Yardi Matrix

# National Industrial Report

April 2022

# Southern California's Space at a Premium

- Demand for industrial real estate is high across the country, particularly in Southern California. With the two busiest ports in the country and more than 20 million residents, the e-commerce upsurge has sent the already tight Southern California industrial market into overdrive.

- Three Southern California markets—Los Angeles, Orange County and the Inland Empire—all sit at or near the top of all national metrics for rent and occupancy. Growth of in-place rents was highest in Los Angeles and the Inland Empire in March (both 6.8% over the last 12 months), with Orange County not far behind at 5.2%. Orange County had a vacancy rate of 3.4%, with Los Angeles at 2.1% and the Inland Empire at 0.7%. The tight vacancy rates are leading to tenants paying a hefty premium for space when signing new leases in the region. On average, new leases cost $3.78 more per foot than the market average in Orange County, $3.04 more in Los Angeles and $2.89 more in the Inland Empire.

- Investors are chasing assets in the region, which is driving up sale prices. Between 2019 and 2021, the average price per square foot of industrial buildings increased 60% in the Inland Empire (from $121 per foot to $194), 54% in Los Angeles ($191 to $295) and 53% in Orange County ($195 to $298).

- Although demand is hot in Southern California markets, there is a dearth of land available for new space to be built. Los Angeles has just 3.4 million square feet of new industrial space under construction (0.5% of stock) and Orange County has only 2.3 million square feet under construction (1.2% of stock). The Inland Empire has 28.4 million square feet under construction (4.8% of stock), but that will not be enough to meet demand for the entire region. Additionally, as developers in the Inland Empire rush to add space, a backlash is brewing among residents and environmental groups in the region. Transwestern recently withdrew a proposal to develop a development center on a 148-acre plot near Whitewater after concerns were raised over the proximity to a conservation area.

- With robust demand for space and not enough land to build the supply needed to keep up, both tenants and developers will look farther inland for opportunities. We expect spillover into nearby Phoenix, Las Vegas and the Central Valley. Phoenix, in particular, is already seeing this effect. It has one of the largest new-supply pipelines in the country, and much of that development is in the Peoria and Phoenix-West submarkets on the western edge of the city, which offers access to Interstate-10 and is a six-hour drive for truckers from the ports of Los Angeles and Long Beach.

# Rents and Occupancy:
# Older Buildings Weigh Down Boston

- National in-place rents for industrial space averaged $6.47 per foot in March, an increase of two cents over February and 4.4% over the last 12 months.
- Growth of in-place rents has been the lowest over the last 12 months in Charlotte (1.4%), Houston and Chicago (both 2.1%).
- The national vacancy rate in March was 5.0%, a decrease of 20 basis points from the previous month.
- Vacancy rates were highest in Boston (10%), Houston (9.8%) and Cincinnati (9.5%). The stock of the Boston industrial market is mostly older, with a third of all square footage in properties built before 1970. These older properties are having a difficult time meeting the demands of modern industrial tenants and are inflating the market's average vacancy rate. For buildings constructed before 1970, the vacancy rate is 18.2%, while for those built after the turn of the century it is only 3.5%. New supply under construction represents 3.0% of stock despite some of the strongest rent growth in the nation at 5.4%. Many owners of older buildings in the market may look at updating their facilities to meet demand.
- Tenants looking for new leases are paying a hefty premium, with the average price of leases signed in the last 12 months at $7.35 per square foot, 88 cents higher (13.6%) than the national average for in-place rents.
- While port markets are seeing large spreads between the average rental rate and those for new leases, Midwestern markets are seeing no noticeable premium. In Kansas City, Denver and St. Louis the average rate for new leases is slightly lower than the market average, due to the impact of new supply and relative ease of building new properties on the outskirts of these markets.

