



CommercialEdge

# National Industrial Report

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September 2022



# Reshoring to Slowly Reshape Industrial

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- In recent years, U.S. manufacturers have become well acquainted with the risks involved in making goods abroad. Not only did the pandemic stress supply chains but other risks posed by U.S. tensions with China over Taiwan, the war in Ukraine and climate change all can jeopardize a firm's operations. Consequently, many businesses are exploring reshoring production of goods to the U.S. The semiconductor industry is already beginning the process, which will facilitate further U.S. manufacturing, since semiconductors are critical components of countless products.
- While some companies were already building semiconductors stateside, the CHIPS Act passed by Congress and signed into law by President Biden this summer will allocate \$53 billion in funding to support domestic semiconductor manufacturing. Beyond chip manufacture, the Biden administration has committed billions to increase domestic supply-chain resiliency, and the Inflation Reduction Act incentivizes stateside production of renewable energy products, further boosting the long-term outlook of U.S. manufacturing.
- After decades of decline, manufacturing employment in the U.S. began to slowly recover coming out of the Great Financial Crisis. Data from the Bureau of Labor Statistics shows the economy adding more than 1.3 million jobs in the manufacturing sector between 2010 and 2020. However, that growth was waning and the sector was seeing minor declines even before the pandemic. As global supply chains have become stressed while the world rebounds from the pandemic, manufacturing employment growth has picked up pace, and there are more workers in the manufacturing sector now than at any point since 2008. The sector's employment growth has been higher than 3% year-over-year every month in 2022, a pace that had not been reached since November of 1984.
- Manufacturers that reshore production will face a unique set of challenges. Not only will they need industrial space to manufacture goods but logistics and distribution facilities, as well. With a national vacancy rate of just 4.1%, space may be hard to come by. A tight labor market means that site selection will not only be dependent on infrastructure but also on labor pools. American labor costs are also much higher than in places where manufacturing has been offshored, meaning firms will explore automation solutions and likely increase costs for their products to strike a balance. Production and supply chains are complex systems that take years to reshape—reshoring is not a quick fix for firms struggling in the current global economy. We expect that reshoring will continue during this decade, albeit at a slow pace, and be a driver of industrial real estate demand for years to come.



# Rents and Occupancy: Phoenix Rents Grow Despite New Supply Pipeline

- National in-place rents for industrial space averaged \$6.64 per foot in August, an increase of four cents from July and 5.5% over the last 12 months.
- Rents grew the most in port markets, where record activity and supply-chain bottlenecks continue to drive demand for space. The Inland Empire (8.8% increase in in-place rents over the last 12 months), Boston (8.0%), Los Angeles (7.4%) and New Jersey (7.4%) saw the largest gains.
- Phoenix had the highest rent growth among markets without a port, with in-place rents growing 7.2% over the last 12 months. Phoenix has been attractive to both occupiers and investors for a while now due to a lack of geographic constraints and strong population growth. Additionally, some of the tightness in Southern California has overflowed into Phoenix, a six-hour drive from the ports of Los Angeles and Long Beach. Despite an abundance of new stock being delivered and more in the pipeline, space is still in high demand. In Phoenix, the vacancy rate in August was 3.8% and the average rate of a new lease signed over the previous 12 months was 96 cents higher than the market average for in-place rents.
- New leases cost \$1.44 more per foot than the average in-place lease. Leases signed in the last 12 months average \$8.08 per square foot. The largest premiums paid for new leases were in Los Angeles (new leases \$4.75 more per foot than in-place rents), Orange County (\$4.38), the Inland Empire (\$4.27) and New Jersey (\$4.22). No other market had a premium higher than \$1.70 per square foot.
- The national vacancy rate in August was 4.1%, down 30 basis points from the previous month. The lowest vacancy rates in the country were in the Inland Empire (0.9%), Columbus (1.8%), Nashville (1.9%), Los Angeles (2.0%) and Indianapolis (2.0%)

