

3Q23

# Las Vegas Industrial Market Overview

An aerial photograph of an industrial facility, likely a refinery or chemical plant. The image shows several large, rectangular storage tanks or processing units arranged in a grid-like pattern. The tanks are light-colored, possibly white or light blue, and have a series of dark, horizontal slats or louvers on their sides. The perspective is from a high angle, looking down at the facility, which creates a strong sense of depth and scale. The overall color palette is dominated by the light blue/white of the tanks and the dark blue/black of the slats.

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# Market Observations

## Economy

- The drop-off in ocean container spot rates from Asia to the U.S. West Coast since the second half of 2022, along with “return-to-normal” import volumes at Southern California’s ports, speak to more conservative retail spending outlooks.
- Loaded import volume at the Ports of Los Angeles and Long Beach collectively totaled 5.3 million containers in the first eight months of 2023. This figure is on par with the same period in 2016, which ended being a healthy year.
- This is a strong correlation between historical import traffic and demand for warehouse space across Southwest markets.
- Las Vegas’ unemployment rate was flat for the third consecutive month, settling at 6.1% in August. Industrial-using employment will fluctuate in the coming months.

## Major Transactions

- In one of the larger leases of the quarter, T.J. Maxx subleased 285,547 SF from Lowe’s Home Center at Raceway Industrial Park in North Las Vegas.
- EastGroup Properties acquired the Blue Diamond Business Park in Las Vegas for nearly \$52.7 million. The 254,492-SF center was fully leased at the time of sale.
- The lion’s share of leasing activity is occurring in the high-growth North Las Vegas submarket, which accounts for 74.1% of the under-construction pipeline.

## Leasing Market Fundamentals

- Total vacancy increased for the fifth consecutive quarter, going from 2.1% in the second quarter of 2022 to 2.8% in the third quarter of 2023. Net absorption over this period totaled 8.2 MSF versus 9.6 MSF in new construction deliveries.
- Sublease space totals 733,808 SF and represents 0.5% of existing inventory. These averages are moderate relative to the highs reached in the Global Financial Crisis.
- Most 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.
- Leasing activity continues to slow, while 17.8 MSF is under construction (27.6% of which has pre-leased to date). Vacancy will rise in the quarters ahead.

## Outlook

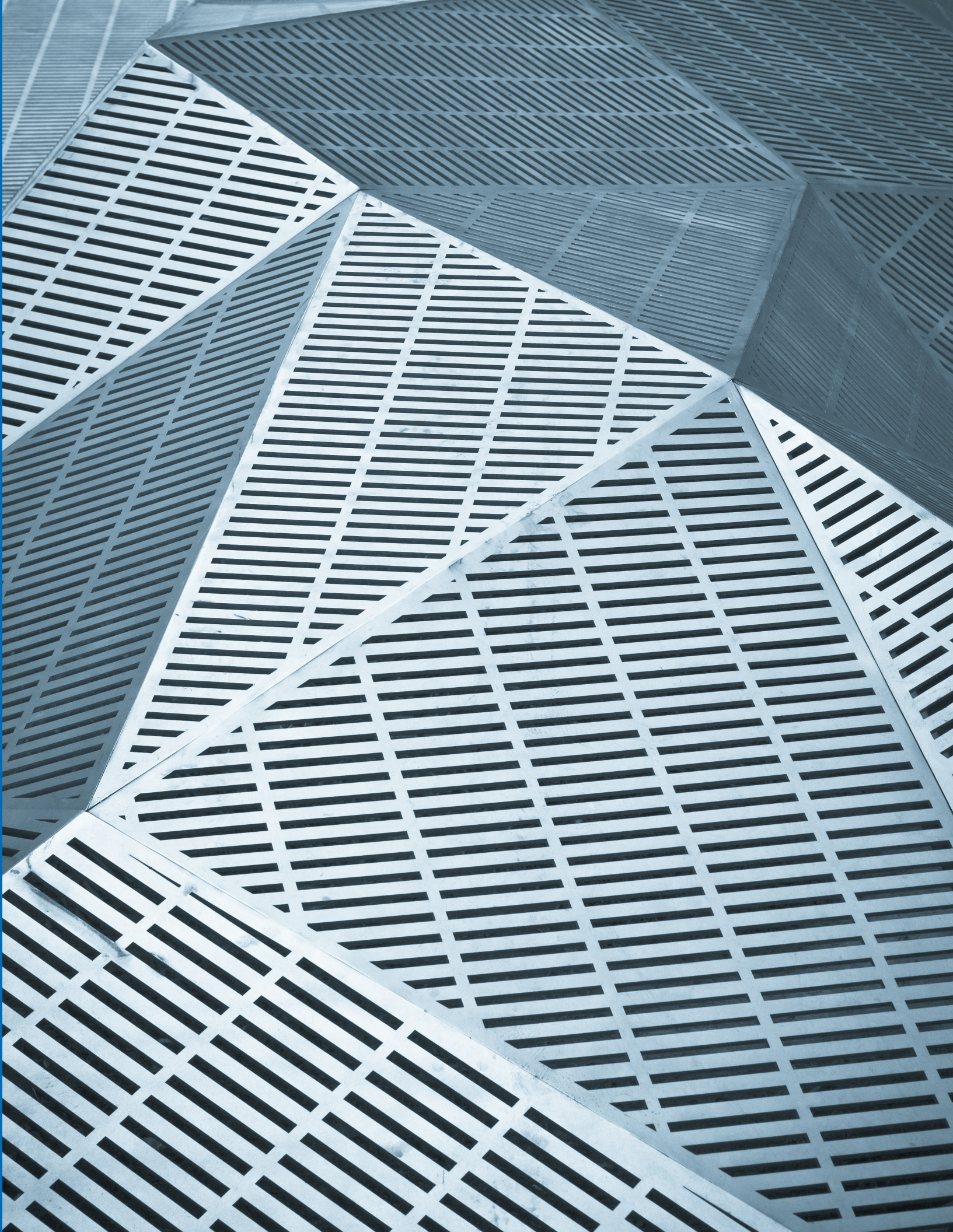
- Some landlords will become more competitive to secure tenants through concession packages and/or lower rents.
- Sublease availability will likely increase as distributors continue to pivot from “just-in-case” to a “just-in-time” inventory models amid slower demand for consumer goods.
- In Southern California: sublet availability is pronounced, vacancy is rising and rent growth is cooling across. All favors tenants, which could slow relocations to lower-cost Southwest markets, such as Las Vegas and Phoenix.

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



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# Economy





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## Lower Ocean Container Spot Rates Are Indicative of Cooling Import Activity

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Loaded Imports in the First Eight Months of 2023 Were on Par with the Same Period in 2016

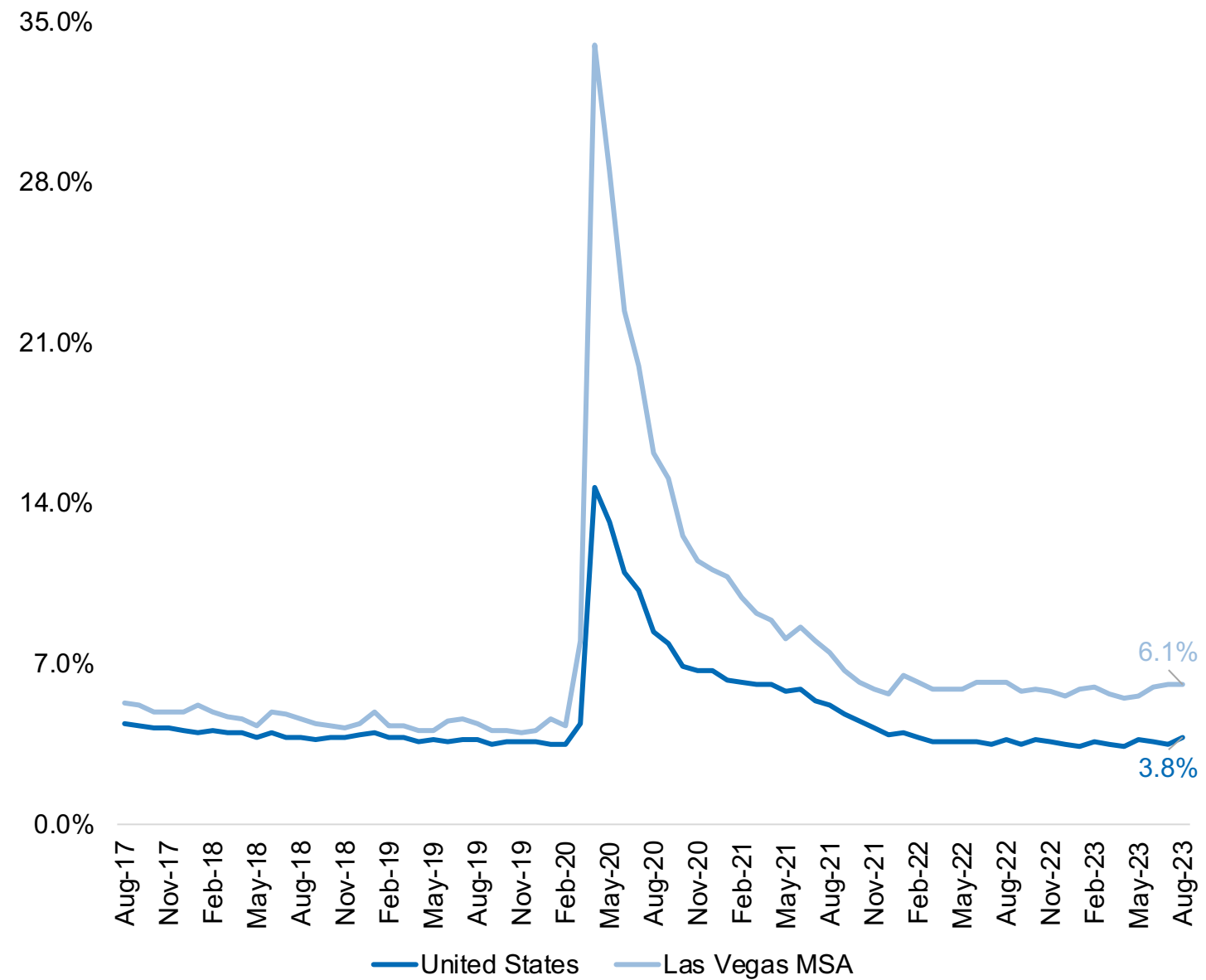
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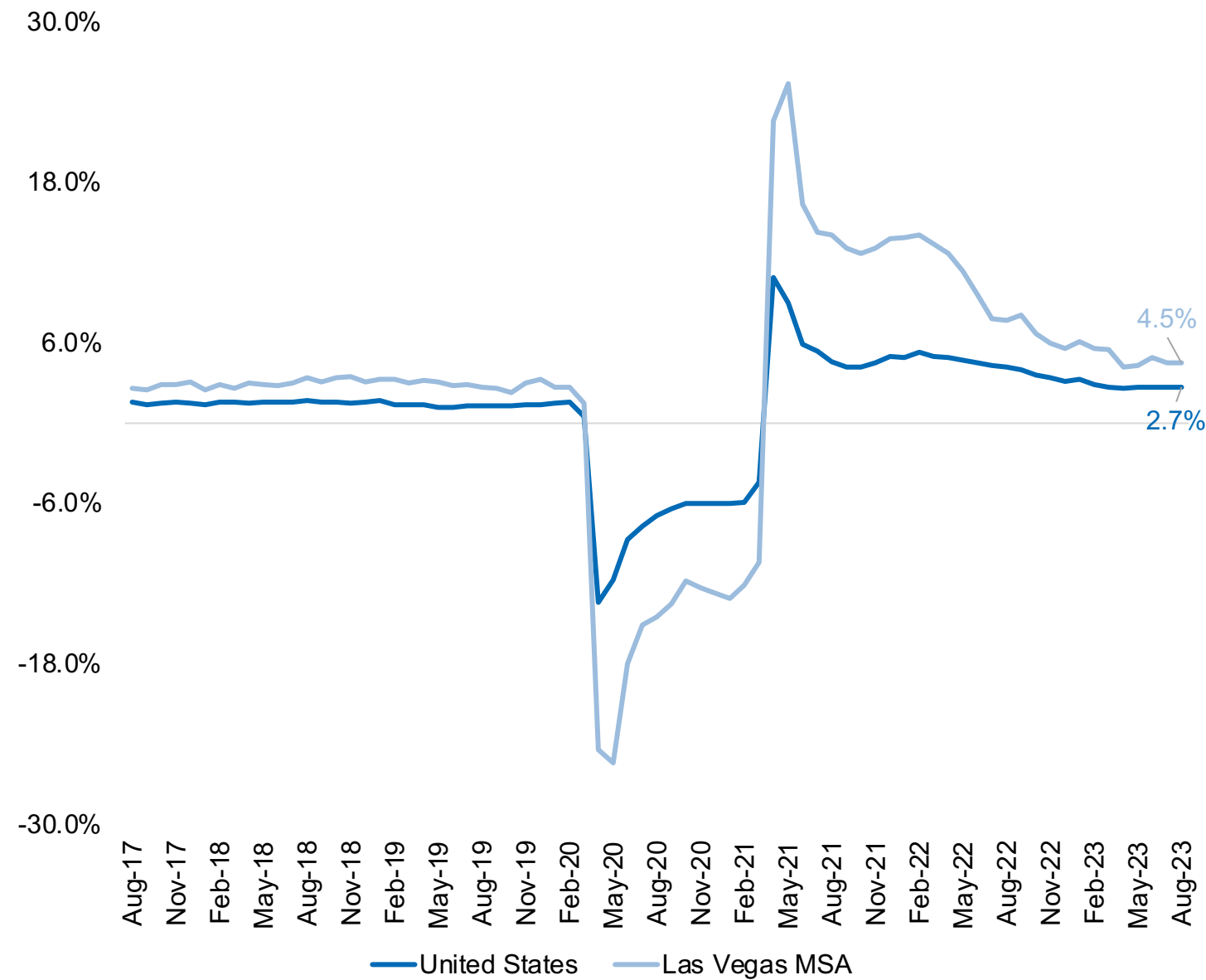
# Las Vegas Job Gains: Stronger than the Nation, but Slowing

