U.S. industrial market report

Q4 2023

AVISON YOUNG

U.S. industrial market trends

-10.0%

2023 net absorption vs. pre-COVID five-year average

Industrial net absorption remained positive but declined relative to 2021 levels in late 2022 and the first half of 2023 due to global economic and financial headwinds and record levels of new construction deliveries. Net absorption was down 10% from pre-COVID 5-year averages, despite a record number of deliveries in the year. If the sector's net absorption remains positive through the first half of 2024 as the final pre-Federal Reserve rate hike ground-breakings deliver, there will be a supply imbalance in favor of owners and developers due to the comparatively limited pipeline that has broken ground since Q3 2022.

558.9 msf

2023 gross leasing, on par with pre-COVID average

Overall leasing volume for 2023 was substantially smaller when compared to the previous two years, however demand remains active throughout the U.S. industrial market. Despite the decline compared to recent performance, current leasing volumes are on par with the sector's pre-COVID 10-year average. Looking forward to 2024, a "return to normalcy" is expected, as the economy showcases resiliency and indicators of accelerated consumer demand are evident. The first month of 2024 has experienced more users actively entering the pre-leasing process, indicating that leasing activity is aligning for increases in 2024.

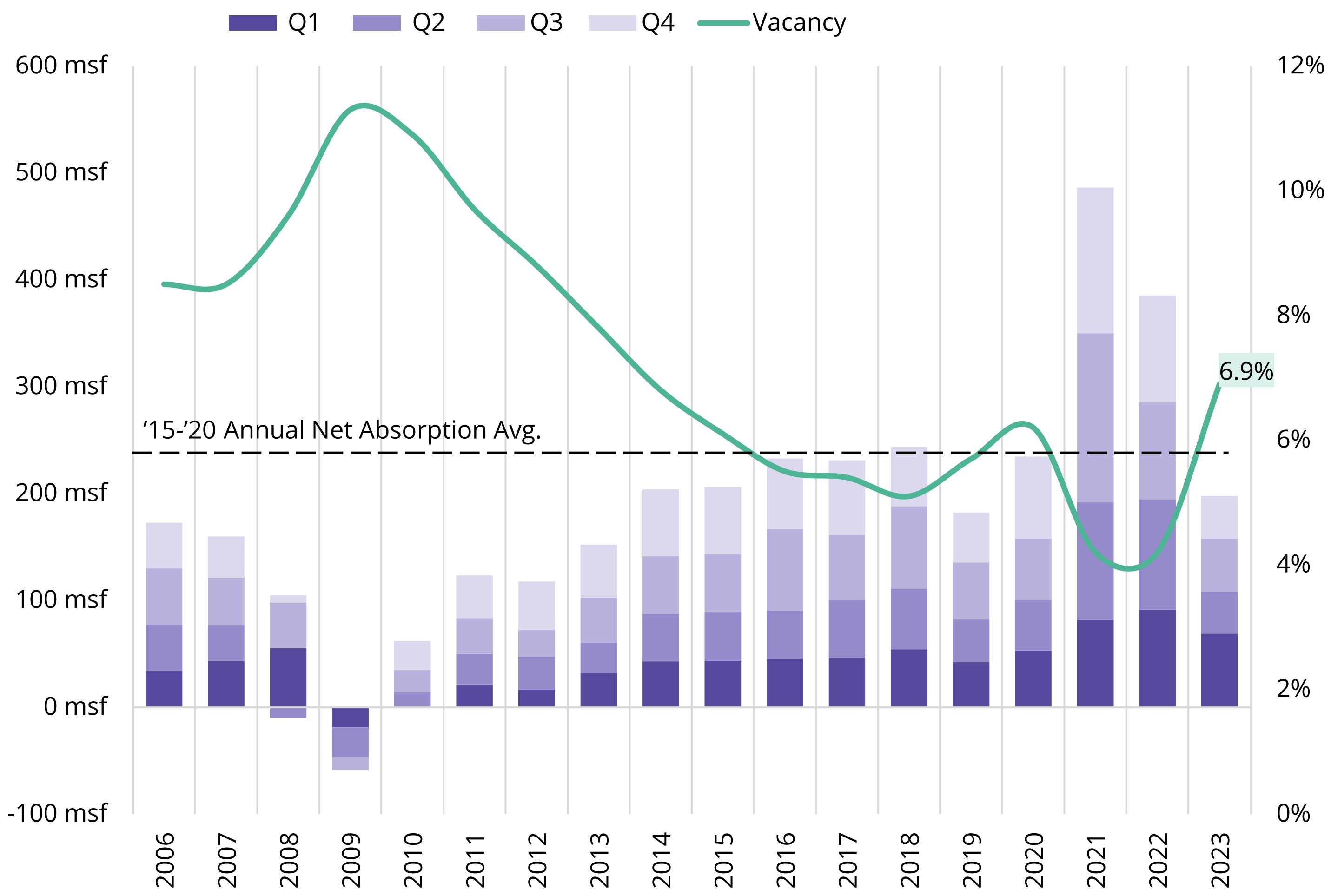
<150 msf

Construction pipeline expected in second half of 2024

New construction groundbreakings topped out in the third quarter of 2022, and very limited replacement in the construction pipeline have been experienced in 2023 and the start of 2024. After topping out at nearly 700 msf in 2022, we expect the overall construction pipeline to fall to under 150 msf by the start of the second half of 2024. We are closely monitoring the market shift that decreasing groundbreakings will have on new space availabilities in six to nine months, as tenants looking for newly constructed space may have limited optionality relative to prior years.

Source: AVANT by Avison Young, CoStar, MSCI Real Capital Analytics

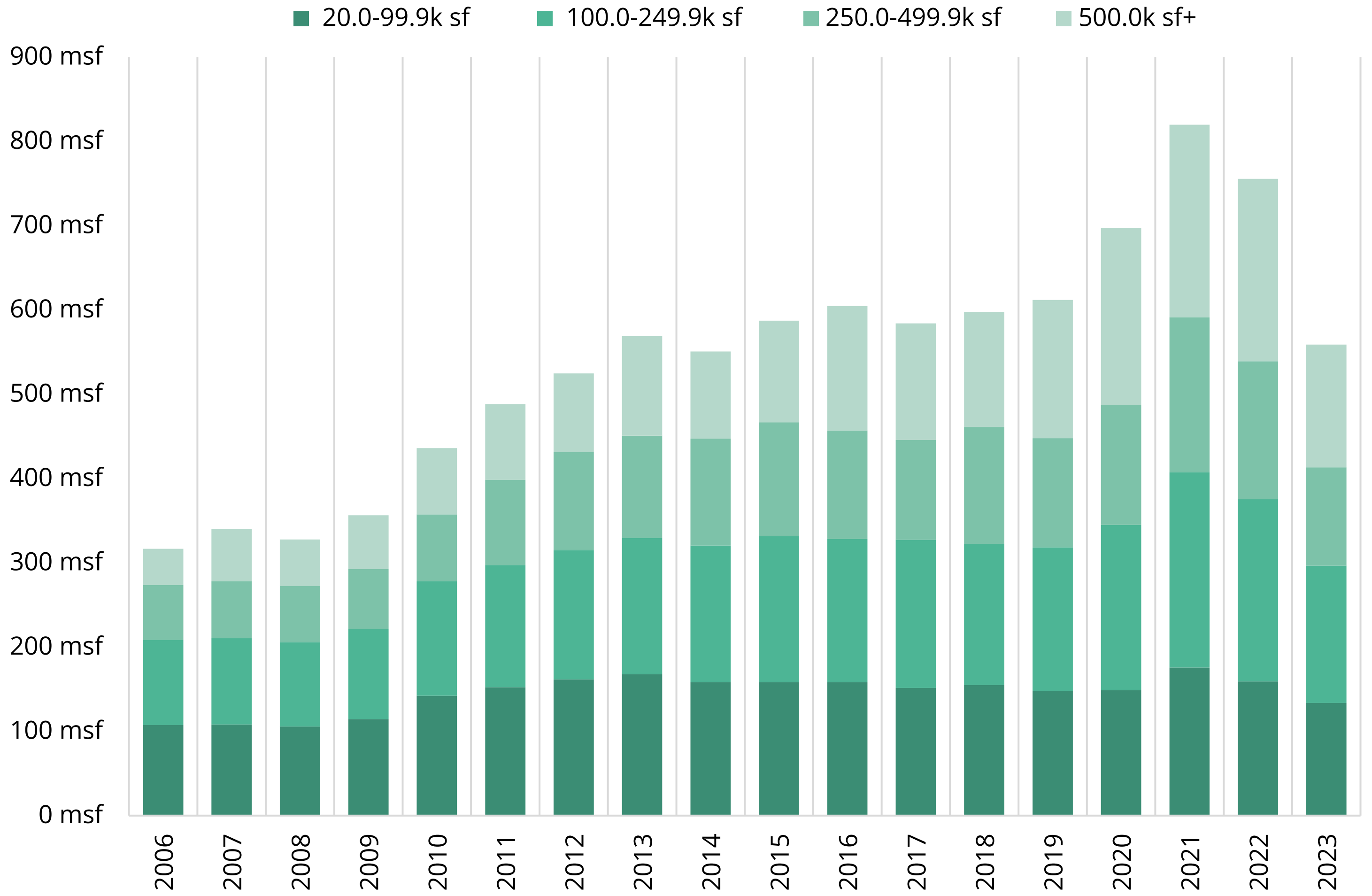
U.S. industrial net absorption & vacancy



Record-setting deliveries have elevated vacancy rates throughout the country, however net absorption remains positive, and only 10% below 2015-2020 average.

