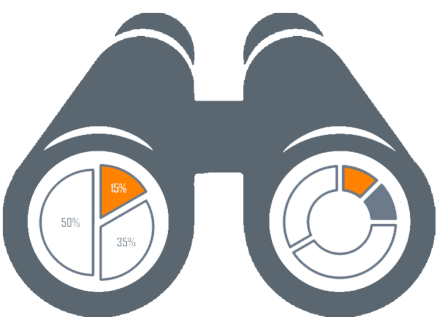


COMMERCIAL REAL ESTATE

# U.S. MARKET | Industrial

Q4 2023

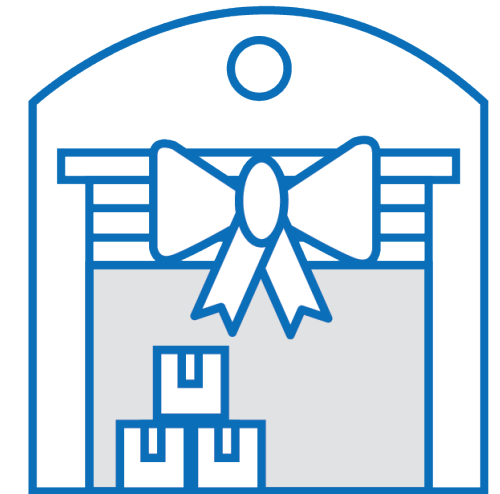
# THE VIEW FROM HERE



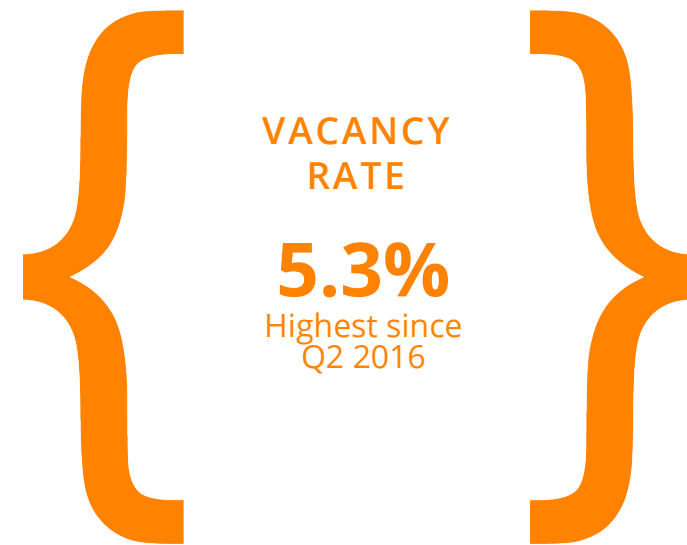
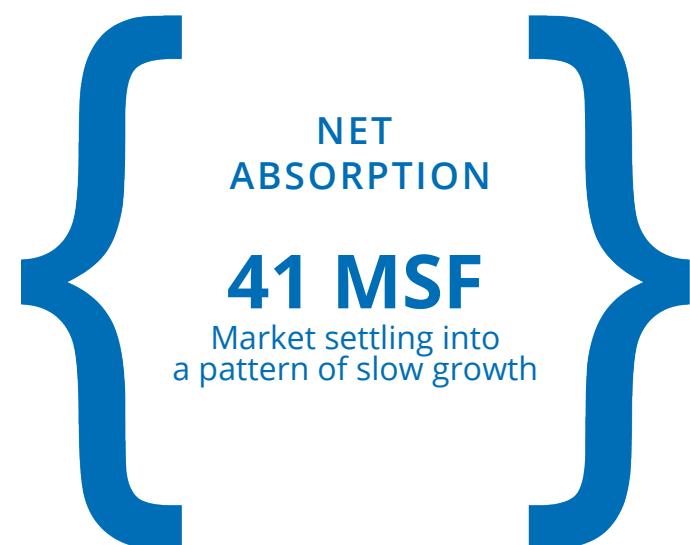

