

# Capital Trends

## US Industrial

**18.1%** YOY price change  
**\$35.5b** Transaction volume  
**-18%** YOY volume change

Deal volume fell for the industrial sector in the quarter, in line with all other property sectors. There are challenges to financing that are acting to bring deal volume down from record highs seen a year earlier. Investors, though, see enough positive elements in the sector to continue to pursue activity at an elevated level.

The structure of deals had only a minor influence on the trend for the quarter, with a 21% YOY decline for individual asset sales and a 14% YOY decline for the total of portfolio and entity-level sales. These megadeals were more weighted towards the M&A-type transactions relative to a year earlier, with the purchase of PS Business Parks by Blackstone.

Acquisition activity became more challenging with the tightening of the finance environment. In our report for August, we noted that the coupon on 7/10yr fixed rate commercial mortgages stood at 5.4% in July, a figure that has continued to face upward pressure. The 10yr UST, for instance, jumped from an average 2.9% in July to 3.5% in September. As shown on the following page, cap rates have remained at low levels limiting the investment benefits from leverage.

Despite challenges from financing costs and falling deal volume, activity remained elevated in the quarter relative to pre-pandemic trends. Sales averaged \$23.9b for each third quarter from 2015 to 2019 versus the \$35.5b in sales for Q3'22. So, while sales were 18% lower than year ago, investment activity was still 48% above the pre-pandemic trend.

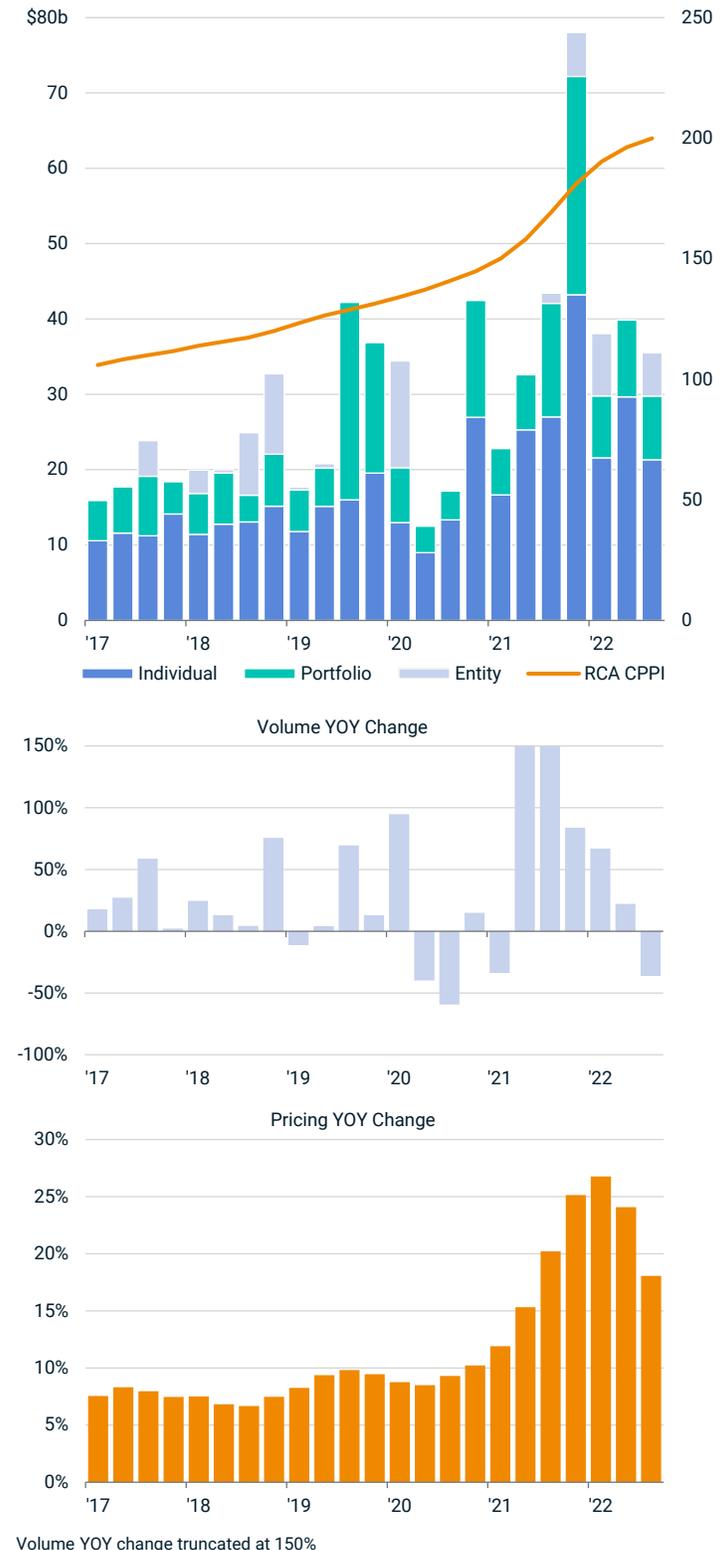
Looking at individual asset sales in the same context, the \$21.3b in activity for the third quarter stood 74% higher than the trend before the pandemic. This market, then, is more driven by singles and doubles in the deal market rather than the home runs of one-off megadeals.

