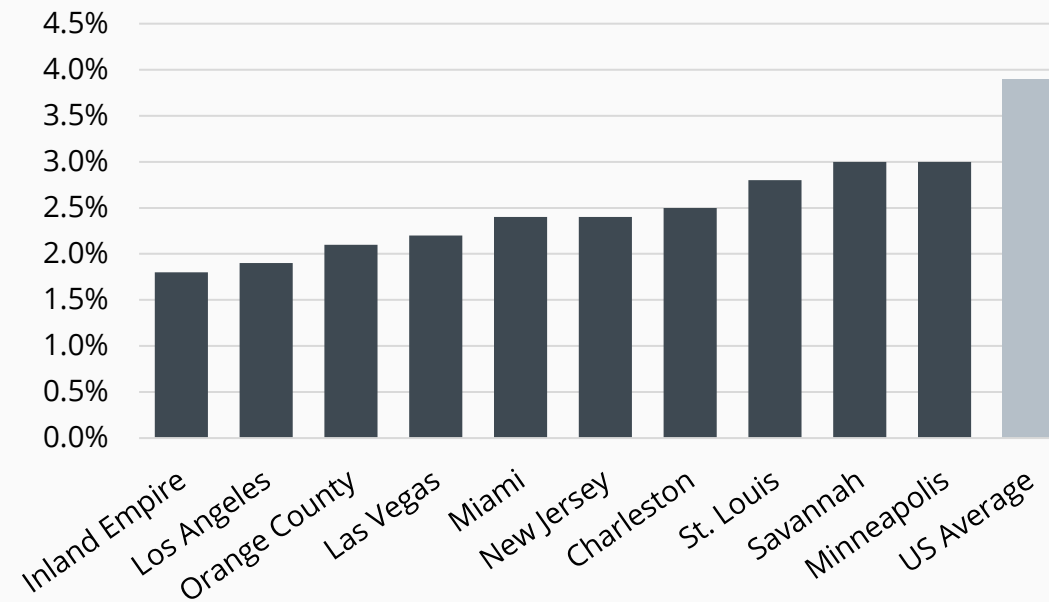
### NET ABSORPTION

Q3 2022 Net Absorption



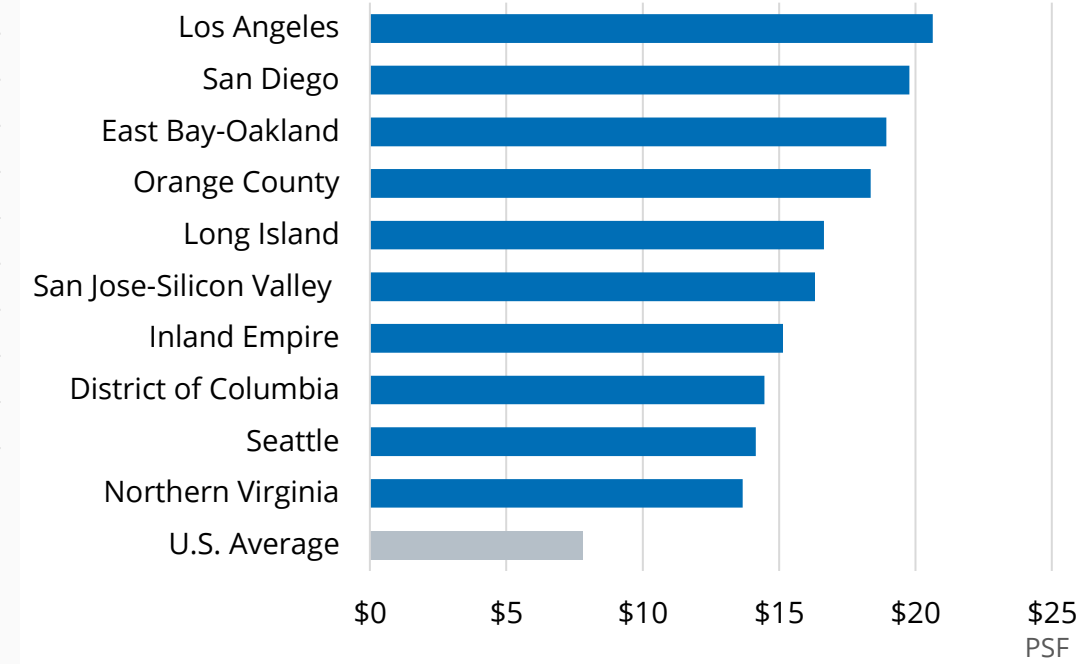
### VACANCY/CONSTRUCTION

Q3 2022 Vacancy Rate

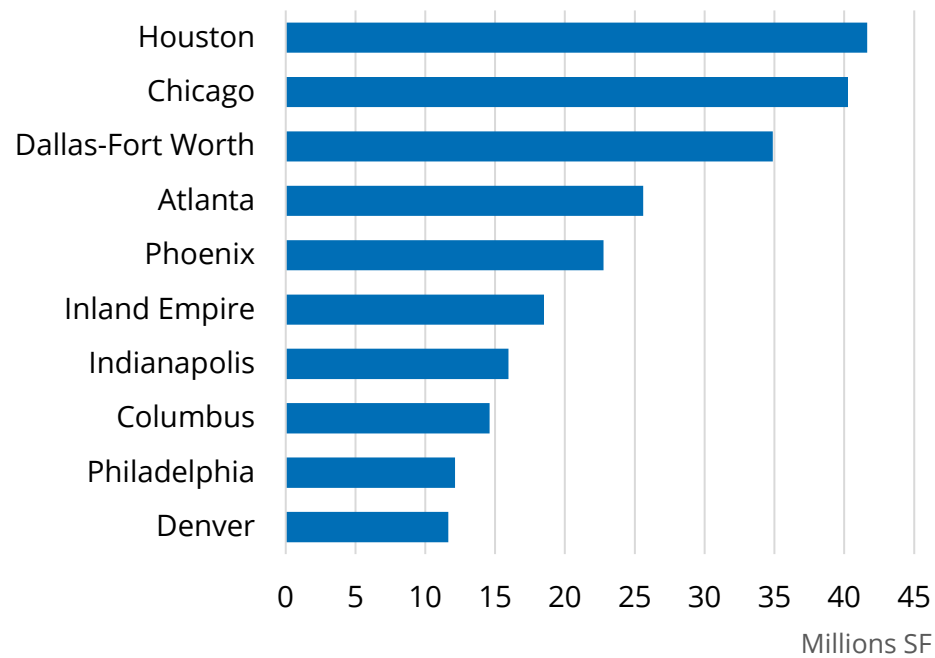


### ASKING RENTS

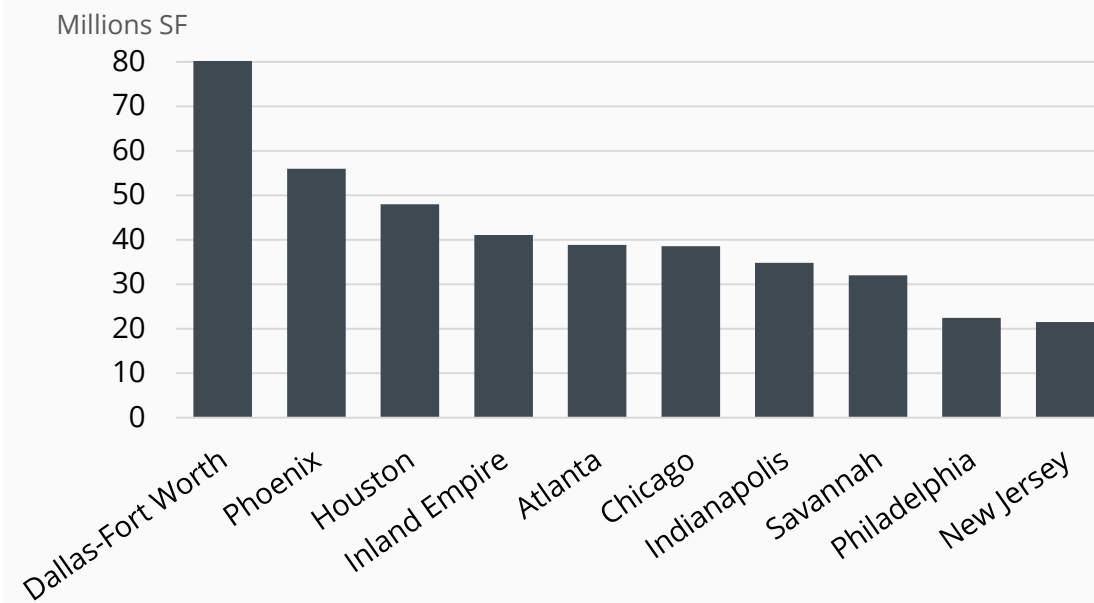
Q3 2022 Asking Rate NNN



