
1Q24

Las Vegas Industrial Market Overview

NEWMARK

Market Observations

Economy

- Loaded import volume at the Ports of Los Angeles and Long Beach collectively totaled 7.6 million containers in 2023, the seventh busiest year on record.
- Gulf and East Coast dockworkers have signaled their intention to strike in 2024. Pair this with drought conditions at the Panama Canal and ship attacks in the Red Sea, and it is highly likely import traffic at Southern California's ports will increase.
- A rise in imports does not necessarily portend more demand for Southwest warehouse space. Goods that are "just passing through" to other U.S. markets have a negligible effect on regional market dynamics.
- Local warehouse and manufacturing employment grew over the last 12 months. Granted, at slower rates than 2022-2023.

Major Transactions

- Three of this quarter's notable leases were renewals; tenants are increasingly choosing to stay put rather than deal with moving costs.
- The lion's share of leasing activity is occurring in the high-growth North Las Vegas submarket, which accounts for nearly 70.0% of the under-construction pipeline.
- EastGroup Properties, Inc. purchased the 3-building Spanish Ridge Industrial Center (232,274 SF) for \$54.8 million in January. The business park was fully leased.
- The Trazonic Companies was set to occupy 395,377 SF of new space this quarter, but instead listed half for sublease.

Leasing Market Fundamentals

- Total vacancy rose to 5.7% in the first quarter of 2024, up 200 bps from year-end 2023. Net absorption losses of 554,584 SF, paired with 3.1 MSF in new construction deliveries, are behind vacancy's increase.
- Available sublease space totals 1.5 MSF and represents 0.9% of existing inventory. This is still low relative to the market's 1.8% high, reached in early 2010.
- Some occupiers are focused on cutting costs amid still-high inflation and more-restrained retail spending. Shedding extra space is one way to reduce overhead. Delaying expansion plans is another.
- This quarter's leasing activity totaled 2.1 MSF compared with 4.0 MSF in early 2023. Slower leasing activity and the eventual delivery of 15.5 MSF in under-construction space (19.0% of which has pre-leased to date) will lead to further vacancy increases.

Outlook

- Landlords will become more competitive to secure tenants through concession packages and/or lower rents.
- Sales activity will be slow in 2024. This trend will progressively reverse course once the Fed enacts interest rate cuts; in the second half of the year is the conservative consensus.
- In Southern California: sublet availability is pronounced, vacancy is rising and rent growth is cooling. All favors tenants, which could slow relocations to lower-cost Southwest markets, such as Las Vegas and Phoenix.

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1. Economy
 2. Leasing Market Fundamentals
 3. Sales Activity
 4. Appendix

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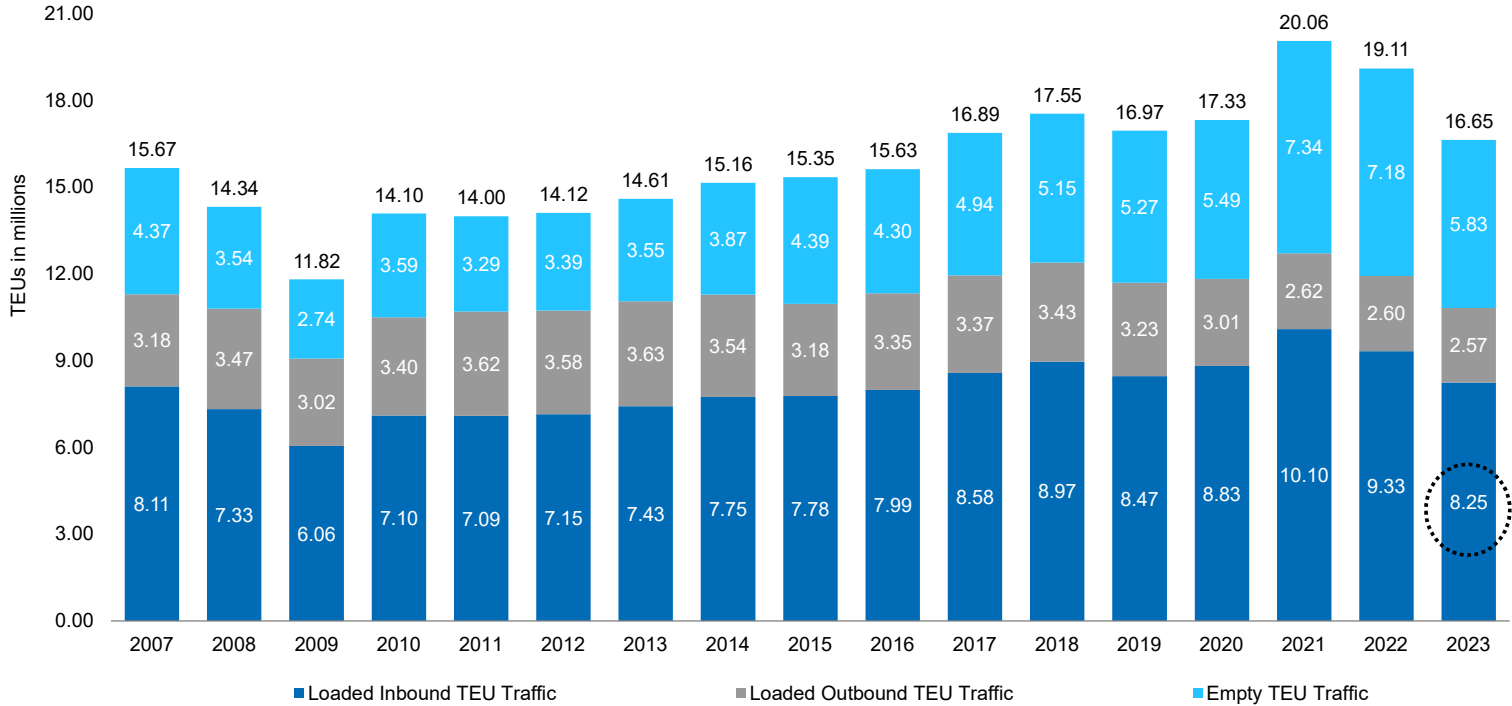
Economy



Southern California’s Ports: 2023 Was the Seventh Busiest Year on Record for Import Volume

This is still healthy from a historical perspective. A return to normal for import traffic is, in turn, moderating demand for warehouse space across the Southwest.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | By Year



Source: Newmark Research, The Port of Long Beach and Los Angeles
 Note: TEUs are a standard measure for the steel cargo containers commonly used interchangeably on ships, trucks and trains. A TEU or 20-foot equivalent unit is the industry measure used to tally cargo containers, whether the containers are 20-foot long, 40-foot long or some other size.

West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

The ILWU and PMA signed a new labor contract in September, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports will soon negotiate their contract, which will expire in late 2024. Import volume will likely shift to other ports of entry (e.g., Los Angeles-Long Beach) until an agreement is reached.

West Coast Ports Agreement Reached...Finally!

- The International Longshore Warehouse Union (ILWU) represents dockworkers at 29 ports from Washington State to California. The Pacific Maritime Association (PMA) represents ocean carriers and terminal operators.
- The prior contract expired on July 1, 2022.
- The ILWU has a history of work disruptions in prior negotiation periods, ranging from strikes, to deliberate work slowdowns to under-staffing shifts.
- These disruptions have cost major retailers billions of dollars in the past.
- In March, for instance, the ILWU did not stagger shifts during meal periods.
- A tentative agreement was reached on June 15, 2023 for what became a new six-year contract. Longshore workers secured a 32% salary increase.
- Many Asian importers pushed inbound goods to East and Gulf Coast ports as talks dragged on. Some of this traffic is returning since stability is now less of a concern.



Source: Newmark Research, City of Los Angeles, The Real Deal

East and Gulf Coast Ports Are Up Next

- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMA) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