Pricing growth in 2023 indicates investor interest should remain strong



Sustained consumer resilience will continue to drive demand



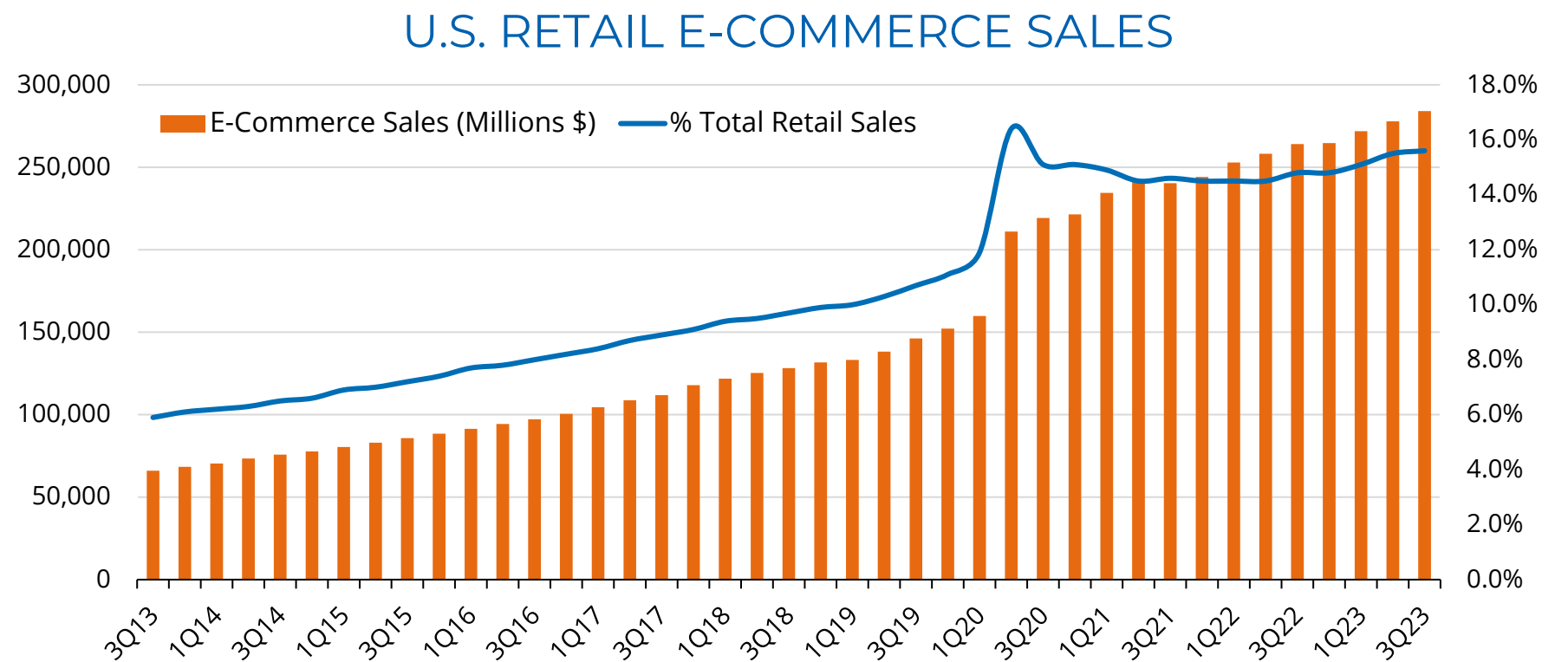
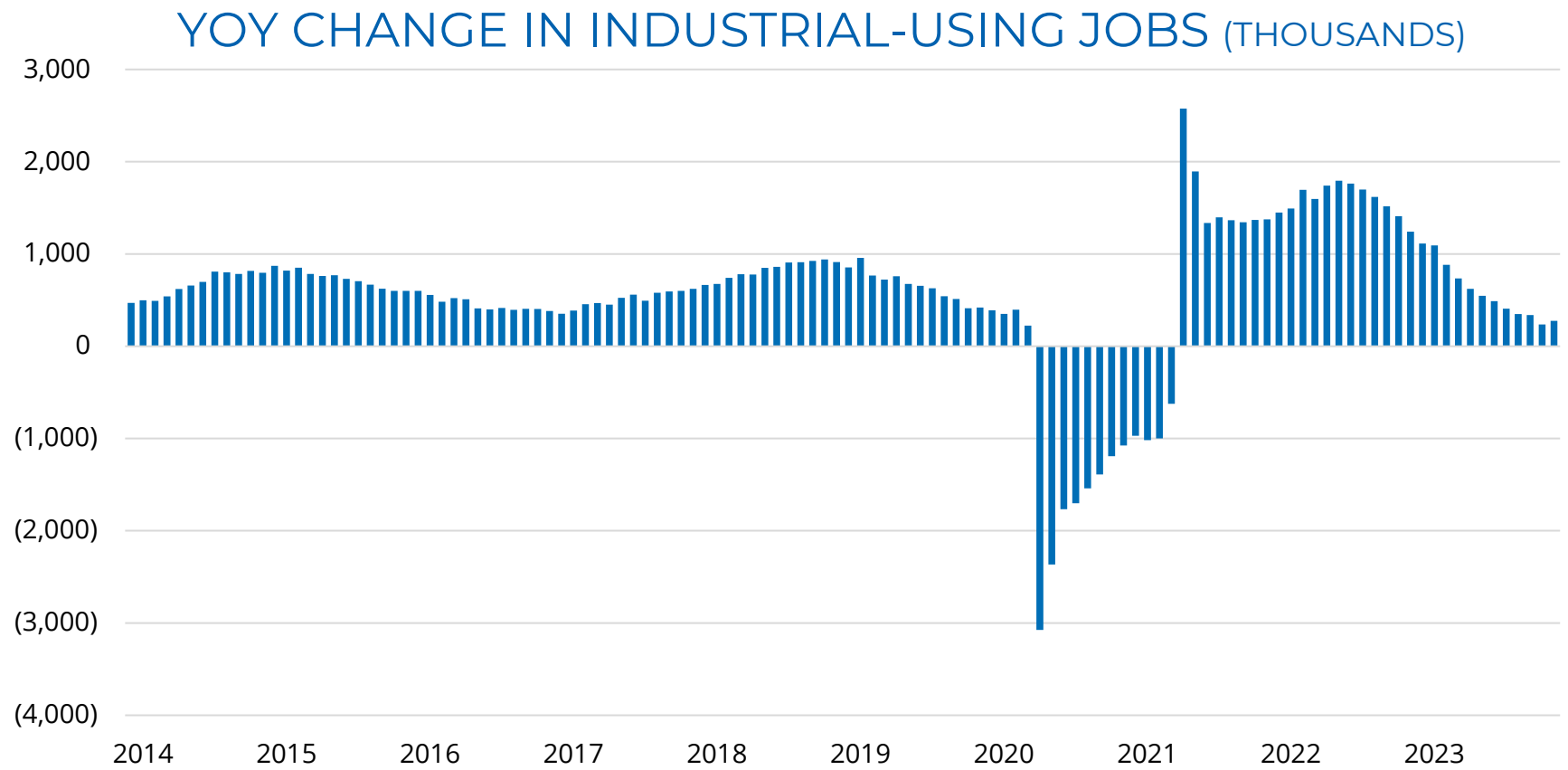
Record-setting deliveries will keep vacancies near the long-term average



