U.S. industrial market report

Q3 2024

AVISON YOUNG

U.S. industrial market trends

8.3%

National vacancy rate upticks to highest point since 2012

Industrial net absorption remained positive in the first three quarters of 2024 but continued to decline due to global economic, political, and financial headwinds, coupled with record levels of new construction completions. Peak deliveries have passed in every market nationally. Despite the recent 50 bps rate cut by the Federal Reserve, we shouldn't see any uptick in construction projects until 2025 at the earliest. The decline in deliveries is allowing markets to digest the excess space that flooded the sector for five quarters.

-16.5%

Gross leasing below pre-Covid average through September

Overall leasing volume for the first three quarters of 2024 was lower compared to historical levels, however pre-leasing industrial demand remained active throughout the U.S. since this time last year. Election uncertainty and a lack of interest rate cuts have led many tenants to pause decisions until the beginning of 2025. With the election now finished, clearer economic conditions and increasing occupier requirements are likely to translate to upticks in overall gross leasing activity in the start of 2025.

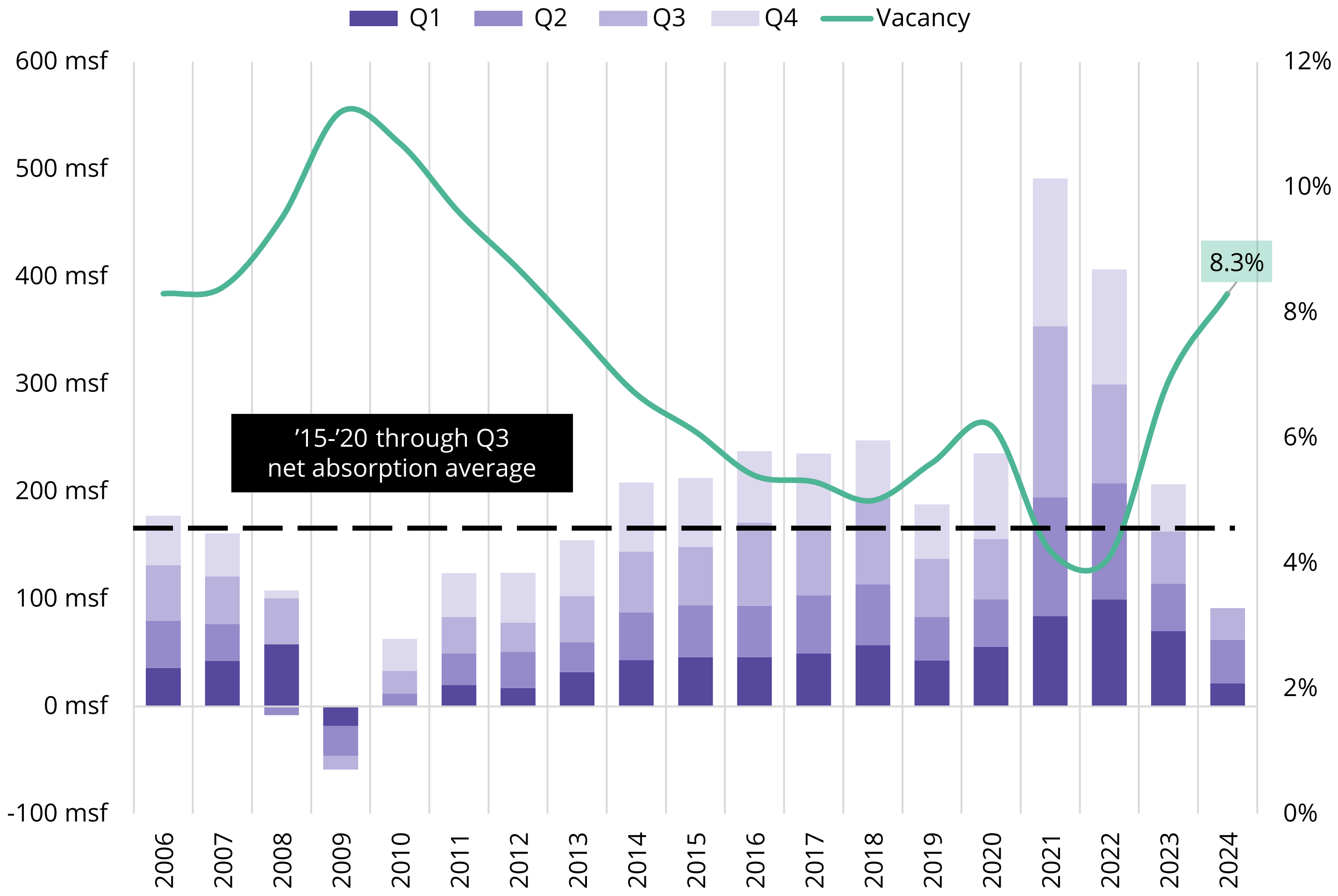
-58.9%

Construction pipeline down from peak in Q3 2022

New groundbreakings topped out in the third quarter of 2022, and very limited replacement activity has been observed in the construction pipeline in 2023 and in the first half of 2024. After topping out at nearly 700 million square feet (msf) in 2022, we expect the overall construction pipeline to fall to under 200 msf by the end of the year. We are closely monitoring the market impact that decreasing groundbreakings will have on new space availabilities in three to six 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



Source: AVANT by Avison Young, CoStar

The market has peaked in terms of new supply, which led to the slowest increase in vacancy since 2022. Net absorption remained positive nationally despite stagnant leasing activity—an encouraging sign.

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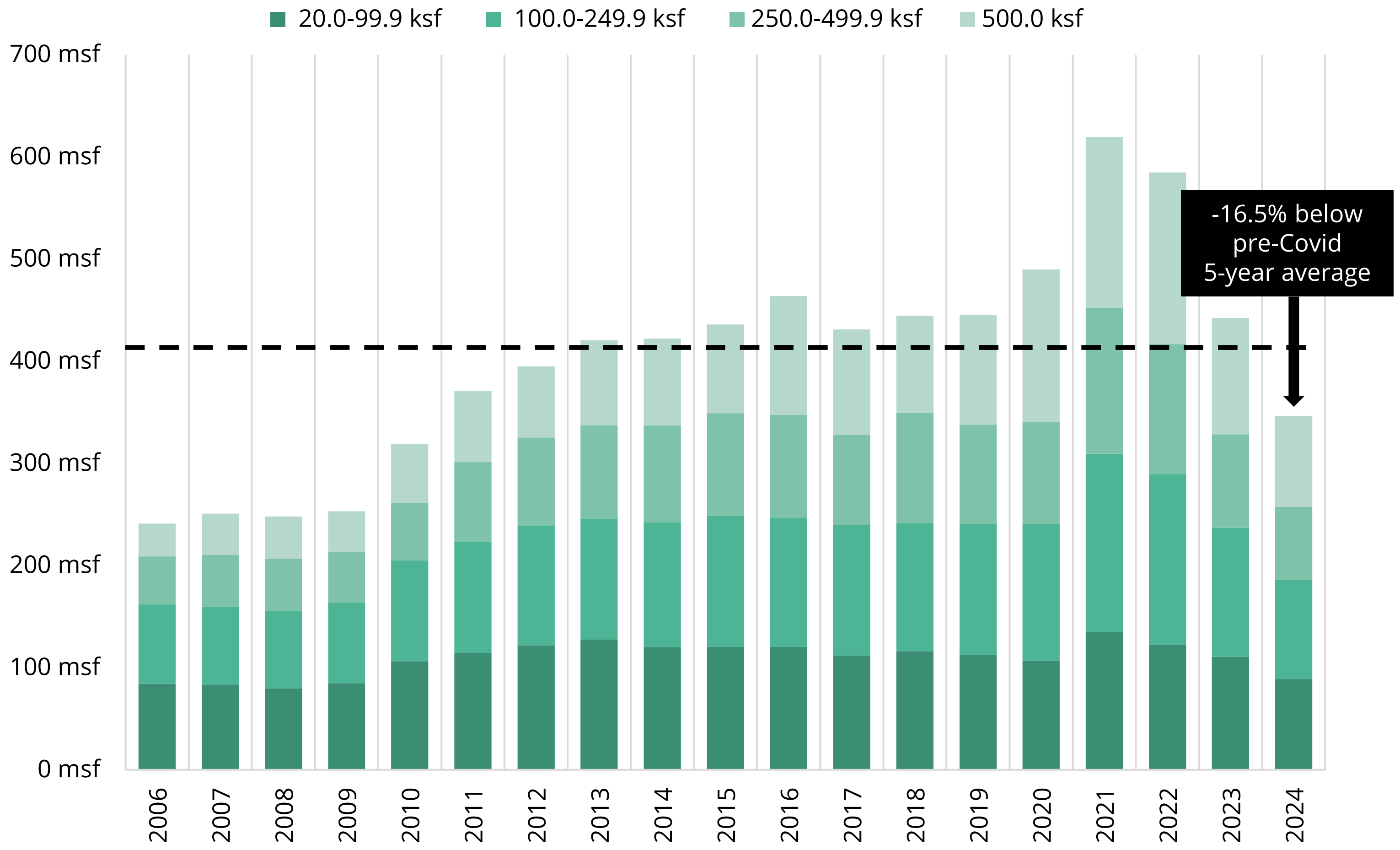
Industrial leasing volumes below pre-Covid average through third quarter



Through the first three quarters, industrial leasing was over 15% below pre-Covid cycle five-year average. Fed rate cut expectations, the looming and eventual East/Gulf Coast Port workers strike, and political uncertainty with the U.S. election has led to slower location and expansion decision making, dragging down activity.

