

---

1Q22 – UNITED STATES INDUSTRIAL

# The National Industrial Market: Conditions & Trends

**NEWMARK**



---

# Industrial Market Observations

## 1. The Market Continues To Tighten; The Supply Pipeline Expands

- High demand and lagging construction deliveries have led to a vacancy rate of 4.0%, with virtually no available space in numerous markets.
- Average asking rents grew 12.8% year-over-year. Rent growth was significantly higher in seaport-serving markets.
- The supply pipeline rose to nearly 550 million square feet, a new record.

## 3. Supply Chain Woes will Likely Continue through 2022.

- China's Zero-Covid policy and the war in Ukraine have serious implications for global supply chains, and lead times for production materials have lengthened to new heights.
- Domestic expansion in the manufacturing sector is on the rise to support long term resiliency, particularly in advanced manufacturing industries.

## 2. Elevated Inflation and Rising Interest Rates Have Wide-Ranging Impacts

- Inflation is at a four-decade high, impacting every participant across the industrial spectrum from production and development, to the end-consumer. The Federal Reserve has begun a series of interest rate hikes to tame inflation.
- Amid a higher interest rate environment, continued industrial cap rate compression will likely depend on local market and property conditions.

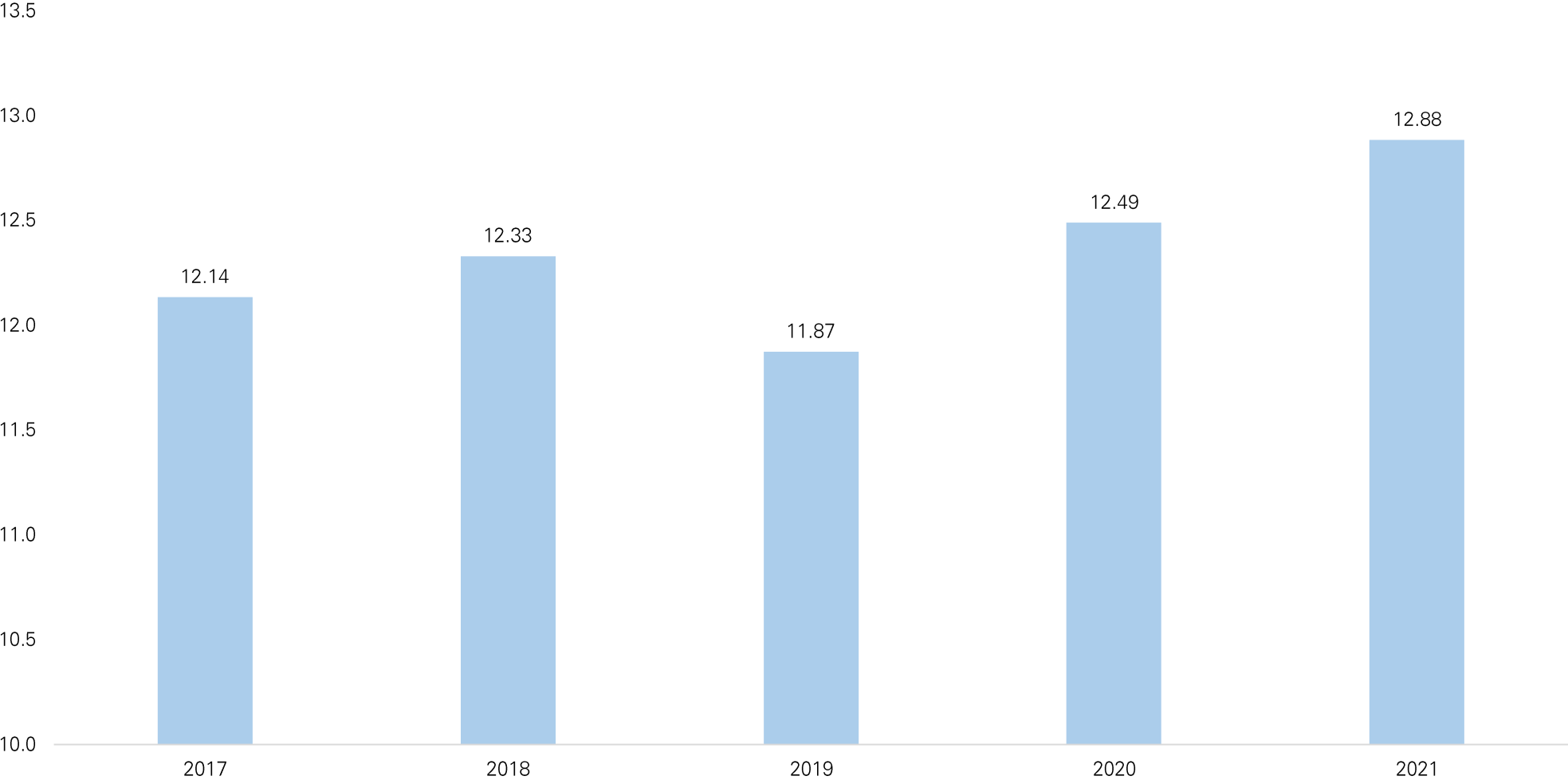
## 4. The American Consumer and Corporate Profits Remain Strong Despite Economic Concerns

- Demand exceeds supply in the labor market. In March 2022, there were nearly two job openings for every unemployed person.
- Consumers continue robust spending on goods: when adjusted for inflation, goods sales are up 6.6% from the trendline set pre-pandemic.
- Corporate profit margins are declining due to inflationary pressures but remain near historic heights.

# Construction Timelines Lengthening, Hampering Speed to Market for New Supply

Warehouses delivering in 2021 took nearly 13 months to complete on average, owing to a host of supply chain, labor and cost challenges.

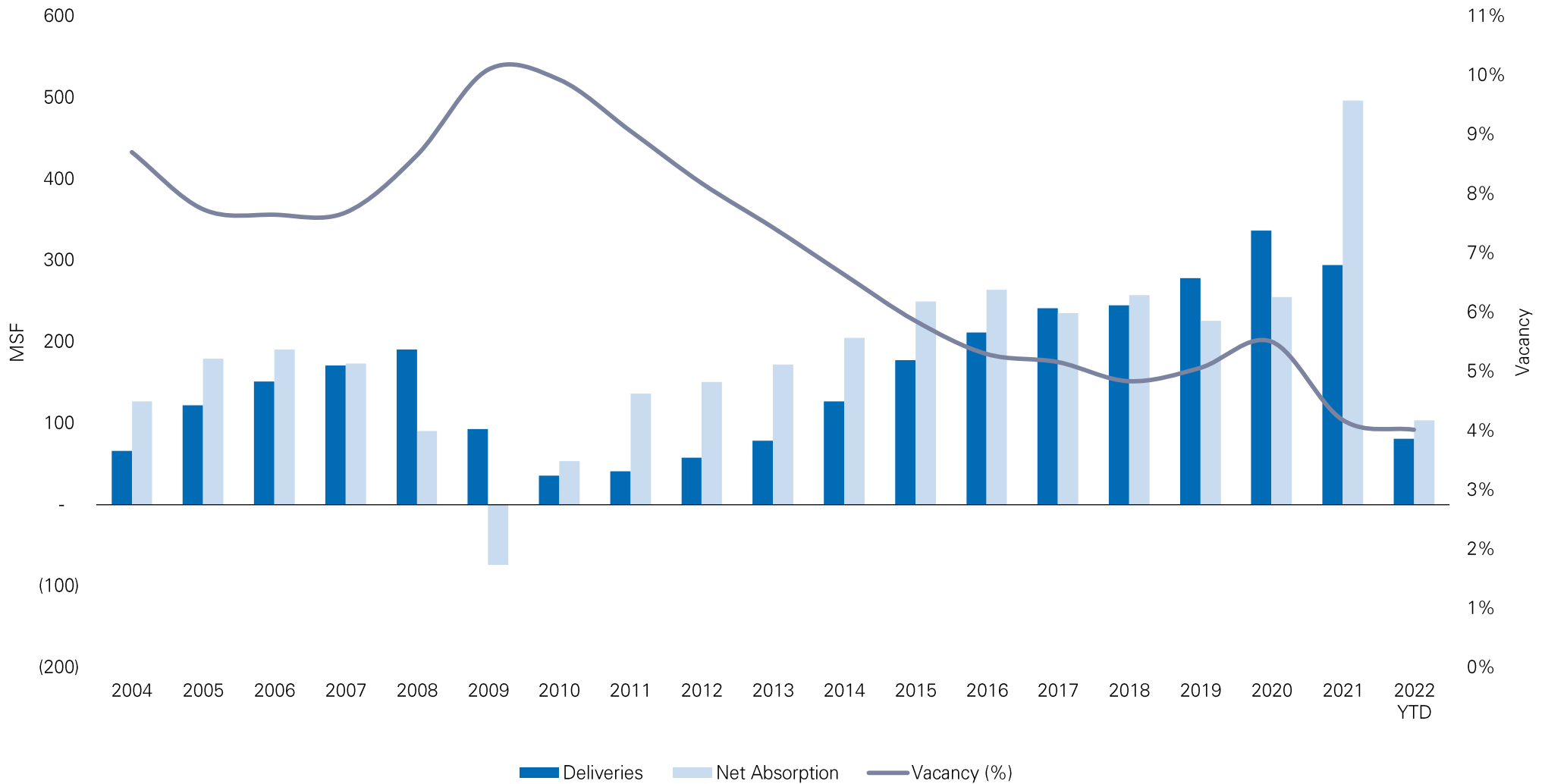
**Average Number of Months Between Groundbreaking and Delivery**



