RESEARCH Q2 2022

National Industrial Market

Demand Still Elevated in Second-Quarter; Vacancy Rate Likely at Cyclical Low as Development Pipeline Increases

By the second quarter of 2022, economic and geopolitical headwinds have incited a significant slow-down in national and global economic growth. The World Bank, citing the war in Ukraine and persistent pandemic-related disruption, revised global growth forecasts down to 2.9% for 2022, much lower than its January forecast. The national industrial market is signaling a similar trajectory of slower growth in the second half of the year. The overall economy is proving relatively resilient even with 40-year high inflation, but spending is slowing and shifting more towards services as COVID-19 concerns wane. Demand remains strong for industrial space with 101.3 million square feet absorbed in the second quarter, the fifth straight quarter with over 100 million square feet, and continues to outpace deliveries. Over the coming quarters, the deficit between net absorption and deliveries will tighten and reverse as consumer demand softens and construction deliveries rise, given the record-high construction pipeline.

The national industrial market experienced a new record low for vacancy, dropping 20 basis points from the first quarter of 2022 to 3.7%. Close to 30.0% of the markets that Newmark tracks are experiencing vacancy at or below 3.0%, offering prospective tenants few options in those supply-starved markets. A dearth of available space and rising construction costs are driving the average industrial asking rent to new heights; up 12.7% year-over-year to $9.56/SF.

Current Conditions

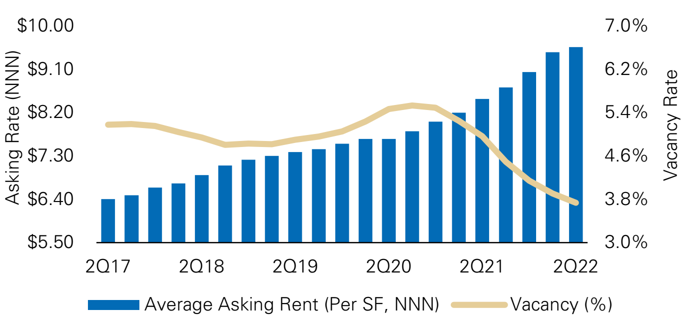
- For the fifth consecutive quarter, net absorption exceeded 100.0 million square feet. Vacancy fell to a new record-low of 3.7%.
- Asking rents continue to see strong growth, up 12.7% year over year.
- The national industrial construction pipeline increased 12.5% quarter over quarter to 613.1 million square feet and represents 3.8% of total inventory.
- Quarterly deliveries measured 72.0 million square feet.

Market Summary

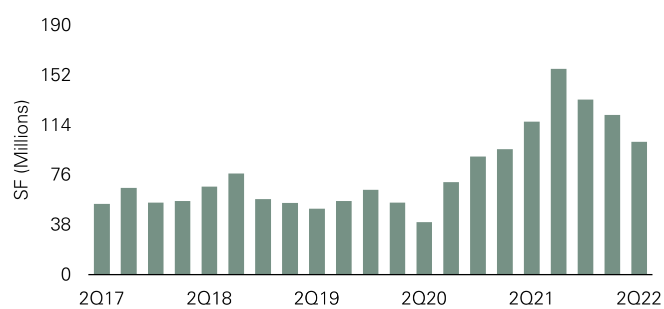
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.0 B	15.9 B	15.4 B	↑
Vacancy Rate	3.7%	3.9%	5.0%	↑
Quarterly Net Absorption (SF)	101.3 M	121.8 M	116.8 M	↓
Average Asking Rent/SF (NNN)	$9.56	$9.45	$8.48	↑
Under Construction (SF)	613.1 M	545.1 M	418.5 M	→
Deliveries (SF)	72.0 M	86.2 M	67.5 M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Larger Retail Occupiers Moving Forward Cautiously