Local nonfarm employment grew by 4.5% on an annual basis from August 2022 to August 2023, vastly exceeding the U.S.' average. Like other markets, employment growth is slowing amid a still-high inflationary environment as many companies try to curb costs.

Unemployment Rate, Seasonally Adjusted



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

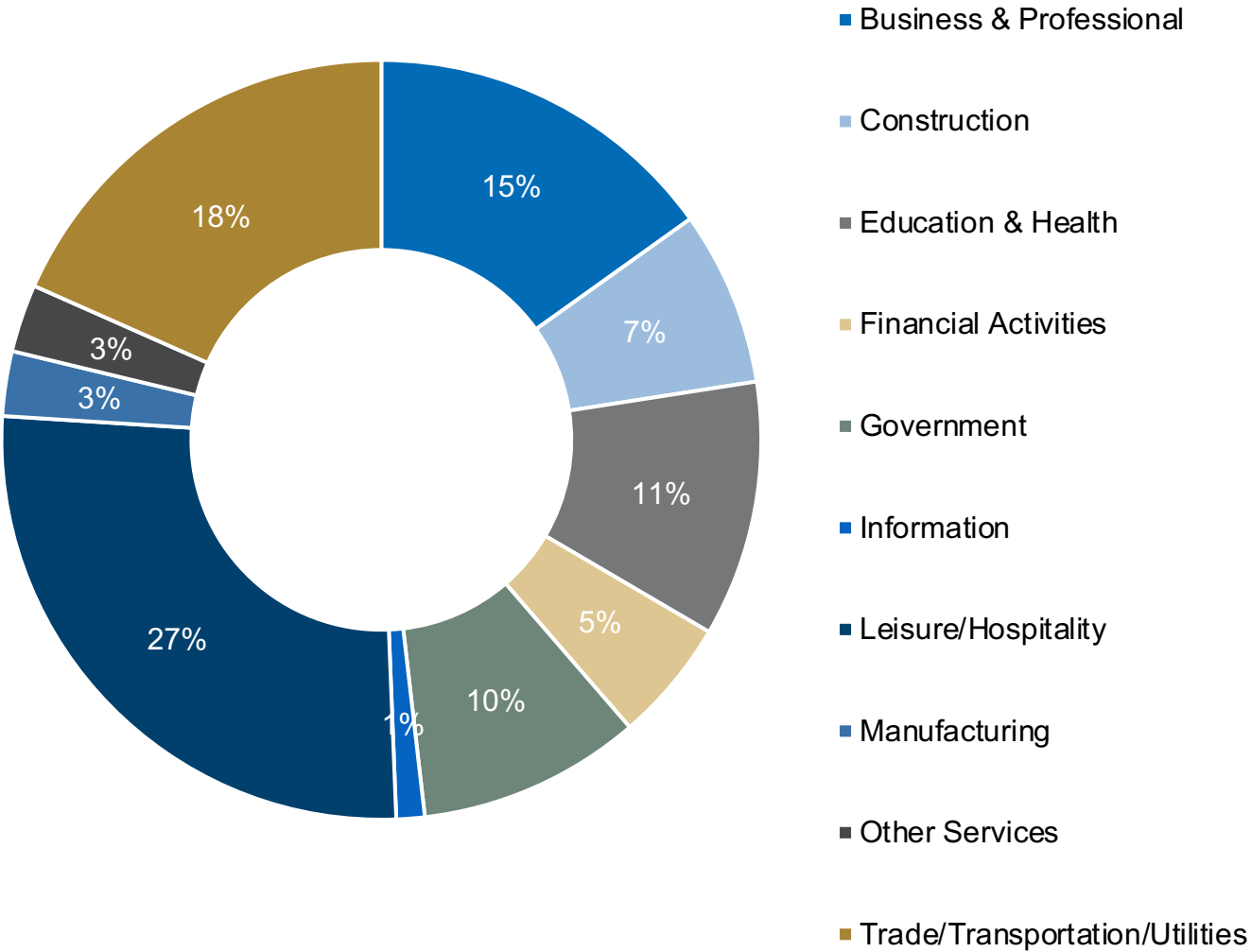


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

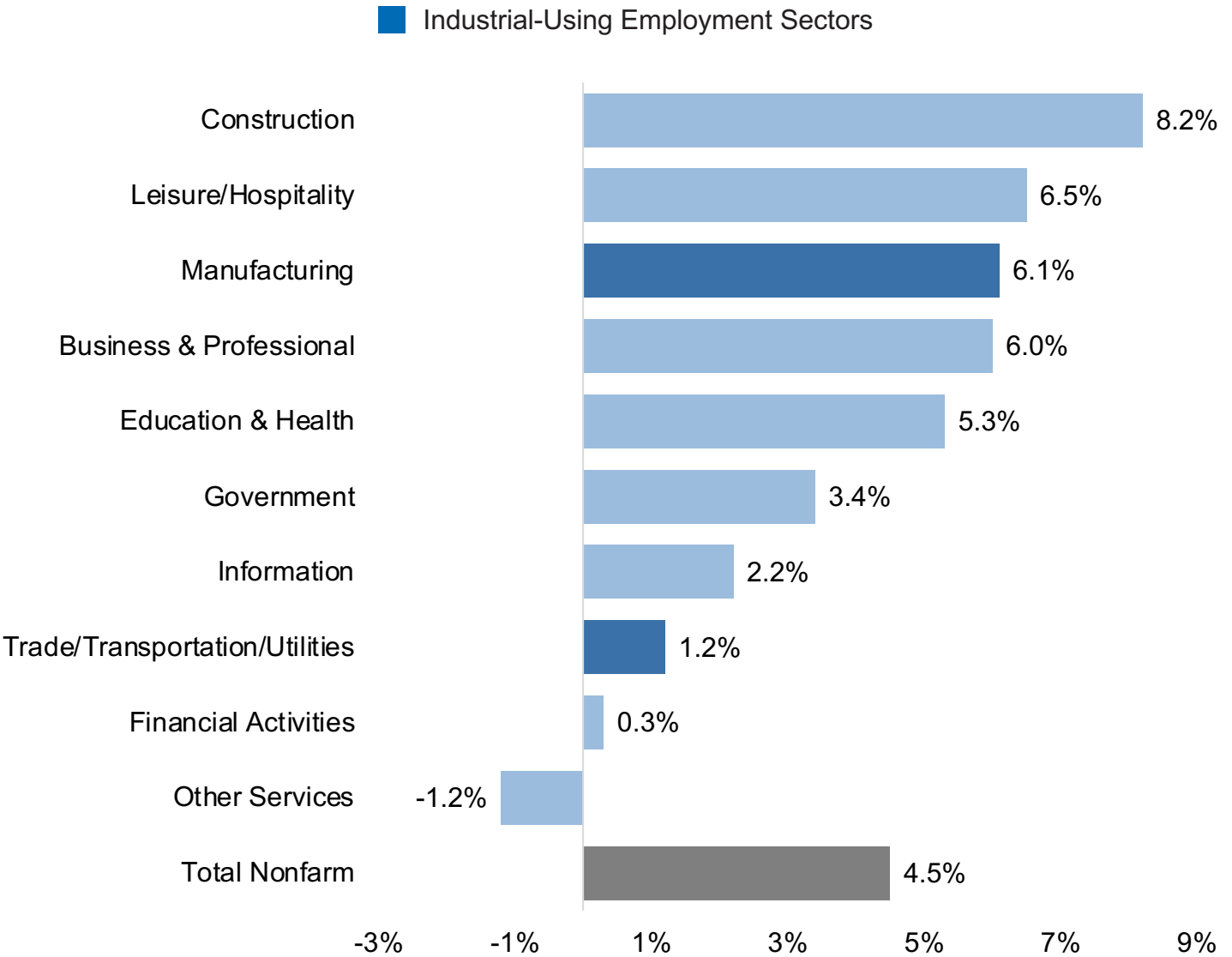
# Growing Population Driving Employment Growth in a Myriad of Sectors

