U.S. industrial market report

Q2 2024

AVISON YOUNG

U.S. industrial market trends

8.1%

National vacancy rate upticks to highest point since 2013

Industrial net absorption remained positive in the first half of 2024 but continued to decline due to global economic and financial headwinds and record levels of new construction deliveries. Peak deliveries have passed in every market nationally and will largely be entirely delivered by the end of 2024. The decline in deliveries will continue to allow markets to digest the excess space that flooded the sector for four quarters now and looks to be timed well with increasing occupier requirements that are likely to translate to increased overall gross leasing at the end of 2024 and beginning of 2025.

-15.0%

First half gross leasing below pre-COVID average

Overall leasing volume for the start of 2024 was lower when compared to historical levels, however pre-leasing activity demand remains active throughout the U.S. industrial market, up-ticking starting in the third quarter of 2023. Leasing is a laggard indicator, and the observed leasing slowdown aligns with the previously witnessed decrease in port activity seen in the start of 2023. Tenant decision-making processes were focused six to twelve months ago and are now translating to the market.

The half of 2024 has experienced more users actively entering the pre-leasing process, indicating that leasing activity is aligning for increases toward the end of 2024, and beginning of 2025.

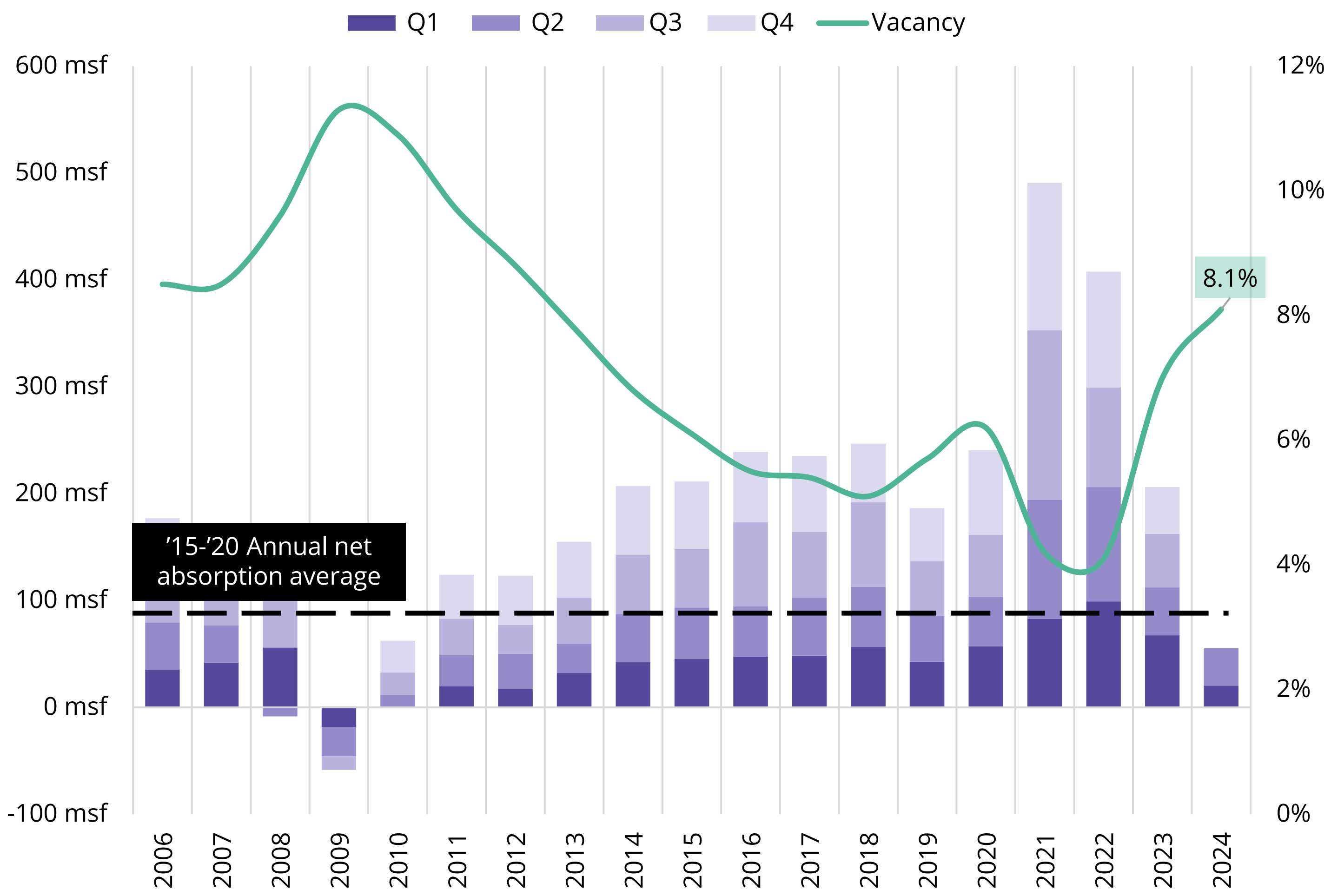
-55.8%

Construction pipeline down from peak in Q3 2022

New construction groundbreakings topped out in the third quarter of 2022, and very limited replacement in the construction pipeline have been experienced in 2023 and in the first half of 2024. After topping out at nearly 700 msf in 2022, we expect the overall construction pipeline to fall to under 150 msf by the end of the year. We are closely monitoring the market shift that decreasing groundbreakings will have on new space availabilities in six to nine months, as tenants looking for newly constructed space may have limited optionality relative to prior years.

Source: AVANT by Avison Young, CoStar, MSCI Real Capital Analytics

U.S. industrial net absorption and vacancy



After hitting historic construction pipeline volume in late 2022, pipeline replacement has been limited, which will flatten and drive down vacancy in the second half of 2024.

Source: AVANT by Avison Young, CoStar

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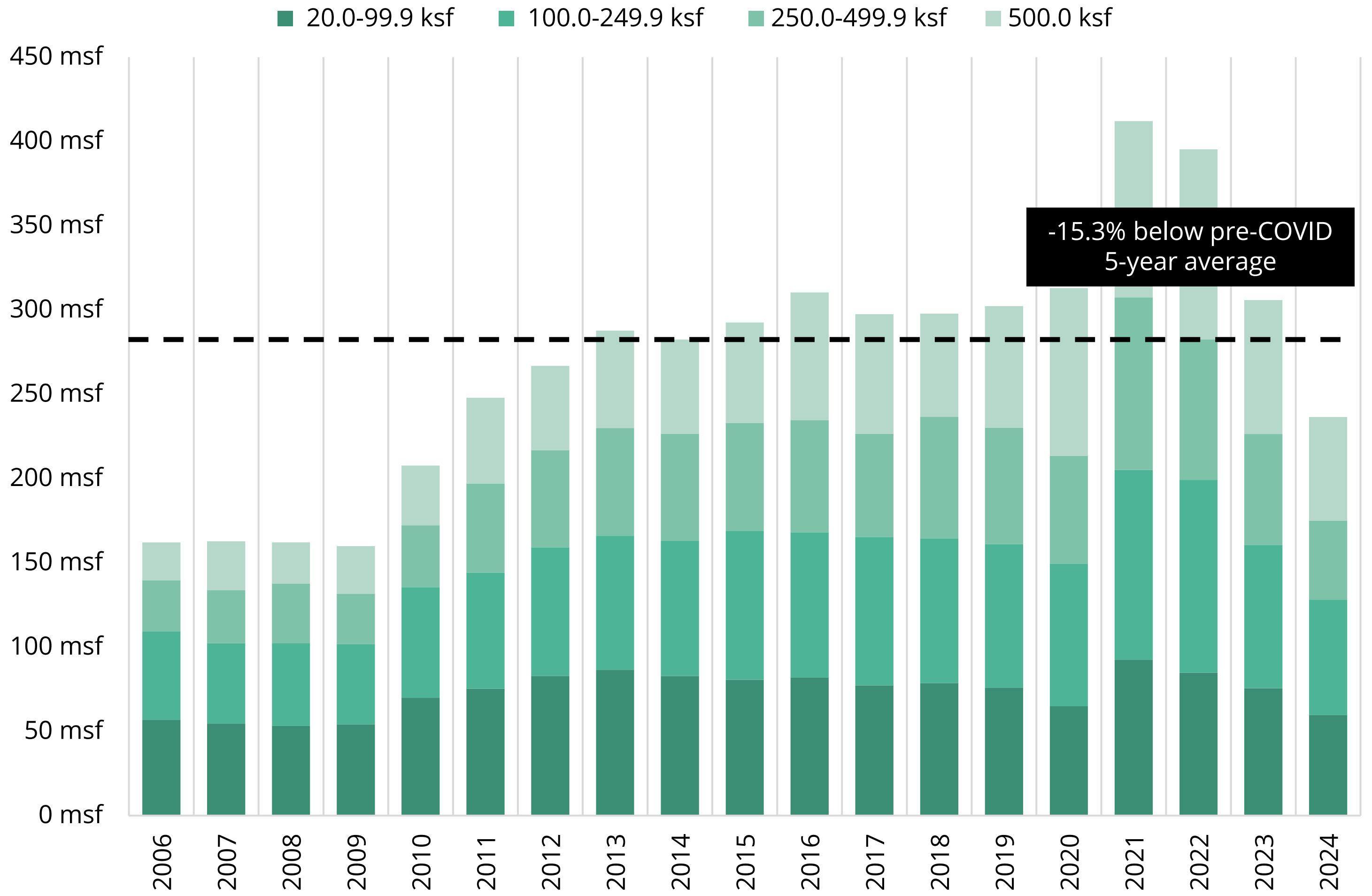
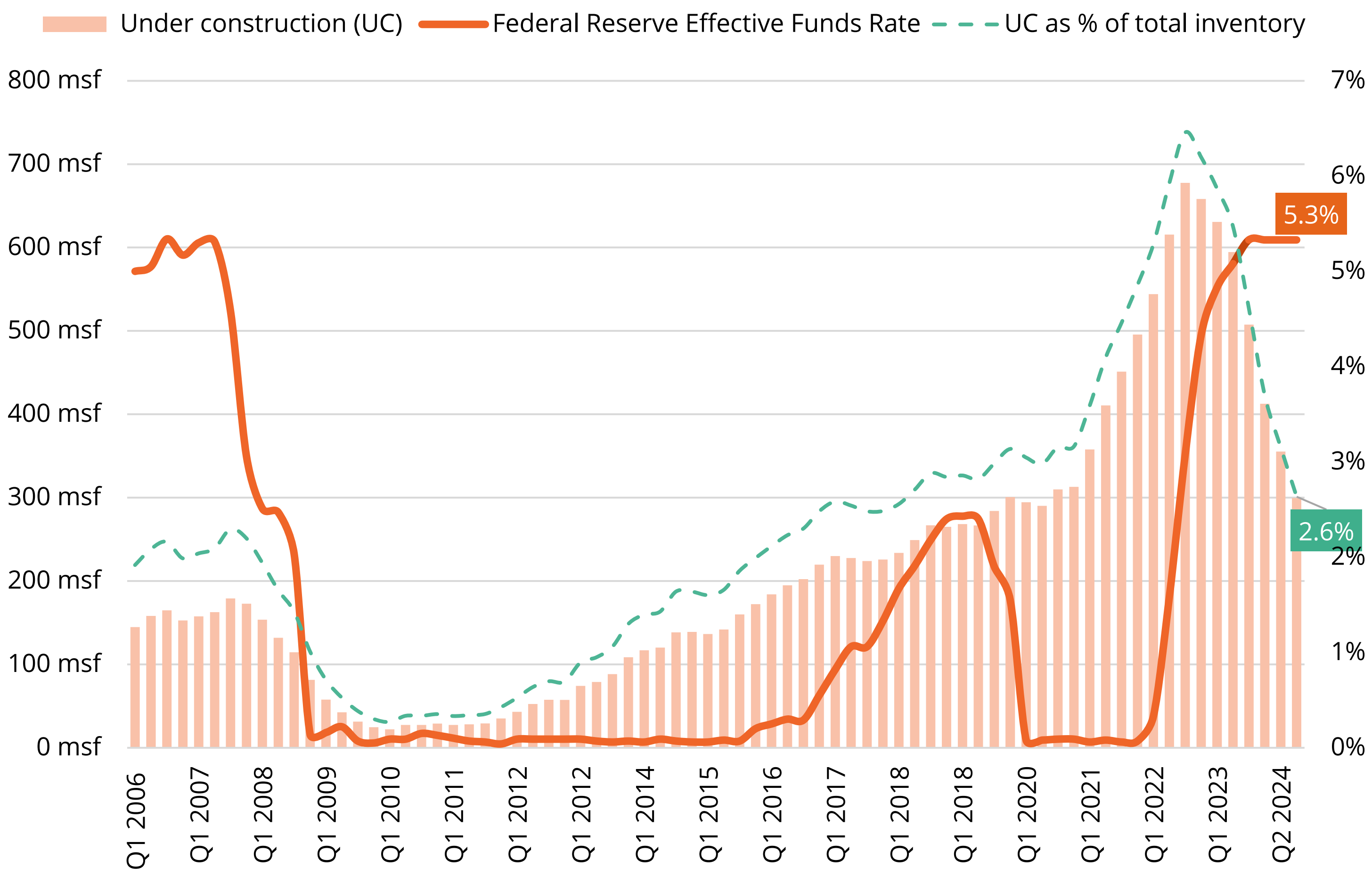
U.S. industrial leasing volume through H1



