



# State of the Market Report

**INDUSTRIAL | 2023**



# Industrial

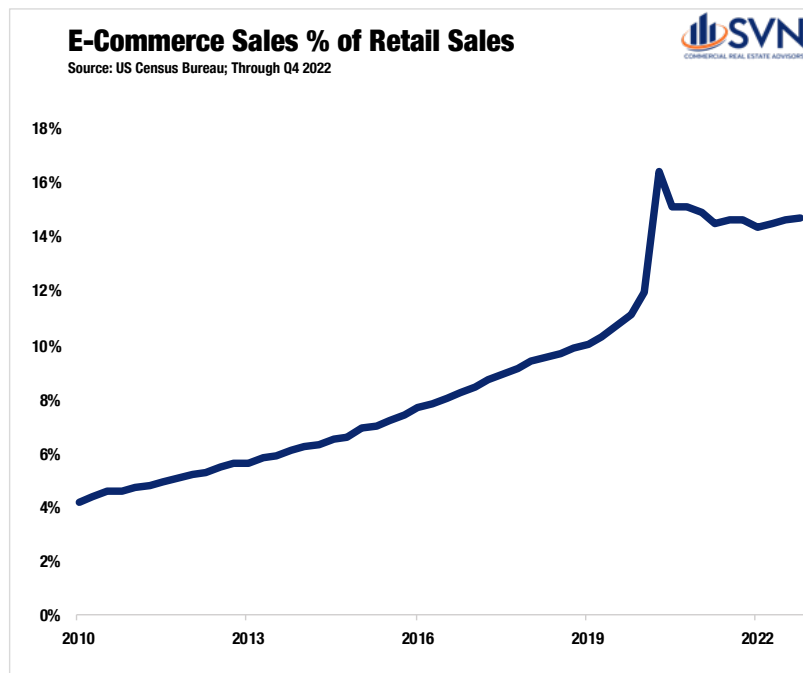


## NATIONAL OVERVIEW

The US industrial sector has been the forerunner of commercial real estate over the past decade. And so far, prevailing winds appear to be carrying the sector's growth forward. In the early 2010s, the industrial sector's growth was defined by the e-commerce boom, as Amazon carts replaced shopping carts and Cyber Monday became Black Friday for millennials. As a result, retailer demand for warehousing and flex spaces skyrocketed. According to MSCI Real Capital Analytics, **industrial property prices grew by an industry-leading 154% over the past ten years and more than 45% since the start of the COVID-19 pandemic.**

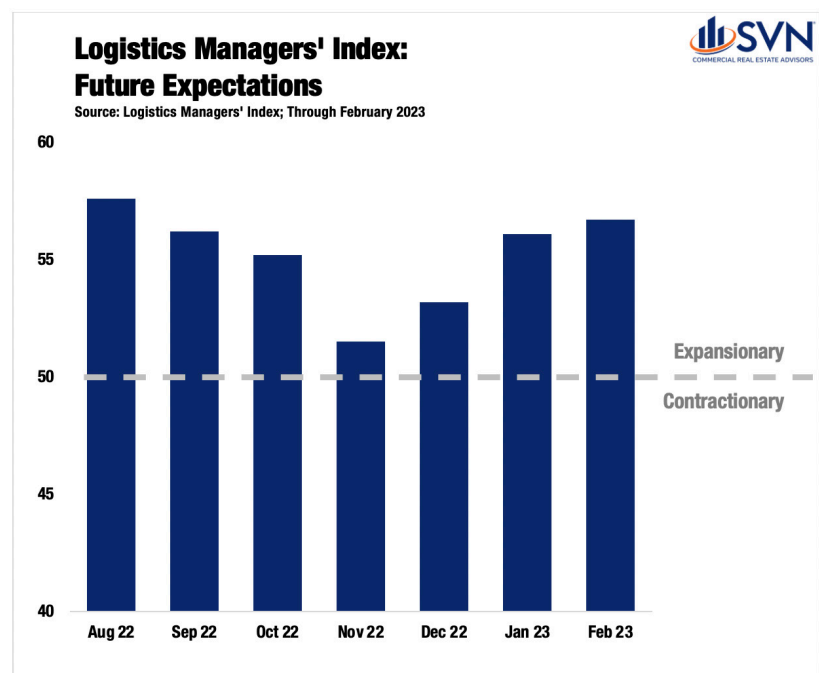
During the pandemic years, a structural shift in consumer activity amid lagging supply chains brought forward the worst congestion ever since the dawn of widespread containerization. Clogged ports and rising inventories allowed many inland industrial properties to capitalize on new demand. While most supply chain bottlenecks have gradually subsided, the new post-pandemic normal for online consumption keeps industrial in CRE's driver's seat.

