VALUATION & ADVISORY

INDUSTRIAL INVESTOR SURVEY & OUTLOOK

SPRING 2024

CUSHMAN & WAKEFIELD

ANNUAL INDUSTRIAL INVESTOR SURVEY RESULTS

Cushman & Wakefield’s Valuation & Advisory Industrial/Logistics Practice Group (LPG) periodically surveys investors regarding their decision-making process in selecting overall capitalization rates.

The process involves a myriad of factors, but primarily includes analysis of the physical aspects by asset quality (Class A, B or C) and location, in relation to current market conditions and tenancies, as well as a forecast of future trends driven by changing demand indicators. For our spring 2024 edition, we interviewed representatives from some of the nation’s most prominent institutional buyers and sellers of industrial assets, including Cushman & Wakefield’s Industrial Capital Markets.

PHYSICAL CRITERIA/LOCATION

Market participants typically focus on the type (Class A, B and C) and location of an industrial asset prior to selecting an appropriate overall capitalization rate. While the criteria relative to defining the asset type may vary, most agree on the following, as defined by CoStar Group, Inc.:

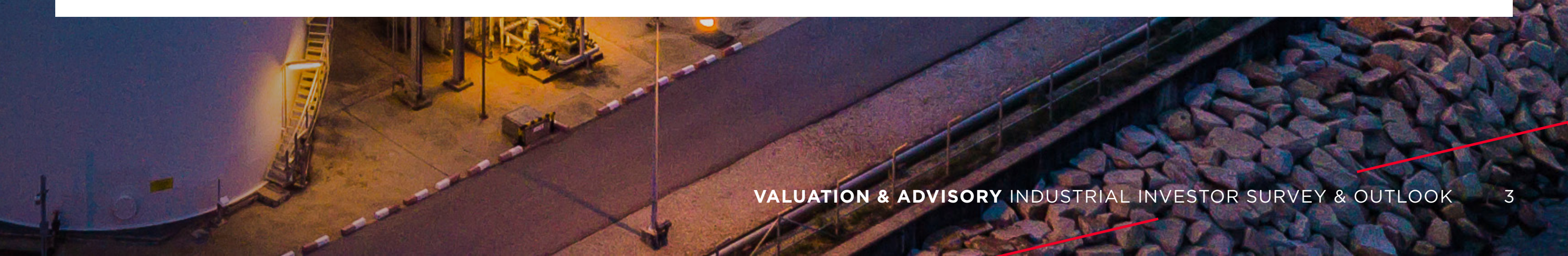
- **Class A Industrial**: Class A buildings qualify as desirable investment-grade properties that command the highest rents or sale prices compared to other buildings in the same market. Such buildings are well located and provide efficient tenant layouts as well as high-quality (and in some buildings, one-of-a-kind) floor plans. These buildings contain the best quality materials and workmanship in their trim and interior fittings.
- **Class B Industrial**:Buildings in this category command lower rents or sale prices than Class A properties, as Class B buildings tend to offer utilitarian space without special features. These buildings typically have average to good maintenance, management and tenants. They are less appealing to tenants than Class A properties and may be inferior in several respects, including floor plans, condition and facilities.
- **Class C Industrial**:These structures can be classified as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the market. Such buildings typically have below-average maintenance and management, with mixed or low tenant prestige, low clear ceiling heights, and inferior mechanical or electrical systems.

RISK FACTORS/MARKET CONDITIONS/TENANCIES

Although the aforementioned criteria are of primary focus, the participants also identified the following risk factors influencing their purchasing decisions:

- Overall vacancy, strengths and weaknesses of the local market, occupancy, lease terms, and near-term rollover
- Readily available, developable land for potential competition
- The functionality of the asset (clear ceiling height, layout, design, ratio of office to total warehouse space, lighting, power, adequacy of parking and truck storage, truck turning radius, etc.), as well as the age and condition of the asset, including the roof structure
- Access to major transportation linkages (interstate, rail, port access, etc.)
- Proximity to growing populated urban areas
- Creditworthiness of the tenant(s) and contractual rent in place in relationship to market rent levels (above/below market), and potential of rent increases over the initial lease term
- Replacement cost considering current construction costs

In addition to the above, investors are far more attuned to meeting the needs of end users and occupiers who want facilities that are optimized for efficiency and expedited product shipping, as well as strategically positioned near readily available labor markets.



