
3Q24

Las Vegas Industrial Market Overview

NEWMARK

Market Observations

Economy

- U.S. retail sales are decent but not great relative to their 20-year average. This has implications for industrial leasing activity.
- Gulf and East Coast dockworkers ended a 3-day strike after a tentative deal was reached with the United States Maritime Alliance. Gulf and East Coast distributors will continue to reroute cargo to other seaports until a new labor contract is signed.
- Loaded import volume at Southern California’s ports totaled 6.5 million containers in the first eight months of 2024, up 22.5% from the same period in 2023.
- A good portion of this cargo is being shipped eastward by rail to markets outside of the Southwest. Goods that are “just passing through” have a negligible impact on local market dynamics.

Major Transactions

- The lion’s share of leasing activity is occurring in the high-growth North Las Vegas submarket, which accounts for nearly 65.0% of the under-construction pipeline.
- Nearly 47% of the greater market’s leasing activity in the first nine months of 2024 came from Class A warehouses. This on par with the annual averages for 2022-2023.
- Ares Management purchased Henderson Business Center (six facilities, spanning 339,214 SF) for \$78.8 million in August from TA Realty.
- Sublease space will find bargain-hunting tenants: The greater market’s average sublease asking rent is \$0.89/SF/month NNN compared to \$1.15/SF for direct space.

Leasing Market Fundamentals

- Total vacancy rose to 9.0%, up 420 bps from year-end 2023. Net absorption has lagged construction deliveries for four-straight quarters.
- Available sublease space climbed to 1.7 MSF, representing 1.0% of existing inventory. While the square footage figure is pronounced, the percentage figure is still low relative to the market’s 1.7% high, reached in early 2010.
- Still-high inflation and more-restrained retail spending is prompting some occupiers to shed extra space to reduce overhead. Others are delaying their expansion plans.
- Leasing activity is sharply down this year, while 8.7 MSF in under-construction space (9.6% of which has pre-leased) will eventually deliver. Vacancy will continue to rise.

Outlook

- Landlords will become more competitive to secure tenants through concession packages and/or lower rents.
- The Fed’s cut of its benchmark interest rate by 50 basis points in September (with more gradual reductions to come) will benefit capital markets activity. Expect an uptick in sales volume next year.
- 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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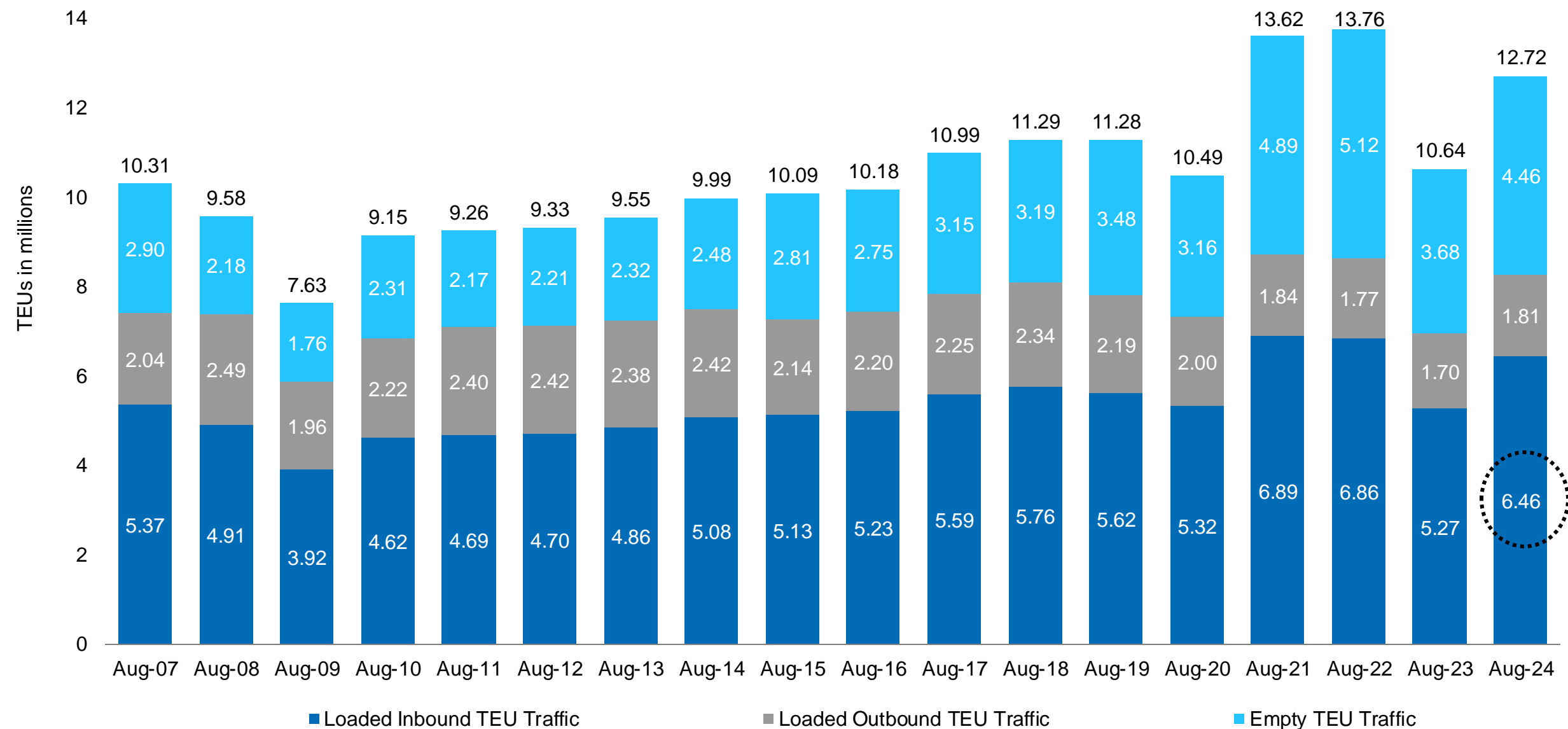
Economy



Loaded Imports in the First Eight Months of 2024 Third Busiest Compared to Same Period of Prior Years

The exceptional (but inflated and unsustainable) growth of 2021-2022 due to COVID-19-related stay-at-home measures, government stimulus, strong retail sales and domestic warehouse occupiers stockpiling goods to mitigate against global supply chain disruptions at the time may have passed, but Southern California's ports are now contending with an influx of imports due to labor issues at Gulf and East Coast ports.

The Ports of Los Angeles and Long Beach: Combined TEU Volume | Loaded Imports, Loaded Exports and Empty Containers | First Eight Months of a Given 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 2023, restoring a sense of much-needed stability at U.S. West Coast seaports through late 2029. Longshoremen at Gulf and East Coast ports went on strike for three days in early October after their demands with the United Maritime Alliance were unmet. Now, both sides have a tentative deal in place. Import volume will continue to be rerouted to other North American ports (e.g., Los Angeles-Long Beach) until a master contract is finalized between the ILA and USMX.

West Coast Ports Agreement Reached; New Contract Good Through Mid-2028

- 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.
- 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.



East and Gulf Coast Ports Are Up Next

- The International Longshoremen's Association (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMX) represents ocean carriers and terminal operators.
- Their contract expired on September 30, 2024.
- Harold Daggett, International President of the ILA, initiated a strike on October 1, 2024 that ended two days later.
- A tentative deal with USMX is now in place, and both sides have until January 15, 2025 to finalize an agreement.
- Job protection from automation and higher pay (a 62% wage increase over six years) for longshore workers are part of the current deal.



Import Traffic Has Jumped Since Late 2023 at Los Angeles/Long Beach

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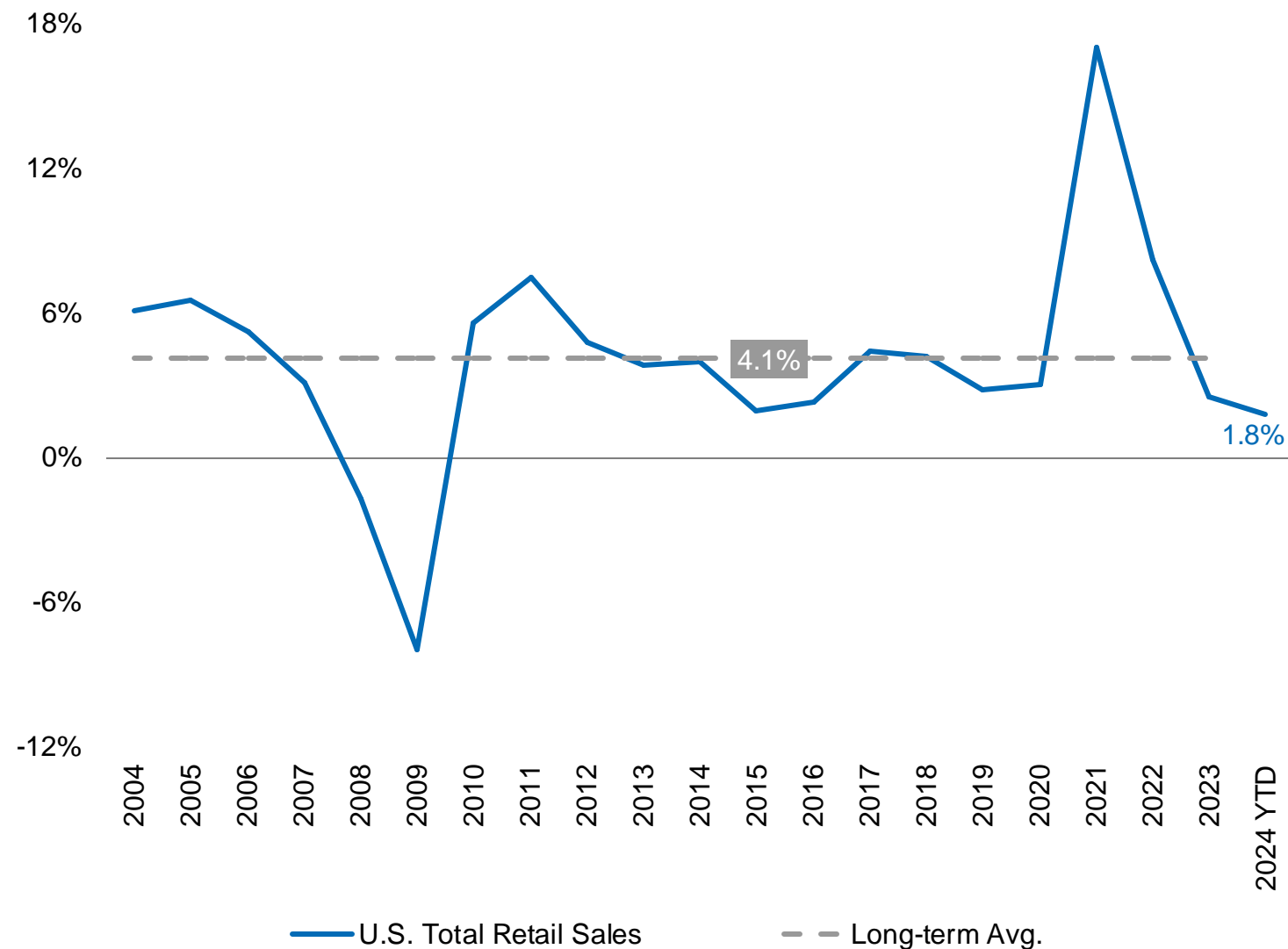
What Tends to Happen During a Coastal Port Strike

