

4Q23

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 the first 11 months of 2023. This figure is on par with the same period in 2016, which ended up being a healthy year.
- This is a strong correlation between historical import traffic and demand for warehouse space across Southwest markets.
- 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.

Major Transactions

- Three of this quarter's top five leases were pre-leases.
- The lion's share of leasing activity is occurring in the high-growth North Las Vegas submarket, which accounts for 70.0% of the under-construction pipeline.
- Kennedy Wilson purchased the 9-building Mosaic Commerce Center (582,000 SF) for \$115.0 million in October.
- Hey Dude (1.0 MSF), Kroeger-owned Smith's (885,000 SF) and OnTel Products Corporation (253,200 SF) were among this quarter's top move-ins. The first two were in newly constructed buildings.

Leasing Market Fundamentals

- Total vacancy increased for the sixth consecutive quarter, going from 2.1% in the second quarter of 2022 to 3.8% in the fourth quarter of 2023. Net absorption over this period totaled 10.2 MSF versus 12.7 MSF in new construction deliveries.
- Sublease space totals 656,873 SF and represents 0.4% of existing inventory. These averages are low relative to the highs reached in the Global Financial Crisis.
- 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.
- Leasing activity is somewhat uneven, while 16.9 MSF is under construction (22.3% 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.
- 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
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Economy



Loaded Imports in the First 11 Months of 2023 Were Slightly Higher than the Same Period in 2016



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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 West Coast ports 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.



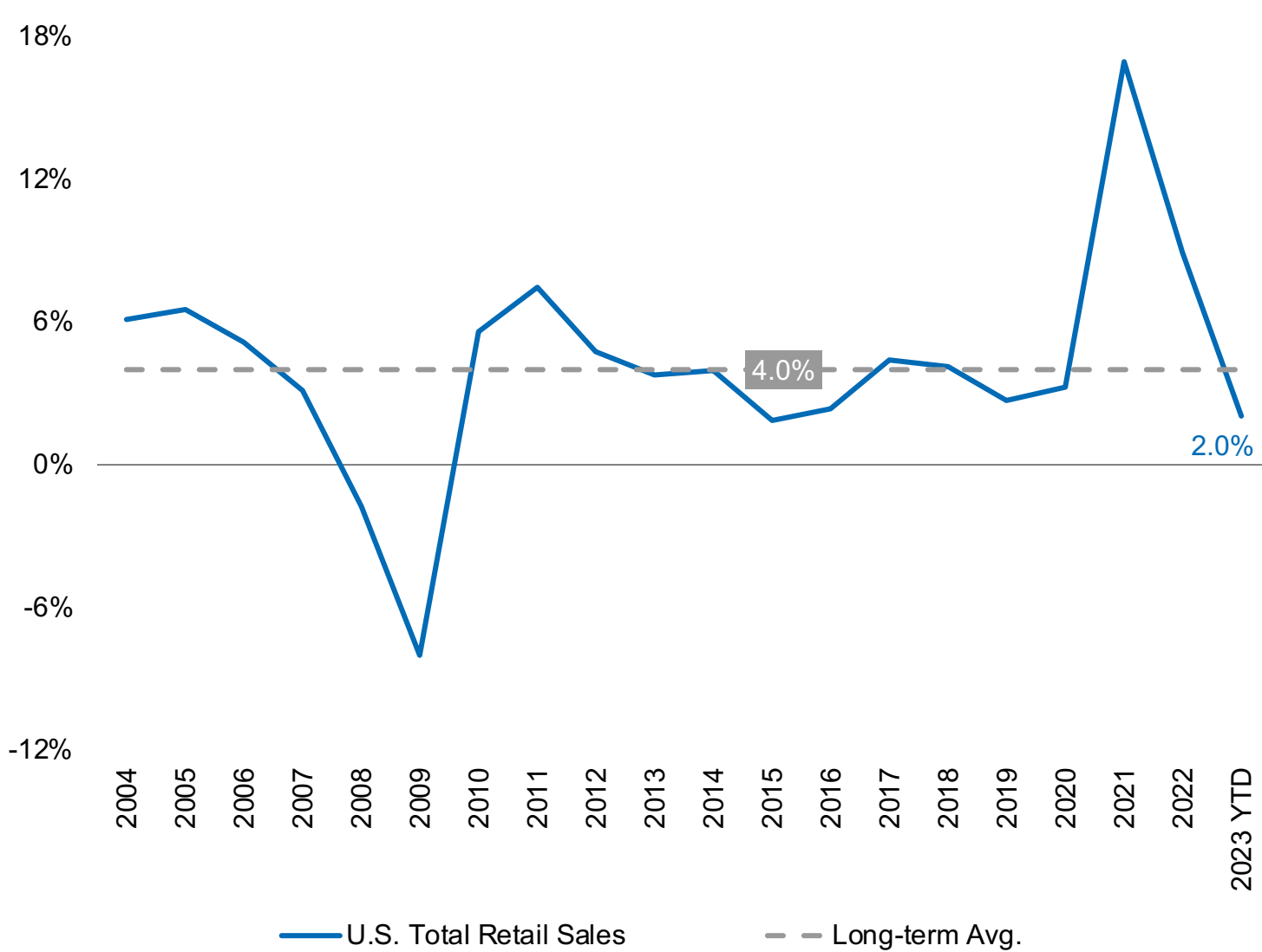
Import Traffic Recently Jumped at Los Angeles/Long Beach

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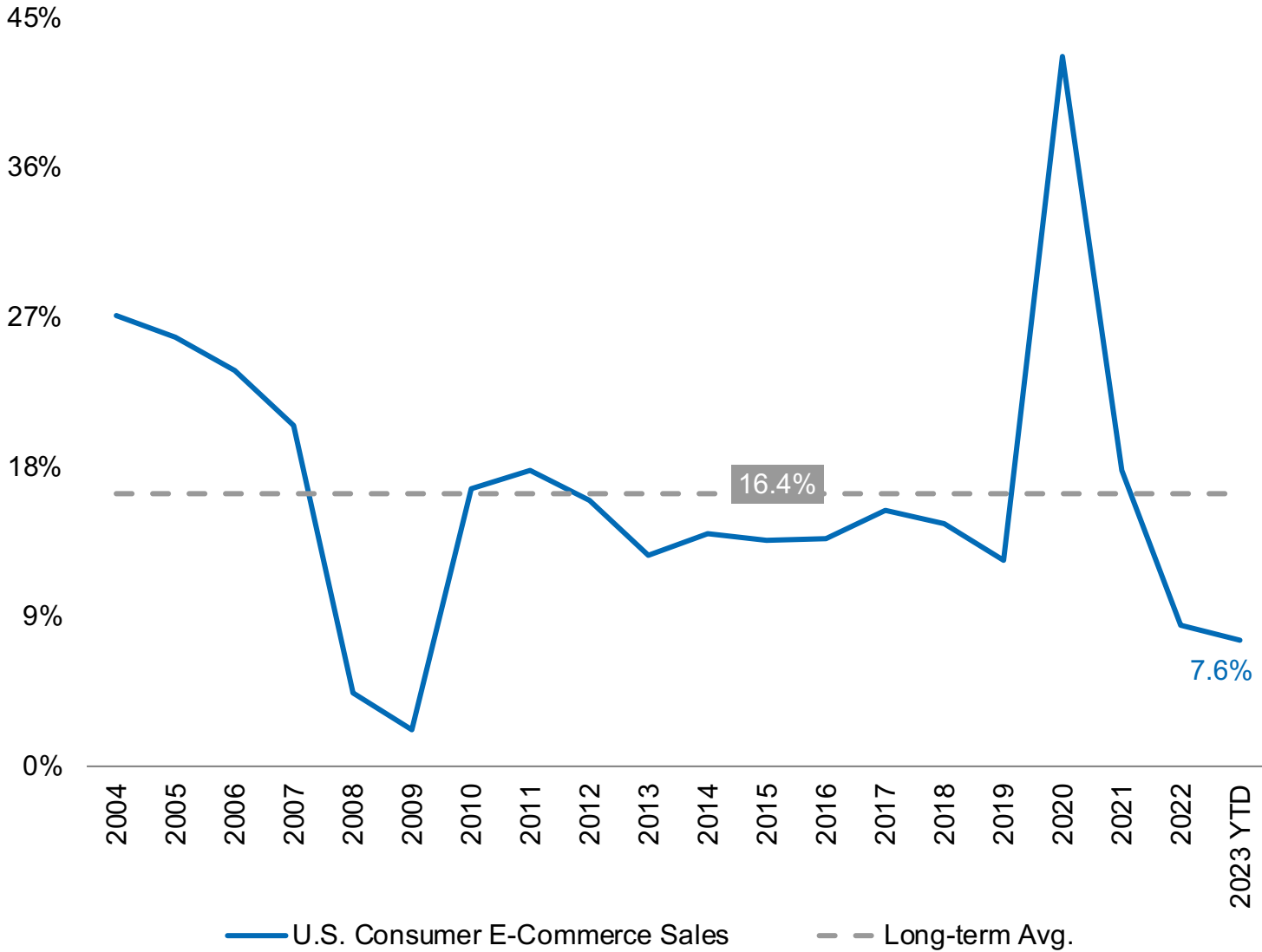
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.6% in the first nine months of 2023 compared with the same period in 2022. Although e-commerce sales growth exceeded total retail sales (+2.0% over the same period), the decline from 2021 onward is noticeable as the macro economy slows.

