VESTIAN

INDUSTRIAL

Occupier-Focused Real Estate Trends Report

US MARKET OVERVIEW

Signs of Normalization Ahead

Sept 2023

US INDUSTRIAL SECTOR SUMMARY

The U.S. industrial real estate market is undergoing a phase of normalization as we approach the end of 2023. The momentum observed in net absorption during the early part of the year has decelerated, with Q2 2023 figures registering a 30% drop compared to the average of the same quarter in the three years preceding the pandemic. The prospect of a swift market recovery seems distant, especially with looming concerns of a mild recession influenced by interest rate hikes.

Factors such as high gas prices and unprecedented credit card interest rates are exerting pressure on household finances. Until these factors subside, a resurgence in consumer goods spending remains uncertain, which is a critical driver for retailers to expand their distribution networks. Consequently, absorption rates for 2023 and 2024 are projected to hover slightly below pre-pandemic standards.

Additionally, retailers and wholesalers, after a period of aggressive inventory rebuilding from late 2021 to late 2022, are now adopting a more cautious stance. This caution, driven by uncertainties in the economic landscape, has led to a decline in U.S. imports from their previous record highs, resulting in a reduced demand for additional warehousing of goods.

NOTABLE STATS & TRENDS

1 RENT GROWTH SLOWING

Rents are predicted to drop below 5% in late 2024, a significant decrease from the peak of 11.5% in mid-2022.

2 EAST vs WEST ABSORPTION

Shifts in imports to east coast has areas like Los Angeles see an increased in availability, while markets like Tampa and Jacksonville are tightening.

3 MANUFACTURE ONSHORING

Over 30 new high-tech plants are planned for 2024-25, primarily in states like Arizona and Texas. Following Telsa and EVs market lead.

4 RISING VACANCY RATES

The U.S. industrial vacancy rate has risen to 5.0% in 2023Q3, up from a record low of 3.9% in mid-2022.

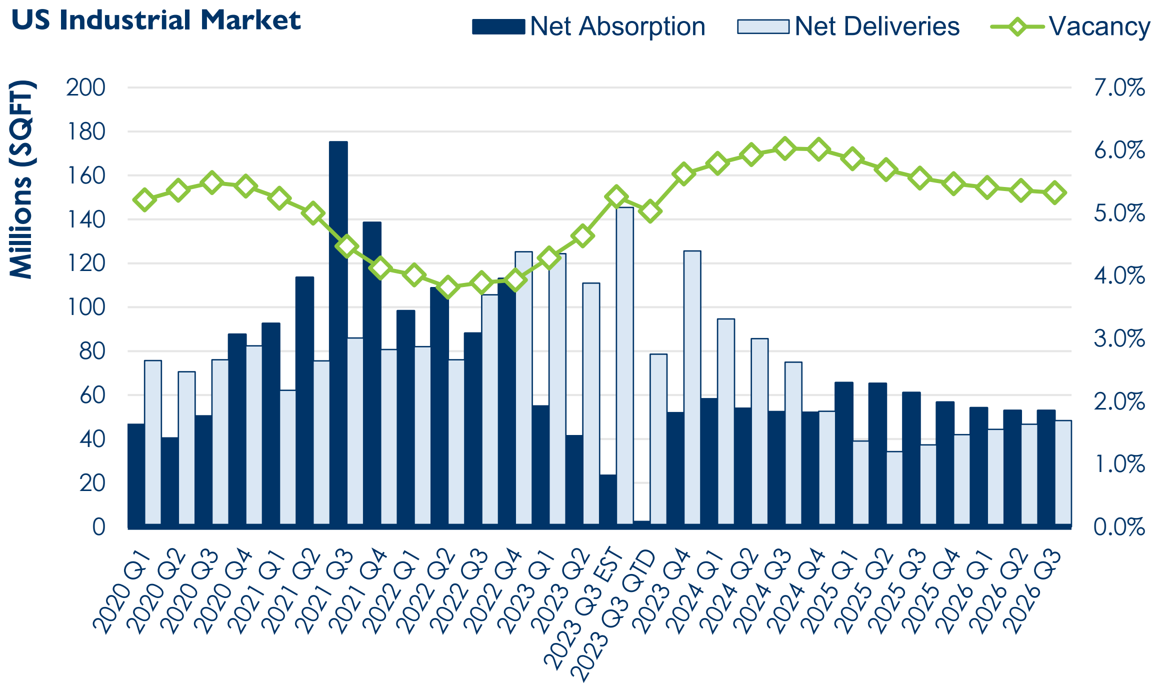
5 ECONOMIC RESILIENCE

Despite challenges, the U.S. economy grew by 2.4% in Q2, surpassing the previous quarter's 2.0%.