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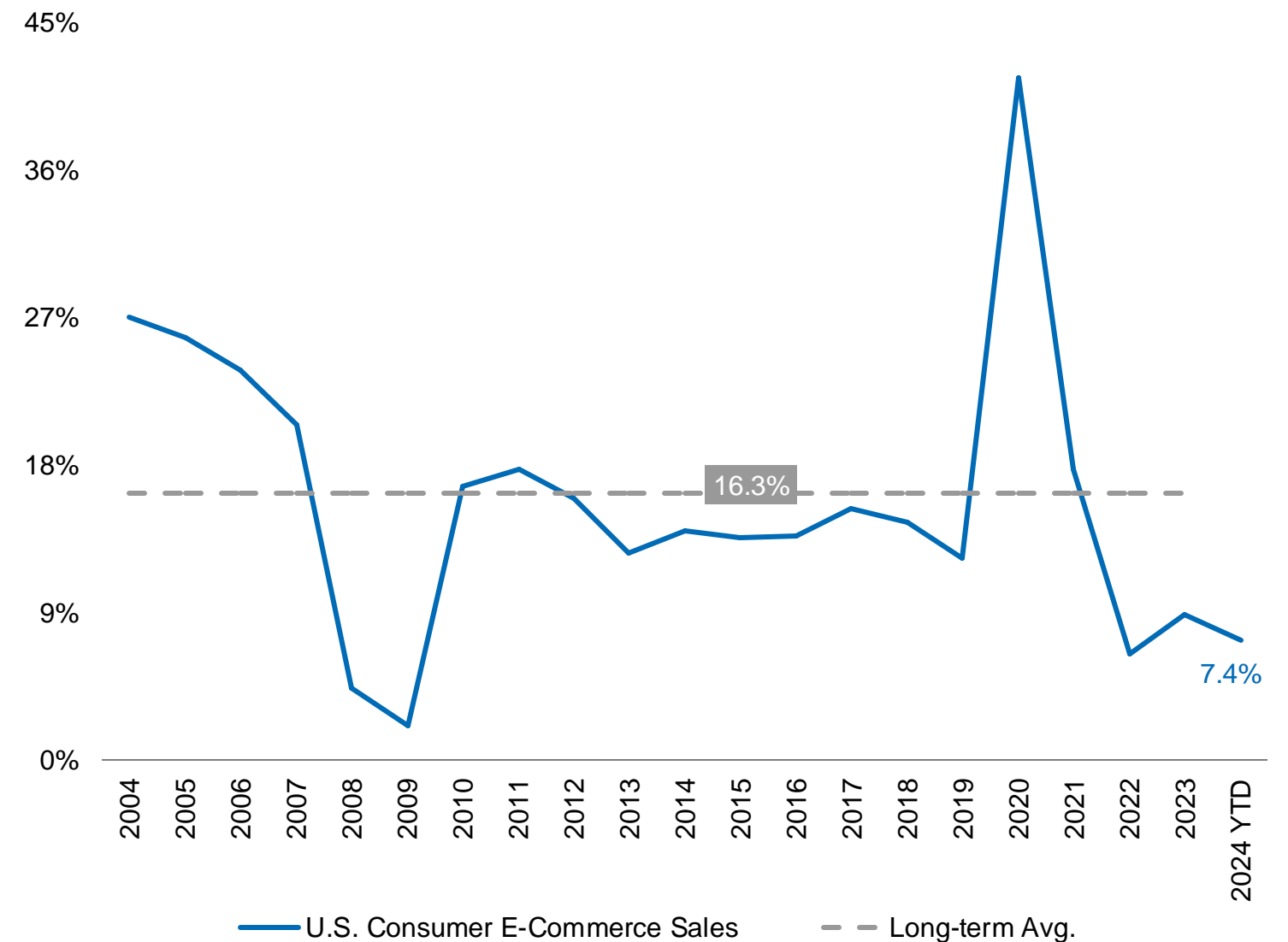
Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

Consumer e-commerce sales were up 7.4% in the first half of 2024 compared with the same period in 2023. Although e-commerce sales growth exceeded total retail sales (+1.8% over the same period), the decline from 2021 onward is noticeable as consumer spending registers slower gains.

U.S. Overall 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: 2024 YTD annual growth represents the change in sales from the first six months of 2023 to the same period in 2024.

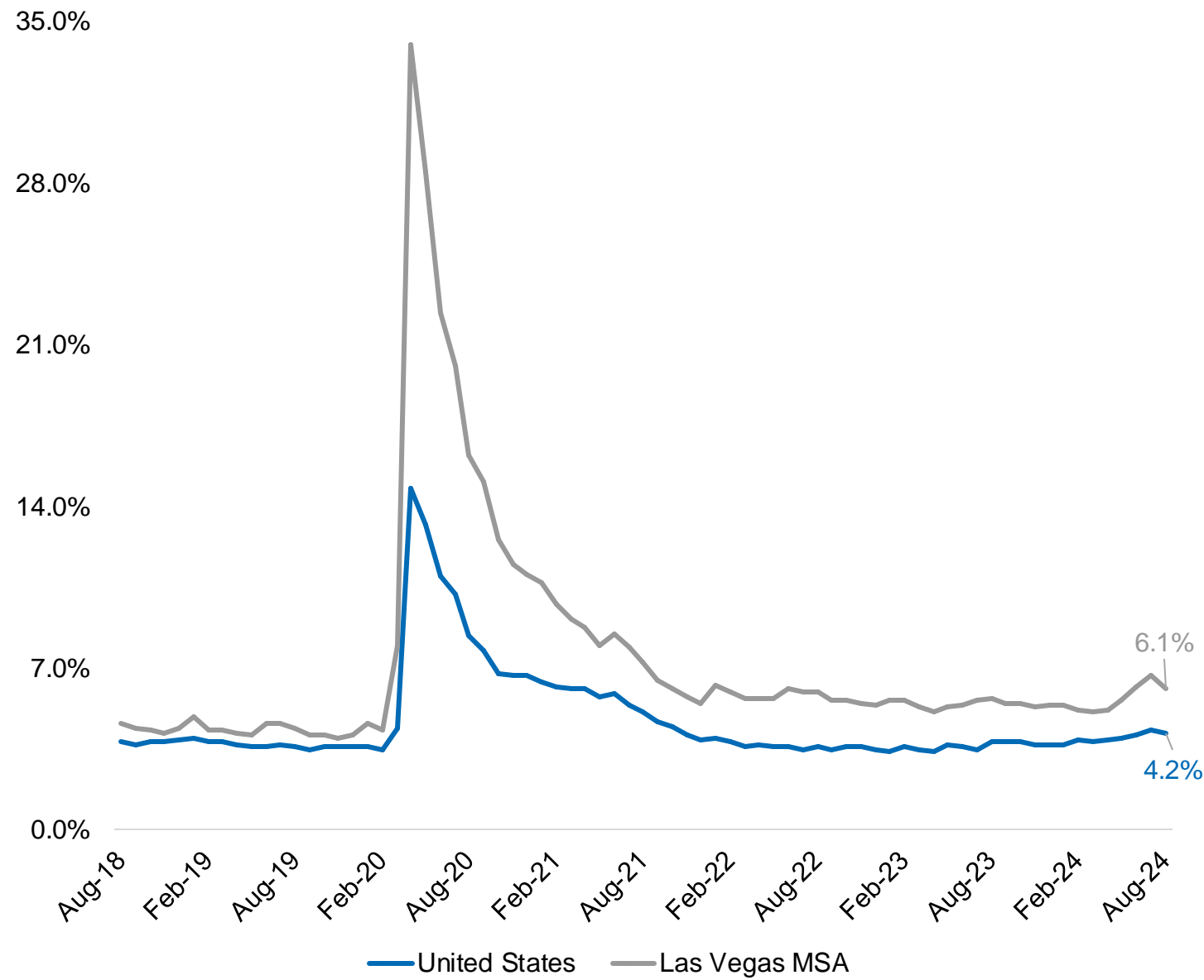
The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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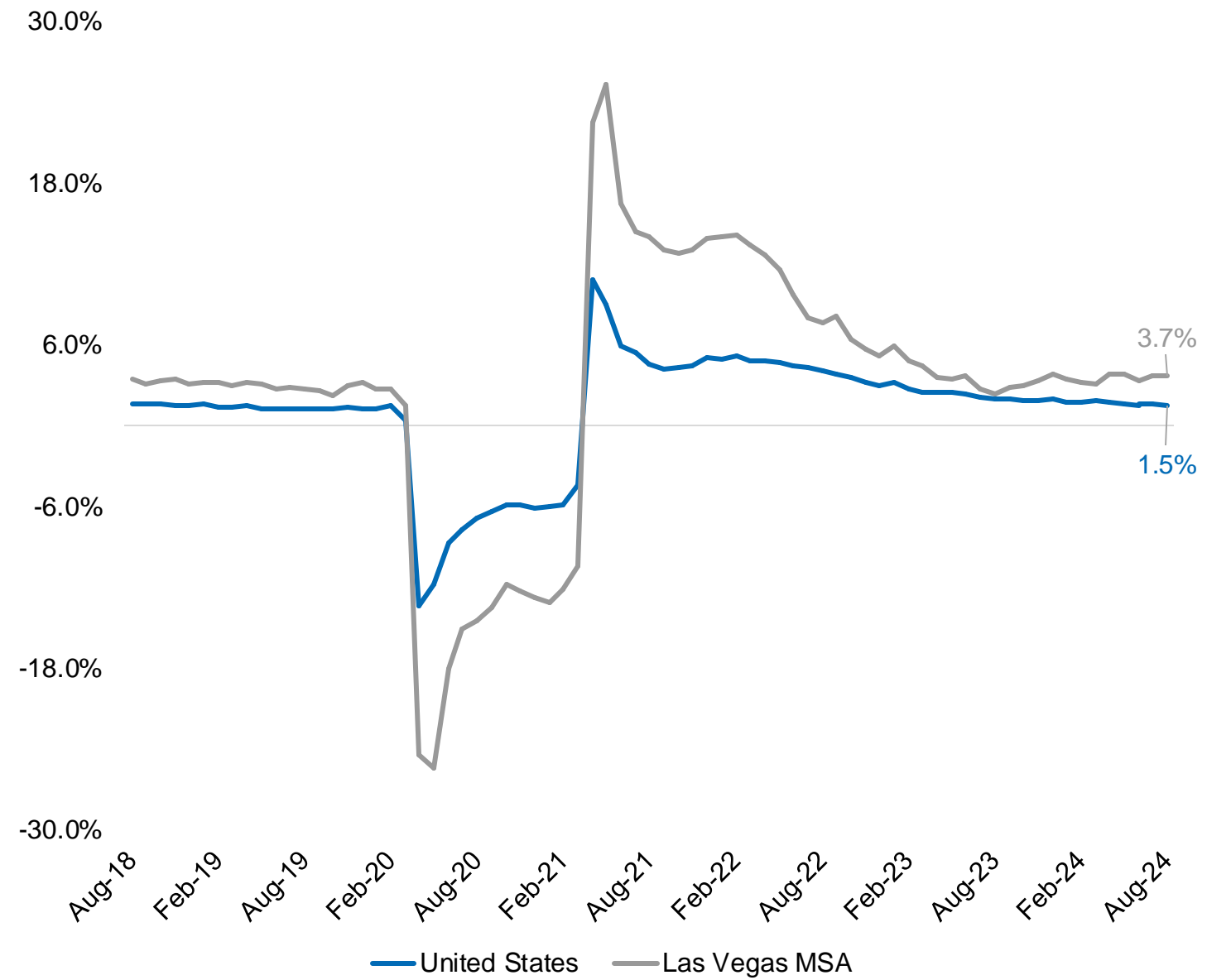
Las Vegas Job Gains: Stronger than the Nation

