



U.S. industrial market report

Q4 2024

**AVISON
YOUNG**

U.S. industrial market trends

8.7%

national vacancy rate upticks to highest point since 2012

Industrial net absorption remained positive in 2024 but continued to decline due to global economic, political, and financial headwinds, coupled with record levels of new construction completions.

Peak deliveries have passed in every market nationally. Despite recent rate cuts by the Federal Reserve, further cuts remain questionable for 2025 as increasing inflation continues to start the year.

The decline in deliveries is allowing markets to digest the excess space that flooded the sector for five quarters.

-3.1%

gross leasing below pre-COVID five-year average in 2024

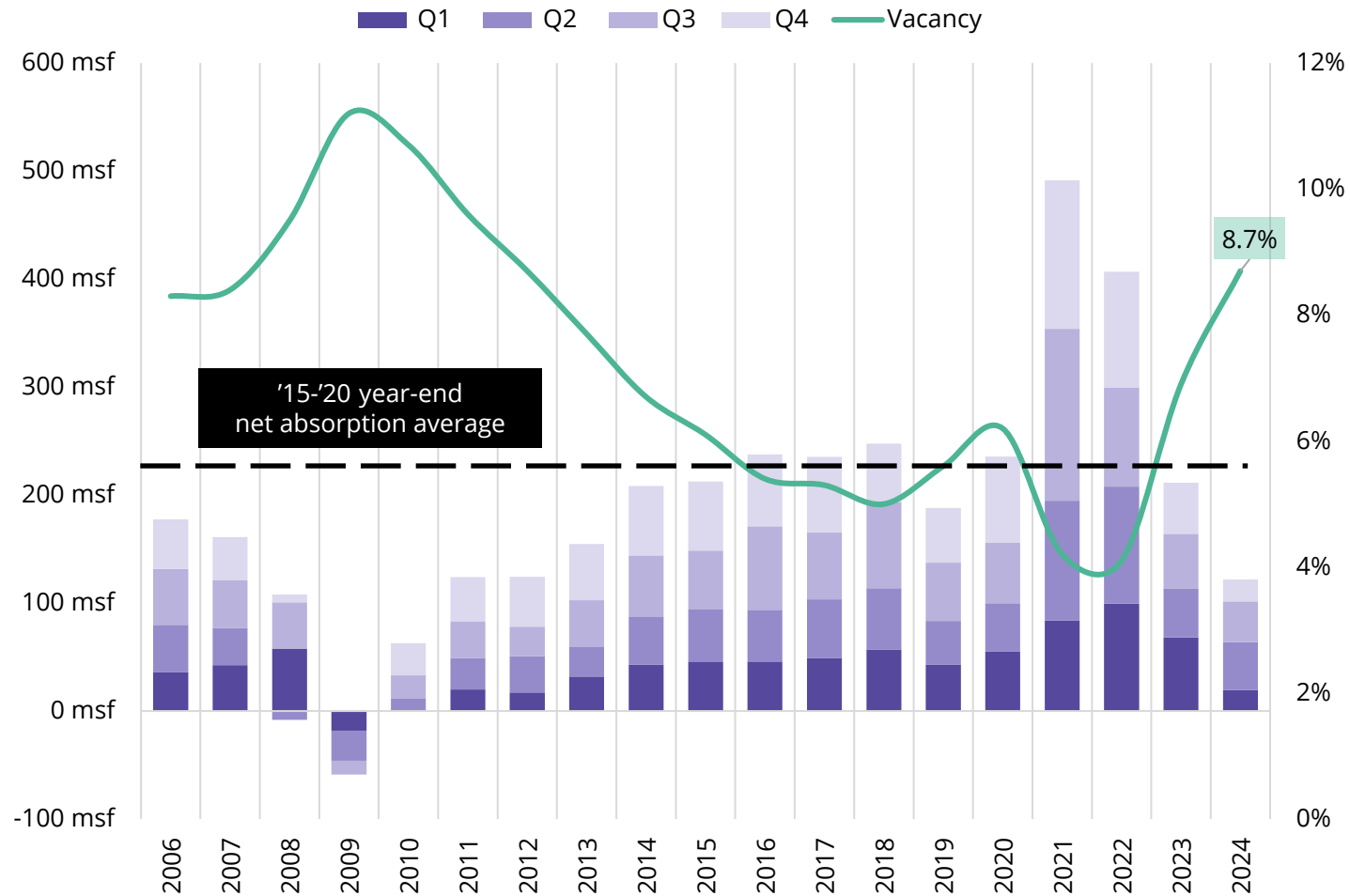
Overall leasing volume for 2024 was only slightly lower compared to historical levels, however pre-leasing activity such as touring and expansions requirements for industrial demand picked up following the U.S. national election. Election uncertainty, the East and Gulf Coast port worker strike, and a lack of interest rate cuts led many tenants to pause decisions until the beginning of 2025. With the election now finished, clearer economic conditions and increasing occupier requirements are likely to translate to upticks in overall gross leasing activity in the start of 2025.

-63.0%

construction pipeline down from peak in Q3 2022

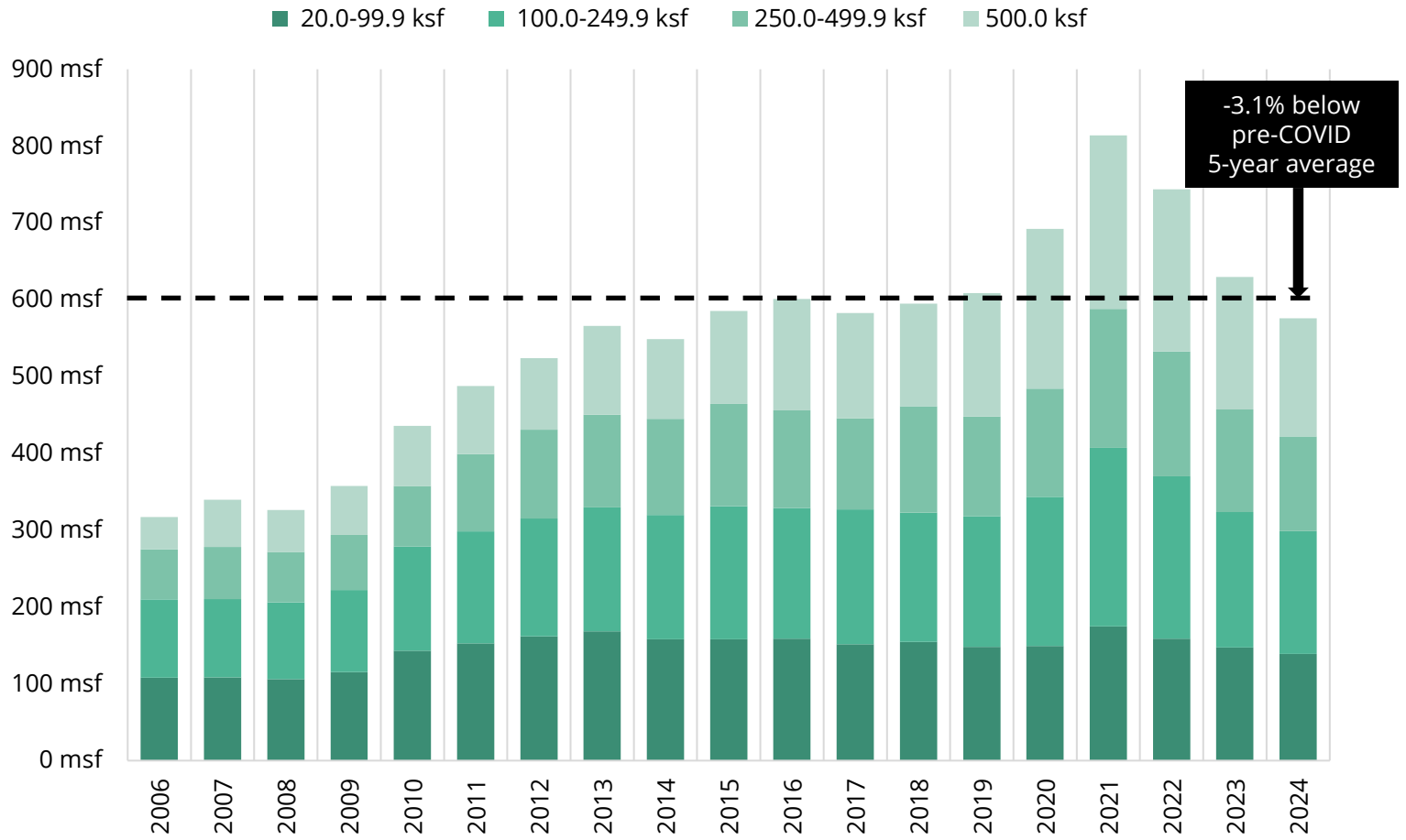
New groundbreakings topped out in the third quarter of 2022, and very limited replacement activity has been observed in the construction pipeline in 2023 and 2024. After topping out at nearly 700 million square feet (msf) in 2022, the overall construction pipeline fell to under 250 msf by the end of 2024. We are closely monitoring the market impact that decreasing groundbreakings will have on new space availabilities in three to six months, as tenants looking for newly constructed space may have limited optionality relative to prior years.

U.S. industrial net absorption and vacancy



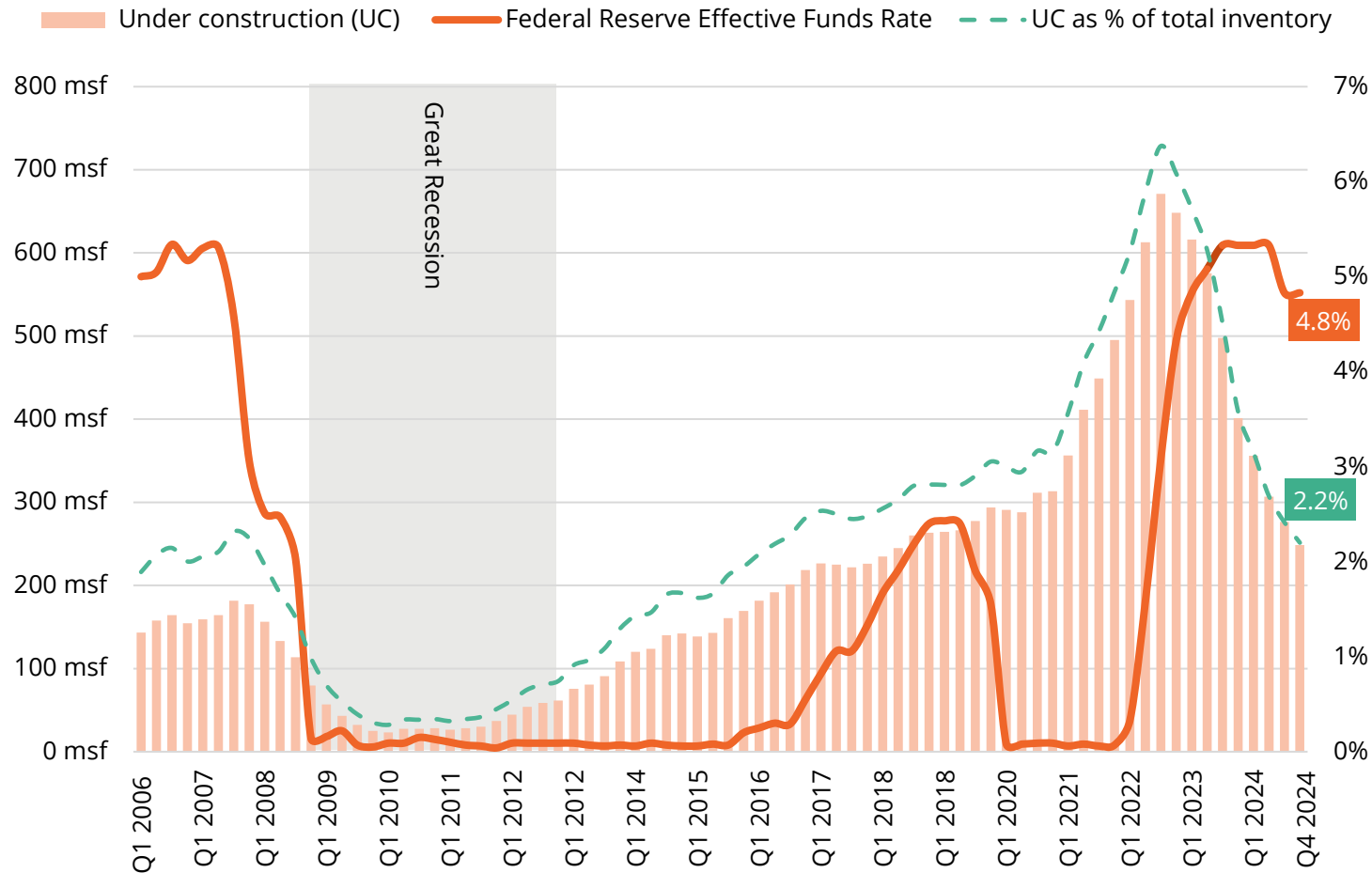
The market has peaked in terms of new supply, which led to the slowest increase in vacancy since 2022. Net absorption remained positive nationally despite stagnant leasing activity; however, new momentum from U.S. election will materialize into signed leases in 2025.

