



# U.S. industrial market report

Q1 2023

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**AVISON  
YOUNG**

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# U.S. industrial market trends

## #4

### highest Q1 net absorption among Q1s since 2006

Despite economic and financial headwinds experienced throughout the world to start 2023, industrial net absorption continues to show its resiliency. With new deliveries hitting historic levels in 2022, new spaces continue to be leased in a sign that demand has kept speculative space supply additions in balance.

## 38.0%

### Q1 2023 ground-breakings relative to Q3 2022 peak

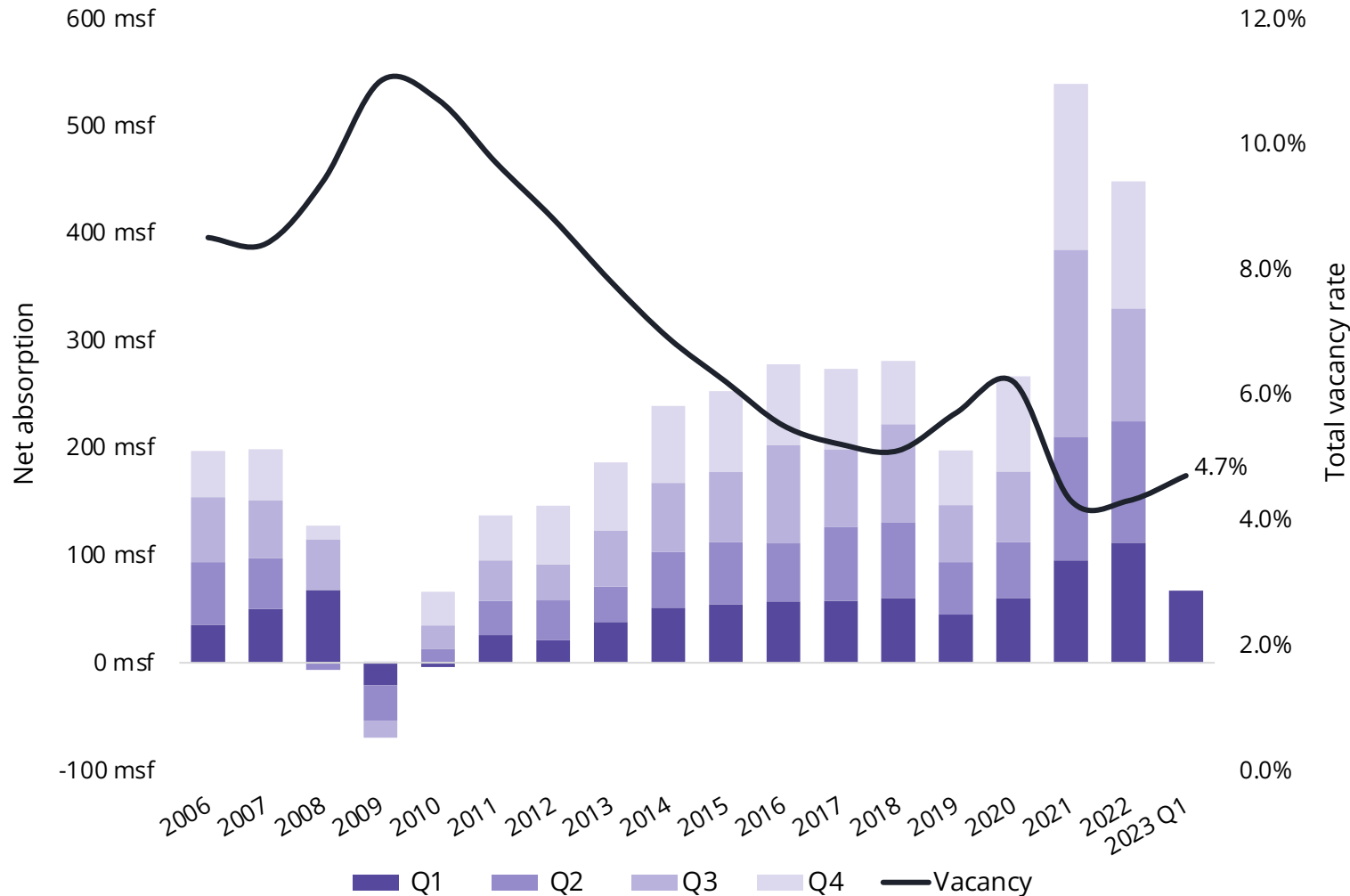
Upward pressure on direct and sublet vacancies and a record number of new deliveries in 2022 caused the industrial development pipeline to decline to the lowest level reported since Q4 2021. New construction ground-breakings topped out in the third quarter of 2022, with new ground breakings in Q1 2023 representing just 10.0% of under construction space. We are closely monitoring the affect decreasing ground-breakings will have on new space deliveries 12-18 months out, as tenants looking for newly constructed space may have limited optionality relative to prior years.

## 51bps

### Industrial cap rate widening since Q2 2022

Aggressive Federal Reserve policy and the surge in 10-year Treasury yields has narrowed industrial cap rate spreads over risk-free rates. Rather than seeing many transactions hit the market at decreased prices, owners who considered selling have simply pulled opportunities from the market until the capital markets environment stabilizes. Limited transactional activity is expected until more guidance is given by Monetary Policy leaders that rate increases are plateauing. A focus on growing cash flows for assets should supplant appreciating values in the sector for the near and mid-term.

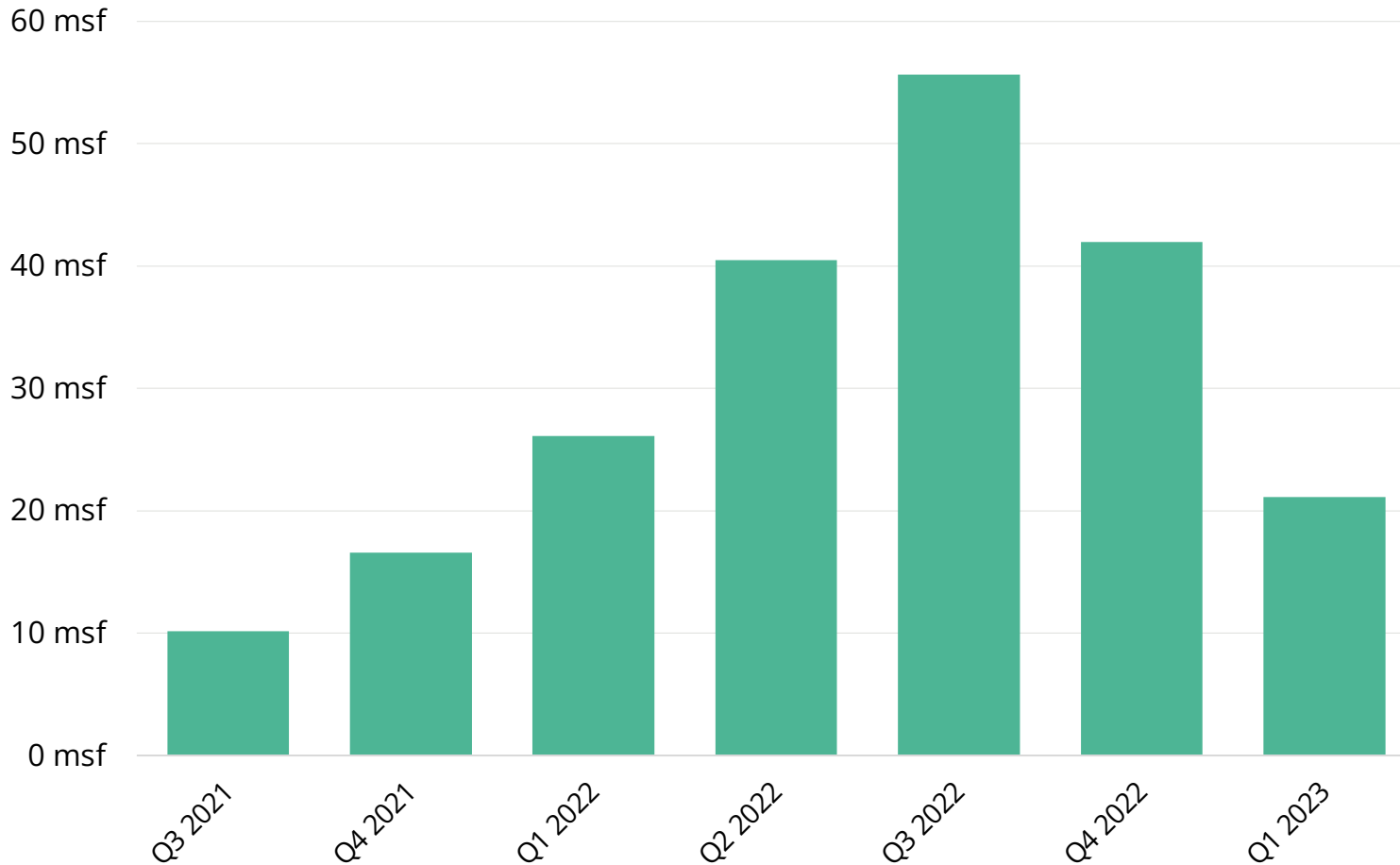
# U.S. industrial net absorption vs. vacancy