## ECONOMIC HIGHLIGHTS

- Jobs supporting the industrial real estate sector slowed considerably, increasing by less than 1% during the past 12 months.
- Trucking employment continued to slowly recover from Yellow's bankruptcy while warehousing jobs suffered an overall loss in 2023.
- Construction labor grew by 2.5% in 2023, outpacing the overall job growth rate of 1.7%.
- After reaching a near 15-year high in September, manufacturing labor decreased slightly during Q4.
- The U.S manufacturing sector closed 2023 on a 14-month streak of contraction, though the pace has slowed and as inventory leveled off, there is optimism that production could rebound in 2024.
- Manufacturing construction continues to soar, increasing every year since 2020, as onshoring is occurring at an even faster pace than anticipated.
- Container volumes stabilized in 2023, recording lower levels than the prior year but still above 2019 levels.
- After a shift to the east, ports on the West Coast are regaining market share as the threat of a labor strike no longer exists and severe drought conditions in the Panama Canal have caused carriers to reroute.
- Consumers remain resilient as holiday retail sales exceeded expectations, and while credit card balances are at historical highs, easing inflation has consumer confidence on the rise.
- E-commerce sales continued higher, boosted by an increase in online grocery shopping, accelerating the growth of the cold storage warehouse market.

## HISTORICAL

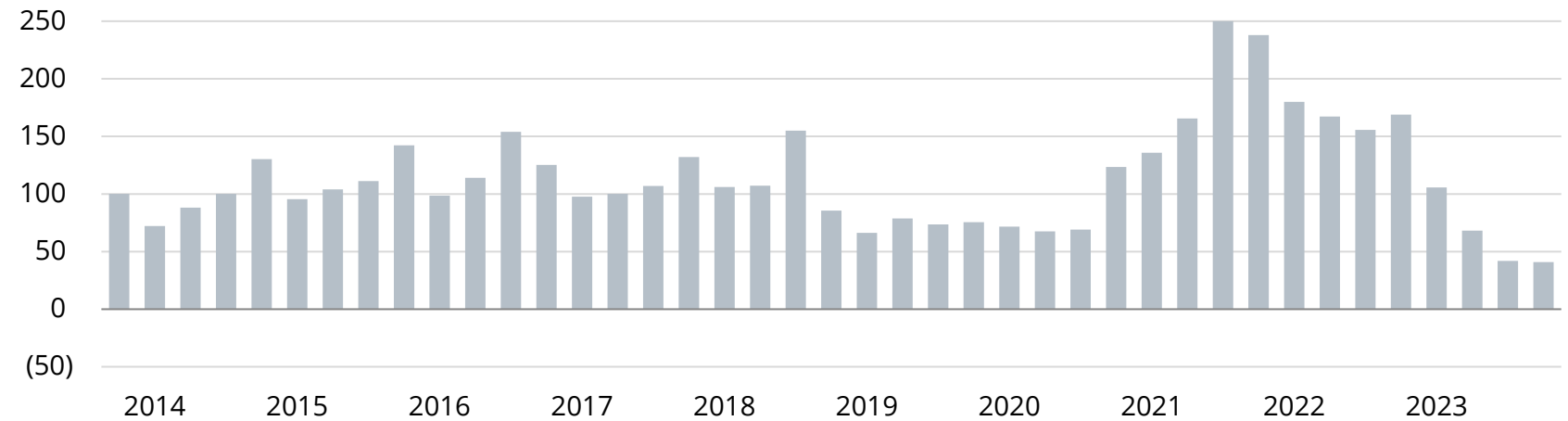


## MARKET HIGHLIGHTS

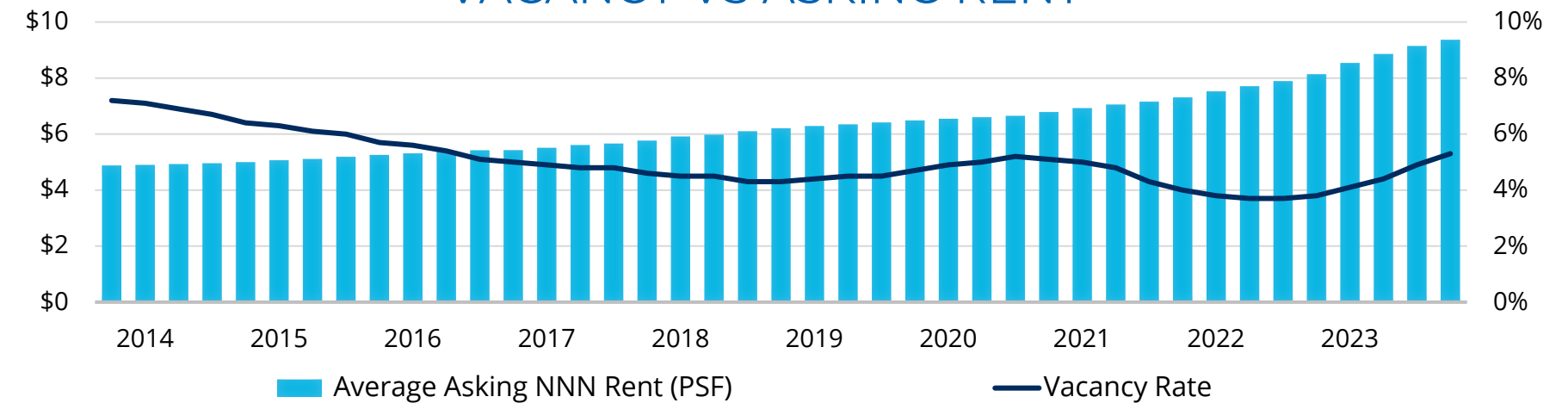
