Transaction activity tapers to end the year as deals continue to stockpile due to limited supply

▲ 4.1%	▼ 598,889	▲ 4.4M	▼ $5.44	▲ 7.3%
Vacancy Rate	SF Net Absorption	SF Under Construction	NNN / Lease Rate	Availability Rate

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- The construction pipeline in the Dayton industrial market swelled to nearly 4.4 million sq. ft. despite over 584K sq. ft. of completions in the final quarter of 2022.
- The Dayton industrial market experienced a stall in new construction to end the year, however a strong pipeline of transactions is on the horizon as projects begin to deliver much needed vacancy.
- Vacancy decreased 50 bps year-over-year with a 3.7% overall vacancy rate in 2022. Availability increased 50 bps year-over-year with a 6.2% overall availability rate in 2022.
- The average lease rate measured at $5.21 per sq. ft. for the entire calendar year. This represents a $0.42 per sq. ft. increase from 2021.
- Tenants such as TJX, Legrand, Amazon, Spectra, Mattress Firm, Sunstar Engineering, and Komyo should kick off the new year with a hot start.

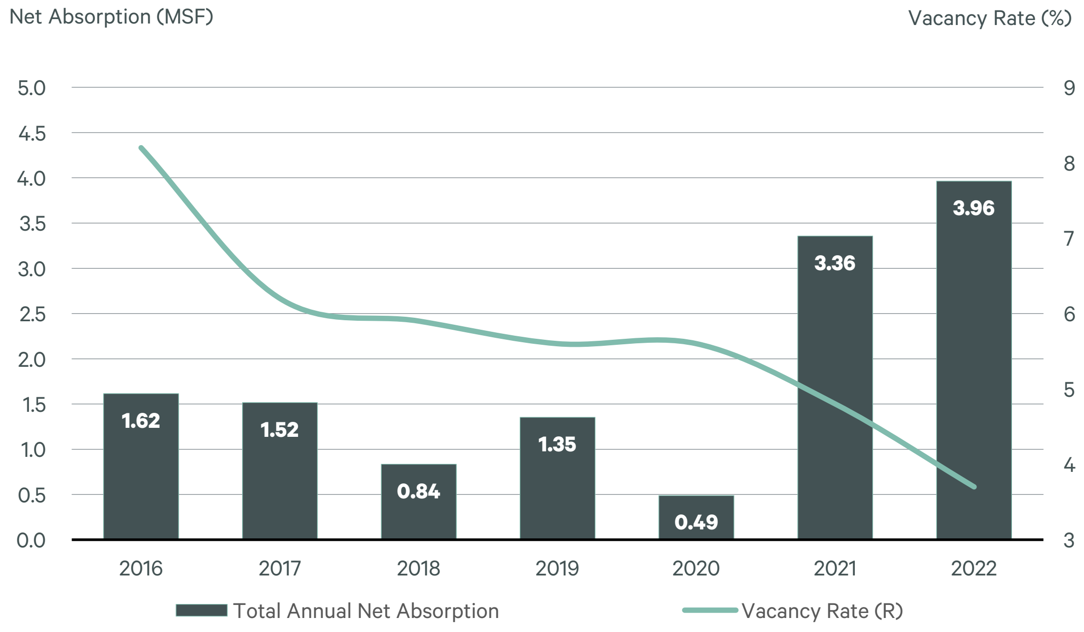
FIGURE 1: Under Construction vs. Construction Completions