Industrial gross leasing volumes nearly back to pre-COVID average



A laggard indicator, total leasing volume appears to have bottomed out and is set to ramp back up with the certainty of the U.S. election, a long-term contract with the East/Gulf Coast Port workers, and strong trade policy aimed at aiding U.S. manufacturing investment. Pre-leasing activity, such as touring and evaluation of new space requirements, accelerated immediately following the election, indicating that a large jump in signed leases will be expected starting in Q2 2025.

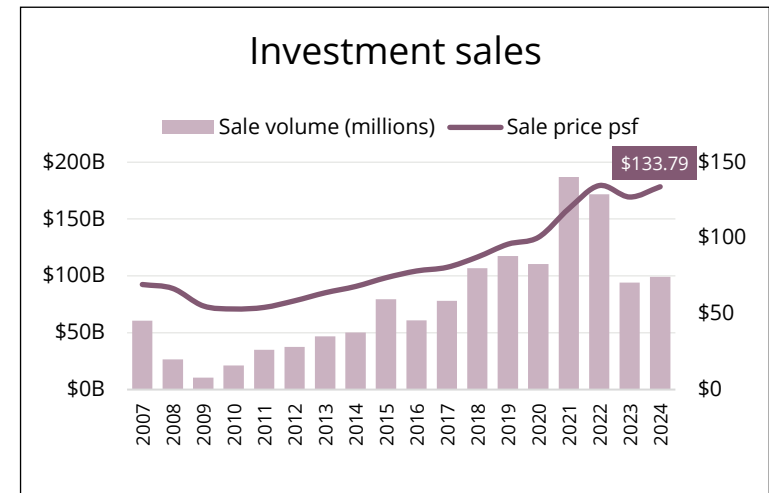
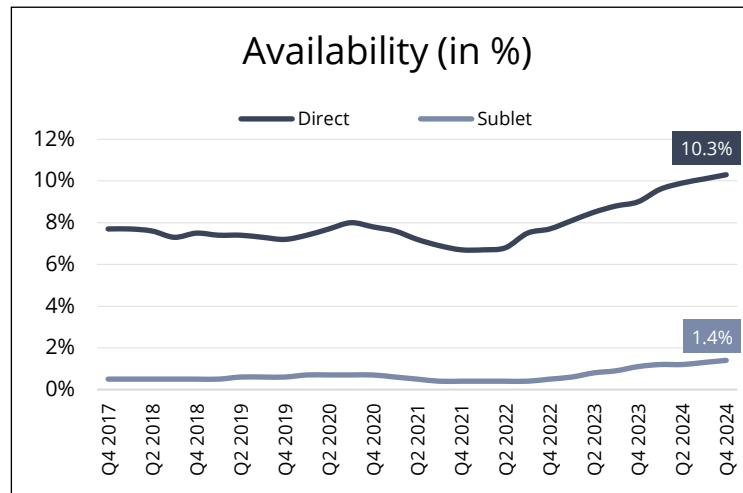
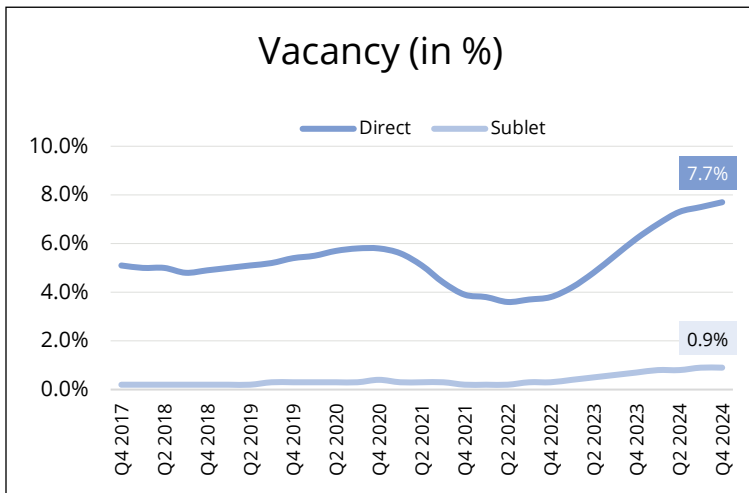
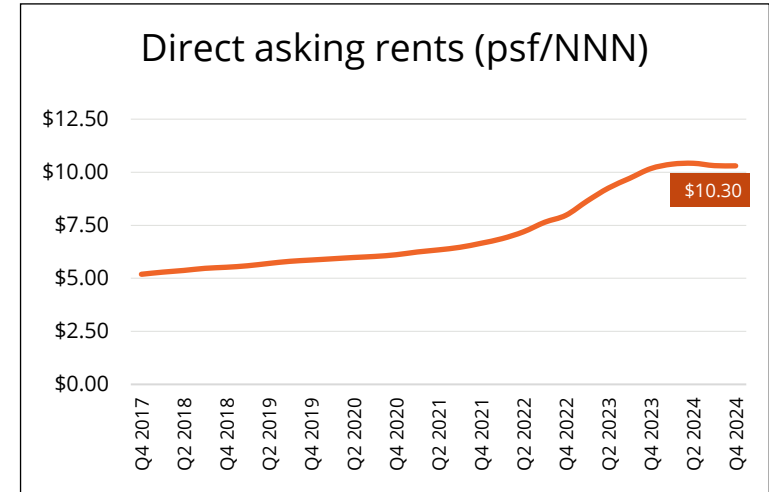
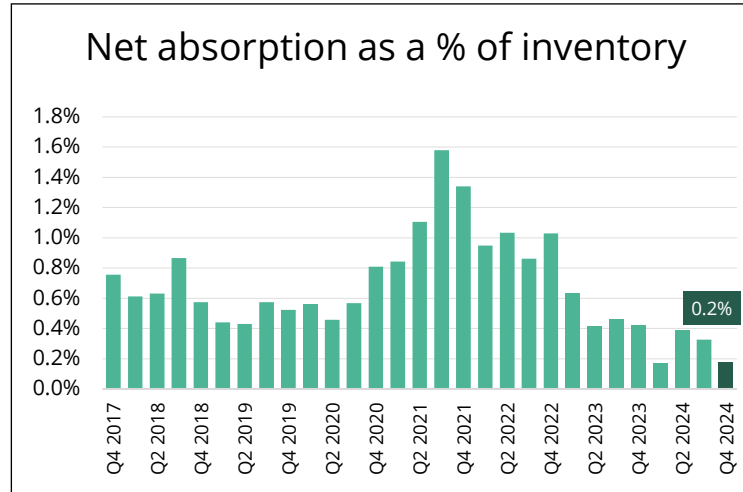
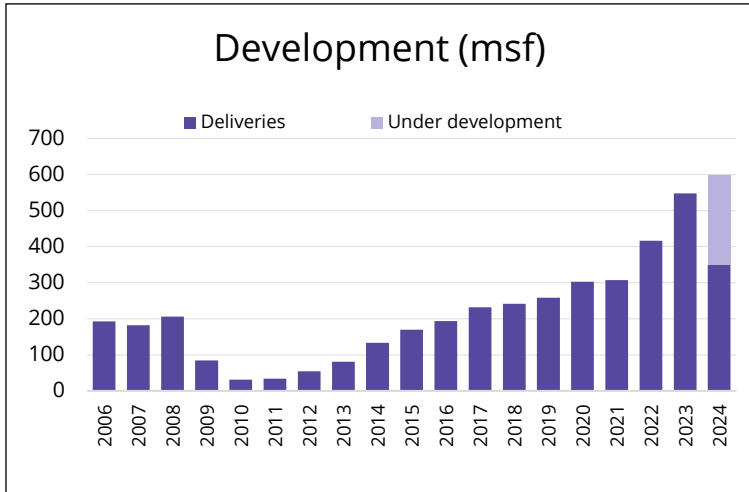
Continued drop in construction pipeline will lead to new space gap if leasing elevates quickly



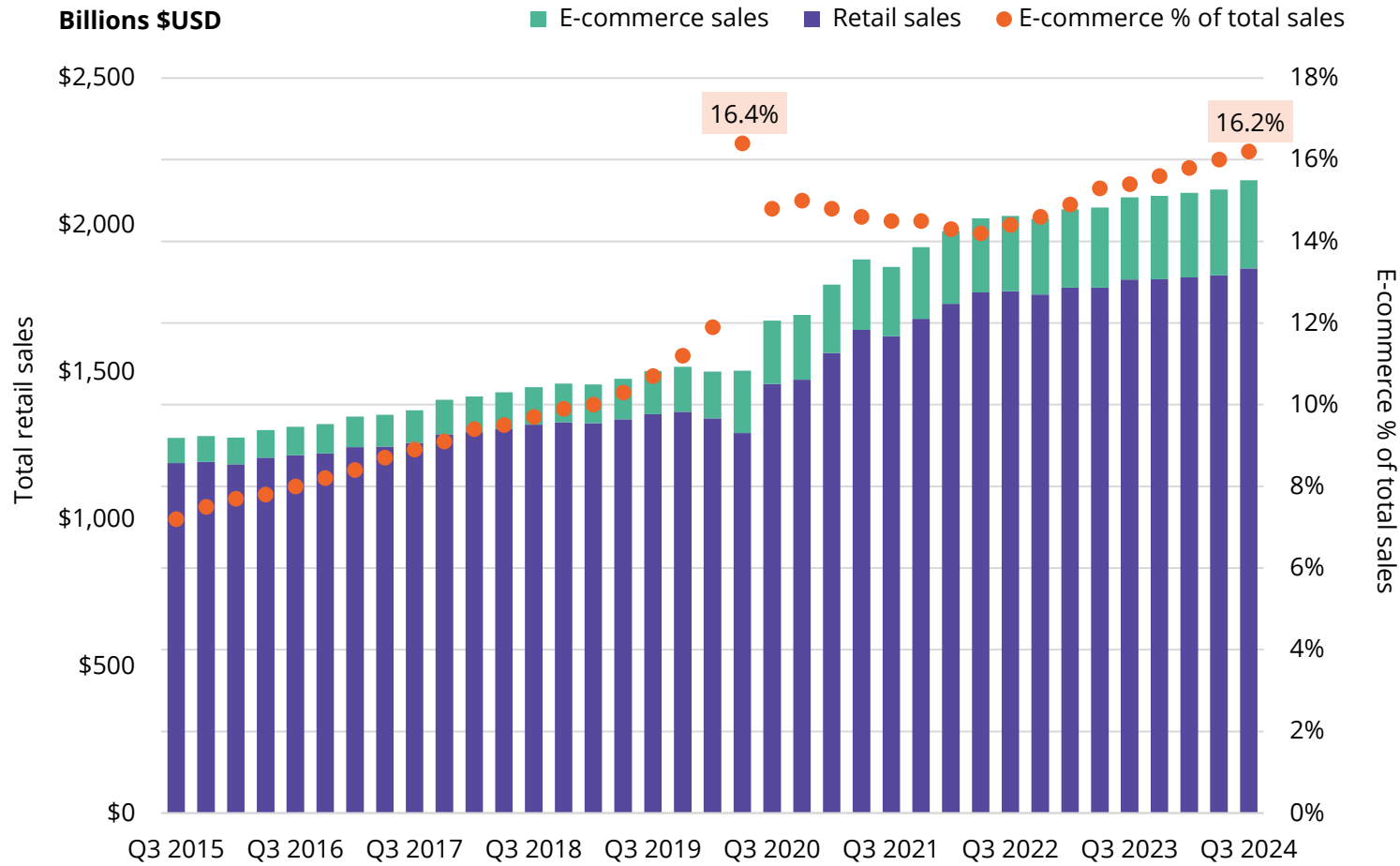
The construction pipeline has decreased to its lowest levels since Q2 2016 and is expected to reach lows not seen since the aftermath of the Great Recession.