- Occupancy continued to grow in 2023, largely due to pre-leased space of record-setting delivery totals.
- Net absorption was positive in Q4 for the 55<sup>th</sup> straight quarter in Q4, though the pace slowed considerably,
- 36 of 44 markets recorded positive net absorption during Q4, up from 31 the prior quarter.
- Over the past 12 months, 84% of markets recorded occupancy growth, down from 89% during Q3, while the number of markets absorbing more than 10 MSF slid from seven to five.
- Despite continued growth in total occupancy, the overall vacancy rate increased by 40 basis points.
- Sublease offerings continued higher, representing nearly 132 MSF of vacant space, more than double YE 2022.
- The average asking rent registered a record high for the 26<sup>th</sup> consecutive quarter.
- YoY rent growth was 15.1%, coming off a record-setting high the previous quarter.
- All but six markets reported YoY rent increases.
- A record-setting 736 MSF of new inventory was delivered in 2023, with nearly half of that product already leased.
- Following a streak of seven quarters when net absorption outpaced new deliveries, the script flipped during each of the past six quarters.
- Developers increasingly seek conversion opportunities of non-performing properties in other asset classes, especially in core markets with limited vacant land.
- The market is balancing after historic growth, and a slowdown is anticipated to continue throughout 2024.

## HISTORICAL

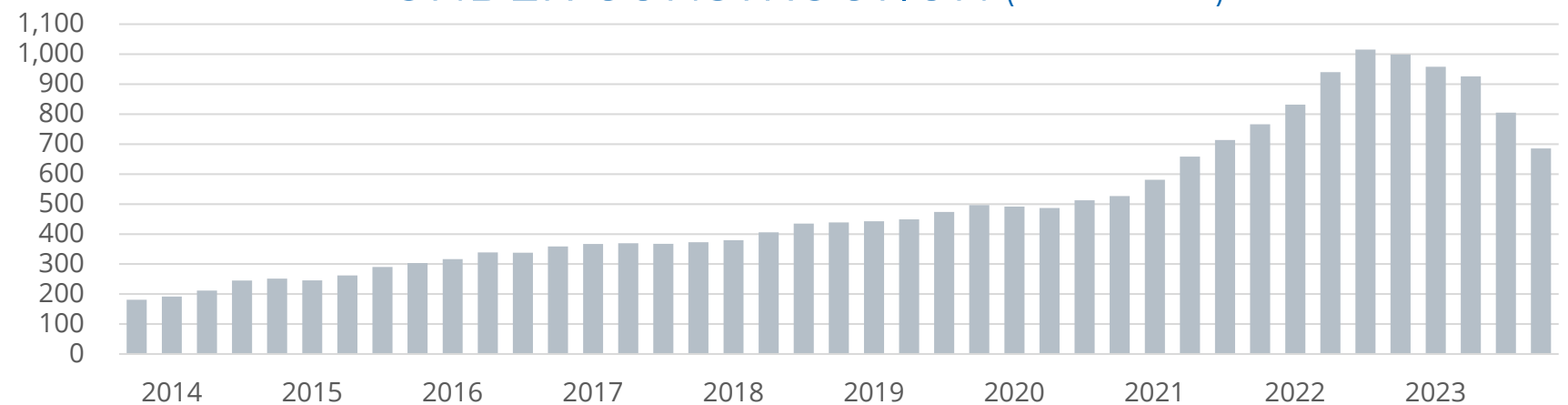
### NET ABSORPTION (MILLION SF)