U.S. Retail Sales Annual Growth



U.S. Consumer E-Commerce Sales Annual Growth

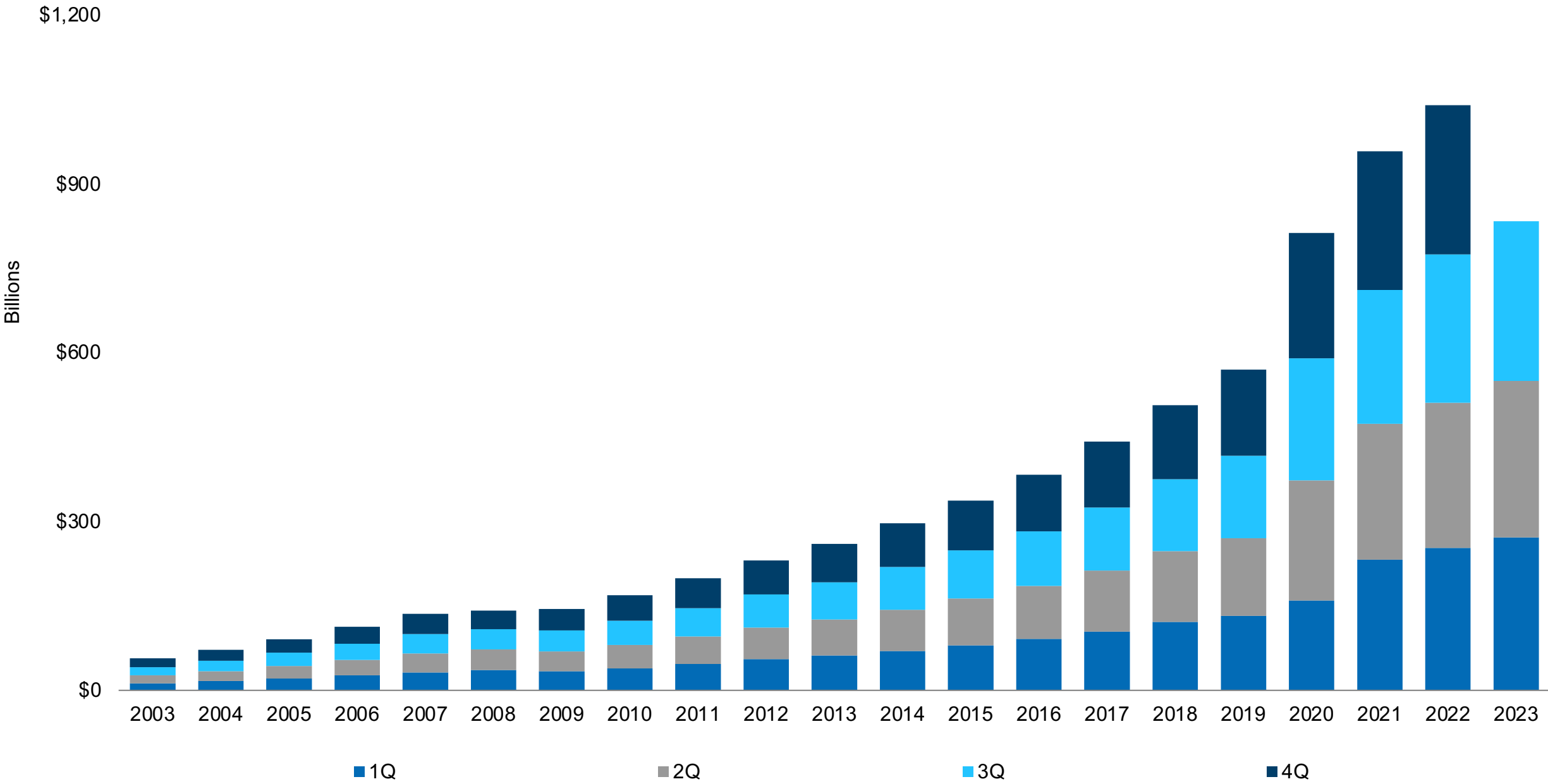


Source: US Census Bureau (consumer adjusted retail sales); most current data available
Note: 2023 YTD encompasses the first nine months of 2023

The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

Every \$1.0 billion in e-commerce sales is supported by roughly 1.2 MSF of logistics space. More last-mile facilities are to expected in a population-dense market like Los Angeles.

U.S. Consumer E-Commerce Sales Volume | By Quarter

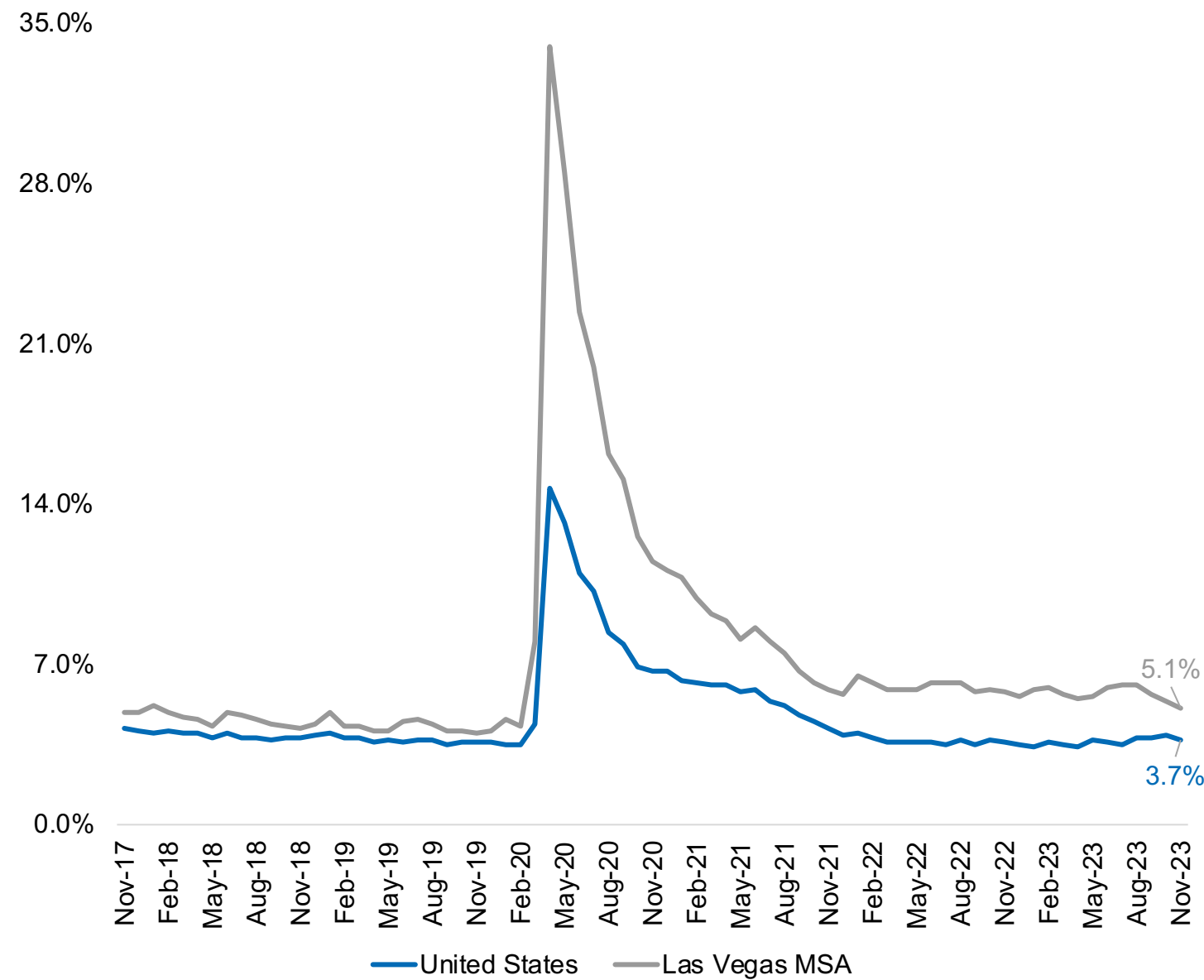


Source: US Census Bureau (consumer adjusted retail sales); most current data available.

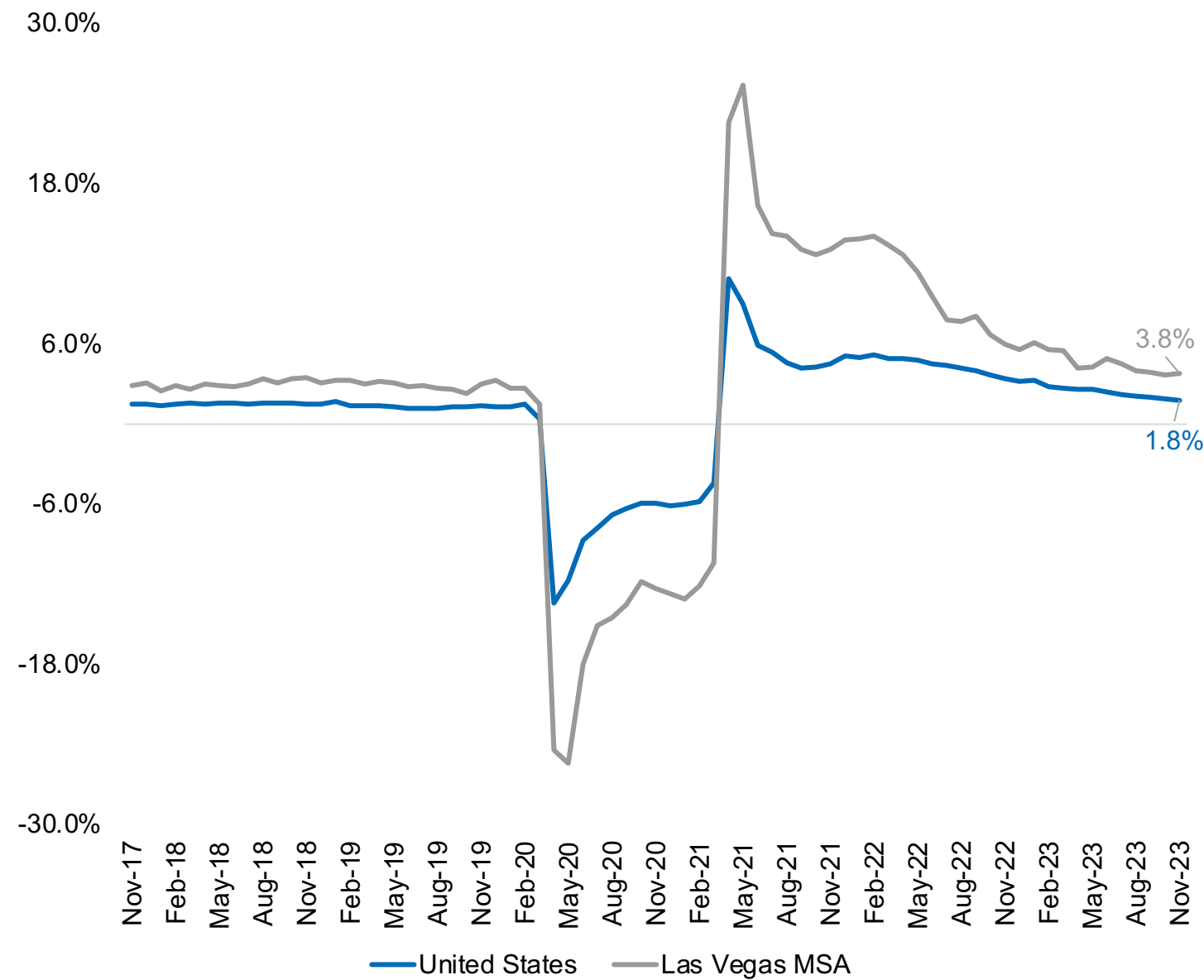
Las Vegas Job Gains: Stronger than the Nation, but Slowing