As effective funds rate drops, and users have confidence in space decision making due to U.S. election, demand may quickly outpace availability toward the end of 2025, leading to elevated rental rates.

U.S. industrial market indicators

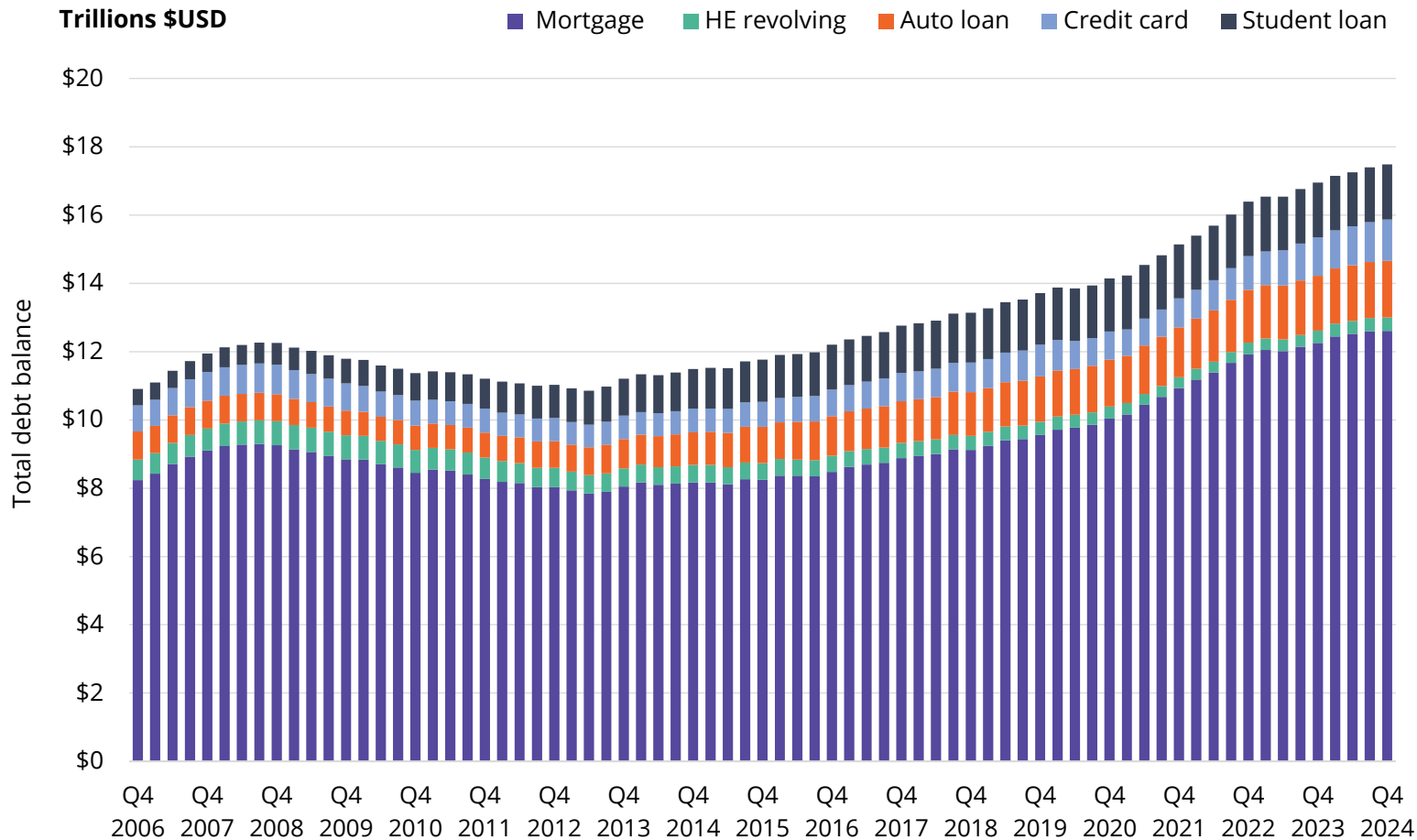


Retail sales slowly increasing, as e-commerce continues growth in total percentage of sales



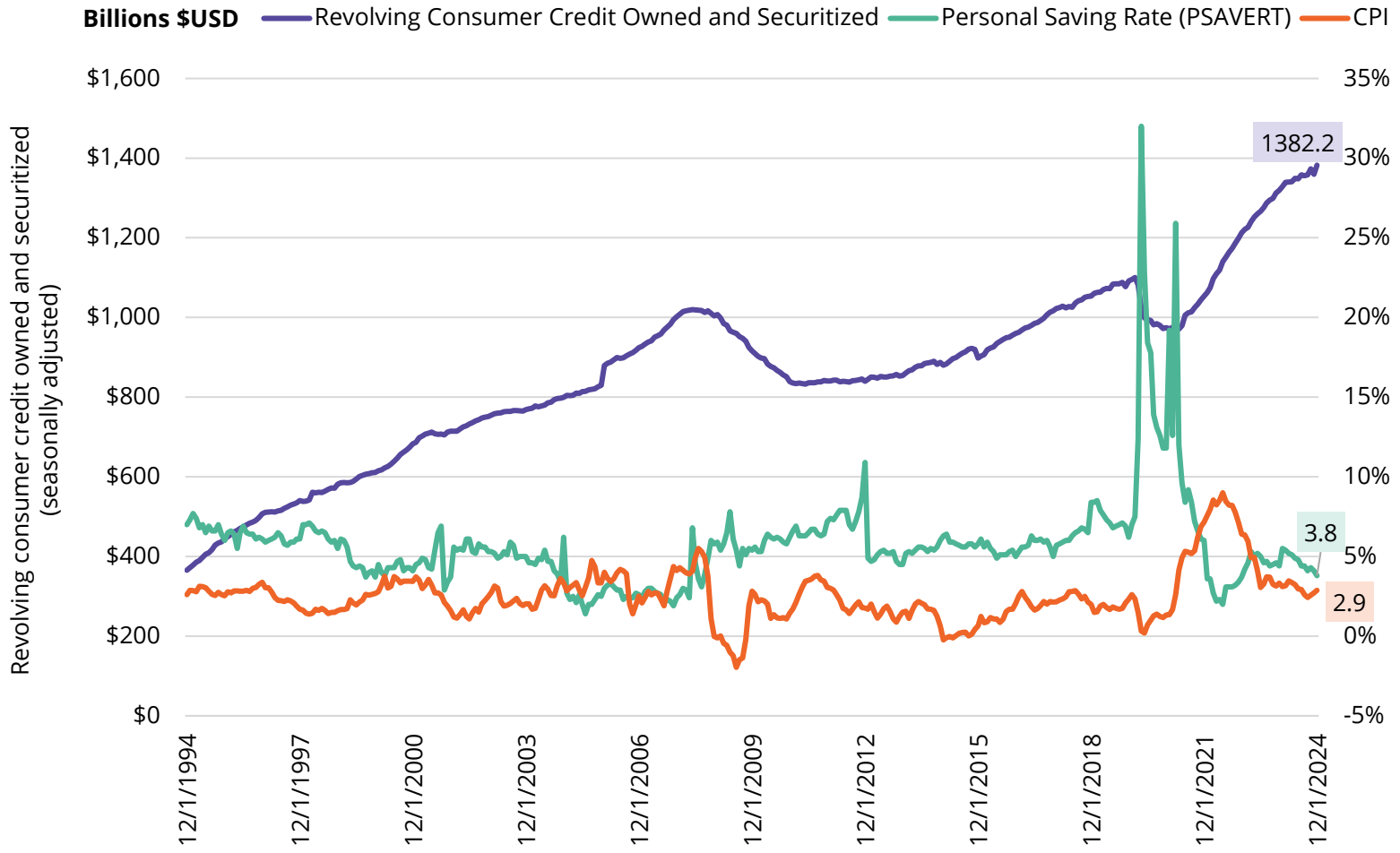
E-commerce retail spend increased 339.0% in the past 10 years, and 41.7% since the start of 2020, which has formed new and incessant industrial demand for supportive fulfillment operations, led largely by third-party logistics (3PLs).

Household debt continues to surge to historic record of \$18 trillion



The U.S. consumer continues to pay for accelerated inflationary costs via increases in overall household debt. As of the start of 2024, U.S. household debt has increased 26.4% since the beginning of the COVID cycle, while credit card debt surged to nearly 50% in the same timeframe.

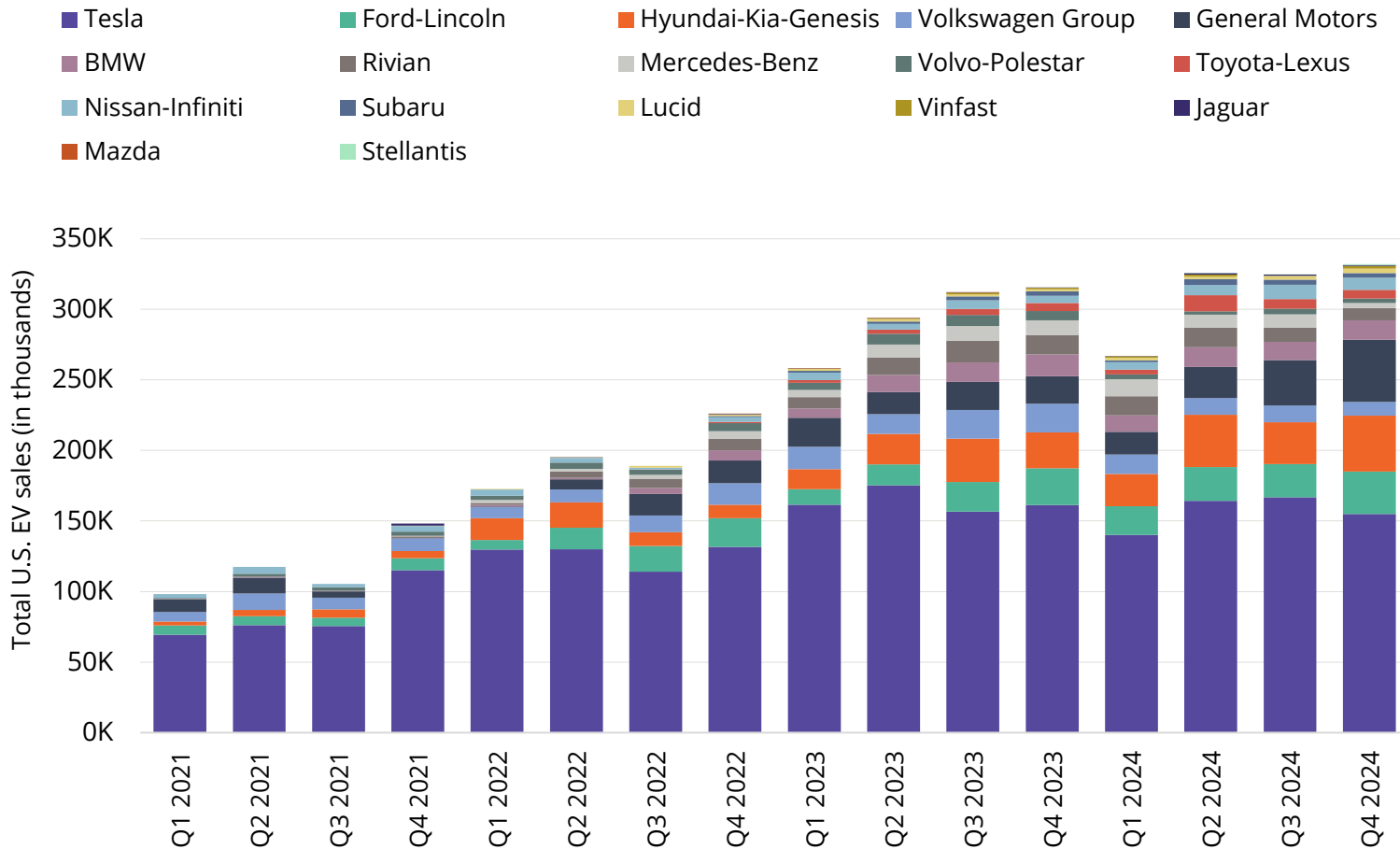
CPI elevating, leaving concern over Federal Reserve policy going into 2025



Consumer price index (CPI) remains elevated and is beginning to rise after a year of reductions in year-over-year growth. The Federal Reserve has initiated rate cuts; however, the expectation of several cuts in 2025 appears to be dwindling as CPI begins to rise again.

