Industrial Markets With the Best Fundamentals

The Inland Empire had the highest in-place rent growth at 12.7%.

By Erik Sherman

The industrial sector has probably held up best of any in commercial real estate post-pandemic and during the fall in transactions, values, and rent growth.

According to data from Yardi Matrix, the national average rent in February was $7.68 per square foot. That was down four cents from January but still up 7.5% over the previous 12 months. The average rate signed in the last 12 months was $10.31. The average vacancy rate was 5.0%.

"Record levels of new supply coming on line simultaneous with demand cooling have sent vacancy upwards and provided some much needed breathing room to the most in demand markets," Yardi wrote.

Looking at in-place rent growth, the Inland Empire saw the highest at 12.7%, but with a 6% vacancy rate. The region has topped the Yardi Matrix rent growth since the company began reporting in 2021. The vacancy rate is a sign that the area is cooling, as it had been below 3%, and even for a time below 2%, much of the previous three years. "To meet booming demand, developers rushed to bring new space to the market, delivering 100 million square feet (16.2% of stock) since the start of 2020."

Second was Miami's 12.0% rent growth with a 4.6% vacancy. Orange County and Los Angeles were third and fourth, both with 11.4% in-place growth and respective vacancy rates of 4.5% and 4.8%. In fifth place, New Jersey with 9.1% growth and 4.7% vacancy. Then came Seattle (8.6% in-place growth, 6.1% vacancy), Phoenix (8.4%, 3.2%), and Boston (8.4%, with the highest vacancy rate of 8.6%). All others had under 8% growth.

Things shape up differently when looking at the average rates per square foot signed within the last 12 months: Orange County ($19.64), Los Angeles ($19.37), Bay Area ($18.27), Miami ($16.32), Inland Empire ($15.01), New Jersey ($14.00), Seattle ($13.79), Boston ($12.49), Bridgeport ($12.04), Portland ($11.11), Phoenix ($11.03), Baltimore ($10.62), and Philadelphia ($10.15).

For construction of new industrial supply (across a broad set of subtypes), the national amount under construction is more than 419.8 million square feet. That's 2.2% of stock under construction; under construction plus planned construction is 5.4% of stock.

By far, the top five metros for amount of construction are Phoenix (42.7 million square feet, under construction is 11.1% of stock, under construction plus planned is 28.2% of stock); Dallas (27.2 million square feet, 2.9%, 8.2%); Charlotte (13.0 million square feet, 4.1%, 8.4%); Chicago (11.4 million square feet, 1.1%, 2.6%); Kansas City (11.3 million square feet, 4.1%, 16.5%); and Memphis (10.0 million square feet, 3.4%, 3.9%).

"Increased interest rates, tightened standards for construction loans, normalizing demand for industrial space and economic uncertainty have combined to cool the industrial pipeline, which reached record levels in 2021 and 2022," they wrote. "New construction starts fell more than 40% between 2022 and 2023, with 341.9 million square feet breaking ground last year. The deceleration of the pipeline has continued in the early stages of 2024, with Yardi Matrix logging only 20.0 million square feet of starts during the first two months of this year. While there is a lag in collecting all starts data, this is a significant slowdown from previous quarters."