Local nonfarm employment grew by 4.0% on an annual basis from August 2023 to August 2024, vastly exceeding the U.S.' average. Much of this can be linked to local population growth, along with Nevada's lower business costs and less regulation relative to the Southwest's coastal markets.

Unemployment Rate, Seasonally Adjusted



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



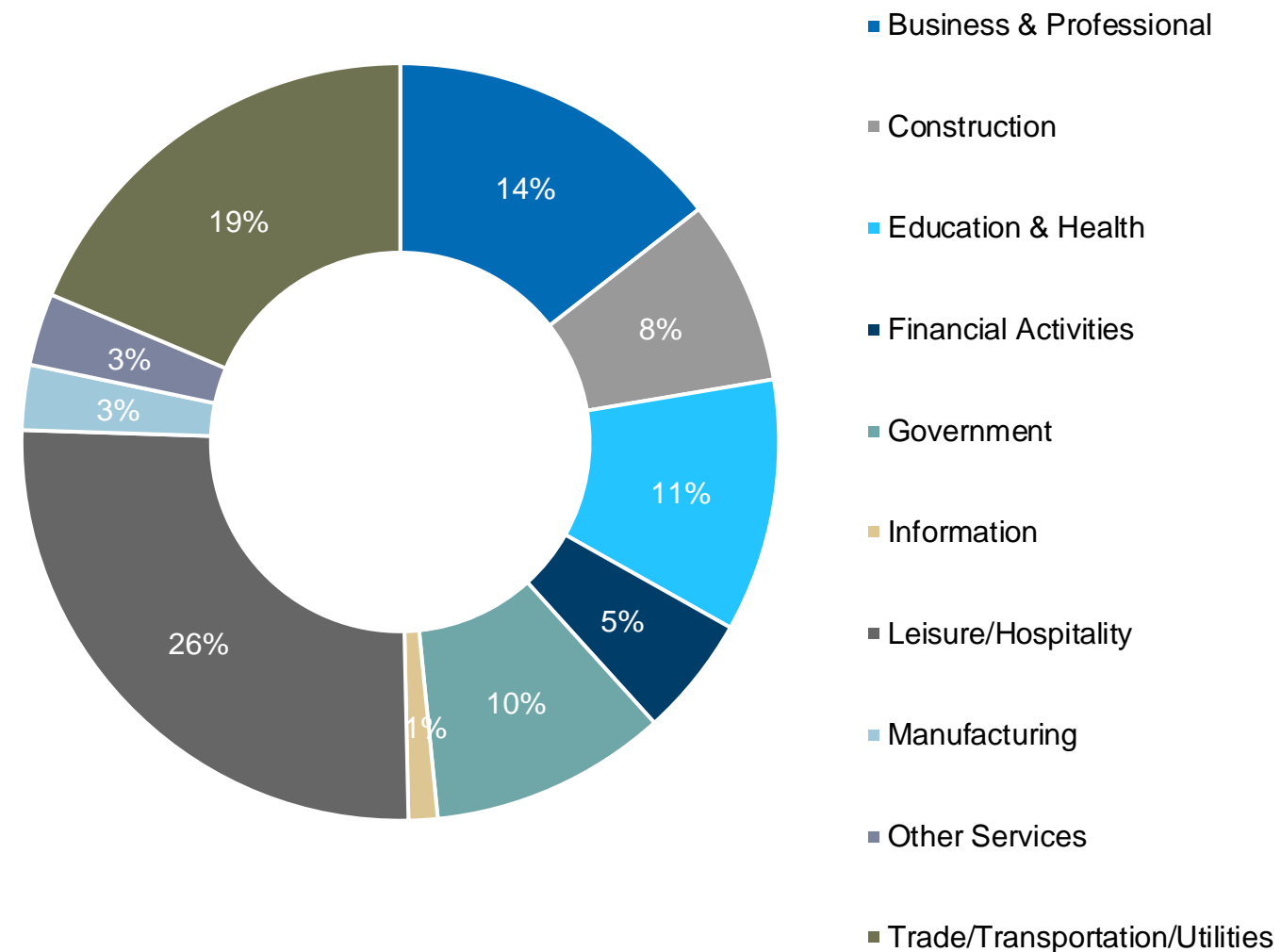
Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

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.

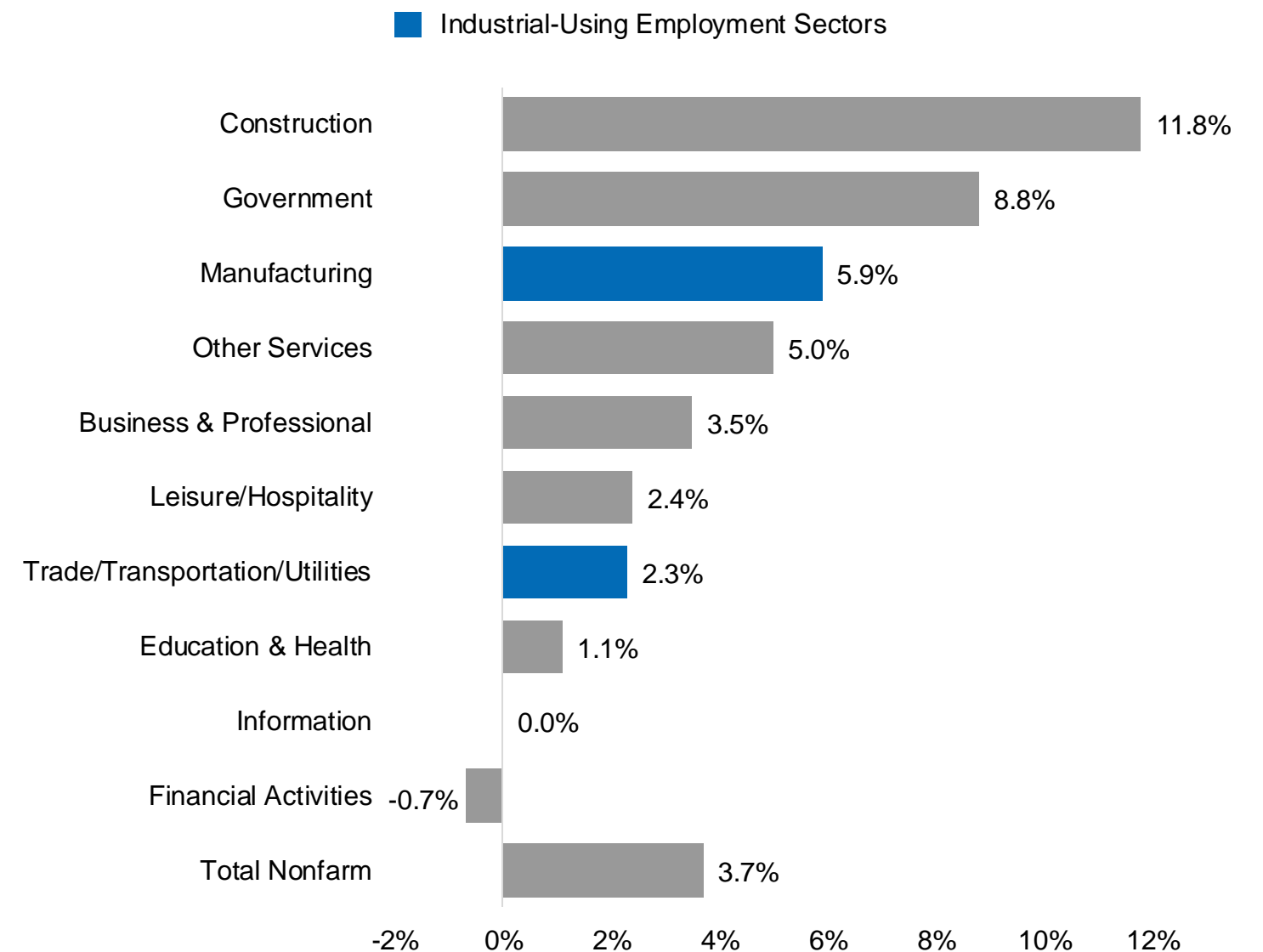
A Growing Population is Driving Employment Growth in a Myriad of Sectors

Leisure/hospitality continues to be the dominant sector, comprising 25.8% 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.