Local nonfarm employment grew by 3.8% on an annual basis from November 2022 to November 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

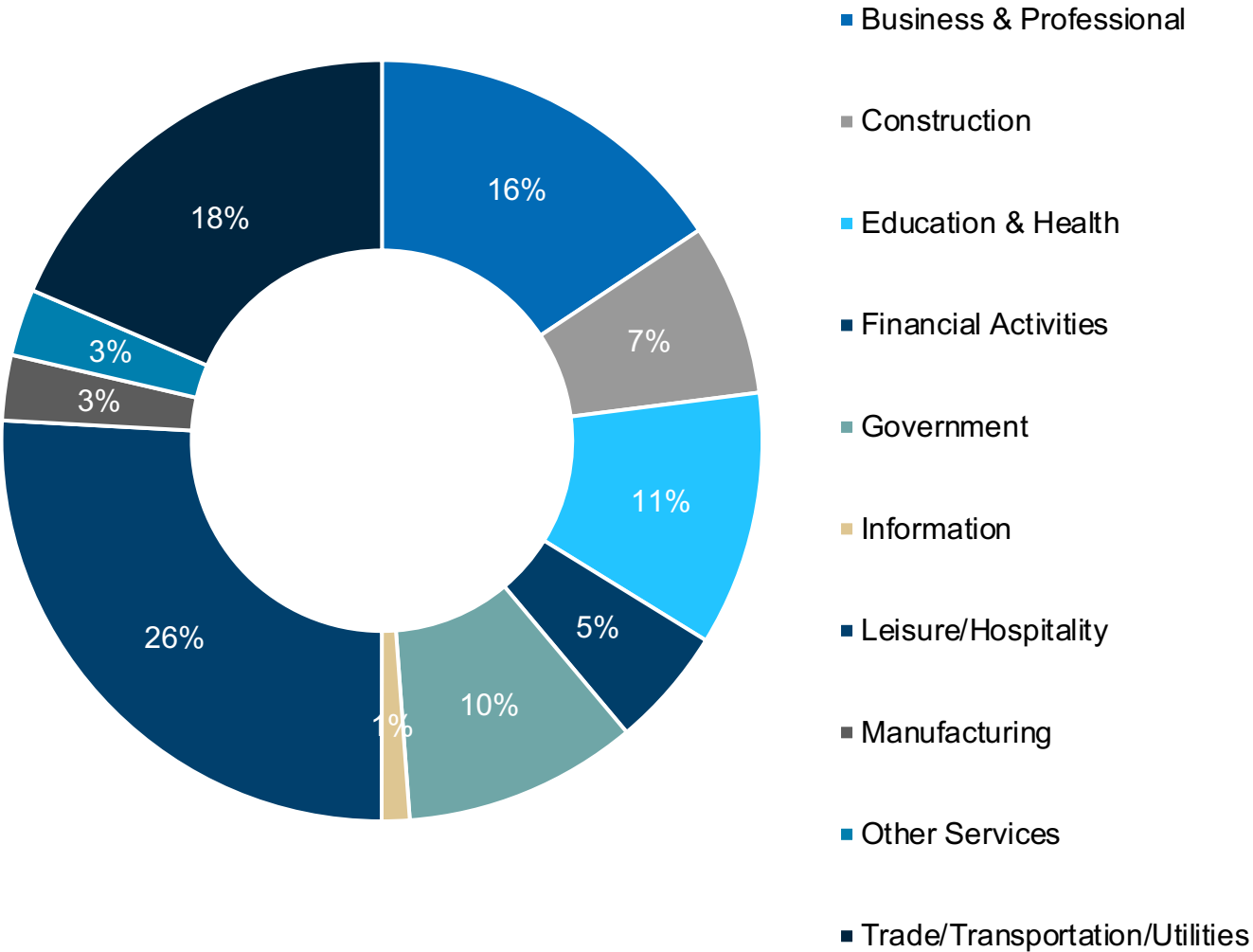


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA
Note: Las Vegas' unemployment is historically higher than the U.S. average due to volatility in the tourism industry when the economy downcycles; hence, the 34.0% unemployment average at the start of the pandemic.

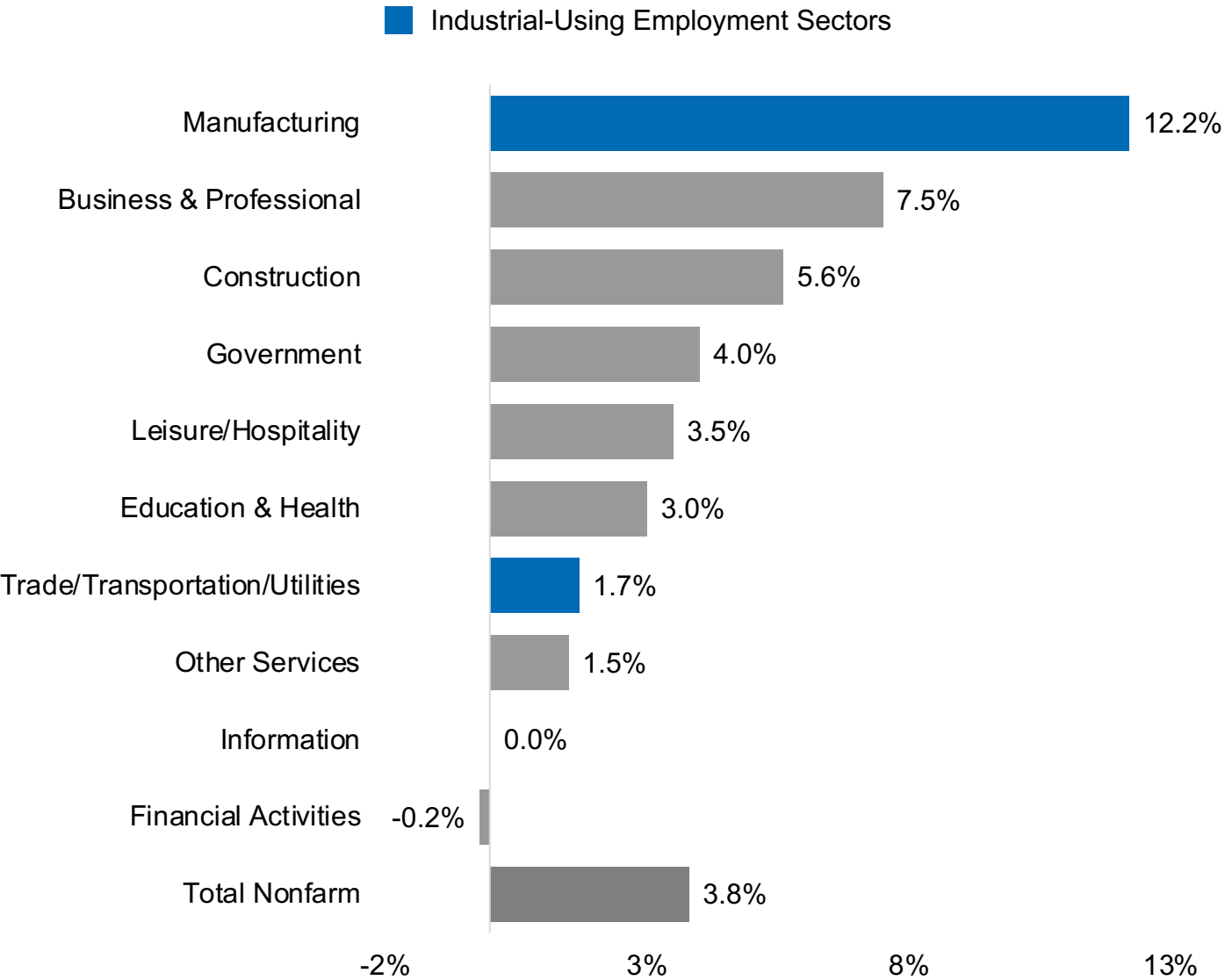
Growing Population Driving Employment Growth in a Myriad of Sectors

Leisure/hospitality continues to be the dominant sector, comprising 25.8% 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. Manufacturing, business and professional and construction were the top three for rent employment growth.

