



# National Industrial Market

## Robust Construction Cycle

## Addresses Stout Demand for Space

The U.S. industrial market continued accelerating in the fourth quarter of 2020. Demand increased, driving quarterly net absorption to a two-year peak. Asking rents increased by 6.2% compared with a year earlier and the national vacancy rate held steady. The industrial construction pipeline remains healthy as the pandemic has elevated the importance of a strong distribution network and supply chain. Developers are optimistic that this trend, largely supported by e-commerce, will shape the industry in the long-term. Despite the uneven employment recovery and ongoing spread of the coronavirus, the industrial asset class did not slow down in the fourth quarter. Though industrial markets fared well throughout 2020, risk does remain as macroeconomic challenges persist. The duration and depth of the pandemic's recessionary pressures are likely to soften in 2021 due to vaccine distribution and new federal stimulus from Congress.

### Net Absorption Remains Strong

Net absorption increased in the fourth quarter of 2020, building upon third-quarter gains. Absorption measured 68.1 million square feet in fourth-quarter 2020, which is the largest occupancy gain recorded since third-quarter 2018. Absorption for all of 2020 measured 219.9 million square feet, slightly higher than the 218.5 million square feet recorded in 2019. Despite serious economic and labor challenges, industrial demand is likely to remain strong in 2021.

Vacancy, measured at 5.7% in the fourth quarter, has remained steady since the onset of the pandemic in March. Although low, vacancy rose during 2020 and is currently 60 basis points higher than year-ago levels. Asking rents continue to increase steadily, with the fourth-quarter average measuring \$7.90/SF (NNN), up 6.2% over the past year. Average asking rents have risen by 33.9% nationally over the past five years.

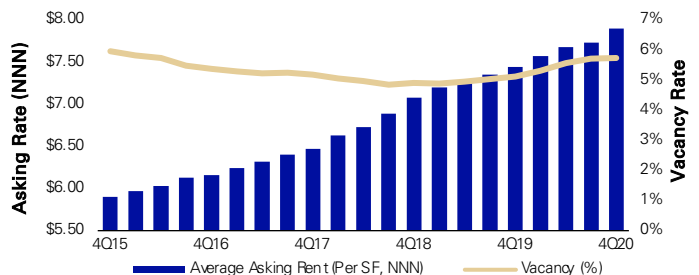
During the fourth quarter of 2020, 40 of the 49 industrial markets tracked by Newmark had positive net absorption, led by the Inland Empire (CA) with 9.0 million square feet and followed by the Atlanta market with 7.8 million square feet and Memphis with 6.7 million square feet. Markets that saw negative absorption include Greenville, SC, which measured -1.5 million square feet, followed closely by Indianapolis with -1.2 million square feet and Silicon Valley with -1.0 million square feet. Net absorption can also be measured relative to the overall size of the industrial market, providing a comparable metric for markets of differing sizes. Nationally, net absorption was 0.5% of inventory in the fourth quarter, led by Memphis (2.5%), Phoenix (1.9%) and Pennsylvania I-81/78 Corridor (1.8%).

### Current Conditions

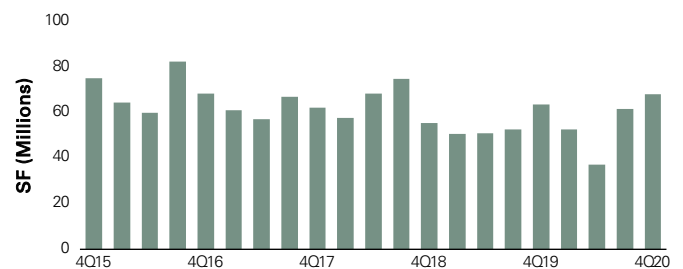
- Absorption totaled 68.1 million square feet during the fourth quarter of 2020. Absorption for all of 2020 measured 219.9 million square feet, up slightly from 218.5 million square feet one year ago.
- Pricing continues to increase at a steady pace, as asking rents rose 6.2% during 2020 to \$7.90/SF (NNN).
- The national industrial construction pipeline remains robust, with 319.8 million square feet currently under construction.
- U.S. industrial market sales activity increased in fourth-quarter 2020, with approximately \$17.5 billion in sales volume.

