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Q4 2023 - Industrial Powered by Savills Research & Data Services

State of the U.S. Industrial Market

The current tenant-favorable dynamics, created by the recent construction boom, will be short-lived.

01 Spec Developments Lead Pipeline

Amid a record 638 million square feet of new supply in 2023, speculative developments, primarily available, lead the under-construction inventory, though market variation exists.

02 Stabilizing Rental Rates

Despite a rise in vacancy rates, which are projected to peak in 2024, average national rents remain 64% higher than in 2019.

03 Los Angeles Lags in Absorption

In 2023, Los Angeles fell behind other major markets in net absorption, highlighting its strong connection to port activities.

04 3PLs Increase Leasing in 2023

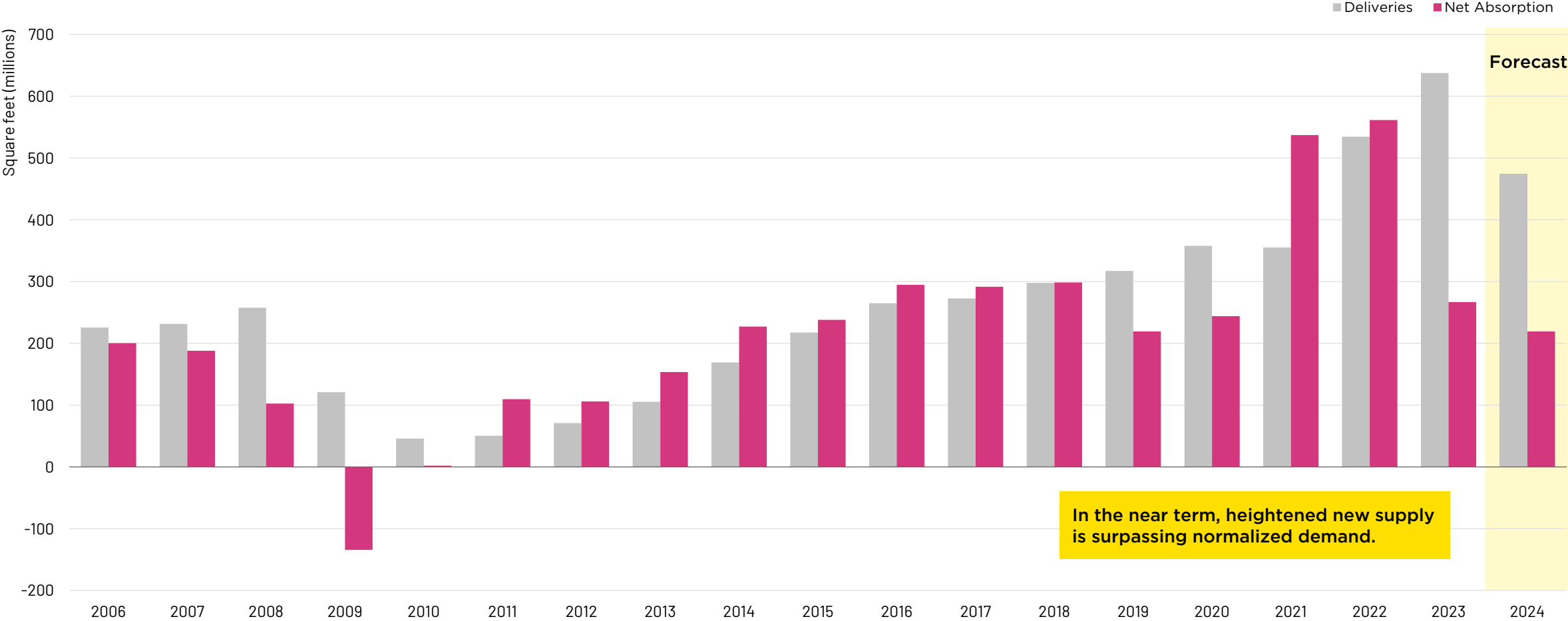
Logistics companies significantly increased their share of leasing activity in 2023, in contrast to a notable scale-back by retailers and consumer goods tenants.

05 Construction Starts Dipping







A decrease in construction starts suggests the current tenant-favorable market conditions will not last long.

Record-Breaking 638 MSF Completed in 2023

Deliveries vs. Net Absorption

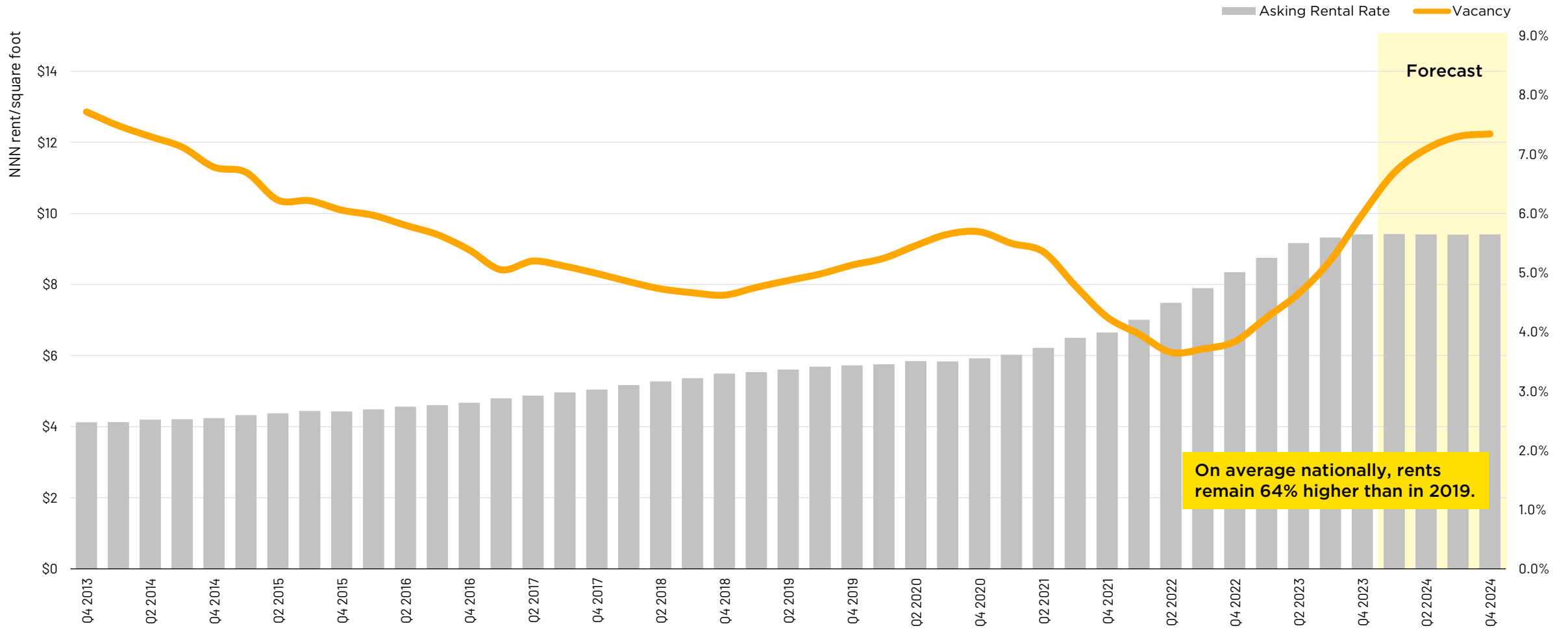


U.S. Industrial Market Key Statistics and Forecast

	CURRENT QUARTER Q4 2023	PRIOR QUARTER Q3 2023	YEAR AGO PERIOD Q4 2022	12-MONTH FORECAST
Inventory	16.3 BSF	16.1 BSF	15.5 BSF	
Vacancy Rate	6.0%	5.2%	3.8%	
Quarterly Net Absorption	50.2 MSF	57.6 MSF	127.2 MSF	
Under Construction	511.9 MSF	626.3 MSF	809.3 MSF	
Deliveries	181.4 MSF	152.9 MSF	152.6 MSF	
Asking Rental Rate	\$9.41	\$9.32	\$8.35	