Leisure/hospitality continues to be the dominant sector, comprising 26.7% 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. Education and health services and business and professional employment is increasing to meet the needs of a growing population, while the construction industry is expanding primarily from development on the Strip, as well as industrial and multifamily construction.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month% Change, August 2023



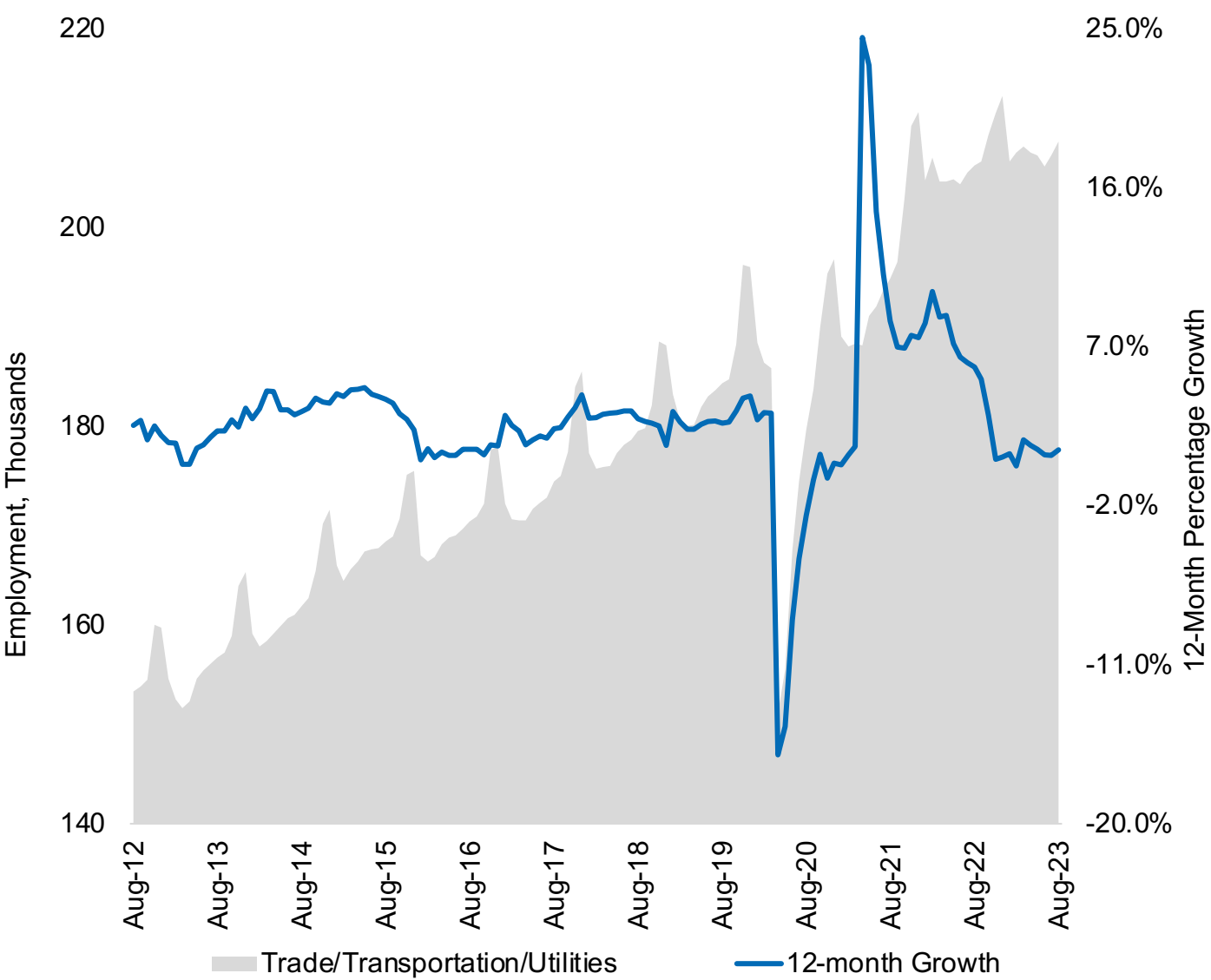
Source: U.S. Bureau of Labor Statistics, Las Vegas MSA



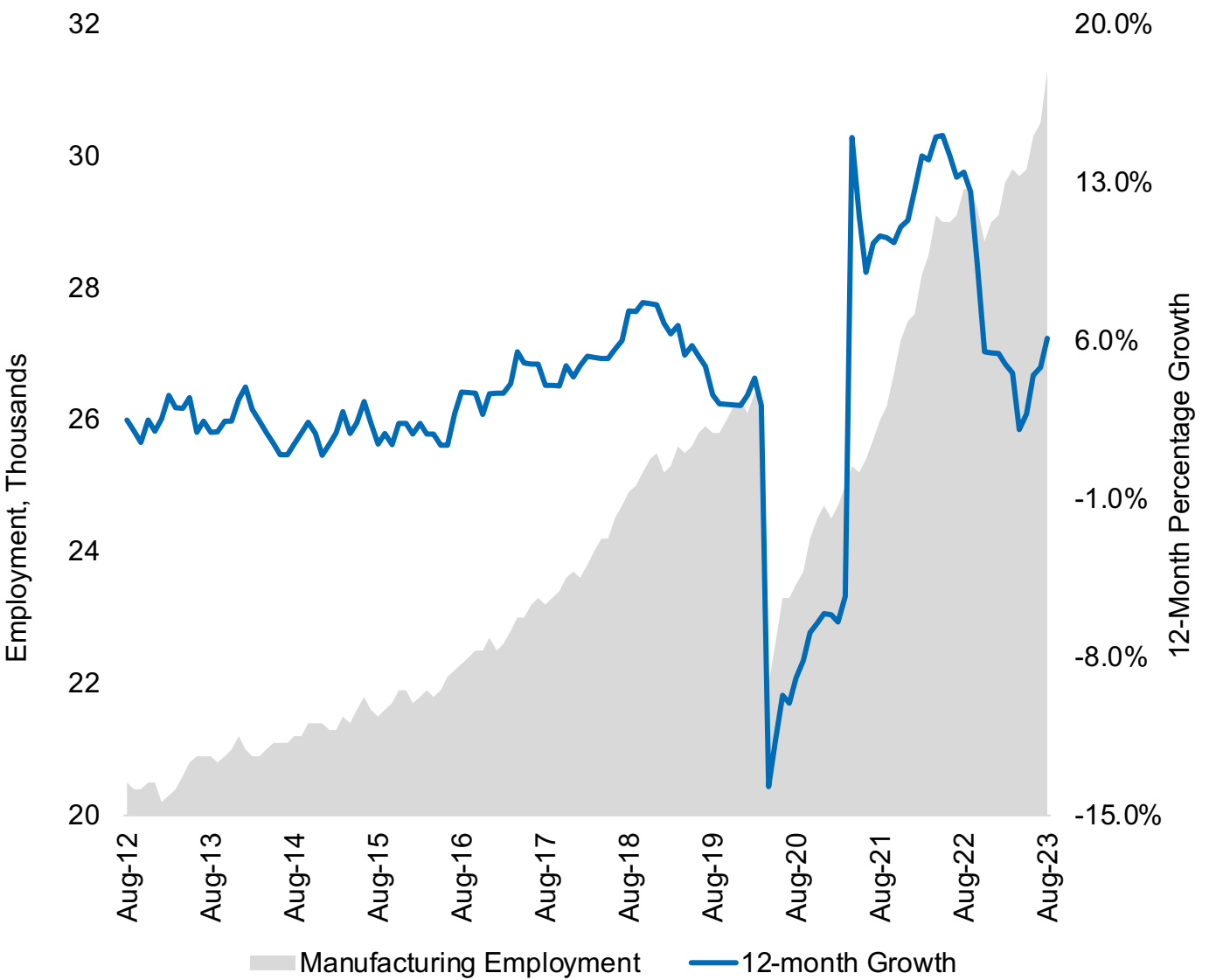
# Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities employment will likely increase as distributors prepare for the holiday season. A sharp pullback in U.S. consumer spending, however, could lead to shed jobs in the segment. Manufacturing employment has posted strong growth in recent years thanks to firms relocating from higher-cost coastal markets.

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



Manufacturing Employment and 12-Month Growth Rate



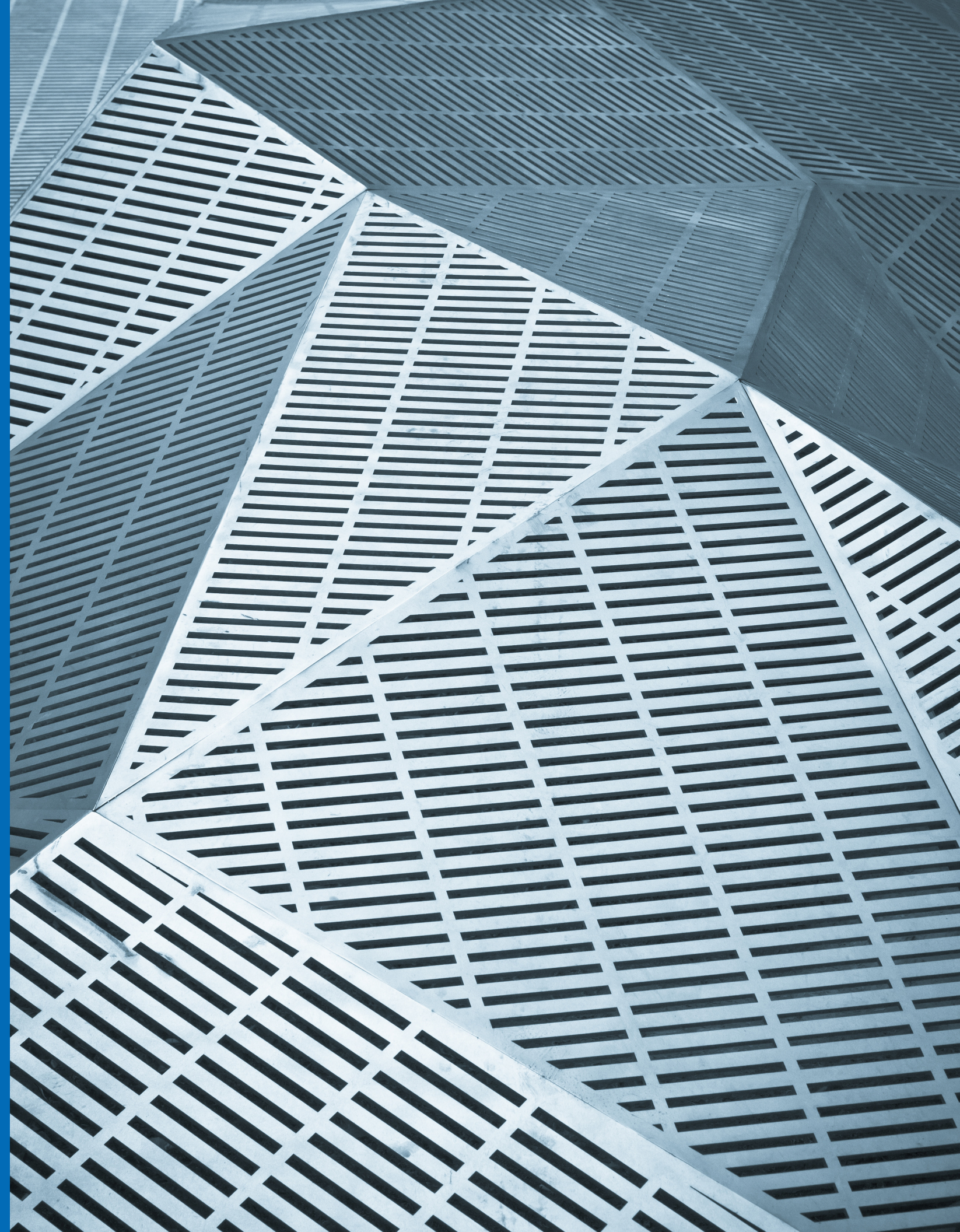
Source: U.S. Bureau of Labor Statistics, Las Vegas MSA