Employment by Industry, November 2023



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

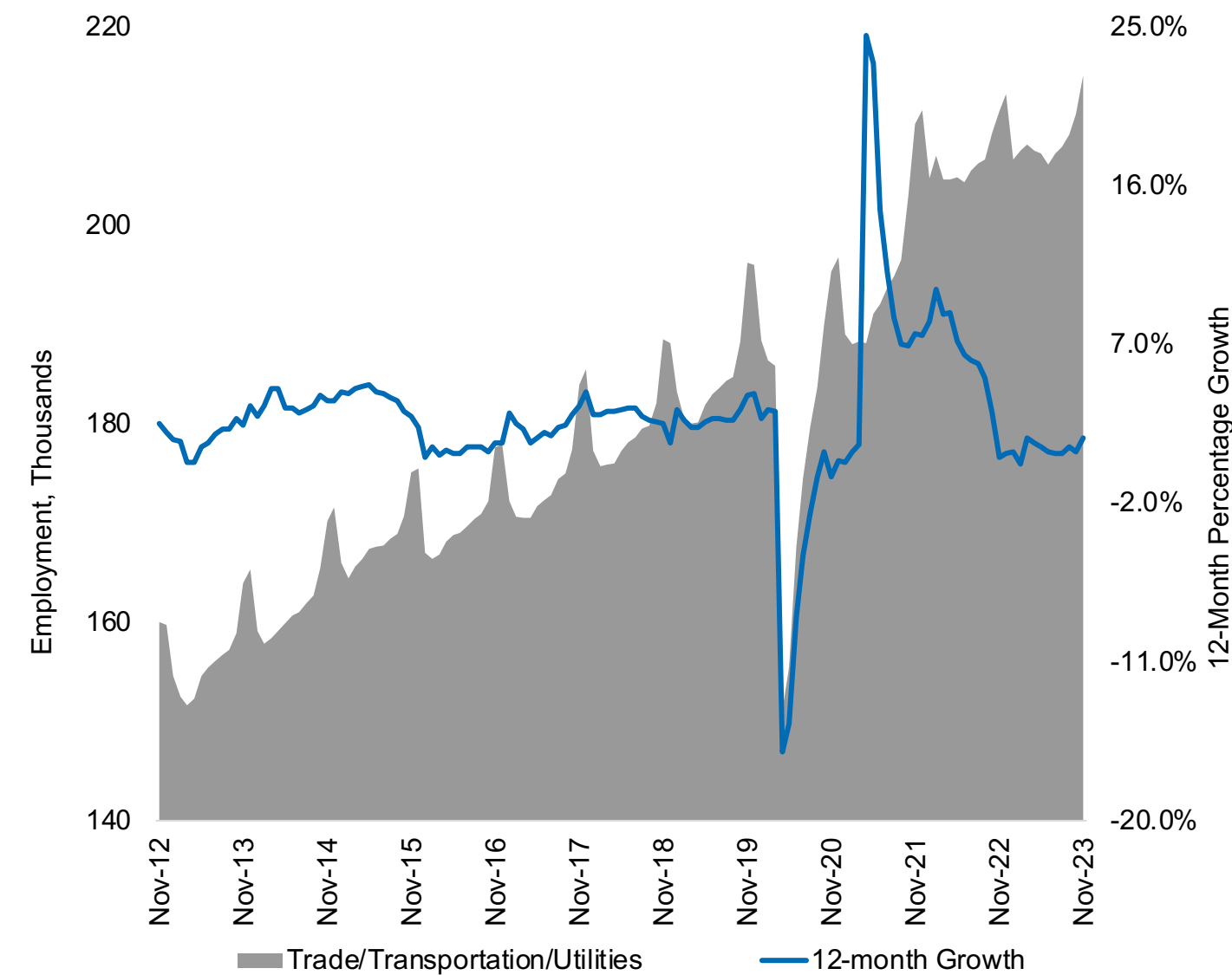


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

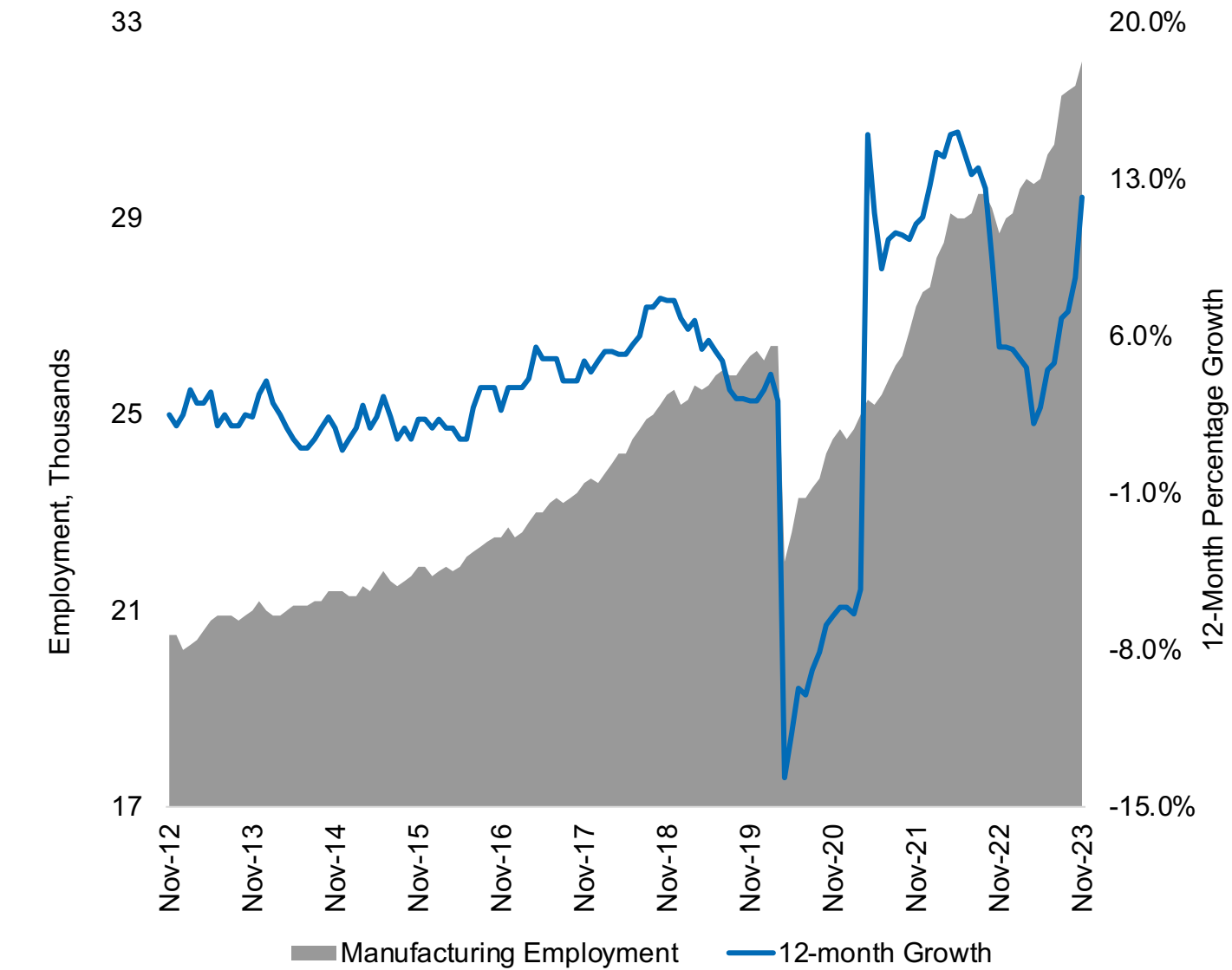
Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities employment increased as distributors prepared for the holiday season. 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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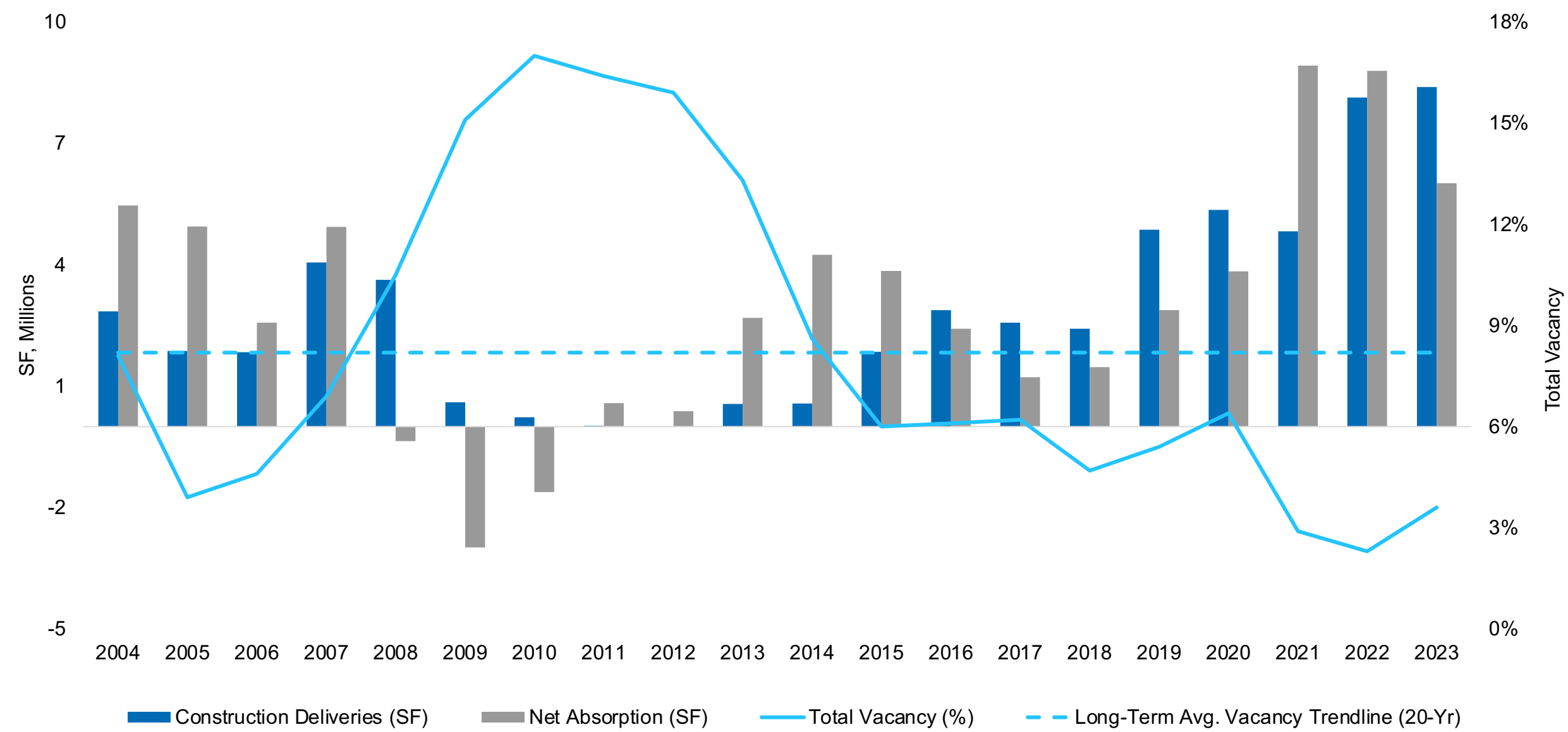
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption in 2023

Total vacancy (3.6%) has increased since 2022 but remains far below the long-term average of 8.2%. A slowing economy, coupled with 7.6 MSF in new construction expected to deliver next quarter, will lead to even higher vacancy as new supply continues to eclipse net absorption.