Source: AVANT by Avison Young, CoStar

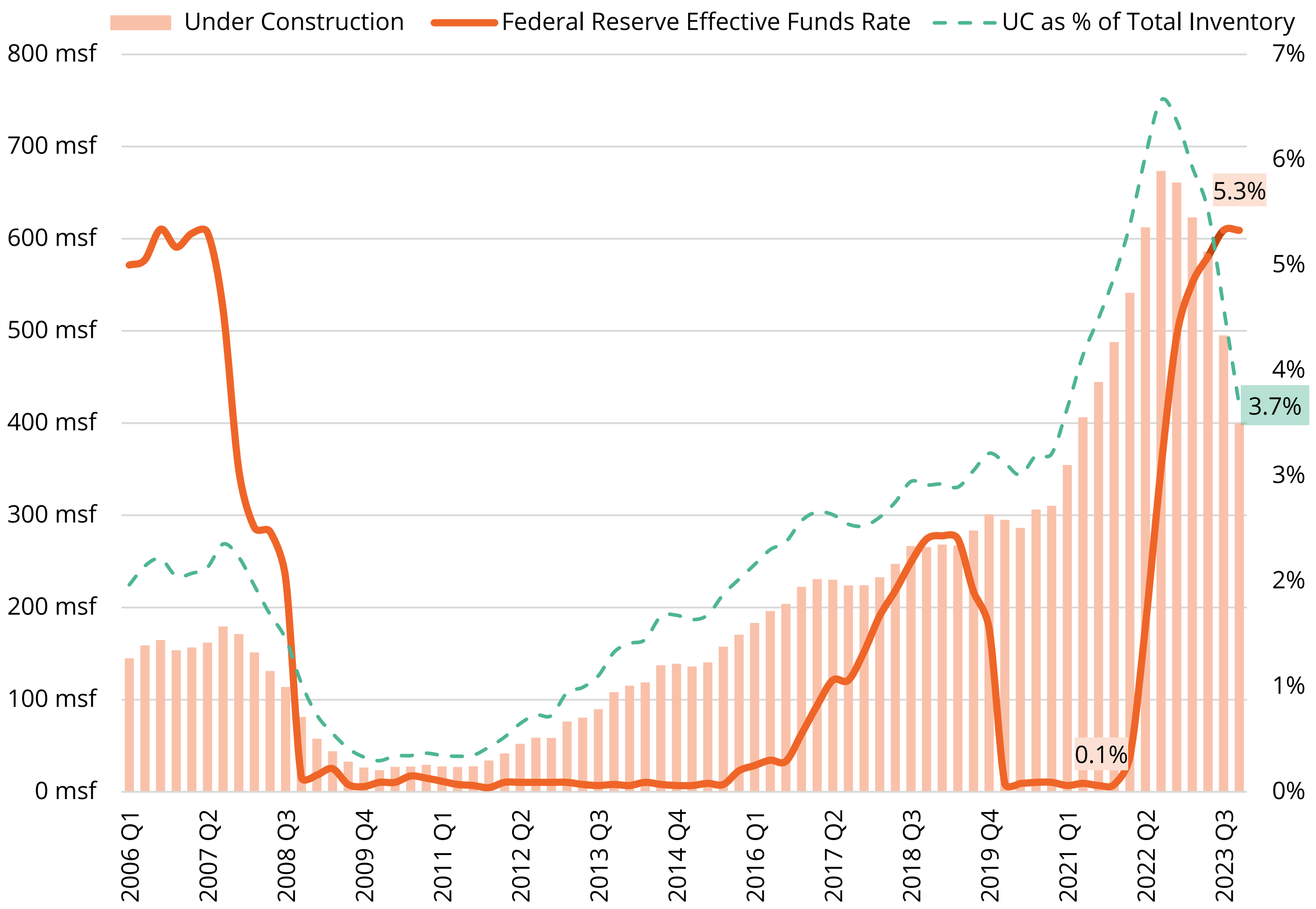
U.S. industrial gross leasing volume



*Note: All totals through Q3 of referenced year
Source: AVANT by Avison Young, CoStar

Overall industrial leasing was down nearly 20.0% in 2023 compared to the previous five years, however leasing returned to normalcy, rising 0.6% above the pre-COVID 10-year average, led primarily by lower credit users that had been getting boxed out for years.

Overall construction pipeline peaked in 2022 Q3 & is set to reduce to <150 msf in 2024



Source: AVANT by Avison Young, CoStar

The construction pipeline continues to reduce in size as product broken-ground in peak 2022 Q3 is delivered without replacement. Another ~120 msf will deliver in 2024 H1, setting the pipeline back to and the falling below 10-year averages.

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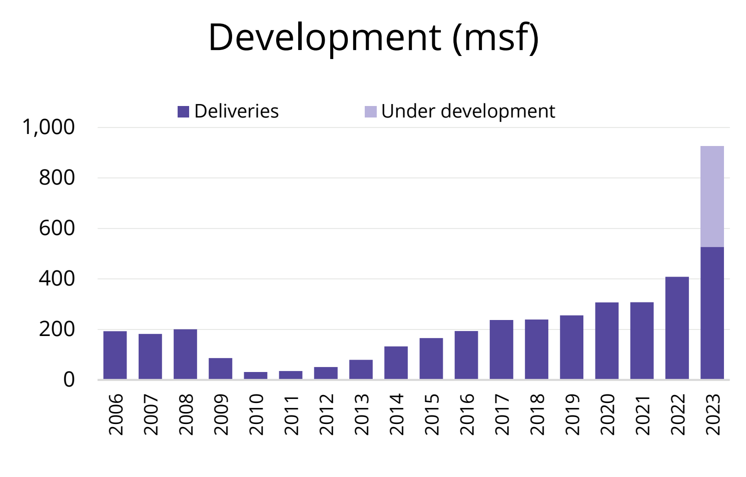
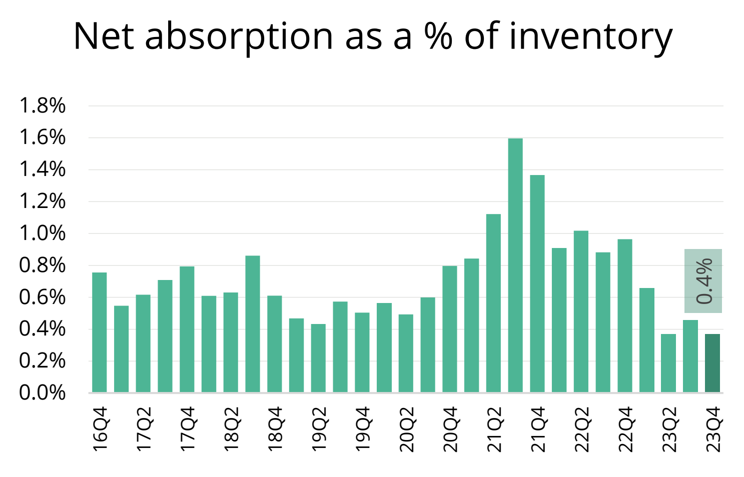
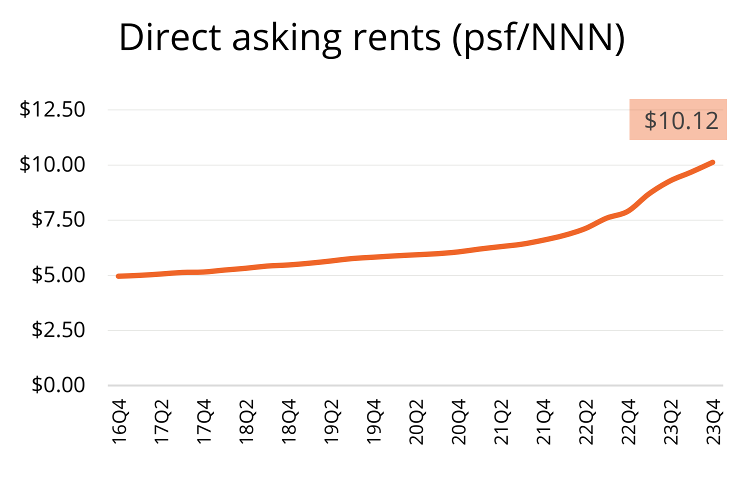
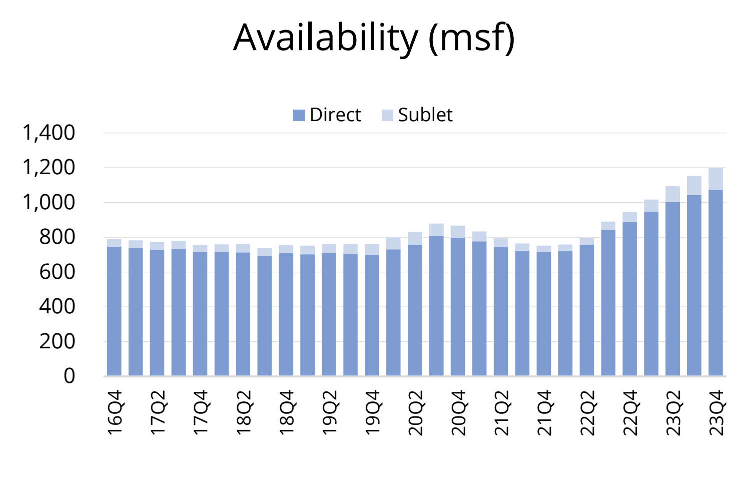
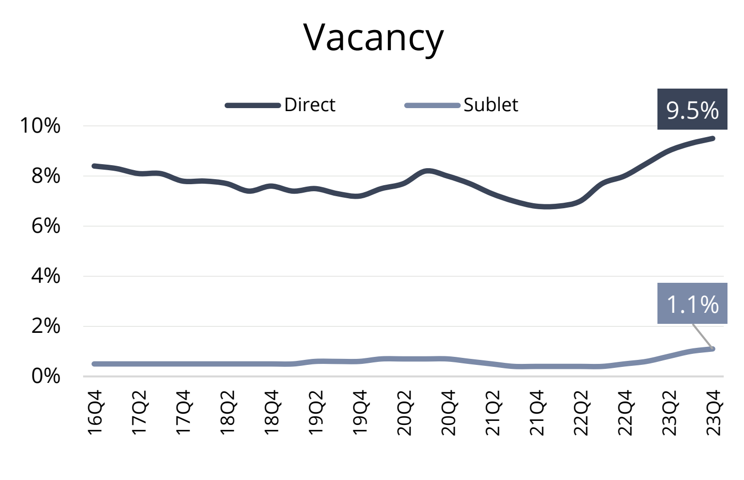
U.S. industrial market indicators