Like all sectors, recent increases in borrowing costs have dampened transaction activity in the industrial sector. According to the industry group NAIOP, net



absorption slowed during the final half of 2022, dropping to 176 million square feet from the 236 million square feet absorbed during the first half of the year. Still, industrial properties have begun 2023 performing better than some expected as demand continues to outpace supply in several key markets.

Data from the February Logistics Managers' Index (LMI) show a rise in forward-looking sentiment for the warehouse sector. After hitting a nadir in November, the LMI future metric has climbed for three consecutive months and, in February, reached its highest mark since last Summer. Moreover, the LMI future has continued to signal expansion in the sector despite falling throughout Fall 2022 (an index



reading above 50 indicates expansion, while below 50 indicates contraction).

Simultaneously, warehouse capacity experienced its first uptick in over two years, with additional supply expected to come online later this year. Still, analysts don't expect this new supply to roil industrial markets. As Zac Rogers, lead analyst for the LMI, puts it, a modest short-term jump in warehouse capacity "will make it more sustainable over the long run." Other industry observers appear to agree. In early March, NAIOP raised its projections for net absorption over the next two years, projecting 310 million square feet of absorption in 2023, followed by 323 million in 2024.



# Financials

## TRANSACTION VOLUME

According to MSCI Real Capital analytics, industrial transaction volume totaled **\$154.0 billion** in 2022 — decreasing 13.3% from the previous year. Despite the year-over-year pull-back, 2022 remains the second-most active year for industrial transaction volume on record.

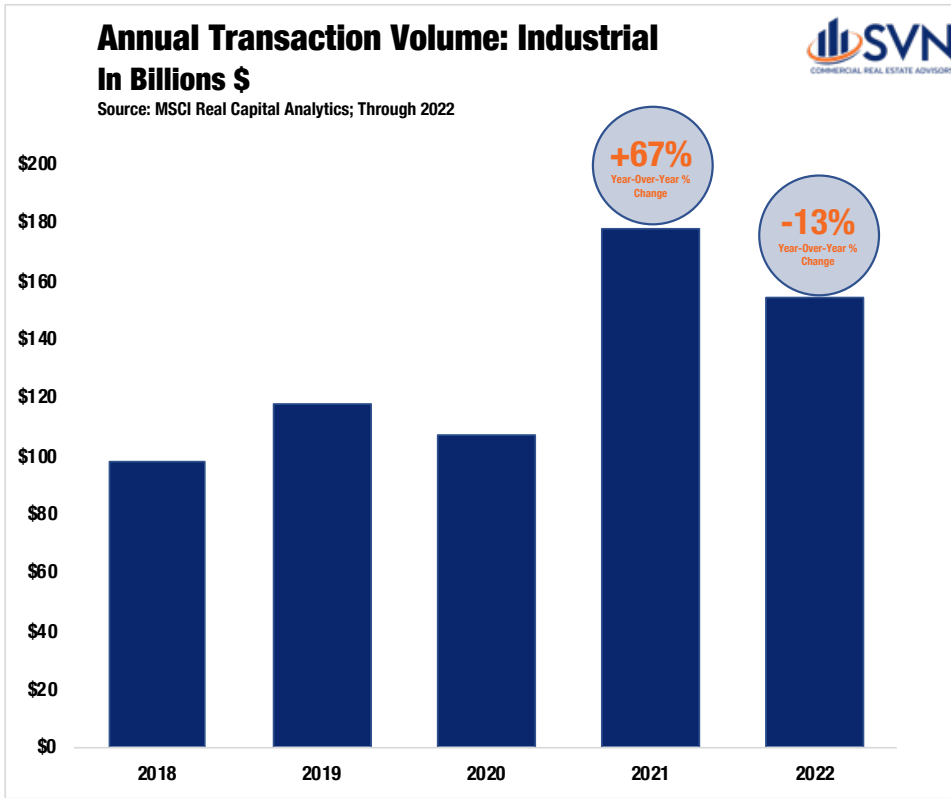
**Compared to the pre-pandemic peak (2019) of \$117.6 billion, 2022's total rose 31.0% higher.** Overall, the long-term drivers of the sector's momentum remain intact. A return to in-store shopping eased the acute demand surge for warehouse and fulfillment space. However, the secular convergence of retail and industrial should be a tailwind for industrial sector demand for the foreseeable future.