+4.6%
+2.2%
+1.6%
+0%
-2.5%

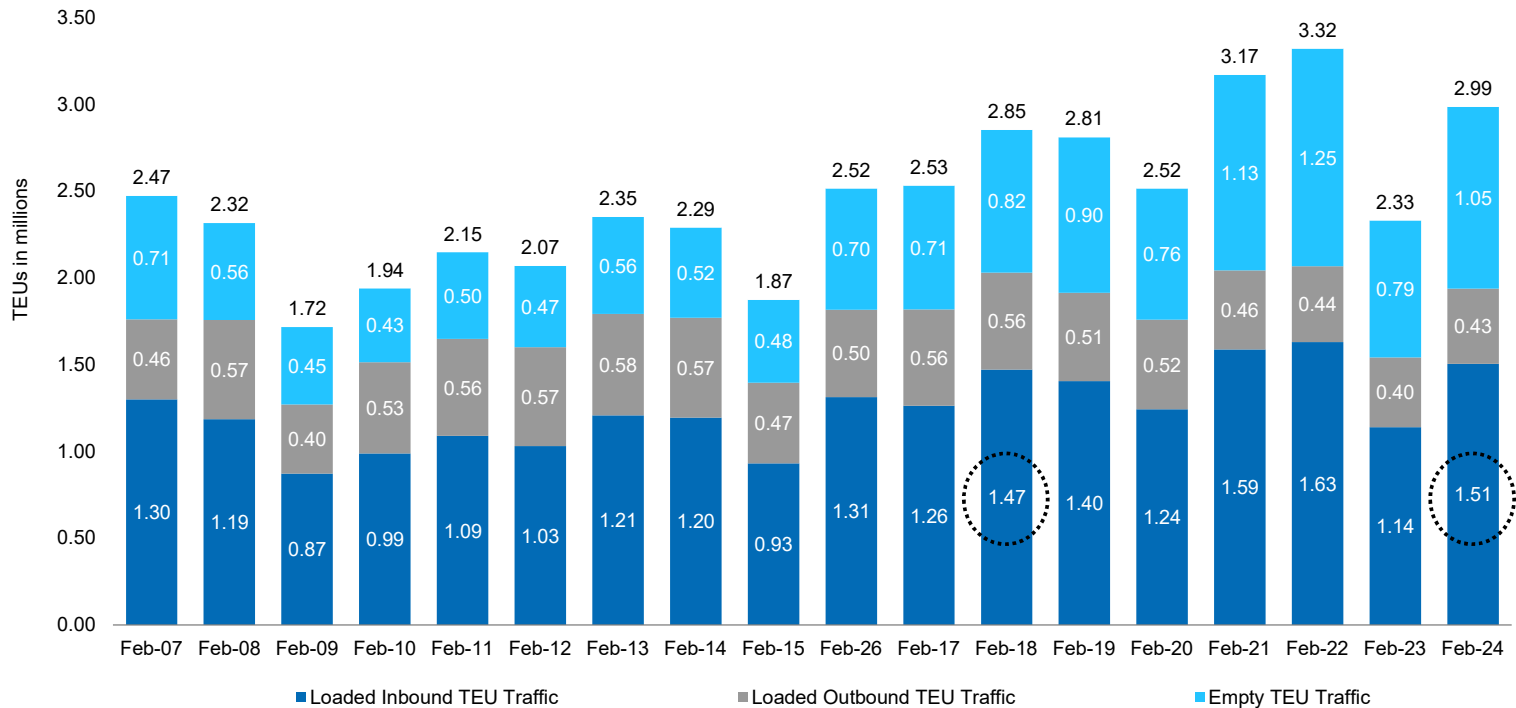
Import Traffic Recently Jumped at Los Angeles/Long Beach

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Loaded Imports in the First Two Months of 2024 Were on Par with Same Period in 2018

The Lunar New Year started on February 10th this year, a time when factories in China shut down entirely. Since U.S. distributors tend to front-load imports beforehand, port volume in the first quarter of a given year is not reflective of how the year will unfold.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Two Months of a Given Year



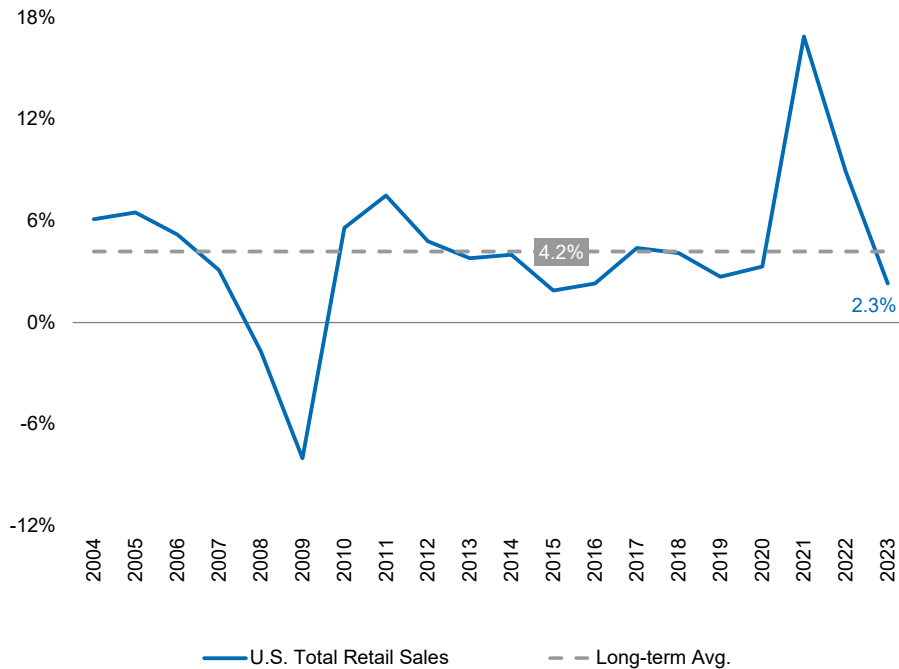
Source: Newmark Research, The Port of Long Beach and Los Angeles

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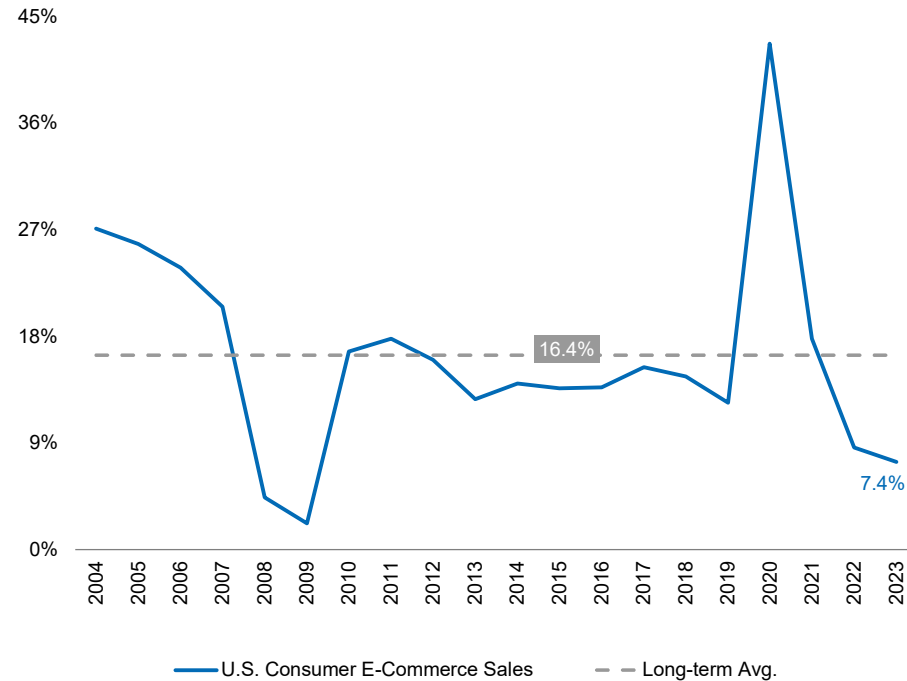
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.4% from 2022 to 2023. Although e-commerce sales growth exceeded total retail sales (+2.3% over the same period), the decline from 2021 onward is noticeable as consumer spending slows.

U.S. Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth



Source: US Census Bureau (consumer adjusted retail sales); most current data available

