



U.S. industrial market report

Q1 2024

**AVISON
YOUNG**

U.S. industrial market trends

7.6%

National vacancy rate upticks to highest point since 2013

Industrial net absorption remained positive at the start of 2024 but continued to decline due to global economic and financial headwinds, alongside record levels of new construction deliveries. Peak deliveries have impacted nearly every market nationwide and are expected to be largely completed by the end of 2024. This decline in deliveries will enable markets to absorb the excess space that has flooded the sector for three quarters, aligning well with increasing occupier requirements that are likely to translate to increased gross leasing activity in 2024.

-20%

First quarter gross leasing below pre-COVID average

Overall leasing volume for the start of 2024 was significantly smaller compared to historical trends. However, pre-leasing activity remains active throughout the U.S. industrial market, showing an uptick starting in the third quarter of 2023. It's important to remember that leasing is a lagging indicator, and the observed slowdown in leasing aligns perfectly with the significant slowdown in Port activity experienced at the beginning of 2023. Tenant decision-making processes were primarily focused 6-12 months ago and are now being reflected in the market.

The first month of the year experienced more users entering the pre-leasing process, indicating that leasing activity is gearing up for increases in 2024.

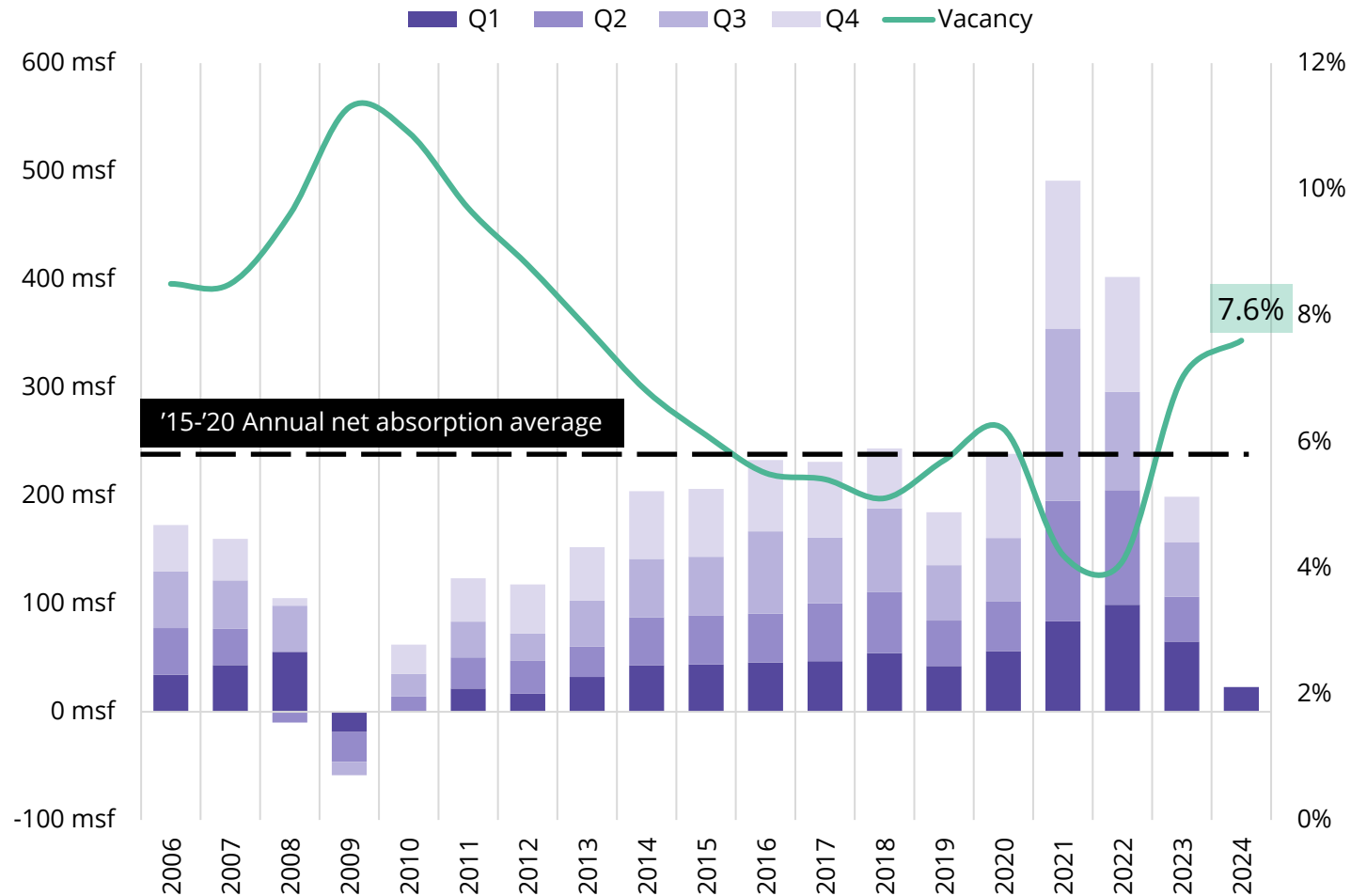
55%

Construction pipeline expected to deliver by end of first half of 2024

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 the start 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 first half of 2024.

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.

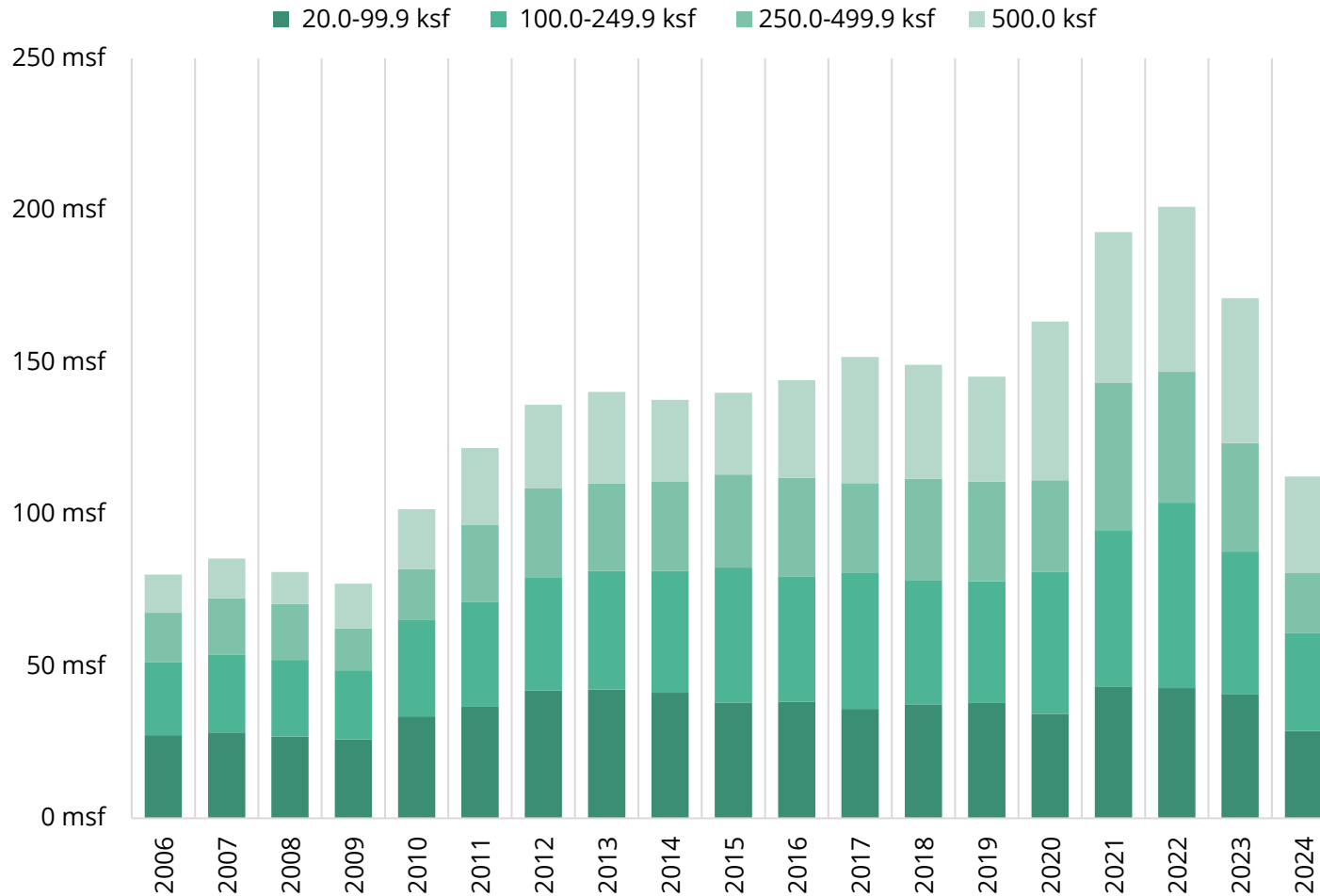
U.S. industrial net absorption and vacancy



Record-setting deliveries elevate vacancy rates throughout the country, however net absorption remains positive.

Peak deliveries have passed, which should boost absorption for the remainder of 2024.

