



# U.S. industrial market report

Q2 2023

**AVISON  
YOUNG**

# U.S. industrial market trends

**-38.6%**

**H1 2023 net absorption vs. five-year average**

Industrial net absorption remained positive but declined relative to 2021 levels in late 2022 and the first half of 2023 due to global economic and financial headwinds and record levels of new construction deliveries. If the sector's net absorption remains positive over the next three to six months, despite these new supply additions, there could be a supply imbalance in favor of developers due to the comparatively limited pipeline that has broken ground since Q3 2022.

**258.9 msf**

**H1 2023 gross leasing, on par with historic averages**

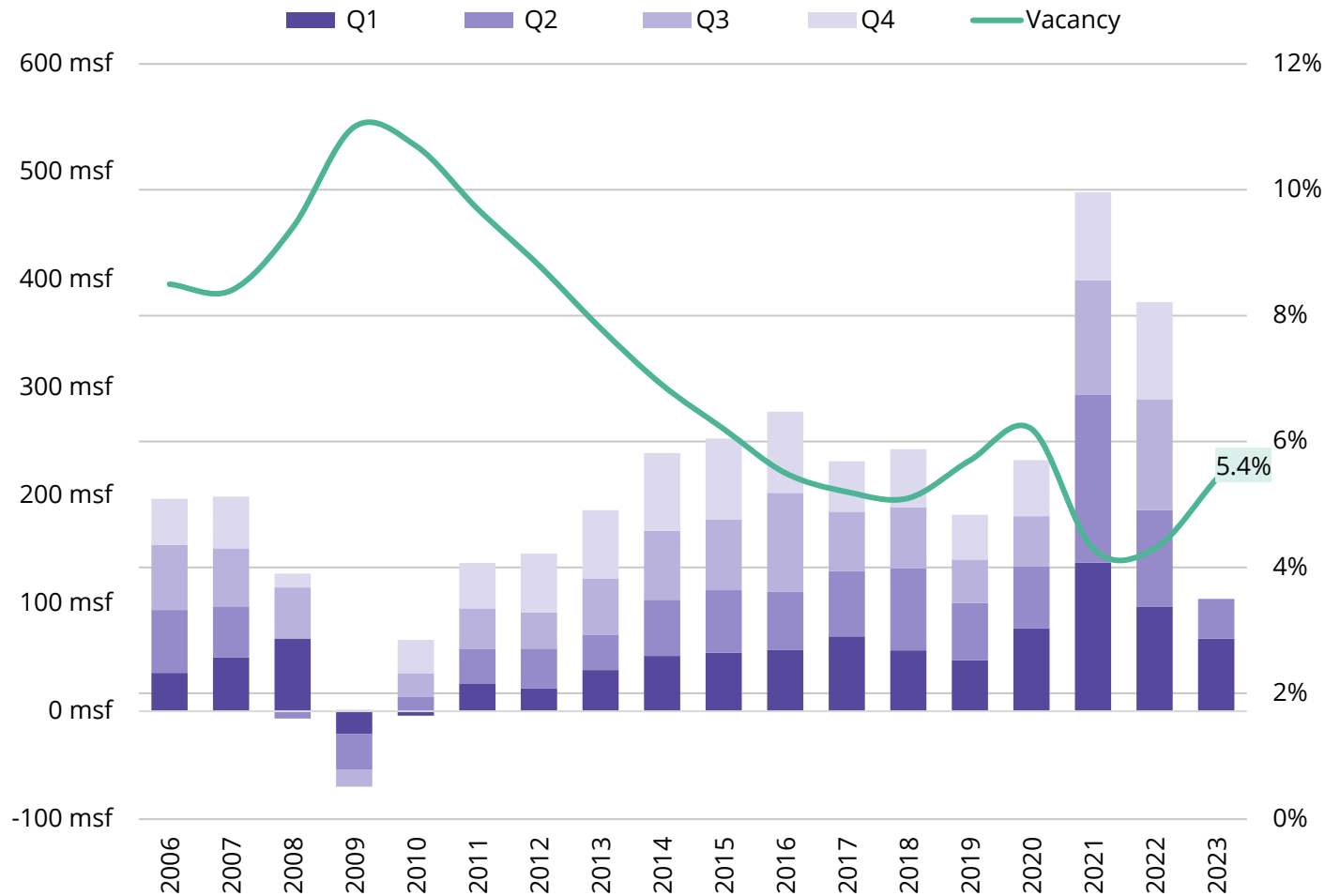
Despite a pullback in total leasing volume to start 2023, demand remains active throughout the U.S. industrial market. Several users have been delaying location decision-making to gauge whether the economy would enter a recession, halting leasing activity by over three quarters. As the economy continues to showcase resiliency, more users have been actively entering the pre-leasing process, indicating that strong leasing activity may occur in the second half of 2023.

**-16.7%**

**Construction pipeline has fallen since Q3 2022 high**

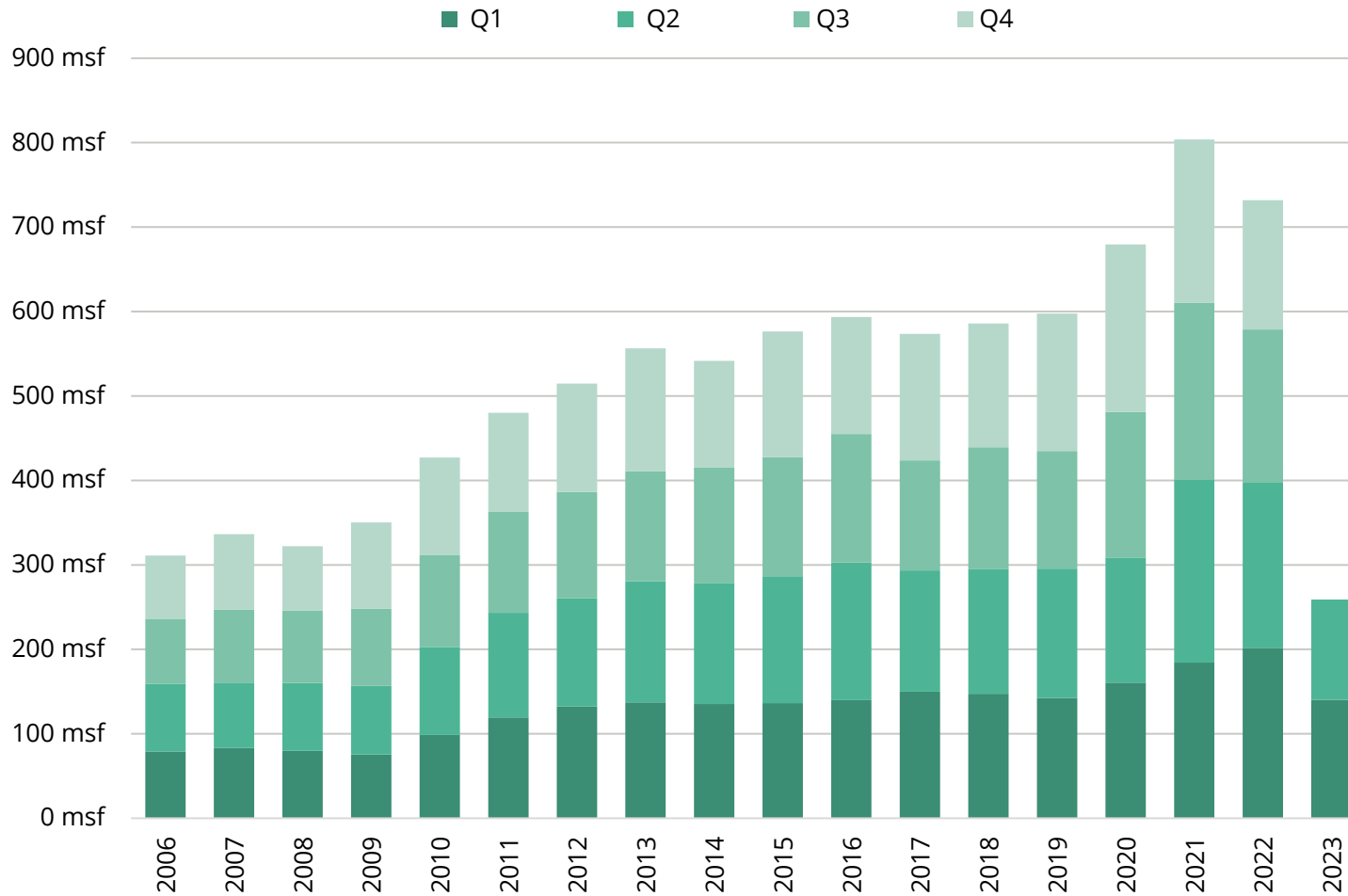
New construction groundbreakings topped out in the third quarter of 2022. We are closely monitoring the market shift that decreasing groundbreakings will have on new space availabilities in six to nine months, as tenants looking for newly constructed space may have limited optionality relative to prior years.