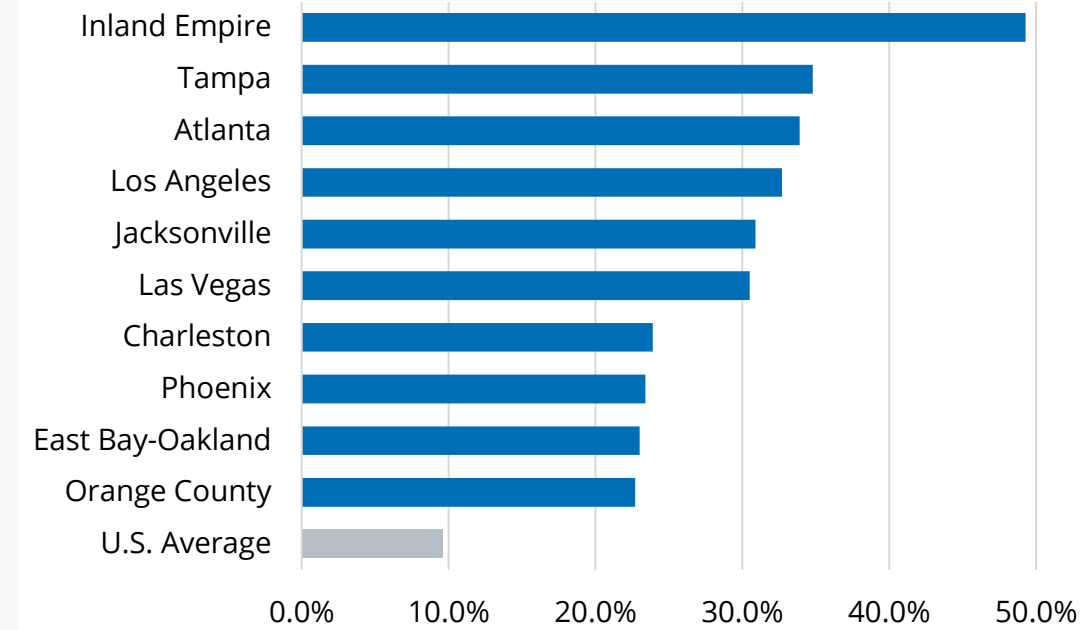
### Trailing 4-Qtr Net Absorption



### Q3 2022 Under Construction

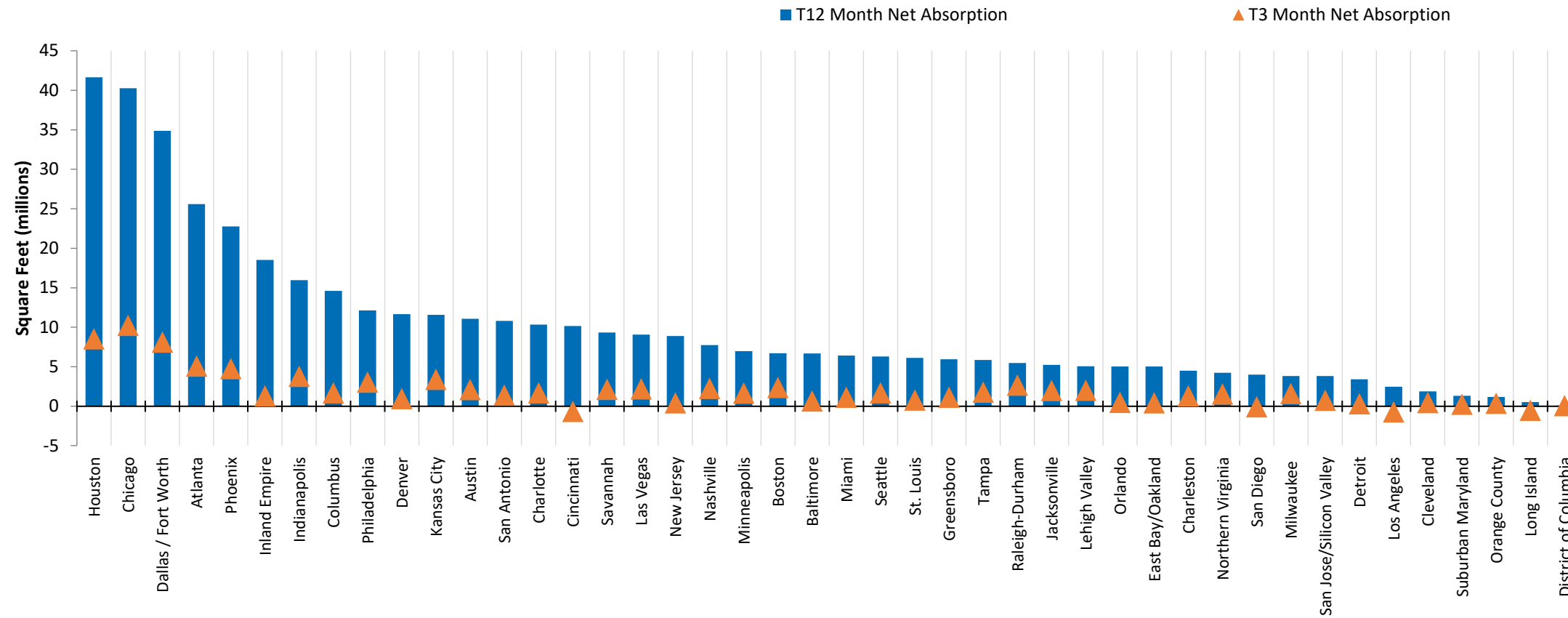


### Year-Over-Year Rent Growth



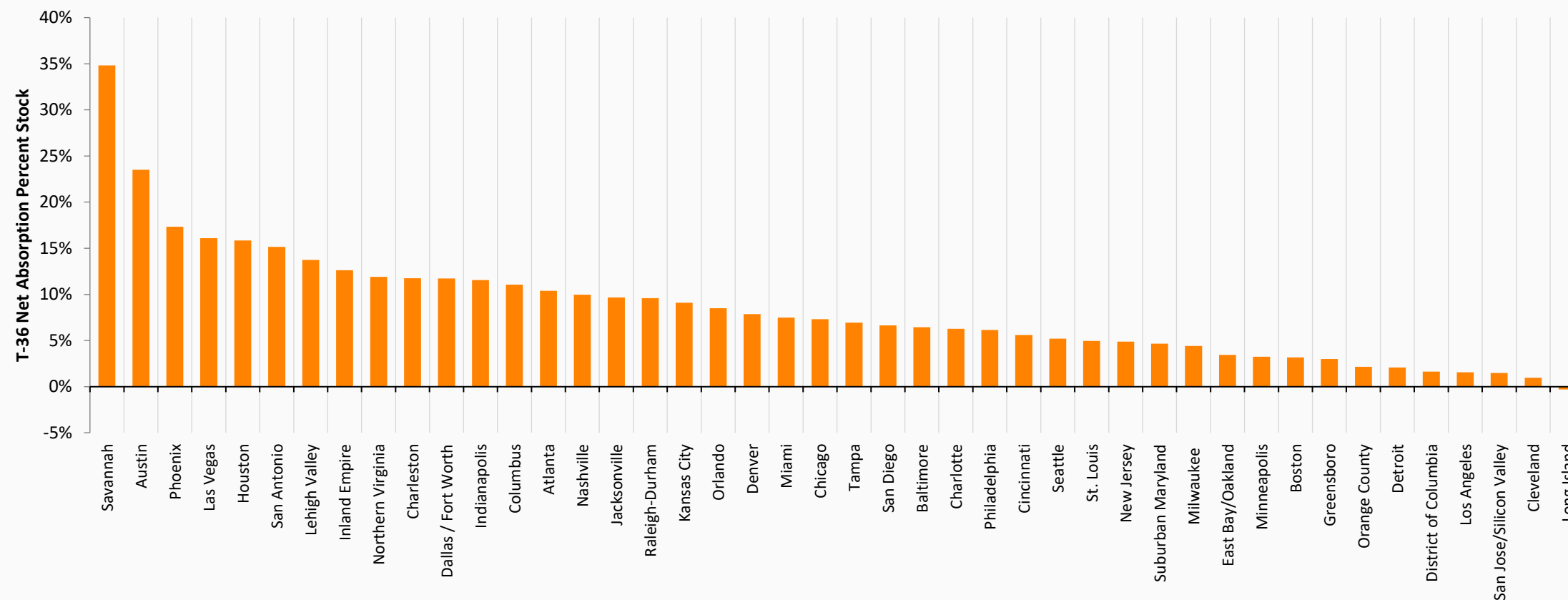


## NET ABSORPTION



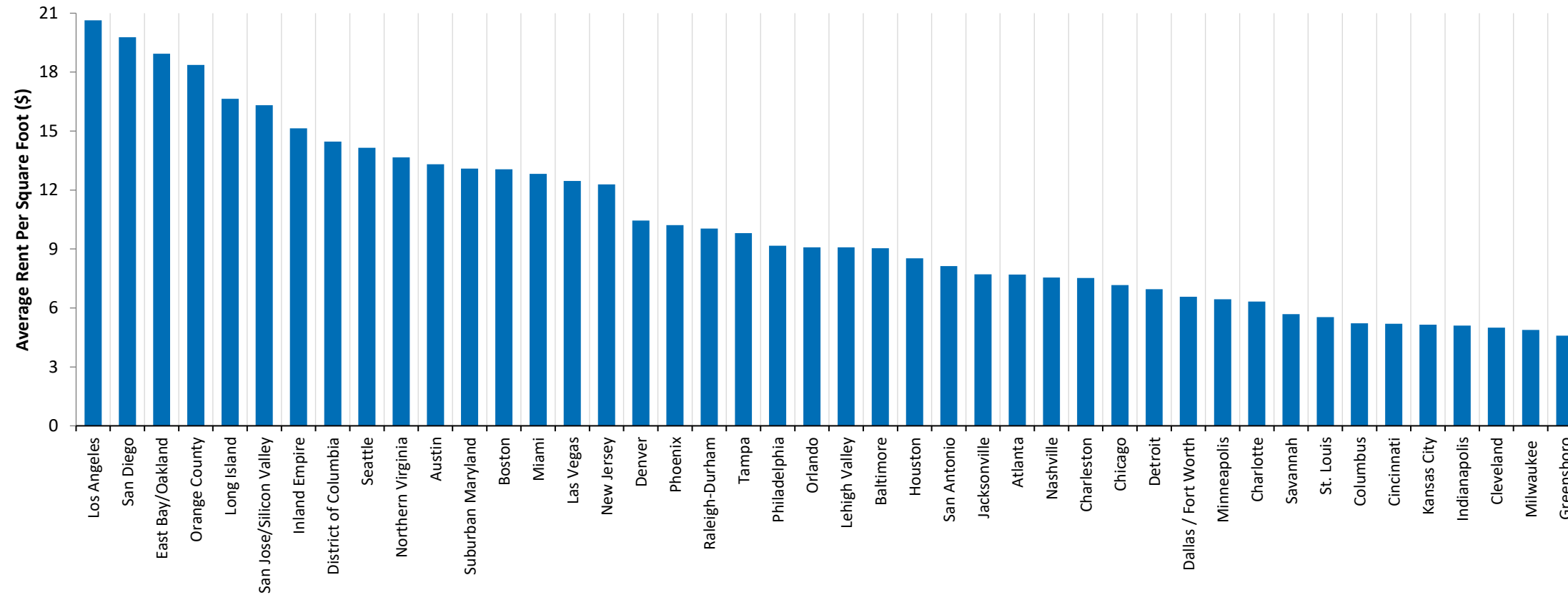
- Positive net absorption was reported in all markets