## Average Rent by Metro

| Market | Mar-22 Average Rent | 12-Month Change | Avg Rate Signed in Last 12 Months | Vacancy Rate |
|---|---|---|---|---|
| National | $6.47 | 4.4% | $7.35 | 5.0% |
| Los Angeles | $10.45 | 6.8% | $13.49 | 2.1% |
| Inland Empire | $6.68 | 6.8% | $9.57 | 0.7% |
| Central Valley | $5.32 | 6.6% | $6.91 | 2.7% |
| Detroit | $5.71 | 5.7% | $5.90 | 6.1% |
| Boston | $8.18 | 5.4% | $8.98 | 10.0% |
| Orange County | $11.80 | 5.2% | $15.58 | 3.4% |
| Philadelphia | $6.23 | 5.1% | $7.05 | 7.0% |
| Portland | $8.11 | 5.1% | $9.31 | 5.3% |
| Baltimore | $6.81 | 4.9% | $7.59 | 6.0% |
| New Jersey | $8.10 | 4.9% | $9.93 | 3.1% |
| Phoenix | $7.09 | 4.9% | $7.45 | 4.5% |
| Nashville | $5.30 | 4.8% | $6.17 | 3.4% |
| Dallas–Fort Worth | $4.83 | 4.4% | $5.53 | 3.8% |
| Bay Area | $10.99 | 4.2% | $11.97 | 5.7% |
| Seattle | $9.08 | 3.9% | $9.19 | 7.4% |
| Twin Cities | $5.99 | 3.6% | $6.24 | 8.4% |
| Tampa | $6.40 | 3.5% | $6.68 | 7.3% |
| Atlanta | $4.70 | 3.0% | $5.28 | 4.0% |
| Denver | $7.84 | 3.0% | $7.63 | 7.7% |
| Cincinnati | $4.18 | 2.9% | $4.51 | 9.5% |
| St. Louis | $4.17 | 2.9% | $4.03 | 5.4% |
| Miami | $8.89 | 2.8% | $9.69 | 3.4% |
| Columbus | $3.99 | 2.8% | $4.10 | 2.4% |
| Memphis | $3.49 | 2.6% | $3.56 | 6.0% |
| Kansas City | $4.37 | 2.6% | $4.12 | 4.0% |
| Indianapolis | $4.02 | 2.5% | $4.39 | 3.0% |
| Chicago | $5.36 | 2.1% | $5.62 | 5.5% |
| Houston | $5.86 | 2.1% | $5.65 | 9.8% |
| Charlotte | $6.32 | 1.4% | $6.37 | 6.7% |

*Source: Yardi Matrix. Data as of March 2022. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.*

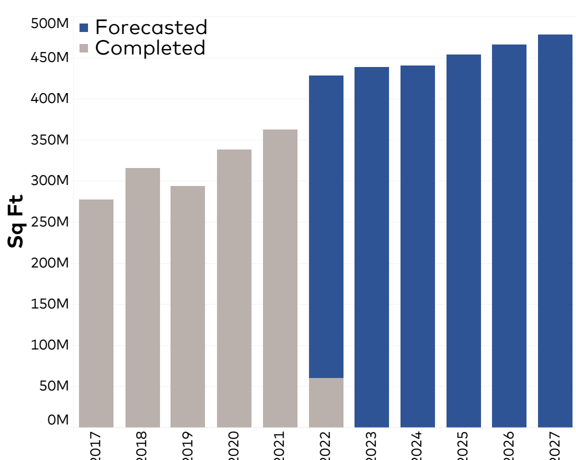
# Supply:
# Dallas Leads Nation in New Stock

- Nationally, 621.7 million square feet of industrial stock are under construction. An additional 653.2 million square feet are in the planning stages.

- More than 60 million square feet of industrial completions were logged by Yardi Matrix in the first quarter. While port markets are finding it increasingly difficult to find land for new industrial space, land-locked markets don't have such geographic constraints and can respond to demand more quickly. Dallas-Fort Worth (4.5 million square feet) and Indianapolis (3.7 million) have seen the most deliveries so far this year.

