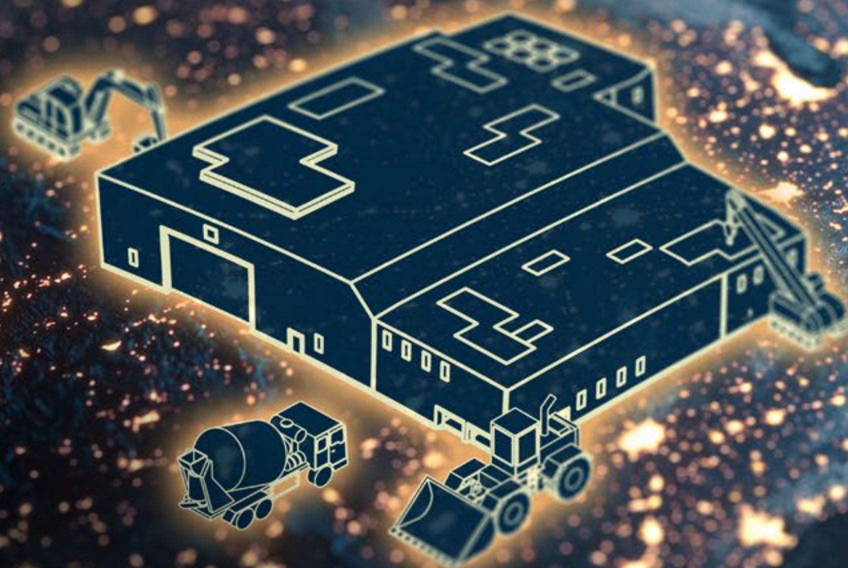
TRANSWESTERN

REAL ESTATE SERVICES

DIGGING BEYOND THE CORE

Opportunities for owners and occupiers of industrial real estate



Commercial real estate markets came to a standstill in early 2020, and developers paused construction projects amid pandemic-related uncertainty. Simultaneously, stay-at-home mandates led consumers to increasingly order products online, accelerating the shopping-from-home trend that had taken hold during the previous decade.

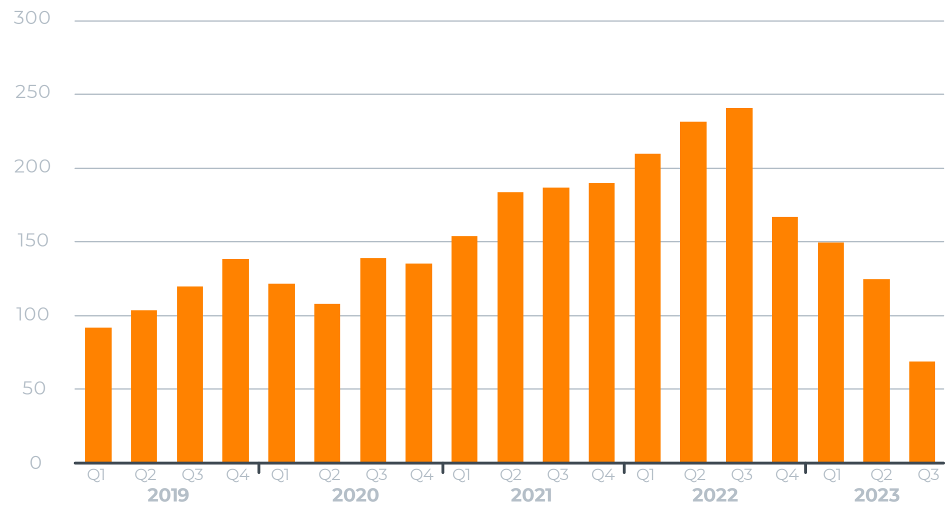
Warehouse construction ramped up during the second half of 2020. Over the next three years, U.S. industrial inventory grew 6.5%.

THEY BUILT IT. DID THEY COME?

To serve the largest number of consumers in the shortest amount of time, core population centers and port markets are the focal point of new warehouse development, and the pandemic proved no different.