Overall industrial leasing was down over 15.0% in the first half when compared to pre-COVID first half average. Pre-leasing activity picked up since Q3 2023, and we expect an uptick in activity for the remainder of 2024.

Source: AVANT by Avison Young, CoStar

The overall construction pipeline peaked in Q3 2022 and will reduce to <150 msf in 2024



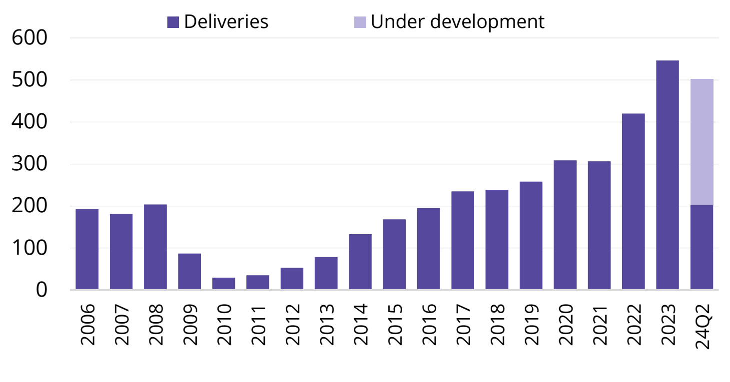
The construction pipeline continues to shrink as product that broke ground at the market peak in Q3 2023 delivered without replacement.

The construction pipeline will decrease further by the end of the first half of 2024 and is expected to reach 15-year lows.

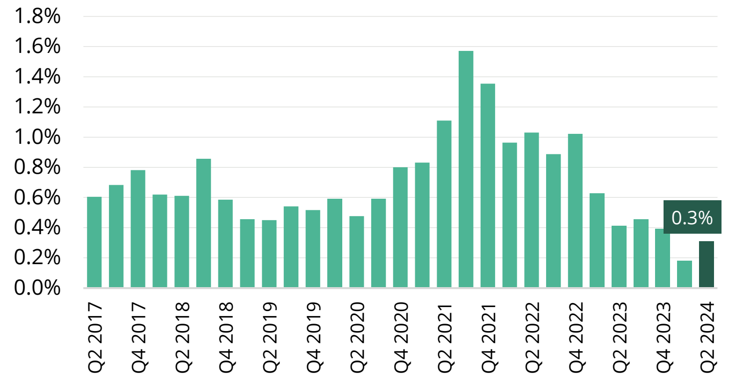
Source: AVANT by Avison Young, CoStar

U.S. industrial market indicators

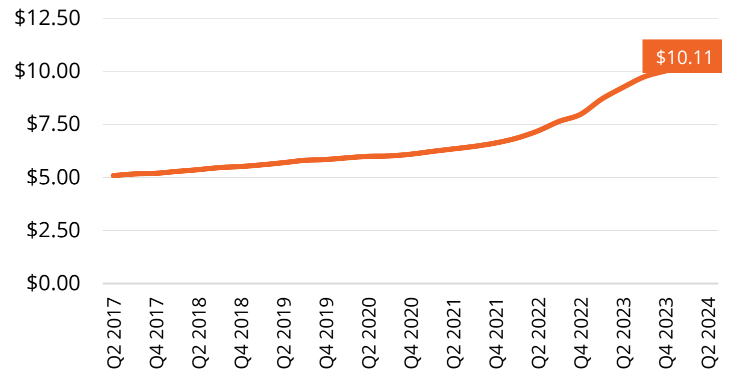
Development (msf)



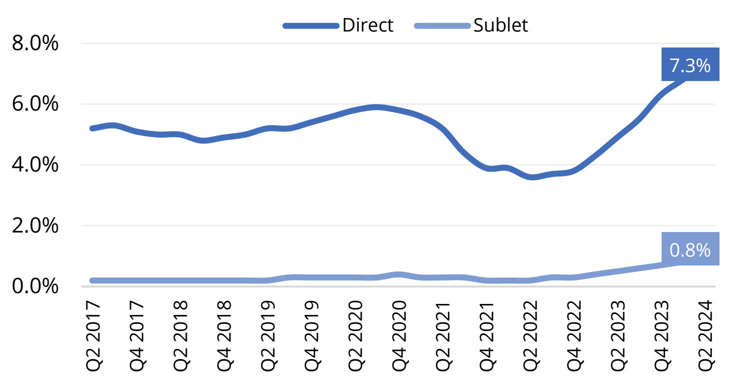
Net absorption as a % of inventory



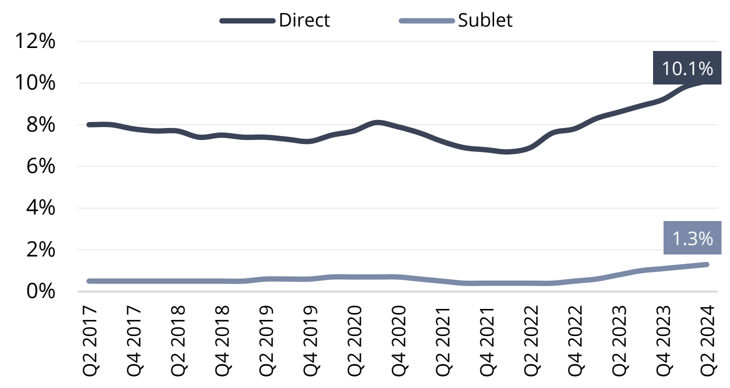
Direct asking rents (psf/NNN)



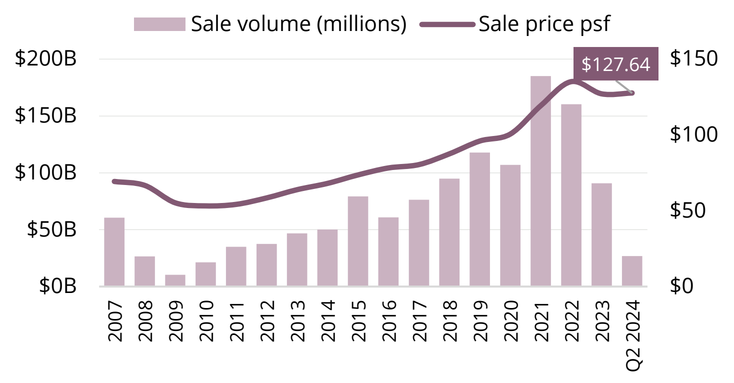
Vacancy (in %)



Availability (in %)