Vacancy Projected to Peak in 2024 While Rents Stabilize

Vacancy vs. Asking Rental Rate

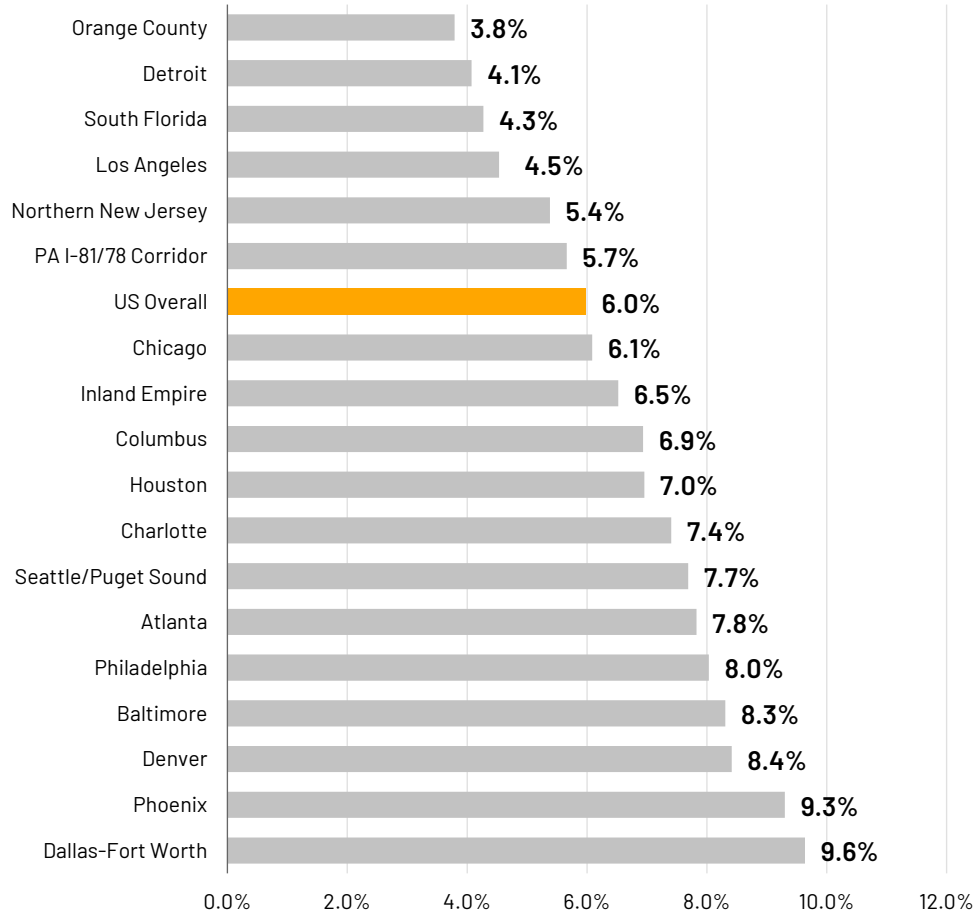


Increase in Vacancy Rates Observed Across All Regions

Major Markets

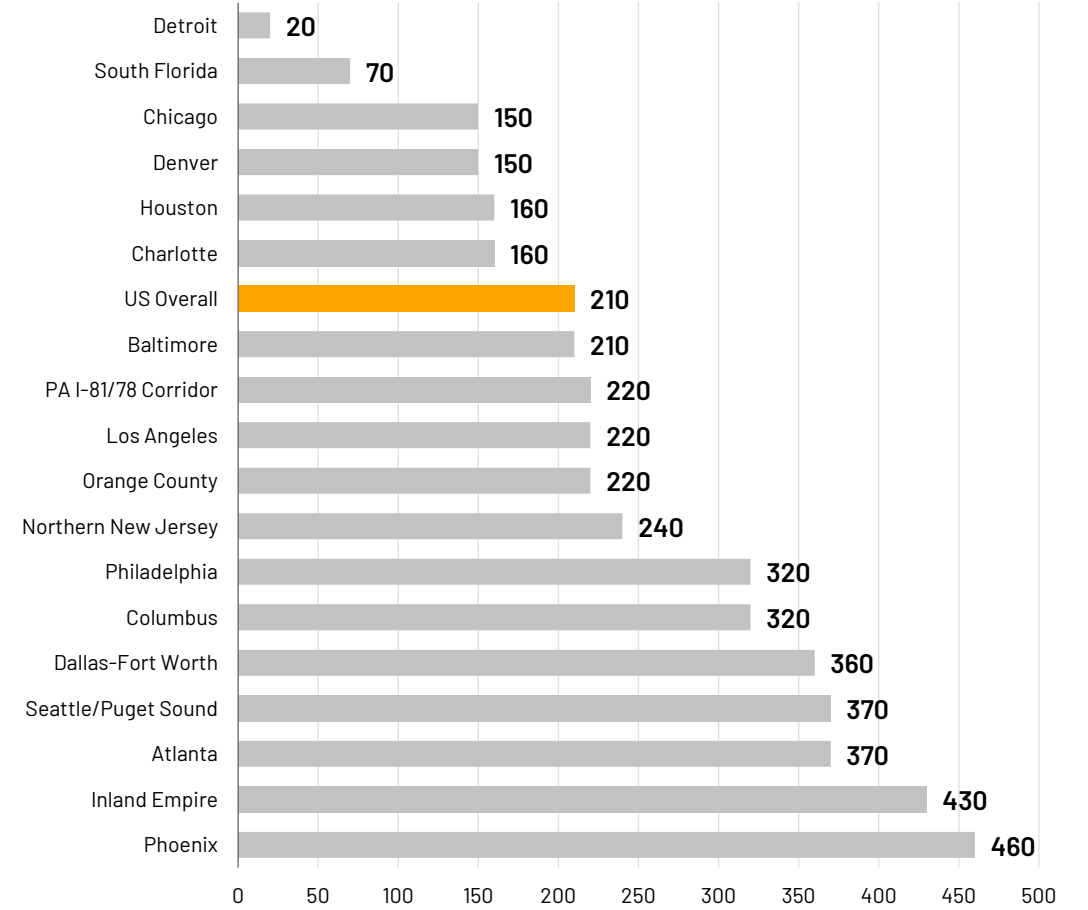
Vacancy Rate (%)

Q4 2023



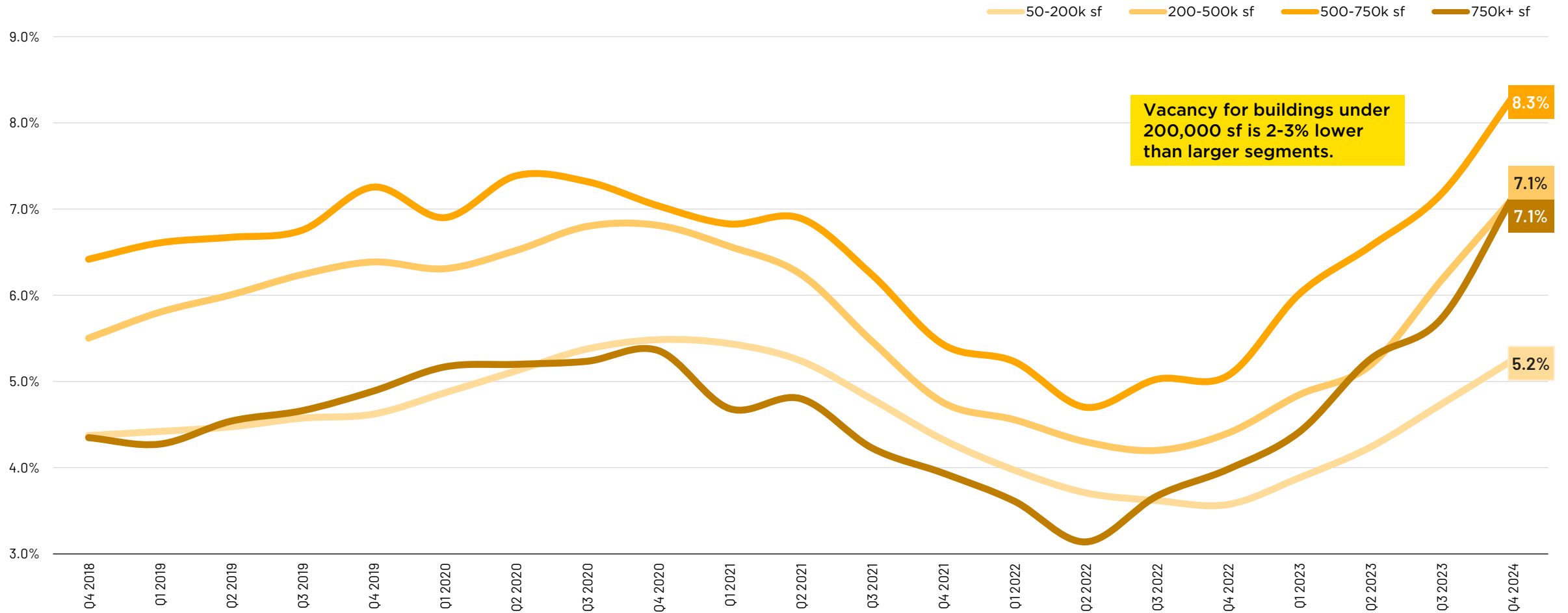
Vacancy Change (basis points)

YEAR OVER YEAR



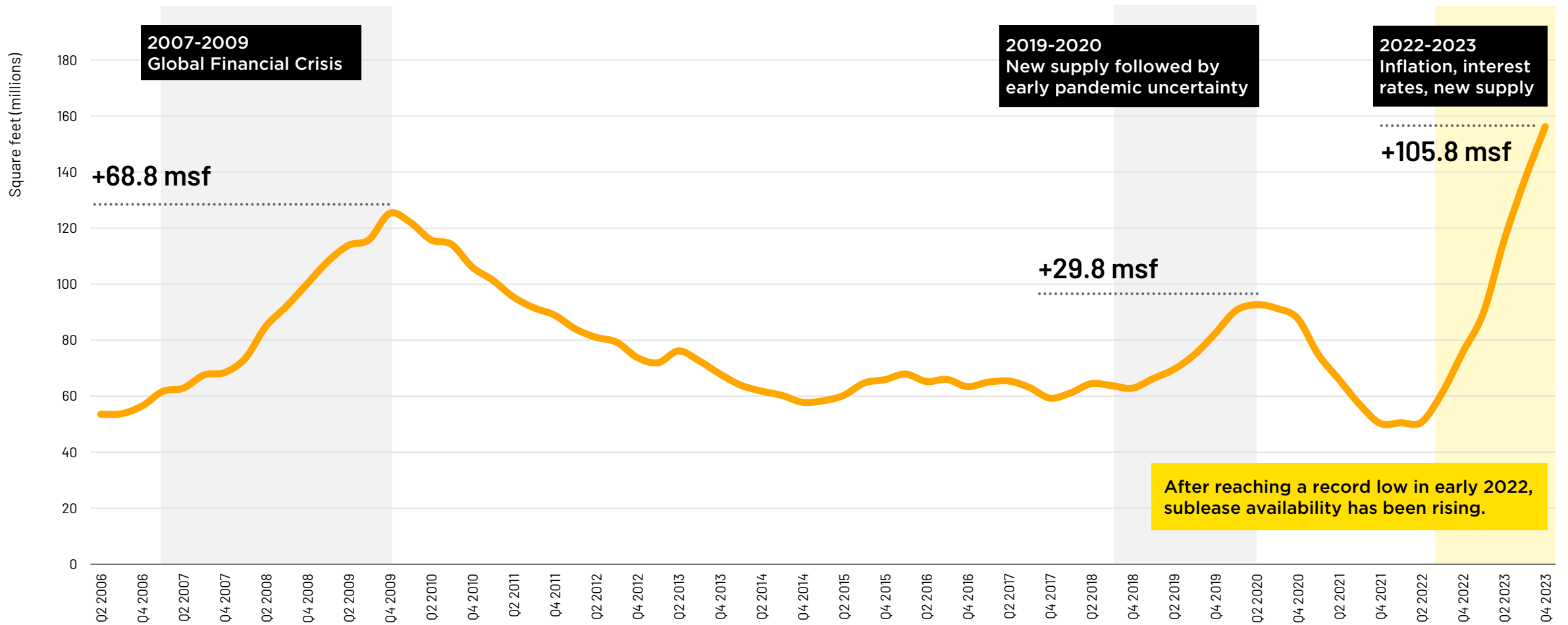
Considerably Lower Vacancy Observed in Smaller Buildings

Vacancy by Building Size Range



Rise in Sublease Options, Represents 11% of Total Availability

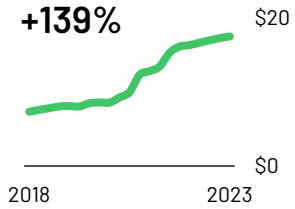
Sublease Availability



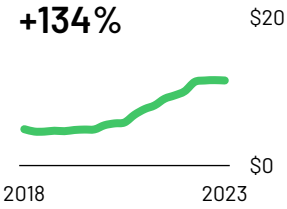
Slowing Growth, But No Return to Pre-Covid Rents Expected