6 CONSTRUCTION DYNAMICS

3% growth in the U.S. industrial property stock in 2023, marking the most rapid expansion in over 30 years, but with a 50% decline in construction starts in 2023Q2 due to rising interest rates.

▼ 556M	▲ 5.0%	▲ 8.0%	▲ $11.67	▼ 7.8%
Under Const SF	Vacancy Rate	Availability Rate	Market Rent/SF	Rent Growth (YoY)



US INDUSTRIAL SECTOR SUMMARY (continued)

Further adding to the shift from a booming industrial market is the influx of new supply anticipated to influence the national vacancy rate upwards into early 2024. With 557 million SF of projects in the pipeline, most of which are unleased and slated for completion next year, this is a primary cause for the increased vacancy rate trajectory. The market forecasts suggest that construction completions will surpass demand in the latter half of 2023 and throughout 2024.

This will result in the vacancy rate exceeding 5% in 2024 as the market adjusts to a more balanced state. However, it is worth mentioning that there's been a notable decline in the initiation of new industrial projects since the previous fall. Developers are wary, suspecting that rising interest rates might reduce the value of new projects below their replacement costs. The impacts of this will likely be evident towards the summer of 2024.

With these factors at play, deceleration in rent growth seems unavoidable in late 2023 and early 2024, given that landlords will be contending with a record tally of newly built space at a time when sharp interest rate increases from 2022 and early 2023 will likely still be weighing on the economy.

While there remains a demand for industrial spaces, tenants are becoming more strategic, often deferring leasing decisions to better grasp the evolving industrial landscape.

US ECONOMICS

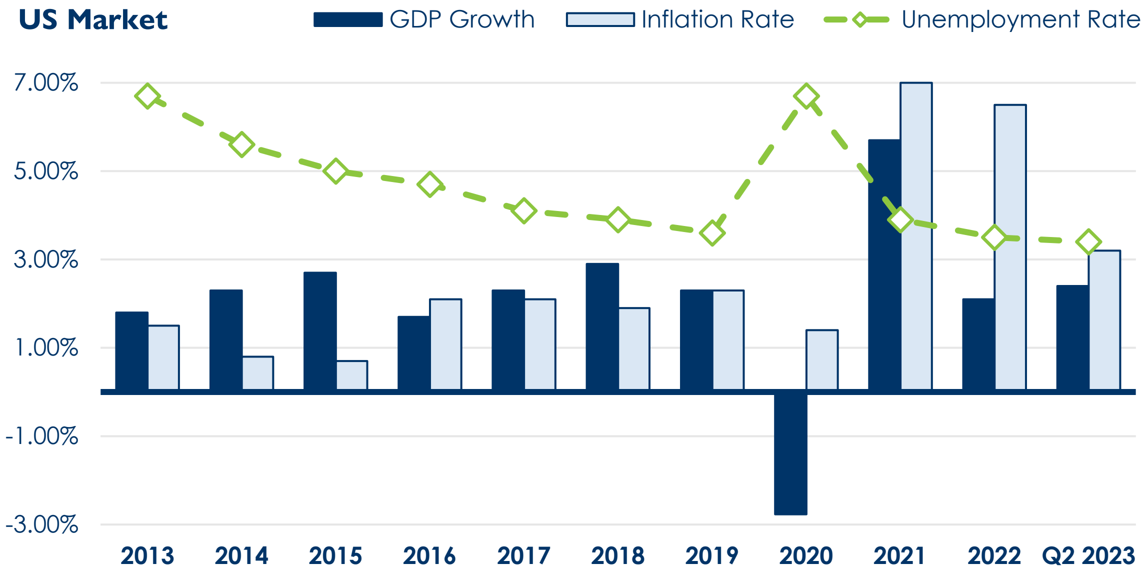
The U.S. economy has shown resilience, even as the Federal Reserve increases interest rates. Economic growth in Q2 was 2.4%, surpassing expectations and outpacing Q1's 2.0%. This growth momentum has led experts to delay predictions of a mild recession, which may arise from reduced consumer spending and business investment due to higher borrowing costs and decreased demand.