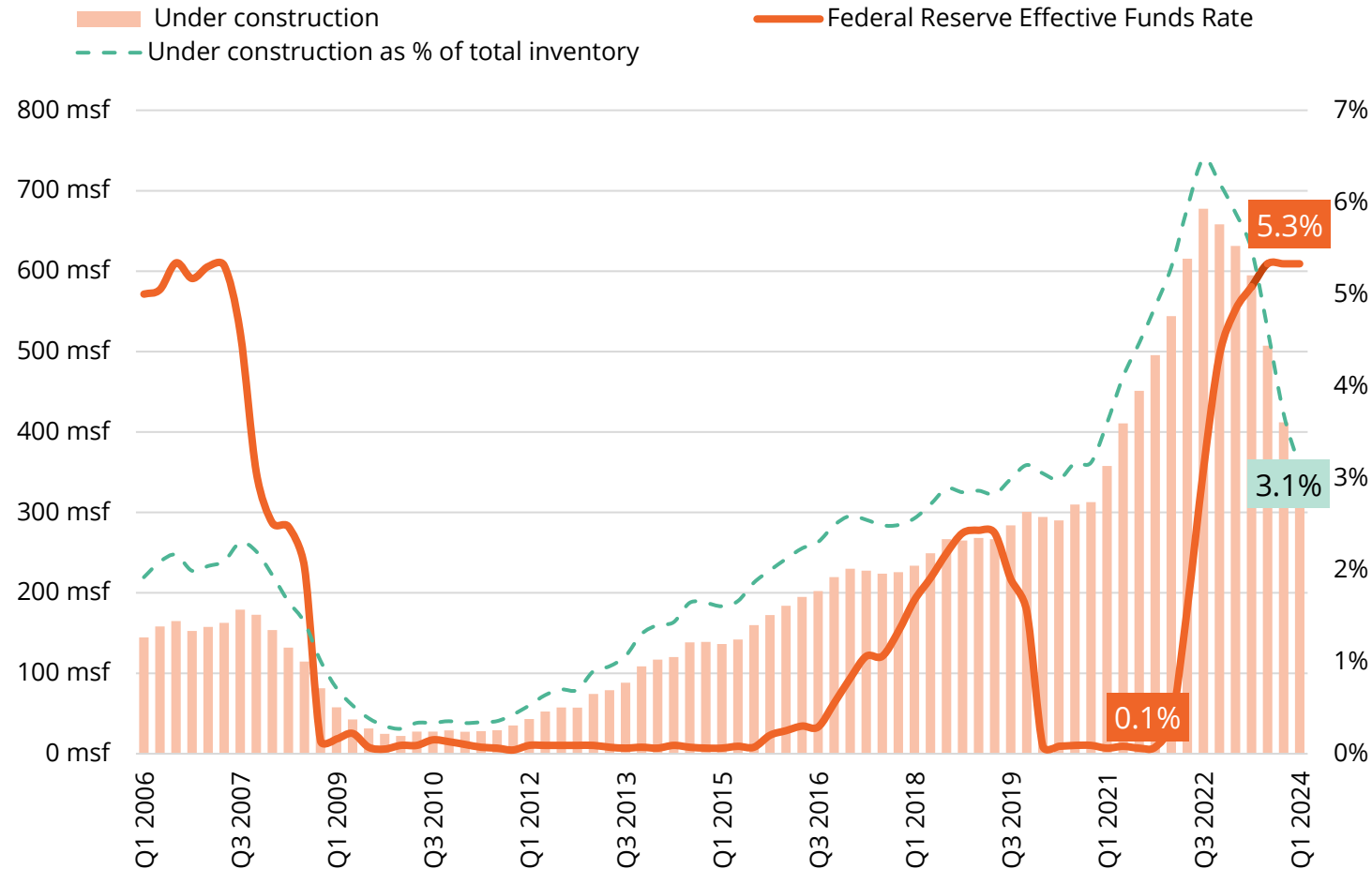
U.S. industrial leasing volume through Q1



Overall industrial leasing was down nearly 20% to start the year when compared to pre-COVID first quarter average.

Pre-leasing activity picked up since Q3 of 2023, and we expect an uptick in activity through the remainder of 2024.

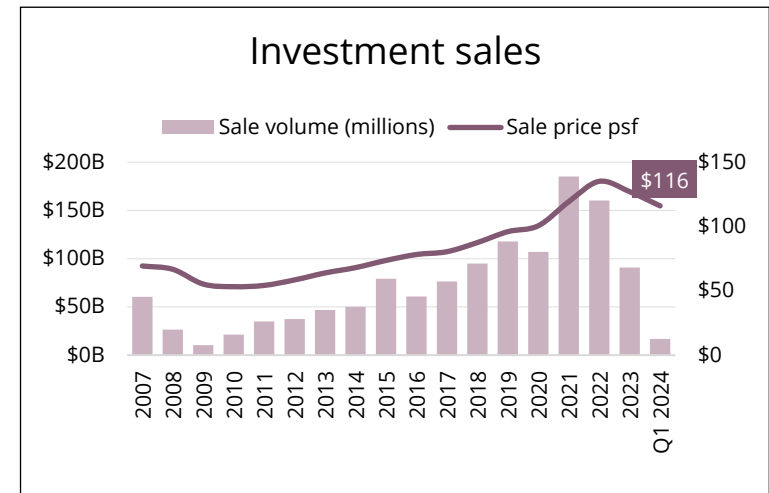
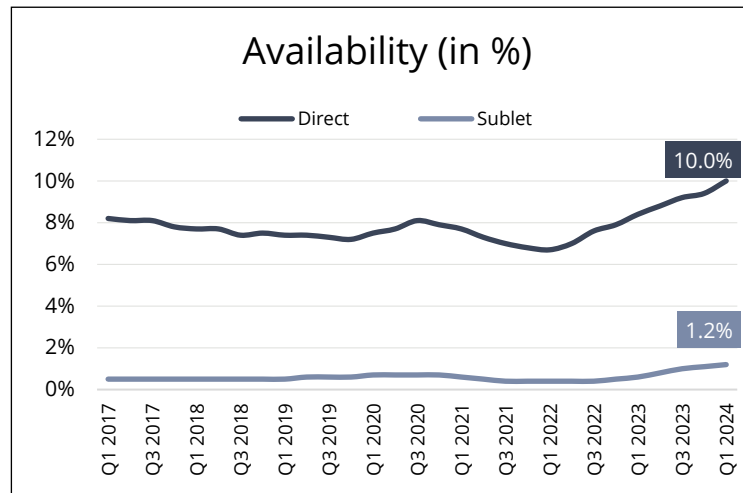
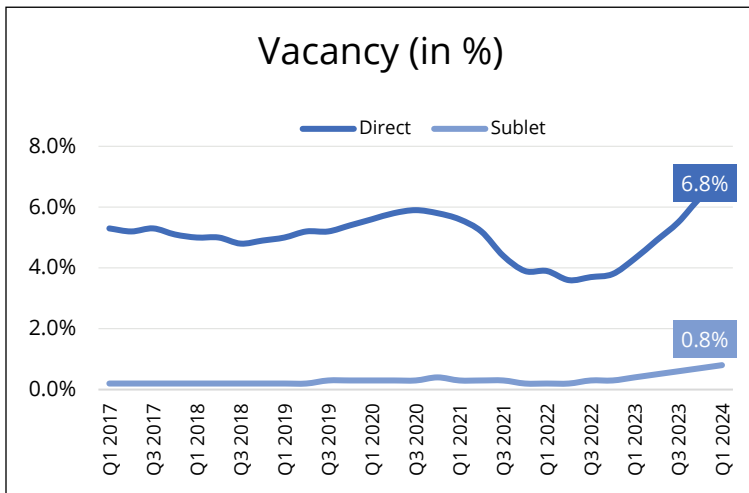
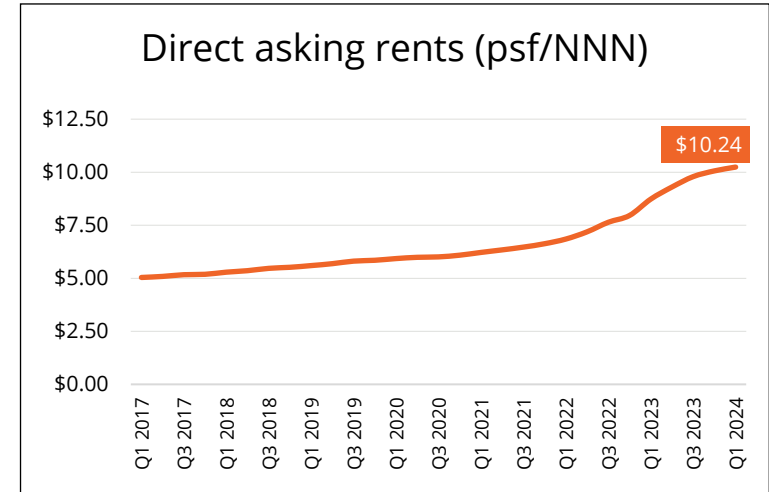
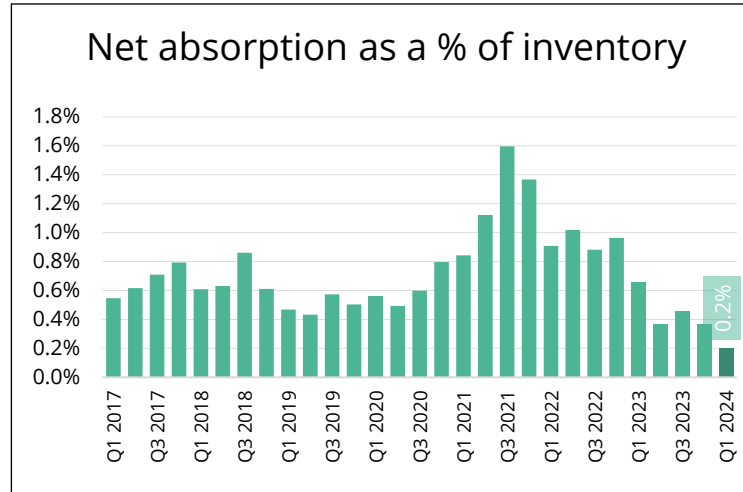
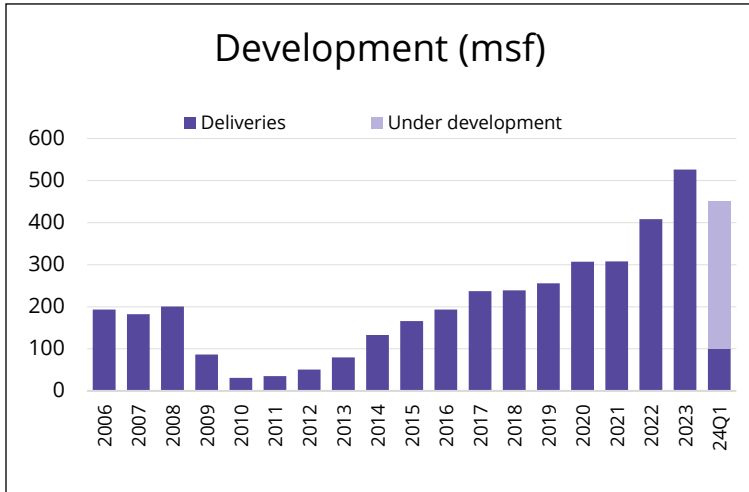
The overall construction pipeline peaked in 2022 Q3 and will reduce to <150 msf in 2024