Asking Rental Rate and 5-Year Rental Growth, Major Markets

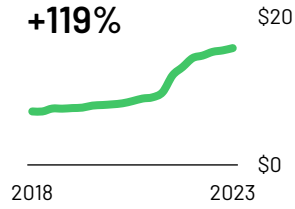
Northern New Jersey



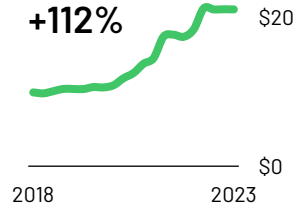
Philadelphia



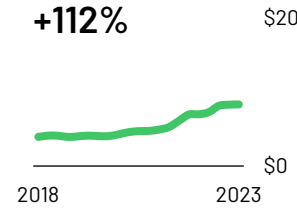
South Florida



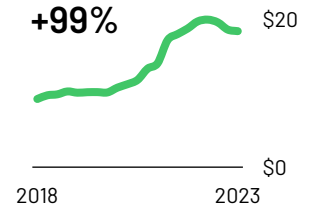
Orange County



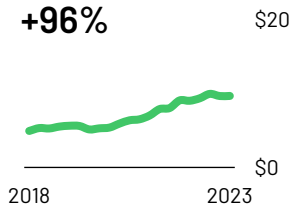
PA I-81/78 Corridor



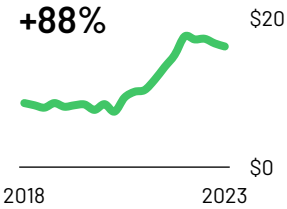
Los Angeles



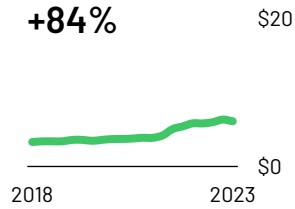
Baltimore



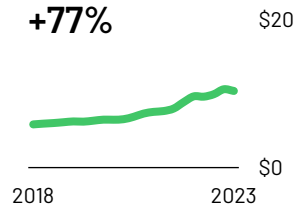
Inland Empire



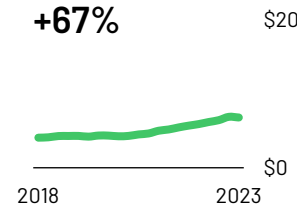
Columbus



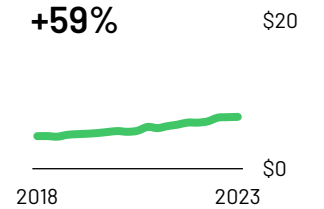
Phoenix



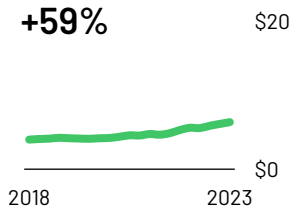
Atlanta



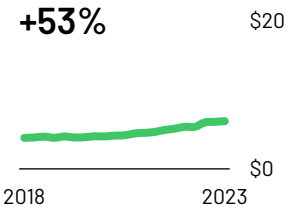
Dallas-Fort Worth



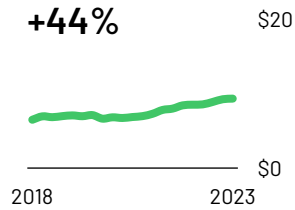
Charlotte



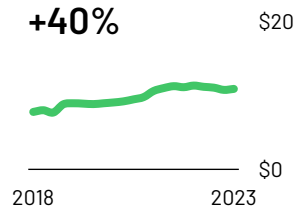
Chicago



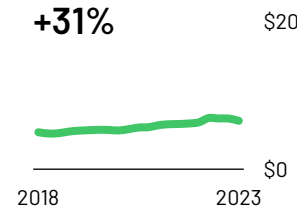
Denver



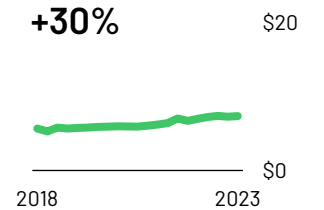
Seattle/Puget Sound



Detroit

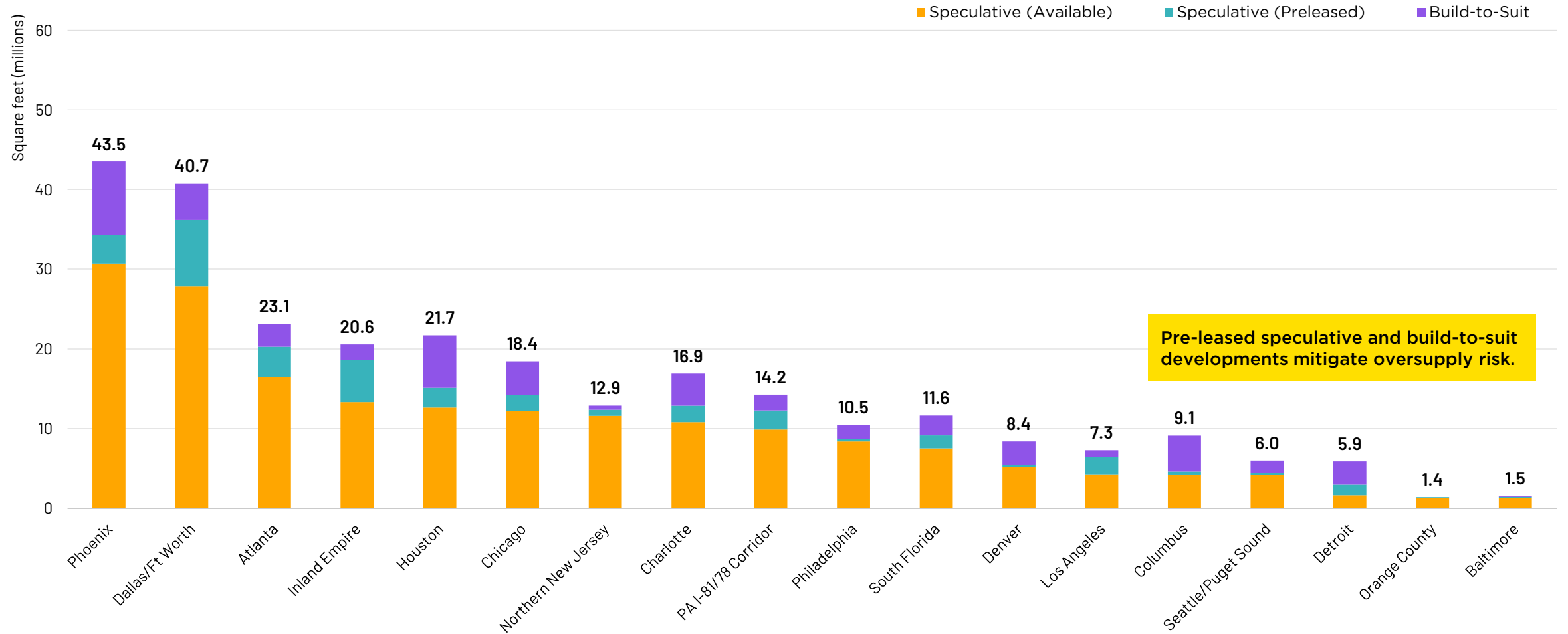


Houston



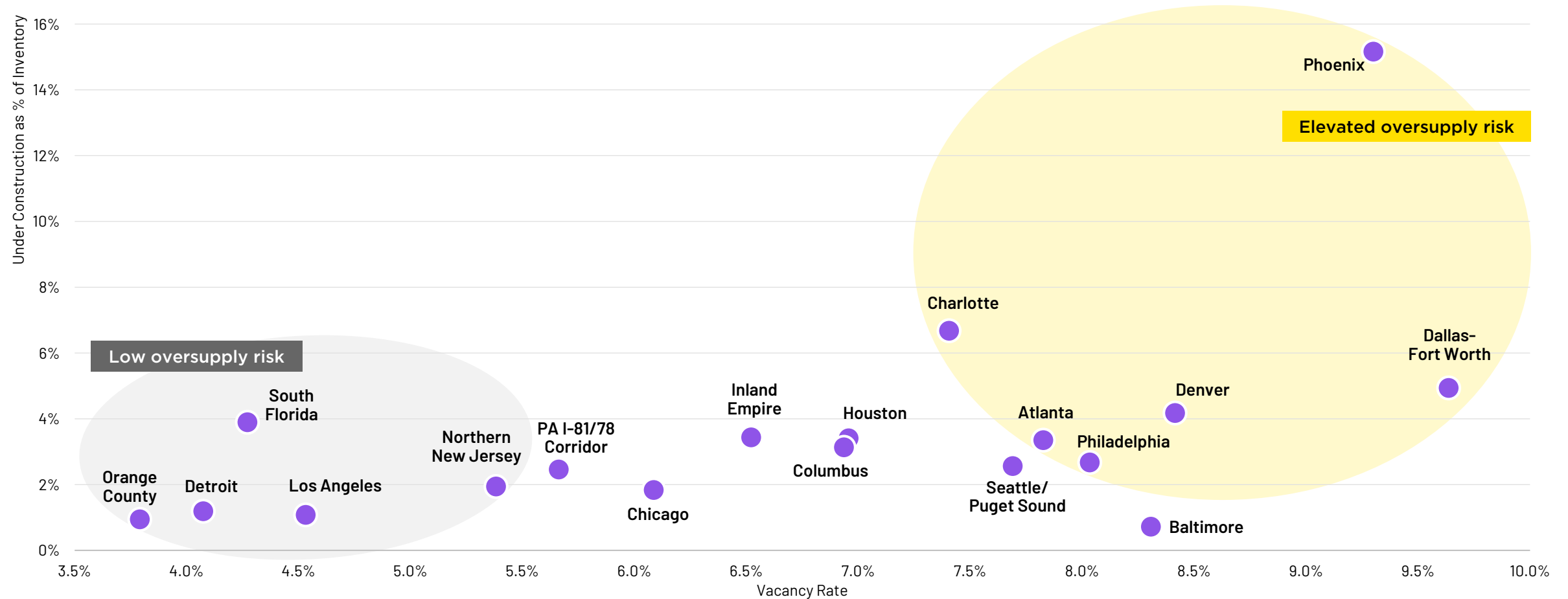
Spec Developments Predominate in 512 MSF Pipeline

Under Construction Inventory By Development Type, Major Markets



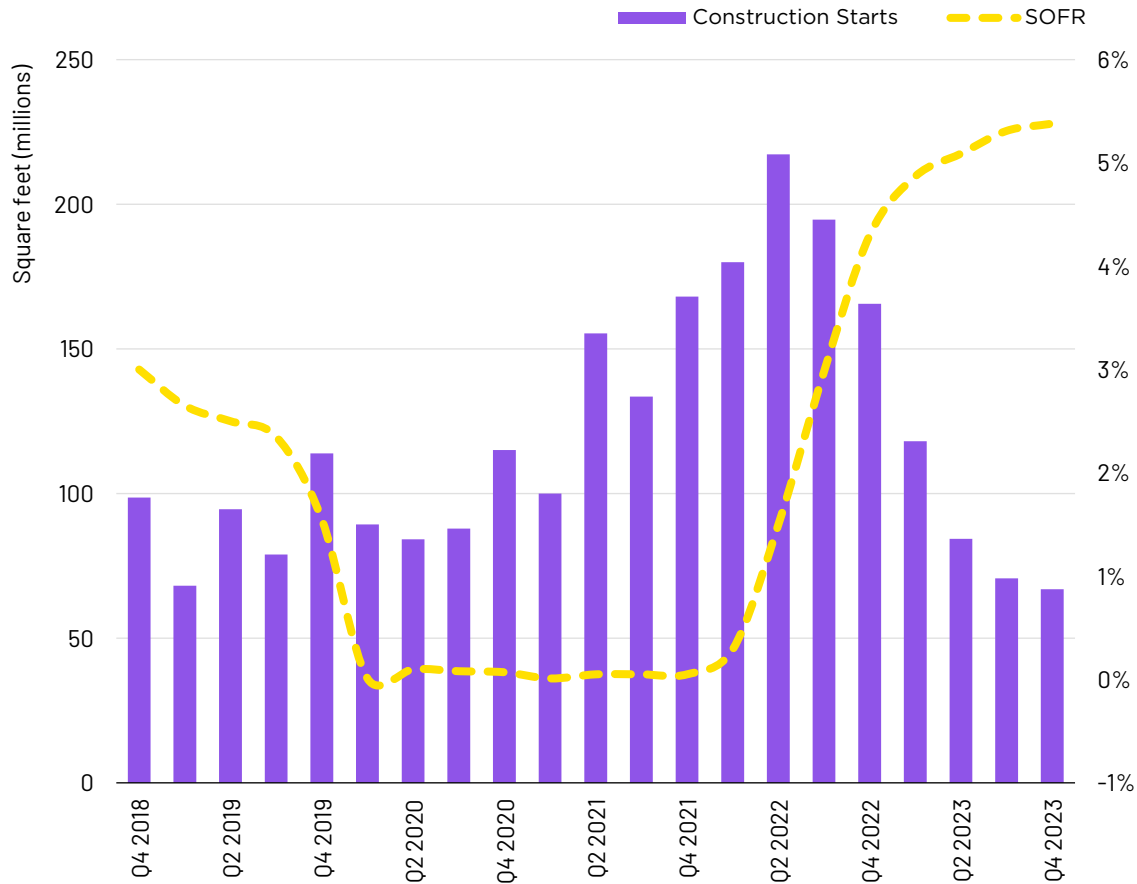
Sun Belt Markets to See Further Softening Due to Vacancy and Construction Levels