Source: Newmark Research, May 2022. Warehouses greater than 100,000 SF.

# United States Industrial Deliveries, Net Absorption, and Vacancy

In 2021, absorption outpaced new supply additions by nearly double the amount. The suppl/demand imbalance continued in 1Q22, and is expected to gradually approach equilibrium by year-end, causing vacancy to remain at record lows.



Source: Newmark Research, May 2022.

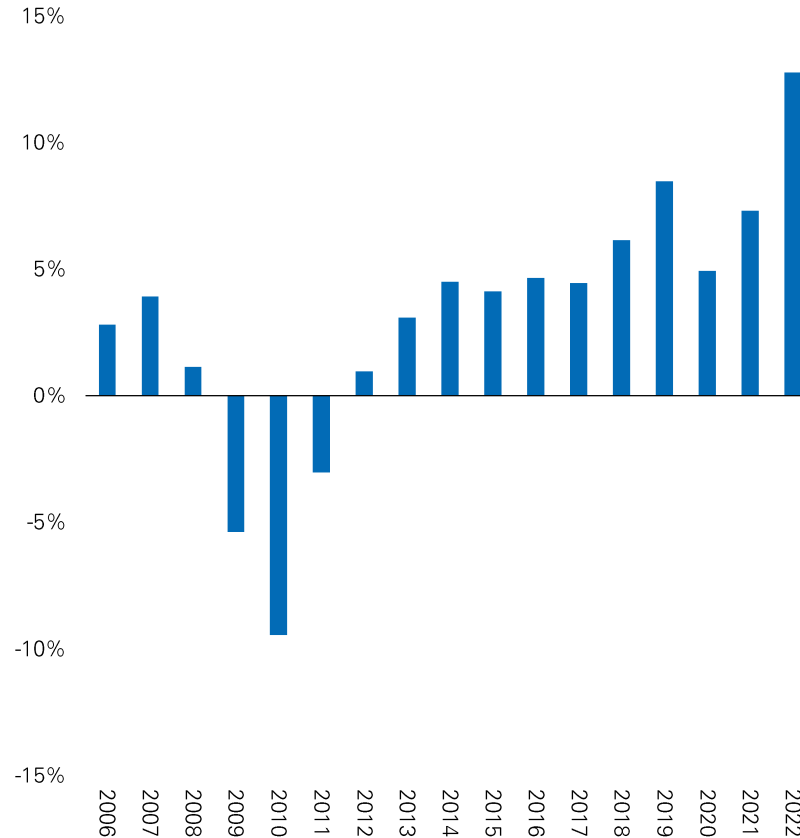
# United States Industrial Asking Rents

Accelerated rent growth continued in 1Q22 amid unprecedented demand and historically low vacancy, rising 12.8% since 1Q21– the second highest year-over-year increase on record. Seaport markets and growing distribution hubs within a one-day-drive radius from those ports are experiencing the most precipitous rent growth, fueled by robust consumer spending.

## Asking Rent: Top 10 Markets

Market	1Q22 NNN Avg. Asking Rent \$/SF
Silicon Valley*	\$27.30
Oakland/East Bay	\$18.87
Orange County, CA	\$17.04
Long Island	\$15.16
San Diego	\$14.48
Los Angeles	\$14.22
Boston	\$12.81
Inland Empire, CA	\$12.37
New Jersey Northern	\$12.23
Seattle	\$12.23
<b>United States</b>	<b>\$9.26</b>

## U.S. Industrial Annual Rent Growth



## Asking Rent Growth: Top 10 Markets

Market	1Q22 Rent Growth (YOY)
Inland Empire, CA	40.6%
Oakland/East Bay	34.5%
Las Vegas	29.9%
Miami	28.7%
Los Angeles	27.5%
Sacramento	26.6%
Phoenix	23.5%
New Jersey Northern	23.4%
Orange County, CA	20.6%
Seattle	18.7%
<b>United States</b>	<b>12.8%</b>

\*Note: An outsized share of the Silicon Valley industrial market is R&D space which contributes to the relatively high overall asking rent.

Source: Newmark Research, May 2022.

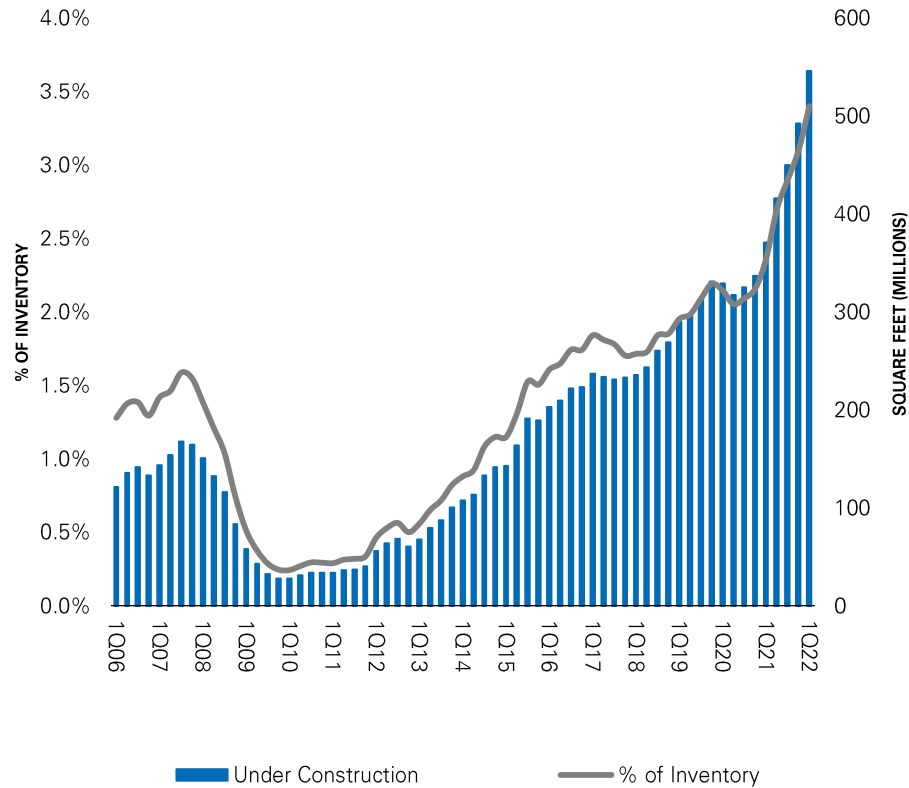
# United States Industrial Supply

Construction volumes continue to break new quarterly records amid delays in deliveries and developer movement into growing markets. Inventory modernization and growth is particularly accelerating in superregional distribution hubs, both established (Dallas, Chicago) and emerging (Phoenix, Indianapolis).