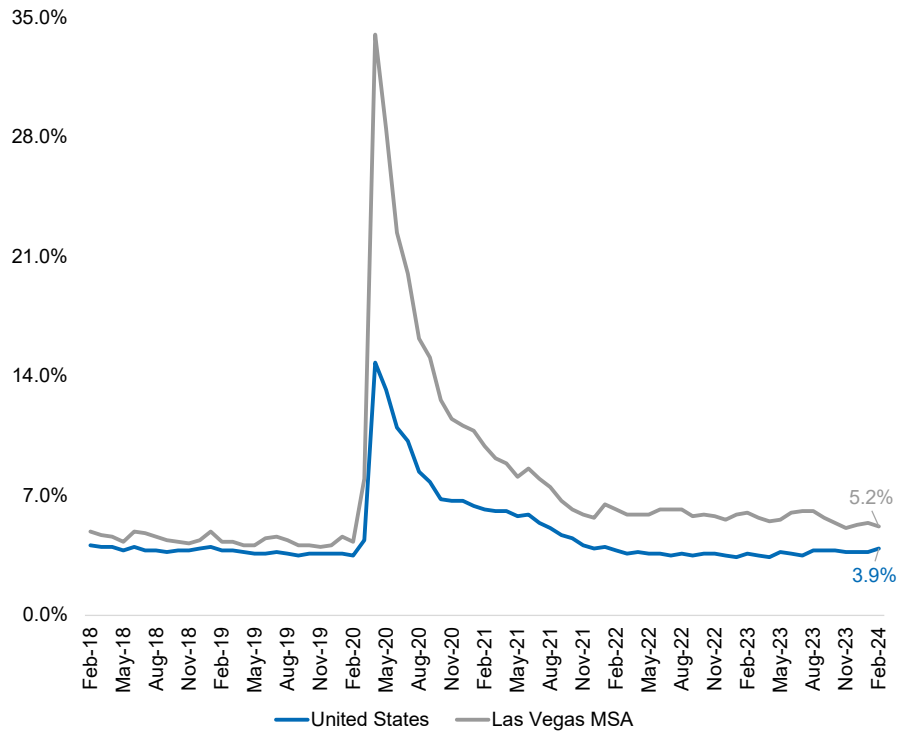
The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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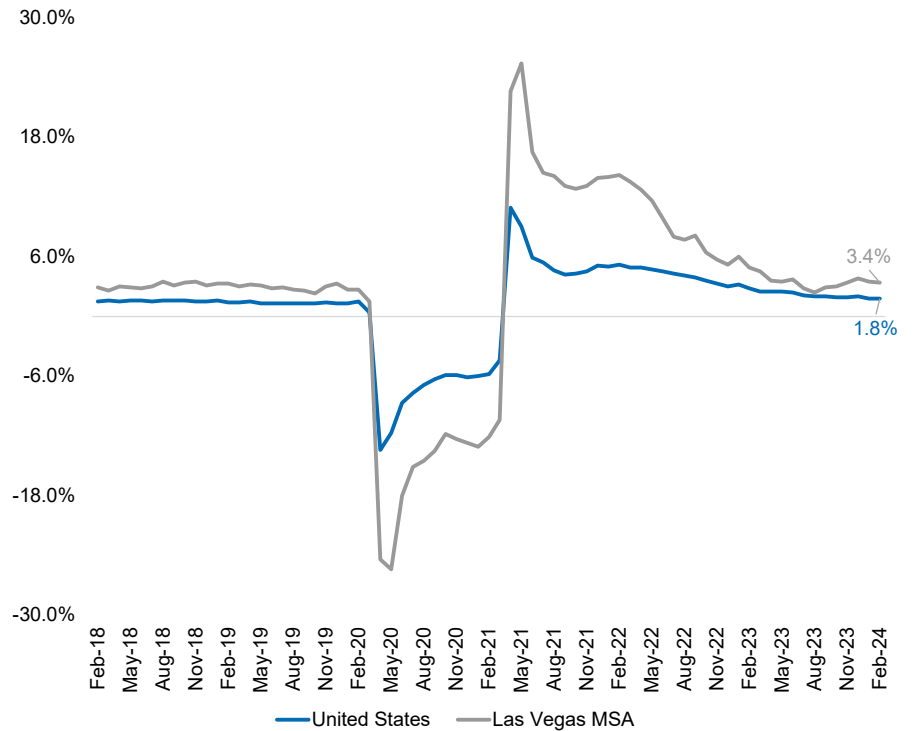
Las Vegas Job Gains: Stronger than the Nation, but Slowing Relative to 2022-2023

Local nonfarm employment grew by 3.4% on an annual basis from February 2023 to February 2024, vastly exceeding the U.S.' average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



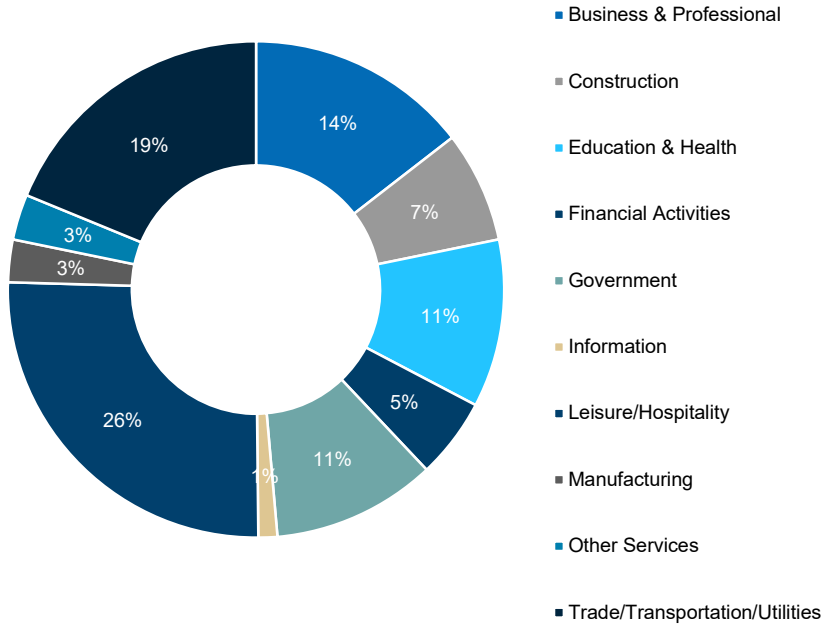
Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

Note: Las Vegas' unemployment is historically higher than the U.S. average due to volatility in the tourism industry when the economy downcycles; hence, the 34.0% unemployment average at the start of the pandemic.

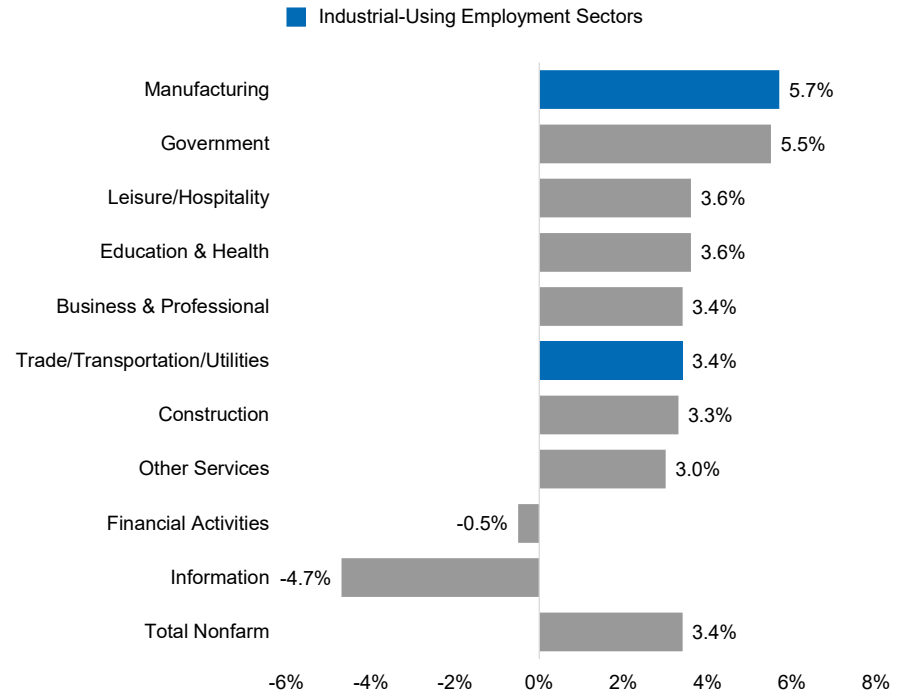
A Growing Population is Driving Employment Growth in a Myriad of Sectors

Leisure/hospitality continues to be the dominant sector, comprising 25.6% of overall employment. Still dominant, but less so when considering the average was 32.7% in 2010, a gradual decrease that illustrates continued diversification within the local economy.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

