

## Industrial REITs

## Takeaways from BofA's 4Q23 Industrial market update with Avison Young

Industry Overview

**More normalization in 4Q; overall healthy mkt for REITs**

2023 was a solid year for Industrial real estate despite normalization from record years in 2021/22. Avison Young is tracking vacancy slightly above the historical trend at 6.9%, driven by elevated deliveries of big box space. The average REIT building is under 250K SF, where vacancy remains at or below historic levels. Net absorption remained positive throughout 2023 with solid demand from traditional drivers such as e-commerce and emerging demand from EV / battery production and the near-/onshoring.

**West Coast ports could benefit amid supply chain issues**

Avison Young highlighted multiyear structural shifts in supply chains which have benefited Eastern and Mexican ports over the West Coast. It is too early to quantify the Suez and Panama Canal disruptions. Less than 10% of container goods are routed to the US. BofA's transport team sees prolonged shipping disruptions and upcoming East Coast port labor negotiations in 2024 as potential near-term catalysts for a (see report) [shift for some imports back towards the West Coast](#) which is the shortest route. We believe REXR and PLD are positioned well to benefit in this scenario. We see low risk to EGP as its warehouses focus on last mile consumption rather than port-related activity. Maintain ratings on covered companies.

**Expecting a moderate start and strong finish to 2024**

Tours and pre-leasing interest is picking up in the first few weeks of January with more tenants expecting a soft landing. The sharp decline in new starts will create a significant lull in new deliveries for at least 18 months, which could translate to much stronger landlord pricing power and accelerated rent growth. This outlook is consistent with the latest readings from our leading indicator ([latest IndRel report here](#)) which has supported our similar view for accelerating demand starting in late Spring 2024.

**Fundamentals supportive of positive rent growth**

Avison Young is forecasting flat to slightly positive rent growth in 1H24 as elevated levels of under construction product delivers, with availability peaking in late Spring 2024. Regional leaders from CA, NY/NJ and Texas were most positive on rent growth within smaller infill spaces which we see as a positive for EGP and REXR.

**Supply risk is mitigated by high barriers to entry**

Key challenges to development: 1) financing costs remain elevated; 2) industrial construction costs are near record highs; 3) land prices remain near peak levels as most owners are not rushed to sell; and 4) entitlement process is slow with many municipalities pushing back against development such as in CA and NJ. Even if ground breakings increase in 1H24, it would still take at least 12-18 months to deliver. As a result, we see REITs with strong balance sheets, development programs and land banks as best positioned to benefit.

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Equity  
United States  
REITs

**Camille Bonnel** >>  
Research Analyst  
Merrill Lynch (Canada)  
+1 646 855 5042  
[camille.bonnel@bofa.com](mailto:camille.bonnel@bofa.com)

**Jeffrey Spector**  
Research Analyst  
BofAS  
+1 646 855 1363  
[jeff.spector@bofa.com](mailto:jeff.spector@bofa.com)

**Andrew Berger**  
Research Analyst  
BofAS  
[andrew.berger2@bofa.com](mailto:andrew.berger2@bofa.com)

**REITs Team**  
BofAS

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Key terms:

EGP: EastGroup Properties

EV: electric vehicles

IndRel: BofA Leading Industrial Real Estate Indicator

K = thousand

PLD: Prologis Inc

REXR: Rexford Industrial Realty

SF: square feet

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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**Exhibit 1: Stock Mentioned**

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EGP	EGP US	EastGroup	US\$ 177.53	B-1-7
PLD	PLD US	Prologis, Inc.	US\$ 126.86	B-1-7
REXR	REXR US	Rexford	US\$ 53.78	B-1-7

Source: BofA Global Research

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## Price objective basis & risk

### EastGroup Properties (EGP)

Our \$195 price objective for EGP reflects our forward NAV estimate. We believe there is a secular demand tailwind for warehouse space and EGP's strong regional platform. We apply a 4.3% cap rate to our forward nominal cash NOI estimate of \$472M to calculate our NAV. We use this cap rate for EGP based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of EGP.

Downside risks to our price objective are a slower recovery in operating fundamentals and tenant demand, excess supply, and a slowdown in development opportunities. A tightening in credit markets could also weigh on access to capital, borrowing costs, and portfolio real estate values.