Outside these regions, there were 12 geographically diverse U.S. markets (with a minimum of 100 MSF of total inventory) that experienced greater than 10% inventory growth during the three years following the resumption of industrial real estate construction.

U.S. INDUSTRIAL CONSTRUCTION STARTS (MSF)



INDUSTRIAL GROWTH LEADERS (NON-CORE MARKETS)*	AUSTIN	PHOENIX	INDIAN-APOLIS	LAS VEGAS	SALT LAKE CITY	MEMPHIS	SAN ANTONIO	COLUMBUS	RICHMOND	RENO	NASHVILLE	RALEIGH-DURHAM
Inventory (MSF)	128.8	406.9	394.5	155.4	170.7	306.9	154.6	342.0	138.8	110.4	246.3	140.0
Delivered past 3 years (MSF)	29.6	66.4	61.4	21.1	22.7	37.5	18.7	39.7	15.9	11.8	26.1	13.6
3-year inventory growth	29.8%	19.4%	18.4%	15.5%	15.4%	13.9%	13.7%	13.1%	12.9%	12.0%	11.8%	10.7%
3-year net absorption (MSF)	25.8	65.4	48.2	24.9	19.5	33.6	18.8	40.8	16.2	14.2	23.3	12.1
3-year net absorption growth	20.0%	16.1%	12.2%	16.0%	11.4%	11.0%	12.2%	11.9%	11.7%	12.8%	9.5%	8.7%
Occupancy gains vs. New deliveries (MSF)	-3.8	-1.1	-13.2	3.7	-3.2	-3.9	0.1	1.1	0.3	2.3	-2.8	-1.4
Under construction (MSF)	18.1	47.7	11.7	15.8	6.2	1.9	6.8	13.1	7.7	6.2	9.5	8.3
Future inventory growth	14.1%	11.7%	3.0%	10.2%	3.6%	0.6%	4.4%	3.8%	5.5%	5.6%	3.9%	5.9%
Vacancy rate	8.5%	6.8%	7.8%	3.0%	5.8%	7.4%	5.9%	5.9%	3.7%	4.1%	4.4%	5.0%
Asking rent (PSF)	$12.89	$12.41	$6.83	$12.61	$9.89	$4.55	$8.53	$6.98	$7.98	$12.31	$9.11	$11.35
3-year rent growth	13%	63%	60%	42%	47%	33%	28%	67%	59%	124%	38%	41%
Population growth 2010-2023	45.6%	20.9%	15.3%	20.9%	20.2%	2.0%	25.9%	15.7%	13.9%	20.2%	28.6%	29.2%
Projected population growth 2023-2028	9.6%	3.3%	2.4%	3.1%	3.5%	0.0%	6.5%	2.2%	2.6%	2.5%	6.6%	5.4%
Recent/planned move-ins (properties built 2020 or later)	Amazon Applied Materials GAF Energy SpaceX Tesla	Amazon Home Depot Logistics Plus Lowe's Walmart	Amazon Cooper Tire & Rubber Company Five Below XPO Logistics Walmart	Amazon Barkbox Google Hey Dude Tapestry	Amazon IDF Medline Industries New Balance Walmart	Amazon Barrett Distribution Centers Ford Motor Company Medtronic Walmart	Amazon Dollar General Navistar Tesla Weyerhaeuser	Amazon Big Lots Black & Decker Scotts Miracle-Gro The Home Depot	Amazon Lowe's Sam's Club SanMar World Class Distribution	Ames True Temper Chewy Foot Locker Tellworks Logistics Webstaurant Store	Amazon Geodis McNeilus Truck & Manufacturing Walmart Webstaurant Store	Amazon Berry Global Empire Distributors FedEx Medline Industries

*All data is Q3 2023 unless otherwise indicated.