Under Construction % of Inventory vs. Vacancy Rate, Major Markets

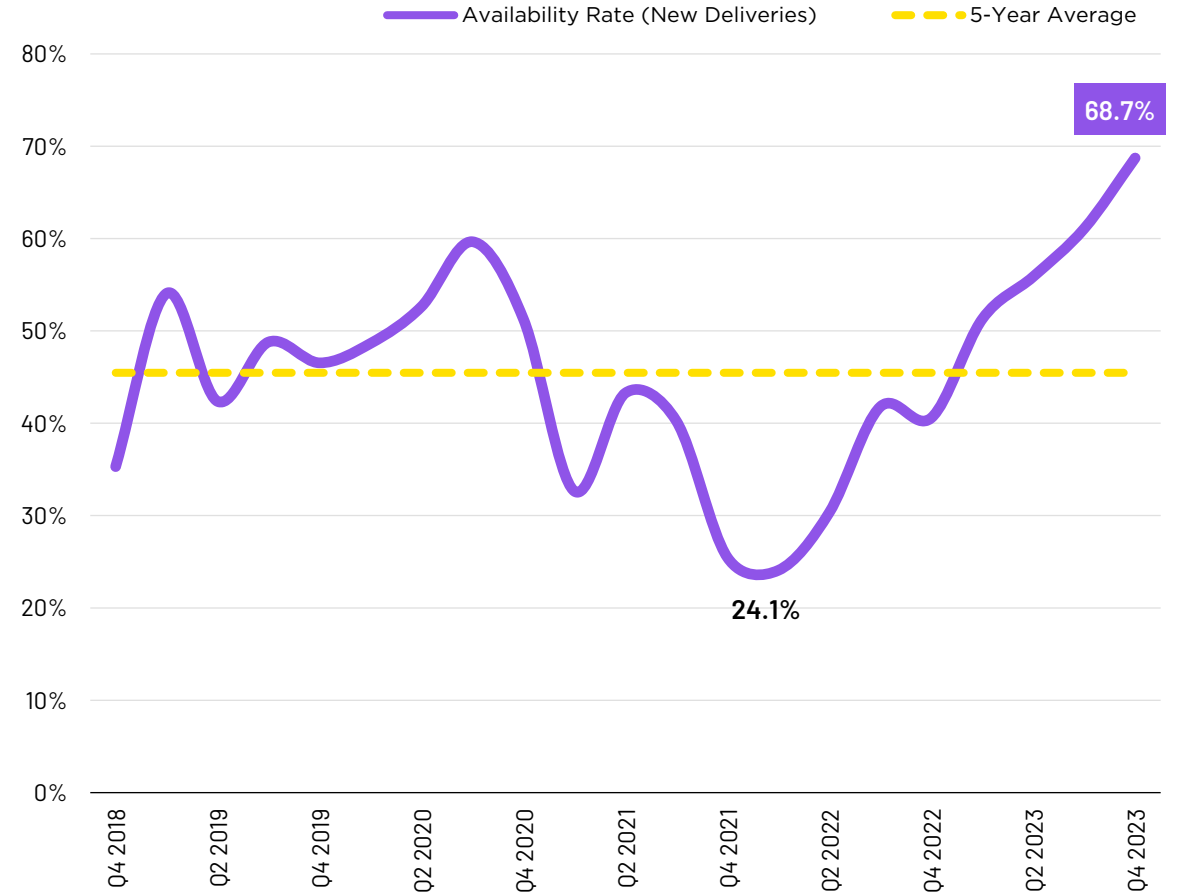


Starts Dip, Suggesting Tenant-Favorable Market Won't Last

Construction Starts vs. Secured Overnight Financing Rate (SOFR)

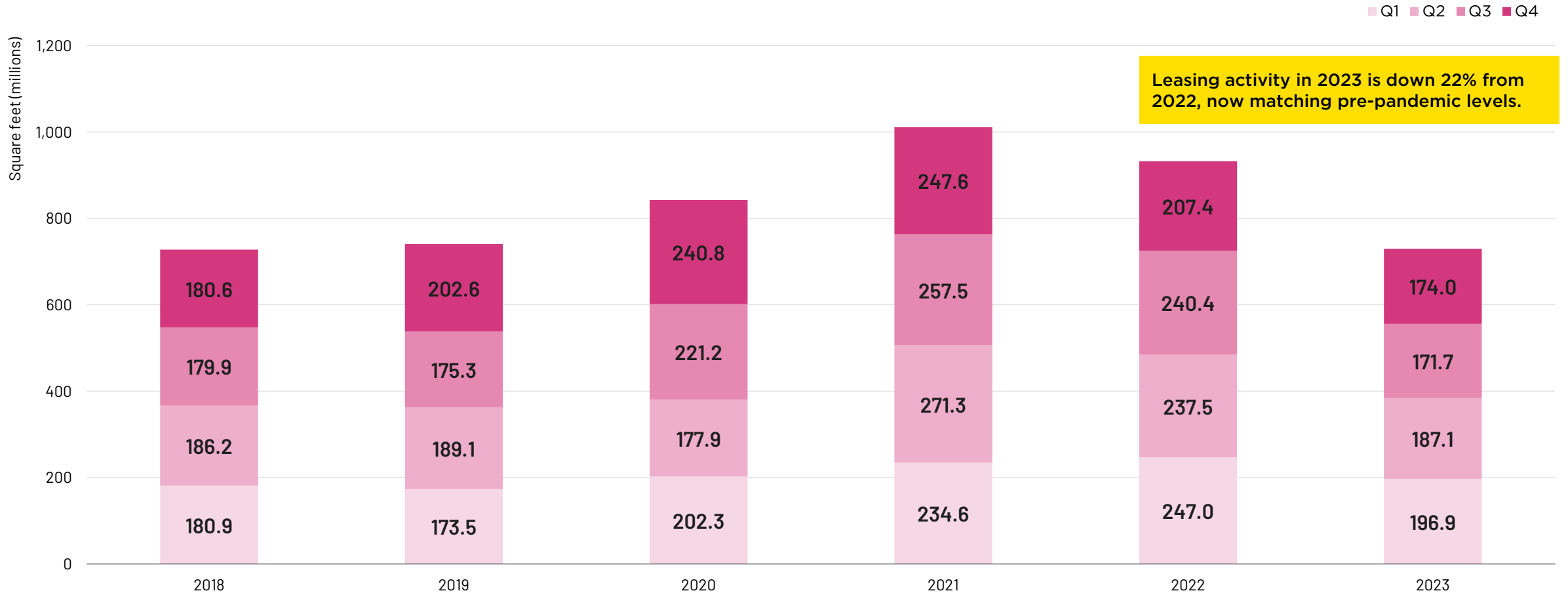


Availability Rate for New Quarterly Deliveries



Leasing Activity Normalizes to 2019 Levels

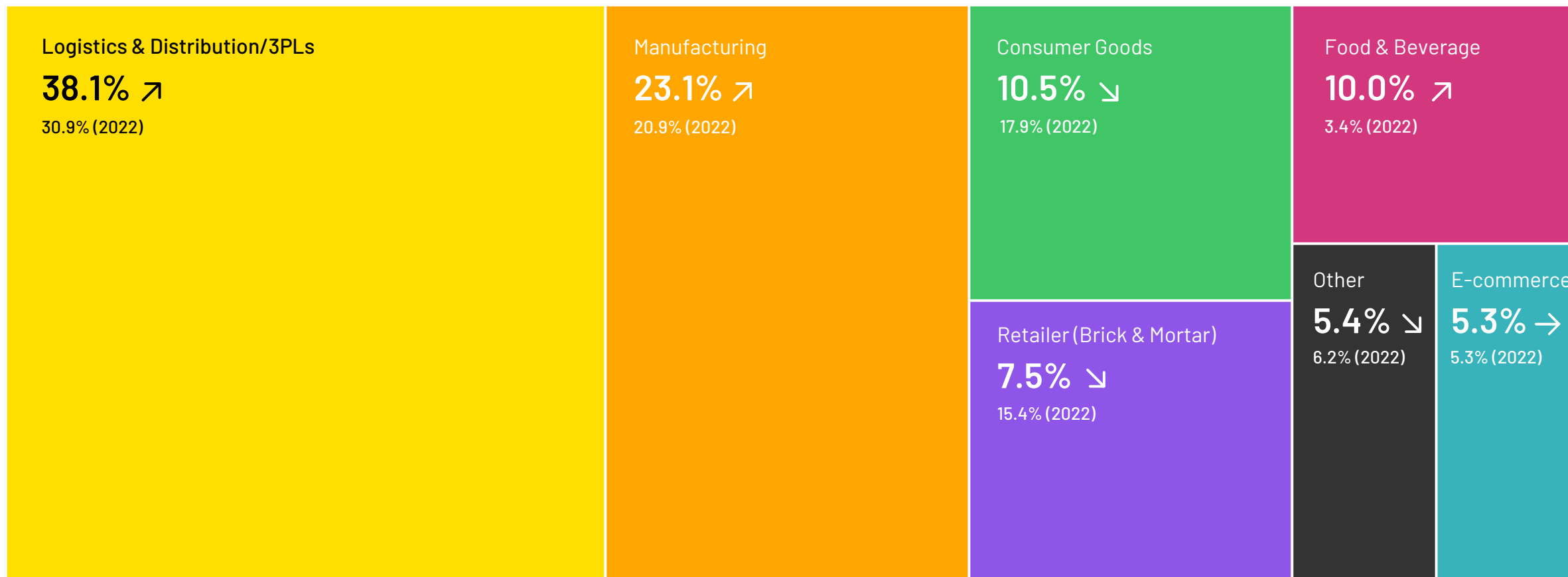
Quarterly Leasing Activity



Note: Leasing activity adjusted for initial underreporting in most recent three quarters.