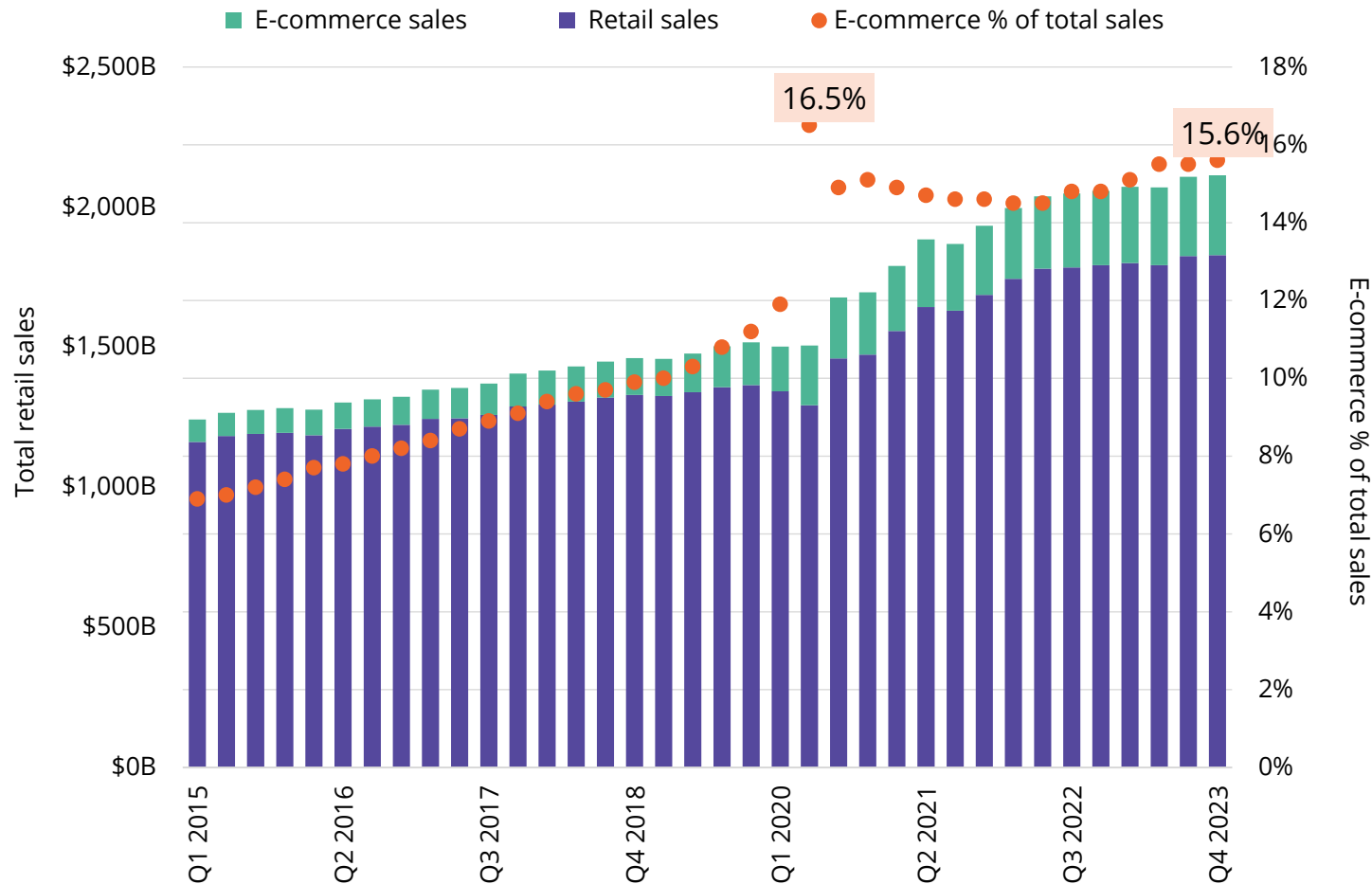
The construction pipeline continues to shrink as product that broke ground at the market peak in Q3 2023 delivered without replacement.

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

U.S. industrial market indicators



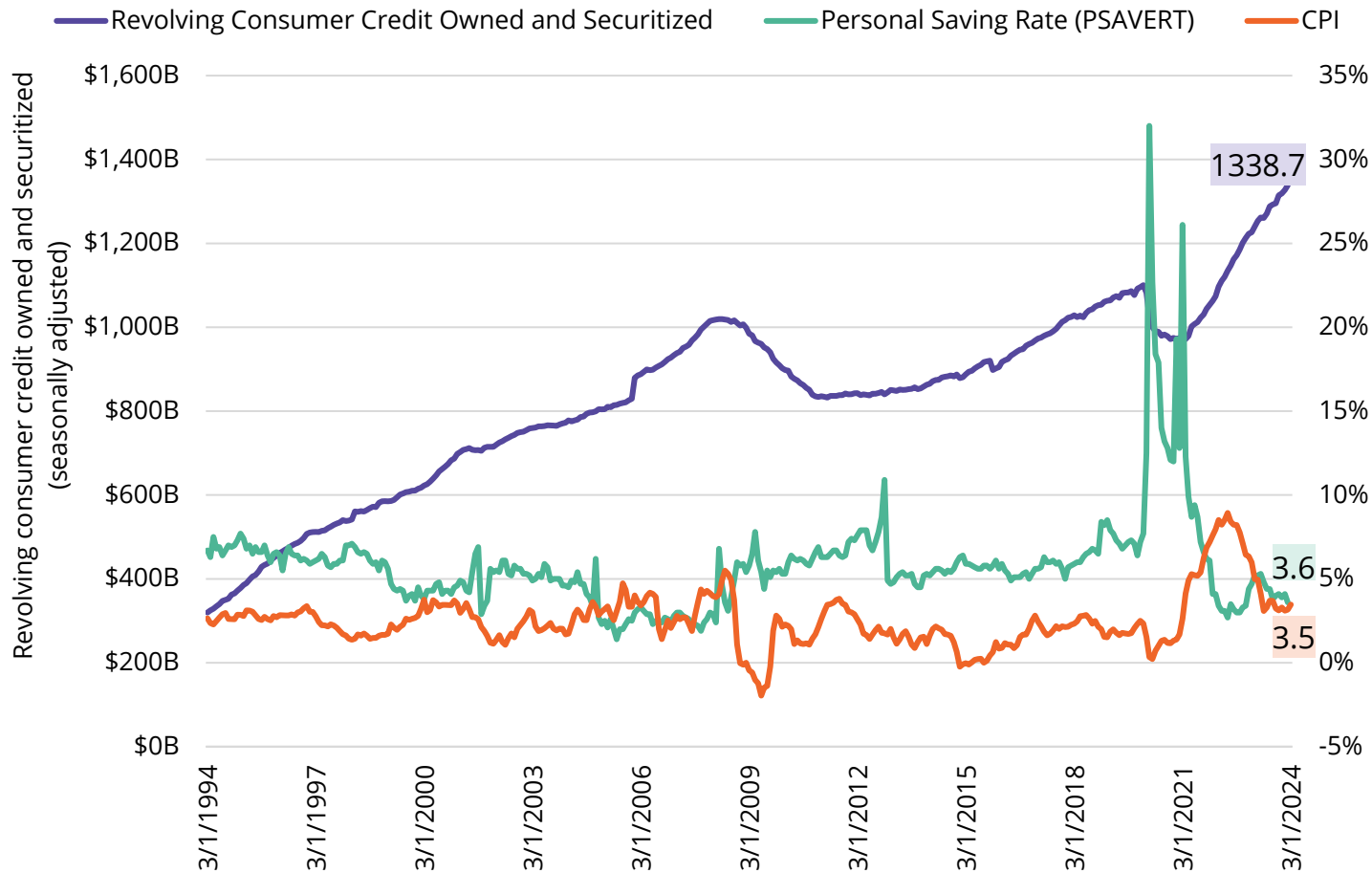
Retail sales grow slowly, with e-commerce gaining in total percentage of sales



Over the past decade, e-commerce retail spend skyrocketed by a staggering 317.5%, and another +33.7% since start of 2020.

This surge has sparked a relentless demand for top-notch supportive fulfillment operations, led largely by 3PLs.

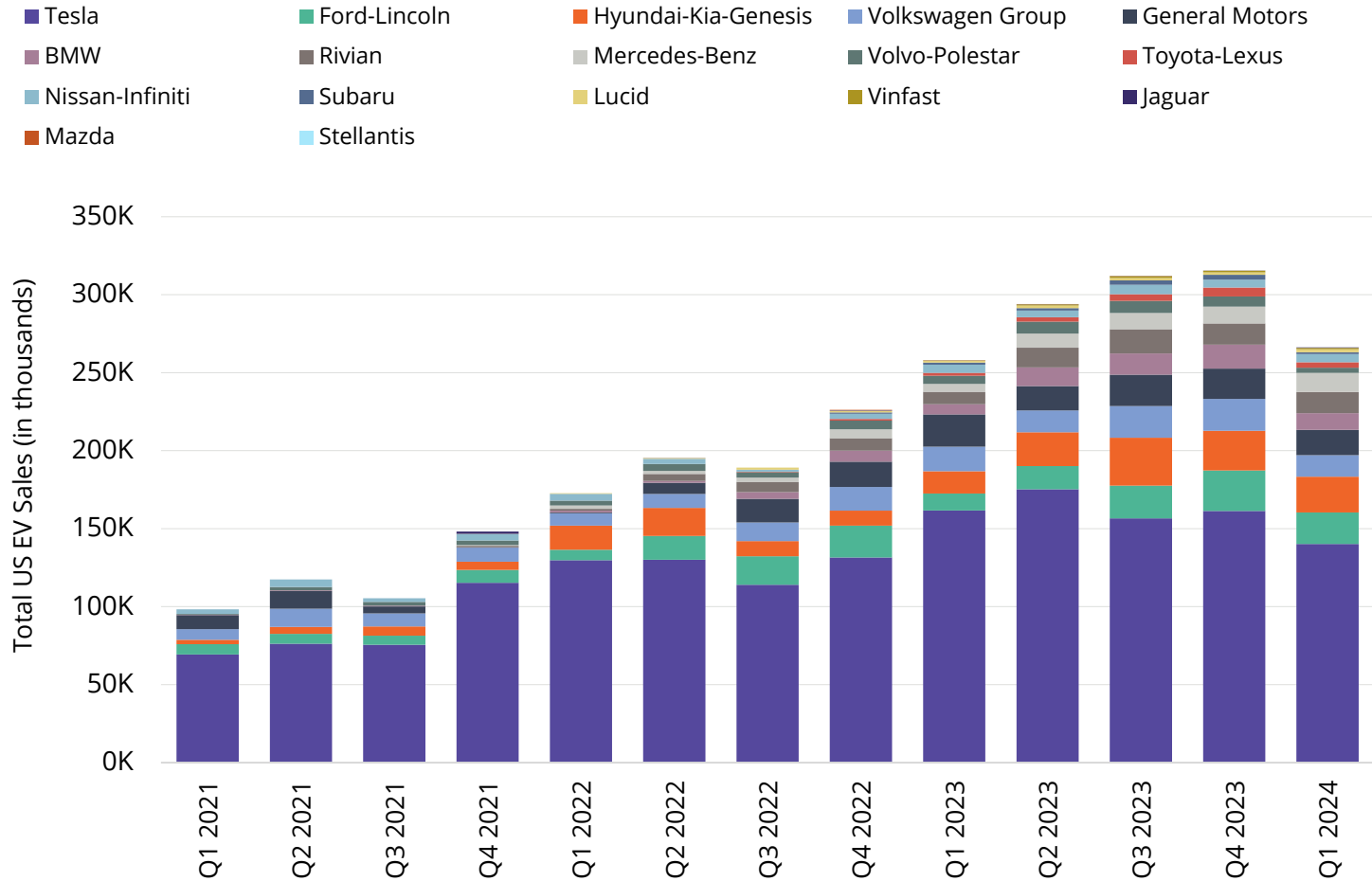
CPI continues to increase, pegging new concerns over Federal Reserve policy for 2024



CPI is on the rise, picking up speed after a year of slowing down in year-over-year growth.