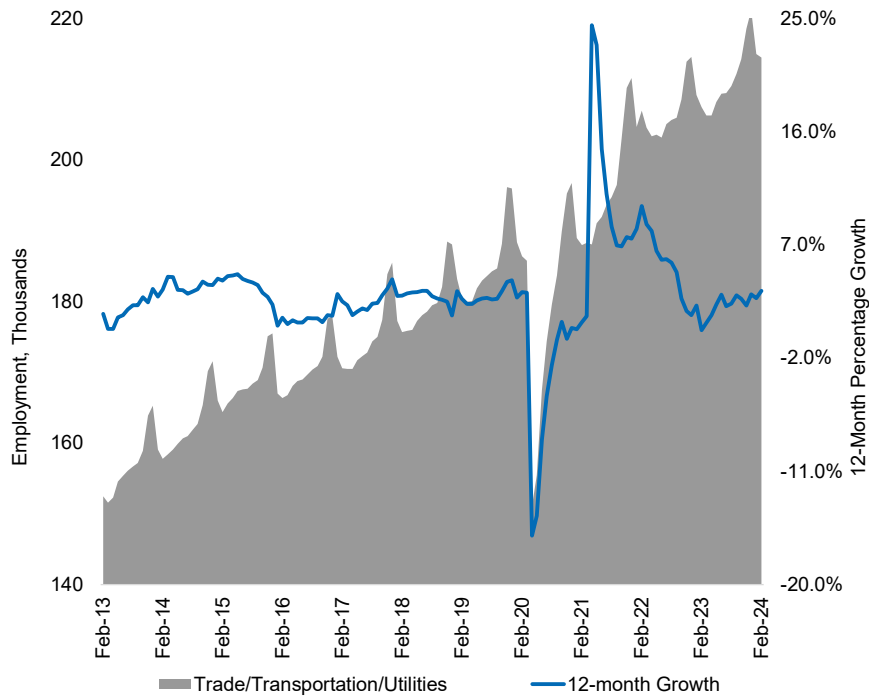


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

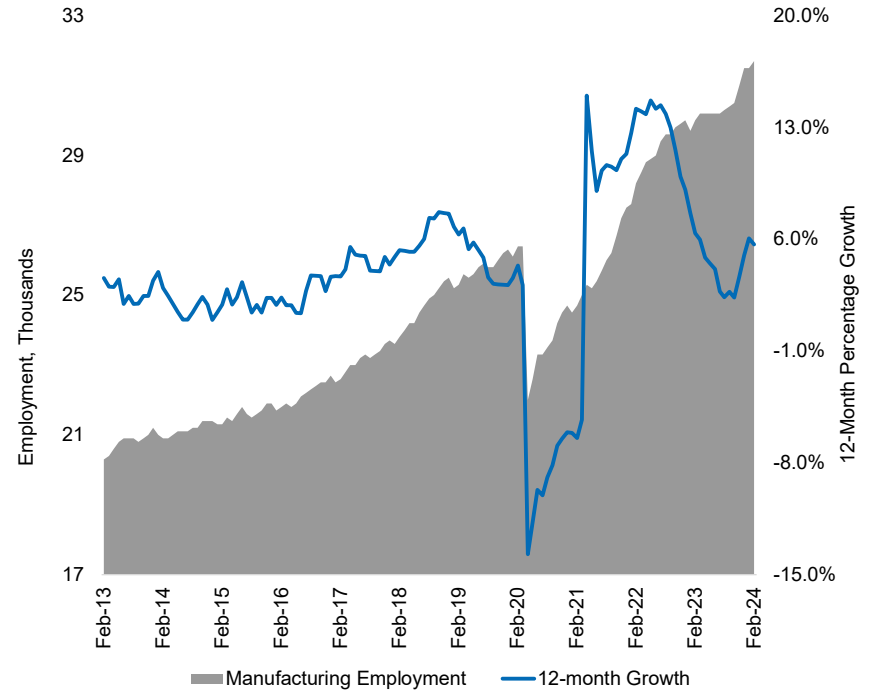
Seasonal Volatility Aside, Industrial Employment is Stronger Than Ever

New to market entrants and prior expansions from existing companies account for trade/transportation/utilities employment growth. Job gains in manufacturing are reflective of Nevada's business-friendly environment (e.g., a Right-to-Work state that does not have any corporate and personal income taxes).

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

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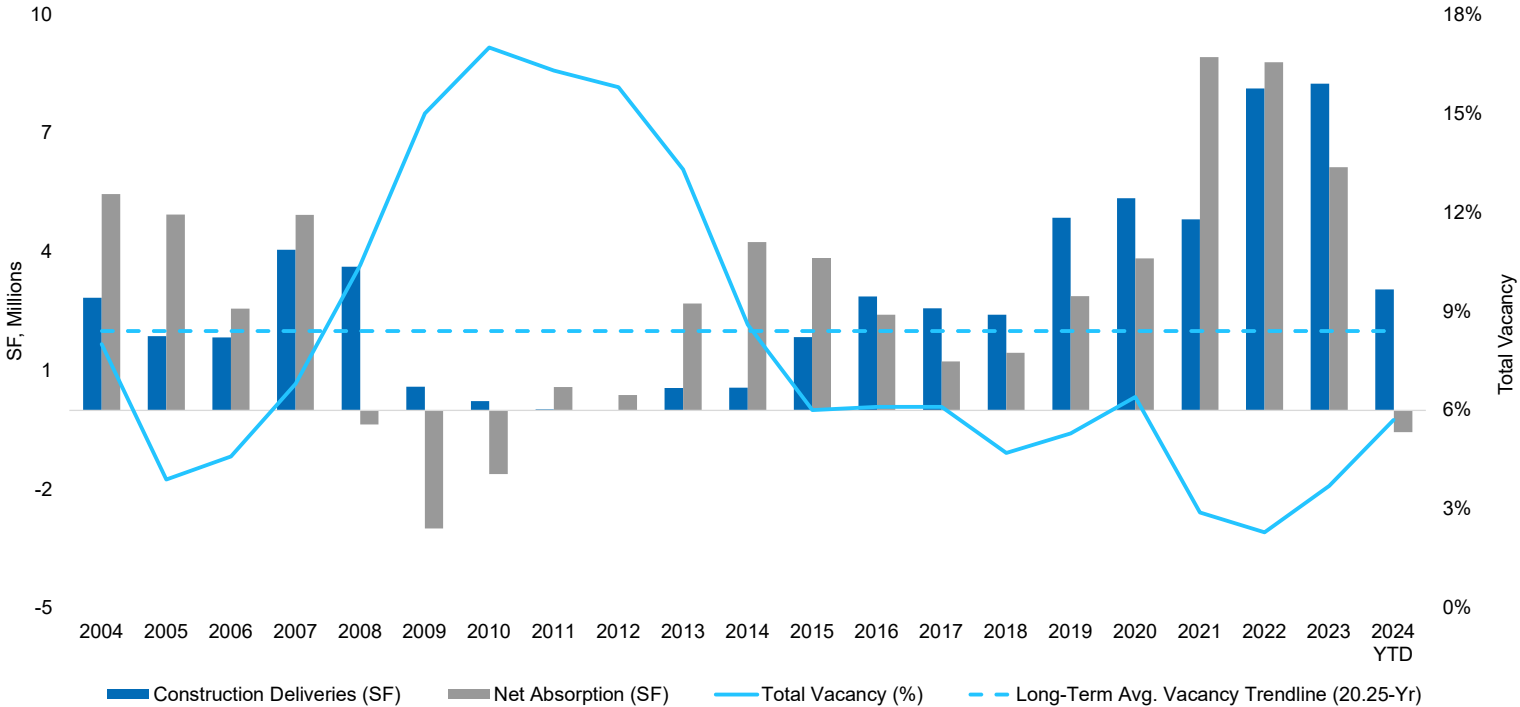
Leasing Market Fundamentals



Vacancy Rose After Construction Deliveries Were Met With Negative Net Absorption

Net absorption was negative for this first time in 18 quarters while new supply came online. Total vacancy rose to 5.7%, up 200 bps from year-end 2023. A slowing economy, coupled with 15.5 MSF in under construction space, will lead to even higher vacancy as new supply continues to eclipse net absorption.

