SVN®
RESEARCH

State of the Market 2024

INDUSTRIAL

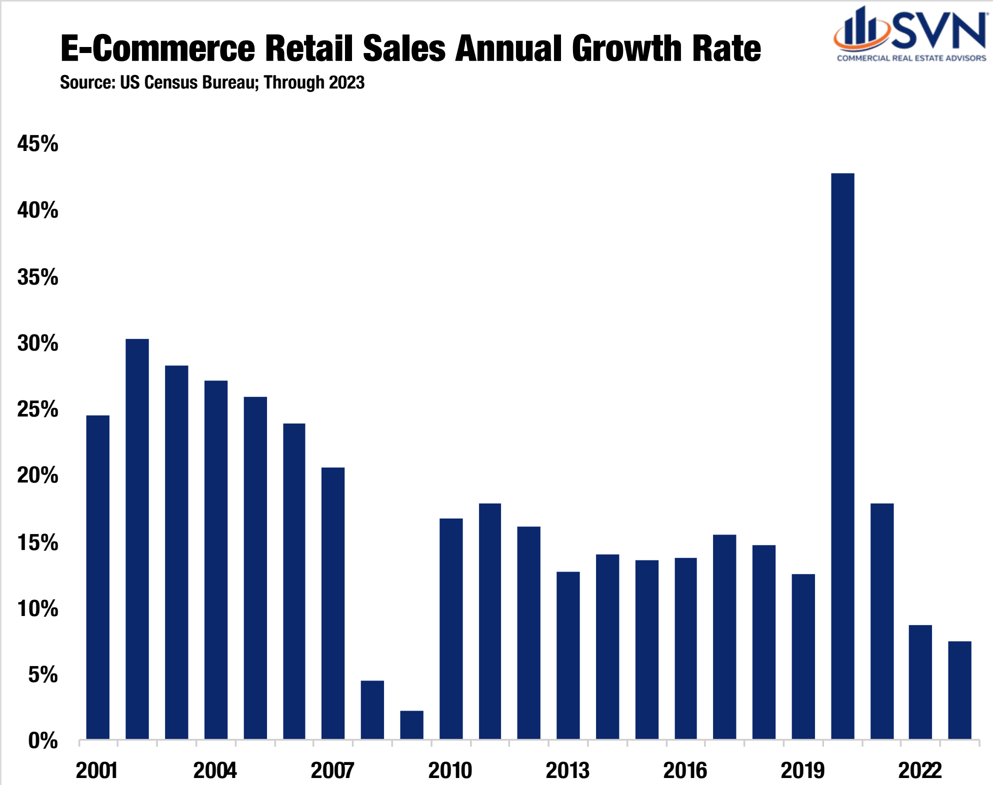
Industrial

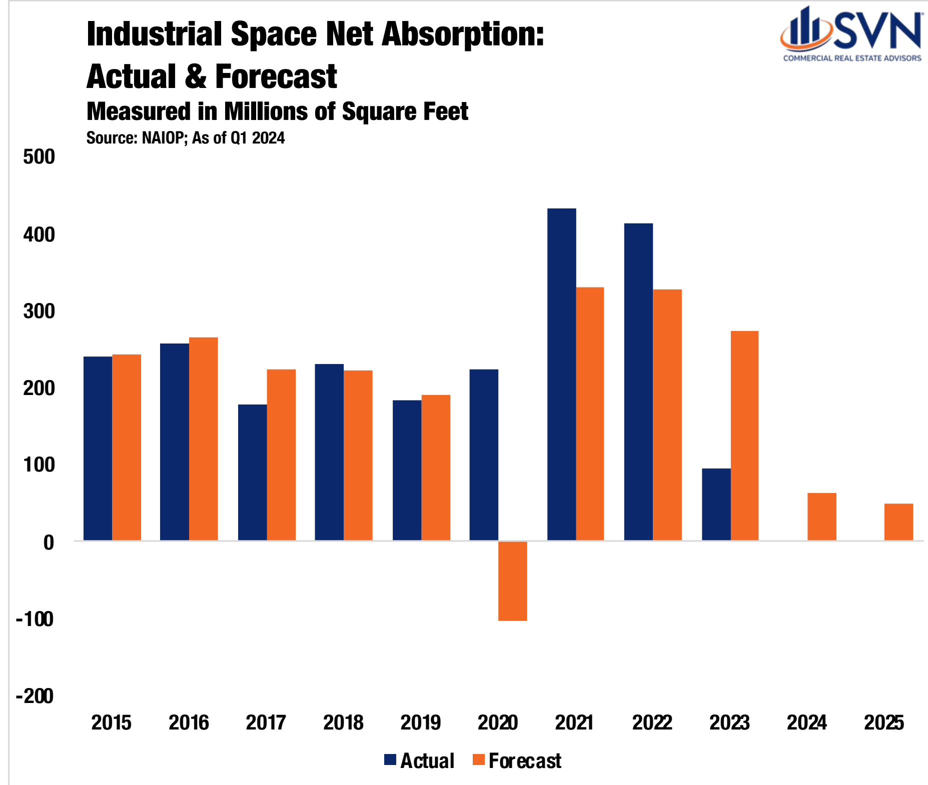
NATIONAL OVERVIEW

The structural strength of the US industrial sector remains in full view, though for the first time in a while, the story requires some nuance.

The industrial sector's momentum is, and has been, the result of a large-scale shift in US consumption patterns. The convenience of online retailing has ramped up demand for warehouse and distribution centers. Speed of delivery is one of the main battlefronts of competition between e-retailers. Resultingly, firms with industrial footprints and logistics networks near population centers have found the most success.

E-retailing continues to grow at a healthy clip, though the pace of increase has started to cool. From 2010 to 2019, e-commerce retail sales grew between 12.4% and 17.8% annually. In 2020, due to the pandemic restricting in-person retailing, e-commerce sales ballooned 42.7% year-over-year. However, what goes up must come down. Growth has slowed in each of the past three years, with the annual rate of increase sliding to just 7.4% in 2023.