# U.S. industrial net absorption vs. vacancy



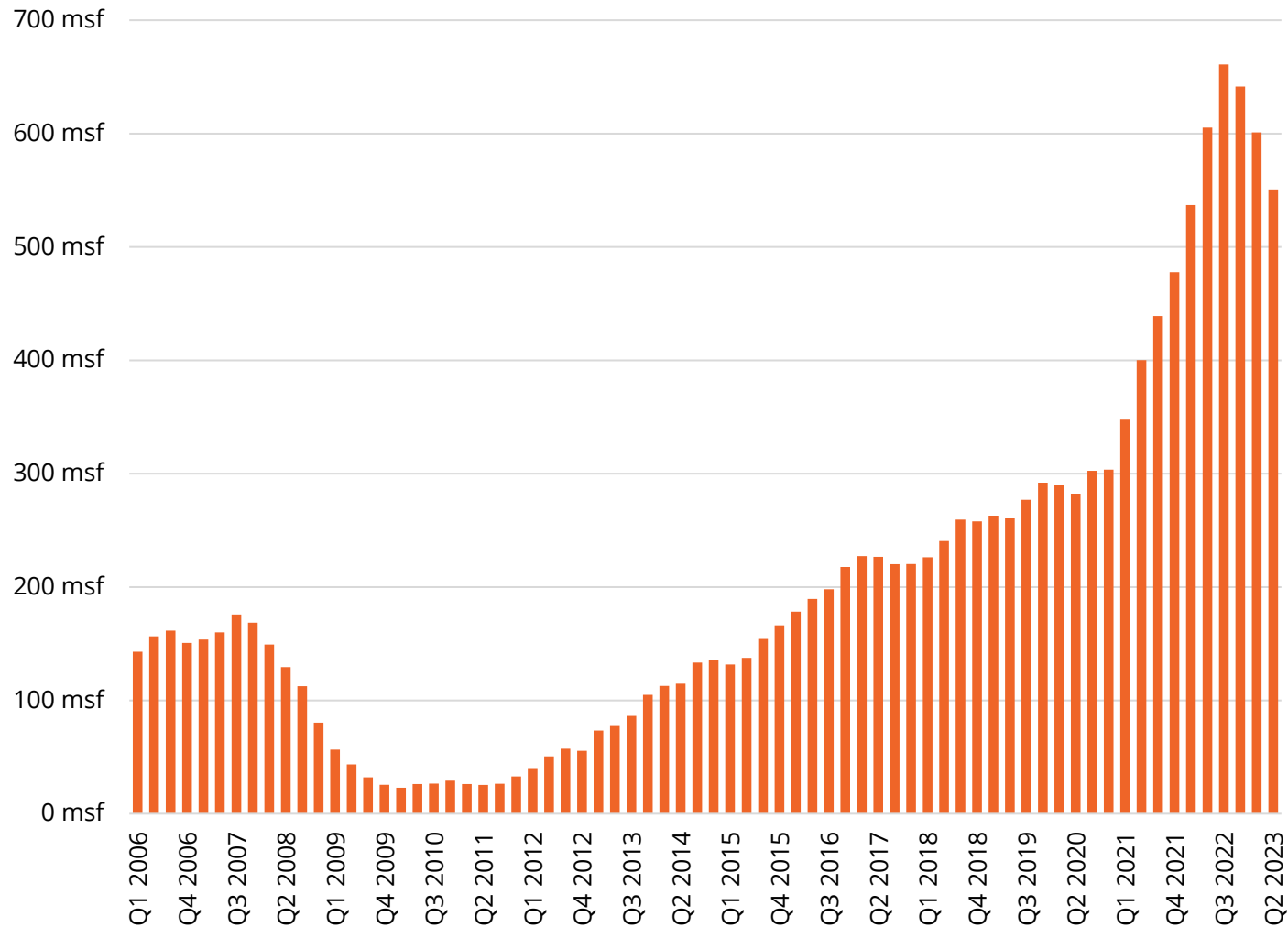
**Demand remains robust throughout the country; however, the influx of new deliveries is driving vacancies higher and net absorption lower.**

# U.S. industrial gross leasing volume



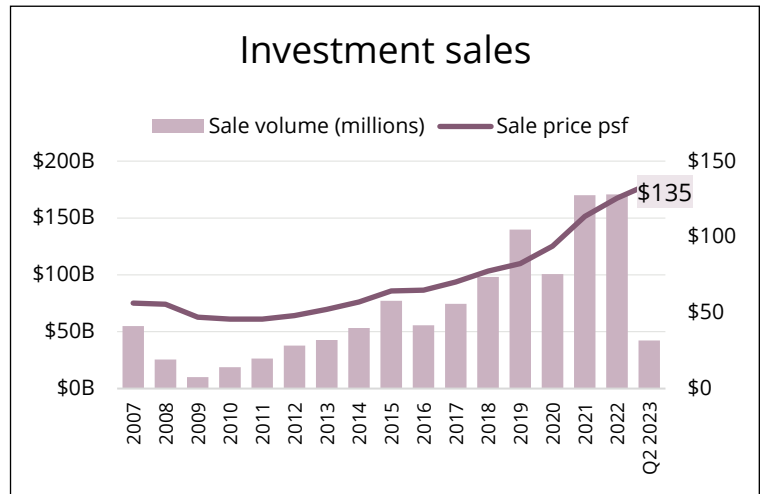
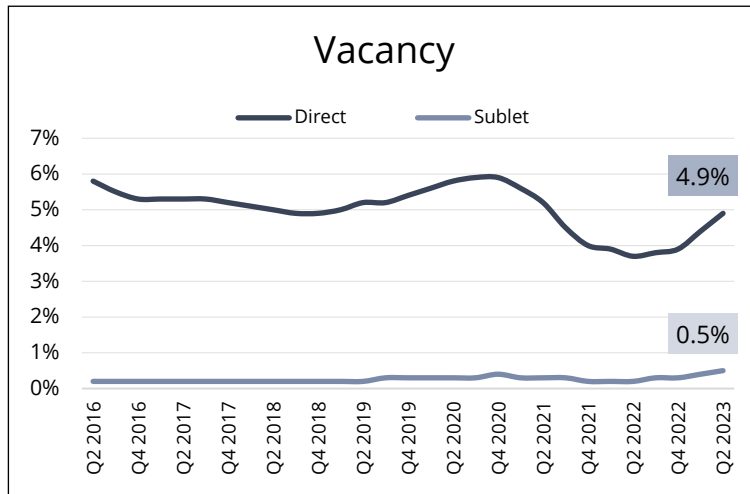
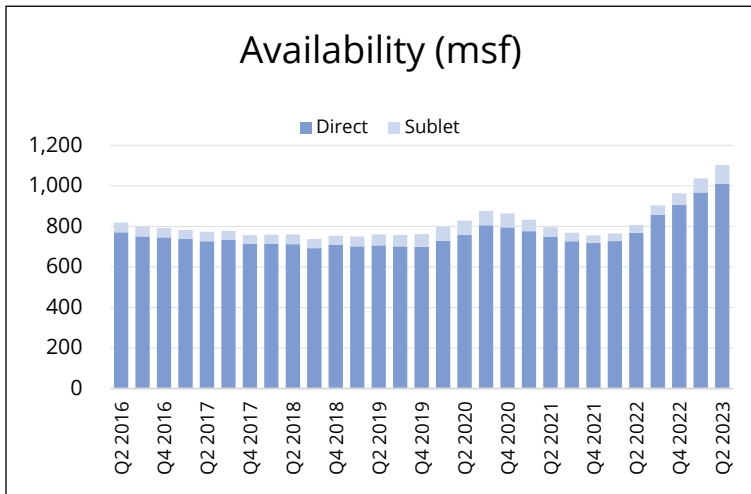
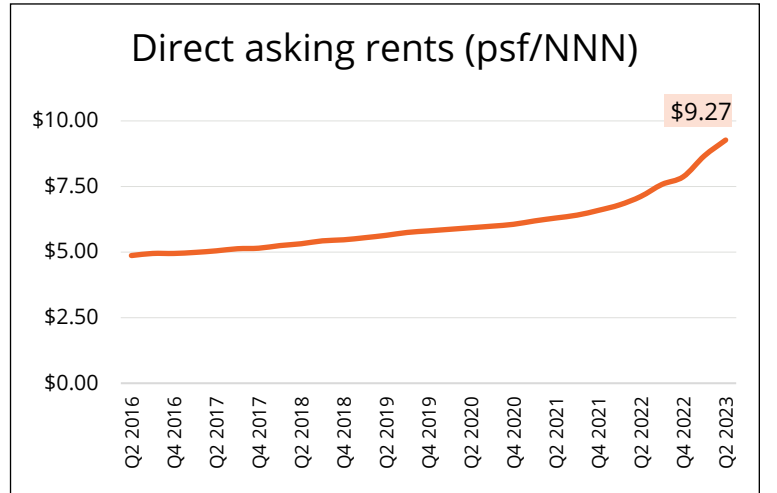
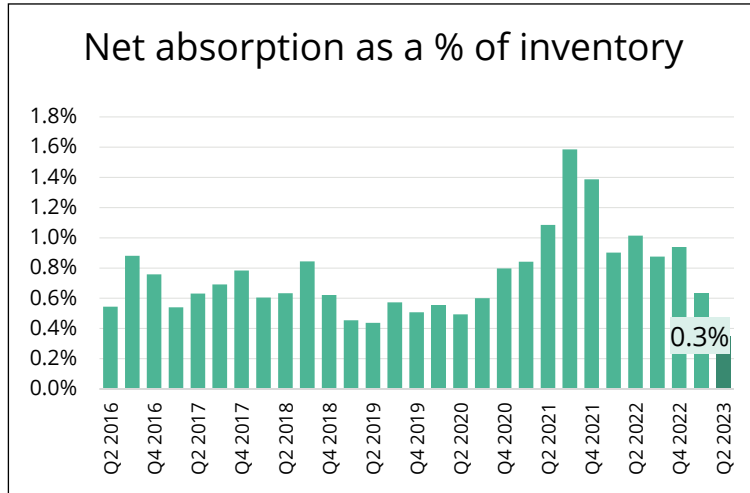
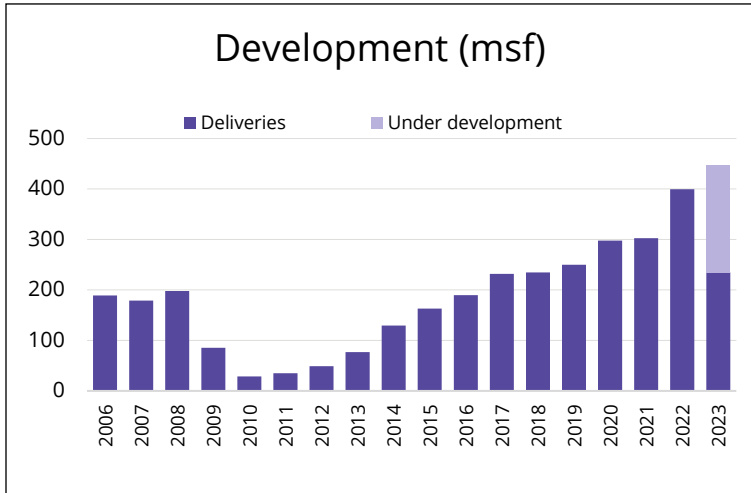
**Leasing activity declined in the first half of 2023; however, the start to the year was in line with historical averages. A strong second half is expected based on the economy's resiliency.**