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	15.6 B	15.5 B	15.3 B	↑
Vacancy Rate	5.7%	5.7%	5.1%	↑
Quarterly Net Absorption (SF)	68.1 M	61.8 M	63.8 M	→
Average Asking Rent/SF (NNN)	\$7.90	\$7.73	\$7.44	↑
Under Construction (SF)	319.8 M	322.4 M	327.1 M	→
Deliveries (SF)	78.5 M	86.2 M	83.1 M	→

### Construction Pipeline Supports Long-Term Growth

The national industrial market saw 78.5 million square feet of new space delivered in the fourth quarter of 2020. Deliveries for all of 2020 totaled 329.5 million square feet, marking the highest level reached this cycle. The construction pipeline contracted slightly to 319.8 million square feet due to the wave of deliveries in 2020; however, the pipeline will remain robust in 2021. Groundbreaking momentum was steady in the fourth quarter as 76.0 million square feet began construction. Modern industrial space has become increasingly important in supporting today's growing industrial users. Demand for distribution and warehousing space, particularly for e-commerce firms, has supported development activity. The establishment of new distribution and fulfillment centers will be critical for e-commerce companies looking to optimize efficiency and meet future consumer demand.

Thirteen markets have more than 10 million square feet of industrial space under construction as of fourth-quarter 2020. This is up from ten markets in the third quarter of 2020. Markets with the largest construction pipelines include Dallas with 32.3 million square feet, Atlanta with 19.7 million square feet, and Nashville with 16.2 million square feet.

Industrial space under construction equaled 2.1% of the standing U.S. inventory in fourth-quarter 2020. Supply is growing most rapidly in the Austin market, where space under construction equaled 12.6% of inventory. Further behind, the mid-sized markets of Nashville (6.5%), Salt Lake City (5.2%) and Memphis (4.5%) also experienced strong supply expansion relative to the market's existing inventory levels.

Optimism remains high among industrial developers, as evidenced by the steady stream of construction activity throughout 2020. The pandemic resulted in greater demand among e-commerce and warehousing users due to growth in online shopping and delivery services. The distribution of vaccines in 2021 will eventually allow for a return to pre-pandemic commercial activities; however, some economists anticipate that the pandemic will have a permanent impact on consumer purchasing habits. As e-commerce becomes less of a convenience and more of an essential service, availability of industrial space will become critically important. This will be particularly true in areas near population centers and major transportation hubs (such as shipping ports and airports).

### Vacancy Rate Stable Throughout Recovery

The U.S. industrial vacancy rate measured 5.7% in the fourth quarter of 2020, unchanged from the prior quarter, but up 60 basis points from a year ago. Although the overall vacancy rate remains relatively low, it is at its highest level since the second quarter of 2016. The three lowest vacancy rates recorded the fourth quarter were all located in Southern California as Los Angeles (1.9%), Orange County, CA (3.1%) and the Inland Empire (CA) (3.1%), exhibited very tight conditions among industrial assets.

The robust construction pipeline could result in upward pressure on vacancy rates as new industrial inventory delivers unoccupied. Demand is anticipated to remain strong in the short-to-intermediate term, but inventory expansion may offset the impact of occupancy gains on vacancy. Industrial demand for e-commerce accelerated during the pandemic and it is anticipated that this segment of occupiers will represent a growing share of the national industrial market in the coming years.

