Yardi Matrix

National Industrial Report

January 2023

Industrial Outlook Solid for 2023

- Industrial went through a massive shift in recent years. Demand skyrocketed, vacancies plummeted and investors drove up average sale prices by more than 50% in three years. But 2023 may be when things finally normalize. This year we expect that the sector will cool somewhat but continue to expand and remain one of the more attractive asset classes in commercial real estate.

- Rising interest rates and a looming recession will slow leasing activity as businesses pause expansion plans and grapple with a higher cost of borrowing. Supply-chain normalization will lead to less need for increased inventories than was common in recent years, further slowing leasing. Still, import flow will continue to drive demand in already tight port markets, and we anticipate the overcrowding of Southern California ports and industrial markets will lead to increased demand for industrial space along the East Coast in markets like New Jersey, Houston and Savannah-Hilton Head.

- Interest rate hikes will also continue to put downward pressure on transaction volume. Yardi Matrix has logged $88.3 billion in industrial sales for 2022, down from $125.7 billion in 2021. Year-over-year sales volume was up in the first half of last year, but fell quickly in response to rate increases by the Federal Reserve. We expect that sales volume will remain muted in 2023, but could quickly rebound once rate hikes stop and the market adjusts to the new environment.

- E-commerce will continue to create industrial demand in 2023, albeit at lower levels than seen during previous years. Online purchases will continue to grow their share of retail sales, and big-box retailers will continue to embrace digital and omnichannel sales. Amazon's 2022 pullback will not be reversed this year, and consequently there will be less demand for multimillion-square-foot distribution centers this year than during the first two years of the pandemic. However, we expect that demand for last-mile distribution facilities will grow, especially for well-located facilities in high-growth markets.

- New industrial supply hit record levels in 2022, and we expect 2023 to set another high-water mark. In the 118 markets covered by Yardi Matrix, more than 450 million square feet were delivered last year and 713 million square feet are under construction. Despite historic levels of new supply, it was not enough to keep up with demand. The average vacancy rate for the top 30 markets fell steadily throughout the year, currently sitting at 3.9%. We expect that due to a cooling economy and healing supply chains, absorption will be positive this year, but lower than in previous years.