# New construction ground-breakings

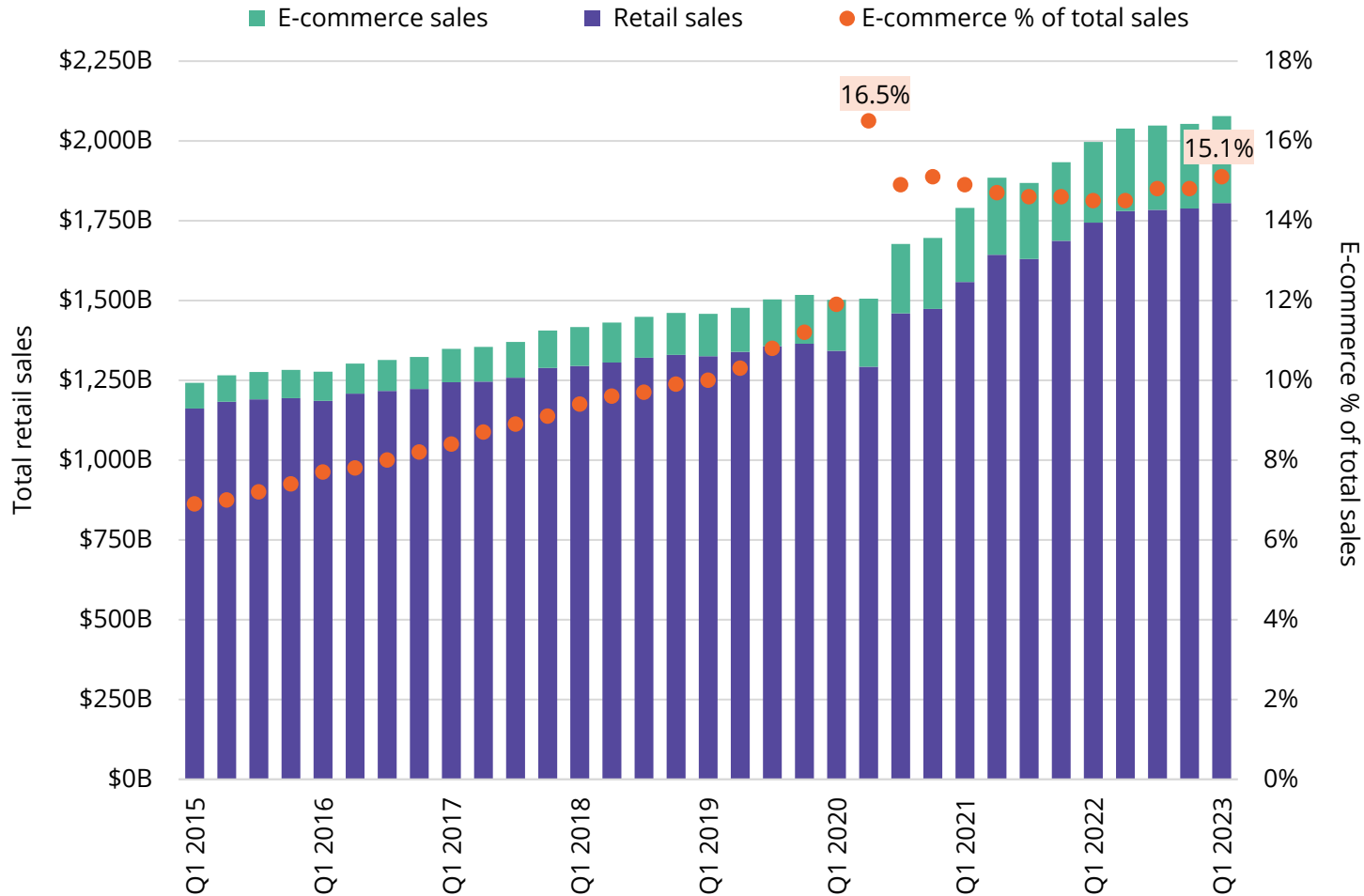


**Groundbreakings have stalled, limiting long-term supply concerns, as access to construction loans has been challenging since Q3 2022.**

# U.S. industrial market indicators

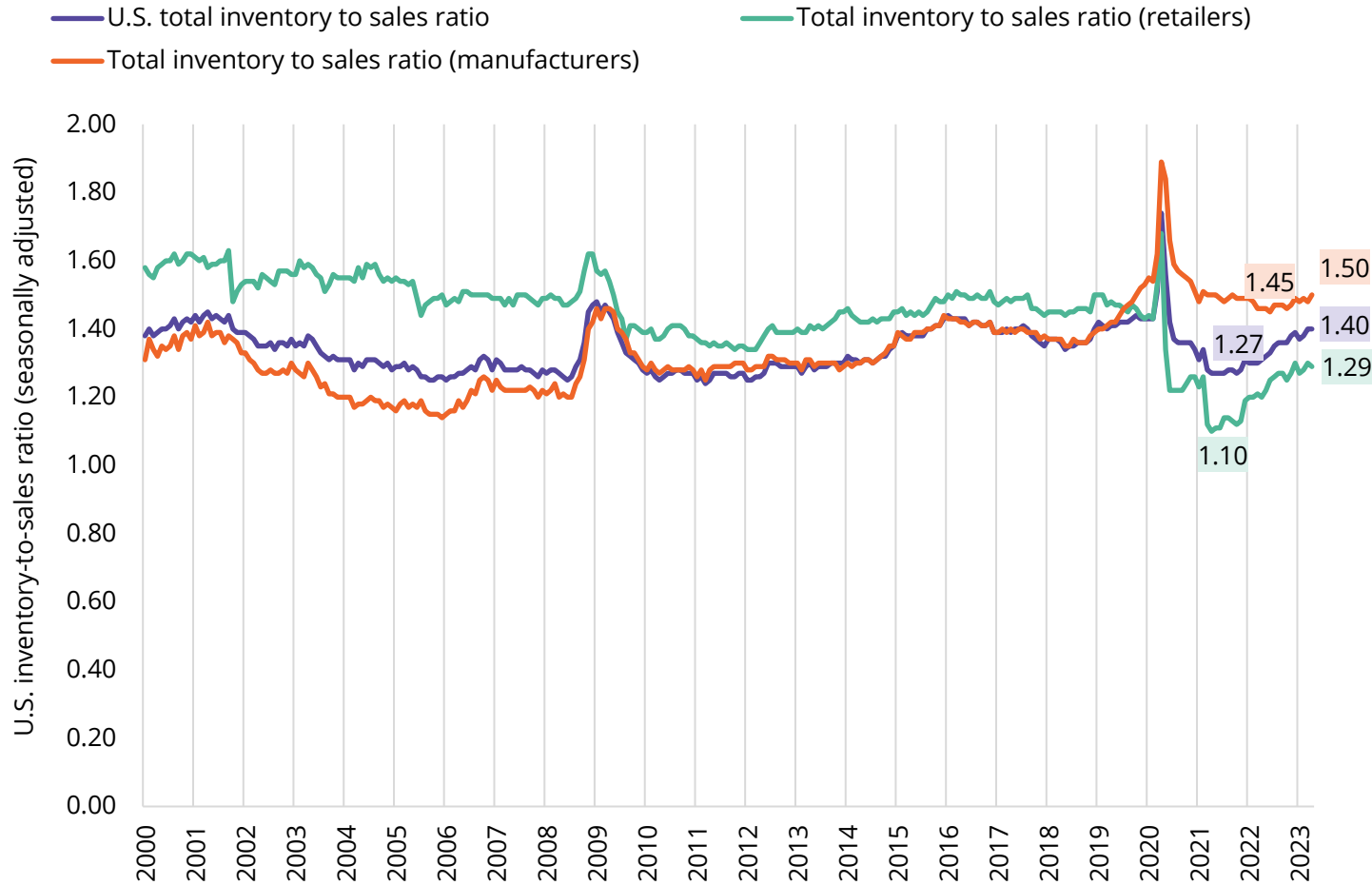


# Continued e-commerce growth



**E-commerce retail spending increased at a +19.5% annualized rate since 2019, indicating accelerated e-commerce industrial demand is sustainable.**

