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Real Estate Market Report

Industrial | Q4 2024

Executive Summary

The U.S. industrial real estate market has faced 10 straight quarters of rising vacancy rates, impacted by retailers leaving large distribution centers combined with new construction rates well above historic levels. Overall, rents continue to rise at a slower pace; however, each segment is unique. Larger warehousing space is abundant and is being built at 2.5 times more square feet than flex and specialized manufacturing buildings. Manufacturers with smaller space requirements will find it challenging to find space since vacancy is low and likely to remain so for smaller square footages.

Industrial Real Estate Statistics

	National Average	*Logistics*	*Specialized*	*Flex Space*
Vacancy	6.9%	7.8%	3.8%	7.5%
Rent per SF	$12.04	$11.15	$11.75	$18.75

2.1% 12-Month Rent Growth

$359M 12-Month Delivered Construction

91.9M SF 12-Month Net Absorption

$128 PSF Average Sales Price per SF

Leasing Activity

The recovery in industrial tenant demand that began in mid-2024 has slowed, with weaker net absorption in the fourth quarter and a 6.9% vacancy rate. A significant demand increase is unlikely in early 2025 due to potential port strikes and tariff uncertainties.

New Builds

The U.S. industrial market is approaching the end of a record-making development phase. Quarterly net supply additions are projected to fall below the pre-pandemic three-year average in early 2025. This fall is expected to continue through 2026, when supply growth is set to hit an 11-year low.

Rent

U.S. industrial rent growth has slowed from the record highs seen during the pandemic, reaching 2.1%, a rate far below the pre-pandemic five-year average. To secure large leases, property owners are increasingly offering concessions.

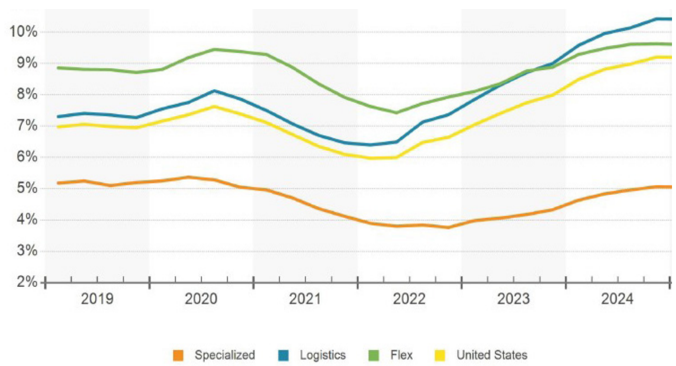
Labor & Economy

The U.S. economy is growing faster than other advanced economies, with 3.1% growth in the third quarter. Strong consumer spending and business investment have driven this. The economy is expected to slow in early 2025 due to higher import prices, before potentially accelerating again in 2026.

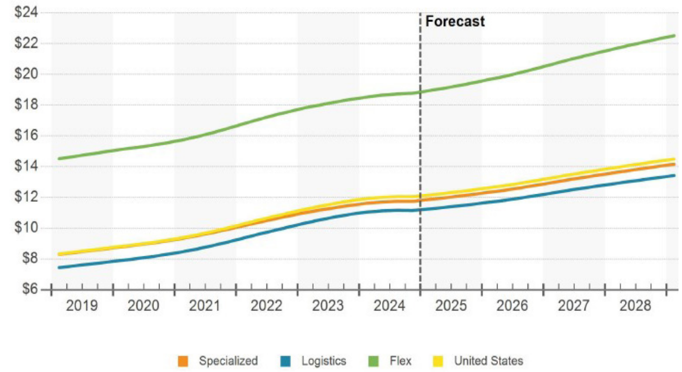
Leasing Outlook

The U.S. industrial tenant demand recovery that began in mid-2024 has lost momentum, with weaker fourth quarter net absorption and a national vacancy rate of 6.9%. Distribution center closures have impacted retailers and manufacturers. Despite some positive indicators, a dramatic increase in demand for industrial space is unlikely in early 2025 due to potential port strikes and tariff uncertainties.