According to the 2023 ULI-PwC Emerging Trends in Real Estate Survey, real estate investors gave a net buy rating for all tracked sub-types of industrial, including flex, fulfillment, manufacturing, R&D, and warehouse.

## CAP RATES AND PRICES

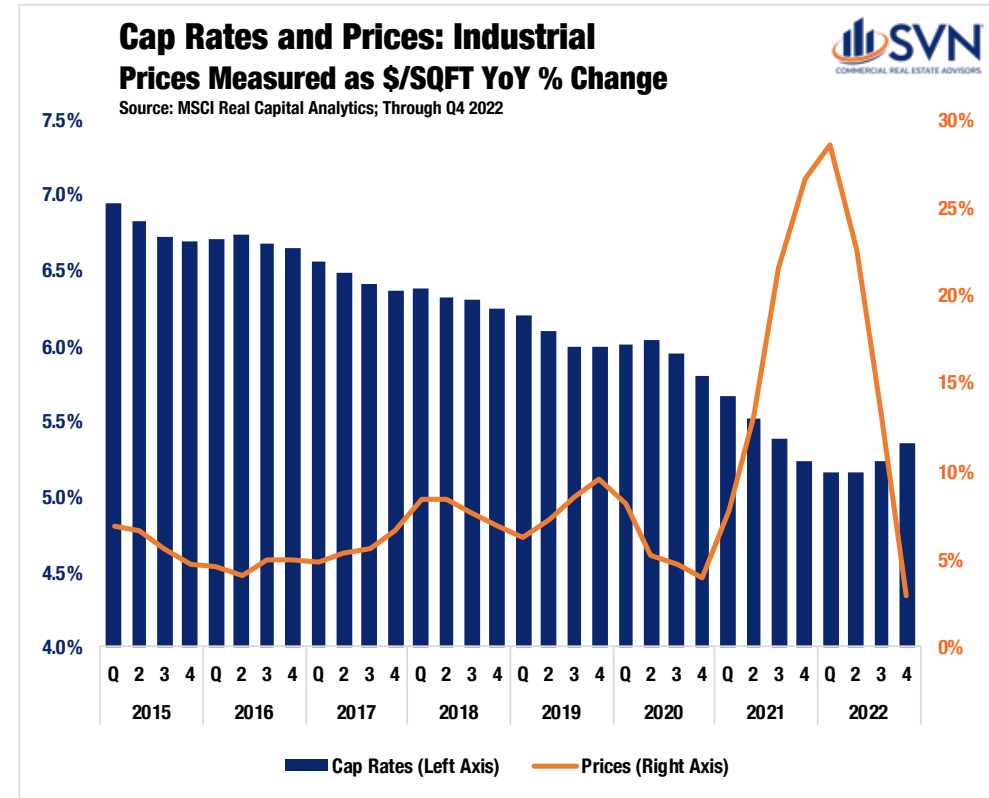
Despite the long-term optimism surrounding the industrial, the sector's cap rate profile was subject to the same market forces that saw yields rise for all other commercial property types.

After industrial cap rates sank to a new all-time low of 5.2% in Q1 2022, the effects of rising benchmark interest rates were felt throughout the year. Cap rates rose each of the next three quarters,



settling at 5.3% at the end of the year. In total, cap rates rose by 19 bps between Q1 and Q4.

As cap rates have risen, pricing momentum has ebbed in the industrial sector. Still, prices kept rising through the first three quarters of the year, reaching a new all-time high of \$164/sqft in Q3.



However, in Q4, slowing growth eventually turned to contraction, and average prices in the industrial sector fell marginally to \$158/sqft — sliding 3.7% quarter-over-quarter. Nevertheless, industrial prices remain up by 3.0% from a year earlier despite the single-quarter drop.