Source: CBRE Research, Q4 2022

Leasing Activity Overview

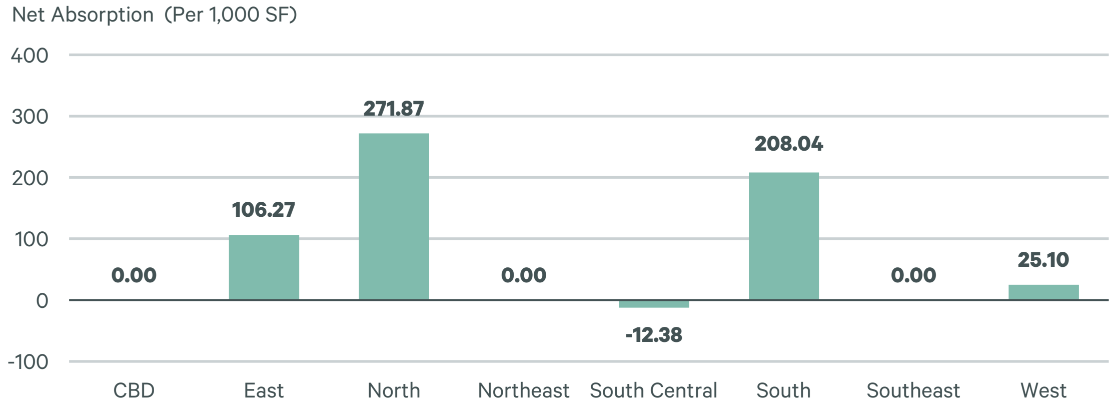
In the third and fourth quarters of 2022, the new construction slated to be completed in the Dayton industrial market lost momentum. However, with several large transactions forecasted to be completed in the first half of 2023, we expect the new construction being delivered to become occupied quickly. Nearly 600K sq. ft. of net absorption was recorded in Q4 2022. The North submarket recorded the most positive net absorption with roughly 272K sq. ft. with the South, East and West submarkets also contributing. The largest new lease this quarter was by Daikin who occupied their 172K sq. ft build-to-suit at 3265 Logistics Lane in the North submarket. Other notable deals include NSI's new lease at 283 Sharts Road, Accelevation's new lease at 511 Byers Road, and The Connor Group's sale at 3001 W Tech Boulevard.

FIGURE 2: Net Absorption vs. Vacancy Rate



Source: CBRE Research, Q4 2022

FIGURE 3: Net Absorption by Submarket



Source: CBRE Research, Q4 2022

FIGURE 4: Key Transactions

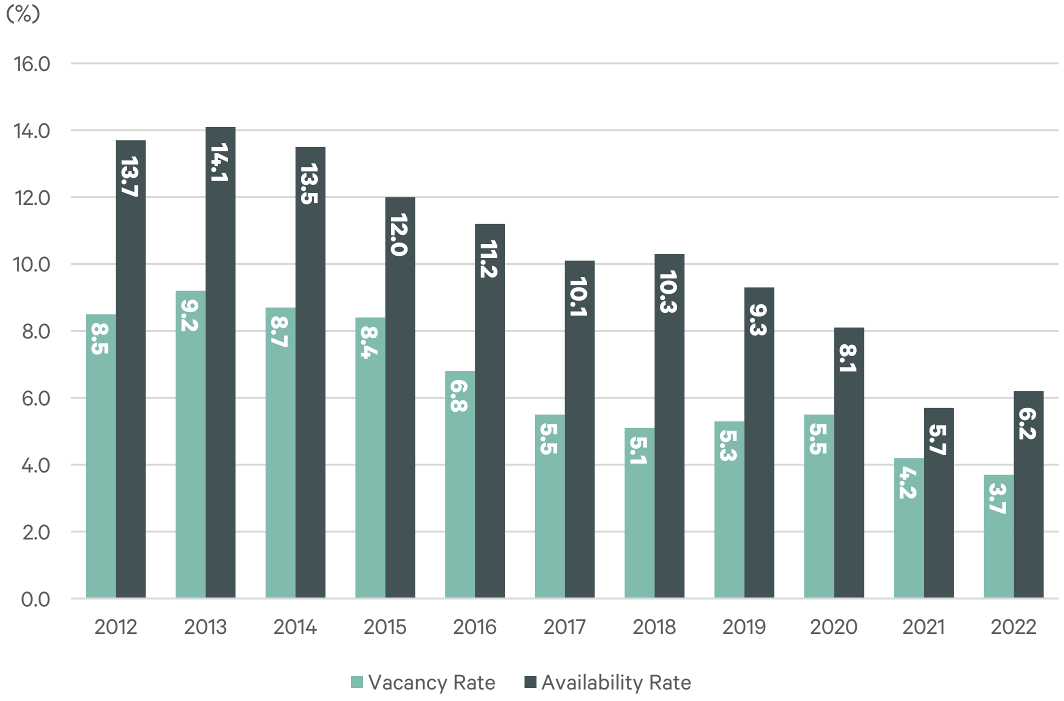
Transaction Type	Tenant / Buyer	Sq. Ft.	Building / Address	Submarket
New Lease	Daikin	172,402	3265 Logistics Lane	North
New Lease	NSI	87,000	283 Sharts Road	East
New Lease	Accelevation	75,680	511 Byers Road	South
Sale	The Connor Group	72,357	3001 W Tech Boulevard	South
Sale	Scott Steel	50,000	1314 Webster Street	North
New Lease	Invotec, Inc.	34,000	2056 Byers Road	South
New Lease	L&W Supply	30,366	3345 Stop Eight	North
New Lease	Kongsberg	26,000	1983 Byers Road	South