## Average Rent by Metro

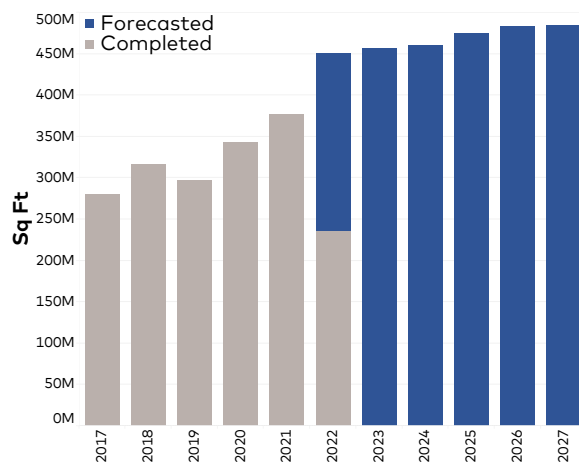
Market	Aug-22 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	\$6.64	5.5%	\$8.08	4.1%
Inland Empire	\$6.98	8.8%	\$11.25	0.9%
Boston	\$8.63	8.0%	\$10.02	8.5%
Los Angeles	\$10.84	7.4%	\$15.59	2.0%
New Jersey	\$8.53	7.4%	\$12.75	2.8%
Phoenix	\$7.36	7.2%	\$8.32	3.8%
Orange County	\$12.00	7.2%	\$16.38	3.0%
Detroit	\$5.80	6.7%	\$6.84	4.4%
Bay Area	\$11.43	6.7%	\$12.80	5.0%
Seattle	\$9.14	5.8%	\$10.35	6.8%
Philadelphia	\$6.41	5.6%	\$8.05	5.0%
Dallas - Fort Worth	\$4.92	5.4%	\$5.84	3.7%
Cincinnati	\$4.22	5.3%	\$4.64	7.2%
Central Valley	\$5.52	5.2%	\$6.93	2.2%
Portland	\$8.36	5.2%	\$9.56	5.1%
Nashville	\$5.37	5.2%	\$6.24	1.9%
Baltimore	\$6.82	4.8%	\$8.35	4.6%
Atlanta	\$4.75	4.7%	\$5.62	2.3%
Miami	\$9.10	4.4%	\$10.70	3.0%
Twin Cities	\$6.10	4.4%	\$6.76	7.6%
Tampa	\$6.52	4.1%	\$7.99	5.7%
Columbus	\$4.03	3.0%	\$4.41	1.8%
Indianapolis	\$4.06	3.0%	\$4.27	2.0%
St. Louis	\$4.23	2.9%	\$4.08	6.7%
Chicago	\$5.41	2.8%	\$5.88	4.4%
Denver	\$7.94	2.7%	\$7.46	6.6%
Memphis	\$3.52	2.6%	\$3.57	5.5%
Kansas City	\$4.51	2.5%	\$3.80	3.2%
Charlotte	\$6.25	2.3%	\$6.01	4.9%
Houston	\$5.96	1.4%	\$5.67	7.8%

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

# Supply: Charlotte Pipeline Expanding

- In all, 703.5 million square feet of industrial space are under construction nationally, representing 4.0% of stock. Despite rising interest rates increasing the cost of capital and concerns of a recession, the under-construction pipeline continues to expand.
- After a couple of slow years for industrial development, Charlotte's pipeline is heating up again. The market delivered 14.8 million square feet between 2018 and 2019, but only 1.7 million square feet in 2020 and 2.8 million in 2021. That slowdown appears to be over, with 4.6 million square feet already completed through August of this year, 14.5 million square feet currently under construction and an additional 23.0 million square feet in the planning stages. NorthPoint Development has been constructing many of the largest projects in Charlotte. The firm's largest project in the market is the Gateway 85 industrial park in Gaston County, which has delivered the first two spec buildings totaling 909,000 square feet and has more space underway. Amazon signed a lease for the 286,727-square-foot Building 1. NorthPoint is also developing the 677,000-square-foot I-85 Commerce Center in Rowan County and recently rezoned more than 400 acres near the intersection of I-77 and I-40.

