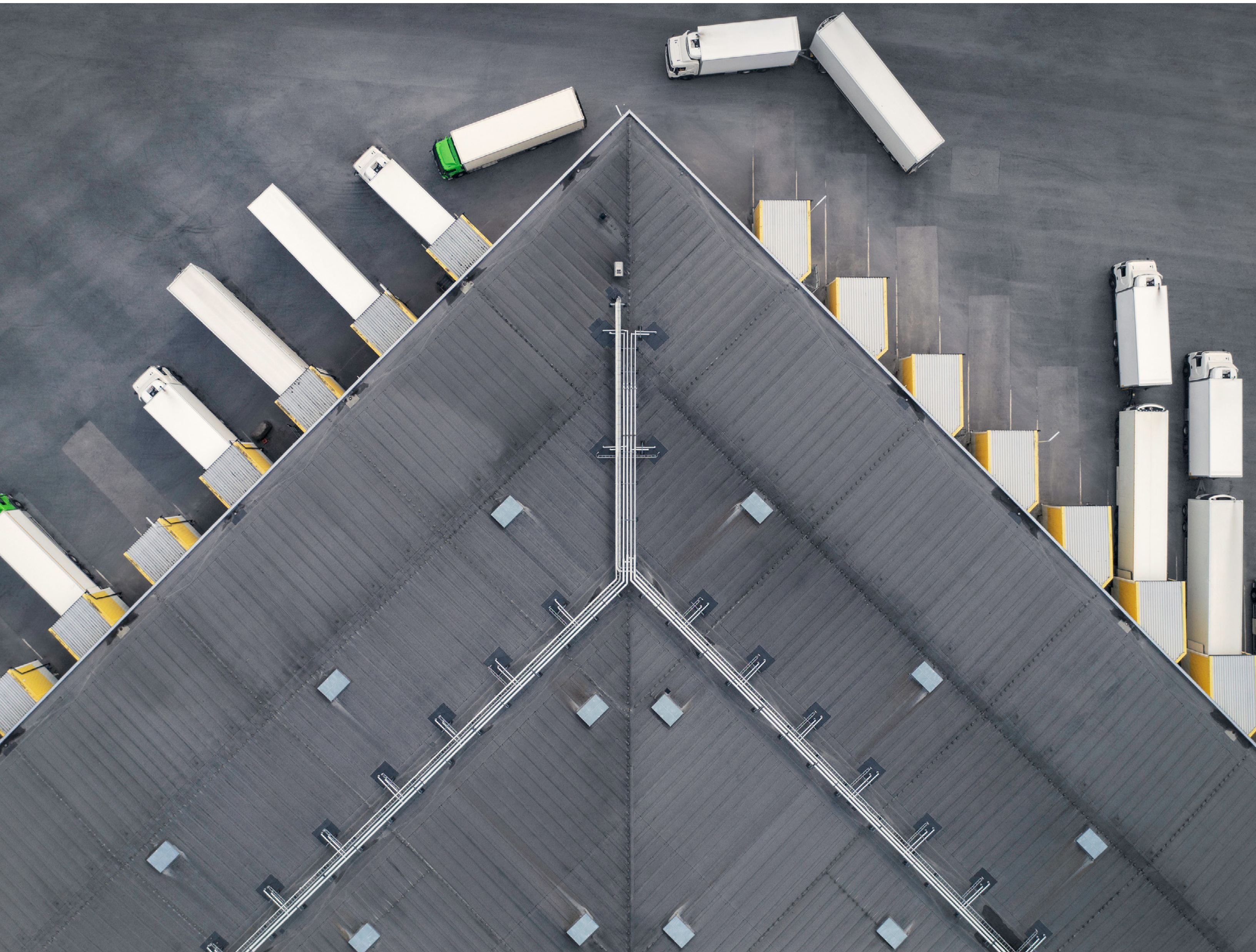
Yardi Matrix

National Industrial Report

February 2023



Demand Pumps Up New Lease Rates

- Demand for industrial space has remained elevated since the pandemic started, and owners are benefiting when leases expire, according to Yardi Market Insight, a cutting-edge service that uses anonymized and aggregated data from other Yardi platforms. Yardi Market Insight found that leasing spreads—the difference between a new lease signed over the past six months and the prior rate for the same space—are up substantially. Of the 63 markets covered by Insight, 44 have a lease spread greater than 10%, and 16 are higher than 20%. The largest spreads are generally found in port markets and logistics hubs, although some tertiary and emerging markets have seen outsize spreads, as well.

- The ports of Los Angeles and Long Beach set records for number of containers handled in recent years and were a key bottleneck during the worst of the supply-chain crisis. This led to skyrocketing demand for industrial space, and in turn, to Southern California having some of the nation's largest leasing spreads. The Inland Empire, the hottest industrial market in the country, has a lease spread of 28.2%, Los Angeles 22.8% and Orange County 14.9%. Southern California industrial markets are so crowded that nearby markets are experiencing overflow demand. Central Valley's lease spread is 17.2%, Las Vegas' is 15.9%, and Phoenix—despite having more than 52 million square feet deliver in the last three years (15% of stock)—has a spread of 16.5%.

- Port markets are in high demand along the East Coast, as well. Boston has a lease spread of 22.5%, Charleston 21.5% and New Jersey 18.8%. Akin to what's happening on the West Coast, overflow demand is driving up spreads in places that are adjacent to port markets. Allentown-Bethlehem has a leasing spread of 21.6%. Cross-border shipping ports are also driving large lease spreads, as evidenced by El Paso's 24.9% spread.

- Lease spreads are lowest in Midwestern markets, especially those that have not established themselves as a logistics hub or those that have a substantial new delivery pipeline. In Kansas City, the spread is 4.4%, St. Louis 4.8%, Chicago 5.4% and the Twin Cities 5.8%. Even in Indianapolis, one of the most active logistics markets in the country, the lease spread is only 7.6%.

- With such substantial lease spreads, properties with leases that expire soon will be more attractive on the transaction market. Given the current interest rate environment and economic uncertainty, leasing expiration schedules could be the difference between a deal penciling or not.