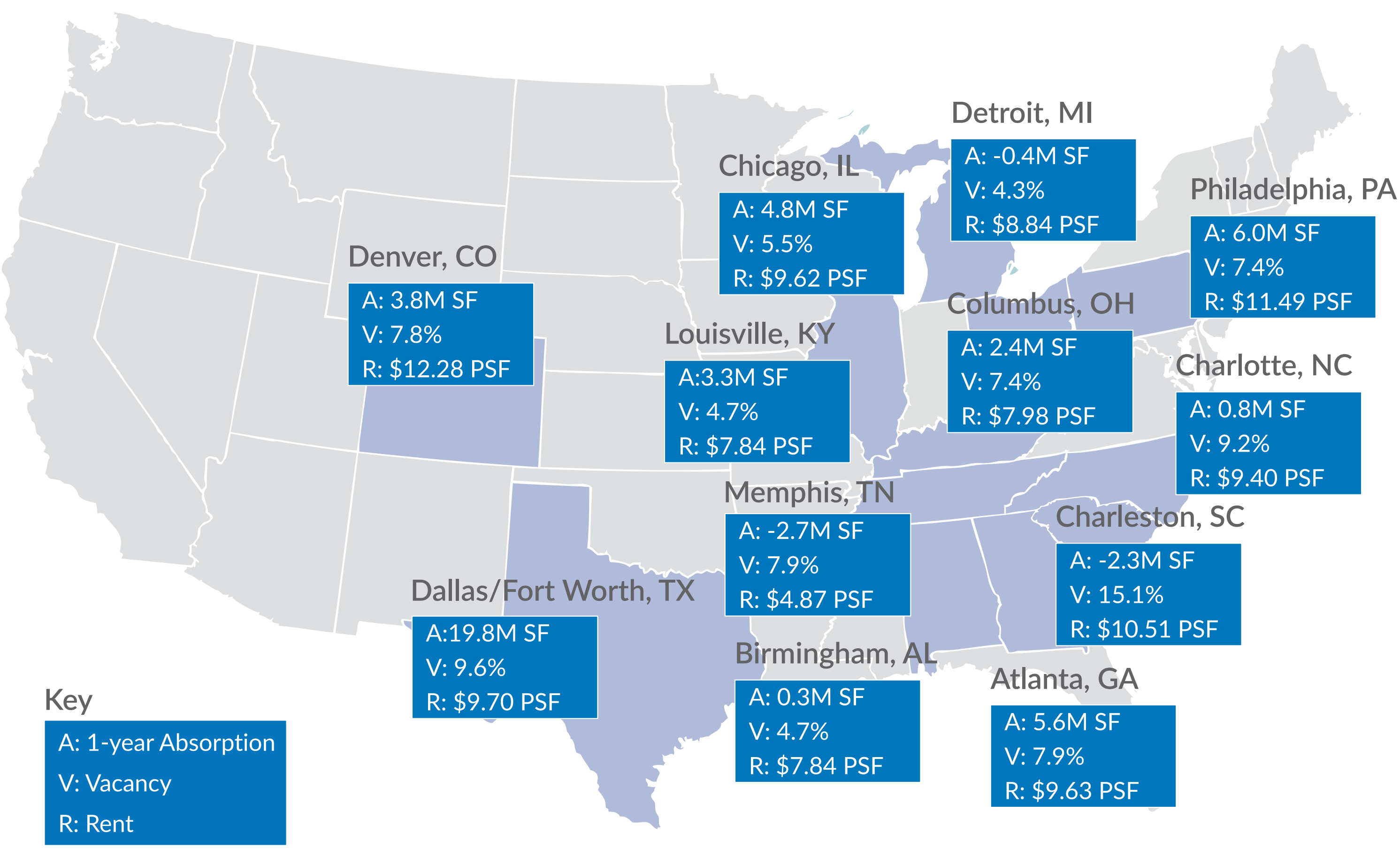
Vacancy



Lease Rates



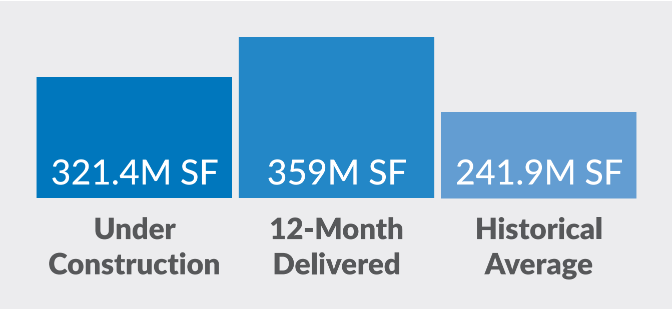
Metrics from Select Metros



Construction & Deliveries

The U.S. industrial market is nearing the end of a record development wave. Net supply additions are set to fall below pre-pandemic averages by mid-2025 and hit an 11-year low by 2026. Construction starts peaked in mid-2022 and have steadily declined due to higher interest rates and slowing absorption. Some markets, like Phoenix, face prolonged high vacancy rates due to speculative development. This trend suggests that while new deliveries have peaked, the market will experience a significant slowdown in new supply, impacting overall industrial space availability.

