

Real Estate Market Report

Industrial | Q1 2024



Executive Summary

U.S. industrial market performance continues to downshift as the second half of 2024 approaches. While the national vacancy rate is not expected to rise well above its 20-year average of 7.1%, the next 6 to 12 months could prove to be the market's most challenging period over the next five years. With new supply additions likely to push vacancies in the near-term, rent growth is on pace to be the slowest since 2012.

Industrial Real Estate Statistics

National Average	Logistics	Specialized	Flex Space
6.2% Vacancy	7.0% Vacancy	3.5% Vacancy	6.9% Vacancy
\$11.94 Rent psf	\$11.15 Rent psf	\$11.46 Rent psf	\$18.38 Rent psf

0.7%
12-Month
Rent Growth

\$519M
12-Month Delivered
Construction

112M SF
12-Month Net
Absorption

\$200 PSF
Average Sales
Price per SF

Leasing Activity

Accelerating completions of new industrial developments have caused the U.S. industrial vacancy rate to rise from a record low 3.9% in mid-2022 to 6.2% as of the beginning of the second quarter of 2024.

New Builds

The stock of U.S. industrial properties is growing at the fastest pace in more than three decades. Over the past 12 months, the total stock of U.S. industrial space has grown by 2.8%, almost triple the pre-pandemic 20-year average.

Rent

U.S. industrial rent growth has decelerated from the record highs set during the pandemic and risks falling to levels below even pre-pandemic norms in the months ahead.

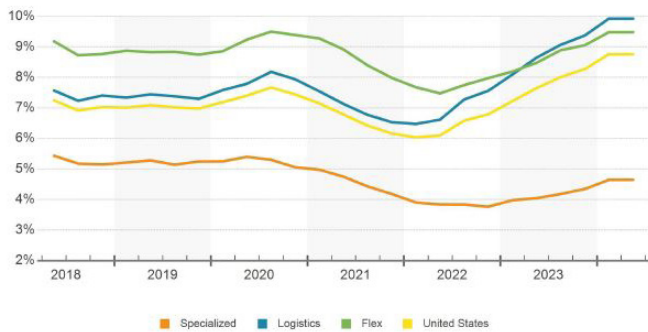
Labor & Economy

With inflation receding, the Federal Reserve expects to cut its policy rate by 75 basis points in 2024, with additional cuts coming in 2025.

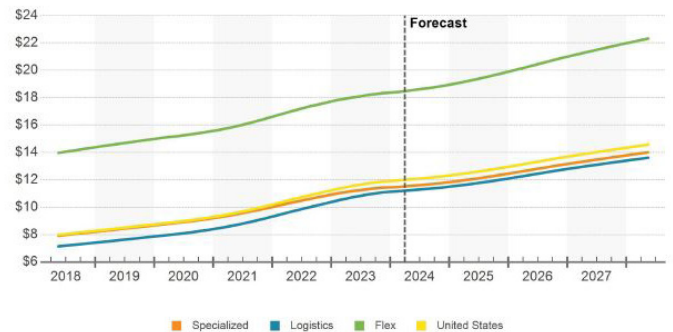
Leasing Outlook

Accelerating completions of new industrial developments have caused the U.S. industrial vacancy rate to rise from a record low 3.9% in mid-2022 to 6.2% as of quarter two of 2024. U.S. industrial net absorption has slowed to a crawl over the past six months. Not only was the fourth quarter absorption down 75% from the booming levels reached in 2021 and 2022, net absorption during the second half of 2023 was the weakest combined third and fourth quarter total recorded since 2010.