Consumer credit utilization is hitting historic highs with core inflation leading many to borrow to keep up with increasing costs. In turn, industrial users may be starting to sweat over the implications for future growth.

EV sales topped out at over 1 million in 2023, however financing has slowed sales growth



The auto industry's move towards electrification, along with the subsequent investment in the fuel cells powering these vehicles, has significantly fueled new industrial demand over the past three years.

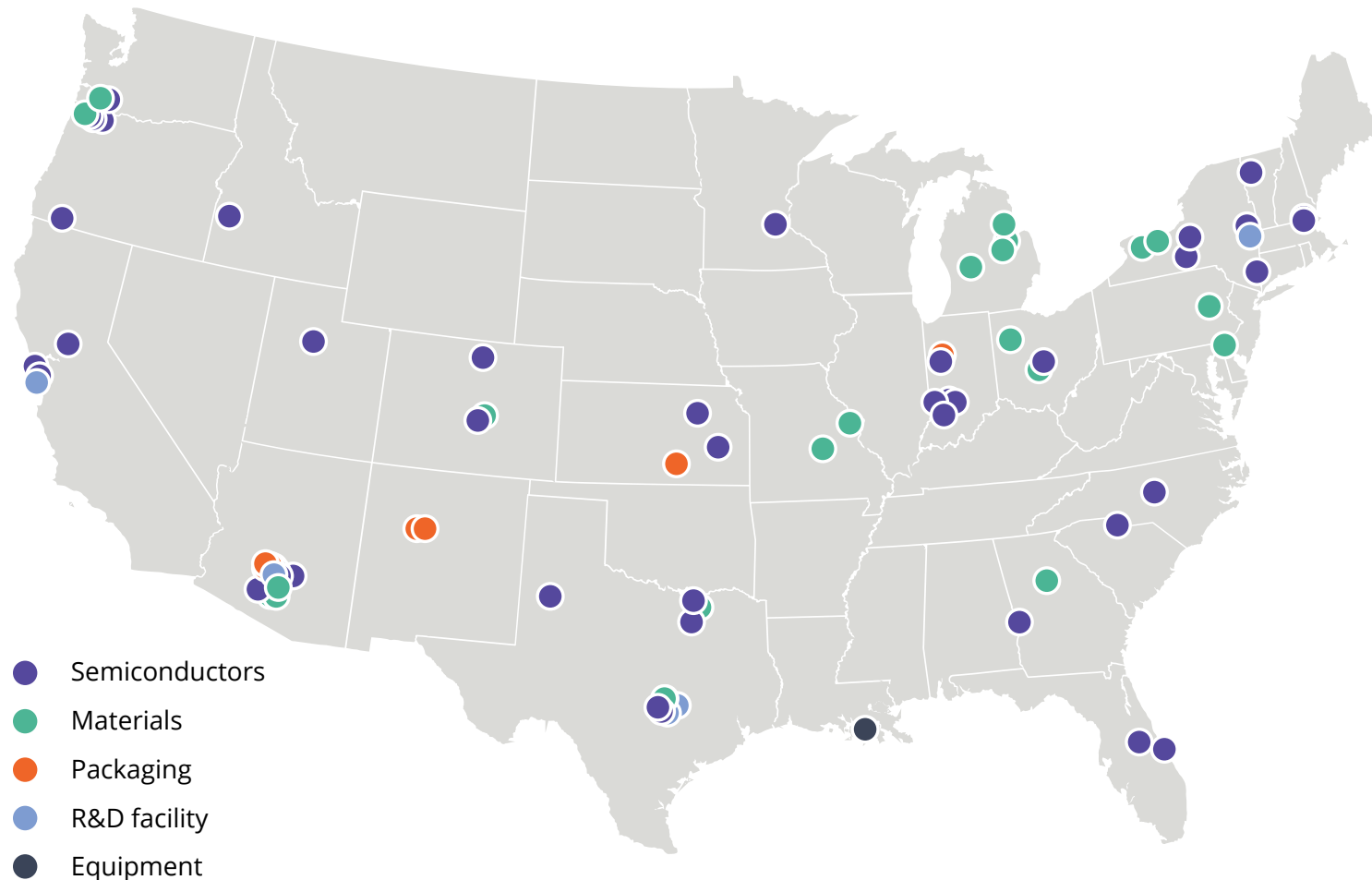
EV manufacturing and battery production investment tops \$29.3B and \$116.9B since 2020



Currently, there are over 120 battery cell-related facilities in different stages: planning, construction, or production, representing nearly \$120B in investment since 2020. Another \$29.3B is invested in additional EV manufacturing lines.

All of this investment is fueling a surge in demand for industrial space.

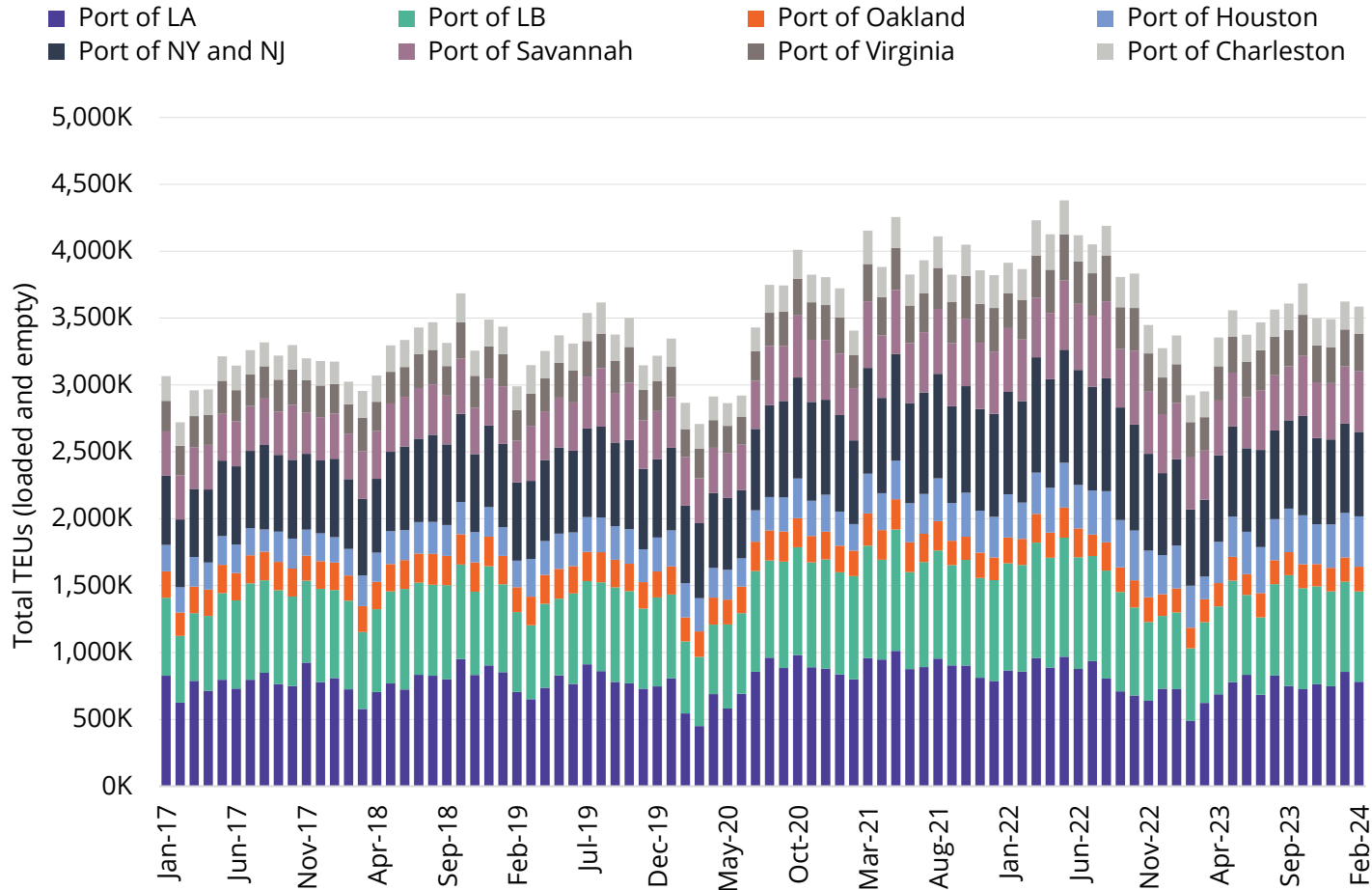
Semiconductor related investment since 2020 tops \$358B nationally



Currently, there are 41 semiconductor-related facilities either in the final stages of planning or already under construction.