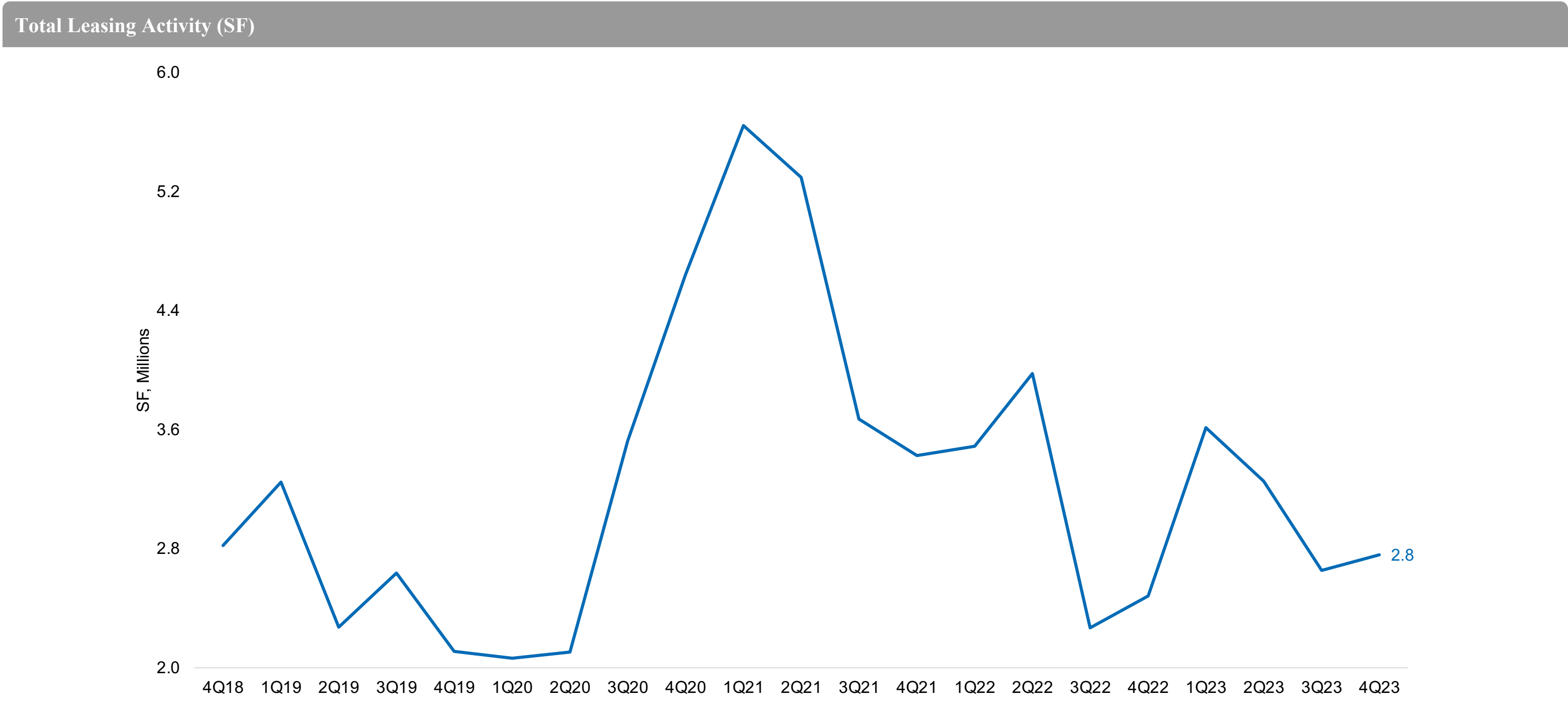
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity is Slightly Higher than Pre-Pandemic Measures

Leasing activity in 2023 totaled nearly 12.3 MSF, flat compared to 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.