Source: CBRE Research, Q4 2022

Vacancy and Availability Rates

Vacancy decreased 50 bps year-over-year and availability increased 50 bps year-over-year. With the broader macroeconomy slowing and a record amount of industrial space in the supply pipeline, we saw availability begin to increase from lows toward the end of 2022 and into 2023. Opportunity for new development just north of Cincinnati is also driving more activity toward the Dayton market. In addition, E-commerce growth, supply chain transformation, and location optimization will continue to drive demand for industrial space in the immediate future.

FIGURE 5: Vacancy vs. Availability Rates

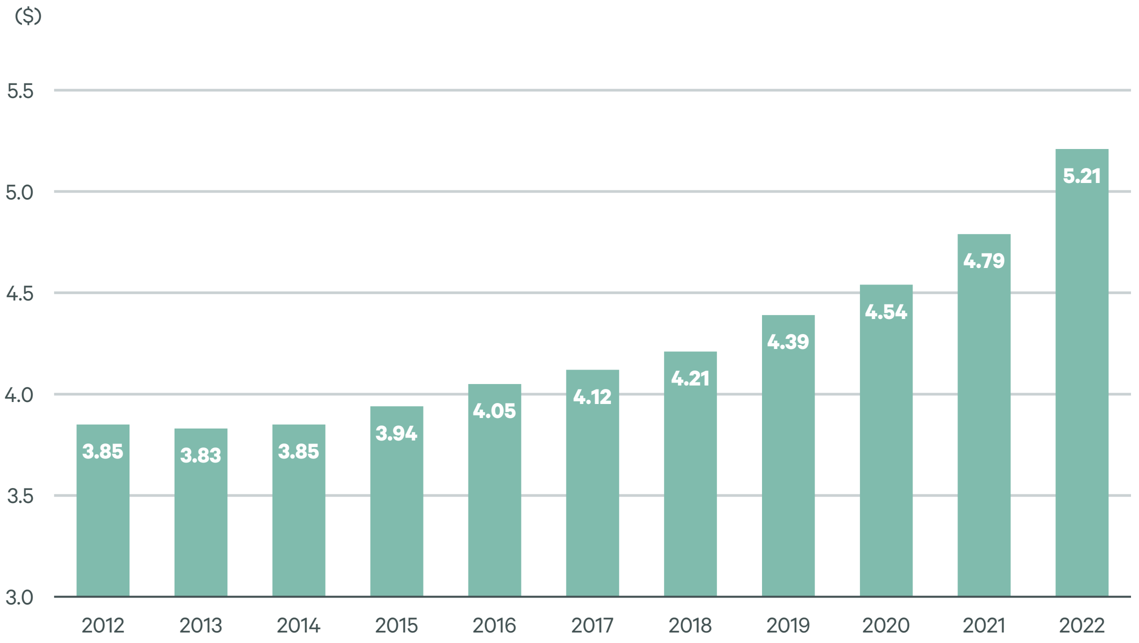


Source: CBRE Research, Q4 2022

Average Lease Rate

Despite an increase in availability, vacancy remains historically tight, which we have seen help support consistent rent growth. Lease rates remained steady throughout the Dayton industrial market to end the year with a $0.08 per sq. ft. decrease quarter-over-quarter. The average lease rate clocked in at $5.44 per sq. ft this quarter with an average of $5.21 per sq. ft. for the entire year. This represents a $0.42 per sq. ft. increase from the prior year.

FIGURE 6: Direct Average Lease Rate (NNN)



Source: CBRE Research, Q4 2022

Economic Overview

Everyone has been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates. Despite this good news, inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market.

Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary forecasts.