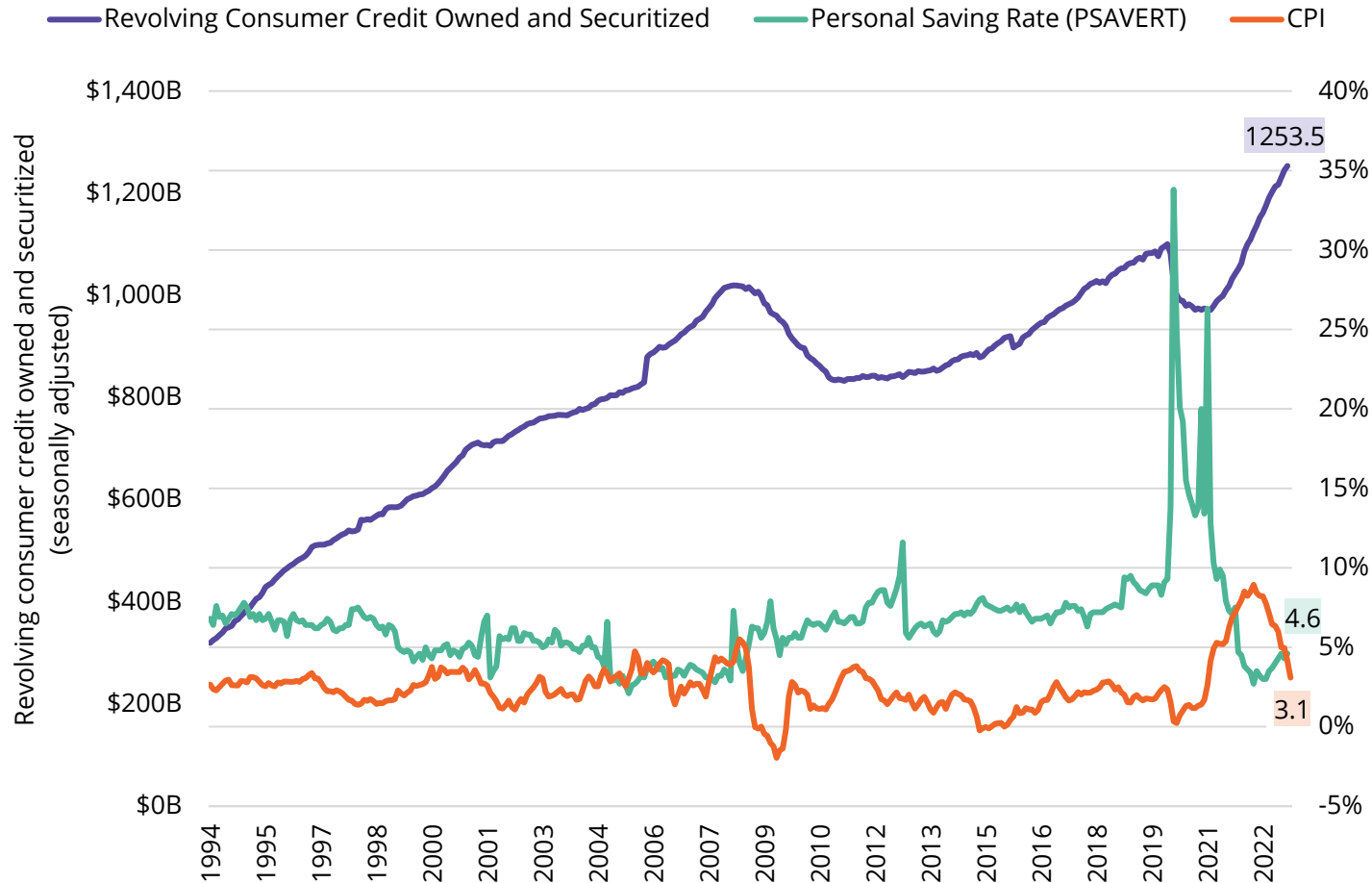
# Inventory-to-sales ratios



**Economic uncertainty and consumer strength influenced industrial occupiers to pause their expansion decisions, with exceptions in rapid growth markets.**



# Consumer conditions



**Consumer credit utilization continues to surge to historic highs as core inflation – despite recent declines – left many consumers borrowing to pay for increased costs.**