**Demand remains robust as net absorption in Q1 ranked #4 of first quarters since 2006. Vacancies remain near historic lows but trending upward.**

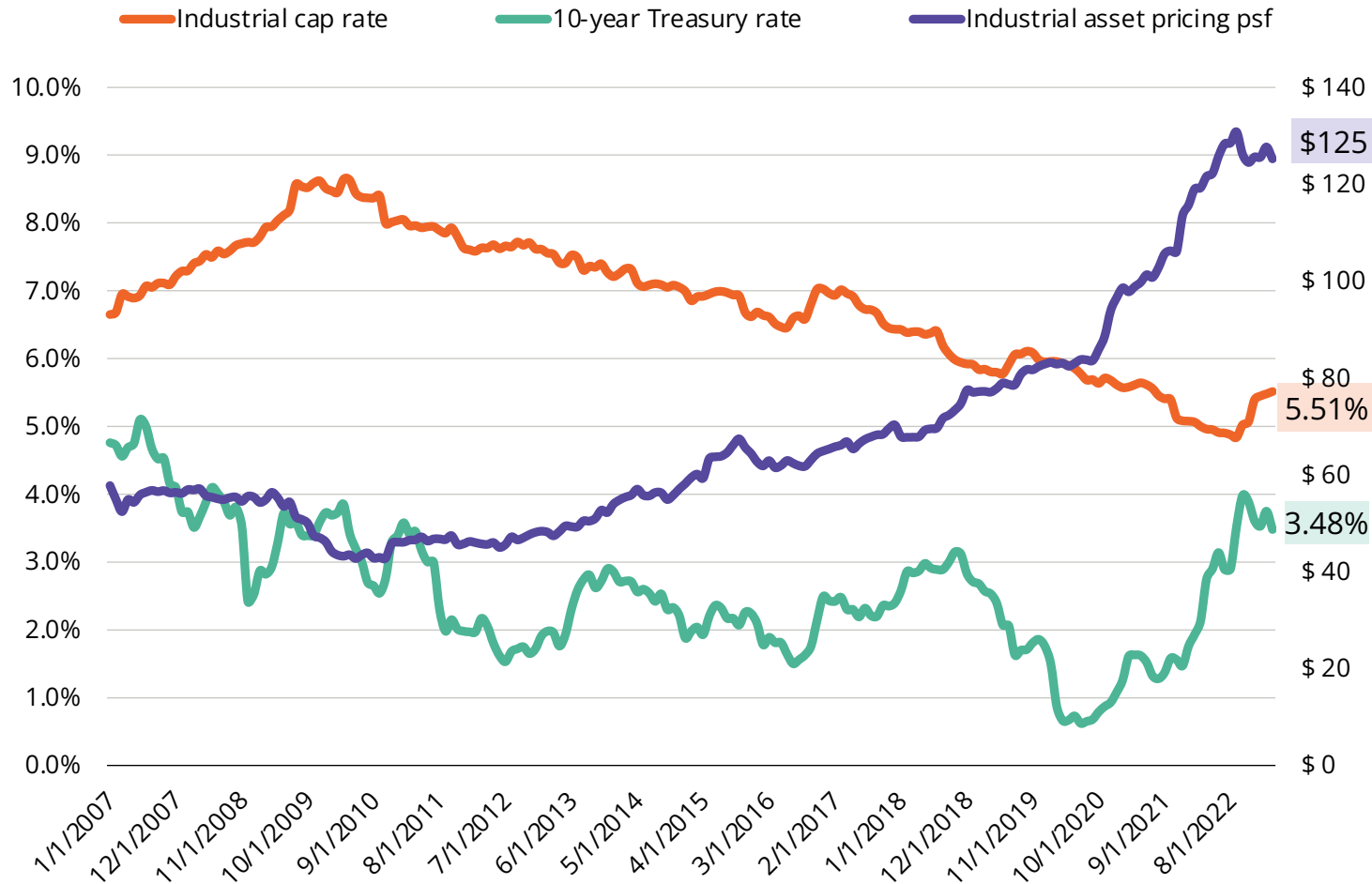
# U.S. industrial construction ground-breakings

## Ground breakings by quarter



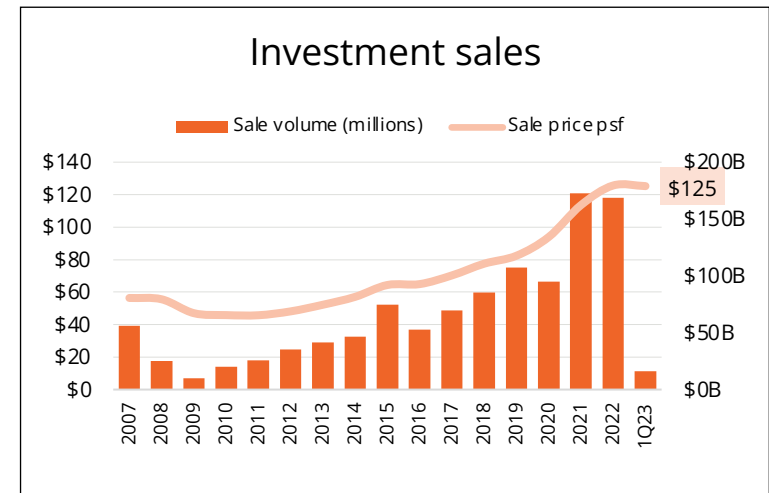
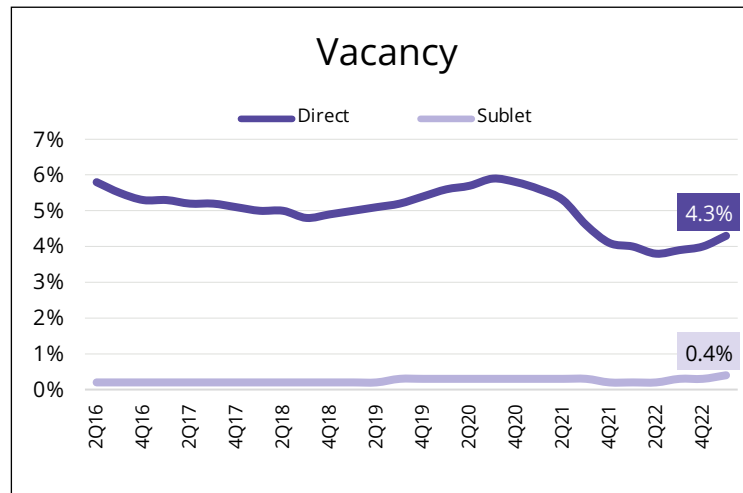
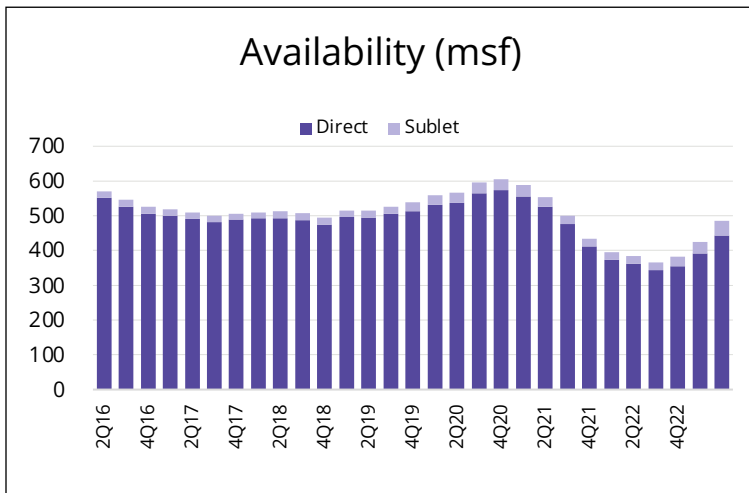
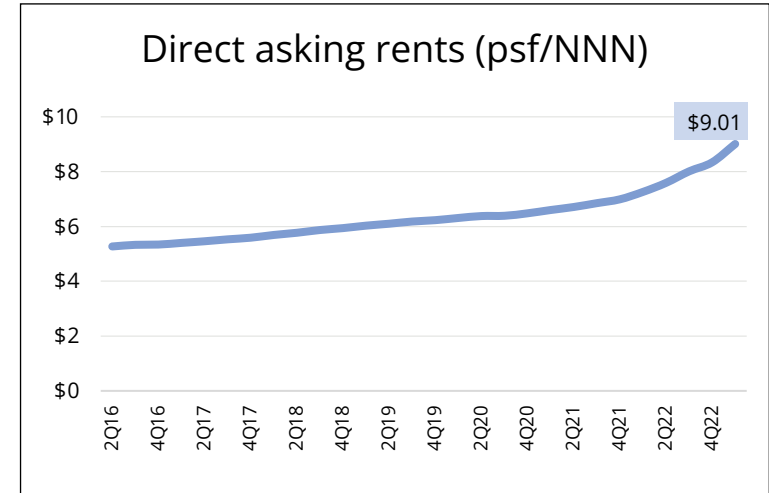
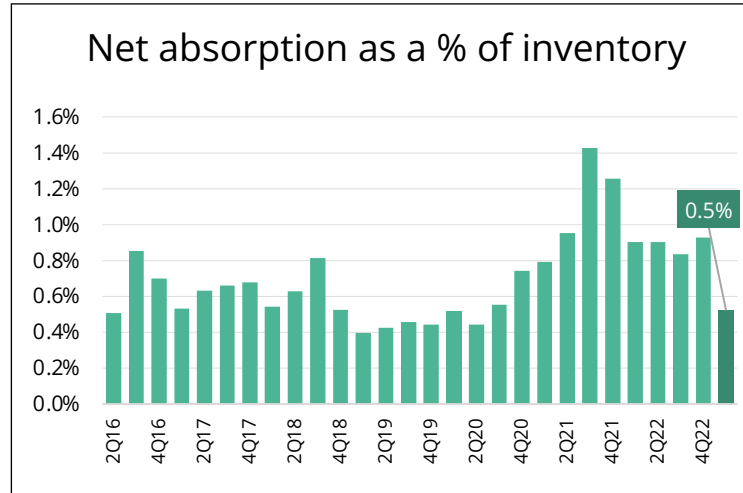
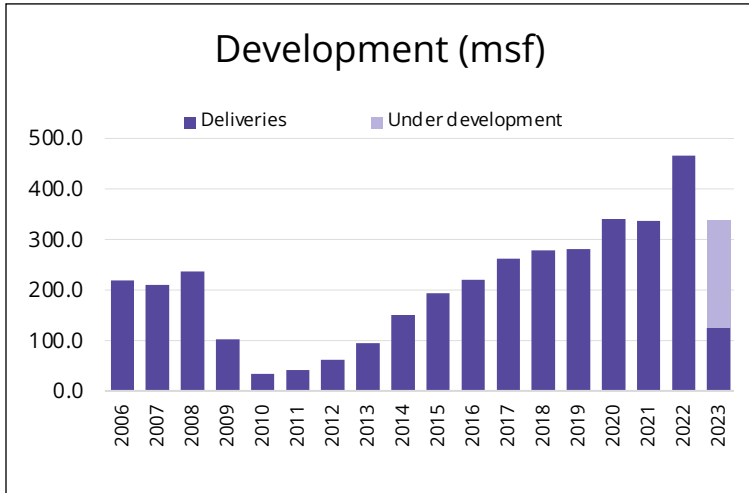
**Industrial under construction pipeline ground-breakings peaked in Q3 2022, as construction financing has subsequently curbed new speculative development in most markets.**