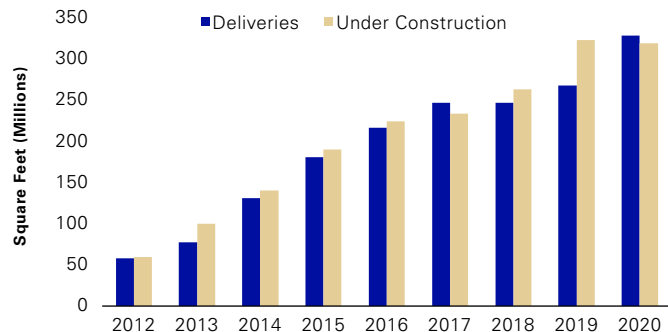
### Asking Rent Growth Accelerates

The average industrial asking rent across the U.S. continued to rise, reaching \$7.90/SF (NNN) in the fourth quarter of 2020. This is a 6.2% increase from one year ago and marks a new high quarterly average for the cycle. Growth rates slowed early in the pandemic but rebounded in the fourth quarter, increasing by \$0.17 quarter-to-quarter.

Of the 49 industrial markets tracked by Newmark, 41 markets recorded positive rent growth over the past year, with several exhibiting well above-average growth. Philadelphia has seen asking rents rise 16.8% in the last 12 months to \$7.66/SF. Additionally, Nashville has seen rents rise by 15.2% over the year, to \$6.76/SF, followed by San Antonio, where rents are up 12.0% to \$6.74/SF. However, West Coast industrial markets generally remain the most expensive. Leading by a wide margin is Silicon Valley, where asking rents were \$25.77/SF in the fourth quarter of 2020. Orange County, CA, Oakland/East Bay, and San Diego follow with asking rates ranging between \$13.73/SF and \$14.09/SF. Asking rents will vary among different industrial product types, as specialized users could drive above-average rent growth. Non-traditional industrial spaces such as life science R&D facilities or cold storage warehouses are likely to exhibit higher rent growth due to tight market conditions and growing demand in certain markets.

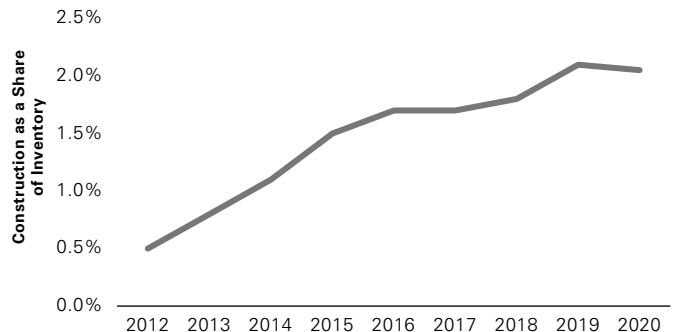
## Construction and Deliveries

United States Industrial Market



## Construction as a Share of Inventory

United States Industrial Market



## RESEARCH Q4 2020

### Investment Sales: Buyer Interest Remains Strong

The U.S. industrial market experienced reduced sales activity in the fourth quarter of 2020 compared with a year earlier, with approximately \$17.5 billion in sales volume in the past three months. This compares with \$19.6 billion in sales over the same time period in 2019. Major transactions included the 900,000-square-foot Southport Business Park, located at 101 S. Center Court in the Raleigh/Durham market. This industrial/flex complex was valued at \$208.6 million, or \$232/SF. The property includes 17 existing buildings and contains significant amount of R&D/lab space for life science use. Additionally, a 1.9 million-square-foot warehouse property located at 7110 Expo Drive in Charlotte sold for \$201 million, or \$106/SF. Investor confidence in industrial product has outpaced other asset types in many markets, a trend that is likely to continue into 2021. The value of existing industrial assets in close proximity to major population centers likely will continue to rise as the demand for quick delivery of goods persists.

