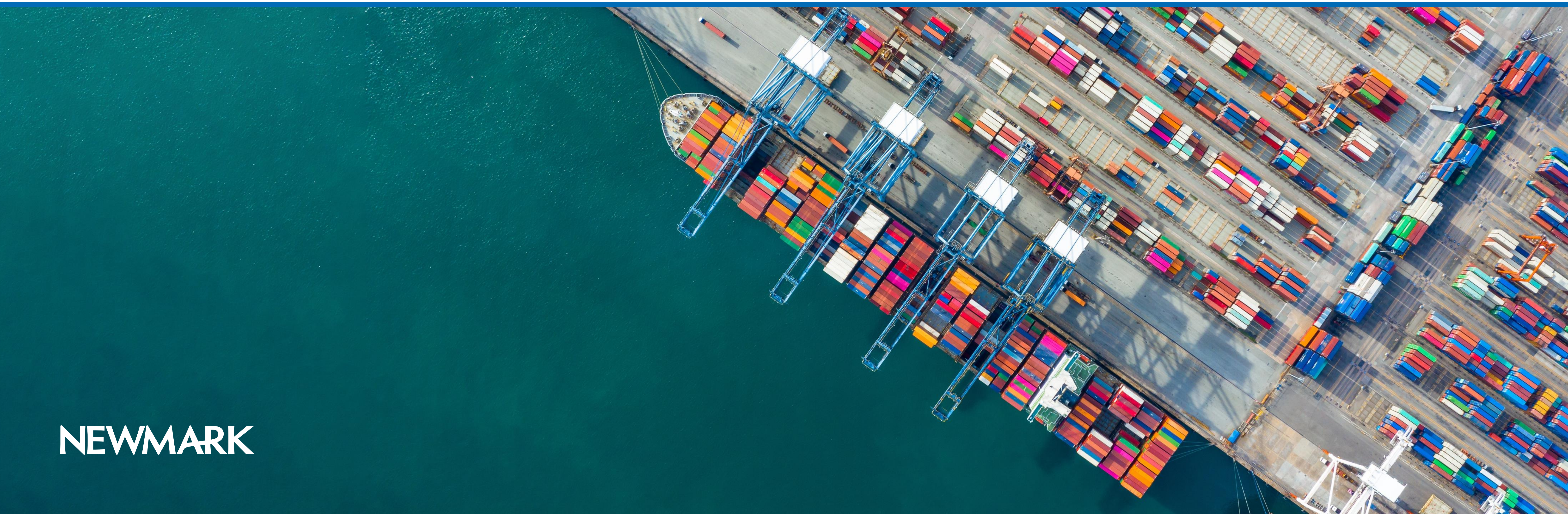
2Q24

The U.S. Industrial Market: Conditions & Trends



Market Observations

Economic Conditions and Demand Drivers

- The economy continues to present mixed signals on the future of expansion. Consumer spending, industrial production, and inflation readings all positively exceeded expectations in the second quarter of 2024. However, the labor market is cooling and firms continue to grapple with high interest rates, contributing to higher bankruptcies.
- Container traffic at U.S. ports has surged to its highest level in two years as shippers hedge against disruption and retailers gradually build up inventories to normal levels. Annualized growth in imports is forecast throughout the latter half of the year.
- Manufacturing construction spending continues to hit new heights, measuring $121.5 billion in May 2024, nearly double the pre-pandemic 5-year average. The South is collecting the lion's share of this investment, where manufacturing growth is also driving additive demand for industrial space.

Capital Markets

- The second quarter ushered in $20 billion in sales volume. This was the eighth consecutive quarter of annualized declines, but a 14% gain QoQ, the strongest quarterly uptick since 4Q 2021. With renewed anticipation of rate cuts this year, investor sentiment is improving and translating to greater activity.
- Industrial cap rates have stabilized and show signs of compression: private-market industrial cap rates came down 10 bps quarter over quarter to 5.5%.
- Industrial debt originations languished in 2023 but have come roaring back in the first half of 2024 at an estimated $43.2B, a substantial increase over 1H 2023.

Leasing Market Fundamentals

- Nationally, absorption measured 38.3 MSF, 42% higher than the previous quarter, although still 40% off quarterly averages from 2017 to 2019. Preleased deliveries are demonstrating outsized contribution to total net absorption, driving over 100 MSF of new occupancy year-to-date. Conversely, older buildings, particularly those constructed before 2000, registered net move-outs of 41 MSF.
- Vacancy continues to increase as new supply puts pressure on fundamentals. Vacancy rose to 6.4% in the second quarter of 2024, on the heels of 112 msf in new deliveries..
- Asking rent growth continues to decelerate, measuring 4.6% annually, the slowest growth since 2020. Rents, particularly in bulk space, will likely see a modest reset this year.

Outlook

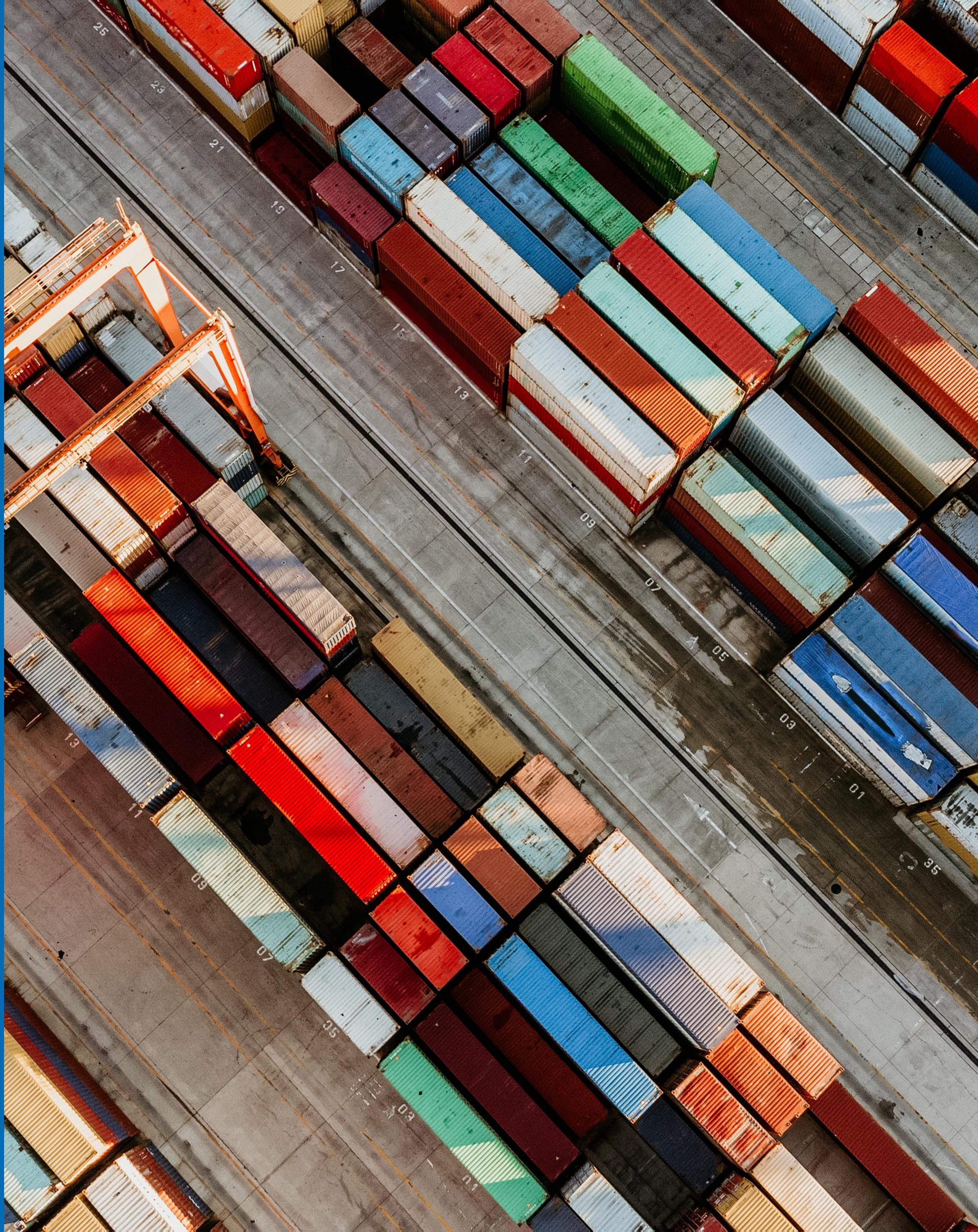
- Vacancy will rise another 10 to 20 basis points by year-end, but is likely nearing the cyclical peak. Supply – both in deliveries, and in development – will fall back to pre-pandemic levels by 2025.
- Industrial employment has seen modest gains year to date. In the second half of 2024, potential strikes threaten East Coast port and transcontinental rail activity. Underlying trends continue to reshape the manufacturing workforce composition. Since 2016, the number of PhDs in the sector has surged by over 50%, reflecting shifts from manual labor to more technologically advanced roles.
- Record commercial real estate loan maturities are coming due between now and 2026. However, among all property types, the industrial sector has the lowest share of potentially troubled loans maturing.

TABLE OF CONTENTS

1. Economic Conditions 4
2. Industrial Demand Drivers 13
3. Leasing Market 24
4. Capital Markets 49

2Q24

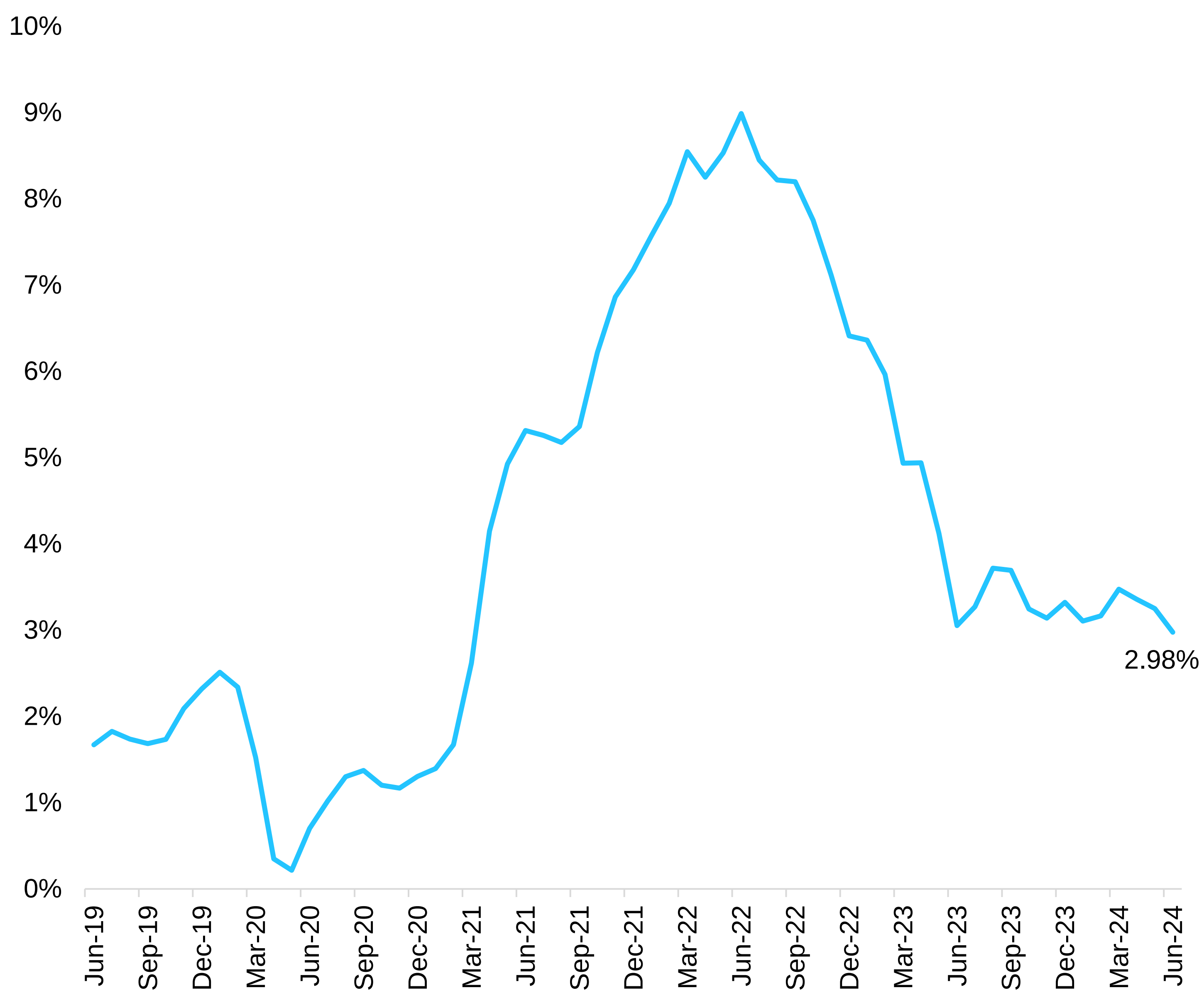
Economic Conditions



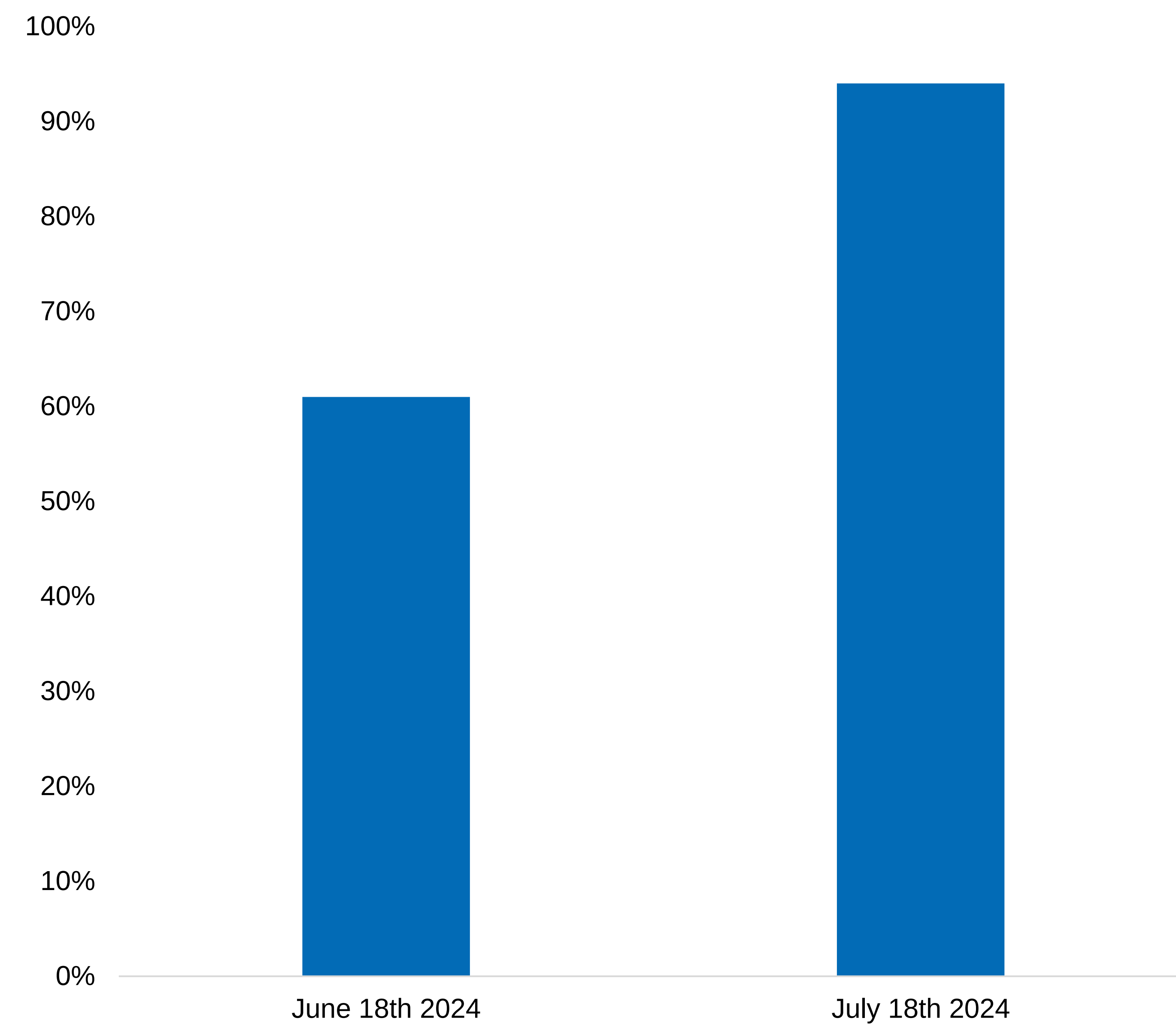
Inflation Results Animate Rate Cut Expectations

After reaccelerating in the first quarter of 2024, U.S. consumer prices fell month over month for the first time in four years from May to June and posted a more subdued 2.98% year over year increase. Inflation remains above the Fed's 2.0% target, but financial markets saw a high probability of the Fed easing rates in September.

Consumer Price Index, YOY Change



Probability of Target Rate Cut to 5.0 – 5.25% During September Fed Meeting



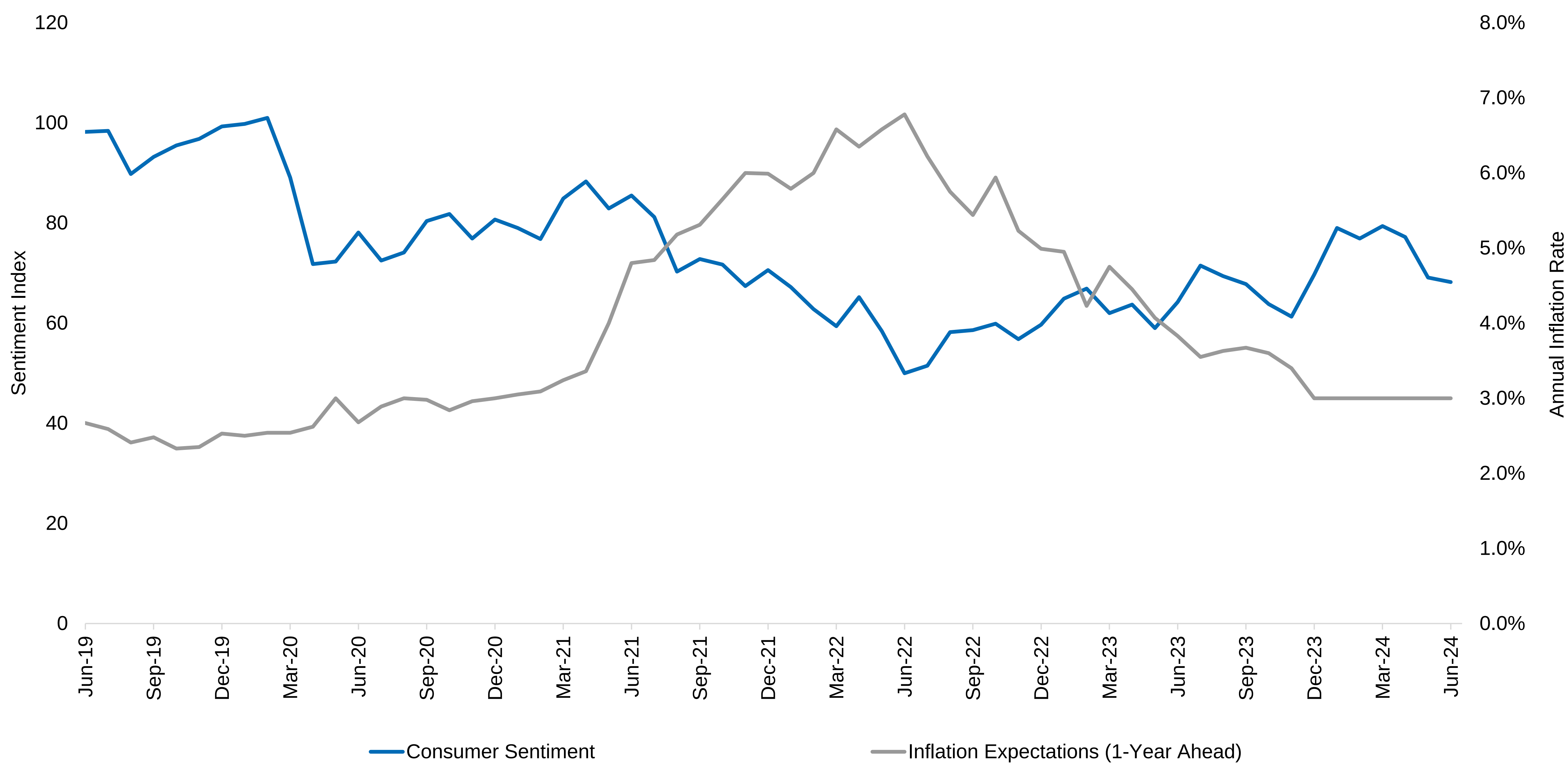
Source: Newmark Research, FRED, CME FedWatch Tool, July 2024.

Markets Are Always Pricing a Range of Scenarios

Positive Inflation News Could Be The Boost Consumer Sentiment Needs

Consumer sentiment has trended downward since the start of the year due to frustration with still-high inflation. Better-than-expected results on inflation figures may positively impact sentiment in the second half of the year, although economic and political uncertainness persists.

Consumer Sentiment and Inflation Expectations

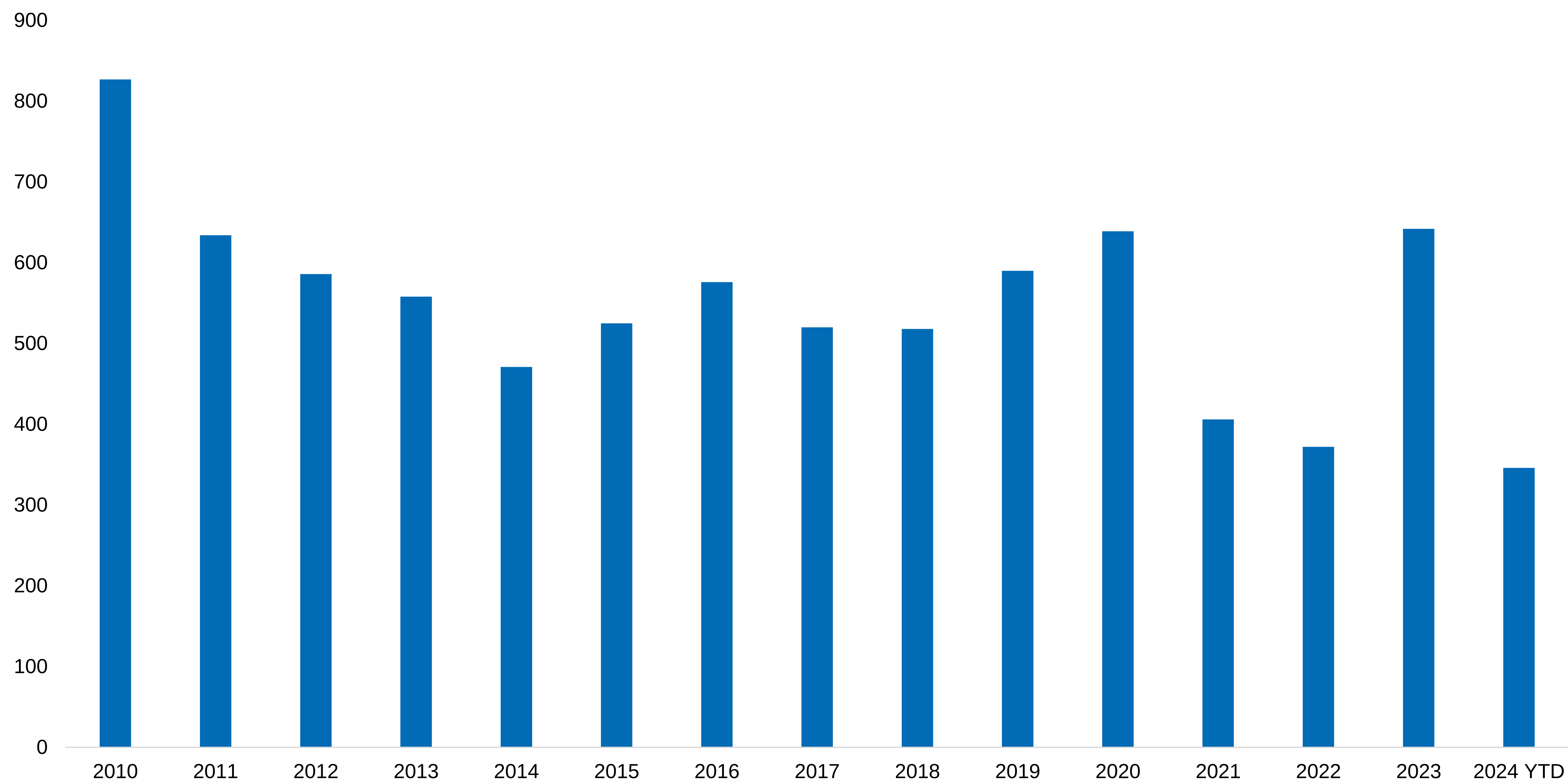


Source: Newmark Research, Federal Reserve of NY, University of Michigan, July 2024.