## Construction Volume: Top 10 Markets

Market	1Q22 Under Construction (MSF)
Dallas	74.4
Phoenix	36.4
Inland Empire, CA	33.2
Chicago	25.5
Indianapolis	24.7
Penn. I-81/78 Corridor	23.7
Philadelphia	20.3
Houston	18.4
Salt Lake City	16.2
Atlanta	15.4
<b>United States</b>	<b>546.1</b>

## U.S. Industrial Under Construction and % of Inventory



## Construction Growth: Top 10 Markets

Market	1Q22 Under Construction (% of Inventory)
Charleston, SC	12.8%
Phoenix	10.8%
Austin	8.2%
Dallas	7.5%
Indianapolis	6.7%
Las Vegas	6.1%
Salt Lake City	6.0%
San Antonio	6.0%
Denver	5.9%
Raleigh/Durham	5.8%
<b>United States</b>	<b>3.4%</b>

Source: Newmark Research, May 2022.

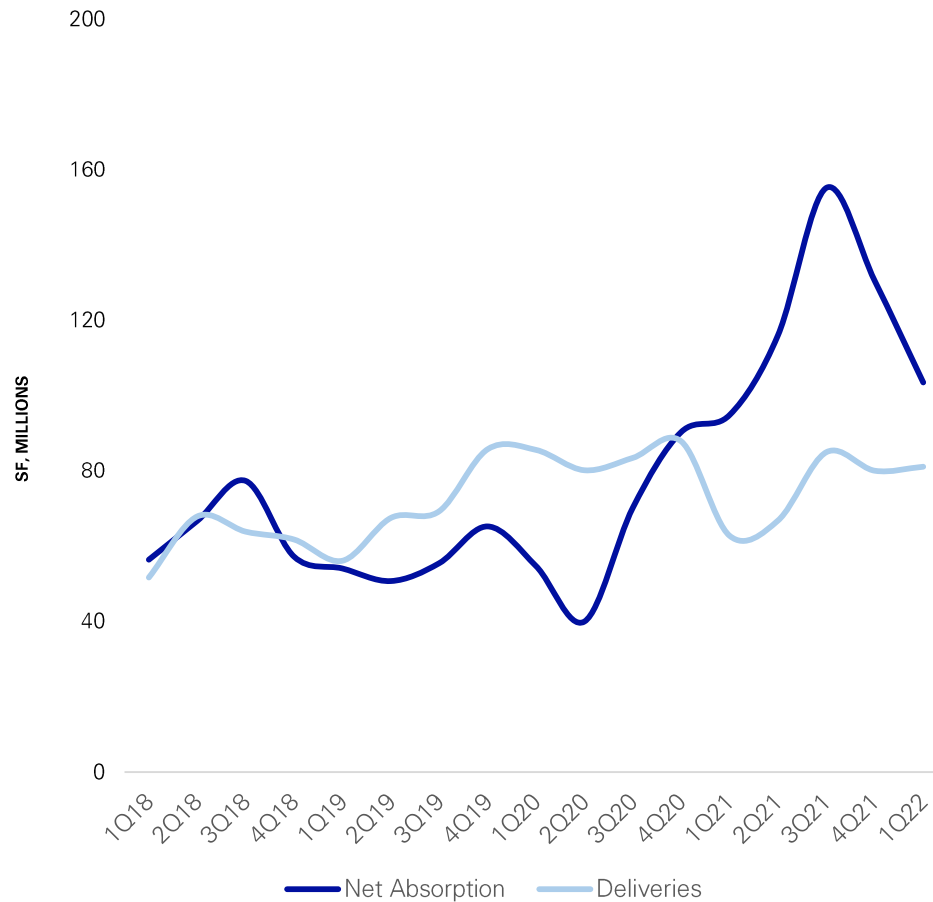
# United States Industrial Demand

1Q22 marked the fourth consecutive quarter of absorption exceeding 100 million square feet. Absorption is fueled by new supply additions as tenants seek modern space; thus absorption has been constrained as construction completions have not kept pace with demand.

## Net Absorption: Top 10 Markets

Market	2022 YTD Net Absorption (MSF)
Chicago	10.8
Atlanta	7.8
Austin	6.0
Penn. I-81/78 Corridor	5.9
Houston	5.6
Columbus	4.7
Indianapolis	4.6
San Antonio	4.5
Philadelphia	4.5
Salt Lake City	4.4
<b>United States</b>	<b>103.5</b>

## Quarterly Net Absorption and Deliveries



## Demand Growth: Top 10 Markets

Market	2022 YTD Net Absorption (% of Occupied SF)
Austin	5.6%
San Antonio	3.3%
Columbus	1.8%
Charleston, SC	1.8%
Salt Lake City	1.7%
Penn. I-81/78 Corridor	1.5%
Indianapolis	1.3%
Cincinnati	1.3%
Atlanta	1.2%
Phoenix	1.2%
<b>United States</b>	<b>0.7%</b>

Source: Newmark Research, CoStar, May 2022.

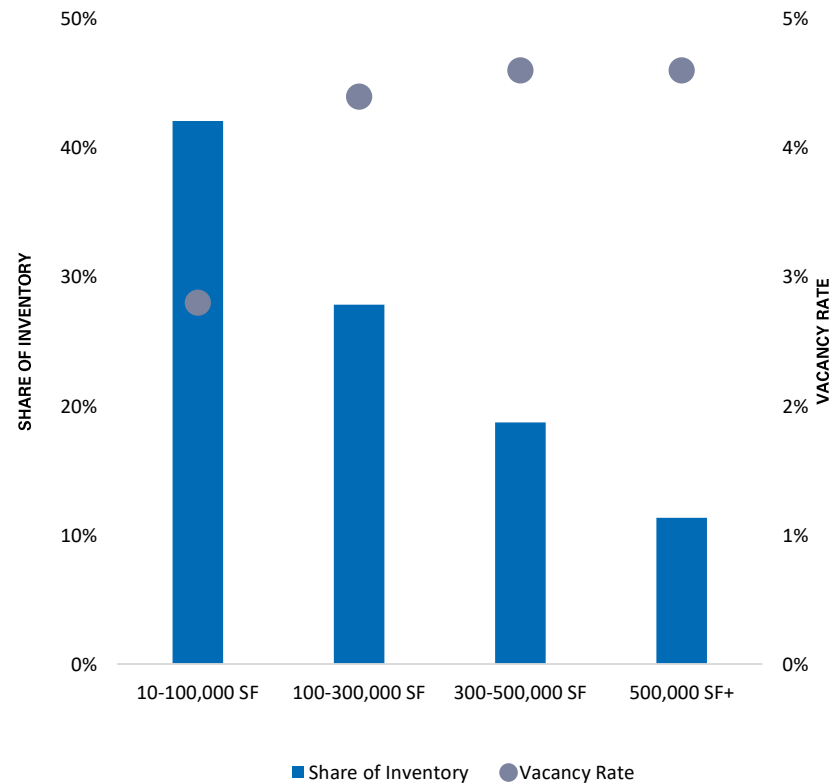
# United States Industrial Vacancy

Each of the nation's 49 tracked industrial markets displayed single-digit vacancy in 1Q22, with numerous markets posting razor-thin vacancy rates under 3.0%. Vacancy remains lowest in facilities under 100,000 SF, which represent the largest share of the national inventory.