National Metrics



Top Metros Under Construction

Dallas Fort-Worth, TX 22.8M SF	Chicago, IL 18.4M SF
Phoenix, AZ 21.4M SF	Atlanta, GA 17.7M SF
Austin, TX 18.9M SF	Philadelphia, PA 16.0M SF

Construction Cost Index

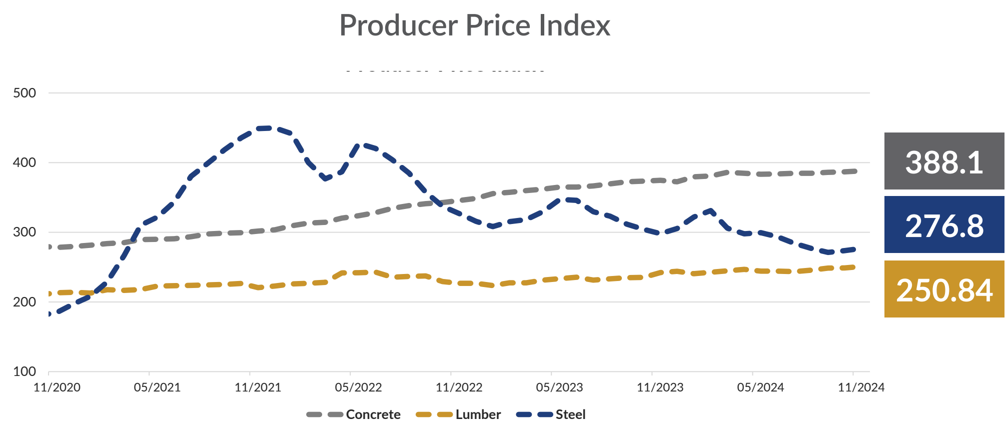
+0.9% Over Year

Materials Cost Index

+1.8% 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 39.5%, 15.8%, and 53.2%, respectively, since January 2020. Steel saw the most fluctuation since that time, hitting a high of 445.3 in December 2021.



The PPI for concrete is up 3.9%, while lumber increased 2.1% over last year, and steel has seen a 9.8% decrease. Since last month, concrete has decreased 0.2%, lumber is up 1.7%, and steel has decreased 0.4%

Economy

The U.S. economy is growing faster than other advanced economies, driven by consumer spending and business investment. Growth may slow in early 2025 due to higher import prices and potential tariff increases, but tax cuts could boost growth in 2026. The labor market is strong, though inflation and higher interest rates pose challenges. Economic activity and job growth are expected to slow gently in 2025, with a potential re-acceleration in the next two years.

National Labor Statistics

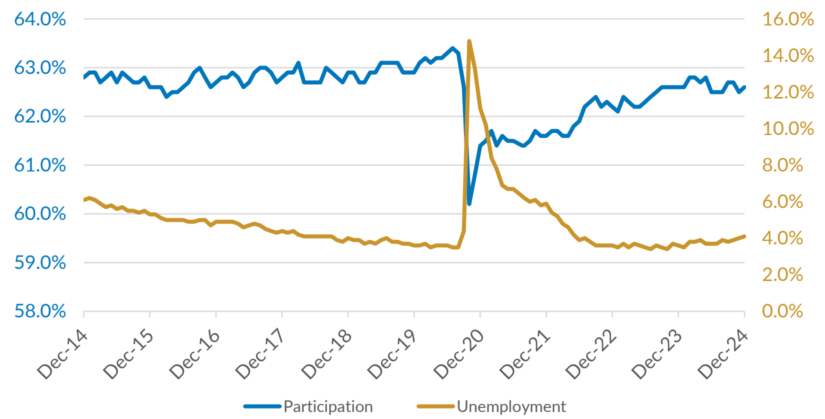
+4.2% Unemployment

+62.5% Participation

+8M Job Openings

+4.8% Rate of Job Openings

Labor Statistics, 2014–2024



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About Plante Moran Realpoint

Plante Moran Realpoint offers unbiased advocacy for companies looking to lease, buy, build, invest, or develop a real estate strategy that will align their company goals and real estate. Learn more at **pmrealpoint.com/industrial**.

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To learn more about your real estate market or to discuss your company's real estate needs, contact us today.

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