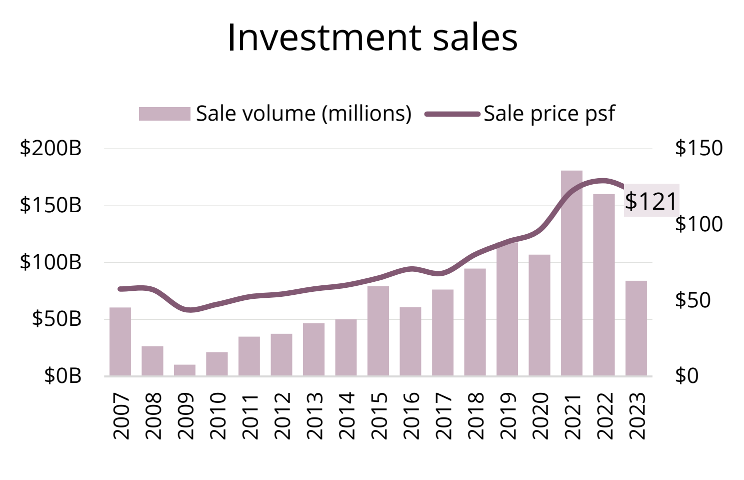












Source: AVANT by Avison Young, CoStar, MSCI Real Capital Analytics

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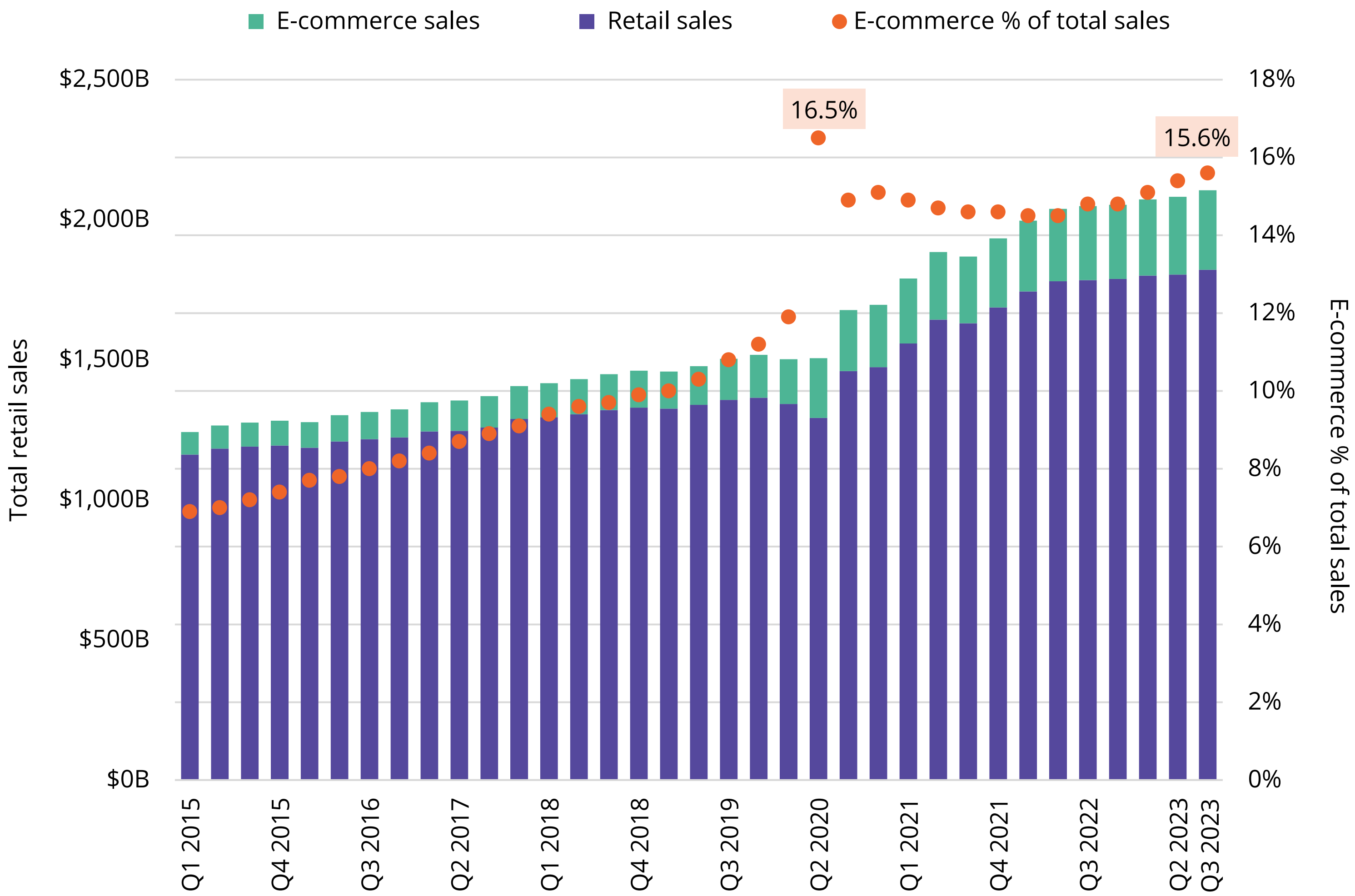
Expanding e-commerce industrial demand



Note: As of November 17, 2023 (most recent update)
Source: Avant by Avison Young, Federal Reserve Bank of St. Louis

E-ecommerce retail spend has increased 321.2% in the past 10 years, and +33.2% since start of 2020, which has formed new and incessant industrial demand for supportive fulfillment operations, led largely by 3PLs.

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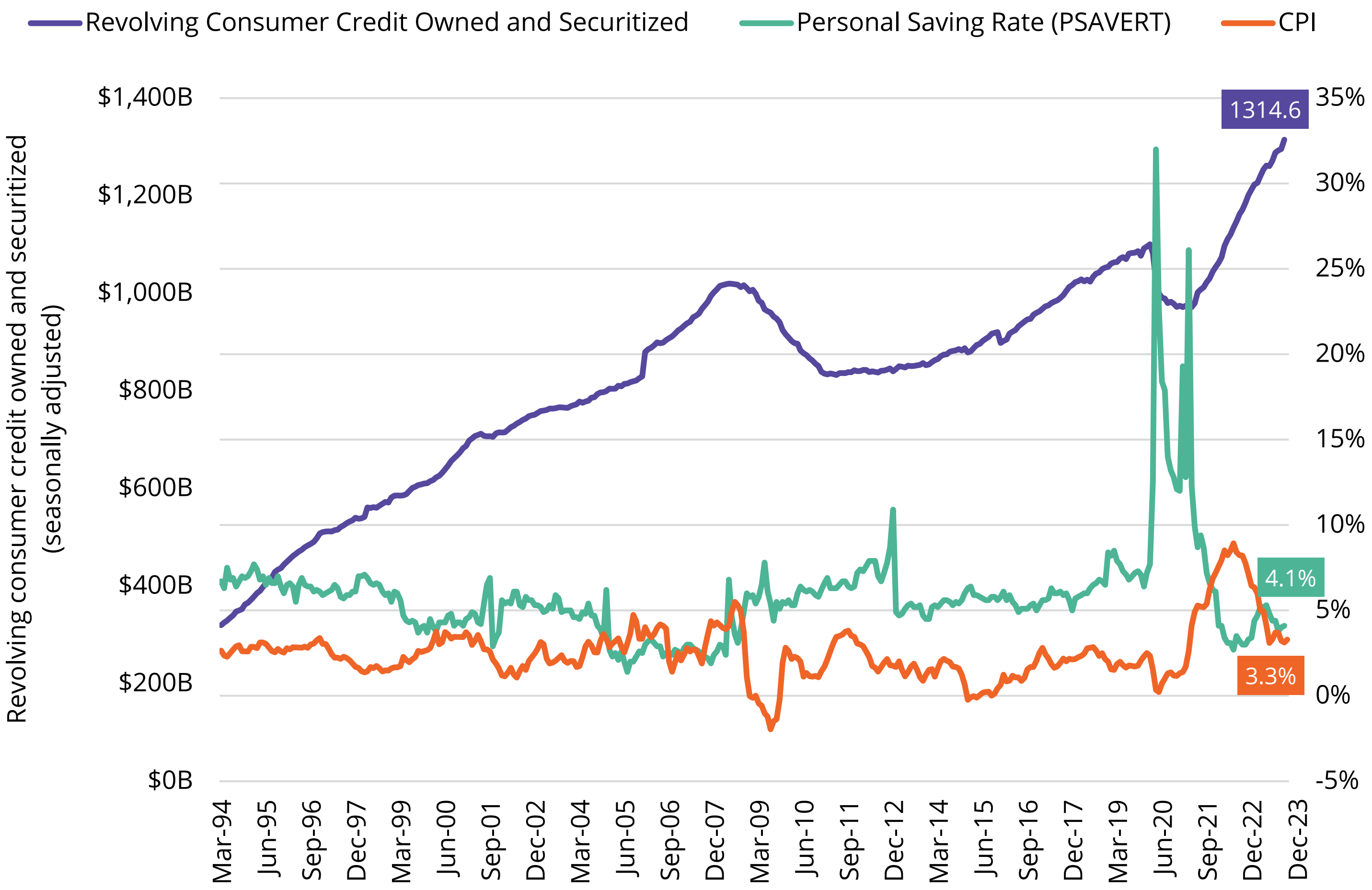
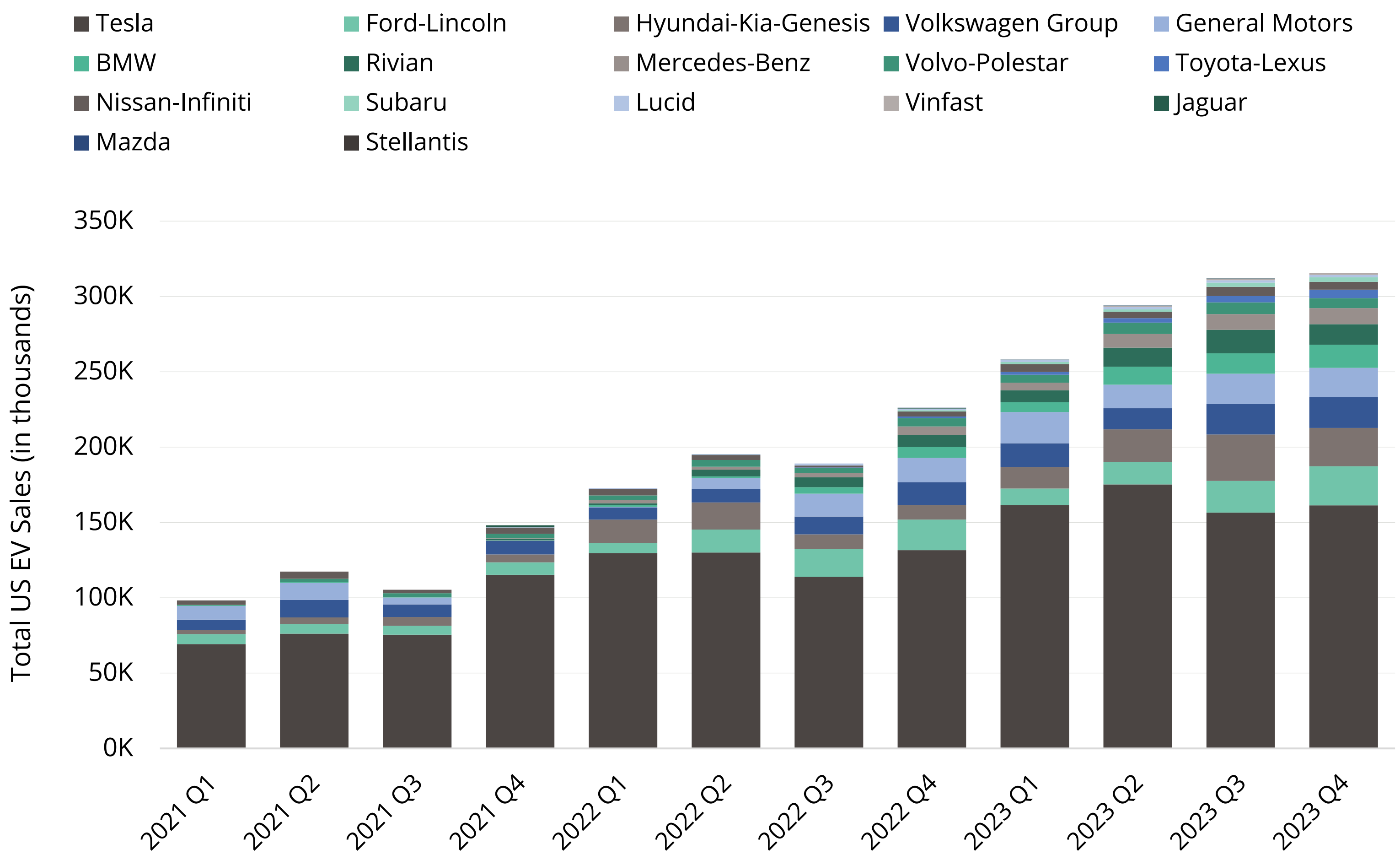
Consumer conditions which impact industrial demand