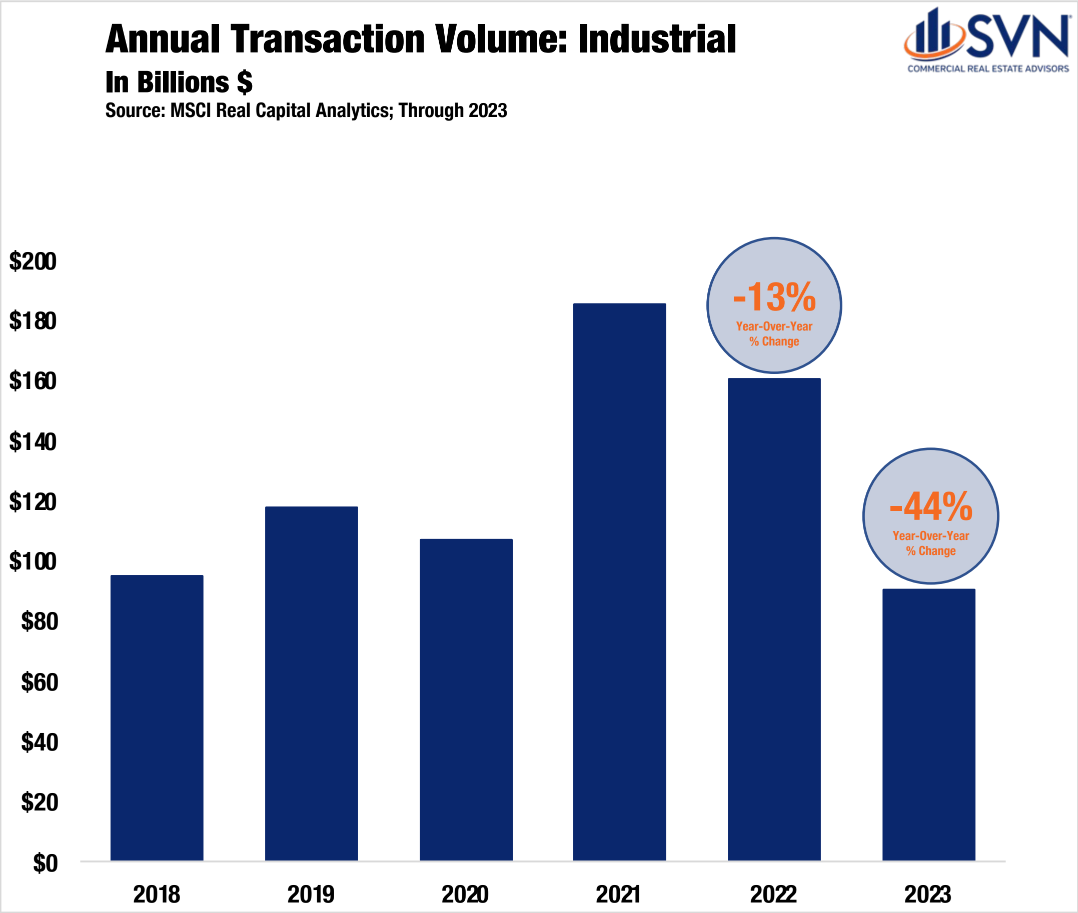
The trends above are readily apparent in real estate data. According to NAIOP, after industrial net absorption totaled 432.5 million square feet in 2021 and 412.5 million square feet in 2022, last year's total sank to just 93.7 million square feet — 65.7% below forecast. **Looking ahead, NAIOP forecasts that industrial net absorption will total just 62.8 and 49.1 million square feet in 2024 and 2025, respectively.** However, NAIOP's economists note that the "forecast represents a relative 'cooling' trend following what had been a protracted period of above-average industrial absorption." Further, they suggest that "the projected slowdown in net absorption reflects more of a 'return to normal' than a negative outlook for occupiers of industrial real estate."