Over the last two years, large retailers dramatically increased warehouse occupancy to meet surging demand for durable goods from consumers, and to ameliorate supply chain disruption. These retailers regularly signed mega-box leases – 500,000 square feet or more – in markets across the country. As consumers came out of the Omicron wave, spending began shifting more towards services and away from goods at the same time inflation started to take hold. Additionally, rising interest rates are cooling the housing market, which is likely to impact sectors like home goods and home improvement retailers. Several markets across the country are now reporting a softening in the mega-box market, and mega-box tenants that are moving forward on new leases, are doing so carefully as the economic landscape evolves. In this changing market, more landlords that were once reluctant to divide mega-box warehouses thanks to numerous tenants vying for space, are now more open to the idea. Market participants note demand from smaller-footprint tenants remains highly competitive.

Construction Pipeline Balloons, Deliveries Expected to Increase over the Coming Quarters

The construction pipeline increased dramatically to 613.1 million square feet in the second quarter of 2022, from 545.1 million in the first quarter. Five markets have 30.0-million-plus square feet under construction – Dallas, the Inland Empire, Phoenix, Chicago and the Pennsylvania I-81/I-78 Corridor – and accounted for one-third of the total square footage under construction. Timely delivery continues to be a challenge for developers amidst supply chain woes, labor shortages, increased entitlement periods and rising costs. The 72.0 million square feet delivered in the second quarter of 2022 is one of the lowest quarterly totals in nearly three years. With the sheer amount of construction now in the pipeline, deliveries through the remainder of 2022 and into 2023 are expected to be higher than recent quarters, and will likely lead to increasing vacancy if consumer spending continues to decrease, therefore curtailing industrial expansion. Markets with a large amount of speculative construction delivering vacant are more susceptible to rising vacancy and stalling rent growth. It is important to note though, a significant amount of the square footage under development is pre-leased, as many tenants pursued this path to ensure space in markets with low vacancy.

Rents Continue to Rise, But That's Not the Whole Story

Average asking rents rose strongly from an average of $9.45/SF in the first quarter of 2022 to $9.56/SF in the second quarter, a 1.2% increase. Lack of available space from outsized tenant demand and higher-priced new industrial space coming online continue to drive these statistical gains. While strong growth remains the norm, growth of 1.2% in the second quarter of 2022 is below the average quarterly increase of 2.8% observed since the third quarter of 2020 when competition for space began to surge. The amount of supply slated to deliver to the market in the coming quarters will likely curtail the most aggressive rent hikes, but the future of rent growth will be more predicated on market-specific dynamics. In core, land-constrained markets where oversupply is unlikely, elevated rent growth will persist. In markets with large volumes of vacant speculative construction delivering in relation to past demand performance, rent growth will likely stabilize.

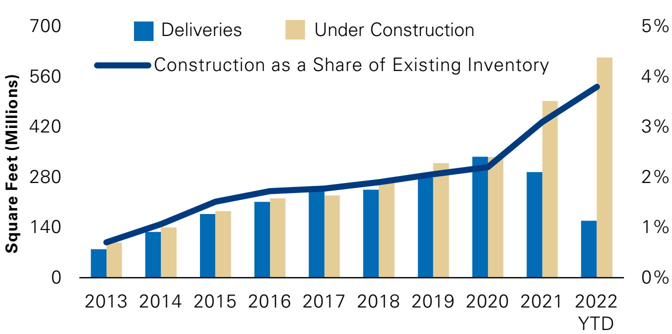
With inflation remaining high for over a year and no relief in sight, landlords are increasingly looking to mitigate inflation impact and maintain some parity with market-value by upping rent escalations. Historically, escalations were in the 2.0% to 3.0% range; now, 3.5% to 4.0% is more often included in a lease. Additionally, upward pressure on triple net fees – common area maintenance, insurances, and taxes – is further increasing tenant occupancy costs.