over the past 12 months, while four markets reported occupancy losses during the quarter – Los Angeles most notably, though leasing velocity remains strong in Southern California.
- Chicago recorded the strongest quarter of occupancy growth; however, Houston claimed the No. 1 spot when accumulating 12-month totals.
- The five markets with the most demand during the quarter – Chicago, Houston, Dallas-Fort Worth, Atlanta, and Phoenix – accounted for more than 40% of total net absorption in tracked markets.

## MARKET EXPANSION: 3 YEAR NET ABSORPTION % STOCK



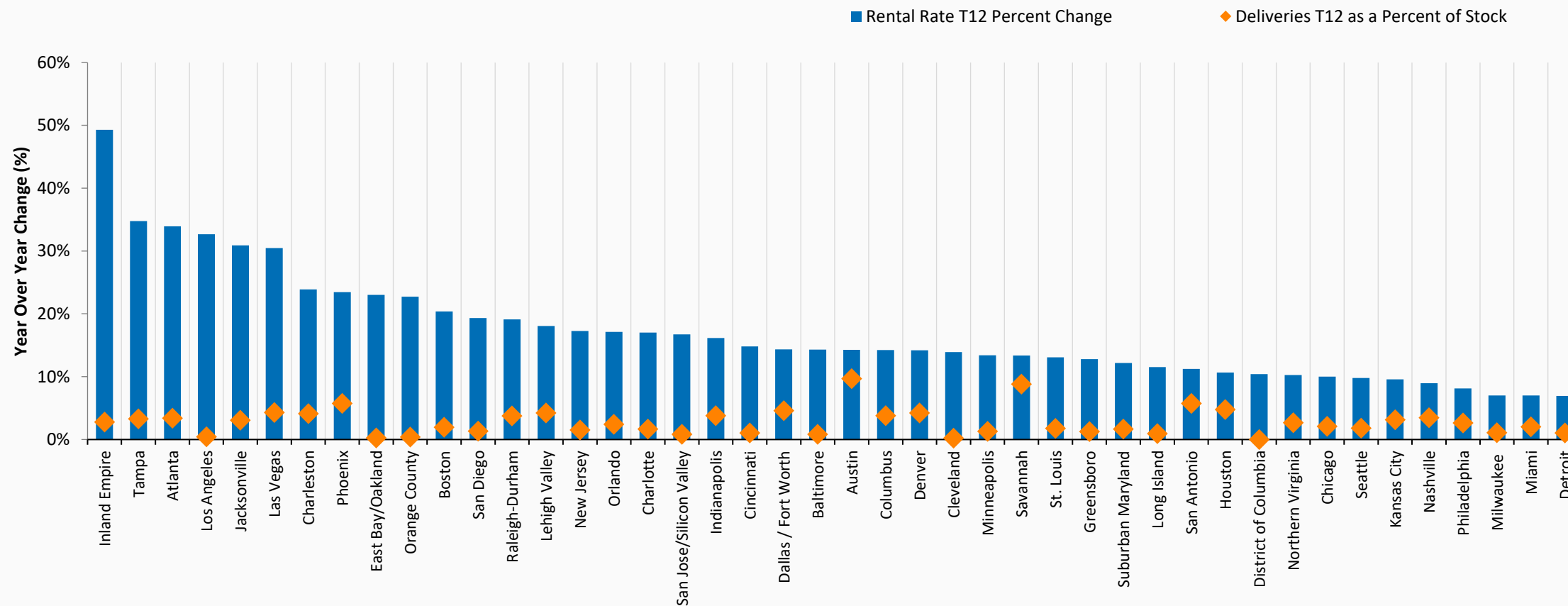
- Here we consider 3-year net absorption as a percent of stock. A higher percentage indicates that a market is more expansionary.
- The Sun Belt continues to be an attractive location for tenants seeking industrial space, as many of these markets experienced substantial population growth in the past decade and offer more affordable land, labor, and housing costs.