**Student loan relief is set to expire in October, adding \$200+ per month in average payments to borrowers**

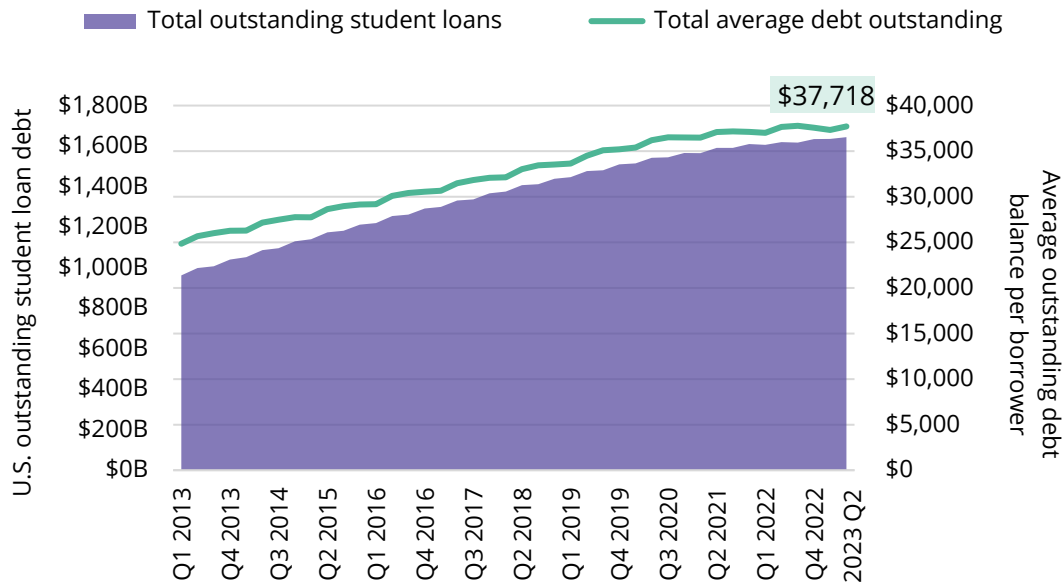
**\$1.65T**

U.S. outstanding student loan debt as of 6/30/2023, +64.7% in 10 years

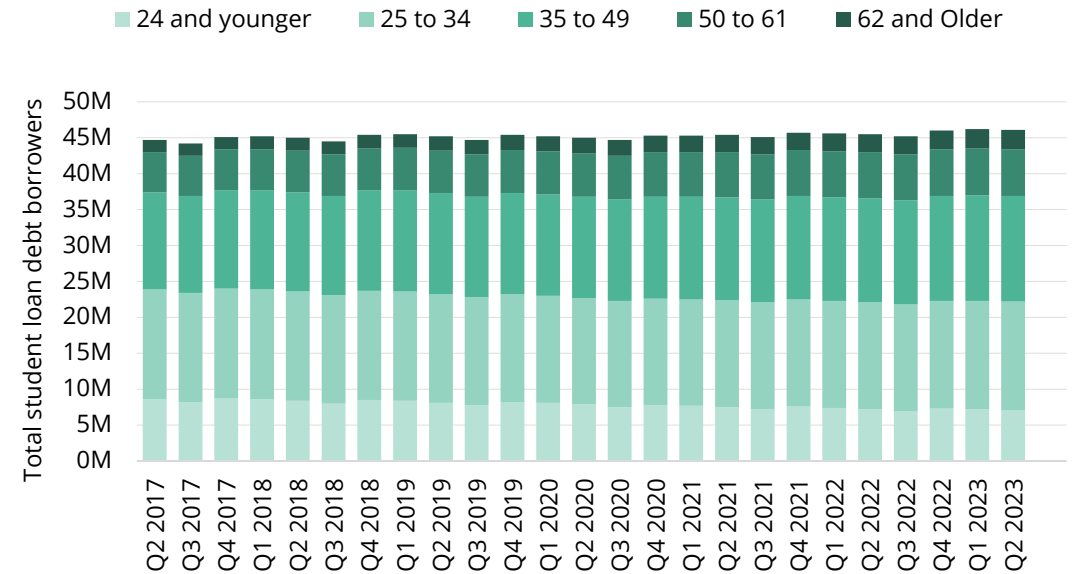
**48.2%**

Number of borrowers in key e-commerce demographic with student loan debt

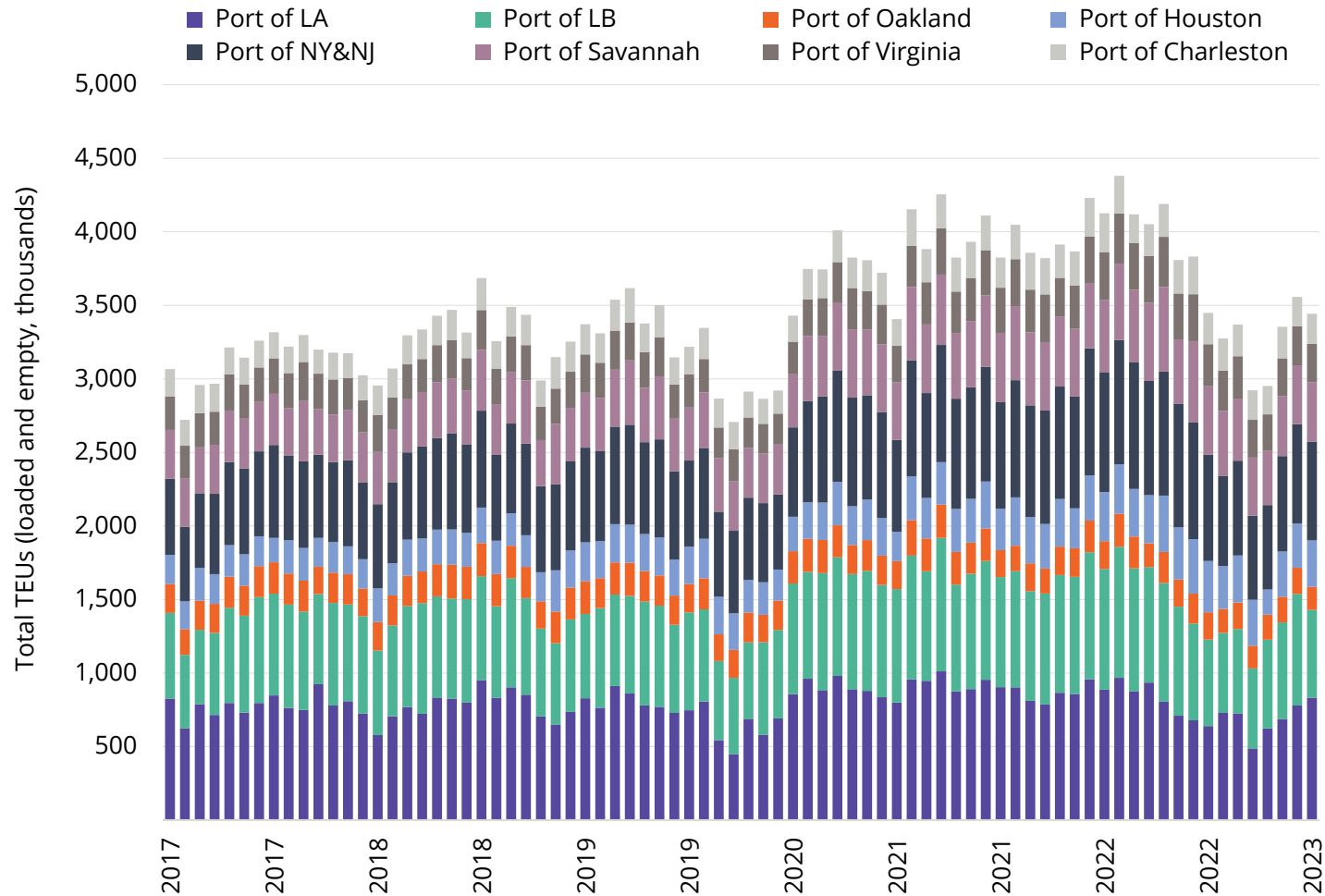
**Outstanding student loan debt & avg. debt per borrower**



**Student loan debt borrower age**



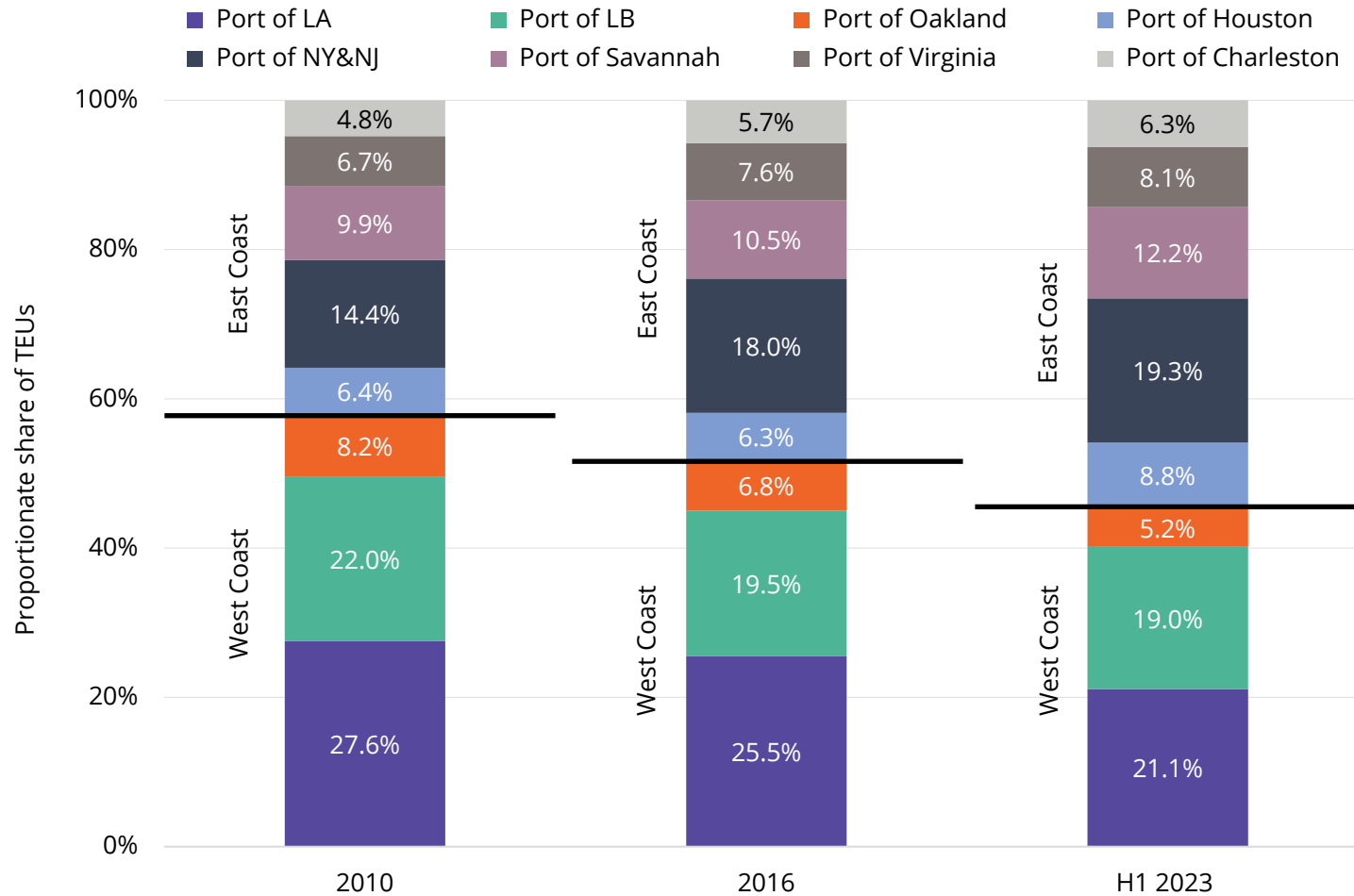
# Port container volumes



**Overall port volume hits the third-highest total in history in the first half of the year, as the slow start to 2023 has given way to resurgent activity.**

Note: Port of Virginia data begins in 2009. Source: AVANT by Avison Young, Individual Port Authorities \*Most recent data through June totals (Ports of Savannah & NY&NJ are based on 5-year averages as data not yet published)