Historical Construction Deliveries, Net Absorption, and Vacancy

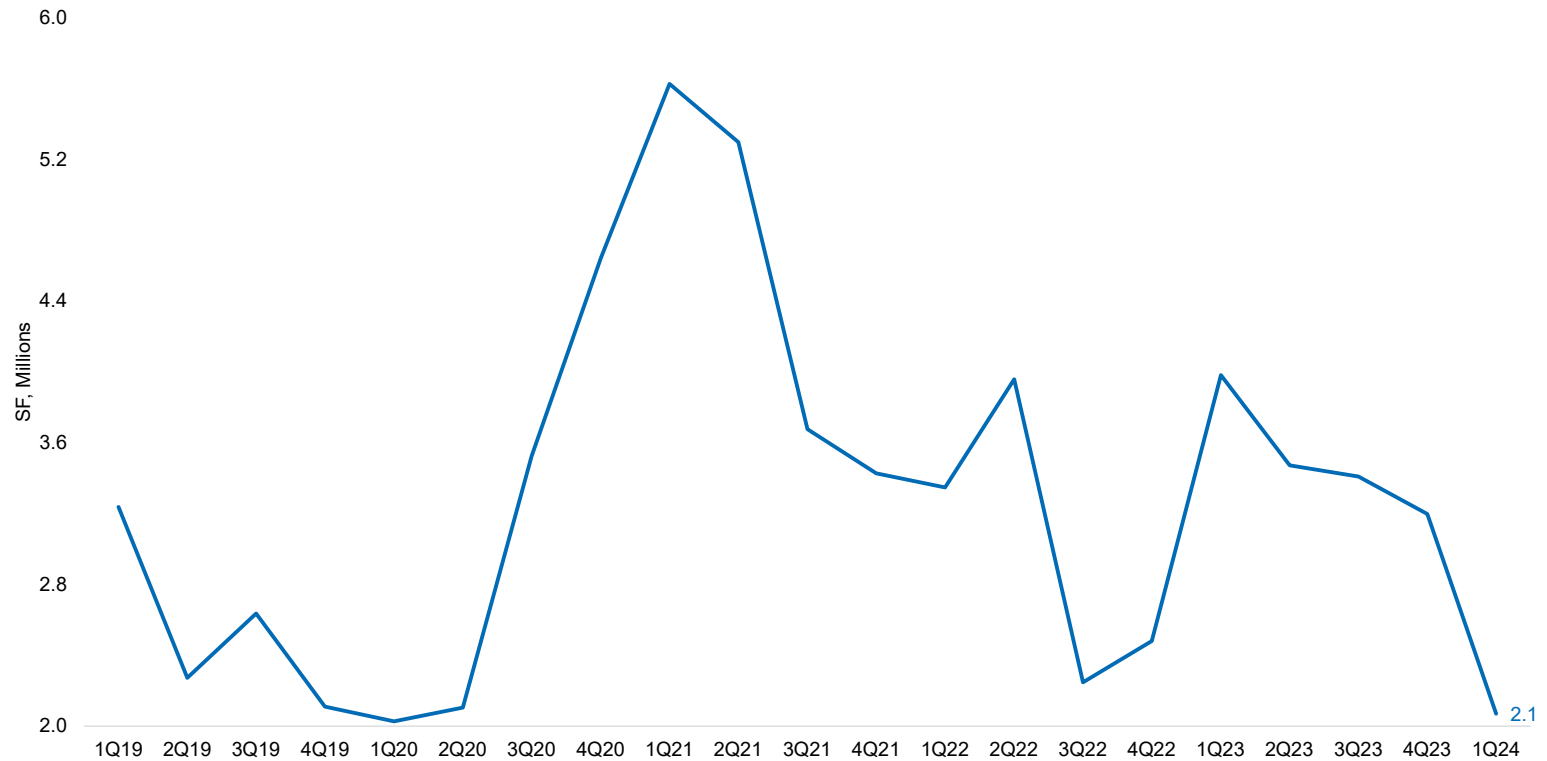


Source: Newmark Research

Leasing Activity Was Sharply Down

Volume this quarter was on par with early 2020, a period of uncertainty when COVID-19 became known in the U.S. and a short-lived recession occurred. Leasing activity in future quarters is expected to be measured as occupiers focus on reducing costs in a still-high inflationary environment. Las Vegas' strong population growth and lower occupancy and labor costs relative to Southern California's markets, while still providing one-day truck service to those markets and their ports, favor long-term leasing fundamentals.

Total Leasing Activity (SF)

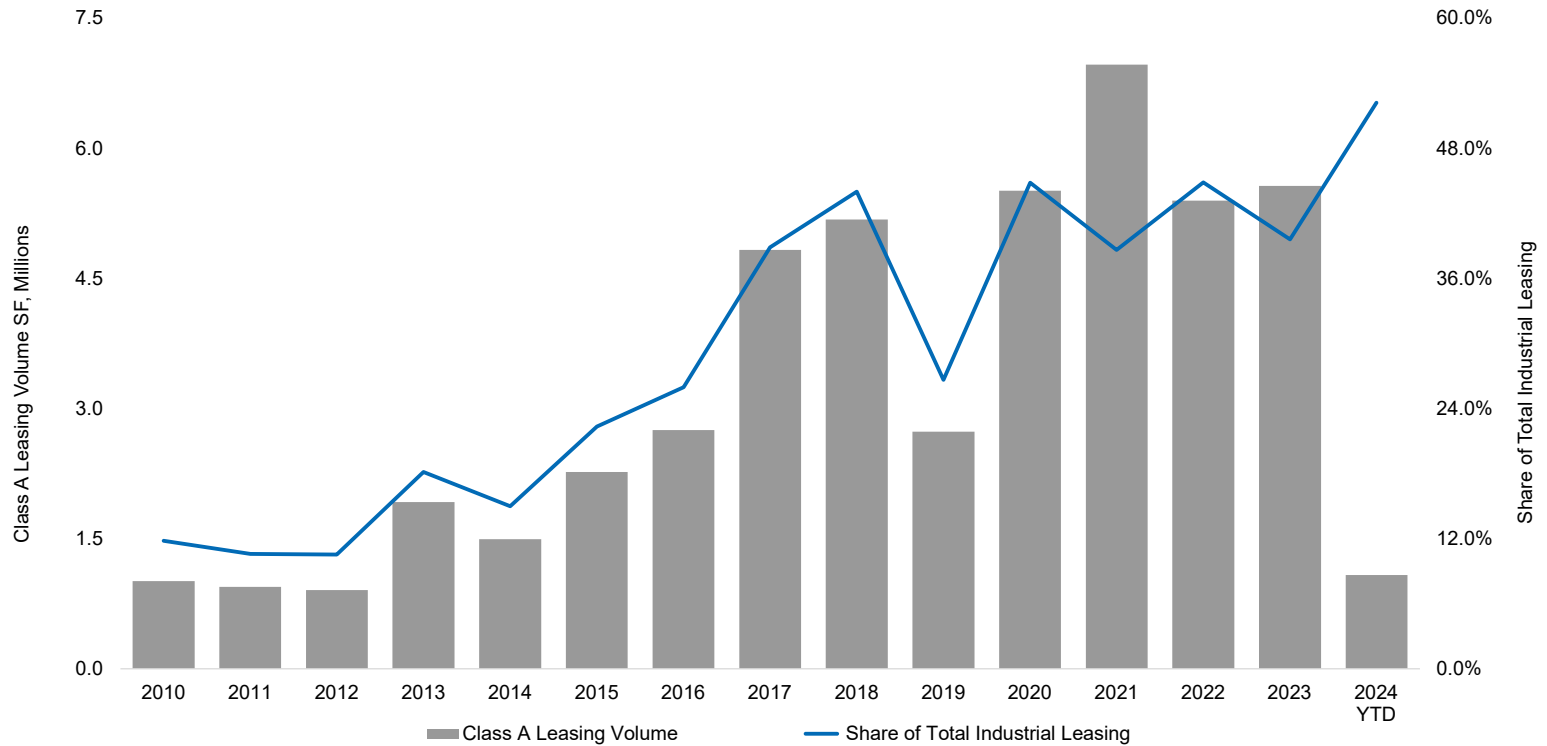


Source: Newmark Research, CoStar

Class A Warehouse Leasing above Long-Term Average

Las Vegas is a growth market and Class A leasing activity has shaped overall leasing dynamics in recent years. The only exception to the rule was 2019, a year when there was a dearth in available product.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

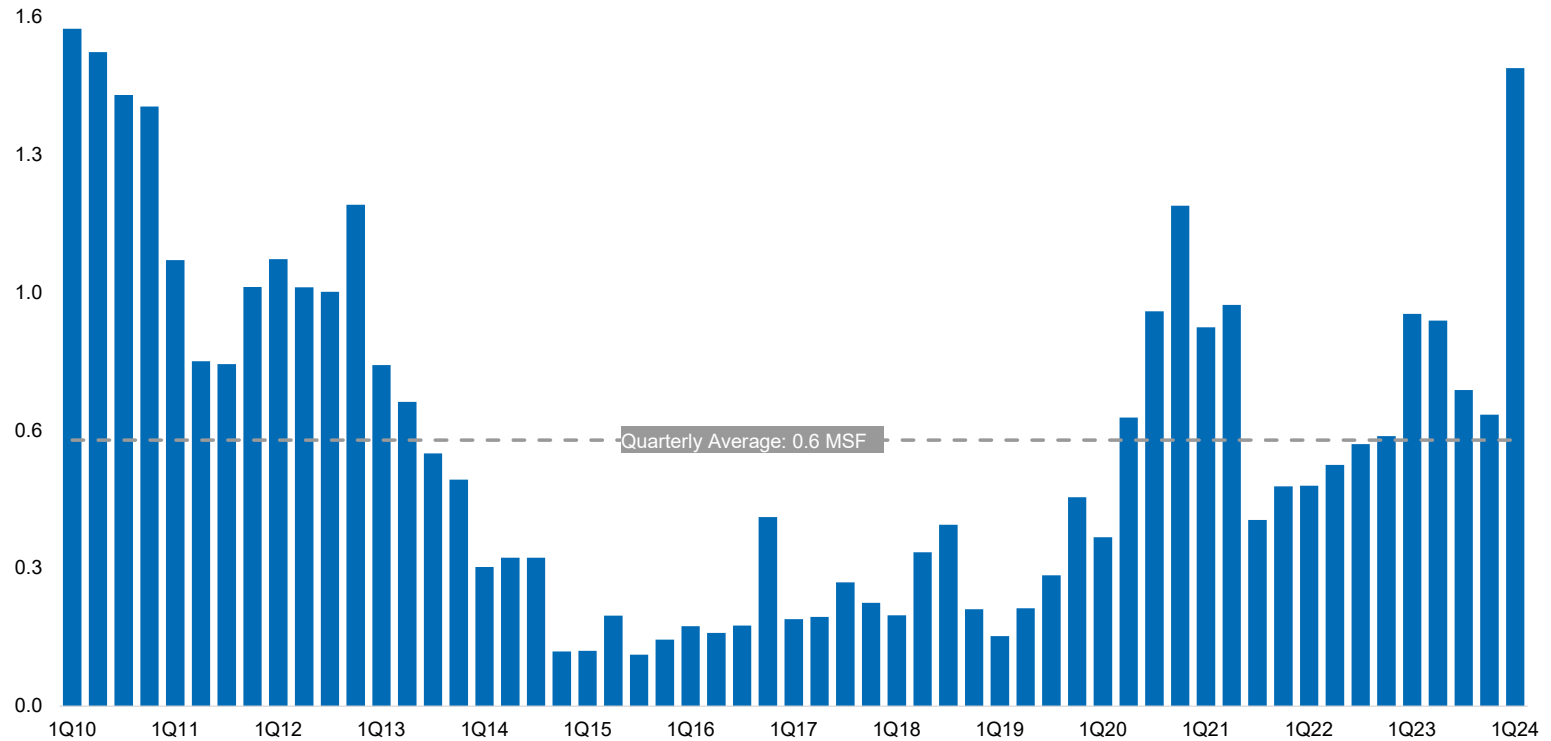


Source: Newmark Research, CoStar
 Note: Class A is defined as 100,000+ SF, 30'+ minimum interior ceiling height and constructed since 2000.