Financials

INDUSTRIAL: TRANSACTION VOLUME

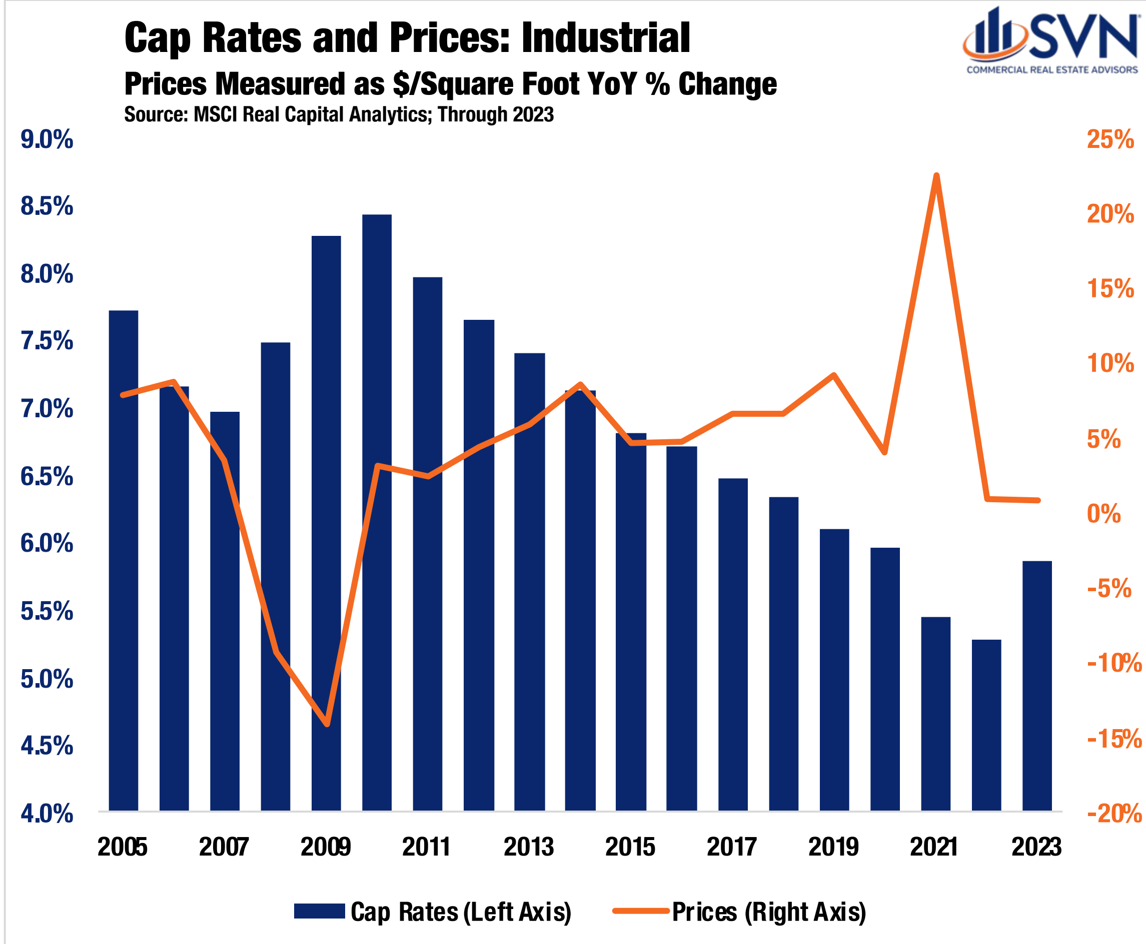
According to MSCI Real Capital Analytics, industrial transaction volume totaled $90.2 billion in 2023 — decreasing 43.8% year-over-year. Last year marked the second consecutive annual pullback, with 2023's volume sitting 51.3% below the 2021 peak ($185.1B).

However, compared to pre-pandemic trends, the 2023 drop-off does not appear as dramatic. Industrial transaction volume was only 23.4% lower in 2023 than in 2019. Moreover, annual deal volume routinely sat below $80 billion as recently as 2017. Altogether, **while the 2023 transaction volume dip was severe, it was driven by cyclical interest rate factors and does not reflect any sector-specific structural deterioration.**



INDUSTRIAL: CAP RATES AND PRICES

Despite the long-term optimism surrounding industrial, the sector's cap rate profile was subject to the same market forces that saw yields rise for all other commercial property types. After industrial cap rates sank to a new annual low of 5.3% in 2022, rising capital costs caught up to the sector in 2023, forcing property-level yields back up to 5.9%. **In total, cap rates rose by 58 basis points last year — marking the largest one-year increase since MSCI Real Capital Analytics began tracking the sector in 2001.**



As cap rates have risen, pricing momentum has also slowed. However, a feather in the cap of the industrial sector is that it was the only property type with rising valuations in 2023 — even if only marginally. Increasing by just 0.8% from the year prior, **average industrial asset valuations rose to $152 per square foot (PSQFT) in 2023 — reaching a new all-time high.** Compared to the last full year before the pandemic (2019), industrial asset prices are up by $35 PSQFT (+29.5%), underscoring just how much momentum the sector has captured in recent years.