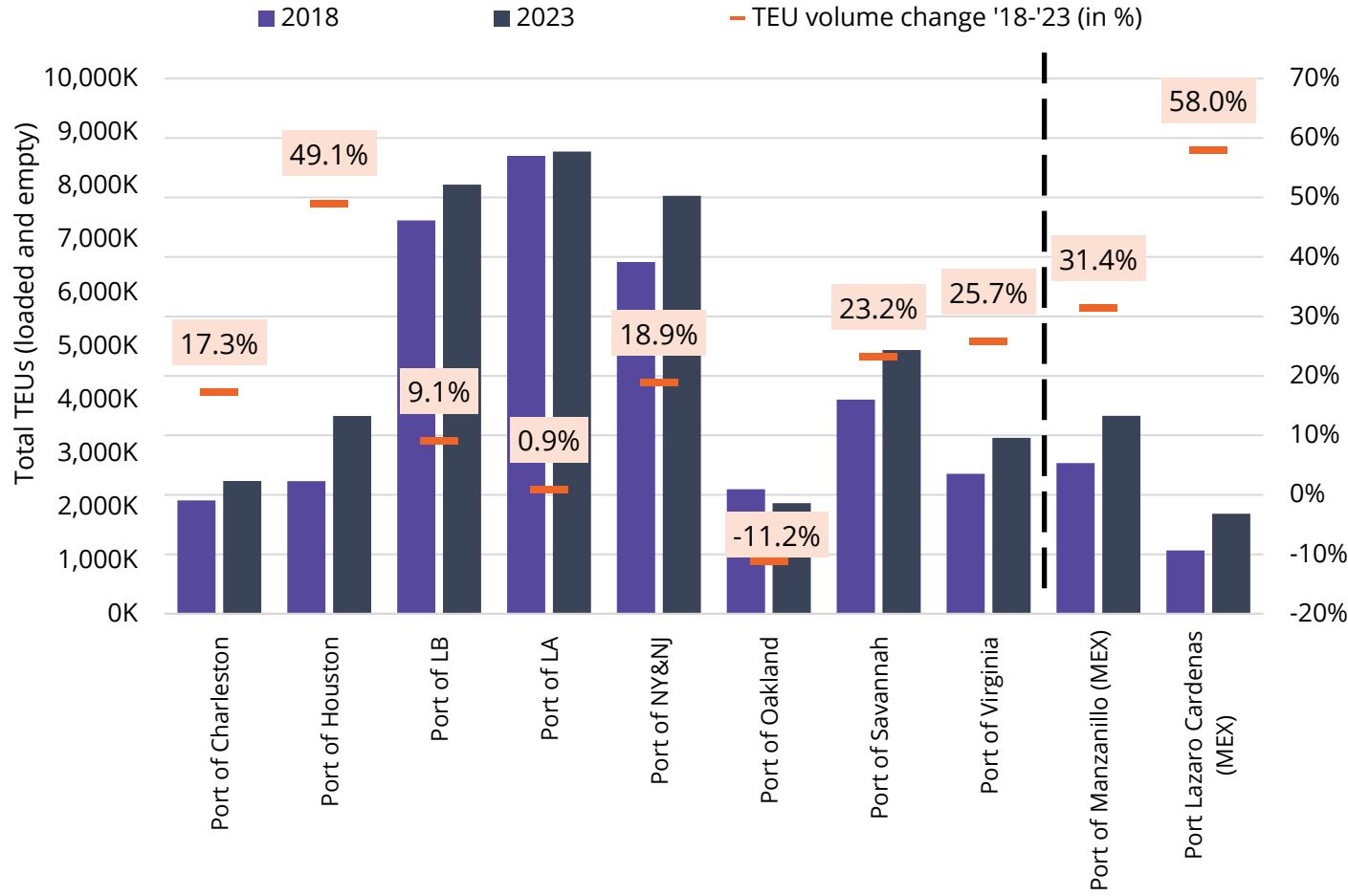
Additionally, there are over 30 facilities dedicated to R&D or the production materials for semiconductors across the nation.

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



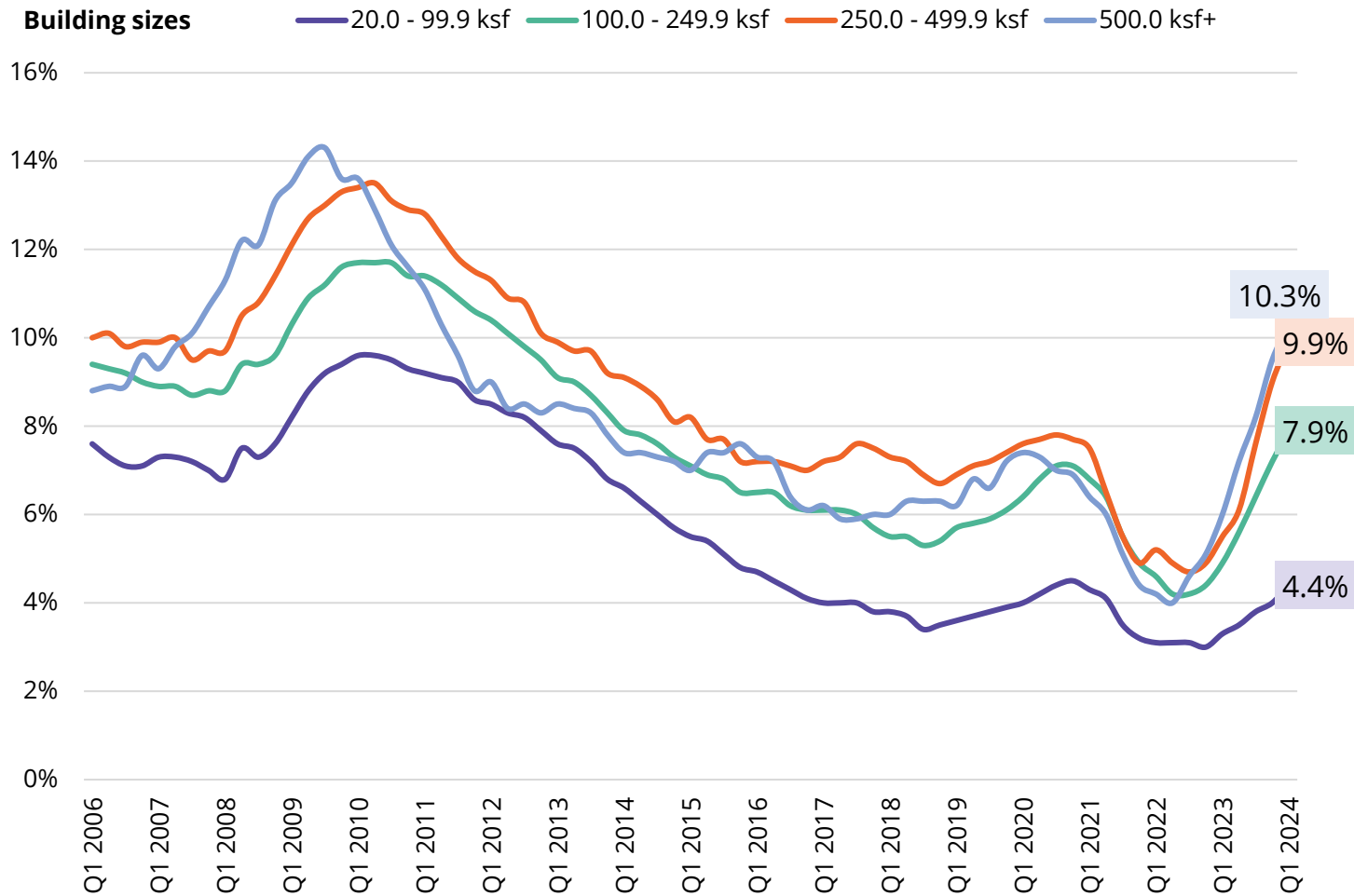
A very strong start to 2024 sharply contrasts with the economic sentiment at the start of 2023. Labor contract negotiations on the East and Gulf Coasts, set to expire on September 30th, are expected to drive higher volumes in the first half of the year to avoid the risk of disruption.

Gains in Eastern Ports, and stagnant activity in Western Ports shifting supply chain networks



Significant increases in volumes, attributed to port infrastructure investment, coupled with emerging population shifts, have driven growth in Eastern and Mexican ports. Meanwhile, Western ports have remained stagnant or experienced contraction.

U.S. industrial vacancy by building size



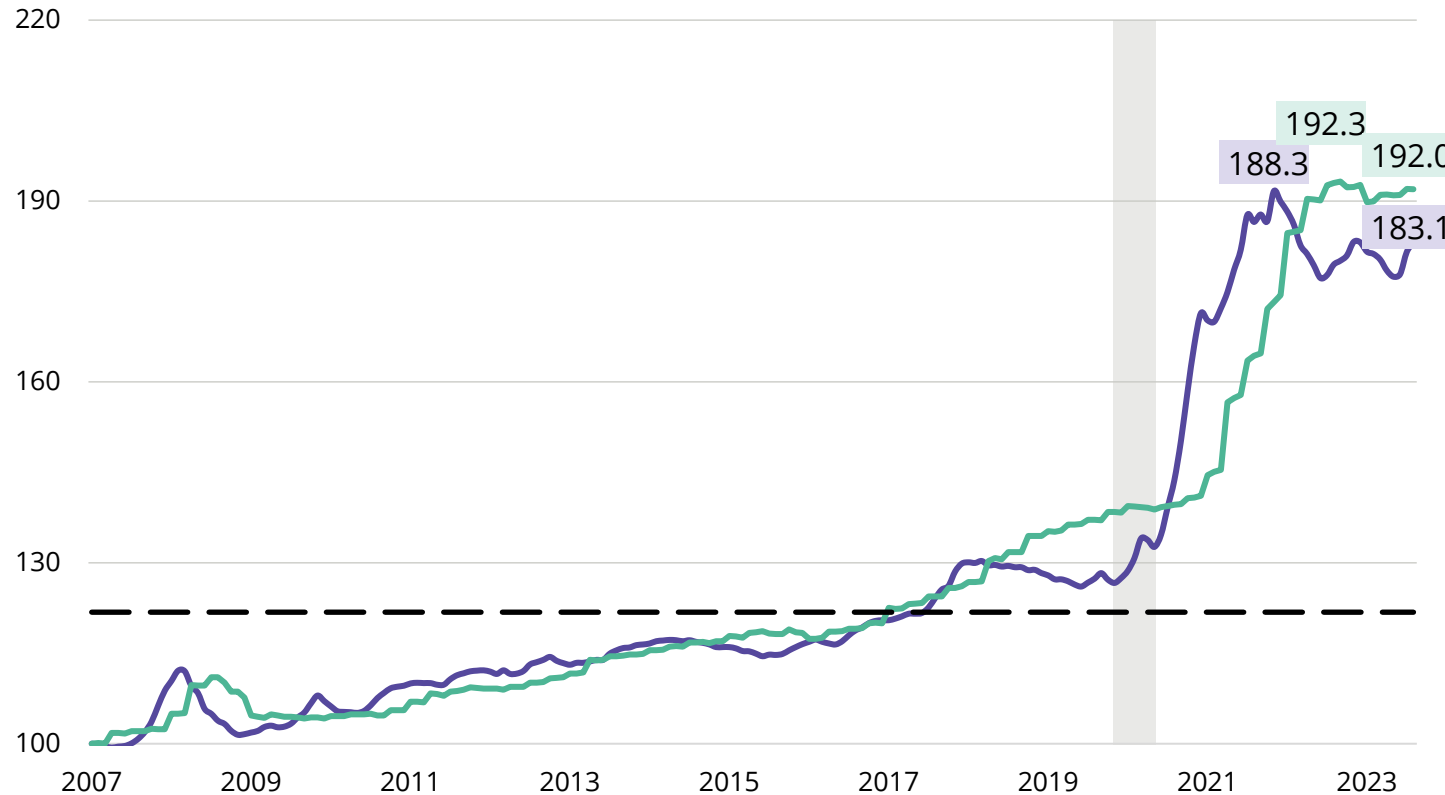
After reaching a historic construction pipeline volume in late 2022, a record amount of new industrial space was completed in 2023.