Source: AVANT by Avison Young, CoStar

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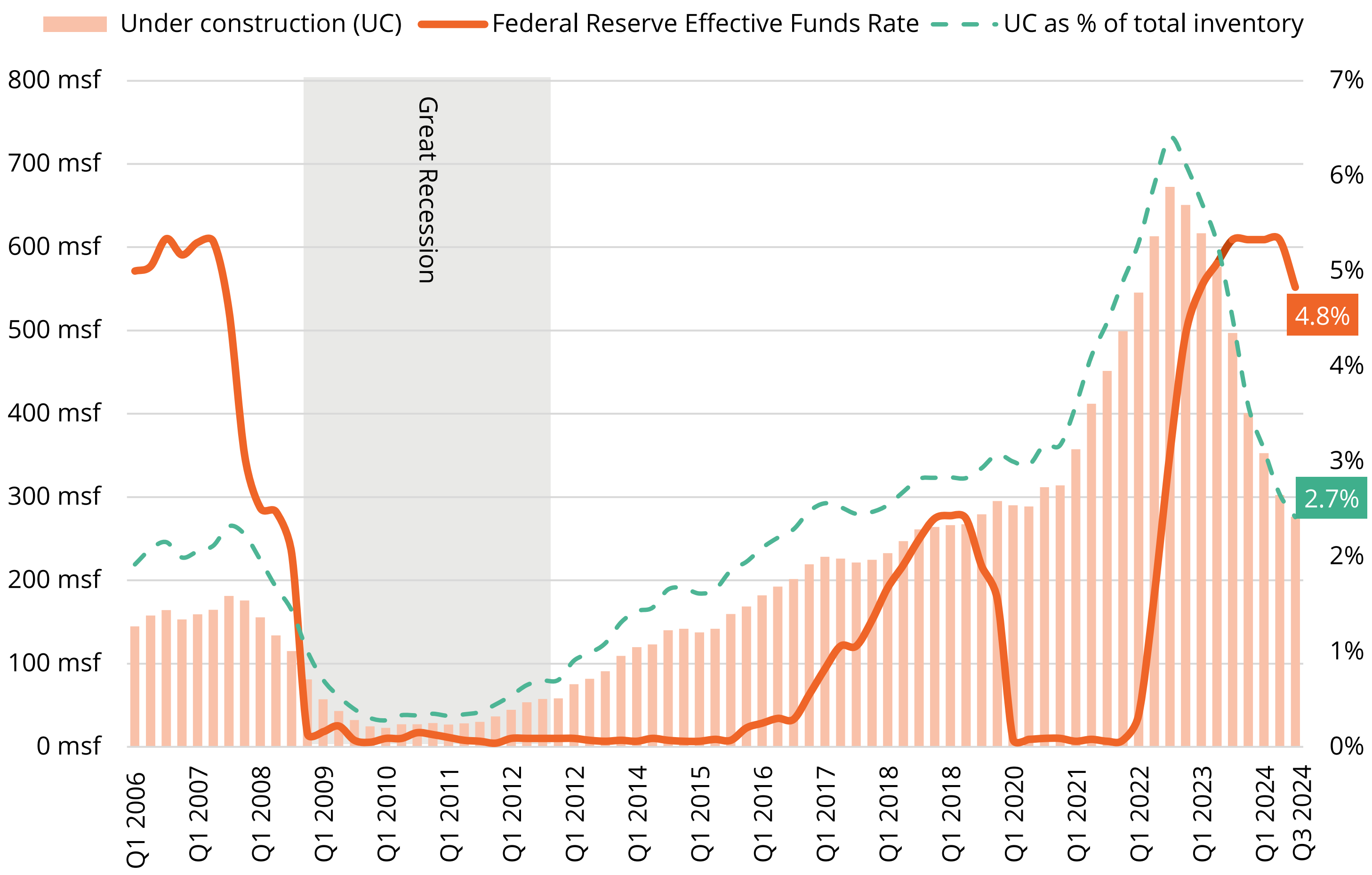
First Fed rate cut since 2020 isn't expected to impact the construction pipeline until 2025



The construction pipeline will decrease further by the end of 2024 and is expected to reach lows not seen since the aftermath of the Great Recession.

The industrial construction pipeline continues to shrink as product that began shortly after the peak of Q3 2022 is delivered without replacement.

Source: AVANT by Avison Young, CoStar

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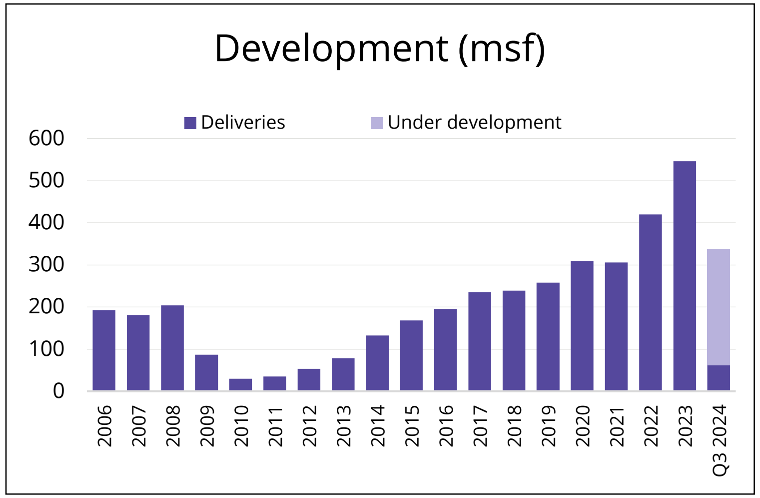
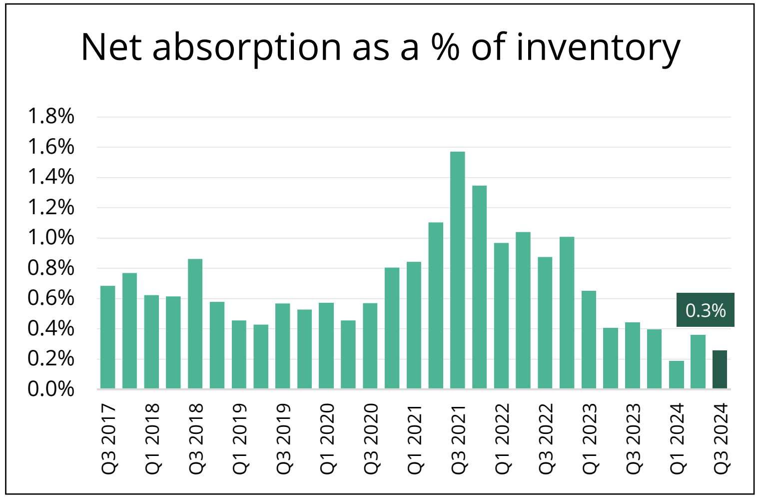
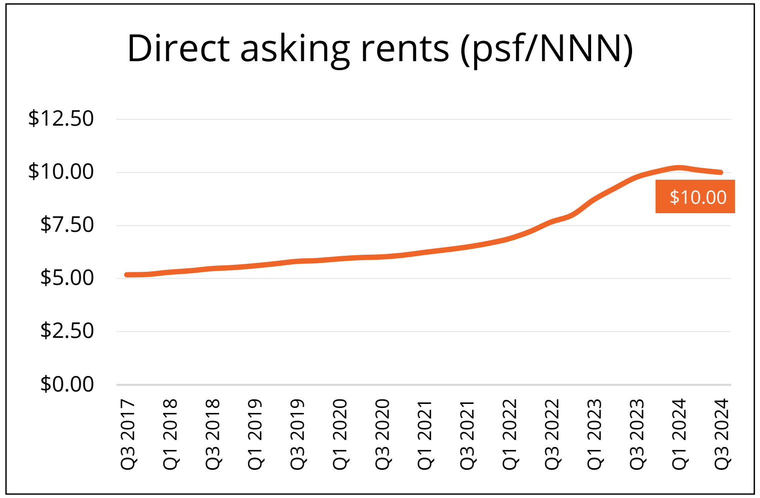
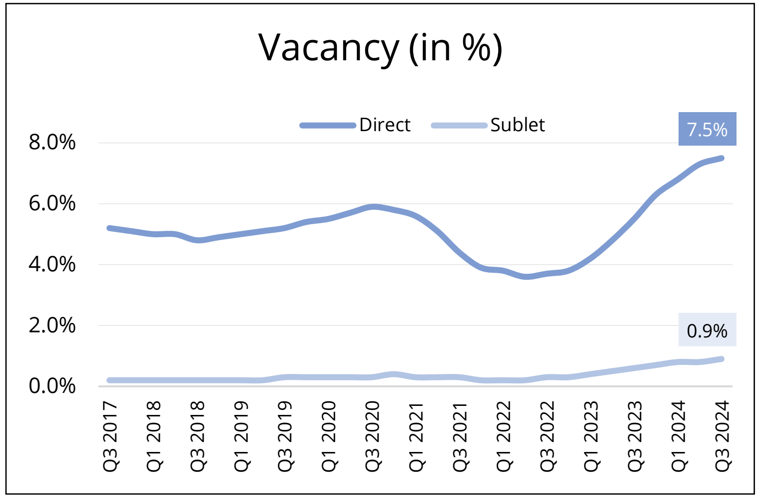
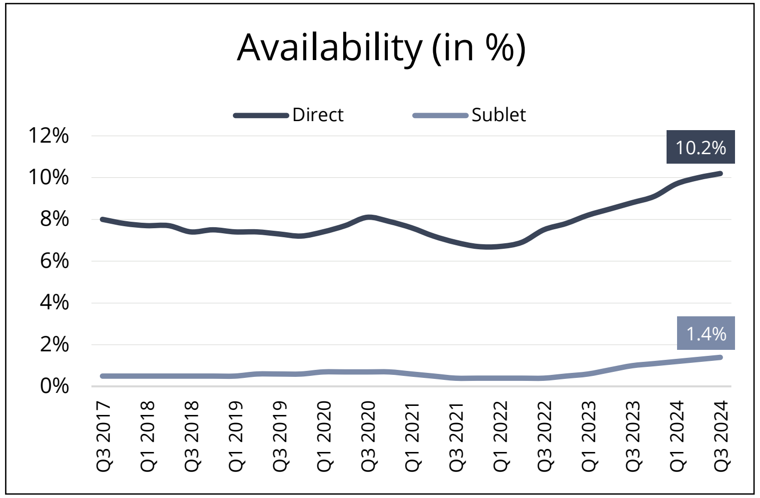
U.S. industrial market indicators