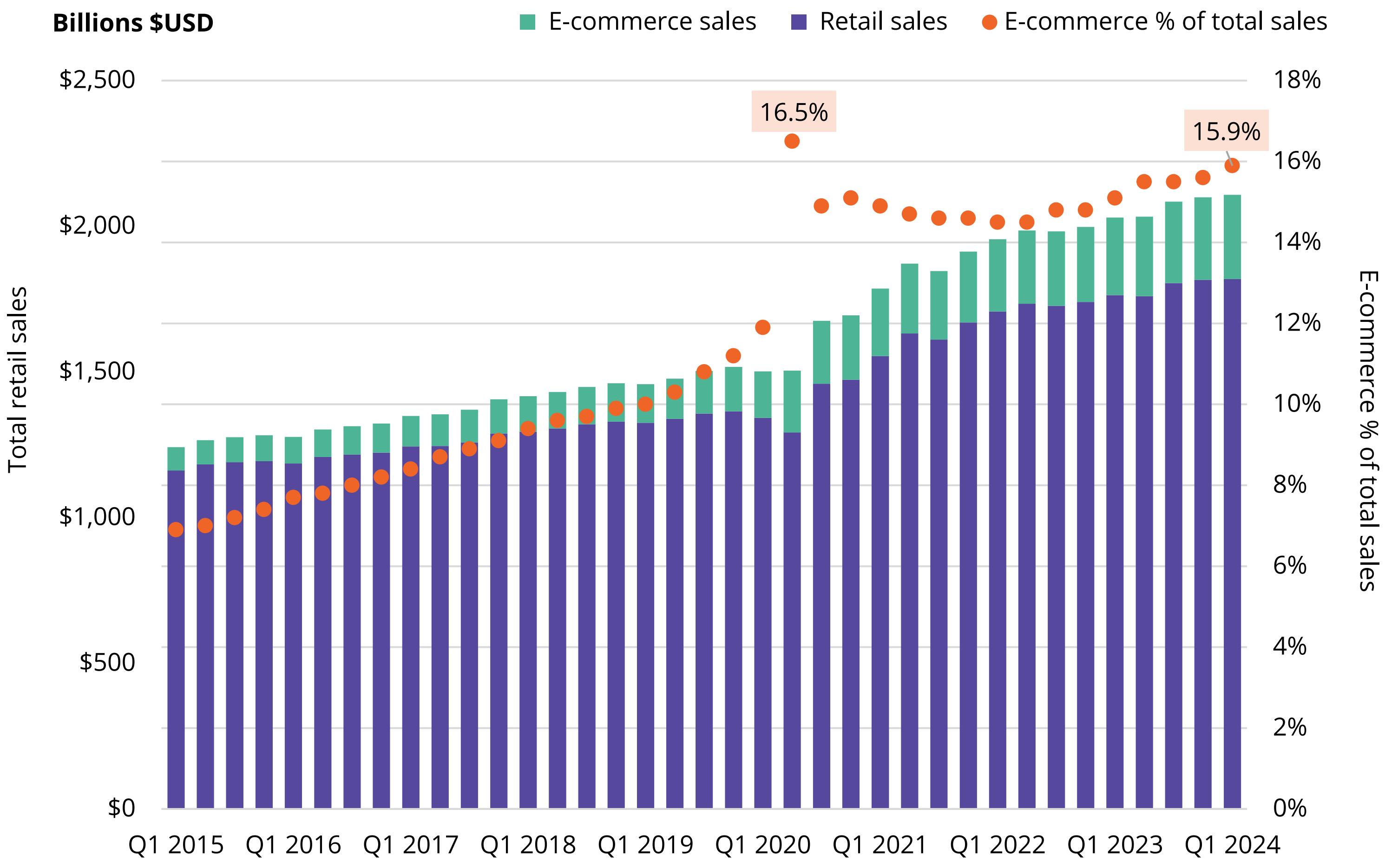


Investment sales



Source: AVANT by Avison Young, CoStar, MSCI Real Capital Analytics

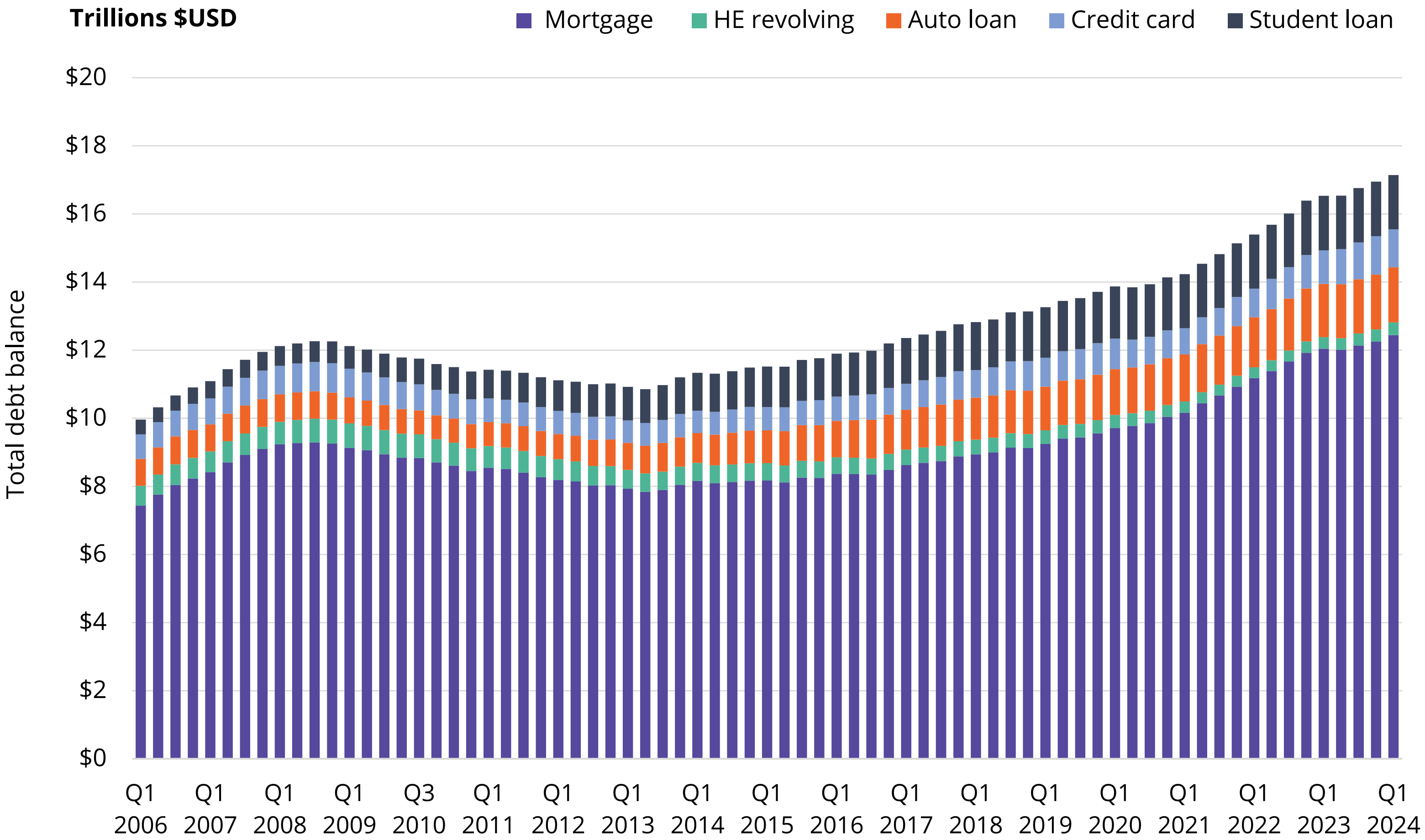
Retail sales slowly increasing, as e-commerce continues growth in total percentage of sales



Note: As of May 17, 2024 (most recent update)
Source: Federal Reserve Bank of St. Louis

E-ecommerce retail spend has increased 323.2% in the past 10 years, and 36.5% since start of 2020, which has formed new and incessant industrial demand for supportive fulfillment operations, led largely by 3PLs.

Household debt continues to surge to historic record of $17.7 trillion



Source: AVANT by Avison Young, FRBNY Consumer Credit Panel, Equifax

The U.S. consumer continues to pay for accelerated inflationary costs via increases in overall household debt. Since the beginning of the COVID-cycle, U.S. household debt has increased 24.0% as of the start of 2024, as credit card debt surges 36.5% in same timeframe.

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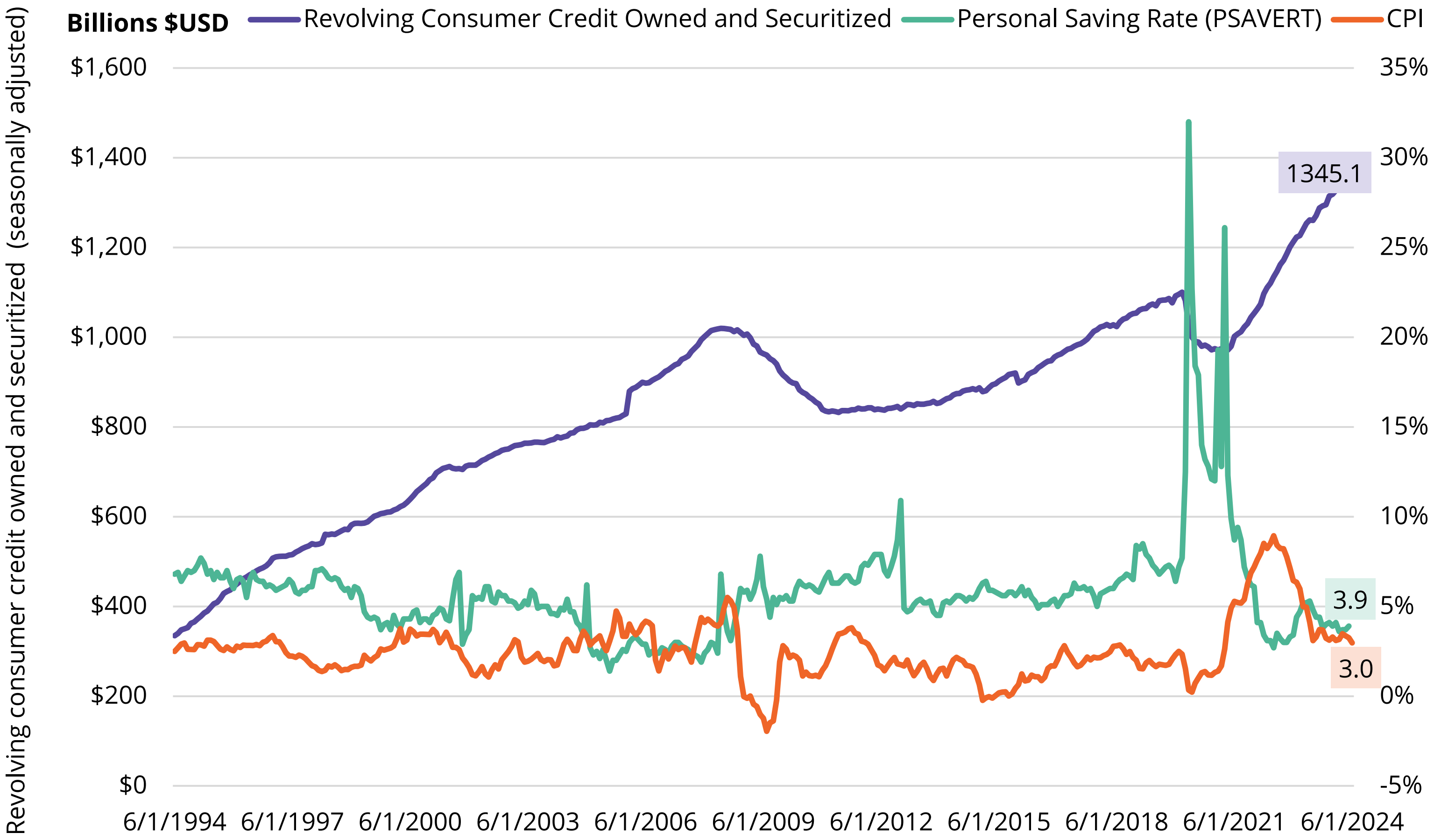
CPI remains elevated, leaving concern over Federal Reserve policy for remainder of 2024



Source: AVANT by Avison Young, Federal Reserve Bank of St. Louis

CPI remains elevated after a year of reductions in year-over-year growth. The Federal Reserve has frozen its current hawkish rate changes, however concerns of the amount of rate decreases is mounting.

Consumer credit utilization continues to surge at historic highs as core inflation left many consumers borrowing to pay for increased costs.

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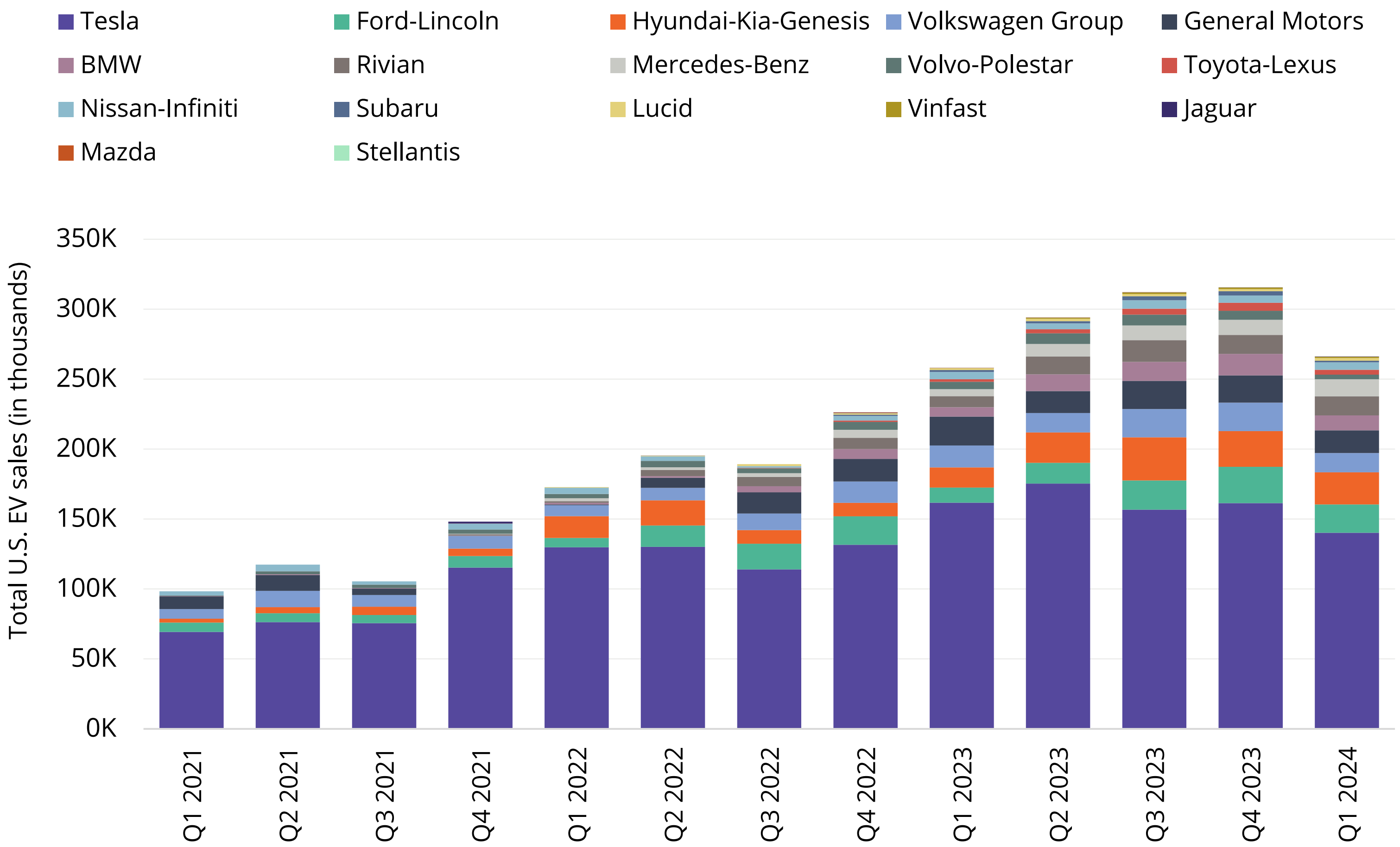
Accelerated financing costs have reduced overall sales of new EVs to start 2024