3PLs Increase Leasing in 2023, Retailers Scale Back

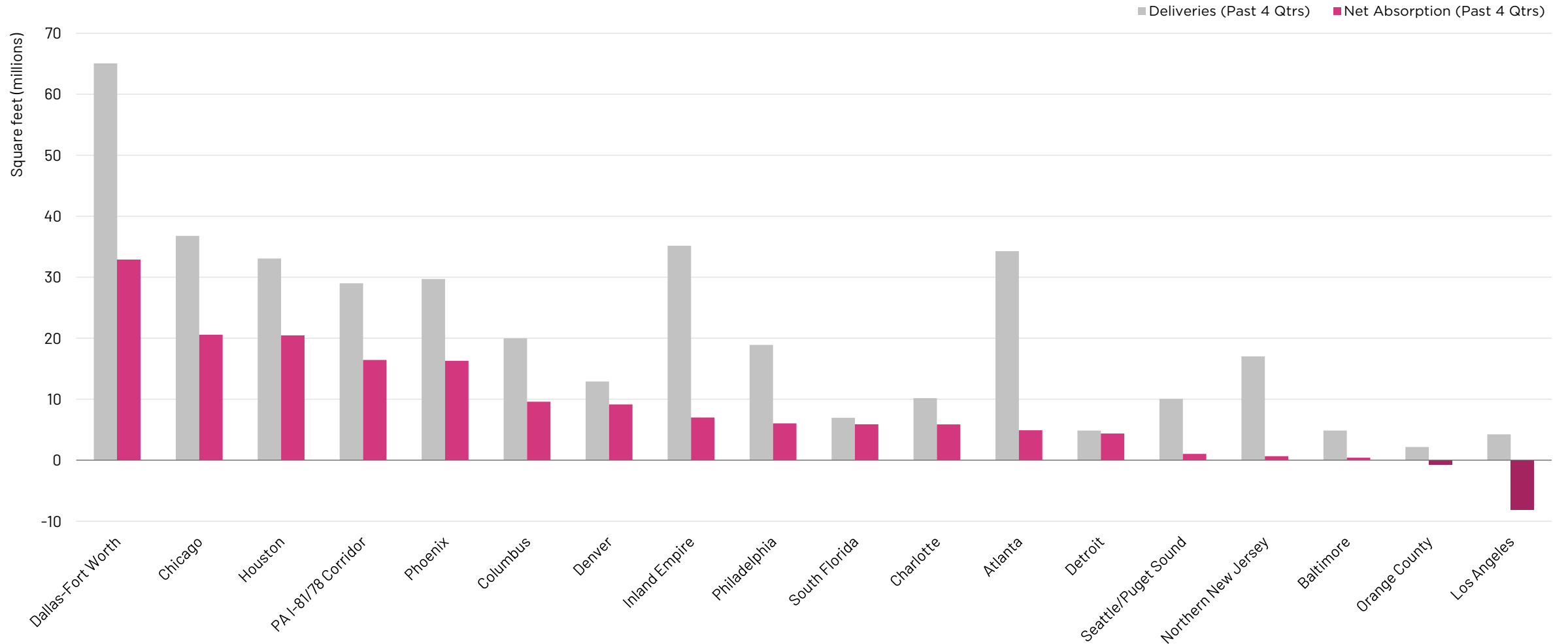
2023 Leasing Activity by Industry



Note: Based on largest deals from top 18 markets

Los Angeles 2023 Absorption Trails Other Markets

Past 4 Quarters Net Absorption vs. Deliveries, Major Markets

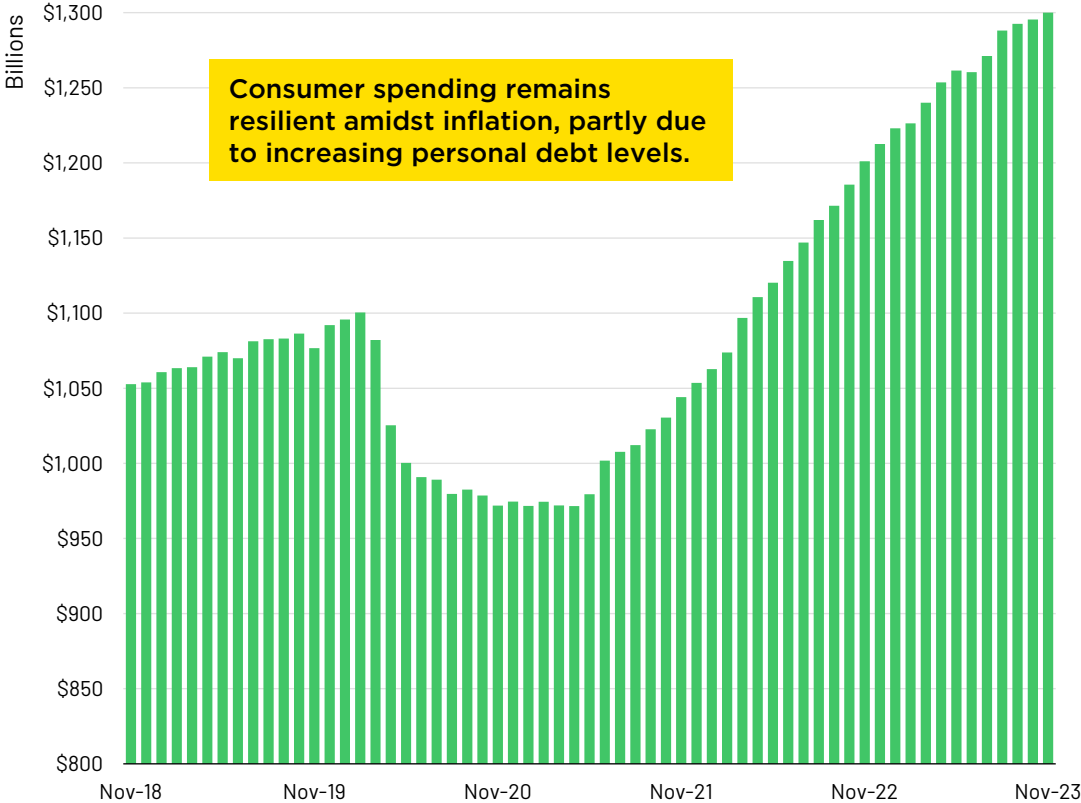


Main Driver of Industrial Occupier Demand Resilient Despite Challenges

Real Personal Consumption Expenditures: Goods



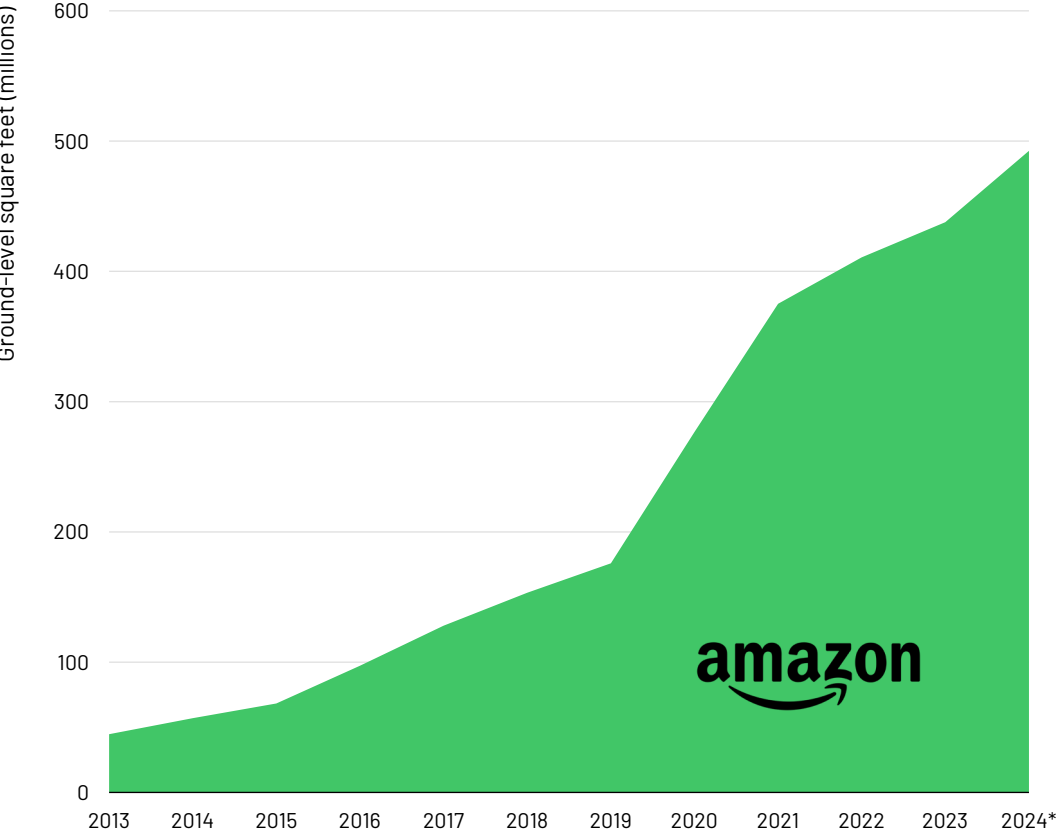
Revolving Consumer Credit Owned and Securitized