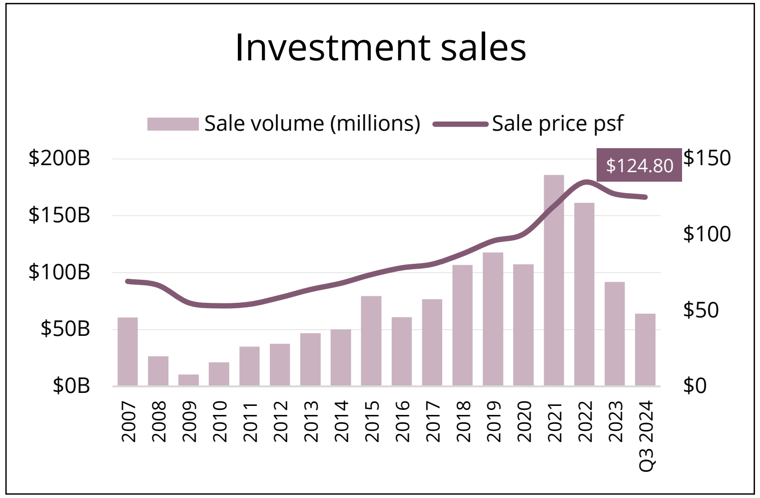






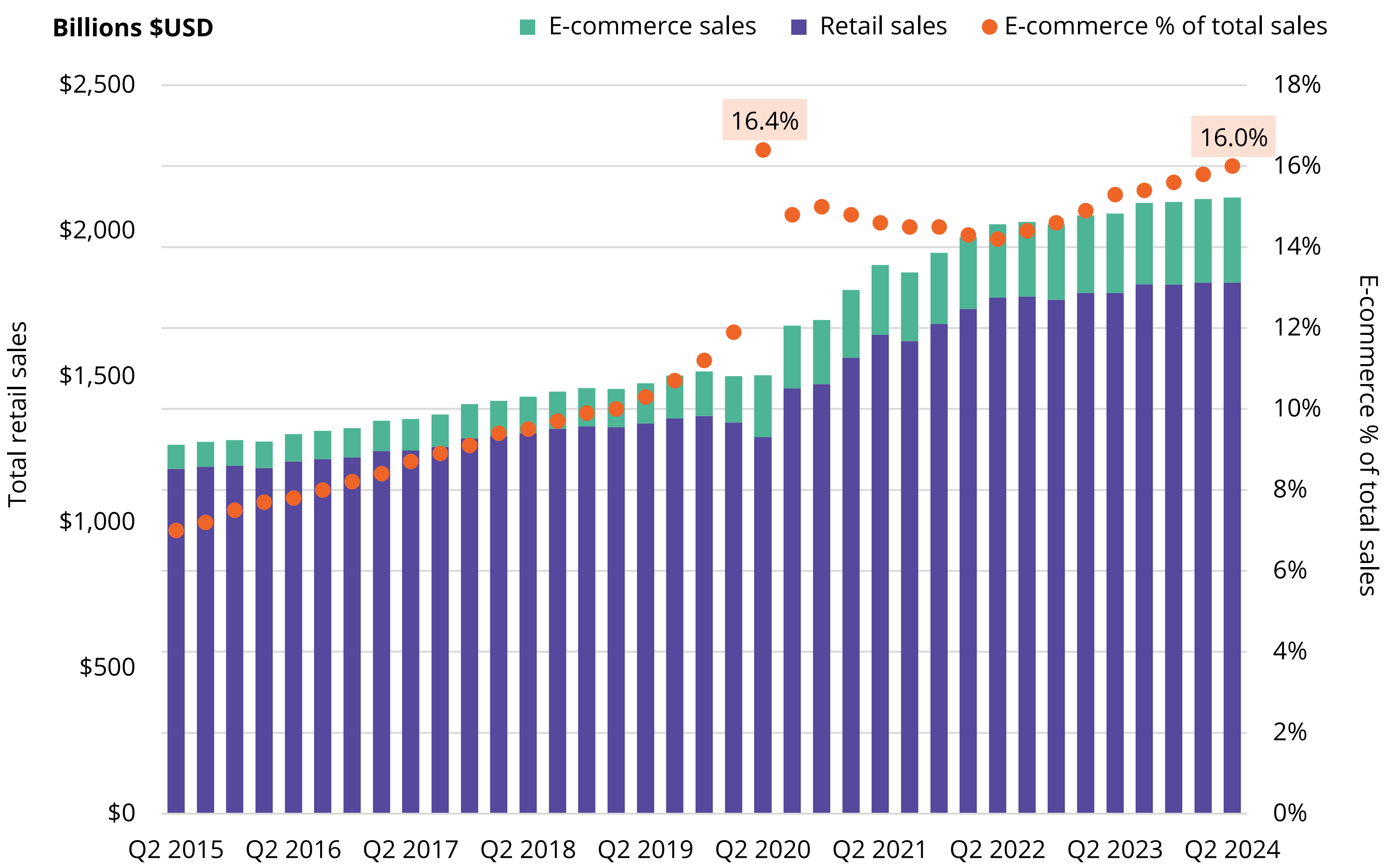






Source: AVANT by Avison Young, CoStar, MSCI Real Capital Analytics

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



Note: As of August 19, 2024 (most recent update)
Source: Federal Reserve Bank of St. Louis

E-commerce retail spend has increased 326.7% in the past 10 years, and 37.7% since start of 2020, which has formed new and incessant industrial demand for supportive fulfillment operations, led largely by third-party logistics (3PLs).

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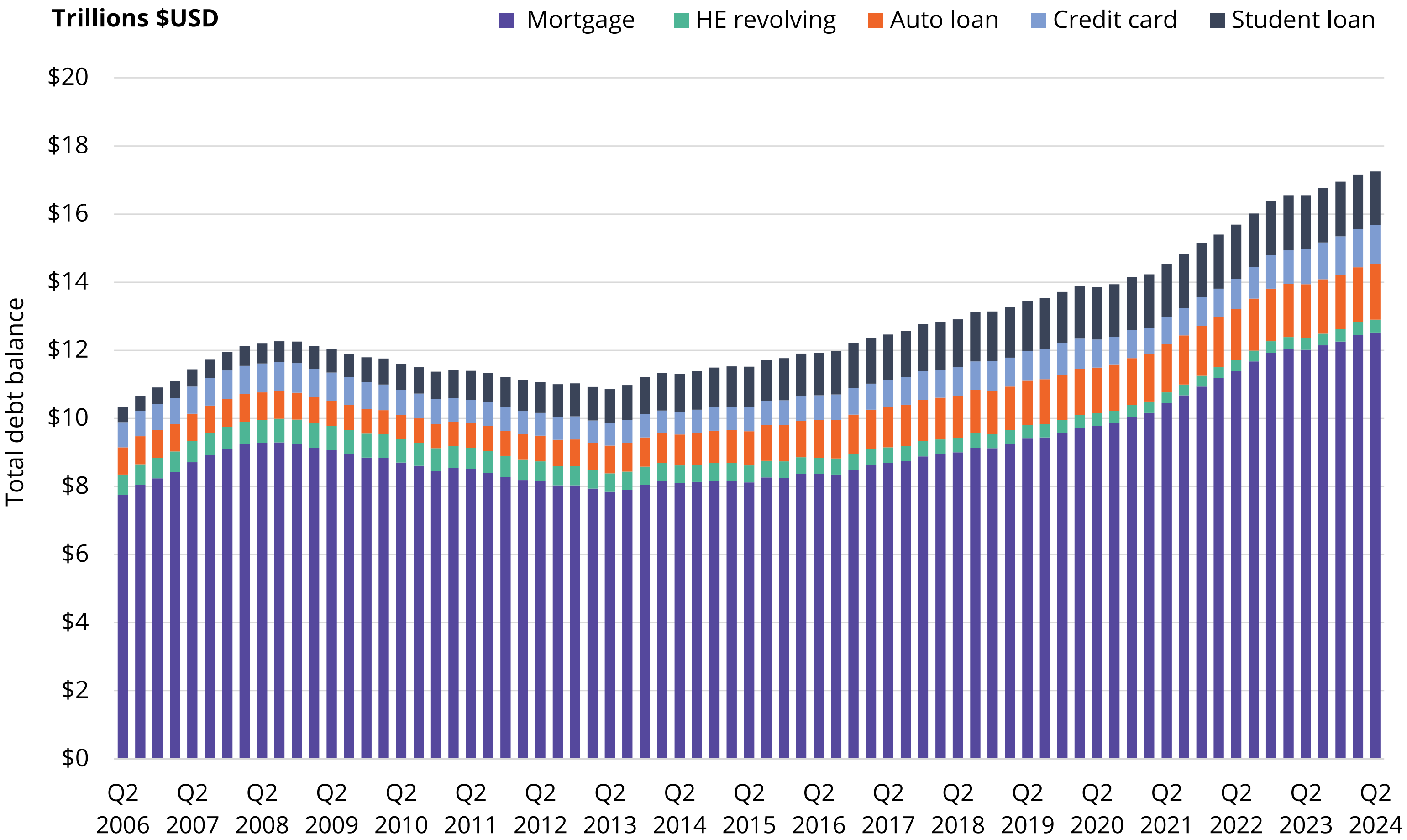
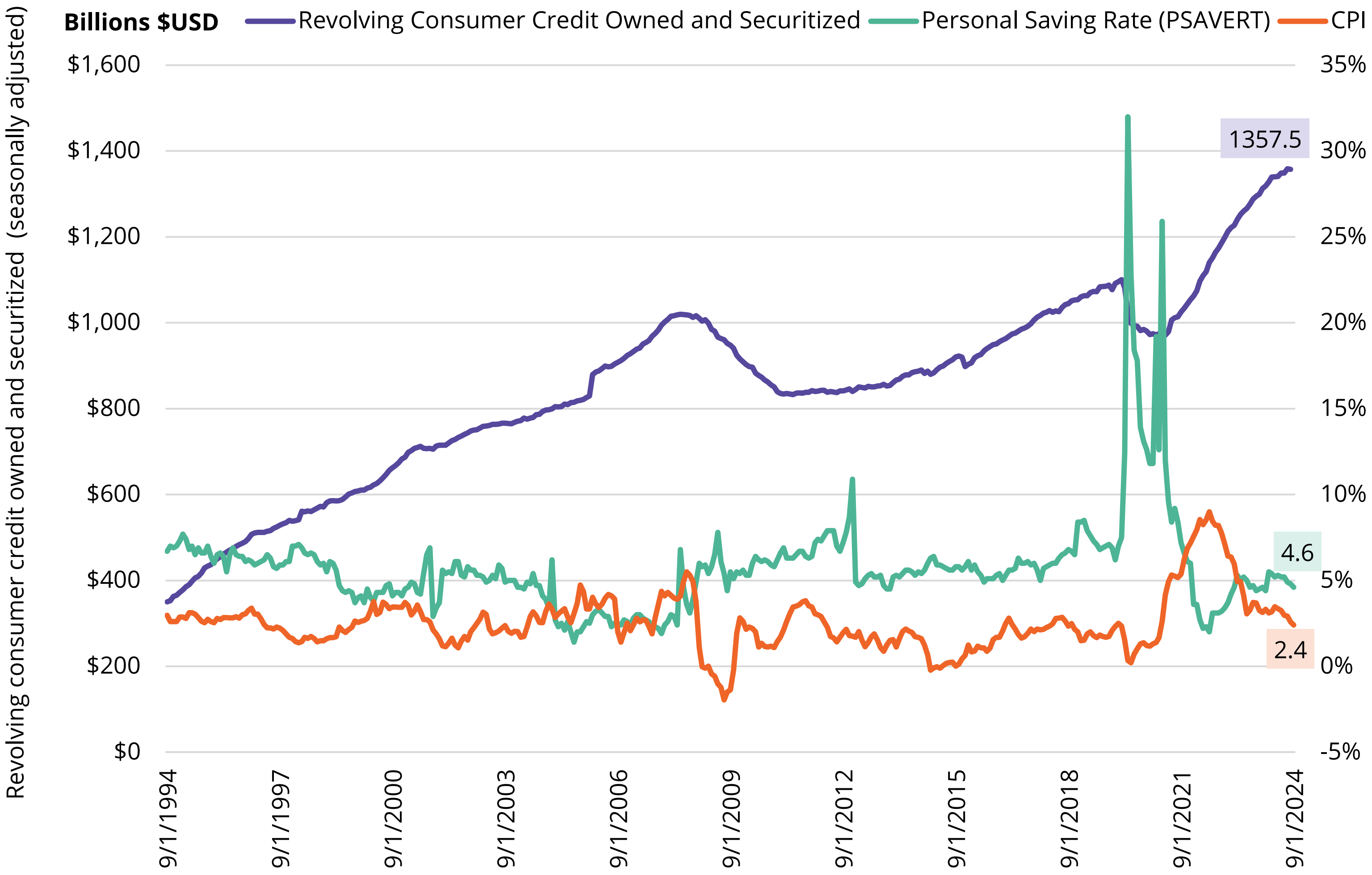
Household debt continues to surge to historic record of $17.8 trillion



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 24.7% as of the start of 2024, as credit card debt surges to nearly 40% in same timeframe.