### Prologis, Inc. (PLD)

Our \$148 PO for PLD is based on our forward 12-month NAV estimate. The estimate reflects the value of PLD's global platform and balance sheet offset by trade war concerns. We apply a 4.1% cap rate to our forward 12-month NOI forecast of \$6.26B to calculate our NAV. We view a slowdown in global trade and economic growth, operating conditions below our expectations, and heightened geopolitical tensions as downside risks to our PO. Tightening in credit markets could also weigh on access to capital, borrowing costs, and portfolio real estate values. Upside risks to our PO are better-than-expected operating conditions, an improved global trade outlook, and downward pressure on cap rates around the globe.

### Rexford Industrial Realty (REXR)

Our \$68 price objective for REXR is our forward NAV estimate. This reflects the value of REXR's unique operating and acquisition platform in its infill Southern California industrial markets. We apply a 4.1% cap rate to our forward nominal cash NOI estimate of \$781M to calculate our NAV. We use this cap rate for REXR based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of REXR. Downside risks to our price objective are operating conditions below our expectations, a rise in cap rates in REXR's markets above our expectations, and failure by REXR to successfully execute on its investment strategy.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Agree Realty Corp	ADC	ADC US	Joshua Dennerlein
	Alexandria Real Estate Equities	ARE	ARE US	Joshua Dennerlein
	American Homes 4 Rent	AMH	AMH US	Jeffrey Spector
	Americold Realty Trust	COLD	COLD US	Joshua Dennerlein
	AvalonBay Communities Inc	AVB	AVB US	Joshua Dennerlein
	Boston Properties	BXP	BXP US	Jeffrey Spector
	Brixmor Property Group	BRX	BRX US	Jeffrey Spector
	COPT Defense Properties	CDP	CDP US	Camille Bonnel
	Cousins Properties Inc.	CUZ	CUZ US	Camille Bonnel
	EastGroup Properties	EGP	EGP US	Jeffrey Spector
	Empire State Realty Trust	ESRT	ESRT US	Camille Bonnel
	Equity Residential	EQR	EQR US	Jeffrey Spector
	Essential Properties	EPRT	EPRT US	Joshua Dennerlein
	Federal Realty	FRT	FRT US	Jeffrey Spector
	Invitation Homes Inc	INVH	INVH US	Joshua Dennerlein
	Kimco Realty	KIM	KIM US	Jeffrey Spector
	Kite Realty Group	KRG	KRG US	Jeffrey Spector
	Phillips Edison & Company	PECO	PECO US	Jeffrey Spector
	Prologis, Inc.	PLD	PLD US	Camille Bonnel
	Public Storage, Inc.	PSA	PSA US	Jeffrey Spector
	Regency	REG	REG US	Jeffrey Spector
	Rexford Industrial Realty	REXR	REXR US	Camille Bonnel
	Sabra Health Care	SBRA	SBRA US	Joshua Dennerlein
	Simon Property	SPG	SPG US	Jeffrey Spector
	Ventas, Inc.	VTR	VTR US	Jeffrey Spector
	Welltower	WELL	WELL US	Joshua Dennerlein
<b>NEUTRAL</b>				
	Acadia Realty Trust	AKR	AKR US	Jeffrey Spector
	CubeSmart	CUBE	CUBE US	Jeffrey Spector
	EPR Properties	EPR	EPR US	Joshua Dennerlein
	Equity LifeStyle Properties	ELS	ELS US	Jeffrey Spector
	Essex Property Trust, Inc.	ESS	ESS US	Joshua Dennerlein
	Extra Space Storage, Inc.	EXR	EXR US	Jeffrey Spector
	Getty Realty Corp.	GTY	GTY US	Joshua Dennerlein
	Highwoods Properties	HIW	HIW US	Camille Bonnel
	InvenTrust Properties	IVT	IVT US	Jeffrey Spector
	Kilroy Realty Corporation	KRC	KRC US	Camille Bonnel
	Macerich	MAC	MAC US	Jeffrey Spector
	OMEGA Healthcare	OHI	OHI US	Joshua Dennerlein
	Realty Income	O	O US	Jeffrey Spector
	Retail Opportunity Investments Corp.	ROIC	ROIC US	Jeffrey Spector
	SL Green Realty	SLG	SLG US	Camille Bonnel
	Sun Communities	SUI	SUI US	Joshua Dennerlein
	UDR, Inc.	UDR	UDR US	Joshua Dennerlein
	Veris Residential Inc	VRE	VRE US	Joshua Dennerlein
	Vornado Realty	VNO	VNO US	Camille Bonnel
<b>UNDERPERFORM</b>				
	American Assets Trust	AAT	AAT US	Camille Bonnel
	Armada Hoffer Properties	AHH	AHH US	Camille Bonnel
	Camden Property Trust	CPT	CPT US	Joshua Dennerlein
	Douglas Emmett	DEI	DEI US	Camille Bonnel
	Healthpeak Properties, Inc.	PEAK	PEAK US	Joshua Dennerlein
	Hudson Pacific Properties, Inc.	HPP	HPP US	Camille Bonnel
	Kennedy Wilson	KW	KW US	Joshua Dennerlein
	LXP Industrial Trust	LXP	LXP US	Camille Bonnel
	Medical Properties Trust, Inc.	MPW	MPW US	Joshua Dennerlein
	Mid-America Apartment Communities, Inc.	MAA	MAA US	Joshua Dennerlein
	National Storage Affiliates Trust	NSA	NSA US	Jeffrey Spector
	NetSTREIT	NTST	NTST US	Joshua Dennerlein
	NNN REIT Inc	NNN	NNN US	Joshua Dennerlein
	Paramount Group	PGRE	PGRE US	Camille Bonnel
	Peakstone Realty Trust	PKST	PKST US	Joshua Dennerlein
	STAG Industrial	STAG	STAG US	Camille Bonnel



