

A large industrial factory interior with a high ceiling and complex steel structure. Two workers in blue jackets and orange hard hats are visible. One worker is operating a green forklift, and another is standing nearby. A large metal component is being lifted by a chain hoist from the ceiling. The scene is lit with warm orange lights and cool blue tones from the sky and machinery.

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**INDUSTRIAL
IN THE
MIDWEST**

Industrial assets nationwide experienced a monumental year in 2021, with the Midwest witnessing some of the most impressive fundamentals. The region’s robust highway systems, railroad infrastructures, low labor costs, and port access have made the Midwest a target for many manufacturing, logistics, and distribution tenants. The ongoing build-out of supply chains and swift growth in e-commerce sales has pushed industrial performance in the Midwest to record highs. Tenants are seeking to expand their distribution networks in the Midwest to fulfill a surge of online orders. The pandemic-induced breakdown of supply chains have retailers and other operators holding onto more inventory, thus driving up the demand for warehouse space. In some markets, like Louisville and Columbus, out-of-state and coastal investors represent a large portion of sales, around 70 and 80 percent, respectively. Additionally, the region supports a large concentration of start-up tech companies, technology-driven firms, health systems, and auto manufacturing. These fundamentals have played a vital role in the Midwest’s strong industrial performance and outlook.



ACTIVITY IN 2021

Cincinnati

In an article released by Crexi, Cincinnati, OH, was listed as the number one market to purchase industrial assets. With this accolade, the metro held true to its title, adding 4.3 million square feet in the last 12 months, and net absorption reached 7.4 million square feet. In 2021, the total space leased was over 14 million square feet, a 70 percent increase compared to the previous year’s peak. Amazon took up the bulk of activity, thanks to their Prime Air Hub opening in August after four years of development and planning. Cincinnati’s industrial market should see continued demand with a booming logistics sector, improving fulfillment capabilities, just-in-time delivery expectations, and soaring demand for goods.

Cincinnati by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
338,254,109	4.4%	\$5.93	3,052,933	4.3M	7.4M	9.9%	\$849M

Chicago

Chicago's geographic position and infrastructural advantages play a critical role in the market's rank as a top-five market nationally for combined import and export activity. Many retail, logistic, and manufacturing companies have signed for significant amounts of space in 2021, accounting for 75 percent of leasing and absorption activity in Chicago. Over 34.6 million square feet of space has been absorbed in the last 12 months, a 30 percent increase compared to the previous peak of 24 million square feet in 2004. Chicago stands as a primary distribution hub in the Midwest thanks to its centralized location and rail and highway connectivity. Construction continues at a robust pace, with 18.1 million square feet delivering in the last year and an additional 29.7 million square feet underway. The incredible demand has enabled rents to grow 8.4 percent to the all-time high of \$8.10 per square foot.

Notable Acquisitions

Data centers are expanding rapidly, and Prime Data Centers recently announced plans to build a \$1 billion massive center campus in Chicago, potentially the largest in the area. The company is set to acquire four parcels of land along the Busse Road corridor in Elk Grove Village for a 150 megawatts campus. This will be Prime Data Centers' first expansion beyond California.

Chicago by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
1,328,319,674	5.2%	\$8.15	29,667,765	20.2M	34.6M	8.1%	\$7.8B

Cleveland

Tenant demand for industrial space is at an all-time high driven by tenants seeking to expand their distribution networks to fulfill the surge of online orders. However, supply chain disruptions, reduced export growth, and labor shortages have created headwinds for the manufacturing sector. In comparison to logistics-heavy markets, like Columbus and Cincinnati, net absorption was modest. However, construction is limited, at about 1.5 million square feet underway, which should help vacancies as absorption softens in the coming quarters. A mere 859,000 square feet delivered in the last 12 months, and rents have accelerated 4.6 percent, compared to the 8.4 percent national average. Transactions reached an all-time high, totaling more than \$480 million, a 66 percent increase compared to 2020.