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

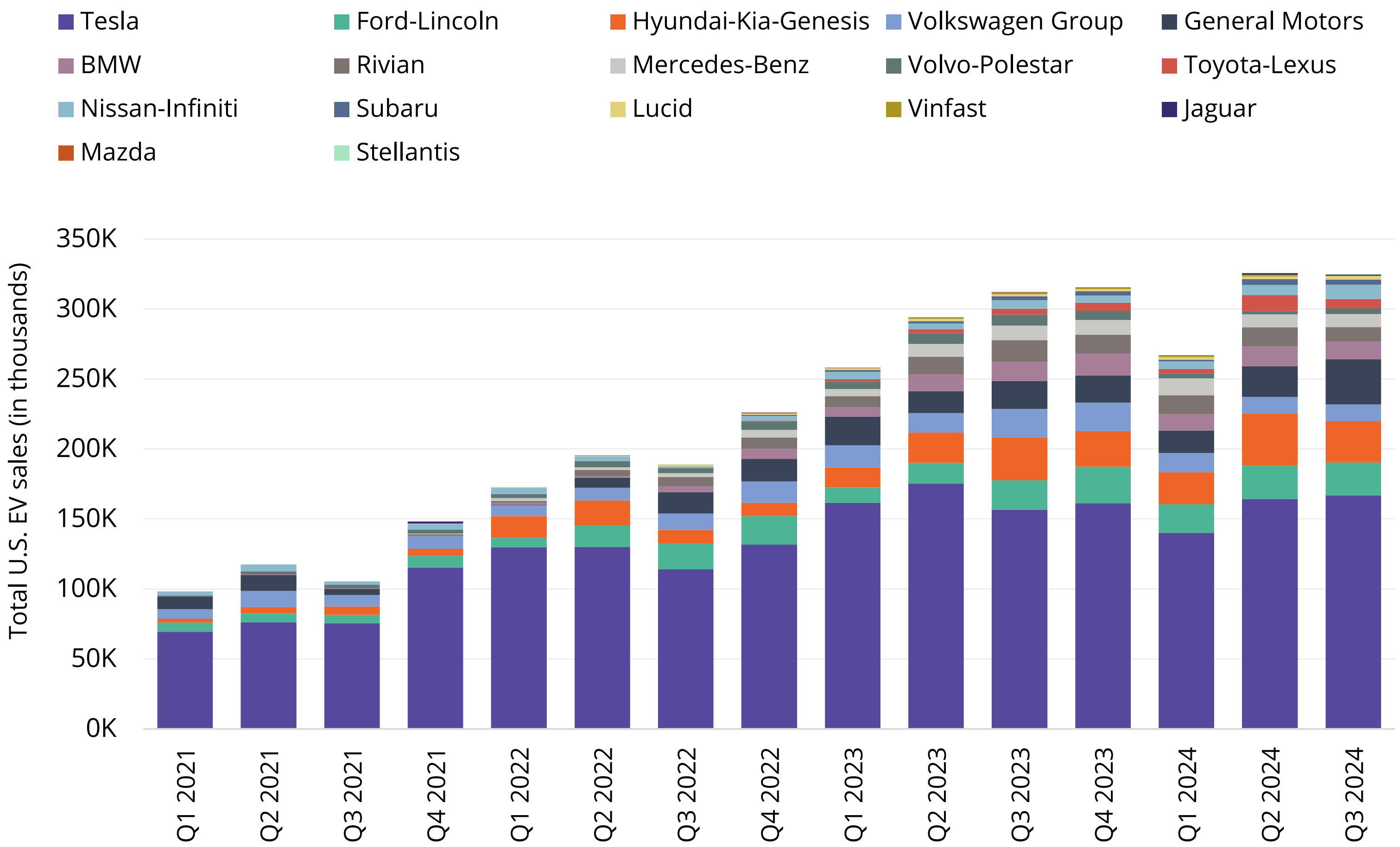


Source: AVANT by Avison Young, Federal Reserve Bank of St. Louis

Consumer price index (CPI) remains elevated after a year of reductions in year-over-year growth. The Federal Reserve has initiated one round of rate cuts, however the expectation of several cuts in 2024 has not been met yet.

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

Despite accelerated financing costs, new EV sales surge to all-time highs since April 2024



Source: AVANT by Avison Young, Cox Automotive

The electrification 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. Reductions in the cost of borrowing will serve to continue accelerated EV sales headed into 2025.

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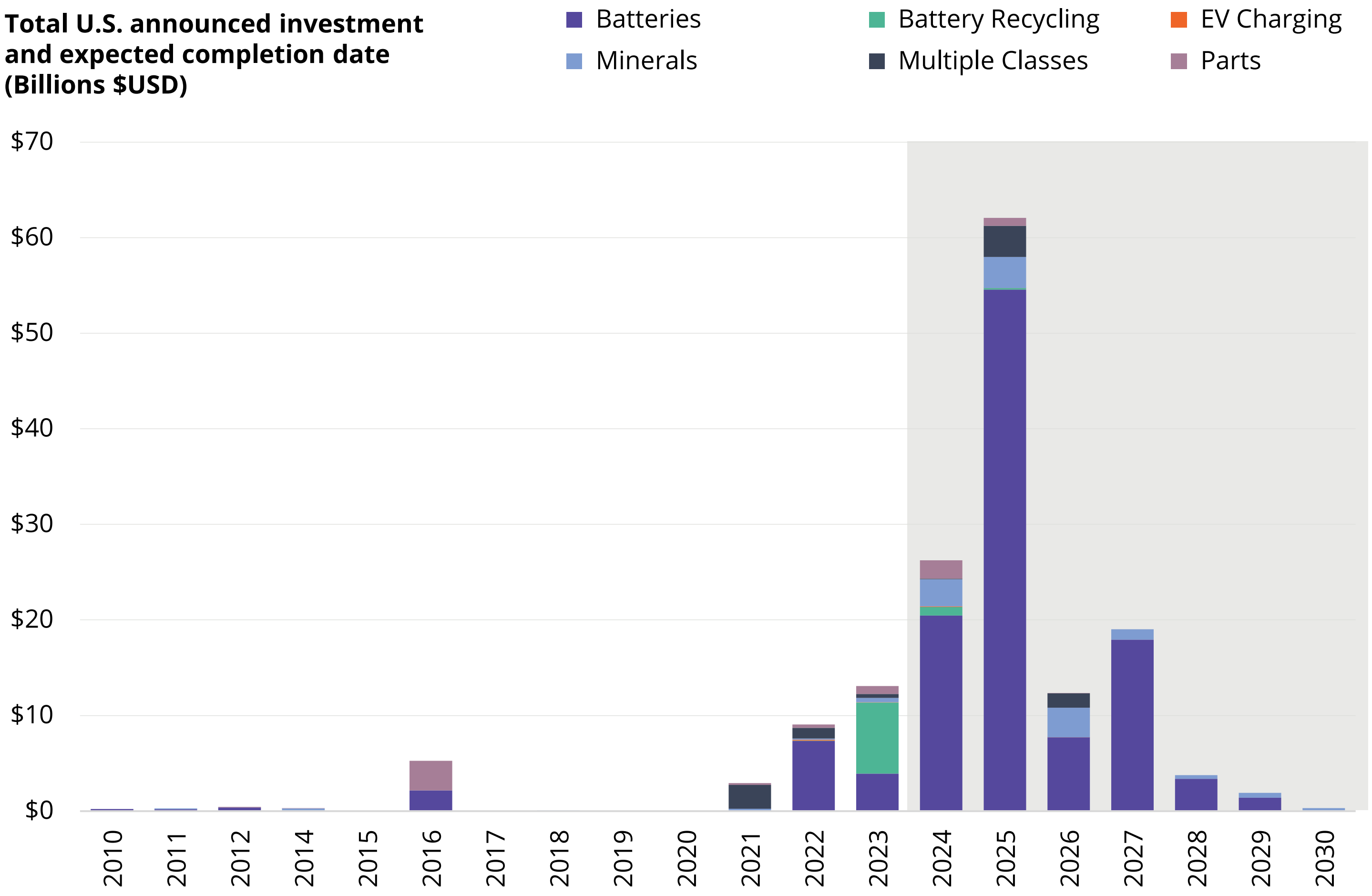
Battery and EV investments will lead to increased direct and indirect demand upon completion

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, groundbreaking, 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 complementary supply chain users.

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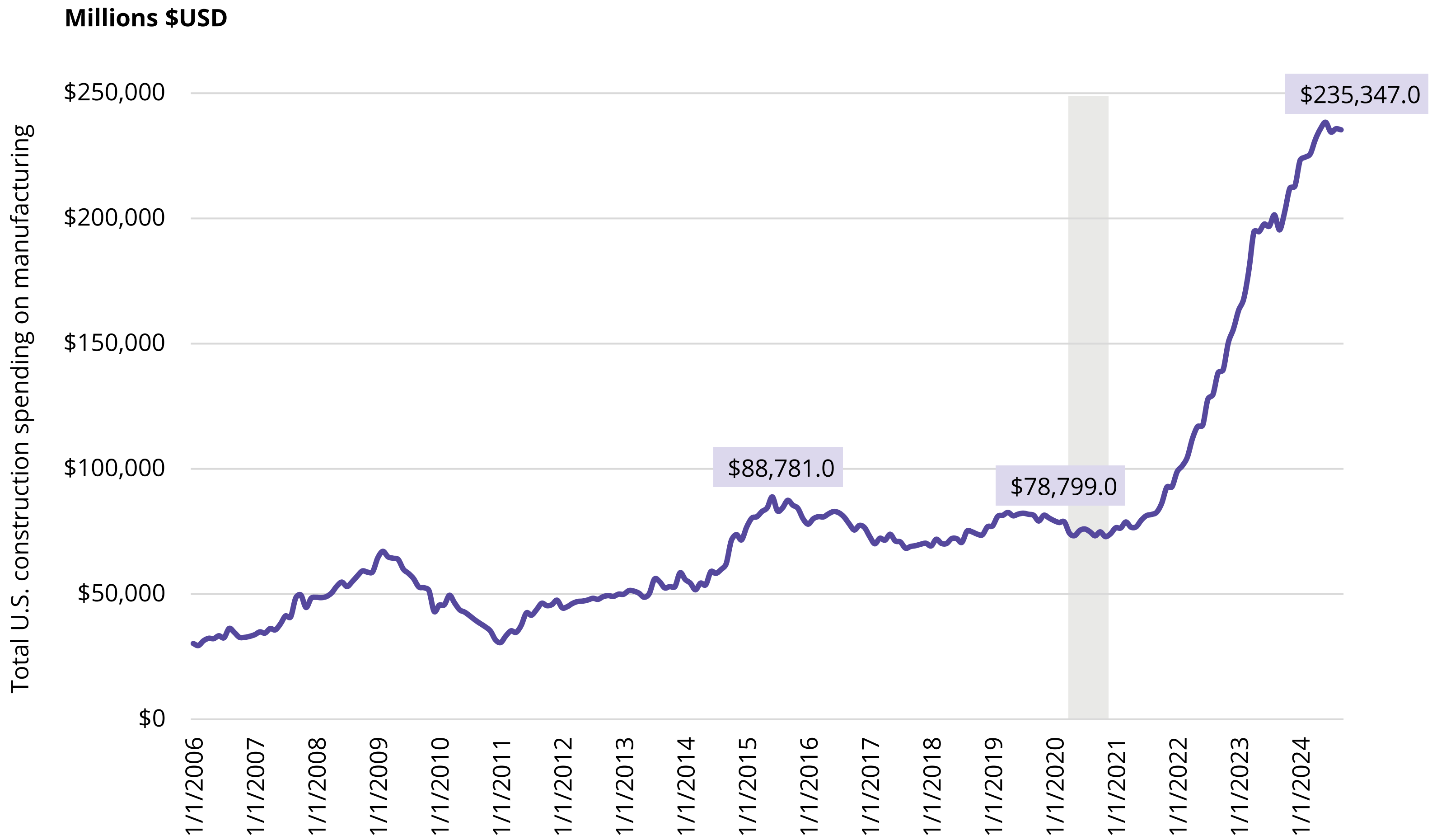
Investment in U.S. manufacturing continues to accelerate, leading to more industrial demand



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

U.S. manufacturing remains in a record growth phase as reshoring and nearshoring investment continue along the maturation horizon. Industrial demand shifts toward supporting manufacturing will continue to drive foundational changes in the sources of demand in complementary markets.