Sublease Space Swiftly Rose This Quarter

Geodis Logistics (199,840 SF), The Tranzonic Companies (180,000 SF) and Nutrition Corp (171,083 SF) are a sampling of this quarter's new sublease offerings. Sublease space will fluctuate in the quarters ahead as occupiers enact cost-cutting measures in a higher cost debt environment.

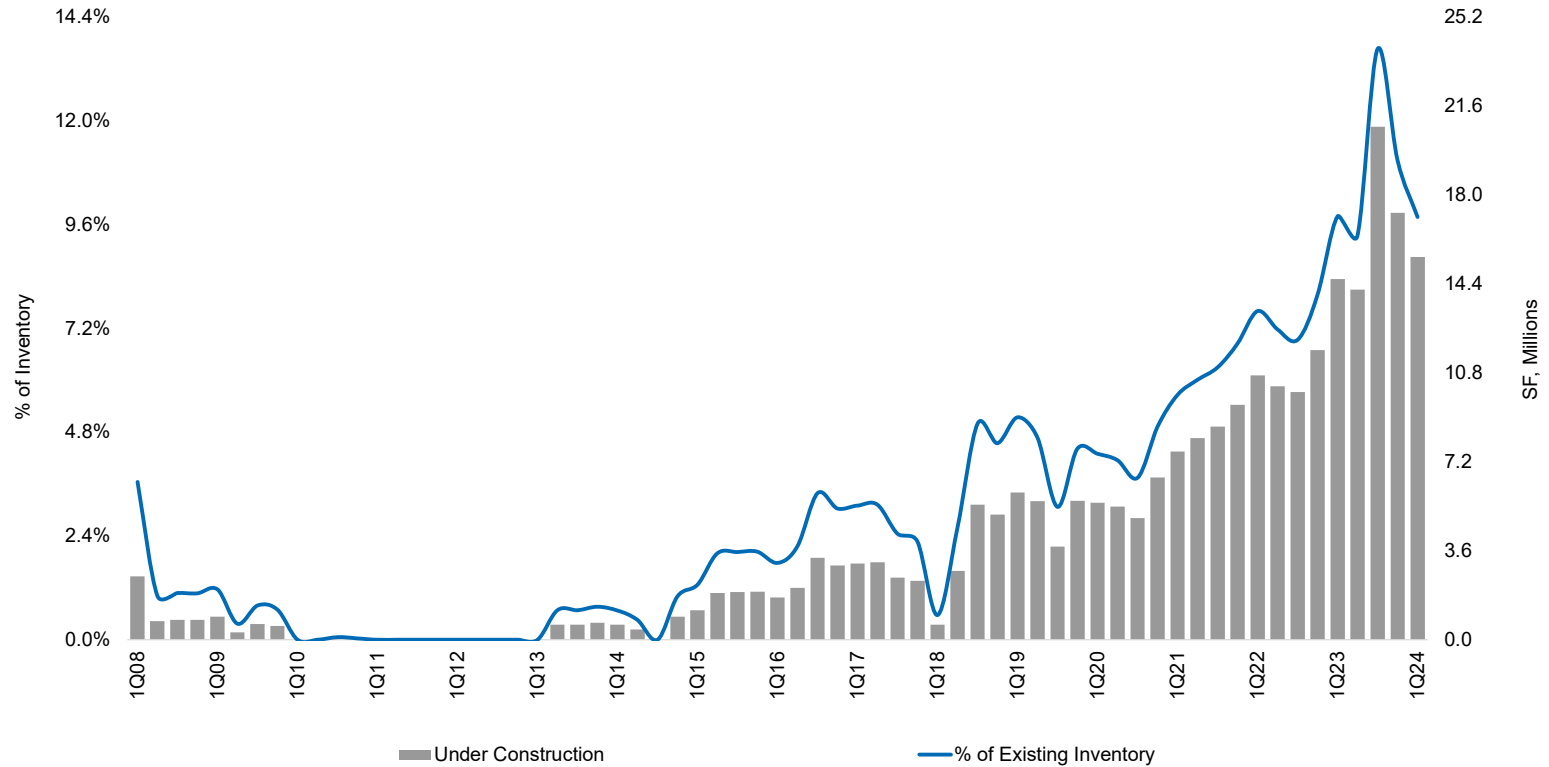
Available Industrial Sublease Volume (MSF)



Industrial Supply Pipeline Cools as Construction Starts Decrease

Rising vacancy, the number of deliveries expected over the near term and difficulty in sourcing construction debt are acting as barriers to new construction starts. Some developers are pausing new development or selling land positions amid the new environment. Slower construction starts pose a risk for potential supply constraints in 2025.

Industrial Under Construction and % of Existing Inventory

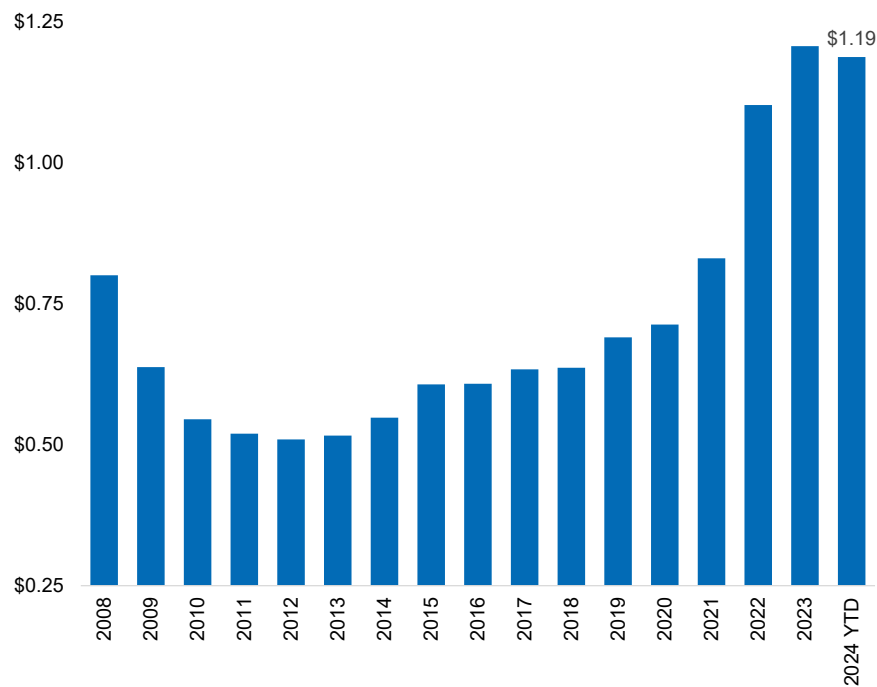


Source: Newmark Research

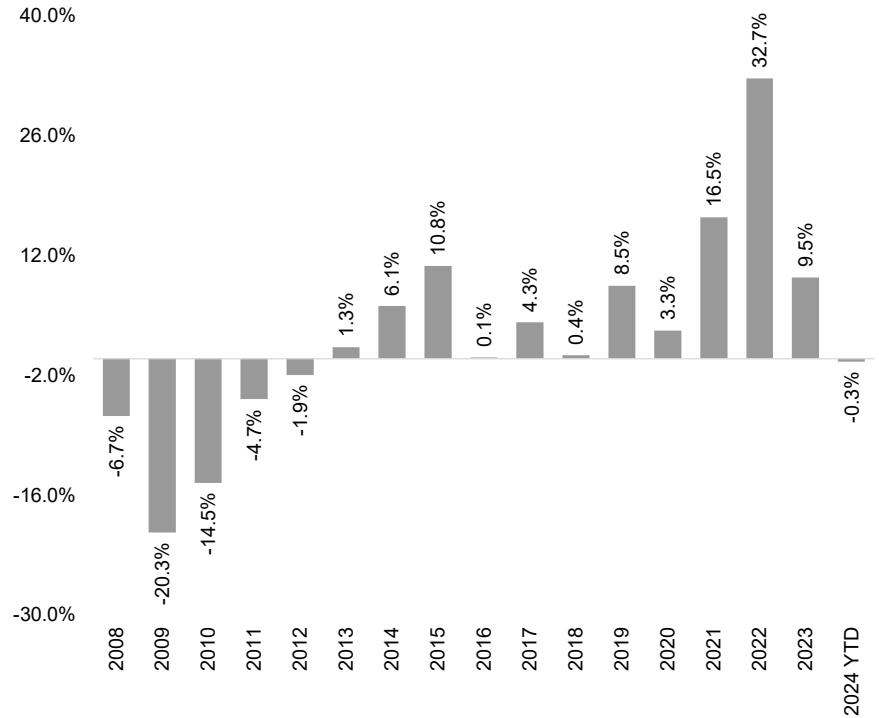
Asking Rents are Levelling Off

Industrial average asking rents grew by 9.5% from 2022 to 2023, after historically strong rent growth in 2021 (+16.5%) and 2022 (+32.7%). Rent growth has stabilized for 100,000-SF-plus buildings, given the number of options that are available to tenants. Rents may see more pronounced decreases throughout 2024 as new construction delivers vacant.