### U.S. Industrial Market Outlook

The national industrial market recorded steady expansion during the fourth quarter of 2020. Absorption continued to grow for the second consecutive quarter; however, vacancy remained flat due to the 78.5 million square feet that delivered during the quarter. The average asking rent increased by 6.2% year-over-year, continuing its steady climb. The industrial market's recovery in 2020 exceeded that of all other major asset classes. Market indicators quickly regained momentum in the third and fourth quarters of 2020 and are poised to continue that momentum in 2021. The current development cycle, which measures 319.8 million square feet under construction, will support the expansion of high-quality warehousing space; however, this increase in overall inventory will apply upward pressure on vacancy rates. Further, rent growth may slow in the coming quarters as newly-delivered inventory affects the market's supply/demand balance. Although challenges still exist, the economic recovery is likely to accelerate in 2021, which bodes well for consumer spending and in turn continued industrial demand.

Despite the variety of market headwinds faced in the fourth quarter, including a turbulent U.S. presidential election, a stalled employment recovery and a rapid increase in the pandemic's spread, industrial markets maintained steady momentum. Strong fourth-quarter occupancy gains in many small-to-mid sized markets, including Phoenix, Memphis and San Antonio, fueled optimism among investors and developers. The supply/demand balance of these smaller markets may be tested in 2021 as new product delivers unoccupied.

Growth in e-commerce services supported industrial demand throughout the pandemic. Although consumers continued to spend money online in 2020, brick-and-mortar retailers, which collectively occupy a significant amount of industrial space for warehousing excess and oversized inventory, faced operational restrictions throughout the pandemic. Several prominent retailers, including Guitar Center, Stein Mart and Tailored Brands (Men's Warehouse and Jos. A. Bank), filed for bankruptcy in 2020. Although economic conditions are anticipated to improve in 2021, brick-and-mortar retailers will continue to face headwinds, so industrial markets should not be viewed as decoupled from the challenges faced by traditional retailers during the remainder of the pandemic.

While certain industrial segments may face some challenges in 2021, national industrial assets are likely to be among the most stable property types in the coming years, alongside multifamily. Industrial space under construction remains near record levels, with a large portion of that space likely to deliver in 2021. This upcoming injection of net-new inventory will apply upward pressure on vacancy, even if absorption remains sturdy. Still, the acceleration of e-commerce throughout the pandemic will support demand and likely allow industrial product to outperform the broader commercial real estate market. Demand for new and specialized industrial uses, including cold storage, life science R&D and technology, may provide new sources of organic growth in certain markets. While the industrial market is dynamic, and smaller markets are showing signs of expansion, the best positioned industrial markets remain those adjacent to major population centers, ports and other major distribution and trade hubs.

### Notable 4Q 2020 Lease/User Transactions

Tenant	Building	Market	Type	Square Feet
McCormick	7021 Tradepoint Avenue	Baltimore, MD	Direct New	1,802,362
Restoration Hardware	5170 S Archibald Avenue	Inland Empire, CA	Direct New	1,000,930
Custom Goods, LLC	11640 Harrel Street	Inland Empire, CA	Direct New	886,055
Geodis Logistics, LLC	1950 Palmetto Avenue	Inland Empire, CA	Direct New	809,338
GOJO Industries, Inc.	6200 Riverside Drive	Cleveland, OH	Direct Renewal	765,281

### Notable 4Q 2020 Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
480 Sprague Street	Dedham, MA	\$46,750,000	\$200	233,880
2200 NW 112th Avenue	Miami, FL	\$44,000,000	\$141	312,456
870 Claycraft Road	Columbus, OH	\$20,000,000	\$76	262,500
3850 Millstone Parkway	St. Charles, MO	\$18,531,419	\$189	97,993
Mars Distribution Center – 1301 Edison Highway	Baltimore, MD	\$16,600,000	\$60	277,165