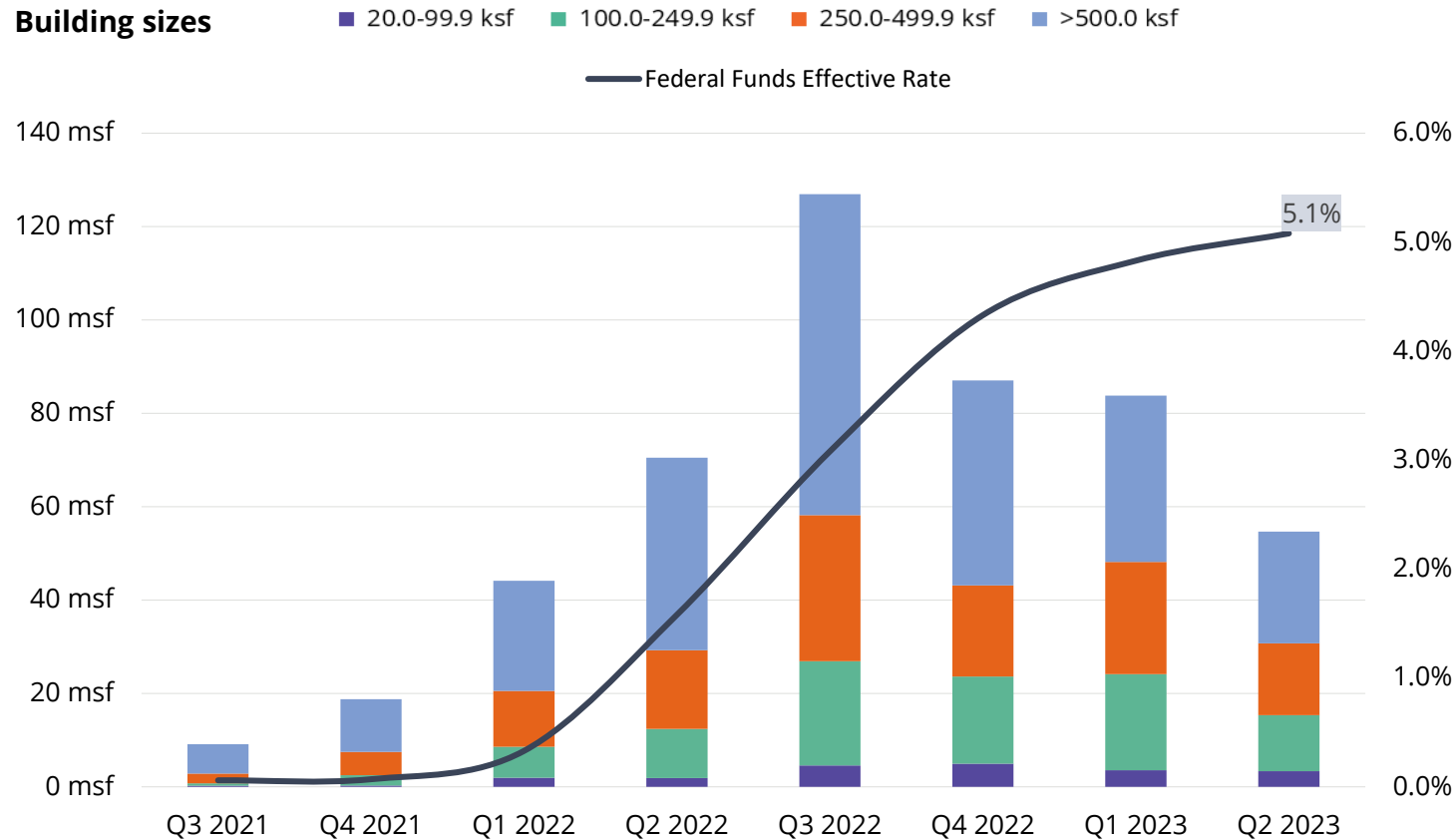
# Ports' share of total container volume



**The Port of Long Beach and Los Angeles fell to 40.2% of total TEU volume, the lowest level recorded, due to reshoring efforts and an elevated focus on supply chain diversification.**

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# Groundbreaking and Federal Funds Rate