Employment by Industry, August 2024



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

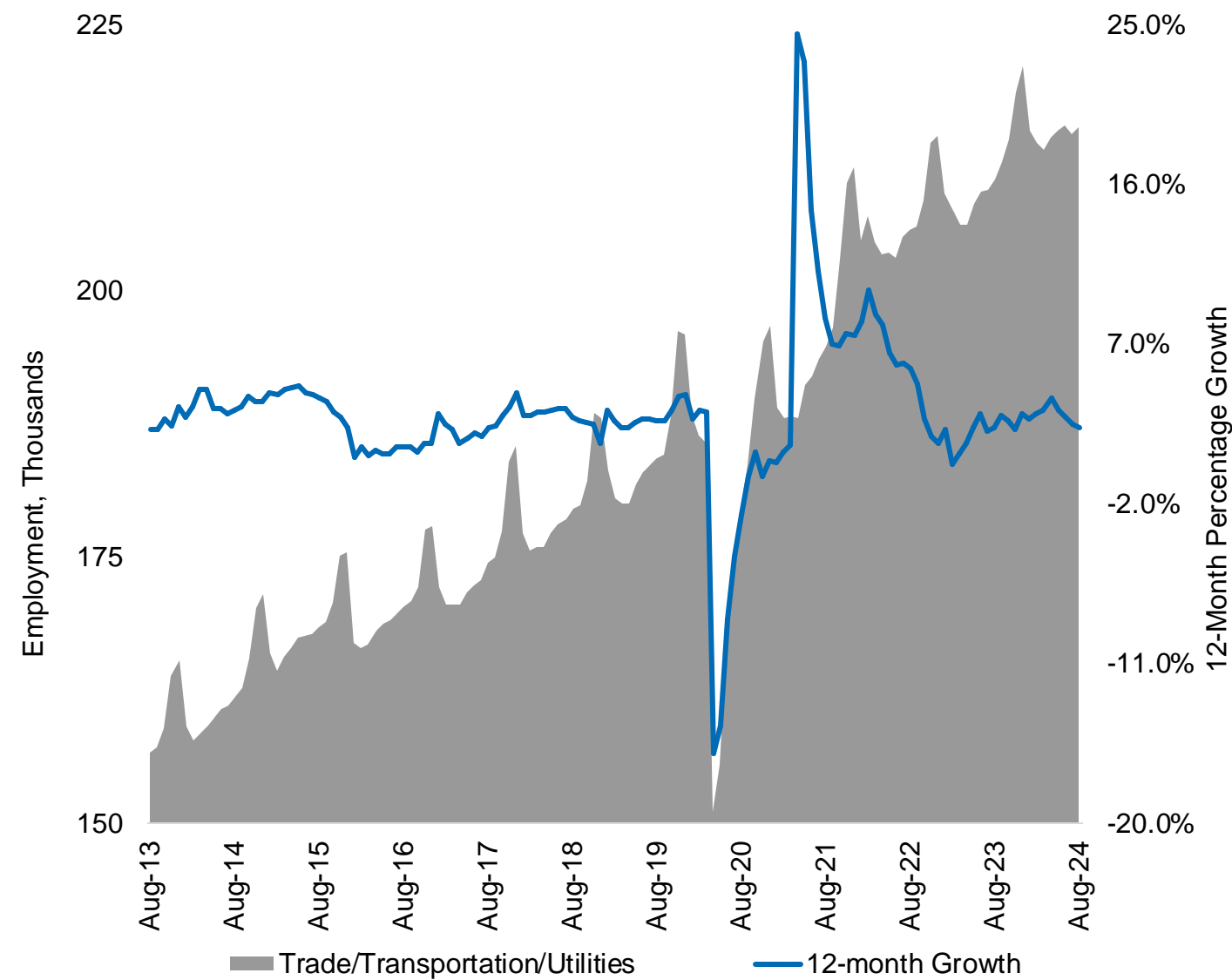


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

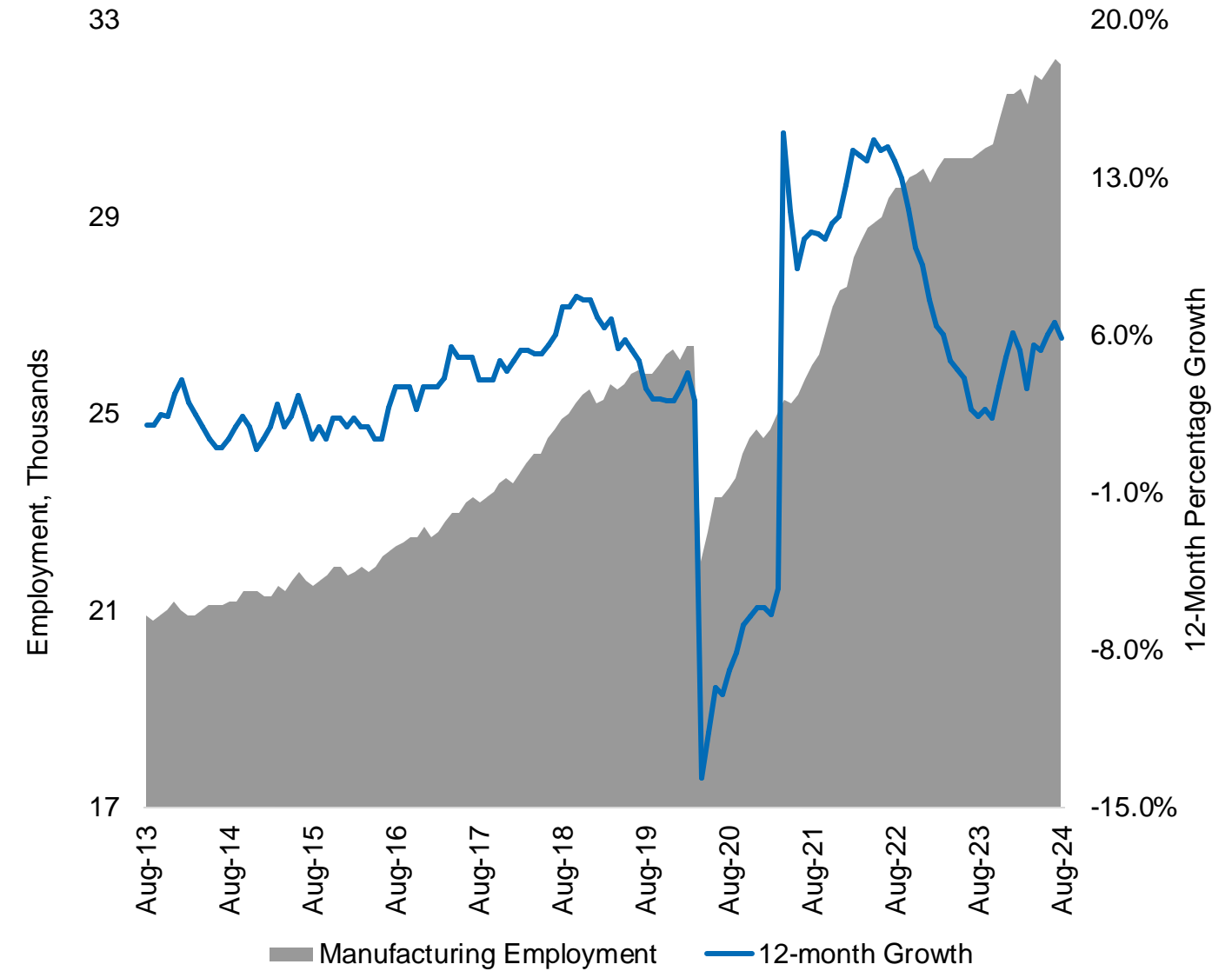
Seasonal Volatility Aside, Industrial Employment is Stronger Than Ever

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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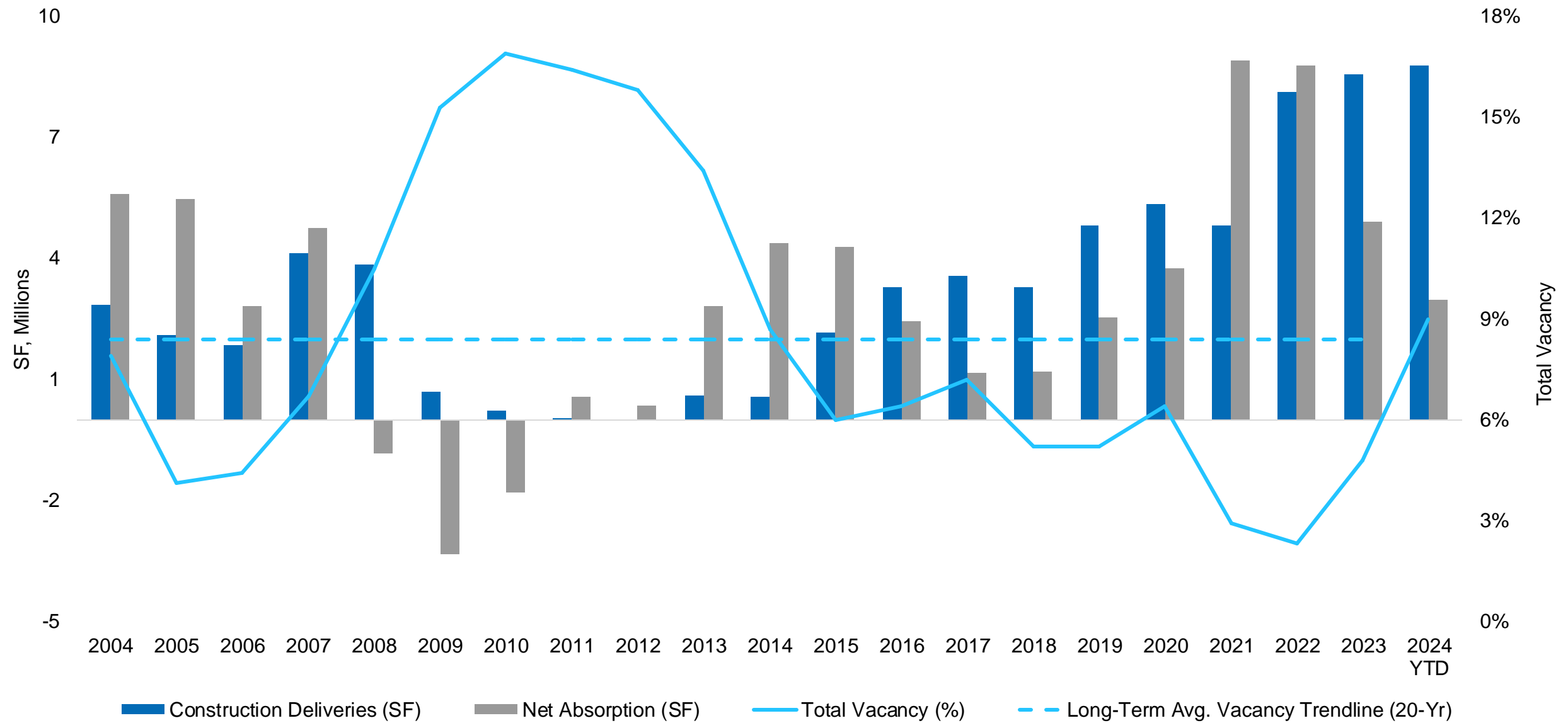
Leasing Market Fundamentals



Vacancy Rose After Construction Deliveries Were Met With Faint Net Absorption

This quarter, 349,119 SF in net absorption gains were met with 1.7 MSF in construction deliveries, causing vacancy to rise to 9.0%. On a year-to-date basis, net absorption totaled 3.0 MSF while new supply accounted for 8.8 MSF. A slow-growth economy, coupled with 8.7 MSF in under construction space, will lead to even higher vacancy as new supply delivers and continues to eclipse net absorption.