One area of the industrial market that continued to gain ground for the quarter was investment activity in the R&D/tech/telecom space. Activity here was up 26% from a year earlier on sales of \$1.5b. There is an easily identifiable story on performance of the life science tenants, in particular, that helps to drive investor interest in these properties.

### Transaction Volume Summary

	Q3 2022		YTD 2022	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Industrial Total	35.5	-18%	113.4	15%
Flex	7.8	-19%	26.2	27%
Warehouse	27.8	-18%	87.2	12%
Single Asset	21.3	-21%	72.5	5%
Portfolio & Entity	14.2	-14%	40.9	37%

### Quarterly Transaction Volume and Pricing



# Recent Trends

Total deal activity fell 19% from a year earlier for the flex segments of the industrial market. The PS Business Parks transaction clouds some of the story on sales momentum, however, as so much of the deal was focused on these sorts of assets. Looking at activity for individual asset sales, deal volume was not as rosy – down 31% from a year earlier on sales of \$3.4b.

The RCA Hedonic Series cap rate for flex assets stood at 5.6% in Q3'22, a level down 30 bps relative to last year. Given the increase in commercial mortgage rates over that same time frame, the benefits from leverage are fading. What was a 230 bps spread between cap rates and mortgage rates in Q3'21 has dwindled to only 20 bps by Q3'22. Investors can still complete transactions in the sector, but there are fewer paths to a successful deal today.

One path is to come into the market with a lot of equity and underwriting that accepts the low cap rates on offer by sellers. Another is to come in with income growth expectations strong enough to overcome the negative leverage situation at purchase in short order. There are likely some investors in each camp.

This story of the declining benefits of leverage is not unique to the flex segments of the industrial market, however. Warehouse deal activity fell 18% from a year earlier, with a 19% decline in individual asset sales. The RCA Hedonic Series cap rate for warehouses stood at 5.0% in Q3'22, 40 bps lower than the average coupon rate for 7/10yr fixed rate commercial mortgages back in July. Activity was easier to pursue a year earlier with a positive spread of 170 bps.