U.S. Bankruptcy Filings Post Concerning Acceleration

The 346 filings in the first half of 2024 is higher than any comparable figure in 13 years. High interest rates, operational challenges and slowing consumer spending in some segments continue to weigh on firms. Electric-vehicle maker Fisker was among notable bankruptcies in the second quarter; the EV market has and will continue to see diverging corporate outcomes amid overall industry evolution.

U.S. Bankruptcy Filings by Year

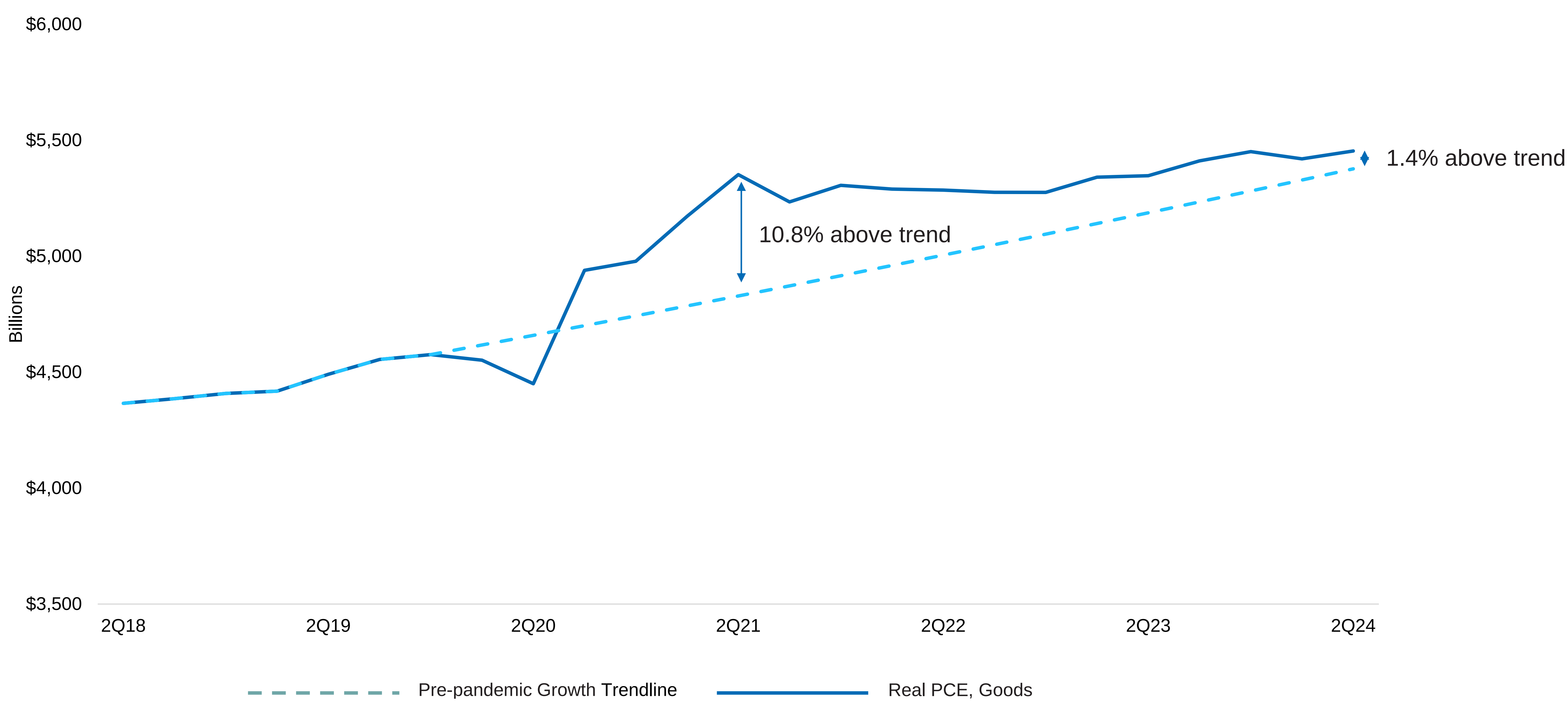


Source: Newmark Research, S&P Global. July 2024.

Consumers Are Feeling the Pressure, but Spending on Goods Remains Resilient

Inflation-adjusted spending on goods in the second quarter of 2024 modestly increased over the first quarter and remains 1.4% above the pre-pandemic trendline.

Real Personal Consumption Expenditures, Goods

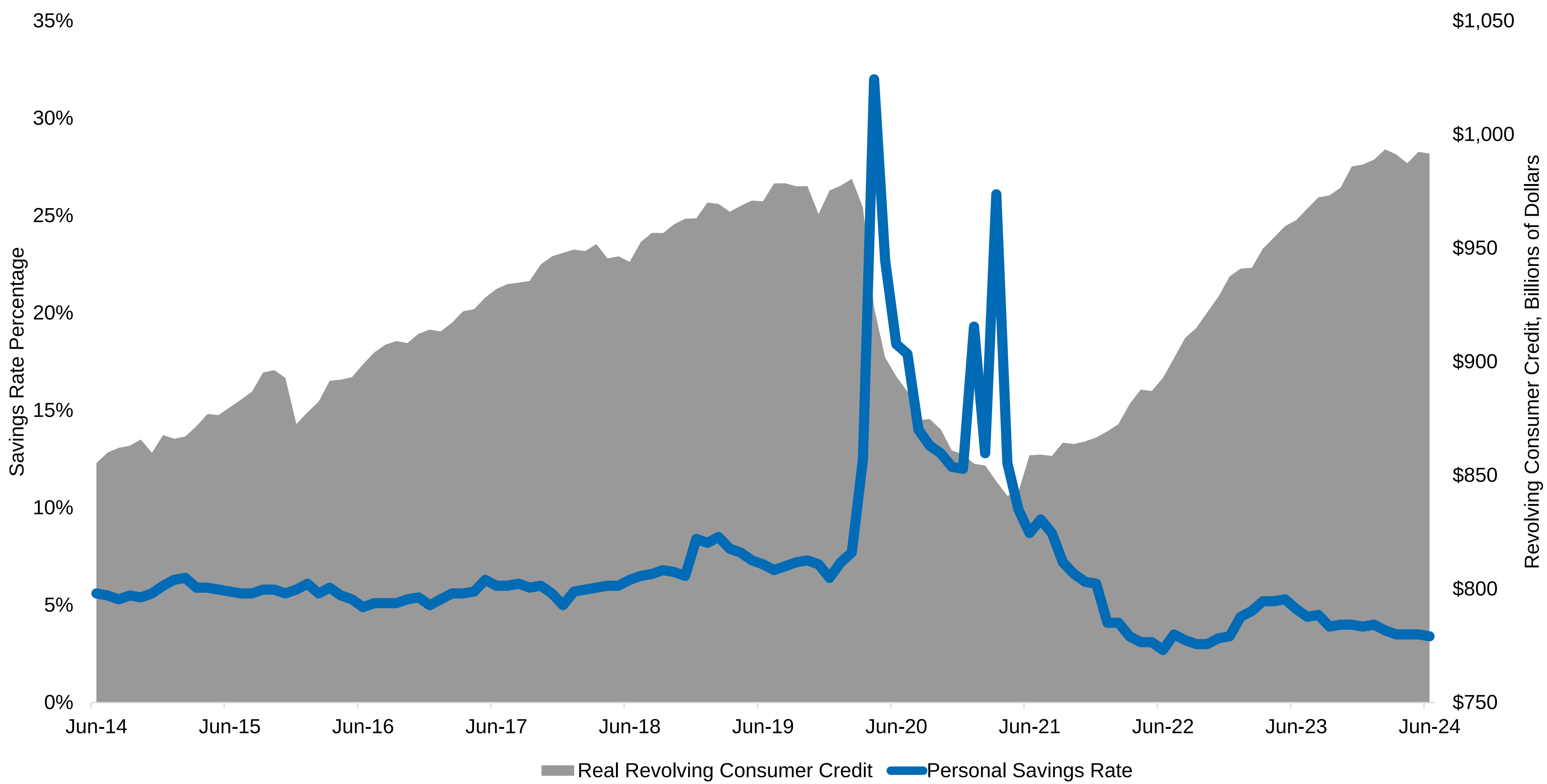


Source: St. Louis Federal Bank, Newmark Research, August 2024.

Spending is Increasingly Subsidized by Credit

Consumers have been increasingly relying on credit to sustain spending as savings dwindle. Over the last year, approximately 9.1% of credit card balances transitioned into delinquency, according to the Federal Reserve Bank of New York.

Personal Savings Rate and Real Consumer Revolving Credit

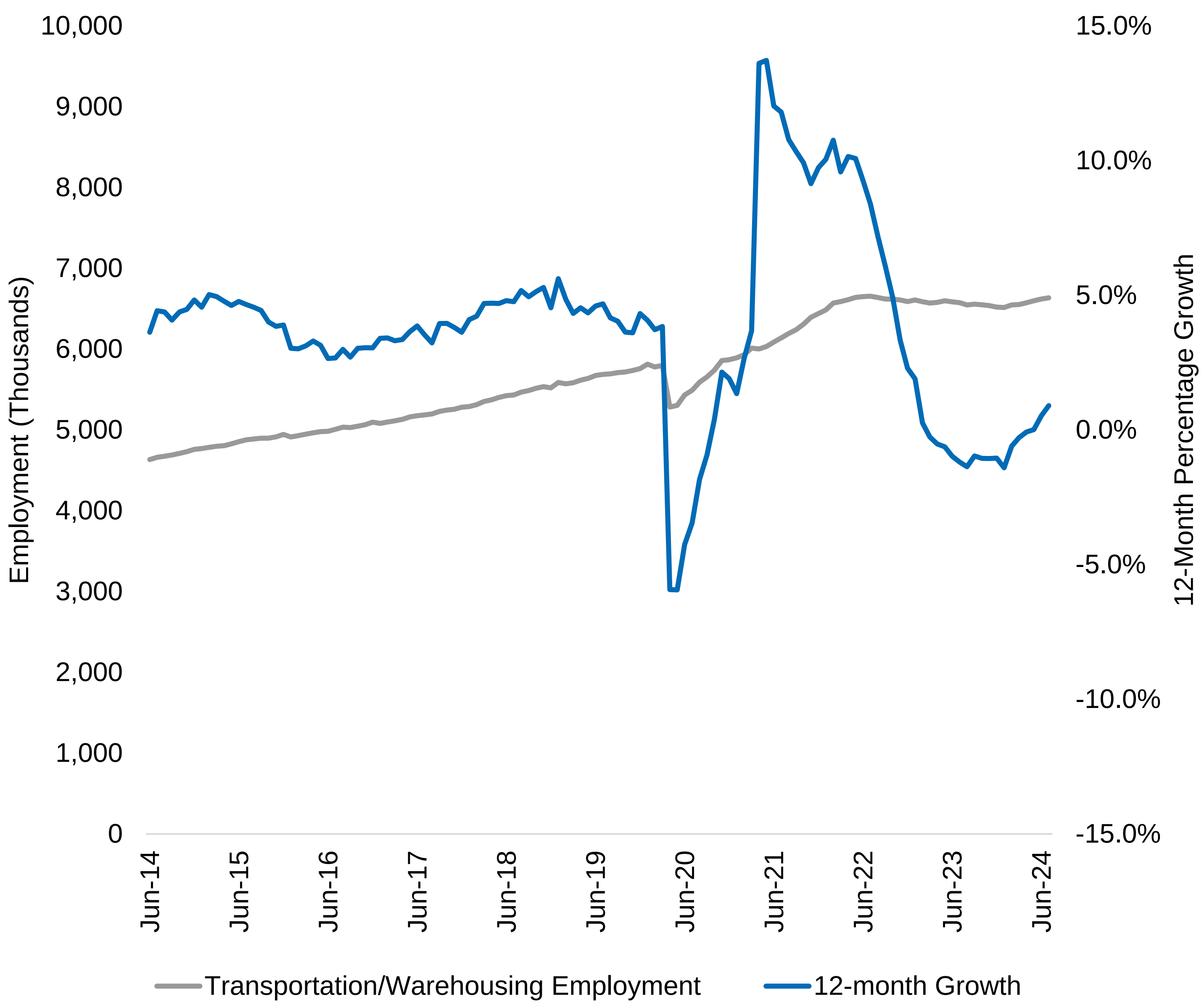


Source: St. Louis Federal Bank, Newmark Research, August 2024. Revolving consumer credit deflated by CPI=2012.

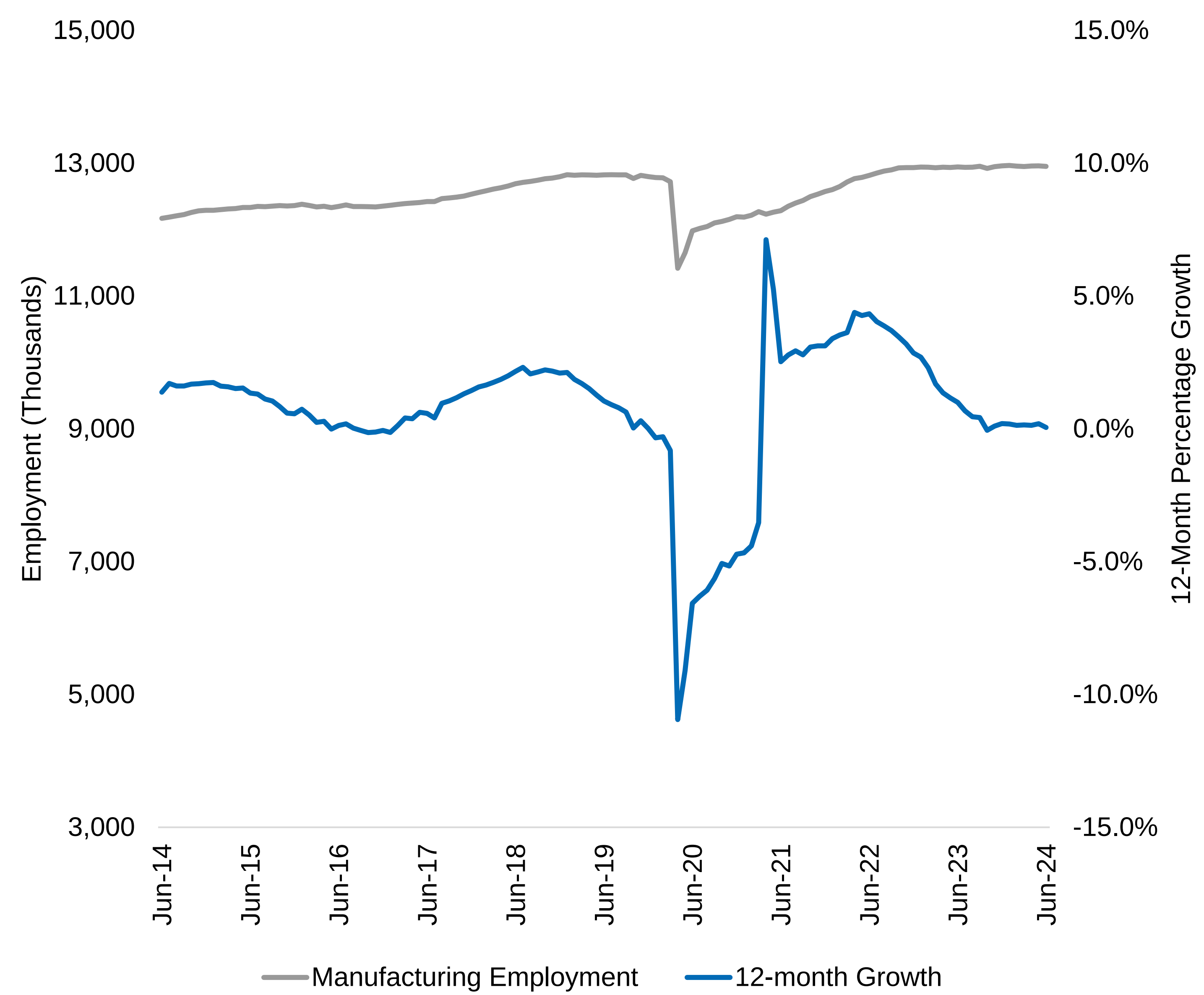
Logistics Employment Freeze Thawing; Industrial Staffing Continues Recalibration

Industrial employment has seen modest YTD gains, particularly the logistics sector. Manufacturing employment remains flatter, although underlying trends continue to reshape the workforce composition. Since 2016, for example, the number of PhDs in the sector has surged by over 50%, reflecting shifts from manual labor to more technologically advanced roles.

Total Employment and 12-Month Growth Rate, Transportation/Warehousing



Total Employment and 12-Month Growth Rate, Manufacturing



Source: Newmark Research, U.S. BLS, The Economist, August 2024.

Industrial Production Exceeds Expectations

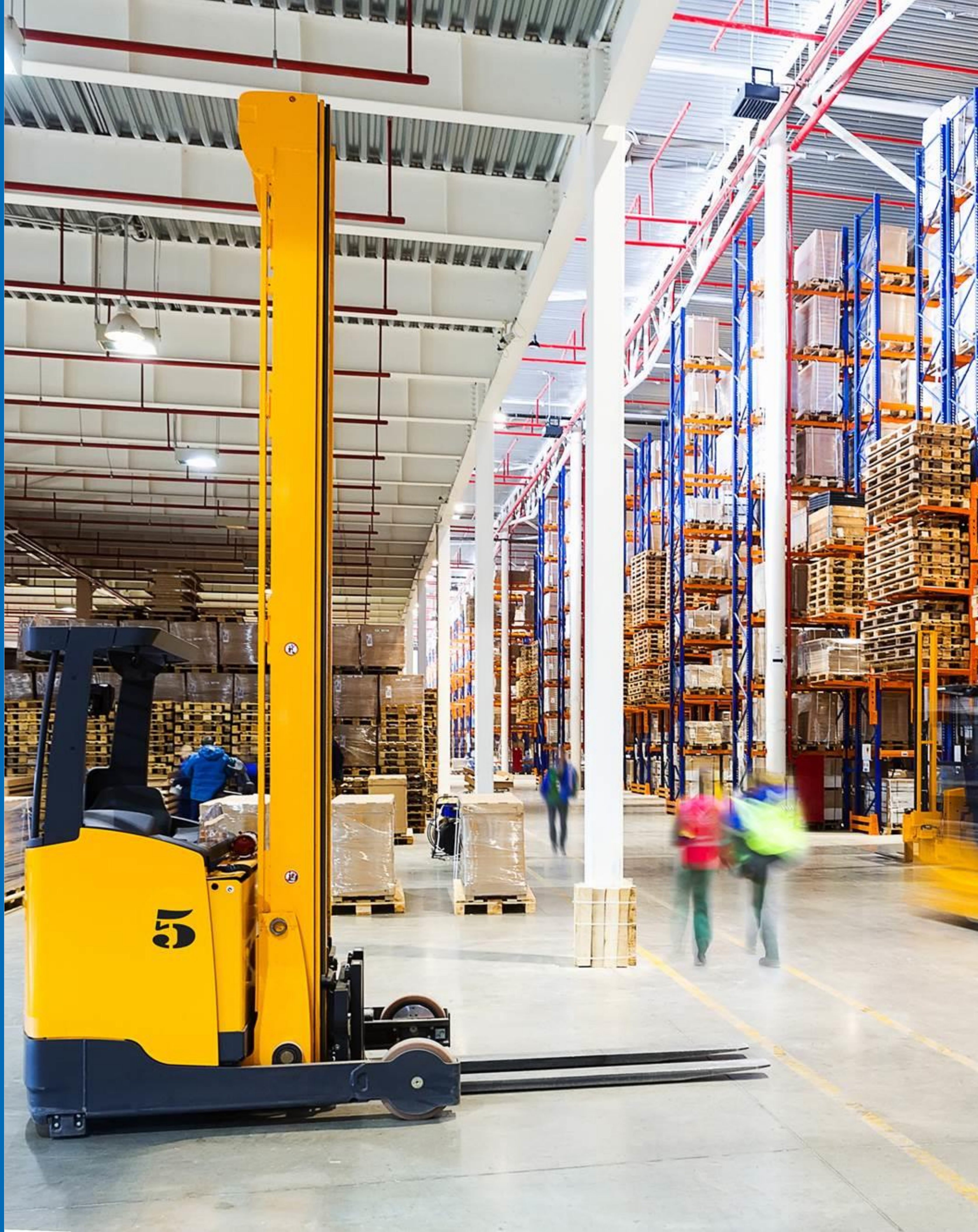
Industrial production climbed 1.6% year over year, surpassing its prior peak in this cycle reached in September 2022. All contributing sectors to this index – manufacturing, mining and utilities – showed gains.

U.S. Industrial Production Index

Source: Newmark Research, FRED, July 2024.
Note: Index 2017=100, Seasonally Adjusted

2Q24

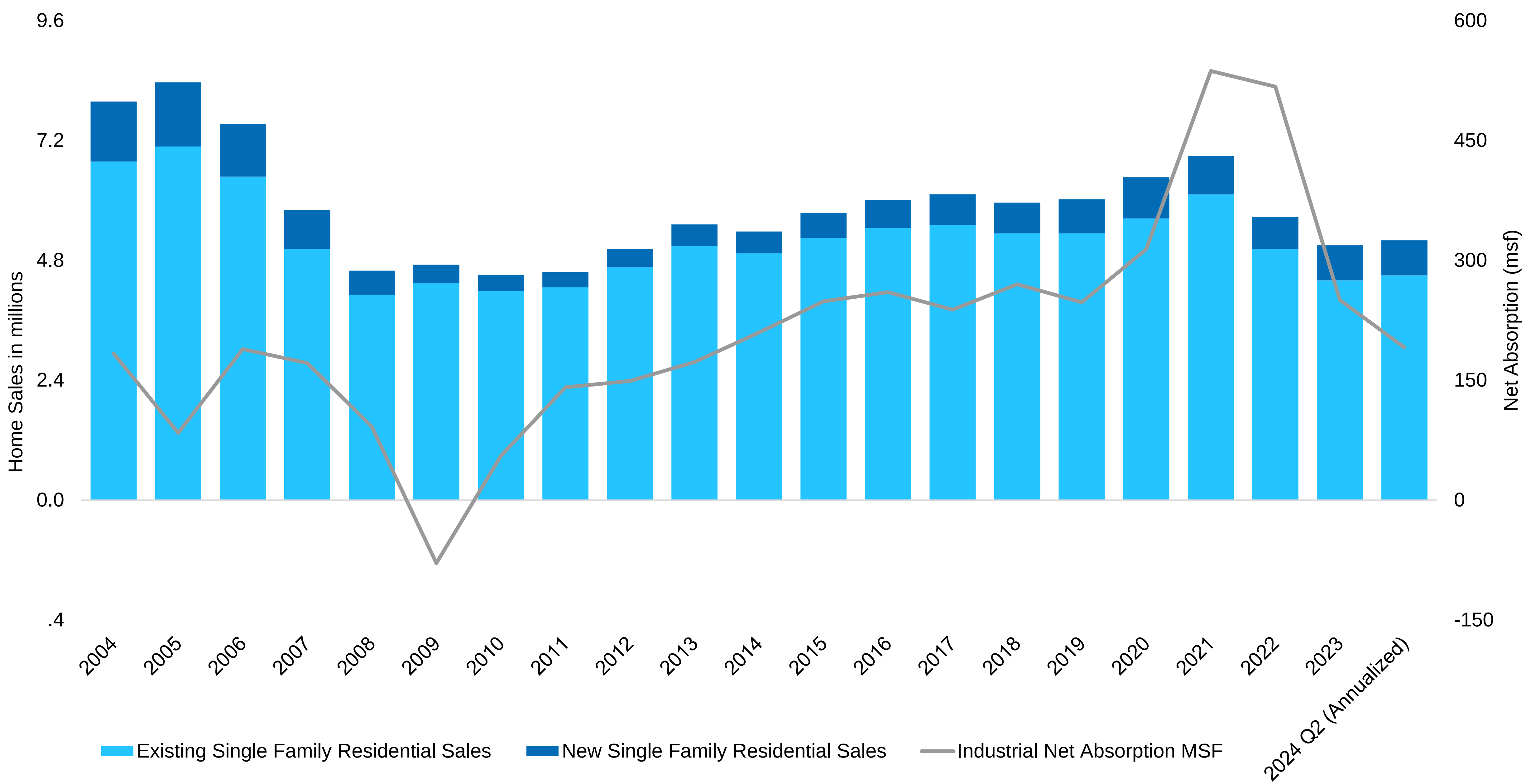
Industrial Demand Drivers



A Persistently Difficult Housing Market Has Implications For Industrial Demand

Home sales drive a significant amount of goods consumption and thus, industrial demand. Sales have been slowing since a cyclical peak in 2021 because of high mortgage rates, elevated home prices and a limited inventory of homes for sale. In June 2024, just 12% of consumers said it was a good time to buy a home, according to the University of Michigan's consumer sentiment survey.