### VACANCY VS ASKING RENT

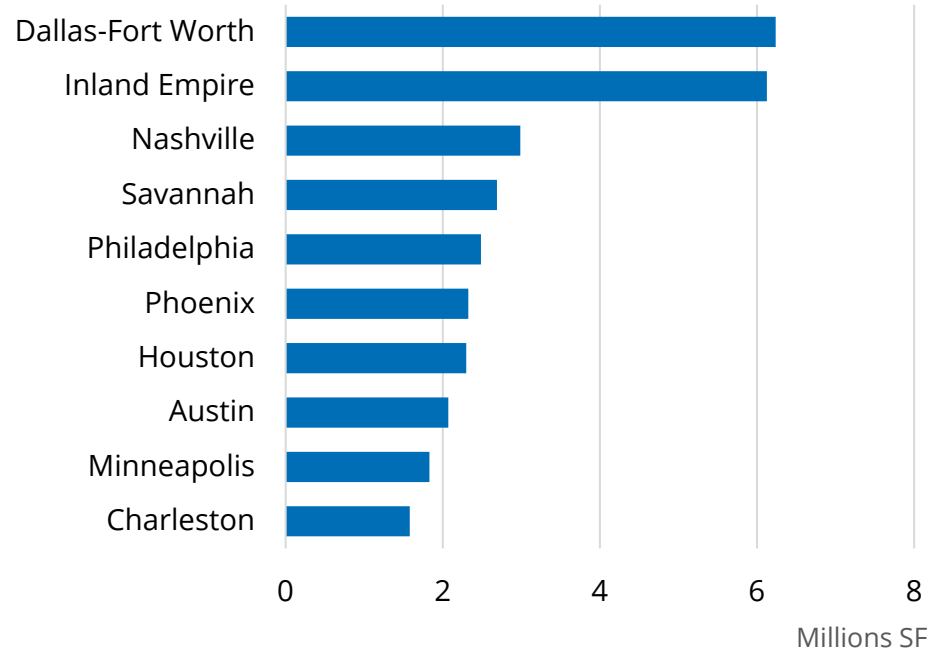


### UNDER CONSTRUCTION (MILLION SF)



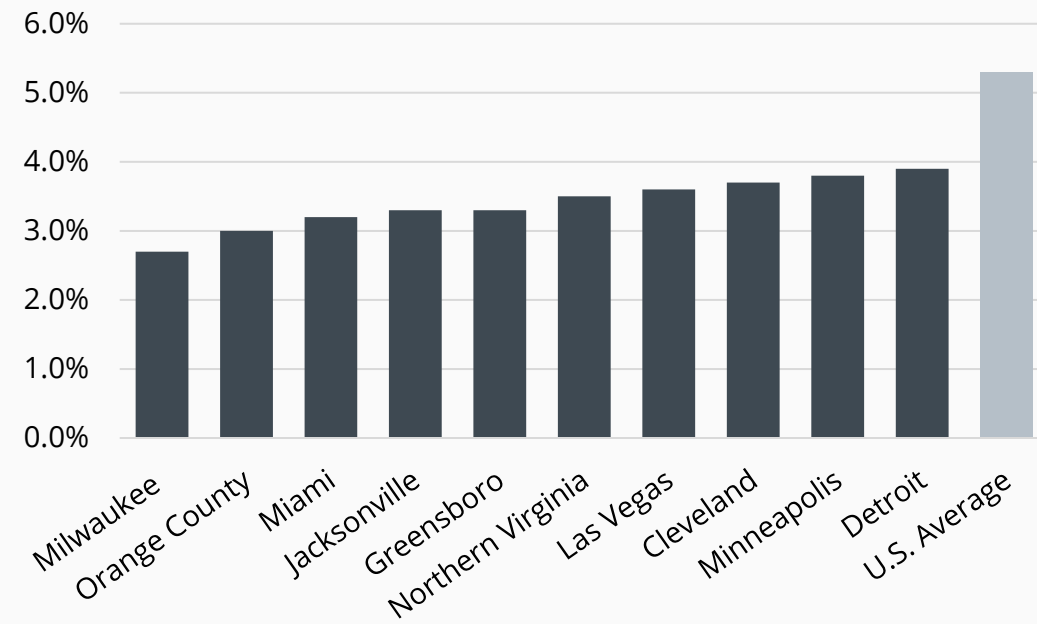
### NET ABSORPTION

Q4 2023 Net Absorption



