COMMERCIAL REAL ESTATE

U.S. MARKET | Industrial

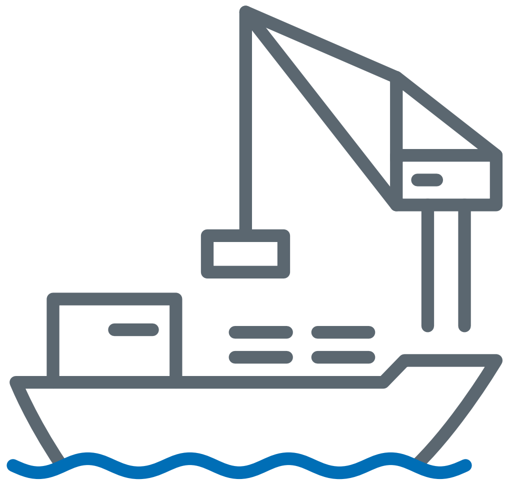
Q2 2023

TRANSWESTERN

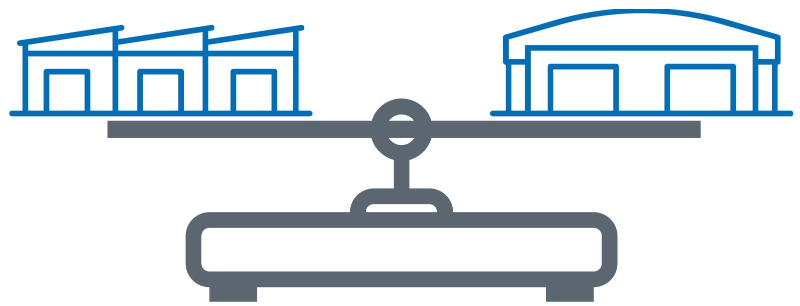
Industrial

Q2 2023

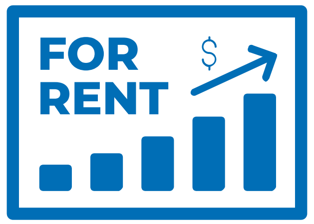
THE VIEW FROM HERE



East and Gulf Coast ports continue to gain market share.



Vacancies expected to increase due to moderating demand, though lower deliveries will keep fundamentals in balance for most markets.



Prime locations and modern product will see rent grow due to superior efficiencies.

NET ABSORPTION

46 MSF

Lowest in nearly 11 years

VACANCY RATE

4.5%

Highest in two years

UNDER CONSTRUCTION

869 MSF

Third consecutive decrease

ASKING RENT

$8.83

Continued to set record YoY growth

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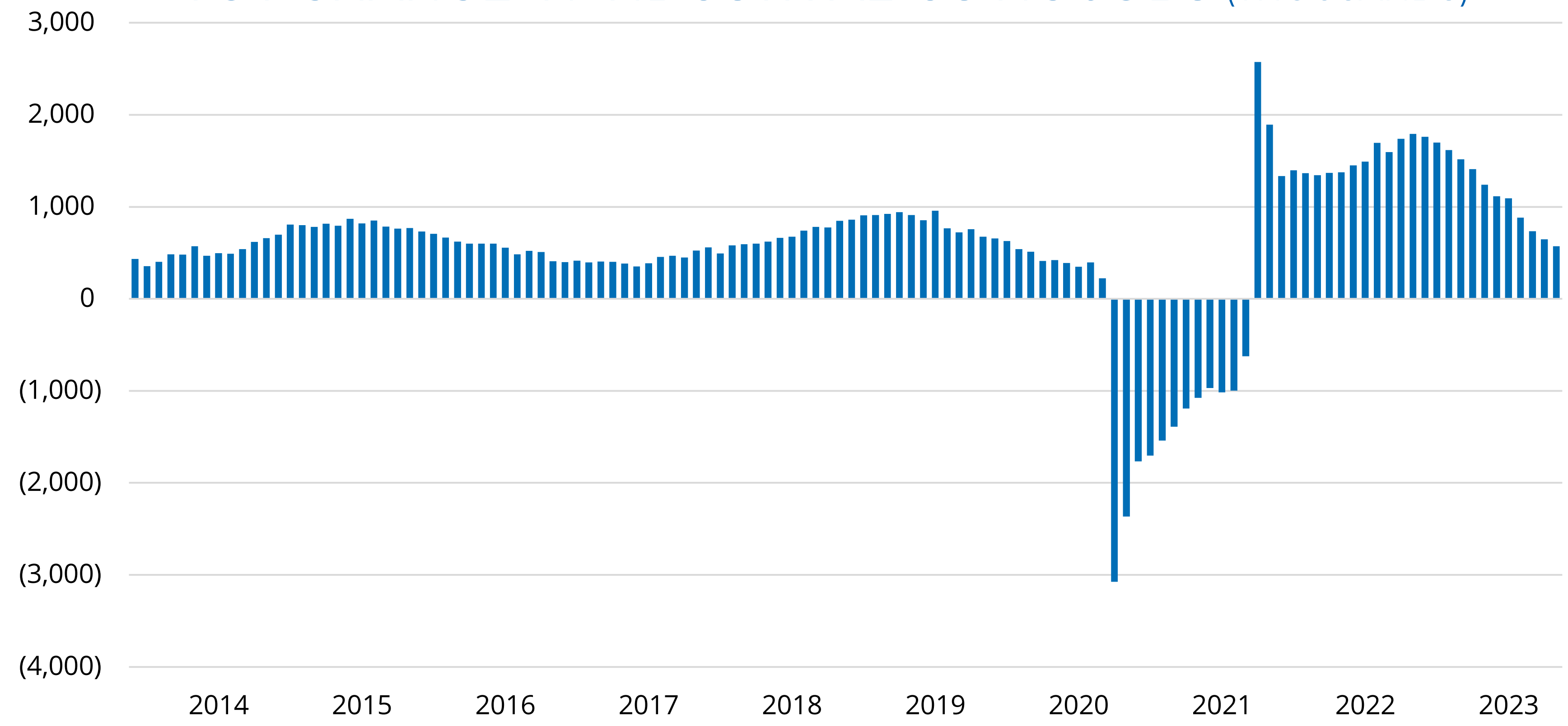
ECONOMIC HIGHLIGHTS