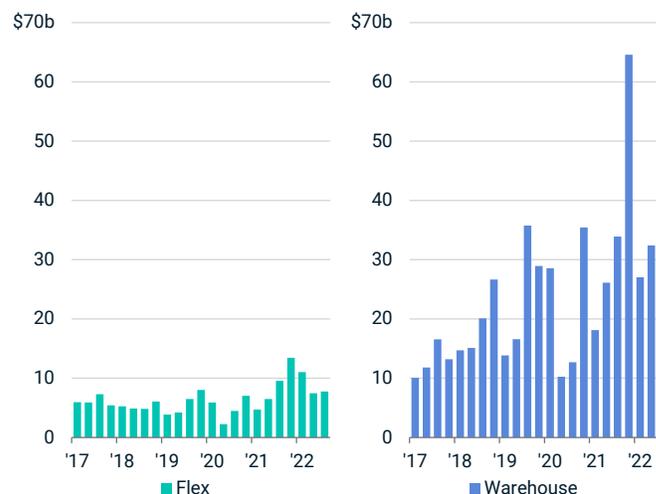
Despite challenges to financing and falling deal activity, prices continued to climb in the quarter. The RCA CPPI for the industrial sector climbed 18.1% from a year earlier. The pace of growth is decelerating, however. Relative to Q2'22, prices were up only 7.7% on an annualized basis.

## Cap Rates



RCA Hedonic Series

## Quarterly Transaction Volume by Subtype



## Q3 2022 Deal Volume and Pricing Summary

	Quarterly Volume			RCA CPPI			Price Averages		
	\$b	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	\$/sf	Cap Rate	YOY Chg (bps)
Industrial	35.5	-18%	1,725	-41%	1.9%	18.1%	142	5.1%	-30
Flex	7.8	-19%	382	-30%	1.1%	13.4%	184	5.6%	-30
Warehouse	27.8	-18%	1,343	-44%	2.1%	19.6%	136	5.0%	-20
6-Major Metro	13.3	-2%	540	-36%	1.2%	16.4%	232		
Non-Major Metro	22.3	-26%	1,185	-43%	2.1%	18.5%	114		
Single Tenant	8.9	-29%	381	-34%	-0.3%	11.4%	141	5.2%	-20

RCA Hedonic Series cap rates

# Top Markets

Sixteen of the top 25 industrial markets posted record high levels of activity through the first three quarters of 2022. Furthermore, the industrial sector stands apart from all other asset classes in that investment for each of the top 25 markets exceeded the average level for sales seen in the five years prior to the pandemic.

Industrial investment in Los Angeles once again earned the market the #1 spot in the rankings, the position it also held at year-end. With investment totaling \$6.9b, no other market has ever recorded more industrial volume through the first three quarters of a year. A healthy flow of transaction activity rather than one-off megadeals was behind the historic level of industrial sales in Los Angeles. Year-to-date, the number of closed transactions in the market topped 340. With nearly 220 transactions, #3 Chicago logged the second highest number of industrial deals during the period.

Despite trailing Chicago in a ranking based on the count of sales, Dallas clinched the #2 spot for total industrial investment. Through

September, Dallas recorded over 160 industrial transactions, nearly 15% more than the average seen over the same period in the five years prior to the pandemic. While Dallas had a higher-than-average exposure to megadeal activity compared to other top industrial markets, the value of single asset sales was nothing to scoff at. The market's \$3.5b in individual asset sales exceeded its prior record by 22%.

At #6, not only did Houston reach its best ever position in the rankings, but it also set a record for industrial investment in the market. The number of industrial transactions in the period outpaced the average seen in the five years prior to the pandemic by nearly 30% and the market received a boost in investment from megadeals. One deal in particular provided over 20% of year-to-date activity: in the first quarter, DataBank purchased four Houston-area data centers for \$670m.