Historical Construction Deliveries, Net Absorption, and Vacancy

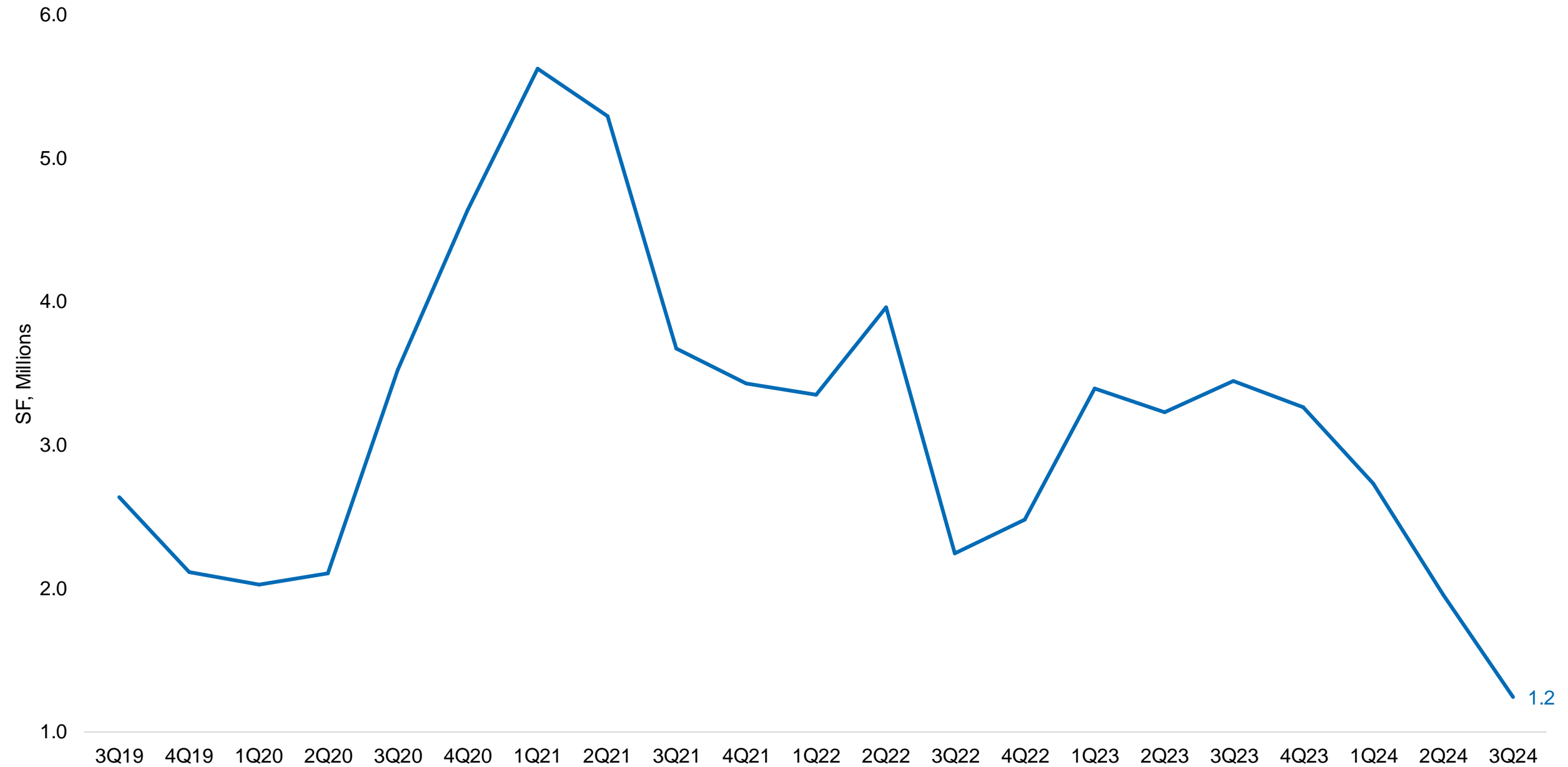


Source: Newmark Research

Leasing Activity Continues to Decrease

Volume this quarter was on par with late 2009, a trough year following the Global Financial Crisis. 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)