Consumer credit utilization continues to surge at historic highs as core inflation left many consumers borrowing to pay for increased costs.

Despite accelerated financing costs, new EV sales surge to all-time highs since April 2024

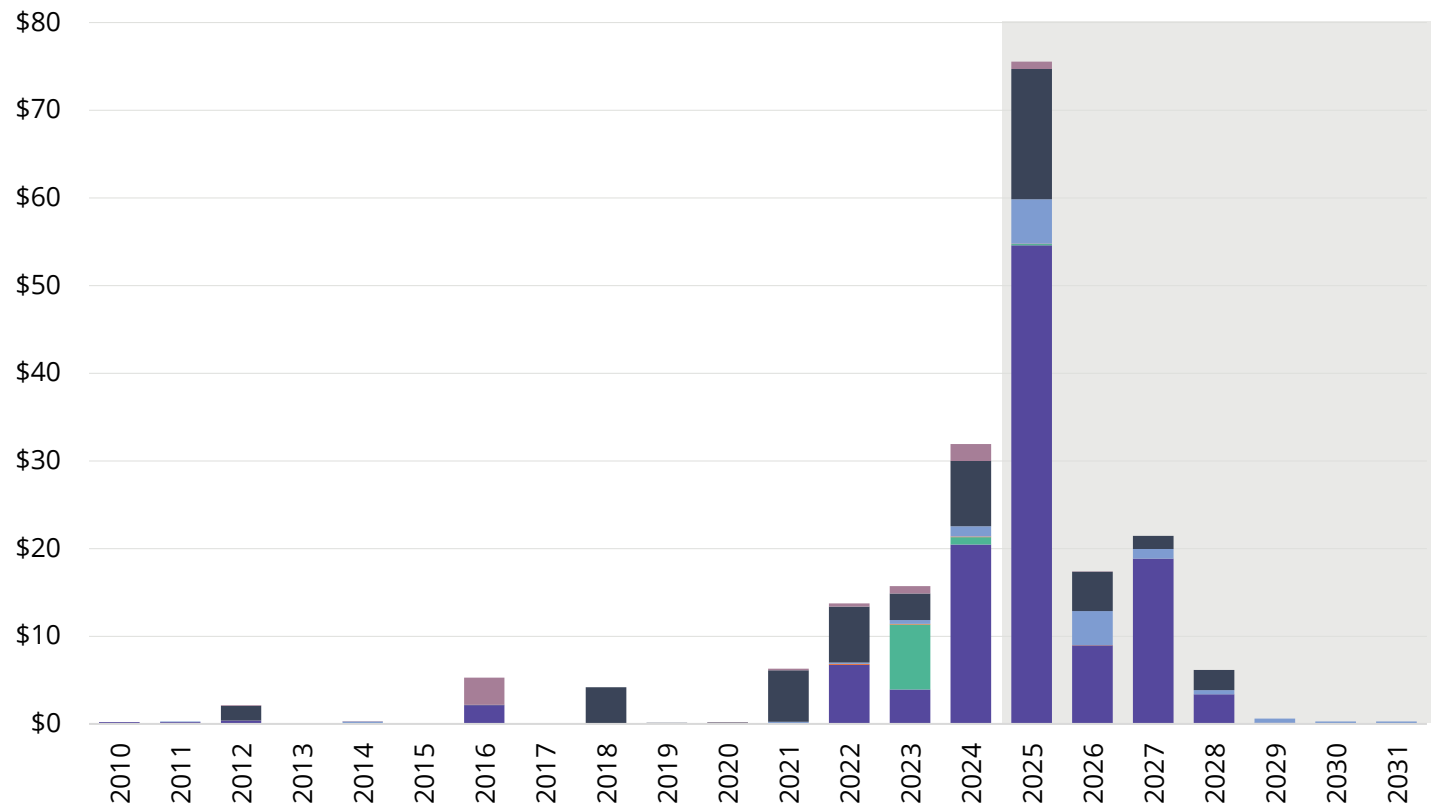


The electrification of the auto industry, and the subsequent investment in the fuel cells that power it, has been a big source of newfound industrial demand for the past three years. Reductions in the cost of borrowing will serve to continue accelerated EV sales headed into 2025.

Battery and EV investments will lead to increased direct and indirect demand upon completion

Total U.S. announced investment and expected completion date (Billions \$USD)

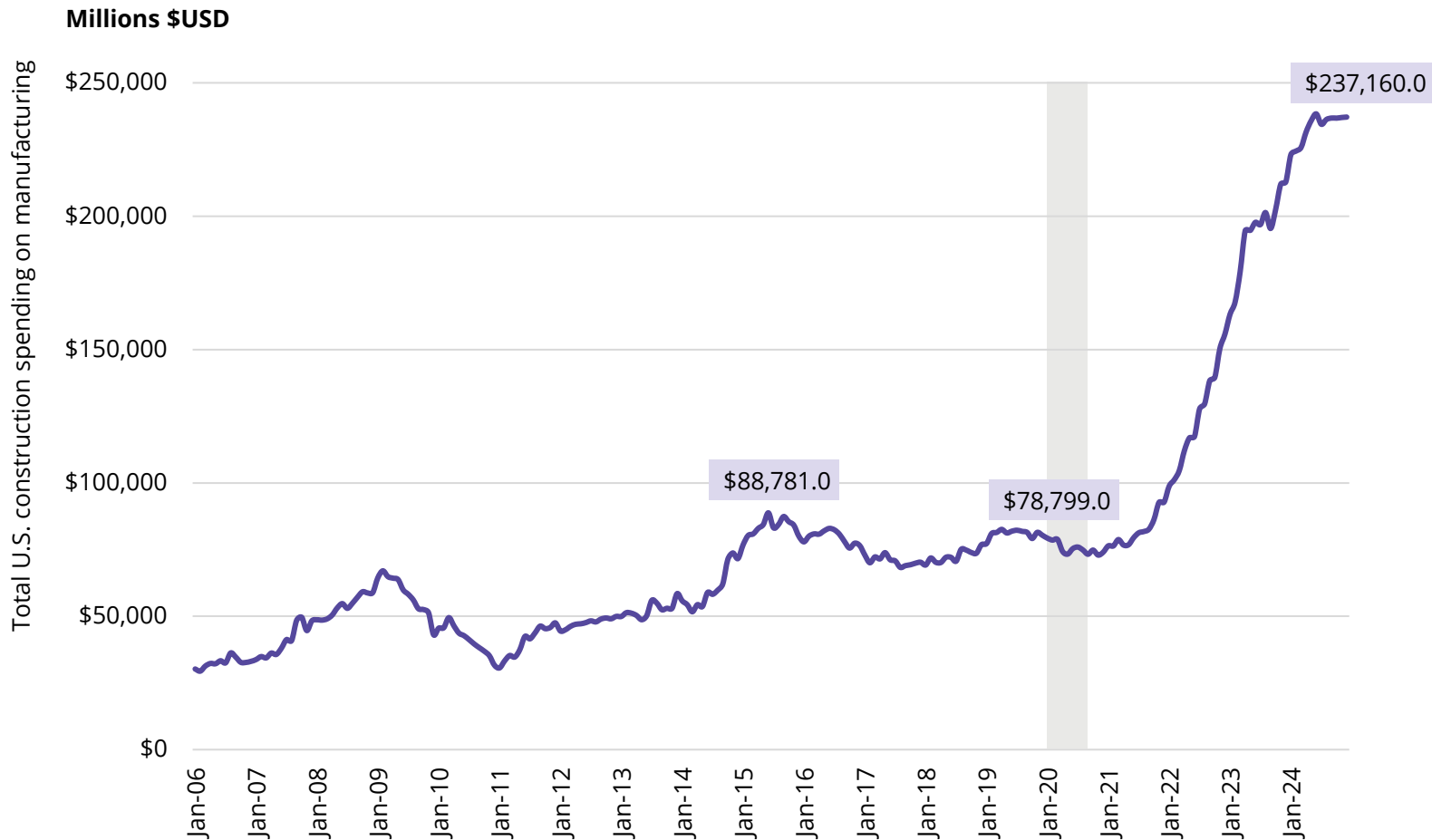
- Batteries
- Minerals
- Battery recycling
- All EV classes
- EV charging
- Parts



There are currently over 120 battery cell-related facilities either in the final stages of planning, groundbreaking, or already producing. The facilities are highly clustered within the Midwest and Southeast markets.

Several of these projects are expected to deliver in the next three years, which is leading to increased industrial demand from complementary supply chain users.

U.S. manufacturing investment set to accelerate under Trump, increasing industrial demand



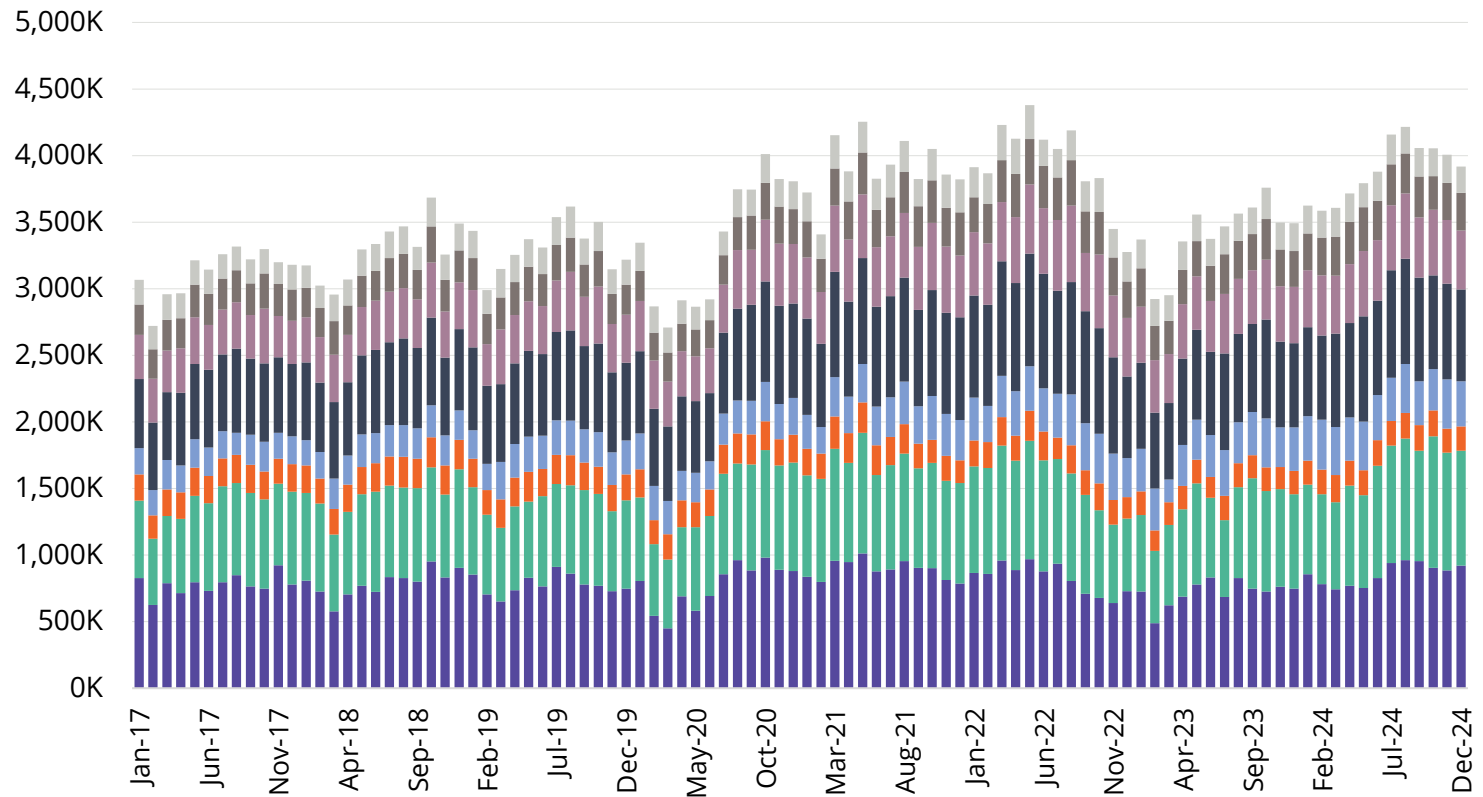
U.S. manufacturing remains in a record growth phase as reshoring and nearshoring investment continue along the maturation horizon. Further investment is expected to accelerate under Trump administration trade policies, which will translate to increased need for industrial space.