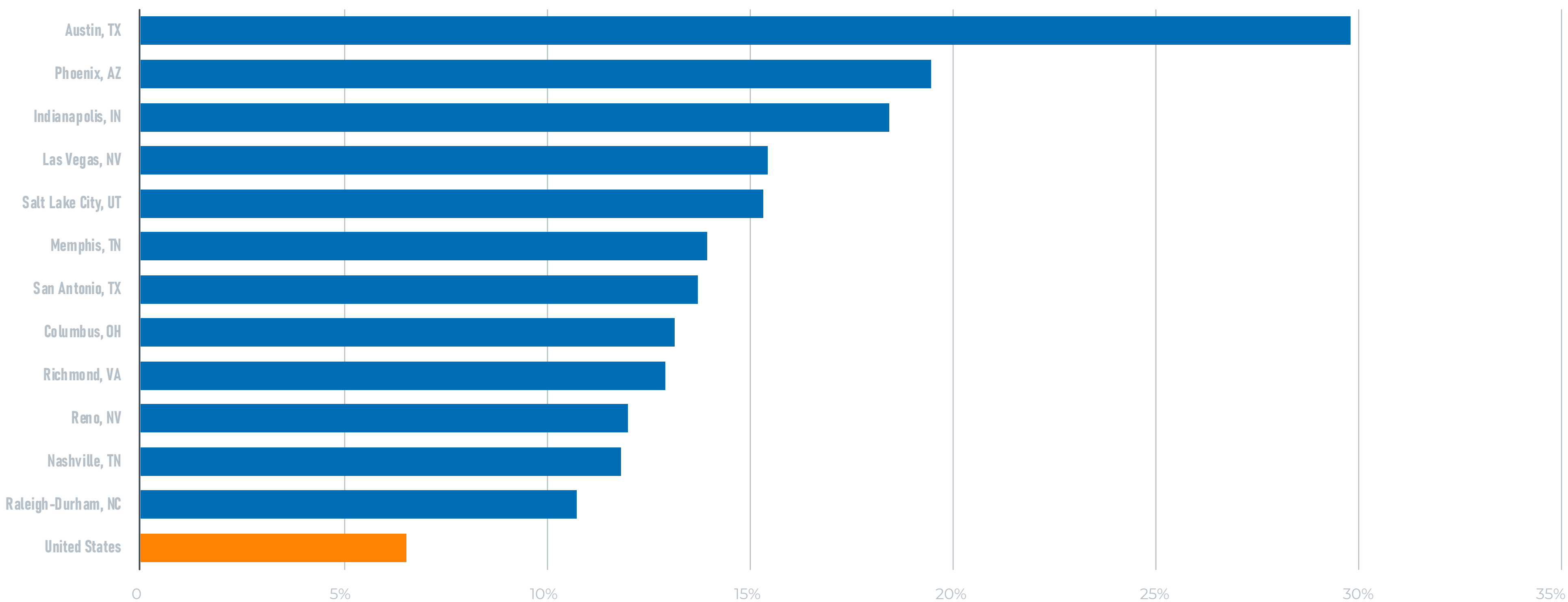
As it relates to market size, Austin has far and away dug up the most dirt for development of industrial real estate during this period, growing by nearly 30%. Central Texas has seen tremendous population growth over the past few decades, largely benefiting the industrial real estate market throughout Austin and its neighboring metro, San Antonio, which ranks No. 7 in inventory growth. The two markets have formed a mega-metro with a combined population of more than 5 million, and the additional warehouse space – the bulk along the rapidly growing I-35 Corridor connecting the two metros – is much welcomed for an area that continues to benefit from reshoring and the rapid growth of the tech sector.

Phoenix, which has more industrial real estate under construction than any market, ranked No. 2 among these areas with an inventory growth of nearly 20% during the past three years. While there are some concerns about overbuilding, Phoenix is one of the leading manufacturers of electric vehicles and semiconductors, making it well-positioned in the long-term to benefit from reshoring and the subsequent need for additional warehouse space. Additionally, growing environmental regulations in California may also benefit Phoenix, which is already experiencing an increased influx of migration from the Golden State.