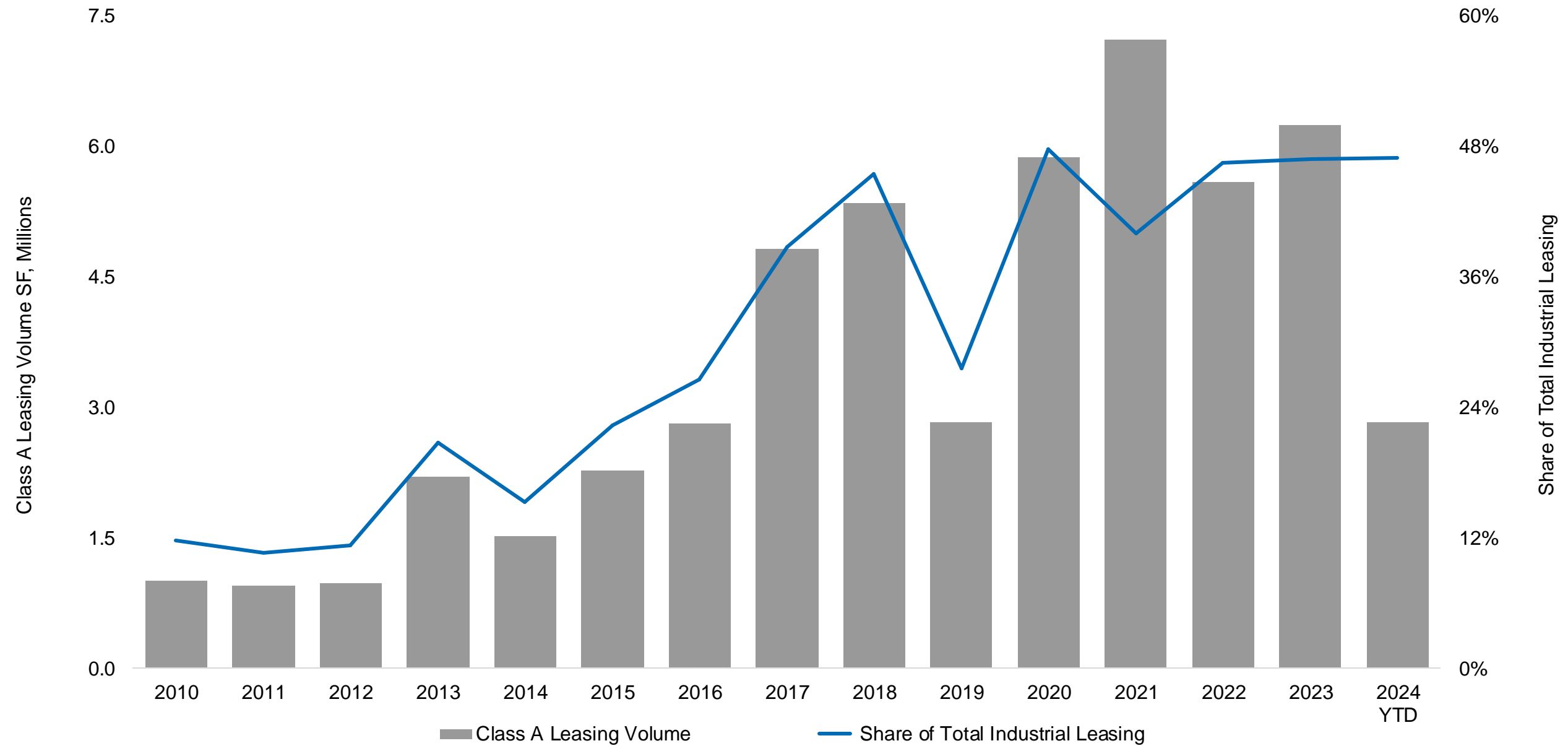


Source: Newmark Research, CoStar

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

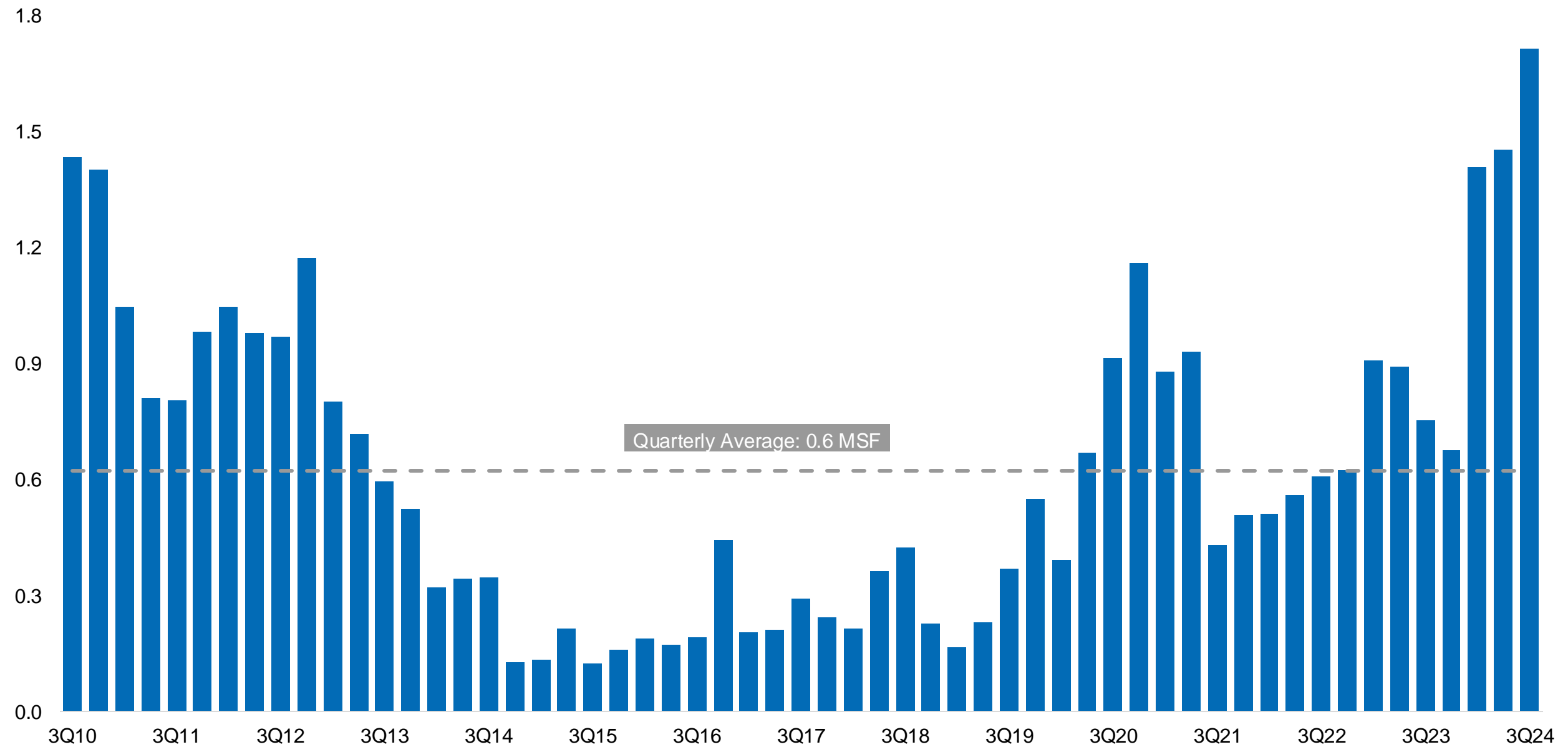


Source: Newmark Research, CoStar
 Note: Class A is defined as 100,000+ SF, 30'+ minimum interior ceiling height and constructed since 2000.

Sublease Space Climbed to a Record High

Geodis Logistics (199,840 SF), Nutrition Corp (171,083 SF) and ShipMonk (76,035 SF) are a sampling of companies that have listed sublease space this year. The sublet pool will fluctuate in the quarters ahead as cost-cutting measures from some occupiers are counterbalanced with the progressive leasing of desirable sublet offerings.

Available Industrial Sublease Volume (MSF)

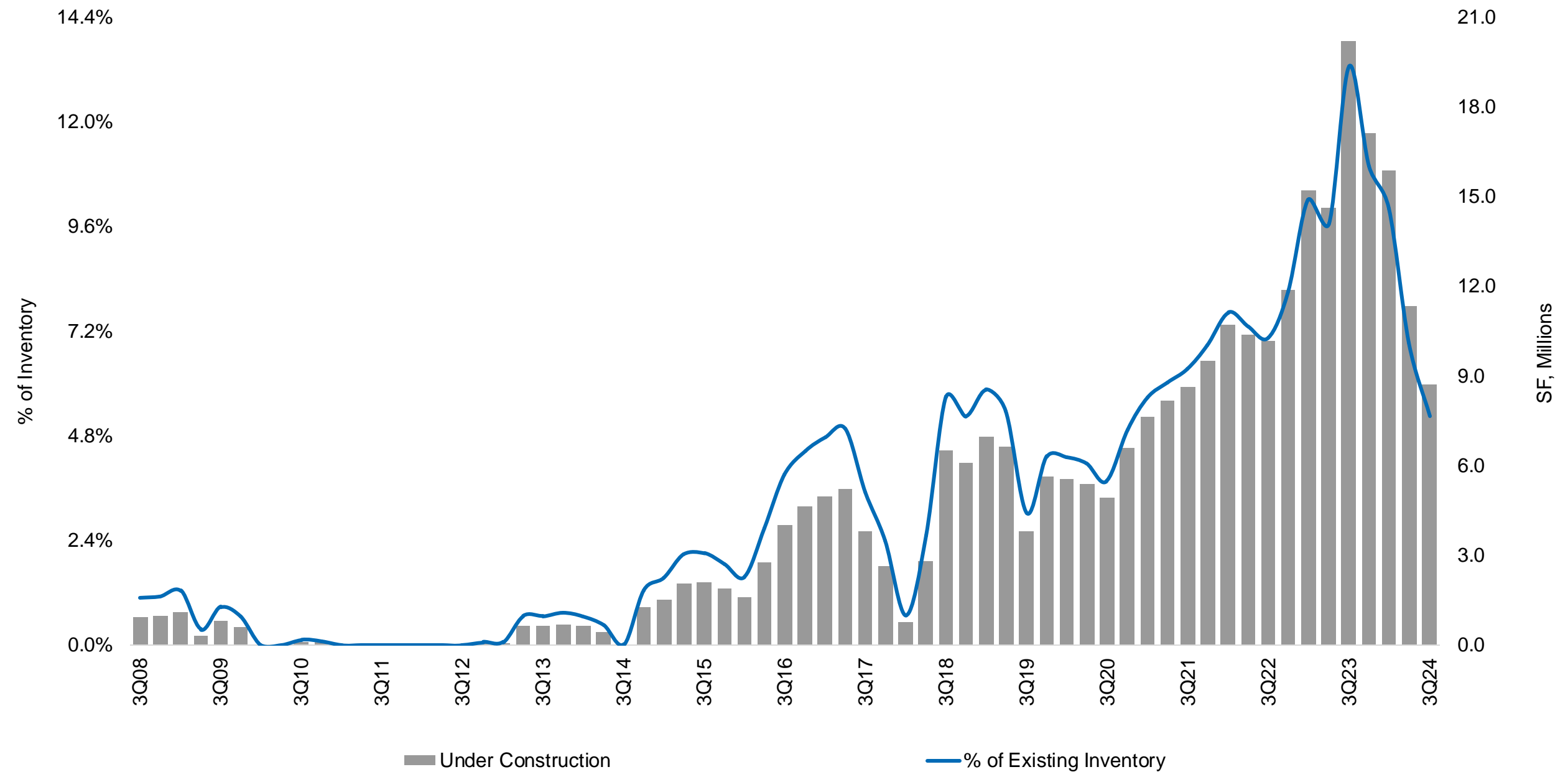


Source: Newmark Research

Industrial Supply Pipeline Cools as Construction Starts Decrease

Rising vacancy, new supply set to come online, slower leasing activity 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