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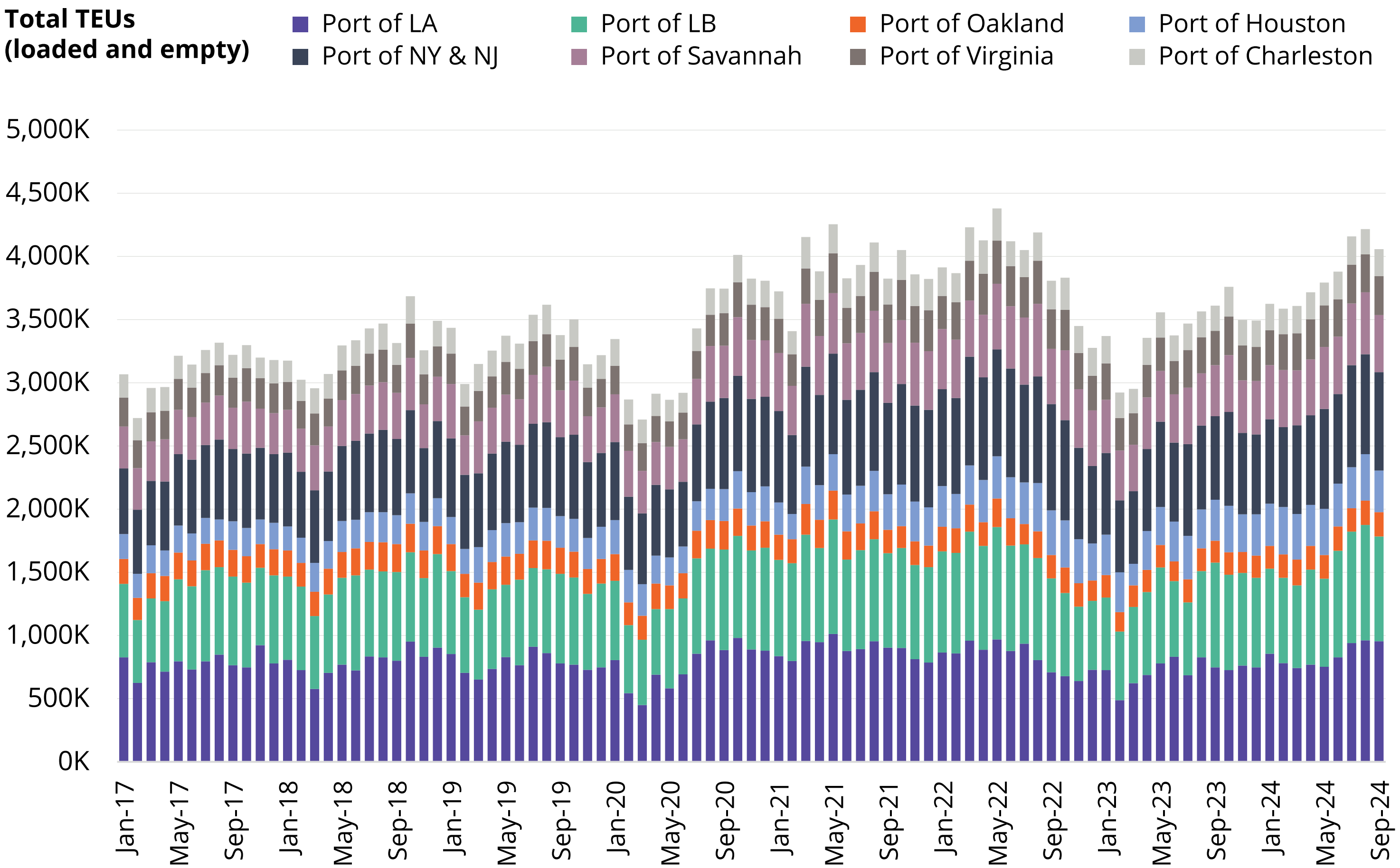
Major port volume through September on par with all-time high Covid peaks



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

Port activity regains upward momentum in overall activity since 2023, approaching peak volumes experienced during Covid. The threat of an East and Gulf Coast labor strike, coupled with possible disruptions, likely accelerated holiday seasonal orders, which may reduce fourth quarter activity.

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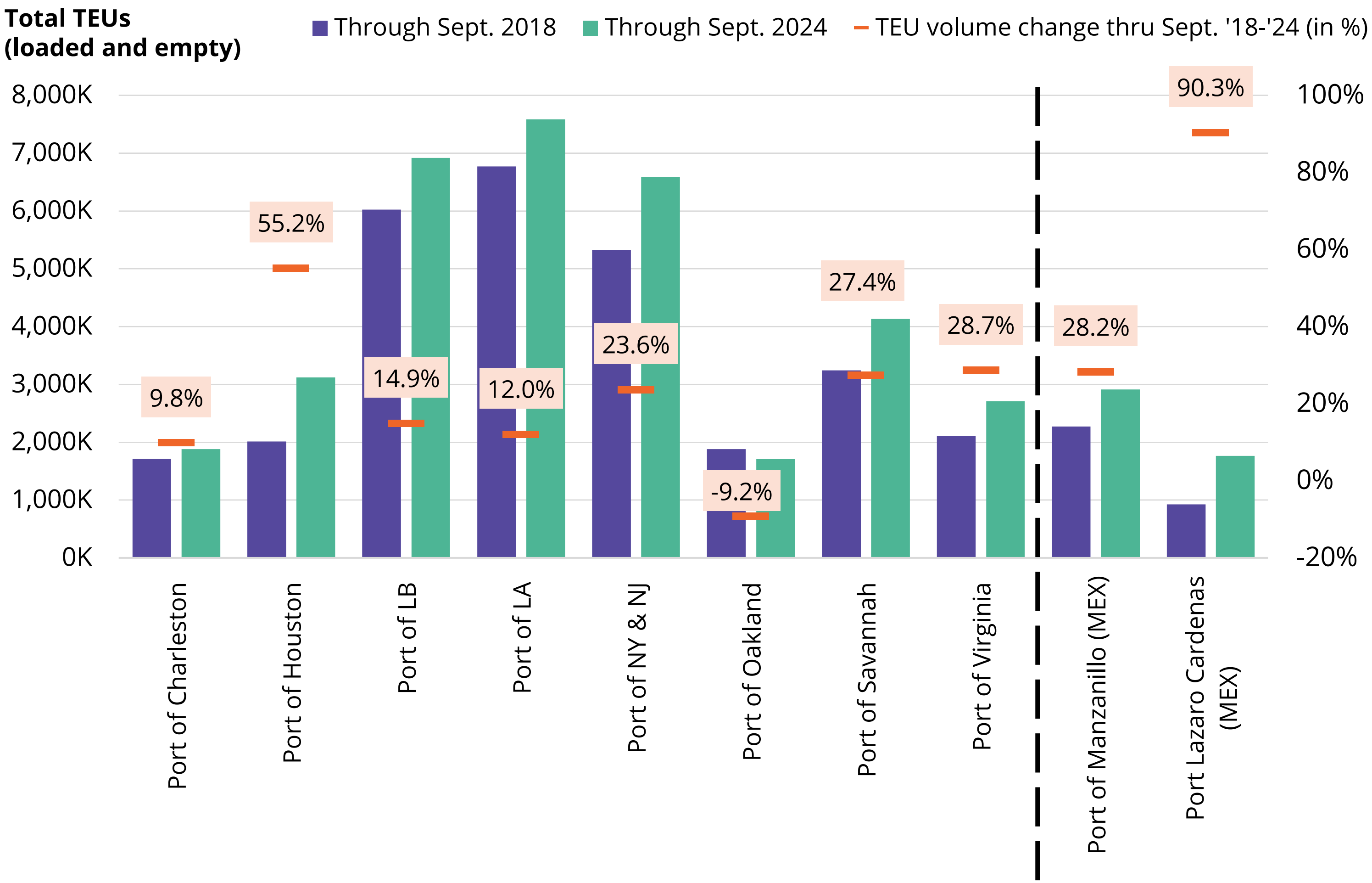
Supply chain network shifts creating gains in Eastern ports, and losses in Western ports



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

Source: AVANT by Avison Young, Individual Port Authorities

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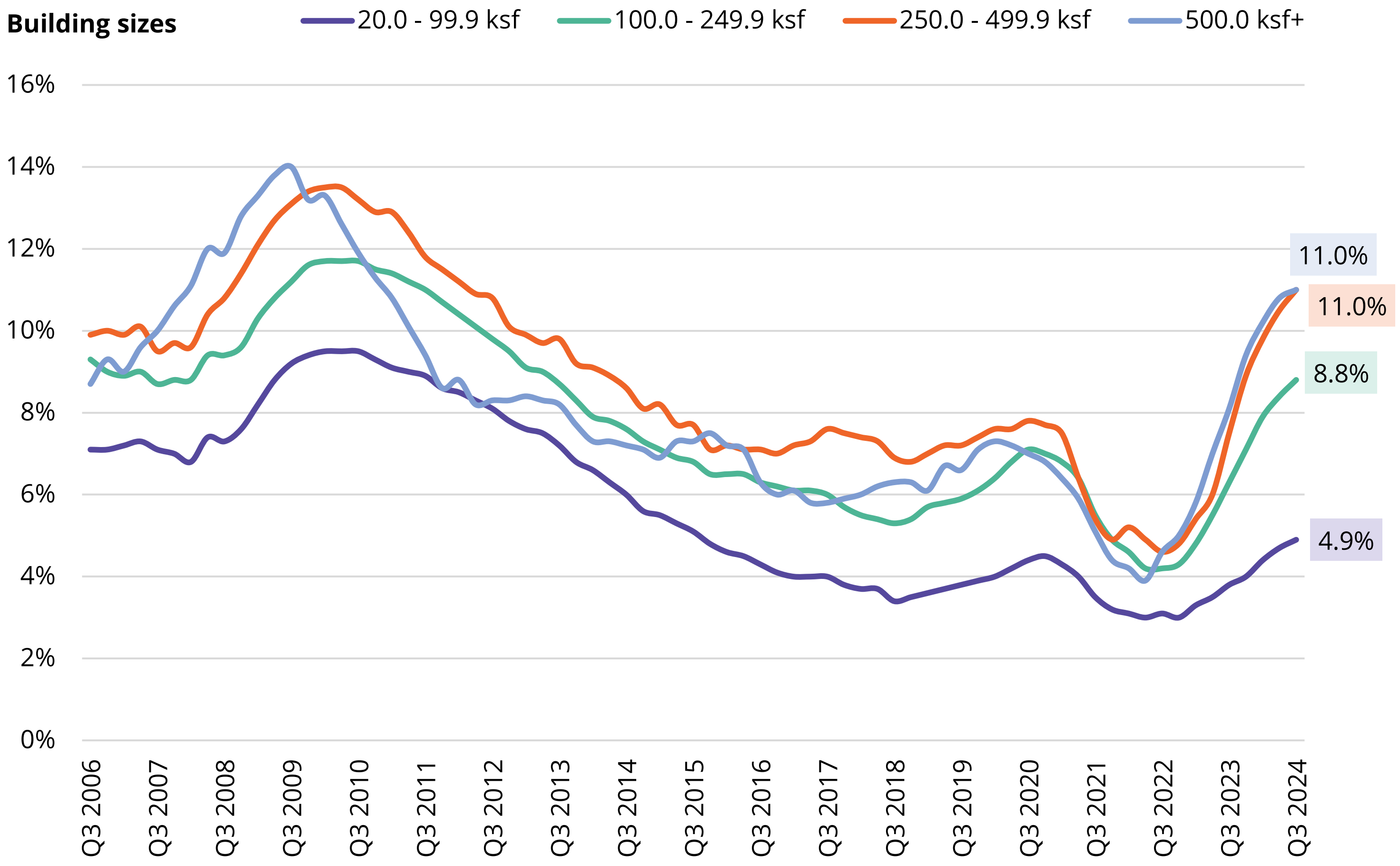
U.S. industrial vacancy by building size



After hitting historic construction pipeline volume in late 2022, a record amount of new industrial space was delivered and topped out in 2023. Peak deliveries have passed, and a flattening of vacancy among larger building sizes is expected throughout 2024.

