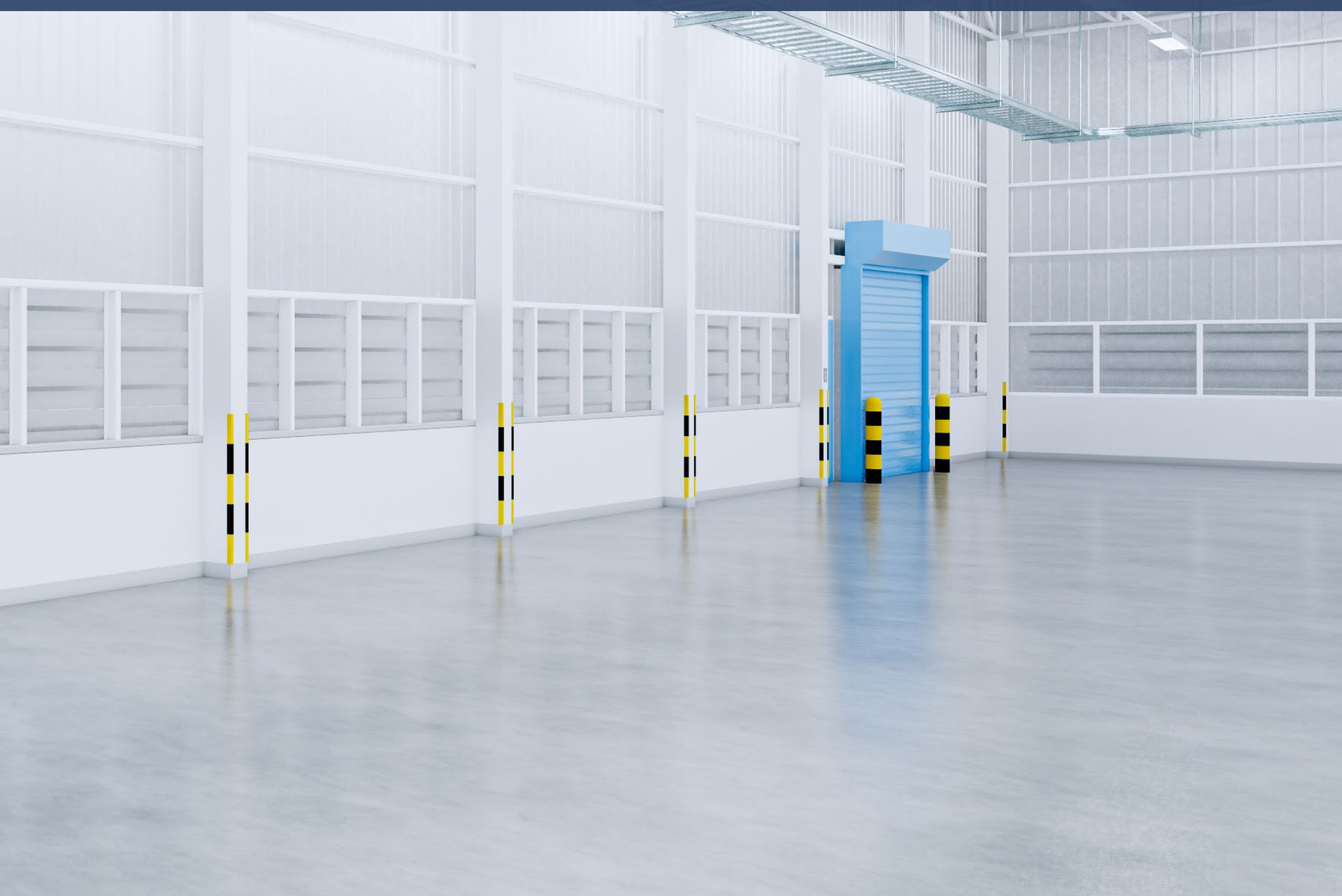
CommercialEdge

# National Industrial Report

August 2024



# Southern California's Slowdown

- Southern California industrial markets have experienced softness for the first time in years during 2024. Cooling demand and a record level of new supply have combined to send vacancy rates upwards and slow rent growth. While the long-term fundamentals for the region remain strong, the cooldown is expected to remain for the near term.