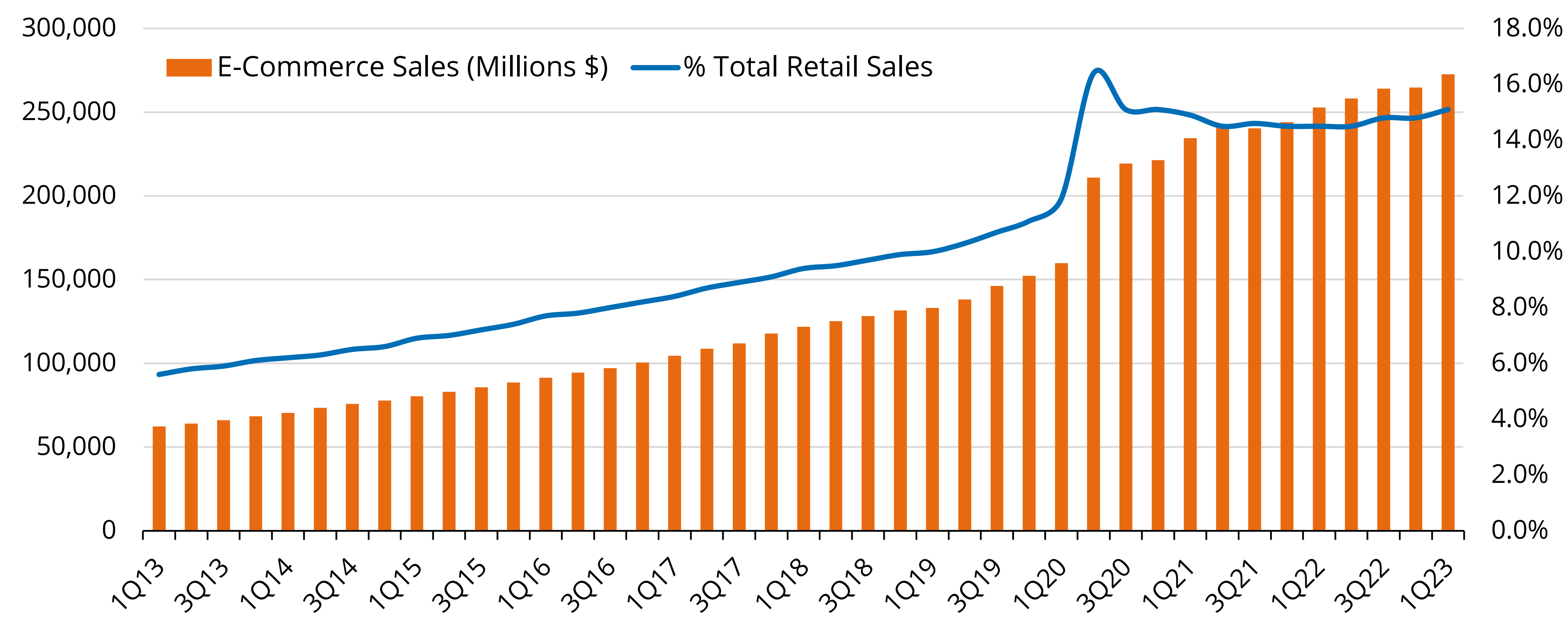
- Employment supporting the industrial real estate sector grew during the quarter but decelerated on a YoY basis.
- Truck transportation jobs have held steady; however, a shortage persists as companies offer incentives to recruit drivers while advancements in autonomous vehicles accelerate.
- Deceleration in property development has led to a reduction in construction jobs.
- The manufacturing sector continued to contract due to a slowdown in product orders and a spending shift to services, though inventory levels are slowly loosening, boding well for future production.
- Despite the sector slowdown, manufacturers led industrial property leasing activity in Q2.
- The reshoring trend is expected to accelerate as access to suppliers and speed-to-market has become increasingly more critical than labor cost savings.
- E-commerce sales growth has returned to more normalized, pre-pandemic levels but continues to increase at a faster rate than store-based sales.
- Despite a high level of consumer confidence and record-setting Amazon Prime Day, consumers are cutting back on spending and shifting to lower-cost alternatives, boding well for discount retailers.
- Rising credit card balances and looming student loan payments are likely to result in a further reduction in consumer spending.
- As global trade slows, U.S. port volumes returned to pre-pandemic levels.

HISTORICAL

YOY CHANGE IN INDUSTRIAL-USING JOBS (THOUSANDS)



U.S. RETAIL E-COMMERCE SALES

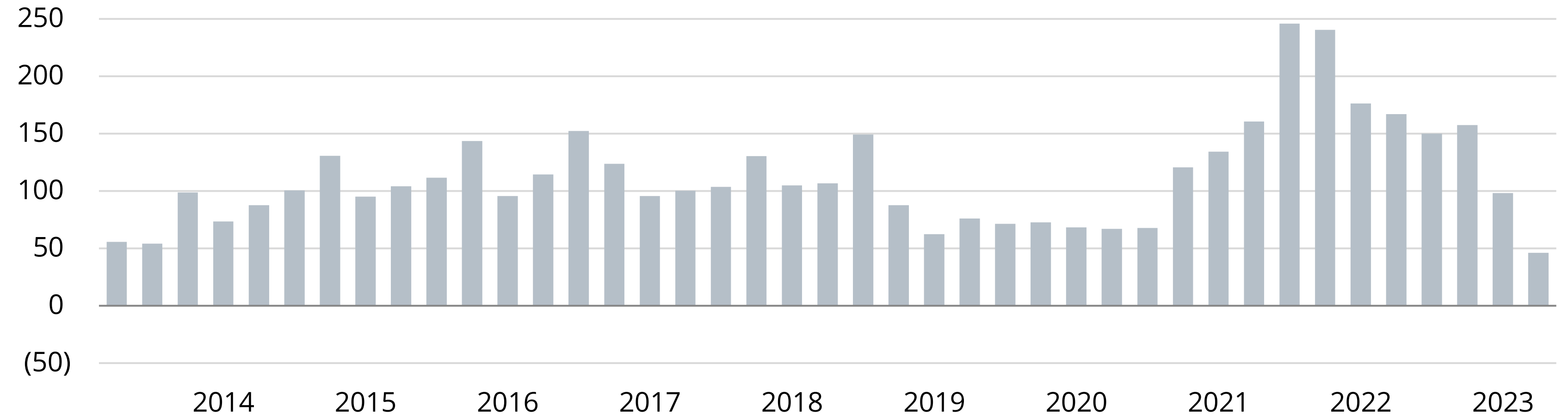


MARKET HIGHLIGHTS

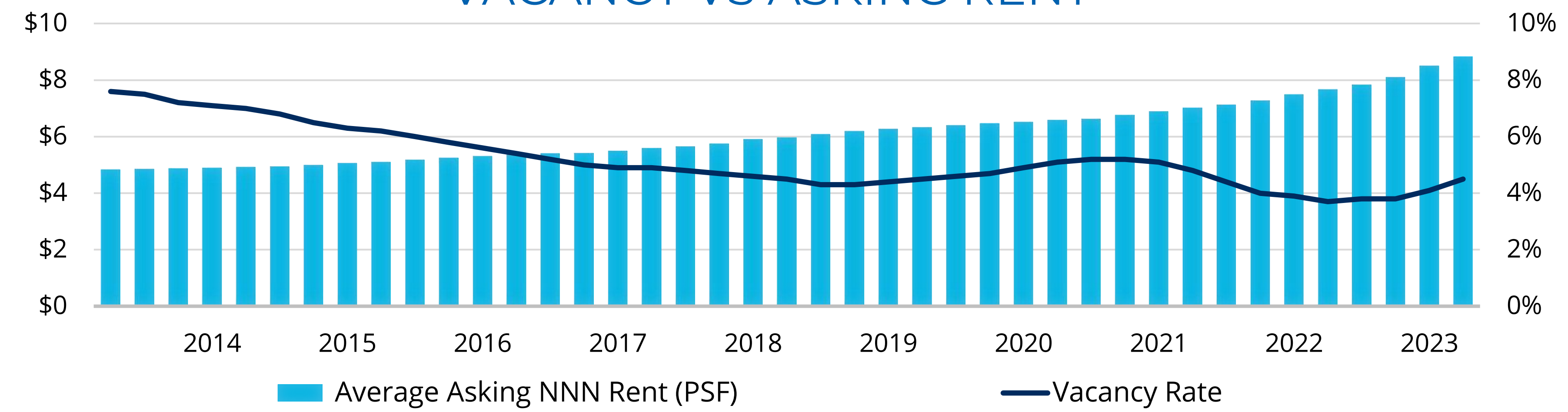
- The level of occupied space grew for the 54th consecutive quarter; however, the overall vacancy rate increased by 40 basis points as the market normalizes to more typical, pre-pandemic conditions.
- Decelerated activity is becoming more widespread as 15 of 44 markets reported occupancy losses during Q2, up from 10 the prior quarter.
- Over the past 12 months, 93% of markets recorded growth, with 20% absorbing more than 10 MSF of space.
- Sublease offerings continued to rise, representing 7.7% of vacant space, the highest percentage since 2010 and a 300-basis-point increase YoY.
- The average asking rent rose 3.8% in Q2, and has increased 9.0% year-to-date, compared to 5.5% during the first half of 2022.
- Rents increased a record 15.2% during the past 12 months and are 35% higher than pre-pandemic levels.
- All but three markets reported YoY rent increases, more than one-third registering rent growth greater than 20%.
- New deliveries outpaced net absorption for the fourth consecutive quarter, while product under construction decreased to less than 900 MSF for the first time since Q1 2022.
- In some markets, an increasing number of landlords are offering more flexible lease terms and, in some cases, owners of higher-quality assets are willing to subdivide.
- As activity slows, savvy developers are evaluating ways to modernize future projects to be better positioned when leasing ramps up once again.