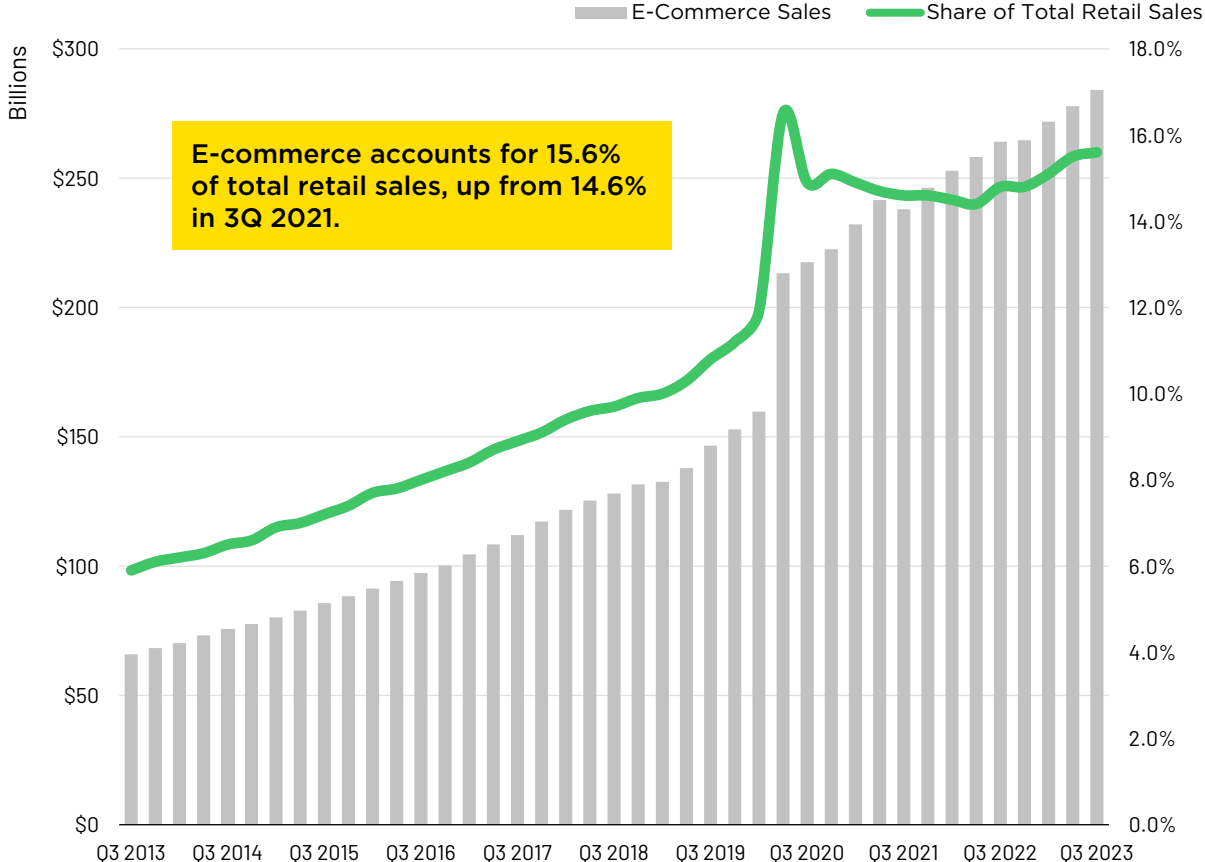
Source: St. Louis Federal Reserve

E-Commerce Growing Steadily Again in Post-Covid Era

Amazon Active U.S. Facilities




E-Commerce Penetration



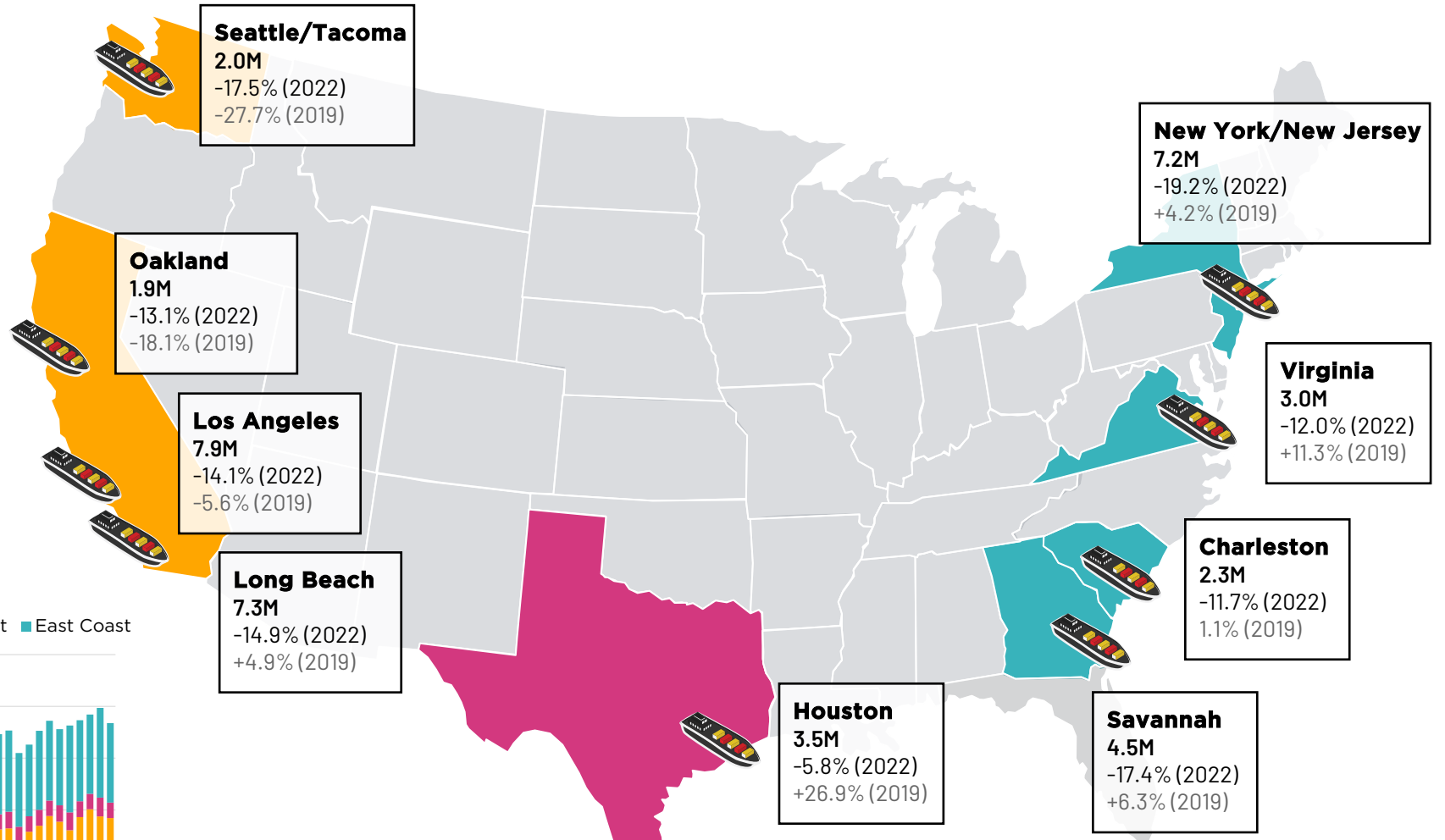
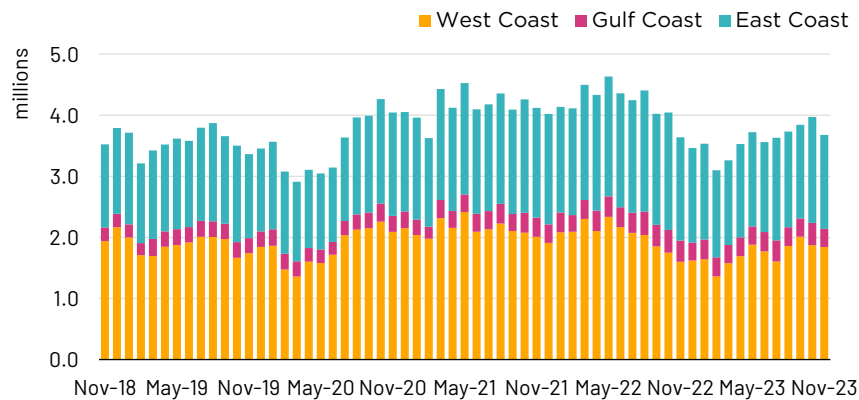
*Forecast
Source: MWPVL, U.S. Department of Commerce

Port Container Volumes Return to Normalized 2019 Levels

Legend

 **Port**
 Year-to-date TEU Volume*
 % Increase from 2022
 % Increase from 2019

Monthly TEU Volume, Top 9 Ports



Source: Local Port Authorities
 *Data through November 2023

Freight Recession Leads to Reduced Transport Costs

Cass Freight Index*: Shipments vs. Rates

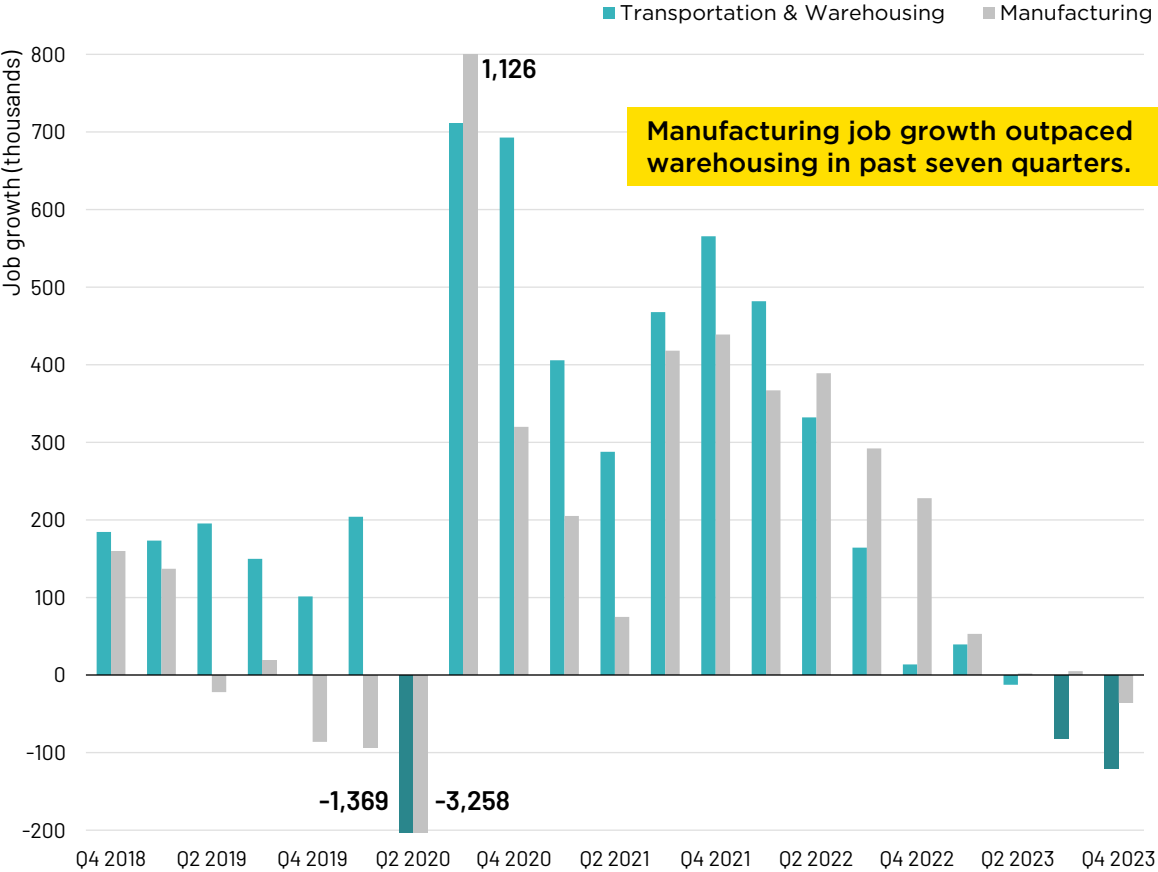


*Cass Freight Index is a measure of the number of intra-continental freight shipments across North America, derived from 36 million invoices and \$44B in spend processed annually. Source: Cass Information Systems