U.S. Semiconductor Manufacturing Set to Expand

Companies are urging Congress to unlock $52.0 billion in funding from the CHIPS Act that was passed last year. TSMC is under construction on its $12.0-billion facility in Arizona and both Intel and Taiwan's GlobalWafers are awaiting funding before beginning construction on new fabrication facilities in Ohio and Texas, respectively. The CHIPS Act is intended to bolster America's lagging semiconductor manufacturing industry, lessen impact of semiconductor supply chain issues, and to counter China's development in this industry. Currently, most of the semiconductor manufacturing occurs in Taiwan with China claiming sovereignty over the island nation, creating supply concerns for the Western world. Chip makers are extremely cost-conscious; the CHIPS Act is needed to make the U.S. cost-competitive moving forward.

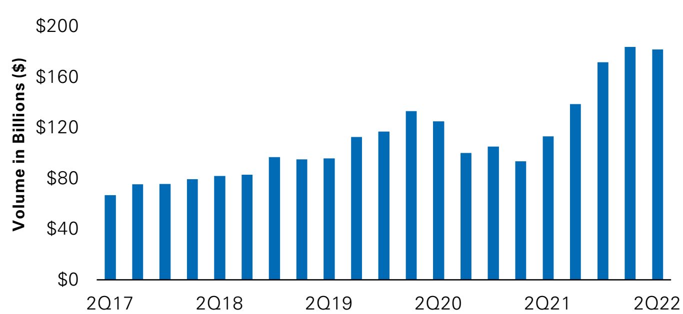
Construction and Deliveries

UNITED STATES INDUSTRIAL MARKET



Industrial Sales Volume

UNITED STATES, ROLLING 12-MONTH TOTALS



Notable Q2 2022 Lease/User Transactions

Tenant	Building	Market	Type	Square Feet
Bed, Bath & Beyond	800 Gateway Dr.	Memphis	Direct New	1,508,220
The new location in Memphis provides the retailer access to the majority of the U.S. population within a two-day truck drive.				
Unilever	5620 Inner Park Dr.	St. Louis	Renewal	1,262,648
The consumer goods manufacturer renewed at their distribution facility with direct access to I-70, running through the middle of the U.S.				
Target	13750 N. Freeway	Dallas-Fort Worth	Direct New	1,240,584
This location will serve as a new shipping hub for the retailer in the fast-growing Texas market.				
Pratt Industries	S. Hwy. 67	Dallas-Fort Worth	Direct New	1,108,080
Pratt is expanding in Texas and will be investing $200 million to produce corrugated boxes and custom packaging solutions in the new facility.				
Commonwealth	61 Logistics Blvd.	Cincinnati	Direct New	1,097,458
In the largest lease registered in Cincinnati to-date, the third-party logistics company, Commonwealth, expanded their area footprint.				

Notable Q2 2022 Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
Stockbridge Western Logistics Portfolio	Various	$697,800,000	$136	5,133,315
Blackstone acquired the 29-property portfolio from Stockbridge, with the bulk of the buildings located in California.				
IDI Logistics Portfolio	Various	$315,800,000	$111	2,849,191
The six-property portfolio sold to Ares Management Corporation with buildings in Atlanta, Chicago, Dallas, Indianapolis, and Memphis.				
U.S. General Services Administration	Seattle	$80,000,000	$52	1,537,716
Industrial Realty Group purchased the 129-acre site and will be renovating the existing buildings and adding 1.0 million square feet.				
Academy Sports + Outdoors	Houston	$190,000,000	$127	1,500,596
South Korea-based Mirae Asset Global Investments acquired the single tenant property from Tratt Properties.				
2016 Trade Center Blvd. 2C	Savannah	$94,250,000	$81	1,165,425
The soon-to-be delivered building is 100%-leased to ecommerce home-goods retailer, Serena & Lily.				