Source: AVANT by Avison Young, CoStar

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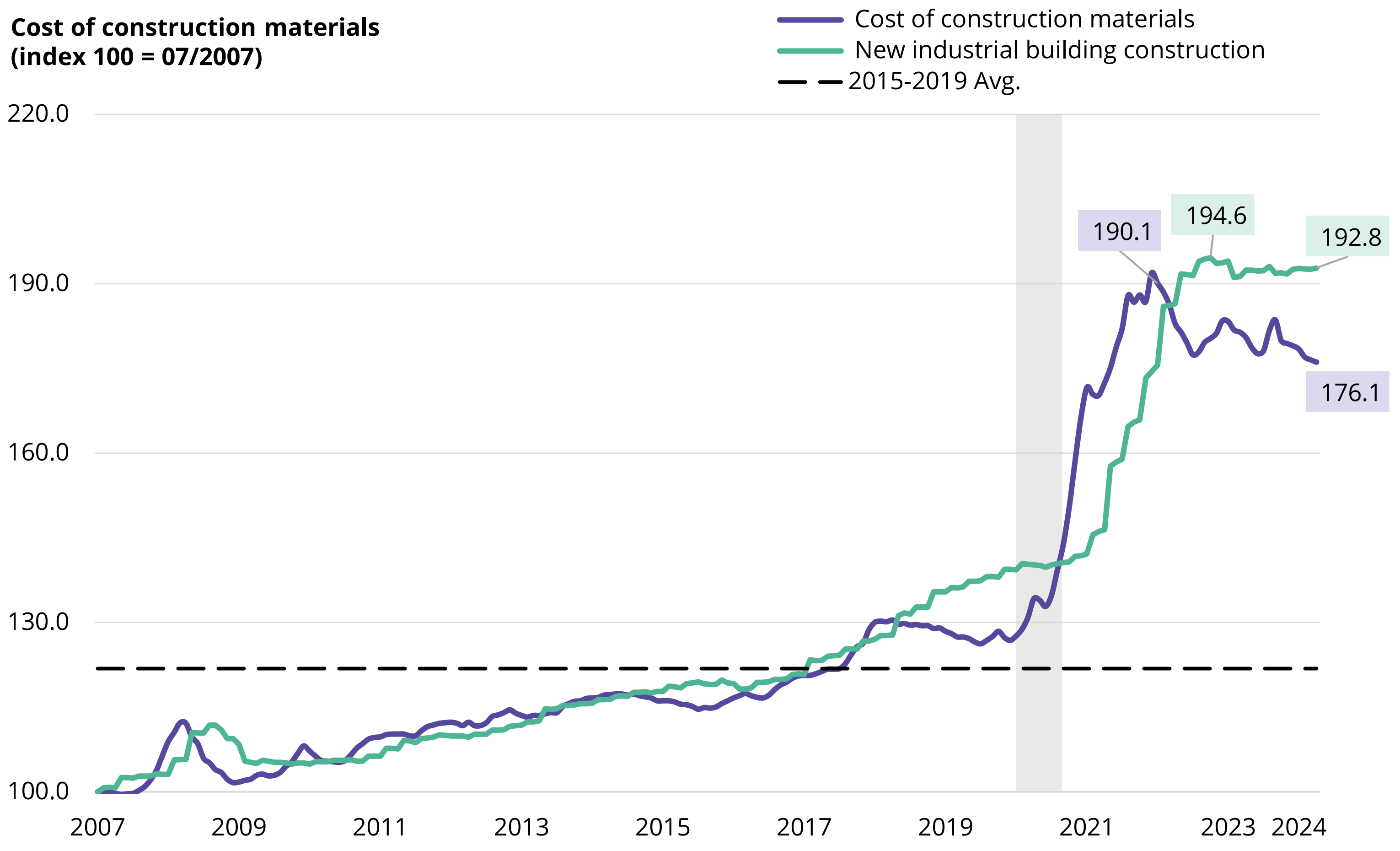
Construction costs endure at historic highs, making demising a very expensive option

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



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

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 markets with smaller space inventory in 2024.

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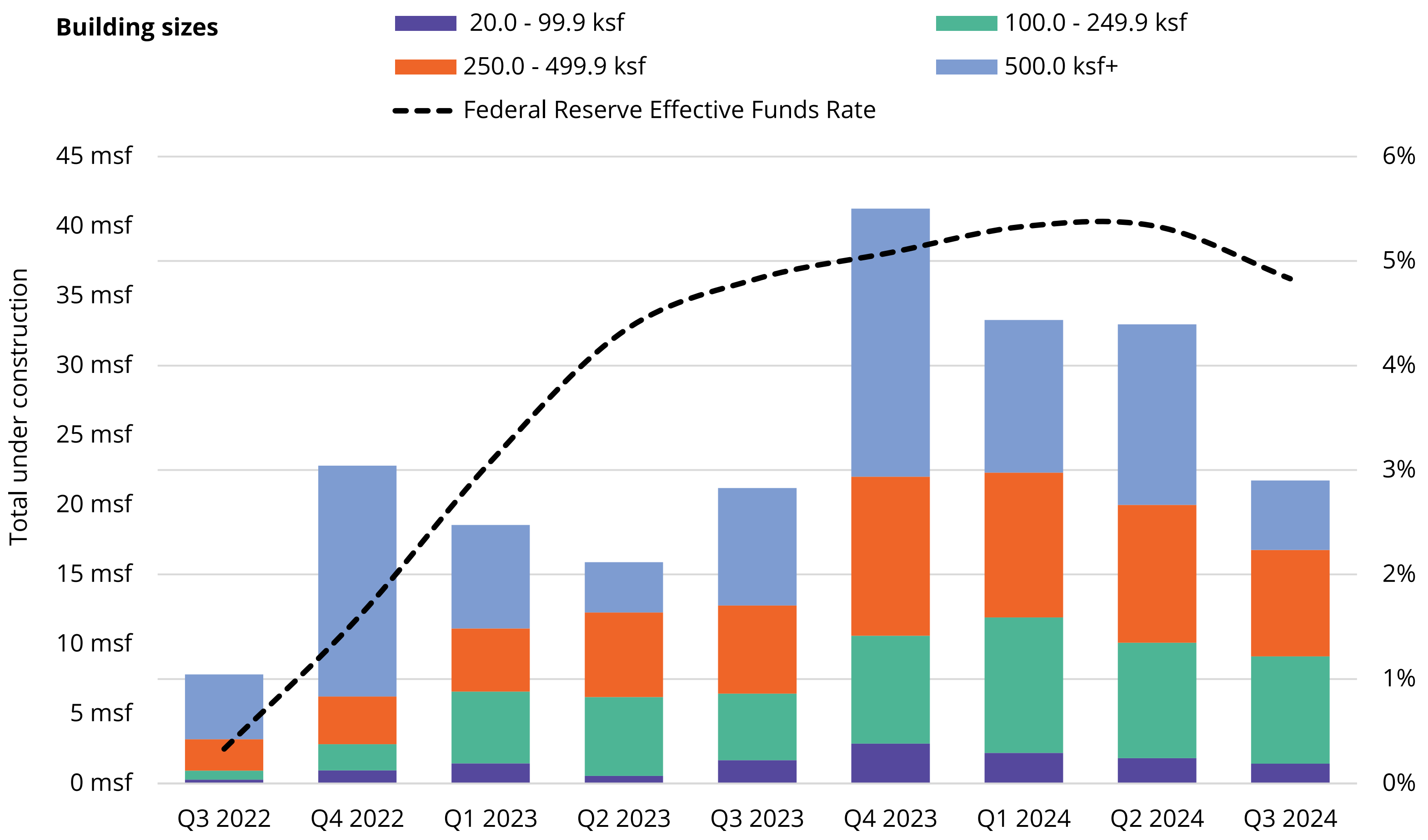
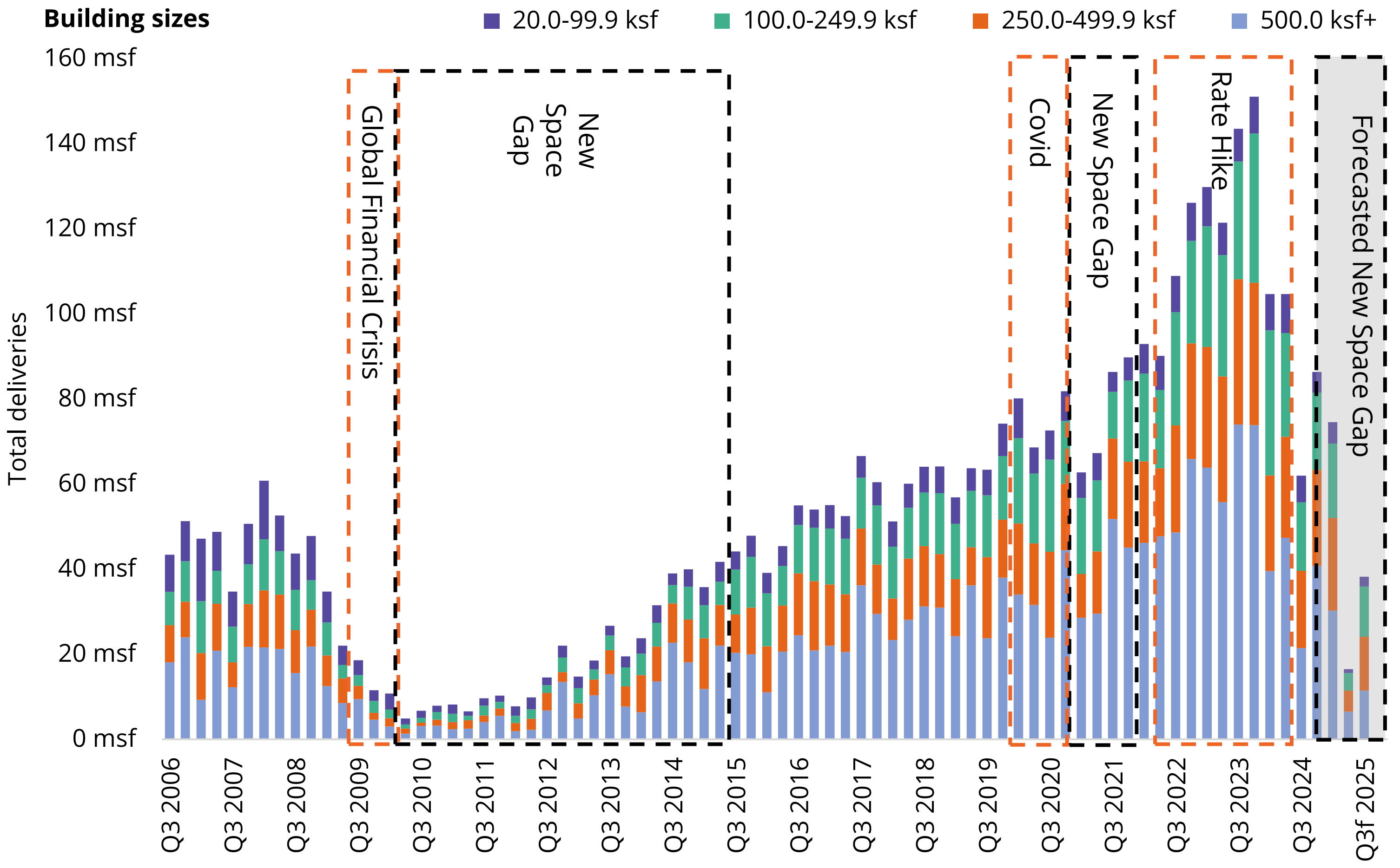
Stagnant demand and high vacancy for newly delivered facilities limits new ground-breakings