FINAL RESULTS
Spring 2024

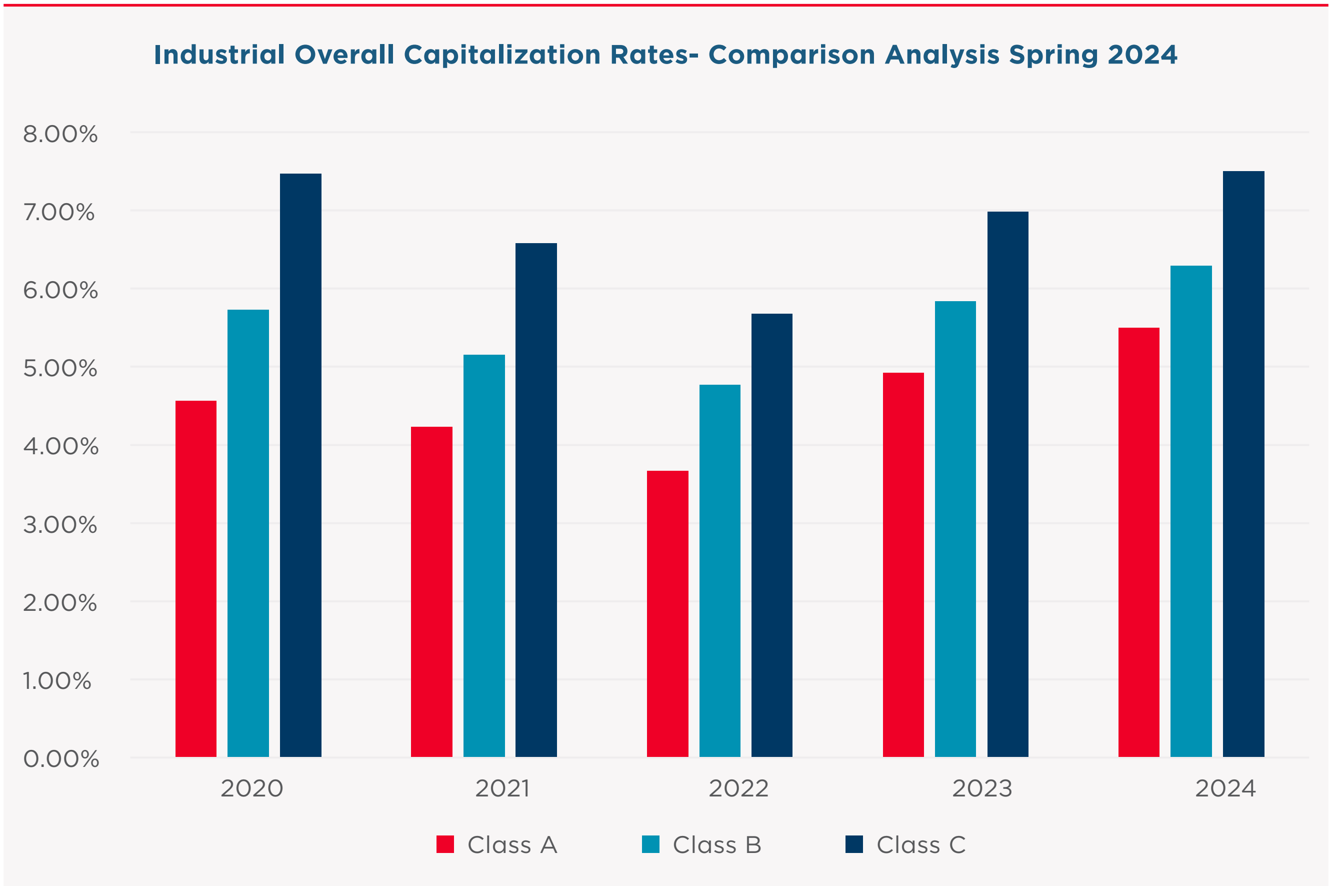
The results of our spring 2024 investor survey (overall capitalization rates) were provided by representatives of some of the largest institutional/pension fund buyers and sellers of industrial assets, nationally. They are presented as follows:

Industrial Overall Capitalization Rates - Comparison Analysis Spring 2024									
	Spring 2024	Spring 2023	Spring 2022	Spring 2021	Spring 2020	12-Mth Change (BPS)*	24-Mth Change (BPS)*	36-Mth Change (BPS)*	48-Mth Change (BPS)*
Class A	4.50% - 6.25%	4.00% - 6.00%	2.50% - 4.75%	3.25% - 5.50%	3.75% - 6.00%				
Range Average	5.49%	4.91%	3.66%	4.22%	4.55%	0.58	1.83	1.27	0.94
Class B	5.50% - 7.50%	4.50% - 7.00%	3.00% - 6.00%	4.00% - 7.00%	4.00% - 7.50%				
Range Average	6.28%	5.83%	4.76%	5.14%	5.72%	0.45	1.52	1.14	0.56
Class C	6.50% - 9.00%	5.00% - 9.00%	4.25% - 7.50%	5.00% - 9.00%	6.00% - 9.00%				
Range Average	7.49%	6.97%	5.67%	6.57%	7.46%	0.52	1.82	0.92	0.03
Overage Average	6.42%	5.90%	4.70%	5.31%	5.91%	0.52	1.72	1.11	0.51

Note: The lower-end of the range reflects Class A assets with long-term credit tenants at market rent levels (with escalations) or short-term tenants with below market leases in-place located in Southern CA, New Jersey (Northern), Dallas, Southern Florida (Miami) and Chicago.

**Ending Spring 2024*
Compiled by Cushman & Wakefield's Valuation & Advisory Logistics & Industrial Practice Group (LPG).