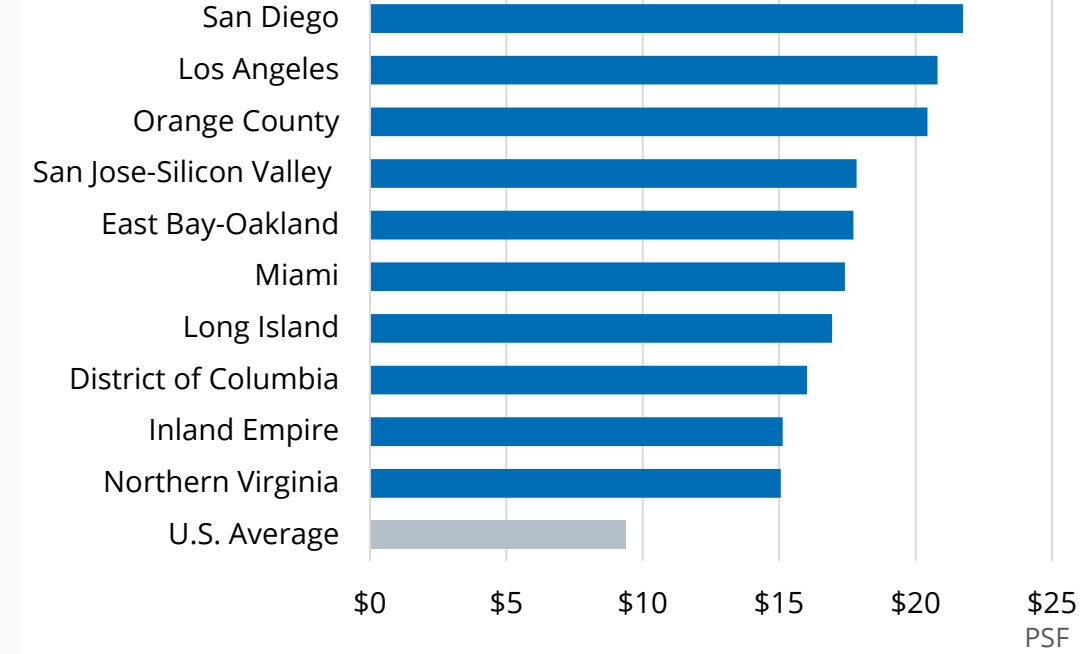
### VACANCY/CONSTRUCTION

Q4 2023 Vacancy Rate

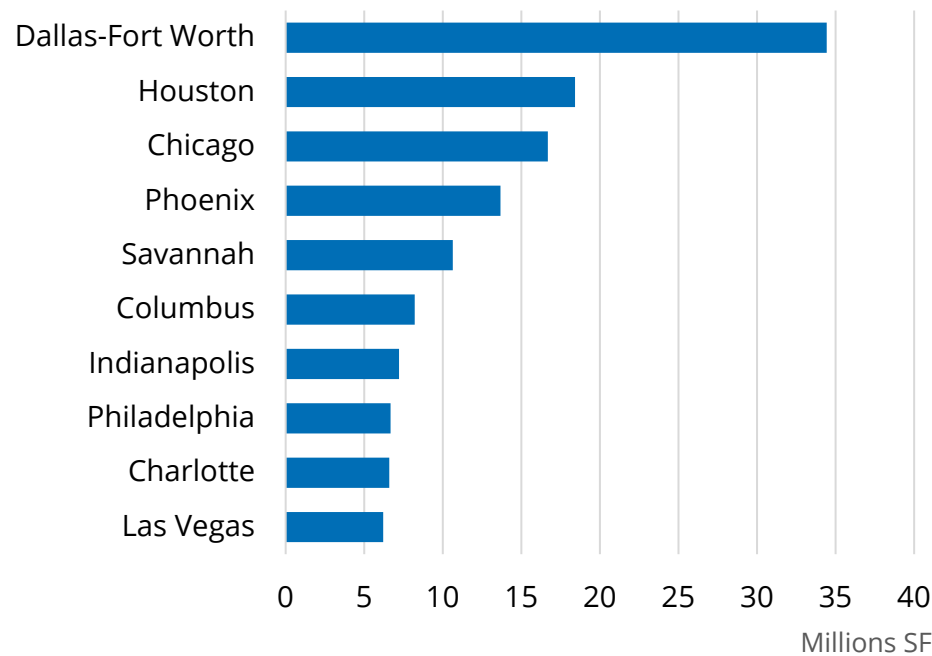


### ASKING RENTS

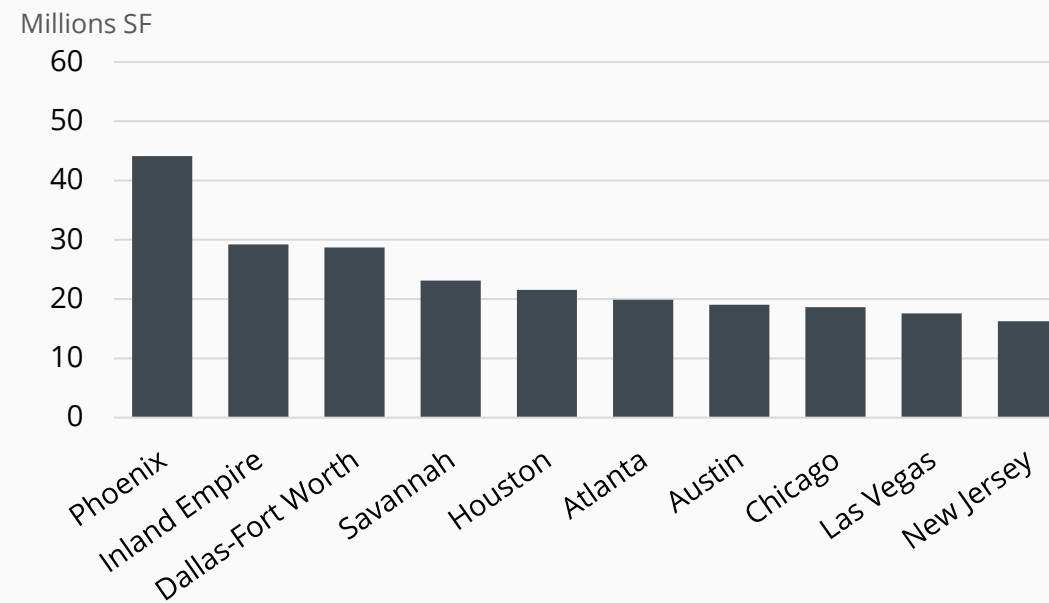
Q4 2023 Asking Rate NNN