Most developers have awaited the U.S. election and further Federal Reserve guidance to begin new projects, contributing to the year-end 2024 construction pipeline being the smallest since the aftermath of the Global Financial Crisis.

Source: AVANT by Avison Young, CoStar

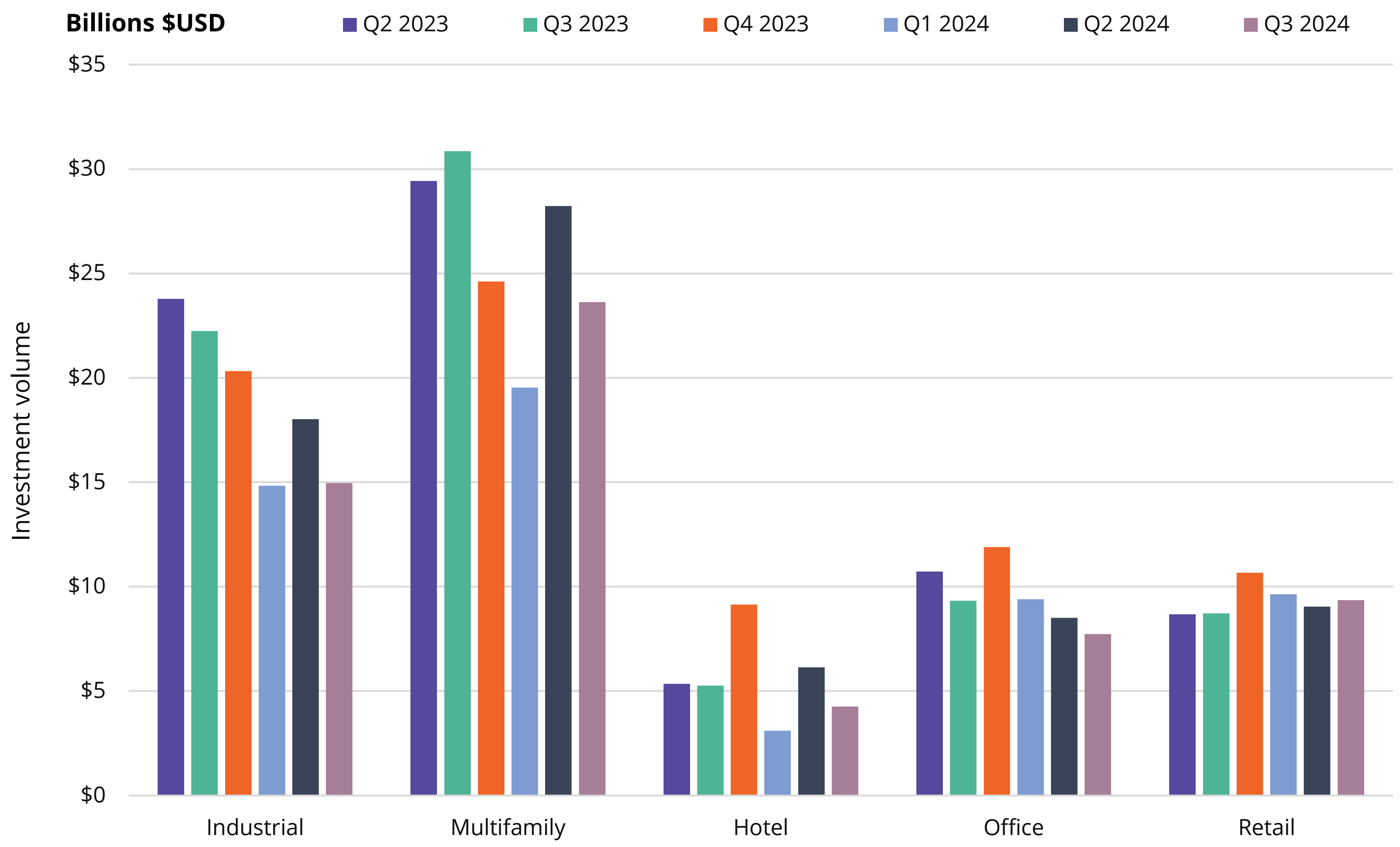
Despite rising vacancy rates for newly delivered buildings, 2025 New Space Gap limits options



2023 represented the largest number of deliveries in industrial history, 2024 showcasing the start of a drastic drop in new deliveries. The third quarter of 2024 begins a new space gap that will last for at least 15 months as ground-breakings halted for nearly seven quarters.

Source: AVANT by Avison Young, CoStar

Investment sales by property type



Through the first three quarters of 2024, multifamily investment sales—followed by industrial—continue to represent the majority of limited activity in CRE.

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 Analyticsx

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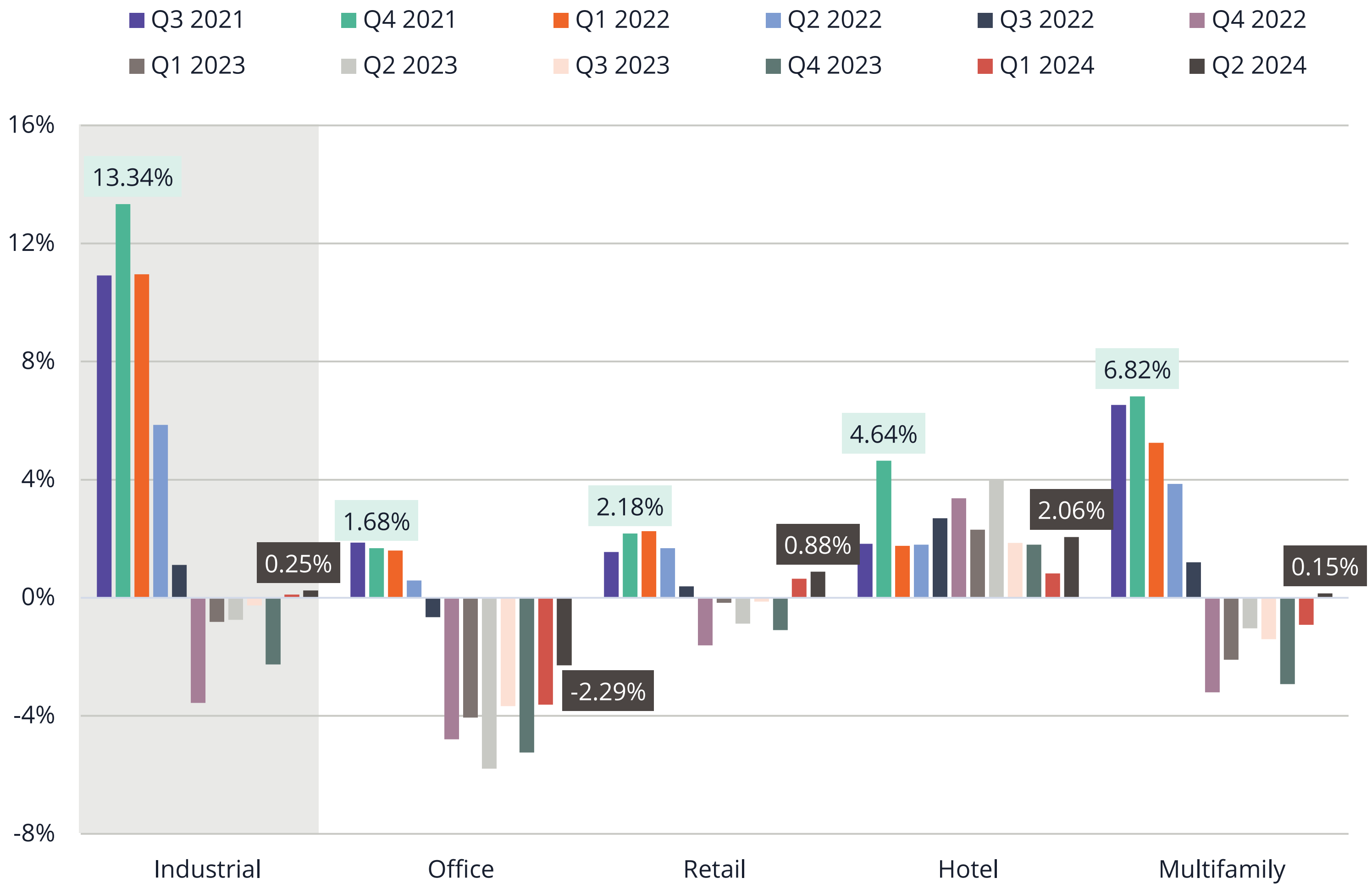
U.S. NCREIF NPI quarterly returns



Industrial investments showcased continued successful returns for two consecutive quarters. Throughout the Covid cycle, industrial has led returns for all NCREIF investment peer sectors as the asset type remains resilient in economic uncertainty.