Notable Acquisitions

The largest lease signed in the market for 2021 was by the U.S. Postal Service. In Q4 2021, the U.S. Postal Service took over a 575,000 square foot transmission plant formerly occupied by General Motors in Parma on Chevrolet Boulevard. The site will serve as an annex location to handle the increasing volume of packages.

Cleveland by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
352,323,275	4.5%	\$5.45	1,526,436	859K	98.7K	4.6%	\$508M

A platform company, Aurora Industrial, is on the hunt to purchase \$1 billion in industrial assets across the Midwest. Just recently, in December, Aurora Industrial purchased a 2.9 million square foot portfolio in the Cleveland area for an estimated \$151 million. This acquisition could help industrial achieve another record-breaking year in sales in Cleveland. The company has been actively expanding its reach in the Midwest, dating back to June 2021, when Aurora Industrial purchased a 10-property portfolio in Detroit.



Columbus

Columbus had a banner year in the industrial market like other Ohio markets, reaching record-high demand and rent growth. Around 50 percent of U.S. households can be reached in a one-day drive, a large driver for distribution and logistics demand. Logistics facilities account for 82 percent of industrial inventory, compared to 67 percent nationwide, and continue to expand. Data center development is also highly active in Columbus, thanks to the growing power grid, temperature climate, and limited occurrence of natural disasters. An impressive 18.4 million square feet are in the pipeline, presenting supply-side risks despite the surging leasing activity. Investors are very attracted to the market's abundance of well-leased and newly built products, resulting in an 11.5 percent rent increase in the last 12 months and an average cap rate of 6.7 percent.

Columbus by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
325,319,392	3.5%	\$6.02	18,437,686	6.5M	13.9M	11.5%	\$2.1B

Indianapolis

With an ample supply of logistics space, Indianapolis has no shortage of industrial demand. It is also referred to as the “Crossroads of America” for its central location, airport shipping services, and infrastructure. These factors all contribute to the metro being an ideal ecosystem for national distributors to operate. As such, net absorption totaled 16.7 million square feet, compressed vacancies to the market's lowest point at 3.6 percent, and over 20 million square feet leased in 2021. Over \$1 billion has traded hands in Indianapolis in the past three years.

Indianapolis by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
365,145,260	3.8%	\$6.24	24,895,444	9.8M	17.2M	6.4%	\$1.3B

Detroit

Dubbed as “Motor City,” Detroit is known as the world’s auto capital, with over 612 million square feet of industrial space, Detroit has the eighth-largest industrial inventory in the U.S. Additionally, Michigan is ranked fourth nationwide for high-tech employment. The state holds 20 economic Smart Zones, which are technology clusters that promote resource collaboration between universities, governmental and community-based groups, research organizations, and industries. Five of these Smart Zones are located in Detroit. As such, e-commerce tenants target the metro, including Amazon and FedEx.

Rents have grown 9.4 percent year-over-year, with the industrial market operating at near-full capacity for almost five years. Detroit reached \$800 million in industrial trades in 2021, with no clear focal point of investor interest as acquisitions were scattered through the market. Many of the highest sales volumes assets were part of multi-property and portfolio sales to national and foreign investors.

Notable Acquisitions

Innovative Industrial Properties acquired a 2 Star property in Warren for \$10.3 million, or \$156.44 per square foot) in a sale leaseback transaction. This sale demonstrates the company’s continued growth in Michigan and boosts its total in-state property investment to approximately \$209 million.

Detroit by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
612,251,316	4.5%	\$7.78	9,151,487	8.4M	8.3M	9.4%	\$797M

Kansas City

There are currently over 333 million square feet of industrial space in Kansas City, with an additional 13 million underway. Vacancies sit at 4.4 percent, below the 10-year average, but essentially flat over the last four quarters. Rents are rising at seven percent during Q1 2022 and average four percent annually over the last three years.