Industrial demand shifts toward supporting manufacturing will continue to drive foundational changes in the sources of demand in complementary markets, disproportionately in the Midwest and Southeast.

Major port volume on par with all-time high COVID peaks

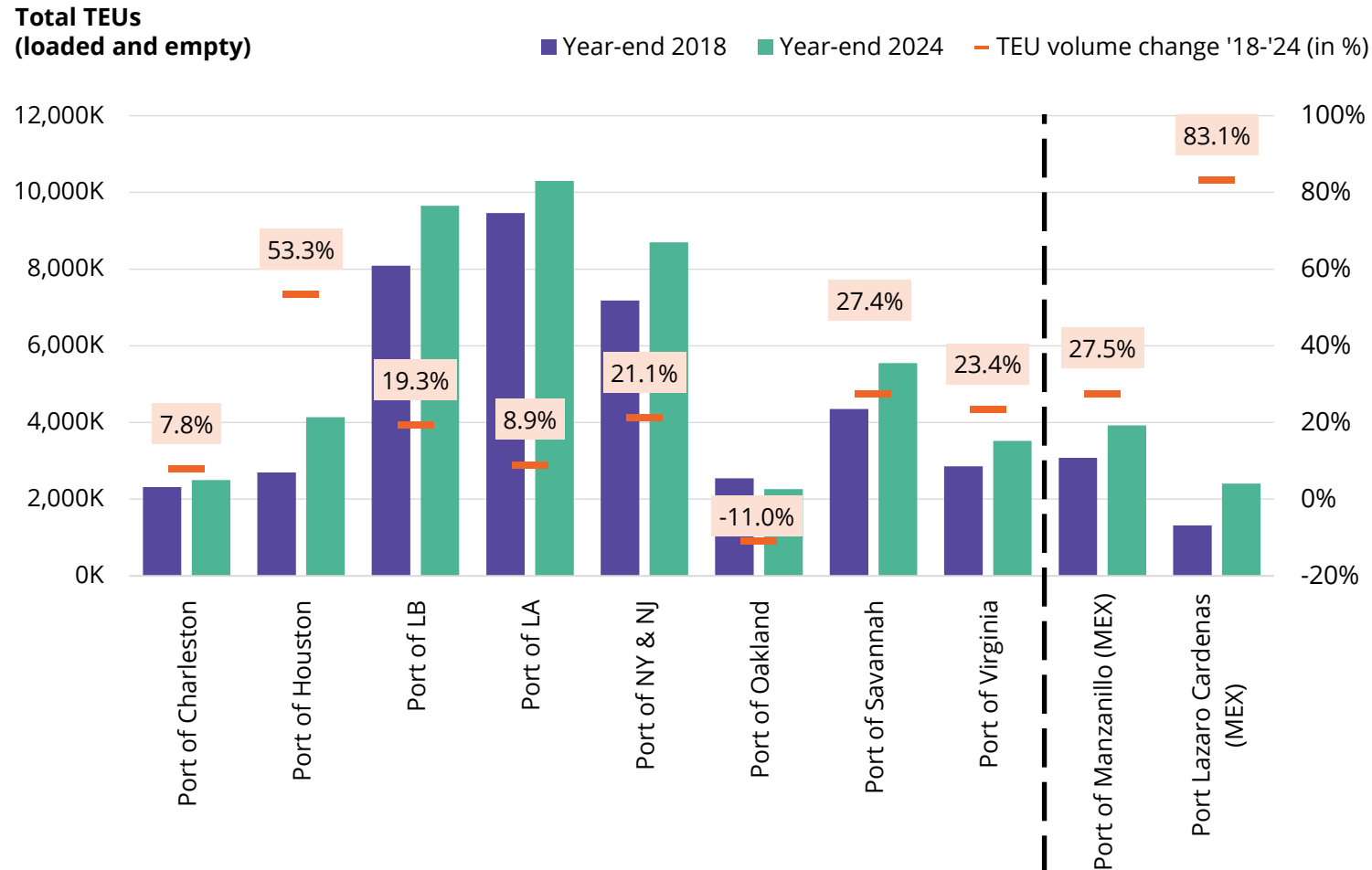
Total TEUs (loaded and empty)

- Port of LA
- Port of NY & NJ
- Port of LB
- Port of Savannah
- Port of Oakland
- Port of Virginia
- Port of Houston
- Port of Charleston



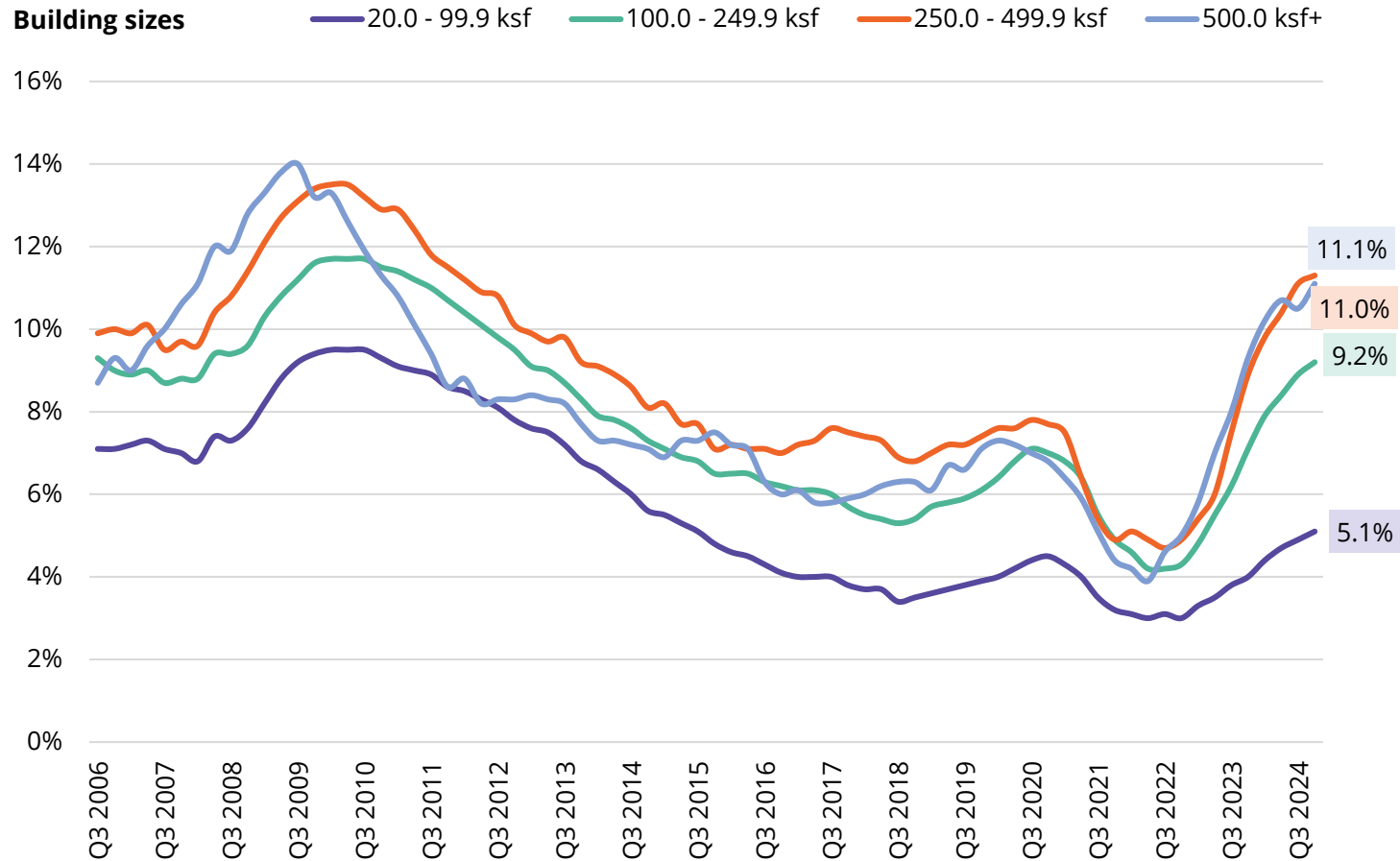
Port activity is up 20% from 2023, approaching peak volumes experienced during COVID. Post-election surges in occupier pre-leasing demand point to continued increases in activity, despite tariff/trade policy tensions.

Supply chain network shifts creating gains in Eastern ports, and losses in Western ports



Significant growth due to investment in port infrastructure, coupled with emerging population shifts have driven substantial growth in Eastern, Gulf Coast, and Mexican Ports, while Western Ports have been growing slowly or shrinking.

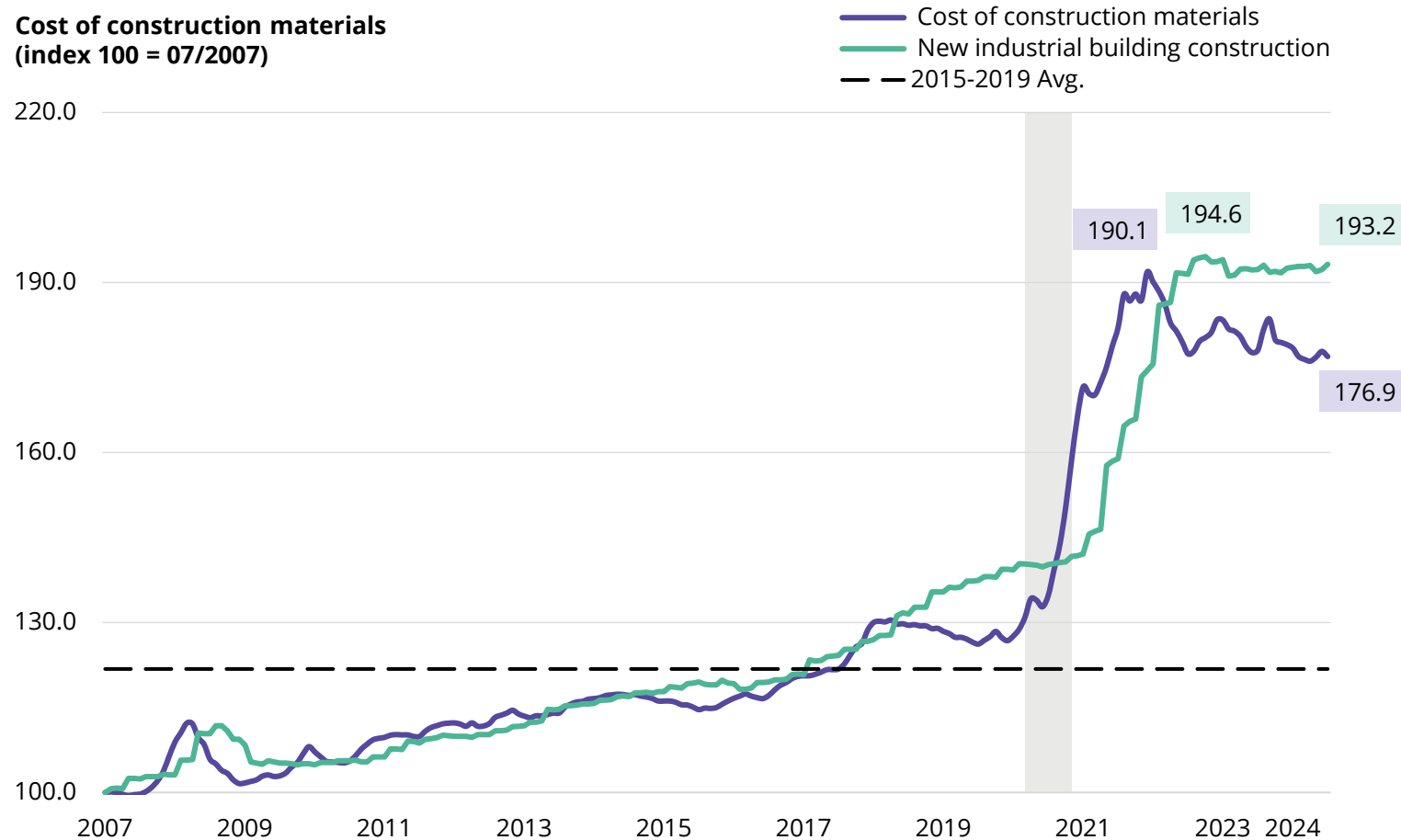
U.S. industrial vacancy by building size



After hitting historic construction pipeline volume in late 2022, a record amount of new industrial space was delivered and topped out in 2023. Peak deliveries have passed, and a flattening of vacancy among larger building sizes is expected in the first half of 2025.

