



Yardi Matrix

National Industrial Report

April 2023



Industrial Maintains Strong Performance

- The current narrative around commercial real estate is overwhelmingly negative, but the industrial sector continues its strong performance. Average industrial property rents have increased every month over the last year and stood at an all-time high of \$7.15 per square foot as of March. Vacancy rates remain extremely low across the country, averaging 3.9% nationally, and are 5.0% or more in only seven of the top 30 industrial metros. Demand for space may be moderating as large users reconfigure distribution chains in an attempt to deal with rising costs, but it remains firmly positive. Transaction activity has slowed as in other property sectors, but the price per unit of industrial sales reached record levels in the first quarter of 2023.
- Arguably, the biggest headwind the industry faces is the increase in interest rates—namely, the impact on pricing and the ability to refinance loans originated when mortgage coupons were lower. Given the rise in mortgage rates and tightening underwriting standards enacted by banks in recent quarters, many properties refinanced today might qualify for 20-25% less proceeds than they did at origination.
- Loans on industrial properties that encompass nearly 14% of total space nationally are set to mature between now and the end of 2025, according to Yardi Matrix. That includes at least 20% of stock in Atlanta, Kansas City, Phoenix and Memphis, and more than 15% of the stock in the Inland Empire and the Bay Area. However, unlike the office sector, where vacancy rates are rising and rents are soft owing to the growing work-from-home trend, industrial fundamentals are solid. For example, Columbus and Atlanta have a relatively high percentage of maturing loans by total stock, but the vacancy rate in those markets is less than 3%. Many industrial loans coming up for refinancing will have the benefit of increased revenue during loan seasoning. Plus, industrial remains in demand among most lenders and investors.
- To be sure, industrial is not immune to the hit in property values and valuation uncertainty arising from rising interest rates. Total industrial property returns in the NCREIF Property Index in the fourth quarter of 2022 were -3.5%, including -4.3% appreciation, the first negative quarter for the property type since 2009. The NPI's industrial returns are likely to slide further in the first quarter as appraisals factor in the weaker capital conditions. To put the numbers in context, though, industrial annual total returns in the NPI as of year-end 2022 were 14.6% for one year, 22.4% over three years and 11.8% over 20 years. Industrial significantly outperformed the total index over each time period.