Labor Market Conditions Ease as Industrial Job Growth Slows

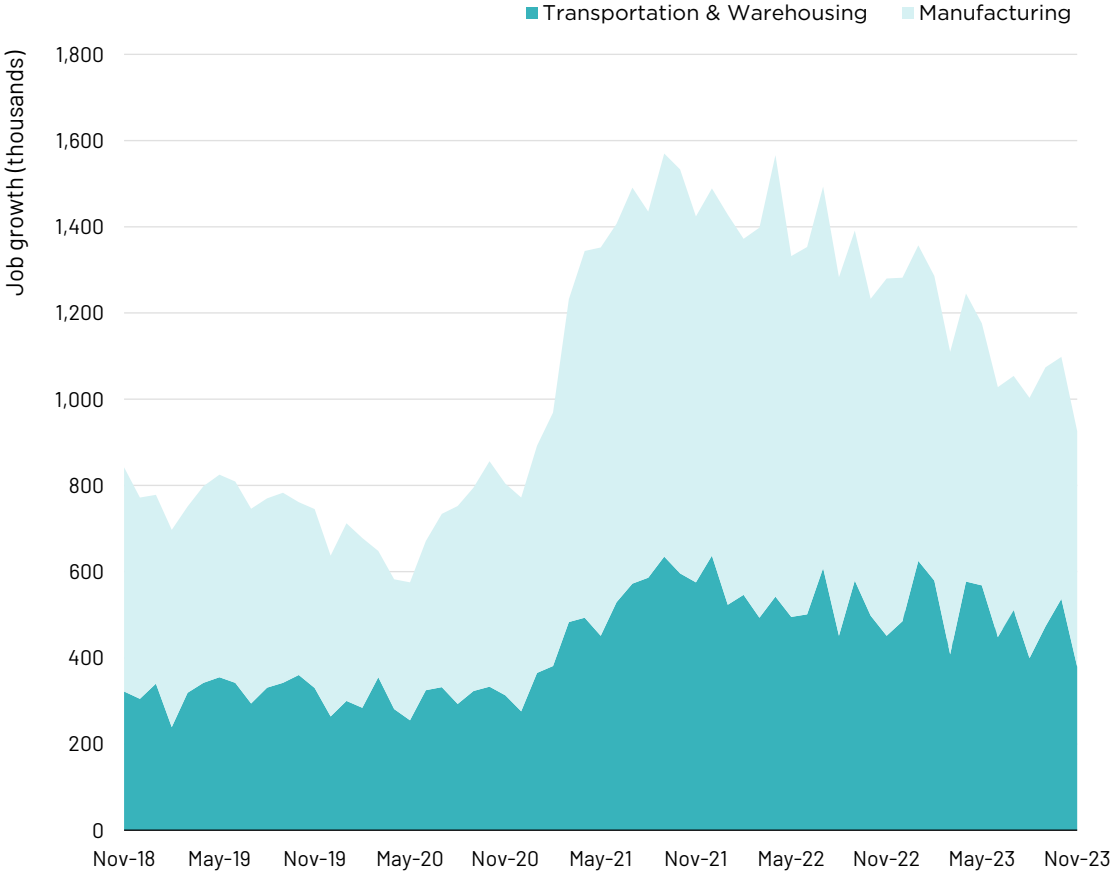
Job Growth by Sector

QUARTERLY



Job Openings by Sector

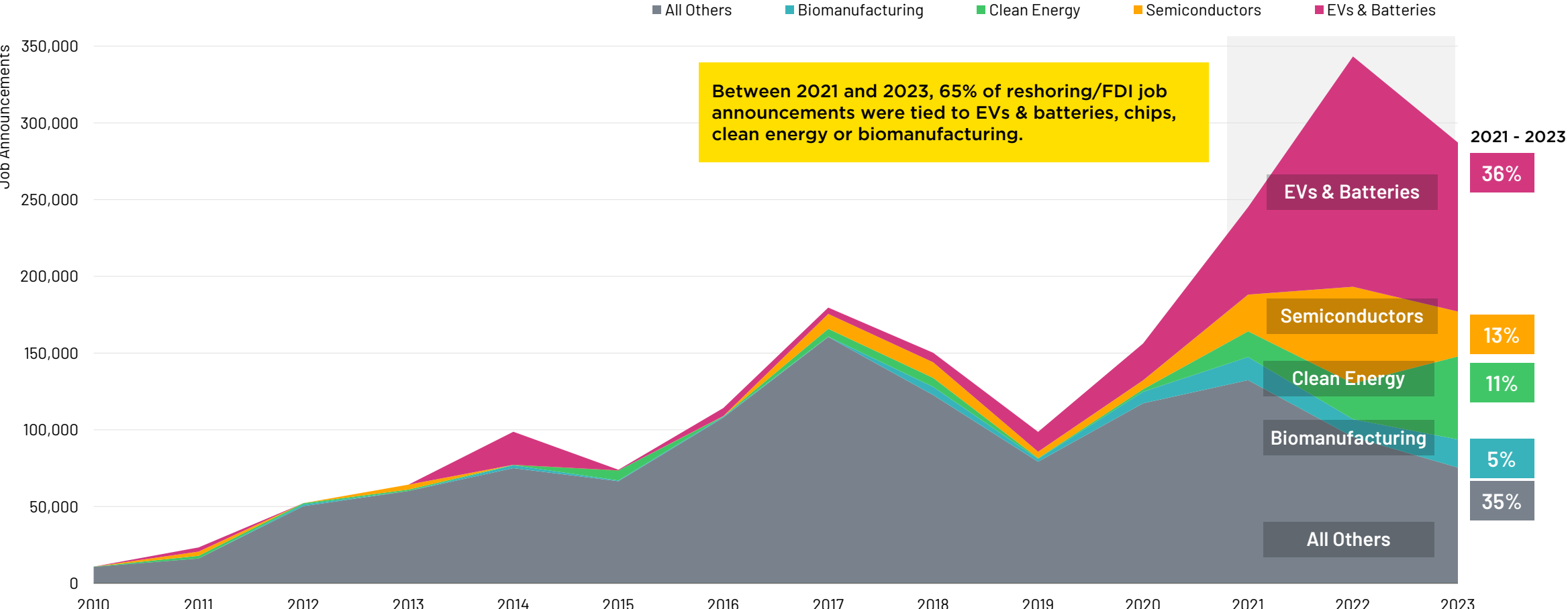
MONTHLY



Source: U.S. Bureau of Labor Statistics

Manufacturing Comeback Poised to Lead Next Cycle's Expansion

U.S. Manufacturing Job Announcements*



*Reshoring and FDI jobs adjusted for supply chain impact
Source: Reshoring Initiative (Data through December 2023)

Largest Manufacturing Job Announcements: 2021 - 2023

COMPANY	INDUSTRY VERTICAL	CITY	STATE	HEADQUARTERS COUNTRY	JOBS CREATED	CAPITAL INVESTMENT	YEAR OPEN
Micron	● Semiconductors	Clay	New York	U.S.	9,000	\$20.0B	2030
HMG Metaplant America	● EVs & Batteries	Ellabell	Georgia	South Korea	8,500	\$7.6B	2025
Rivian	● EVs & Batteries	Madison	Georgia	U.S.	7,500	\$5.0B	2024
VinFast	● EVs & Batteries	Moncure	North Carolina	Vietnam	7,500	\$4.0B	2025
Ford/SK Innovation	● EVs & Batteries	Stanton	Tennessee	U.S./South Korea	6,000	\$5.6B	2025
Toyota	● EVs & Batteries	Liberty	North Carolina	Japan	5,000	\$13.8B	2025
Ford/SK innovation	● EVs & Batteries	Glendale	Kentucky	U.S./South Korea	5,000	\$5.8B	2025
TSMC	● Semiconductors	Phoenix	Arizona	Taiwan	4,500	\$40.0B	2024-2026
Panasonic Energy	● EVs & Batteries	DeSoto	Kansas	Japan	4,000	\$4.0B	2025
Scout Motors	● EVs & Batteries	Blythewood	South Carolina	U.S.	4,000	\$2.0B	2026
Hyundai Motor Group and SK On	● EVs & Batteries	Cartersville	Georgia	South Korea	3,500	\$5.0B	2025
Texas Instruments	● Semiconductors	Sherman	Texas	U.S.	3,000	\$30.0B	2025
Intel	● Semiconductors	New Albany	Ohio	U.S.	3,000	\$20.0B	2025
Intel	● Semiconductors	Chandler	Arizona	U.S.	3,000	\$20.0B	2024
KORE Power	● EVs & Batteries	Buckeye	Arizona	U.S.	3,000	\$1.3B	2024