# U.S. industrial cap rates vs. asset pricing

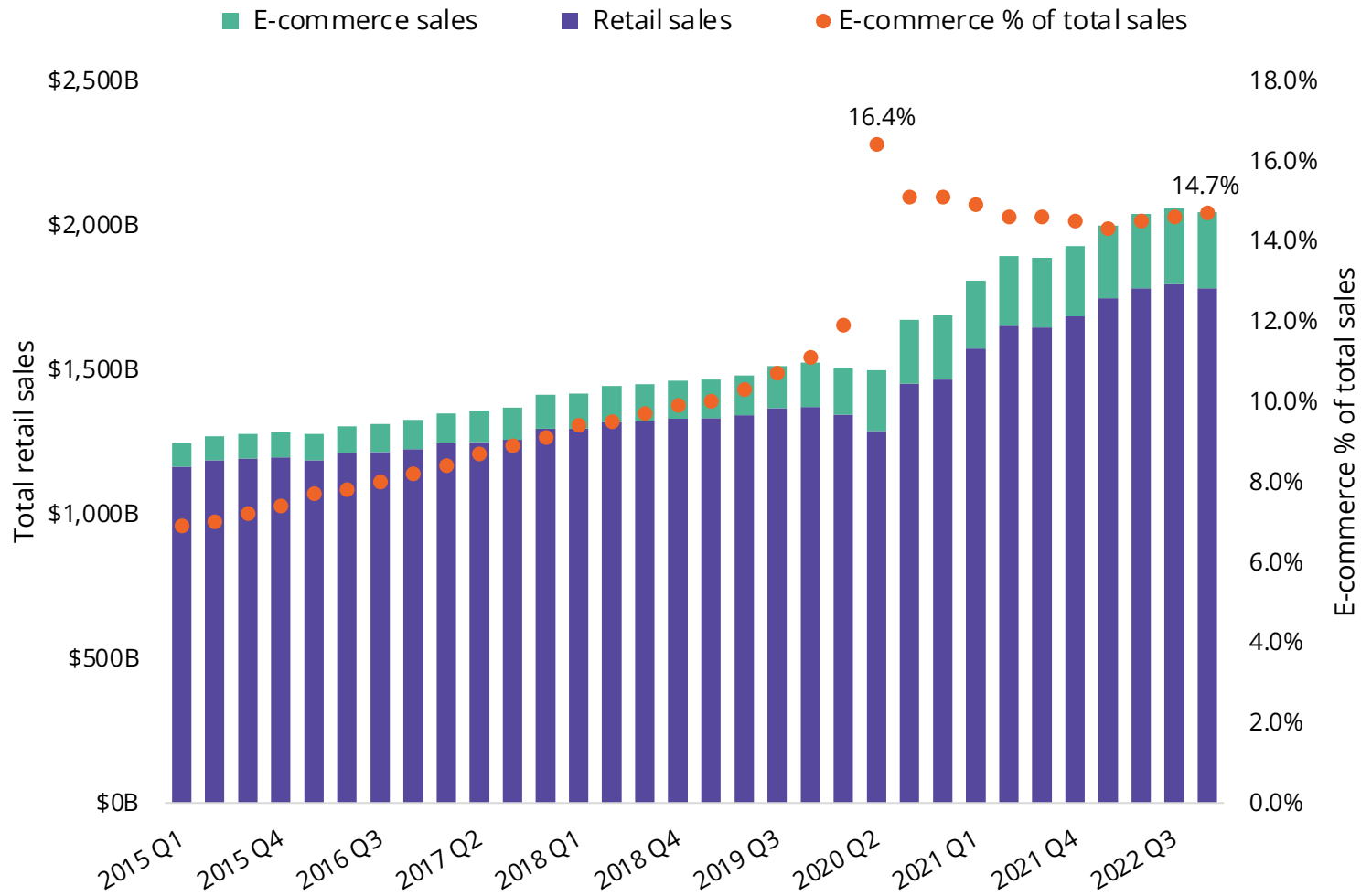


**Industrial cap rates have widened by 51bp in the past year while asset values have recently shown signs of a mild pullback, declining by 4.3% since September 2022.**

# U.S. industrial market indicators



# Retail consumption trends



**E-commerce retail spend increased at +19.8% annualized rate since 2019, indicating accelerated e-commerce industrial demand is sustainable.**