HISTORICAL

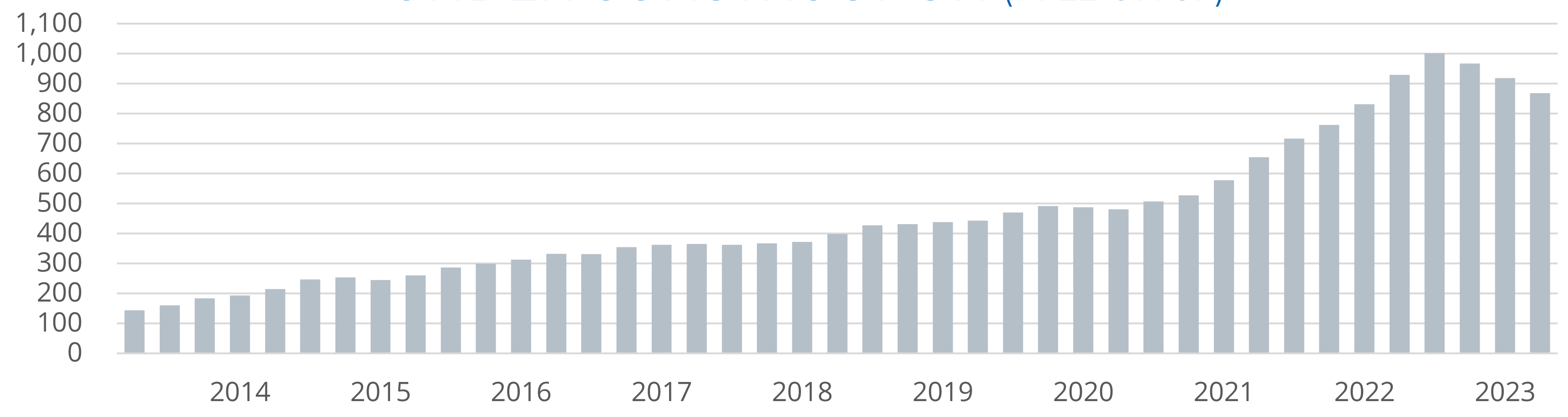
NET ABSORPTION (MILLION SF)



VACANCY VS ASKING RENT



UNDER CONSTRUCTION (MILLION SF)



TOP-RANKED MARKETS BY INDICATORS

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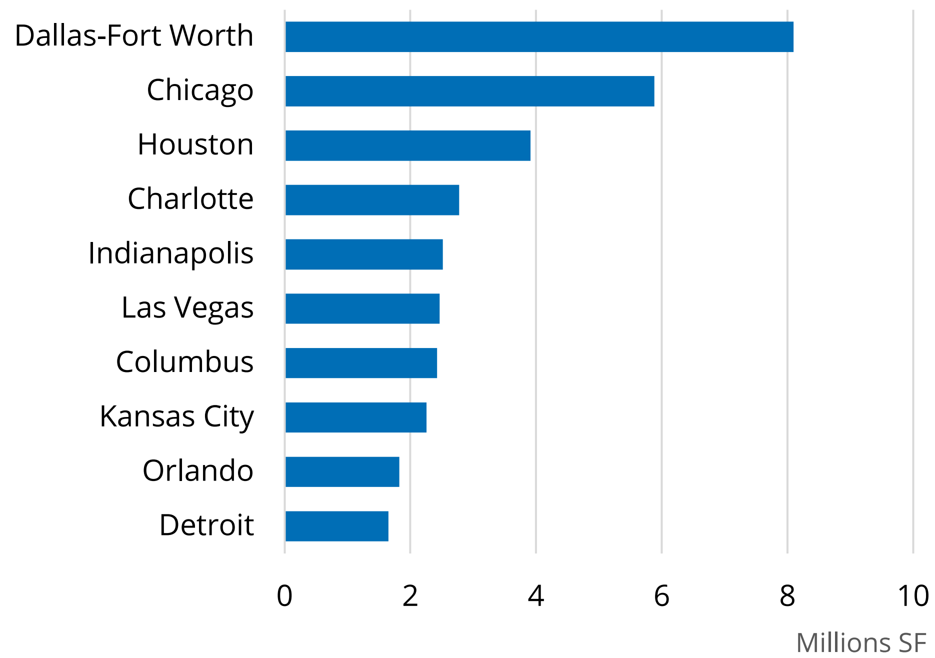
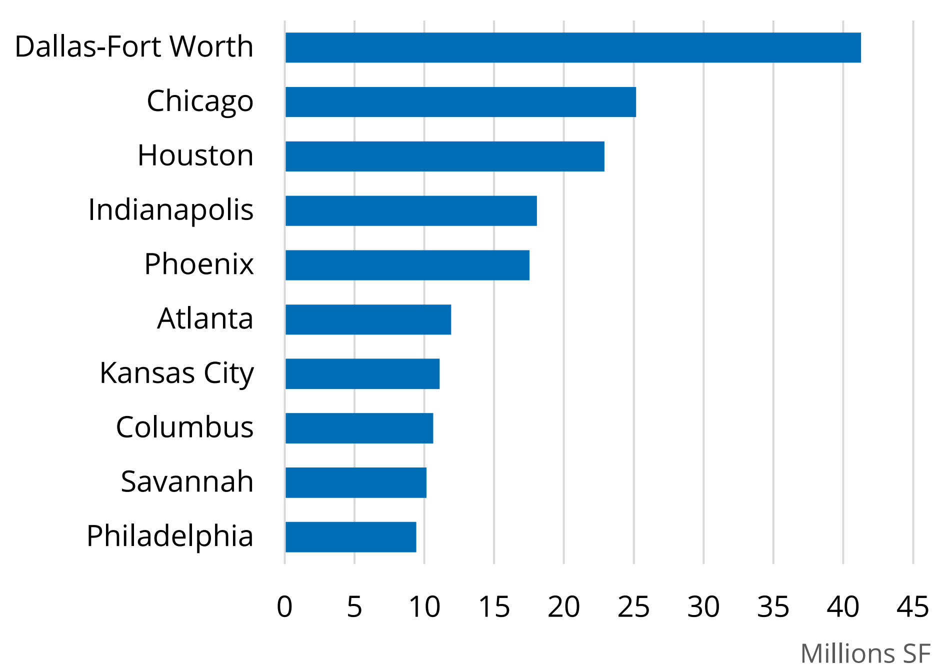
NET ABSORPTION