## RENTAL RATES (NNN)



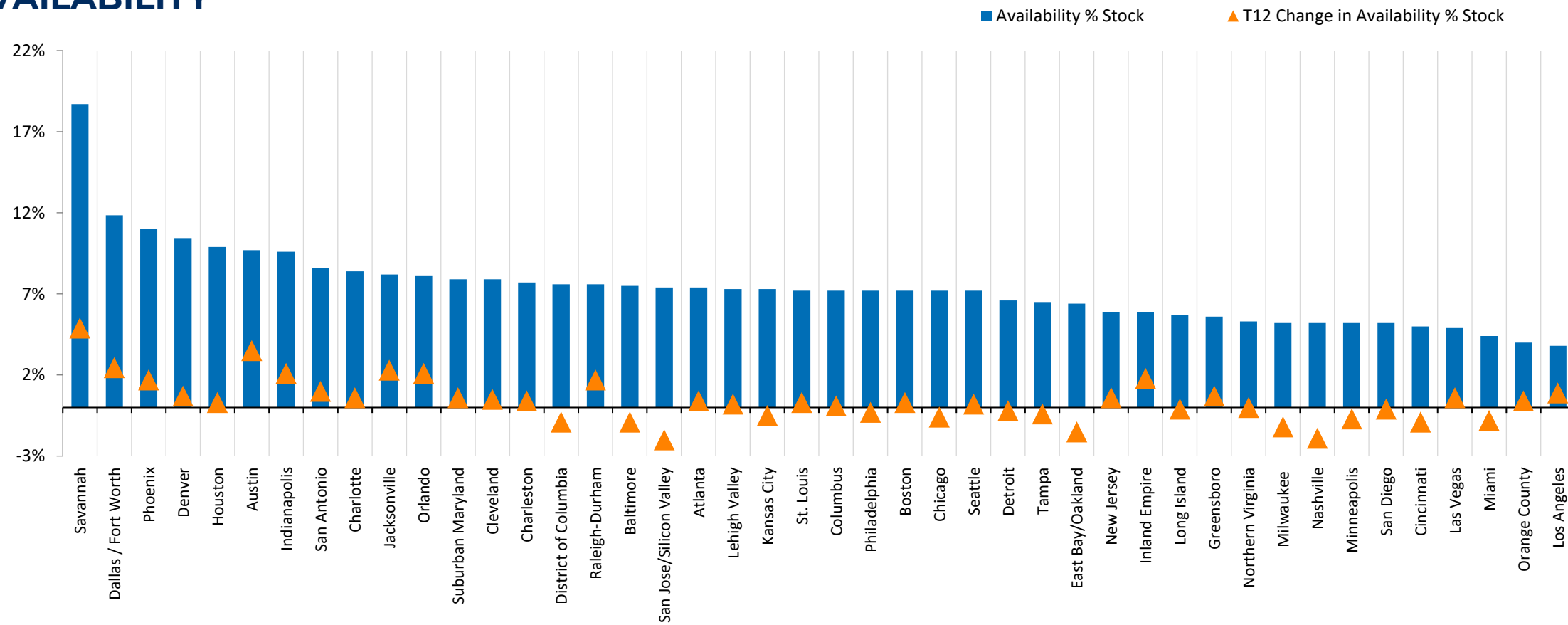
- The top 10 markets with the highest rental rates are predominantly located in the largest shipping port regions on the west and east coasts.
- New construction accounts for many of the high rent averages in these core, coastal markets, which remain in high demand despite higher real estate costs, as a prime location helps reduce transportation costs.