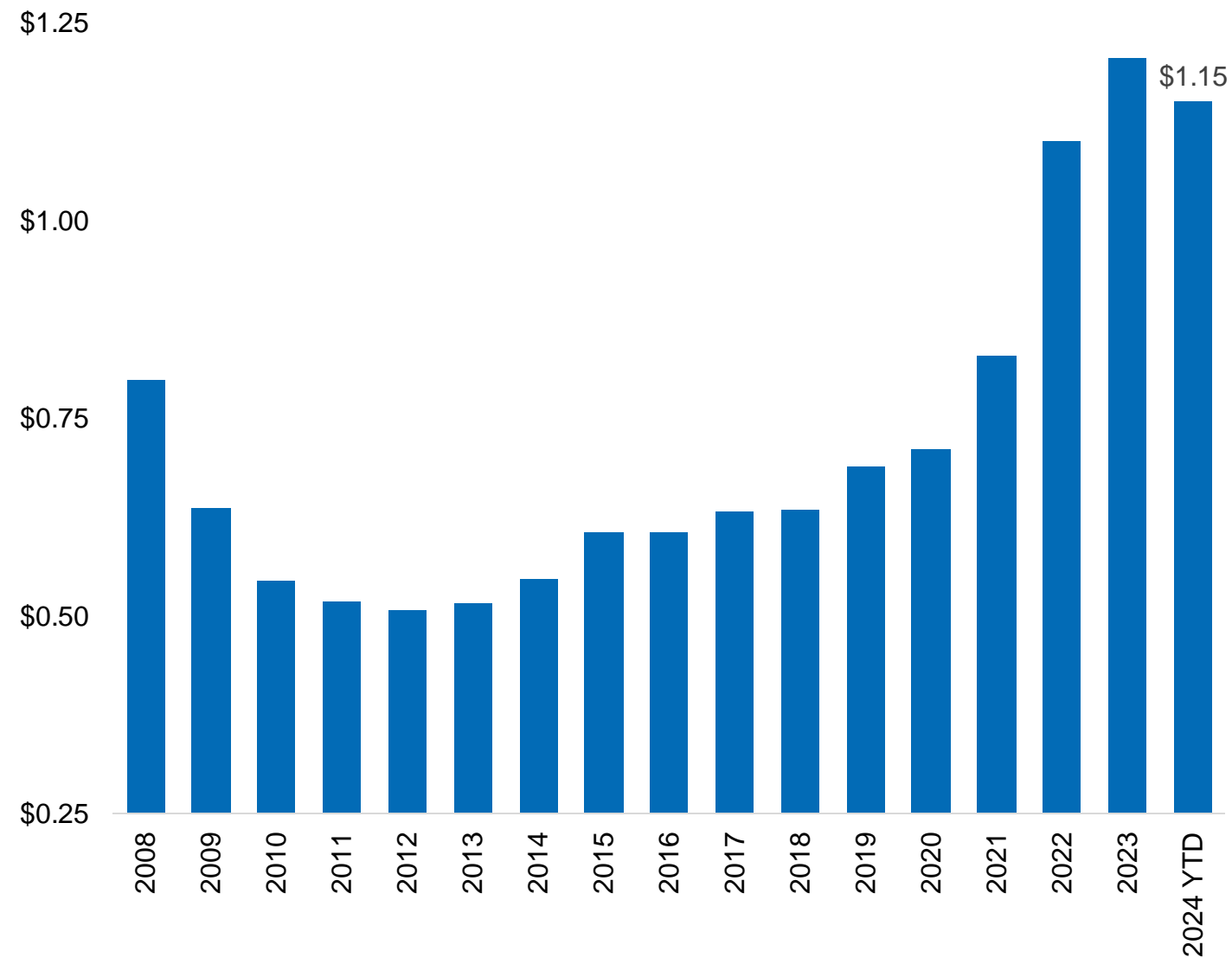


Source: Newmark Research

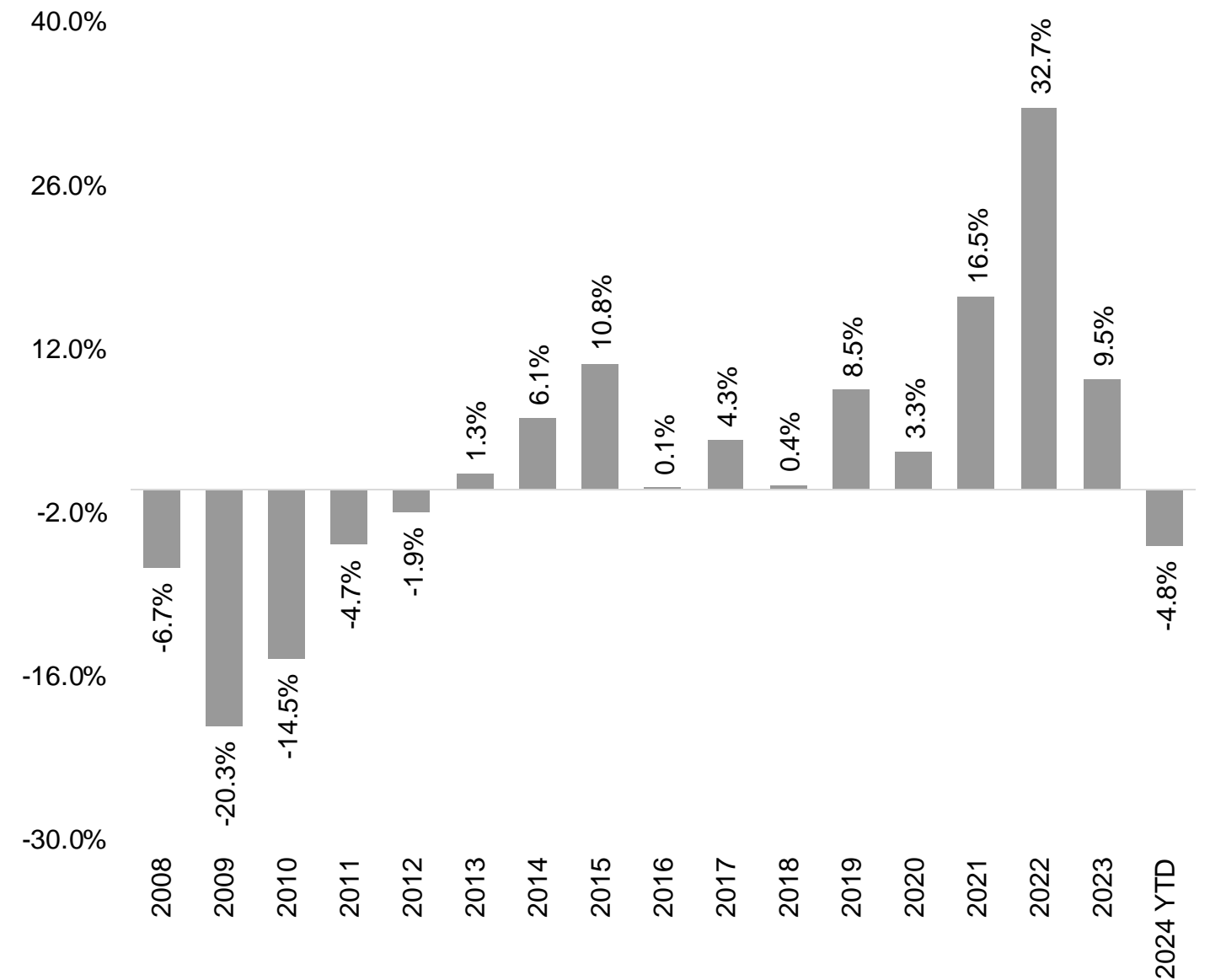
Direct Asking Rents are Trending Down

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%). Direct rents are now decreasing as new construction deliveries vacant and sublease space – offered at discounted rents – climbs.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

Notable 3Q24 Lease Transactions

Leasing activity continues to be concentrated in modern-gen buildings, predominantly in the North Las Vegas submarket where 44.8% of the region's existing inventory is.

Select Lease Transactions

| Tenant | Building | Submarket | Type | Square Feet |
|--|--------------------------------------|-----------------|-------------------|-------------|
| Your Logistics Corp | SunPoint West, Bldg. 5 | North Las Vegas | Direct | 138,246 |
| <i>The tenant will be the sole occupant of the building, which was built in 2022. ShipMonk was the prior tenant.</i> | | | | |
| TemperPack | Craig Distribution Center | North Las Vegas | Renewal | 135,250 |
| <i>The tenant signed a six-year renewal that will commence in December 2025.</i> | | | | |
| Fuse Technical Group | Prologis Beltway Distribution Center | Southwest | Renewal/Expansion | 105,719 |
| <i>The tenant expanded by 41,808 SF.</i> | | | | |
| GPI Beauty | Cartier Industrial Center | North Las Vegas | Direct | 74,700 |
| <i>A 74,700-SF facility built this year; the tenant will be the sole occupant.</i> | | | | |
| Lee Olson IT | Arroyo Beltway Commercenter, Bldg. 1 | Southwest | Direct | 40,455 |
| <i>The first tenant of a 130,530-SF building that recently delivered.</i> | | | | |

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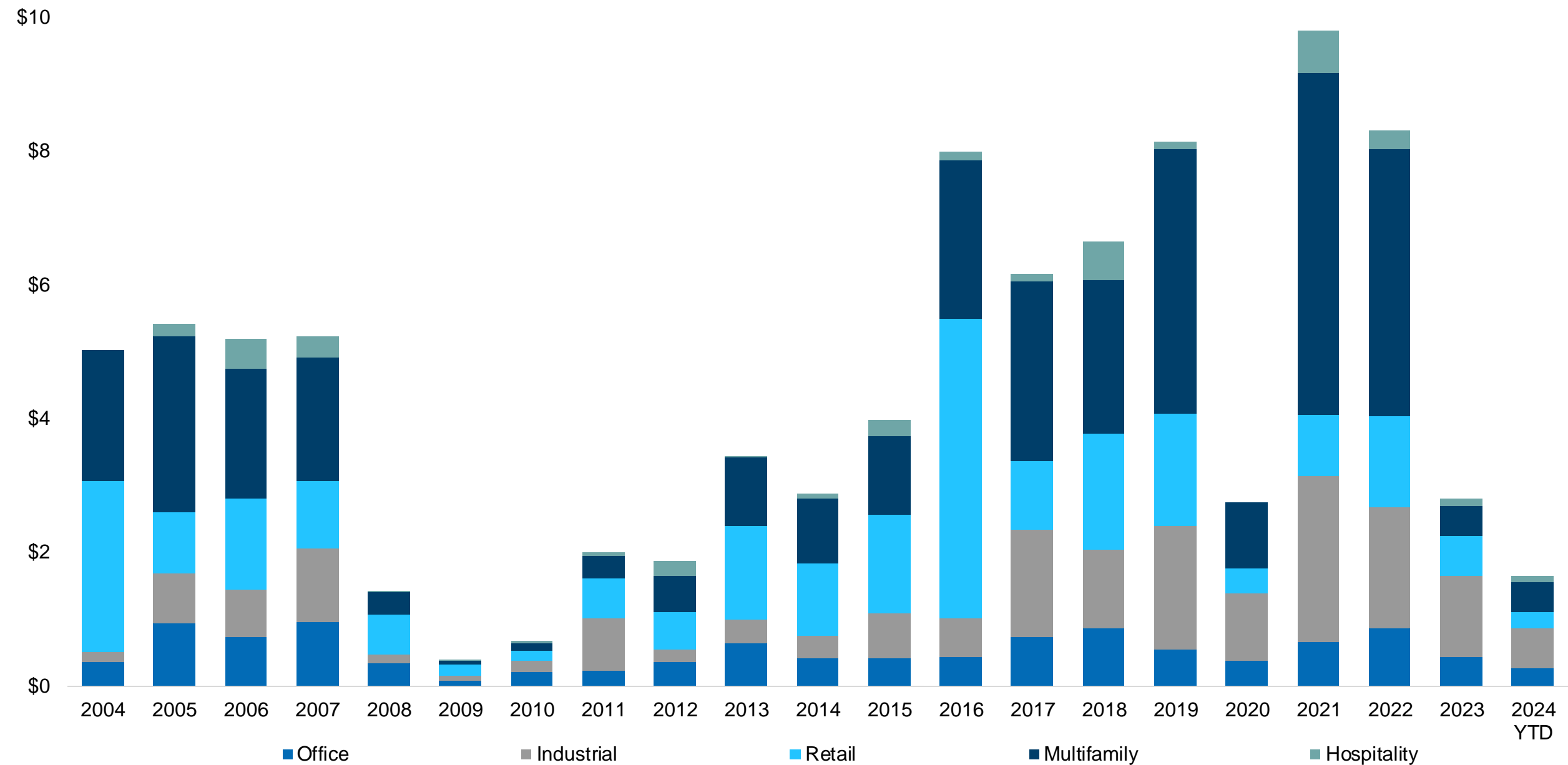
Sales Activity



Industrial Comprised 37% of Total Sales Volume in the First Nine Months of 2024

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)