Ranking No. 3 is Indianapolis, which experienced 18.4% industrial real estate expansion. There are concerns about overbuilding in Indianapolis as new deliveries outpaced net absorption by more than 13 million SF over the past three years, by far the highest among the 12 markets. The metro's vacancy rate is 7.8%, significantly higher than the U.S. average. However, Indianapolis also stands to benefit from manufacturing reshoring as it is well-located in the heart of the Rust Belt and has a growing life sciences sector, which occupies a significant amount of industrial real estate.

Las Vegas and Salt Lake City round out the top five, each adding more than 20 million SF of inventory, increasing their respective footprints by more than 15%. Both metros have experienced massive population growth of greater than 20% since 2010. Salt Lake City has been boosted by a burgeoning tech sector, while Las Vegas has experienced strong job growth and is attracting new businesses to its Apex Industrial Park, a 18,000-acre site which has been under development for more than 30 years. Of the 12 growth markets, Las Vegas is the most supply-constrained with a 3.0% vacancy rate and is the only one of the top five metros where net absorption has outpaced new deliveries.

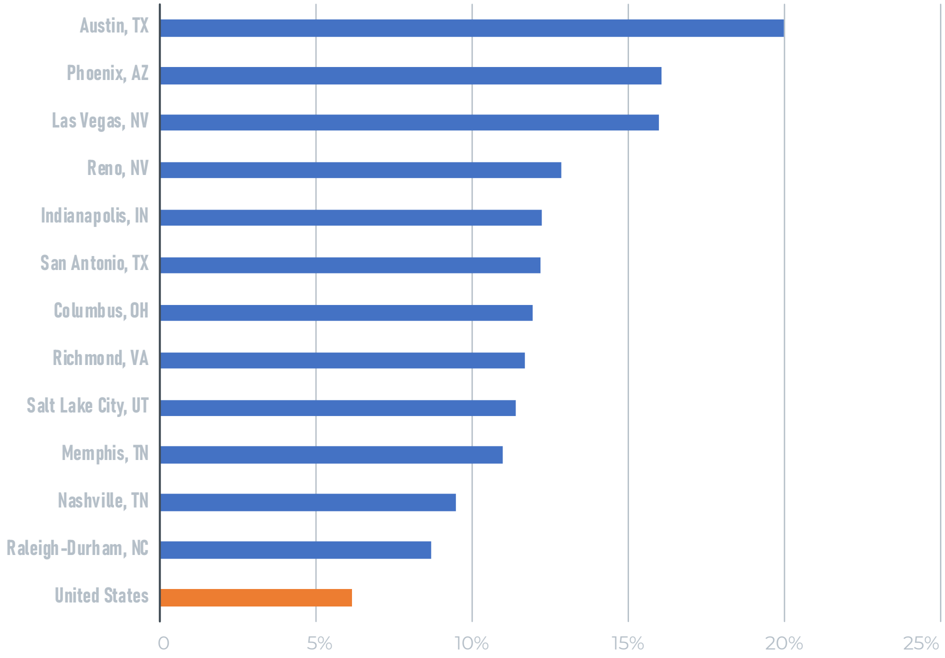
INDUSTRIAL REAL ESTATE INVENTORY GROWTH



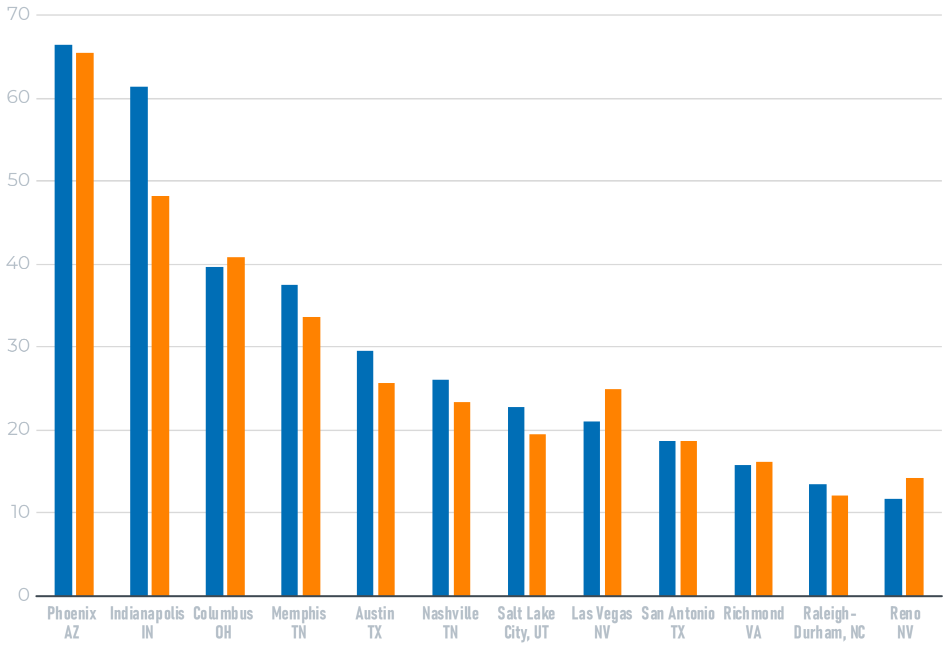
The top 12 order for net absorption growth aligned with inventory growth, though Reno, which ranked No. 10 for to new deliveries, landed in the top five. A large portion of the properties being built had blue-chip tenant commitments before construction was completed, with Amazon dotting the landscape. As a result, 10 of 12 metros experienced greater than 10% absorption growth as it relates to each market's size, with Austin topping the list at 20%.

Most U.S. markets were favorable as it pertained to occupancy gains during the majority of the three-year period, but the sector has recently cooled from a torrid pace of expansion. While leasing velocity remained on par with historically strong periods, minimal rollover and a weakening economy resulted in decelerated leasing activity, and record development caught up with absorption totals in much of the nation. However, in addition to Las Vegas, four markets outside of the top five saw net absorption outpacing deliveries over the past three years: Columbus, San Antonio, Richmond and Reno.