Single Family Residential Sales and Industrial Net Absorption[1]



[1]Single Family Residential Sales not seasonally adjusted.
Source: Newmark Research, CoStar, St. Louis Federal Bank, National Association of Realtors, U.S. Census Bureau, August 2024.

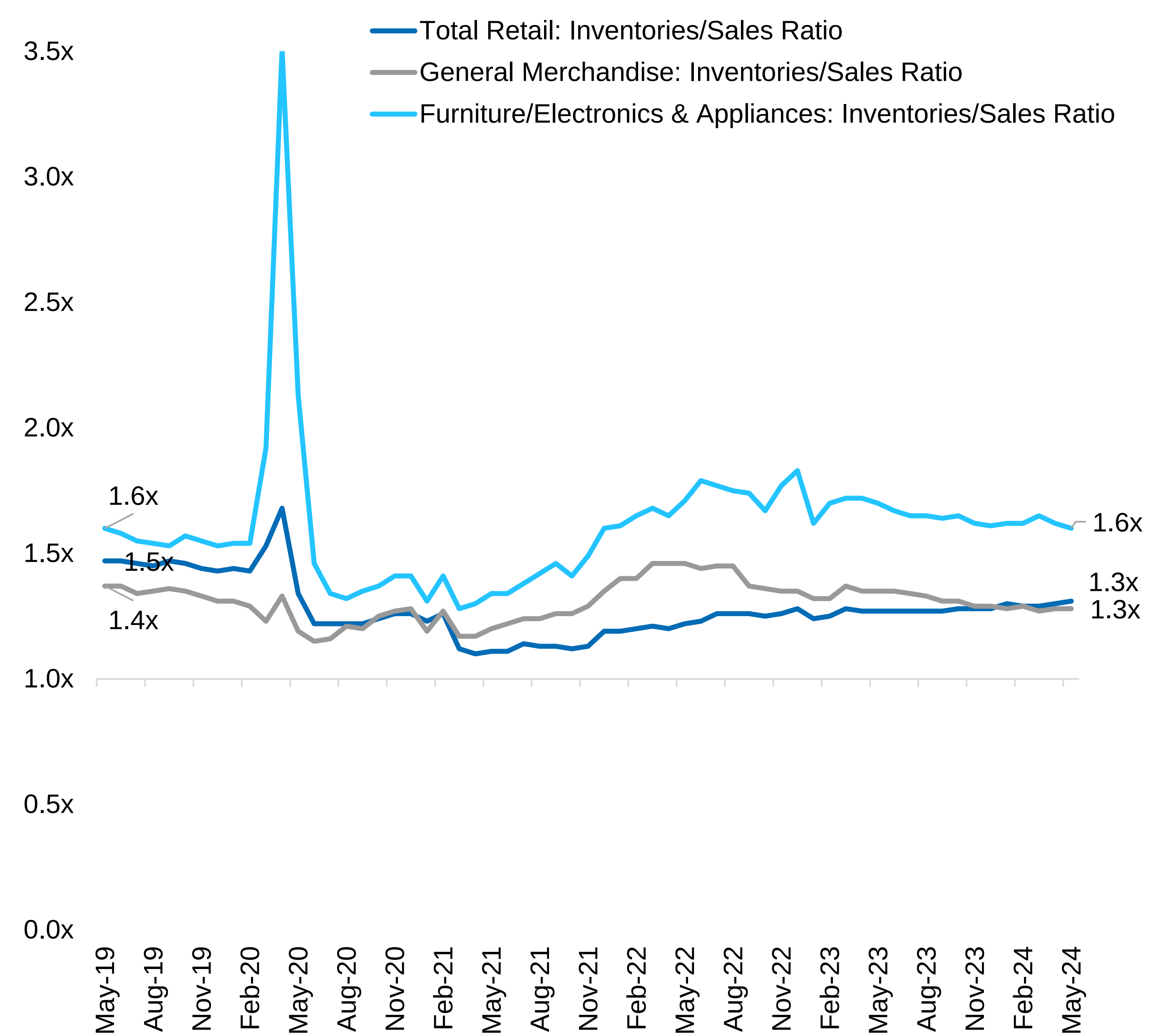
Retail Imports Forecasted to Continue Growing YOY Through the Second Half of 2024

Please reach out to your
Newmark business contact for this information

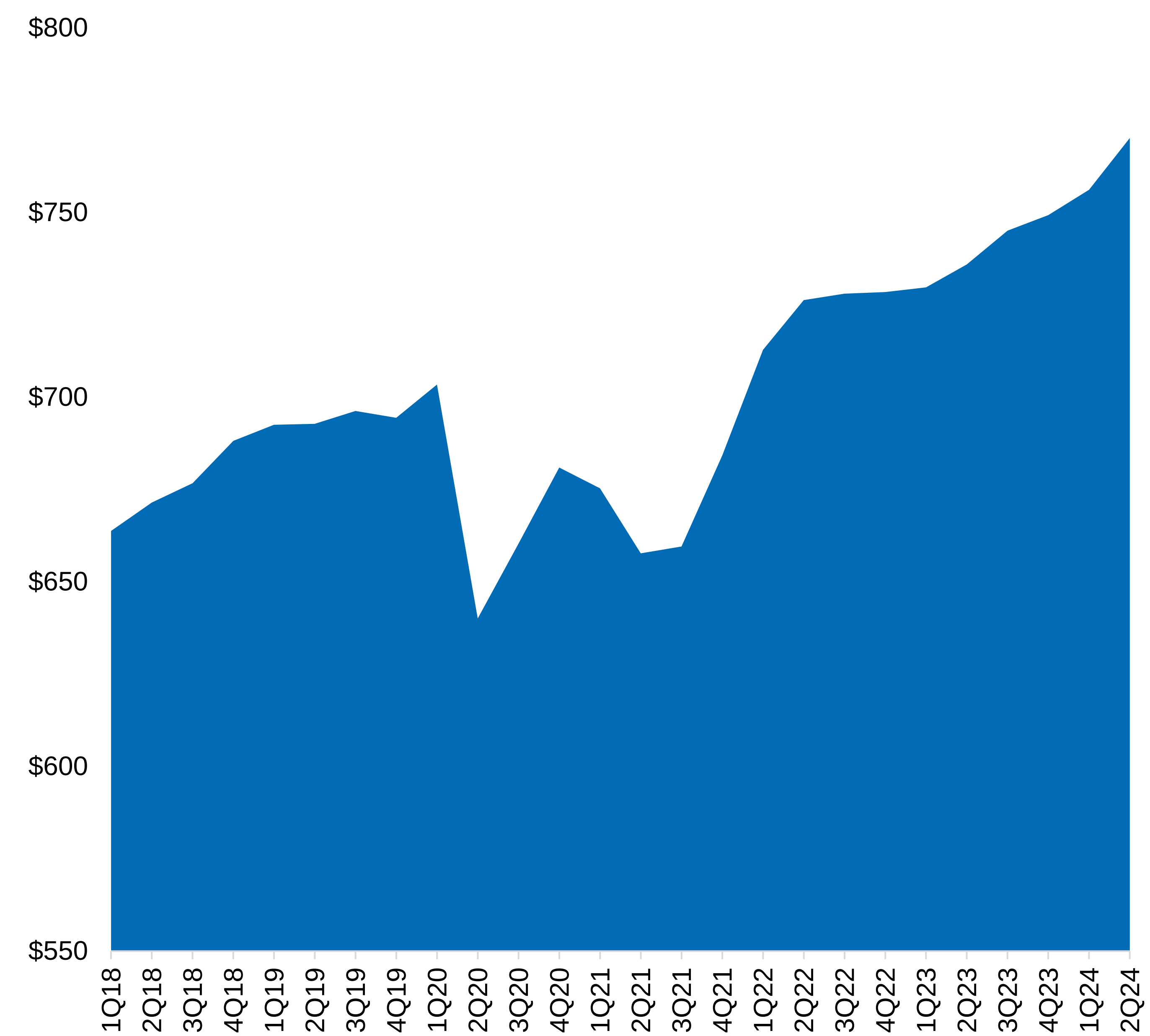
Inventories Grow As Product is Brought In Ahead of Potential Disruption and Tariffs

Inventory to sales ratios for certain retail segments are below pre-pandemic levels, encouraging the increase of volumes ahead of peak shipping season. The effect is visible in real private inventories growing at a faster clip in the first half of 2024.

Inventories to Sales Ratio, Total Retail and Sector-Specific



Real Private Inventories: Retail ($B)



Source: Newmark Research, Board of Governors of the Federal Reserve, St Louis Federal Reserve, July 2024.

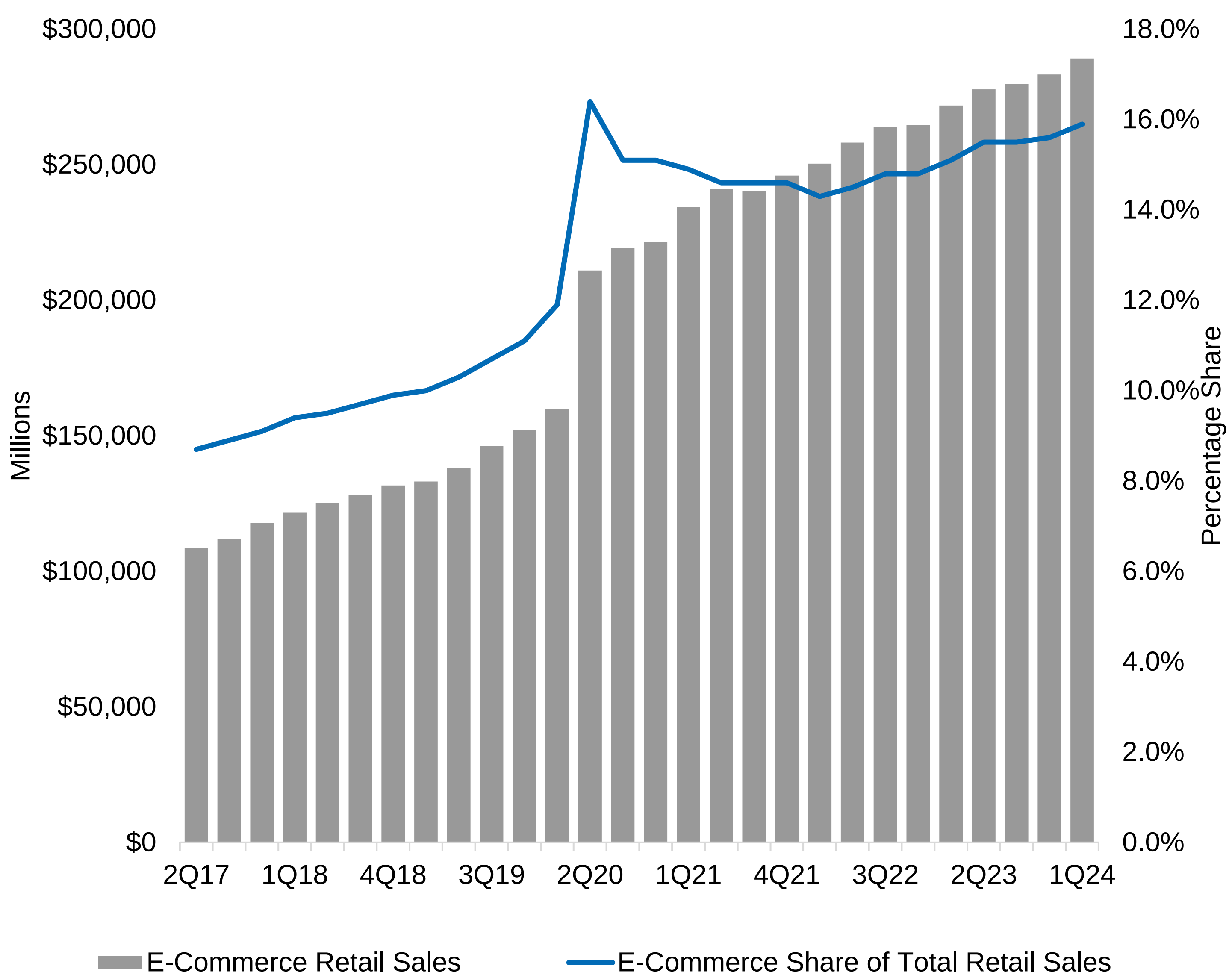
Import Market Share Has Been Shifting Eastward

Please reach out to your
Newmark business contact for this information

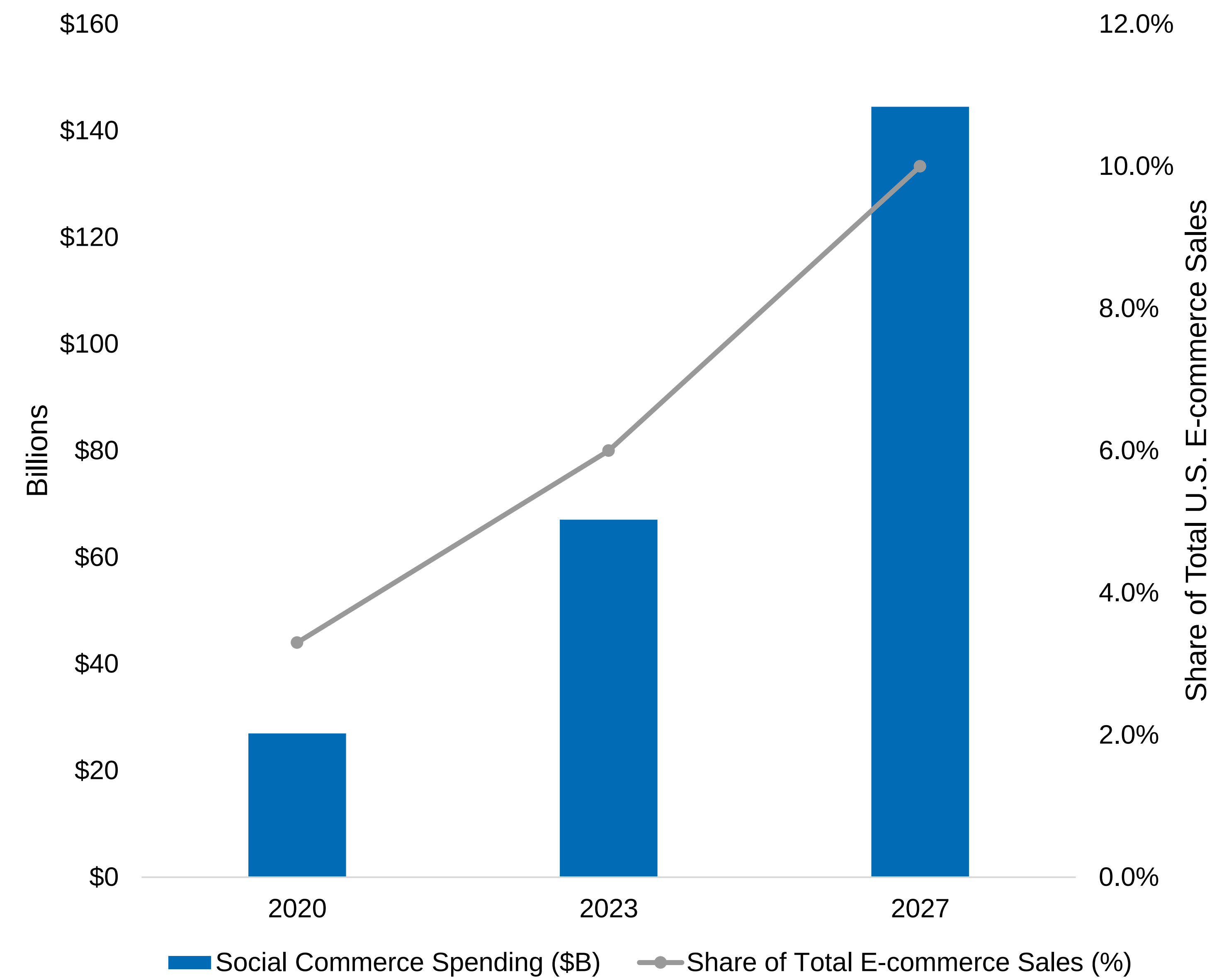
Evolving Trends, New Players within E-Commerce to Continue Driving Demand

Consumer spending increasingly mixes in-store, online and omnichannel behaviors as major retailers invest in all those options. Overall, nearly 42% of e-commerce orders last year involved stores, up from about 27% in 2015. New e-commerce entrants – in particular, social media platforms monetizing their global audiences - are joining the playing field. At a forecasted 6.7% CAGR over the next few years, e-commerce growth will continue to drive industrial demand. An estimated 1.2 msf of logistics space is needed to support every additional $1.0 billion in e-commerce sales gains.

E-commerce Sales and Share of Total Retail Sales



Social Commerce Sales and Forecasted Growth ($B)

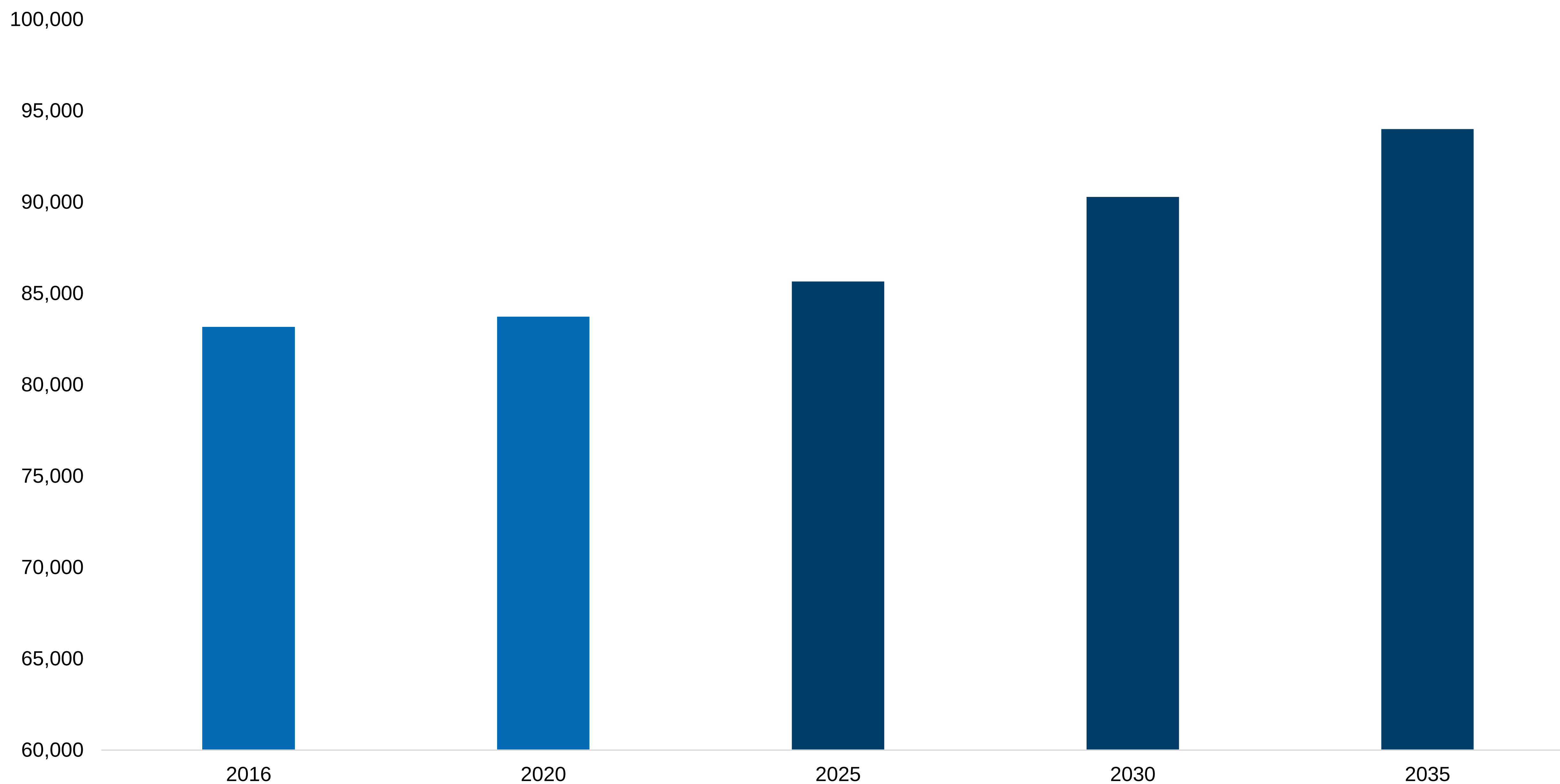


Source: U.S. Census Bureau, St. Louis Federal Bank, Green Street, GlobalDaTA, Emarketer, August 2024.

Millennials, the Leading E-commerce-Using Cohort, Enter Top Spending Years

For consumers, spending power peaks between ages 35 and 54. Millennials, the largest generation in the U.S. workforce, will be fully aging into this cohort between now and 2035. Millennials are the leading generation of online shoppers, thus e-commerce spending (and the industrial real estate needed to support) will continue to be fueled by this group's prime spending years.

U.S. Population and Projections, Age Cohort 35-54 (Thousands)

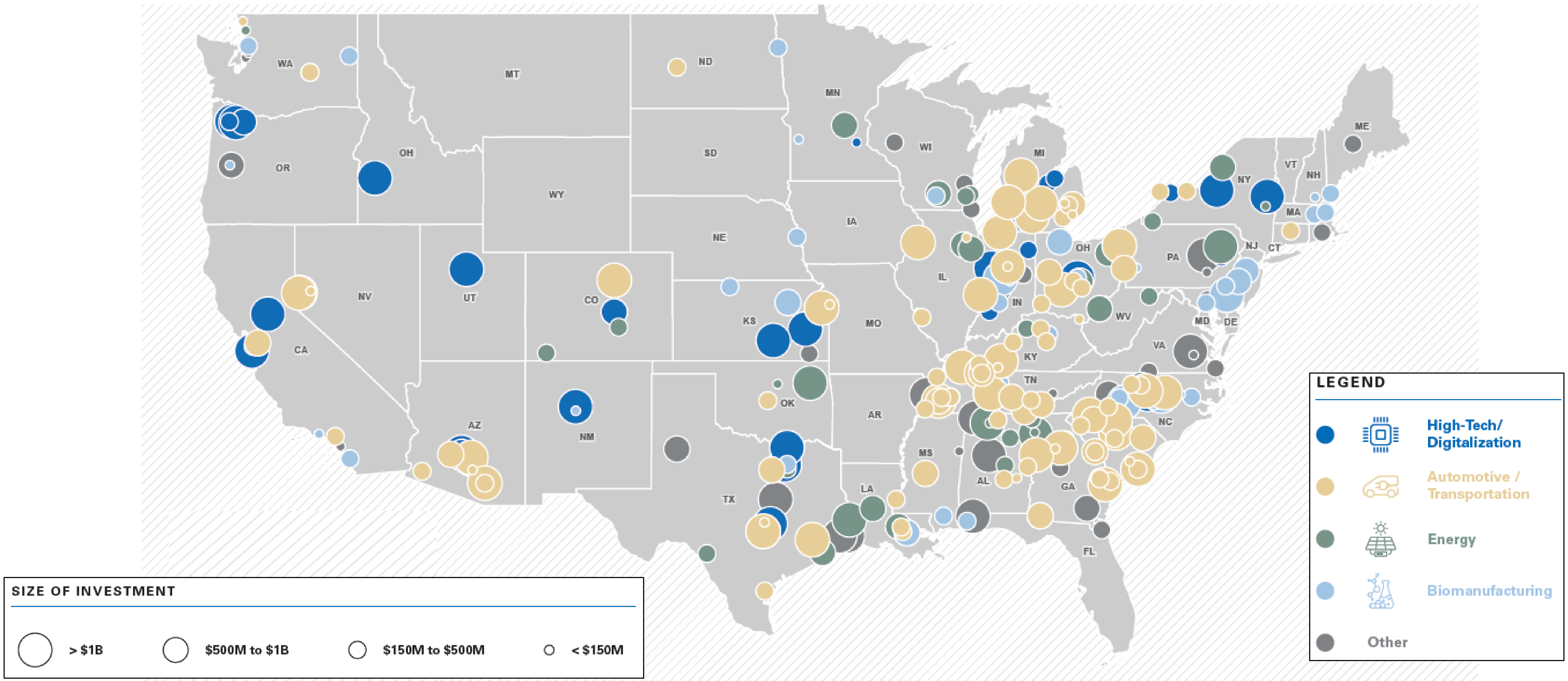


Source: Newmark Research, U.S. Census, Moody's Analytics, Statista

Monumental Growth in Domestic Manufacturing is Underway

A snapshot of initial manufacturing investments totaling a minimum of $100 million since 2020 reveals approximately $530 billion in investments pledged, 270,000+ new jobs and a minimum of 270 MSF of new industrial projects coming online between now and 2030. Four key advanced manufacturing sectors are driving the greatest volumes of investment and development, capturing over 90% of the major investments pledged: High-tech/digitalization, Automotive/transportation; Energy; and Biomanufacturing.