Q2 2023 Net Absorption

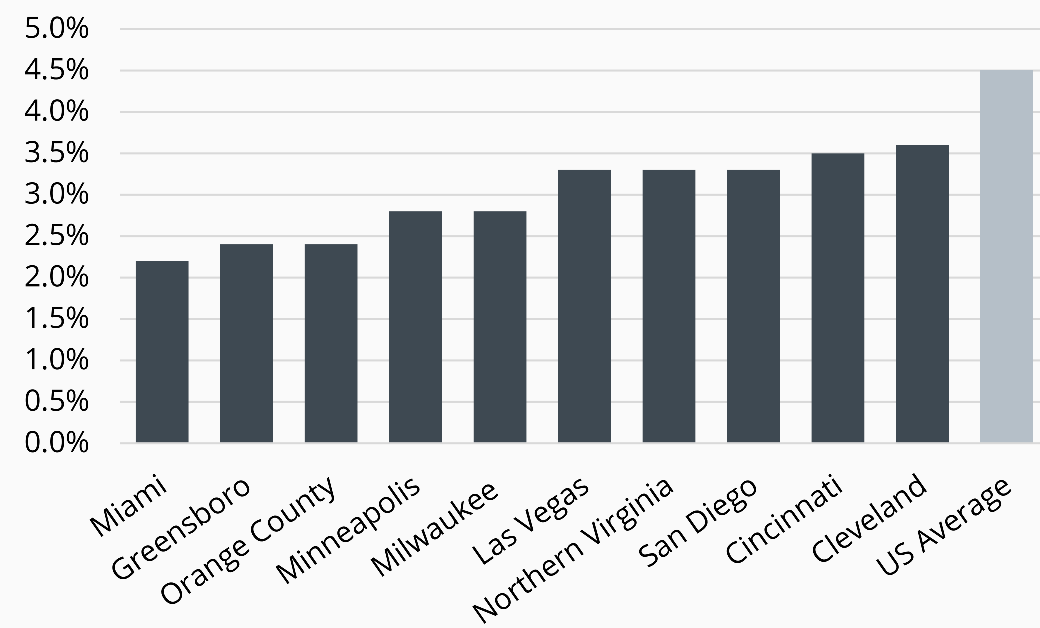


Trailing 4-Qtr Net Absorption

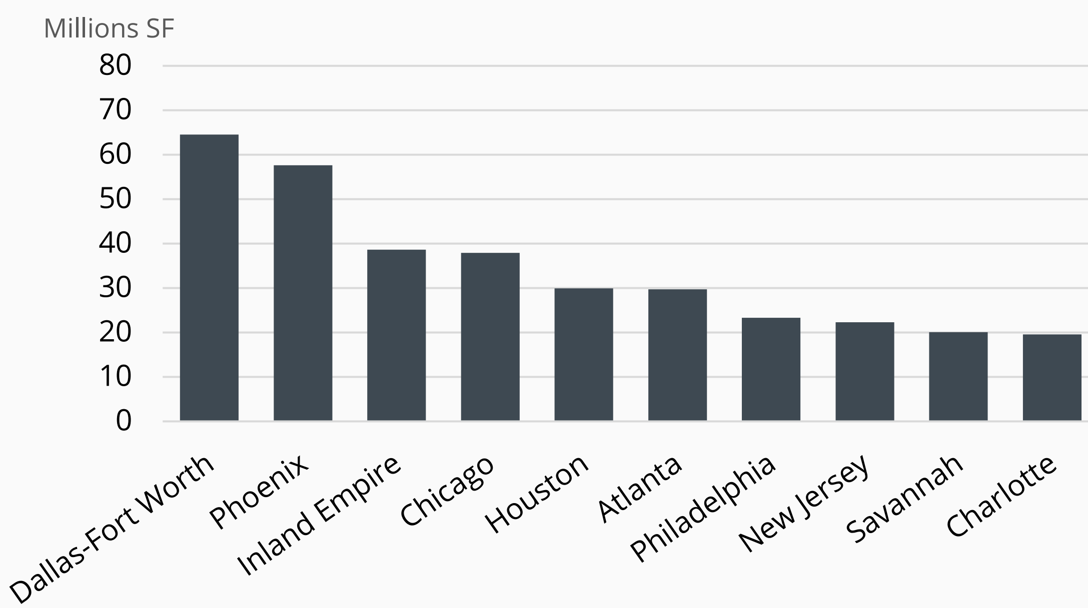


VACANCY/CONSTRUCTION

Q2 2023 Vacancy Rate

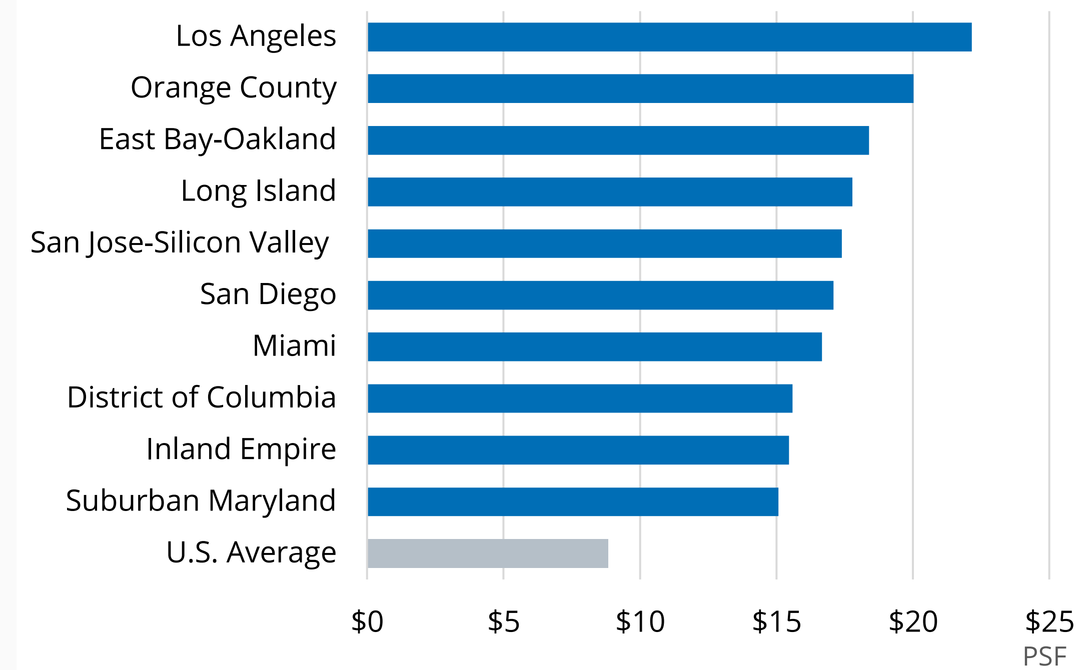


Q2 2023 Under Construction

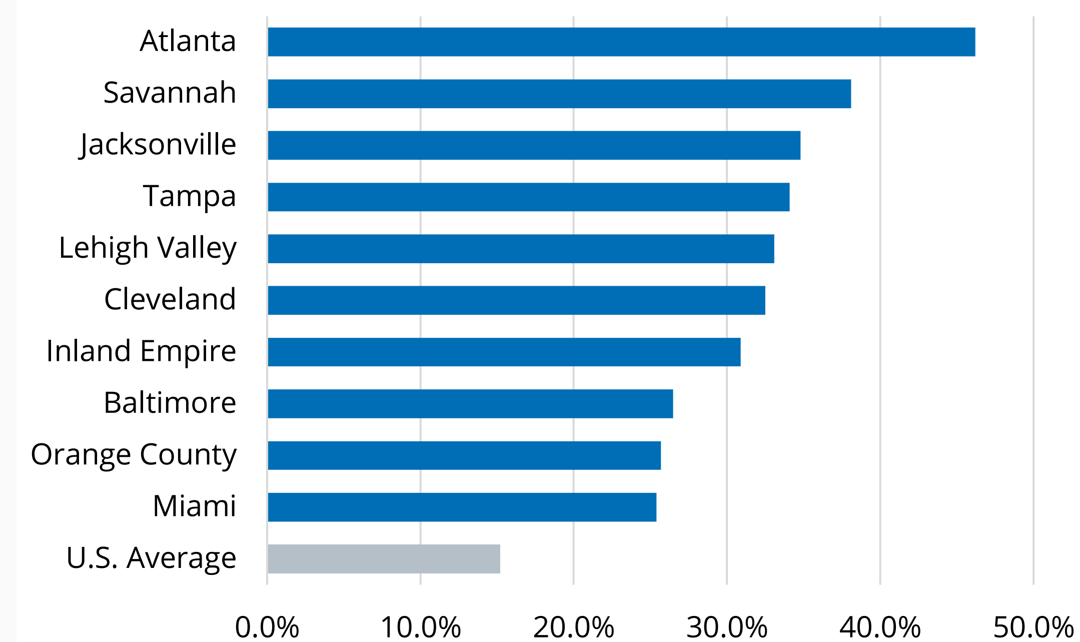


ASKING RENTS

Q2 2023 Asking Rate NNN



Year-Over-Year Rent Growth



