No Sign of a Slowdown as US Industrial Leasing Roars Through Spring 2022

Despite Amazon Pullback, Rising Inflation, Strong Demand for Industrial Space Sends Rents Soaring

By Adrian Ponsen

The spring of 2022 has brought a litany of worrisome headlines for U.S. industrial property owners after the year began with a near-Goldilocks combination of rising wage growth and lofty retail spending.

Russia's invasion of Ukraine reverberated throughout the global economy in early March, contributing to further unexpected spikes in prices that U.S. consumers and businesses pay for essentials such as food, fuel and financing. And then in April, the largest industrial tenant in the U.S., Amazon, reported a more than $1.5 billion operating loss in its North American operations, attributed partly to rising transportation costs and excess distribution space.

Other major retailers such as Walmart and Target have since reported significant cost increases. In late May, reports began circulating in real estate media that Amazon was planning to put anywhere from 10 million to 30 million square feet of its distribution space back on the market.

These recent reports may give the impression that the bottom is falling out of the industrial leasing boom. However, CoStar's real-time data on industrial property performance shows no sign of any material softening in market conditions.

At the end of May, CoStar researchers had tracked more than 80 million square feet of new industrial leases signed across the U.S. during the month, an increase of 16% from one year prior and 85% higher than May 2019 levels.

What's more, U.S. industrial rents have risen by an average of 1.7% over the first two months of the second quarter. That amounts to the strongest second-quarter rent growth CoStar has ever recorded, even with a full month left to go before the quarter ends.

The continued strength in industrial property performance, and the larger economy as a whole, is largely because U.S. consumers have continued to spend aggressively, despite rising prices. The most recent retail sales report from the U.S. Census Bureau revealed sales in the logistics-intensive, nonstore category were up 2.1% in April, more than three times the pace of consumer price index inflation.

When adjusted for the price inflation of goods, 2022 first-quarter revenues of many of the largest publicly traded industrial users may have come in below first-quarter 2021 levels. But the comparison may be questionable given that the U.S. government was in the midst of dispersing $1.9 trillion in stimulus funds in March 2021.

A longer-term perspective reveals that first-quarter sales were strong among major U.S. logistics tenants, with first-quarter revenues for Home Depot, Target, UPS and FedEx all up between 35% and 50% compared to the first quarter of 2019.

Of course, there are risks that further spiraling inflation could tamp down consumer spending and industrial leasing. So far, however, in an environment of fast-rising prices and historically strong sales, most industrial tenants have continued to expand their real estate footprints, with the strong demand enabling industrial property owners to increase rents in response.