## Most Active Markets Year to Date 2022

2020	2021	YTD'22	Market	Sales Volume (\$m)	YOY Change
2	1	1	<b>Los Angeles</b>	6,943	26%
1	4	2	<b>Dallas</b>	6,397	35%
3	2	3	<b>Chicago</b>	4,752	2%
5	3	4	Inland Empire	4,704	-2%
33	38	5	DC VA burbs	3,356	369%
8	8	6	<b>Houston</b>	3,269	4%
10	6	7	<b>Phoenix</b>	3,185	1%
4	5	8	Atlanta	3,149	-30%
7	7	9	No NJ	2,911	11%
22	16	10	<b>San Diego</b>	2,721	45%
12	17	11	<b>East Bay</b>	2,705	58%
13	11	12	<b>Seattle</b>	2,596	13%
6	9	13	<b>Boston</b>	2,504	13%
28	13	14	<b>Philadelphia</b>	2,279	35%
16	12	15	San Jose	2,183	-8%
11	10	16	NYC Boroughs	2,095	34%
21	29	17	<b>Miami/Dade Co</b>	2,055	94%
17	15	18	Orange Co	1,958	-2%
19	14	19	<b>Indianapolis</b>	1,676	20%
23	18	20	<b>Memphis</b>	1,487	11%
18	23	21	<b>Denver</b>	1,401	36%
31	19	22	Las Vegas	1,400	-21%
26	21	23	<b>Columbus</b>	1,351	72%
27	47	24	<b>Orlando</b>	1,271	105%
14	20	25	Minneapolis	1,176	-10%

Markets in orange denote record high volume for the first nine months of the year; YOY change truncated at 150%.

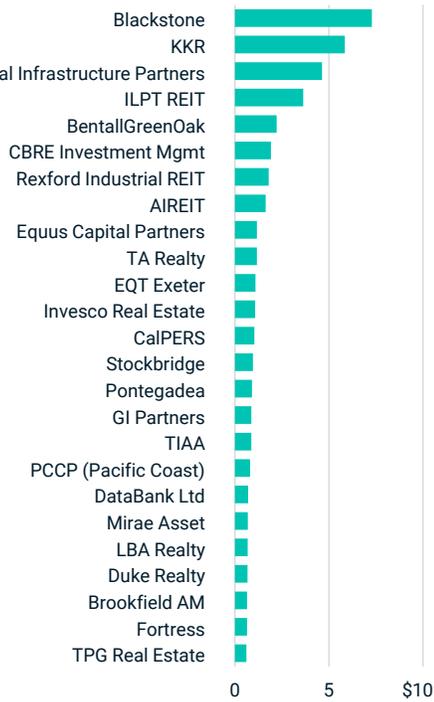
# Top Players and Deals Year to Date 2022

## Top Industrial Buyers and Sellers

### Buyers by Region

<b>Mid-Atlantic</b>	<b>Southeast</b>
KKR	ILPT REIT
Global Infra Ptnrs	Blackstone
Blackstone	KKR
CalPERS	Equus Capital Ptnrs
GI Partners	AIREIT
<b>Midwest</b>	<b>Southwest</b>
BentallGreenOak	KKR
ILPT REIT	Global Infra Ptnrs
KKR	Blackstone
EQT Exeter	DataBank Ltd
Global Infra Ptnrs	ILPT REIT
<b>Northeast</b>	<b>West</b>
CBRE Invmt Mgmt	Blackstone
KKR	Rexford Industrial REIT
Global Infra Ptnrs	TA Realty
Brookfield AM	Fortress
TPG Real Estate	JP Morgan

### Buyers



### Sellers



Ranked by investment volume.

**Methodology:** Rankings are based on the pro-rated share of the total property or portfolio value. In the case of joint ventures, full credit is assigned to each investor. For more information please visit the MSCI Real Capital Analytics website.