Market Statistics (Continued on Next Page)

	Total Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed Year-to-Date	Vacancy Rate	Average Asking Rent (Price/SF)
National	**16,044,600,808**	**613,052,530**	**101,309,632**	**223,143,618**	**3.7%**	**$9.56**
Atlanta	673,240,552	15,792,756	5,101,775	14,142,183	4.4%	$6.28
Austin	111,065,057	10,796,359	1,443,503	7,408,976	3.8%	$12.27
Baltimore	189,549,620	4,610,206	2,051,551	4,017,287	5.3%	$6.25
Boston	217,828,736	5,138,780	723,952	1,660,095	3.0%	$13.21
Broward County, FL	112,528,053	1,537,123	832,524	1,531,671	4.0%	$11.10
Charleston, SC	85,938,489	6,947,123	3,228,743	4,793,916	2.8%	$6.88
Charlotte	415,418,705	17,833,660	4,098,175	6,752,771	4.3%	$5.69
Chicago	1,172,699,235	33,727,074	8,296,098	19,383,950	4.0%	$6.21
Cincinnati	295,801,028	16,978,281	3,427,069	6,366,258	2.8%	$4.96
Cleveland	290,852,101	2,895,848	743,455	2,638,137	4.2%	$5.07
Columbia, SC	64,208,078	1,471,536	247,349	612,094	3.4%	$4.35
Columbus	264,262,159	20,169,650	1,737,650	6,453,472	2.3%	$4.83
Dallas	995,040,486	66,040,456	8,701,478	12,425,108	5.8%	$7.38
Denver	219,573,954	11,857,739	208,178	1,019,174	6.5%	$10.23
Detroit	415,843,635	6,157,938	2,998,564	3,843,553	4.1%	$6.27
Greenville, SC	231,546,621	14,981,127	1,212,953	3,468,773	3.0%	$4.59
Houston	684,564,121	22,136,798	6,905,398	13,550,208	5.7%	$8.32
Indianapolis	376,039,011	29,765,233	342,270	6,489,692	4.0%	$4.79
Inland Empire, CA	664,934,814	39,999,161	3,916,108	7,932,698	0.8%	$16.81
Jacksonville	140,042,517	9,528,106	726,403	2,275,969	3.1%	$6.75
Kansas City	309,495,756	16,341,639	1,465,868	4,993,712	4.4%	$5.11
Las Vegas	141,605,422	9,227,093	2,341,933	3,976,116	2.2%	$11.46
Long Island	162,546,787	1,536,664	308,613	493,640	3.5%	$15.89
Los Angeles	1,055,301,753	4,596,956	1,116,519	2,763,924	0.9%	$18.07
Memphis	302,635,554	10,087,972	2,970,803	3,107,384	6.1%	$4.12

Market Statistics (Continued from Previous Page)