# Regional Performance

In developing the regional industrial rankings, the SVN Research Team utilized a scoring matrix. The matrix offers a comprehensive view of how regional markets are performing within the context of growth from a year earlier, as well as compared to before the pandemic. The **eight following criteria** were included in the matrix:

1. Transaction Volume: 1-Year % Change
2. Transaction Volume: % Change Over Pre-Pandemic (2019)
3. Share of US Transaction Activity: 1-Year Change
4. Share of US Transaction Activity: Change Since Pre-Pandemic
5. Cap Rates: 1-Year Change
6. Cap Rates: Change Since Pre-Pandemic
7. Pricing: 1-Year % Change
8. Pricing: % Change Over Pre-Pandemic

## 2023 Regional Market Rankings: Industrial

Source: SVN Research, MSCI Real Capital Analytics; Through 2022

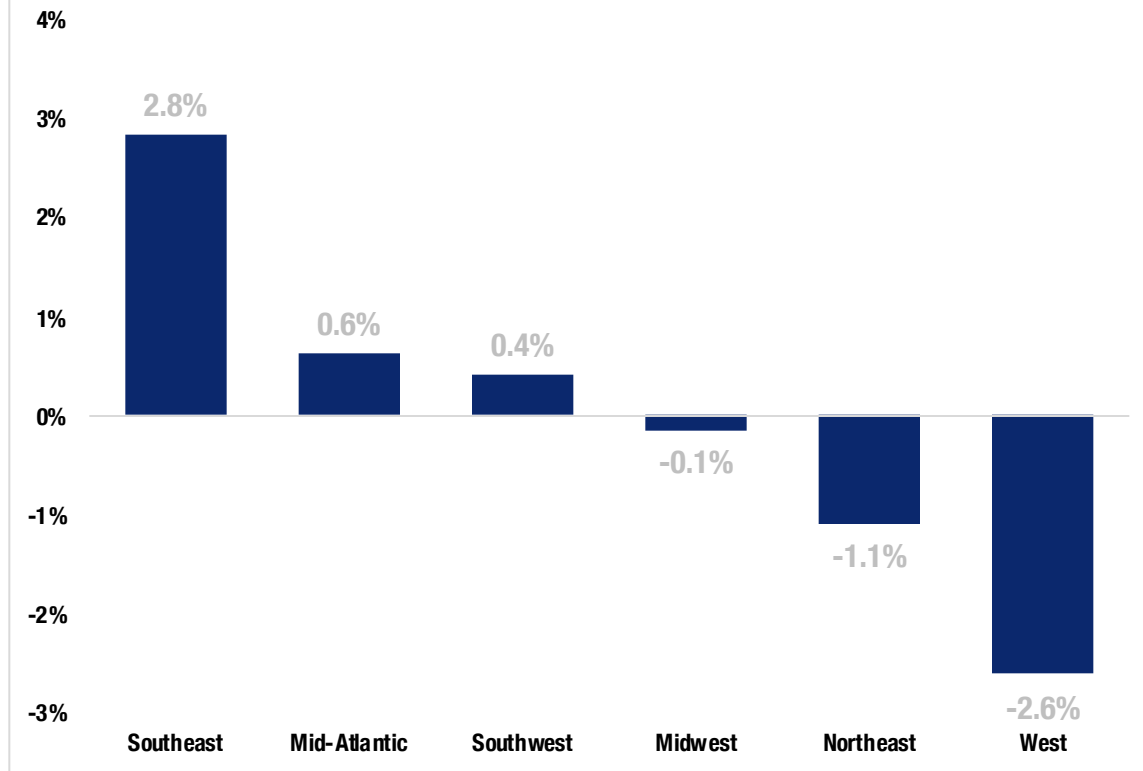
Rank	Region
1	Southeast
2	Mid-Atlantic
3	Southwest
4	Northeast
5	West
6	Midwest

## % Change in Industrial Transaction Activity

### Market Share: 2019-2022

#### Measured by Region

Source: MSCI Real Capital Analytics; Through 2022



### TOP PERFORMERS: SOUTHEAST

Echoing a common theme across all commercial real estate verticals, the Southeast again stands out as a top-performing region. The last several years have been a renaissance for commercial real estate in the Southeast, as **migration trends** have favored the region, causing **product demand to surge** across property types.