Note: As of February 17, 2023  
Source: Federal Reserve Bank of St. Louis

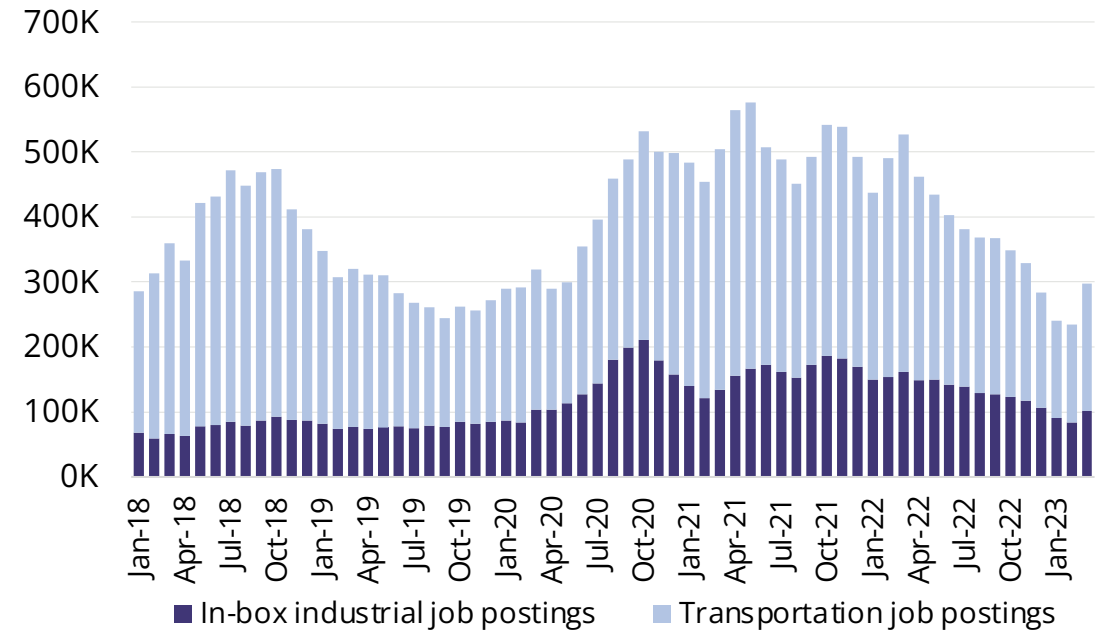
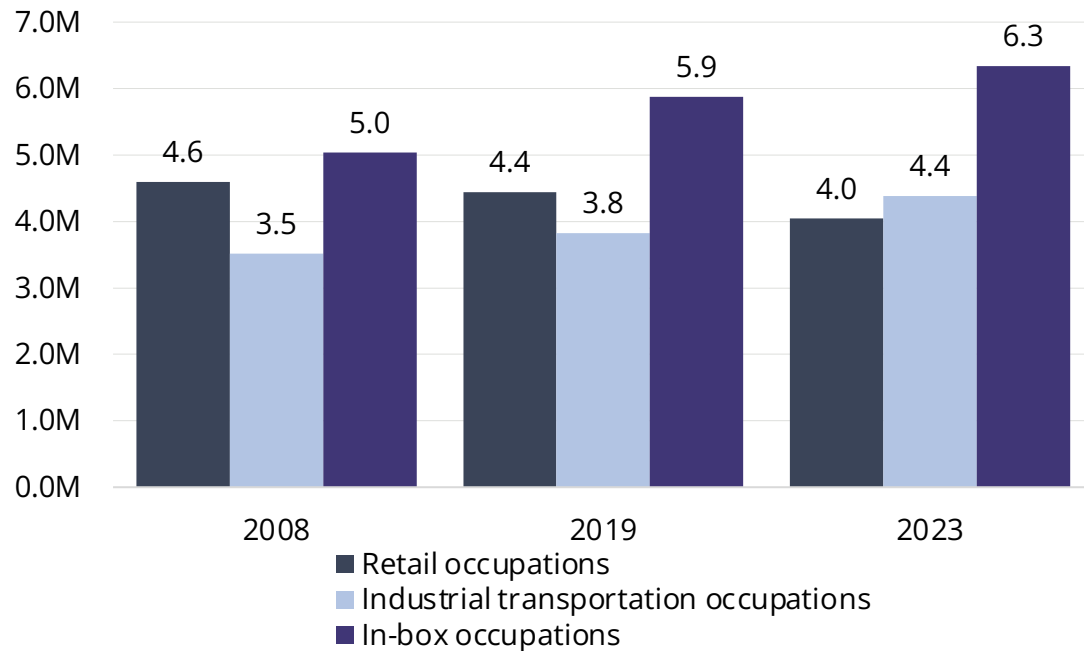
# Foundational shifts in U.S. consumer behavior and workforce composition

# 47.2%

Industrial workforce growth since 2008

# 81.8%

Increase in in-box job postings, post-COVID vs. 2018-3/2020



Note: In-box industrial occupations defined as SOC 53-7062 & 53-7065; Industrial transportation occupations defined as SOC 53-3032, 53-3033, 53-7051; Retail occupations defined as SOC 41-2031  
 Source: AVANT by Avison Young, Lightcast