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

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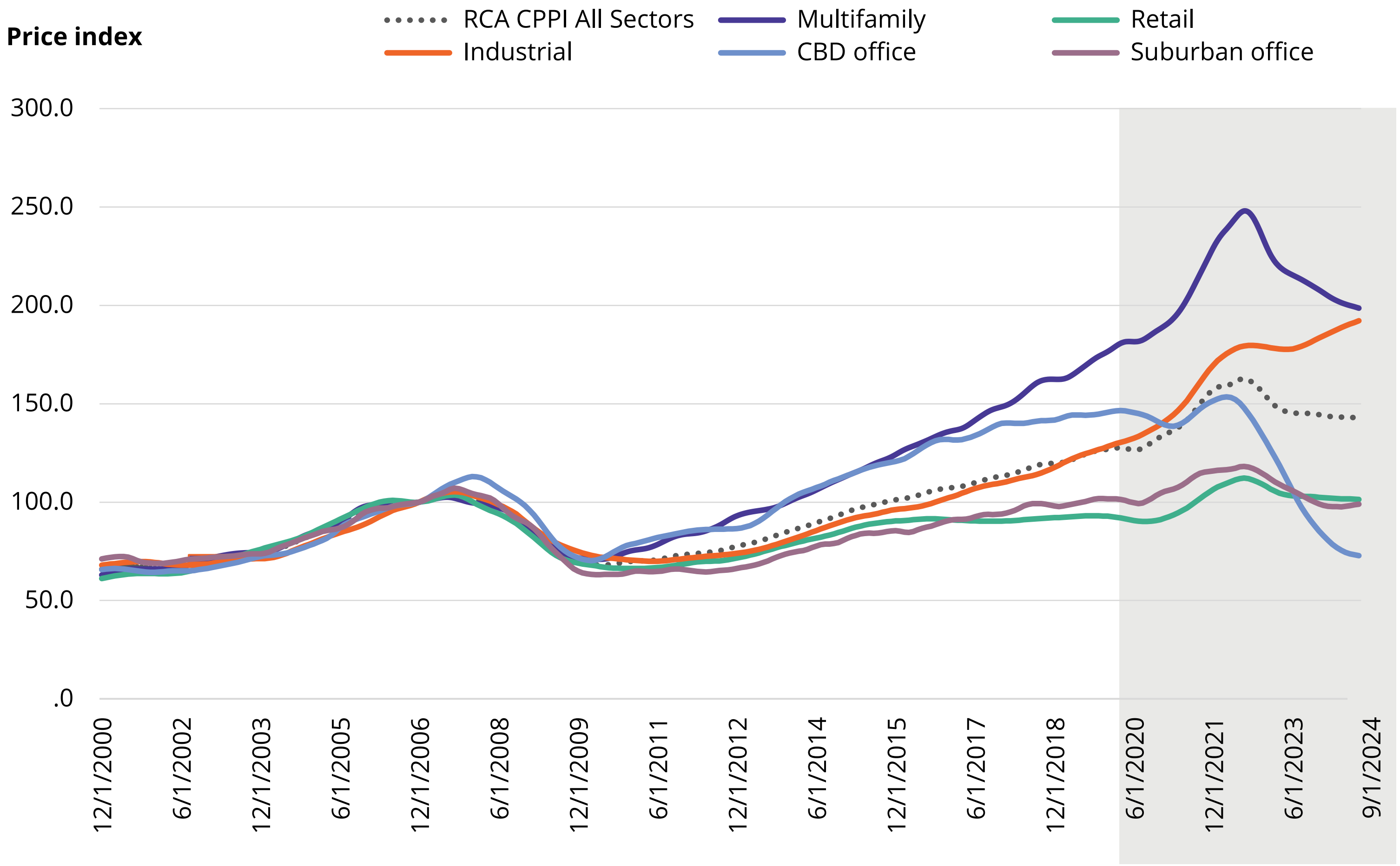
RCA commercial property price indices



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 (+13 bps 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 current high-cost of capital.

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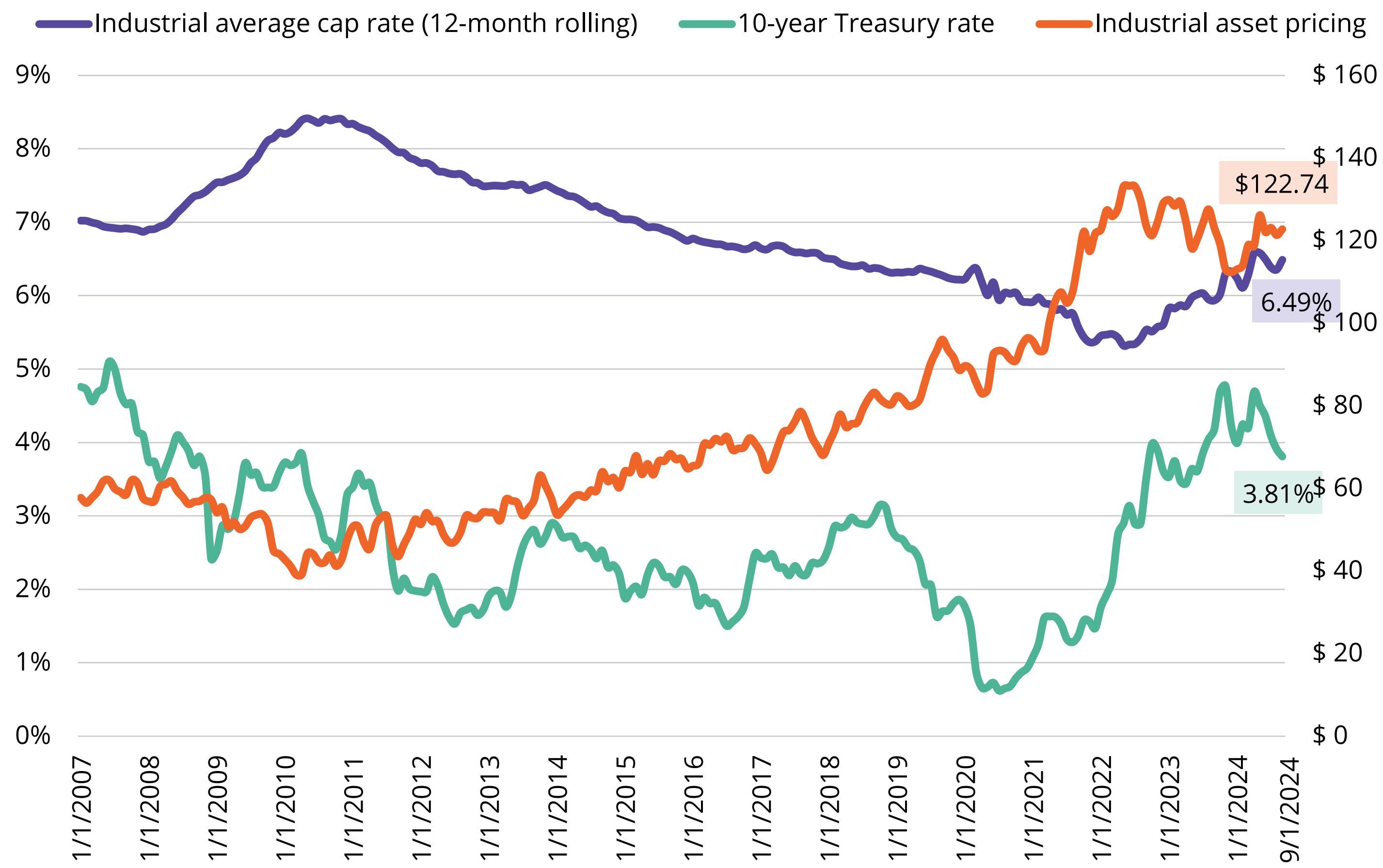
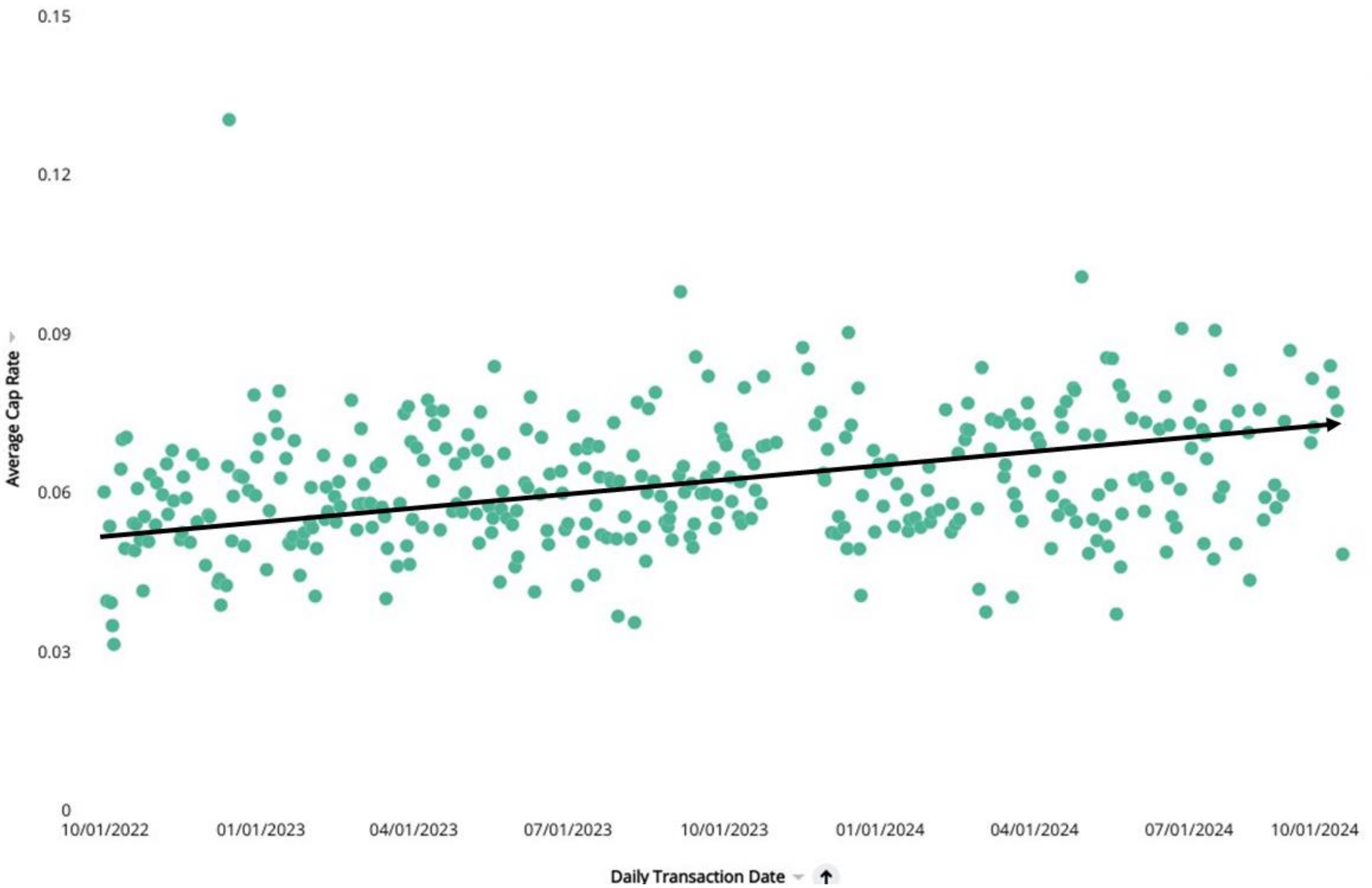
U.S. industrial cap rates vs. asset pricing



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 heading into 2025.

Industrial cap rates trending up



Despite the limited amount of transaction volume comparatively to the Covid cycle, and pre-Covid environment, industrial transactions have remained attractive to investors who have been sidelined due to the steep rise in Federal Reserve Effective Funds rate.

Source: AVANT by Avison Young, MSCI Real Capital Analytics

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

For more market insights and information visit **avisonyoung.com**

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