The Federal Reserve's aggressive rate hikes have resulted in the highest policy rate in 22 years. This, combined with the failure of some regional banks, has strained financial conditions. While the manufacturing and housing sectors show signs of slowing due to higher rates and affordability concerns, the services sector remains robust, driven by demand in travel, entertainment, and dining.

Inflation concerns are being addressed by the Fed, with the CPI dropping from 9.1% in June 2022 to 3.2% in July this year. However, core CPI remains high at 4.7%, influenced by persistent housing costs. Despite rising prices and potential recession concerns, consumer spending remains steady, and real disposable income has been on an upward trend. This correlates to the stable labor market, which showed significant job gains and an unemployment rate of 3.5%, close to its historic low.

For real estate occupiers, particularly those eyeing industrial assets, these economic indicators carry significant implications. The resilience of the U.S. economy suggests a continued demand for industrial spaces, especially as e-commerce and logistics sectors thrive. However, the tightening of monetary policy and potential recessionary pressures could lead to a cautious approach to long-term lease commitments.

Higher borrowing costs might slow down expansions, but the robustness in the services sector indicates a sustained need for warehousing and distribution centers. The stability in the labor market ensures a steady workforce for industrial operations.



US INDUSTRIAL REAL ESTATE

The U.S. industrial vacancy rate has increased to 5.0% in 2023 Q3, up from a record low of 3.9% in mid-2022, due to rapid industrial developments. Despite this, the rate remains below the 20-year average of 7.3%. However, 2023 has seen a significant slowdown in industrial net absorption, with 2023 Q2 figures lower than the previous two years.

Companies linked to the housing sector, impacted by higher mortgage rates, have reduced their space. With notable closures from Bed Bath & Beyond and The Home Depot's to cut supply chain costs. Yet, the overall industrial tenant base is expanding, thanks to companies like Dollar General and Unilever's recent upticks in sales.

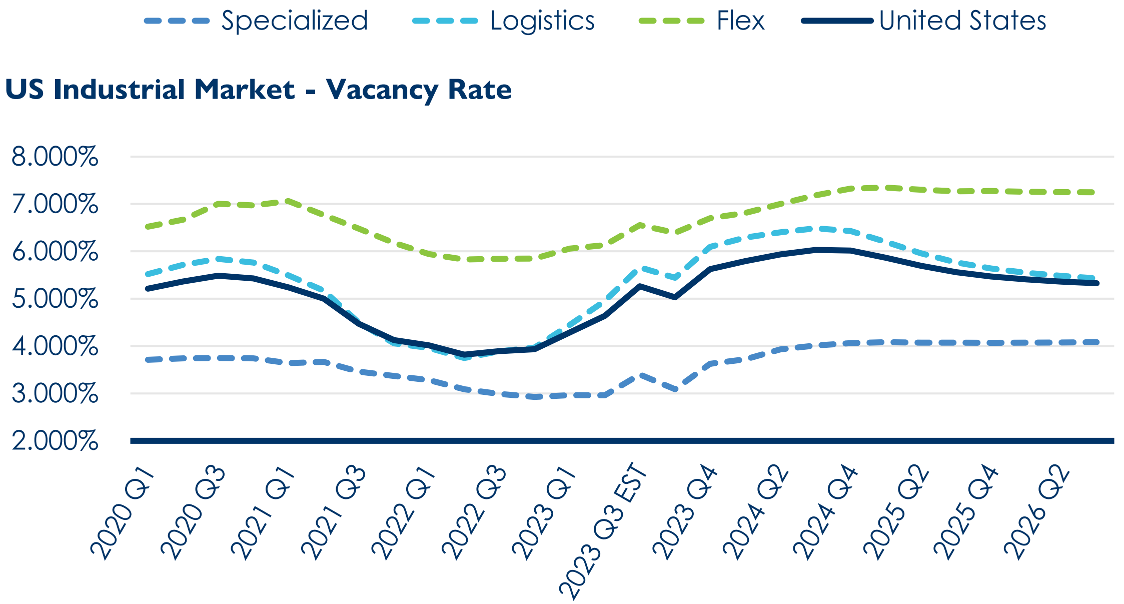
The absorption slowdown has been widespread, but areas like Los Angeles and Seattle have seen a significant increase in available lease spaces. Major West Coast ports have experienced a decline in imports due to recent union-related disruptions.