Source: AVANT by Avison Young, Federal Reserve Bank of St. Louis

CPI is beginning to slightly rise again however the Federal Reserve has signaled a victory in bringing inflation down with its 2024 forecast. Consumer credit utilization continues to surge at historic highs as core inflation left many consumers borrowing to pay for increased costs.

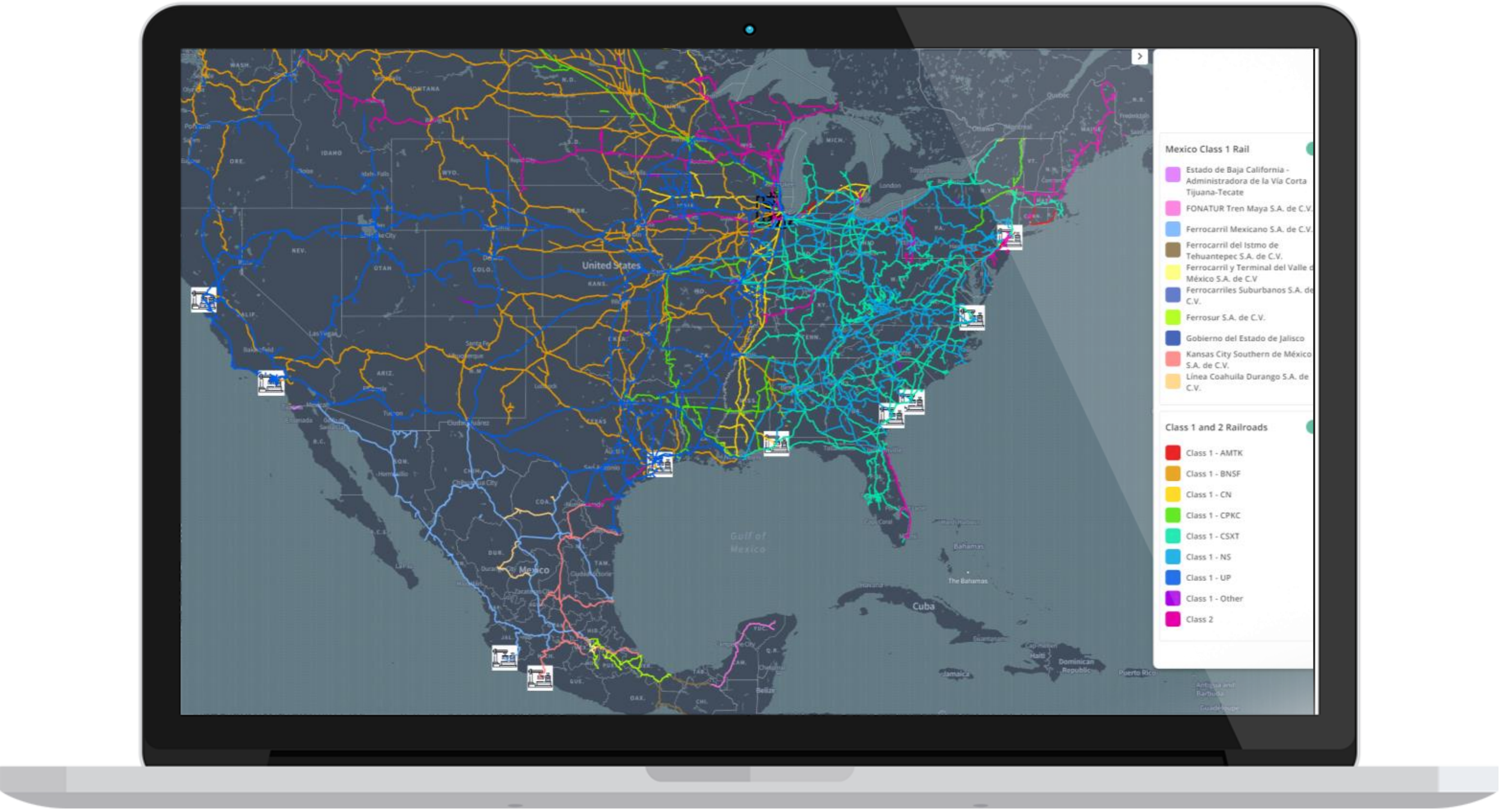
EV sales topped out at over 1.0M sold in 2023, however financing has slowed sales growth



Source: AVANT by Avison Young, Cox Automotive

There are currently over 36 Battery Cell Modules either in final stages of planning, ground-broken, or already producing, representing +$109B in investment so far. Additional EV manufacturing lines represent $106B, all of which is driving newfound industrial space demand. However, sustainable industrial demand from this source of occupier is susceptible to consumer adoption, which has slowed drastically due to rising financing costs, something to closely monitor in 2024.

Reshoring and nearshoring strategies continue to focus away from economies of scale and toward diversification



1M TEU

Port of Mobile capacity in 2025 when expansion and dredging are complete

3.4 + 1.7M

Record TEU volume through November 2023 for Mexico's Port of Manzanillo and
Port of Lazara Cardenas, respectively