- Dallas has more than 50 million square feet under construction and an additional 41.7 million square feet in the planning stages. Domestic migration and e-commerce growth are driving demand there. The market has 14 properties larger than 1 million square feet under construction, all centered around logistics or distribution, and many of those are in phase one of larger planned campuses. Increased new supply has dampened Dallas rent growth, which was 4.4% over the last 12 months with a 3.8% vacancy rate.

## National New Supply Forecast




*Source: Yardi Matrix. Data as of March 2022*

## **Supply Pipeline** (by metro)

| Market | Under Construction | Under Construction % Stock | UC Plus Planned % Stock |
|---|---|---|---|
| National | 621,683,012 | 3.6% | 7.4% |
| Phoenix | 41,636,466 | 14.8% | 34.7% |
| Indianapolis | 25,973,512 | 8.3% | 12.7% |
| Dallas | 50,766,155 | 6.1% | 11.1% |
| Inland Empire | 28,351,155 | 4.8% | 10.1% |
| Nashville | 9,141,049 | 4.7% | 6.2% |
| Columbus | 12,699,742 | 4.6% | 9.5% |
| Kansas City | 11,345,774 | 4.5% | 13.1% |
| Charlotte | 10,227,572 | 3.6% | 9.9% |
| Seattle | 9,476,913 | 3.5% | 6.0% |
| Houston | 18,515,106 | 3.4% | 6.1% |
| Memphis | 9,223,546 | 3.4% | 5.3% |
| Philadelphia | 13,341,299 | 3.3% | 12.5% |
| Boston | 6,963,337 | 3.0% | 3.7% |
| Denver | 6,678,449 | 2.7% | 4.9% |
| Chicago | 24,137,391 | 2.5% | 6.4% |
| New Jersey | 12,843,879 | 2.4% | 5.2% |
| Central Valley | 7,784,774 | 2.4% | 4.3% |
| Atlanta | 11,703,373 | 2.2% | 4.2% |
| Baltimore | 4,409,308 | 2.2% | 4.0% |
| Tampa | 4,478,227 | 2.1% | 4.4% |
| Portland | 3,834,874 | 2.1% | 3.3% |
| Detroit | 10,712,758 | 2.0% | 3.8% |
| Cincinnati | 5,192,574 | 2.0% | 2.9% |
| Bay Area | 4,287,310 | 1.5% | 4.0% |
| Twin Cities | 3,722,001 | 1.2% | 3.6% |
| Orange County | 2,329,575 | 1.2% | 1.8% |
| Bridgeport | 1,752,781 | 0.8% | 2.1% |
| Cleveland | 2,565,566 | 0.7% | 1.5% |
| Los Angeles | 3,402,532 | 0.5% | 2.3% |

*Source: Yardi Matrix. Data as of March 2022*

# Economic Indicators: Inflation Continues to Hit Producers

- Supplier prices rose 1.4% in the month of March and 11.2% year-over-year, according to the Bureau of Labor Statistics' Producer Price Index (PPI). Both figures are records for the series that the BLS began releasing in 2010. The PPI for goods increased 2.3% in the month, while the services portion of the index increased 0.9%. Core PPI, which removes volatile food and energy prices, increased 0.9% over the month and 7.0% year-over-year.