Contrarily, markets like Tampa and Jacksonville have seen tighter availability in 2023, benefiting from shifts in east coast import routes and limited speculative construction. Detroit and Columbus have also seen growth due to expansions in manufacturing.

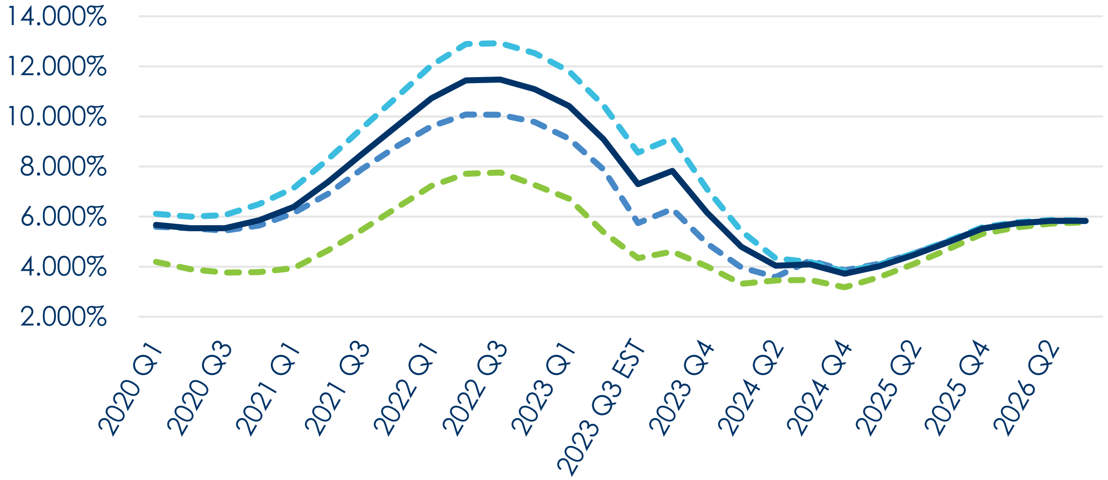
The onshoring of high-tech manufacturing, spurred by acts like the CHIPS and Science Act, is set to drive U.S. absorption from 2024-26. Over 30 new high-tech plants are planned for 2024-25, with states like Arizona and Texas leading in new operations. Additionally, in markets like Phoenix and the I-85 Corridor, various suppliers are also planning nearby operations, targeted for 2024-25 openings.

The Year-over-year rent growth has slowed from its peak of 11.5% in mid-2022 to 7.8% in 2023Q3. CoStar predicts that due to increasing new construction, rent growth may further decelerate to 6%-7% by the end of 2023 and could drop below 5% in late 2024, a rate not seen since 2014. This slowdown offers tenants a respite from the record rent hikes seen during the pandemic.

US Industrial Market - Vacancy Rate



US Industrial Market - Rent Growth (YOY)



US INDUSTRIAL REAL ESTATE (continued)

Despite this, the U.S. industrial vacancy rate is expected to remain below the 20-year average, suggesting potential for rent growth to pick up once the market tightens. Recent interest rate hikes have led to a decline in industrial development starts, implying fewer new projects by late 2024. This aligns with the anticipated surge in economic growth, especially with the planned production of electric vehicles and battery plants by 2025, supported by the Inflation Reduction Act's $300 billion incentives.

CoStar forecasts that by 2025-26, as new industrial completions decrease and the U.S. economy recovers, rent growth will average just over 5%, consistent with pre-pandemic rates. However, economic volatility could impact these projections.

Landlords and brokers are currently offering limited free rent concessions. A prominent industrial REIT reported free rent at 1.8% of new lease values over the past year, a historic low. Most tenants are typically securing only 1-3 months of free rent for 5-7 year leases.