# Aging U.S. labor force struggles to keep pace with foundational change in consumption

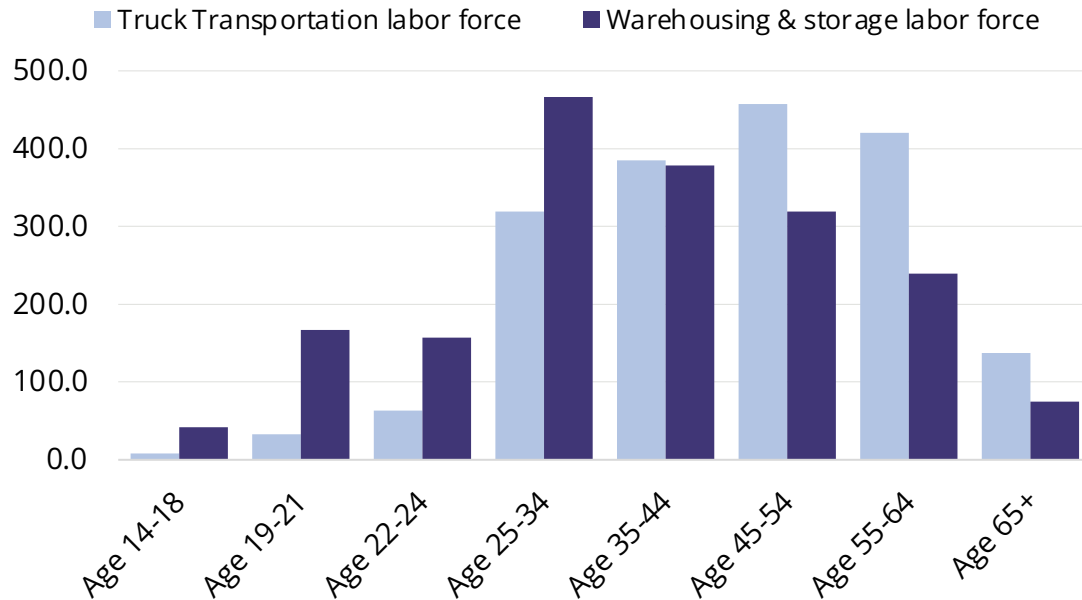
# 30.6%

Truck transportation labor force aged 55 years or older

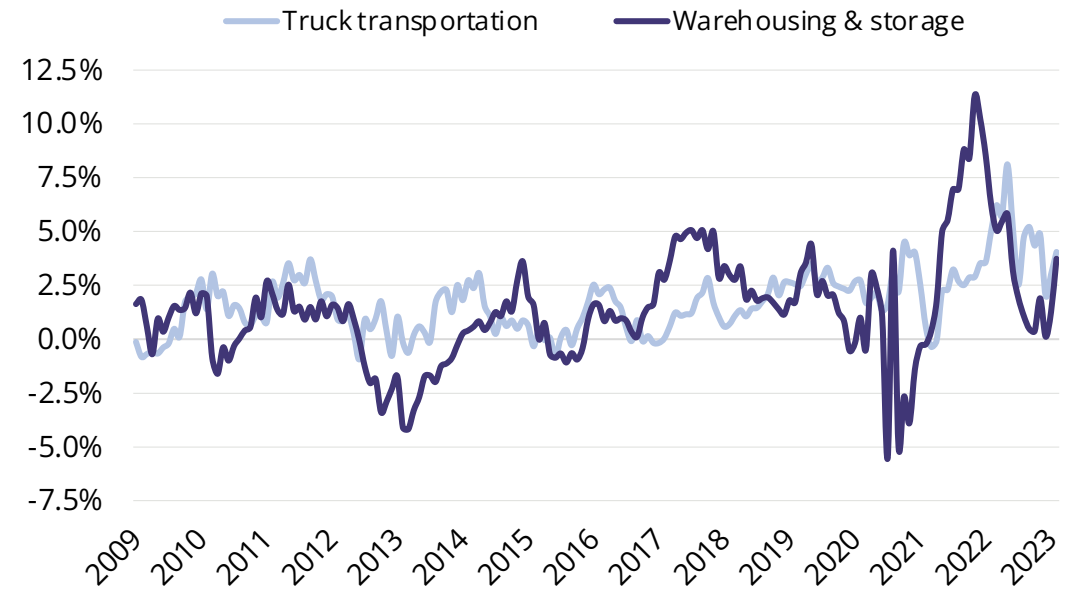
# 3.3%

Average monthly increase in trucking wages since 4/2020

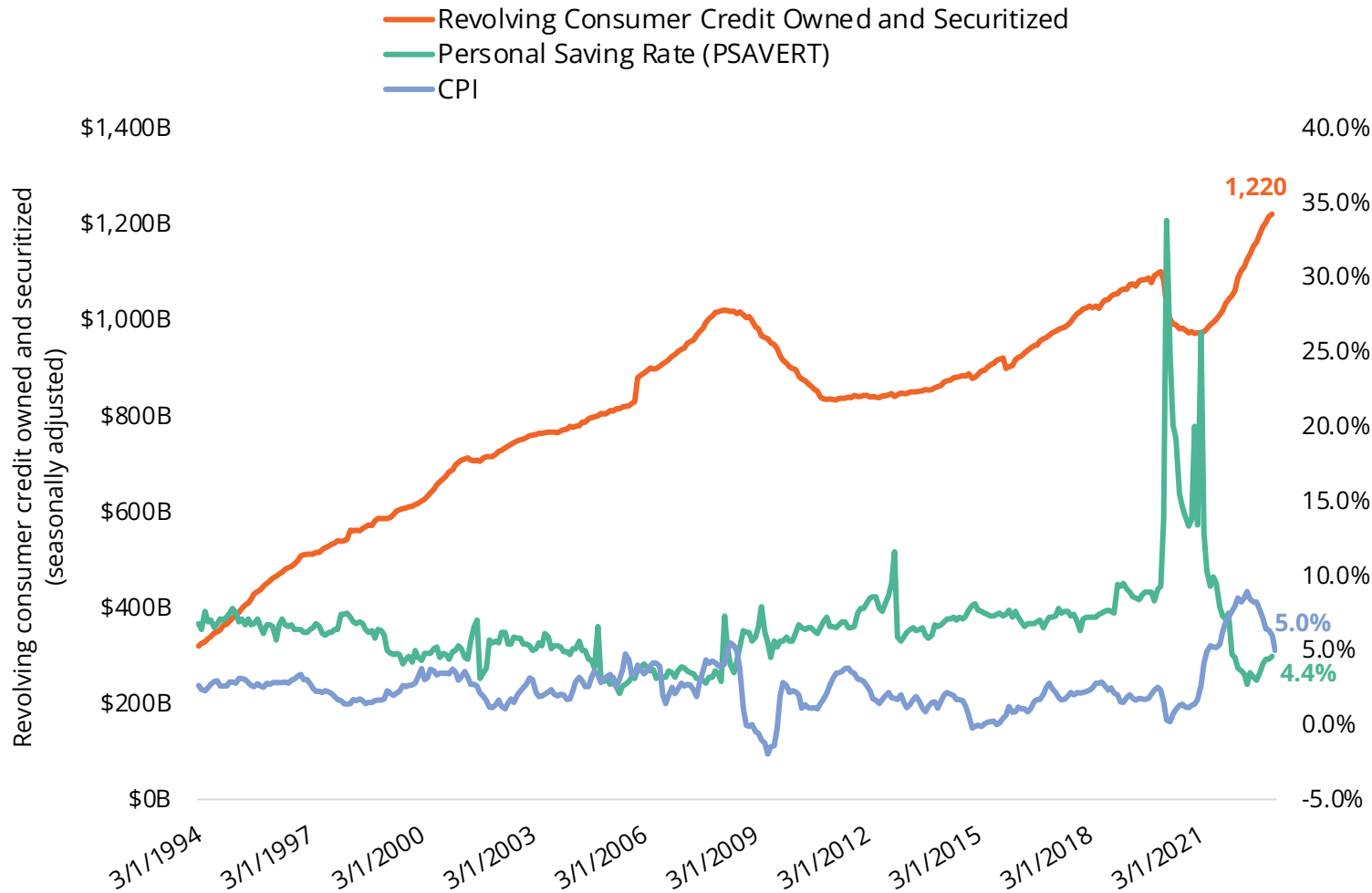
Labor force age bracket



Change in hourly earnings (12-month rolling averages)

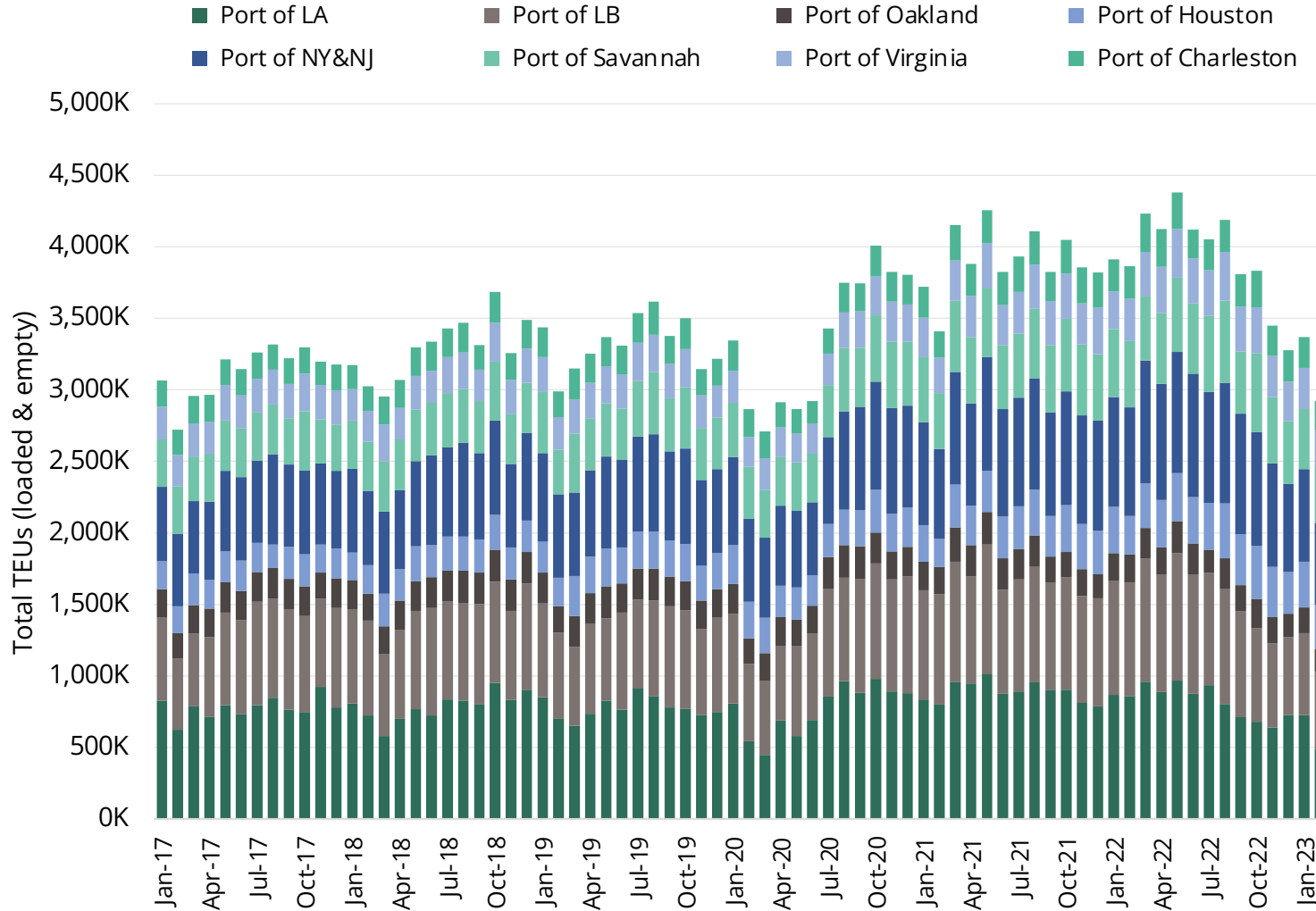


# Consumer conditions guiding industrial demand



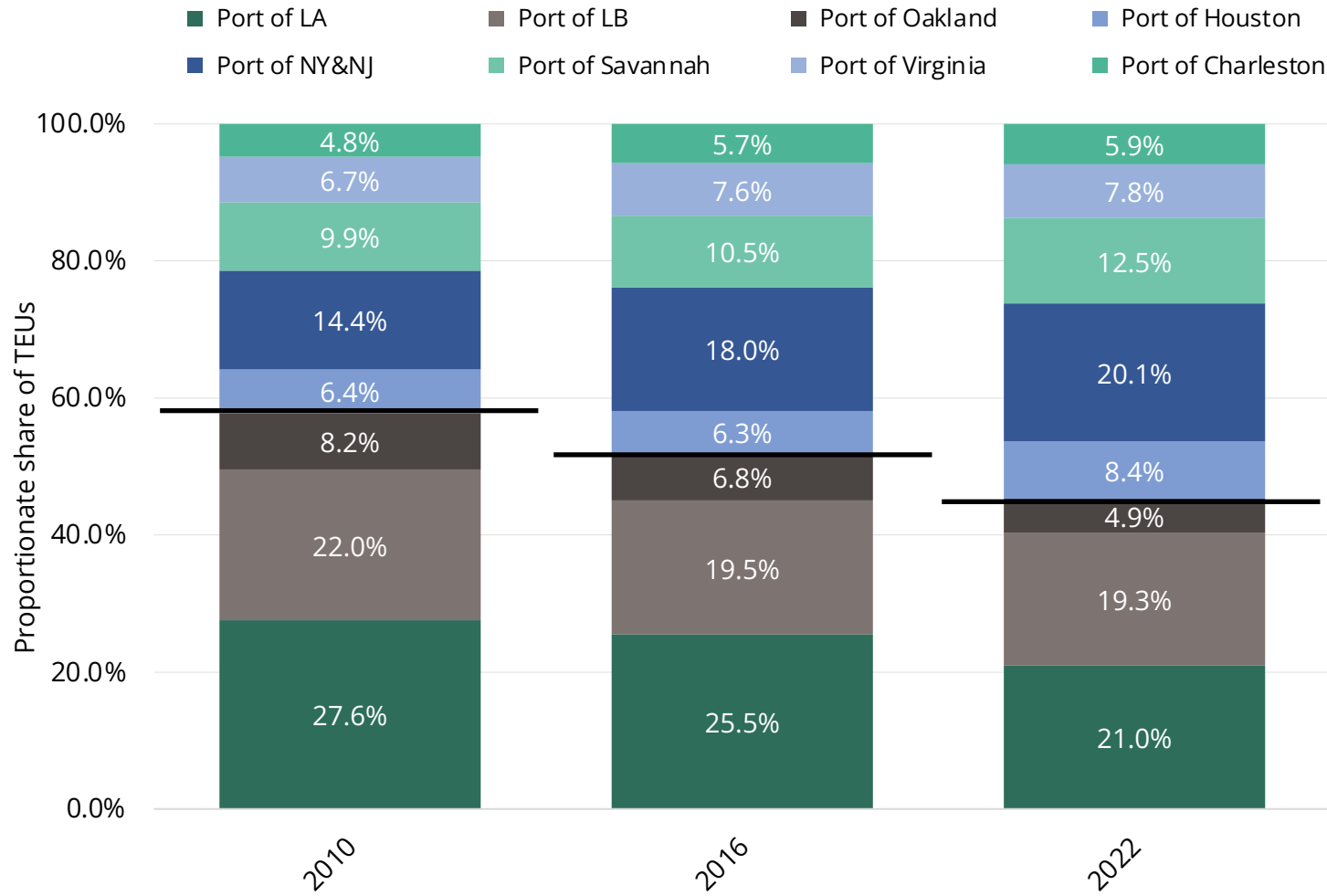
**Personal savings had fallen to record lows but are rebounding in 2023 as inflation wanes. Consumer credit utilization remains at historic highs.**