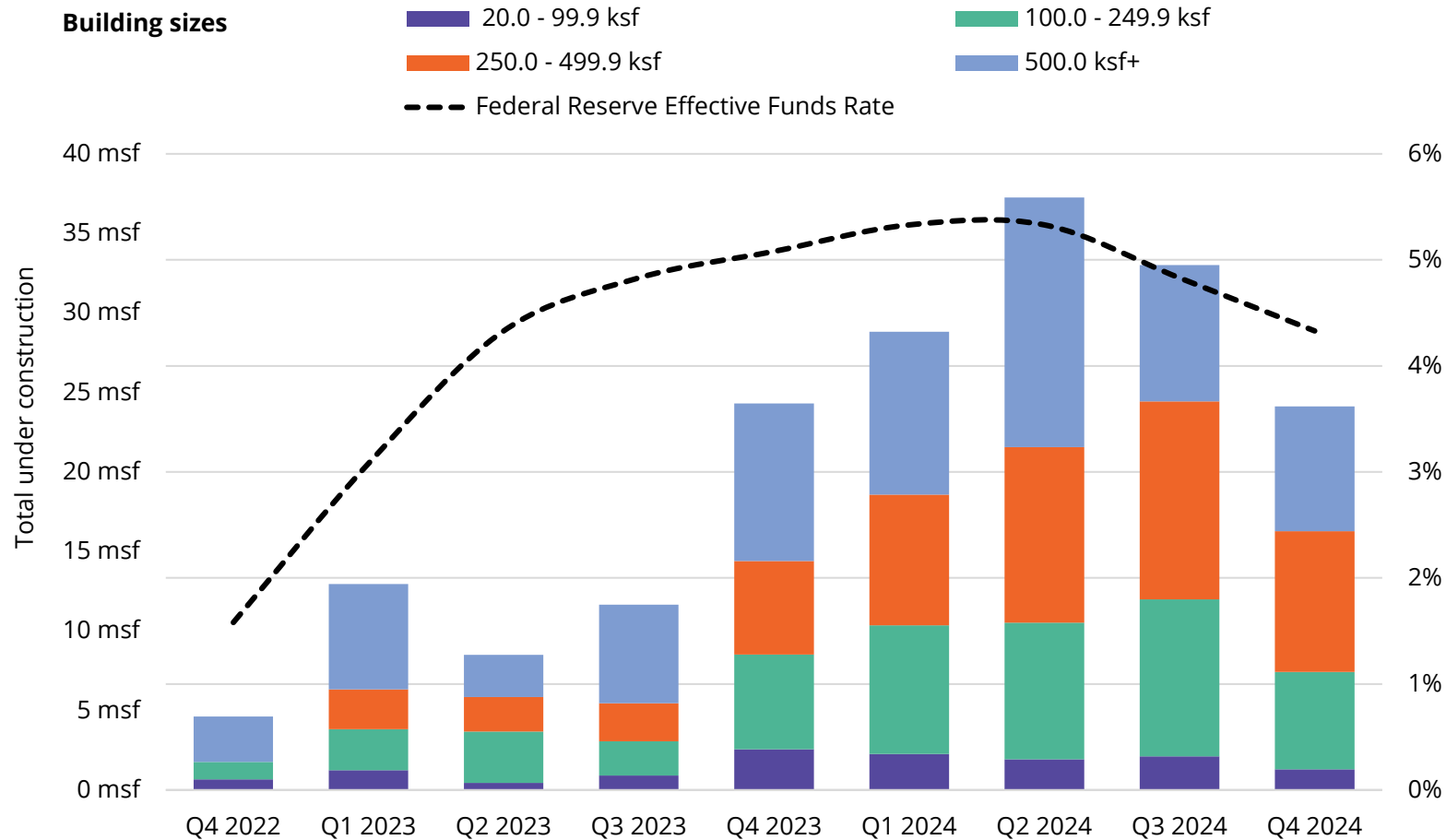
Construction costs endure at historic highs, and are rising for industrial materials

Cost of construction materials
(index 100 = 07/2007)



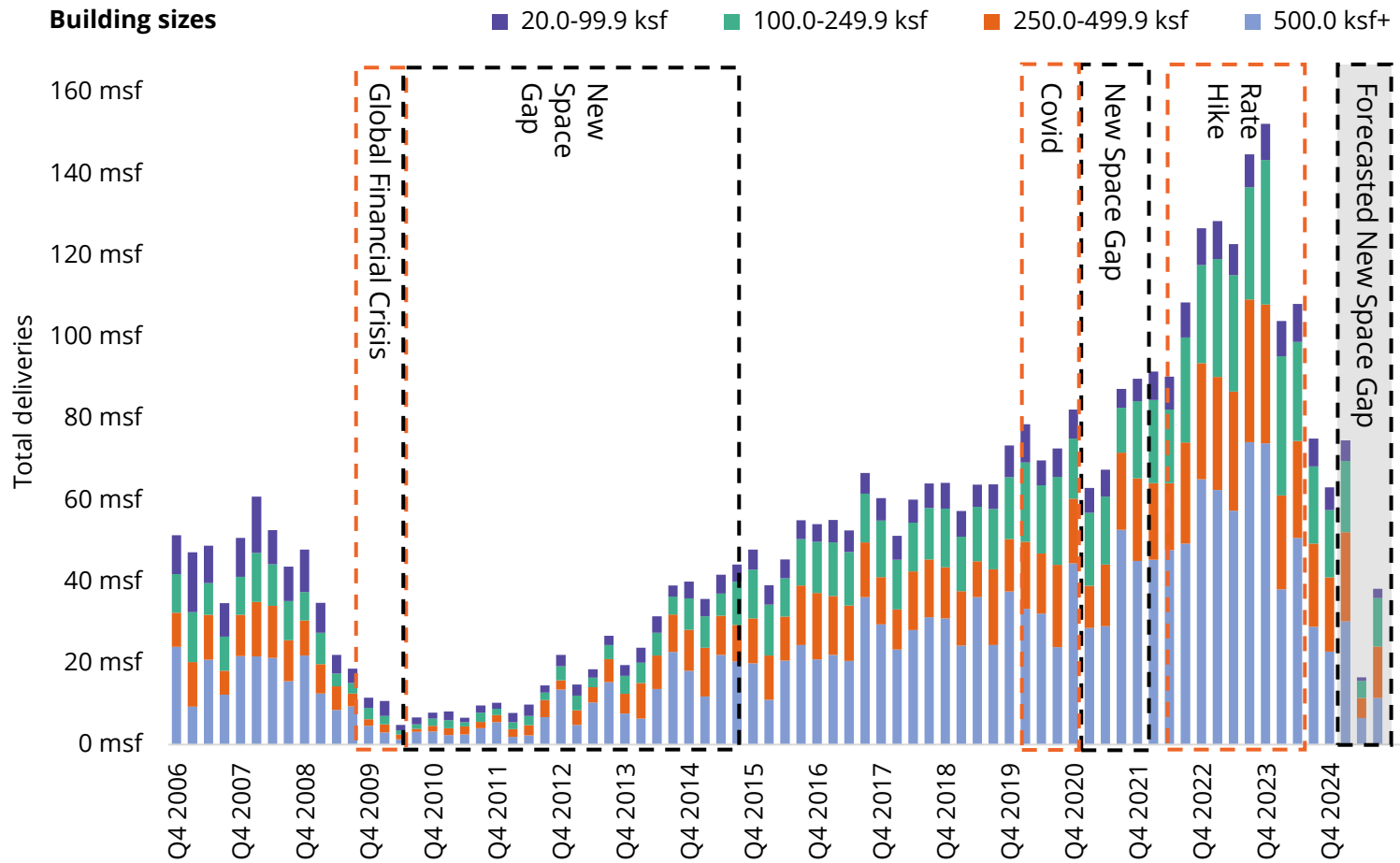
As some landlords and developers consider demising down large vacant blocks to target more active occupier requirement sizes, the added costs of this option make it unlikely to flood markets with smaller space inventory in 2024.

Stagnant demand and high vacancy for newly delivered facilities limits new ground-breakings



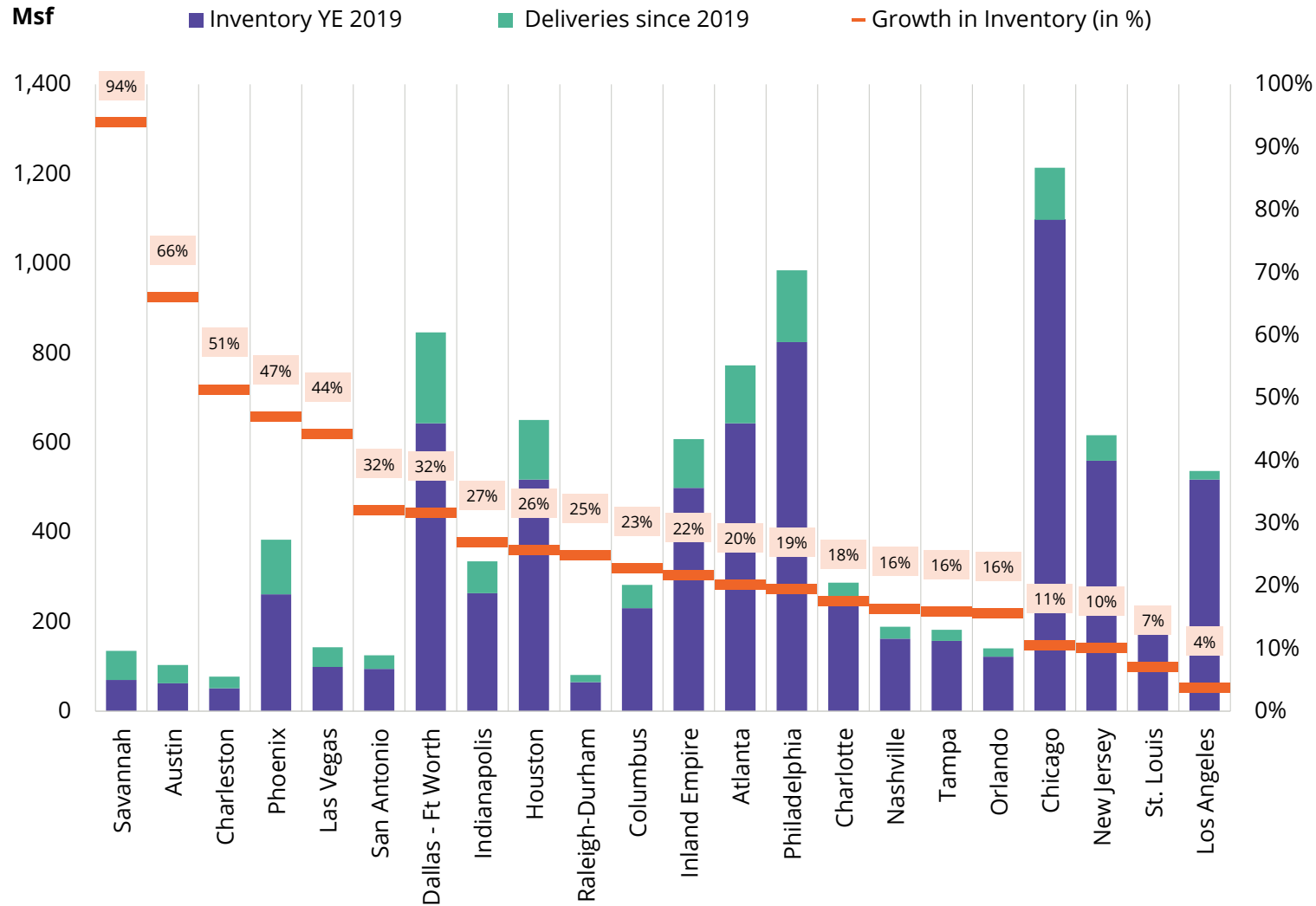
Most developers have awaited the U.S. election and further Federal Reserve guidance to begin new projects, contributing to the year-end 2024 construction pipeline being the smallest since the aftermath of the Global Financial Crisis.

Despite rising vacancy rates for newly delivered buildings, 2025 New Space Gap limits options



2023 represented the largest number of deliveries in industrial history, and 2024 showcased the start of a drastic drop in new deliveries. The third quarter of 2024 began a new space gap that will last for at least 15 months as ground-breakings halted for nearly seven quarters.

