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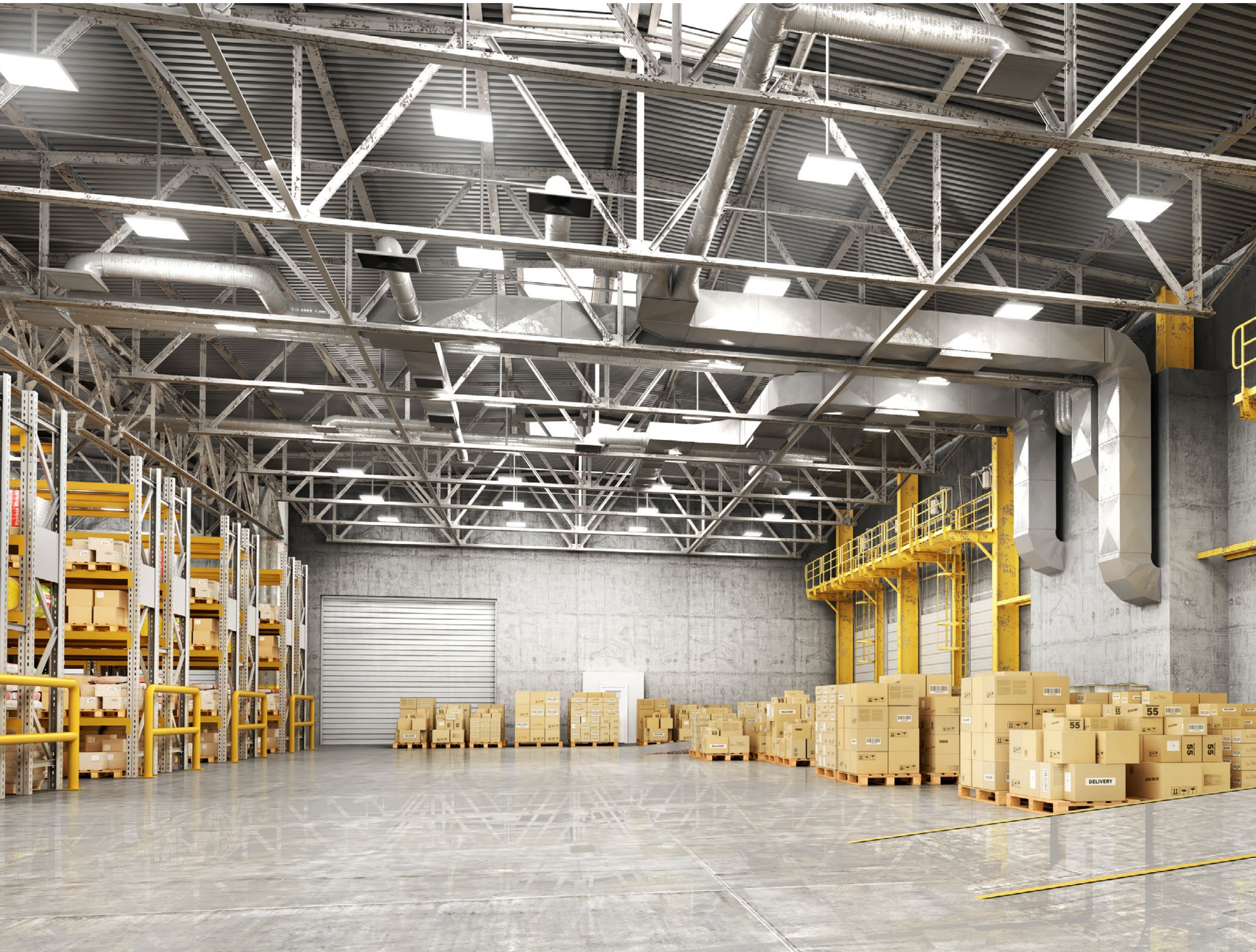
National Industrial Report

September 2021



Port Activity Boosts Industrial Markets

- Industrial properties in port markets are in high demand right now because ports are busier than ever, with the number of 20-foot equivalent units (TEUs) handled by the busiest ports in the country continuing to break records. In May of 2021, the Port of Los Angeles became the first in the Western Hemisphere to process more than a million TEUs in a single month. The Port of New York and New Jersey processed nearly 5.2 million TEUs year-to-date through July, 29.7% more than the same point in 2020, which was itself a record-setting calendar year. Things have gotten so busy in the ports of Los Angeles and Long Beach that they recently announced extended gate hours to handle congestion.

- Rent growth has consistently been highest in port markets this year. In August, rent growth was led by the Inland Empire (with a 6.6% increase over the last 12 months), Los Angeles (6.5%), New Jersey (6.2%) and Seattle (5.7%). Tenants signing new leases in port markets have paid the highest premiums compared to the market average. New Jersey's new leases cost an average of $2.38 more per square foot than in-place leases, the highest spread in the nation. Seattle ($1.85 per foot), Los Angeles ($1.77) and Boston ($1.73) tenants also paid substantial premiums for new leases signed over the last 12 months. Vacancy rates are generally lowest in port markets, with the tightest in the Inland Empire (1.2%). Vacancies are also tight in Los Angeles (3.2%), Orange County (3.5%) and New Jersey (3.6%).

- Due to lack of land available for industrial development, new supply in port markets is not able to keep pace with demand in Los Angeles (7.8 million square feet under construction, 1.2% of stock), Orange County (2.3 million, 1.2%) and New Jersey (10.1 million, 1.9%). Even the Inland Empire—which is not technically a port market but handles many of the goods that are received through the ports of Los Angeles and Long Beach—is not able to deliver new supply quickly enough. Despite 147.5 million square feet of new supply delivering between 2014 and 2020, there is scarcely any vacant space in the market.

- The dearth of land for new supply combined with rapidly increasing demand leads to port markets commanding top sale prices. The highest average sale prices this year are in Orange County ($302 per square foot), Los Angeles ($203), the Bay Area ($202), Seattle ($200), New Jersey ($198) and the Inland Empire ($181). Investors are eager to purchase assets in port markets, with these six alone accounting for more than a quarter of all sales volume in 2021. It is easy to see why from some of the deals made during the past year: CenterPoint bought a former K-Mart distribution center in the Inland Empire for $215 million in March 2020 and sold it to Costco for $345 million this May.