



Industrial Leasing Velocity in Texas Expected to Outshine California This Year

JLL Says Inflation, Higher Interest Rates Not Affecting Consumer Spending As Logistics Providers Lead Industrial Demand



A manufacturing worker at Tesla's factory in Fremont, California, works on a vehicle. The demand for electric vehicles is pushing automotive manufacturers to expand their operations. Tesla is growing its footprint in Austin, Texas. (Tesla)

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CoStar News

January 19, 2023 | 10:42 AM

Tenant demand for U.S. industrial properties surged 30% last year, exceeding levels seen in both 2020 and 2021.

JLL tracked more than 2,200 individual tenant requirements and found that their needs in 2022 called for more than 864 million square feet of industrial space in nearly 60 of the nation's top markets, according to an [annual research report](#) released by the brokerage on Thursday. In 2021, JLL tracked 664 million square feet of industrial requirements from tenants.

About 40% of all leases last year came from the brokerage firm's top industrial markets, with high rents and port congestion along the West Coast pushing would-be tenants to the southeast United States and ports along the East Coast, including in Savannah, Georgia, and Charleston, South Carolina.

This year, for the first time in history, net absorption in Texas is expected to exceed California, Craig Meyer, president and Americas industrial chairman of JLL, told CoStar News. Even though Dallas-Fort Worth has the nation's biggest industrial construction pipeline in history, Meyer said he's not concerned by those big numbers, which, at last count, [surpassed 83 million square feet of space underway in the region](#).

"Is it more than anywhere else? Yes. Is there a little bit of risk? Yes. But I think there's a lot of demand coming and it's a high-growth market right now," Meyer said.

The spike in industrial tenant demand comes after the once runaway demand for e-commerce space has normalized, with Amazon [pulling back on a small portion of its space needs](#). Nevertheless, the need for more logistics and parcel delivery space is still driving the bulk of tenant demand, with over 194 million square feet of requirements in the United States.

Other tenants demanding industrial space in the U.S. stem from the rise of electric vehicle and battery manufacturing factories, as well as the continued need for construction materials for real estate projects and reshoring to avoid supply chain woes.

"The real driver for U.S. industrial demand is the changing buying habits of the American populace, they are buying more and more things online," said Meyer. "Pre-COVID, about 11% of all retail sales were online and it went to well over north of over 25% during [early pandemic days] and its settling in the 20% range. We continue to be in a long-term journey within the next five to seven years close to 35% of everything we buy will be in some way, shape or form, will be online."

Even Amazon, which has been reviewing its real estate portfolio, has continued to expand its presence in key U.S. markets, he added.

"Supply chains are being changed to delivery last mile," Meyer said, adding this was a boon to the industrial real estate market. "That means there will be enormous growth for players like Amazon, and you see it also with the package handlers like FedEx, UPS, and the United States Postal Service, all expanding to get deeper into the population centers.



Craig Meyer is the president and the Americas industrial chairman of brokerage firm JLL. (JLL)

That's one thing that continues to reaffirm this is the existential driver for demand and it's a long-term program."

Population Centers

Texas added some big industrial projects, including Tesla's car manufacturing plant in Austin that has continued to grow in scale.

Recently, the electric car maker filed work permits for **more than \$700**

[million in interior finishes](#) in its Austin plant. Texas not only has a lot of land available for development, but growing population centers that lure industrial tenants.

Population centers continue to be a big driver for logistics providers, with this type of tenant being the number one driver of industrial space in the United States for the second year in a row for JLL's 10th annual industrial tenant demand study, Meyer said. Not only is Texas seeing a boom in demand, but the nation's Sun Belt markets, such as Phoenix, the Carolinas and Atlanta, are also on the map for expansion by tenants seeking to be near these growing population centers, he added.

Even with higher inflation and interest rates, consumer spending is generally headed upward, according to the firm, pushing traditional retailers and food and beverage companies to seek out even more industrial space to grow business.

The national push for the electrification of automobiles, with President Joe Biden setting an ambitious goal for [50% of the new vehicles sold in the United States to be electric by 2030](#), has brought a new type of industrial tenant, from car manufacturers to electric vehicle battery makers, to the table, he said.

Nationally, there is a push to bring more manufacturing, ranging from ships to pharmaceuticals to textiles, within the United States to protect national security, Meyer said, adding, "they are not a huge needle mover yet, but they are certainly important."