U.S. Major Manufacturing Announcements, 2020-2024 2Q

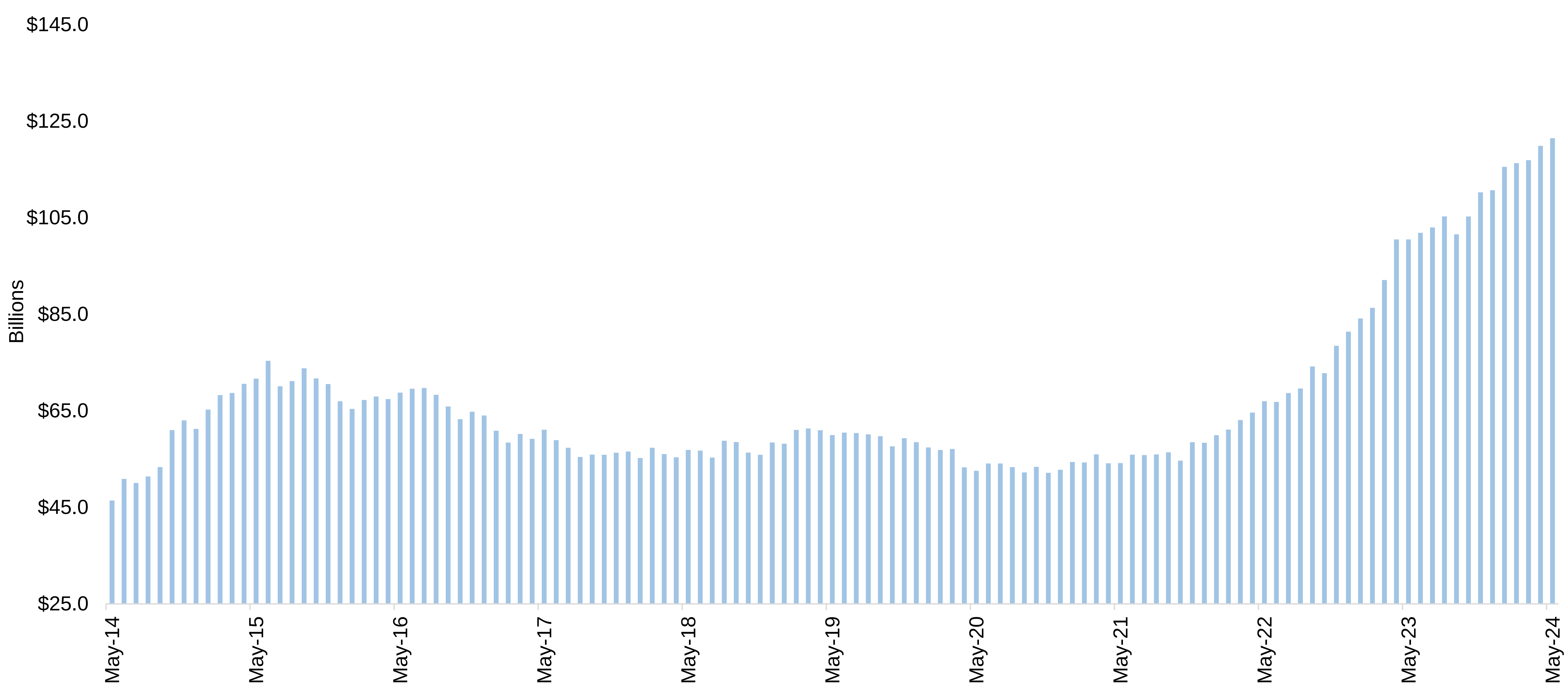


Note: Investments of at least $100 million. Investment dollars may include allocations to real estate and equipment, infrastructure, intellectual property, and other outlays.
Sources: Newmark Research, Newmark Global Strategy & Consulting, various press releases and articles

U.S. Manufacturing Construction Spending Has Surged

Advanced manufacturers are investing heavily in new construction. In real spending, manufacturing construction measured $121.5 billion in May 2024, nearly double the pre-pandemic 5-year average. Growth is driven by private and public investment supported by legislation (Infrastructure and Investment Jobs Act, Inflation Reduction Act and CHIPS and Science Act), prompted by geopolitical and supply chain risk to these critical sectors.

Total Real Private Manufacturing Construction Spending

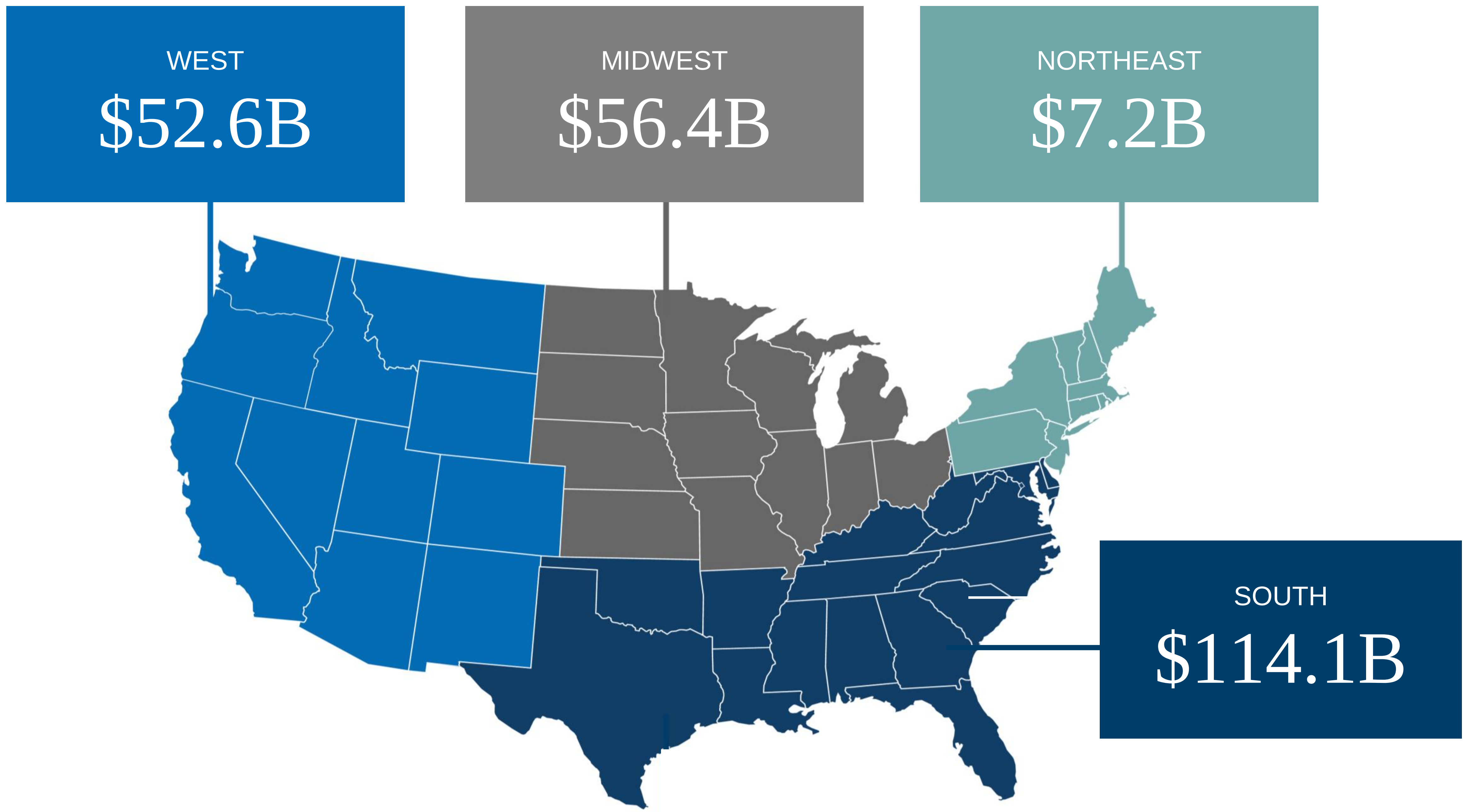


Source: Newmark Research, U.S. Census Bureau, FRED, July 2024.
Note: Seasonally adjusted annual rate deflated by New Industrial Construction PPI, chained to 06/2007.

The South Leads the Nation in Manufacturing Construction Spending

In the last 12 months, Southern states have seen $108 billion in manufacturing construction, nearly as much as the rest of the country combined. Within the South, $53 billion has been spent on manufacturing construction in Greater Texas alone.

Private Manufacturing Construction Spending by Megaregion, May 2023 to May 2024



Source: Newmark Research, U.S. Census, May 2024.

New Project Announcements Continue, While Others Reassess

Please reach out to your
Newmark business contact for this information

2Q24

Leasing Market Fundamentals

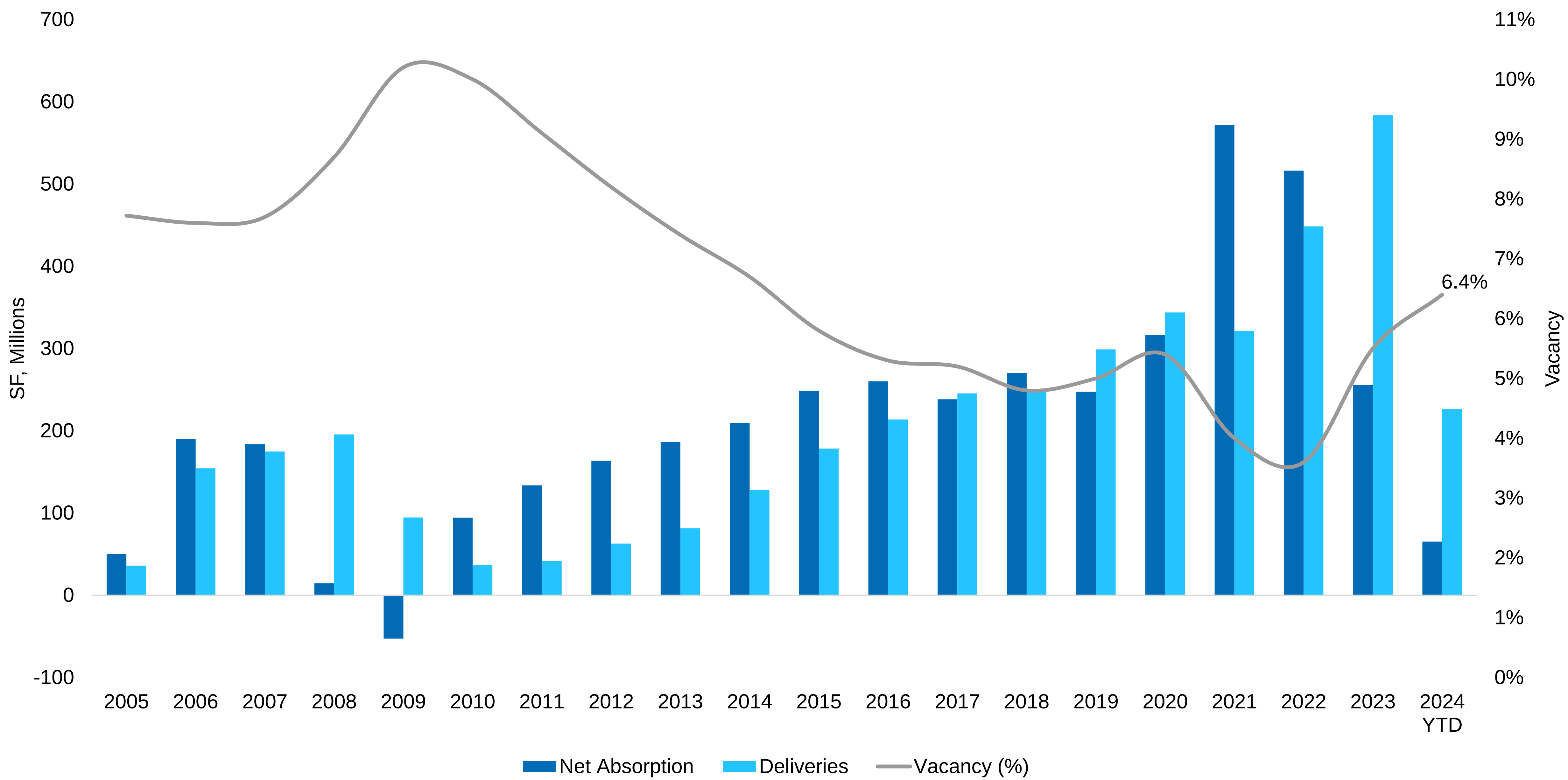
U.S. Industrial Fundamentals: Then and Now

Please reach out to your
Newmark business contact for this information

Net Absorption Rebounds in the Second Quarter of 2024

Quarterly net absorption, measuring 38.3 MSF, was 42% higher than the previous quarter, although still 40% off quarterly averages from 2017 to 2019. New deliveries substantially outpaced demand yet again, which drove the national vacancy rate to 6.4%. Further pressure on the national vacancy rate will come in the second half of the year, but vacancy is not expected to move higher than another 10 to 20 basis points before hitting its peak in this cycle.

U.S. Industrial Deliveries, Net Absorption, and Vacancy

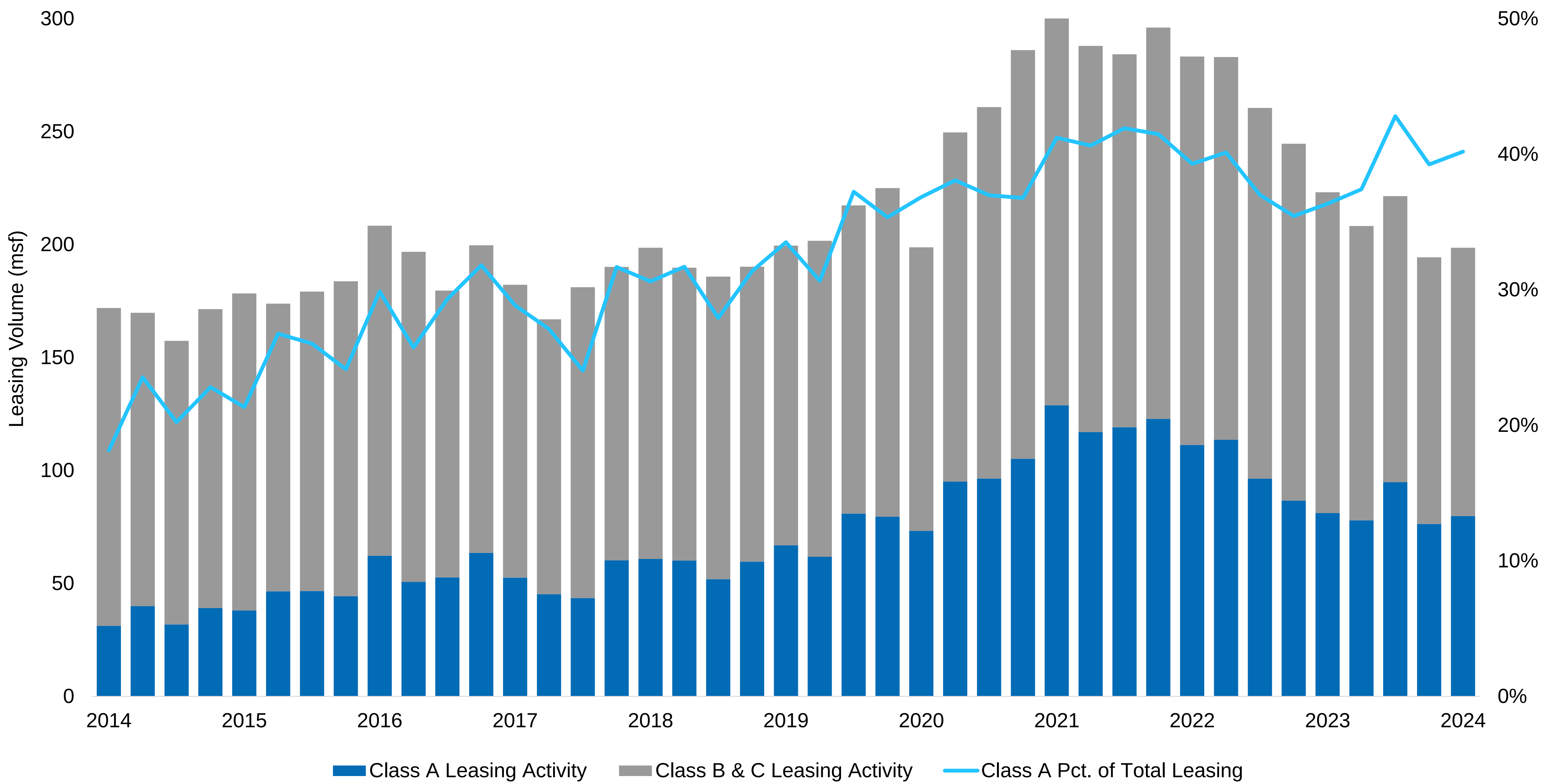


Source: Newmark Research, July 2024.

New Leasing Activity Mounts a Modest Comeback From a Soft First Quarter

The volume of new leases being signed for industrial space is still down compared to one year ago, but up approximately 2% from 1Q and is likely to be revised upwards. In addition, more momentum realized in the back half of the quarter is an encouraging sign for growth to continue in 3Q.

U.S. New Industrial Leasing Activity by Class

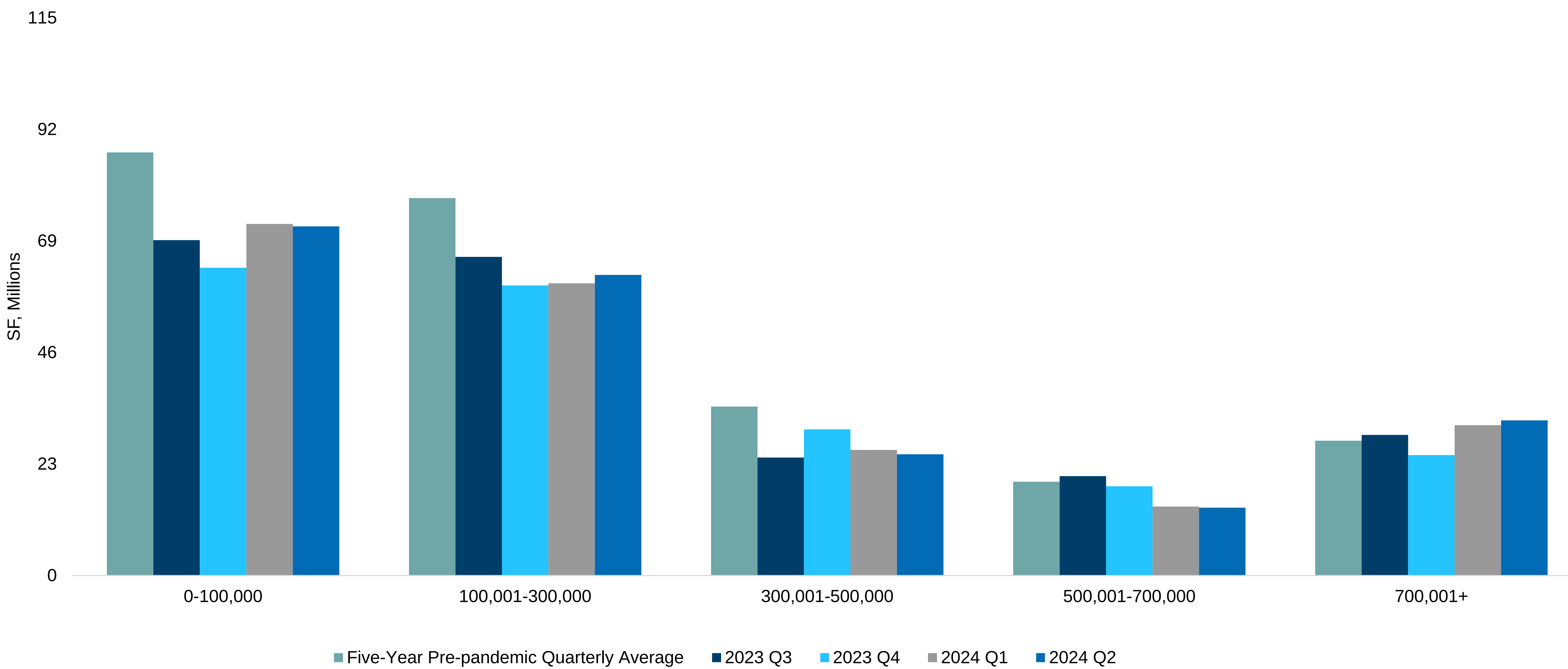


Source: CoStar, Newmark Research. Quarterly leasing volume data compiled August 2024. Class A is defined as 21st century build, 100,000+ square feet with clear heights that accommodate today's modern occupiers.

Buildings Under 300,000 SF Account For 65% of Leasing Activity

Leasing activity in buildings sub-300,000 SF accounted for 65% of total activity for the quarter, an unsurprising conclusion since the average industrial tenant is well below 100,000 SF. On the other end of the spectrum, more million-square-foot leases signed in H1 2024 than in H1 2023, and the megabox segment is currently the only size segment to see leasing volumes exceed the prepandemic baseline.

Leasing Activity by Building Size



Source: CoStar, Newmark Research, August 2024.

New Deliveries Drive Net Absorption as Older Properties Lose Ground

Please reach out to your
Newmark business contact for this information

United States Industrial Demand Rankings

Quarterly net absorption measured 38.3 msf, an improvement over the first quarter of 2024. On the local market level, 35 out of 52 markets demonstrated net positive absorption, up from 30 in the first quarter of 2024. Inland intermodal markets are dominating in absorption gains this year.

Net Absorption: Top 10 Markets

Market	2024 YTD Net Absorption (msf)
Phoenix	12.6
Dallas	9.7
Houston	6.7
Salt Lake City	5.5
Atlanta	5.4
Chicago	5.1
Nashville	4.8
Austin	4.0
Penn. I-81/78 Corridor	3.8
Minneapolis	2.8
United States	**65.3**

Demand Growth: Top 10 Markets

Market	2024 YTD Net Absorption (% of Inventory)
Phoenix	3.1%
Austin	2.9%
Salt Lake City	1.8%
Nashville	1.7%
Savannah, GA	1.3%
Richmond	1.1%
Las Vegas	0.9%
Palm Beach	0.9%
Columbia, SC	0.9%
Houston	0.9%
United States	**0.4%**

Source: Newmark Research, July 2024.

Secondary and Less Expensive Markets Absorb Larger Share of Demand

Supply and Demand Gap Will Narrow over the Next 12 Months

Please reach out to your
Newmark business contact for this information

Renewals Take a Larger Share of Overall Market Activity

Industrial Leasing Trends by Sector

The logistics sector drove top leasing activity in the second quarter of 2024, reclaiming the oft-held top spot after the consumer goods/retailer segment held it in the first quarter. E-commerce has staged a strong comeback year to date, representing 11% of total H1 2024 top leasing activity, compared to 3% in H1 2023.