## National New Supply Forecast



Source: Yardi Matrix. Data as of August 2022

## Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	703,506,556	4.0%	7.6%
Phoenix	44,787,172	15.2%	32.2%
Kansas City	15,938,677	6.2%	18.1%
Indianapolis	26,355,592	8.2%	14.0%
Charlotte	14,490,079	5.1%	13.2%
Philadelphia	13,661,610	3.4%	12.2%
Dallas	59,459,537	7.0%	11.2%
Inland Empire	36,032,450	6.0%	10.8%
Columbus	17,507,147	6.3%	9.4%
Denver	12,809,894	5.2%	8.0%
Seattle	8,528,179	3.1%	6.8%
Chicago	25,955,877	2.6%	6.1%
Nashville	9,592,780	4.9%	6.1%
Houston	17,228,365	3.1%	6.0%
Tampa	5,487,022	2.6%	5.3%
Memphis	9,609,280	3.5%	5.1%
New Jersey	14,862,911	2.8%	4.9%
Baltimore	6,218,986	3.1%	4.6%
Bay Area	7,107,407	2.5%	4.5%
Atlanta	13,063,992	2.5%	4.4%
Central Valley	10,091,916	3.1%	4.3%
Twin Cities	5,934,725	1.9%	3.7%
Cincinnati	6,945,607	2.6%	3.7%
Detroit	9,532,083	1.8%	3.5%
Boston	6,145,944	2.6%	3.4%
Portland	1,217,040	0.7%	3.1%
Orange County	3,055,327	1.6%	2.2%
Los Angeles	2,218,498	0.3%	2.1%
Bridgeport	2,276,643	1.1%	2.0%
Cleveland-Akron	2,956,656	0.8%	1.6%

Source: CommercialEdge. Data as of August 2022

# Economic Indicators: E-commerce Deceleration Continues

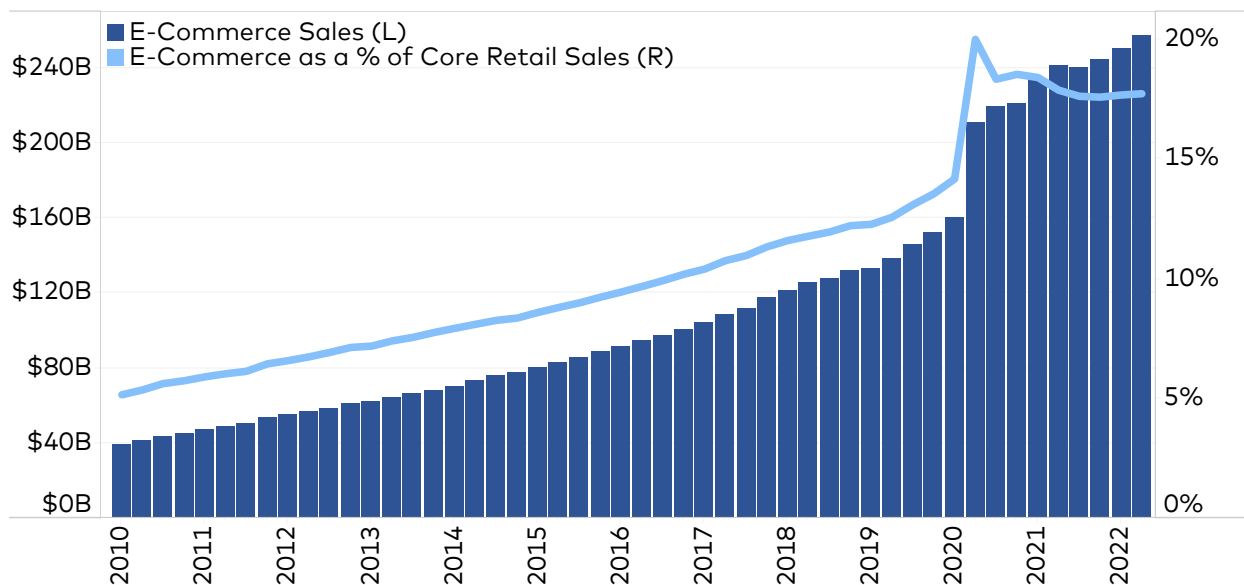
- Following the spike in e-commerce during the first year of the pandemic, things have cooled. Between 2010—when the Census Bureau began producing e-commerce data—and 2020, e-commerce sales grew at a year-over-year rate of less than 10% only once. Three of the last four quarters have had growth below 10%, including the last two quarters, which were the lowest on record, with growth of 6.8% year-over-year.
- In the second quarter, e-commerce sales grew by \$6.9 billion, or 2.7% over the first quarter. While that was lackluster compared to previous years, there are reasons for optimism. Growth continued in the second quarter even as high gas prices ate into consumers' budgets and Walmart, Home Depot and Lowe's all reported growing e-commerce sales. Despite economic headwinds, we expect continued growth in e-commerce sales in the third quarter, including sales from Amazon's Prime Day, and the fourth quarter, which encompasses Black Friday and holiday shopping.