Source: AVANT by Avison Young

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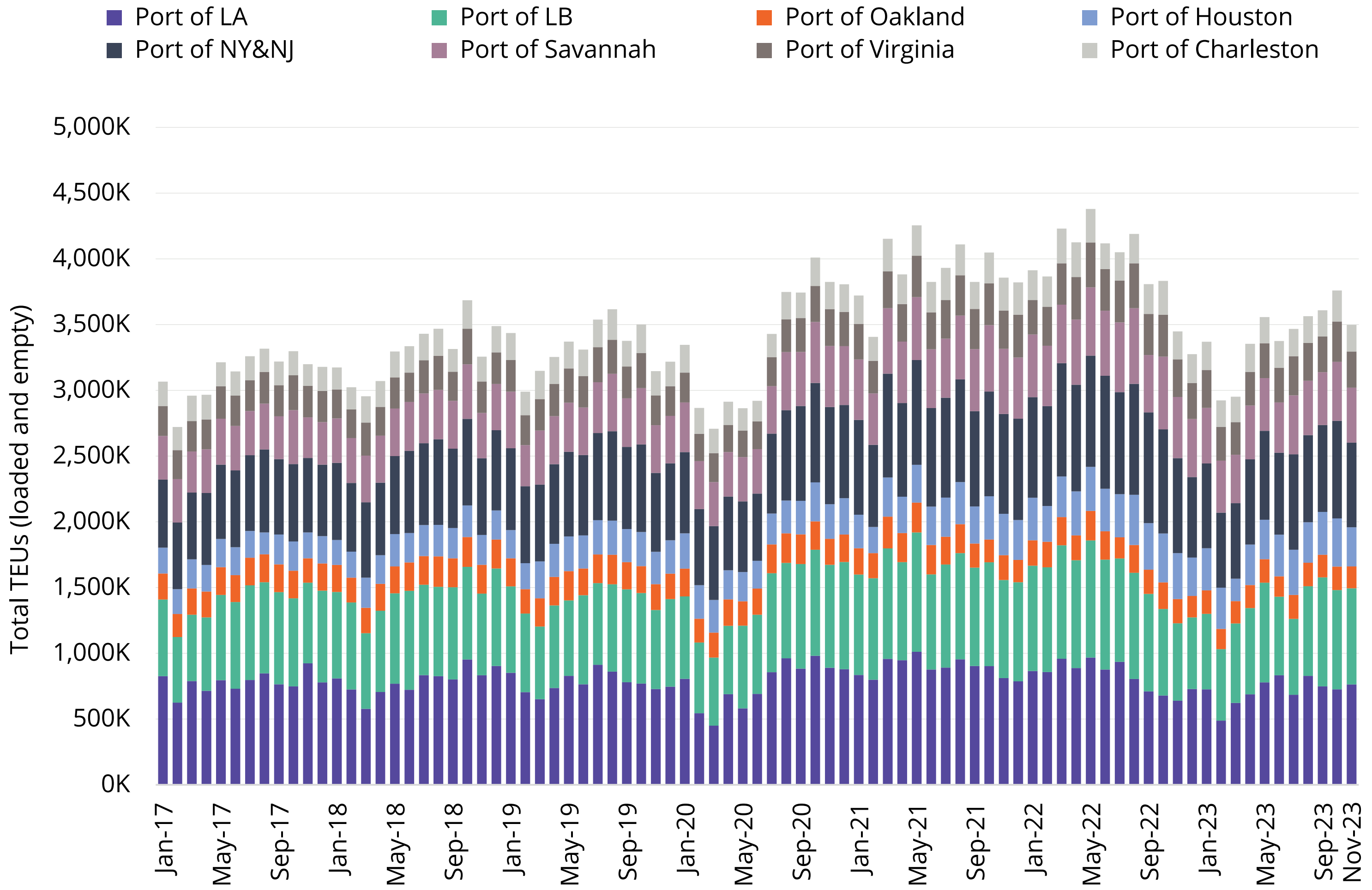
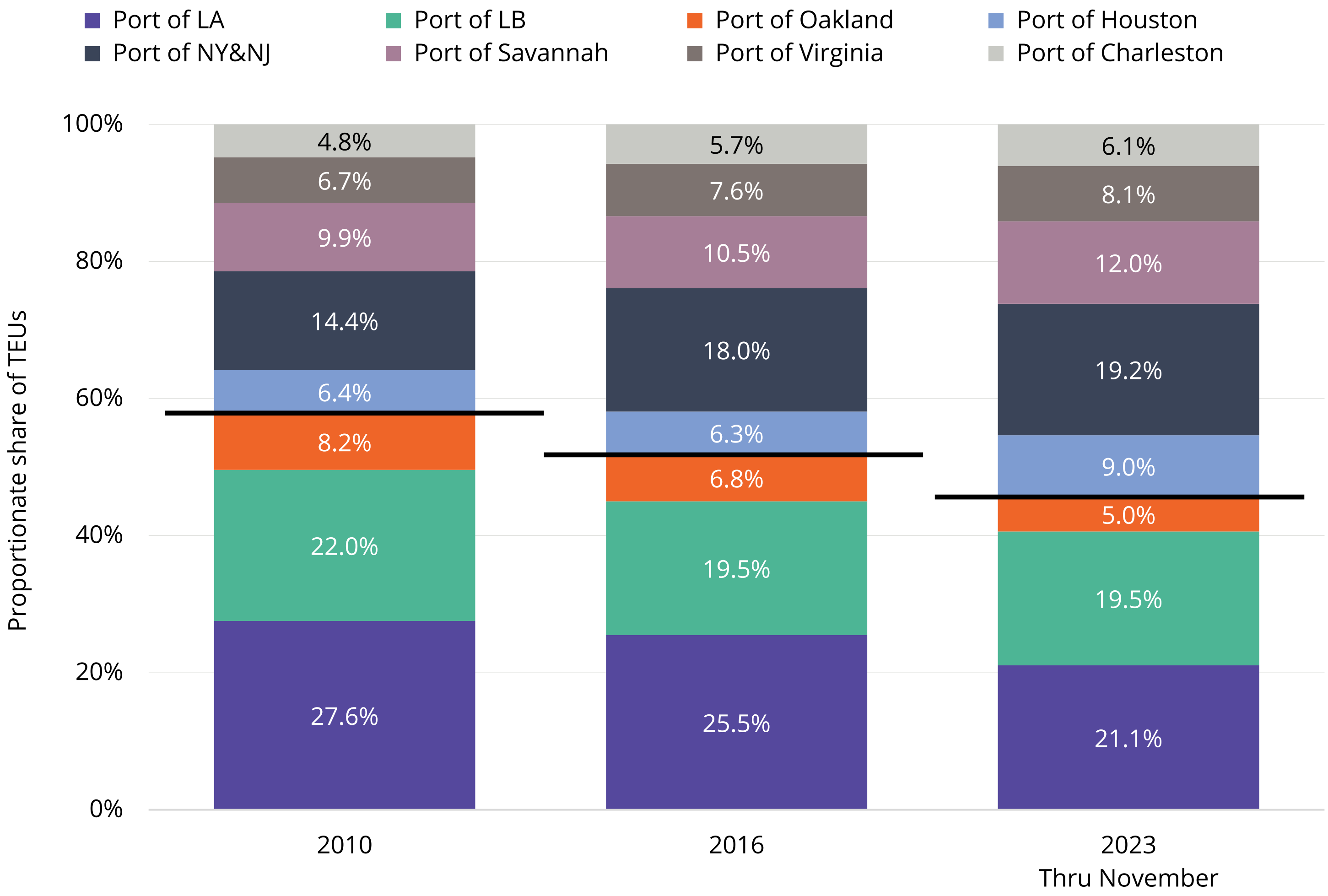
Major Port activity surges from small start to third most active year recorded, as Eastern Ports gain volume



Source: AVANT by Avison Young, Individual Port Authorities
*Most recent data through November totals

Port activity continues to accelerate as economic concerns appear to be receding. Continued diversification of Supply Chain networks largely driving reshoring & near-shoring demand are greatly benefiting Eastern & Mexican Port volume.

East Coast ports continue to build significant market share as firms seek diversified risk



Note: Percentage of activity for specific Ports listed; Most up-to-date data through November.
Source: AVANT by Avison Young, Individual Port Authorities

Led by reshoring and an elevated focus on diversification, supply chain strategies begun in 2016 are now well into their execution, largely benefiting U.S. Eastern Ports, and increasingly Mexico's Western Ports.

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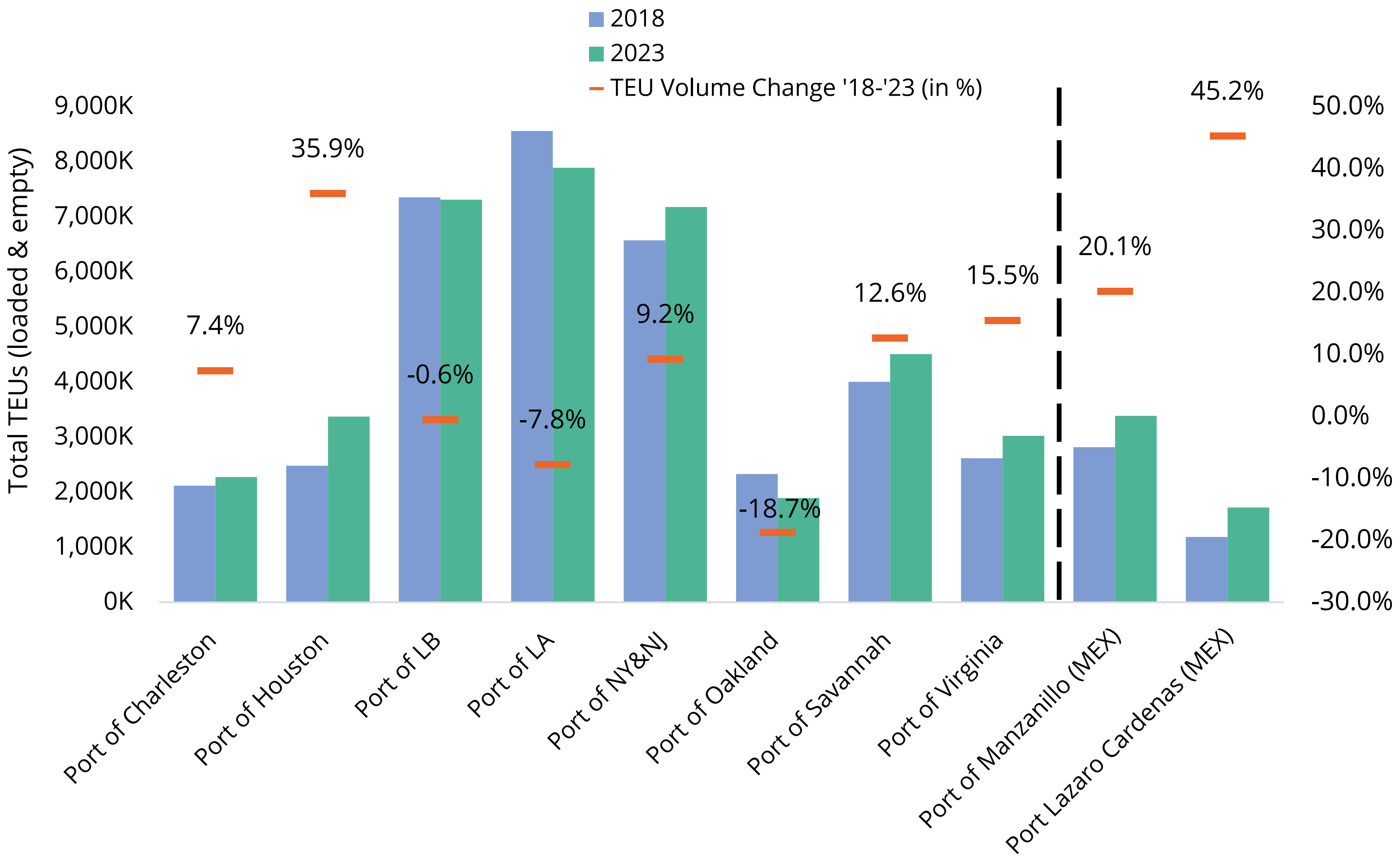
Gains in Eastern Ports, & losses in Western Ports creating shifts in Supply Chain networks



Source: AVANT by Avison Young, Individual Port Authorities
*Most recent data through November totals

Significant growth due to investment in Port infrastructure, coupled with emerging population shifts have driven substantial growth in Eastern & Mexican Ports, while Western Ports have been stagnant or shrinking.