Top Industrial Leasing Activity by Sector, 2Q24

Notable 2Q24 Lease Transactions

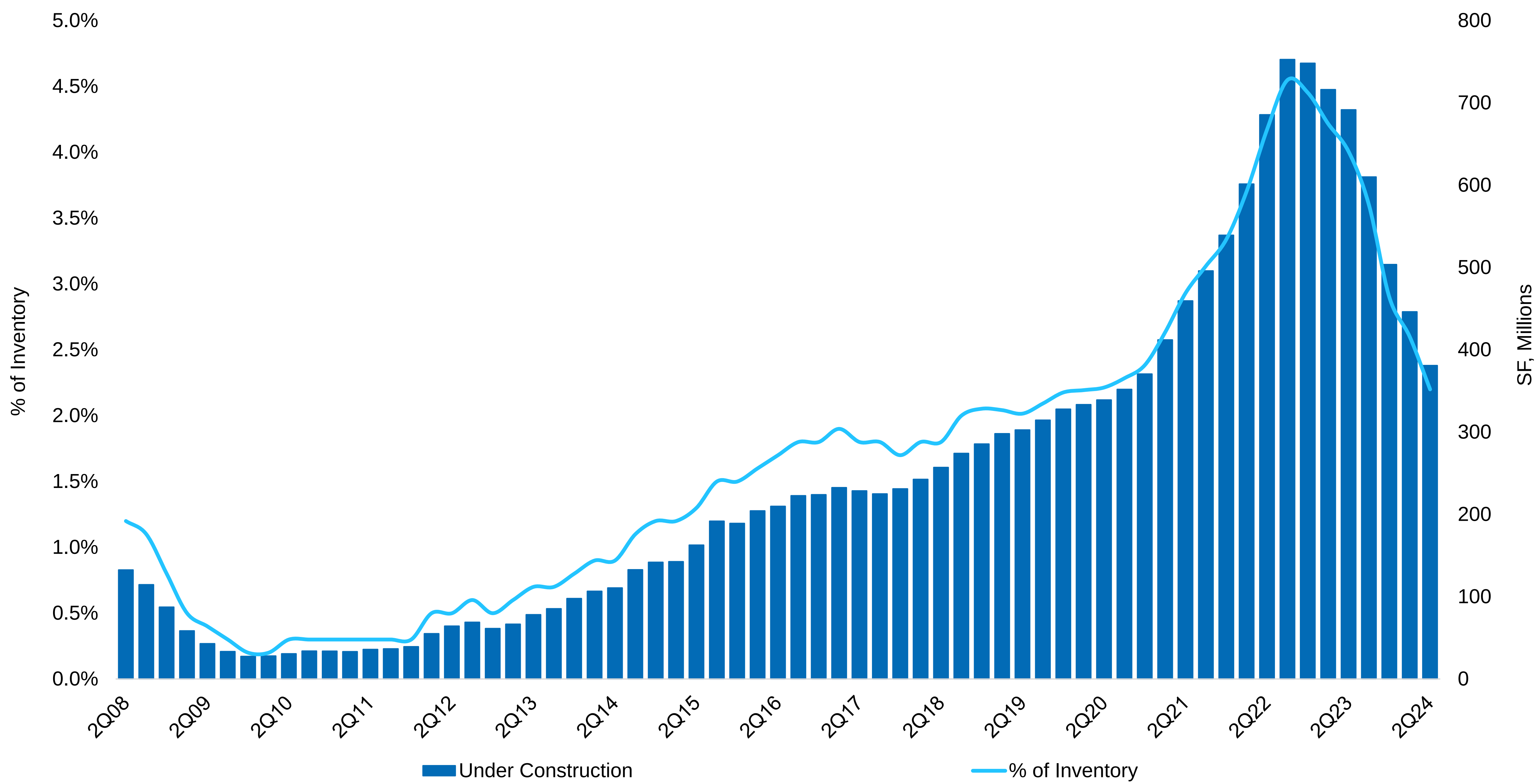
Tenant	Address	Market	Type	Square Feet	Industry
Amazon	4121 Coyote Canyon Rd.	Inland Empire	Direct New	1,171,788	E-Commerce
Maersk	5235-5251 West Pointe Dr.	Columbus	Sublease	1,116,015	Logistics & Distribution/3PLs
Tireco	10545 Production Ave.	Inland Empire	Renewal	1,101,840	Consumer Goods
Google	3400 Catherine Ct.	Dallas	Direct New	1,049,022	Communications / Media / Tech
Kane Warehousing	6802 W Old Bingham Hwy.	Salt Lake City	Direct New	1,022,624	Logistics & Distribution/3PLs

Source: Newmark Research, July 2024
*Note: Based on top leasing activity in markets tracked by Newmark. Manufacturing sector includes automotive, aviation, industrial machinery industries as well.

The Pipeline Dips Below 400 MSF For the First Time in Four Years

Totaling 379 msf in the second quarter of 2024, the pipeline is only 16% above measures at year-end 2019 and on track to fall below that level by the end of the year as fewer projects enter the pipeline to backfill.

U.S. Industrial Under Construction and % of Inventory



Source: Newmark Research, July 2024.

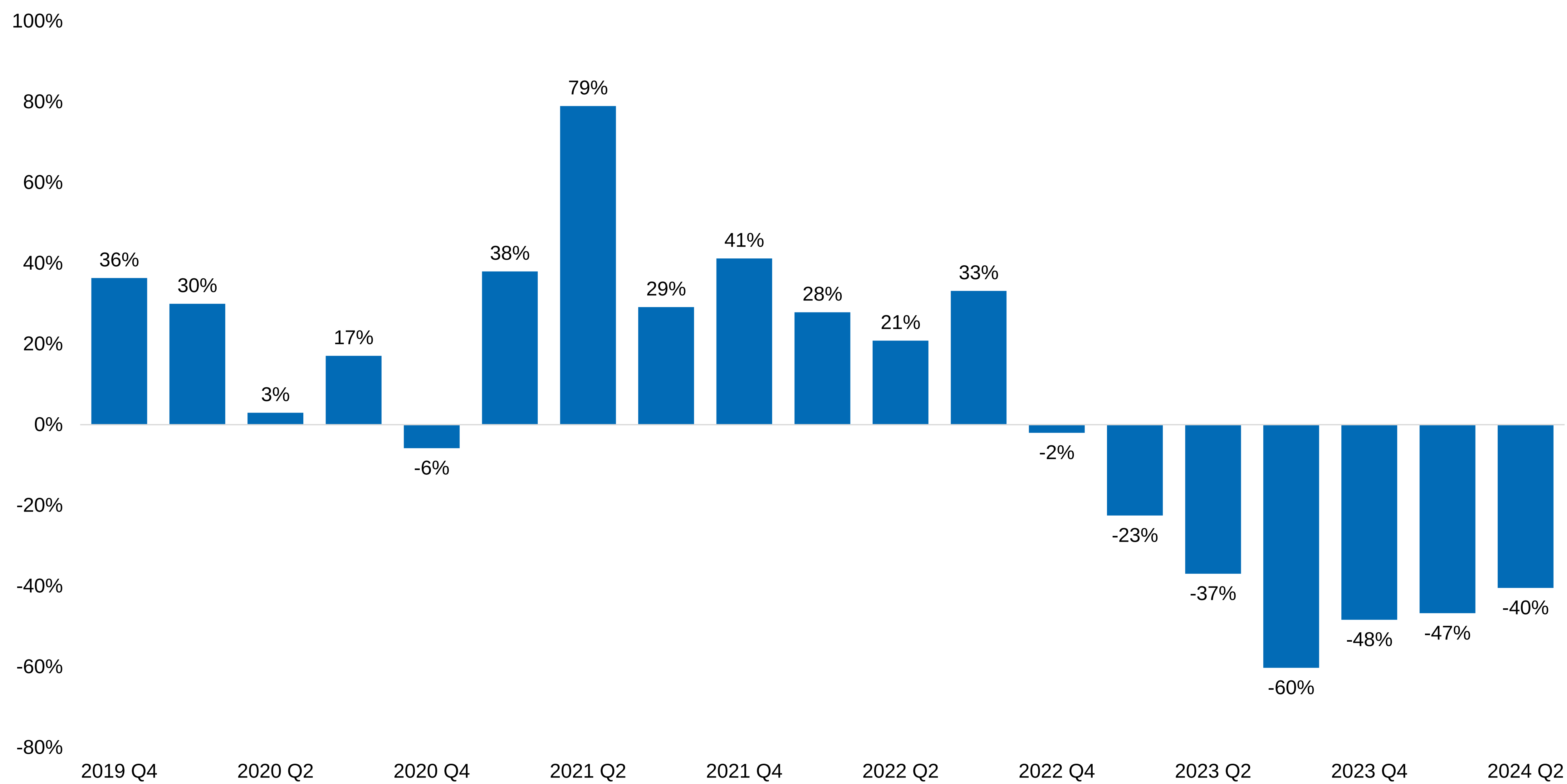
Even the Highest-Growth Markets Are Post-Peak Deliveries, or Hitting Peak Now

Please reach out to your
Newmark business contact for this information

Starts Still Plummeting on an Annualized Basis; Stabilizing on a Quarterly Basis

The second quarter of 2023 was the last period in which quarterly starts measured over 100MSF; since then, quarterly starts have started to stabilize around +/- 50 MSF and will likely remain at that level for the balance of the year.

Construction Starts, Year Over Year Percentage Change



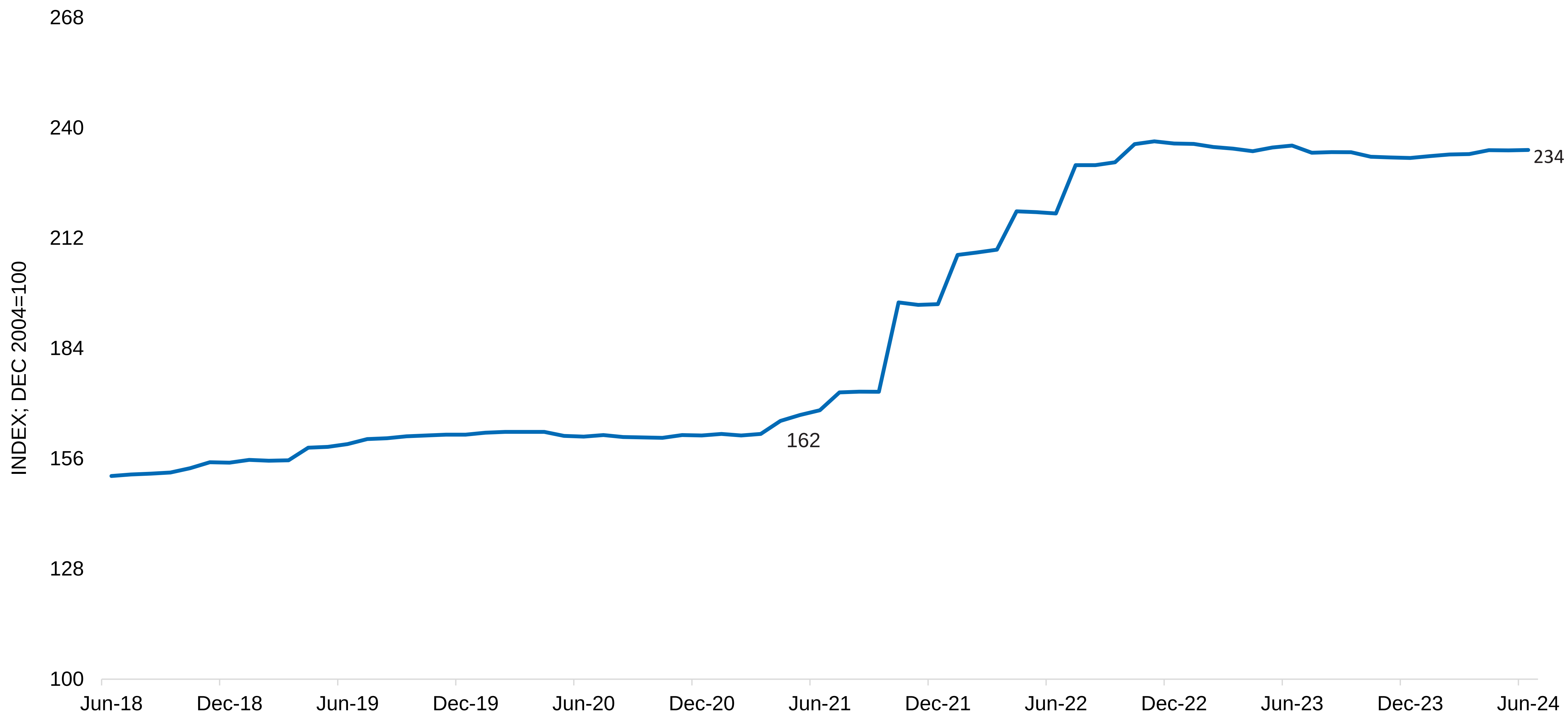
Source: Newmark Research, CoStar. August 2024.

Spec Development Still Comprises Majority of Pipeline, but the Balance is Shifting

Warehouse Construction Costs Have Not Meaningfully Come Down

Industrial construction projects of all stripes are significantly more expensive to build now than in previous years. Warehouse construction-input costs have only declined around 1% in total year over year.

Producer Price Index: New Warehouse Building Construction



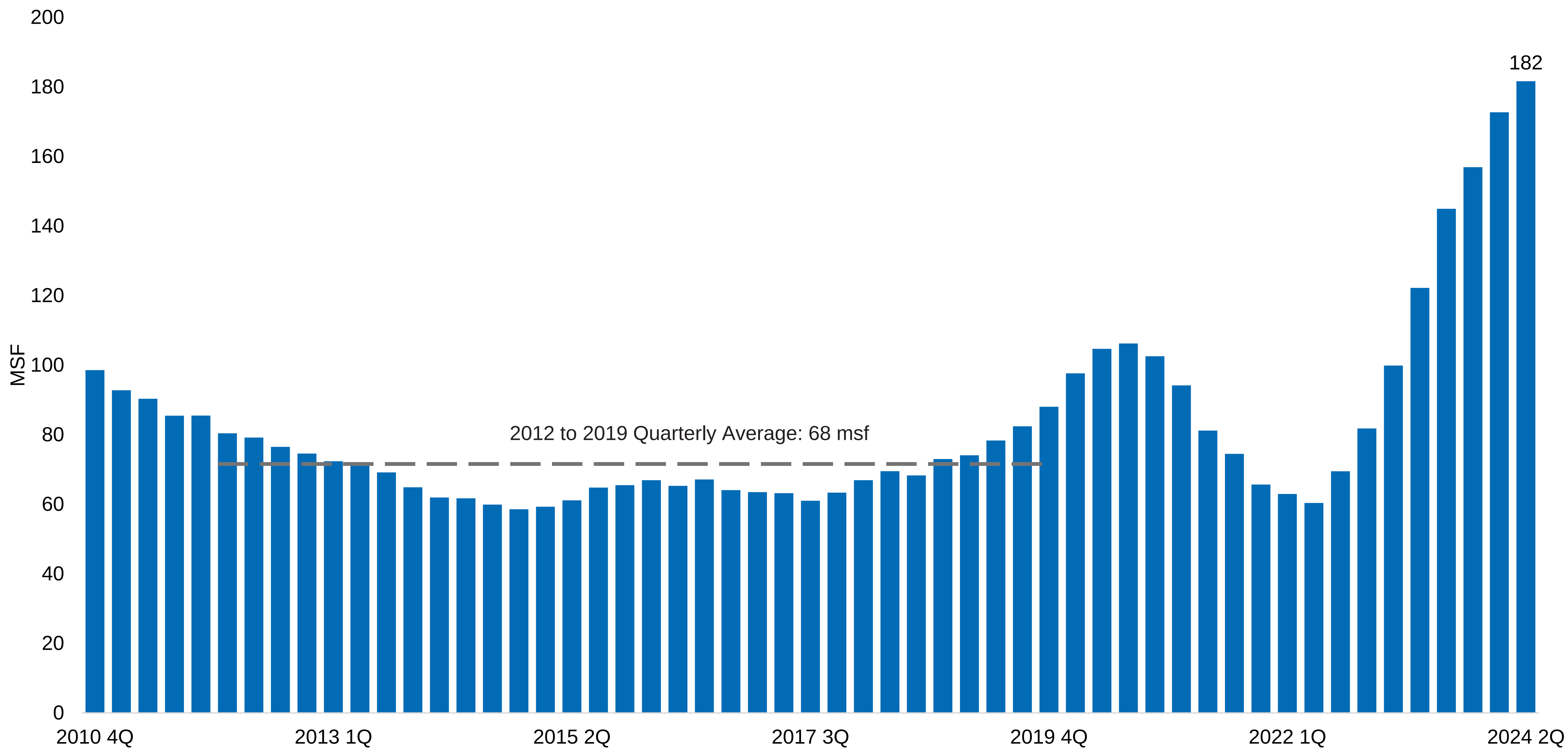
Source: Newmark Research, St. Louis Federal Bank, RSMeans, July 2024.

Market Expansion Necessary to Align With Growing Populations and Industry Shifts

Industrial Sublease Availability Still Growing, But at A Slower Clip

Sublease volume grew to a new high of 182 MSF in the second quarter of 2024, albeit at the slowest quarterly pace in two years. Nationally, sublease volume accounts for 12% of total availability, but the impact is highly market-specific. Yet, some markets with the highest concentrations of sublease space, such as the Inland Empire and Dallas, have seen sublease volumes dip from recent heights.

Available Industrial Sublease Volume



Source: Newmark Research, July 2024.

United States Industrial Vacancy Rankings

The national vacancy rate increased to 6.4% in the second quarter of 2024, up from 4.4% charted one year ago. Some markets have seen vacancy double or even triple over the last 12 months, while others have experienced quite stable market vacancy. The ten markets in the right chart are all under the national vacancy rate, the majority are below their individual market historical vacancy, and all saw the slightest change in vacancy in the country.

Lowest Vacancy: Top 10 Markets

Market	2Q24 Vacancy
Los Angeles	3.7%
Milwaukee	3.7%
Detroit	3.9%
Orange County, CA	3.9%
Cleveland	4.0%
Miami	4.0%
Hampton Roads	4.1%
Salt Lake City	4.1%
Broward County, FL	4.1%
Jacksonville	4.3%
United States	**6.4%**

Vacancy Stability: Top 10 Markets

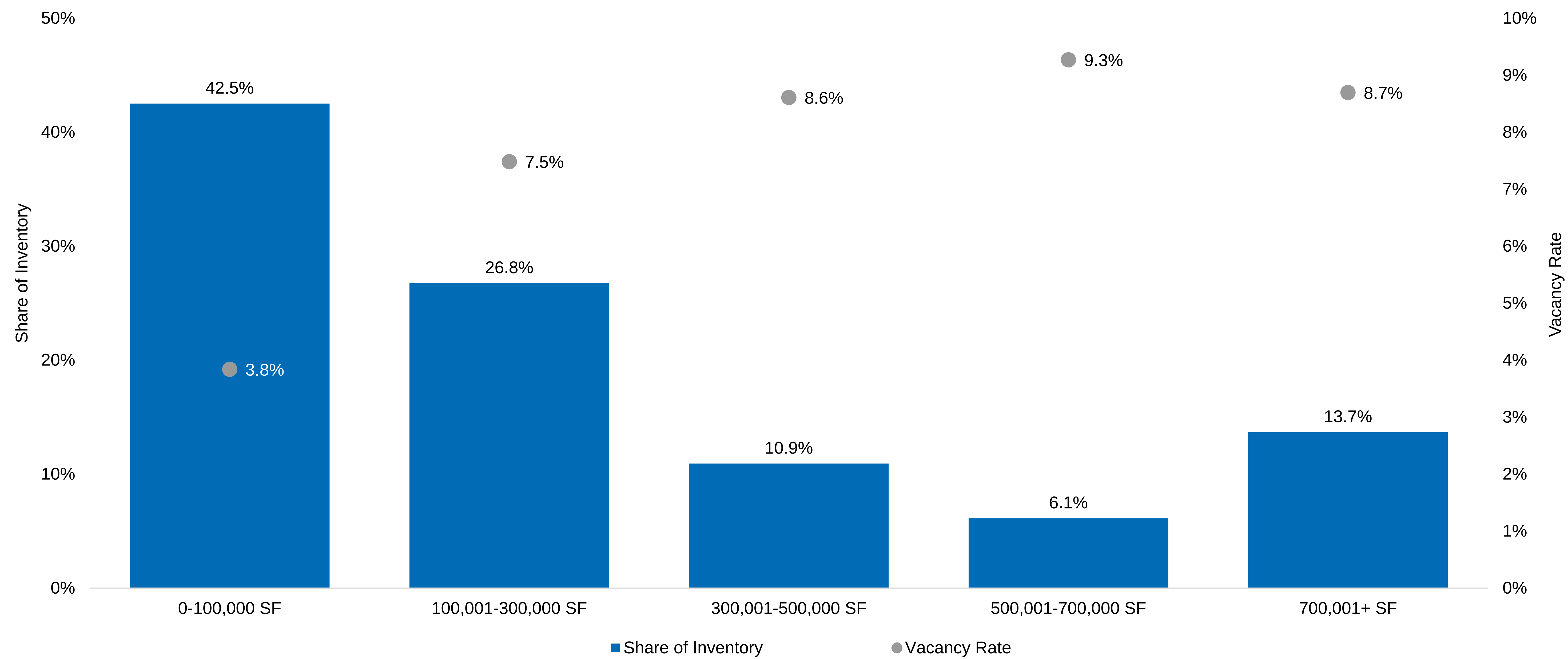
Market	2Q23 – 2Q24 Vacancy Change (BPS)
Broward County, FL	-19
Jacksonville	20
Penn. I-81/78 Corridor	26
Cleveland	48
Columbia, SC	50
Baltimore	54
St. Louis	60
Salt Lake City	77
Long Island	81
Detroit	83
United States	**201**

Source: Newmark Research, July 2024.

The 100,000 SF and Under Segment is the Bedrock of the Market

The sub-100,000-square-foot building tranche, inclusive of small-bay and single-tenant, is the largest in terms of share of inventory and lowest in vacancy and contains a significant portion of the industrial buildings built before 2000. This segment is growing the slowest, as economies of scale and recent surging demand drove development in larger size categories

2Q24 Industrial Vacancy Rate by Building Size



Source: CoStar, Newmark Research, July 2024.

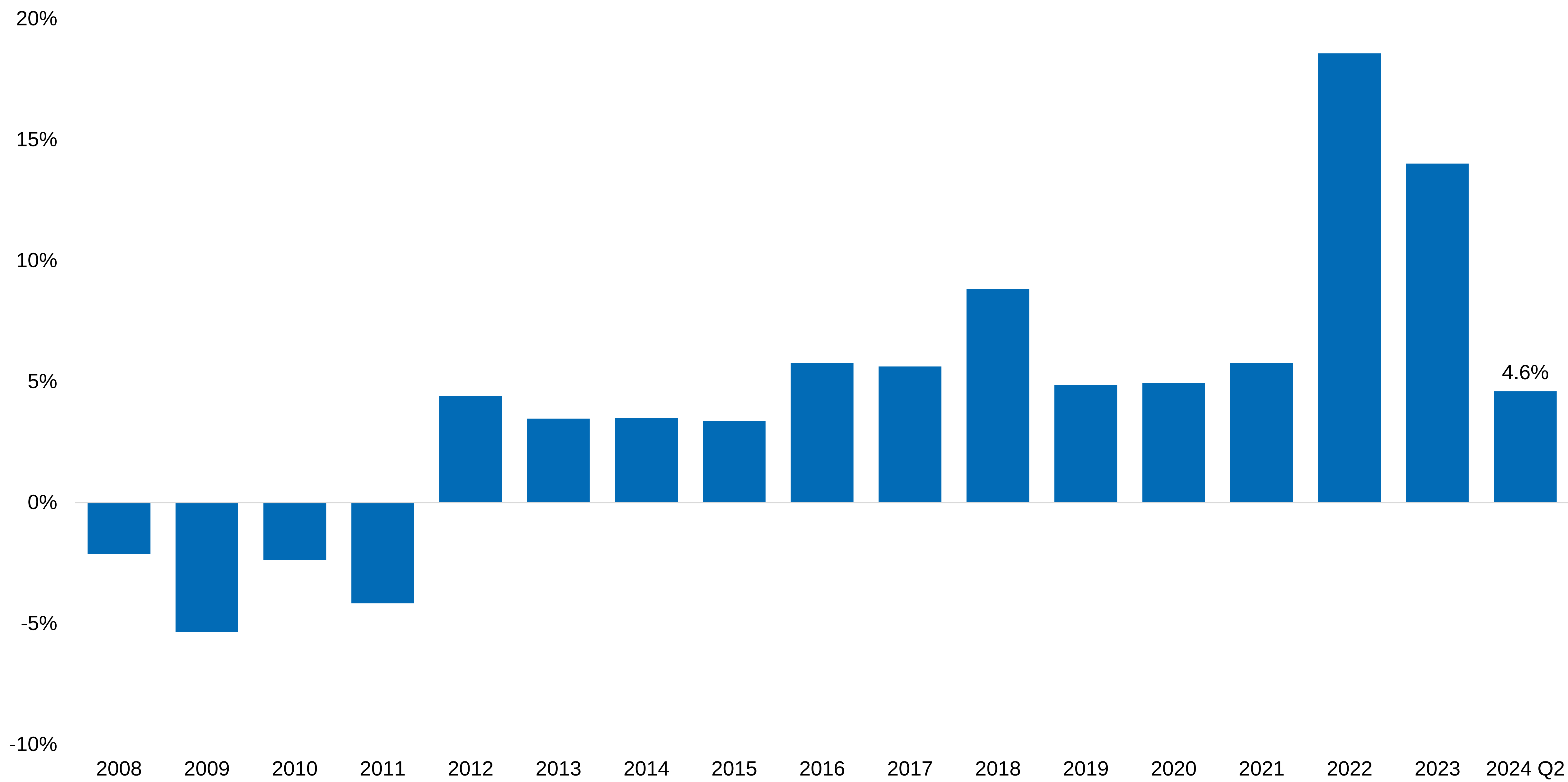
Vacancy is Lowest in Alternative Industrial Sectors

Please reach out to your
Newmark business contact for this information

Industrial Asking Rents: Growth Year over Year, Essentially Flat Quarter over Quarter

Average asking rents closed the second quarter of 2024 4.6% above levels in the second quarter of 2023. While rent levels remain sticky in many markets, higher-priced quality space coming online in larger quantities is contributing to higher asking rent growth averages. That said, quarterly movement in rents was flat, indicating flat-to-softening measures ahead.