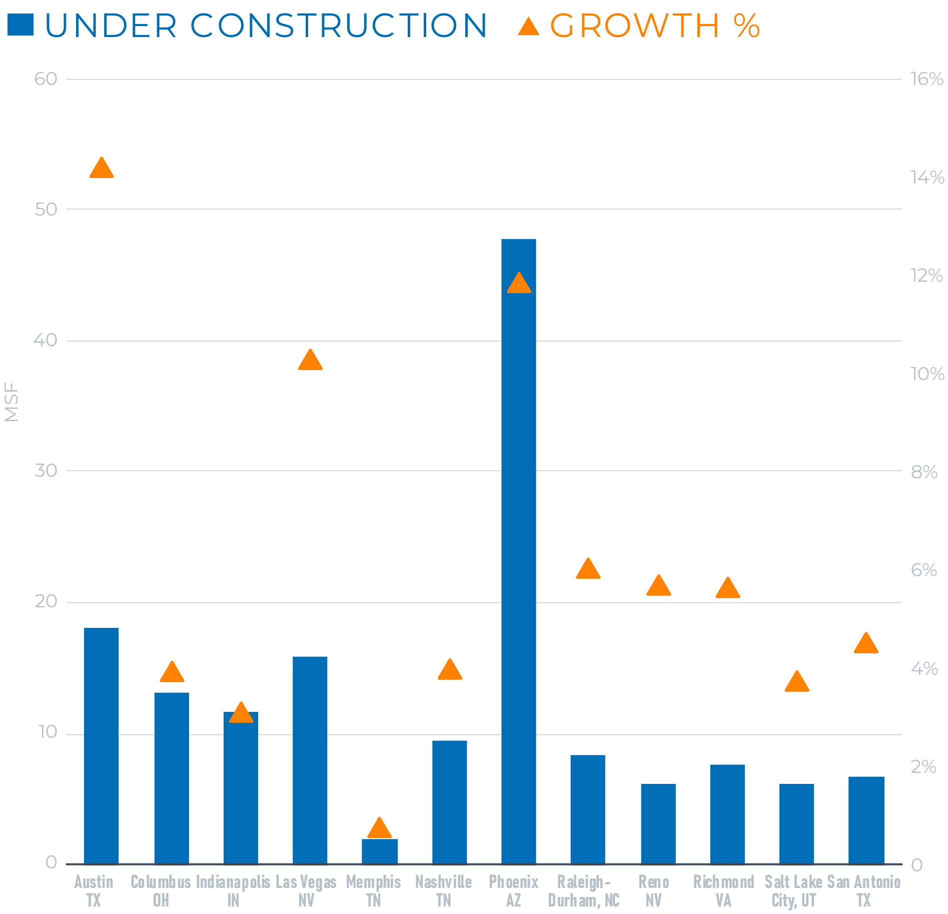
ABSORPTION GROWTH



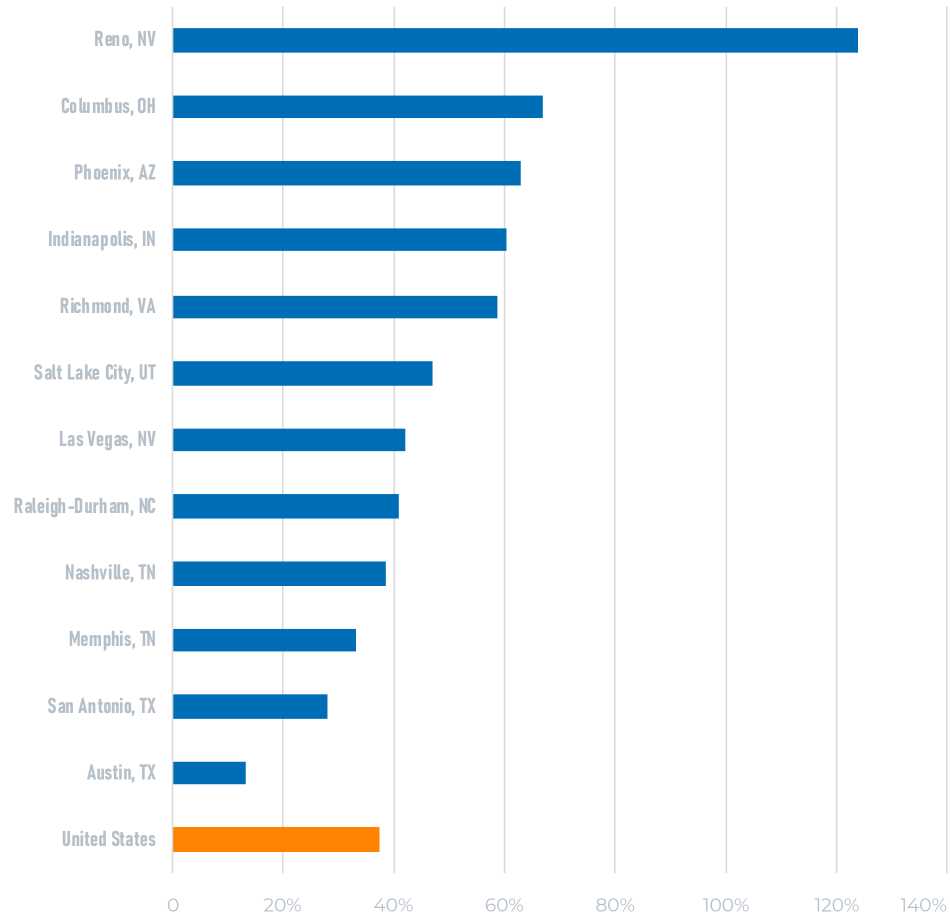
DELIVERIES NET ABSORPTION (MSF)



Decelerating leasing velocity has coincided with rising construction costs due to rapid inflation. This has put a damper on new development projects, reducing future inventory growth to 2.7% nationally, after peaking at 3.6%. However, 11 of the 12 metros studied have a higher level of impending growth. Phoenix has by far the largest amount of space under construction. Austin leads the way when growth is measured relative to market size, followed by Phoenix and Las Vegas, all of which boasting double-digit expansion rates. Memphis is the only market of the 12 with future growth below than the U.S. average, (though at one point during 2021 had an expansion rate of 6.1% when the national average was 2.4%). In addition to an elevated construction level, Austin also had the highest vacancy rate. Eight markets had vacancy levels above the 4.9% national average, and while there are some concerns of overbuilding, tenants welcome the additional opportunities in a sector that, up until recently, was generally supply-constrained nationwide.