*Several factors can result in the variability of asking rent and rent growth figures including, but not limited to, the level of new construction and the number of available space with no listed asking rents,

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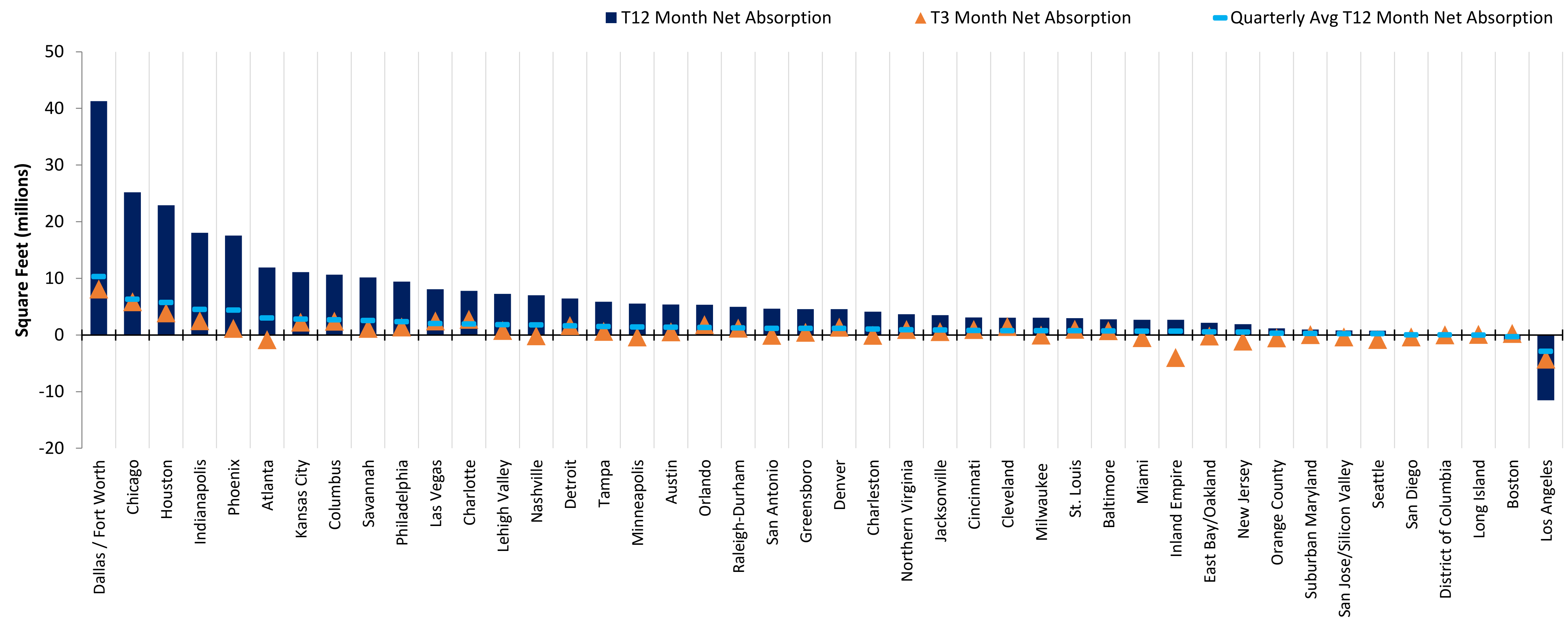
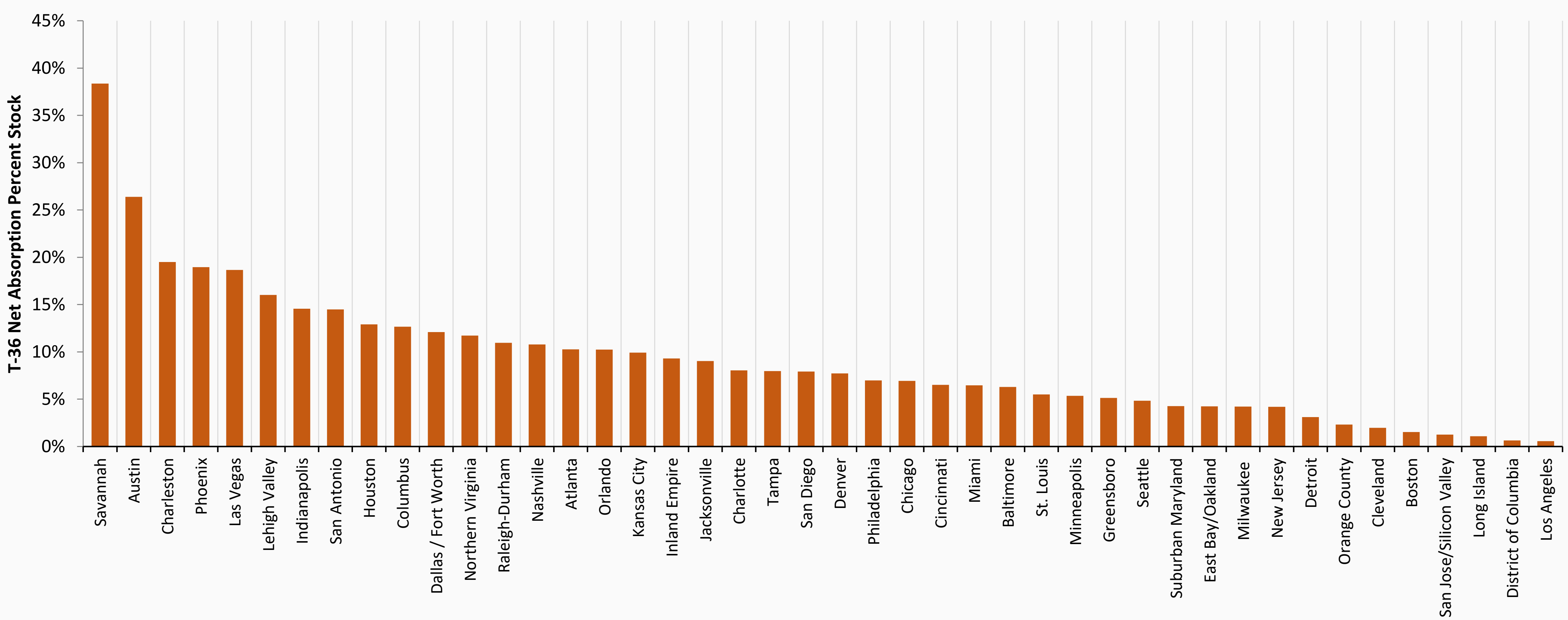
NET ABSORPTION



