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INDUSTRIAL DEMAND WILL CONTINUE TO BOOM THROUGH 2026

RETAIL SALES, HOUSING STARTS AND PERSONAL INCOME WILL ALL LIKELY CONTINUE TO GROW AT A RAPID CLIP, ALLOWING INDUSTRIAL DEMAND TO “CONTINUE UNABATED”.

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Over the last few years, bolstered by an unprecedented boom in e-commerce and retail sales, the industrial sector has posted historically high demand and supply growth. And that’s led some analysts to question how long the ride can last for the sector that’s relatively unaccustomed to such a meteoric rise. In short, some are wondering whether the current boom is a bubble or something more sustainable.

A recent report from YardiMatrix predicts that retail sales, housing starts and personal income will all likely continue to grow at a rapid clip until the middle of the decade, which will allow industrial demand to “continue unabated” for at least a few more years. The firm’s forecast calls for an annual increase in total industrial stock of between 2 and 2.3% over the next five years, netting between 350 and 370 million square feet of new space each year for a total of 1.8 billion square feet of new stock. And while more than 290 million square feet has been added to the sector over the last three years, the predicted rise in space still may not be enough to meet demand.

The growth in demand has been led primarily by an explosive uptick in e-commerce sales, which reached a quarterly record of $222 billion in the second quarter of this year, or 13.3% of all retail sales, according to US Census Bureau data. By way of comparison, online sales accounted for just 4.2% of all retail sales in the first quarter of 2010 and just 0.8% in Q1 2000. And that growth has fueled demand for high-tech logistics facilities in population hubs to allow same-day or next-day shipments and to accommodate a growing commitment of third-party logistics providers to AI and robotics fulfillment mechanisms.

"Since older industrial stock often does not have the technical capacity for such logistics usage, the development of new space is necessary to accommodate the growth of 3PLs," the YardiMatrix report notes. The firm cites NAIOP data that shows that more than 60% of demand for industrial space is coming from 3PLs, companies such as FedEx, UPS, DHL and others that are servicing e-commerce fulfillment. And of course, there's Amazon, which operates hundreds of million of square feet of commercial space in the US and is set to occupy eight of the 10 biggest industrial developments in the country.

E-commerce isn't the only driver, though: retail sales excluding online sales are also climbing rapidly, reaching a record-high $1.44 trillion in Q2 2021. Other drivers include manufacturing, cold storage, automobiles, tires and parts, materials/construction and medical industries.

Other surprises? "While national firms get the focus of attention, smaller companies with local or regional scope also are increasing their occupancy of industrial space," according to the report. "Examples include those that service the booming home improvement and health care supply industries and local contractors. Smaller companies are more likely to occupy multi-tenant buildings. Multi-tenant space accounts for more than 40% of industrial square footage in half of the top 30 metros ranked by amount of industrial stock."

To reach its five-year predictions, Yardi analysts looked at five economic metrics—housing starts, retail and wholesale inventories, retail sales (excluding auto and gasoline), personal income, and weighted import and export volumes. The correlation of these metrics to industrial demand "is largely a function of how much the sector is sensitive to changes in economic growth and consumer demand, which accounts for about two-thirds of the U.S. economy," the report states. "Ultimately the demand for physical goods translates into the space required to physically handle and store those goods as they move from the producer to the end user."

And based on predicted changes in those metrics, the firm says industrial supply growth should remain strong through 2026, despite the well-documented labor and materials shortages plaguing the construction industry. Yardi predicts 305 million square feet of space to be delivered this year, 348 million square feet next year, 360 million square feet in 2023, 366 million in 2024, 368 million square feet in 2025 and 370 million square feet in 2026.

The top ten markets with supply under construction on a square footage basis include Dallas, Chicago, Phoenix, the Inland Empire, Houston, Indianapolis, Austin, Philadelphia, Savannah, and Atlanta, according to CommercialEdge data. Metros with the most industrial space under construction as a percentage of stock are mostly secondary and tertiary markets, led by Amarillo, Texas (20.6%), Lafayette-Lake Charles, La. (20.4%), Savannah, Ga. (17.7%) and Jackson, Miss. (15.2%).

Looking ahead, four metros account for nearly a quarter of all industrial supply growth: Dallas (161 million square feet), Chicago (128 million square feet), the Inland Empire (123 million square feet) and Phoenix (107 million square feet). And cities across the Southeast and Southwest are projected to add industrial stock at a rate of at least 5%.

"As trade and shipping activity grow, many ports—including Long Beach, Los Angeles, Newark and Savannah—are seeing record growth in inbound cargo," the report notes. "That has led to delays in moving cargo, even as activity at some ports moves round-the-clock. The growing competition to rent space has led occupancy rates to steadily rise over the last decade and enabled property owners to boost revenue streams from services such as parking and storage."

Industrial rents have risen 4% nationally year-over-year through July, with rents rising 6.9% in the Inland Empire and vacancy hitting a low of 1.4%. Los Angeles, Nashville, Seattle, and the Bay Area are all posting solid rent growth at or above 5%, and vacancies nationally hit 5.8%, according to CommercialEdge data.

In short ,"no slowdown appears to be in sight," the report concludes.

"In the medium term, the economy will be stimulated by consumer spending and (likely) trillions of dollars of government infrastructure spending, "the report states. "The upshot is that demand for industrial— especially more technologically sophisticated 3PL space—is very likely to remain strong for the foreseeable future.