## Economic Indicators

<b>National Employment</b> (August) 152.7M 0.2% MoM ▲ 4.0% YoY ▲	<b>ISM Purchasing Manager's Index</b> (August) 52.8 0.0 MoM -6.9 YoY ▼
<b>Inventories</b> (June) \$2,419.5B 1.4% MoM ▲ 18.5% YoY ▲	<b>Imports</b> (July) \$274.1B -3.0% MoM ▼ 16.3% YoY ▲
<b>Core Retail Sales</b> (July) \$490.4B 0.7% MoM ▲ 9.3% YoY ▲	<b>Exports</b> (July) \$183.0B -0.2% MoM ▼ 23.7% YoY ▲

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

## Quarterly E-Commerce Sales



Sources: U.S. Census Bureau (BOC), CommercialEdge

# Transactions: New Jersey's Volume Driven by Numerous Sales

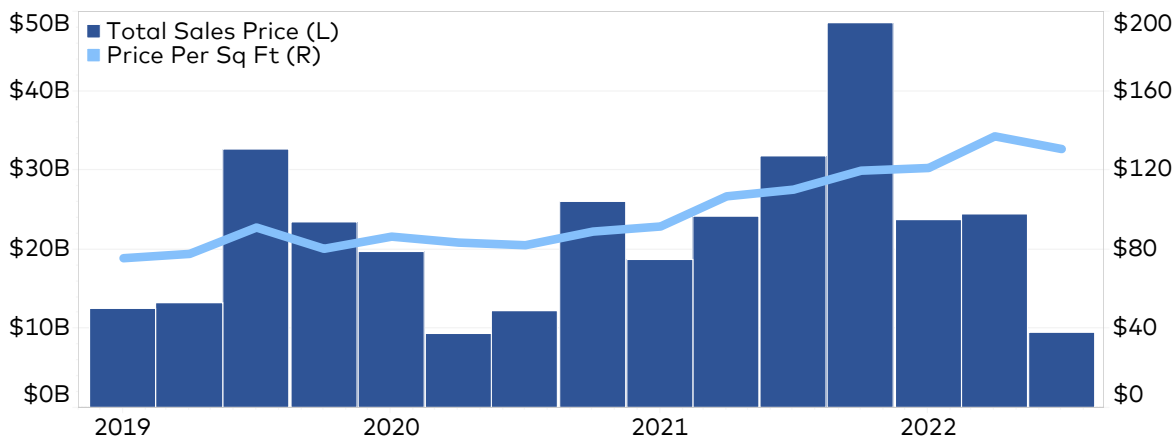
- Nationally, there were \$57.6 billion of industrial transactions during the first eight months of the year, according to [CommercialEdge](#).
- The average sale price of an industrial building in the third quarter sits at \$131 per square foot, 4.3% (\$6) lower than the second quarter. While it is too early to say whether prices in the third quarter will ultimately finish lower, the current dip deserves attention. The national average sale price has increased for seven straight quarters, and a decrease could signal cooling.
- Although there have been no major transactions in the market, New Jersey has been one of the highest-volume markets, thanks to a large number of smaller sales. So far, this year has seen \$2.3 billion in sales across 128 transactions. The largest is the \$110.4 million sale of Middlebrook Crossroads, an 18-building industrial park with 581,000 square feet of space. On a price-per-square-foot basis, the most expensive sale in the market has been LBA Realty's \$62.8 million purchase of 120 Frontage Road, a new property by Newark Liberty International Airport, for an average sale price of \$827 per foot.