## Lowest Vacancy: Top 10 Markets

Market	1Q22 Vacancy
Inland Empire, CA	0.6%
Los Angeles	0.9%
Salt Lake City	1.9%
Sacramento	2.0%
Orange County, CA	2.2%
Las Vegas	2.4%
Columbus	2.4%
Miami	2.8%
Milwaukee	2.8%
New Jersey Northern	2.9%
<b>United States</b>	<b>4.0%</b>

## 1Q22 Industrial Vacancy Rate by Building Size



## Largest Vacancy Decline: Top 10 Markets

Market	1Q21-1Q22 Vacancy Change (Bps)
Austin	-340
Greenville, SC	-340
Penn. I-81/78 Corridor	-283
Charleston, SC	-280
Las Vegas	-276
Indianapolis	-250
Baltimore	-234
Houston	-220
San Diego	-200
Cincinnati	-196
<b>United States</b>	<b>-125</b>

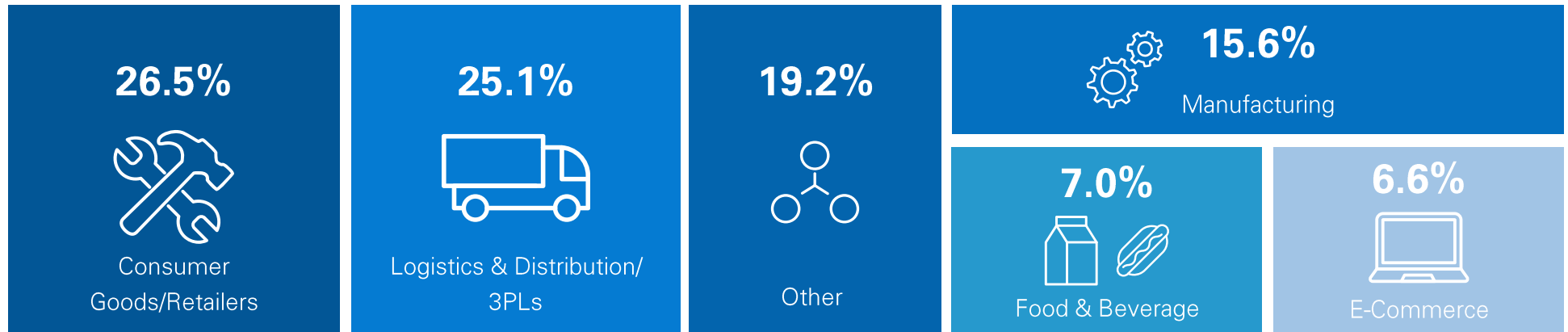
Source: Newmark Research, CoStar, May 2022.



# United States Industrial Leasing Trends

Driven by strong consumer spending, consumer goods/retailers and logistics & distribution/3PLs combined to account for the majority of industrial leasing activity in 1Q22.

## Top Industrial Leasing Activity By Sector, 1Q22



### Notable 1Q22 Lease Transactions

Tenant	Building	Market	Type	Square Feet	Industry
Hart Consumer Products	1956 Moore Duncan Hwy.	Greenville	Direct New	1,850,113	Consumer Goods
Macy's	475 E. NC-152 Hwy.	Charlotte	Direct New	1,412,980	Retailer
Lowe's	Crismon Rd. & Pecos Rd.	Phoenix	Direct New	1,263,080	Retailer
Amazon	8560 E. Elliot Rd.	Phoenix	Direct New	1,194,923	E-Commerce
Unis	Wild Cat Dam Rd. & Main St.	Savannah	Direct New	1,193,920	Logistics & Distribution/3PL

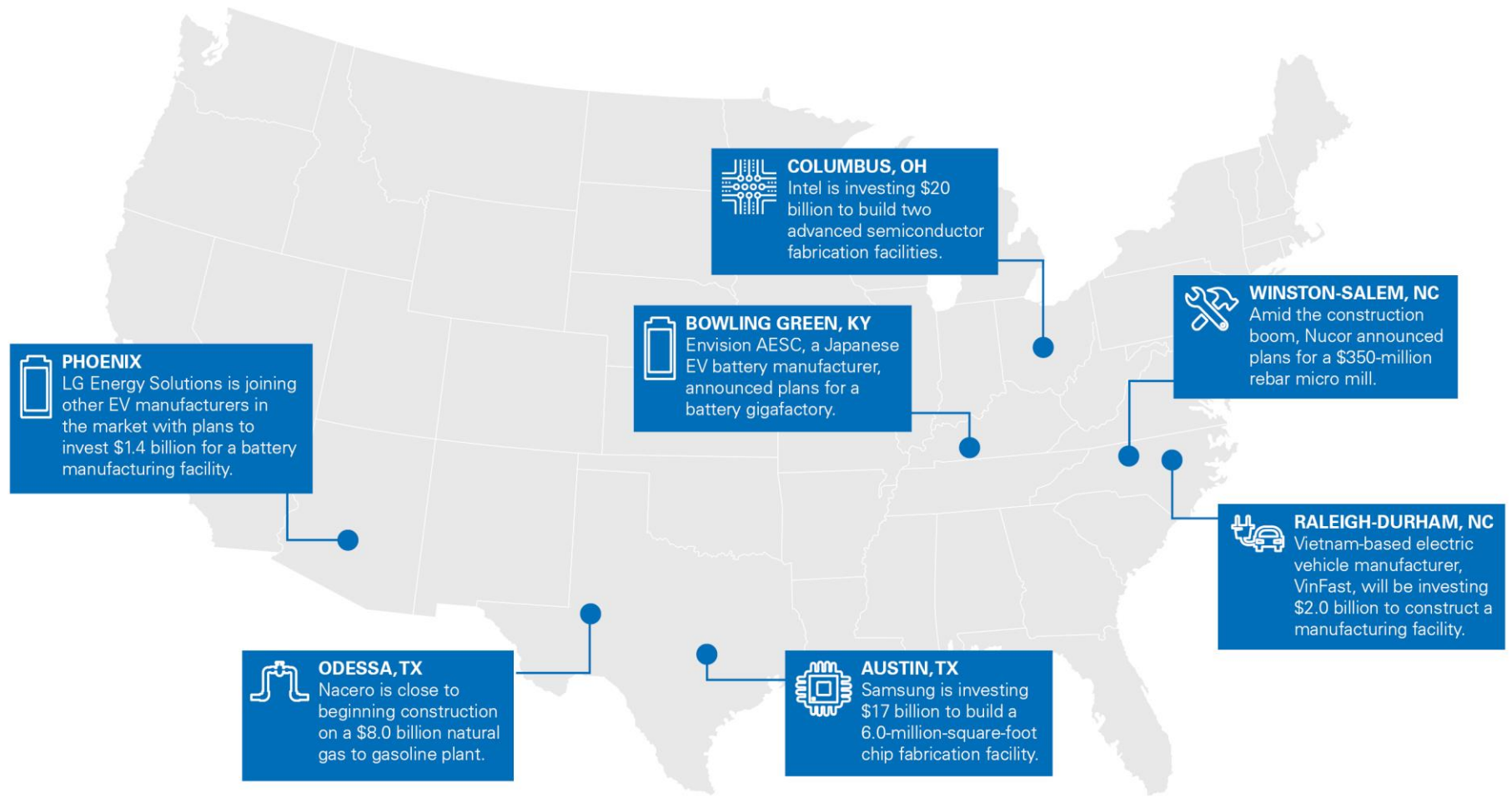
\*Note: Based on top leasing activity in markets tracked by Newmark

Source: Newmark Research, May 2022.

# Consumer Spending and Supply Chain Issues Driving Manufacturing Resurgence

Despite surging inflation affecting every component of the manufacturing process from raw materials and supplies to labor and logistics, manufacturers continue to invest in new production facilities. The manufacturing sector is experiencing growth from domestic companies, as well as foreign direct investment, reshoring, and nearshoring. Manufacturing construction starts increased by 60% year-over-year to 5.6 MSF in 1Q22.