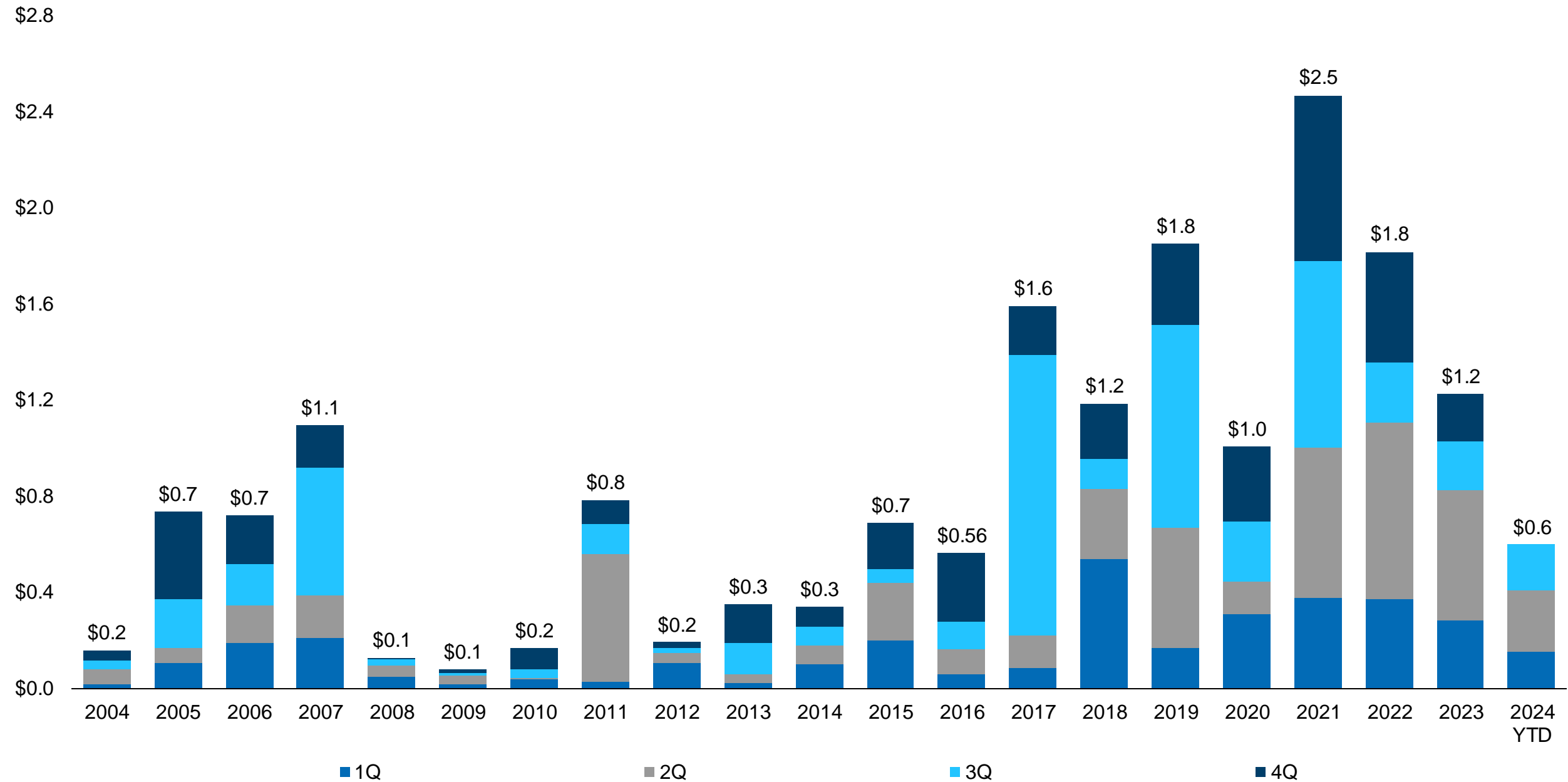


Source: Newmark Research, MSCI Real Capital Analytics
 Note: Preliminary data is cited for the third quarter of 2024.

Industrial Sales Volume: Up Close

Industrial sales volume totaled \$597.8 million in the first nine months of 2024, down 41.9% from the same period in 2023. The higher cost of capital following multiple interest rate hikes from March 2022 to July 2023 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 third quarter of 2024.

Private and REIT/Listed Buyers Are Active

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Appendix



Las Vegas Industrial Submarket Map and High-Level Statistics | 3Q24



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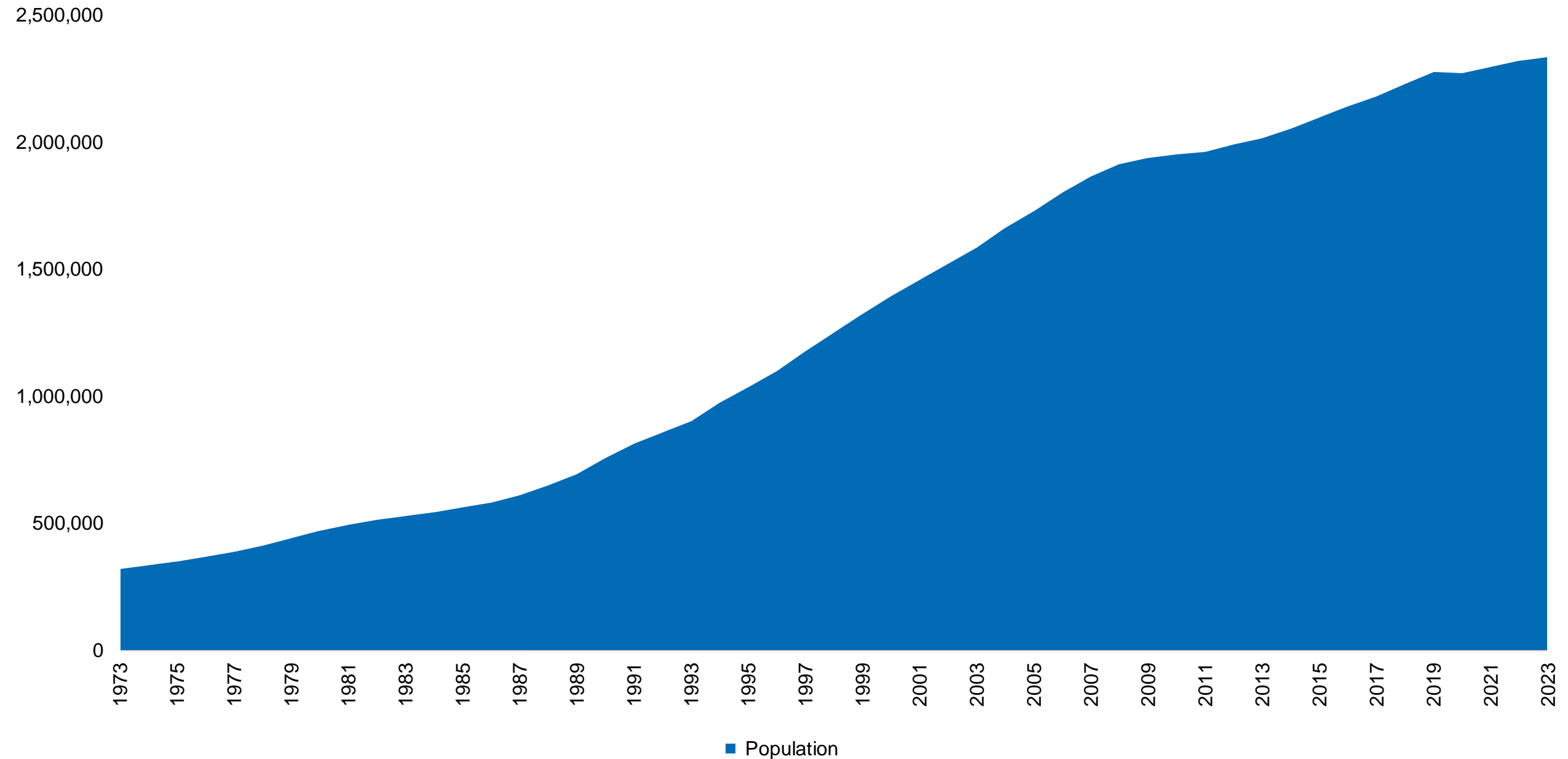


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Metro's Population Has Grown by 7.3x over Five Decades

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

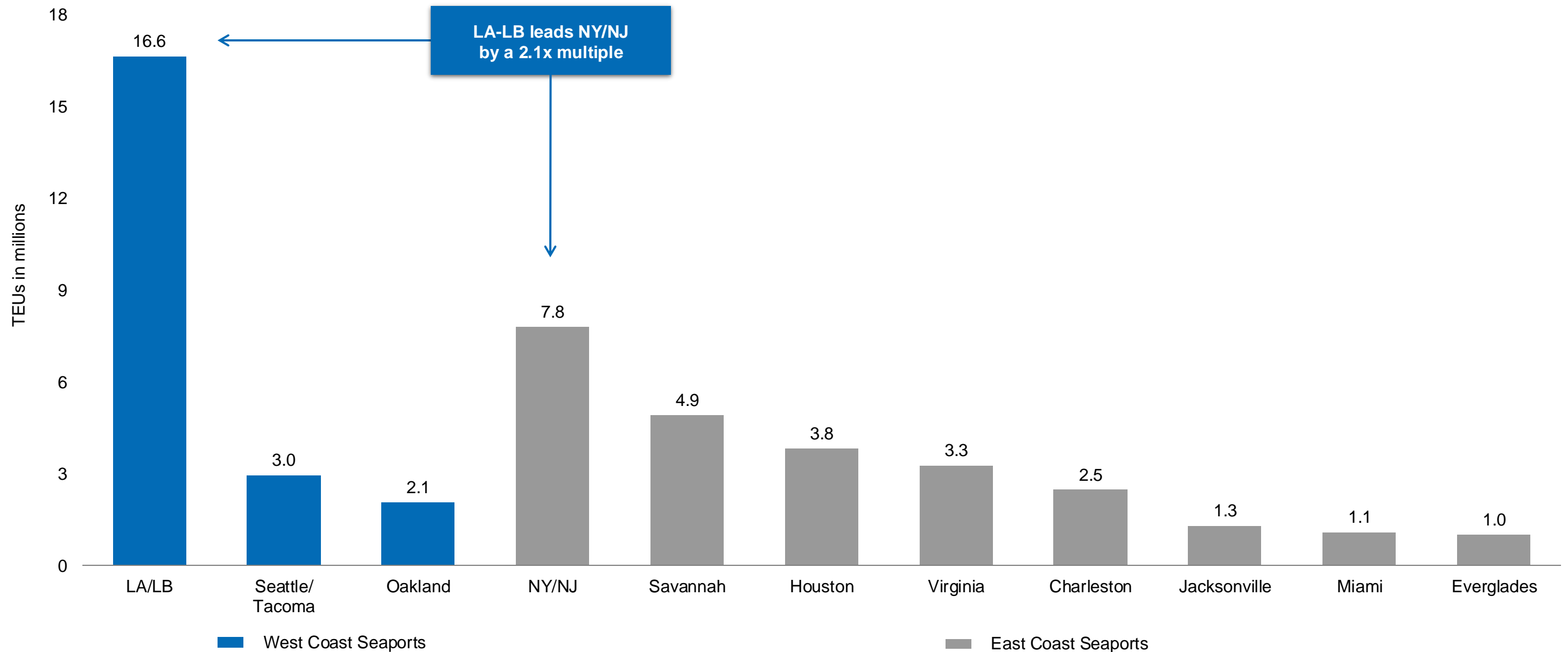


Source: Newmark Research, U.S. Census Bureau, Moody's Analytics

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: 2023 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

Please reach out to your
Newmark business contact for this information

For more information:

Dain Fedora

*Head of Research
Southwest*

dain.fedora@nmrk.com

Amelia Yates

*Research Manager
Las Vegas, Phoenix, SLC*

amelia.yates@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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