



Yardi Matrix

# National Industrial Report

August 2023





# Rate Increases Cool Industrial Off

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- The Federal Reserve's fight against inflation has led to multiple interest rate hikes over the last 18 months. As capital has become more expensive and scarce, industrial construction starts and sales have slowed, but rent growth remains strong and vacancies tight.
- After 586.2 million square feet were started in 2021 and 614.5 million last year, only 177.8 million have been started so far in 2023. Material and labor costs were already a headache for new development, and demand has been normalizing in recent quarters. Now, the increased cost of construction financing has led many developers to press the pause button on projects.
- Interest rates have slowed sales volume but not yet impacted the average price of the properties that sell. Industrial sales volume was \$98.5 billion last year and \$128.2 billion in 2021, but through the end of July, just \$27 billion of sales have occurred this year. The national average sale price has increased slightly, according to Yardi Matrix, from \$124 per foot in 2022 to \$131 in 2023. Some of the slowdown in sales may be due to a bid-ask gap between buyers and sellers. Given strong rent growth and low vacancies, owners are comfortable holding properties, and many of the large institutional owners in the sector are not highly leveraged and sensitive to rate increases, anyway. Buyers, on the other hand, may be hesitant to pay historically high figures when capital is expensive.
- Leasing activity has slowed this year, due to tenants likewise having to deal with the converging forces of higher rates, economic uncertainty and normalizing e-commerce demand. Additionally, there have been reports of a growing amount of sublease space available as tenants look for ways to increase cash flow and streamline supply chains. Still, in-place rent growth remains strong—with the national rate increasing 7.5% over the last 12 months—and vacancy rates have remained low, slowly ticking up despite historic levels of new supply coming to market.
- Even within a tight interest rate environment, industrial is performing better than other asset classes and long-term demand drivers remain positive. The reshoring and nearshoring of manufacturing continues to pick up steam, and although e-commerce cooled in the quarters coming out of the pandemic, the gains that were made have become entrenched. We anticipate that once inflation cools, the question of soft landing vs. recession is settled and interest rates fall, the appetite for development and sales will return in force, though likely not at levels seen during the pandemic.