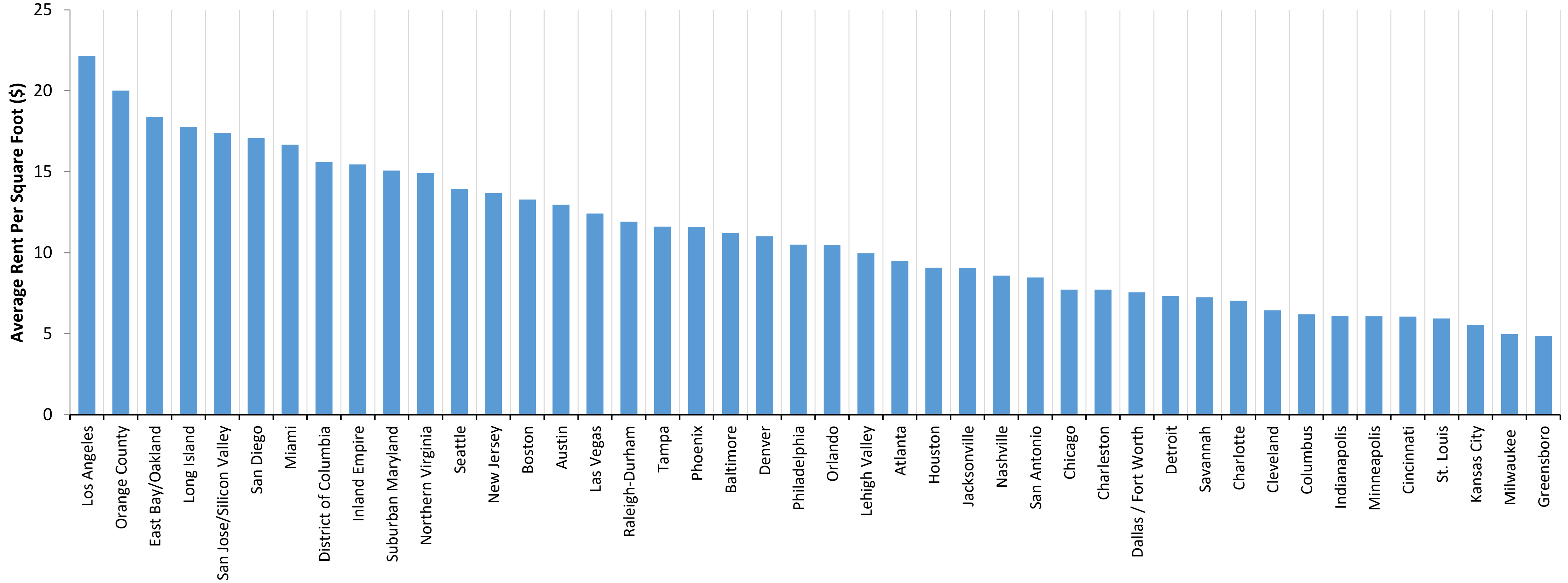
- Positive net absorption was reported in almost all markets over the past 12 months.
- However, market growth is slowing. Only 30% of markets posted-quarterly net absorption higher than the quarterly average for the past year. Particularly strong markets by this measure include Charlotte, Cleveland, and Boston.
- Over 45% of all net absorption over the past 12 months was in the top six markets: Dallas-Fort Worth, Chicago, Houston, Indianapolis, Phoenix, and Atlanta.

MARKET EXPANSION: 3 YEAR NET ABSORPTION % STOCK



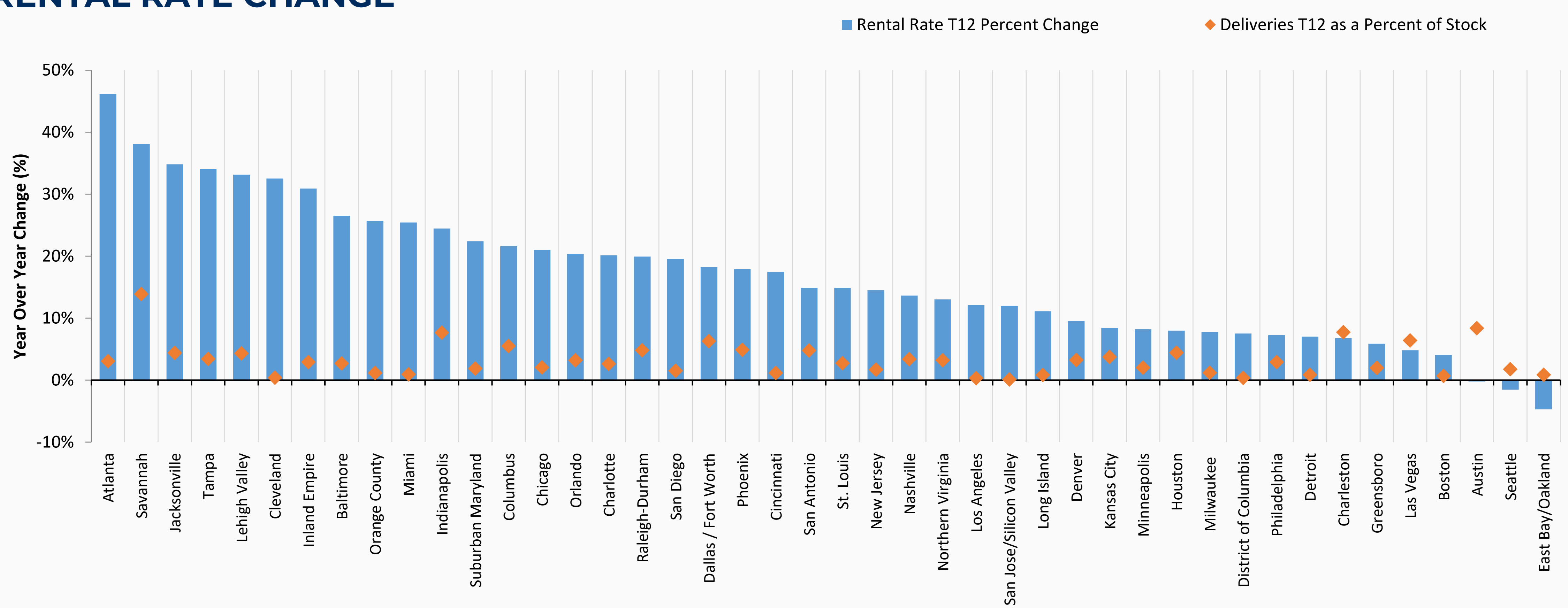
- Here we consider 3-year net absorption as a percent of stock. A higher percentage indicates that a market is more expansionary.
- As population shifts to the Sun Belt, tenants continue to seek industrial space in the region. The Sun Belt included the top five – and seven of the top 10 –markets for expansion.