INVESTOR SURVEY RESULTS FROM THE PREVIOUS 5-YEAR PERIOD ARE VISUALLY PRESENTED AS FOLLOWS:



Based on the spring 2024 results, overall capitalization rates range widely by asset class, indicating a 79-basis point (bp) differential between Class A and B industrial product, and a 200-bp difference between Class A and C industrial facilities. Overall rates for Class C properties are 121 basis points (bps) higher than Class B industrial product. The lower end of the range reflects Class A assets with long-term credit tenants at market rent levels (with escalations) or short-term tenants with below market leases in place in Southern California, northern New Jersey, Dallas, southern Florida (Miami) and Chicago. Additional markets noting high demand and growth include Atlanta, Charleston, Phoenix, Houston, Salt Lake City and Seattle, albeit to a lesser extent.

Investors are also targeting Class B, and in some cases, Class C product, seeking higher rent growth and greater yield/return expectations—especially from assets with below-market leases in place that are near populated urban areas with access to a readily available workforce. Assets near urban areas continue to be in demand due to reduced shipping and delivery times.

OBSERVATIONS AND KEY TAKEAWAYS

The recent rise in interest rates and 10-year U.S. Treasury correspond to higher yield rates and overall capitalization rates, as well as a higher cost of capital. As a result, the current survey indicates that average capitalization rates for Class A assets increased 58 bps, Class B assets by 45 bps, and Class C assets by 52 bps since our spring 2023 survey. The increases in the average capitalization rates for all asset classes can be attributed to the significant increases in interest rates over the last 12 months. However, most investors do not anticipate further increases in overall rates, as their current yield rates have considered or priced in any potential near-term rate hikes. Nonetheless, investors are closely monitoring any signs of interest rate increases or decreases and 10-year Treasury yield rates as a benchmark.

- Investors continue to see strong demand for industrial assets in 2024.
- Steady demand is expected to continue, and the Coastal (Port Cities), Southwest and Southeast regional markets are expected to continue their growth level, but at a more normalized level compared to 2023. The New Jersey markets are still expected to grow equally, due to their strong medical and pharmaceutical presence and port access.

- Class A properties in core U.S. markets will continue to command more aggressive overall capitalization rates—predominately in U.S. port cities, although Midwest markets are not far behind. Class B, and in some cases, Class C, assets in proximity (infill locations) to populated urban areas with readily available workforces are in demand as investors and occupiers continue to solve the last-mile dilemma in urban locations.

- Value-add projects with shorter weighted average lease terms, ideally close to three years or less, are on investors' radars. The sweet spot for market activity lies in quickly achieving mark-to-market rents upon rollover, coupled with yield growth, to escape the negative spread to current financing options. Nonetheless, credit and term are now the drivers, and cash buyers have the competitive edge in today's environment.

- Acquisitions are moving forward, and the deal flow and interest have significantly increased as the buyers are back in the market. Both buyers and sellers have become more realistic with their pricing expectations as the bid-ask differential continues to narrow, but a gap remains.

- Industrial fundamentals are expected to remain solid throughout 2024 and into 2025, sustaining rent growth, albeit at a more normalized pace (2%-4%) than 2022 and 2023. Nonetheless, investors are closely monitoring the interest rate environment and fluctuations in 10-year Treasurys as they refine their pricing strategies.

- At the time of this survey, there is minimal concern about the possibility of the Fed increasing interest rates, as most investors anticipate a rate reduction in the second half of 2024, which would reduce overall capitalization rates in the 25-bp range. Overall capitalization rates have subsided since the 10-year Treasury peaked at around 5% in October 2023.

- Traditional lending on speculative construction is starting to surface, but the banking industry is still struggling to find its footing. Life companies appear to be filling the lending void, along with private equity.

- Logistics, food and beverage, cold storage, biotech/pharmaceutical and data center assets are the preferred asset classes. However, e-commerce is clearly driving the demand, as online shopping continues to accelerate, especially with the infusion of AI driving the supply chain efficiencies.

With a strong infrastructure in place in most U.S. markets, vacancy rates below long-term averages, and the continued push for onshoring and the availability of natural resources, the long-term investment outlook for the national industrial market is positive. More specifically, seaport cities and major logistics hubs are expected to remain the strongest performers, especially as e-commerce and AI continue to expand to satisfy customer demand.

In addition to these insights from our survey respondents, Cushman & Wakefield regularly publishes U.S. Industrial MarketBeat reports for current, comprehensive quarterly market information. Our latest Industrial MarketBeat reports can be found here.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.

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Practice Groups/Property Types

Automotive & Mobility
Data Center
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Healthcare
Hospitality & Leisure
Infrastructure
Life Sciences
Living Sectors
- *Multifamily*
- *Senior Housing*
- *Residential Development*
- *Affordable Housing*
- *Student Housing*
- *Manufactured Housing*

Logistics & Industrial
Office
Retail
Self Storage

Advisory Services

Appraisal Management
Business Valuation
Diligence Advisory
Dispute Analysis & Litigation Support
Institutional Client Services
Machinery & Equipment
Property Tax Services
Right-of-Way & Eminent Domain
Trusts & Estates
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Cushman & Wakefield's integrated approach to the logistics/industrial valuation process is unmatched, in a complex and always-changing asset class requiring our high level of knowledge, expertise and experience. Find out more.

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