RENT GROWTH



New construction coupled with accelerated demand and limited quality options resulted in unprecedented rent growth throughout the U.S. While occupiers experienced sticker shock, they were willing to absorb higher rents rather than relocate to a lower functioning facility in a less favorable location where labor would be less accessible and transportation costs, a much higher share of tenant operating expenses, would increase. In the three years following the resumption of construction after the pandemic pause, rents grew at an average of 37.4% nationally. Of the 12 growth markets, nine recorded higher growth, five of which saw rents increase by more than 50%. Reno's rent growth was off the charts, though as the smallest market in the data set, fluctuation is more likely. Nashville's rent increase was on par with the U.S. while the central Texas markets of Austin and San Antonio, as well as Memphis were lower, perhaps indicating more room for growth, especially when leasing velocity re-accelerates.

SHOULD THEY BUILD IT?

EMERGING EIGHT*	OMAHA	JACKSONVILLE	KANSAS CITY	ORLANDO	CINCINNATI	ST. LOUIS	HARTFORD	GREENSBORO/ WINSTON-SALEM
Inventory (MSF)	96.7	144.6	324.5	178.9	333.8	313.8	129.9	296.5
Delivered past 3 years (MSF)	8.8	11.4	28.4	13.1	16.6	15.2	4.1	11.1
3-year net absorption (MSF)	10.1	13.9	30.4	15.9	20.8	17.5	6.1	12.0
3-year net absorption growth	10.5%	9.6%	9.4%	8.9%	6.2%	5.6%	4.7%	4.0%
Occupancy gains vs. New deliveries (MSF)	1.3	2.5	1.9	2.8	4.3	2.3	2.0	0.9
Under construction (MSF)	4.7	4.9	12.9	10.4	7.2	3.2	0.2	5.4
Future inventory growth	4.8%	3.4%	4.0%	5.8%	2.2%	1.0%	0.2%	1.8%
Vacancy rate	2.3%	4.2%	4.3%	4.0%	4.2%	4.5%	4.4%	3.3%
Asking rent (PSF)	$7.60	$9.16	$5.73	$11.08	$6.09	$6.13	$6.50	$4.85
3-year rent growth	16%	59%	23%	55%	42%	32%	25%	23%
Population growth 2010-2023	15.0%	26.1%	11.4%	32.7%	6.9%	1.3%	0.1%	8.2%
Projected population growth 2023-2028	2.5%	4.9%	1.6%	5.5%	0.7%	-0.1%	-0.4%	1.1%

*All data is Q3 2023 unless otherwise indicated.

While new development has caught up for demand in seven of the 12 markets, other areas remain supply-constrained. In addition to the five inventory growth markets where net absorption outpaced development (Columbus, Las Vegas, Reno, Richmond and San Antonio) eight metros, all with vacancy rates lower than the U.S. average, saw demand significantly outstrip supply during the same period. **These eight emerging markets have not yet experienced the same level of inventory growth, and with strong occupancy growth and limited quality space available, they may be primed for additional future development.**

FOLLOW YOUR HEARTLAND

Four of the eight potential markets slated for expansion are in the Midwest. Omaha led the way accumulating greater than 10% of absorption growth as it pertains to market size during the three-year stretch. Developers have tried to match the pace of leasing, adding 10% to the inventory. However, a 2.3% vacancy rate suggests additional development is warranted. The Omaha metro may also be primed for additional rent growth, as asking prices increased only 16% during the three-year period, well below the 37% average nationally. With food and beverage being one of the top manufacturing sectors in Omaha, the area stands to benefit from the rapidly growing cold storage warehouse sector.