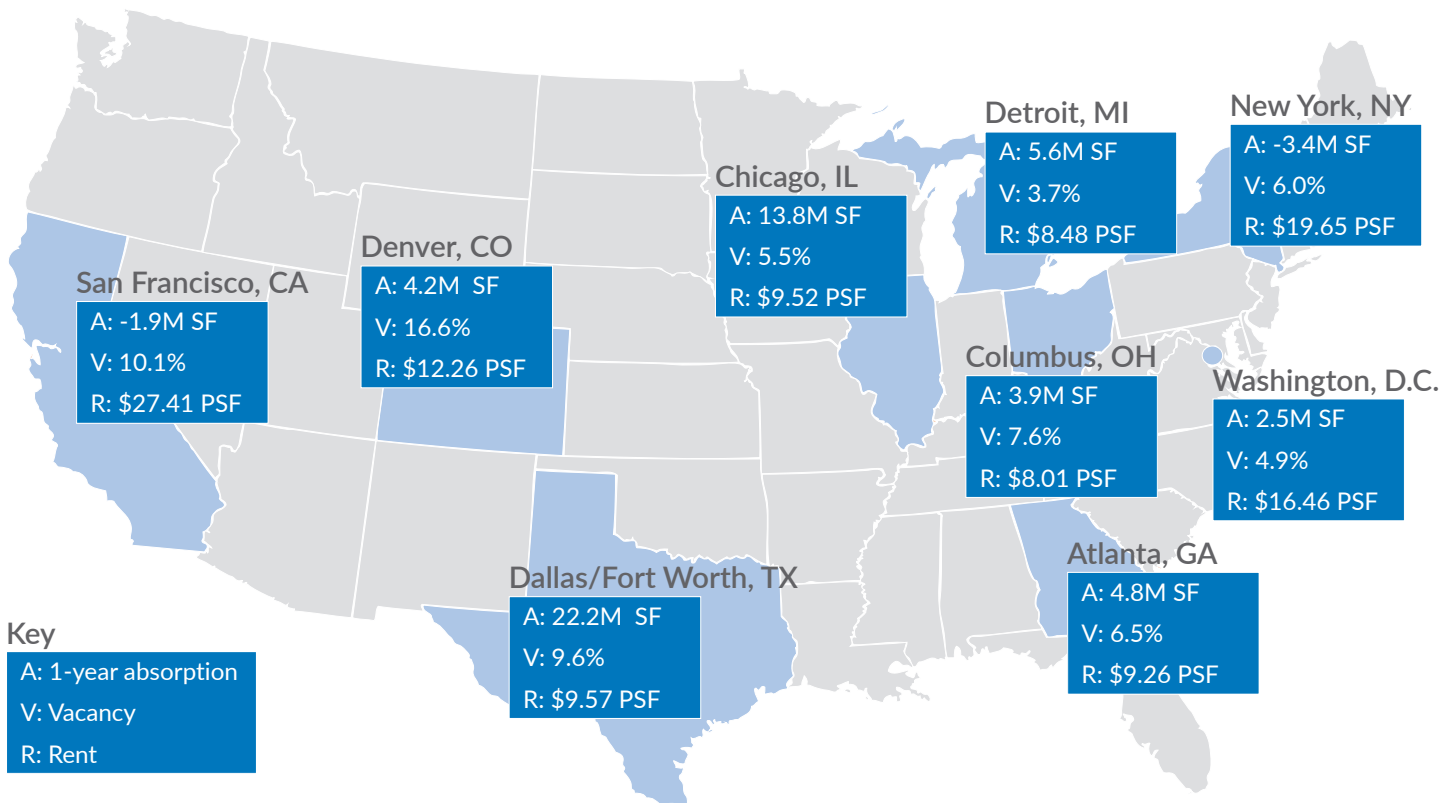
Leasing



Rent



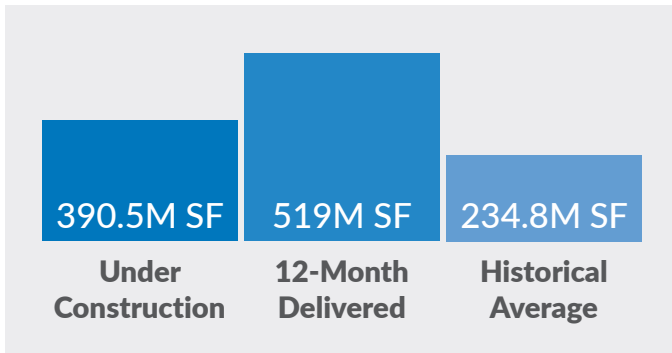
Metrics from Select Metros



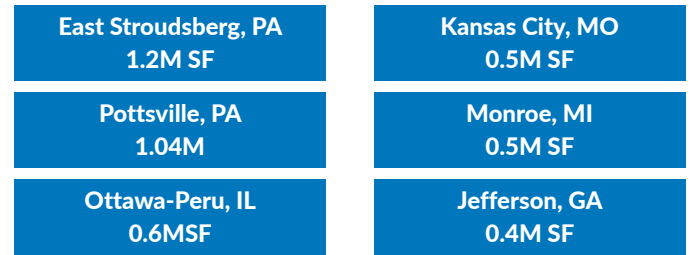
Construction & Deliveries

As an after-effect of the surge in groundbreakings for new distribution centers during the pandemic, the stock of U.S. industrial properties is now growing at the fastest pace in more than three decades. The total stock of U.S. industrial space has grown by 2.8%, almost triple the pre-pandemic 20-year average. Across the entire U.S. there is about 1.9 billion SF of industrial space listed as available for lease among existing properties and 400 million SF of unleased space currently under construction. These supply additions would only increase total square footage of existing available space, to about 2.3 billion SF.