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# Leasing Market Fundamentals

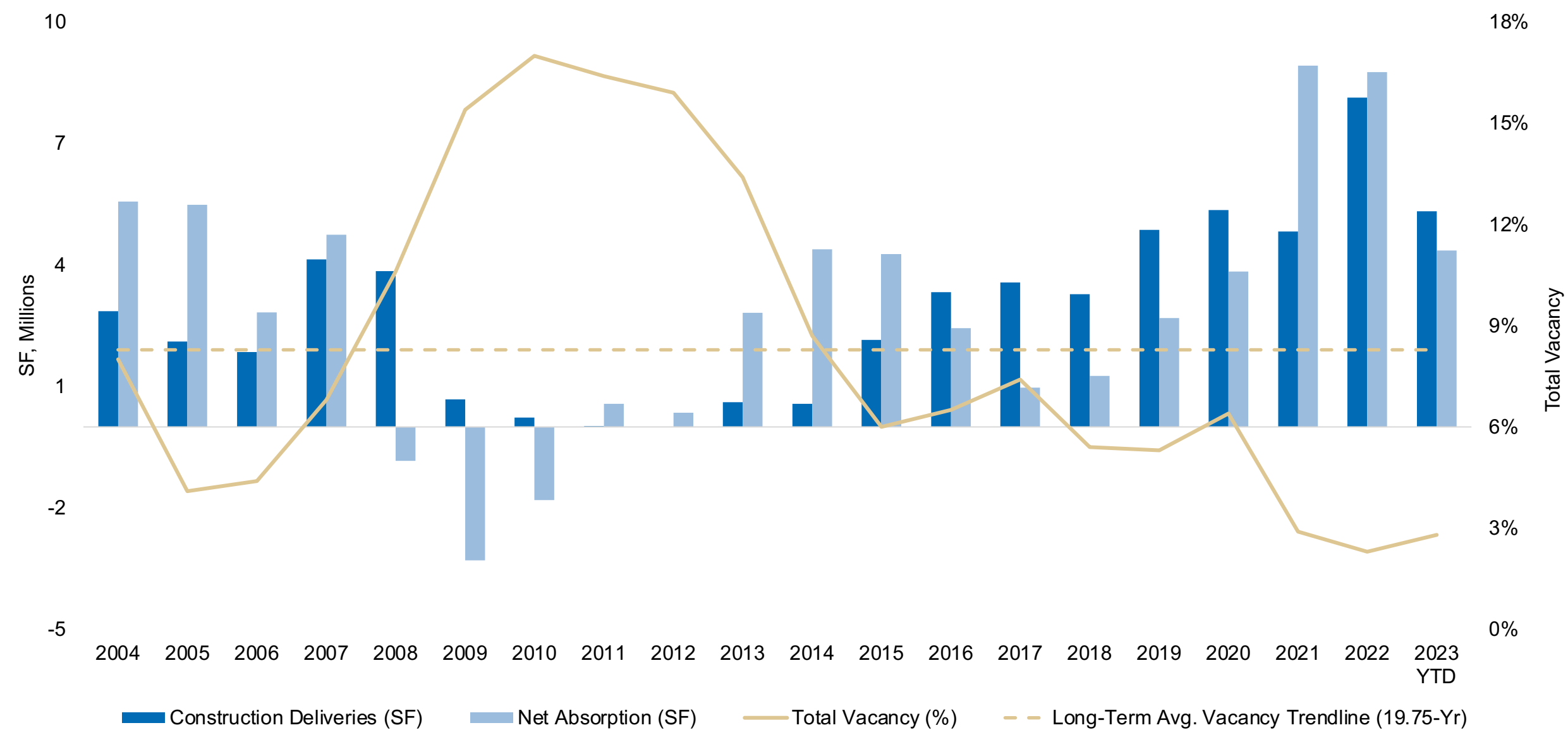




# Vacancy Rises as Construction Deliveries Outpace Net Absorption

Total vacancy (2.8%) has increased since 2022 but remains far below the long-term average of 8.3%. A slowing economy, coupled with 6.3 MSF in new construction expected to deliver next quarter, will lead to even higher vacancy as new supply eclipses net absorption for the first time since 2020.

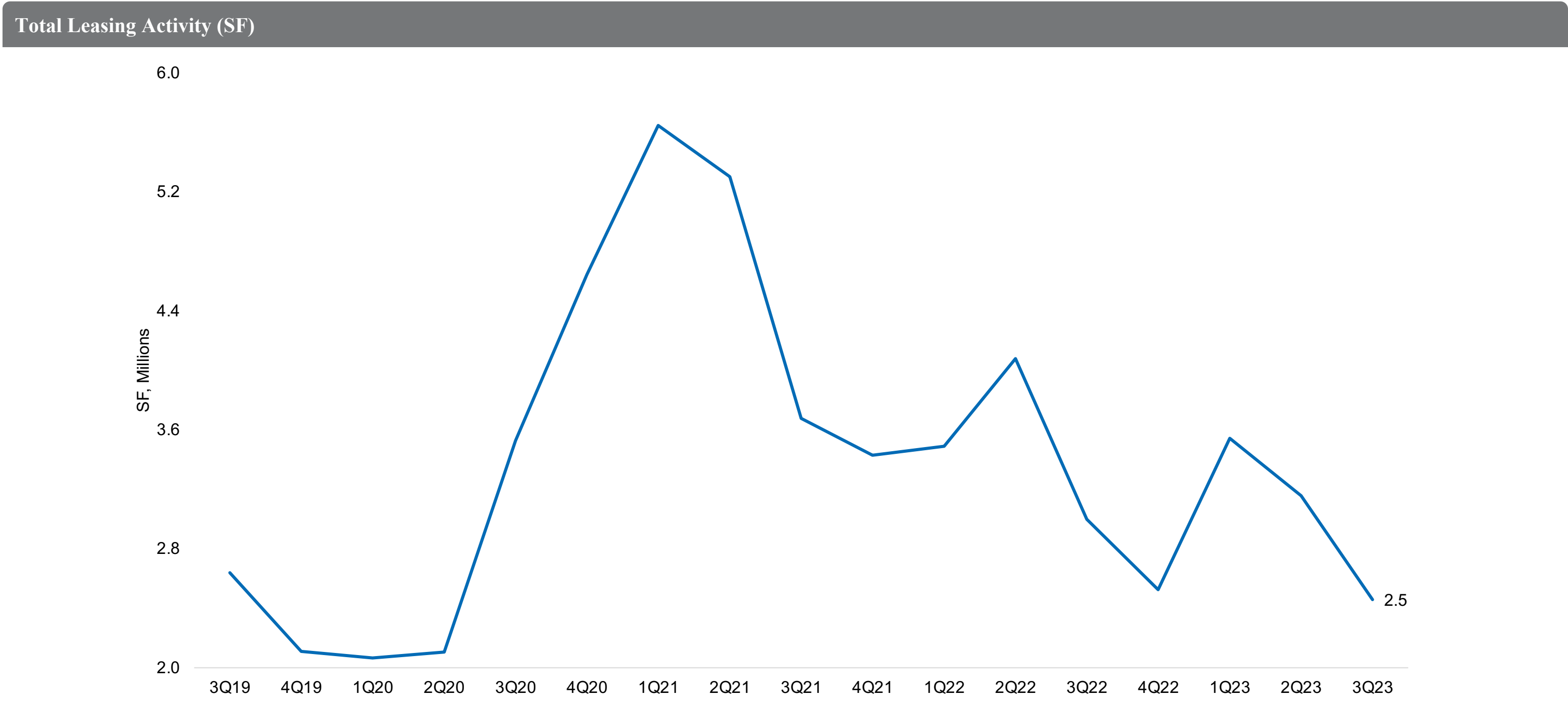
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Industrial Leasing Activity Decelerates, Slightly Higher than Pre-Pandemic Measures

Leasing activity in the first nine months of 2023 totaled nearly 9.2 MSF, down 13.3% from the same period in 2022. 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.