## RENTAL RATE CHANGE



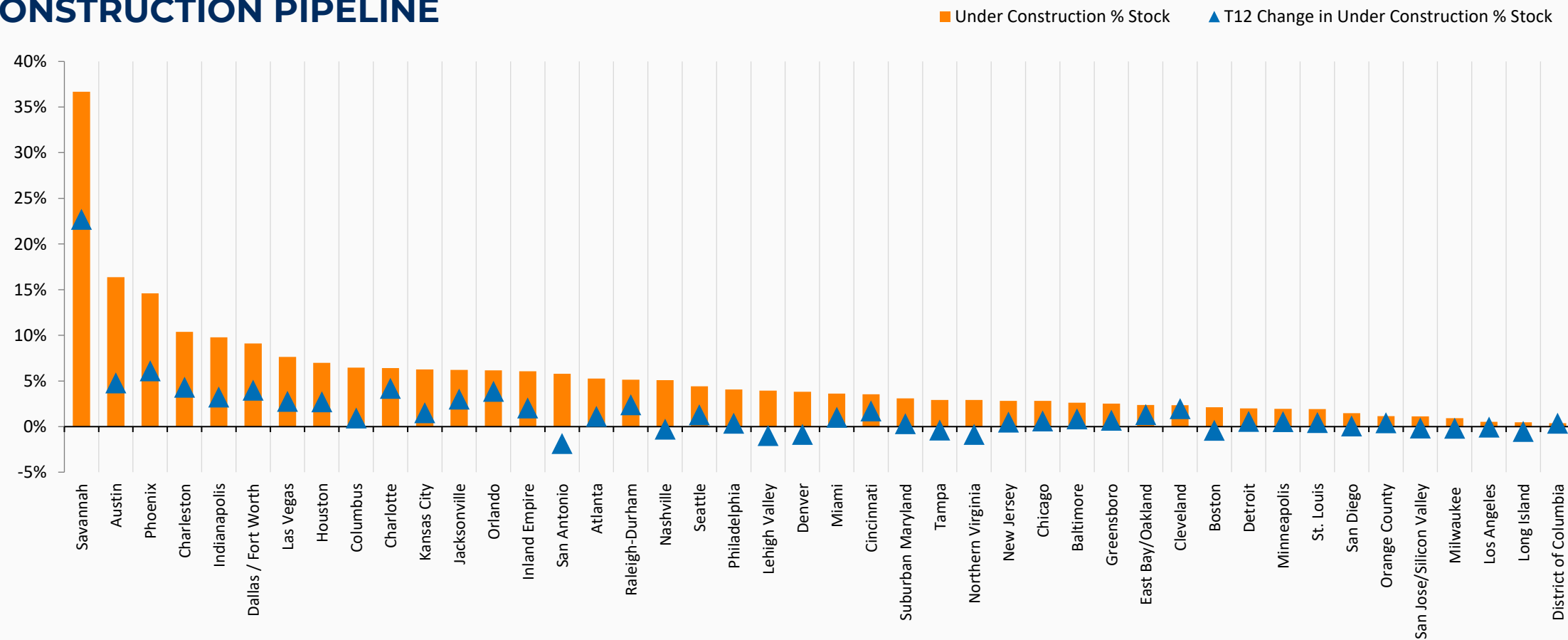
- Demand for industrial space was evidenced by strong rental growth over the past year. One-quarter of the tracked markets saw rents increases by more than 20% YoY, and all tracked markets saw positive growth.
- Six markets, all in the Sun Belt, recorded rent growth of more than 30% during the past 12 months, including Inland Empire, Tampa, Atlanta, Los Angeles, Jacksonville, and Las Vegas.
- Rent growth is anticipated to continue across all markets for the foreseeable future, however the pace of increase is likely to subside in markets where supply catches up with demand.

### AVAILABILITY



- Most coastal markets where U.S. container ports are located fall within the lower one-third availability as a percent of stock.
- Markets seeing the largest increases in availability include Savannah, Austin, Dallas/Fort Worth, Jacksonville, Indianapolis, and Orlando – all of which rose by 200 basis points.
- Those registering the largest decreases in availability include San Jose/Silicon Valley, Nashville, East Bay/Oakland and Milwaukee, all with rates falling by more than 100 basis points.

### CONSTRUCTION PIPELINE



- Under construction stock is indicative of future expansion.
- Capitalizing on much-needed industrial real estate inventory due to substantial population growth, developers continue to build in the Sun Belt. The region comprises eight of the top 10 highest growth markets as it pertains to under-construction stock over the past year.