National Metrics



Top Metros Under Construction



Construction Cost Index

+2.2% Over Year

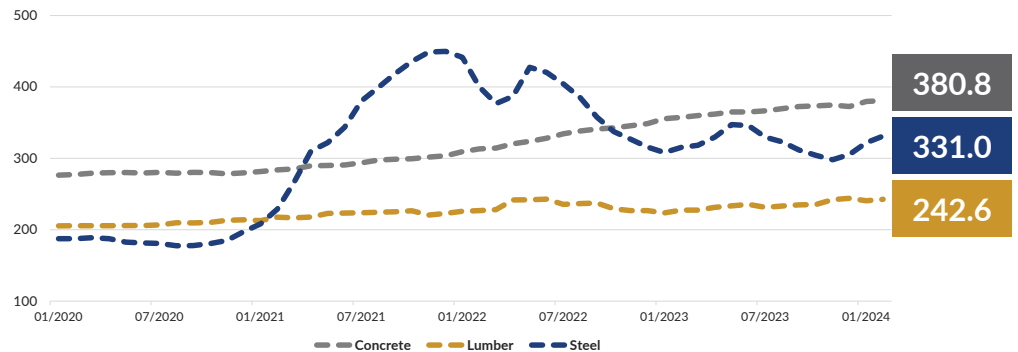
Materials Cost Index

+6.0% Over Year

Cost of Materials

Increases in the cost of construction materials and higher interest rates are leading to more expensive construction projects. As determined by the U.S. Bureau of Labor Statistics, the Producer Price Index (PPI) for concrete, lumber, and steel has increased by 35.3%, 19.0%, and 65.1%, respectively, since January 2020. Steel saw the most fluctuation since that time, hitting a high of 449.7 in December 2021. The PPI for concrete and lumber are up 7.3% to 7.8%, respectively, over last year, while steel has seen a modest 2.0% decrease. Since last month, concrete is down 0.1%, lumber is up 1.2%, and steel is up 3.3%.

Producer Price Index



Economy

Despite widespread predictions, the U.S. economy avoided a recession in 2023. While most observers expect the economy to slow in 2024, few expect a contraction this year, as labor market conditions, household incomes, and business margins have all shown relative health. With the Federal Reserve adding 5.25 percentage points to its overnight lending rate over the past two years, most market observers had forecast a recession to begin by mid-2023. However, economic growth continued in the second half of 2023, reaching 3.2% in the fourth quarter. With inflation receding, the Federal Reserve expects to cut its policy rate by 75 basis points in 2024, with additional cuts coming in 2025.

National Labor Statistics

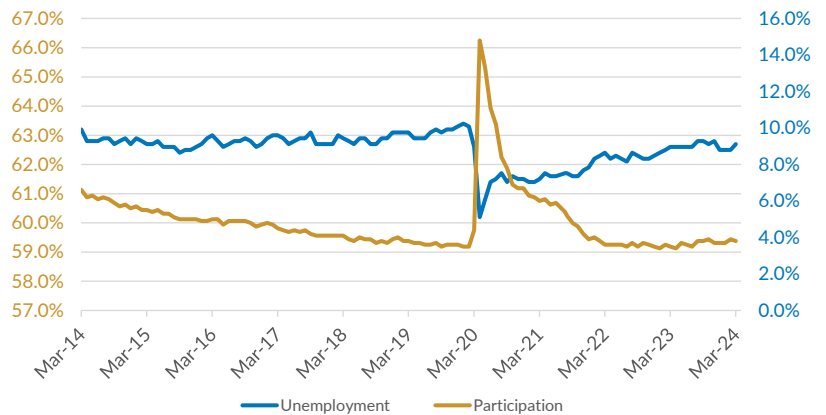
+3.8% Unemployment

+62.7% Participation

+8.7M Job Openings

+5.3% Rate of Job Openings

Labor Statistics, 2014-2024



About Plante Moran Realpoint

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