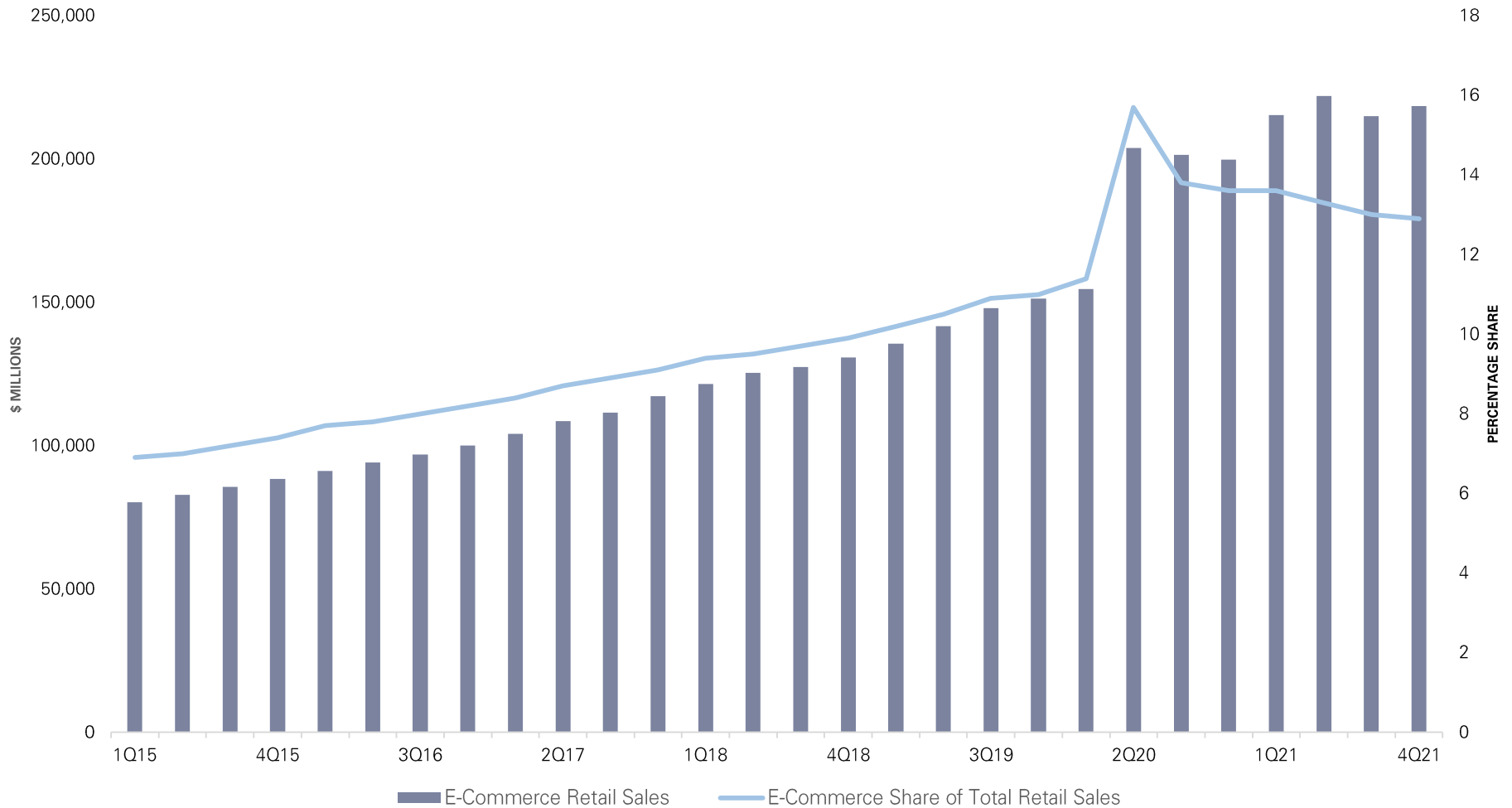
## Select New Manufacturing Announcements



Source: Real Capital Analytics, May 2022. R&D Manufacturing excluded from totals.

# E-Commerce Sales Moderating to Pre-Pandemic Growth Trendline

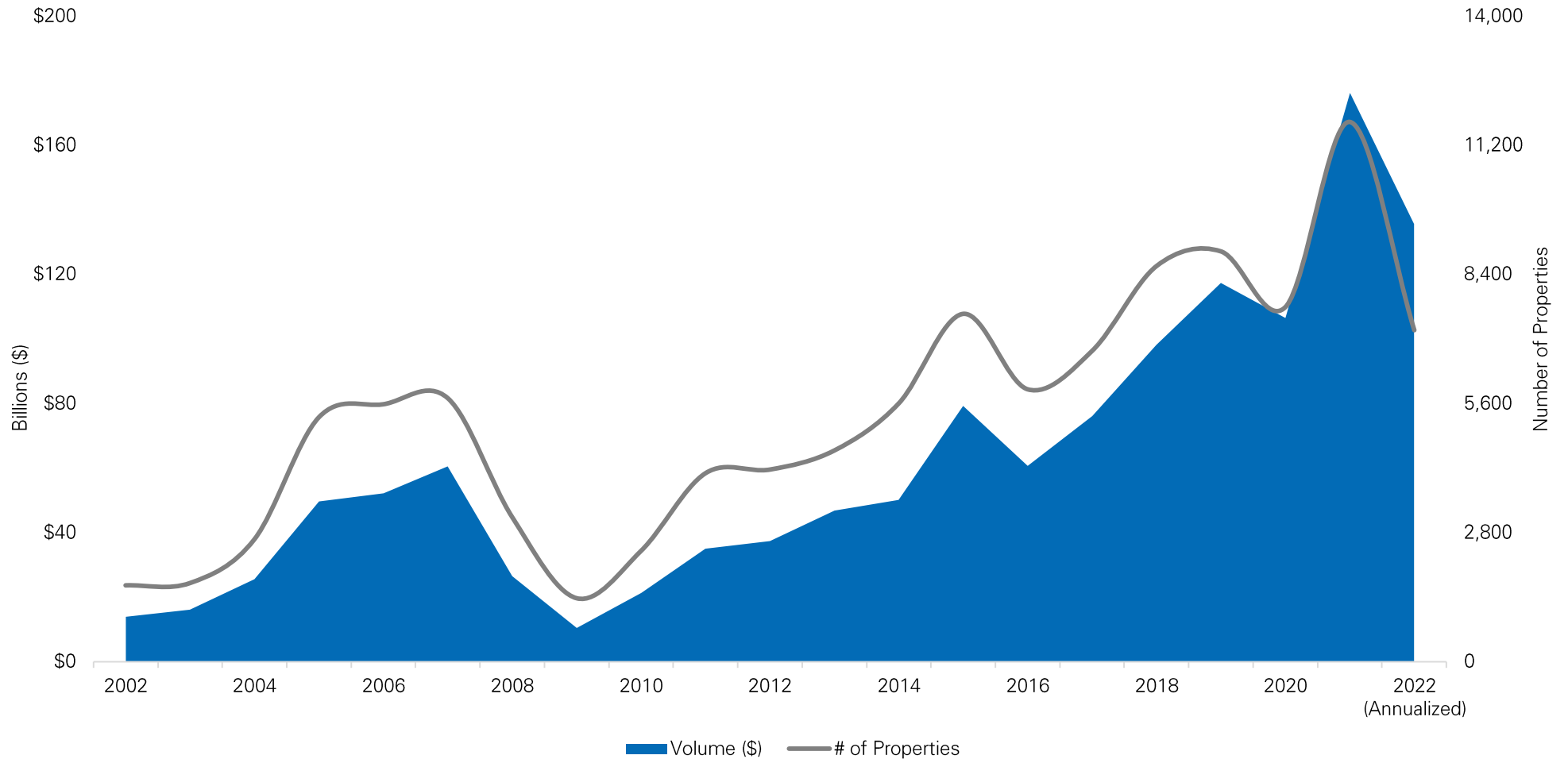
E-commerce's share of total retail sales spiked during the pandemic and has moderated back to a trend of strong annual growth, which will continue to drive demand for industrial space.



Source: St Louis FRED, May 2022.