# Port activity returns to start of 2020 levels



**The first two months of port activity slowed compared with the past two years, mirroring the start of 2020 in terms of overall volume.**

# West Coast ports continue losing market share



**The Port of Long Beach & Los Angeles represented 49.6% of all TEU volume in 2010 but is now just 40.3% as strikes and trade flow disruptions elevate supply chain alternative ports like Savannah.**

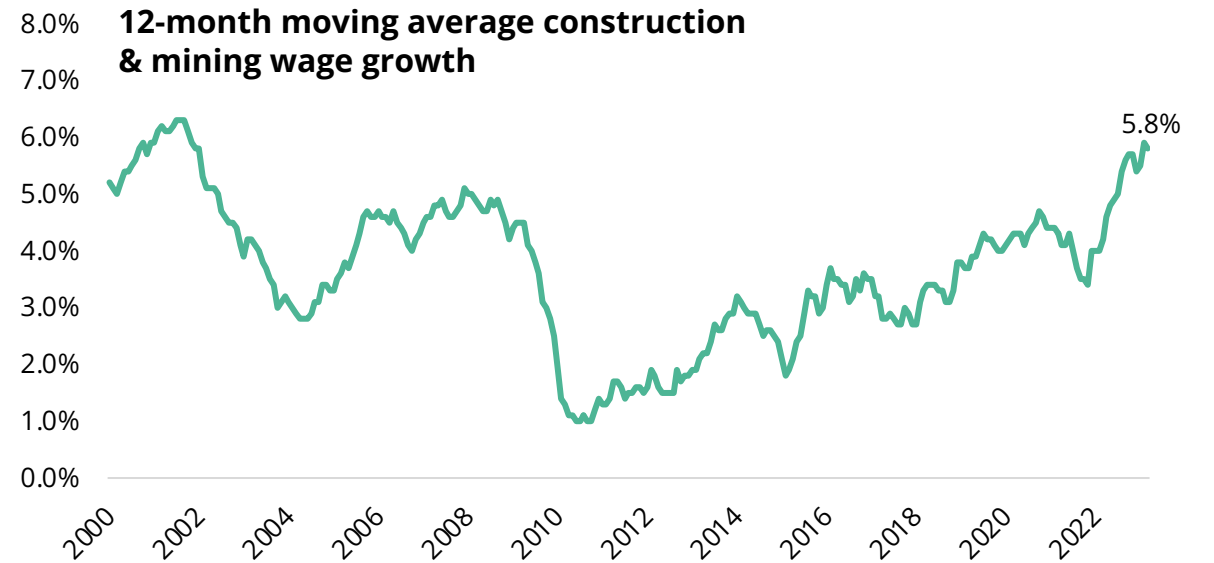
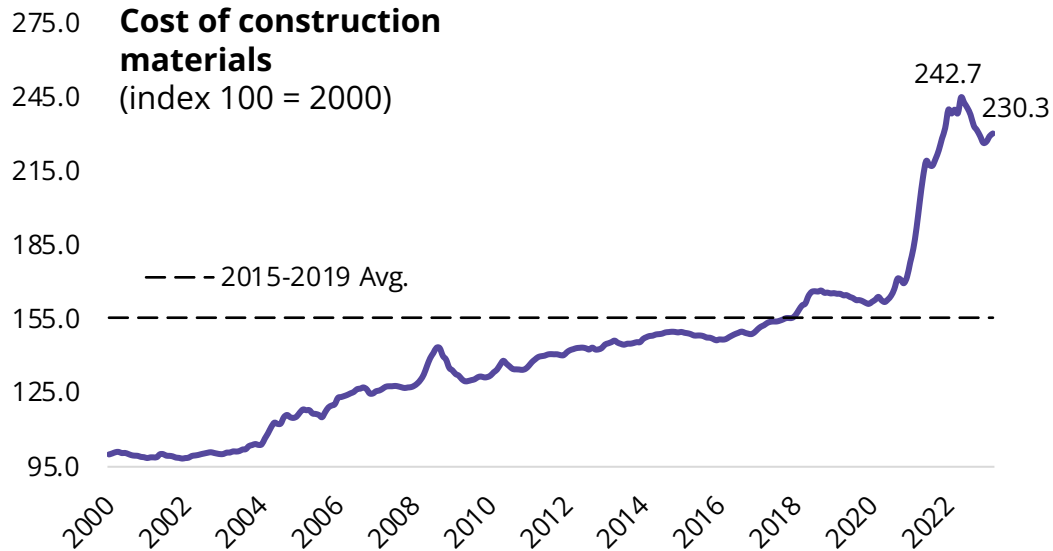
# Hard and soft costs stabilize near historic highs, pressing investment returns

# 48.1%

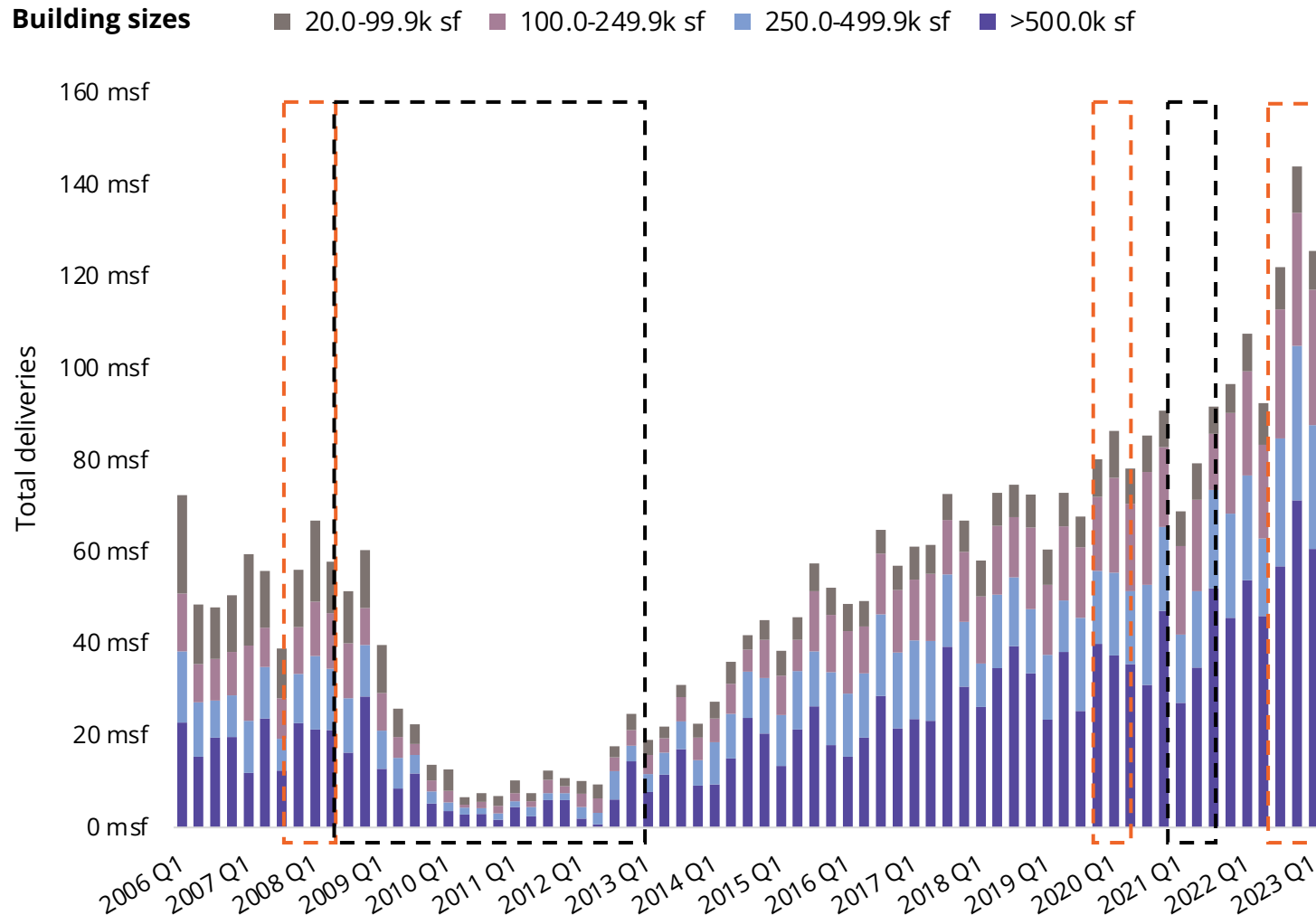
Current construction cost premium over pre-COVID 5-year average