- CommercialEdge reports that in-place rent growth remains strong in the region, with rates increasing 12.4% over the past 12 months in the Inland Empire, 11.0% in Los Angeles and 8.7% in Orange County. Yet while in-place rents continue to move up, softness is visible in the average cost of a new lease, which has fallen $3.37 per square foot this year so far in the Inland Empire and $1.98 in Los Angeles, but just 46 cents in Orange County.

- The largest REIT in the industrial space is also seeing cracks emerge in the region. In its second quarter earnings call, Prologis described demand in Southern California as "sluggish" and predicted "soft conditions to persist over the next 12 months." Prologis noted its effective rents for the region have been falling, mostly due to expanding concessions.

- While the industrial markets in the region have cooled, the ports of Los Angeles and Long Beach just recorded two of their busiest months ever, signaling that the softness may be short lived. The Port of Los Angeles handled 940,000 20-foot equivalent units in July, an increase of 37% year-over-year and its busiest month since the all-time high reached in May 2021. The Port of Long Beach saw a similar surge, handling 882,000 TEUs in July, up 53% year-over-year. Some of the increased activity in these ports may be attributed to importers and retailers increasing inventories ahead of tariffs on Chinese-made goods and potential labor disputes.

- It is unlikely that the surge in container volumes will have an immediate impact on vacancy rates in the market. Logistics firms and importers learned lessons from the supply-chain chaos in 2021 and 2022, and most now operate with excess capacity in key markets like those in Southern California. Yet the region's long-term outlook remains strong and the supply boom has ended, with the Inland Empire's construction underway representing just 1.1% of stock, Los Angeles's 0.8% and Orange County's 0.4%. Southern California's normalization could have an adverse impact on three markets—Phoenix, Las Vegas and Salt Lake City—that were connected to the ports by rail and have been performing as a relief valve from the sky-high rent growth of the past few years.

# Rents and Occupancy: New-Lease Premium Remains Elevated

- National in-place rents for industrial space averaged $8.15 per square foot in July, an increase of 11 cents from June and up 7.3% over the past 12 months.

- In-place rents saw the highest gains in Southern California, Miami and New Jersey. Among markets not adjacent to a seaport, rents grew the fastest in Phoenix (up 8.4% over the past 12 months), Nashville (8.3%) and Atlanta (8.3%).

- In-place rents grew the least in Kansas City (2.7%), St. Louis (3.2%), Detroit (3.2%), Indianapolis (3.6%) and Houston (3.6%).

- The national vacancy rate was 6.4% in July, up 30 basis points from the previous month. Vacancies have been ticking upward as of late, thanks to a historic level of new supply that has been delivered over the past three years.

- The average rate for new leases signed in the past 12 months was $10.54 per square foot, $2.39 more than the average for all leases. While vacancy rates have increased, thanks to the impact of new supply, the high-quality, modern space that is delivering is commanding higher rental rates than existing stock. Tenants desire new, high-tech space that offers the potential for robotics and automation. We expect that many owners may consider upgrading older, vacant space in an attempt to attract tenants.

- The largest spreads between in-place rents and new leases was in Miami, where a lease signed over the past 12 months cost $5.76 more per square foot than the market average rate for all leases. Other markets with large premiums paid for new leases included Charlotte ($3.94 more per foot), Dallas ($3.57), Los Angeles ($3.55), Nashville ($3.51), Phoenix ($3.39) and the Inland Empire ($3.21).