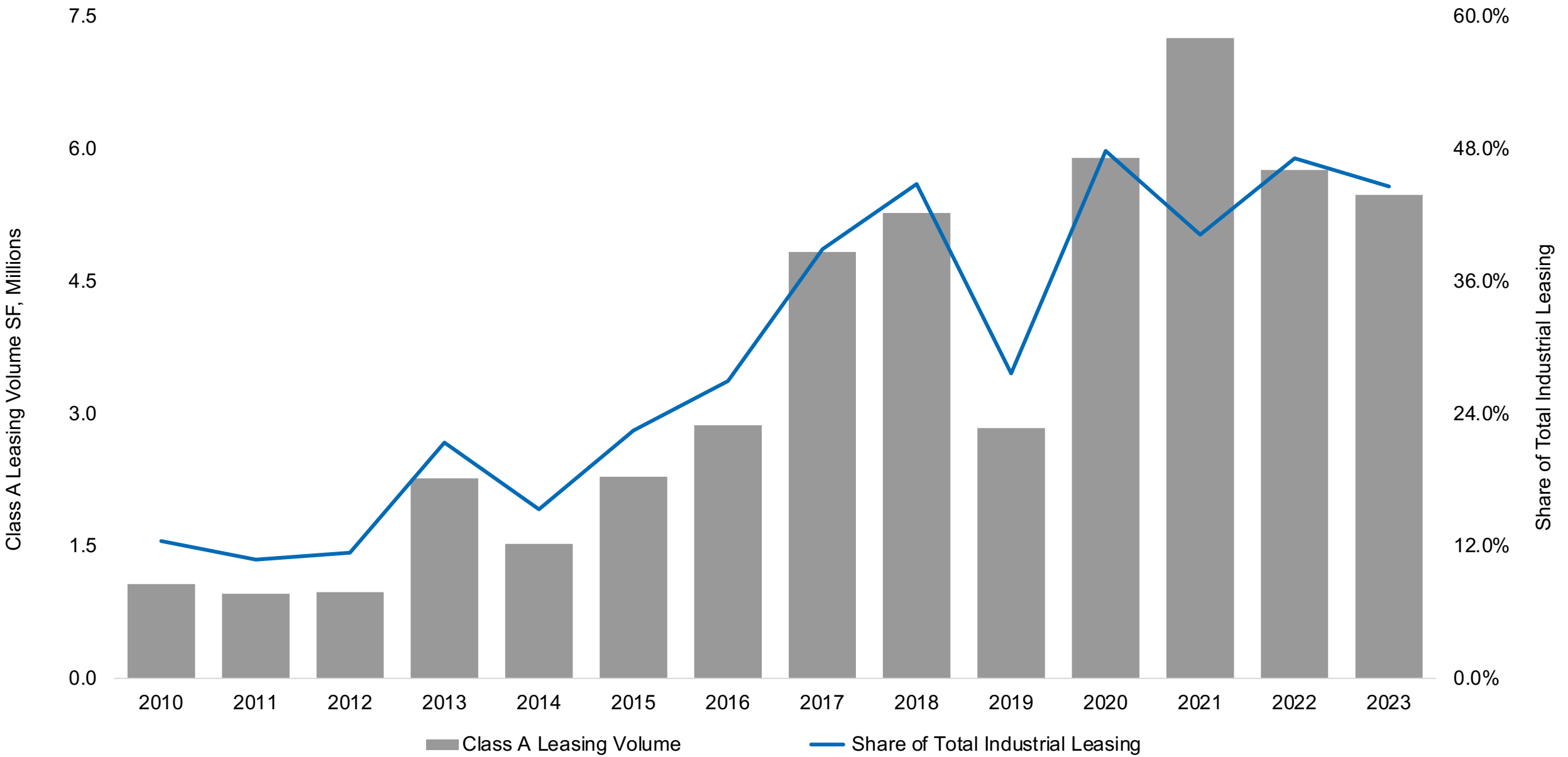


Source: Newmark Research, CoStar

Class A Warehouse Leasing above Long-Term Average

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

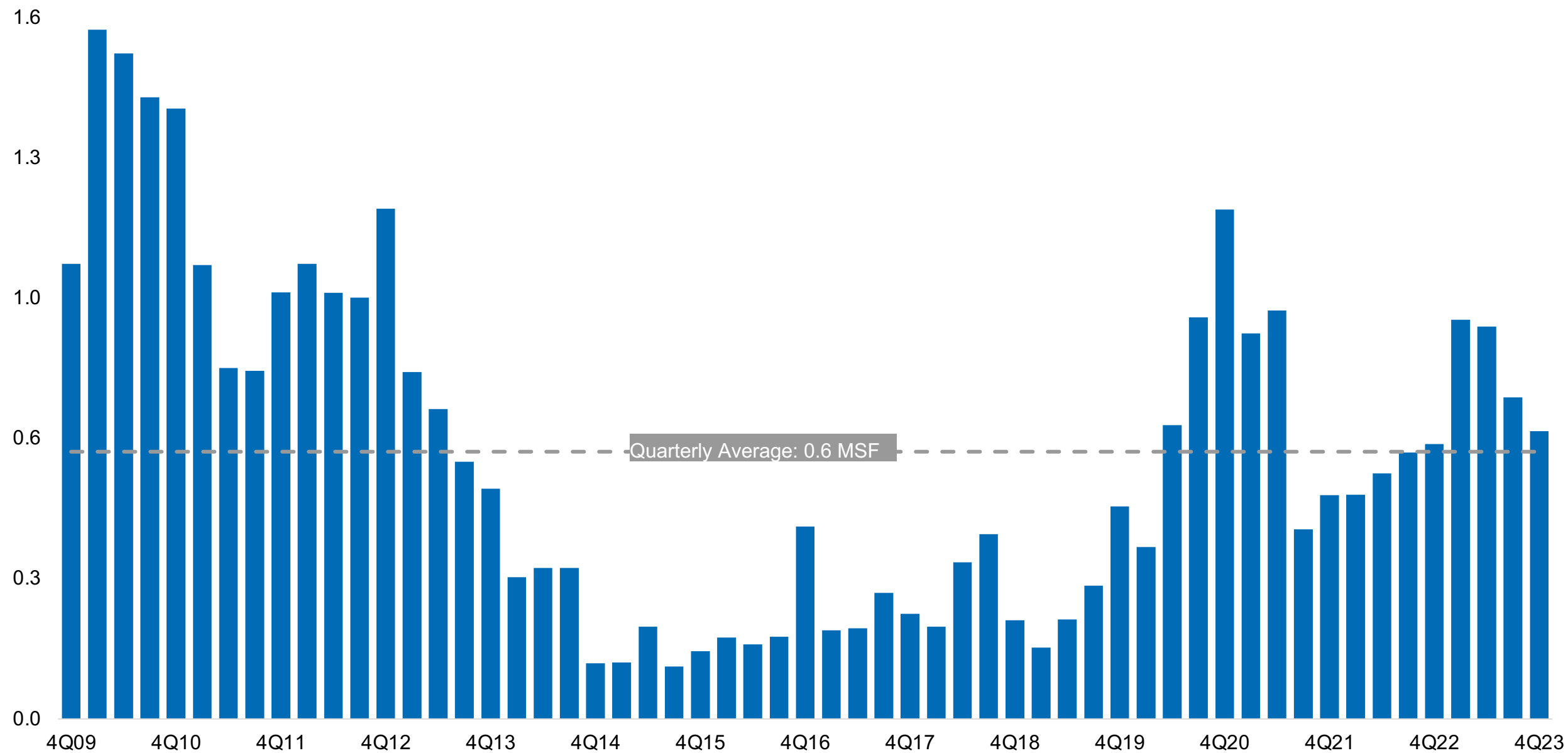


Source: Newmark Research, CoStar
Note: Class A is defined as 100,000+ SF, 30'+ minimum interior ceiling height and constructed since 2000.

Industrial Sublease Availability: Still Below Historic Peak Levels

Sublet availability represents 0.4% of inventory, lower than the all-time high of 1.8% that was reached in early 2010. How sublet availability fluctuates in the quarters ahead is largely contingent on U.S. retail sales and whether the U.S. is heading into a recession.

Available Industrial Sublease Volume (MSF)