Regional Performance

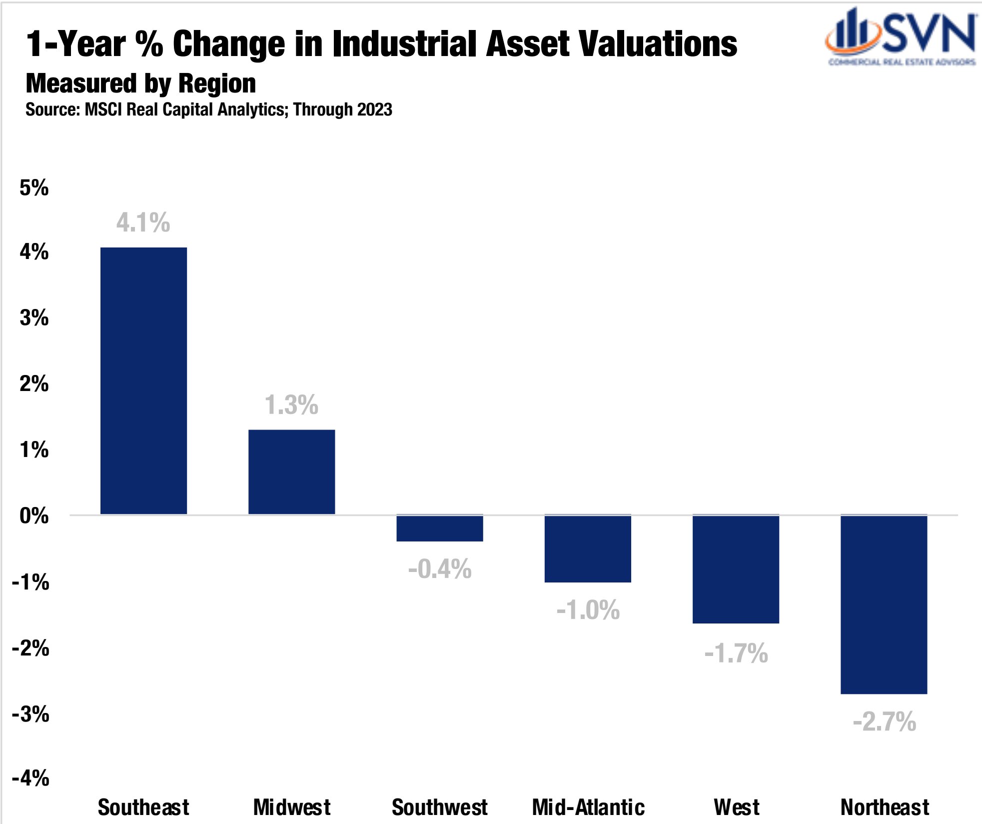
In the development of the industrial regional rankings, the SVN Research Team utilized a scoring matrix. The matrix offers a comprehensive view of how regional markets performed within the context of growth from a year earlier. The three following criteria were included in the matrix:

1. Transaction Volume: 1-Year % Change
2. Cap Rates: 1-Year Change
3. Pricing: 1-Year % Change

2024 Regional Market Rankings: Industrial

Source: SVN Research, MSCI Real Capital Analytics; Through 2023

Rank	Region
1	Southeast
2	Mid-Atlantic
3	Northeast
4	Midwest
5	West
6	Southewest



TOP PERFORMERS: SOUTHEAST

For the second year in a row, the Southeast industrial sector reigns supreme. Above all else, resilient pricing momentum was the region's most impressive accolade last year. On average, industrial asset prices across the region gained 4.1% in 2023. Notably, the Midwest was the only other region to see industrial prices grow (+1.3%).

The Southeast had many standout markets, but Birmingham stood above the rest, with industrial asset valuations rising 7.9% last year. Florida's Palm Beach County (+6.9%) and Miami/Dade County (+6.5%) both posted strong years, and Charlotte (+5.9%) was not far behind.

Industrial transaction volume (-41.7% year-over-year) also held up better in the Southeast than all regions besides the Northeast in 2023. Jacksonville managed to post a transaction volume increase of 5.2%, while Charlotte and Birmingham each saw mild pullbacks of -7.4% and -11.0%, respectively.