## Market Statistics (Continued on Next Page)

	Total Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed Year-to-Date	Vacancy Rate	Average Asking Rent (Price/SF)
<b>National</b>	<b>15,568,514,531</b>	<b>319,824,555</b>	<b>68,130,686</b>	<b>219,940,604</b>	<b>5.7%</b>	<b>\$7.90</b>
Atlanta	642,605,635	19,736,814	7,795,701	22,237,609	6.8%	\$5.18
Austin	96,568,330	12,150,227	582,649	2,828,684	6.9%	\$11.00
Baltimore	189,159,132	2,790,997	-301,741	1,237,871	10.4%	\$5.49
Boston	217,481,360	649,400	1,355,294	3,262,521	5.6%	\$9.94
Broward County, FL	110,140,899	1,558,218	321,680	1,123,540	5.6%	\$9.39
Charleston, SC	81,326,467	1,875,587	-642,348	1,041,906	8.5%	\$5.74
Charlotte	401,566,841	3,051,561	1,007,481	3,290,136	6.9%	\$5.07
Chicago	1,150,005,877	14,549,020	3,038,461	14,963,865	6.9%	\$5.86
Cincinnati	289,227,045	8,345,810	887,971	2,286,909	5.7%	\$4.40
Cleveland	287,195,721	1,152,166	1,294,802	1,857,660	5.1%	\$4.44
Columbia, SC	61,275,782	262,780	73,797	155,369	3.8%	\$4.29
Columbus	299,706,738	7,350,676	2,971,802	4,132,715	6.9%	\$4.27
Dallas	938,287,216	32,288,164	2,018,853	19,932,871	7.2%	\$6.90
Denver	208,380,194	7,315,793	-28,060	2,328,000	6.6%	\$9.71
Detroit	402,799,177	6,663,204	789,603	818,713	4.4%	\$5.89
Greenville, SC	227,842,595	2,135,611	-1,532,841	-2,696,736	8.2%	\$4.06
Houston	585,123,018	13,247,456	2,096,657	11,173,206	8.8%	\$7.28
Indianapolis	349,029,499	10,809,002	-1,235,466	2,049,090	6.4%	\$4.36
Inland Empire, CA	638,840,741	15,627,188	9,040,953	24,557,634	3.1%	\$8.38
Jacksonville	134,407,849	2,249,431	865,697	867,285	5.7%	\$5.59
Kansas City	302,278,941	6,172,279	1,708,944	5,990,890	5.4%	\$4.57
Las Vegas	133,132,924	4,759,023	833,928	3,630,318	6.5%	\$8.55
Long Island	160,255,629	789,539	-785,534	-2,438,037	5.0%	\$13.30
Los Angeles	1,048,662,434	5,307,316	3,001,417	72,947	1.9%	\$10.67
Memphis	283,790,580	12,742,681	6,707,182	10,467,211	6.5%	\$3.54

Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some Newmark metro reports due to different local methodologies. Asking rents are quoted on a triple net basis.

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Miami	220,716,654	3,133,547	678,364	2,705,755	4.5%	\$8.33
Milwaukee	245,109,129	1,307,700	1,011,816	3,948,618	4.17%	\$4.39
Minneapolis	397,059,376	1,654,356	1,169,367	764,929	3.9%	\$5.52
Nashville	247,385,956	16,177,158	39,177	3,216,864	3.4%	\$6.76
New Jersey Northern	666,655,979	7,691,095	-654,966	7,803,030	4.5%	\$9.26
Oakland/East Bay	254,059,560	2,230,939	56,067	905,103	6.5%	\$14.08
Orange County, CA	260,853,970	504,930	520,902	166,586	3.1%	\$14.09
Orlando	191,063,425	1,540,475	879,776	1,523,254	5.7%	\$6.85
Palm Beach	49,462,835	1,245,848	77,332	427,356	5.4%	\$9.84
Penn. I-81/78 Corridor	408,312,976	15,943,591	6,671,885	14,238,163	10.1%	\$4.83
Philadelphia	481,506,549	11,867,154	2,428,911	6,690,192	4.8%	\$7.66
Phoenix	318,462,621	7,405,570	5,449,206	13,195,090	8.3%	\$7.93
Pittsburgh	143,531,536	1,279,905	107,683	1,478,358	6.4%	\$5.04
Portland	223,474,005	3,675,378	179,420	2,211,646	4.8%	\$9.33
Raleigh/Durham	126,685,465	2,153,591	998,647	3,290,214	4.1%	\$8.20
Sacramento	172,442,690	5,113,354	699,104	-3,425	6.0%	\$7.17
Salt Lake City	249,299,555	12,935,275	3,376,285	6,535,543	3.6%	\$7.24
San Antonio	133,619,610	3,072,057	631,422	4,401,549	7.0%	\$6.74
San Diego	165,284,769	4,197,143	990,514	1,029,330	5.1%	\$13.73
Seattle	299,696,295	11,342,076	65,476	1,539,611	5.5%	\$10.40
Silicon Valley	185,419,400	1,905,884	-1,036,259	-1,833,328	7.1%	\$25.77
St. Louis	304,791,109	2,520,382	-244,666	1,271,435	5.6%	\$4.69
Tampa/St. Petersburg	269,960,556	1,970,982	1,426,454	3,879,102	5.8%	\$6.10
Washington, DC	314,569,887	5,376,222	741,887	5,383,452	5.7%	\$9.39

Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some Newmark metro reports due to different local methodologies. Asking rents are quoted on a triple net basis.

**RESEARCH Q4 2020**

**Economic Conditions**

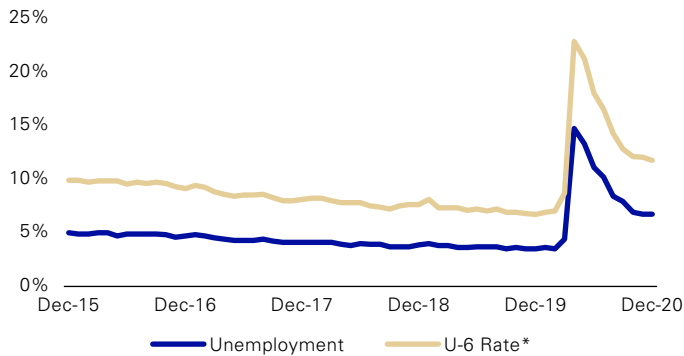
The U.S. unemployment rate has increased 310 basis points from one year ago, closing December 2020 at 6.7%. The rate was unchanged in December after declining for seven straight months since the peak of 14.8% was recorded in April in the immediate aftermath of the pandemic's arrival in the U.S. There have been 74.8 million unemployment claims since March, compared to just 37.1 million during the entirety of the Great Recession from December 2007 to June 2009.

The economy lost more than 20.0 million jobs between March and April of 2020 but has added 9.5 million jobs between May and December. The industrial-intensive Manufacturing and Trade/Transportation/Utilities sectors have been relatively resilient during the downturn. Total non-farm employment is down 6.2% year-over-year while industrial employment is down just 3.3%.

The resurgence of COVID-19 in late 2020 slowed the economic recovery. The recovery is poised to accelerate in 2021, but the rate of acceleration is in large part a function of how effectively the COVID-19 vaccines are distributed. Once economic conditions normalize, industrial assets will remain well positioned. The explosion of e-commerce during the pandemic reflects a transition to new shopping habits, many of which will remain in place even after the pandemic.

**Unemployment Rate**

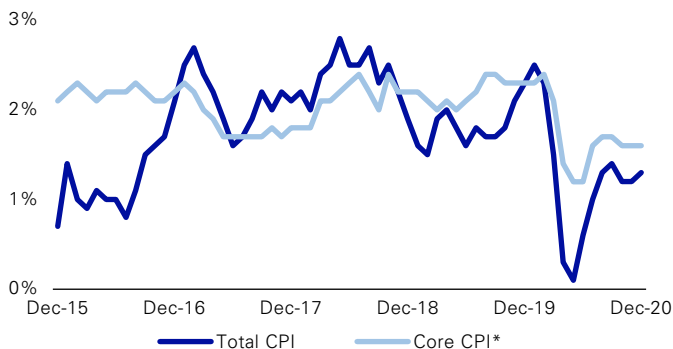
**United States, Seasonally Adjusted**



\* Includes total unemployed, marginally attached workers, and those working part time for economic reasons  
Source: U.S. Bureau of Labor Statistics, Newmark Research; January 2021