# 5.8%

Year-over-year change in construction worker wages



# New deliveries topped out in Q4 2022



**Current monetary tightening has disrupted construction financing, which should begin to impact developments in late 2023.**

# Development focus largely shifted to buildings >500.0k sf

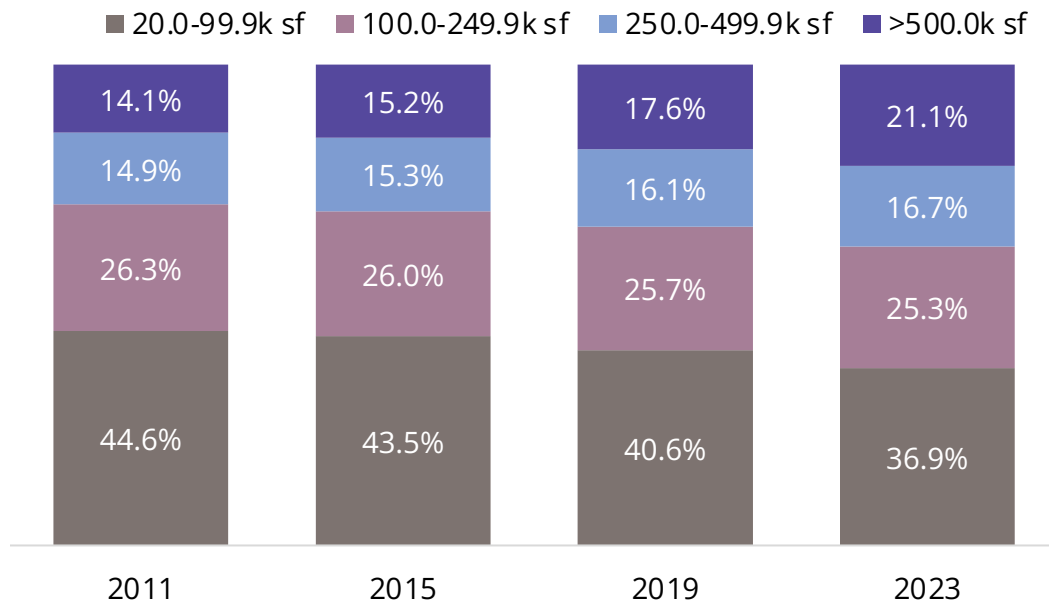
# 91.7%

Growth in inventory of >500.0k-sf properties since 2011

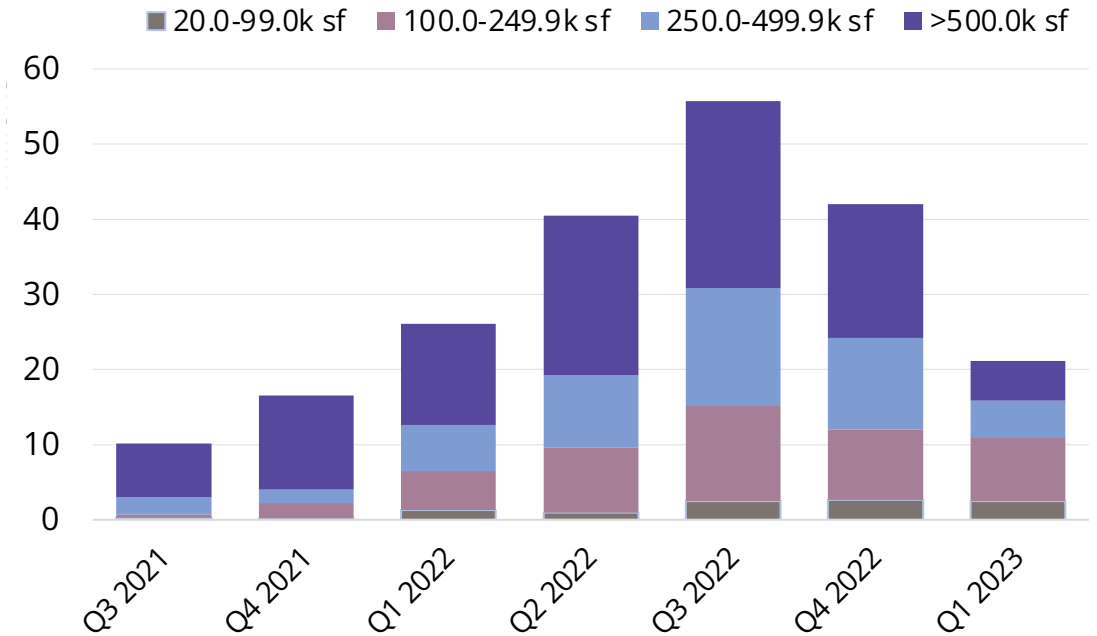
# 38.0%

Q1 2023 construction ground-breakings vs. Q3 2022 peak

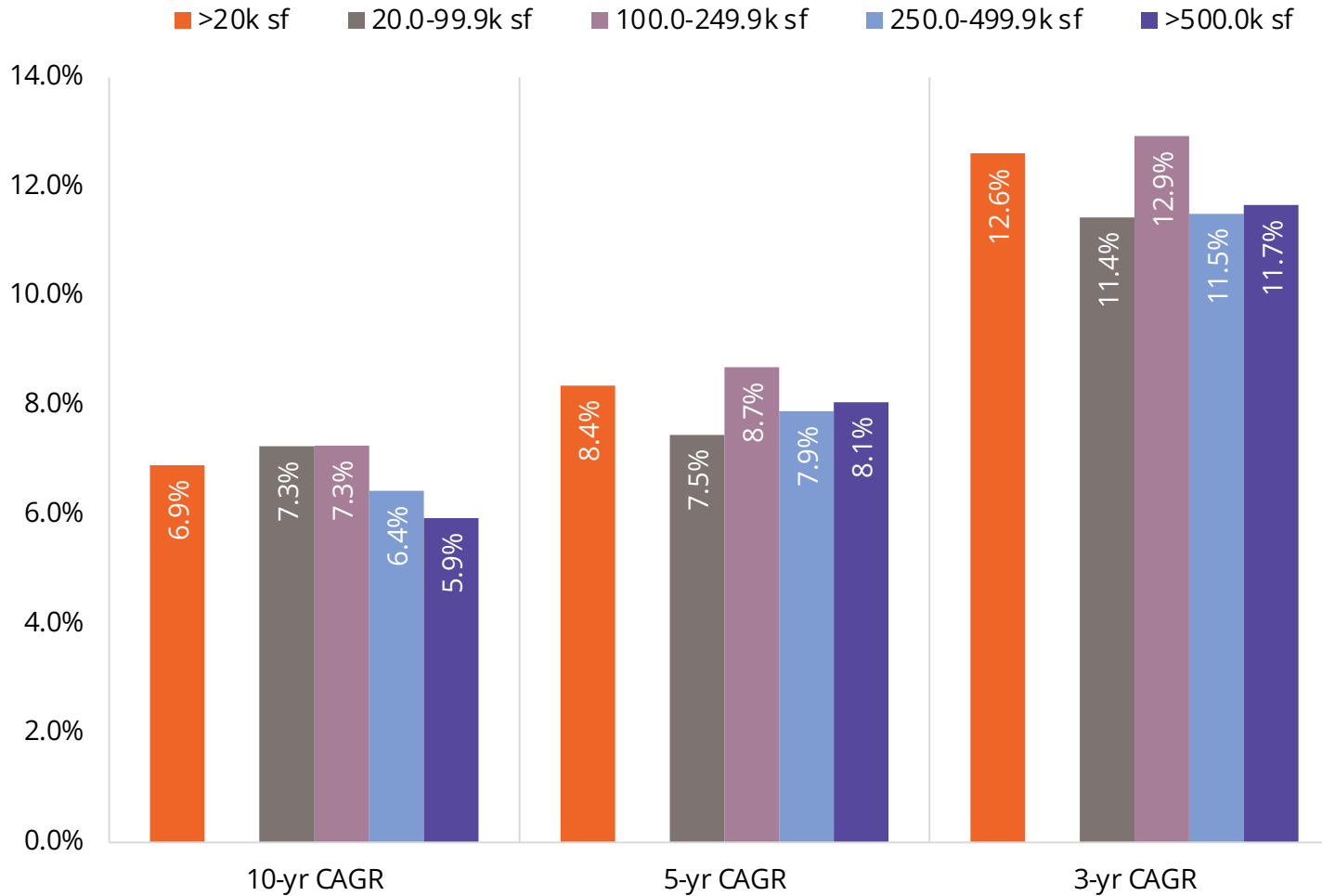
Total share of inventory



Construction pipeline



# Industrial rental rate CAGRs

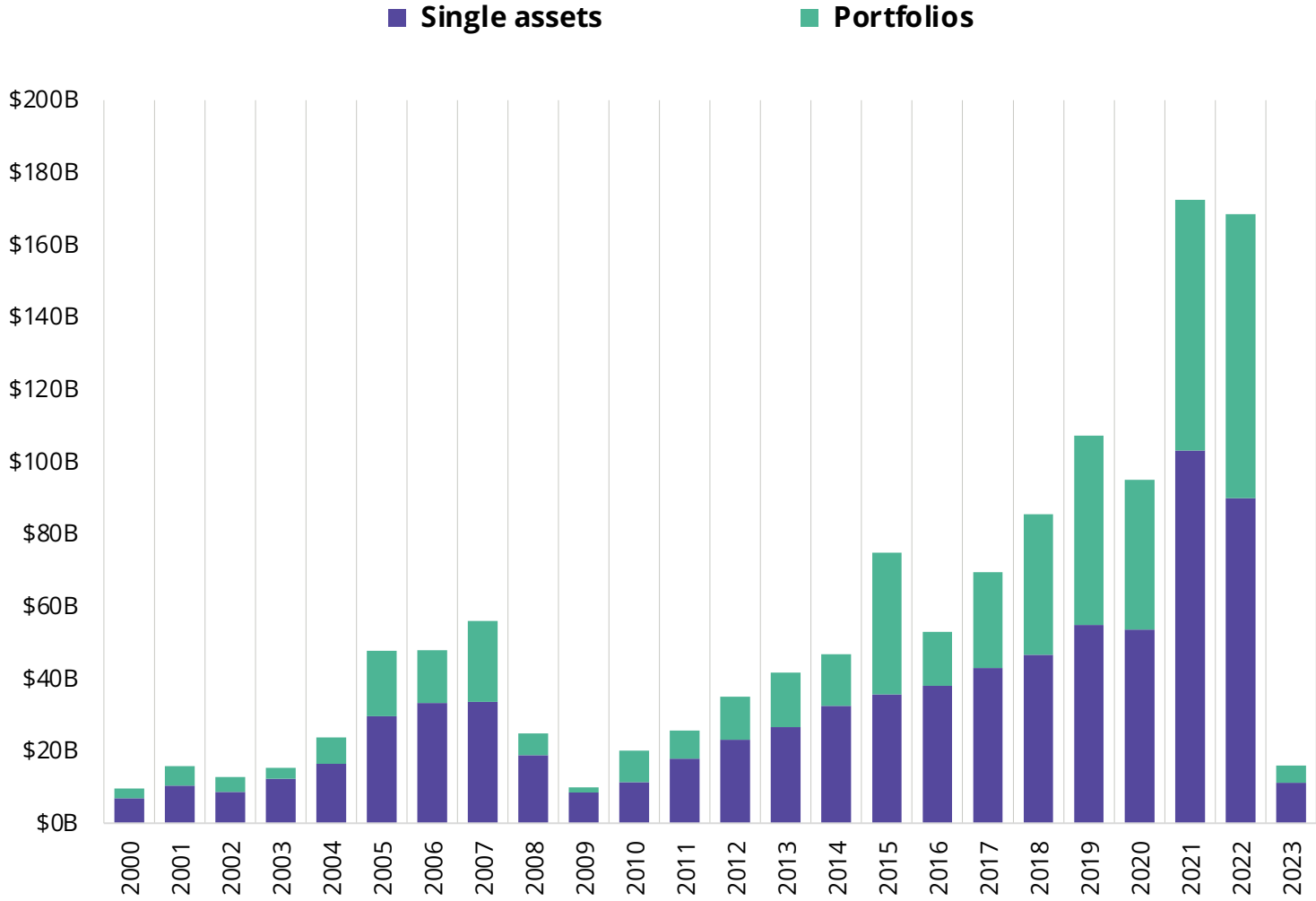


**100.0-249.9k-sf properties have experienced strong rent growth as demand remains fierce and larger assets comprise growing shares of the development pipeline.**

Note: CAGR – Compound Annual Growth Rate determined at end of first quarter of each year  