## Average Rent by Metro

| Market | July-24 Average Rent | 12-Month Change | Avg Rate Signed in Last 12 Months | Vacancy Rate |
|---|---|---|---|---|
| National | $8.15 | 7.3% | $10.54 | 6.4% |
| Inland Empire | $10.55 | 12.4% | $13.76 | 7.3% |
| Los Angeles | $14.89 | 11.0% | $18.44 | 9.6% |
| Miami | $11.65 | 9.7% | $17.41 | 4.6% |
| New Jersey | $10.86 | 9.0% | $13.90 | 7.7% |
| Orange County | $15.63 | 8.7% | $17.74 | 5.1% |
| Phoenix | $8.99 | 8.4% | $12.38 | 5.9% |
| Nashville | $6.11 | 8.3% | $9.62 | 4.8% |
| Atlanta | $5.86 | 8.3% | $8.80 | 5.8% |
| Seattle | $11.31 | 8.2% | $12.71 | 7.2% |
| Dallas | $6.06 | 7.6% | $9.63 | 7.1% |
| Columbus | $4.95 | 7.6% | $7.07 | 3.9% |
| Baltimore | $8.22 | 7.6% | $11.14 | 7.5% |
| Boston | $10.72 | 7.5% | $12.69 | 8.5% |
| Tampa | $7.83 | 6.7% | $10.92 | 8.4% |
| Cincinnati | $4.92 | 6.5% | $7.19 | 5.7% |
| Central Valley | $6.26 | 6.3% | $9.17 | 6.2% |
| Bridgeport | $9.31 | 6.2% | $12.35 | 3.5% |
| Philadelphia | $8.00 | 6.1% | $10.22 | 5.2% |
| Charlotte | $6.93 | 6.0% | $10.87 | 3.7% |
| Bay Area | $13.50 | 5.8% | $16.13 | 6.0% |
| Portland | $9.78 | 5.5% | $11.01 | 4.1% |
| Memphis | $4.01 | 5.2% | $4.75 | 6.6% |
| Twin Cities | $6.99 | 5.1% | $8.19 | 5.6% |
| Denver | $8.47 | 5.0% | $10.22 | 9.7% |
| Chicago | $6.05 | 4.1% | $7.32 | 5.5% |
| Houston | $6.61 | 3.6% | $7.81 | 9.3% |
| Indianapolis | $6.61 | 3.6% | $7.31 | 6.3% |
| Detroit | $7.01 | 3.2% | $9.01 | 4.5% |
| St. Louis | $4.82 | 3.2% | $5.59 | 5.1% |
| Kansas City | $4.88 | 2.7% | $5.46 | 5.0% |

*Source: CommercialEdge. Data as of July 2024. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.*

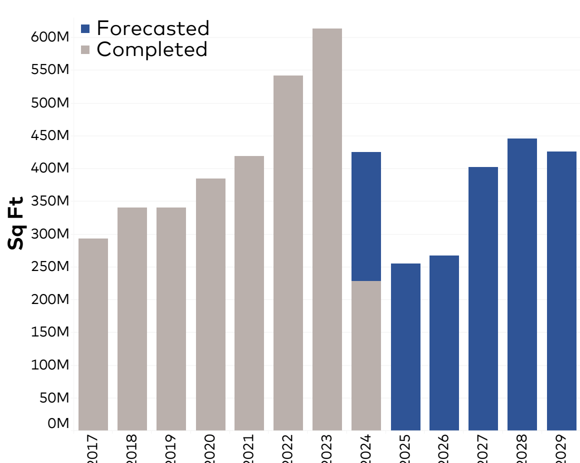
# Supply:
# Manufacturing Drives Kansas City Pipeline

- In all, 379.0 million square feet of industrial space, representing 1.9% of stock, are under construction, according to CommercialEdge.

- After delivering more than 1.1 billion square feet of new space between 2022 and 2023, increasing inventory by 5.8%, the rapid pace of new deliveries has begun to slow in 2024. With 229.3 million square feet coming to market during the first seven months of the year, the slowdown is just beginning. Starts eclipsed 500 million square feet in both 2021 and 2022, but slowed to 357 million square feet last year and sat at just 127.2 million year-to-date through the end of July.

- Kansas City is a logistics hub, thanks to its central location and cheap, abundant land. Many of the projects in the market are marked for logistics or distribution, both new sites and expansions of existing parks. However, manufacturing also plays a large role in Kansas City and makes up the bulk of the market's current development pipeline. Panasonic is building a $4 billion electric vehicle battery plant in De Soto, Kan., that is on track to start producing batteries next year. Heartland Coca-Cola Bottling Co. has the first phase of a new state-of-the-art Coca-Cola bottling plant underway in Olathe, Kan.

