National Industrial Report

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Supply Chain Woes Beset Industrial

- Supply chains have dominated the spotlight in recent months as backlogs and bottlenecks have fueled inflation to 40-year highs. Among the culprits causing the disruption: a stronger-than-anticipated post-pandemic rebound in demand; shutdowns in China due to the country's "zero-COVID" policies that halted operations in factories; a truck driver shortage that began long before the pandemic but was exacerbated by the virus and new regulations to tighten drug and alcohol compliance and limit drivers to 11 consecutive hours on the road; and ships waiting to offload containers at ports.

- Supply-chain challenges are emphasizing the need to be well located and pay a premium for space in port markets, which are seeing the largest gains for in-place rents in 12 months, led by the Inland Empire (8.7%), Boston (8.0%), New Jersey (7.8%), Los Angeles (7.0%) and Orange County (6.8%). Vacancy rates are likewise lowest in port markets. Southern California is the tightest region—the Inland Empire sits at 0.8%, Los Angeles 1.9% and Orange County 3.1%. The United States is a consumption-driven economy, and most goods come into the country from elsewhere. Estimates peg transportation as accounting for at least half of companies' supply-chain costs. Although energy prices have fallen of late, those costs are still elevated compared to historical averages.

- Supply-chain bottlenecks have delayed the timetable for new industrial property deliveries, causing something of a vicious cycle to emerge. New industrial supply that would ease some headaches is being delayed, placing further stress on the supply chain. Amazon in recent years has dominated the markets for steel and other supplies used in warehouse construction, leading to industry-wide delays in delivery times for the material needed to build new properties. The company's recent pullback on industrial leasing and construction should help alleviate some pressures on the new-supply market.

- Recent supply-chain stresses have illuminated exactly how dependent the U.S. is on other countries for both raw materials and finished products. As a result, firms are now exploring reshoring and near-shoring of manufacturing, which would reshape supply chains but also lead to new challenges. Port markets could find some relief from more goods being made at home, but that would increase exports. U.S. rail and highway infrastructure will need to be upgraded to handle the increased domestic and cross-border movement of goods. In the near and medium term, current issues will be here to stay, as supply chains are massive, complex systems that take a long time to fundamentally change.