	Total Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed Year-to-Date	Vacancy Rate	Average Asking Rent (Price/SF)
National	**16,044,600,808**	**613,052,530**	**101,309,632**	**223,143,618**	**3.7%**	**$9.56**
Miami	227,012,909	3,978,903	988,182	2,376,956	3.3%	$12.14
Milwaukee	246,233,547	2,129,650	921,218	459,323	2.8%	$4.46
Minneapolis	407,227,545	3,941,350	704,352	1,951,187	3.6%	$6.17
Nashville	263,423,186	12,527,355	2,710,174	2,894,591	3.7%	$7.46
New Jersey Northern	676,490,467	16,214,030	2,184,308	5,131,619	2.6%	$12.70
Oakland/East Bay	255,299,675	5,121,241	635,188	959,879	4.7%	$19.70
Orange County, CA	262,990,991	3,686,042	-48,796	572,988	2.2%	$17.67
Orlando	194,589,257	3,420,907	1,072,171	1,739,174	3.7%	$8.96
Palm Beach	50,859,505	733,944	49,931	234,758	4.1%	$12.16
Penn. I-81/78 Corridor	428,222,868	30,555,532	5,752,949	11,629,908	5.7%	$5.26
Philadelphia	502,748,161	22,594,333	2,575,790	7,084,247	3.7%	$7.61
Phoenix	340,749,752	35,060,790	6,175,459	10,025,635	4.6%	$11.88
Pittsburgh	145,280,486	1,933,430	443,114	1,076,140	5.5%	$5.41
Portland	203,521,489	5,835,360	2,423,761	3,189,474	3.4%	$10.17
Raleigh/Durham	132,507,532	7,044,495	1,552,608	1,828,098	3.5%	$9.81
Sacramento	166,918,298	3,522,063	749,772	1,569,258	2.3%	$9.38
Salt Lake City	270,676,900	19,187,501	1,195,495	6,308,115	1.7%	$8.85
San Antonio	146,622,551	7,494,347	1,515,089	7,634,915	4.0%	$7.43
San Diego	166,551,749	2,424,300	106,823	1,065,465	2.9%	$15.33
Seattle	311,945,381	10,484,516	2,156,976	5,544,983	3.1%	$11.77
Silicon Valley	155,021,507	720,854	-833,385	563,982	8.1%	$27.27
St. Louis	281,784,167	7,631,650	1,108,086	3,183,844	3.1%	$5.24
Tampa/St. Petersburg	275,610,135	6,558,964	174,628	577,997	5.1%	$6.98
Washington, DC	339,750,506	20,095,695	1,848,807	3,440,321	4.1%	$11.48

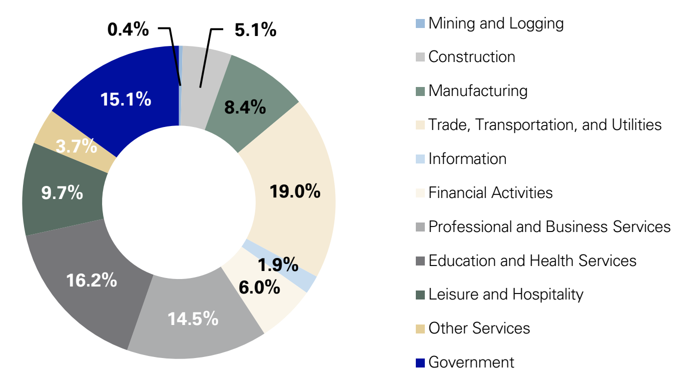
Economic Conditions

With inflation remaining persistently high, the Federal Reserve will continue to pursue aggressive rate hikes in the coming months to tame an overheated economy. On the heels of a 75-basis-point hike in June, a 75- to 100-basis-point increase in July seems likely as CPI crept up from 8.6% in May to 9.1% in June. The job market is an ongoing bright spot, growing annually at 4.2% with 372,000 jobs added in June, above economists' projections. Consumer spending is proving to be durable, albeit cooling as enduring inflation sours consumer sentiment. There are indications that the "Great Resignation," a hallmark of the job market over the last two years, is giving way to the "Great Apprehension," with 78.0% of American employees concerned about job security in a perceived on-coming recession, per a recent survey from Insight Global.

Core CPI is now down three consecutive months from the high experienced in March 2022, but this is little solace to consumers as food and energy pull total CPI upwards. The ongoing Russian invasion of Ukraine is roiling food and energy prices around the globe.