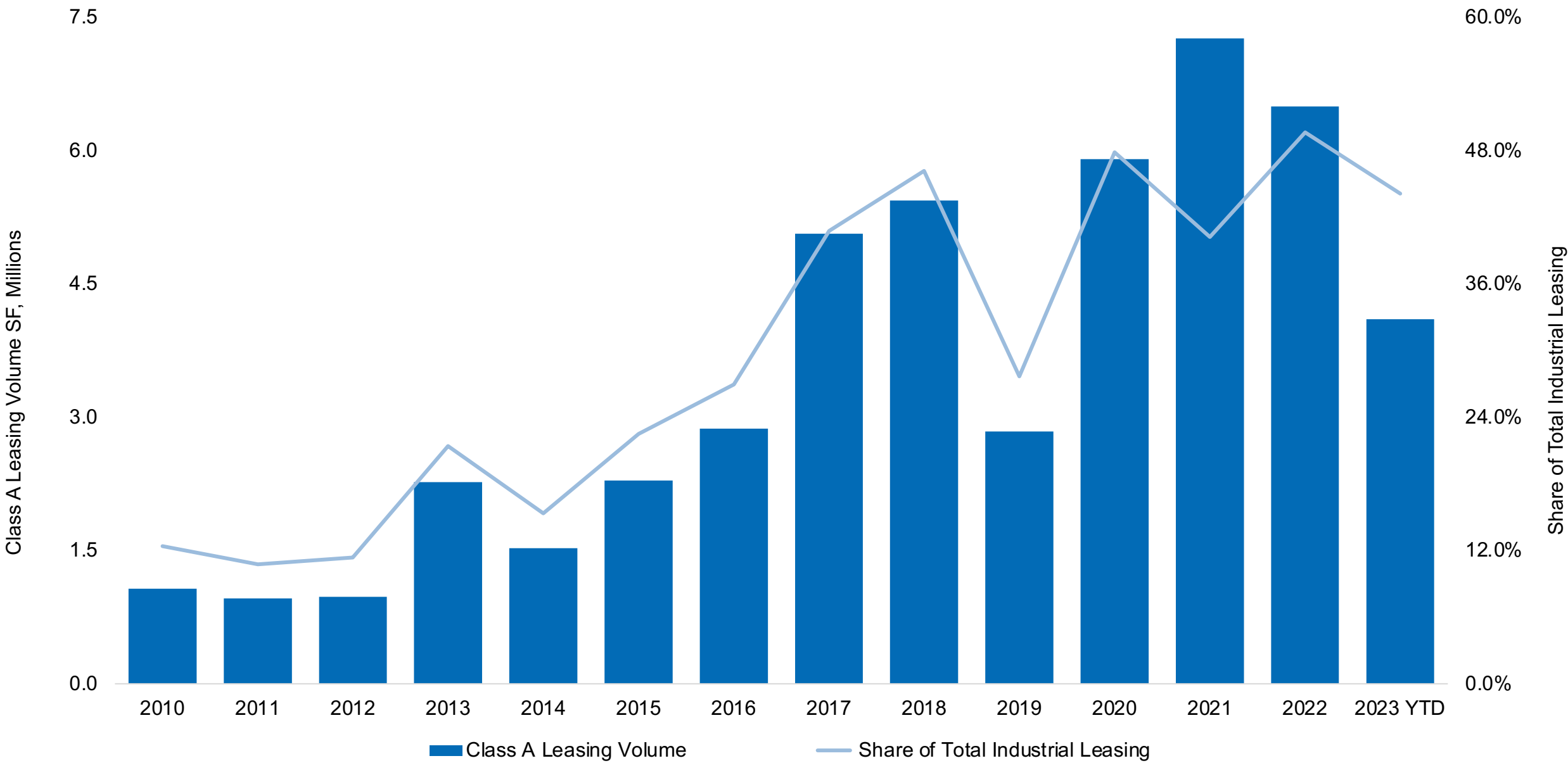
Source: Newmark Research, CoStar



# Class A Warehouse Leasing above Long-Term Average

Close to 52.0 MSF of new industrial product was added to the market since 2010, growing its inventory size by nearly 50.0%. Much of this new supply was modern Class A space. Since 2018, Class A leasing activity regularly represents most of the leasing activity in the market, except for 2019 and 2021, when there was a dearth in available product.

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

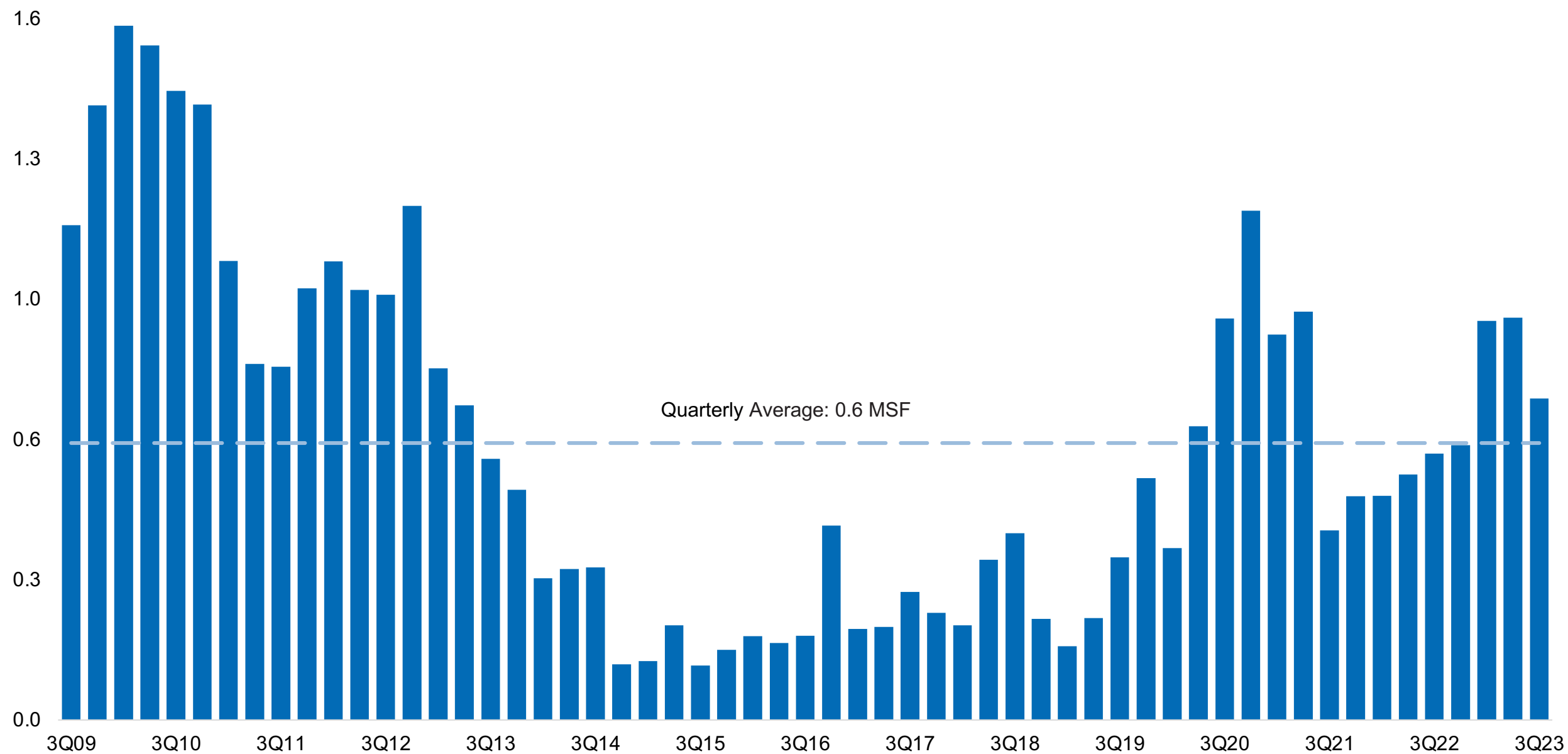


Source: Newmark Research, CoStar  
Note: Class A is defined as 100,000+ SF, 30'+ minimum interior ceiling height and constructed since 2000.

# Industrial Sublease Availability: Still Below Historic Peak Levels

Sublet availability represents 0.5% of inventory, lower than the all-time high of 1.7% that was reached in early 2010. How sublet availability fluctuates in the quarters ahead is largely contingent on U.S. retail sales and how much higher interest rates will climb.

Available Industrial Sublease Volume (MSF)



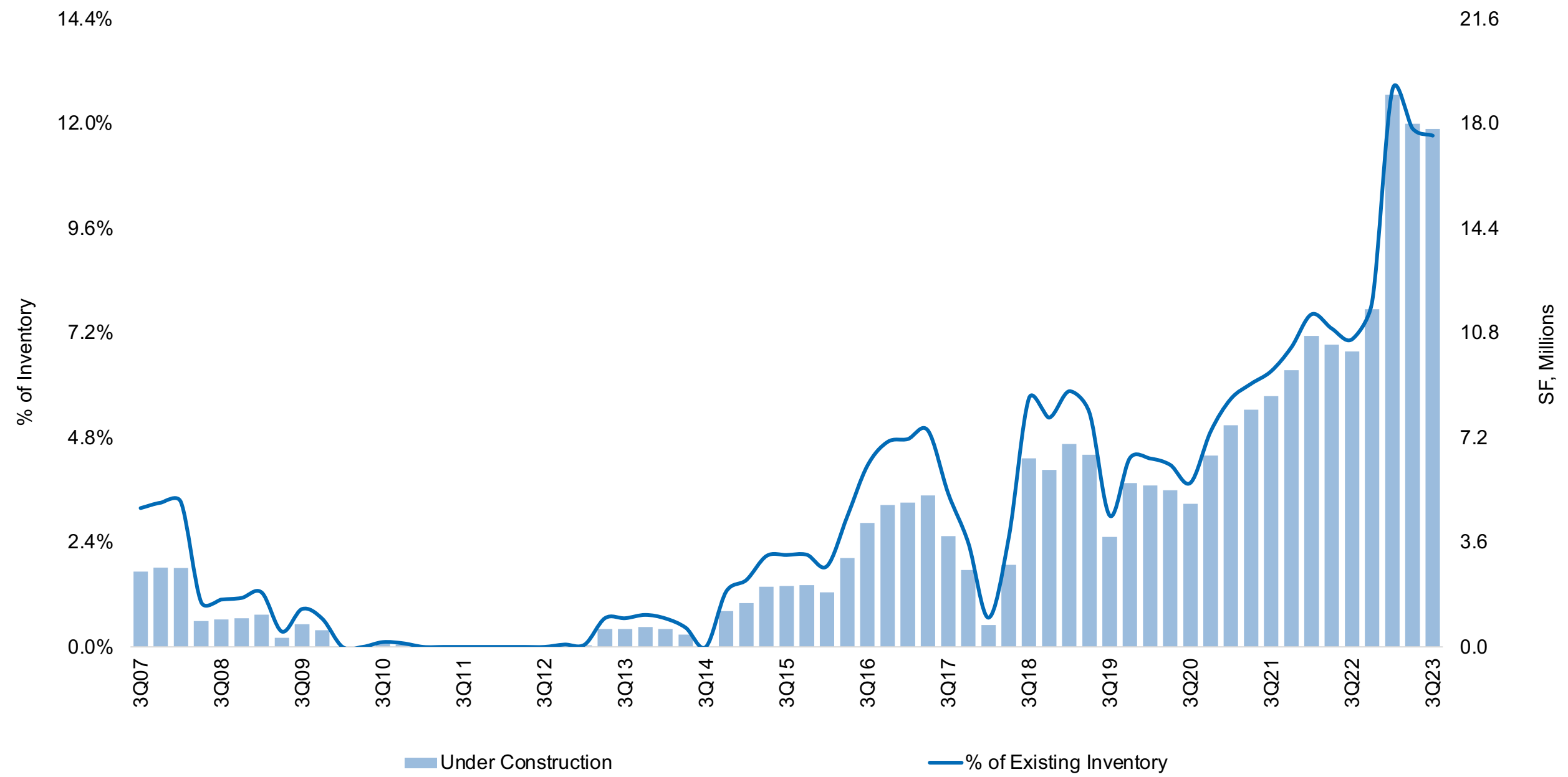
Source: Newmark Research



# Industrial Supply Pipeline Cools as Construction Starts Decrease

The construction pipeline reached a cyclical high of 19.0 MSF in the first quarter of 2023 and has been trending down since. 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