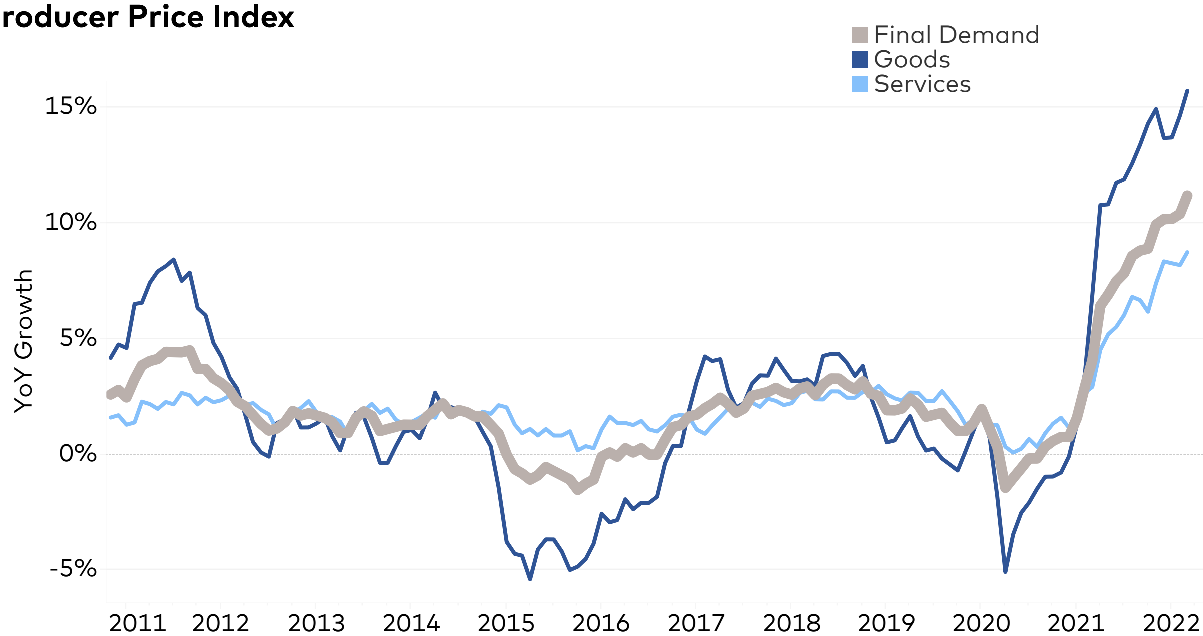
- While bottlenecks at ports and labor shortages in the shipping industry have fueled inflation for months, the Russian war in Ukraine has further pressured the prices of food, energy and metals. Continued inflation will lead the Federal Reserve to consider being more aggressive with rate hikes this year. After raising rates 25 basis points in March—the first hike in three years—the Fed may initiate a 50-basis-point hike in May. With red-hot demand for industrial space, the sector can weather a rise in rates, but the increasing cost of capital may dampen the record levels of new supply.

## Economic Indicators

| | |
|---|---|
| **National Employment** (March) 150.9M<br>0.3% MoM ▲<br>4.5% YoY ▲ | **ISM Purchasing Manager's Index** (March) 57.1<br>-1.5 MoM ▼<br>-6.6 YoY ▼ |
| **Inventories** (January) $2,237.9B<br>1.1% MoM ▲<br>11.4% YoY ▲ | **Imports** (February) $266.2B<br>0.6% MoM ▲<br>21.5% YoY ▲ |
| **Core Retail Sales** (February) $465.4B<br>-0.4% MoM ▼<br>15.8% YoY ▲ | **Exports** (February) $158.8B<br>1.8% MoM ▲<br>21.6% YoY ▲ |

*Sources: Bureau of Labor Statistics; Institute for Supply Management, U.S. Census Bureau; Bureau of Economic Analysis; Moody's Analytics*

## Producer Price Index




*Sources: U.S. Census Bureau, CommercialEdge*

# Transactions: Chicago Still to See Sale Price Boom

- Nationally, $14.8 billion of industrial transactions were logged by Yardi Matrix for the first quarter of the year. This is slightly below the $18.6 billion mark of last year's first quarter, but a lag in collecting data for all sales means that the first quarter of this year could still eclipse last year's figure.

- The national average sale price of an industrial asset was $125 per square foot in the first quarter, 34% higher than the $93 per foot in first quarter 2021. The first quarter of 2022 was the sixth consecutive quarter of an increasing national average sale price. Of the 120 markets covered by Yardi Matrix, 41 saw their average sale price increase by more than 50% between 2019 and 2021.