Year-Over-Year Industrial Asking Rent Growth



Source: Newmark Research, July 2024.

United States Industrial Asking Rent Rankings

Industrial markets across the U.S. are still realizing annual asking rent growth with only 12 of 52 markets seeing stable or lower average asking rents in 2Q24 compared to 2Q23. Growing volumes of higher-priced space delivering in markets with traditionally lower, stable rates, such as Columbia, Nashville and Charleston, is boosting rent growth numbers, while constrained coastal port markets like Miami are still seeing outsized rent growth on a market average basis.

Highest Asking Rent: Top 10 Markets

Market	2Q24
Silicon Valley*	$29.42
Oakland/East Bay	$20.44
Orange County, CA	$19.31
Los Angeles	$19.27
San Diego	$18.06
Long Island	$17.29
New Jersey Northern	$17.01
Boston	$16.18
Miami	$15.46
Austin	$14.49
United States	**$10.30**

Largest Asking Rent Growth: Top 10 Markets

Market	2Q23-2Q24 Pct. Change
Columbia, SC	27.0%
Nashville	17.0%
Columbus	12.7%
Oakland/East Bay	12.4%
Minneapolis	12.4%
Austin	11.5%
Miami	10.3%
Jacksonville	10.1%
Charleston, SC	10.0%
Richmond	9.8%
United States	**4.6%**

Source: Newmark Research, July 2024.
*Note: An outsized share of the Silicon Valley industrial market is R&D space which contributes to the relatively high overall asking rent.

After Declining in 1Q, Contract Rents Grew 5% YOY in 2Q

Please reach out to your
Newmark business contact for this information

Green Street Industrial Rent Forecast

Please reach out to your
Newmark business contact for this information

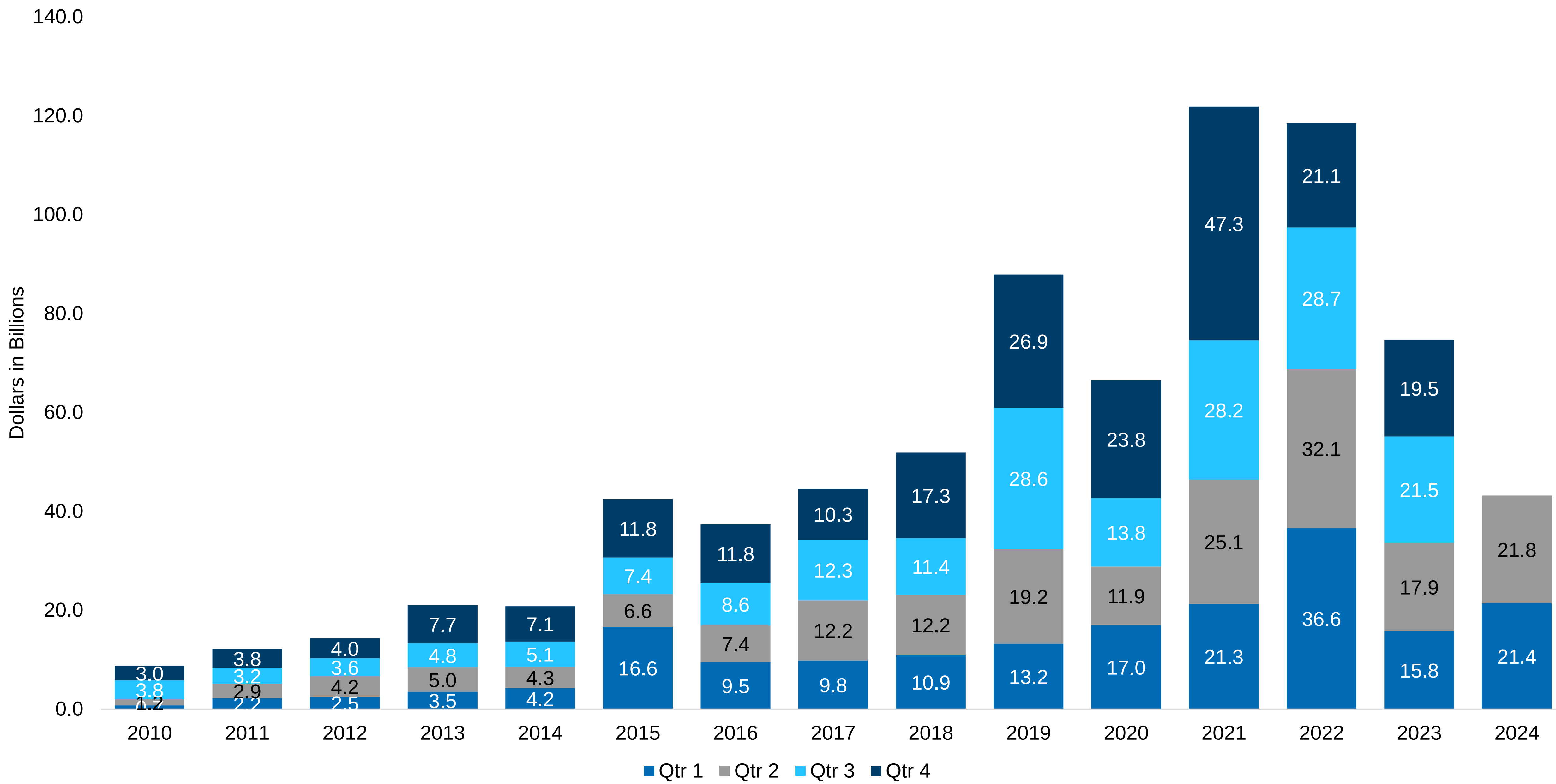
2Q24

Capital Markets

Industrial Debt Originations Rose Sharply 1H24

Industrial debt origination volume declined 36% YoY in 2023 but came roaring back in the first half of 2024 at an estimated $43.2B.

Industrial Debt Origination Volume

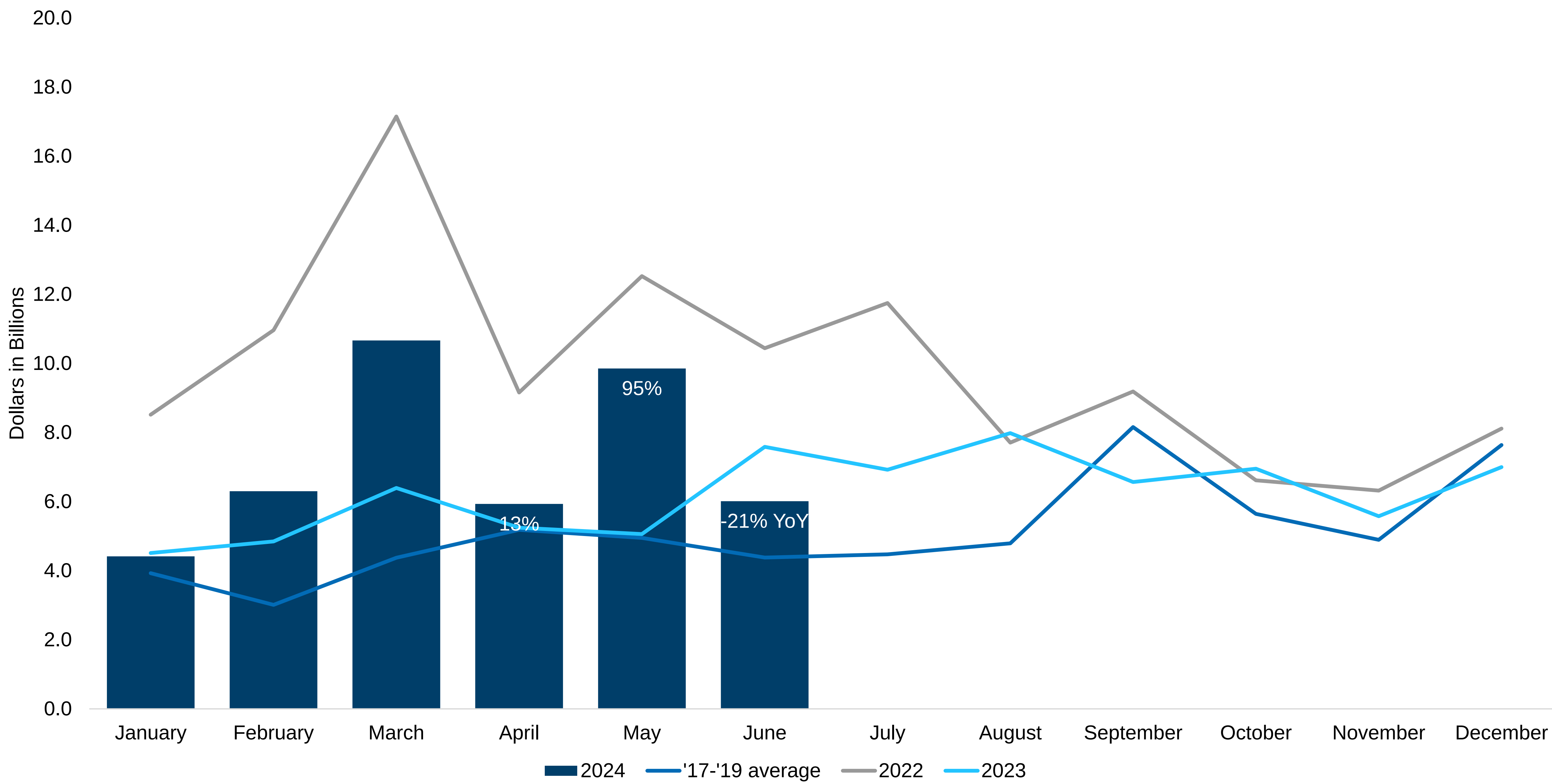


Source: RCA, Newmark Research as of 7/22/2024
Note: loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models
**Excludes construction loans

Originations Accelerated Strongly through 2Q24

Origination volumes continued to run well above their 2017-2019 average in the 2nd half of 2024. Indeed, March was the best single month for originations since July 2022, followed closely by May. The question is whether this momentum can be maintained. Consistent outperformance of 2017-2019 averages suggests continued demand for and supply of financing. At the same time, industrial originations are an outlier in the market at large.

Monthly Industrial Debt Originations Volume*

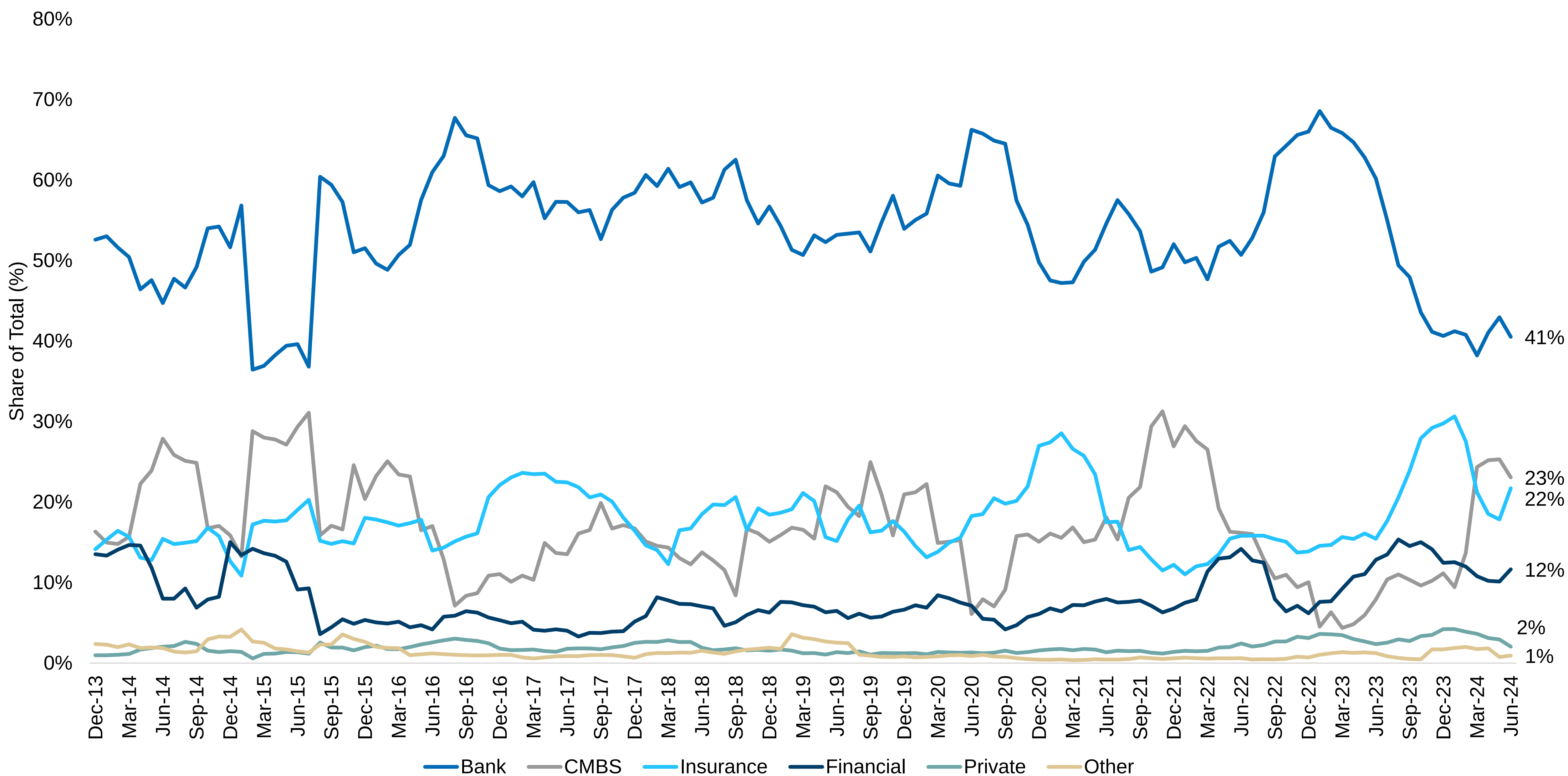


Source: RCA, Newmark Research as of 7/22/2024
Note: loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models
**Excludes construction loans

Bank Share of Originations Has Fallen Sharply in Favor of Insurance, CMBS

While banks remain the largest source of debt capital to the industrial sector, the bank share has fallen from 66% in the six months to January 2023 to just 41% in the preceding six-month period. In 2023, the market saw insurance lenders step into the void left by the banks, albeit not near the same absolute numbers. Now, in 2024, as the bank share has stabilized, there appears to have been a sharp acceleration in origination for securitization.

Origination Share by Lender Group: Rolling 6-Month Average



Source: RCA, Newmark Research as of 7/22/2024
Note: loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models
**Excludes construction loans

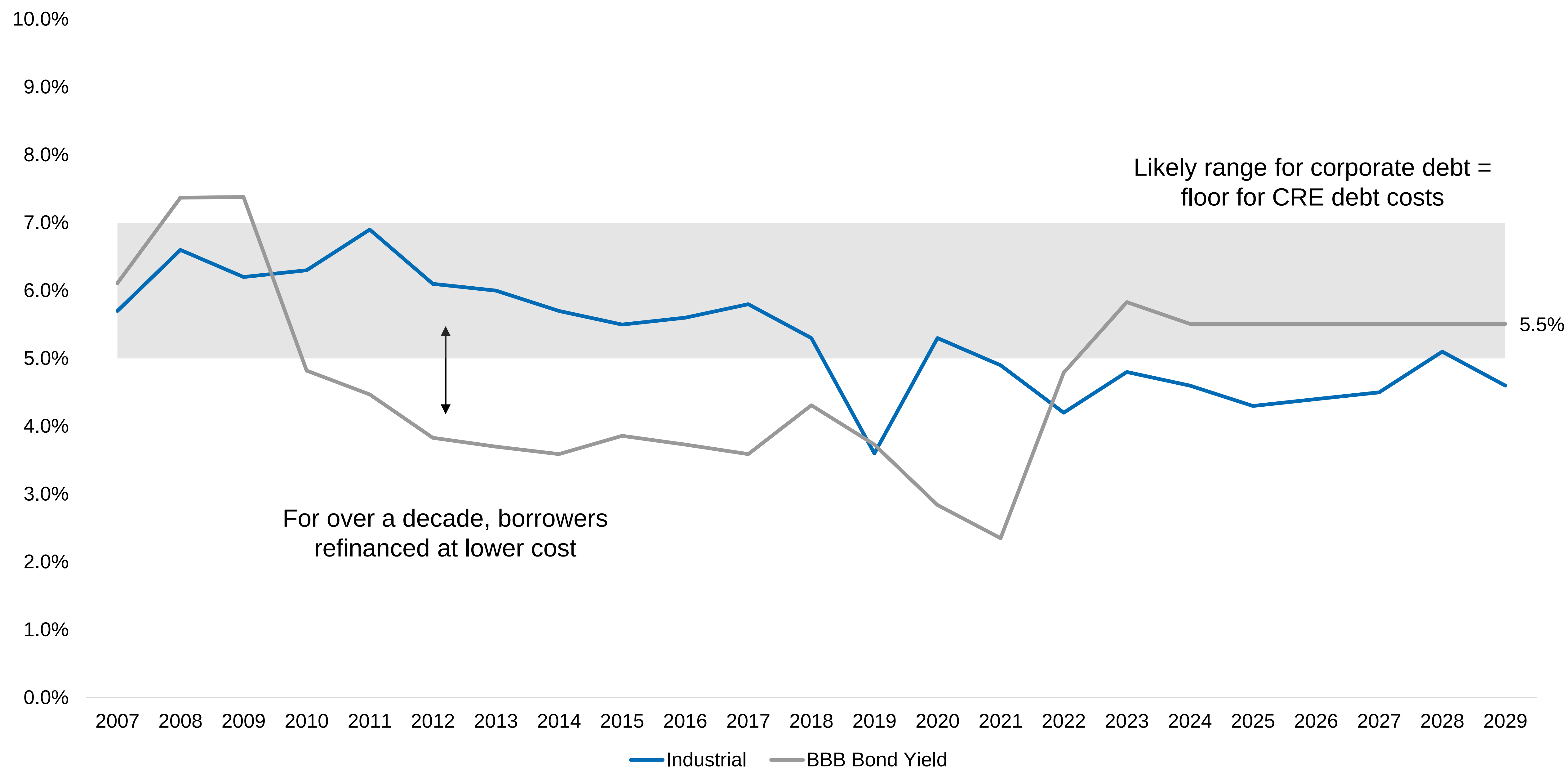
Market Faces Sizeable Industrial Maturities in 2024 Before Tapering Off

Please reach out to your
Newmark business contact for this information

Maturing Loans Face Significantly Higher Costs, Driving Payment Stress

Corporate debt yields have come down sharply in recent months from the top of our projected range to near the bottom. This has carried through into some segments of CRE debt. Even so, maturing fixed-rate CRE debt continues to face negative roll yield on refinancing. In some cases, organic deleveraging will have made it possible for higher interest expenses to be absorbed; but where values have been stable or declining, sponsors will need to inject equity or else face the prospect of defaulting.

Weighted Average Interest Rate on Maturing Debt vs. Prevailing Bond Yields



Source: RCA, ICE Data Indices, Newmark Research as of 7/22/2024

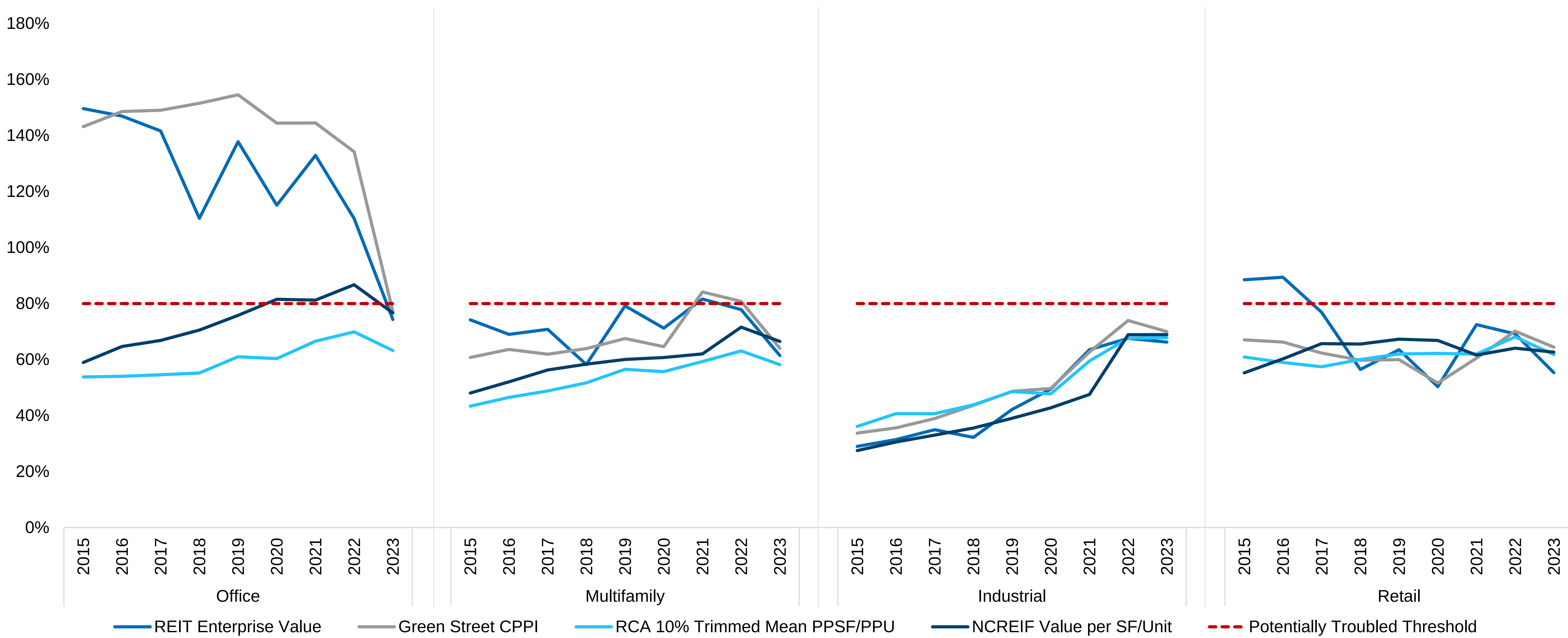
Some Loans Will Be Able to Absorb Higher Interest Costs – Many Will Not

Debt Service Risk Will Rise Dramatically as Fixed-Rate Loans Face Market Rates

Strong Price Appreciation Helps Protect against Industrial Distress

Industrial values have risen tremendously since 2015. As a result, most recent loan vintages have organically deleveraged even when accounting for the recent reduction in market values. That said, industrial loans originated in 2021-2022 are at greater risk, having been struck at the top of the market though this is counterbalanced by further-off maturity dates. Transitional debt and construction loans will also bear watching.

Average Mark-to-Market* Loan-to-Value Ratio by Year Debt Originated



Source: RCA, Green Street, NCREIF Newmark Research as of 7/19/2024
*We take the average loan-to-value ratio of loans originated in each respective year based on an analysis of RCA data, then we mark the value of the assets to market using the various proposed benchmarks.

