



## CRE's Industrial Sector – Will It Stay Solid In 2022?

📌 **lending** **CRE**

**Summary:** A full economic recovery in the various CRE sectors is crucial both for community financial institutions and their customers. The overall CRE market seems to be making a recovery after the pandemic's impact, especially the industrial sector. We highlight this sector and explore whether it will stay strong through the end of 2022.

Have you heard that the body actually emits light? Research done at the Tohoku Institute of Technology by Masaki Kobayashi found this out in 2009. By studying volunteers with super-sensitive cameras in light-sealed chambers, the researchers found the volunteers' bodies glowed at certain times of the day. This was explained as chemical reactions producing bioluminescence. No wonder we don't notice this with the naked eye, it is 1,000x less intense than what is perceptible to the eye.

Digging deeper can provide more insights into biological effects, but it can also help in better understanding the current commercial real estate (CRE) market. It has been expanding in some sectors, while others are still struggling. Overall though, the CRE market seems to have recovered from the pandemic and the expectation is that **volumes will grow by 10% in 2022**, according to a recent CBRE market survey. Investors are seeking out real estate as an inflation hedge as property fundamentals stay robust.

*"Strong property market fundamentals, fueled by a robust economic recovery, will help maintain cap rates at current levels. While the crisis in Ukraine and associated sanctions bring some near-term uncertainty into play, we do not currently believe that will be too disruptive to the US economic outlook,"* said Richard Barkham, Global Chief Economist and Americas Head of Research for CBRE.

### Industrial sector is poised for growth in 2022

Demand for warehouses and distribution centers surged in 2021. With the continuing expansion of online retail, retailers and wholesalers **leased more space than ever before**, according to CBRE North America reports. The same report found that last year's increased activity resulted in *"450MM sq. ft of leasing activity, 195 million sq. ft. of new construction, and a direct vacancy rate of just 3.4%."* The markets that grew the most in this sector included Houston (11.1%), Phoenix (10.5%), and Atlanta (7.5%).

A continued decline in vacancies with annual rent growth of approximately 4% is expected for the industrial sector in 2022. This is due in part to continued increases in e-commerce, a push for shorter delivery times, and new spaces not keeping up with demand. Capitalization rates have stayed low in port areas, such as Los Angeles, Oakland, and northern New Jersey.

Yet, a **variety of factors could affect the ongoing strength** in this sector.

### Beneficial factors

- Q1 2022 industrial rents increased 16% YoY from Q1 2021 and experts don't believe this trend will reverse this year.

- Interest rates are still relatively low, which incentivizes new projects and loans before rates rise later this year.
- With the attractive land prices, more people may be inclined to sell land for new site development, which would increase inventory for industrial warehouses and distribution centers.
- Advanced automation makes these industrial buildings more efficient and cost-effective, potentially offsetting other rising costs.
- Companies' desire to hold more inventory due to supply chain issues and uncertainties was a big driver last year for expansion and is likely to continue this year.

### Challenging factors

- Continued geopolitical issues, such as the war in Ukraine, could detrimentally affect the economy generally and this sector specifically.
- Rising transportation costs, since they encompass a large portion of supply chain expenses, could adversely affect demand and increase risk, especially with regional or smaller retail distribution centers.
- Increasing construction costs make new buildings more expensive, yet make existing buildings more appealing to investors.
- Shortage of truck drivers causes additional bottlenecks in the supply chain and affects warehouses, distribution centers, and storage facilities.

Many indicators point towards a positive year overall for the industrial CRE sector. When looking at your CRE portfolios and discussing plans with your CRE industrial customers, the devil will be in the details. That should be no problem though — Most bankers excel at working with the details.

## PCBB INTEGRATES CANADIAN CHECK IMAGING WITH FISERV

PCBB has expanded its relationship with Fiserv to offer Canadian check imaging services through the Fiserv Clearing Network (FCN). PCBB already enables end-to-end international wire transfers through Fiserv's Payments Exchange: Foreign Exchange platform. Now, FCN customers can digitally process Canadian checks using PCBB's advanced payment option. [Learn more.](#)

## ECONOMY & RATES

Rates As Of: 04/26/2022 11:46AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.91	0.39	0.85
6M	1.42	0.36	1.23
1Y	1.97	0.35	1.59
2Y	2.56	0.22	1.82
5Y	2.81	0.34	1.54
10Y	2.78	0.43	1.26
30Y	2.87	0.41	0.96
FF Market	FF Disc	JOB	
0.33	0.50	0.40	
SOFR	Prime	OBER	
0.27	3.50	0.32	

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