Peak deliveries have now passed, and a flattening in vacancy rates among larger building sizes is to be expected throughout 2024.

Construction costs climbing again, and remain at historic highs

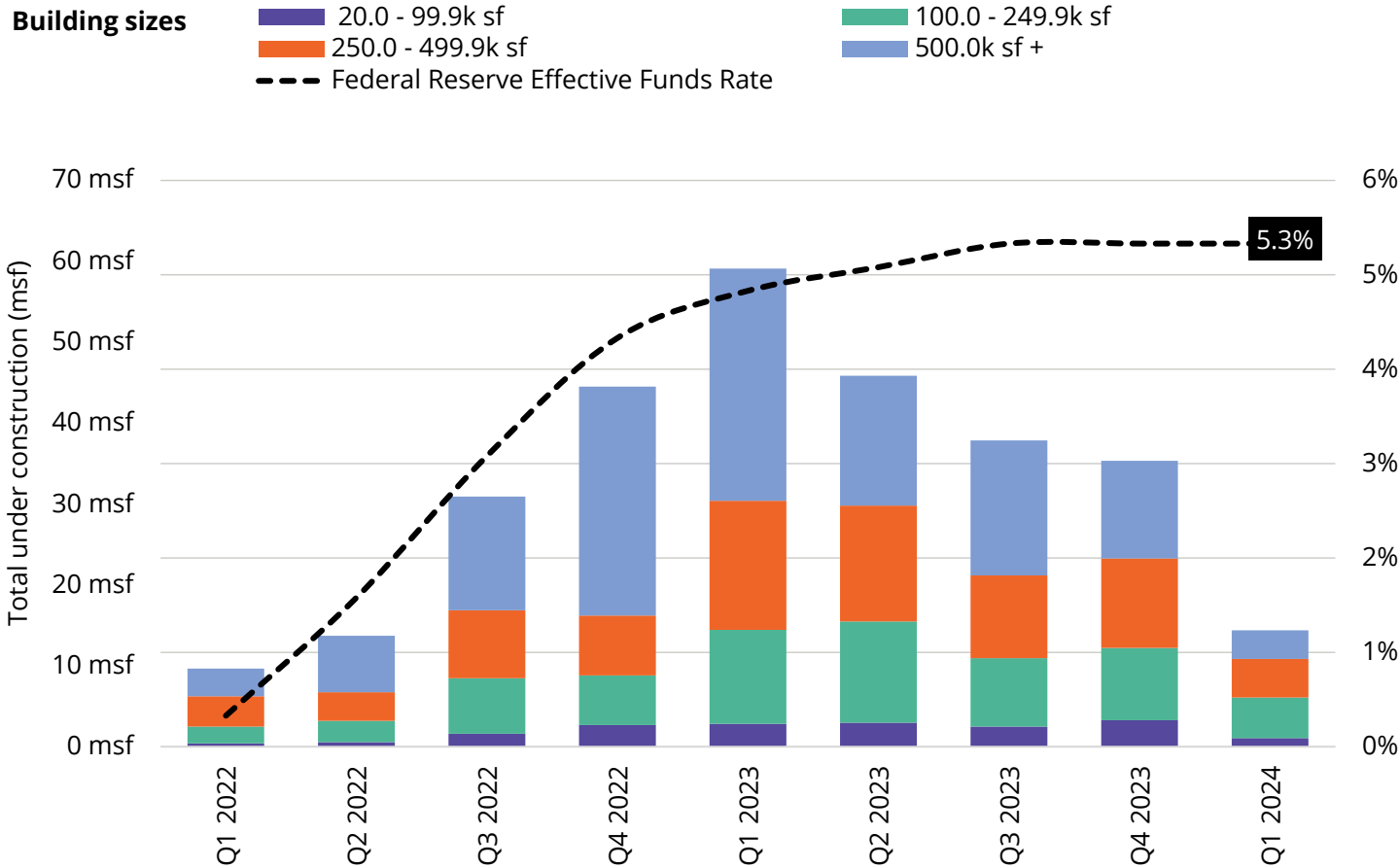
— Cost of construction materials — New industrial building construction — -2015-2019 Avg.

Cost of construction materials
(index 100 = 07/2007)



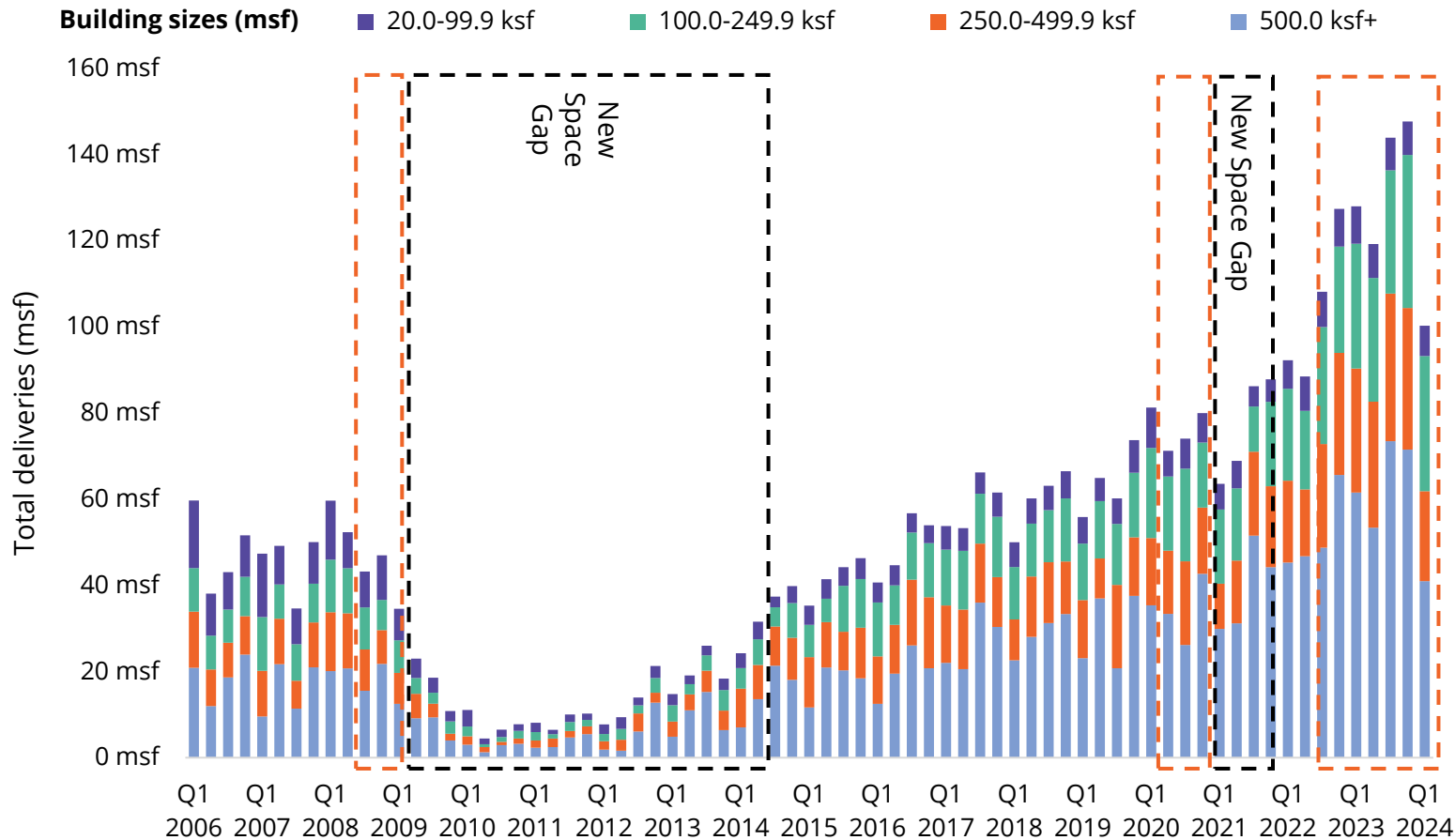
As some landlords and developers consider demising large vacant blocks into smaller spaces to target more active occupier size requirements, the additional costs associated with this option make it unlikely to flood the smaller space inventory in 2024.