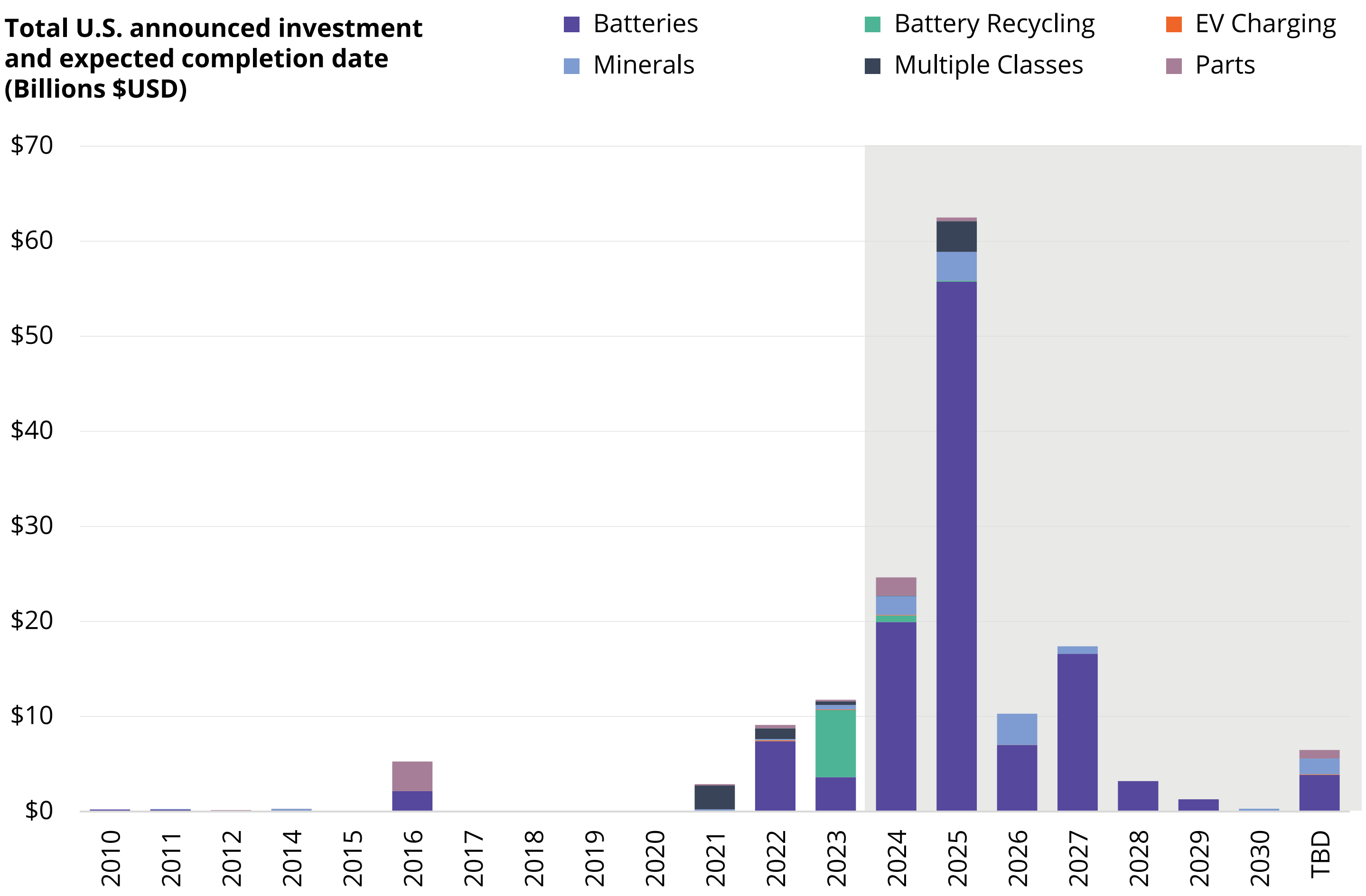


The electronification of the auto industry, and the subsequent investment in the fuel cells that power it has been a big source of newfound industrial demand for the past three years.

Source: AVANT by Avison Young, Cox Automotive

Battery and EV investments will lead to increased direct and indirect demand upon completion

Total U.S. announced investment and expected completion date (Billions $USD)



Source: AVANT by Avison Young, Bluegreen Alliance Foundation

There are currently over 120 battery cell related facilities either in final stages of planning, ground-broken, or already producing. The facilities are highly clustered within the Midwest and Southeast markets.

Several of these projects are expected to deliver in the next three years, which is leading to increased industrial demand from complimentary supply chain users.

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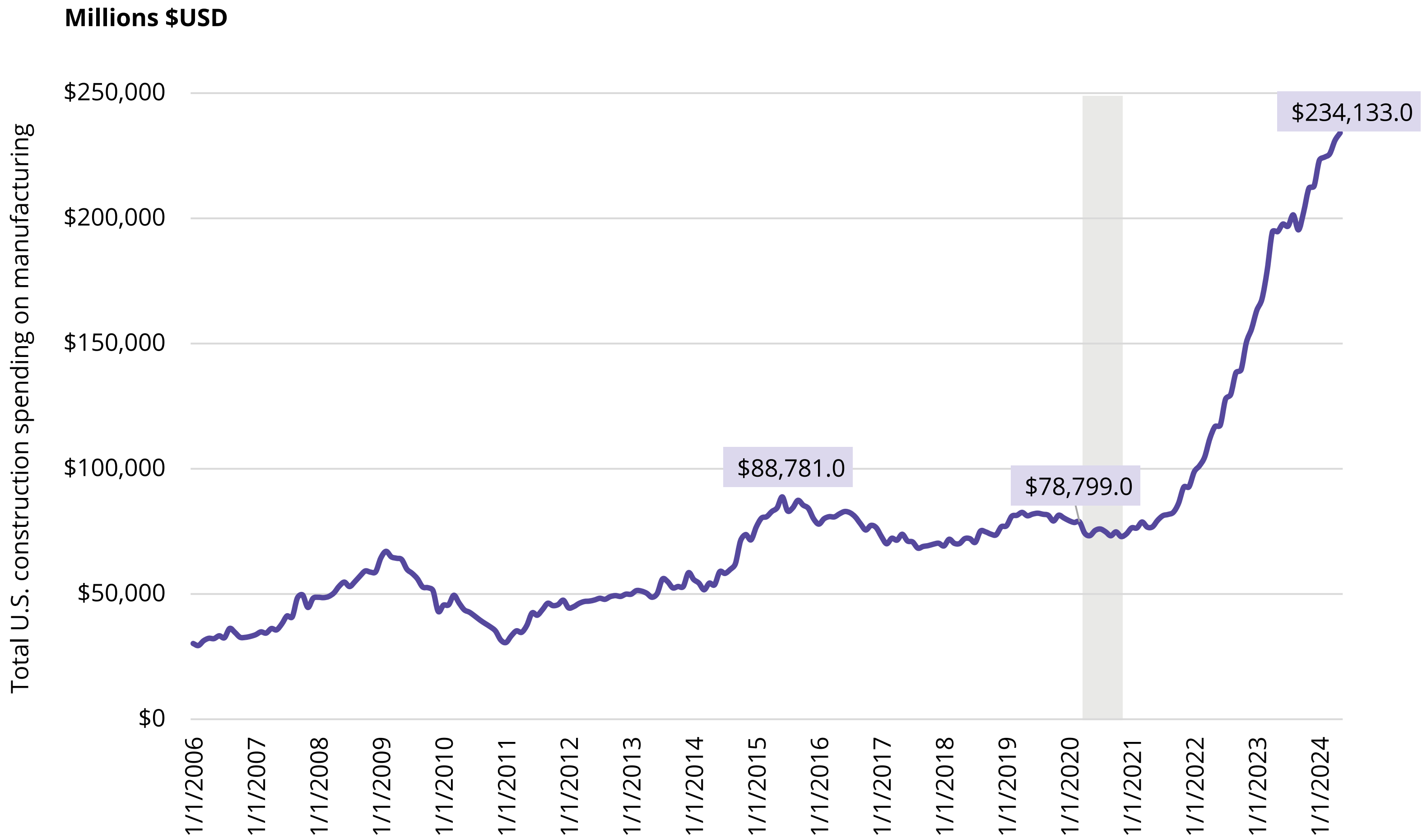
Investment in U.S. manufacturing continues to accelerate, leading to more Industrial demand



Source: AVANT by Avison Young, Federal Reserve Bank of St. Louis

Reshoring and nearshoring move along the maturation horizon as record investment is spent on U.S. manufacturing. Industrial demand shifts toward supporting manufacturing will continue to drive foundational changes in the sources of demand in complimentary markets.

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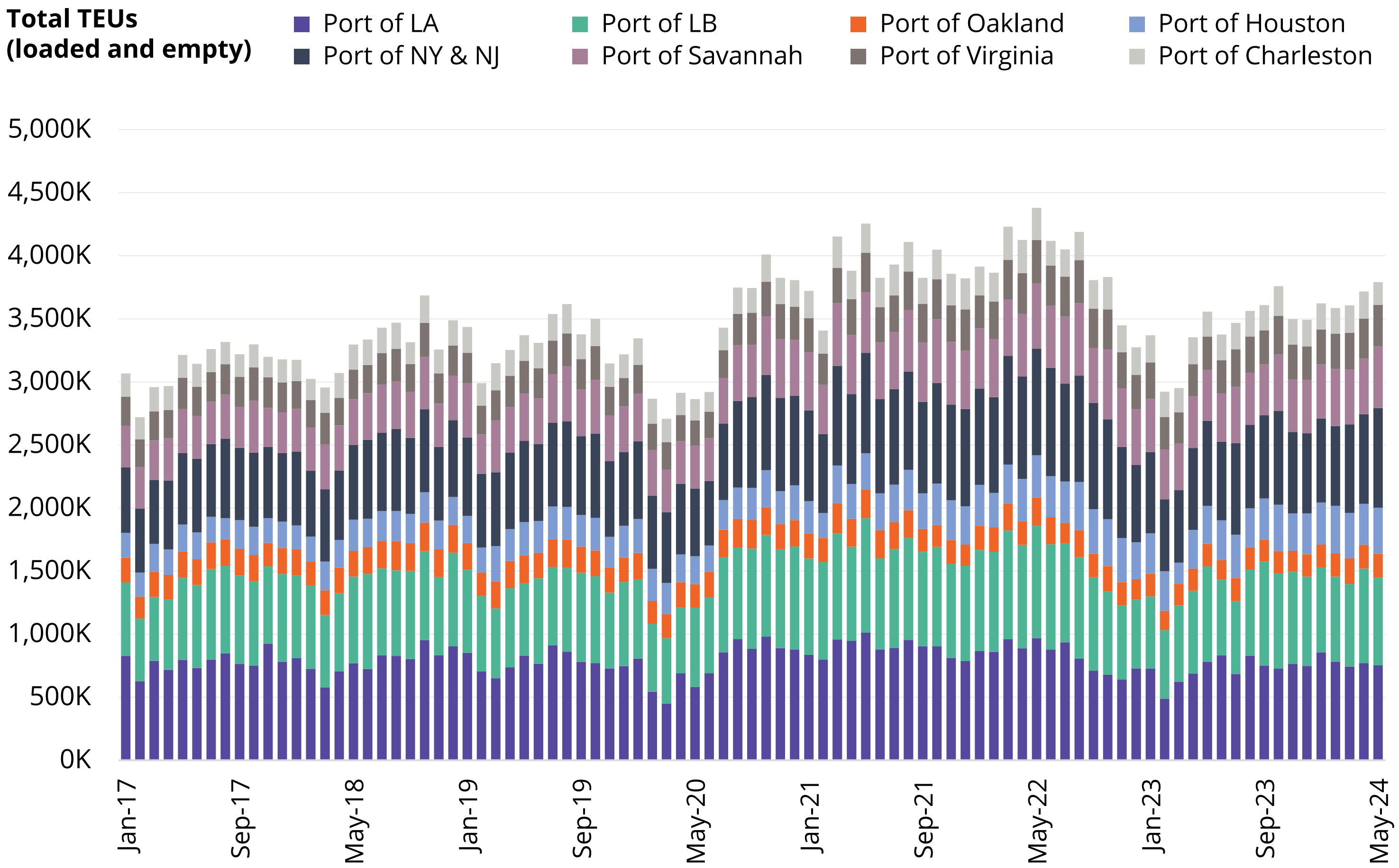
Major port activity surges representing second strongest start to year on record



Source: AVANT by Avison Young, Individual Port Authorities
*Most recent data through May totals

A very strong start to 2024 highlights the stark contrast in current economic sentiment versus what was experienced in the beginning of 2023. East and Gulf Coast labor contract negotiations with a September 30 expiration day will likely increase port volumes to avoid risk of disruption.