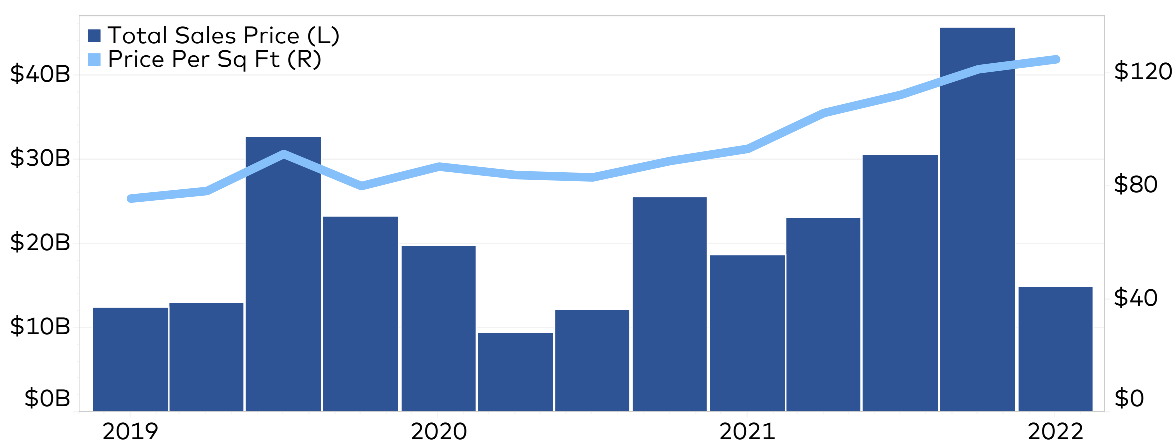
- Chicago is the largest industrial market in the country by square footage and investors purchasing assets in the market, with 97 sales accounting for more than $1 billion in volume in the first quarter of the year. While assets are trading, Chicago has yet to see the same skyrocketing sale prices that are found in many other markets. The average sale price increased slightly more than $6 (8.6%) between 2019 and 2021, while the national average increased more than 33% over the same time ($28 per foot).

## Sales Activity

| Market | YTD Sales Price PSF | YTD Sales (Mil, as of 03/31) |
|---|---|---|
| National | $125 | $14,813 |
| Houston | $211 | $1,631 |
| Los Angeles | $269 | $1,048 |
| Chicago | $89 | $1,040 |
| New Jersey | $182 | $862 |
| Philadelphia | $104 | $813 |
| Phoenix | $170 | $564 |
| Dallas | $93 | $559 |
| Baltimore | $137 | $309 |
| Denver | $159 | $302 |
| Atlanta | $119 | $265 |
| Bay Area | $208 | $229 |
| Tampa | $95 | $222 |
| Columbus | $75 | $204 |
| Nashville | $95 | $201 |
| Twin Cities | $91 | $189 |
| Memphis | $50 | $181 |
| Detroit | $49 | $180 |
| Inland Empire | $237 | $173 |
| Cincinnati | $77 | $153 |
| Indianapolis | $52 | $129 |
| Orange County | $324 | $125 |
| Charlotte | $99 | $116 |
| Seattle | $233 | $114 |
| Boston | $189 | $113 |
| Central Valley | $93 | $81 |

*Source: Yardi Matrix. Data as of March 2022*

## Quarterly Transactions




*Source: Yardi Matrix. Data as of March 2022*

# Definitions

Yardi Matrix collects listing rate and occupancy data using proprietary methods.

- Average Rents—Provided by Yardi Matrix Expert, a cutting-edge service that uses anonymized and aggregated data from other Yardi platforms to provide the most accurate rental and expense information available.
- Vacancy—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations.

Stage of the supply pipeline:

- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

## Contacts

**Peter Kolaczynski**
Manager, Commercial
Peter.Kolaczynski@Yardi.com
(800) 866-1124 x2410

**Rob McCartney**
Sales Manager, Matrix
Rob.McCartney@Yardi.com
(800) 866-1124 x2412

**Doug Ressler**
Media Contact
Doug.Ressler@Yardi.com
(800) 866-1124 x2419



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