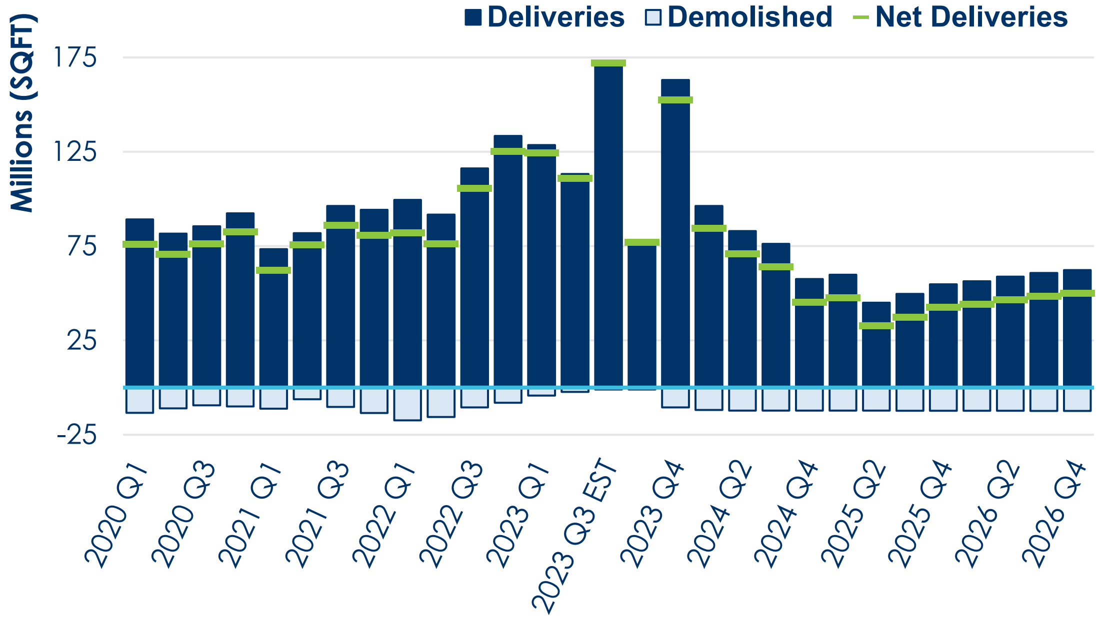
Recent leasing examples include Cypress Medical's lease of a distribution center in the Inland Empire ($16.80/SF) and Furniture of America's sublease in Los Angeles County (14.16). In Phoenix, CJ Logistics secured a five-year lease, while in Jacksonville, IPEX signed a 10-year lease for a new distribution center.

Despite rising vacancies, landlords maintain higher annual escalation rates, with 2023's average at 3.6%, up from 2.9% in 2018. In summary, while rent growth may decelerate in the short term, the broader outlook for landlords remains positive, with tenants needing strategic foresight in their leasing decisions.

US Industrial Market - Average Rents Per SF

Specialized	Logistics	Flex	US
$11.21	$10.88	$18.07	$11.67

US Industrial Construction Projects



US INDUSTRIAL CONSTRUCTION

The U.S. industrial property stock is projected to grow by over 3% in 2023, the most rapid expansion in over 30 years. With industrial project starts peaking in late summer 2022 high-volume deliveries are expected throughout end of 2023 and early 2024. There is however, a 50% decline in construction starts in 2023Q2, due to rising interest rates, which indicates a potential drop in completed projects by spring 2024.

Despite record low space availability during the pandemic, the U.S. industrial market remains relatively tight. The influx of new constructions, combined with slowing absorption, suggests a moderate rise in vacancy but not a significant shift towards tenant advantage.

Currently, the U.S. has approximately 1.6 billion SF of available industrial space, with an additional 550 million SF under construction. Even if all this space remains unoccupied until early 2024, it would only match the availability levels of 2017, far from the post-Great Recession peak in 2010.

In key coastal regions like Southern California and Northern New Jersey, the construction pipeline is barely sufficient to address the pandemic-induced space shortages. However, markets like Dallas-FW and Phoenix might see a rise in vacancies due to the volume of unleased space surpassing average annual absorption rates.

The risk of oversupply is prominent in properties over 500,000 SF. National developers have prioritized these larger projects, citing efficiency in land acquisition and permitting. Nationally, available space in these large properties, including those under construction, represents 9.4% of the inventory. Yet, in more development-friendly markets like Dallas-FW and Phoenix, this figure ranges between 15-25%.

As a tenant, understanding these dynamics is crucial for making informed leasing decisions.