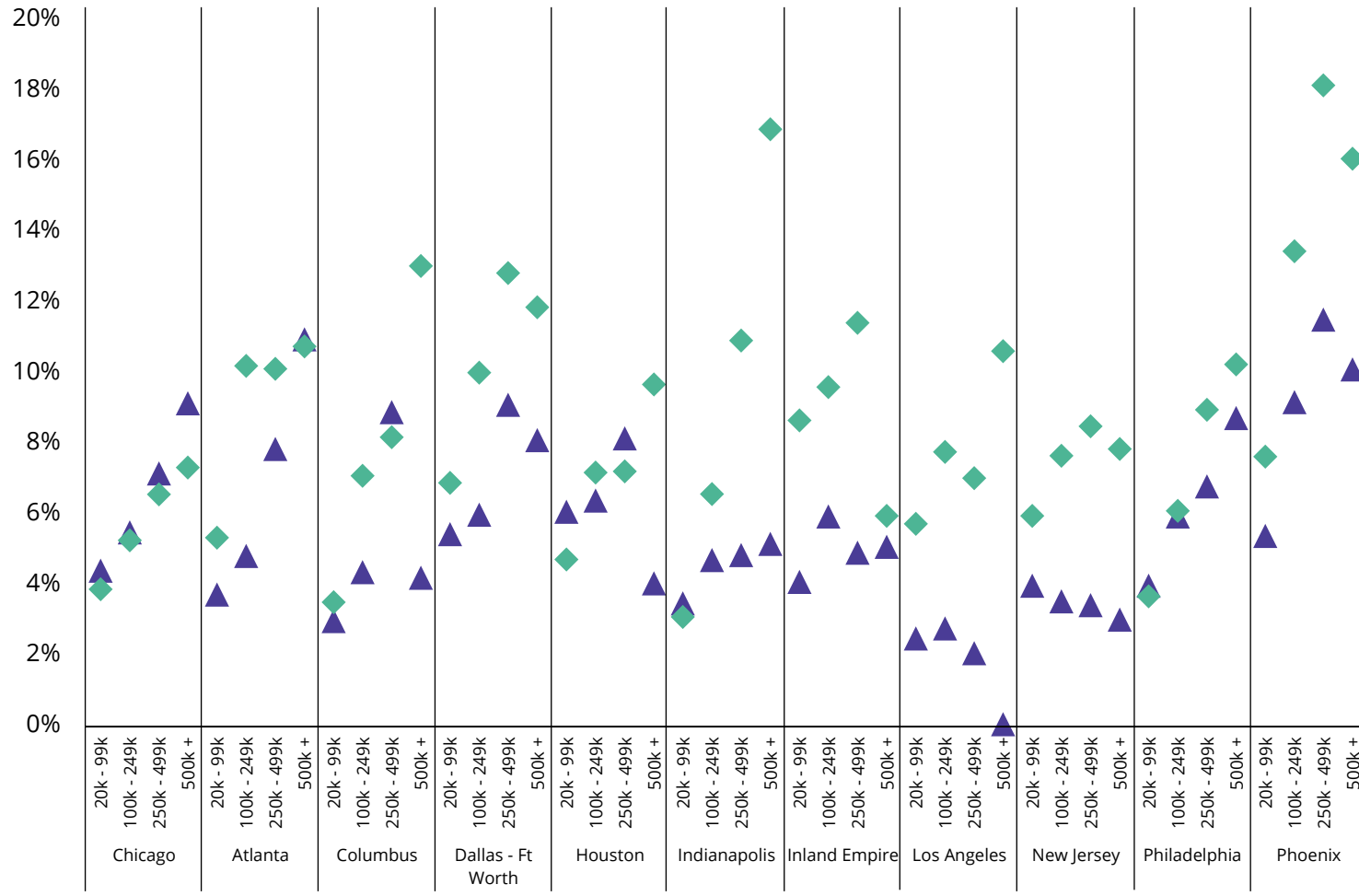
Inventories rose significantly over COVID cycle



Several mature markets remained reserved in terms of development during the COVID cycle, whereas markets that exceeded 20% growth in inventory are now facing over-supply concerns and rising vacancy rates.

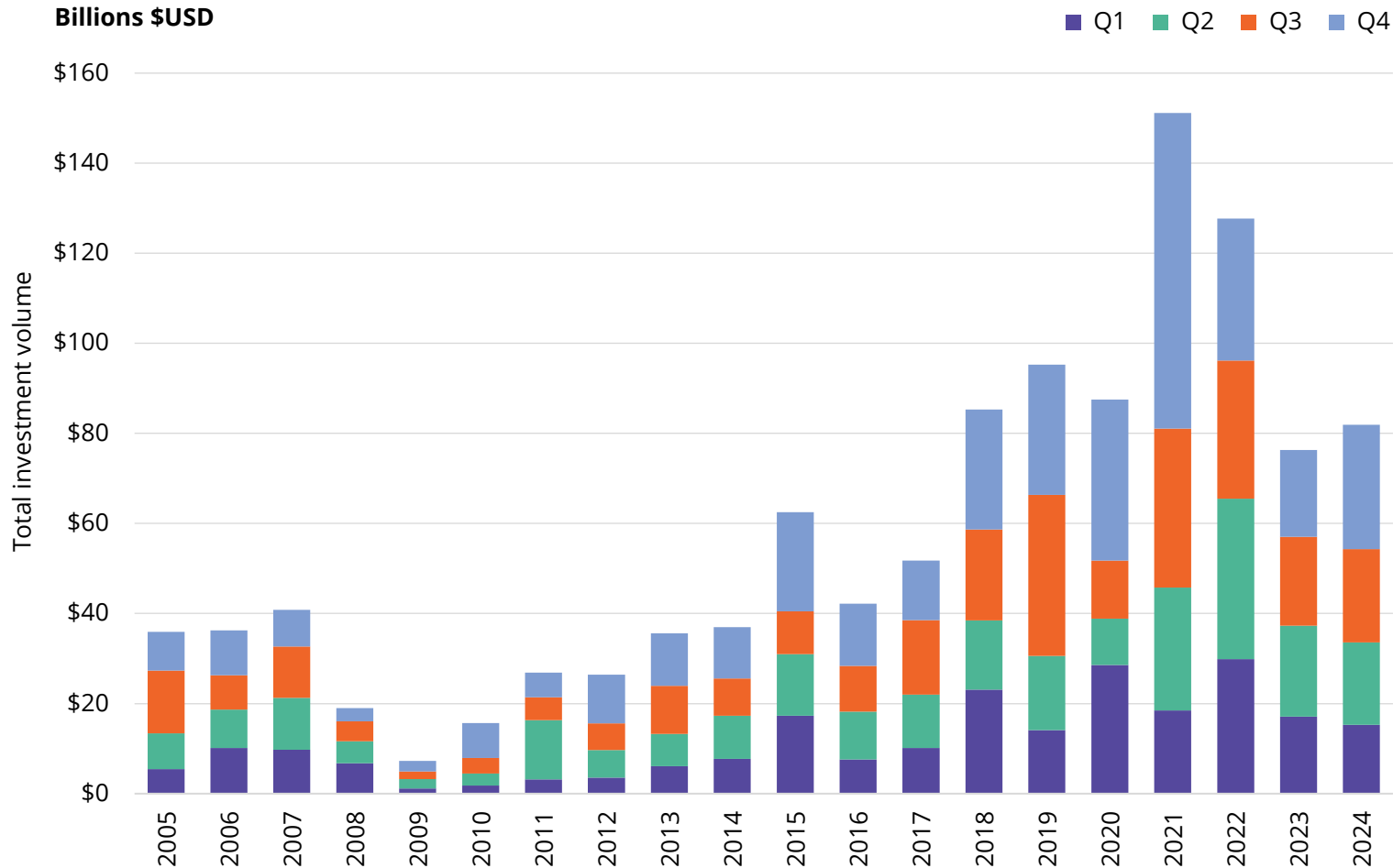
Vacancy comparison by building size

▲ Q4 2019 ◆ Q4 2024



Chicago is the only market to have vacancy decreases in every building size group since 2019, due to the reserved nature of development exhibited throughout the COVID cycle.

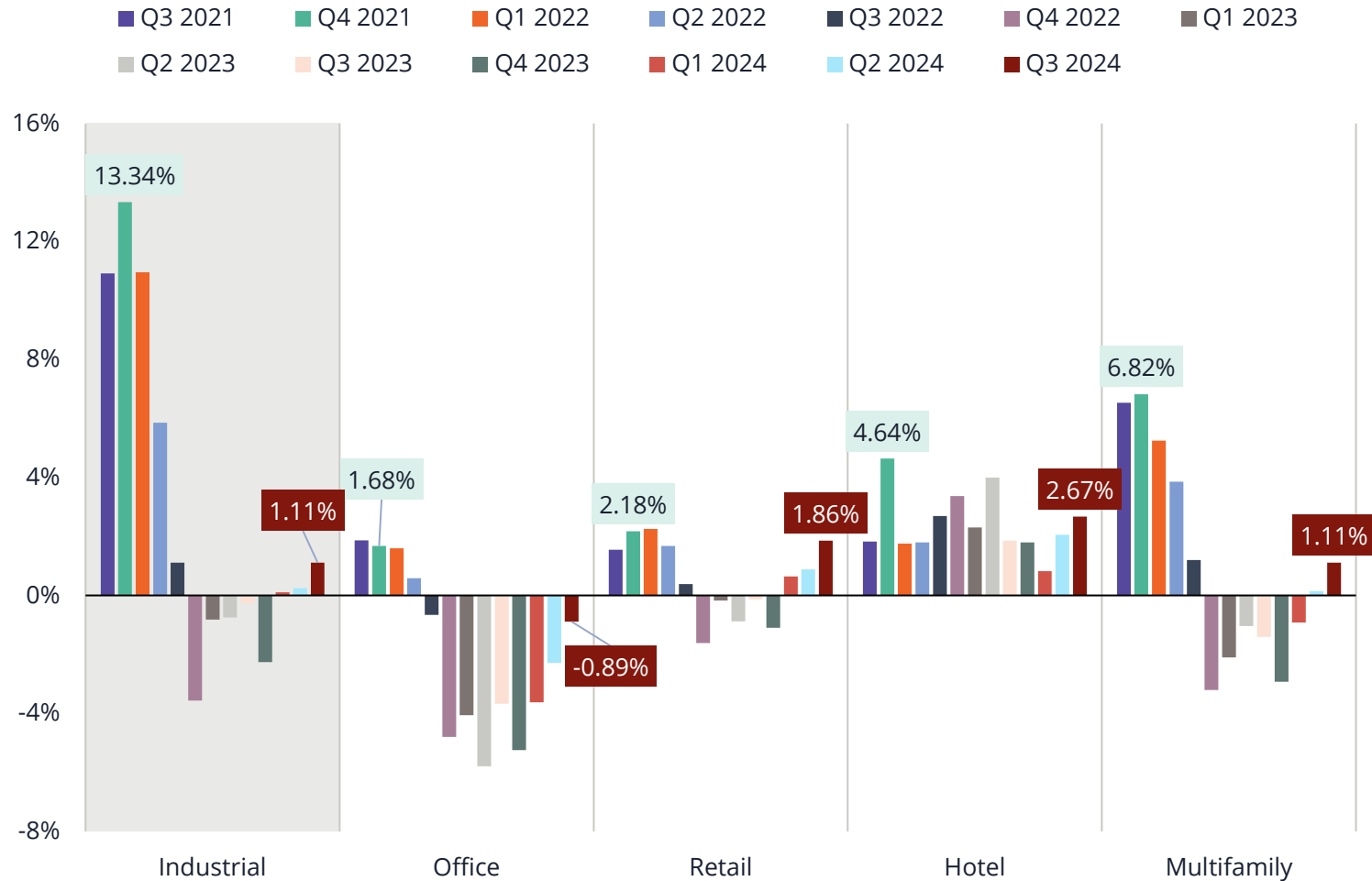
Industrial investment volume



Industrial investment volume experienced a reverse of the previous two years, as the final quarter of 2024 surged to the largest tally since the final quarter of 2022.

With record levels of dry powder ready to transact, a surge in investment sales is expected in 2025, particularly catalyzed by any positive trends in the economy.

