

Industrial

OUTLOOK

On the heels of a massive yearly price appreciation of 41% for industrial in 2021, according to Real Capital Analytics*, we continue with a positive outlook for this sector in 2022. [CBRE reported](#) that Q4 2021 was the highest quarter in the sector's history for net absorption, coming in at 121.9 million square feet. The availability rate was a historic low of 5.2%, and asking rents increased 11.0% from a year ago—the highest annual increase in 20 years.

With the consumer's growing preference for fast delivery options (plus current supply chain issues), there is a shift from "just-in-time" to "just-in-case," driving some retailers to order in excess of immediate demand. In 2022, "just-in-case" online retailers will likely need more space to store their goods and will likely handle a more expansive inventory. The imminent low inventory-to-sales ratios should drive logistics inventories up by more than [5-10% over the next five years](#).

According to Green Street Advisors**, although new warehouses are under construction, development timelines could be delayed due to a lag in the immediate availability of raw materials like steel. Due to limited supply and excessive demand, rents for existing properties are expected to grow by 13% in 2022 for the top 50 markets defined by Green Street Advisors*.



Oak Point Bronx Industrial
Bronx, NY
Sponsored by Innovo Property Group

*Real Capital Analytics - Capital Trends. US Big Picture, 2021 **Green Street Advisors - U.S. Industrial Outlook, 2022

OPPORTUNITY

The capital markets are especially interested in investing in and lending on industrial assets in 2022. Industrial has long been a popular asset class among institutional investors due to continuously compressing cap rates and the potential for adding new supply. Lenders are especially eager to hold "safe" assets in their portfolio loans, which is why logistics real estate is taking up a larger amount of debt capital. We suspect that much of our industrial deal flow this year will be focused on development, due in part to the competitive transaction market and institutional capital that is chasing lower-yield projects. Record completions in the top

markets reached the highest quarterly volume since [Prologis Research](#) began tracking this metric, with record pre-leasing activity of more than 60% of the pipeline.



Cambridge Industrial Center
Cambridge, MA
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We suspect that a lack of well-located, industrial-zoned land, and population expansion outward from popular urban centers will continue to push new industrial supply further from the existing supply. With rising land prices and lengthy timelines for permitting and entitlement, projects that break ground this year stand to benefit from the user's willingness to pay a premium rent for buildings, especially those in well-located areas with modern features like high-speed data, floor quality, and increased clear height.

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