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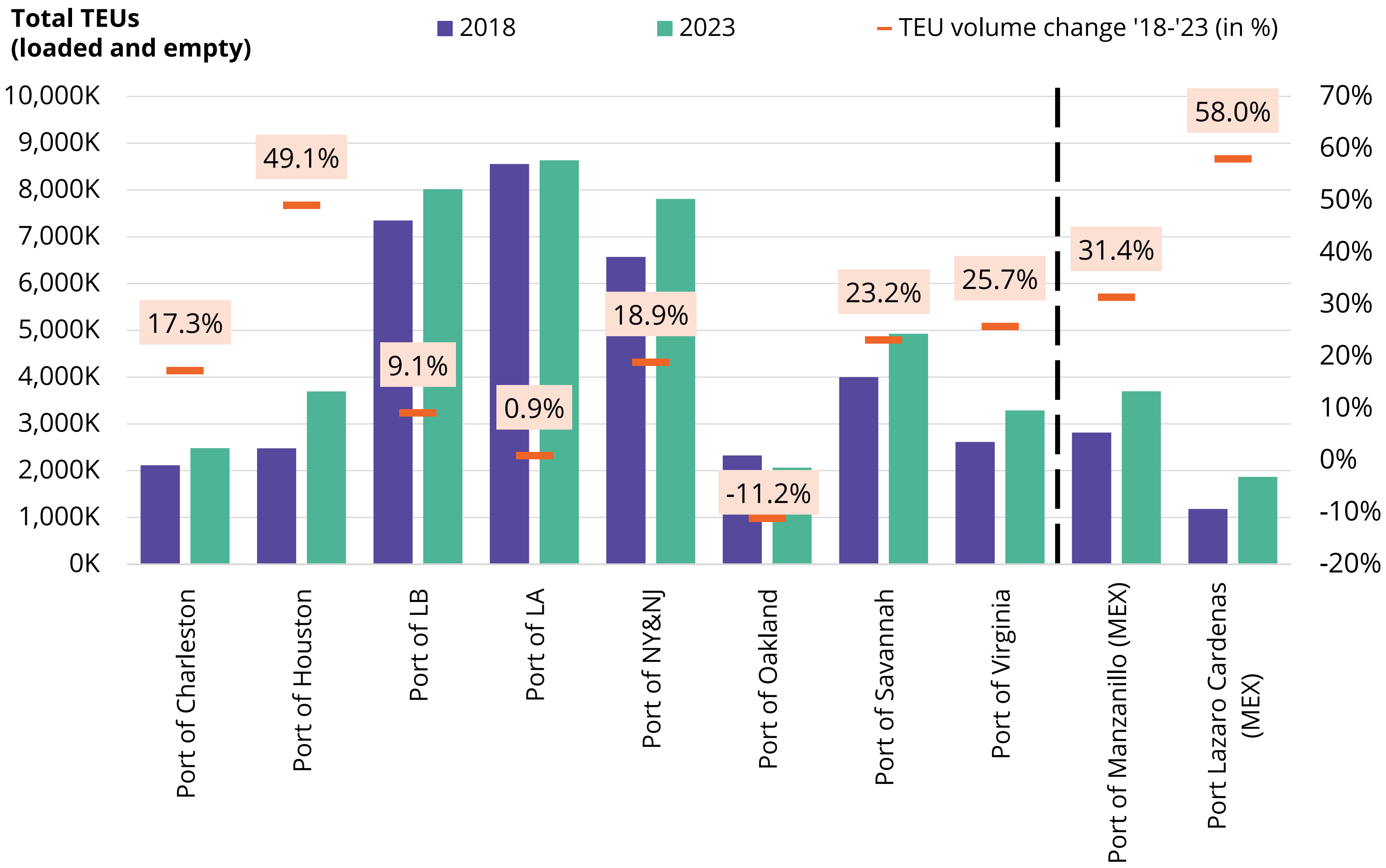
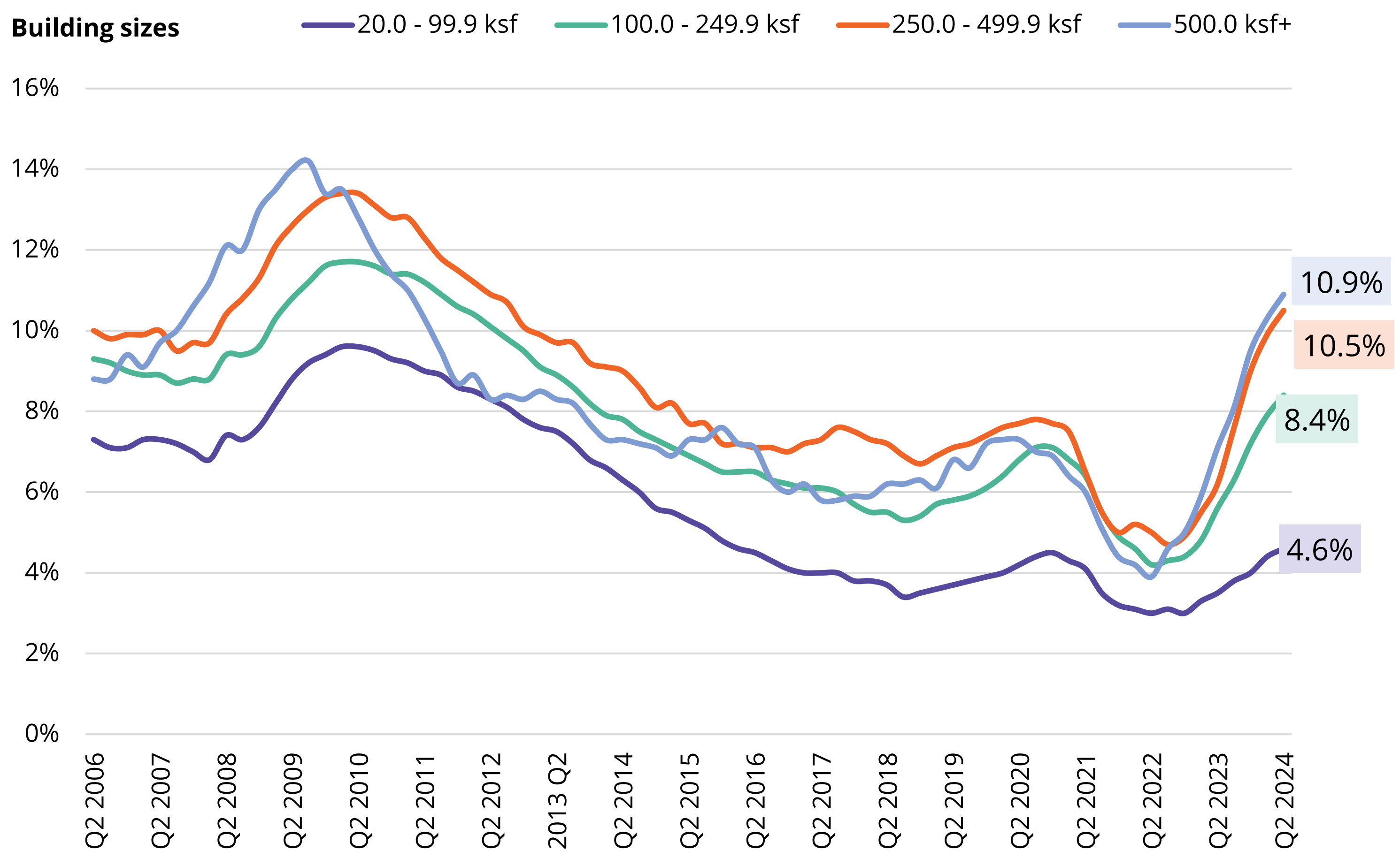
Supply chain network shifts creating gains in Eastern ports, and losses in Western ports



Significant growth due to investment in port infrastructure, coupled with emerging population shifts have driven substantial growth in Eastern and Mexican Ports, while Western Ports have been stagnant or shrinking.

Source: AVANT by Avison Young, Individual Port Authorities

U.S. industrial vacancy by building size



Source: AVANT by Avison Young, CoStar

Peak deliveries have passed at the end of 2023 as the market works to digest newly delivered building vacancy, particularly in larger footprints. After hitting historic construction pipeline volume in late 2022, pipeline replacement has been limited, particularly in the 250 ksf+ building size range, which will plateau and then drive down vacancy in the second half of 2024.