MARKET RATE TABLES

City	State	Vacancy Rate	Availability Rate	Market Rent/SF	Annual Rent Growth	2023 Inventory (SQFT)	2023 YTD - Deliveries (SQFT)	Q2 2023 - Under Const. (SQFT)
Birmingham	AL	11.30%	4.00%	$6.31	9.60%	17,039,072	336,983	311,900
Phoenix	AZ	4.70%	12.50%	$13.33	14.10%	379,191,640	8,555,904	51,827,483
Tucson	AZ	2.20%	7.40%	$8.83	5.30%	45,454,031	0	1,797,041
Los Angeles	CA	2.00%	5.90%	$20.85	5.90%	896,837,128	1,002,095	8,959,786
Inland Empire CA	CA	3.40%	9.60%	$18.40	8.50%	605,904,712	17,636,288	31,211,150
Orange County	CA	2.10%	5.00%	$22.12	9.00%	255,544,410	2,380,917	1,849,998
Oakland/East Bay	CA	3.50%	6.80%	$15.12	1.90%	214,720,568	1,217,394	2,343,443
San Diego	CA	2.80%	8.90%	$15.77	6.60%	159,554,308	240,975	1,965,626
Sacramento	CA	3.90%	6.50%	$9.33	6.20%	112,470,813	936,783	3,058,634
San Francisco North Bay	CA	5.90%	13.50%	$13.42	2.90%	31,738,457	64,971	481,438
Denver	CO	6.90%	10.80%	$8.67	5.50%	263,981,580	2,976,797	8,450,363
Hartford	CT	4.10%	5.30%	$4.97	7.10%	92,504,895	165,625	740,300
Miami	FL	1.60%	6.00%	$14.07	11.6%	169,761,614	1,042,714	5,710,760
Orlando	FL	2.90%	8.70%	$9.22	15.3%	114,472,138	1,776,568	6,530,915
Jacksonville	FL	3.10%	5.50%	$6.76	13.3%	106,733,403	2,488,531	5,946,389
Ft. Lauderdale	FL	3.20%	6.40%	$15.01	13.8%	91,567,751	0	1,333,750
Tampa	FL	4.50%	5.50%	$7.86	11.6%	82,498,010	2,062,484	2,094,115
Lakeland	FL	5.20%	8.60%	$7.06	11.2%	68,604,413	1,169,820	2,750,299
Fort Myers/Naples	FL	0.70%	1.50%	$12.60	9.00%	46,518,557	1,029,306	2,012,705
Palm Beach County	FL	3.90%	8.00%	$14.84	9.40%	40,718,966	654,066	847,445
St. Petersburg/Clearwater	FL	4.00%	5.50%	$9.77	11.60%	36,016,747	77,868	561,178
Atlanta	GA	4.70%	8.00%	$6.60	9.70%	738,592,626	15,158,335	32,433,696
Savannah	GA	3.60%	17.40%	$7.35	11.2%	113,985,306	8,958,197	23,989,942

MARKET RATE TABLES (continued)

City	State	Vacancy Rate	Availability Rate	Market Rent/SF	Annual Rent Growth	2023 Inventory (SQFT)	2023 YTD - Deliveries (SQFT)	Q2 2023 - Under Const. (SQFT)
Chicago	IL	4.10%	7.70%	$6.55	7.60%	1,220,593,042	11,201,768	26,319,513
Indianapolis	IN	7.60%	10.30%	$5.66	7.90%	338,082,418	15,235,376	14,840,425
Louisville	KY	2.70%	5.50%	$5.43	12.30%	195,466,952	962,313	5,925,572
Boston	MA	5.80%	7.60%	$15.27	6.70%	158,011,752	2,312,680	3,961,629
Baltimore	MD	3.20%	8.40%	$6.89	9.60%	229,772,709	2,550,186	1,704,685
Detroit	MI	2.80%	4.90%	$6.94	4.10%	497,565,175	2,530,335	5,802,933
Minneapolis	MN	3.10%	5.70%	$6.64	7.40%	346,278,984	2,508,526	9,024,065
St. Louis	MO	3.50%	7.40%	$5.49	6.70%	265,228,599	1,206,624	1,570,125
Kansas City	MO	4.80%	6.40%	$4.99	4.90%	256,605,218	4,201,391	12,072,356
Charlotte	NC	2.30%	8.90%	$6.50	15.50%	289,703,534	3,123,702	20,765,252
Greensboro/Winston-Salem	NC	2.90%	4.40%	$5.15	10.2%	248,496,294	1,284,295	4,958,569
Raleigh/Durham	NC	6.70%	9.10%	$10.33	9.10%	53,429,492	1,041,330	3,207,724
Omaha	NE	2.50%	3.30%	$6.91	5.10%	105,605,717	2,307,282	3,879,819
Southern New Hampshire	NH	3.70%	3.70%	$11.81	7.00%	53,441,583	12,060	1,595,755
New Jersey - Central	NJ	3.70%	8.80%	$16.50	7.40%	365,547,002	4,381,587	10,360,224
New Jersey - Northern	NJ	4.20%	6.80%	$18.06	11.70%	296,017,989	2,762,447	2,236,991
Las Vegas	NV	2.50%	8.90%	$12.12	10.30%	150,278,634	6,281,912	17,134,542
Reno	NV	3.00%	8.60%	$10.44	5.40%	110,347,219	2,122,328	2,632,295
NY Outer Boroughs	NY	4.20%	8.00%	$25.96	6.70%	144,103,638	0	3,358,263
Long Island	NY	3.40%	5.90%	$17.53	6.30%	133,520,597	553,169	2,261,769
Rochester	NY	3.50%	5.20%	$6.75	7.00%	74,064,326	750,000	702,000
Cleveland	OH	2.40%	5.00%	$5.50	6.50%	522,115,040	1,522,198	4,734,224
Cincinnati	OH	3.50%	6.20%	$5.98	11.90%	318,207,487	6,548,373	6,211,955