# Strong Sales Volume Continues with Additional Interest Rate Hikes Ahead

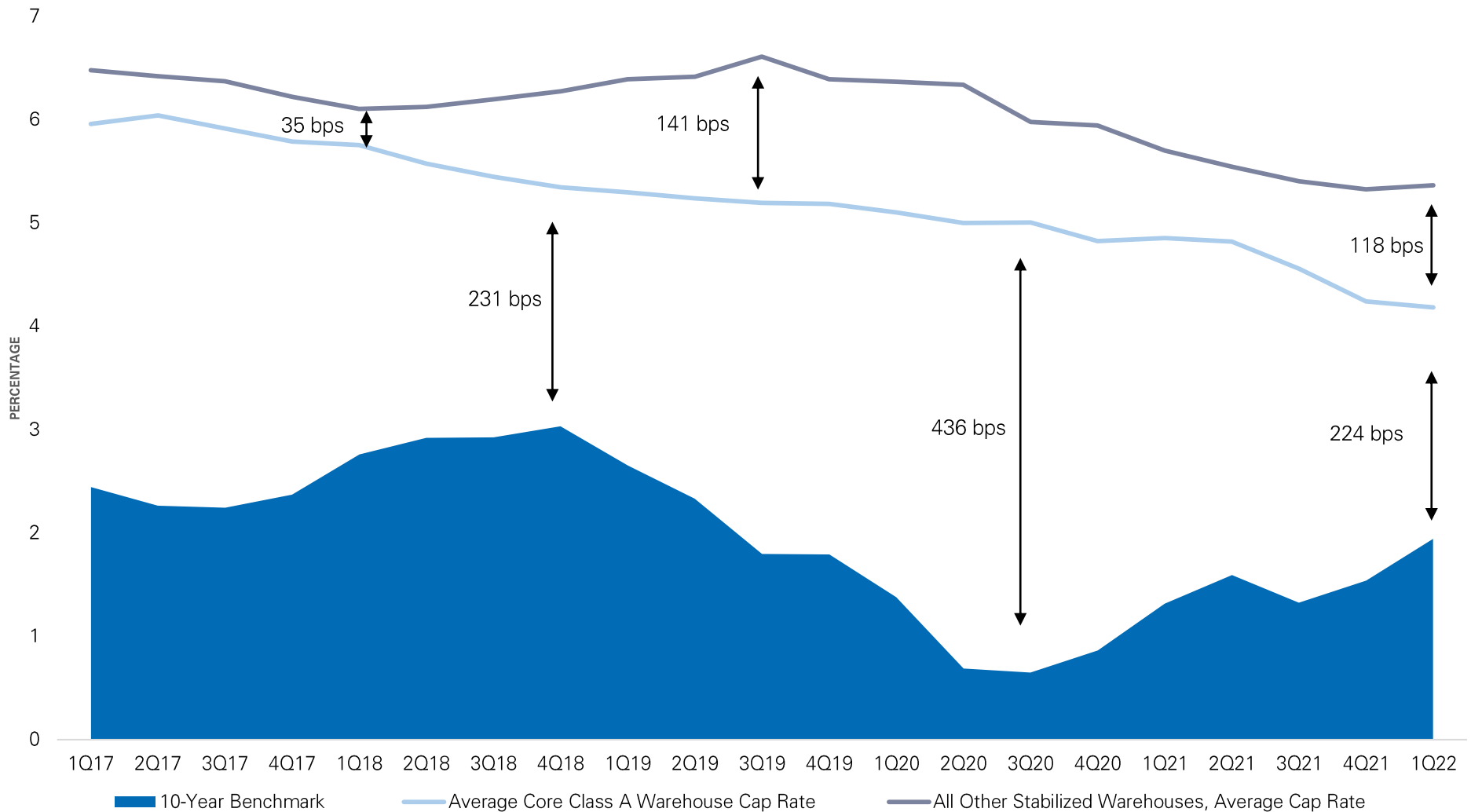
Sales volume for 1Q22 represented the second highest first-quarter total in the last six years, and signified continued strong investor sentiment for the industrial asset type. While interest rate hikes scheduled throughout 2022 will be a headwind for some investors, little-to-no leverage investors and institutional investors with preferred borrowing status will have considerable advantage and continue to seek opportunities in the industrial sector.



Source: Real Capital Analytics, May 2022.

# Industrial Cap Rate Performance May Vary Across Investment Opportunities

Core Class A warehouse product has seen the greatest compression in cap rates, with a 67 bps decline yearover-year. Interest rates are set to increase incrementally and the 10-year Treasury is expected to peak between 2.7% and 3.0% during 2022. Further compression of cap rates will likely depend on market and individual property dynamics, and the fluctuating cost of debt – which remains at historically low levels.

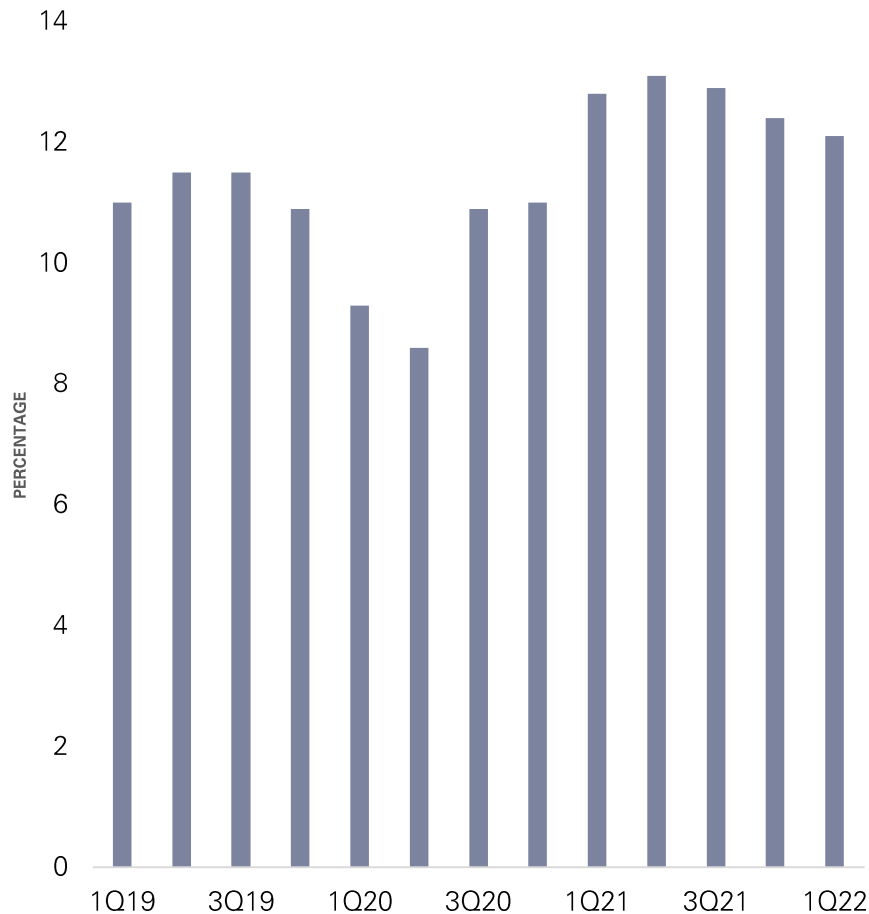


Source: Newmark Research, Real Capital Analytics, St Louis FRED, May 2022.