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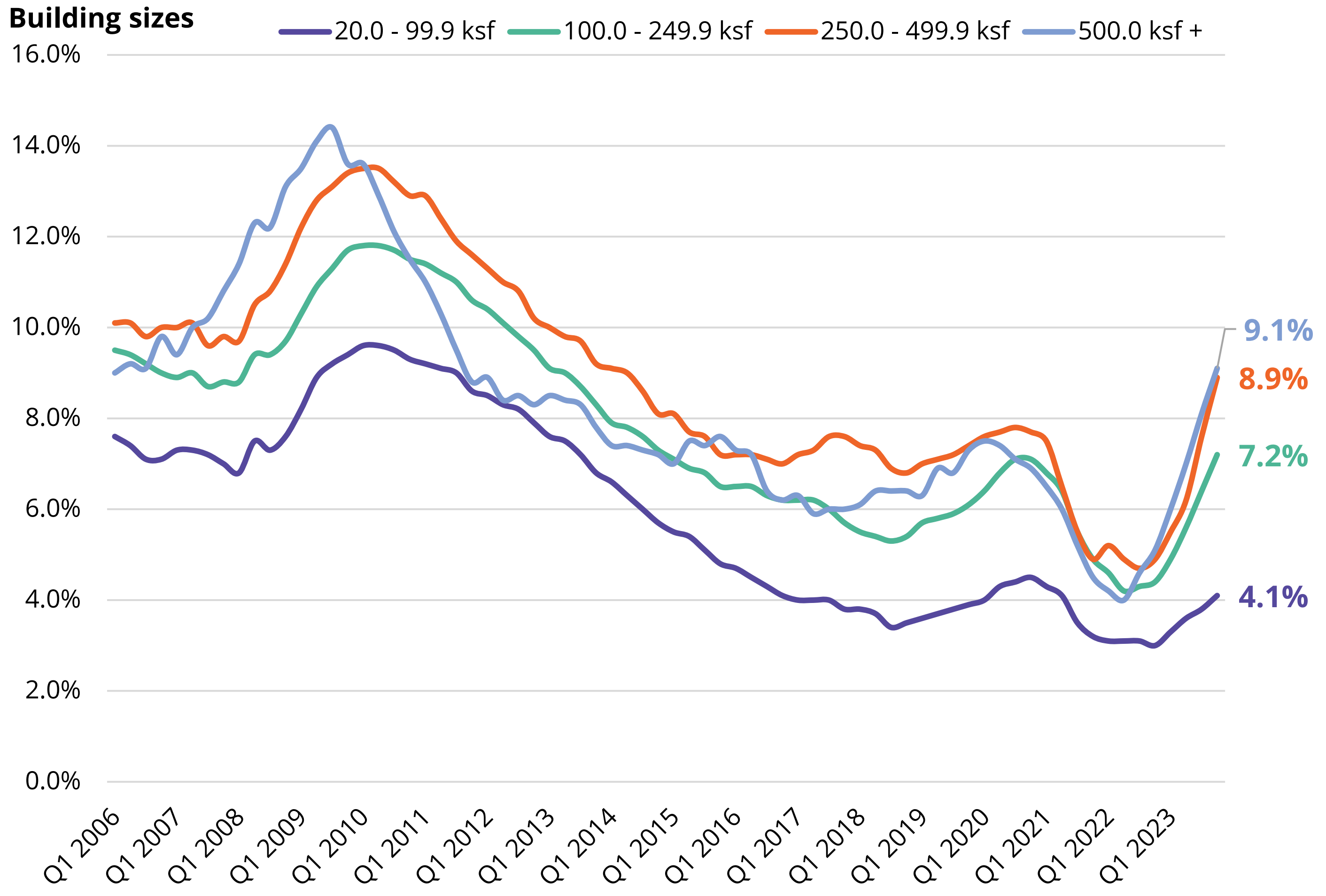
U.S. industrial vacancy by building size



Source: Avant by Avison Young, CoStar

After hitting historic construction pipeline volume in late 2022, a historic amount of new industrial space was delivered in 2023, just as occupiers became hesitant to execute on expansion plans. Buildings delivering vacant can expect to find tenants in late 2024 going into 2025 as new options will be virtually existent.

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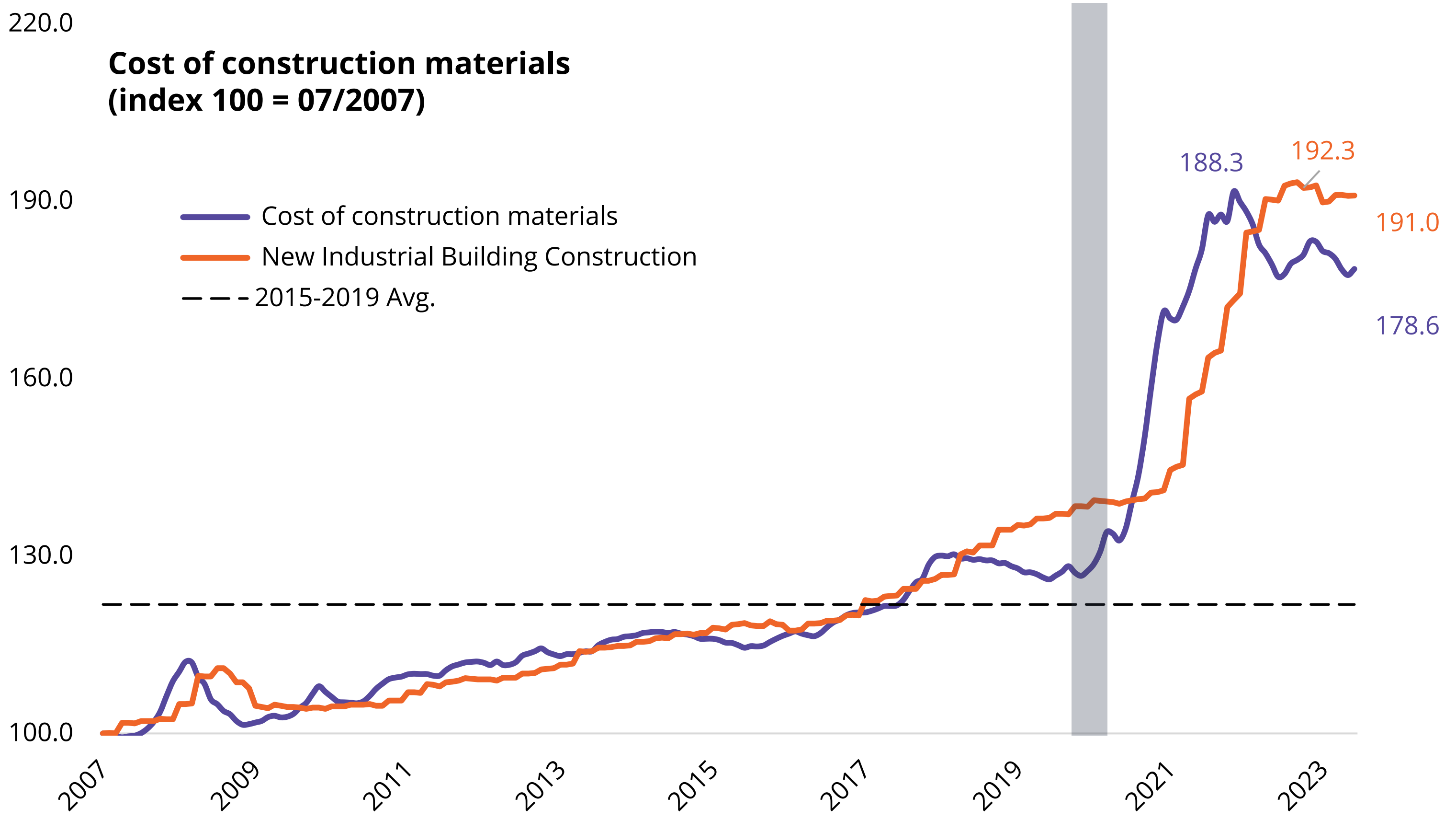
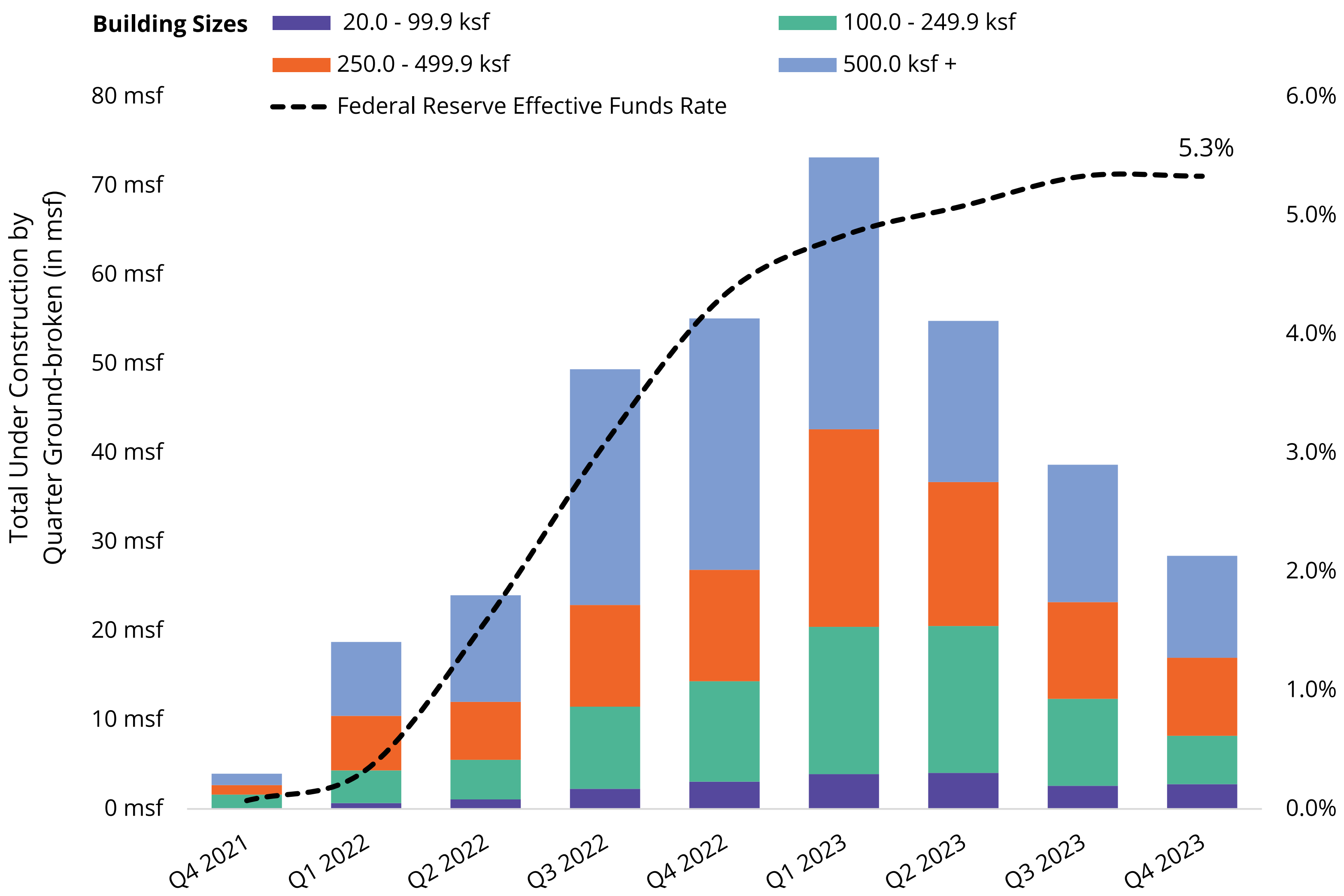
Construction costs remain at historic highs, making demising a very expensive option



Despite significant jumps in vacancy in buildings +250.0k sf around the country, and weakening demand for larger spaces, demising down to target more active occupier requirement sizes is an expensive and time-consuming option.