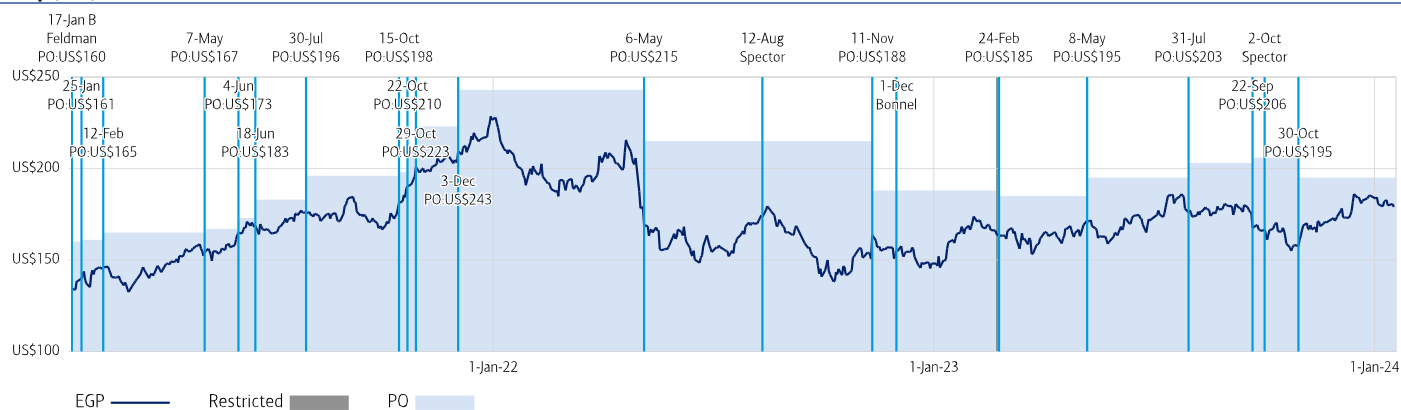
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	Tanger Factory	SKT	SKT US	Jeffrey Spector
	WP Carey	WPC	WPC US	Joshua Dennerlein
<b>RSTR</b>	Spirit Realty Capital	SRC	SRC US	Joshua Dennerlein

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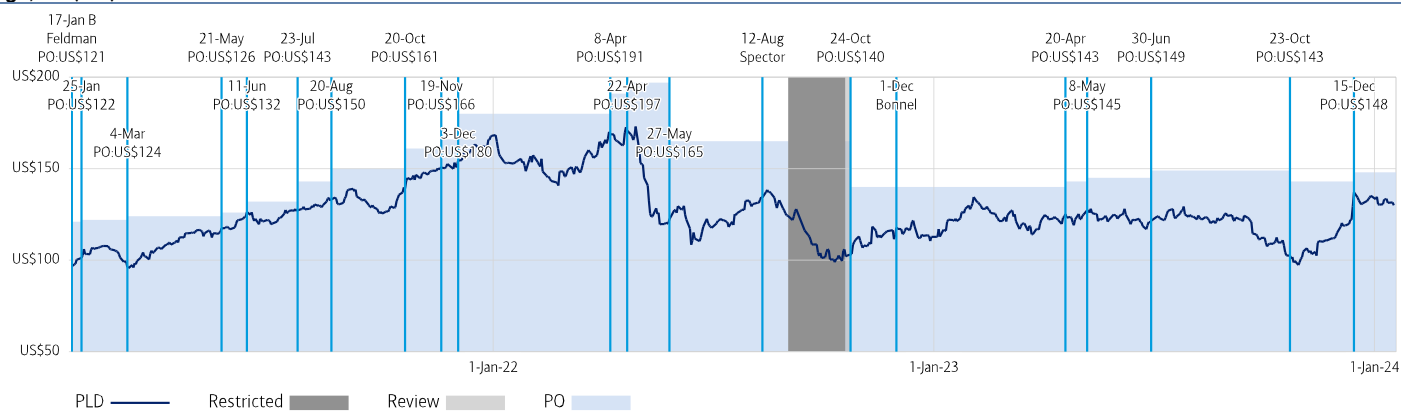
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## EastGroup (EGP) Price Chart