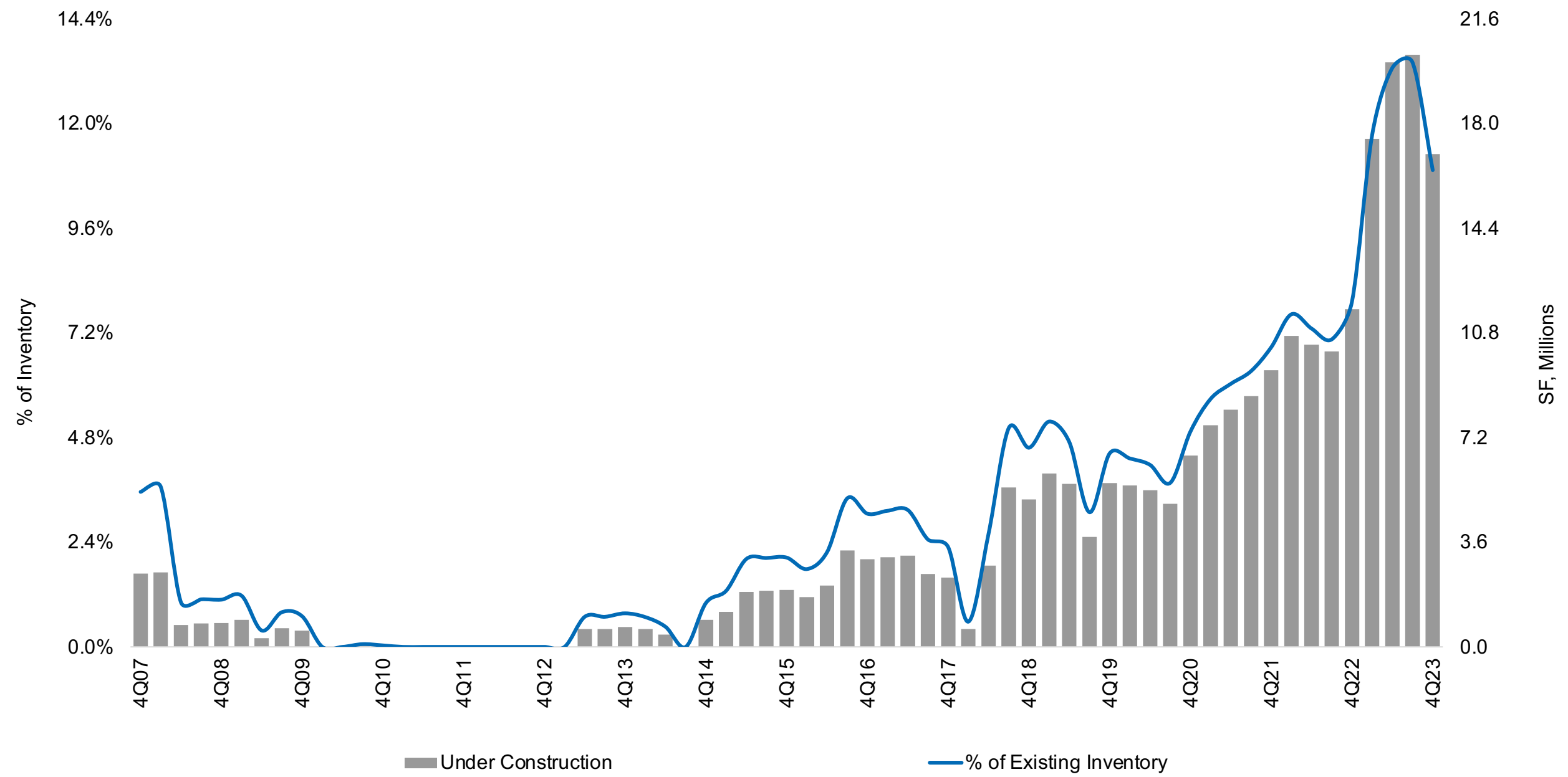


Source: Newmark Research

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

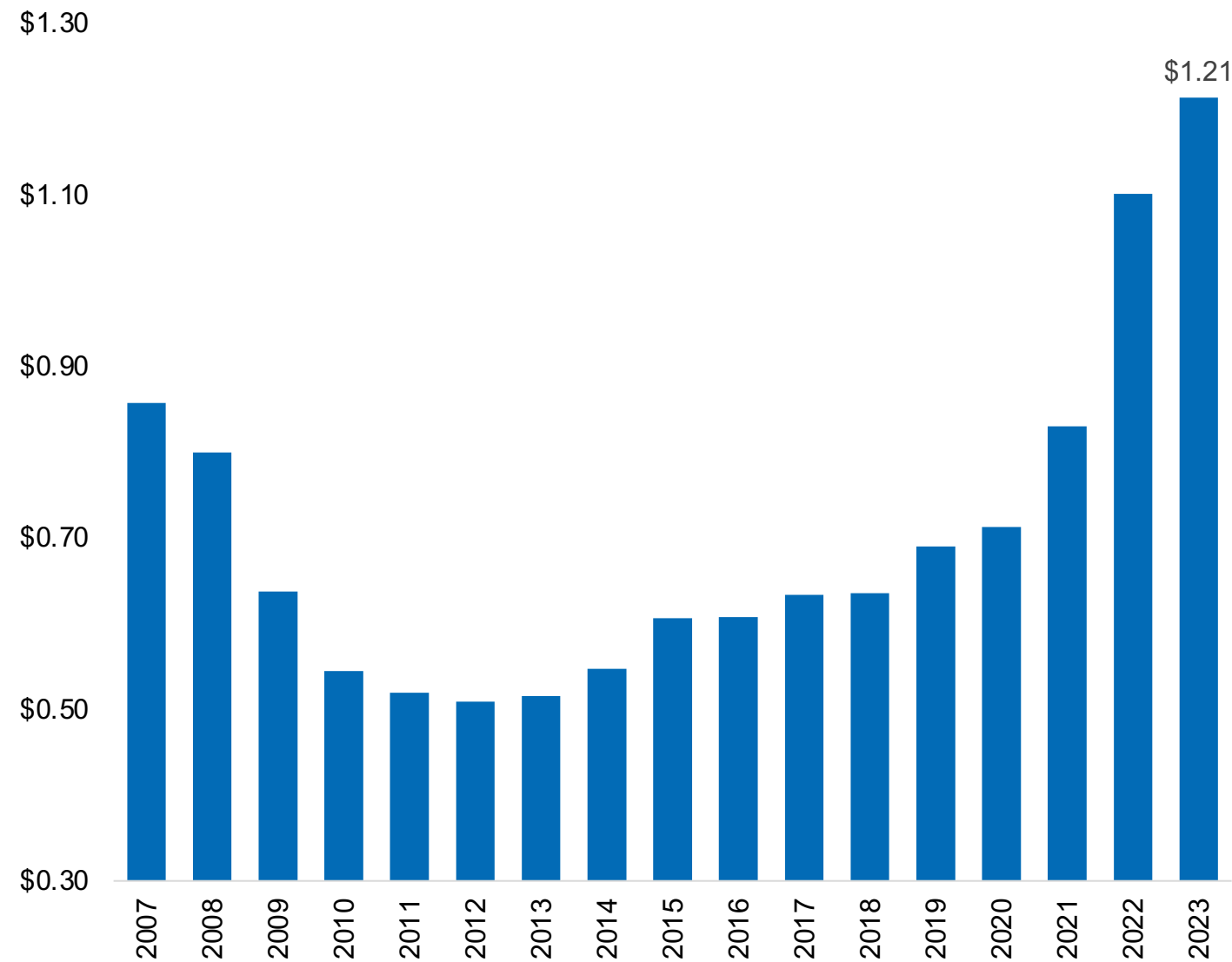


Source: Newmark Research

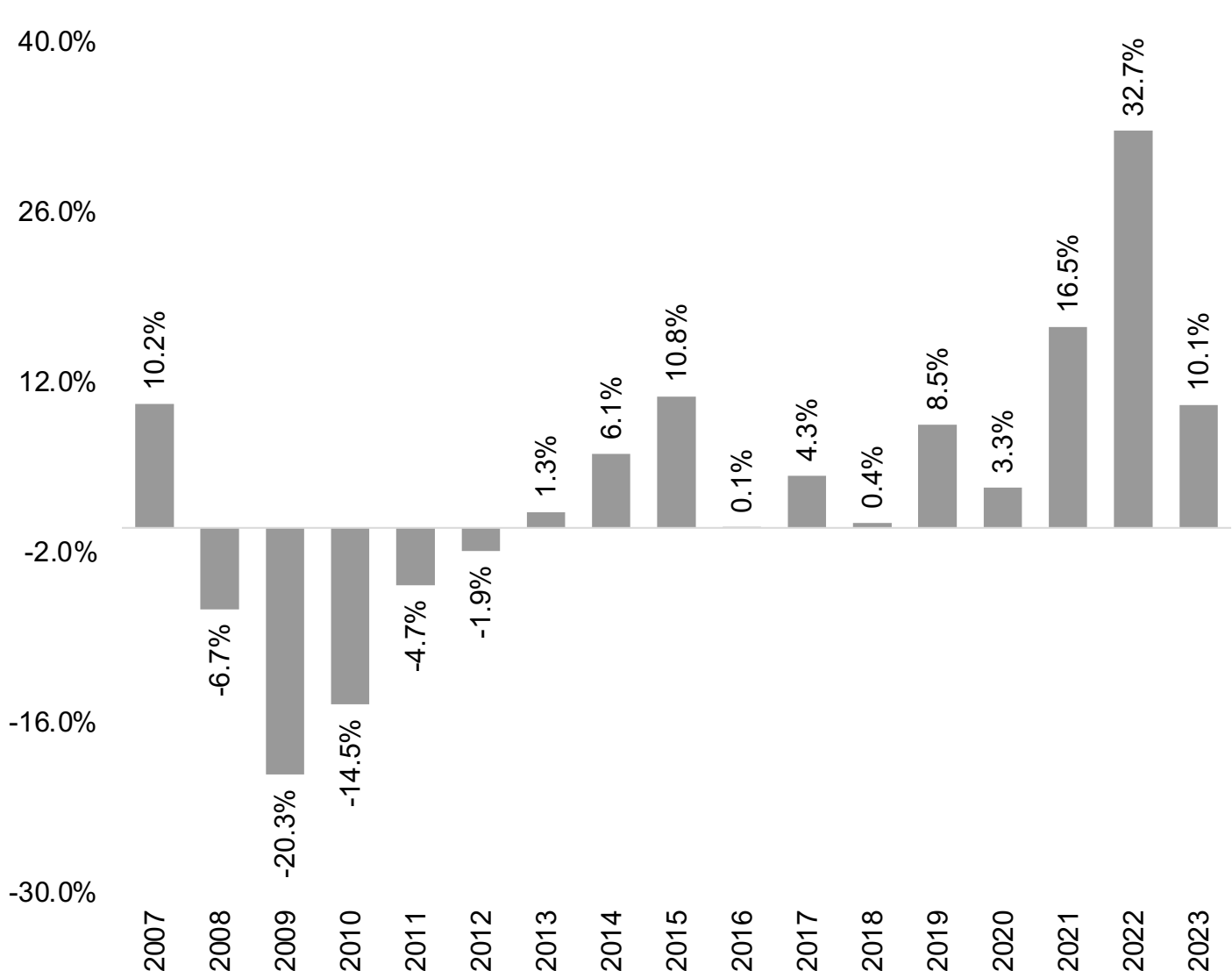
Strong Industrial Asking Rent Growth Continues into the Second Half of 2023

Industrial average asking rents grew by 10.1% 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. It is likely rents will remain flat through 2024 given the amount of new product delivering.

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



Year-over-Year Asking Rent Growth Rate% Change



Source: Newmark Research

Notable 4Q23 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 70.0% of the under-construction pipeline.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Solarlink Group	Desert Palms Logistics Center	North Las Vegas	Pre-lease	356,820
The building is expected to deliver in early 2024.				
Insomniac Holdings	Lone Mountain Industrial Park	North Las Vegas	Renewal	213,216
Fellowes	Cheyenne Distribution Center	North Las Vegas	Renewal	181,788
One Stop Mailing	Windsor Commerce Park	North Las Vegas	Pre-lease	164,320
Part of a larger 296,400 SF facility that will deliver in the first half of 2024.				
Unimacts Global	Southern Gateway at Sloan	Southwest	Pre-lease	159,362
The building is expected to deliver in early 2024.				

Source: Newmark Research

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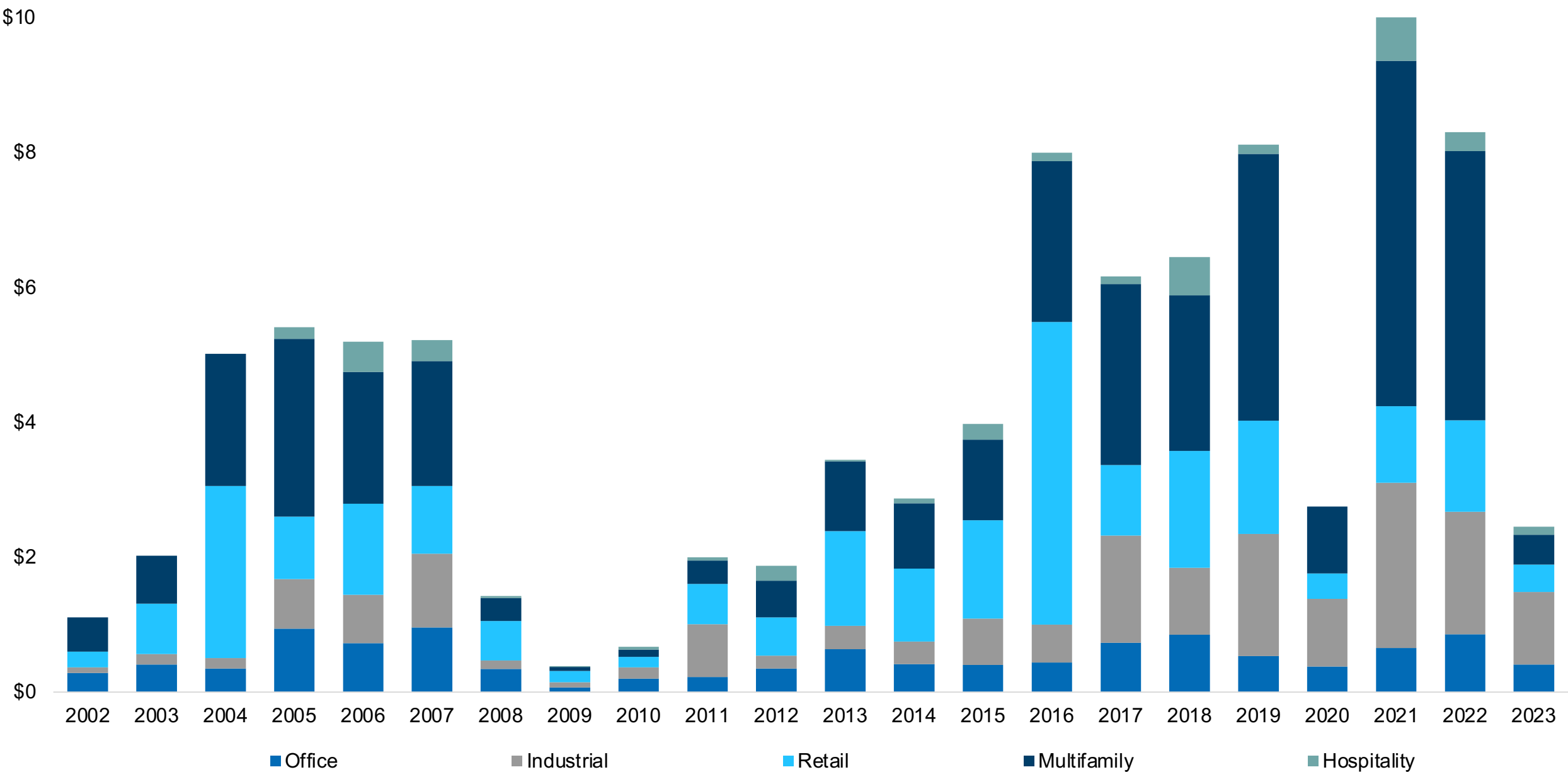
Sales Activity



Industrial Comprised 44.0% 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)

