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National Industrial Report

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Cautious Optimism as Year Winds Down

- The industrial sector remains on solid footing heading into 2023 despite rising interest rates, volatile capital markets, flattening e-commerce sales growth and Amazon's paused expansion plans.
- The largest logistics providers in the nation paint a picture of cautious optimism for the logistics sector in recent earnings calls and research reports. Link Logistics, the logistics arm of Blackstone, is seeing "healthy, broad-based demand" and said that during the third quarter its same-store portfolio was 97.4% leased. Despite economic uncertainty, Link indicated that real-time data and insights from its platform provide "conviction in the favorable outlook for the logistics sector." Prologis' Industrial Business Indicator research report forecasts that the frantic pace of logistics leases will normalize in coming months.
- Although Prologis stated in its recent earnings call that it will slow speculative projects and favor developments with committed tenants, deliveries for the industrial sector as a whole will remain historically elevated at least through 2024. The new development pipeline continued to expand in the third quarter despite the headwinds of increasing financing costs and general economic uncertainty, signaling that demand for space continues to outstrip the pace of new deliveries. There are 713.6 million square feet of industrial space under construction, representing 4.0% of stock, according to Yardi Matrix, and nearly 350 million square feet have already been delivered this year. Despite historic levels of new deliveries, the national vacancy rate, at 4.0% in October, has fallen steadily throughout the year. For a sector that has run hot for more than two years now, increased deliveries combined with the "slightly lower net absorption" in logistics that is forecasted by Prologis Research could bring more sustainable growth to industrial real estate.
- We expect that demand for industrial space will remain strong in coming years, although it is unlikely that the torrid pace at which the sector grew during the pandemic will be seen again. While the rapid growth of e-commerce and logistics may taper off, the slack could be picked up by reshored manufacturing. Numerous semiconductor plants were underway when 2022 began, and the passage of the CHIPS and Science Act, which includes billions in incentives for chip manufacturing, will stimulate further investment in semiconductors. Because they are a critical component in the production of countless goods—from washing machines and automobiles to smart phones and medical equipment—expanded chip manufacturing is a vital first step in a reshoring movement.