## National New Supply Forecast




*Source: Yardi Matrix. Data as of July 2024*

## Supply Pipeline (by metro)

| Market | Under Construction | Under Construction % Stock | UC Plus Planned % Stock |
|---|---|---|---|
| National | 379,011,700 | 1.9% | 4.6% |
| Phoenix | 36,941,584 | 9.2% | 21.1% |
| Kansas City | 11,777,126 | 4.0% | 16.1% |
| Memphis | 10,018,000 | 3.4% | 3.9% |
| Columbus | 10,047,958 | 3.2% | 4.6% |
| Denver | 8,148,015 | 3.0% | 4.8% |
| Charlotte | 9,145,343 | 2.8% | 6.4% |
| Central Valley | 8,915,448 | 2.5% | 3.0% |
| Philadelphia | 9,626,984 | 2.1% | 4.5% |
| Dallas–Ft Worth | 16,338,597 | 1.7% | 5.9% |
| Atlanta | 9,678,522 | 1.7% | 3.0% |
| Nashville | 3,233,444 | 1.5% | 2.6% |
| Detroit | 7,425,000 | 1.3% | 1.9% |
| Tampa | 3,566,626 | 1.3% | 4.5% |
| Baltimore | 2,849,696 | 1.3% | 2.8% |
| Portland | 2,632,668 | 1.3% | 2.0% |
| Houston | 7,853,833 | 1.2% | 4.5% |
| New Jersey | 7,190,128 | 1.2% | 2.8% |
| Bay Area | 3,713,989 | 1.2% | 2.7% |
| Inland Empire | 7,500,474 | 1.1% | 7.5% |
| Seattle | 3,350,957 | 1.1% | 3.7% |
| Chicago | 10,667,461 | 1.0% | 2.1% |
| Los Angeles | 5,386,463 | 0.8% | 2.2% |
| Boston | 2,029,102 | 0.8% | 2.7% |
| Cleveland | 2,411,696 | 0.6% | 0.8% |
| Indianapolis | 1,826,034 | 0.5% | 2.7% |
| Twin Cities | 1,606,073 | 0.5% | 1.4% |
| Cincinnati | 1,414,315 | 0.5% | 0.6% |
| Orange County | 780,206 | 0.4% | 0.9% |
| Bridgeport | 271,443 | 0.1% | 0.7% |

*Source: CommercialEdge. Data as of July 2024*

# Economic Indicators: Warehouse Employment Recovery Continues

- Employment in the warehousing and storage sector increased by 10,700 workers in the month of July, according to the Bureau of Labor Statistics. Despite four straight months of job gains, the sector is still down 0.5% year-over-year in the month.

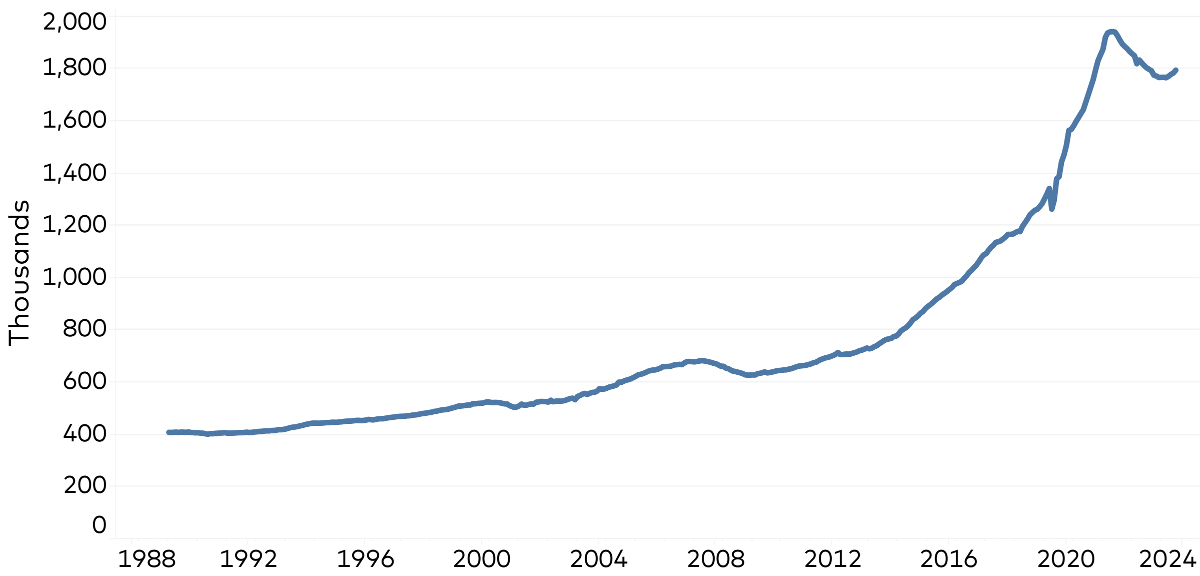
- The path of warehousing and storage employment mirrors that of Amazon, by far the largest employer in the sector. In the years leading up to the pandemic, employment was expanding rapidly, growing nearly 10% per year between 2017 and 2019. As COVID-19 drove a boom in online spending, Amazon rapidly expanded its distribution footprint. At the same time, warehouse employment increased nearly 20% annually between April 2020 and May 2022. The sector began to slow at the same time Amazon was reported to be subleasing space and pausing new projects. Now in 2024, as reports surface that the e-commerce behemoth has begun leasing space again, sector employment is once again on the rise.