Notable Acquisitions

Sealy & Co., a Dallas-based industrial real estate owner and developer, has targeted the Kansas City area, citing its centralized location, significant highway and railway infrastructure, and affordable cost of labor. In 2021, Sealy acquired a few properties in the market, including a fully leased distribution warehouse in Shawnee and the Lone Elm Commerce Center in Olathe.

In January 2022, it scooped up its latest investment with the purchase of a five-building park near Truman Sports Complex that houses both Kauffman stadium of the MLB’s Kansas City Royals and Arrowhead Stadium, the home of the NFL’s Kansas City Chiefs. With this acquisition, Sealy now owns more than a dozen properties in Kansas City, totaling 1.5 million square feet.

Kansas City by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
333,378,029	4.4%	\$6.13	13,144,753	9.1M	9.9M	7.0%	\$771M

St. Louis

Suburban St. Louis has been a target for various developers, ranging from refrigeration for food service providers to warehouses for distribution. The market has experienced a year-over-year rent growth of 5.2 percent, a significant jump compared to the previous annual average of 3.3 percent. Over eight million square feet are underway, representing the largest pipeline in over three years. In the pipeline is the growing distribution operations of Gold Star Good, the nation's largest school nutrition provider based in California, as they hunt for industrial refrigeration and cold storage facilities to expand to the Midwest. Additionally, international real estate developer Panattoni is taking on its latest project in the area, breaking ground on three speculative distribution centers near St. Louis Lambert International Airport.

St. Louis by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
326,653,771	3.3%	\$6.08	8,846,513	3M	7.3M	5.2%	\$945M

Louisville

2021 marked the strongest industrial performance in Louisville, as both demand and deliveries set new records. Leasing volume jumped 36 percent from 2020 as nearly seven million square feet leased, with the largest leases signed involving Amazon, GE Appliances and Repair, UPS, and Zappos. Elevated leasing activity is expected to continue to support demand in Louisville in the future. Additionally, strong net absorption will keep vacancies below the historical average. This has allowed landlords to push rents by a record average of 10.5 percent, compared to the national average of 8.4 percent. Rent growth is also expected to continue through the end of 2022 and eventually moderate to an average of 4.3 percent in the next five years. With a broad mix of interests, Louisville's industrial sector performed strong. Well-leased assets drive investment activity, accomplishing an average of \$60 per square foot. Cap rates sit at 7.2 percent, 90 basis points above the national average, drawing yield-motivating investors to Louisville.

Notable Acquisitions

The most notable sale in 2021 involved the Bourbon Trail Logistics Center 1, a one million square foot distribution facility built in 2020 for \$95 million, or \$91 per square foot. The same buyer went on to purchase a 284,000 square foot distribution facility in the South Central submarket for \$32.1 million, or \$113 per square foot.

Louisville by the Numbers (Source: CoStar)

Rentable Building Area SF	Vacancy Rate	Market Rent PSF	Under Construction SF	Deliveries SF (12 Months)	Net Absorption SF (12 Months)	Rent Growth (12 Months)	Sales Volume (12 Months)
239,721,132	3.3%	\$5.57	7,044,295	5.9M	8.4M	10.5%	\$1.3B

SALE LEASEBACK TRENDS

Sale leaseback transactions are an alternative financing strategy wherein an owner-operator sells their real estate to a buyer and remains as the occupier of the real estate and operator of the business through a simultaneously executed lease. Extracting 100 percent of the property's equity, the seller can reinvest the liquidated capital into the company through financing renovations, expansions, and operations. Last year, sale leaseback transactions accounted for nine percent of property trades, according to a report by Commercial Edge.

Coastal investors are looking to deploy capital into sale leasebacks in the Midwest in search of better yields. The low interest rates, paired with the heightened demand in the Midwest, have compressed cap rates in the short term but will eventually put upward pressure on cap rates. In the last 12 months, 131 sale leasebacks have transacted in the Midwest with an average cap rate of 7.1 percent.



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