Source: Reshoring Initiative

Manufacturing Hotspots by Job Announcements

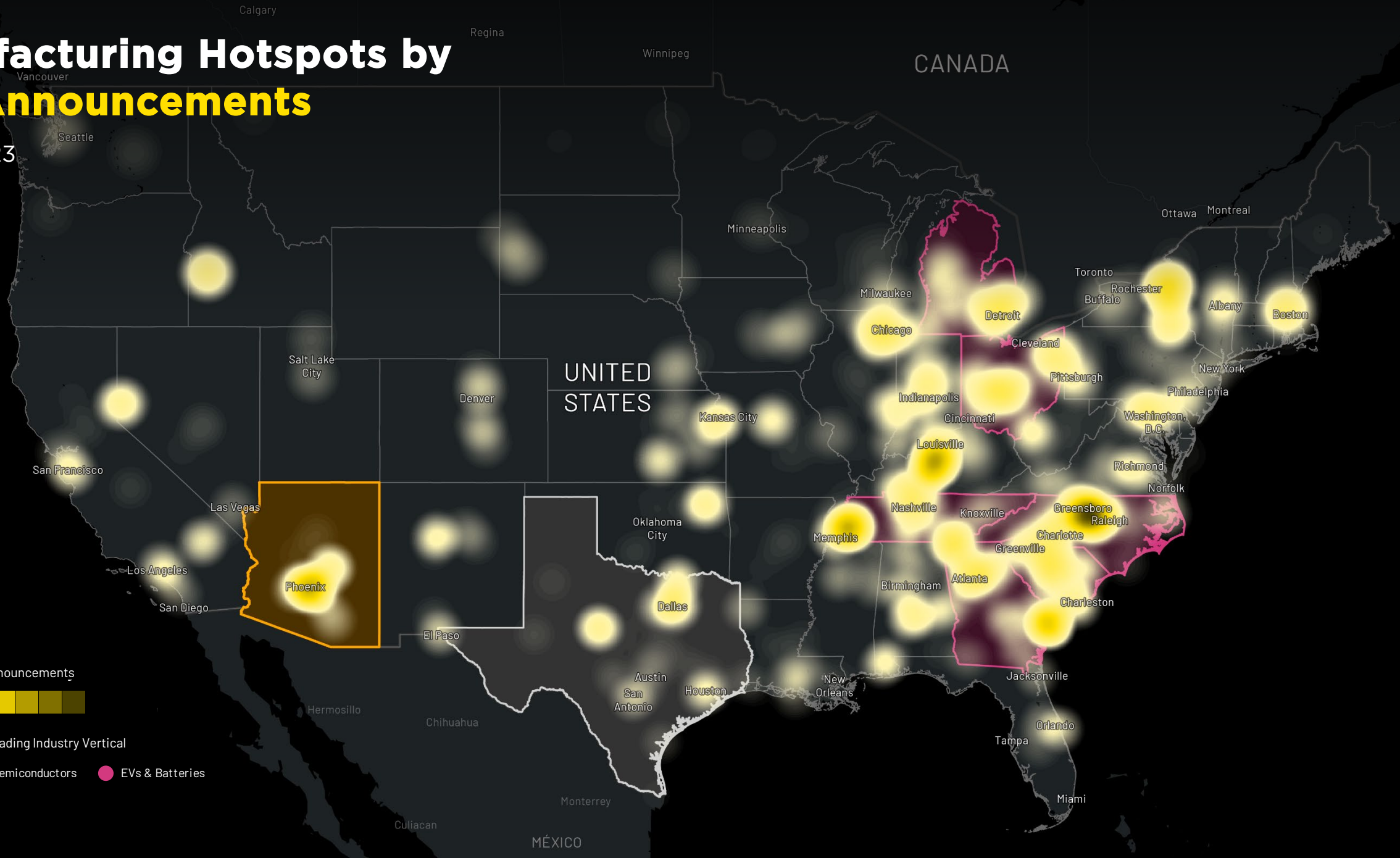
2021 - 2023

Density of Job Announcements



Profiled States Leading Industry Vertical

- Other
- Semiconductors
- EVs & Batteries



Industrial Property Values Stable in 2023

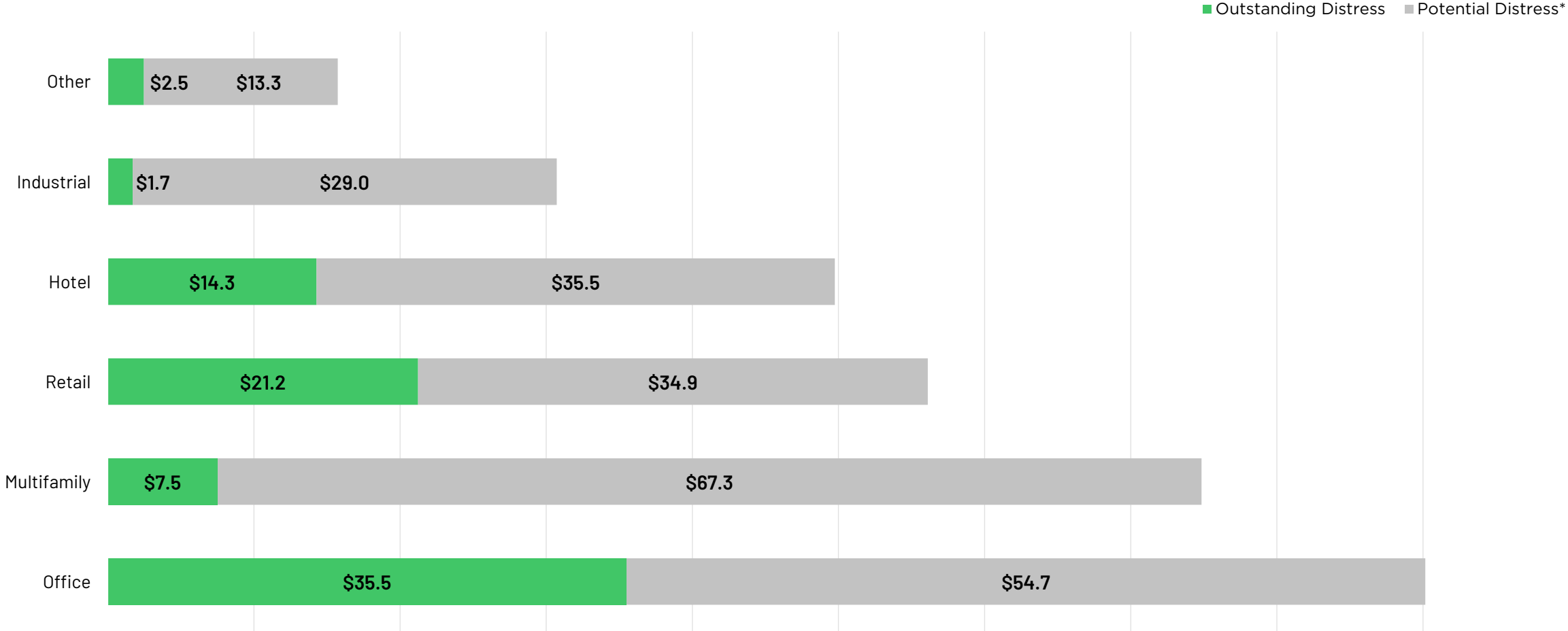
MSCI Real Capital Analytics Commercial Property Price Index (CPPI) - Year-over-Year Change (%) by Quarter



Sources: MSCI Real Capital Analytics

Industrial Property Loans Seeing Minimal Distress

CMBS & Non-CMBS Cumulative Debt through Q4 2023 (billions)



*Potential Distress indicates possible future property-level financial trouble due to events such as delinquent loan payments, forbearance and slow lease up/sell out, among others. This also includes CMBS loans placed on master servicer watchlists.
Sources: MSCI Real Capital Analytics

The industrial market is forecast to stabilize in 2024, marked by a peak in vacancy rates and a period of recalibration.

Tenants will find favorable deals

In the near term, tenants in most locations can leverage the surge in new supply to negotiate attractive terms for top-quality modern facilities. This includes enhanced flexibility, concessions and in some instances lower starting rents.

Vacancy to peak this year

The market will reach maximum supply mid-year, after which effects of fewer construction starts become noticeable. National vacancy is expected to top out at 7.3%, following a 130 basis-point increase, still much lower than the 10.5% peak in 2010.

Slower recovery in high supply markets

Land-constrained coastal markets are expected to rebound first due to lower supply. Meanwhile, large construction pipelines in Phoenix and Dallas-Fort Worth will delay their recovery, although population growth and manufacturing reshoring provide tailwinds for these regions.

Capital markets to rebound

The industrial sector, with its strong fundamentals and positive long-term demand outlook, continues to be a preferred investment choice. The stabilization, or potential reduction, of interest rates this year is expected to significantly boost sales activity.





Appendix

Local Market Statistics

	INVENTORY		VACANCY		UNDER CONSTRUCTION		ASKING RENTAL RATE	
	Q4 2023 (msf)	1 Year Change (msf)	Q4 2023 (%)	1 Year Change (bps)	Q4 2023 (msf)	1 Year Change (msf)	Q4 2023 (\$/sf)	1 Year Change (%)
National	16,266.9	736.6	6.0%	210	511.9	-297.5	\$9.41	12.8%
Atlanta	689.3	40.6	7.8%	370	23.1	-24.5	\$6.79	15.0%
Austin	98.4	11.8	11.5%	710	17.3	4.2	\$12.87	16.4%
Baltimore	207.2	6.6	8.3%	210	1.5	-4.0	\$9.66	7.3%
Boise City/Nampa	40.6	3.7	7.9%	440	5.4	0.1	\$9.63	14.5%
Boston	379.7	5.3	5.0%	100	11.9	-3.1	\$10.91	-1.1%
Buffalo	86.8	0.5	4.1%	140	0.2	-0.4	\$6.49	12.9%
Charleston/N Charleston	85.3	7.5	6.6%	460	8.5	-4.0	\$7.58	7.5%
Charlotte	252.8	14.0	7.4%	160	16.9	-4.0	\$6.35	13.6%
Chicago	1,003.8	49.3	6.1%	150	18.4	-19.8	\$6.43	13.2%
Cincinnati/Dayton	428.7	13.0	5.4%	210	5.8	-9.6	\$5.32	7.7%
Cleveland	475.9	3.9	4.0%	40	2.0	-3.6	\$5.58	12.5%
Columbus	290.8	23.4	6.9%	320	9.1	-12.0	\$6.10	4.8%
Dallas-Fort Worth	824.4	68.4	9.6%	360	40.7	-44.9	\$7.01	12.5%
Denver	200.6	15.7	8.4%	150	8.4	-0.8	\$9.39	9.6%
Detroit	494.8	8.3	4.1%	20	5.9	-1.9	\$6.53	3.4%
East Bay/Oakland	184.4	2.0	5.3%	150	1.8	-1.2	\$13.09	-3.3%
Greensboro/Winston-Salem	264.3	5.3	3.9%	160	4.1	-4.7	\$5.13	14.8%
Greenville/Spartanburg	237.3	21.3	9.8%	620	7.4	-16.7	\$4.94	9.5%
Hampton Roads	98.2	1.6	3.3%	70	3.8	0.3	\$8.96	21.9%
Houston	636.7	48.8	7.0%	160	21.7	-11.2	\$7.33	5.2%

Note: Asking rental rates are weighted averages of available disclosed rates for all classes and sizes

Local Market Statistics

	INVENTORY		VACANCY		UNDER CONSTRUCTION		ASKING RENTAL RATE	
	Q4 2023 (msf)	1 Year Change (msf)	Q4 2023 (%)	1 Year Change (bps)	Q4 2023 (msf)	1 Year Change (msf)	Q4 2023 (\$/sf)	1 Year Change (%)
National	16,266.9	736.6	6.0%	210	511.9	-297.5	\$9.41	12.8%
Indianapolis	371.9	20.6	8.2%	320	10.8	-16.5	\$6.29	23.3%
Inland Empire	598.4	37.8	6.5%	430	20.6	-16.7	\$16.30	-7.7%
Jacksonville	128.1	5.0	3.2%	100	5.8	-3.2	\$8.57	26.4%
Kansas City	350.7	10.6	4.8%	170	11.6	-0.8	\$5.32	9.0%
Las Vegas	132.6	8.6	3.6%	160	17.4	2.6	\$12.16	4.0%
Long Island	265.7	0.9	5.4%	30	6.1	1.8	\$21.88	12.9%
Los Angeles	675.7	14.4	4.5%	220	7.3	1.3	\$18.38	-6.7%
Louisville	220.1	4.2	3.8%	-60	7.0	-0.4	\$5.15	1.8%
Memphis	220.1	4.2	3.8%	-60	7.0	-0.4	\$5.15	1.8%
Milwaukee/Madison	379.9	6.6	3.4%	60	2.5	-3.9	\$5.11	-1.5%
Minneapolis/St Paul	322.2	8.0	4.0%	110	5.8	-3.5	\$6.80	15.1%
Nashville	257.9	8.7	3.9%	110	9.3	-3.2	\$8.38	17.9%
Northern New Jersey	661.9	26.8	5.4%	240	12.9	-4.0	\$17.50	7.2%
Omaha/Council Bluffs	78.7	3.7	2.3%	130	2.8	-1.2	\$7.09	10.3%
Orange County	146.0	4.4	3.8%	220	1.4	-0.8	\$21.16	14.5%
Orlando	161.6	6.5	5.1%	200	7.7	-1.2	\$10.31	16.9%
Pennsylvania I-81/78 Corridor	579.0	40.3	5.7%	220	14.2	-19.5	\$8.32	19.1%
Philadelphia	391.1	23.6	8.0%	320	10.5	-16.6	\$11.49	14.4%
Phoenix	286.9	31.2	9.3%	460	43.5	-4.6	\$10.35	7.6%
Pittsburgh	171.9	3.1	5.3%	30	1.6	-2.7	\$7.63	11.4%

Note: Asking rental rates are weighted averages of available disclosed rates for all classes and sizes

Local Market Statistics

	INVENTORY		VACANCY		UNDER CONSTRUCTION		ASKING RENTAL RATE	
	Q4 2023 (msf)	1 Year Change (msf)	Q4 2023 (%)	1 Year Change (bps)	Q4 2023 (msf)	1 Year Change (msf)	Q4 2023 (\$/sf)	1 Year Change (%)
National	16,266.9	736.6	6.0%	210	511.9	-297.5	\$9.41	12.8%
Raleigh/Durham	101.5	5.0	4.5%	250	6.0	-0.8	\$8.42	38.0%
Reno/Sparks	116.1	7.1	5.7%	270	7.9	0.4	\$10.47	25.7%
Sacramento	147.5	3.8	5.6%	140	2.3	-1.9	\$8.91	4.7%
Salt Lake City	239.3	14.9	7.3%	450	6.4	-10.0	\$10.46	10.1%
San Antonio	133.1	7.7	7.9%	430	4.5	-4.6	\$7.37	11.0%
San Diego	113.8	1.8	5.3%	290	2.1	-0.1	\$16.94	2.0%
Savannah	120.0	21.0	10.3%	770	12.6	-10.6	\$7.13	28.2%
Seattle/Puget Sound	233.6	13.6	7.7%	370	6.0	-6.8	\$10.86	-4.0%
South Bay/San Jose	73.1	0.0	3.9%	50	3.5	2.3	\$17.33	6.5%
South Florida	298.3	12.8	4.3%	70	11.6	0.6	\$15.77	9.3%
St. Louis	285.5	2.7	4.8%	60	3.9	0.6	\$5.56	3.7%
Stockton/Modesto	186.1	4.0	6.2%	40	5.1	-3.0	\$7.82	6.7%
Tampa/St Petersburg	252.3	9.8	6.6%	200	7.4	-2.6	\$10.29	14.6%
Tucson	28.0	1.9	7.9%	450	0.0	-1.9	\$9.07	1.1%
Washington, DC	143.3	3.5	5.3%	140	4.1	-0.5	\$13.67	4.8%

Note: Asking rental rates are weighted averages of available disclosed rates for all classes and sizes



Thank you.

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