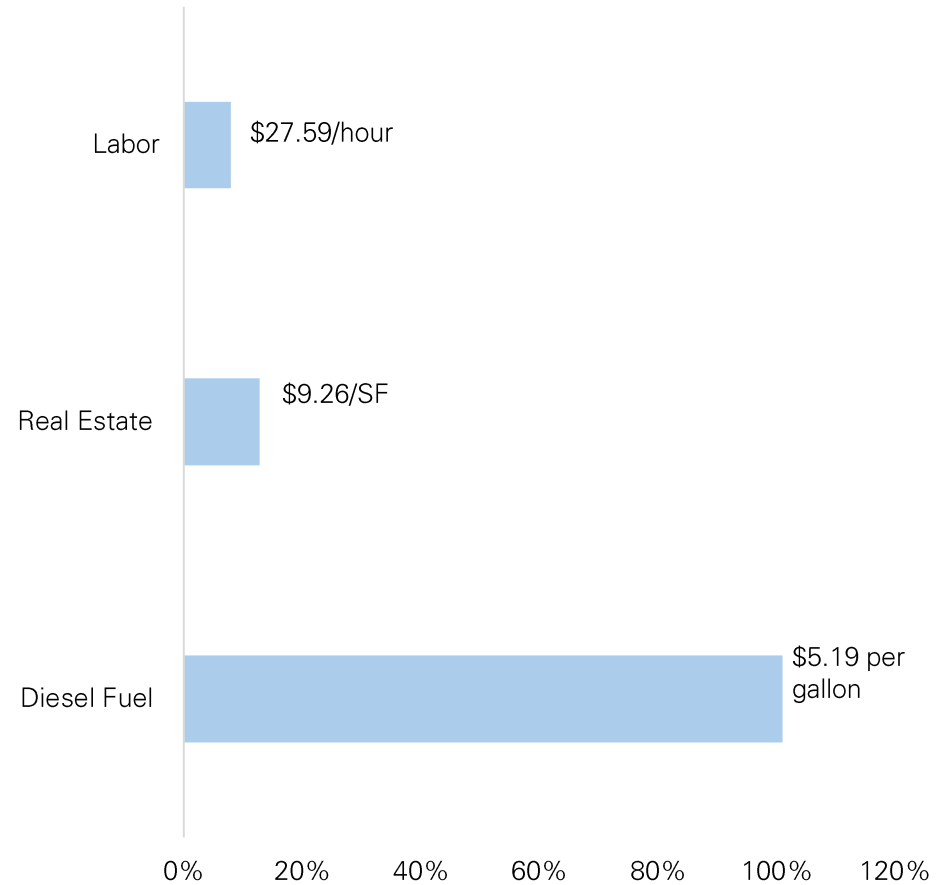
# For Industrial Occupiers, Everything Costs More – Especially Transportation

Many corporations tallied record profits since emerging from the pandemic. Earnings remain high, but inflation is taking a toll. Transportation costs represent the largest share of business' logistics costs and have demonstrated the most volatility, with fuel pricing more than doubling year-over-year.

### S&P 500 Net Corporate Profit Margin



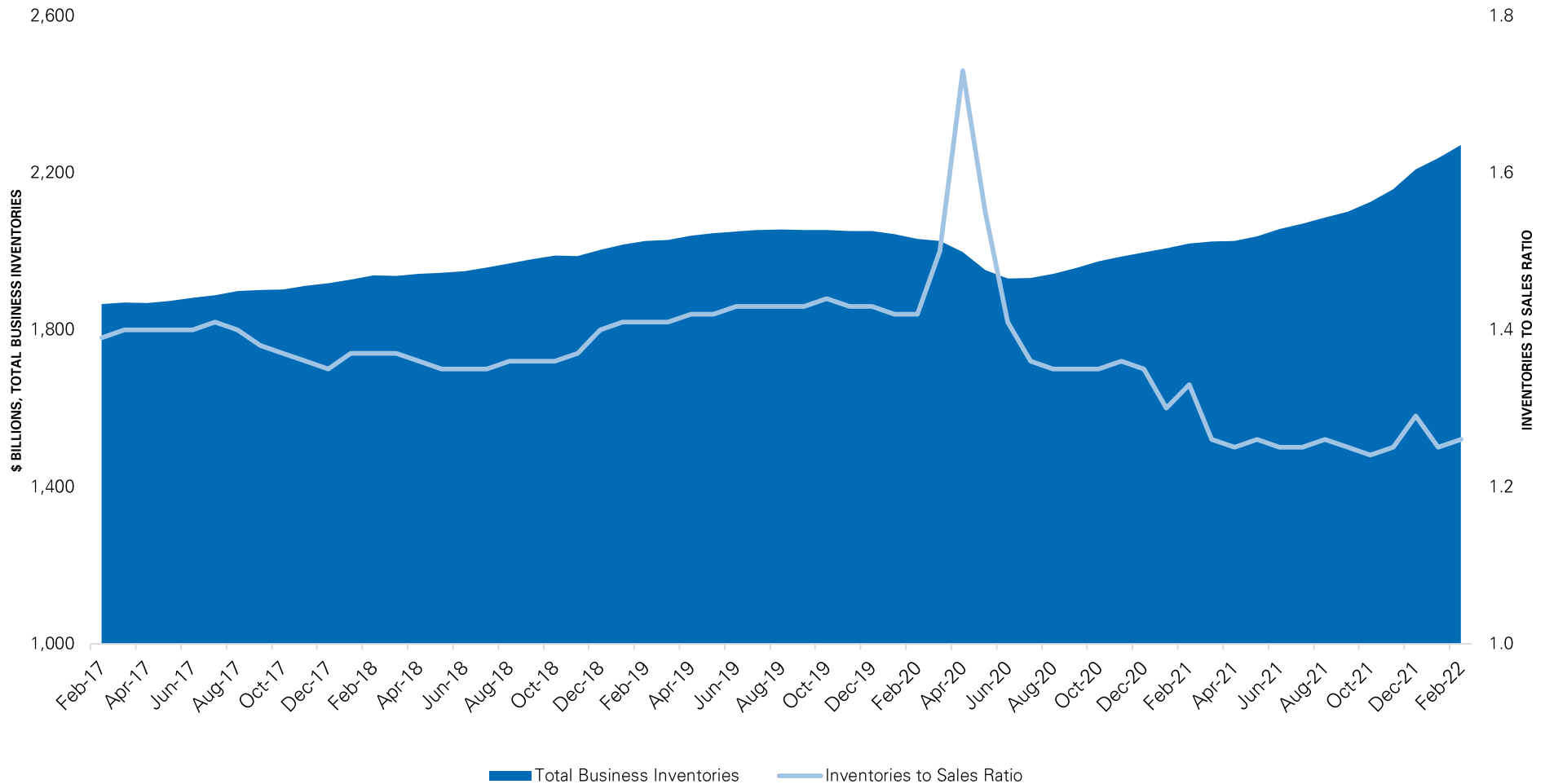
### Select Logistics Costs, 1Q22 Averages and YoY Change



Source: U.S. EIA, U.S. BLS, Newmark Research, May 2022.

# Business Inventories Grow but Remain Low in Relation to Sales

Companies seeking to increase the amount of goods on hand caused accelerated growth in total business inventories during the first quarter, contributing to elevated demand for warehouse space. The inventory to sales ratio continues to hover near record lows; as such, firms may choose to expand inventories further, especially in light of persistent supply-chain uncertainty.

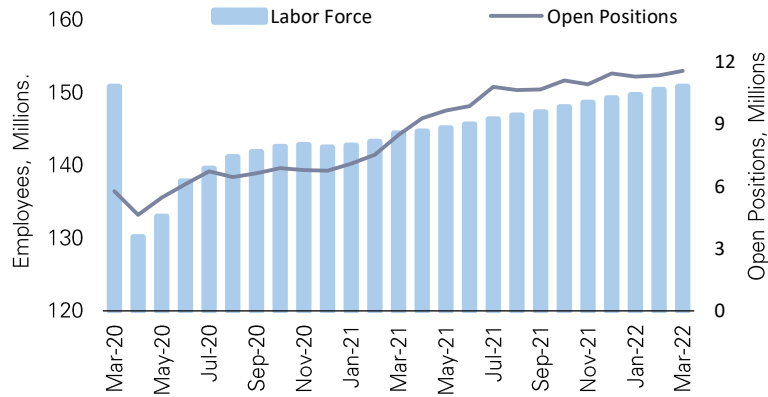


Source: Newmark Research, St. Louis FRED, May 2022.

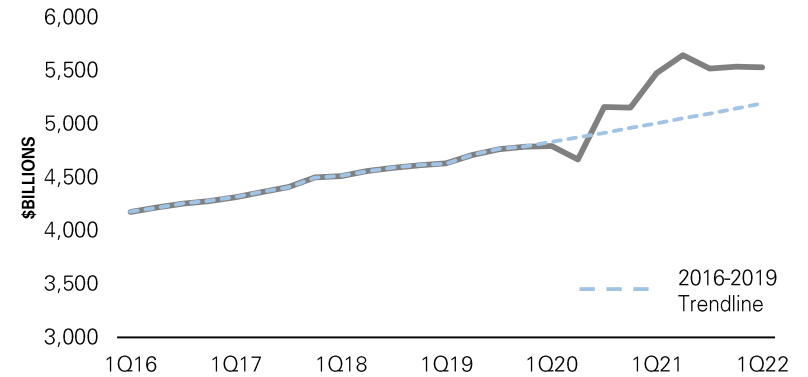
# The Economic Landscape: Risk and Resilience

In 1Q22 the United States experienced GDP contraction primarily related to a trade deficit, yet there is demonstrated resilience in face of risk. Consumer spending on goods remains elevated despite high inflation. A tight job market is pushing up wages, further empowering the American consumer.