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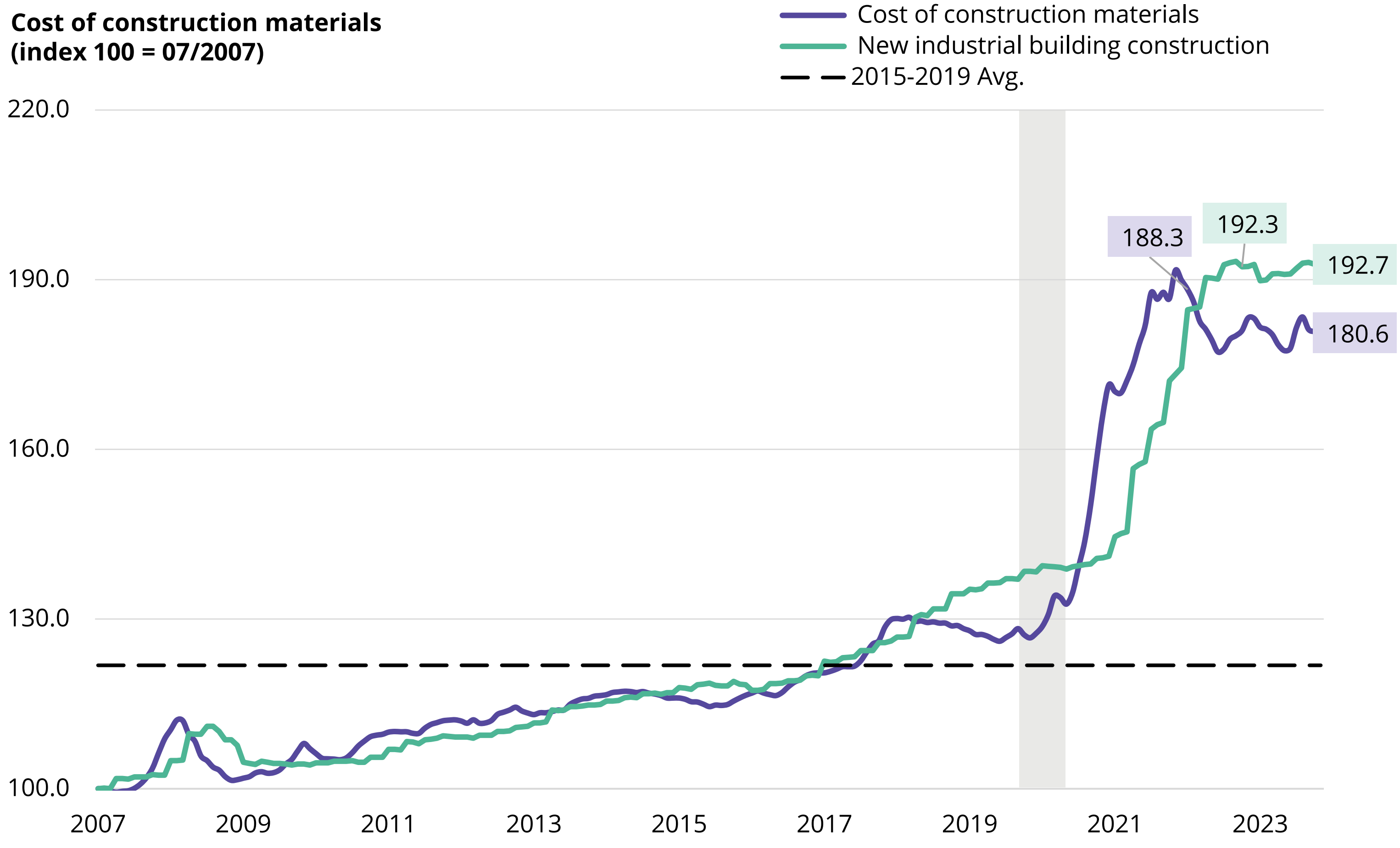
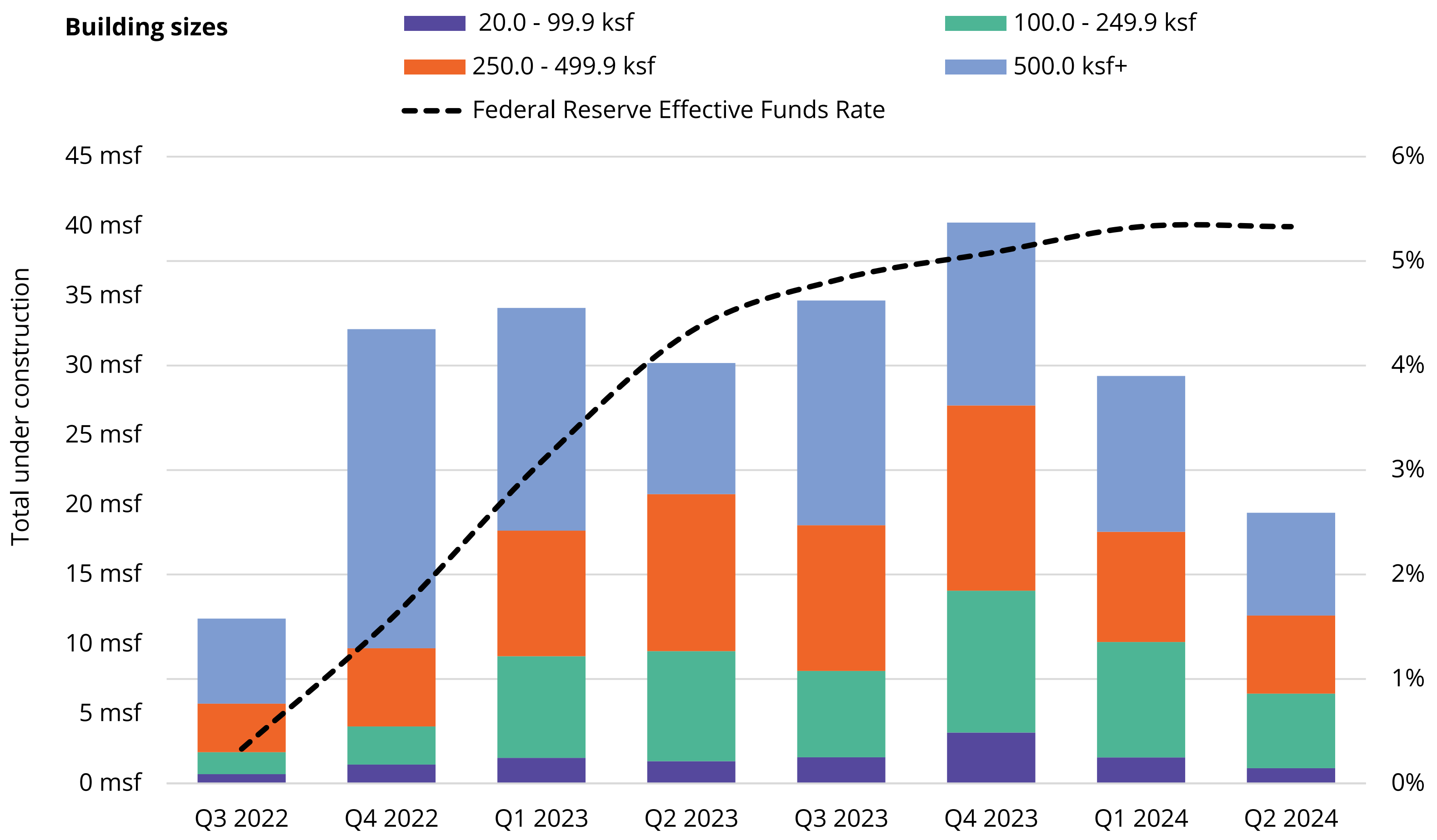
Construction costs endure at historic highs, making demising a very expensive option



As some landlords and developers consider demising down large vacant blocks to target more active occupier requirement sizes, the added costs of this option make it unlikely to flood smaller space inventory in 2024.

Source: AVANT by Avison Young, Federal Reserve Bank of St. Louis

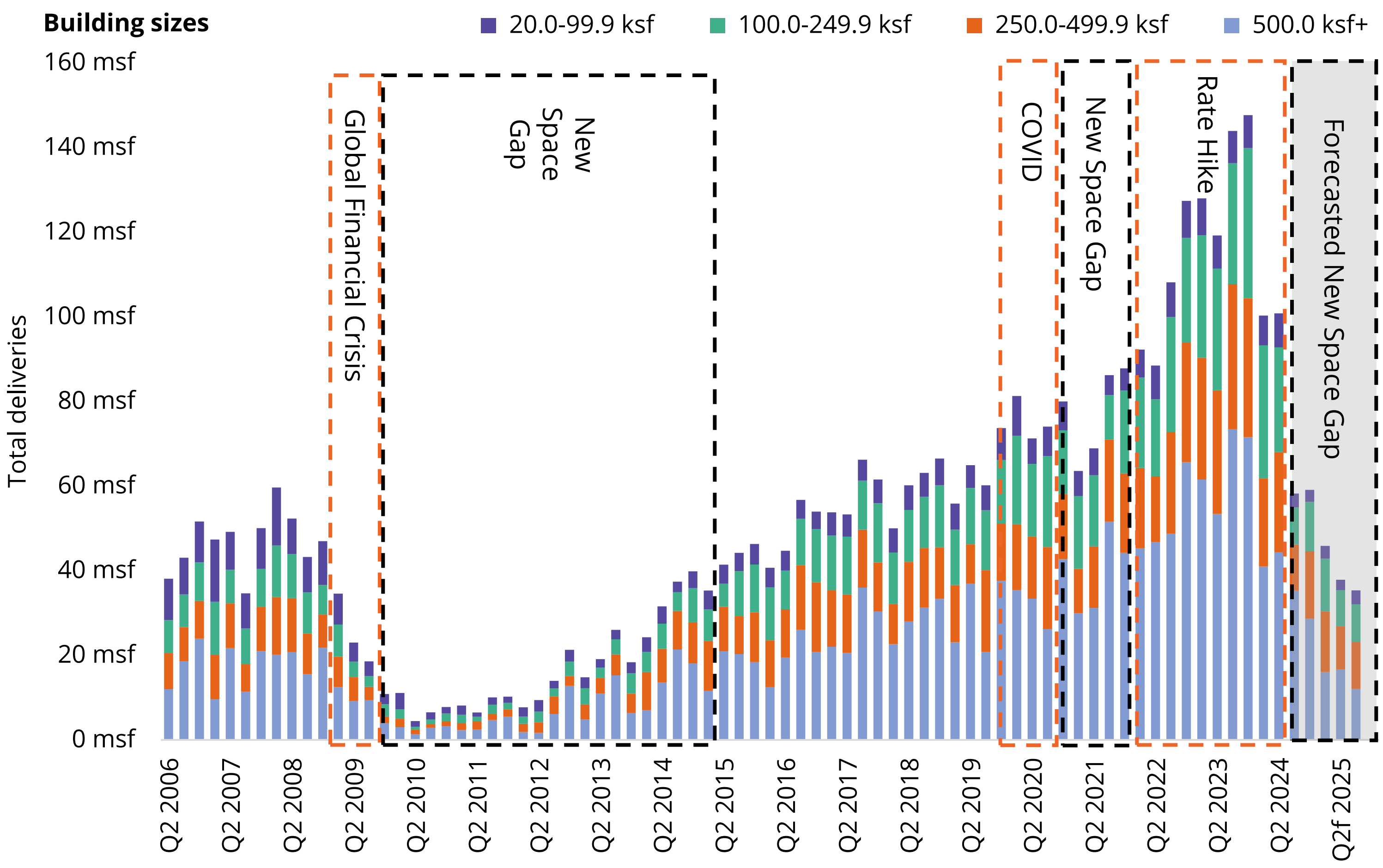
New groundbreakings continue to drop rapidly as pipeline delivers without replacement



Nearly half of the current construction pipeline is expected for delivery by the end of 2024, which will likely contribute to one of the lowest year-end pipelines in the past 15 years.

Source: AVANT by Avison Young, CoStar

Historic New Space Gap in 2024 H2 and beyond expected to drive down vacancy into 2025



Source: AVANT by Avison Young, CoStar

2023 represented the largest number of deliveries in industrial history, as the first half of 2024 showcases a drawdown of new space that will last for at least 18 months as ground-breakings halted for nearly six quarters.

