

Where Industrial Growth is Booming

Three California metros were the only ones nationally to see double-digit rent growth for industrial spaces.

By Philippa Maister

At a time when the prospects for industrial space look brighter across the nation, both sales and rent growth of industrial properties in California are booming, with spillover effects benefiting Phoenix.

Three California metros were the only ones nationally to see double-digit rent growth for industrial spaces. Rent appreciated 17.4% year-over-year through September in the Inland Empire, 11.8% in Los Angeles and 10% in Orange County, according to CommercialEdge's October 2023 national industrial report. Rents in the Bay Area jumped 7.1%. In-place rents in Seattle increased 8.5%.

The ripple effects have also touched Phoenix. Demand for industrial space here has risen "partly due to its standing as an overflow market for Southern California and its status as an emerging manufacturing hub," CommercialEdge noted. "A new supply boom has yet to dampen in-place rent growth or send industrial vacancy rates (2.7%) upward."

New leases also enjoyed a premium in Phoenix, with rates \$2.31 more than average in-place rents. Phoenix also had a significant pipeline of industrial space in development, with 34.7% of existing stock under construction or planned.

California saw the highest premiums for new leases signed in the past year. Premiums for the Inland Empire averaged \$9.18 per SF, for Los Angeles \$6.91 and for the Bay Area \$6.58. The Inland Empire also underwent a huge boost in deliveries of industrial space, with more than 215 million SF built in the last decade, equivalent to 34% of existing stock. But that rate of growth may be tapering off, with just 4.4 million SF of construction starts this year, the report noted, and some projects threatened by public opposition.

Nationally, the U.S. logged \$40.3 billion of industrial sales through September, a significant drop from the \$65.4 billion recorded in the same period the previous year. Once again, California led the nation. The Inland Empire scored \$3.366 billion in deals (\$251 per SF). Los Angeles followed with \$3,113 million (\$319 per SF) and the Bay Area with \$2,221 million (\$334 per SF). Phoenix, with sales of \$1.61 billion, was the only other Western market to crack the billion-dollar mark.

Chicago achieved the same bragging rights in the Midwest, with \$1.45 billion in deals during the period. The Twin Cities scored \$780 million in industrial sales. Cincinnati, which came third in the Midwest with \$591 million in sales, also benefited from the highest average sales price in the region. At \$105 per SF, it was the only Midwestern city to beat the \$100 mark.

"Overall, markets in the Midwest continued to record more sluggish fundamentals compared to coastal metros, with all markets experiencing rent growth below the 7.4% national average and asking rents below the national price of \$7.51 per square foot," the report noted.

In the South, Miami rents increased most, rising 9.6% for the year ended September 2023. Atlanta (7.2%) and Nashville (7.1%) came in second and third.

In-place leases, at \$10.52 per SF, were also highest in Miami, followed by Baltimore and Tampa. All three markets also enjoyed high premiums on new leases, while Memphis was the most affordable market.

Nationwide, Dallas-Fort Worth led the way with industrial space under construction or planned. As of September, 49.3 million SF was being built there, equal to 5.4% of existing inventory. It also led the South and came fourth nationally by closing \$2.13 billion in sales at an average of \$122 per SF. Houston ranked second with \$1.8 billion in sales at \$131 per SF, followed by Atlanta with \$1 billion sold at an average \$114 per SF.

Pride of place in the Northeast went to New Jersey, which scored \$1.85 billion in industrial deals at an average sale price of \$232 per SF. "The average sale price of an industrial property in New Jersey has nearly doubled since 2019, when assets traded at \$118 per SF," the report commented. The Crawford-Union and I-287 South submarkets were the most active.

Philadelphia was the runner-up in the Northeast with \$663 million in sales at \$117 per SF and the region's largest industrial space pipeline, with 16.1 million SF under construction. It was followed by Boston with \$557 million and Bridgeport – "Connecticut's growing industrial market" — with \$466 million in closed sales.

New Jersey and Boston remained the most expensive places in the Northeast to rent. In New Jersey rents rose 9.2% during the year to \$9.94 per SF. Rents rose even higher in Boston to \$9.86 per SF, up 9.8%.