Source: AVANT by Avison Young, Federal Reserve Bank of St. Louis

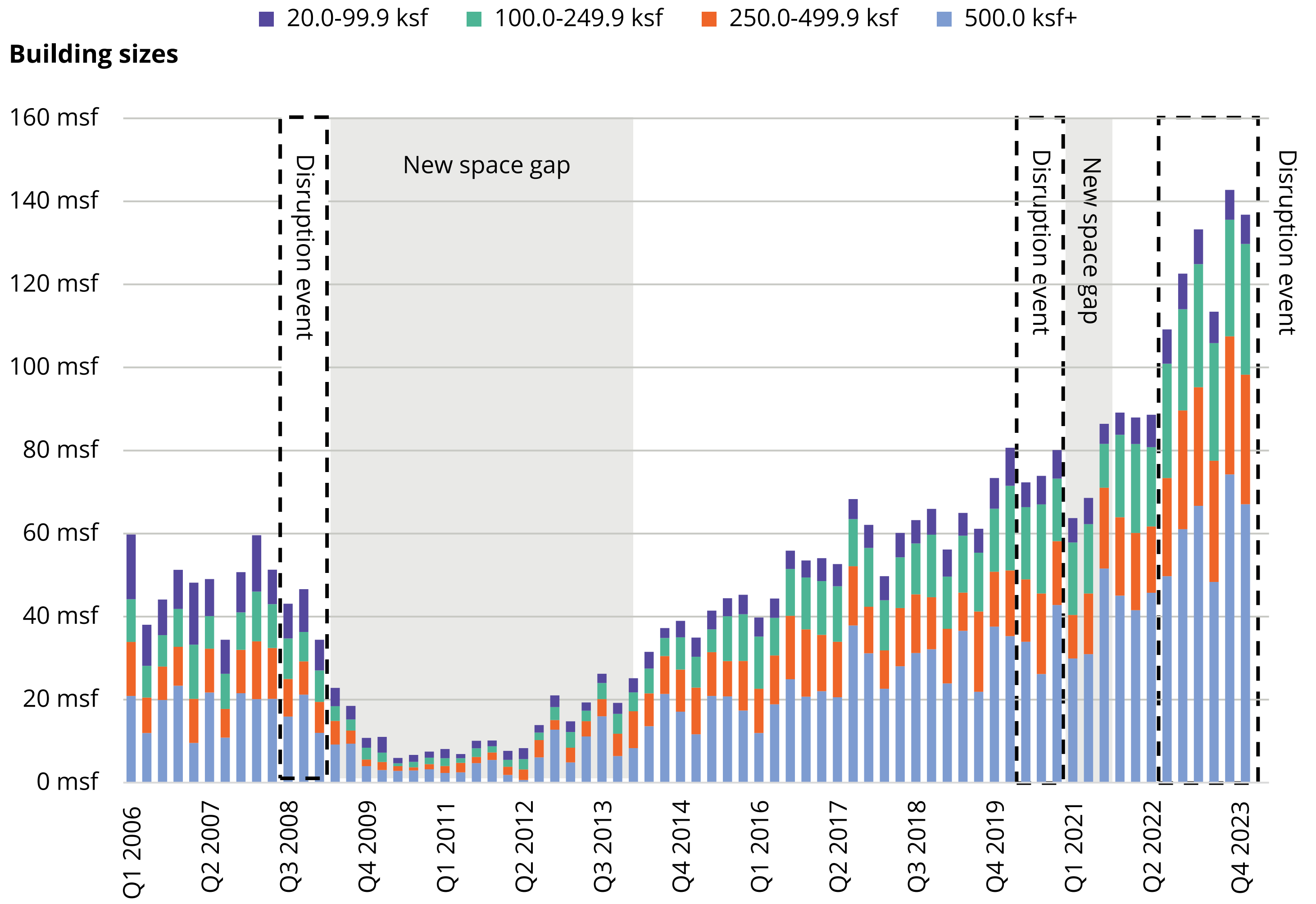
New ground-breakings continue to drop rapidly as pipeline delivers without replacement



Source: AVANT by Avison Young, CoStar

Roughly 120 msf of the current construction pipeline is set to deliver in the first half of 2024, leaving one of the smallest pipelines experienced in the past 10 years.

The historic number of deliveries in 2022 & 2023 will give way to a historic New Space Gap in 2024 H2 & beyond



2023 represented the largest number of deliveries in the sector's history, however the second half of 2024 is expected to begin a New Space Gap that will last for at least 18 months as ground-breakings halted for nearly 6 quarters.

Source: AVANT by Avison Young, CoStar

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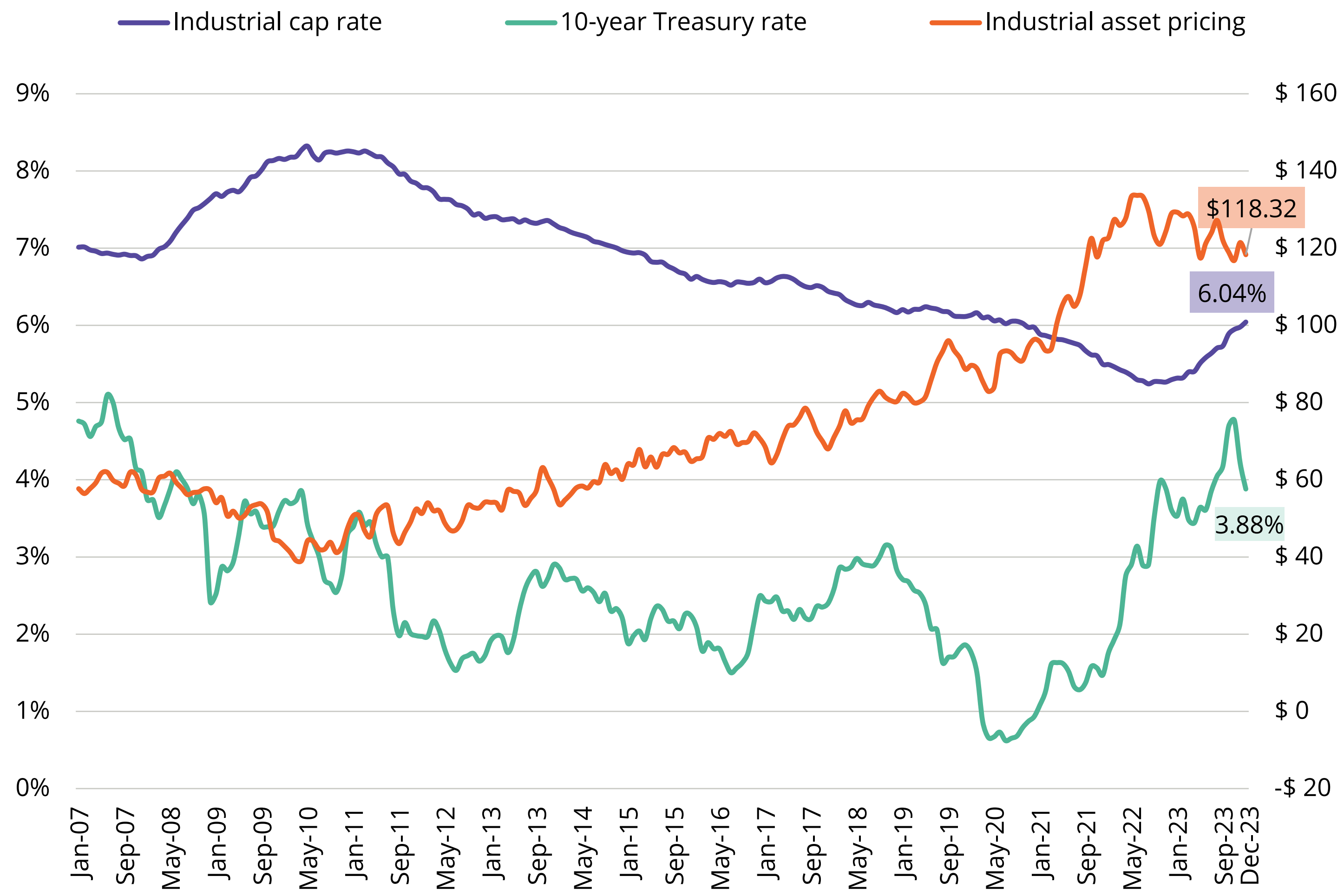
U.S. industrial cap rates vs. asset pricing



Note: Transactions >$2.5M
Source: AVANT by Avison Young, MSCI Real Capital Analytics, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis

Industrial cap rates continued to creep up from all-time lows, however asset pricing remained at near historic highs. Limited activity on the transaction side is likely to unleash intensified competition upon confirmation of the Federal Reserve's policy pivot near the middle of 2024.

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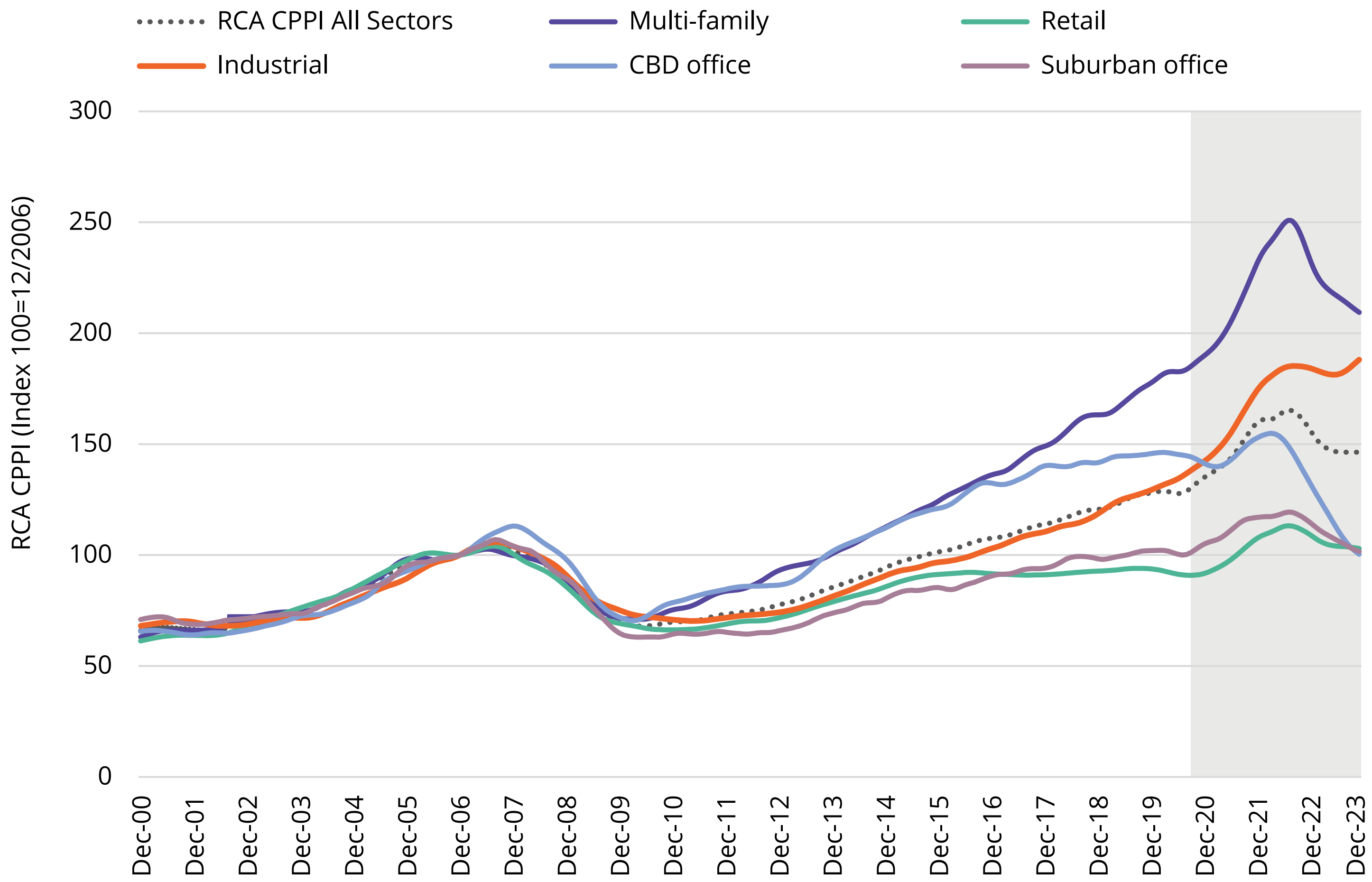
RCA commercial property price indices



