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National Industrial Report

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Land Scarcity Leads to New Approaches

- Despite levels of inflation not seen in 40 years and with many weary of a possible recession around the corner, demand for industrial space remains as high as ever. In June, the average in-place rents grew 4.9% year-over-year, the vacancy rate fell to 4.6% and the average cost of a new lease signed in the last 12 months was 88 cents higher per foot than the overall average. Supply of new industrial space cannot maintain pace with demand, a problem more pronounced in areas where geography limits the amount of land available for development. Port markets, and Southern California in particular, are most attuned to this issue.
- Consumer demand for quick delivery of online purchases is intensifying the need for well-located last-mile distribution facilities. In the supply chain, research from Prologis suggests that transportation accounts for roughly half of all costs, underscoring the need for well-located facilities, especially when considering the recent run-up in diesel prices. Offshoring of manufacturing in recent decades led to industrial areas in many major cities being rezoned as residential and commercial districts. Land scarcity is leading to new modes of operation from both occupiers and developers.
- One way developers are addressing this issue is multistory industrial. While common in Asia, multistory industrial buildings are rare in the United States. The main constraint is cost, with estimates pegging a multistory building as 40 percent more expensive than a single-story property with an equivalent amount of space. Nevertheless, large multistory buildings are being developed, including many of the multimillion-square-foot Amazon facilities completed of late. A joint venture between Turnbridge Equities and Dune Real Estate Partners will develop Bronx Logistics Center, a 500,000-square-foot multistory building with 800,000 square feet of parking between a garage and the roof.
- Outdoor storage is being used to fill gaps in the supply chain when there is a lack of sufficient land for industrial properties, with outdoor lots increasingly used by e-commerce and logistics companies. Institutional investors are setting their eyes on the niche sector for a few reasons: Outdoor storage properties are in high demand, and supply is fixed because cities do not want to add zoning for this purpose. Such properties come with minimal capital expenditures and low management requirements.
- The lack of land is also leading some developers to consider conversions of old office and retail space into industrial. Conversions remain rare at the moment but may increase in the future as land in coastal markets further evaporates.