New ground-breakings continue to drop rapidly as pipeline delivers without replacement



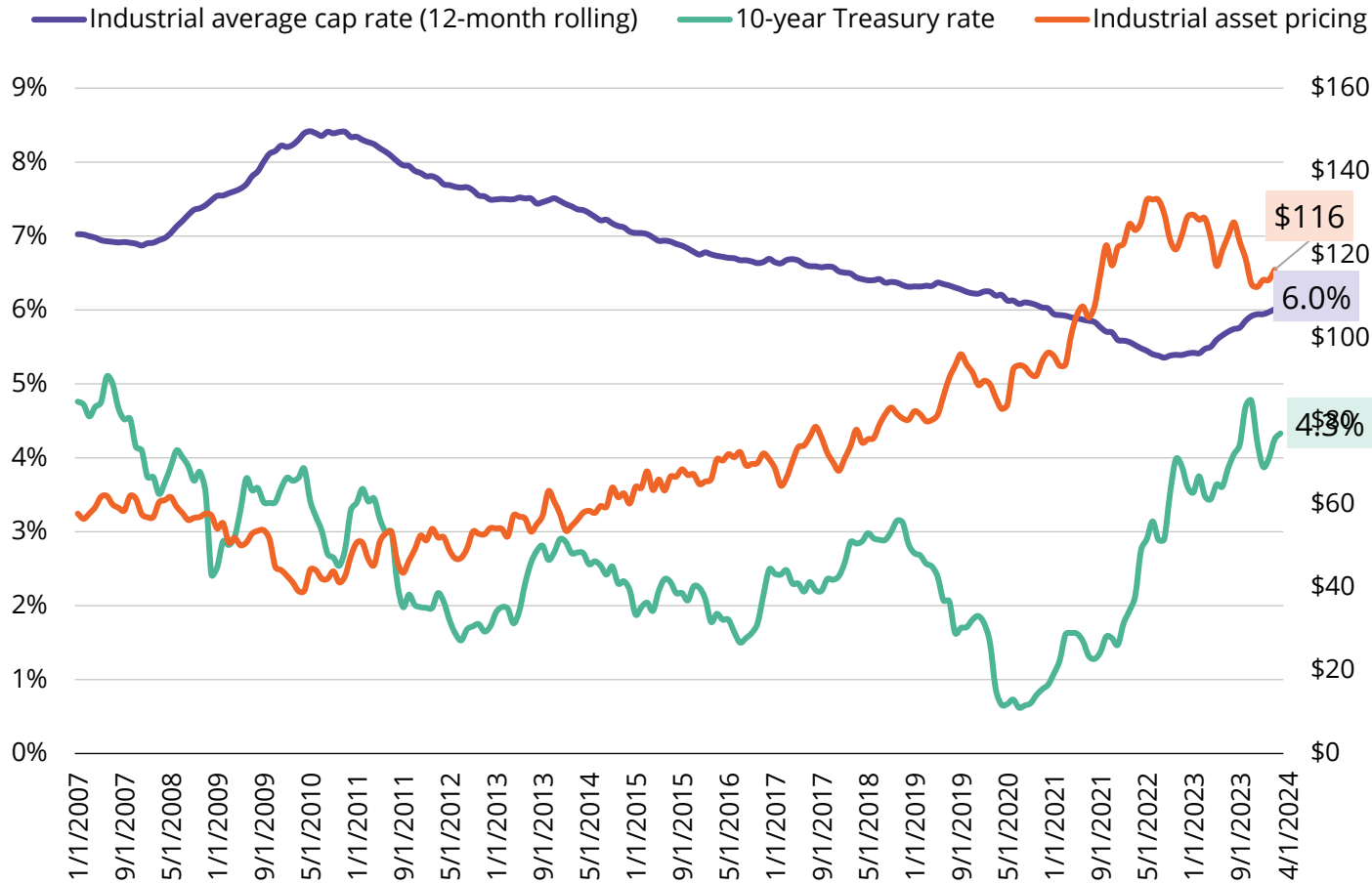
Roughly 55% of the current construction pipeline is set to deliver by the end of the first half of 2024, leaving one of the smallest pipelines experienced in the past decade.

A historic New Space Gap starting in 2024 H2 will allow for market digesting of excess newly delivered space



In 2023, we saw the largest number of deliveries in industrial history. The start of 2024 is already showing a drawdown to new space, which is expected to last for at least 18 months due to a halt in ground-breakings for nearly six quarters.

U.S. industrial cap rates vs. asset pricing

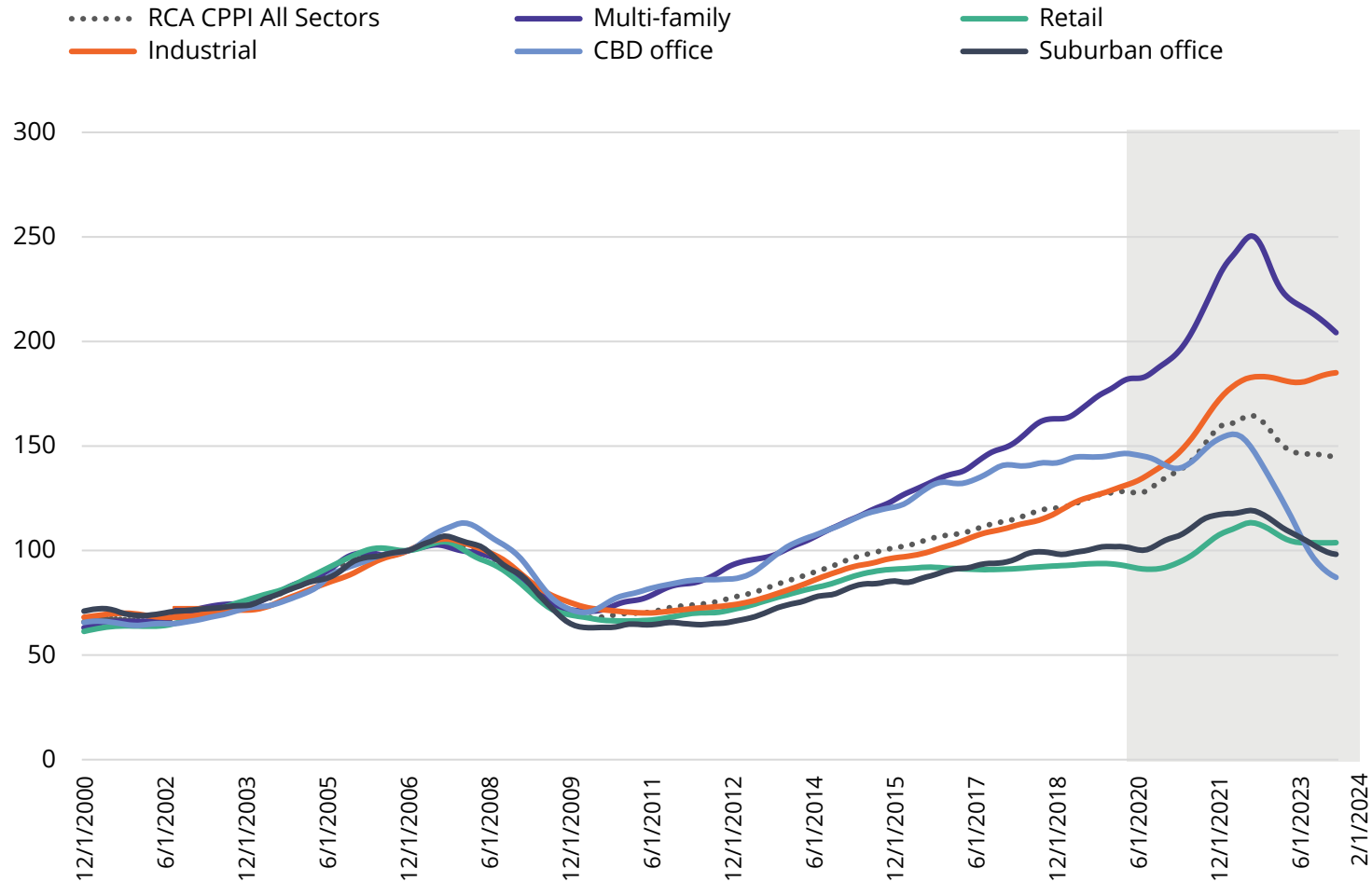


Industrial cap rates continued to uptick from all-time lows, conversely, pricing remains near historic levels.

Limited activity on the transaction side is likely to unleash intensified competition upon confirmation of the Federal Reserve’s policy pivot near the middle of 2024.

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

RCA commercial property price indices



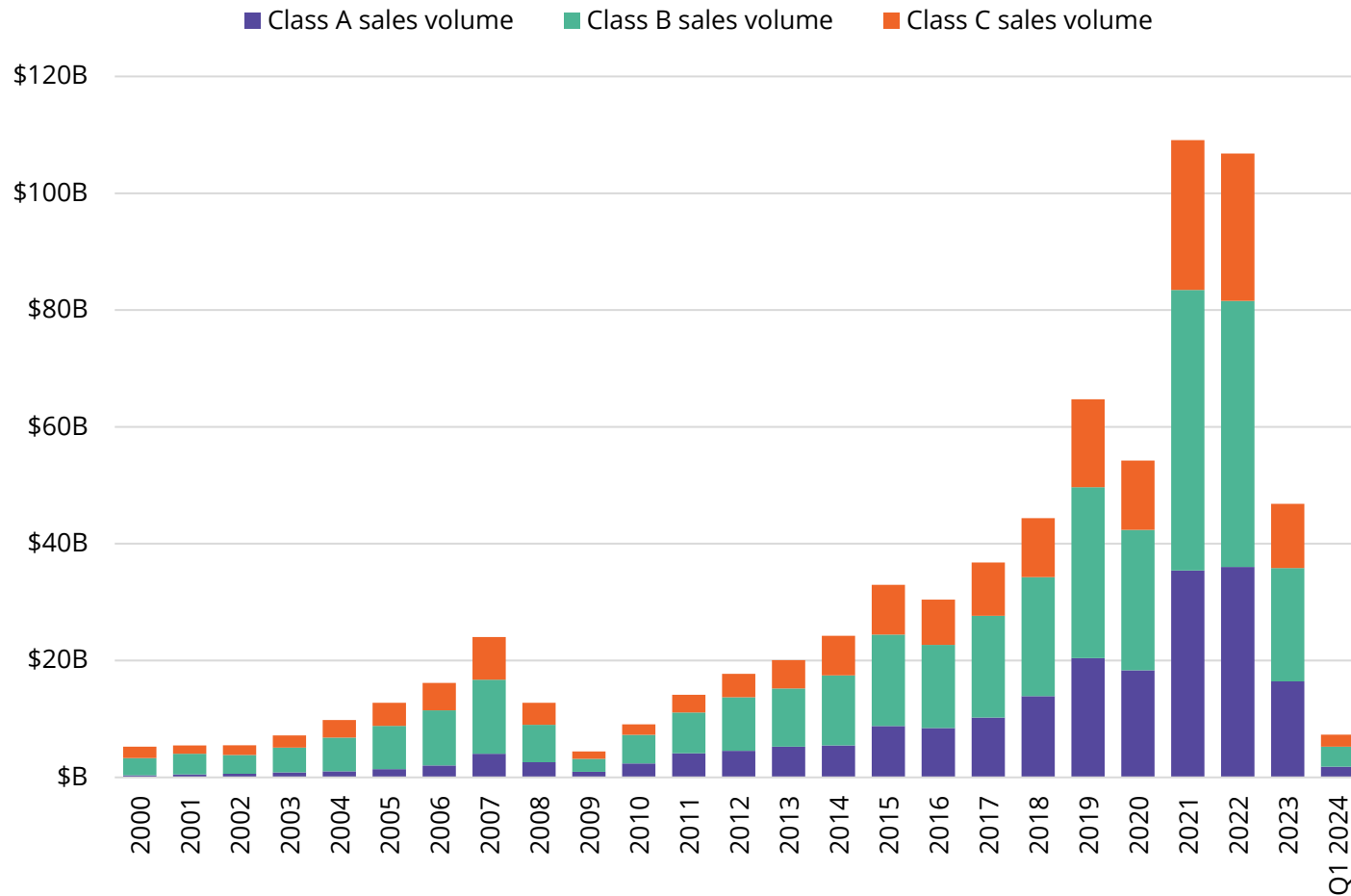
Industrial pricing retained and is accelerating in the value experienced during COVID when compared to any other peer sector.

