Normalized Demand Cooling Industrial Starts

One exception is Charlotte, which is a particularly active market for new development.

By Richard Berger

Higher interest rates and normalized demand have slowed industrial construction and have helped to cool industrial starts, with 147.1 million square feet beginning construction in the first half of the year, according to a report by Commercial Edge. During the same period in 2022, developers broke ground on 313.2 million square feet, according to the report.

Charlotte was a particularly active market for new development, with 14.9 million square feet under construction as of June.

Industrial continues to be a much sought-after asset class despite challenges in the economy that have slowed down investment in the sector.

“Industrial fundamentals remained strong, with significant rent growth, especially in port markets,” according to the report.
New leases in Los Angeles, for example, signed in the past 12 months averaged $19.92 per square foot, $7.20 more than in-place rents. At the same time, New Jersey recorded a lease premium of $4.48 per square foot.

“The wide lease spreads might indicate steady future growth despite economic uncertainties,” Commercial Edge’s Evelyn Jozsa reports.

Another key indicator was the recent $3.1 billion that Prologis paid to Blackstone for a 14-million-square-foot portfolio across some 70 properties in Southern California, Atlanta, Dallas, and Washington, D.C.

“Based on industrial property outlooks, there is hope that the transaction could help provide valuable sales comps for where the transactions market is at in 2023 and help close some of the bid/ask gap,” commercial real estate analytics firm Green Street noted in a report.