## Economic Indicators

| | |
|---|---|
| **National Employment**<br>(July)<br>158.7M<br>0.1% MoM ▲<br>1.6% YoY ▲ | **ISM Purchasing Manager's Index**<br>(July)<br>46.8<br>-1.7 MoM ▼<br>0.3 YoY ▲ |
| **Inventories**<br>(May)<br>$2,558.8B<br>0.5% MoM ▲<br>1.6% YoY ▲ | **Imports**<br>(June)<br>$271.6B<br>0.7% MoM ▲<br>7.0% YoY ▲ |
| **Core Retail Sales**<br>(June)<br>$521.4B<br>0.8% MoM ▲<br>3.6% YoY ▲ | **Exports**<br>(June)<br>$174.2B<br>2.6% MoM ▲<br>5.4% 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:
# Logistics Drives Phoenix Sales in 2024

- Industrial sales totaled $30.7 billion through July of this year, according to CommercialEdge data, with properties trading at an average of $135 per square foot. Despite a slowdown in total sales volume, the average sale price of an industrial asset continues to grow. We anticipate that once the cost of capital begins to decrease, activity will pick up without a drop in average sale price.

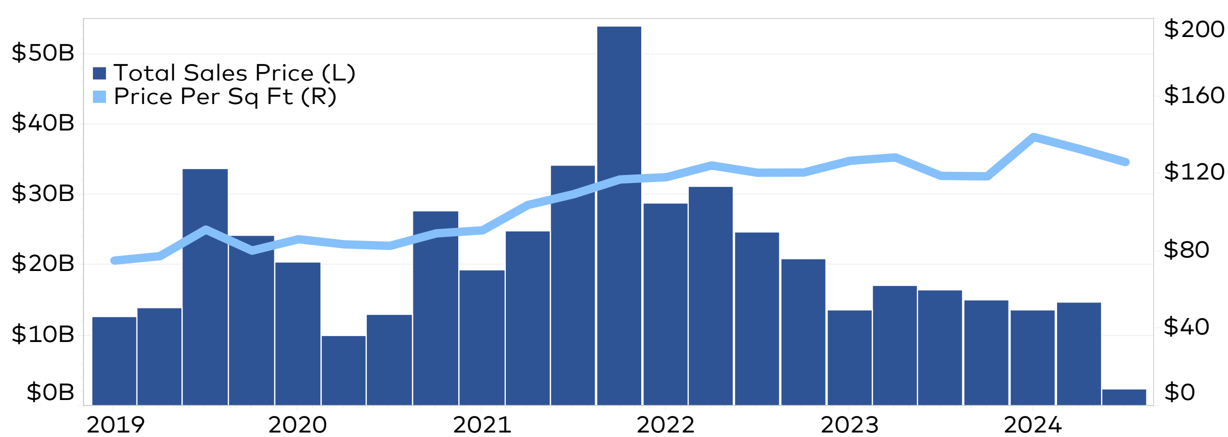
- Phoenix has been one of the more active transaction markets in 2024, with $1.3 billion in sales and properties trading at an average of $155 per square foot. Much of the sales activity this year has been focused in logistics and shipping and on the west side of the metro. The Peoria and Phoenix–West submarkets combined account for $641 million in sales, nearly half of the market's total sales volume. BlackRock recently acquired the 1.2 million-square-foot Building B at The Cubes at Glendale for $128.1 million. The building, which is fully leased to Amazon, is near Northern Parkway, Loop 303 and Interstate 10. Phoenix's growing stature as a logistics hub also helped spur transactions like Packaging Corp. of America's $74 million purchase of a 364,700-square-foot facility in Waddell. The company is one of the largest producers of containerboard and corrugated products in the country.