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 coupled with constraints on supply account for many of the high rent averages in these core, coastal markets. Despite higher rental rates, they remain in high demand as their prime locations reduce transportation costs.

RENTAL RATE CHANGE



- More than one-third of the tracked markets recorded rent increases over 20% YoY, and almost all tracked markets saw positive growth over the time period.
- Two markets, both in the Sun Belt, recorded rent growth over 35% during the past 12 months: Atlanta and Savannah.
- A few markets, such as Charleston, Las Vegas, and Austin saw particularly high delivery levels, which in part contributed to their lower or negative rent growth. Delivery levels may become an increasingly important factor in rent growth as demand normalizes.

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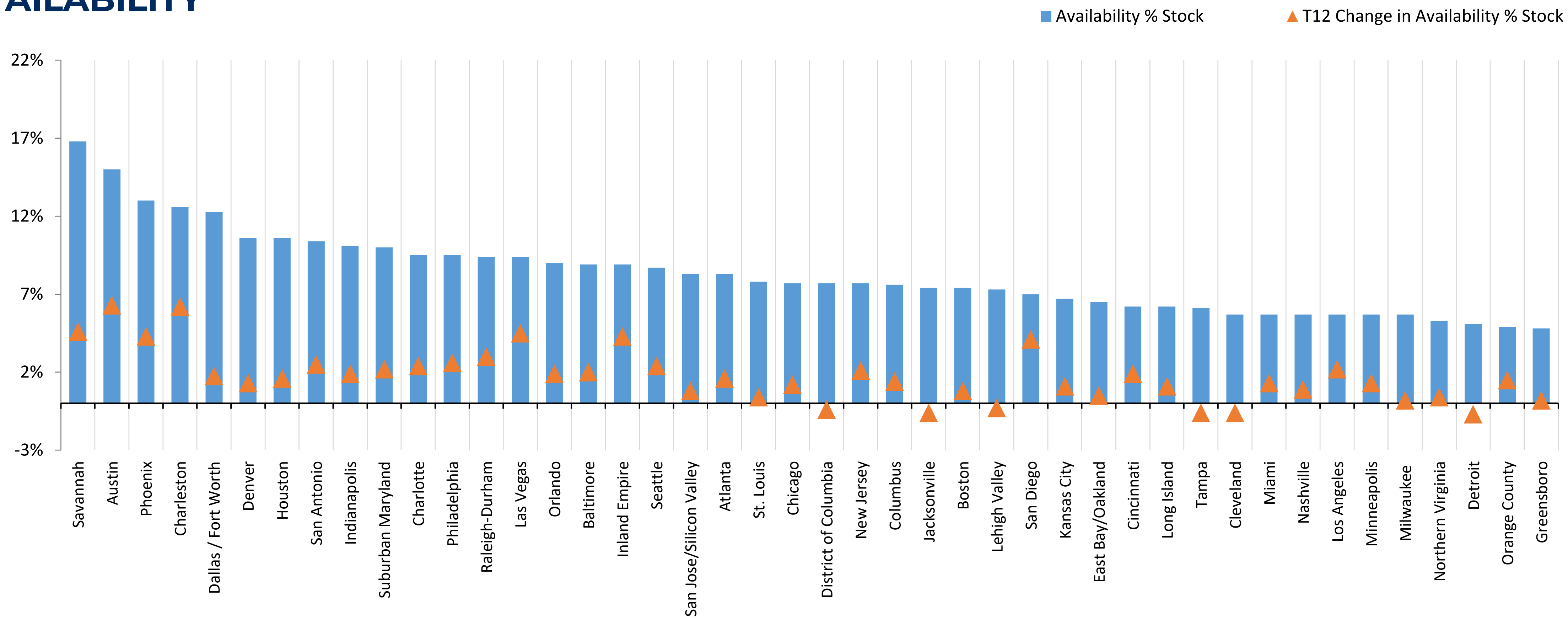
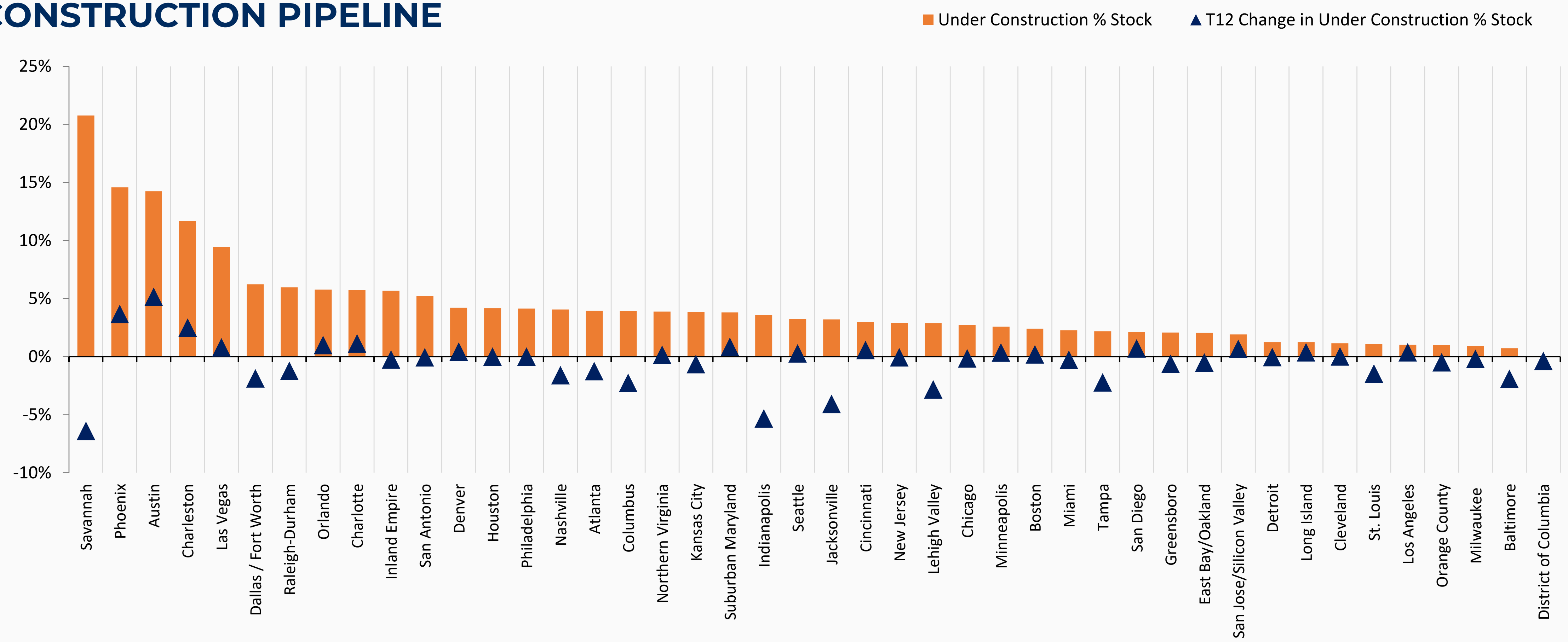
AVAILABILITY