Industrial Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

Notable 1Q24 Lease Transactions

With still-low vacancy, leasing activity continues to be concentrated in modern-gen buildings. Leasing activity, particularly in newer facilities, is predominantly occurring in the North Las Vegas submarket, home to nearly 70.0% of the under-construction pipeline.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Undisclosed	Windsor Commerce Park, Bldg. G	North Las Vegas	Pre-lease	397,440
<i>The building is expected to deliver next quarter.</i>				
Ghost Beverages	Golden Triangle Logistics Center, Bldg. 4	North Las Vegas	Pre-lease	200,186
<i>The building (400,371 SF in all) is expected to deliver next quarter.</i>				
JLG Industries	Prologis Las Vegas Corporate Center	North Las Vegas	Renewal	215,260
<i>The tenant is the sole occupant of the building, which was constructed in 2016.</i>				
Art Guild	Northgate Distribution Center, Bldg. 2	North Las Vegas	Renewal	87,007
<i>Part of a larger 558,000 SF facility that was constructed in 2017.</i>				
AFR Furniture Rental	Pacific Business Center	East Henderson	Renewal	49,710
<i>The tenant is the sole occupant of the building, which was built in 1996.</i>				

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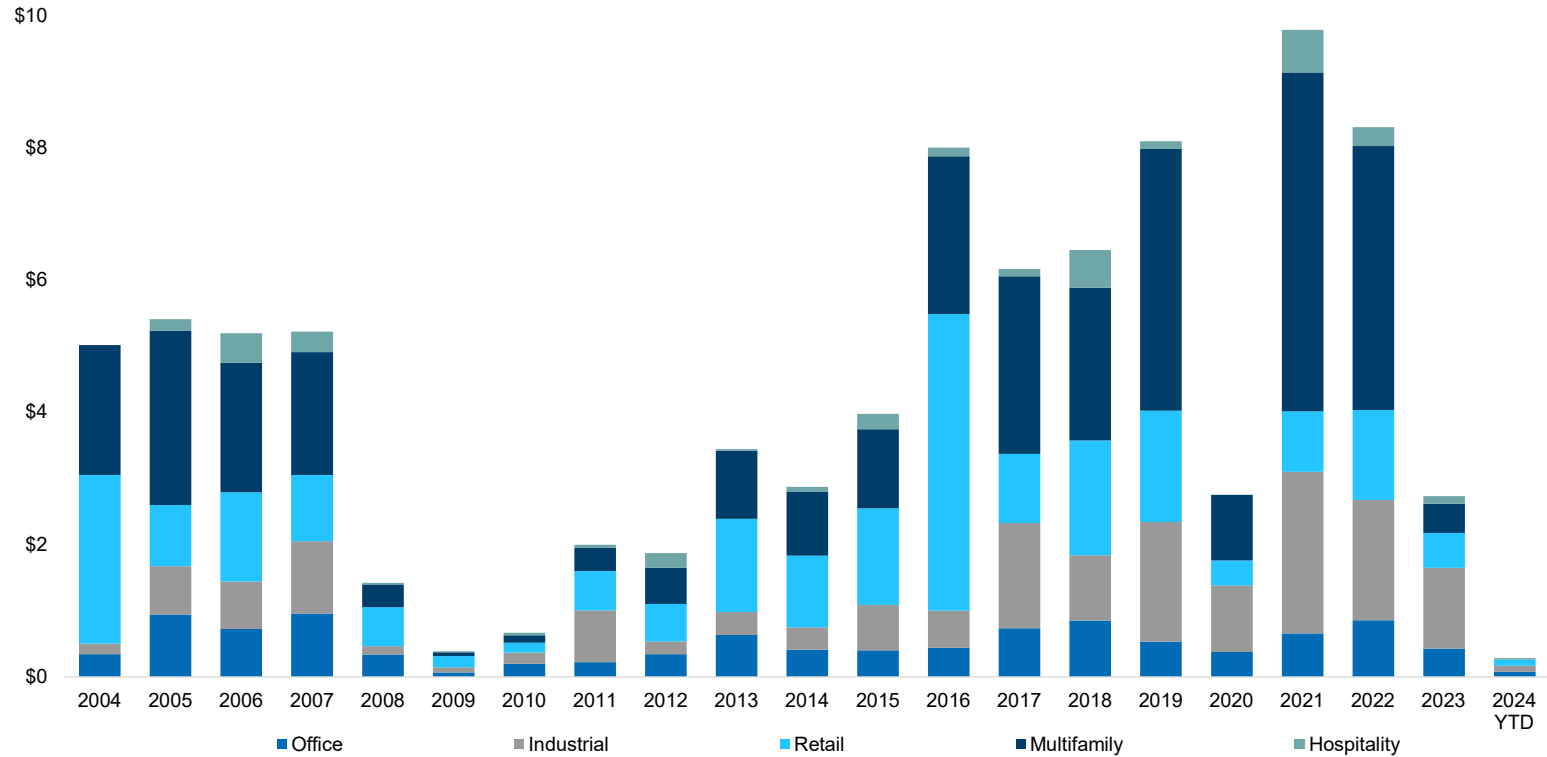
Sales Activity



Industrial Comprised 44.9% of Total Sales Volume in 2023

Low vacancy and heated rent growth in recent years favor the segment, with many investors targeting desirable buildings with credit tenants whose leases are up for renewal.

Las Vegas: Sales Volume Across Commercial Property Segments (\$ in Billions)

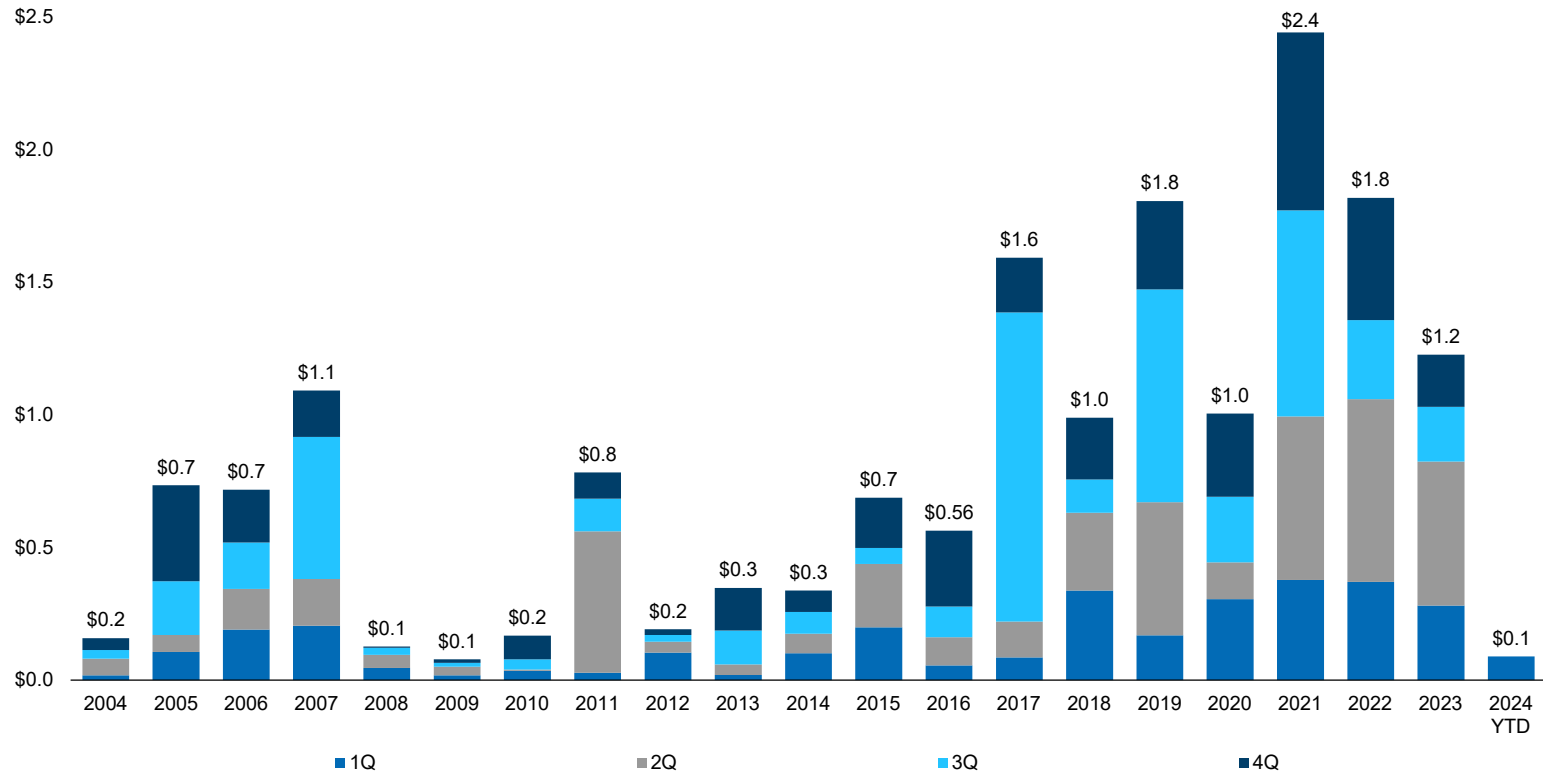


Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the fourth quarter of 2023.