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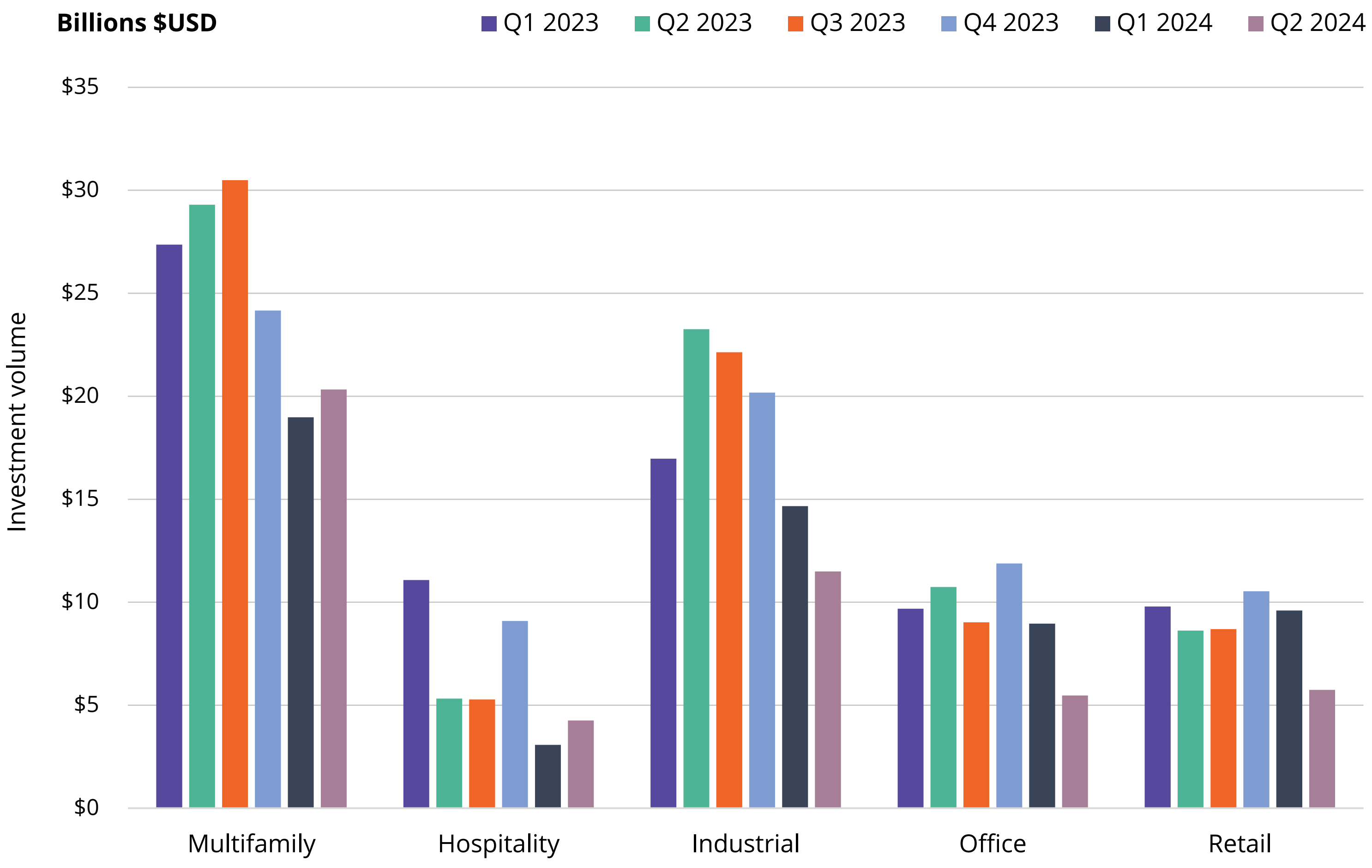
Investment sales by property type



Through the first half of 2024, two sectors have seen a quarterly uptick in investment sales volume, multifamily and hospitality, albeit still below historical norms.

Industrial continues to experience suppressed investment volume, a function of a more difficult lending environment, and a continued disconnect between buyers and sellers as it relates to values.

Note: Transactions >$2.5M.
Source: AVANT by Avison Young, MSCI Real Capital Analytics

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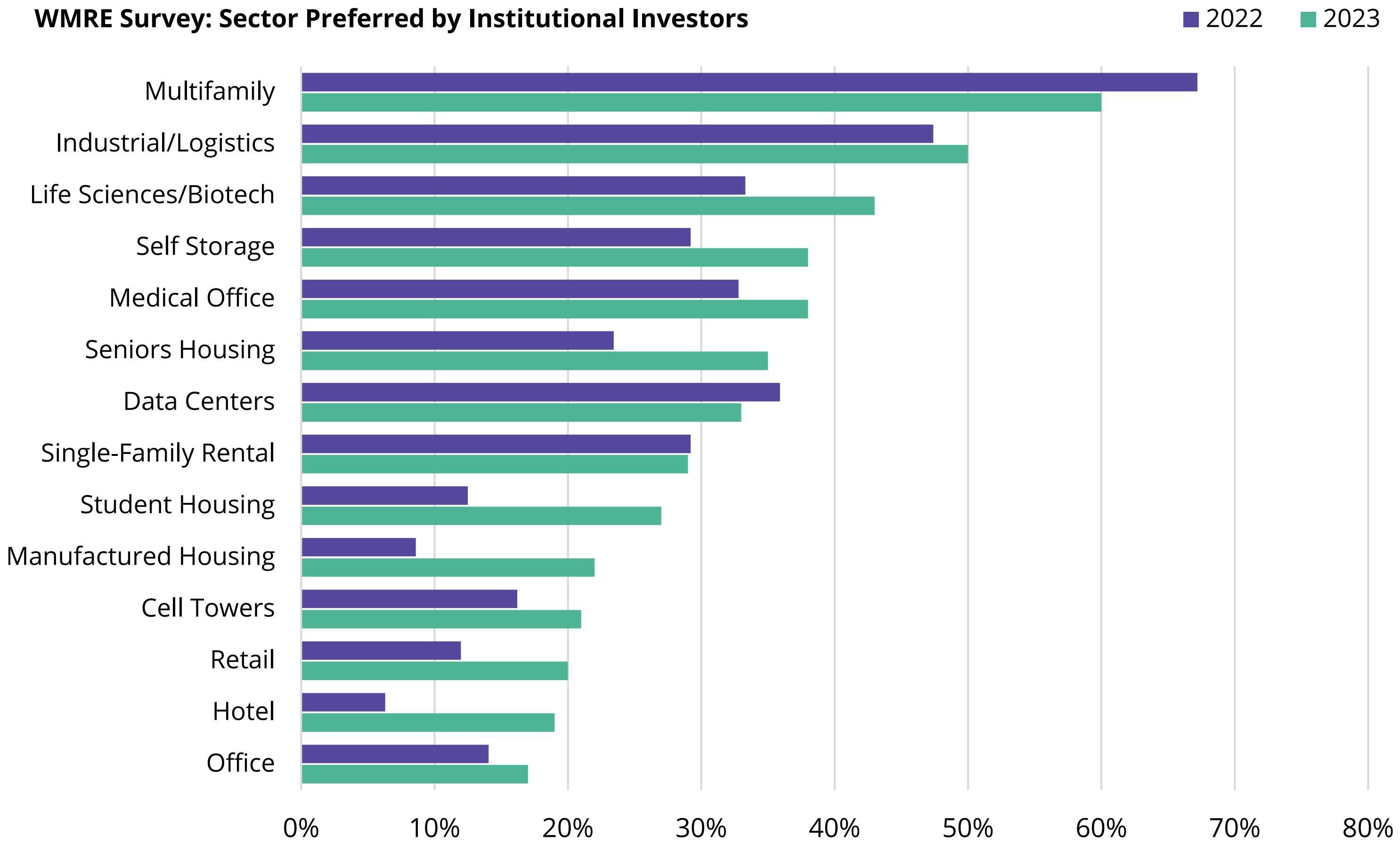
Institutional investors favor continues to grow in industrial/logistics exposure



Multifamily continues to be favored by institutional investors due to the ability to take advantage of rising market rates every 12-18 months, however current economic conditions and over-building fears favor growth in industrial investments, likely to be compounded by new space gap in second half of 2024 and the mid-term.

Source: AVANT by Avison Young, Wealth Management Real Estate (WMRE) Institutional Investor Survey

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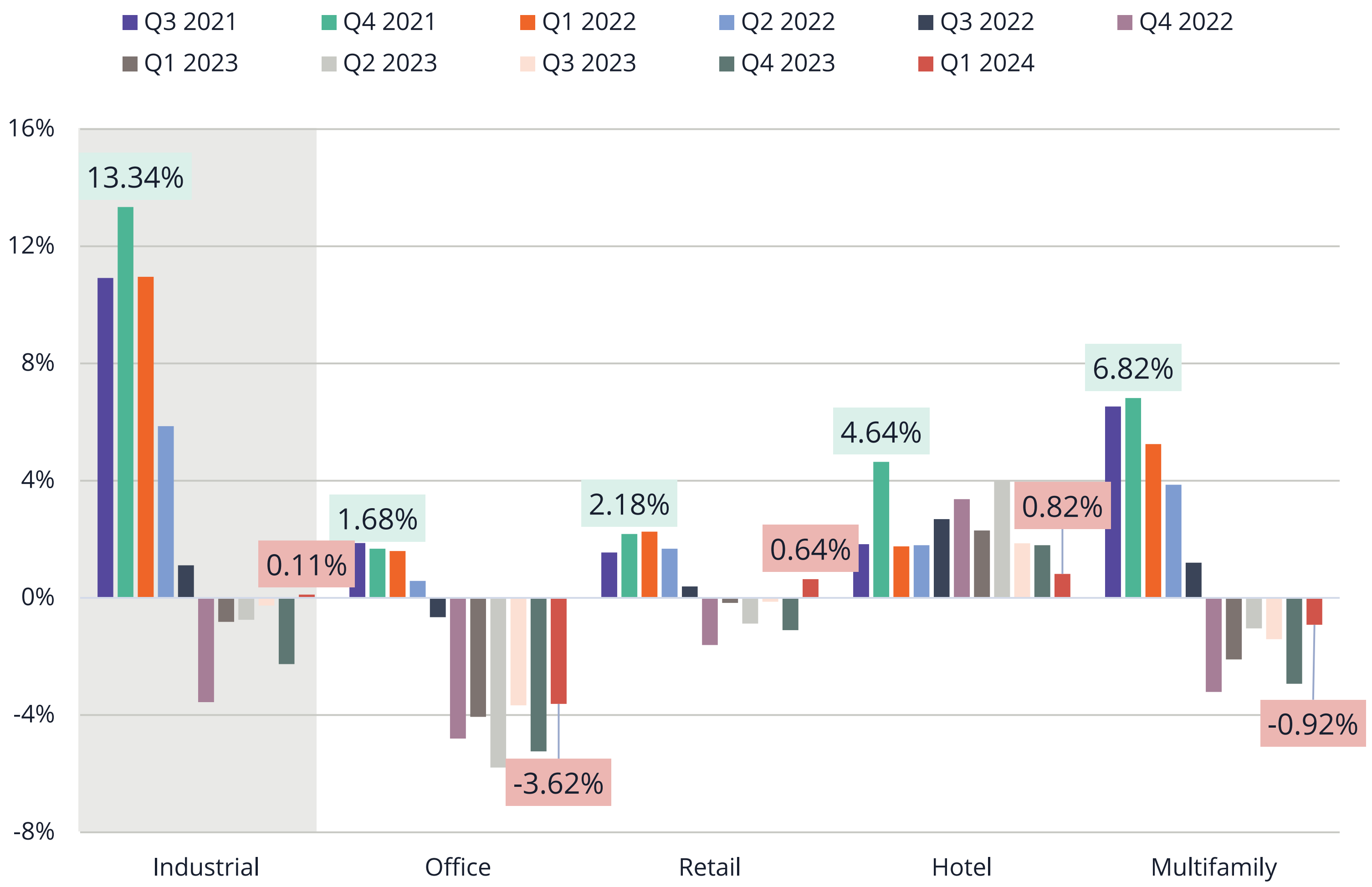
U.S. NCREIF NPI quarterly returns



After experiencing the soundest quarterly returns of all NCREIF investment peer sectors, industrial investments showcased significant stability throughout the uncertainty of the current environment and were again positive in the first quarter of 2024.