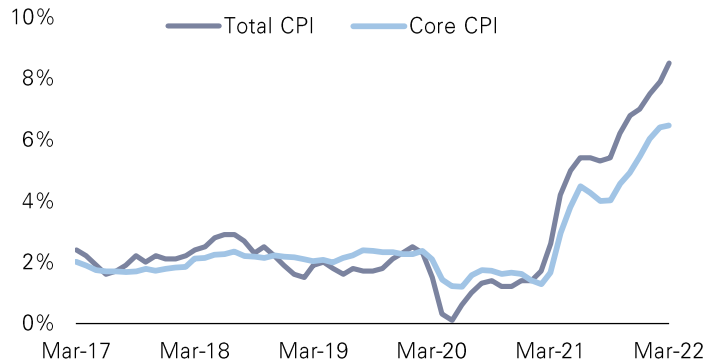
### Total Labor Force and Open Positions



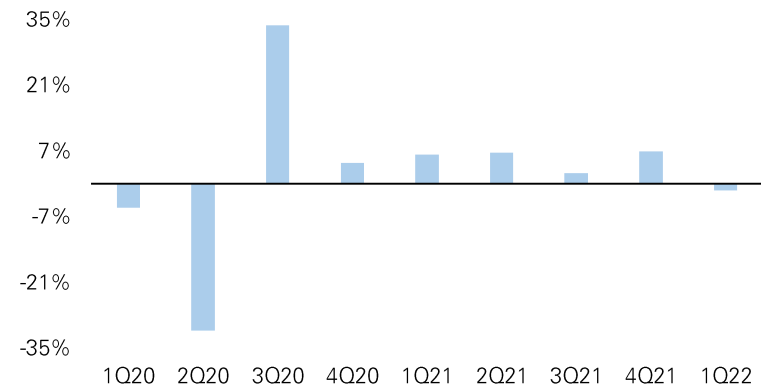
### Real Personal Consumption Expenditures: Goods



### Consumer Price Index, Annualized % Change



### Real GDP, Annualized % Change



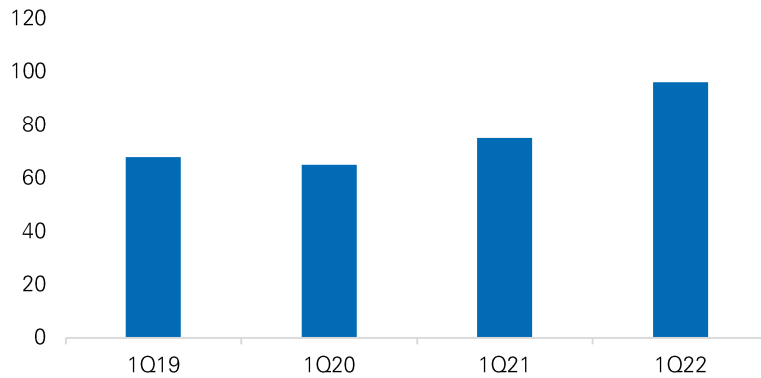
Source: Newmark Research, St Louis FRED, U.S. BLS, May 2022.



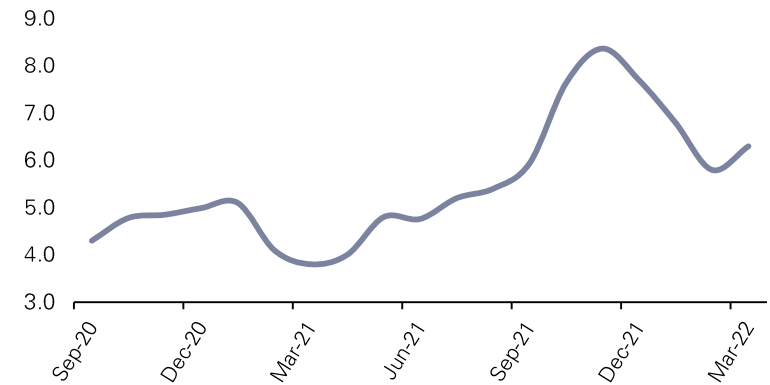
# Geopolitics and COVID-19 Layer New Challenges Atop Stressed Supply Chains

Russia's invasion of Ukraine has significant implications for global commodities markets, causing shortages and pushing up prices. A coronavirus surge in China has triggered lockdowns of major manufacturing and shipping hubs, causing ripple effects across the global supply chain.

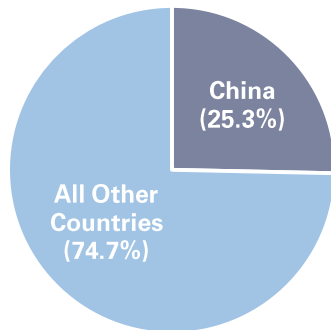
**Average Days of Lead Time for U.S. Manufacturers to Receive Production Materials**



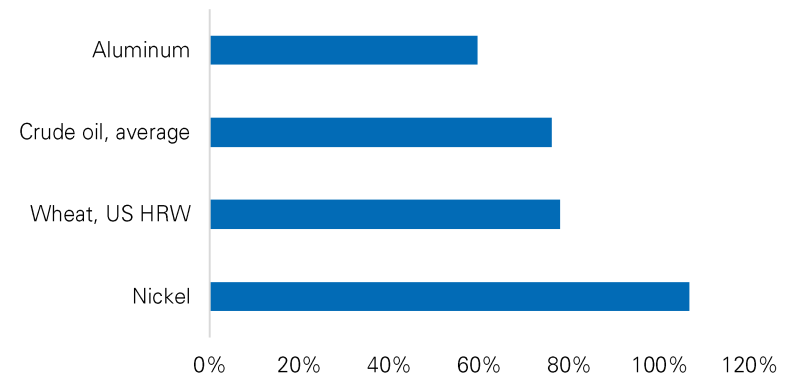
**Average Days of "Dwell Time" For Inbound Containers Waiting to Be Handled (Ports of LA/LB)**



**Share of U.S. Waterborne Containerized Imports by Foreign Origin, 2021**



**Select Commodities Impacted by Russia-Ukraine War, Price Growth (March 2021 to March 2022)**



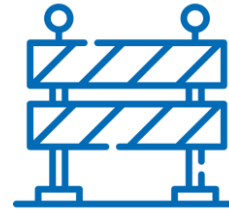
Source: Newmark Research, PMSA, ISM, U.S. Census Bureau, May 2022.

---

# Challenges to Continued Industrial Expansion



**Ongoing supply chain disruption**



**Barriers to development:  
land scarcity, regulatory  
and community  
pushback obstacles**



**Rising interest rates  
and high inflation**



**Labor availability**

---

**Lisa DeNight**

*Director, National Industrial Research*

t 215-246-2725

**Rich Lachowsky**

*Director, SLC Research and National Industrial*

t 801-578-5532

**NATIONAL INDUSTRIAL AND LOGISTICS  
SERVICES LEADERSHIP**

**Nick Wood**

*Executive Vice President*

*Head of Industrial & Logistics Services*

t 801-578-5570

[nick.wood@nmrk.com](mailto:nick.wood@nmrk.com)

**NATIONAL RESEARCH CONTACT**

**Jonathan Mazur**

*Senior Managing Director, National Research*

t 212-372-2154

[Jonathan.mazur@nmrk.com](mailto:Jonathan.mazur@nmrk.com)

**New York Headquarters**

125 Park Ave.

New York, NY 10017

t 212-372-2000

[nmrk.com](http://nmrk.com)

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at [nmrk.com/research](http://nmrk.com/research).

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof and not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.

**NEWMARK**