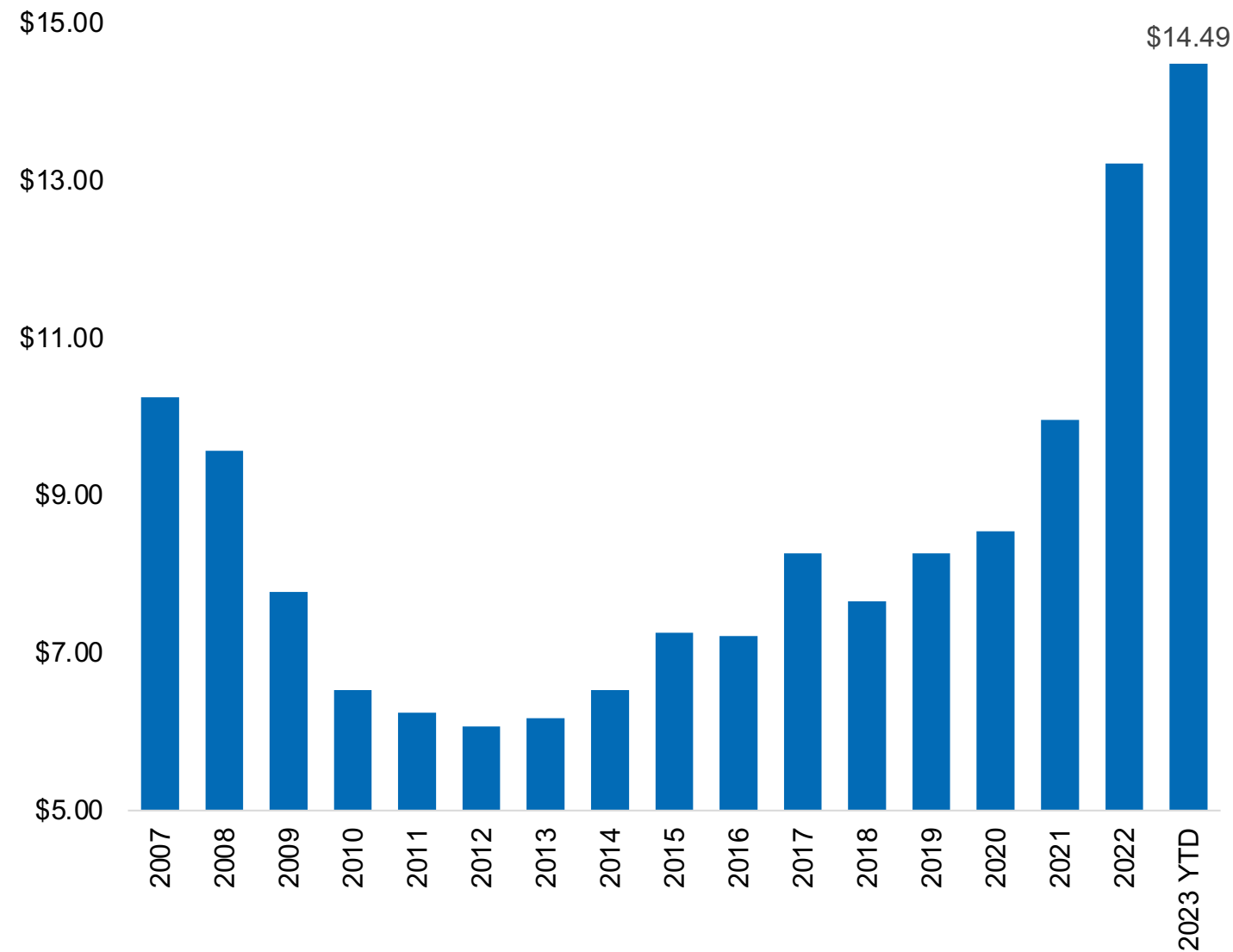


Source: Newmark Research

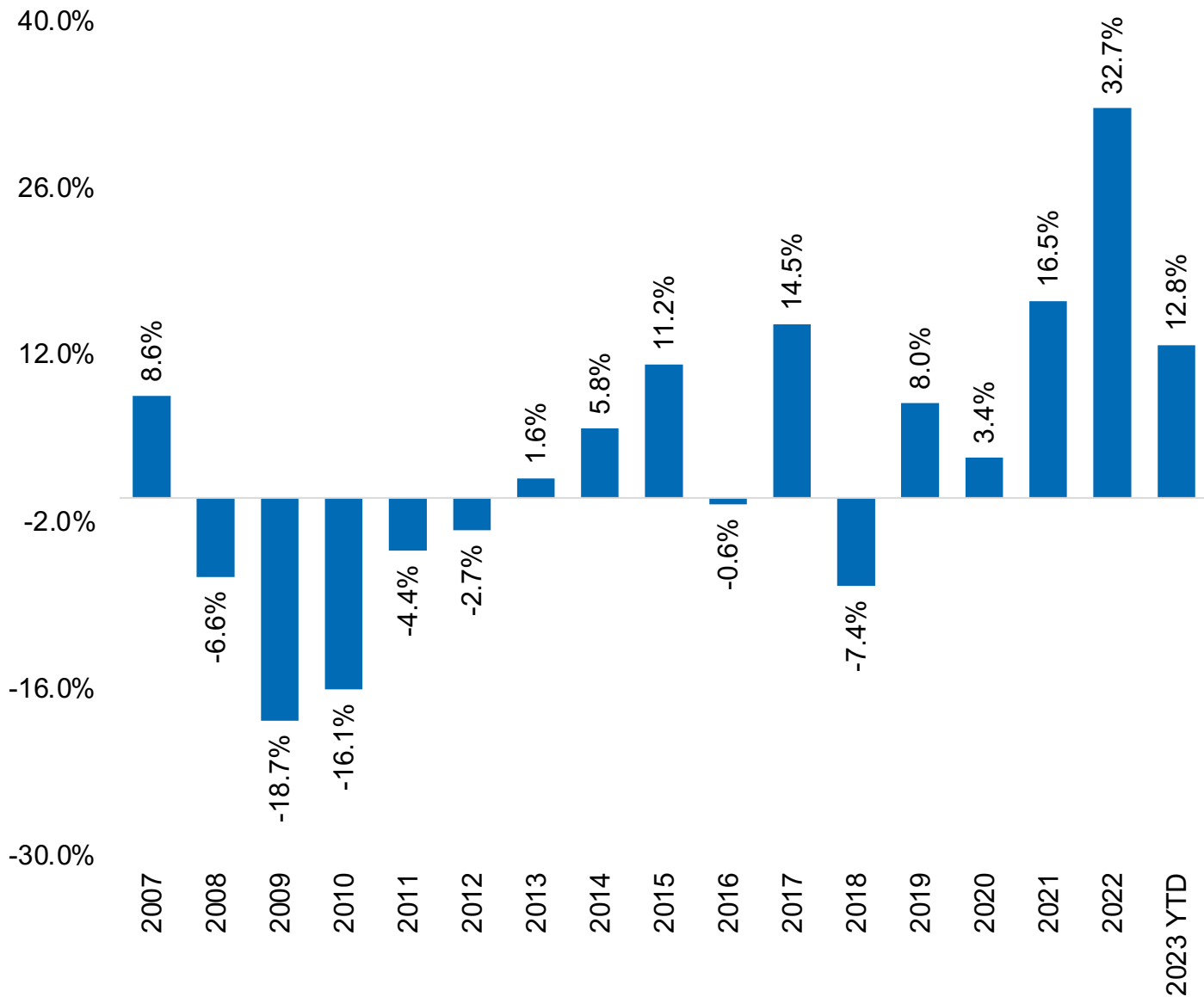
# Strong Industrial Asking Rent Growth Continues into the Second Half of 2023

Industrial average asking rents grew by 12.8% from the third quarter of 2022 to the third quarter of 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. There is a high probability that rents will remain flat through 2024 given the amount of product that is delivering.