## Sales Activity

| Market | YTD Sales Price PSF | YTD Sales (Mil, as of 7/31) |
|---|---|---|
| National | $135 | $30,693 |
| Bay Area | $518 | $2,519 |
| Dallas–Fort Worth | $146 | $2,404 |
| Los Angeles | $307 | $1,778 |
| Chicago | $98 | $1,531 |
| Phoenix | $155 | $1,321 |
| Houston | $107 | $1,245 |
| New Jersey | $237 | $1,172 |
| Inland Empire | $229 | $1,052 |
| Atlanta | $120 | $908 |
| Denver | $143 | $781 |
| Orange County | $322 | $763 |
| Twin Cities | $93 | $659 |
| Tampa | $135 | $621 |
| Seattle | $210 | $576 |
| Columbus | $82 | $526 |
| Charlotte | $76 | $472 |
| Nashville | $128 | $422 |
| Central Valley | $136 | $405 |
| Baltimore | $129 | $376 |
| Boston | $156 | $322 |
| Philadelphia | $107 | $277 |
| Cincinnati | $77 | $273 |
| Indianapolis | $99 | $239 |
| Portland | $169 | $237 |
| Cleveland | $49 | $173 |

*Source: CommercialEdge. Data as of July 2024*

## Quarterly Transactions




*Source: CommercialEdge. Data as of July 2024*

# Definitions

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- Average Rents—Provided by Yardi Market Insight, 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. Also provided by Yardi Market Insight.

Stage of the supply pipeline:

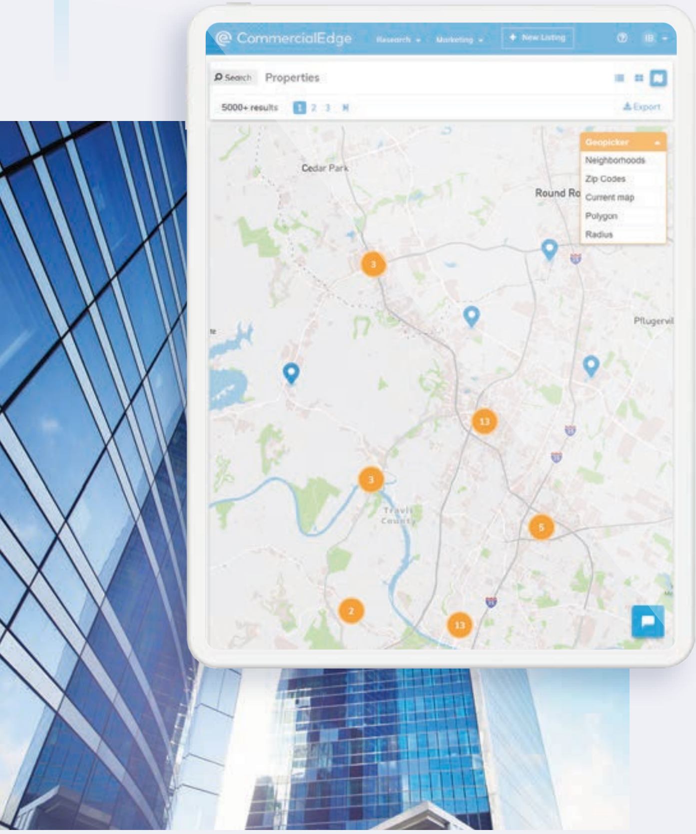
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

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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