Market	Inventory Square Feet	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent NNN	Annual Rent Change	Under Construction
Atlanta	737,436,433	3.6%	3.3%	5,093,917	25,598,794	\$7.70	33.9%	38,839,888
Austin	115,433,906	4.2%	4.0%	2,118,854	11,056,391	\$13.31	14.2%	18,898,055
Baltimore	228,101,791	5.5%	5.3%	671,387	6,685,063	\$9.04	14.3%	5,969,698
Boston	337,201,487	4.4%	3.9%	2,370,559	6,698,148	\$13.06	20.4%	7,159,912
Charleston	82,573,644	2.4%	2.2%	1,324,908	4,500,144	\$7.52	23.9%	8,568,570
Charlotte	330,363,439	4.8%	4.3%	1,702,696	10,345,676	\$6.33	17.0%	21,147,414
Chicago	1,365,479,019	4.3%	4.2%	10,254,895	40,267,867	\$7.16	10.0%	38,562,505
Cincinnati	322,703,001	3.1%	2.8%	(651,035)	10,157,923	\$5.20	14.8%	11,446,815
Cleveland	329,939,109	4.3%	4.1%	462,050	1,885,555	\$5.00	13.9%	7,747,661
Columbus	318,638,733	3.7%	3.5%	1,685,454	14,605,273	\$5.22	14.2%	20,614,564
Dallas-Fort Worth	946,355,302	6.1%	5.8%	8,108,112	34,871,938	\$6.57	14.3%	86,245,831
Denver	250,379,819	6.0%	5.7%	977,922	11,644,690	\$10.45	14.2%	9,532,870
Detroit	575,557,993	4.8%	4.6%	308,777	3,394,678	\$6.95	6.9%	11,520,970
District of Columbia	8,758,618	4.3%	3.8%	82,962	72,544	\$14.46	10.4%	32,835
East Bay-Oakland	247,514,522	4.4%	3.7%	427,761	5,028,680	\$18.93	23.0%	5,896,351
Greensboro	288,949,382	3.1%	3.1%	1,148,295	5,930,514	\$4.59	12.8%	7,310,451
Houston	688,193,413	5.6%	5.4%	8,520,041	41,650,746	\$8.53	10.6%	48,000,419
Indianapolis	356,213,909	3.8%	3.5%	3,798,774	15,967,501	\$5.11	16.1%	34,812,434
Inland Empire	678,248,383	1.8%	1.6%	1,326,304	18,508,639	\$15.14	49.3%	41,093,567
Jacksonville	139,686,645	2.8%	2.6%	1,984,466	5,245,020	\$7.71	30.9%	8,661,145
Kansas City	311,122,999	4.0%	4.0%	3,419,835	11,568,315	\$5.15	9.6%	19,445,106
Las Vegas	144,215,950	1.9%	1.7%	2,189,034	9,061,857	\$12.46	30.5%	11,025,903

Market	Inventory Square Feet	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent NNN	Annual Rent Change	Under Construction
Lehigh Valley	153,356,054	5.3%	5.1%	2,016,520	5,071,009	\$9.08	18.1%	6,034,566
Long Island	156,384,787	4.5%	4.1%	(508,080)	529,627	\$16.64	11.5%	759,347
Los Angeles	850,135,686	2.1%	1.9%	(715,494)	2,467,215	\$20.63	32.7%	4,435,175
Miami	240,815,238	2.4%	2.2%	1,150,266	6,420,598	\$12.82	7.0%	8,718,098
Milwaukee	245,038,106	2.5%	2.4%	1,603,392	3,834,823	\$4.88	7.0%	2,285,422
Minneapolis	321,018,106	3.0%	2.8%	1,679,837	6,973,406	\$6.44	13.4%	6,210,426
Nashville	234,387,452	3.6%	3.4%	2,269,814	7,732,920	\$7.55	8.9%	11,958,928
New Jersey	759,236,918	3.0%	2.7%	435,181	8,883,260	\$12.29	17.3%	21,471,728
Northern Virginia	119,517,240	3.1%	3.0%	1,546,683	4,229,172	\$13.66	10.3%	3,488,152
Orange County	270,178,026	2.2%	2.0%	379,250	1,160,883	\$18.36	22.7%	3,118,251
Orlando	171,754,952	3.9%	3.5%	485,794	5,042,255	\$9.09	17.1%	10,569,752
Philadelphia	550,689,158	4.5%	4.3%	3,068,660	12,127,724	\$9.17	8.1%	22,438,377
Phoenix	383,288,564	4.6%	4.4%	4,759,964	22,758,203	\$10.22	23.4%	55,935,241
Raleigh-Durham	131,244,540	3.2%	3.0%	2,685,597	5,465,057	\$10.04	19.1%	6,761,966
San Antonio	145,810,424	3.6%	3.5%	1,418,341	10,796,355	\$8.13	11.2%	8,426,048
San Diego	181,678,375	3.6%	3.0%	(62,438)	4,006,330	\$19.77	19.3%	2,697,027
San Jose-Silicon Valley	185,358,524	6.4%	5.9%	768,662	3,829,472	\$16.32	16.7%	2,082,774
Savannah	87,254,333	3.0%	3.0%	2,132,407	9,319,320	\$5.69	13.3%	31,998,273
Seattle	314,846,833	4.5%	4.2%	1,697,047	6,304,252	\$14.15	9.8%	13,901,154
St. Louis	303,306,671	3.5%	3.3%	777,586	6,124,582	\$5.53	13.1%	5,801,375
Suburban Maryland	105,947,380	5.7%	5.4%	267,492	1,308,840	\$13.09	12.2%	3,266,350
Tampa	183,946,971	4.4%	4.1%	1,783,205	5,839,274	\$9.81	34.8%	5,377,287



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## ABOUT TRANSWESTERN

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## RESEARCH METHODOLOGY

The information in this report is a compilation of single and multi-tenant industrial and flex properties located in select U.S. metropolitan areas. Government-owned buildings are excluded from analysis. All rents are reported as triple net.