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$90.0 million in the first quarter of 2024, down 68.2% from the same period in 2023. The higher cost of capital following multiple interest rate hikes is crimping momentum, in addition to cooling leasing fundamentals. Both will likely add downward pressure to pricing.

Las Vegas: Industrial Sales Volume (\$ in Billions) | By Quarter



Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the fourth quarter of 2023.

Private and REIT/Listed Buyers Are Active

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Appendix



Las Vegas Industrial Submarket Map and High-Level Statistics | 1Q24

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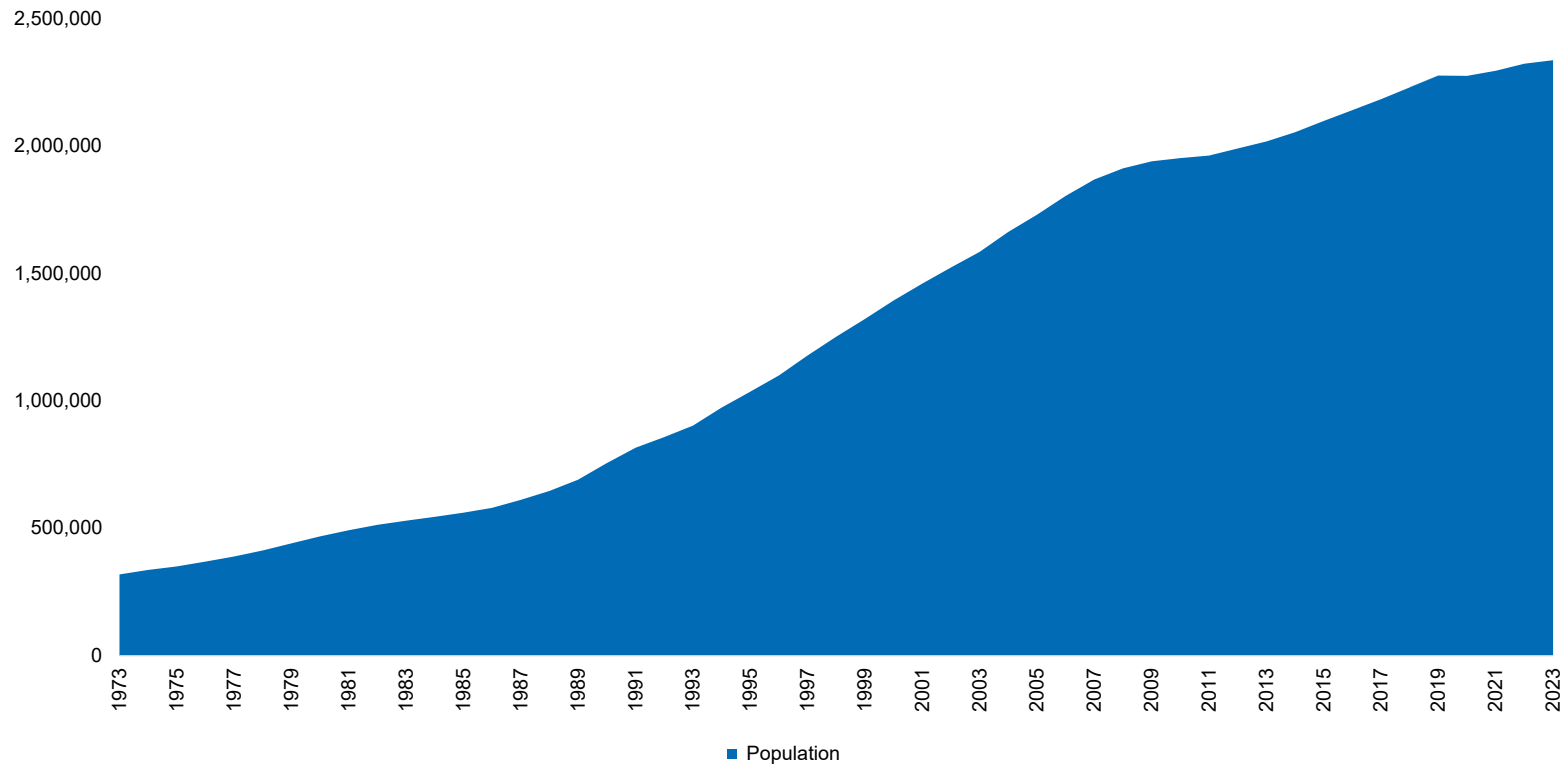
Las Vegas Industrial Submarket Statistics | 1Q24

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Metro's Population Has Grown by 7.3x over Five Decades

A growing population favors demand for warehouse space since more people equates to more consumers to clothe, feed and entertain. A larger residential base also means more prospective workers for the region's warehouses and manufacturing centers.

Las Vegas Historical Population

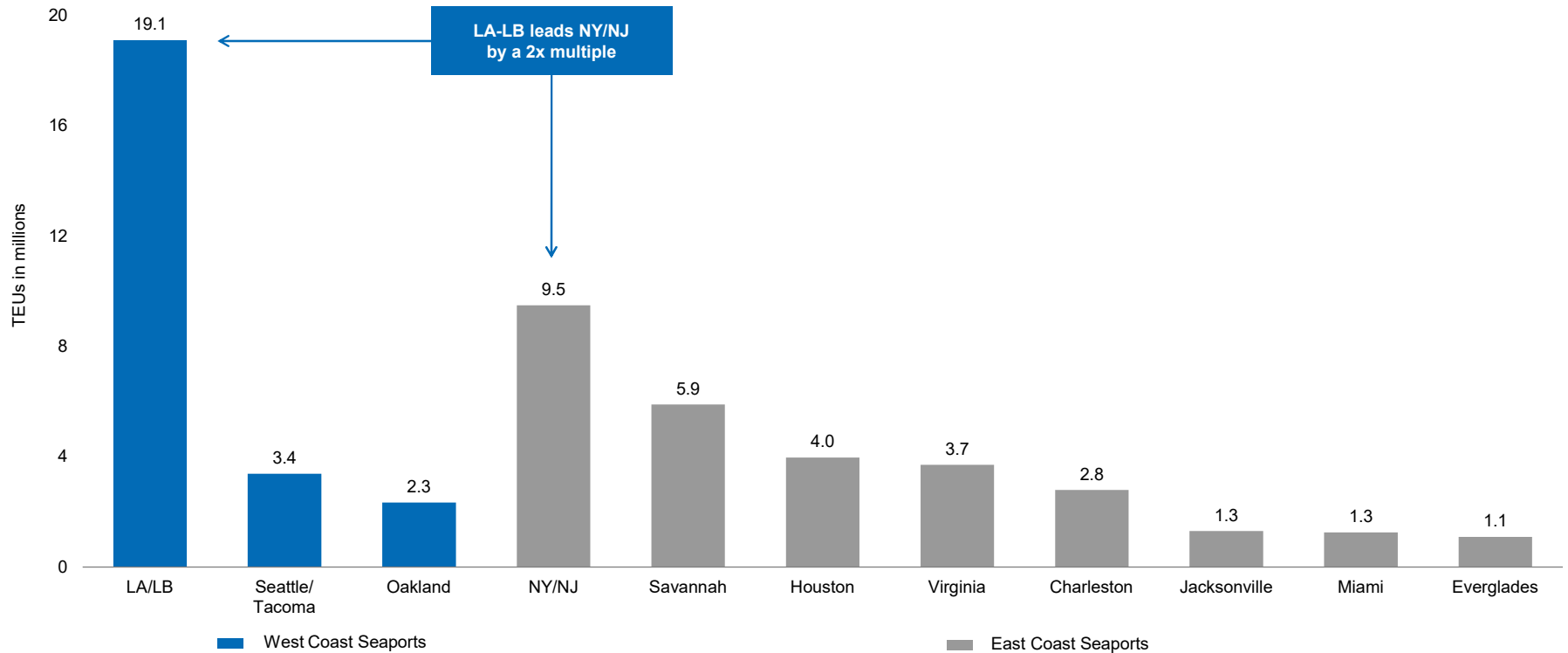


Source: Newmark Research, U.S. Census Bureau, Moody's Analytics

Los Angeles-Long Beach Is the Nation's Dominant Port System

Los Angeles-Long Beach can accommodate 18,000 TEU vessels, which are too wide to traverse the new Panama Canal. Additionally, both ports have Class 1 freight rail connectivity to the nation's major population centers.

Major U.S. Seaports: 2022 TEU Volume (All Containers: Loaded and Empty)



Source: Newmark Research, Individual Seaports

Access to Large Populations and Lower Costs of Doing Business Favor Las Vegas

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