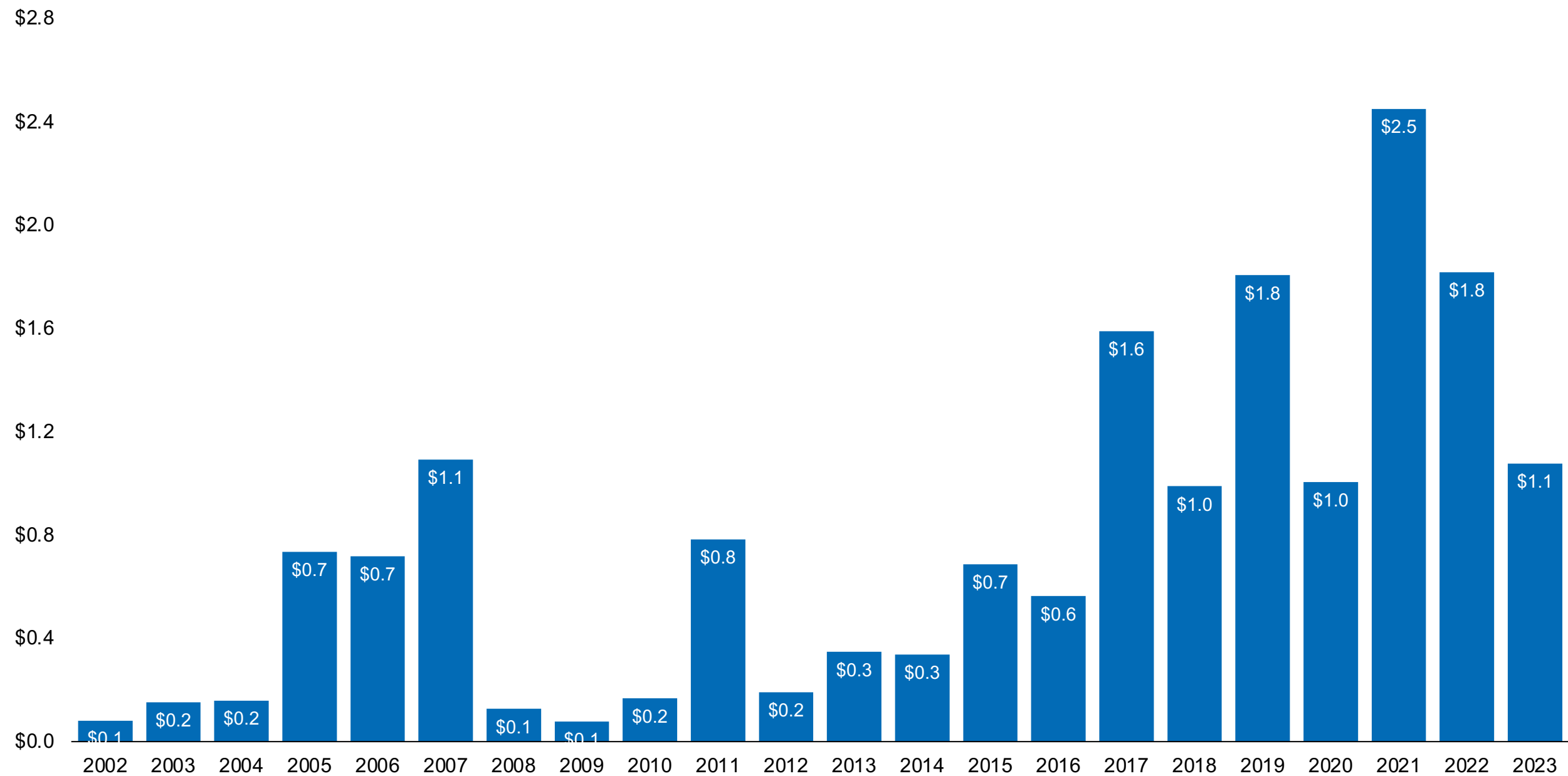


Source: Newmark Research, MSCI Real Capital Analytics
Note: Preliminary data is cited for the fourth quarter of 2023.

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$1.1 billion in 2023, down 40.8% from 2022. 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.

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



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 | 4Q23



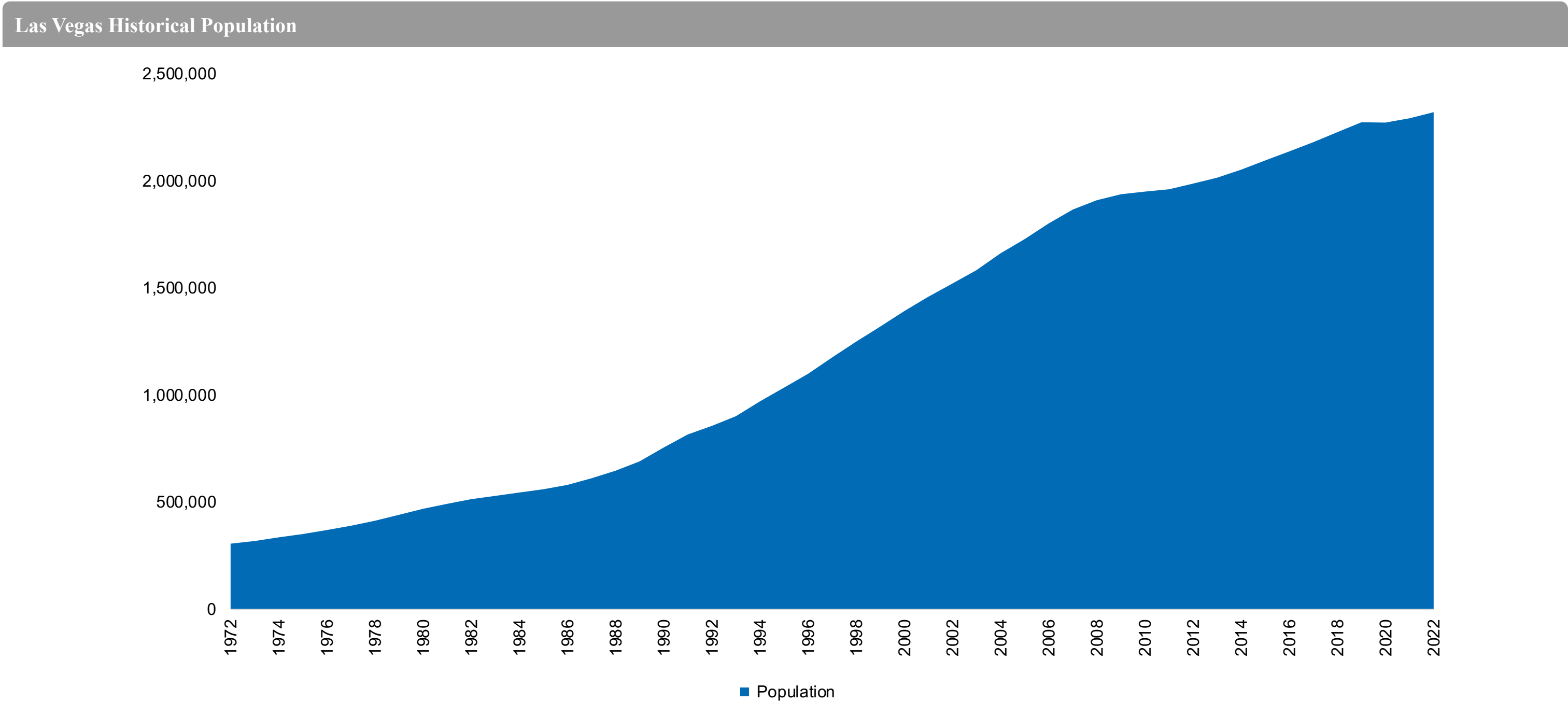
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Metro’s Population Has Grown by 7.6x over Five Decades

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.

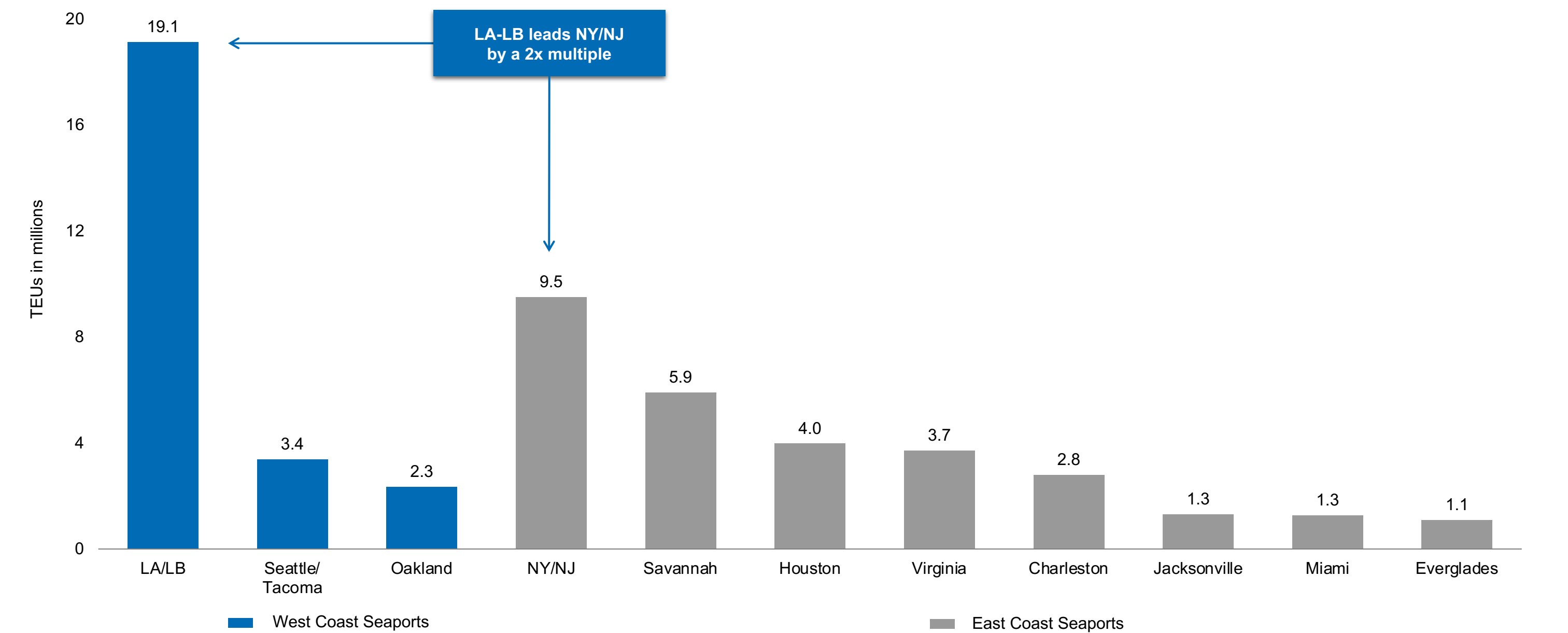


Source: Newmark Research, U.S. Census Bureau, Moody's Analytics

Los Angeles-Long Beach Is 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

For more information:

Amelia Yates
Research Manager
Las Vegas, Phoenix, SLC
amelia.yates@nmrk.com

Dain Fedora
Head of Research
Southwest
dain.fedora@nmrk.com

Las Vegas Office
8488 Rozita Lee Ave.
Suite 125
Las Vegas, NV 89113
t 702-733-7500

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

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