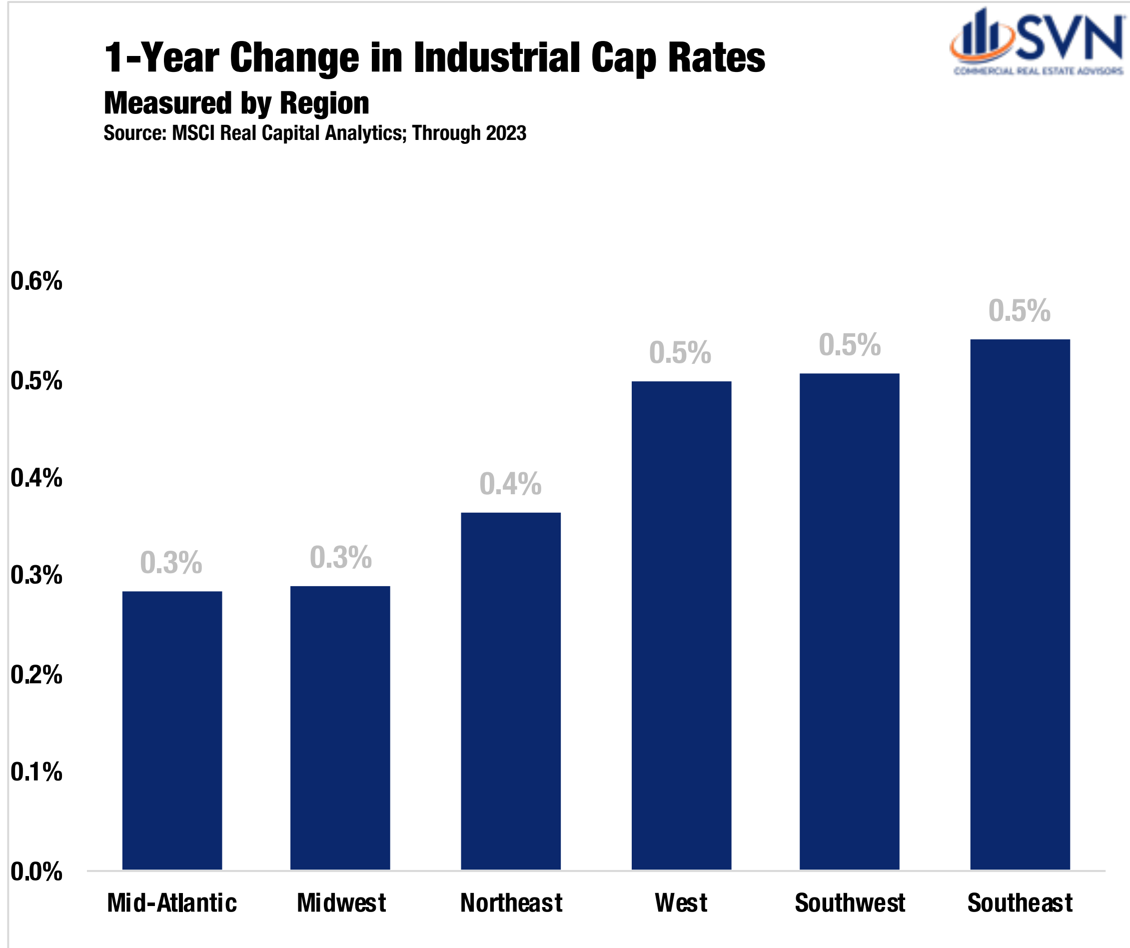
TOP PERFORMERS: MID-ATLANTIC

The Mid-Atlantic arrives at the podium thanks to its **cap rate resiliency.** On average, industrial cap rates in the region rose by just 28 bps — less than half the magnitude of the national increase (+58 bps).

The Mid-Atlantic also had many bright spots on the pricing front, especially near the outskirts of Washington, DC.

The DC suburbs in Virginia saw industrial asset prices spike by an impressive 7.8% last year.

Meanwhile, the DC suburbs in Maryland also saw a noteworthy average price increase of 4.8%. Industrial pricing growth appeared in other pockets of the region further away from the nation's capital as well, with Pittsburgh (+5.9%) appearing as a standout.



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