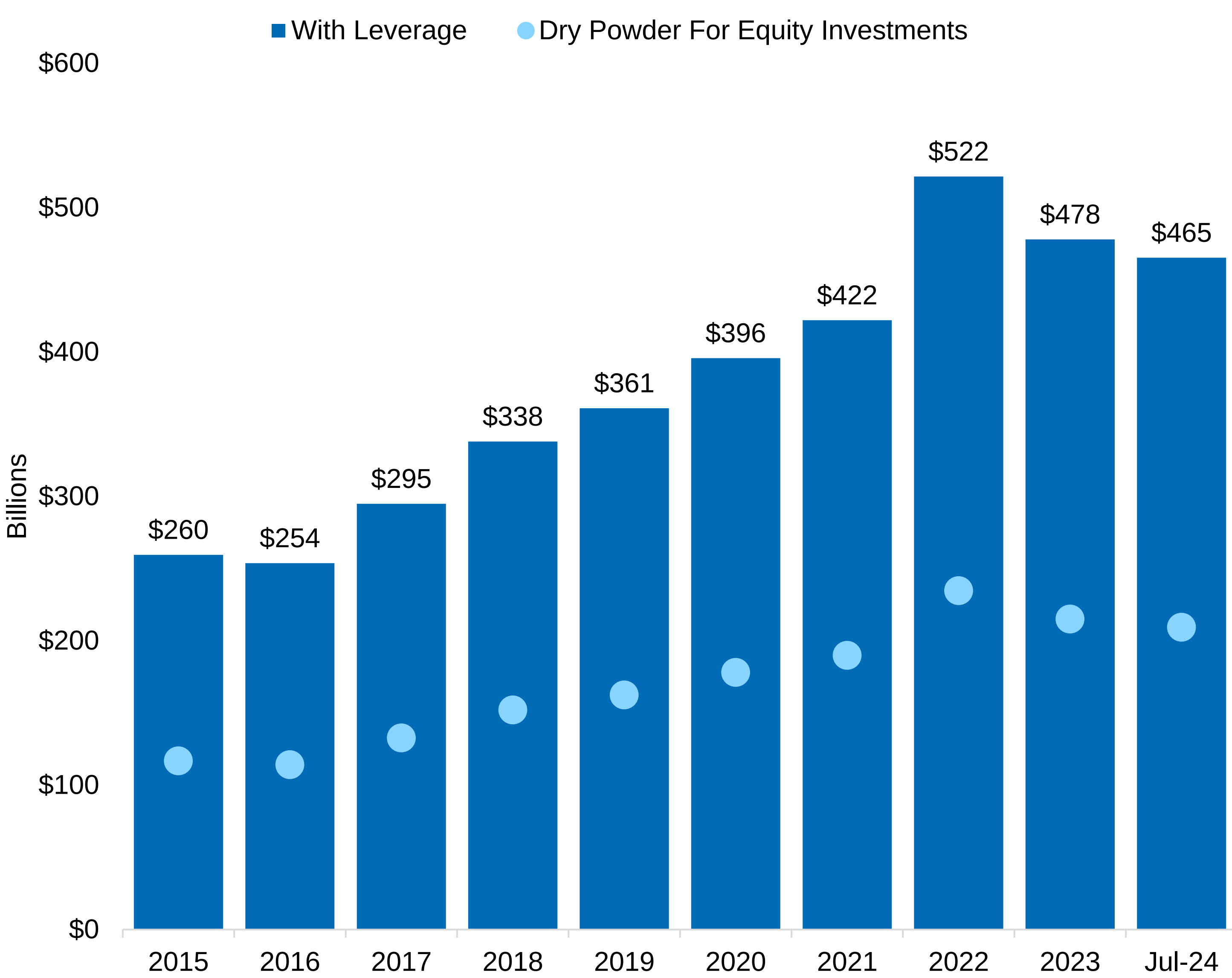
Of the $1.2T of Potentially Troubled CRE Debt, Industrial Barely Registers

Please reach out to your
Newmark business contact for this information

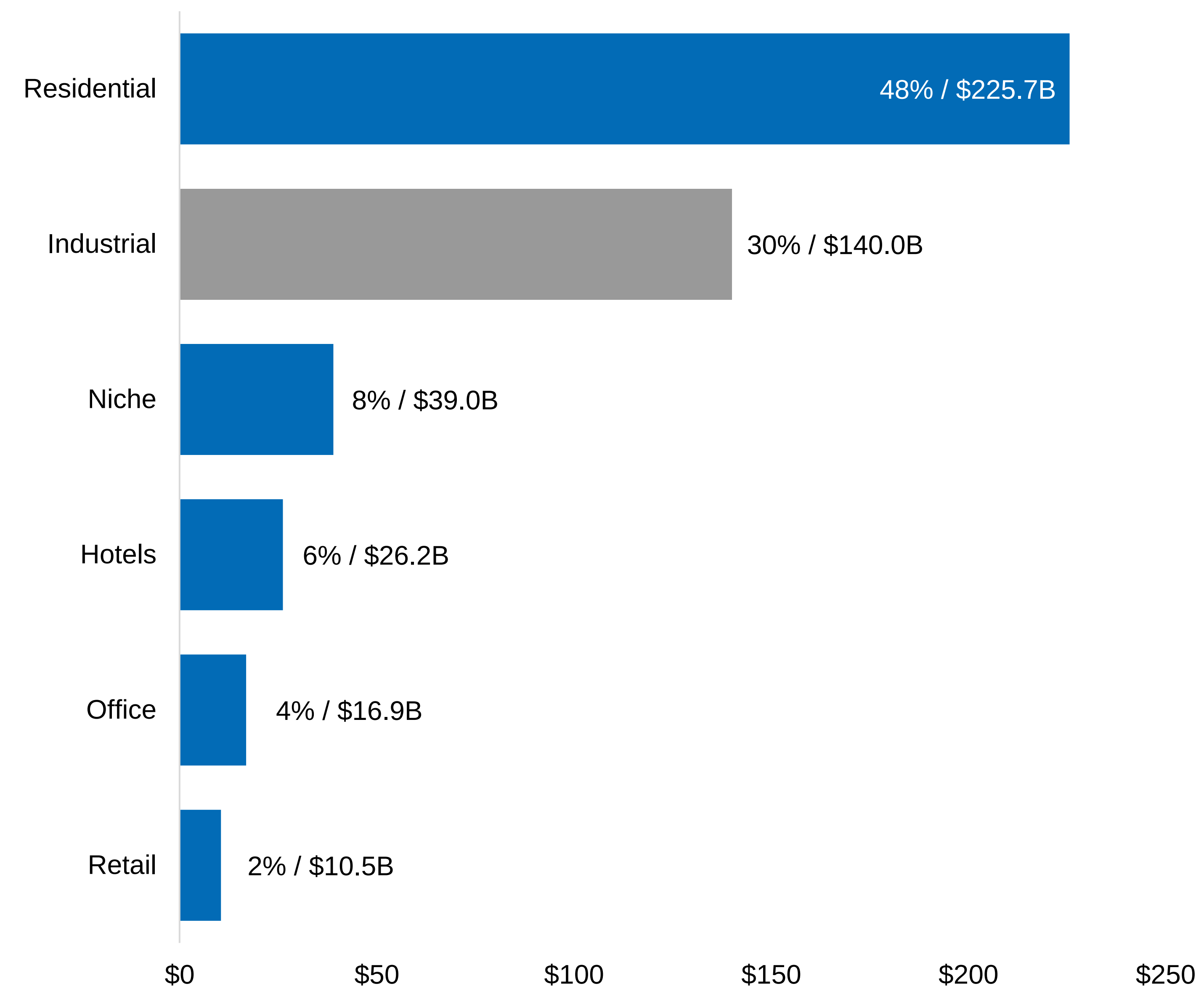
Dry Powder Heavily Focused on Residential, Industrial Investment

The $209 billion in dry powder raised for equity investments, not including dry powder raised for debt strategies, equates to a leveraged purchasing power of $465 billion, using a 55% loan-to-value ratio. We estimate that nearly half of this capital is targeted at multifamily assets, with most of the remainder focused on industrial assets.

Dry Powder at 55% Leverage



Leveraged Dry Powder By Property Type*



Source: Newmark Research, Preqin as of 7/26/2024

*We looked at the percent called by vintage year and applied this to the total amount fundraised in each year to calculate the amount of uncalled capital (i.e. dry powder), broken out by main property type. Roughly half the dry powder was at diversified funds. This was allocated to the various property types in proportion to their share of total dry powder, excluding diversified funds. Finally, we grossed up the dry powder assuming 55% leverage would be used.

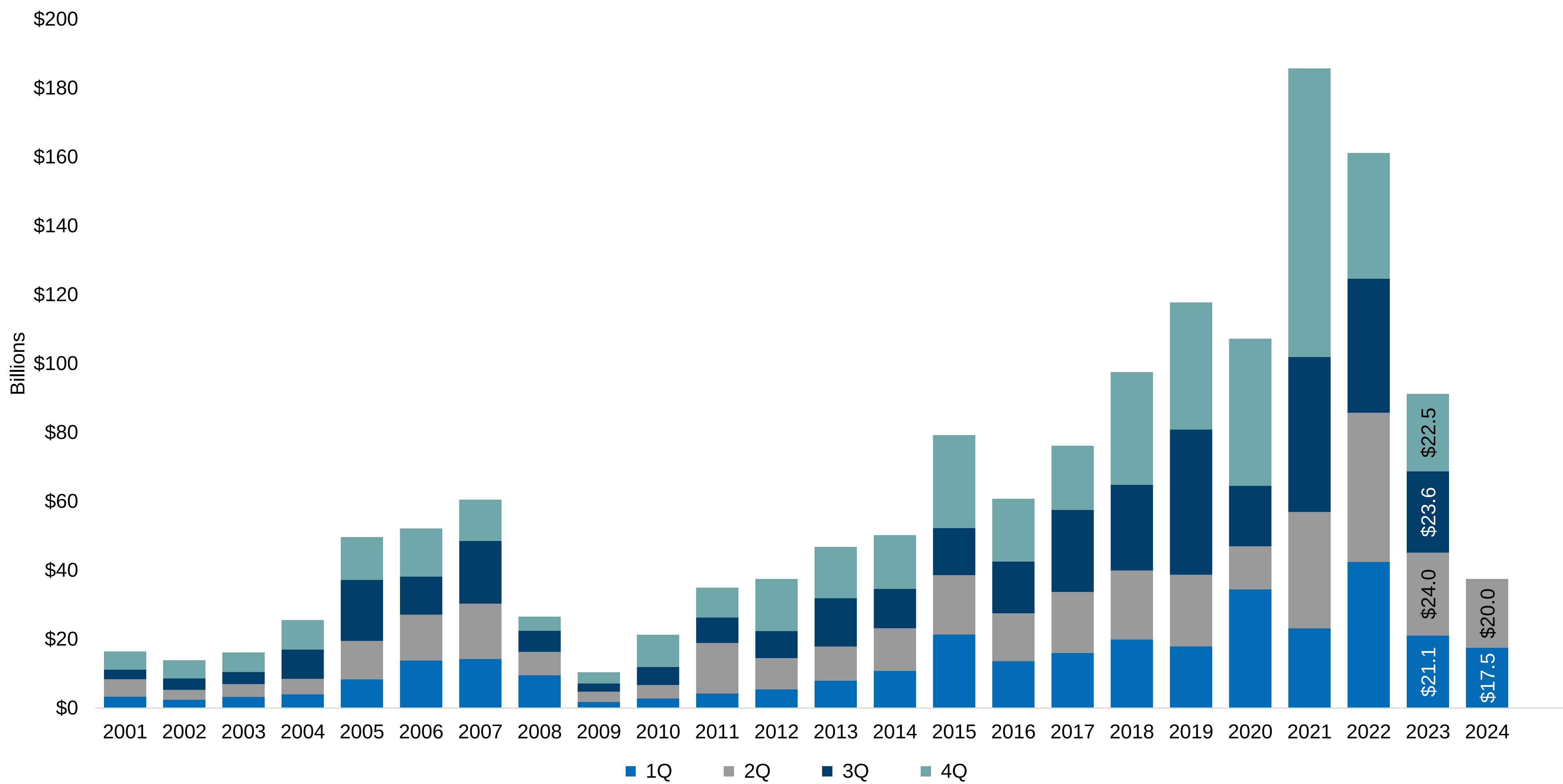
Industrial Capital Contributing to Surging Data Center Development

Please reach out to your
Newmark business contact for this information

Strongest Quarterly Improvement for Capital Markets Volume in Three Years

The second quarter ushered in $20 billion in sales volume. This was the eighth consecutive quarter of annualized declines, but a 14% gain QoQ, the strongest quarterly uptick since 4Q 2021. With renewed anticipation of rate cuts this year, investor sentiment is improving and translating to greater activity.

Investment Sales Volume

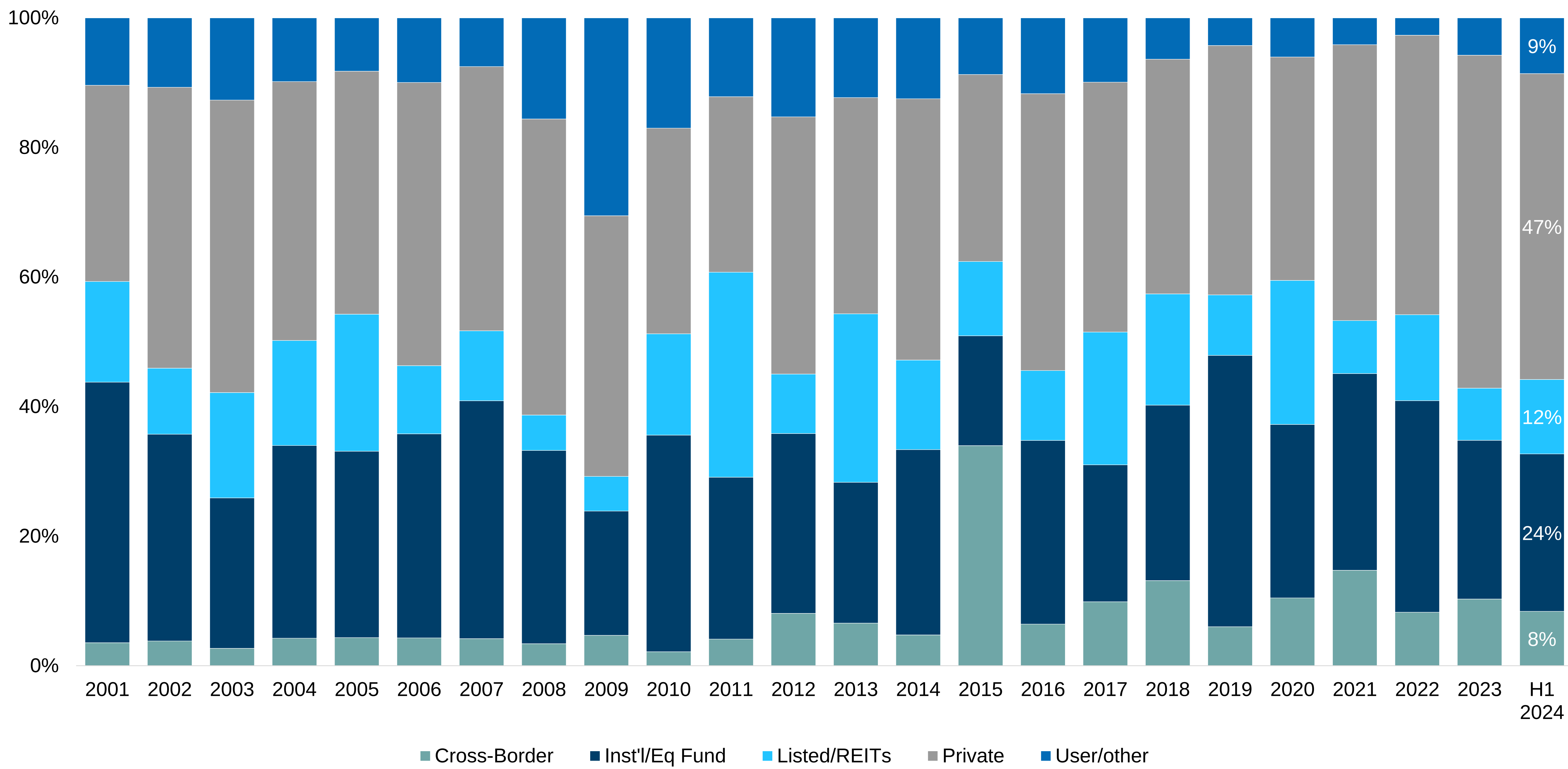


Source: Newmark Research, MSCI Real Capital Analytics. August 2024.

REITs and Users Increase Acquisition Share

Across the ecosystem of investor profiles, private capital continues to account for approximately half of total acquisitions, while REITs and users both continue to expand market share. REIT net acquisitions YTD have already eclipsed annual net acquisitions in 2023.

Composition of Industrial Buyers

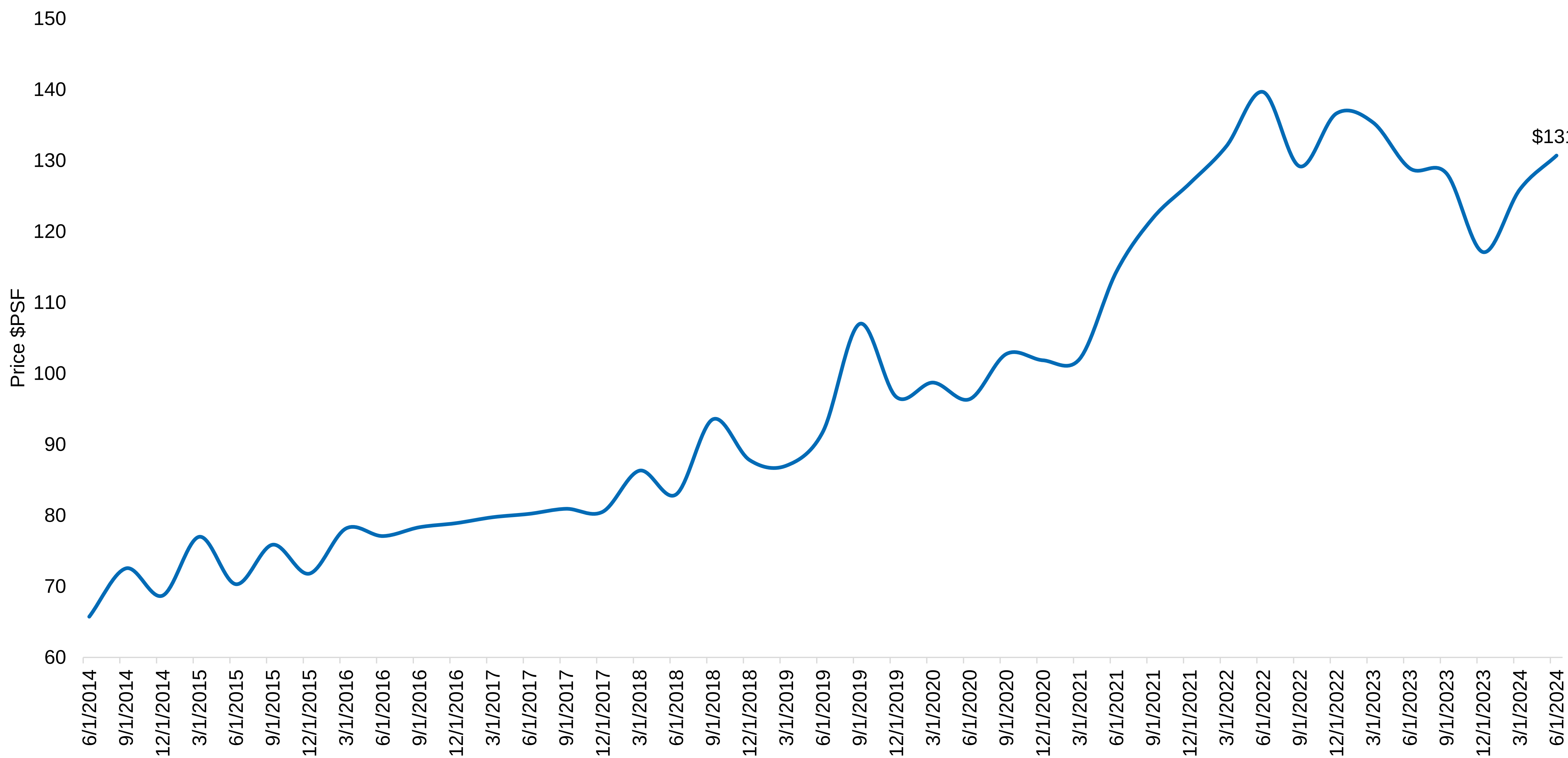


Source: Newmark Research, MSCI Real Capital Analytics, July 2024.

Price-Per-Pound On the Upswing

The average price-per-square-foot for industrial sales declined throughout 2023 but has been on the upswing since the start of the year as the market improves and more offerings come up for sale in infill or prime locations. The number of deals trading for upwards of $200 per foot in H1 2024 was essentially on par with H1 2023 (a difference of 1%).

Quarterly Average U.S. Industrial Sale Price Per Square Foot

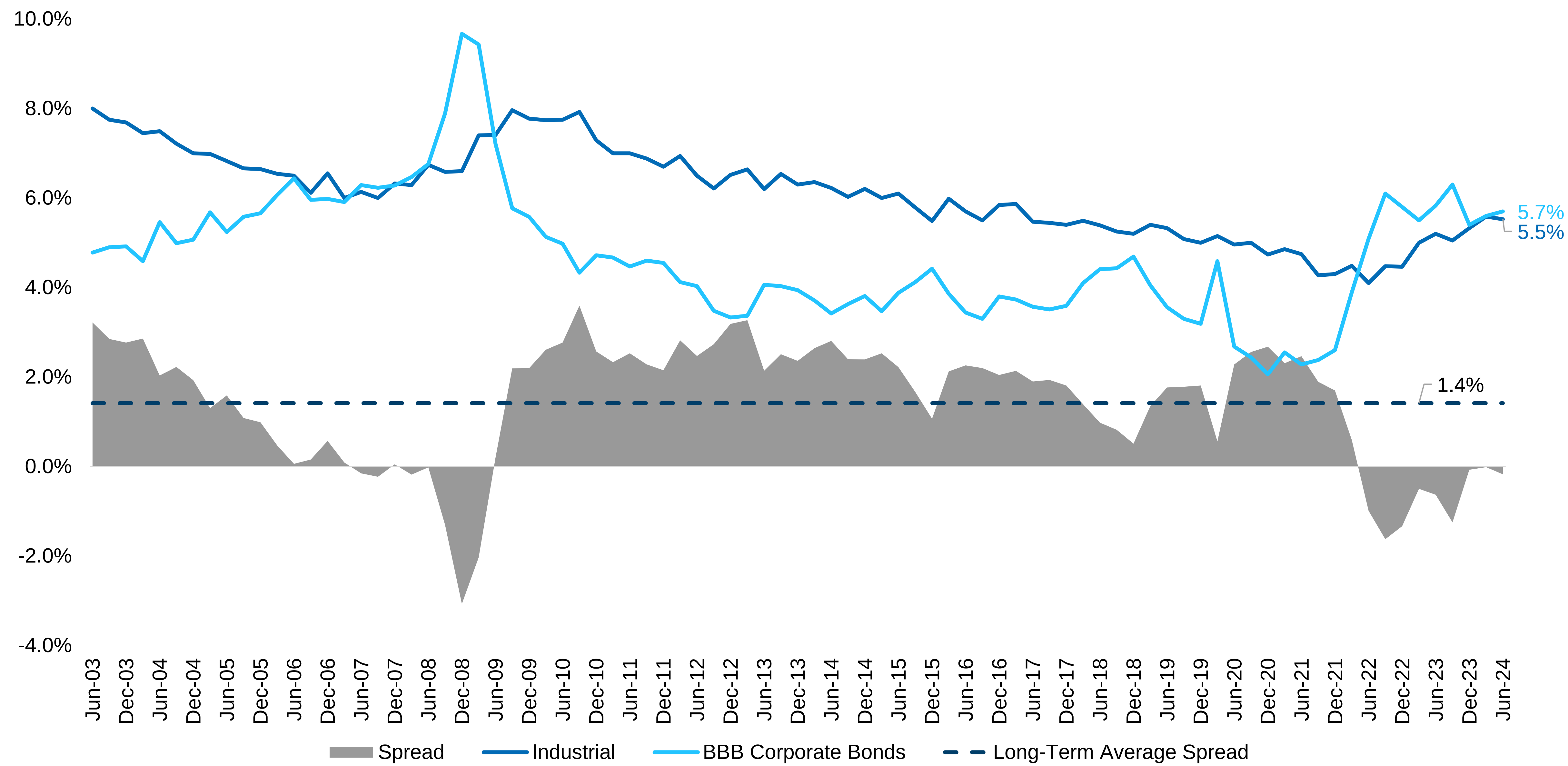


Source: Newmark Research, MSCI Real Capital Analytics, August 2024.