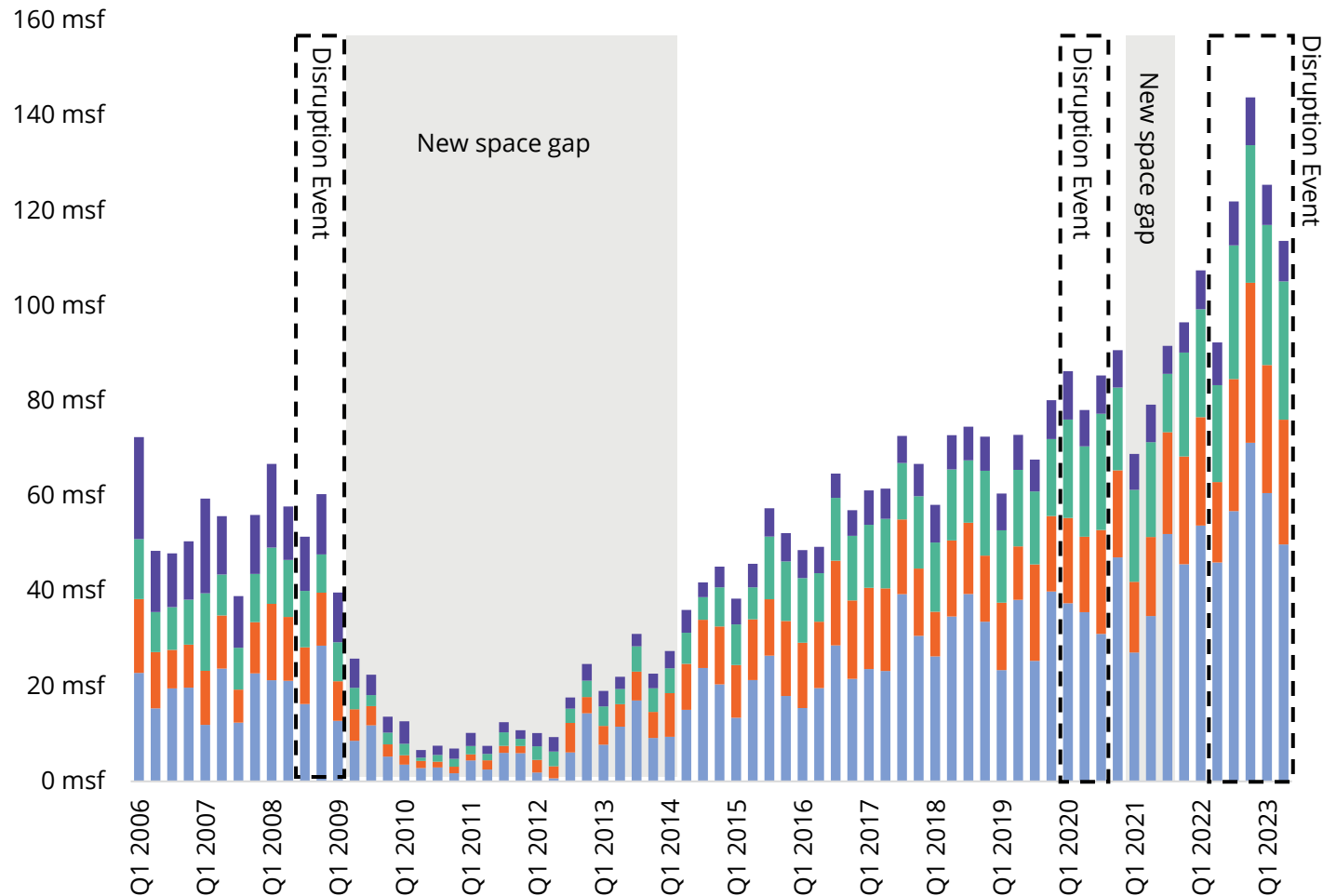


**Rising borrowing and construction costs are poised to cause future new construction supply shortages.**

# Industrial new construction deliveries

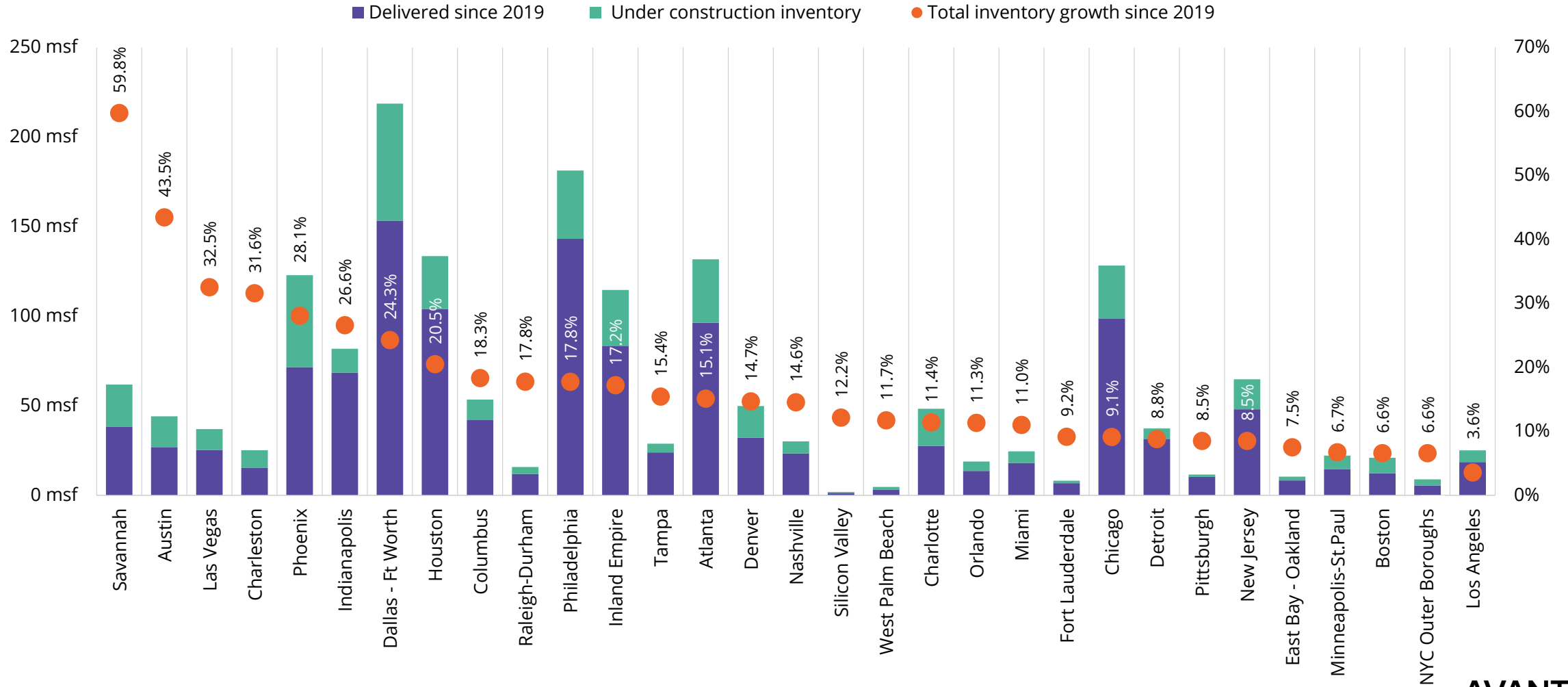
## Building sizes

■ 20.0-99.9 ksf  
 ■ 100.0-249.9 ksf  
 ■ 250.0-499.9 ksf  
 ■ >500.0 ksf

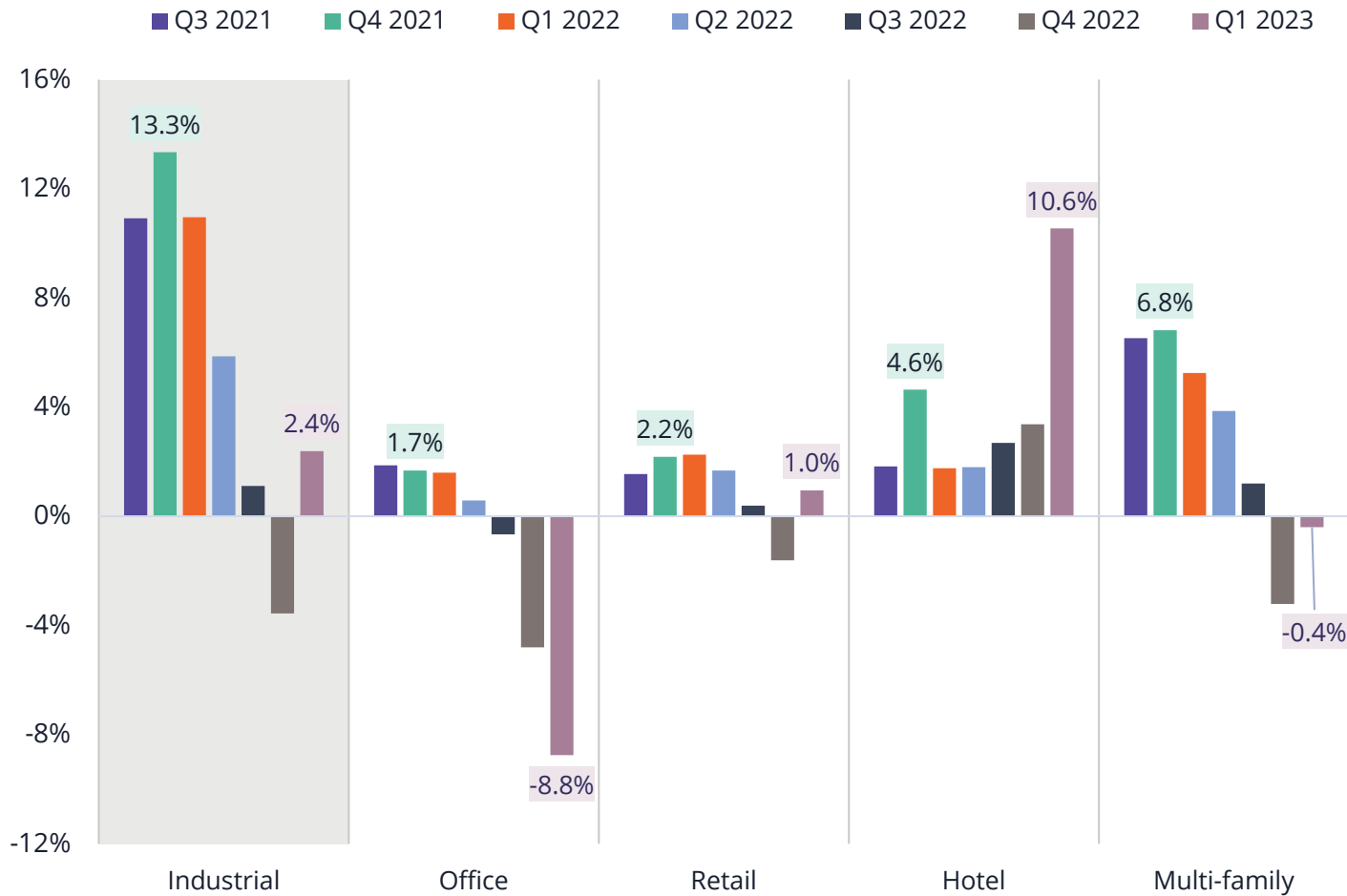


**A sizable gap in deliveries can be expected in 12-18 months due to challenging capital markets conditions and the lack of new ground-breakings.**

# Significant industrial inventory growth since 2019 has some worried about the prospects of oversupply in select markets



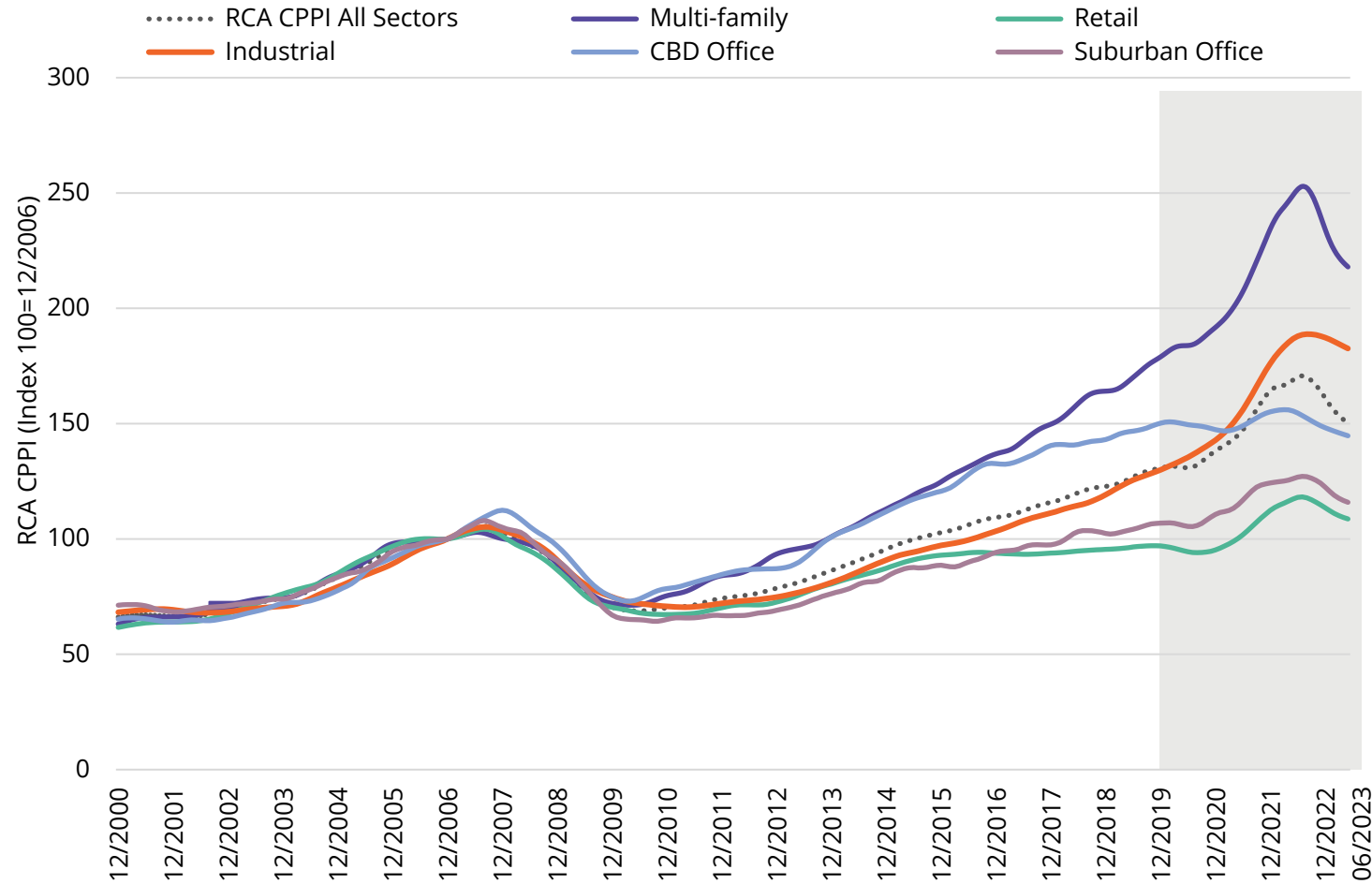
# U.S. NCREIF NPI quarterly returns



**Continued escalating cash flows are still driving investors to the industrial sector despite the factors that are curtailing investor underwriting and deal velocity.**