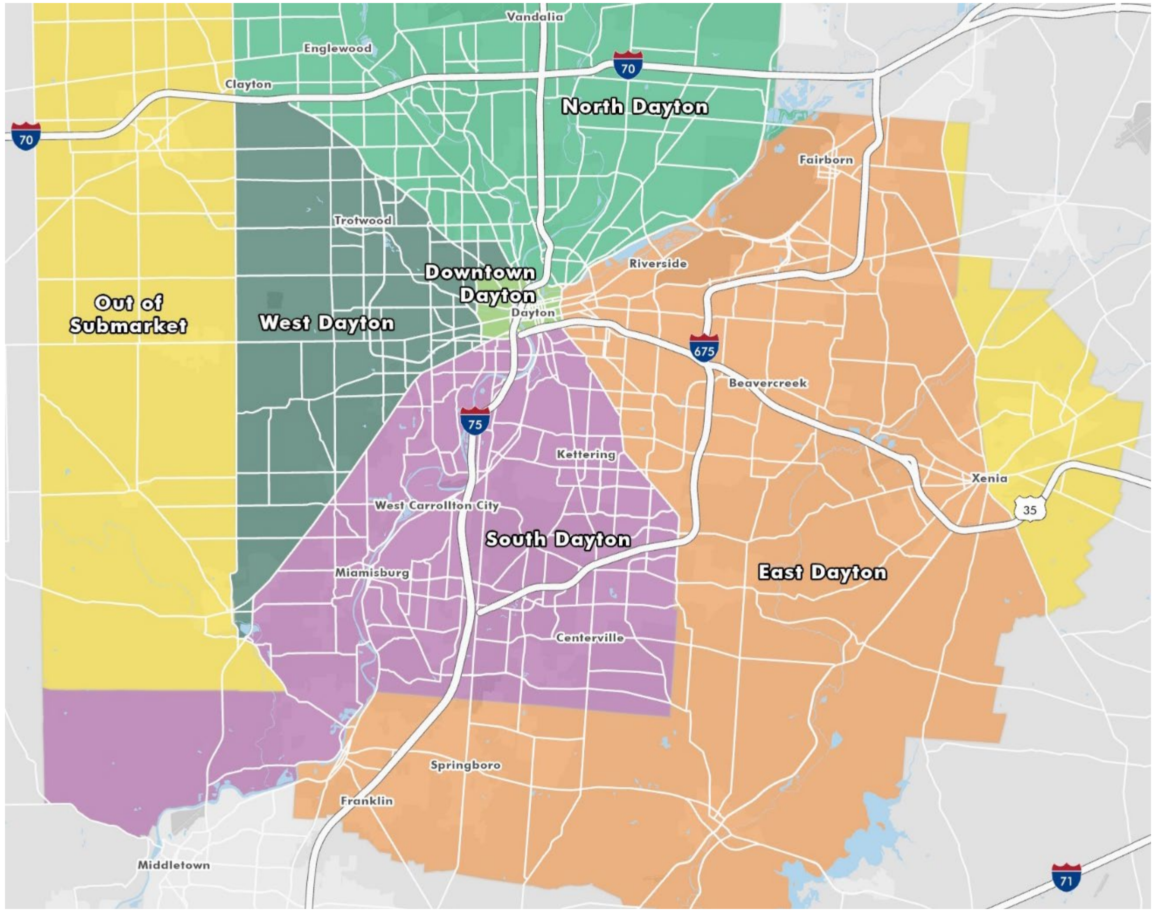
Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so optimistic. Data from Challenger, Gray & Christmas, Inc. shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in the first half of 2023.

FIGURE 7: Market Statistics

Submarket	Rentable Area (SF)	Construction Completions (SF)	Under Construction (SF)	Vacancy Rate (%)	Net Absorption Q4 2022	Net Absorption YTD	Direct Avg. Lease Rate ($/SF/YR)
CBD	6,852,158	-	10,000	2.2	-	2,000	4.54
East	8,830,237	-	-	2.2	106,267	247,782	5.61
North	48,833,079	524,160	4,034,542	4.8	271,868	2,543,628	4.29
Northeast	21,001,233	-	95,000	3.6	-	220,994	5.16
South Central	18,563,920	-	-	4.9	(12,378)	522,488	8.02
South	11,519,891	60,000	47,000	2.5	208,037	166,296	6.43
Southeast	3,497,427	-	-	10.1	-	235,194	7.20
West	4,580,618	-	-	1.0	25,095	25,095	5.72
Total	**123,678,563**	**584,160**	**4,386,542**	**4.1**	**598,889**	**3,963,477**	**5.44**

Source:. CBRE Research, Q4 2022

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the "drip line" of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in the Dayton market.

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