Note: As of April 2024 (most recent update)
Source: AVANT by Avison Young, NCREIF

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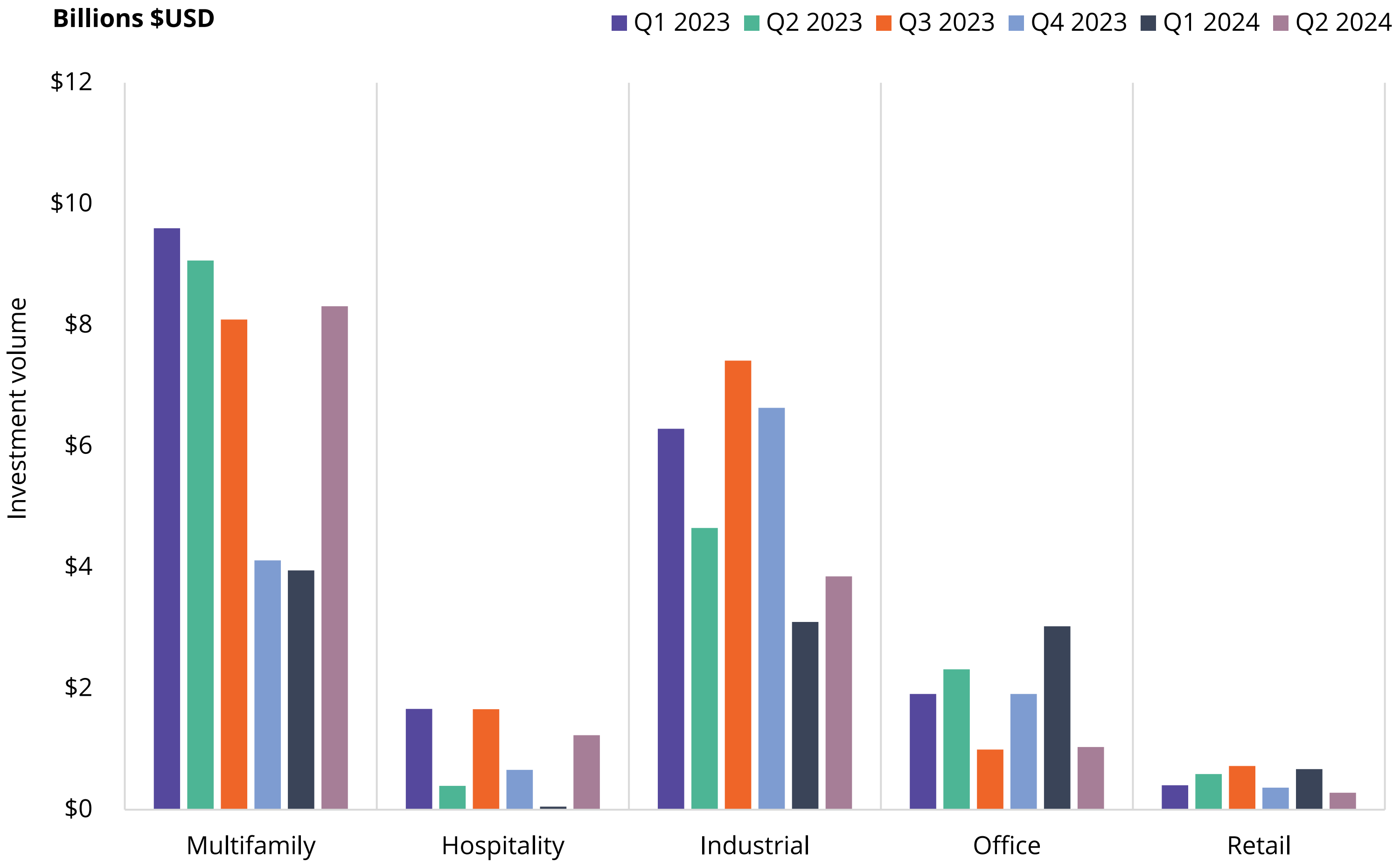
Investment sales by property type



Note: Transactions >$2.5M.
Source: AVANT by Avison Young, MSCI Real Capital Analytics

A reflection of the shifting sentiment on the part of institutional investors, multifamily and industrial represent the only major property sectors to show marked increases in acquisitions quarter-over-quarter on the part of institutional investors.

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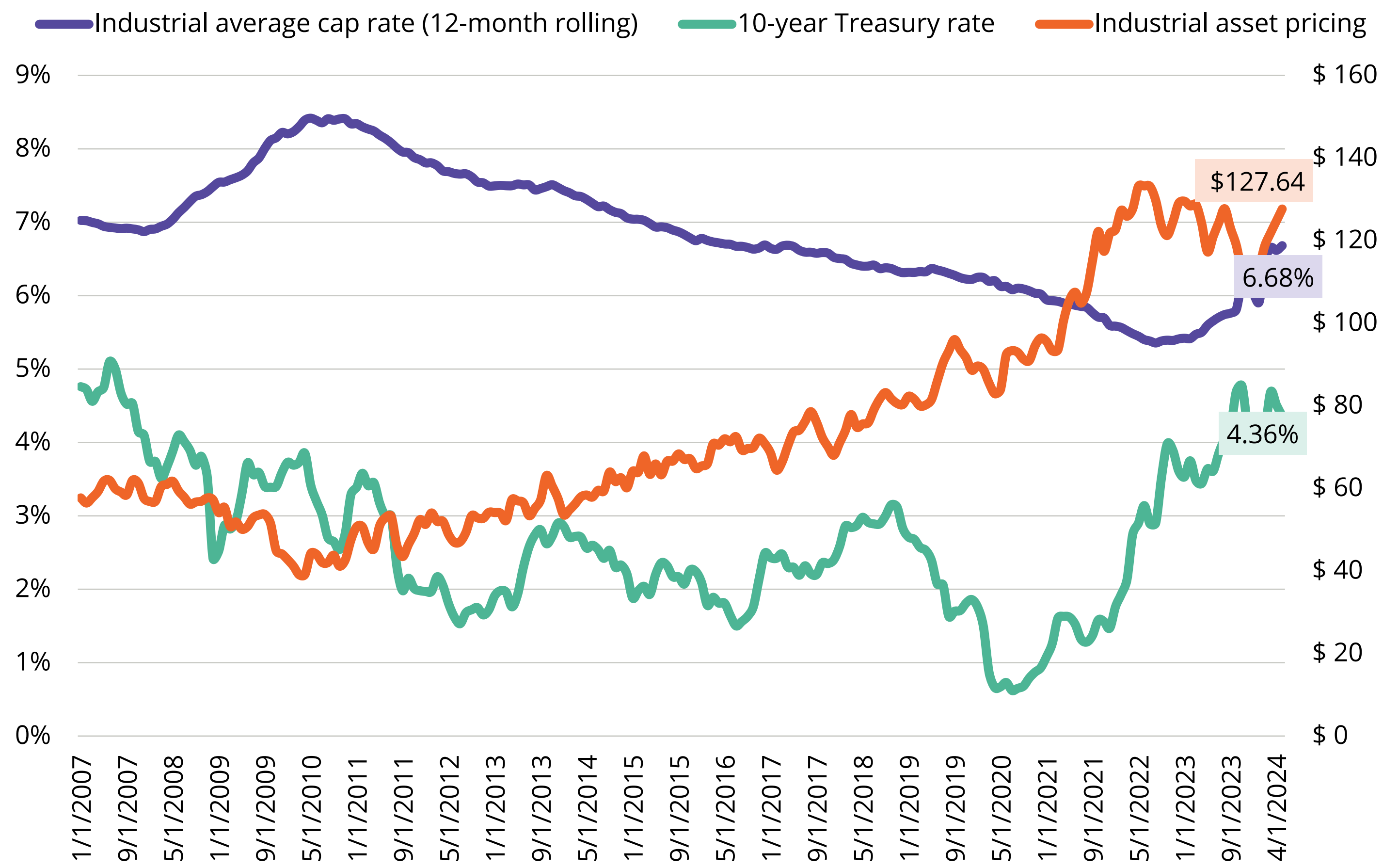
U.S. industrial cap rates vs. asset pricing



Note: Transactions >$2.5M
Source: AVANT by Avison Young, MSCI Real Capital Analytics, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis

Industrial cap rates continued to uptick from all-time lows, conversely, pricing remains near historic levels. Limited activity on the transaction side is likely to unleash intensified competition upon confirmation of the Federal Reserve's policy pivot in the second half of 2024.

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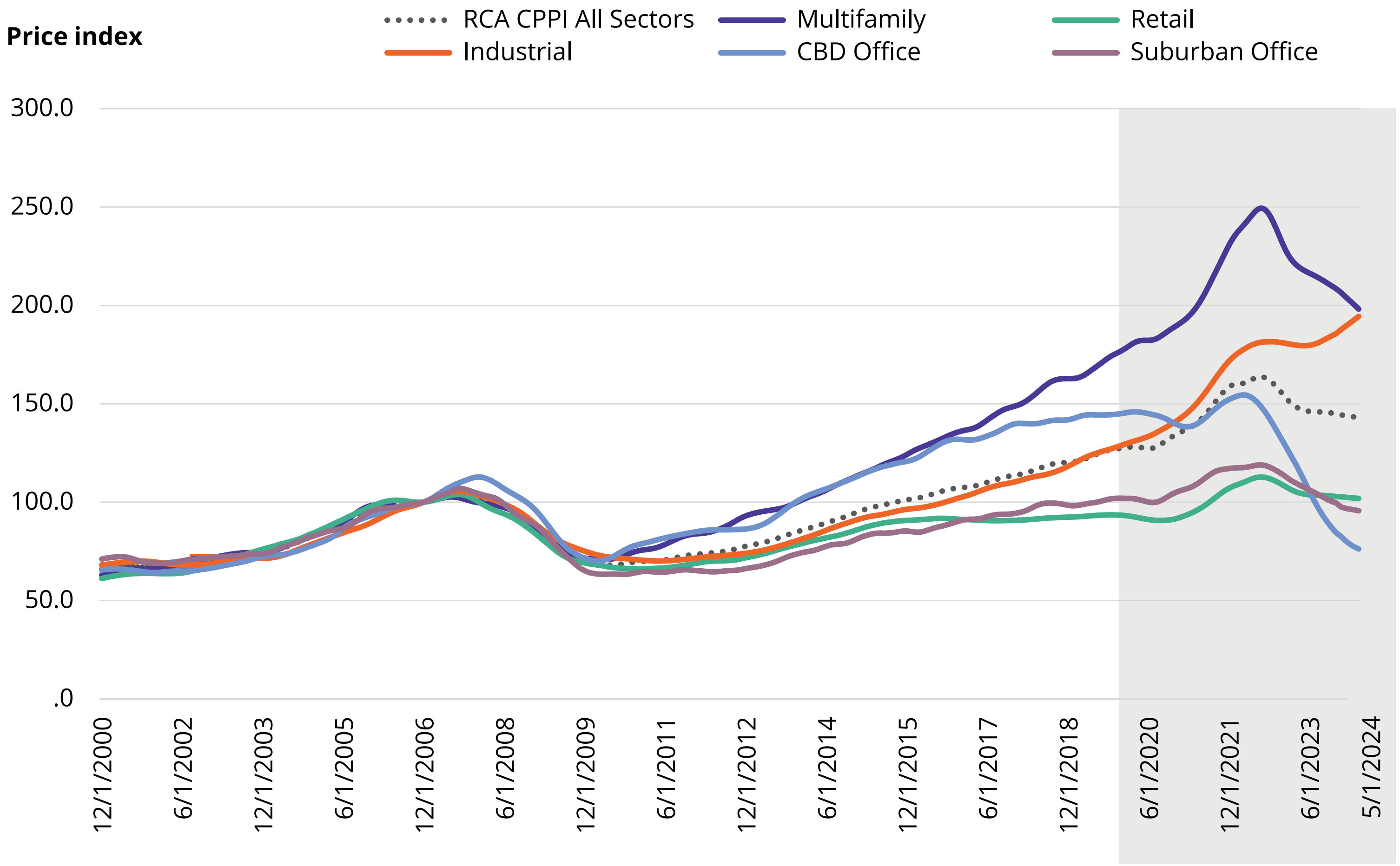
RCA commercial property price indices



Note: Transactions >$2.5M. RCA CPPITM measure the actual price movements for commercial properties based on exclusive transaction data using repeat-sales regression methodology.

Source: AVANT by Avison Young, MSCI Real Capital Analytics

Industrial pricing (+13bps since peak pricing 2022) has retained the gains experienced during COVID better than any other peer sector and is the only sector that is again appreciating in value despite the heavy increases in debt.

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Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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Peter Kroner

Director, Supply Chain & Logistics
Market Intelligence
+1 312 273 1494
peter.kroner@avisonyoung.com

Chad Buch

Manager, U.S. Industrial
Market Intelligence
+1 203 614 0400
chad.buch@avisonyoung.com

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