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



Year-over-Year Asking Rent Growth Rate% Change



Source: Newmark Research



# Notable 3Q23 Lease Transactions

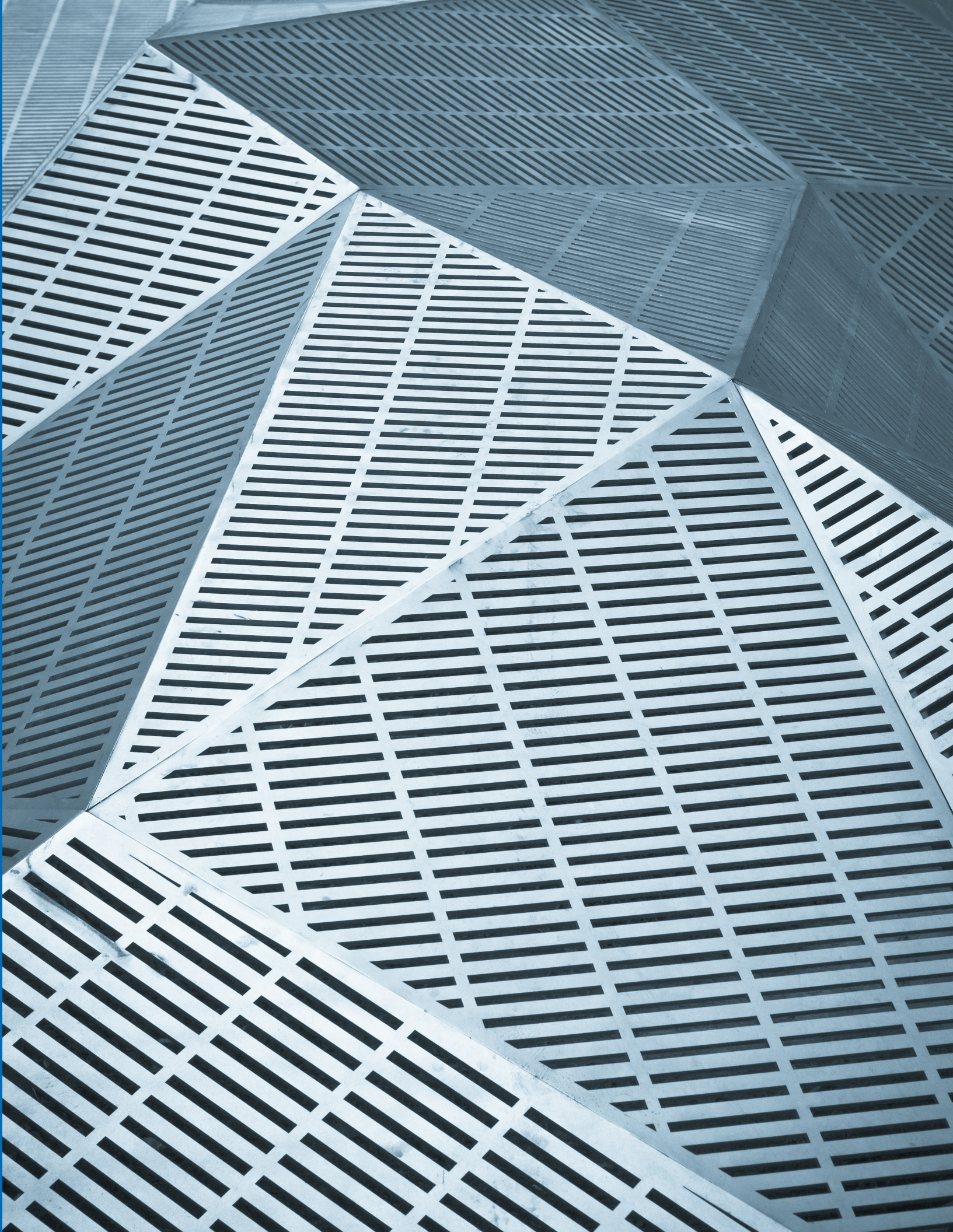
With still-low vacancy, leasing activity continues to be concentrated in new or under-construction buildings. Leasing activity, particularly in newer buildings, is predominantly occurring in the North Las Vegas submarket, home to 74.1% of the under-construction pipeline.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
T.J. Maxx	Raceway Industrial Park	North Las Vegas	Sublease	285,547
Part of a 670,798-SF facility that was built in 2019. Lowe's Home Center is the subletter.				
Carparts.com	Clarion Speedway 15	North Las Vegas	Pre-lease	202,619
The building is expected to deliver in the fourth quarter of 2023.				
Encore Exhibits	Arroyo Beltway Commercenter	Southwest	Pre-lease	156,708
The building is expected to deliver in the first half of 2024.				
OneSource Construction Services	1840 Aerojet Way	North Las Vegas	Direct	102,948
The tenant is slated to take occupancy in early 2024.				
LNW Gaming	Compass Logistics Center	Airport	Direct New	75,060
Lease of a 150,120-SF speculative facility that delivered earlier this year.				



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# Sales Activity



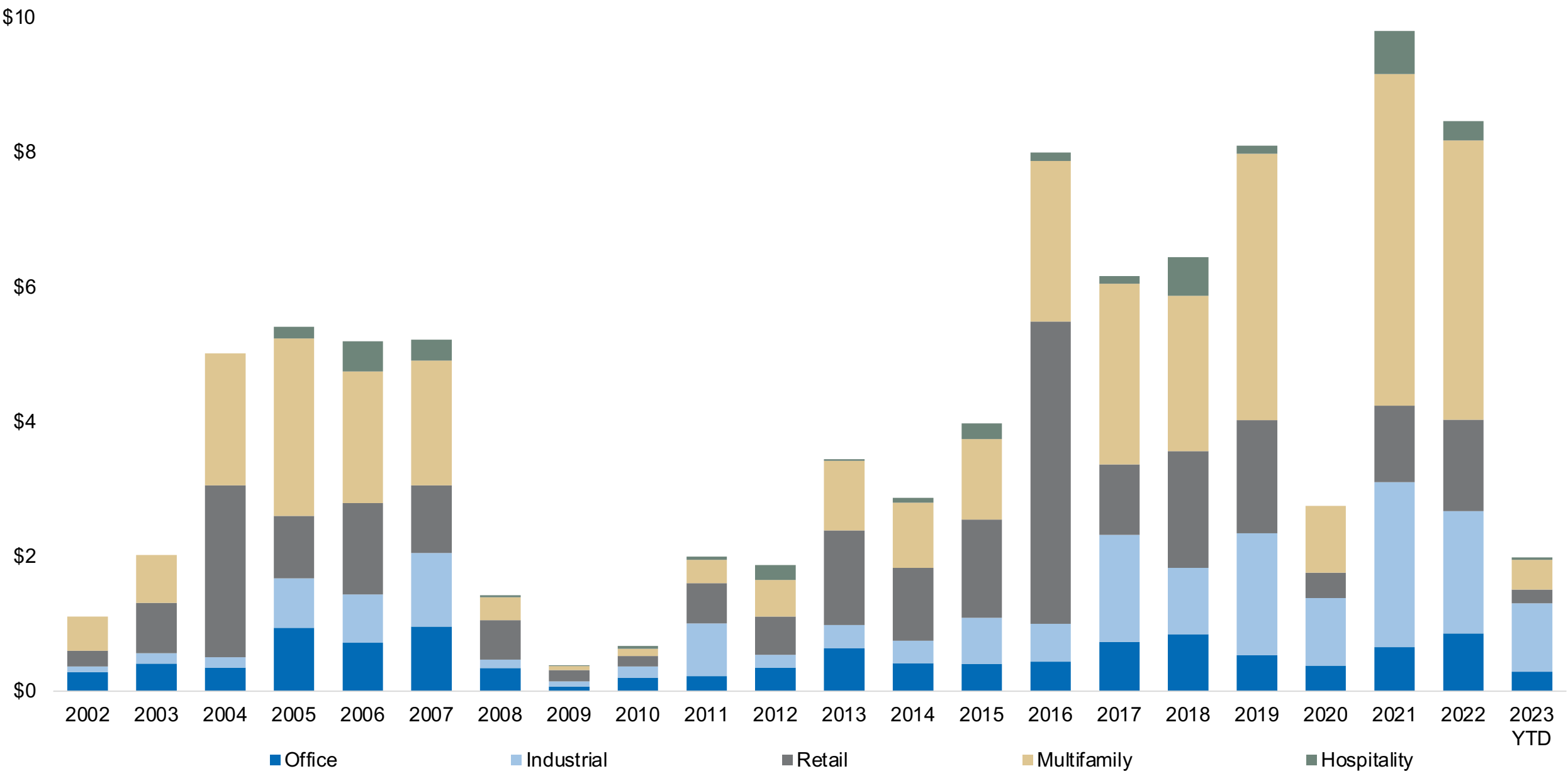


# Industrial Comprised 21.5% of Total Sales Volume in 2022

This figure is slightly higher than the 21-year average (2002 to 2022) of 17.3%. 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.

Industrial aside, multifamily has generally dominated sales volume in recent years, a segment that has benefited from population growth.

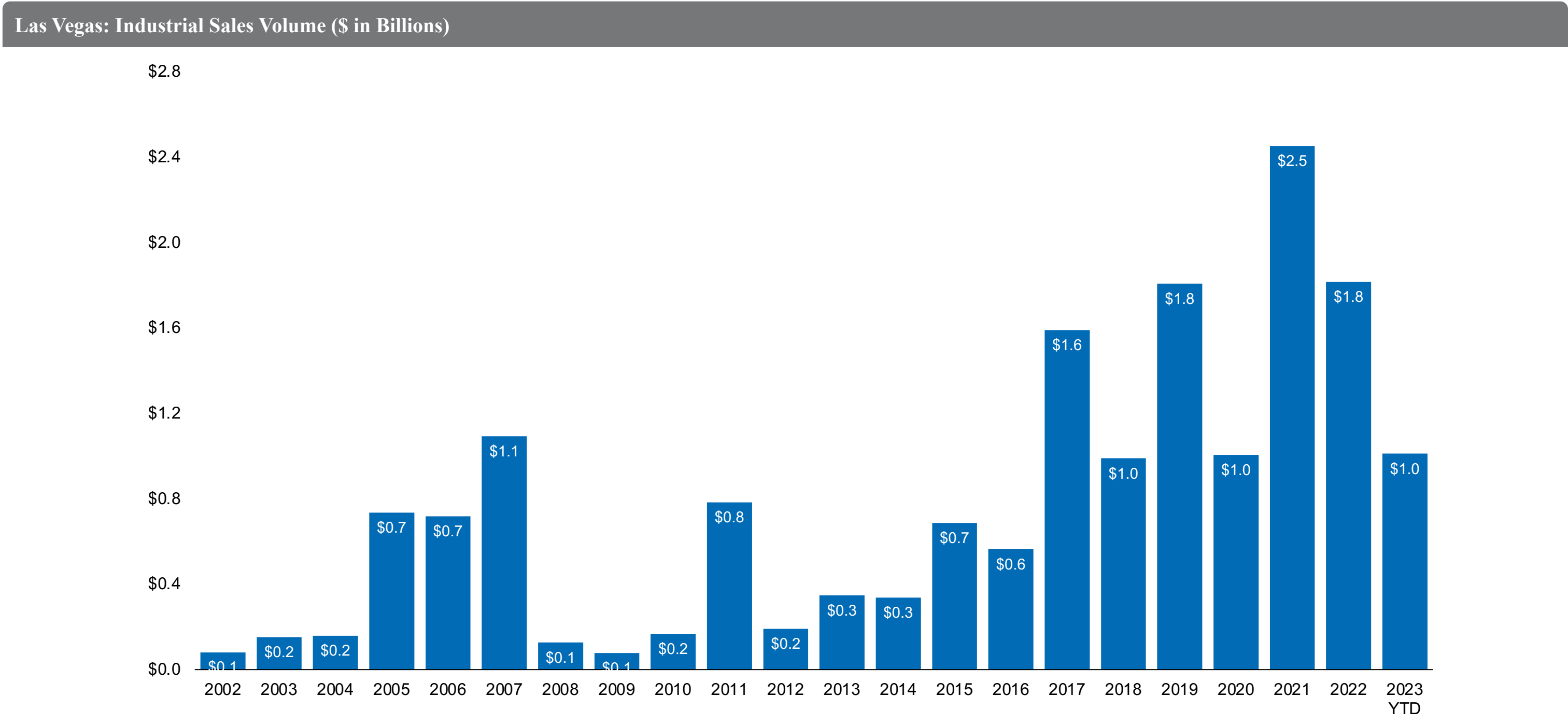
Las Vegas: Sales Volume Across Commercial Property Segments (\$ in Billions)



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

# Industrial Sales Volume: Up Close

Industrial sales volume totaled \$5.2 billion in the first nine months of 2023, and will fall short of 2022’s total when the year is done. The higher cost of capital following multiple interest rate hikes is crimping momentum, in addition to cooling, but still healthy leasing fundamentals. Both will likely add downward pressure to pricing.