Employment by Industry

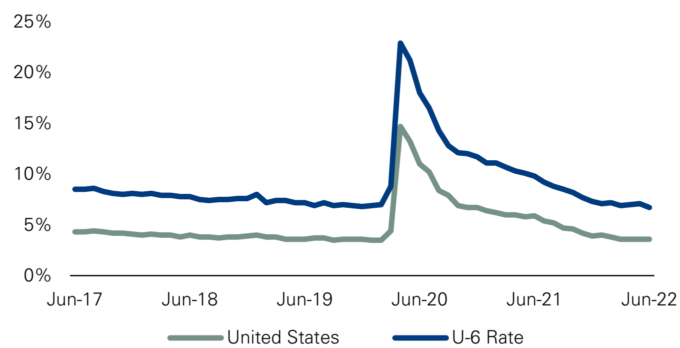
UNITED STATES, 12-MONTH AVERAGE



Source: U.S. Bureau of Labor Statistics, Newmark Research, June 2022

Unemployment Rate

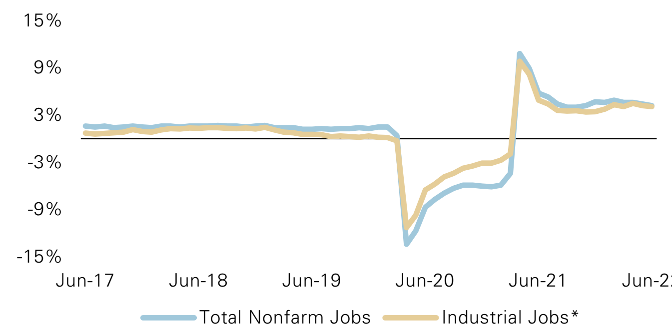
UNITED STATES, SEASONALLY ADJUSTED



Note: U-6 rate includes total unemployed, marginally attached workers, and those working part time for economic reasons
Source: U.S. Bureau of Labor Statistics, Newmark Research, June 2022

Payroll Employment

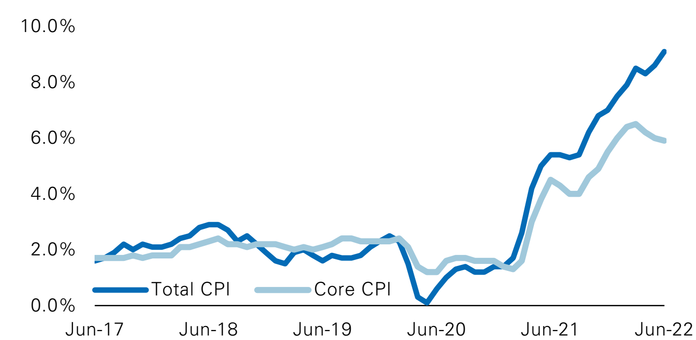
UNITED STATES, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



* Includes Manufacturing, Trade/Transportation/Utilities and Mining/Logging
Source: U.S. Bureau of Labor Statistics, Newmark Research, June 2022

Consumer Price Index (CPI)

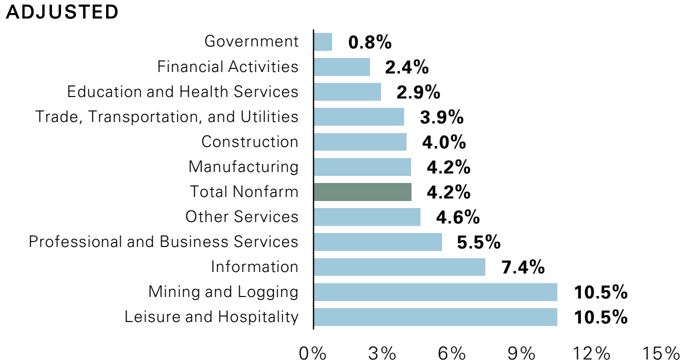
UNITED STATES, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Note: Core CPI excludes food and energy, which can be volatile; 1982–84=100
Source: U.S. Bureau of Labor Statistics, Newmark Research, June 2022

Employment Growth by Industry

U.S., JUNE 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, Newmark Research, June 2022

For more information:

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

Lisa DeNight
Director, National Industrial Research
t 215-246-2725
lisa.denight@nmrk.com

Rich Lachowsky
Director, SLC Research and National Industrial
t 801-578-5532
rich.lachowsky@nmrk.com

Jonathan Mazur
Senior Managing Director, National Research
t 212-372-2154
jonathan.mazur@nmrk.com

nmrk.com