The center of America's heartland, Kansas City has one of the strongest transportation corridors in the country, with skilled labor to support it. More than 28 million SF of industrial real estate has been added during the past three years, by far the most among the emerging eight markets, only to be outpaced by 30.4 million SF of net absorption. An additional 12.9 million SF is under construction. Despite the new inventory and low vacancy rate, asking rents increased by only 23%.

In addition to a strong transportation sector, St. Louis has a skilled and growing logistics and infrastructure workforce, in addition to one of the strongest rail freight transportation networks in the nation. Net absorption outpaced new development in the "Gateway to the West" by 2.3 million SF during the past three years. With just 3.2 million SF of new construction slated, the region appears to be an attractive location for additional investment and development.

The remaining Midwest metro, Cincinnati, is similar to Saint Louis in size, asking rent average and occupancy growth, while rent growth for both are roughly on par with the U.S. average. Cincinnati joined its Ohio neighbor Columbus with strong sustained leasing activity as net absorption outpaced new deliveries by nearly 4.3 million SF, the highest level of any of the eight emerging markets, as well as the 12 growth markets. Ohio ranked second in the nation for reshoring and foreign direct investment in 2022, boding well for the future of the state's industrial real estate market.

THE SUN IS SHINING

Florida led the nation in population increase in 2022 and has several metros near the top of the list for expected growth over the next five years. Therefore, it is no surprise that Jacksonville and Orlando are included as emerging industrial real estate markets. Net absorption outpaced new deliveries by 2.5 million SF in the Jacksonville area, the highest percentage of the emerging eight markets when taking market size into consideration. New deliveries have loosened the market from its 2.3% vacancy rate at the end of 2020, but with only 4.2% of space unoccupied, more development is needed and the 4.9 million SF under construction is the lowest level since 2021. Orlando experienced a similar level of net absorption, outpacing deliveries by 2.5 million square feet; however, it has 10.4 million SF in the pipeline, the highest percentage of future growth among the emerging markets. Demand has put pressure on rents in these Florida metros, with asking rates increasing 59% and 55%, respectively.

GREENSBORO ADVANCING WITH MANUFACTURING

Just north of the Sun Belt, the Greensboro/Winston-Salem market is extremely tight as only 2.5% of its industrial space remained vacant as of Q2 2023. More than 2.5 million SF of product was added the following quarter, the highest level on record. Despite the new development, net absorption outpaced new deliveries by just under 1 million SF during the past three years. In addition to a low level of vacant space, asking rents in the area known as the Piedmont Triad are among the lowest in the U.S., increasing only 23%, significantly lower than the U.S. average. Growing sectors in advanced manufacturing, including the electric vehicles market, biotech, and aerospace industries bode well for this market.

POPULATION REMAINS THE ULTIMATE DRIVER

The most densely populated states in the U.S. are in the northeast, and while much of the region is serviced by warehouses in the New York metropolitan area, Hartford may be an area that is primed for growth. Geographically positioned as a gateway between Boston and New York City, demand for warehouse space in the Hartford metro outpaced deliveries by nearly 2.0 million SF in the past three years. Of the potentially emerging markets, Hartford's has grown the least, and after increasing its industrial footprint by just 3.3%, the amount of product under construction is at its lowest level since before the pandemic, as builders face more barriers to development in this region. Asking rents average $6.50 PSF, much lower than double-digit figures in the New York and Boston metros. This translates to attractive pricing for users and potential rent growth for investors.

PATIENCE AFTER PANDEMIC PUSH

As the industrial market has cooled and leasing velocity has returned to more typical levels, it will take a bit of patience while the market pauses, but activity is almost certain to ramp up again when the economy improves, and more leases mature. While primary markets will remain the center of attention as conditions change, insight that digs into other areas benefiting from a significant socio-cultural shift is valuable. Transwestern will continue to track which markets are poised to take advantage of the rise in e-commerce, population shifts, a growing field of industrial users, and the resurgence of reshoring. Market players have an opportunity to look beyond the core and take a bigger bite of the industrial real estate apple.

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