

## **The CRE Logistics Journal from NAI Global June 22, 2022**

Each month except in August, 20+ of NAI Global's top industrial and logistics real estate experts participate in a conference call organized by Steve Pastor with NAI James E. Hanson in Teterboro, New Jersey. Pastor chairs NAI Global's Industrial Council. The group discusses trends in their respective markets, activity (both developers and tenants), rental rates and investment capitalization rates and related factors impacting the logistics industry in the U.S. The boots-on-the-ground information shared on the calls is so original that NAI Global has decided to publish a monthly journal with highlights from each call.

### **Here are some of the highlights from the June call.**

**Reports of Amazon's pullback** on warehouse space and logistics facilities are overstated. The deals they are walking away from are mostly in remote or secondary/tertiary markets and do not include core markets. *(Source: Roth/Chicago)*

**Changing Market Conditions:** due to interest rate increases, some investment deals are getting re-traded and/or delayed. In one instance, a buyer had to revisit a planned purchase (of a property) because its stock price was declining while interest rates were rising and as a result the Capitalization Rate will increase from the original 4.7% to something higher, yet the deal is still moving ahead. *(Sources: Roth/Chicago; Armon/Reno)*

Despite changing market conditions, **industrial rental rates continue to climb** to new highs in multiple markets around the country. "Every lease completed lately has established a new high-water mark for rental rates." The vacancy rate in Allentown, PA is so low, at about 1.5% that rates have climbed to \$9 per-square-foot, or 28% higher than a year earlier. They are 20% higher year-over-year in Baltimore. In Atlanta, a renewal lease took one tenant from its previous, older lease rate of \$3.80 per-square-foot to \$6.80 psf for its new lease. *(Sources: Lundberg/Teterboro, NJ; Culberson/Albany; Adams/Allentown; Coronna/Baltimore; Chambers/Atlanta)*

**Rental rates are climbing so quickly** that it is motivating landlords to do shorter leases, because the capital markets are discounting deals associated with longer-term leases (5 vs. 10-year). This is at first contrarian, as normally investors like to buy property assets with long-term leases in place, for the stability and predictable income. However, with rates increasing so fast, investors fear that a rate locked in now for 10 years will leave money on the table, or income, for the second half if a 10-year deal were structured. Hence a recently completed, 50,000-square-foot lease completed in the Allentown PA market was for five years, per the landlord. *(Source: Adams/Allentown)*

Continued demand for new industrial and logistics facilities has created a **widespread shortage of land for development**, especially with the lack of supply of buildings between 100,000 square feet and 500,000 square feet. In suburban Maryland land is being brought to market at \$1 million per acre – an unheard of price historically speaking. *(Sources: Culberson/Albany; Meyer/Mt. Laurel, NJ; Royce/Tyson, VA)*

**Demand is so tremendous for industrial inventory** that an astounding 61 million square feet is under development in Dallas/Ft. Worth (45.5 million square feet has poured slabs and another 15.7 million is underway with dirt work, while 22% of that combined total is pre-leased); 35 million square feet is in some phase of development and construction in Atlanta, and there is 14 million square feet of potential development in Reno, which equals roughly 15% of the current inventory in that market at the moment. There is 3.7 million square feet under construction now in Reno. And tenant activity remains strong for three, 1-million-square-foot buildings for lease in Houston's port market. *(Sources: Chambers/Atlanta; Stanzel/Dallas; Simon/Houston, Armon/Reno)*

**Supply chain disruption and material shortages are impacting industrial development projects and increasing construction costs.** Among the materials are roofing materials and asphalt. Several of the participants cited builders that are scrambling to finish their projects with roofing as the greatest challenge. In the Baltimore area, roofing has increased 85% year-over-year and the cost to pave an acre of land for outdoor storage (with asphalt) has shot up from just over \$100,000 a year ago to over \$200,000 now.

In Georgia, there is a shortage of concrete. In Atlanta, there is a shortage of aggregate for concrete mix but not sand, while in Savannah, which also has sand but no aggregate, the state governor has struck a deal with Nova Scotia to ship aggregate to the city so work to expand Savannah's port can continue.

A Columbus, OH developer ordered switchgears for one of his projects last September and the equipment will not arrive until this September. Switchgears are one of the most common pieces of equipment at industrial, commercial and residential sites as they function to safeguard electrical connections and (mostly) intended to isolate electrical circuits.

Materials and gear shortages are encouraging institutional developers to begin stockpiling essential building materials (according to multiple sources from the call). *(Sources: Royce/Tyson, VA; Caronna/Baltimore; Chambers/Atlanta; Osowski/Columbus)*

**Development and construction costs are rising.** One developer in New York State recently finished a building with a shell cost of \$85 per-square-foot (psf), and is beginning another, similar project and is anticipating the cost to be \$125 psf. *(Source: Pastor/Teterboro).*