## Top Industrial Single Asset Property Sales

Property	Location	Size	Type	Volume(\$m) <sup>A</sup>	\$/unit	Buyer	Seller
1 Cloud Plaza	Sterling, VA	238,000 sq ft	IND	531.8*	2,979	GI Partners JV CalPERS	Sentinel Data Centers
2 Logisticenter at Eastvale	Eastvale, CA	1,057,419 sq ft	IND	470.0	444	Rexford Industrial REIT	Dermody Properties
3 Amazon	Christiana, DE	3,883,950 sq ft	IND	392.0	101	Macquarie Group	Dermody Properties JV IGIS
4 Home Depot Dist Center	Dallas, TX	2,307,591 sq ft	IND	337.8	146	Pontegadea	Realty Income JV Korea Invmt
5 640 Columbia Street	Brooklyn, NY	336,350 sq ft	IND	330.0	981	CBRE Investment Mgmt	DH Prop Hldgs JV Goldman Sachs
6 Amazon Fulfillment Center	Bondurant, IA	2,680,000 sq ft	IND	326.2	122	Capital Square 1031	Mesirow Financial JV Hillwood
7 CapRock Tropical Logistics	N Las Vegas, NV	1,128,322 sq ft	IND	271.3	240	Eaton Vance RE	CapRock Partners JV Ares Mgmt
8 9124 Polk Ln	Olive Branch, MS	437,545 sq ft	IND	246.0	562	AIREIT	CDPQ JV OMERS
9 6th & Alameda Wholesale	Los Angeles, CA	287,376 sq ft	IND	240.0	835	East End Cap JV King St Cap Mgmt	Suncal Companies
10 Delco Logistics Center	Eddystone, PA	770,000 sq ft	IND	239.4	311	WPT Capital Advisors	Shidler Group
11 COPT DC-6	Manassas, VA	233,000 sq ft	IND	222.5	955	CloudHQ	COPT
12 DTW3 & DTW9 Amazon FC	Romulus, MI	1,267,500 sq ft	IND	219.3	173	Stockbridge	Hillwood JV Ryan Companies
13 Intermodal Commerce Park	Haslet, TX	1,404,700 sq ft	IND	-	-	Clarion Partners	Guene RE Ptnrs JV Weber & Co
14 Capital Business Center	Middletown, PA	1,531,880 sq ft	IND	-	-	CBRE Investment Mgmt	Blackstone
15 Amazon Westside Last Mile	Atlanta, GA	220,683 sq ft	IND	200.0	906	Stockbridge	Amazon JV TPA Group

<sup>A</sup> When prices are not known, estimated prices are used in the ranking but are not shown. Volume is adjusted pro-rata for partial interests although \$/unit reflects 100% valuation.

\* Partial interest \*\* Forward sale Excludes development site sales

The number of buyers or sellers shown on a deal is truncated to two. For full deal and player information go to the MSCI Real Capital Analytics website.

# Top Brokers Year to Date 2022

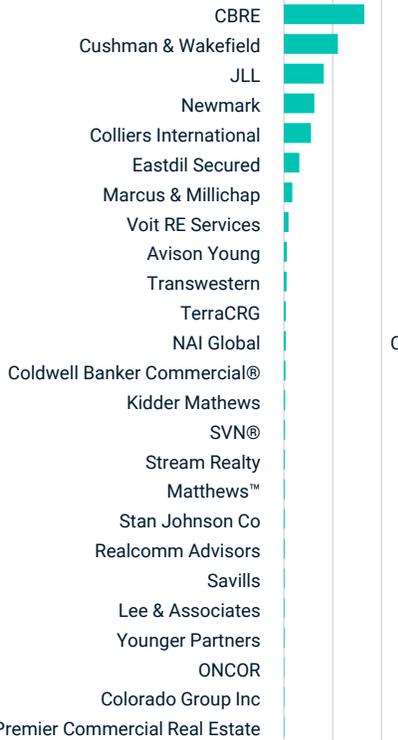
## By Region

### Mid-Atlantic

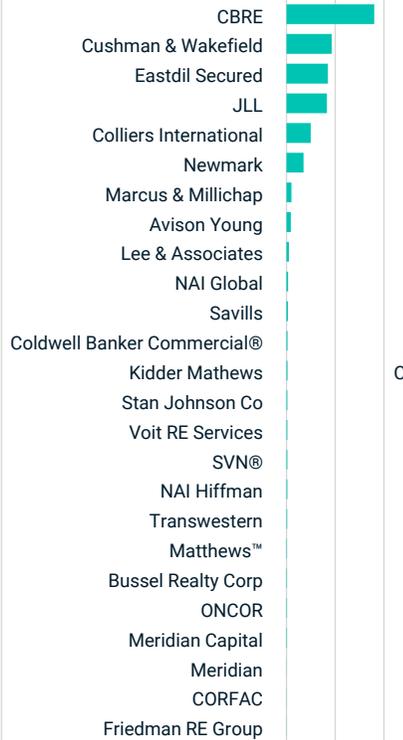
CBRE  
Cushman & Wakefield  
Eastdil Secured  
JLL  
Newmark