- Markets with the highest availability are also those with the highest construction levels and include fast growing Savannah, Austin, and Phoenix.
- Many markets loosened over the last year, with over 85% experiencing an increase in availability.
- Markets experiencing the largest increases include Austin, Charleston, Savannah, Las Vegas, Inland Empire, Phoenix, and San Diego – all of which rose over 400 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 and a recent shipping shift, developers continue to build in the Sun Belt. The region comprises all top 10 of the highest growth markets as it pertains to under construction stock.

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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	754,955,646	4.7%	4.4%	(826,810)	11,934,963	$9.50	46.2%	29,695,280
Austin	125,793,376	7.7%	6.9%	565,020	5,385,736	$12.96	-0.2%	17,905,977
Baltimore	234,035,573	6.5%	6.0%	782,208	2,750,349	$11.22	26.5%	1,674,281
Boston	335,244,726	5.0%	4.6%	278,257	(1,242,631)	$13.28	4.1%	8,067,937
Charleston	93,083,261	5.6%	5.3%	(60,459)	4,123,521	$7.72	6.8%	10,895,930
Charlotte	341,853,038	5.3%	4.9%	2,778,254	7,779,123	$7.04	20.1%	19,583,321
Chicago	1,383,607,667	4.2%	3.9%	5,883,059	25,174,117	$7.72	21.0%	37,904,253
Cincinnati	329,441,343	3.5%	3.4%	989,873	3,105,437	$6.05	17.5%	9,747,591
Cleveland	330,110,175	3.6%	3.5%	1,515,508	3,038,055	$6.44	32.5%	3,811,588
Columbus	335,839,896	5.1%	4.5%	2,424,471	10,649,108	$6.20	21.6%	13,189,150
Dallas-Fort Worth	1,036,929,684	7.6%	6.8%	8,097,187	41,270,110	$7.55	18.2%	64,542,623
Denver	255,935,165	6.4%	6.1%	1,383,250	4,544,773	$11.02	9.5%	10,792,544
Detroit	574,422,626	3.9%	3.6%	1,649,494	6,444,837	$7.31	7.0%	7,223,813
District of Columbia	8,738,496	5.8%	5.4%	36,826	17,222	$15.59	7.5%	0
East Bay-Oakland	250,507,068	4.4%	3.5%	(191,148)	2,157,395	$18.39	-4.7%	5,150,586
Greensboro	158,526,919	2.4%	2.4%	470,324	4,558,532	$4.87	5.9%	3,291,803
Houston	718,364,956	6.3%	5.9%	3,910,950	22,896,067	$9.08	8.0%	29,913,225
Indianapolis	390,341,485	6.8%	6.3%	2,516,250	18,054,464	$6.11	24.4%	14,036,609
Inland Empire	680,927,214	3.6%	3.0%	(3,972,674)	2,688,589	$15.46	30.9%	38,596,508
Jacksonville	144,029,299	5.0%	4.4%	589,606	3,484,099	$9.06	34.8%	4,610,955
Kansas City	321,606,615	4.1%	3.8%	2,258,015	11,106,612	$5.53	8.4%	12,360,436
Las Vegas	153,969,419	3.3%	2.9%	2,468,505	8,084,052	$12.42	4.8%	14,528,251

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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	157,121,039	4.1%	4.1%	796,904	7,276,904	$9.97	33.1%	4,494,926
Long Island	156,245,549	4.3%	4.0%	127,184	(117,293)	$17.78	11.1%	1,951,563
Los Angeles	767,041,750	3.7%	3.2%	(4,277,695)	(11,520,645)	$22.16	12.1%	7,716,855
Miami	240,197,567	2.2%	1.9%	(443,508)	2,694,569	$16.67	25.4%	5,458,791
Milwaukee	247,969,939	2.8%	2.7%	(4,399)	3,035,336	$4.98	7.8%	2,264,766
Minneapolis	318,900,405	2.8%	2.6%	(332,255)	5,541,197	$6.08	8.2%	8,193,574
Nashville	243,294,342	4.2%	3.4%	(150,580)	7,018,727	$8.58	13.6%	9,848,054
New Jersey	770,572,880	4.1%	3.6%	(1,067,563)	1,924,242	$13.68	14.5%	22,300,405
Northern Virginia	122,725,326	3.3%	3.2%	949,230	3,654,292	$14.92	13.0%	4,760,731
Orange County	212,236,463	2.4%	1.6%	(492,832)	1,170,582	$20.02	25.7%	2,132,983
Orlando	177,484,761	3.7%	3.0%	1,826,024	5,322,222	$10.47	20.3%	10,235,822
Philadelphia	565,220,698	5.5%	5.1%	1,415,196	9,422,290	$10.50	7.3%	23,335,924
Phoenix	394,980,824	4.5%	4.2%	1,167,628	17,532,840	$11.59	17.9%	57,610,198
Raleigh-Durham	137,074,902	4.5%	4.2%	1,234,624	4,971,722	$11.92	19.9%	8,178,175
San Antonio	152,955,225	5.8%	5.5%	(42,475)	4,629,929	$8.48	14.9%	7,988,095
San Diego	133,369,989	3.3%	2.6%	(353,269)	83,242	$17.09	19.5%	2,801,293
San Jose-Silicon Valley	184,609,166	6.5%	5.8%	(346,249)	814,442	$17.39	12.0%	3,533,152
Savannah	96,486,083	4.8%	4.5%	1,157,660	10,152,273	$7.25	38.1%	20,040,164
Seattle	317,478,663	5.6%	5.2%	(777,822)	779,970	$13.95	-1.6%	10,320,546
St. Louis	311,177,389	4.4%	4.3%	995,046	2,971,253	$5.94	14.9%	3,362,477
Suburban Maryland	107,089,064	6.1%	5.6%	87,011	952,577	$15.07	22.4%	4,080,665
Tampa	187,658,614	4.1%	3.9%	658,312	5,879,245	$11.61	34.1%	4,087,175

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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 and can be skewed, in some cases, due to factors including, but not limited to, the level of new construction and the amount of available space with no listed asking rents.

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