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 08/31)
National	\$129	\$57,559
Los Angeles	\$295	\$3,709
Houston	\$149	\$3,401
Chicago	\$89	\$3,382
Inland Empire	\$336	\$3,208
Dallas	\$103	\$2,983
Phoenix	\$221	\$2,414
New Jersey	\$168	\$2,260
Philadelphia	\$114	\$1,817
Bay Area	\$237	\$1,657
Denver	\$169	\$1,313
Boston	\$177	\$1,262
Atlanta	\$105	\$1,180
Tampa	\$130	\$1,064
Columbus	\$83	\$882
Nashville	\$167	\$790
Orange County	\$360	\$774
Seattle	\$243	\$770
Baltimore	\$125	\$764
Twin Cities	\$106	\$710
Indianapolis	\$80	\$701
Memphis	\$61	\$667
Charlotte	\$101	\$643
Detroit	\$62	\$581
Portland	\$166	\$438
Cincinnati	\$72	\$417

Source: CommercialEdge. Data as of August 2022

## Quarterly Transactions



Source: CommercialEdge. Data as of August 2022

# Definitions

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CommercialEdge 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:

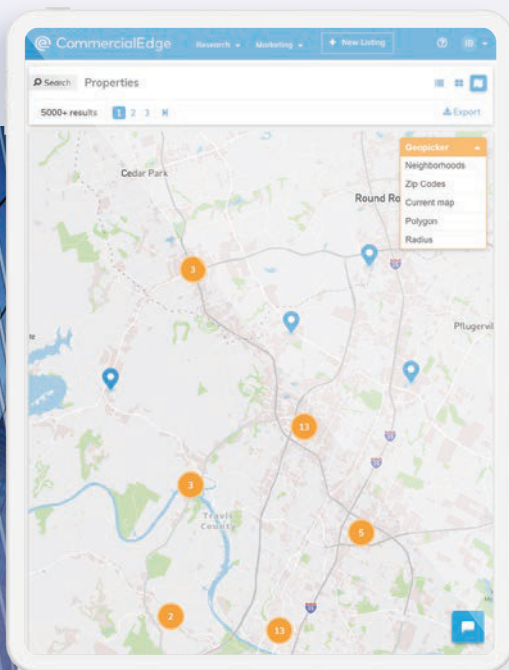
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

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.

# CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

**CommercialEdge** provides the industrial segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



## Key features:

- ✓ Continually growing nationwide coverage with 162 markets currently included
- ✓ Researched and verified data, powered by a team of 400 experienced property research specialists
- ✓ Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- ✓ Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- ✓ Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- ✓ Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- ✓ Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- ✓ Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

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## Contacts

**Peter Kolaczynski**

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

**Matt Gleason**

Senior Account Executive, Commercial  
Matthew.Gleason@Yardi.com  
(800) 866-1124 x7763

**Doug Ressler**

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

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