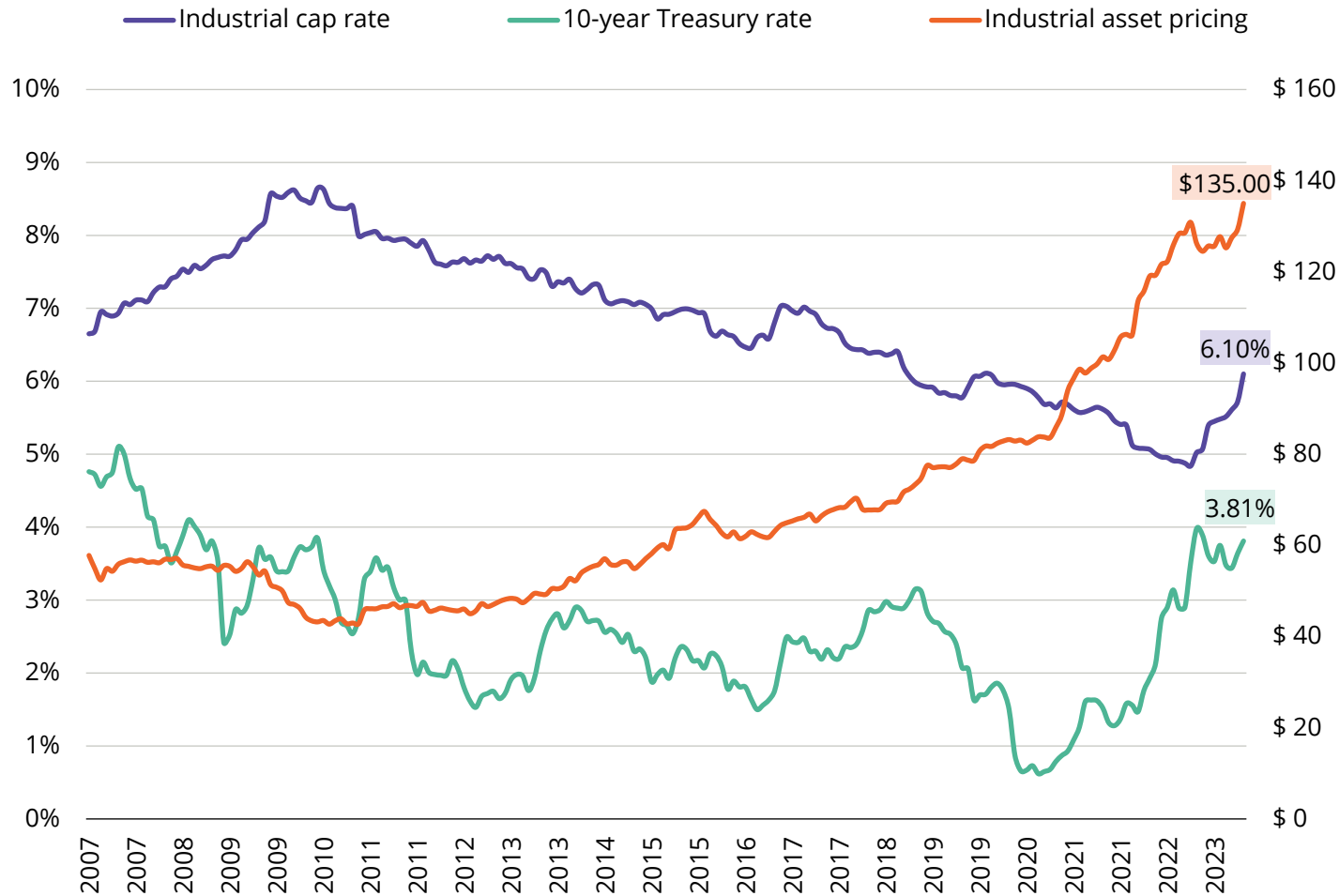


# RCA Commercial Property Price indices



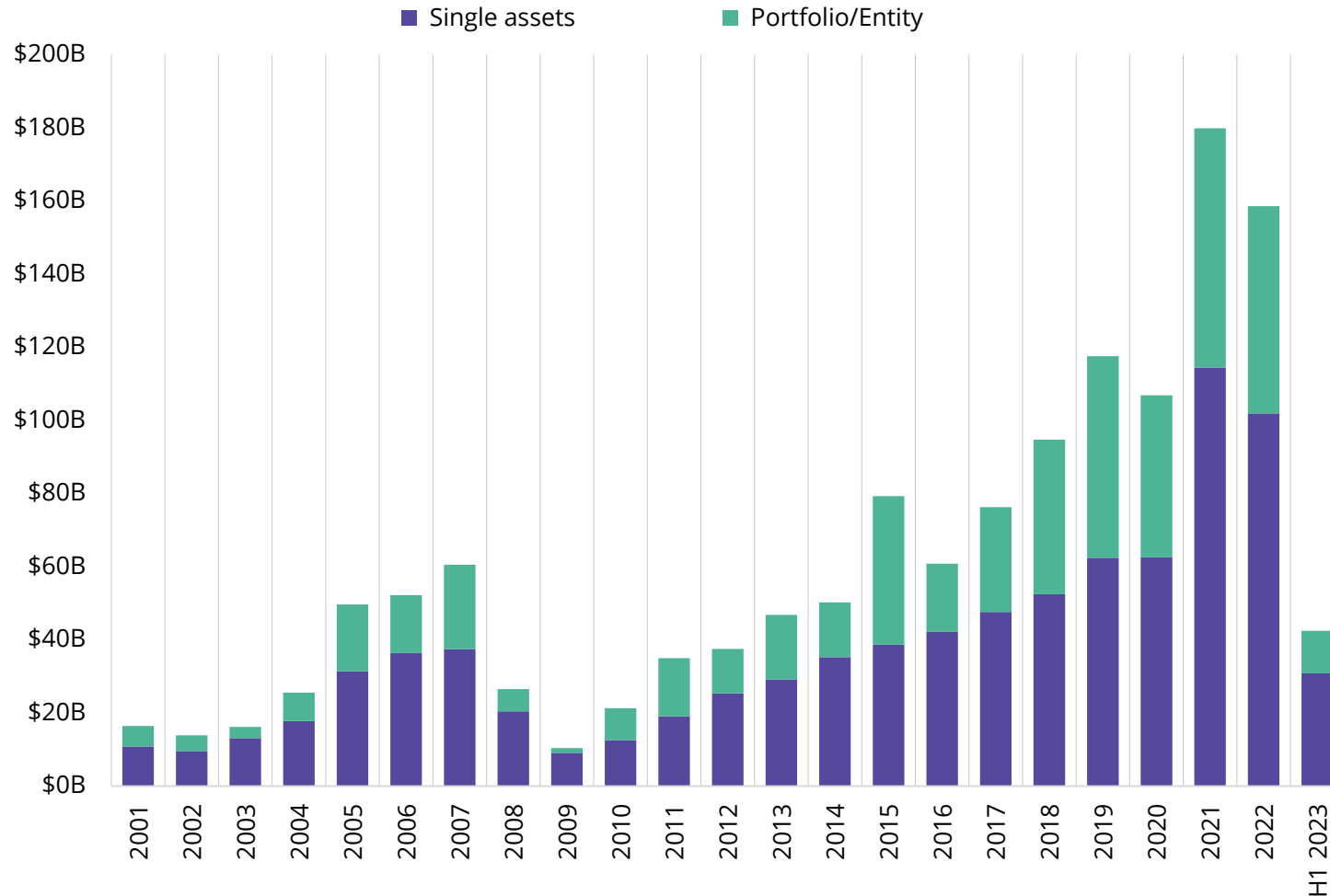
**Industrial asset pricing, despite dipping from record highs, continues to maintain gains greater than any other peer sector.**

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



**Industrial cap rates continue to rise as risk-free rates surge and as investors focus on cash-flow improvement instead of asset appreciation.**

# Industrial investment dollar volume



**Single-asset transactions have dominated the limited deals that were on the market in 2023. However, there are historic dry-powder levels awaiting more economic certainty to build their industrial exposure.**

# 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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