**Consumer Price Index (CPI)**

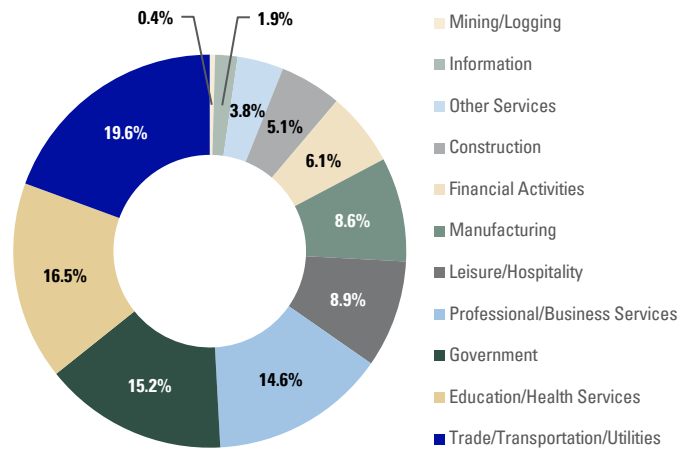
**United States, 12-Month % Change, Seasonally Adjusted**



\*Excludes food and energy, which can be volatile; 1982-84=100  
Source: U.S. Bureau of Labor Statistics, Newmark Research; January 2021

**Employment by Industry**

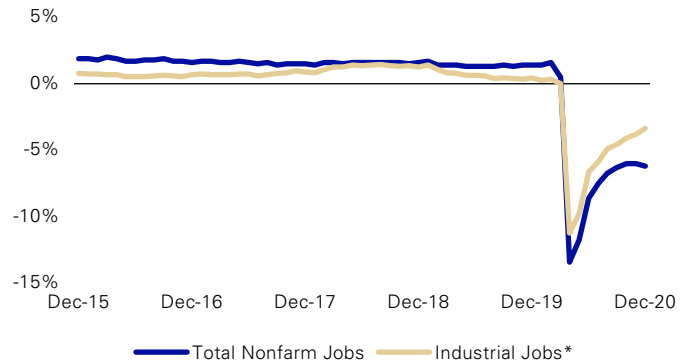
**United States, December 2020**



Source: U.S. Bureau of Labor Statistics, Newmark Research; January 2021

**Payroll Employment**

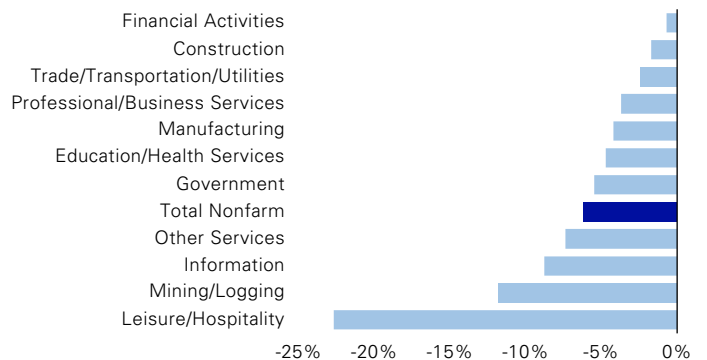
**United States, 12-Month % Change, Seasonally Adjusted**



\* Includes Manufacturing, Trade/Transportation/Utilities and Mining/Logging  
Source: U.S. Bureau of Labor Statistics, Newmark Research; January 2021

**Employment Growth By Industry**

**U.S., December 2020, 12-Month % Change, Not Seasonally Adjusted**



Source: U.S. Bureau of Labor Statistics, Newmark Research; January 2021

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## RESEARCH Q4 2020

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