Note: Transactions >$2.5M. RCA CPPITM measure the actual price movements for commercial properties based on exclusive transaction data using repeat-sales regression methodology.

Source: AVANT by Avison Young, MSCI Real Capital Analytics

Industrial pricing has retained the gains experienced during COVID better than any other peer sector and is the only sector that is again appreciating in value despite the heavy increases in the cost of debt.

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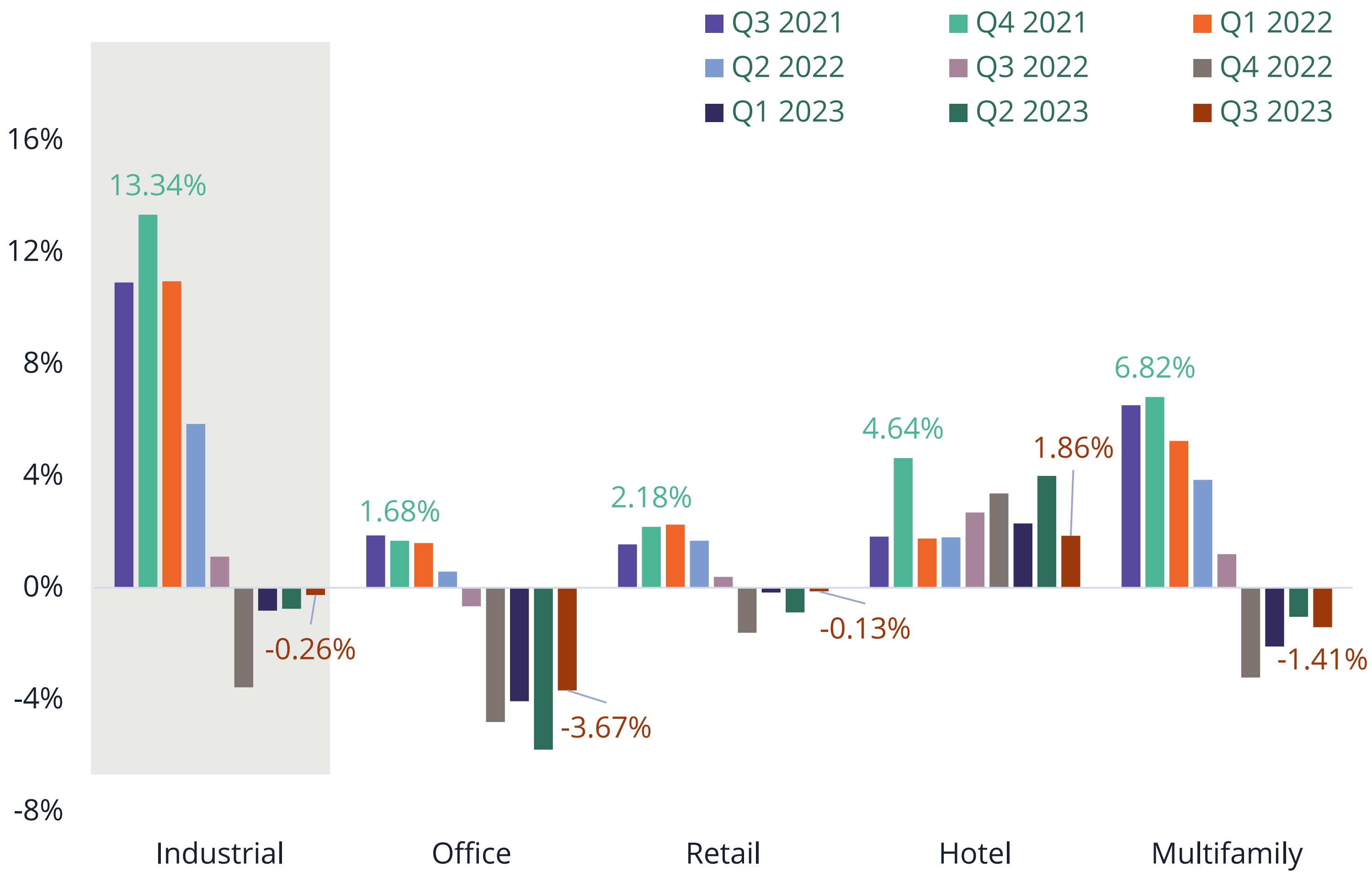
U.S. NCREIF NPI quarterly returns



Note: As of January 2024 (most recent update)
Source: AVANT by Avison Young, NCREIF

After experiencing the soundest quarterly returns of all NCREIF investment peer sectors, Industrial investments only experienced one quarter of negative returns over 1.0%. The sector has been a protector of returns in an uncertain environment.

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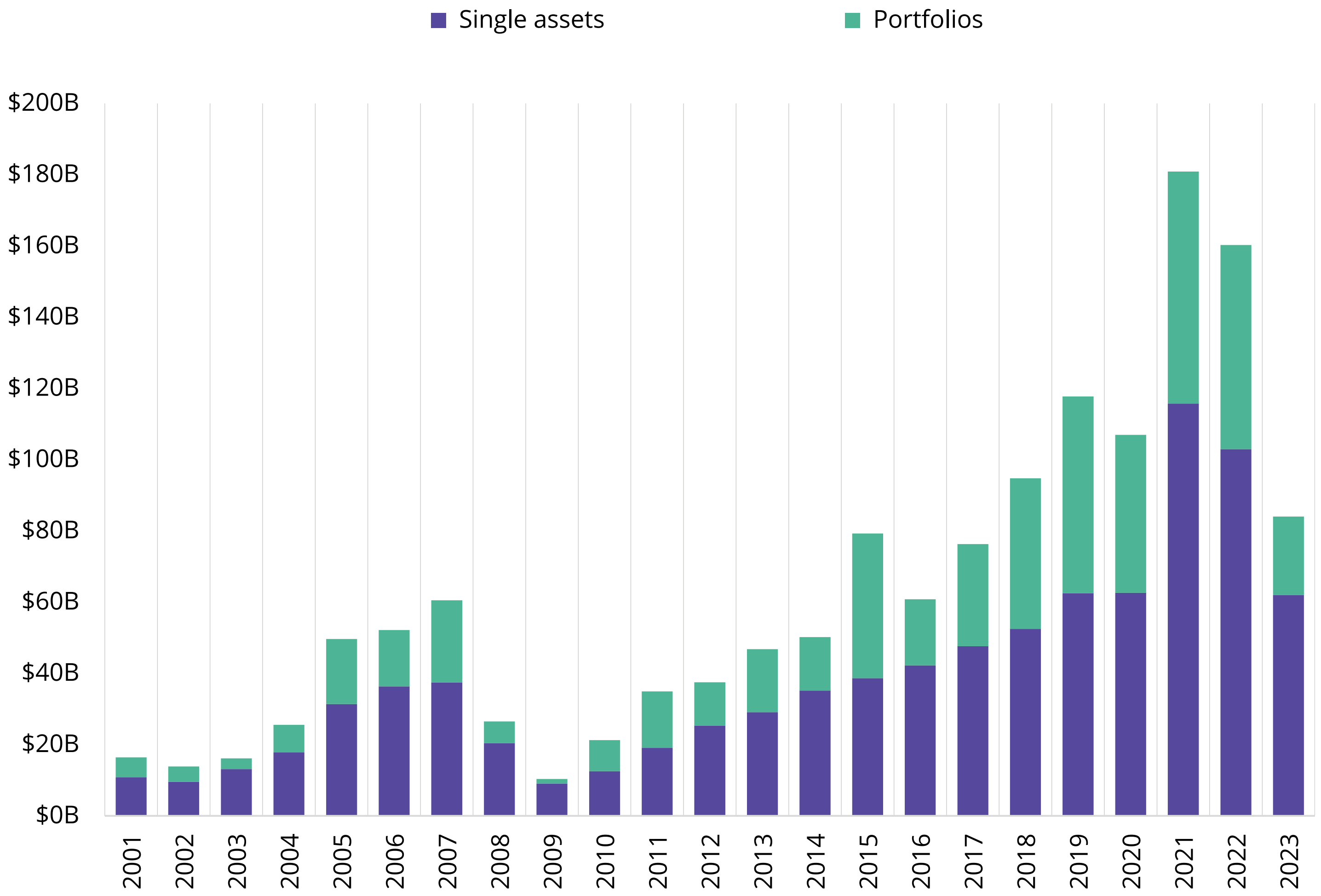
Industrial investment dollar volume



Note: Transactions >$2.5M.
Source: AVANT by Avison Young, MSCI Real Capital Analytics

Industrial transaction volume totaled roughly the same as pre-COVID 10-year average, with Portfolio & Entity transactions experiencing their smallest volume since 2016. Single asset transactions continue to disproportionately trade on the limited deals that did come to market in 2023 and are expected to elevate further in 2024.

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Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and information visit **avisonyoung.com**

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