## By Industrial Investment Volume

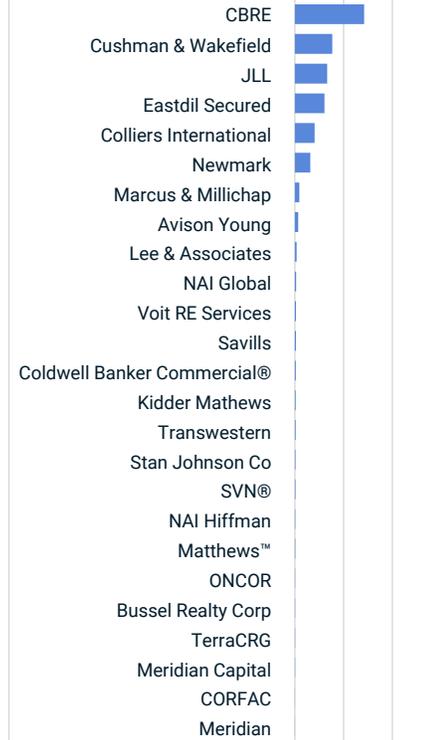
### Flex



### Warehouse



### All Industrial



### Midwest

CBRE  
JLL  
Cushman & Wakefield  
Eastdil Secured  
Colliers International

### Northeast

CBRE  
Cushman & Wakefield  
Newmark  
JLL  
NAI Global

### Southeast

CBRE  
Eastdil Secured  
JLL  
Cushman & Wakefield  
Colliers International

## By Number of Industrial Properties

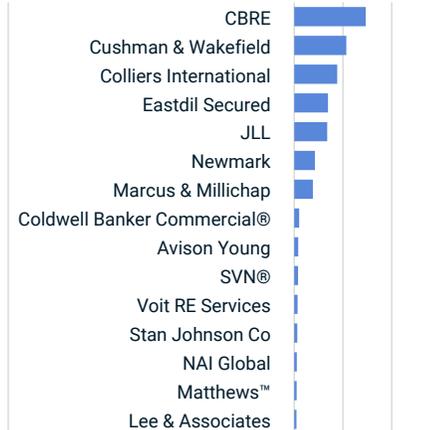
### Flex



### Warehouse



### All Industrial



### Southwest

JLL  
CBRE  
Cushman & Wakefield  
Eastdil Secured  
Newmark

### West

CBRE  
Colliers International  
Cushman & Wakefield  
Newmark  
JLL

Ranked by investment volume

**Methodology:** Full credit assigned to each broker when multiple brokers involved. For partial-interest, volume is based on the pro-rated share of the total property or portfolio value. Based on sell-side representation. The transaction volume of brokerage firms that have merged are left unconsolidated before the merger date and are attributed to the surviving or newly formed company after the merger date. For more information on rankings please visit the MSCI Real Capital Analytics website.

**Jim Costello**

Chief Economist, Real Assets Research

**Alexis Maltin**

Head of Americas, Real Assets Research

**Haley Crimmins**

Vice President, Real Assets Research

**Wyatt Avery**

Senior Associate, Real Assets Research

**Michael Savino**

Senior Associate, Real Assets Research

**Cole Barker**

Analyst, Real Assets Research

---

**Methodology**

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of Oct. 18, 2022 unless otherwise stated.

**About Capital Trends**

Capital Trends reports analyze and interpret trends in the global real estate market. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Australia, Europe and Global Capital Trends are published quarterly.

**About MSCI**

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit [www.msci.com](http://www.msci.com).