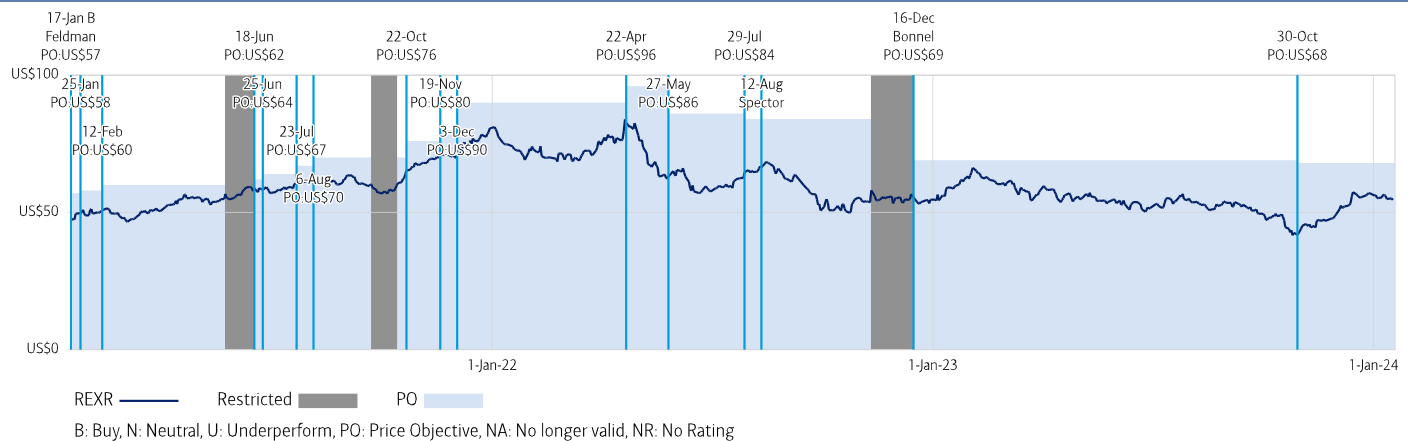


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## Prologis, Inc. (PLD) Price Chart



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**Rexford (REXR) Price Chart**

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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## Research Analysts

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**Jeffrey Spector**

Research Analyst  
BofAS  
+1 646 855 1363  
[jeff.spector@bofa.com](mailto:jeff.spector@bofa.com)

**Joshua Dennerlein**

Research Analyst  
BofAS  
+1 646 855 1681  
[joshua.dennerlein@bofa.com](mailto:joshua.dennerlein@bofa.com)

**Camille Bonnel >>**

Research Analyst  
Merrill Lynch (Canada)  
+1 646 855 5042  
[camille.bonnel@bofa.com](mailto:camille.bonnel@bofa.com)

**Lizzy Doykan**

Research Analyst  
BofAS  
+1 713 705 1584  
[lizzy.doykan@bofa.com](mailto:lizzy.doykan@bofa.com)

**Daniel Byun**

Research Analyst  
BofAS  
+1 646 855 3195  
[daniel.byun@bofa.com](mailto:daniel.byun@bofa.com)

**Steven Song**

Research Analyst  
BofAS  
+1 646 855 0049  
[huainan.song@bofa.com](mailto:huainan.song@bofa.com)

**Farrell Granath**

Research Analyst  
BofAS  
+1 646 855 1351  
[farrell.granath@bofa.com](mailto:farrell.granath@bofa.com)

**Andrew Berger**

Research Analyst  
BofAS  
+1 646 855 1589  
[andrew.berger2@bofa.com](mailto:andrew.berger2@bofa.com)

**REITs Team**

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