



CommercialEdge

National Industrial Report

February 2021



Demand for Industrial Poised for Continued Growth

- Industrial rents averaged \$6.44 per square foot in January, a 5.1% increase over the last 12 months, according to Yardi Matrix Expert. Tenants signing leases last year paid a hefty premium, with the average rental rate for new leases signed in the last 12 months at \$7.50 per square foot. The average vacancy rate was 6.0%.
- Demand for industrial real estate exploded in 2020, primarily driven by e-commerce's pandemic-induced expansion. We expect that demand will continue to increase even if e-commerce does not match its blistering 2020 growth rate. E-commerce has a continued role to play, and last year likely signaled a structural shift in consumer preferences more than temporary changes in behavior. Retail as we knew it has changed, and in its place warehousing and distribution have increased in importance.
- Even if e-commerce's growth cools, other sectors of the economy will fuel demand. A rebounding global economy will drive the pace of global trade, boosting both port markets and logistics hubs. Inventories fell substantially in the second quarter of last year, and their ongoing replenishment will further drive demand for space. After consumers cleared the shelves of many items in the early days of the pandemic, retailers are seeking the ability to more quickly replenish stock, which will lead to further inventory growth.
- Continued demand for industrial space will sustain rent growth and drive vacancy rates lower. CommercialEdge forecasts record levels of new supply this year, but increasing demand for industrial space should support elevated absorption.
- Demand growth will also lead to spikes in both sales volume and the price per square foot for traded assets. Large institutions are looking to increase their exposure to industrial real estate or get into the sector for the first time. With the cost of capital at an all-time low and many commercial investors spurning office for the time being, we expect that industrial prices will continue to be bid up for the foreseeable future. The fourth quarter of 2020 now has the highest sales volume of any quarter since CommercialEdge began collecting industrial data, with \$11.9 billion of sales completed, at an average price per square foot of \$100, an 18.2% increase year-over-year.