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



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## Private and REIT/Listed Buyers Are Active



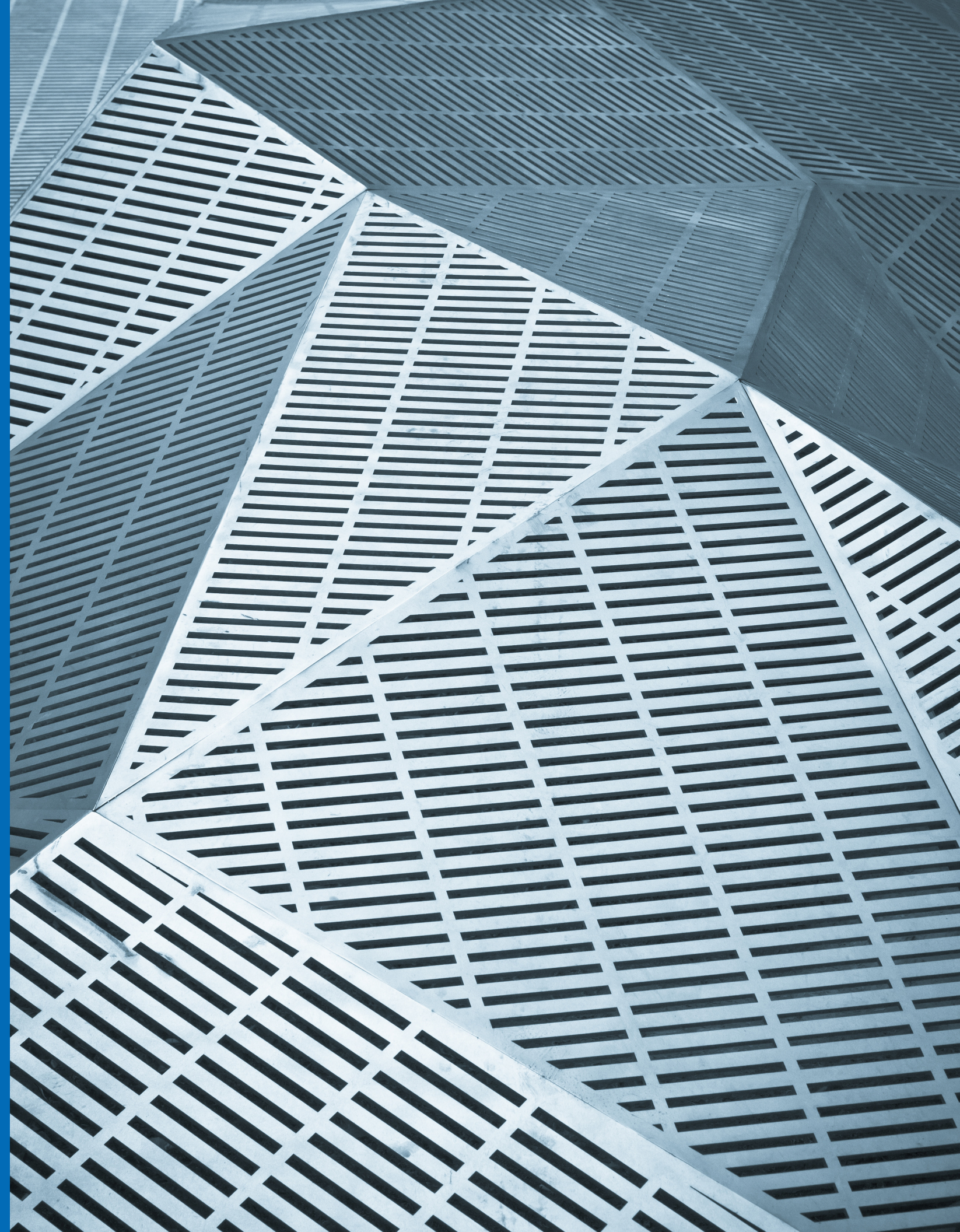
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# Appendix





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## Las Vegas Industrial Submarket Map and High-Level Statistics | 3Q23

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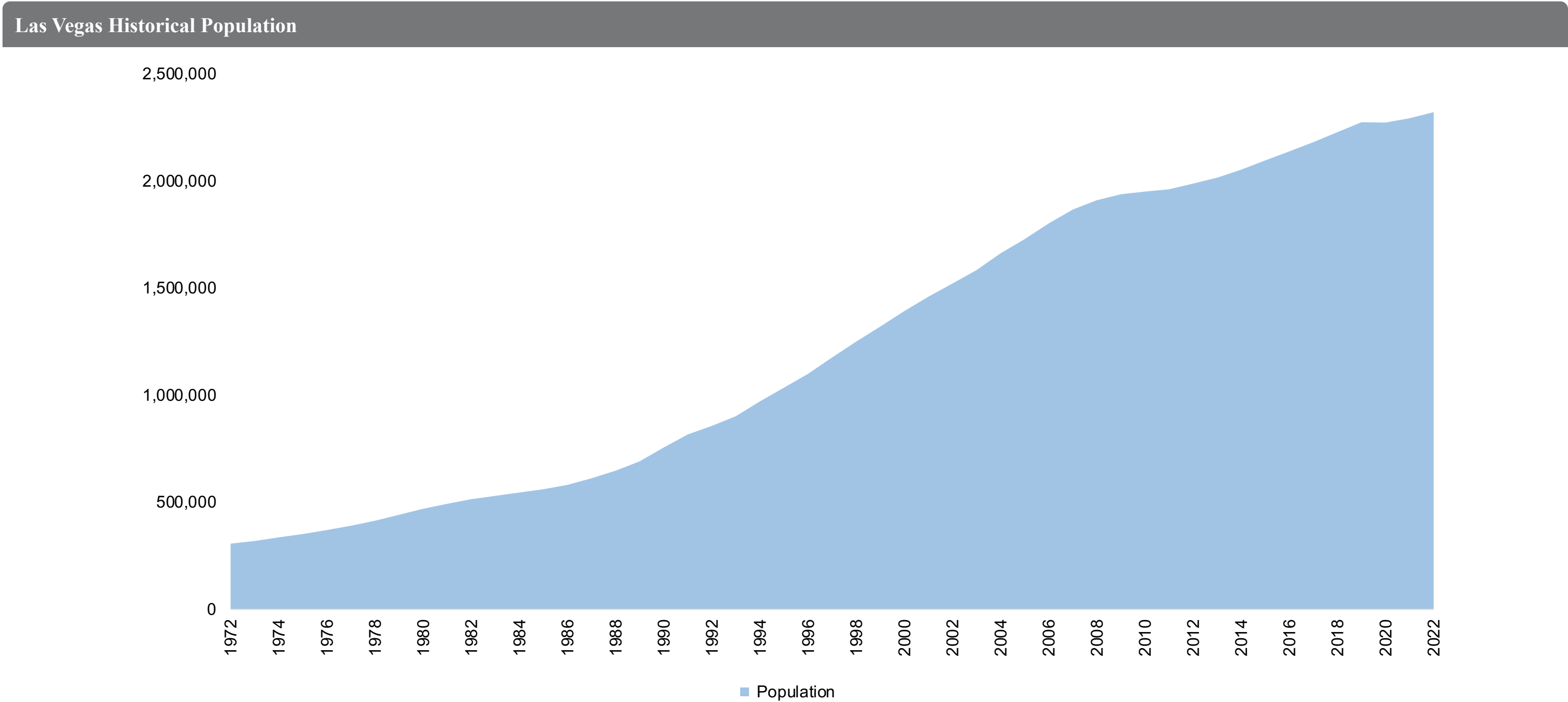
## Las Vegas Industrial Submarket Statistics | 3Q23



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# Metro’s Population Has Grown by 7.6x 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.

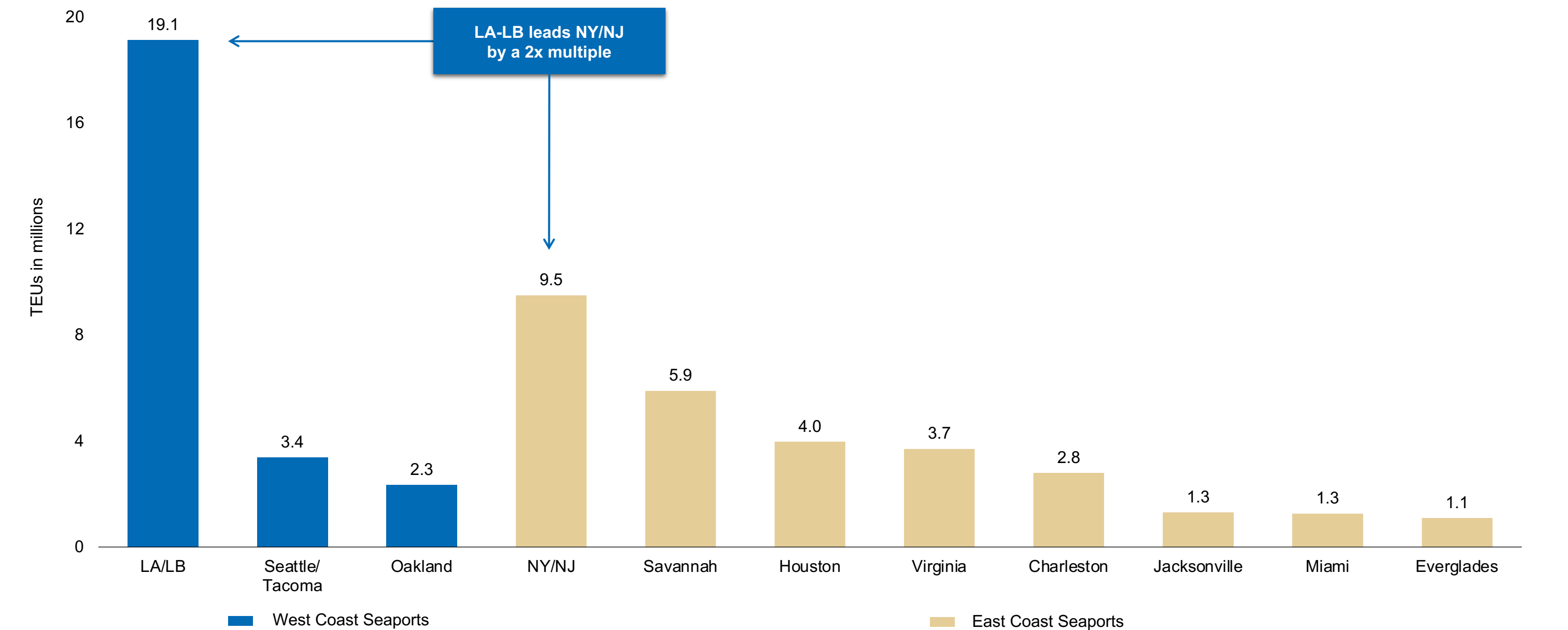


Source: Newmark Research, U.S. Census Bureau, Moody's Analytics

# Los Angeles-Long Beach Is 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  
Note: Data is through February 2023 and is not adjusted for seasonality. Shaded areas indicate U.S. recessions



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## Why Los Angeles-Long Beach?

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