It is the single sector that has appreciated through 2024, despite the elevated increases in the cost of debt.

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 investment volume by class

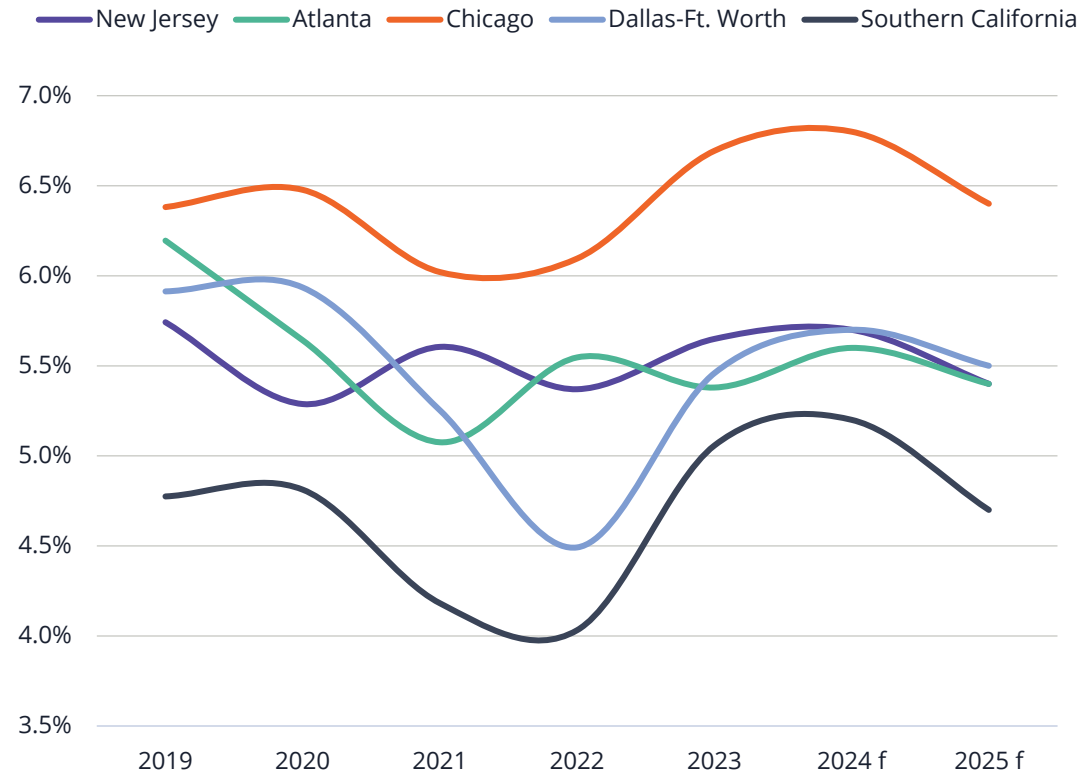


A sluggish start to 2024 was to be expected as the capital markets remain focused on the Federal Reserve adjusting policy guidance via rate cuts.

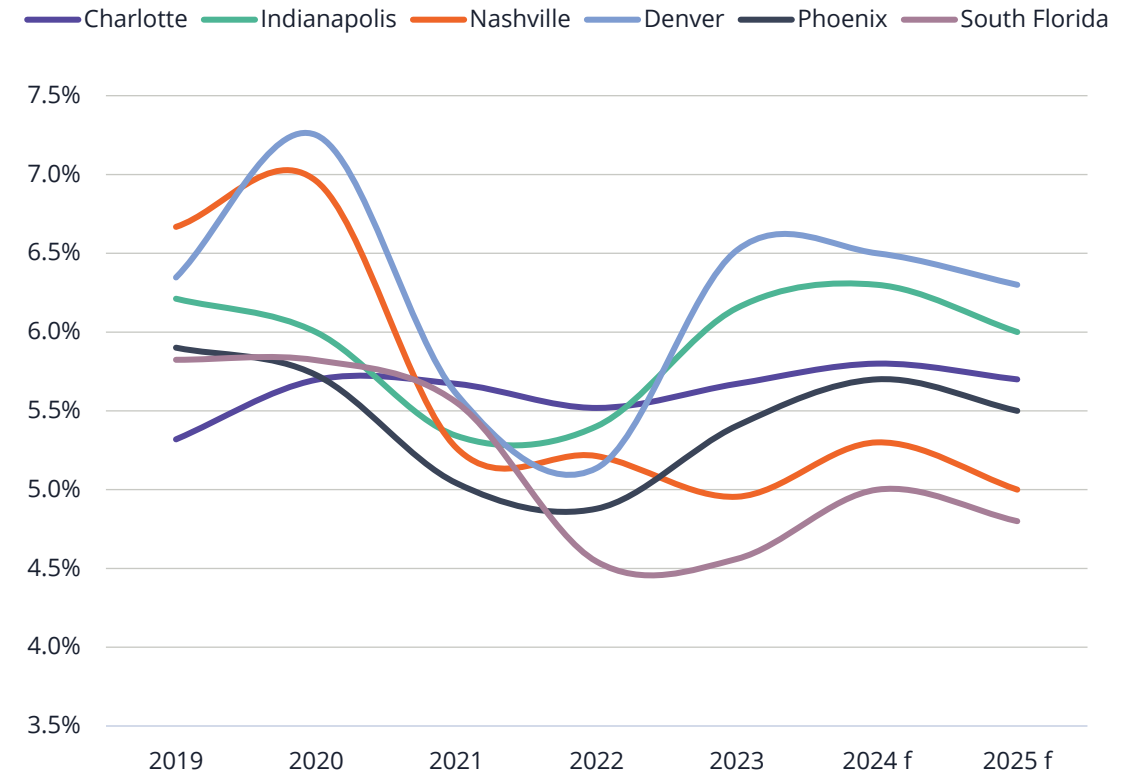
Despite excess funds being raised in the second half of 2023 waiting deployment, limited activity is expected until rate cuts are implemented.

Average industrial cap rates per market

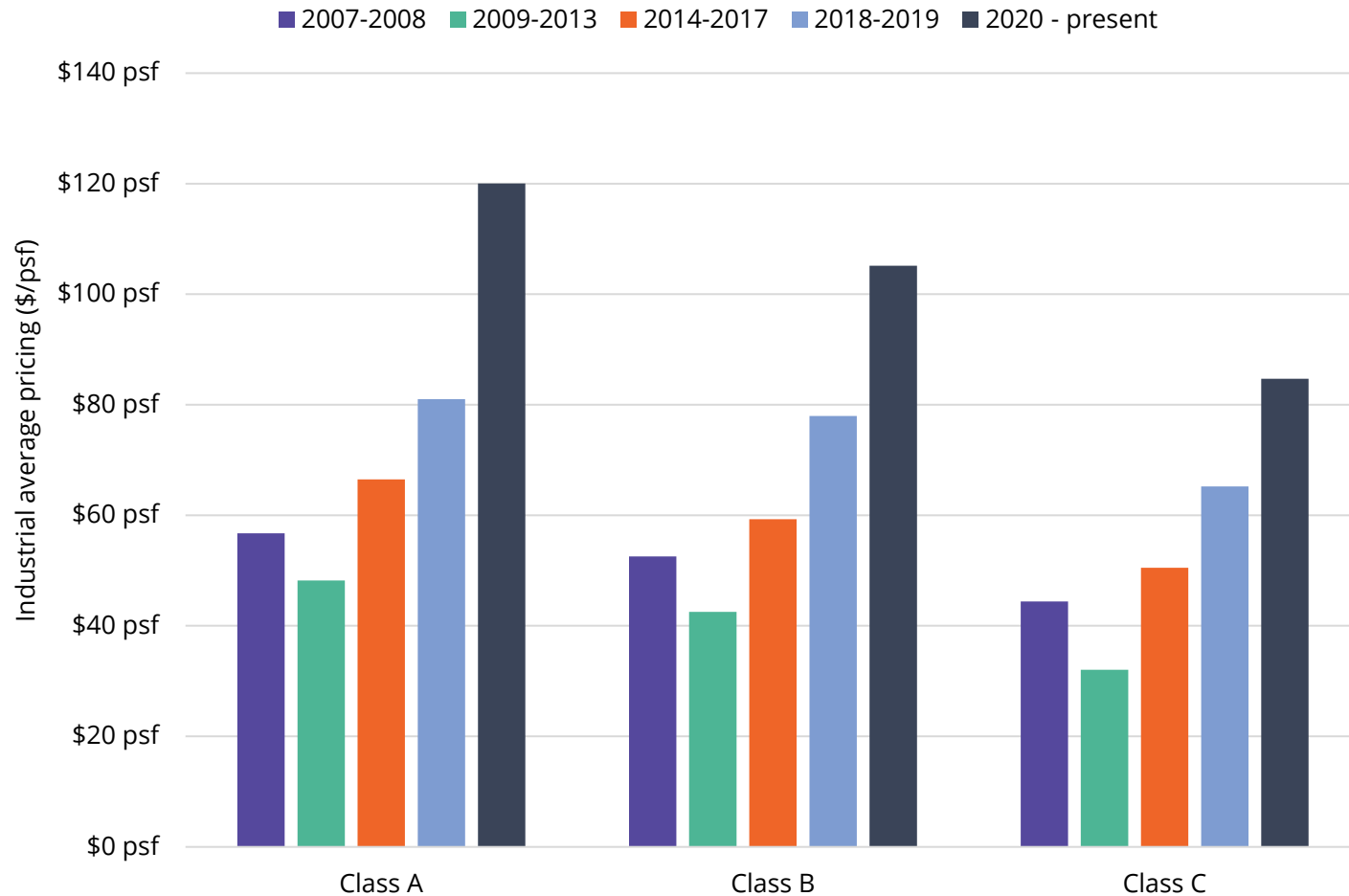
Cap rates - primary markets



Cap rates - secondary markets



Industrial average pricing by transaction period



The expansion of capital looking for exposure in the industrial sector has driven up overall price surges across all asset classes.

As the saying goes, rising tides raise all boats, and this holds true for class B and C product, which continue to see similar price surges.

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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