MARKET RATE TABLES (continued)

City	State	Vacancy Rate	Availability Rate	Market Rent/SF	Annual Rent Growth	2023 Inventory (SQFT)	2023 YTD - Deliveries (SQFT)	Q2 2023 - Under Const. (SQFT)
Columbus	OH	5.00%	8.20%	$6.51	13.60%	310,756,511	9,336,135	11,824,032
Portland	OR	2.60%	6.40%	$10.64	5.10%	226,908,670	629,842	3,565,675
PA I-81/I-78 Corridor	PA	4.40%	6.80%	$8.99	8.50%	364,653,333	14,194,066	12,421,817
Philadelphia	PA	4.90%	9.40%	$12.89	10.00%	187,187,520	5,694,373	16,454,515
Pittsburgh	PA	4.50%	7.00%	$8.35	(0.5%)	161,235,367	401,976	4,847,007
Providence	RI	0.60%	5.20%	$7.50	10.6%	78,390,305	663,000	0
Greenville	SC	5.20%	7.10%	$5.86	10.00%	235,444,988	7,766,052	15,634,995
Charleston	SC	3.10%	12.00%	$7.87	9.50%	88,246,390	3,359,866	10,433,567
Memphis	TN	6.70%	11.00%	$4.10	6.90%	301,619,879	7,623,425	3,470,505
Nashville	TN	3.70%	5.50%	$7.72	10.30%	244,092,027	3,897,411	13,068,834
Dallas/Ft. Worth	TX	6.80%	11.20%	$7.07	8.90%	932,462,526	27,955,148	69,965,962
Houston	TX	6.10%	9.80%	$6.92	4.30%	551,095,887	15,080,551	27,140,717
San Antonio	TX	7.30%	9.00%	$7.25	8.20%	82,818,787	3,348,830	6,705,534
Austin	TX	7.10%	13.40%	$11.97	6.20%	80,347,869	4,200,193	11,764,660
Salt Lake City	UT	3.80%	8.30%	$9.31	13.30%	155,178,791	4,145,480	6,852,599
Richmond	VA	2.50%	5.00%	$7.17	8.80%	108,572,048	936,617	5,361,809
Seattle	WA	4.40%	8.50%	$11.84	7.90%	258,580,540	2,393,393	7,626,285
Milwaukee	WI	2.50%	5.70%	$5.32	7.30%	211,752,320	704,483	2,897,606
Madison	WI	2.40%	4.10%	$6.05	4.80%	84,404,507	1,723,764	2,054,768

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Vestian is the world's foremost commercial real estate firm to serve only occupiers, never landlords. We work with our clients to ensure they're making informed real estate decisions - particularly on the nuances of landlord-driven lease terms and how they can be detrimental to a tenant. Vestian is a focused fiduciary and business advocate helping businesses find their voice. Today, supported by high quality market research and in-depth analysis, Vestian provides strategic real estate solutions to organizations across all industries. The firm's comprehensive commercial real estate platform includes brokerage, project management, capital markets, consulting and corporate services

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