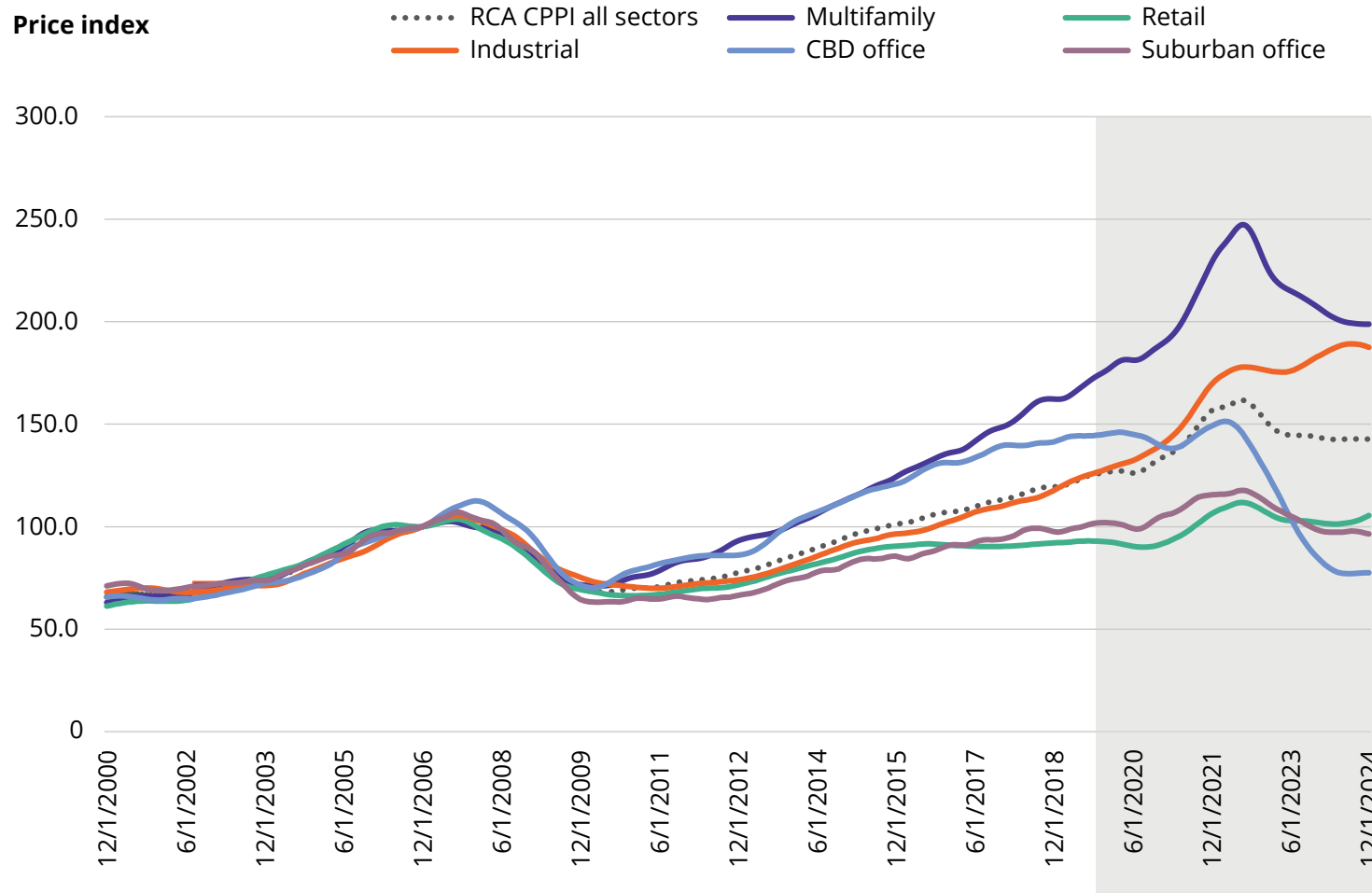
U.S. NCREIF NPI quarterly returns



Industrial investments showcased continued successful returns for three consecutive quarters, jumping to +1.00% for the first time since Q3 2023.

Throughout the COVID cycle, industrial led returns for all NCREIF investment peer sectors as the asset type remains resilient in economic uncertainty.

RCA commercial property price indices

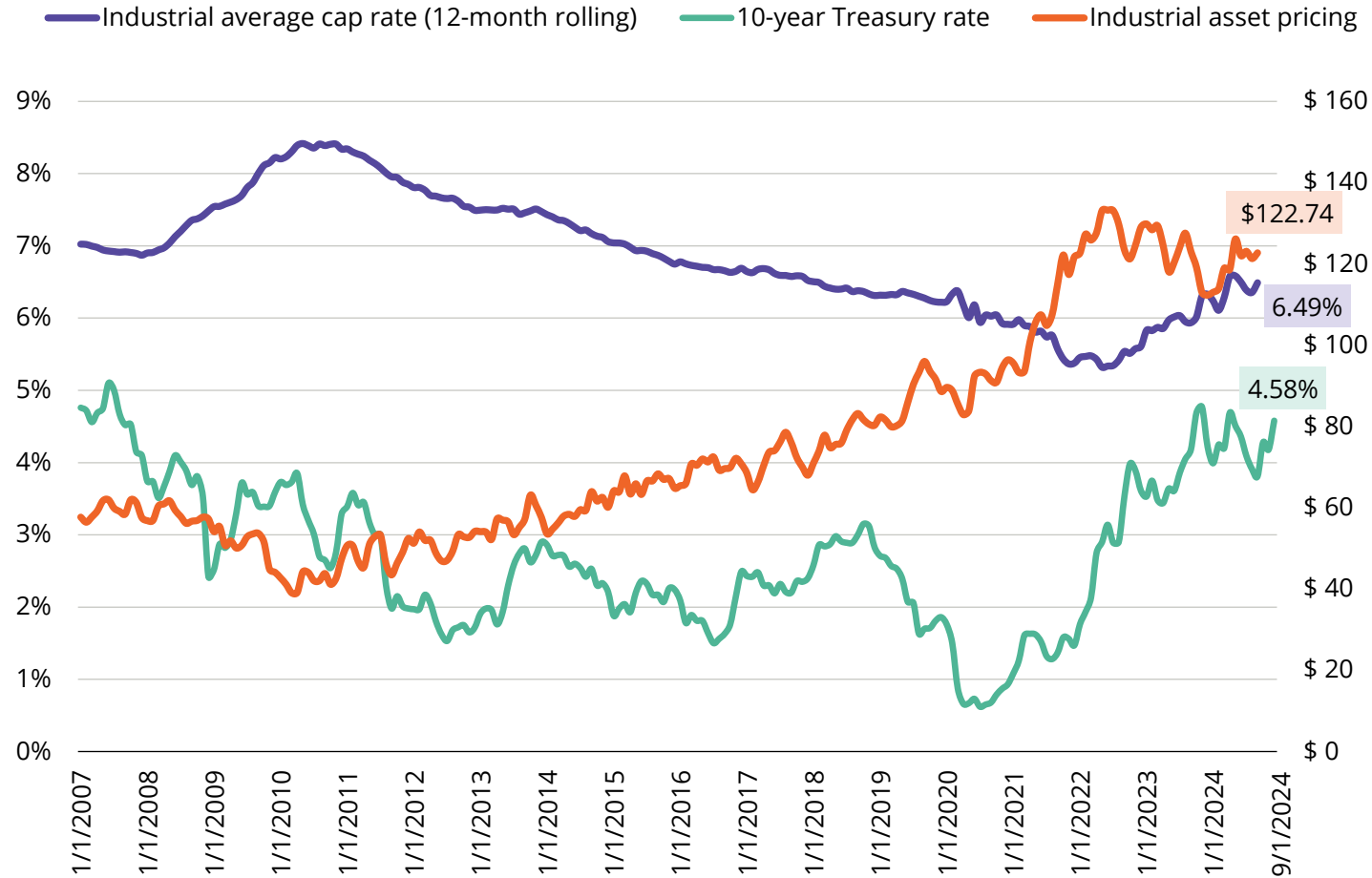


Industrial pricing (+10 bps since peak pricing 2022) has retained the gains experienced during COVID better than any other peer sector and is the only sector that is again appreciating in value despite the current high cost of capital.

Note: Transactions >\$2.5M. RCA CPPITM measure the actual price movements for commercial properties based on exclusive transaction data using repeat-sales regression methodology.

Source: AVANT by Avison Young, MSCI Real Capital Analytics

U.S. industrial cap rates vs. asset pricing

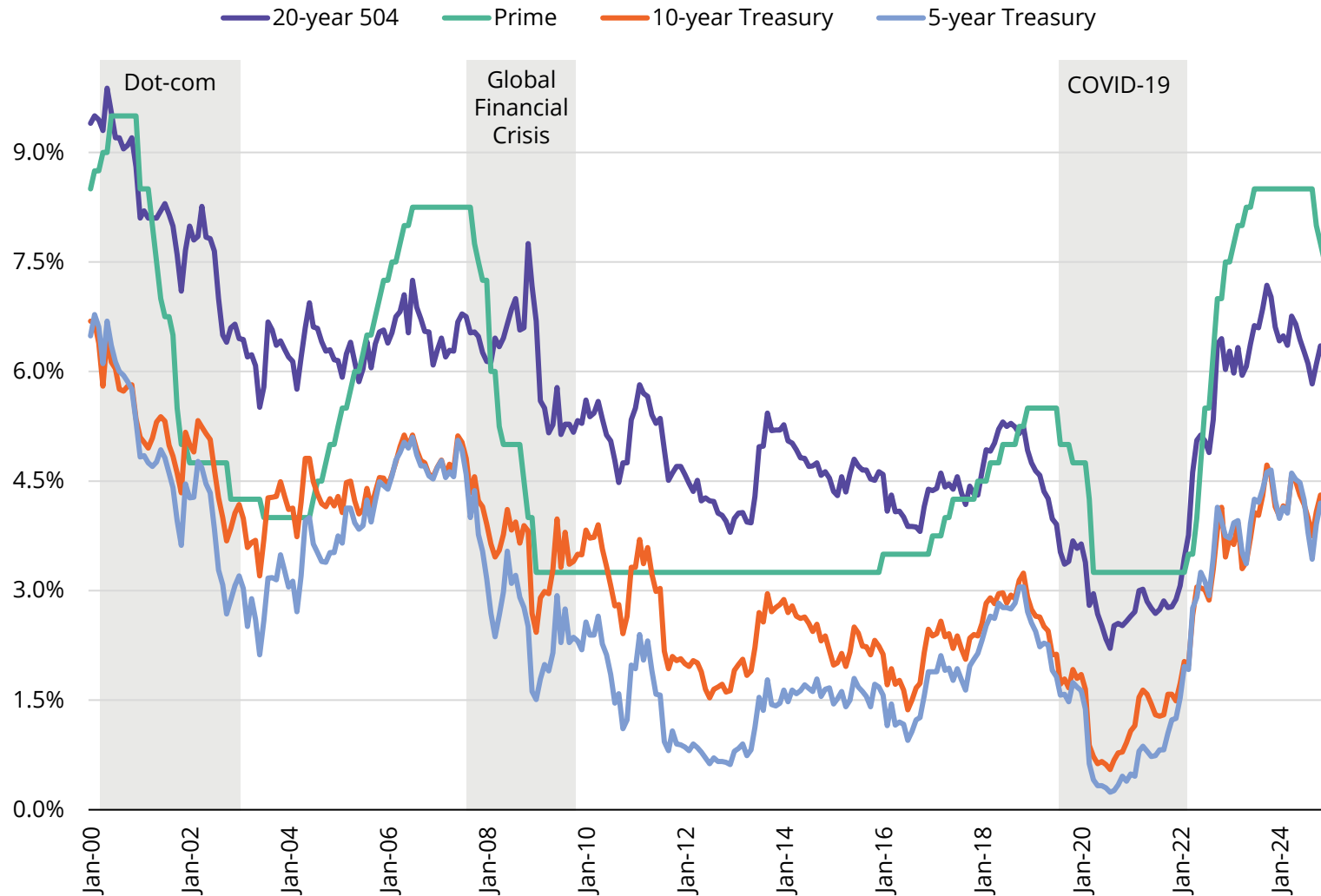


Despite the limited amount of transaction volume comparatively to the COVID and pre-COVID environment, industrial assets have remained attractive to investors.

Recent convergence between the effective federal funds rate and 10-year yield are complicating the expected increase in transaction volume for 2025.

Note: Transactions >\$2.5M
 Source: AVANT by Avison Young, MSCI Real Capital Analytics, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis

Cost of borrowing in historical context



As we've just experienced the most aggressive jump in borrowing rates this century, historic context is important to consider where policy heads into 2025 and beyond.

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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