Source: Avant by Avison Young, CoStar



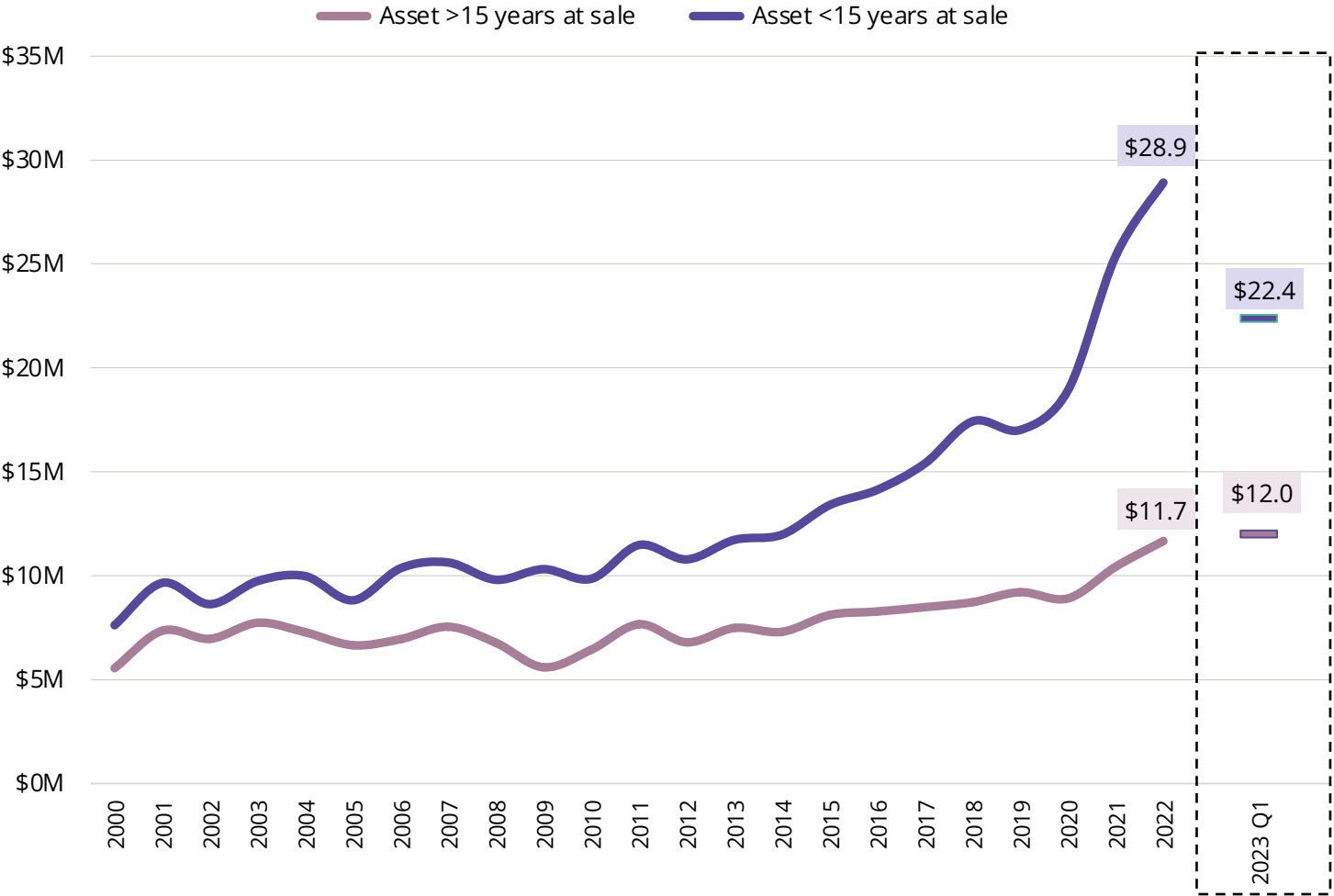
# Industrial investment dollar volume



**Institutions are positioned to continue to deploy and expand capital in the industrial sector while occupier and investment fundamentals remain challenged in the office sector.**

Note: Transactions >\$2.5M  
Source: AVANT by Avison Young, MSCI Real Capital Analytics

# Single asset deal sizes surge upward



**Newer assets' increased portion of total transaction volume continues to rise due to investor competition and record dry-powder seeking industrial exposure.**

Note: Transactions >\$2.5M. Single asset transaction building age at time of transaction.  
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

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