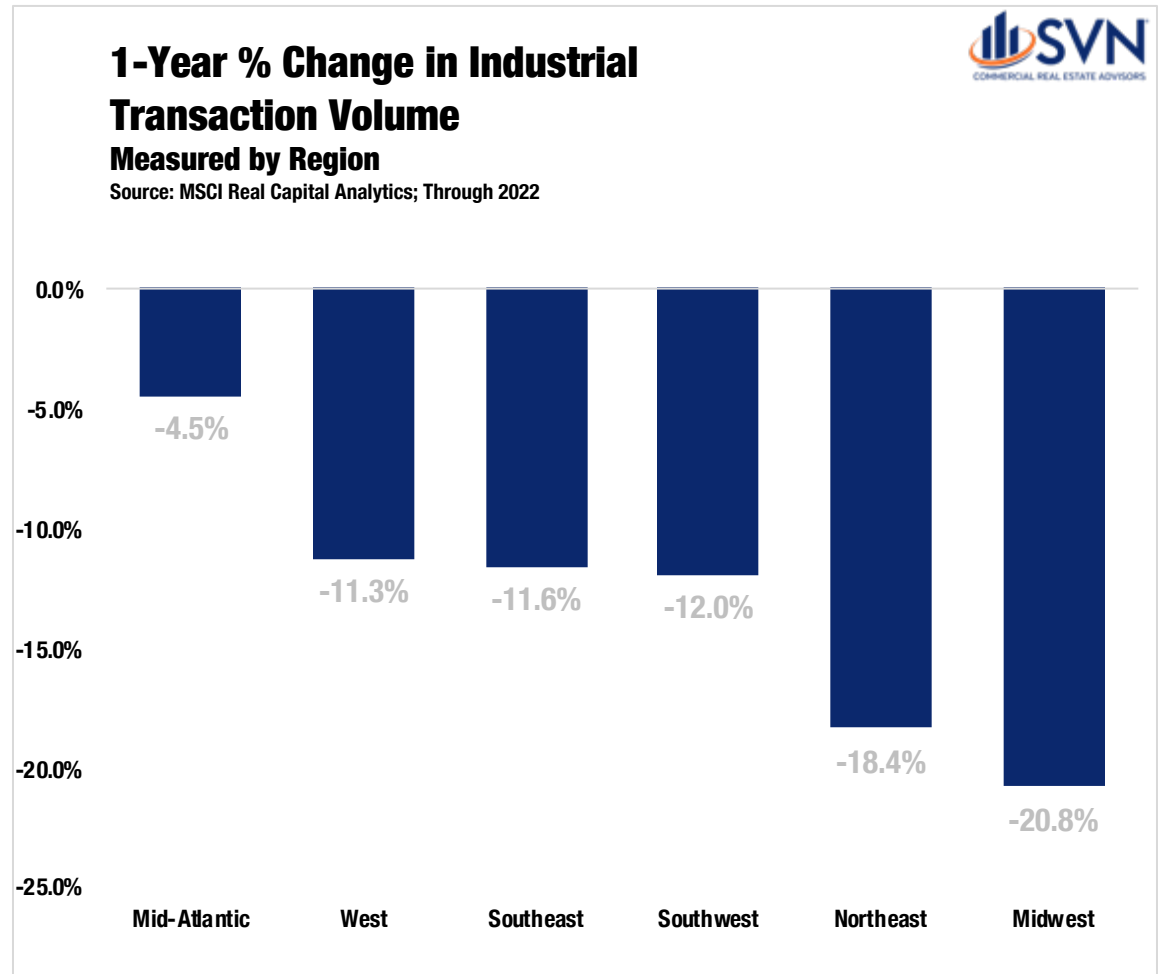
As a result, **no region has seen a larger market share increase over the past three years than the Southeast.** In 2019, the year before the pandemic, \$19.8 billion of industrial assets changed hands in the Southeast, accounting for 17.4% of the nation's total. In 2022, this

total surged to **\$31.1 billion**, accounting for **20.2% of all US activity** — a 2.8 percentage point gain in total market share. Southeast industrial assets have also seen some of the most intense pricing pressures in recent years, with **valuations rising by 46.0%** between 2019 and 2022.

## TOP PERFORMERS: SOUTHEAST

The Mid-Atlantic's 2022 strong showing crossed over to the industrial sector as well. While transaction volume decreased in the region compared to the year before, it did so by less than any other region. Still accounting for **\$15.3 billion of traded industrial assets last year**, transaction volume only dipped by 4.5% in 2022.

Meanwhile, every other region saw a year-over-year decline in volume between 11.3% and 20.8%. The Mid-Atlantic also managed to buck the 2022 trend of rising cap rates. On average, cap rates for industrial assets dipped by 7 bps in 2022 compared to the year prior — the second-best mark of any region.







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