Industrial Cap Rates Stabilize, Signal Compression

Industrial transaction cap rates came down 10 bps quarter over quarter to 5.5%. Spreads to BBB corporate bonds remain well off long-term averages – if more attractive compared to recent history. Since the close of the second quarter, rates across the spectrum of 10-yr to BBB corporate bonds have come in further.

Top Quartile Transaction Cap Rate*

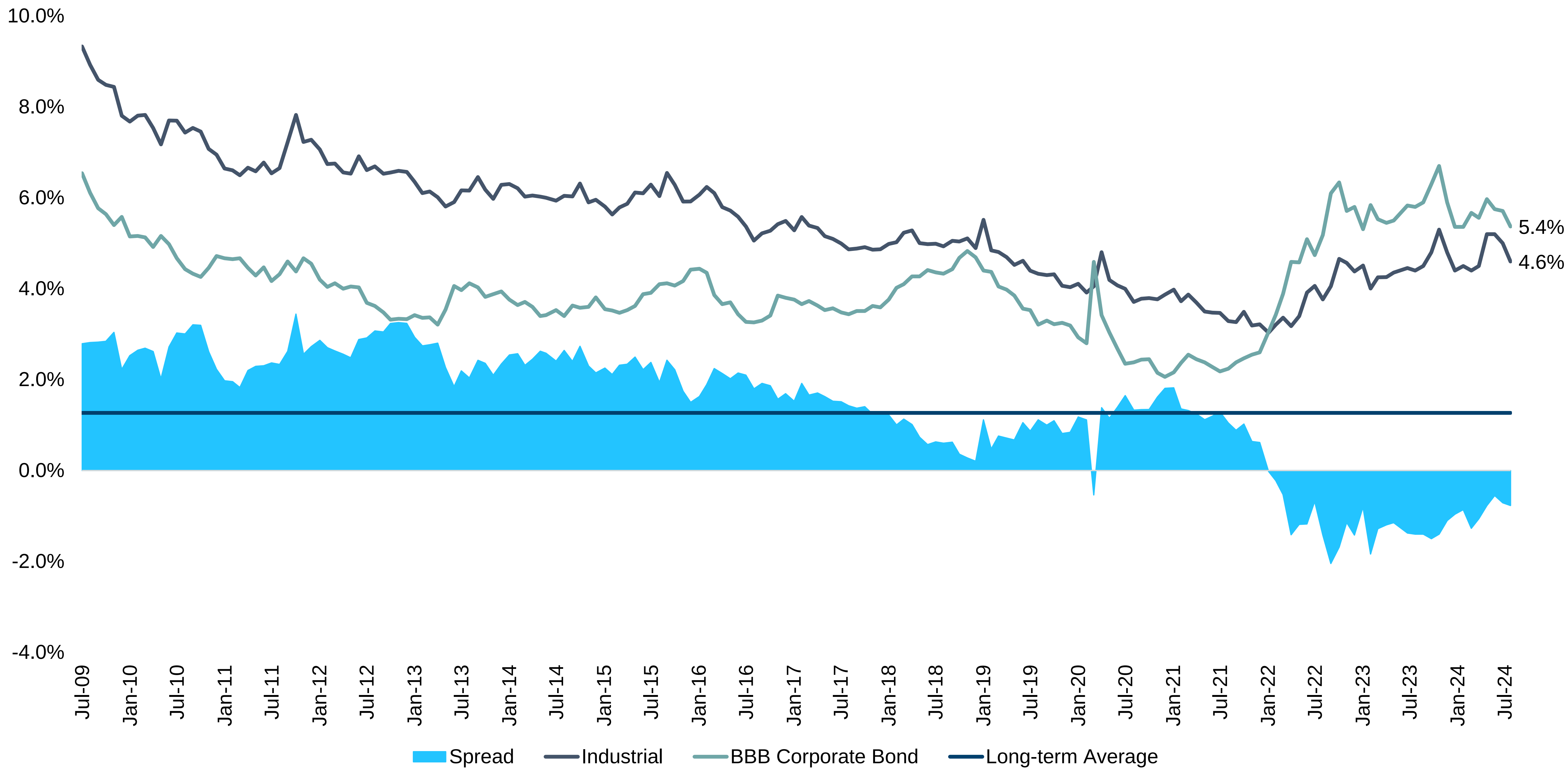


Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's as of 7/22/24.
*Quarterly

Public Markets Compress Alongside Bond Rates; Negative Leverage Persists

Industrial implied cap rates have recently fallen alongside bond rates as rate relief appears on the horizon. Historically abnormal NOI growth has been a factor in keeping cap rates compressed, but some REITs have recently reduced expectations for NOI growth.

REIT-Implied Nominal Cap Rate

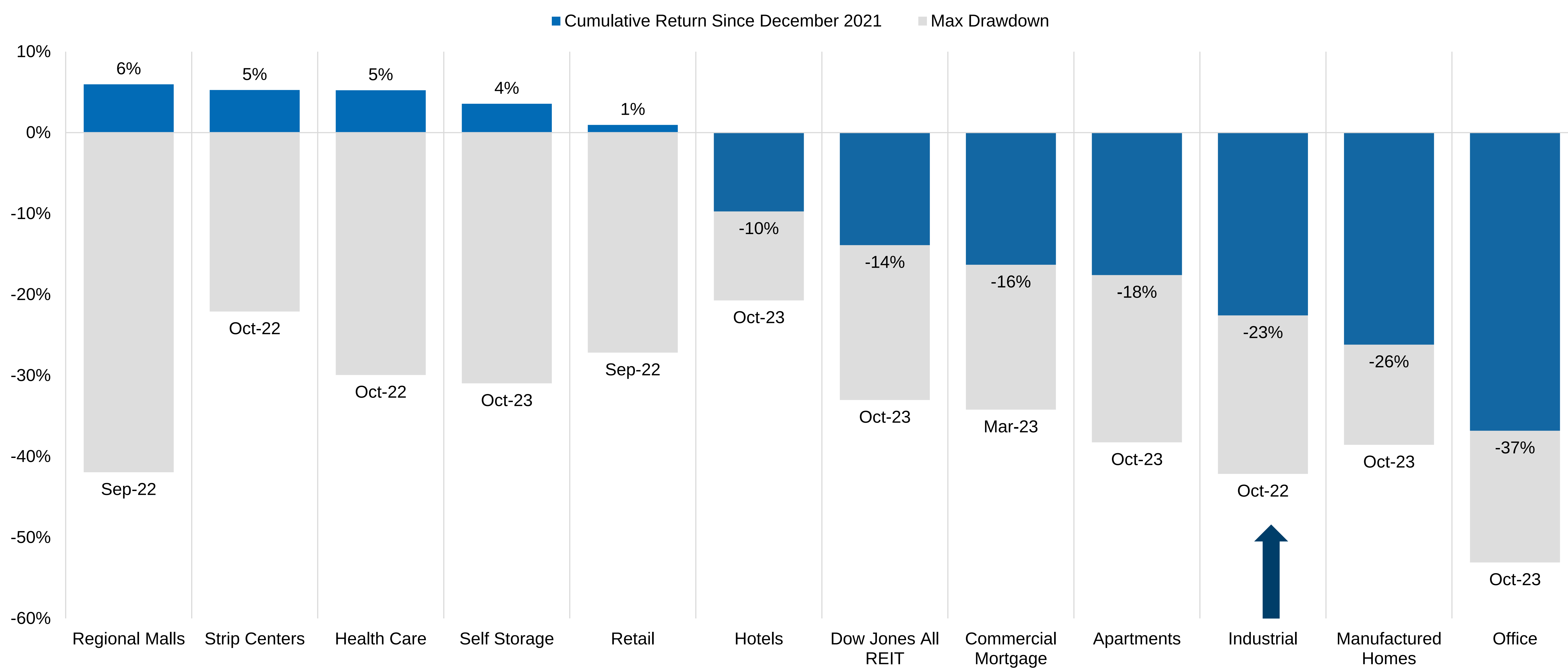


Source: Green Street, FRED, Nareit, Newmark Research as of 8/13/24.

REIT Returns Have Rallied Significantly from Post-2021 Lows

All REIT sectors experienced significant drawdowns since the beginning of the Fed's hiking cycle; however, all sectors have pared their losses, and the retail, health care and self storage sectors have entirely recovered to post positive cumulative total returns. Office, industrial and apartment REITs continue to be the most negatively impacted sectors overall.

Dow Jones REIT Index Total Returns



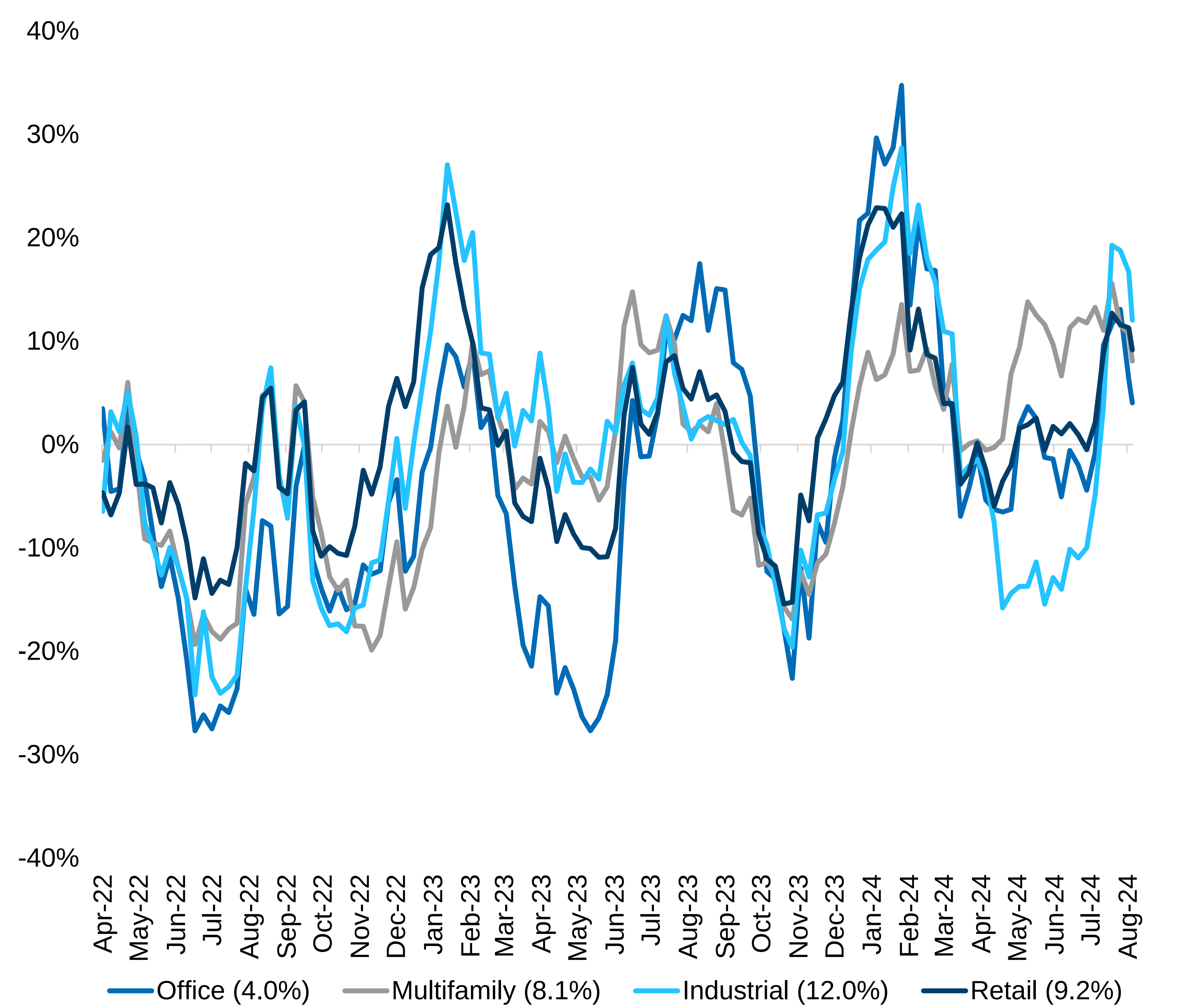
Source: Dow Jones, Moody's, Newmark Research as of 8/5/2024

REIT Returns Have Been Volatile with Periods of Significant Appreciation

As the prospects for declining interest rates have waxed and waned so have REIT returns. Taking a look at cumulative changes (left panel), while volatility is visible, the overall downward impulse from higher rates and, to a lesser extent, softening fundamentals leaves the dominant impression. The rolling 13-week return reveals just how many mini-cycles to which the market has been subject. This underlines the challenge of using public comparable to inform private property valuations on a tactical basis.

Dow Jones All Equity REIT Total Return Index

Dow Jones All Equity REIT Total Return Index: Rolling 13-Week Return

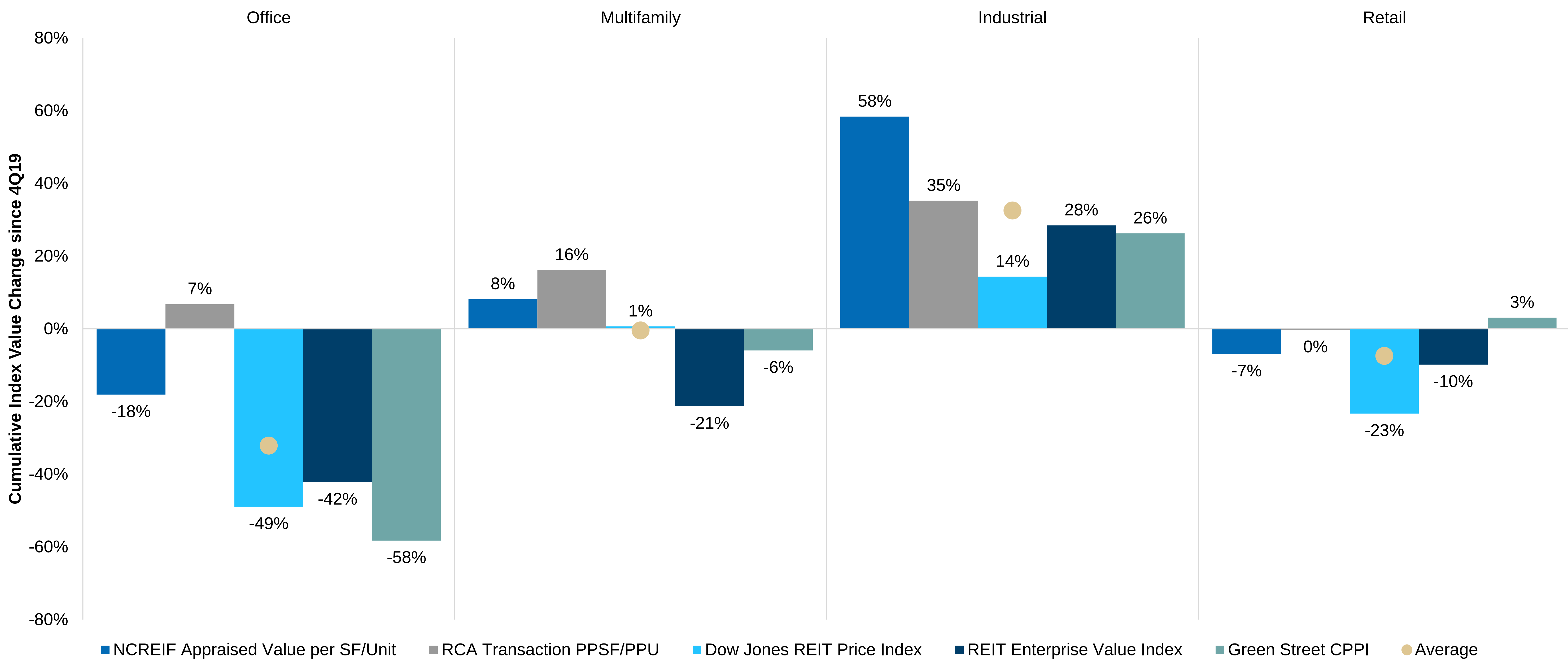


Source: Dow Jones, Moody's, Newmark Research as of 7/31/2024

What Has Happened to Values? Depends on the Benchmark

Industrial is the only sector for which a range of benchmarks show large and significant gains since 4Q19. Conversely, most benchmarks show office values as down, but there is a large difference between appraisal / transaction-based measures, which show modest depreciation and measures informed by the public markets. The latter seem far more realistic. Multifamily markets show the same cleavage with the enterprise value and NCREIF measures clear outliers. Retail measures generally point to modest declines in value.

Comparison of Value Benchmarks: Cumulative Index Change since 4Q19

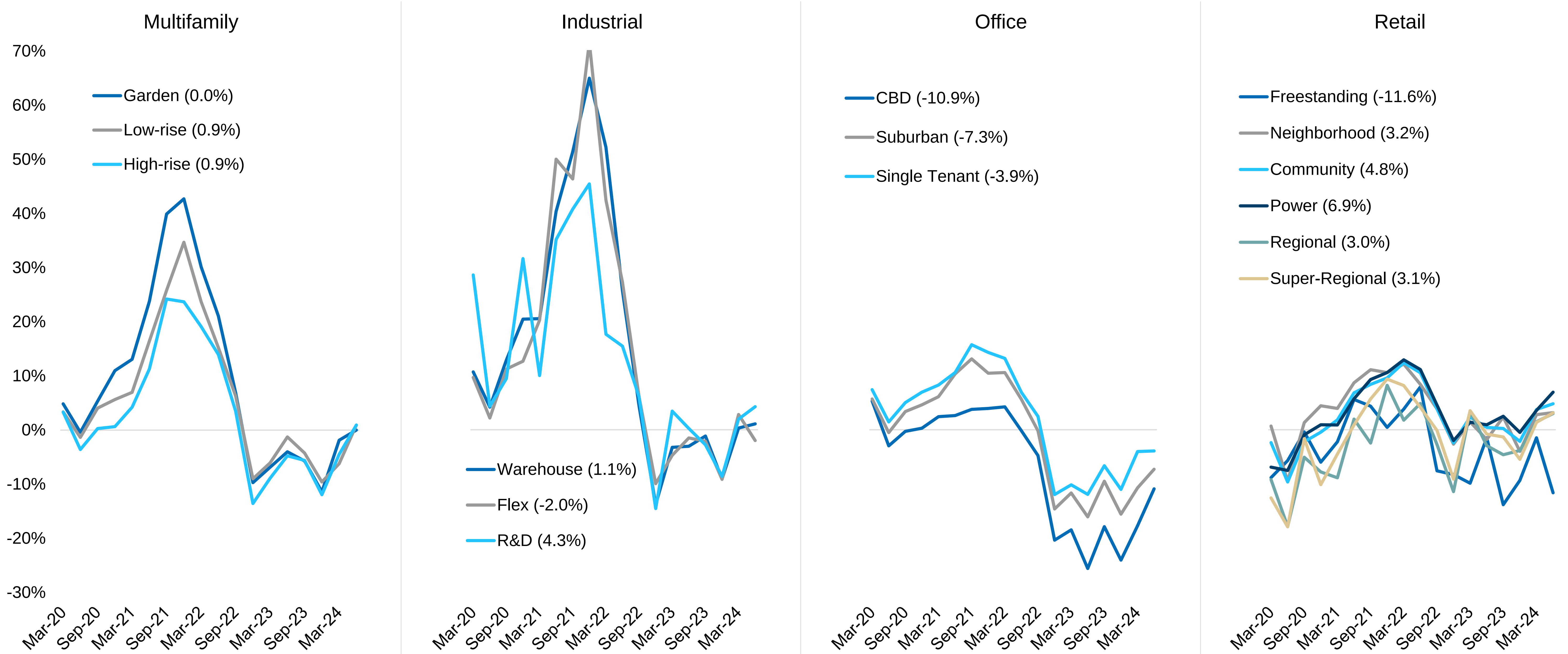


Source: NCREIF, RCA, Dow Jones, Green Street, Moody’s Analytics, Newmark Research as of 7/31/2024

Returns Broadly Improved Sequentially across Property Subtypes in 2Q24

Within the industrial property segment, warehouse and R&D properties posted positive returns while flex lagged.

NCREIF National Property Index Quarterly Total Return (Percent Annualized)

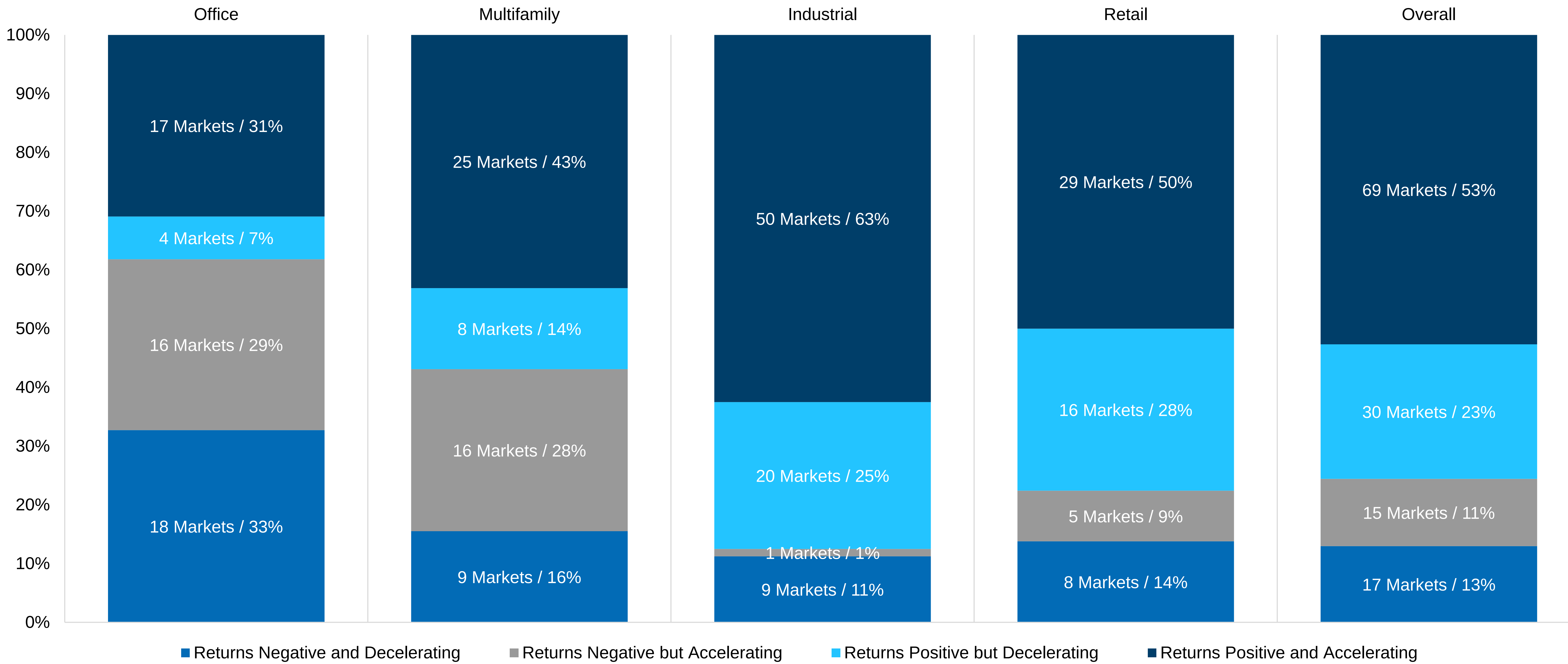


Source: NCREIF, Newmark Research as of 7/31/2024

NCREIF Returns Positive in 53% of Markets in 2Q24 up from 32% in 2Q23

Markets clearly registered the shift in return momentum in 1H24. For office and multifamily, this shift manifested as a shift in markets from negative but accelerating to positive and accelerating. On the other hand, industrial and retail saw some markets shift from positive and accelerating to decelerating. That being said, retail (78% of markets), industrial (88%), and multifamily (57%) reported positive returns in the majority of markets according to NCREIF for the first time since mid 2022.

Breakdown of NCREIF CBSA Total Returns: 2Q 2024



Source: NCREIF, Newmark Research as of 7/25/2024

For more information:

Lisa DeNight
Managing Director,
National Industrial Research
t 610-675-5826

David Bitner
Executive Managing Director,
Global Head of Research
t 415-216-2509

Jonathan Mazur
Executive Managing Director,
National Research
t 212-372-2154

Jack Fraker
President,
Global Head of Industrial & Logistics
Capital Markets
t 214-538-2070

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

nmrk.com

NEWMARK