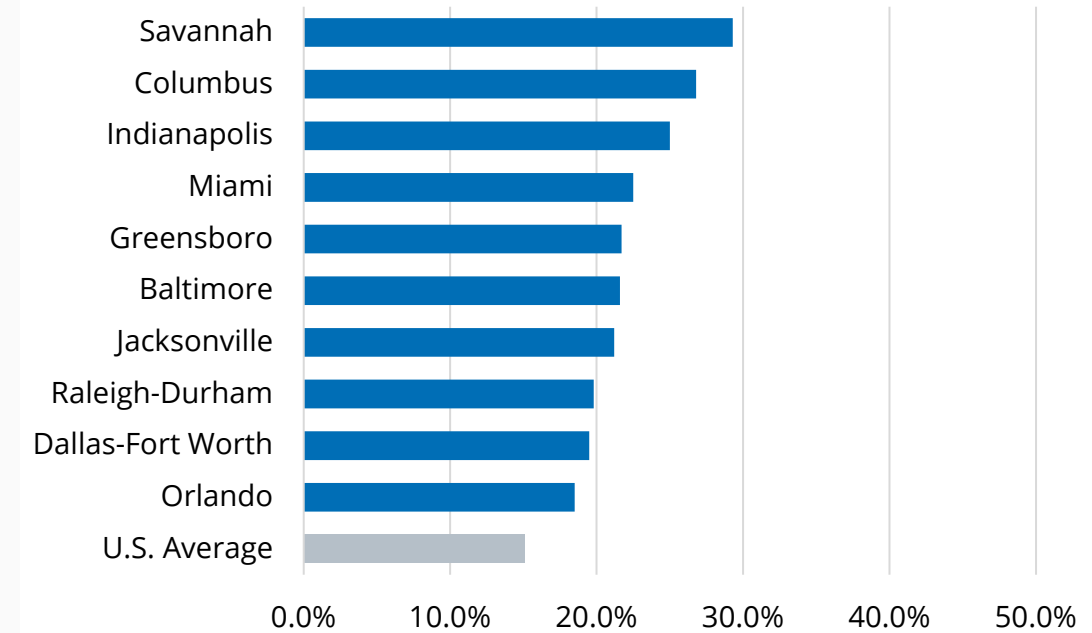
### Trailing 4-Qtr Net Absorption



### Q4 2023 Under Construction

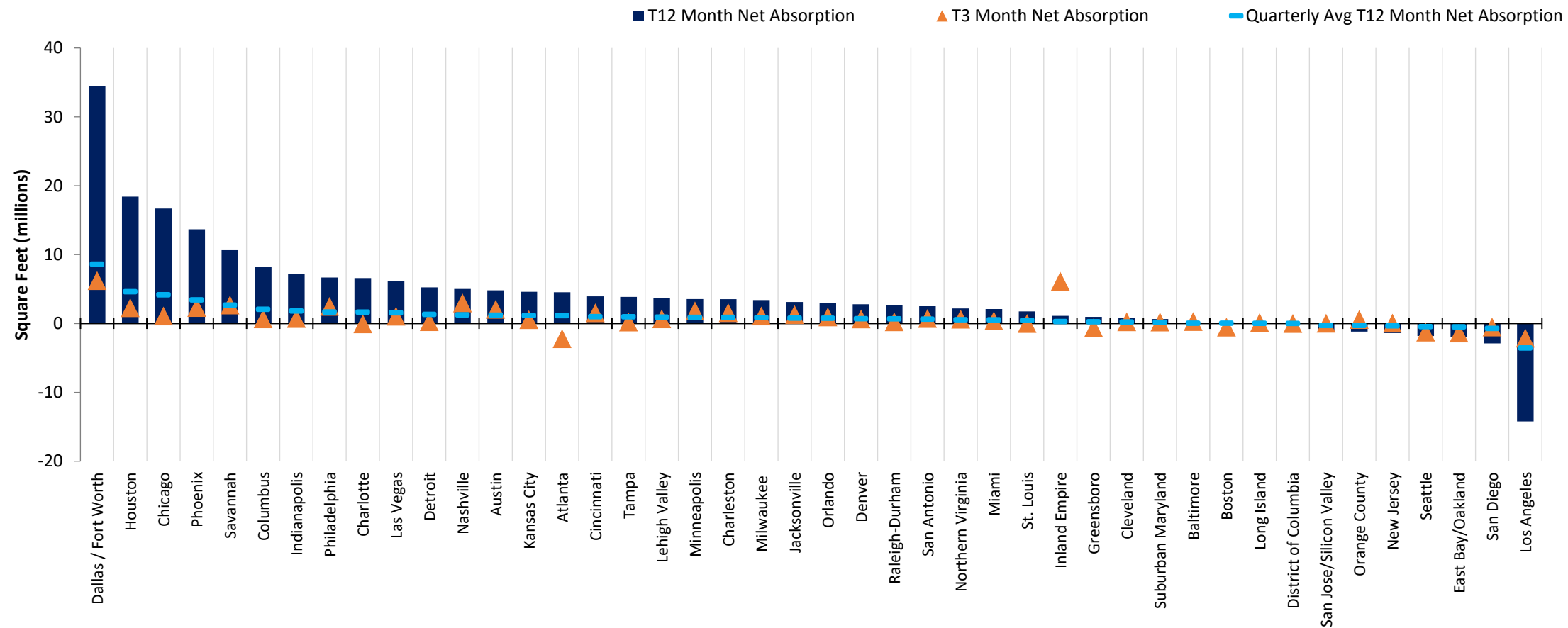


### Year-Over-Year Rent Growth



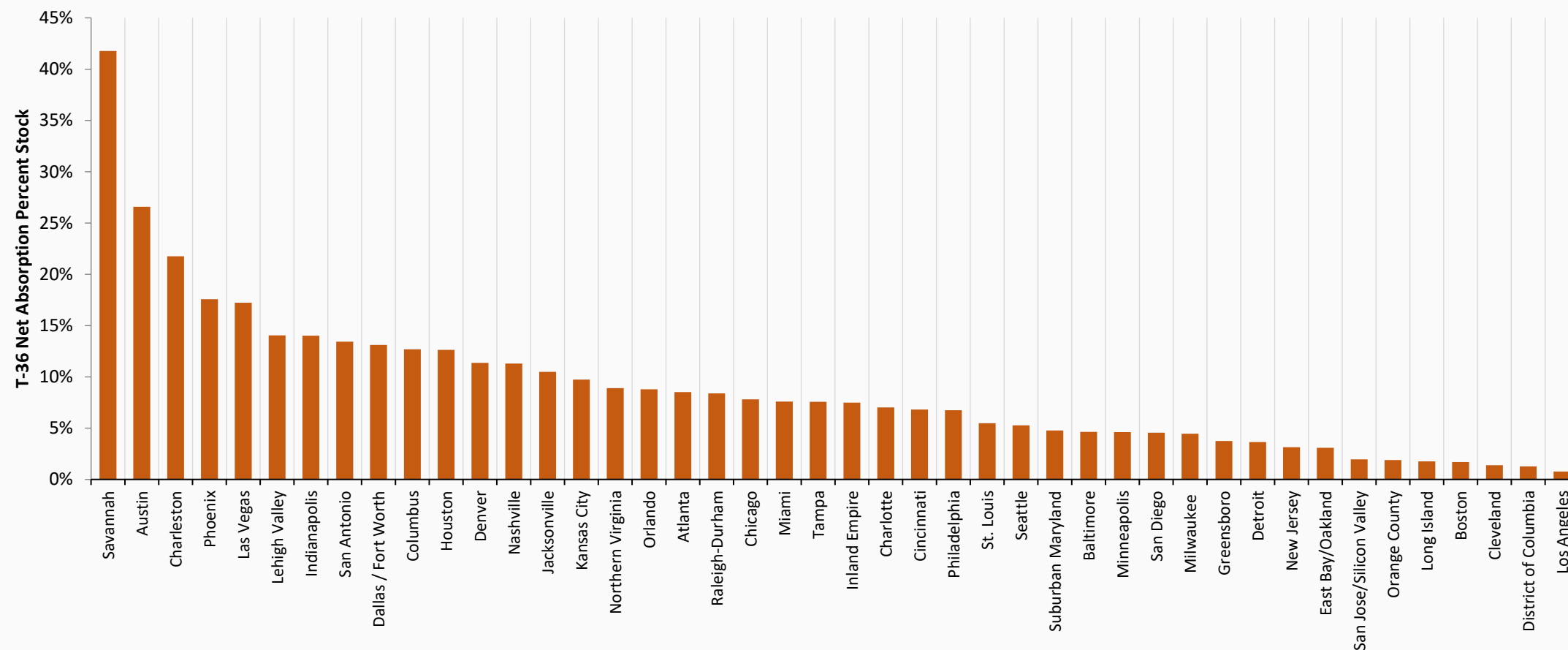
\*Several factors can result in the variability of asking rent and rent growth figures including, but not limited to, the level of new construction and the number of available space with no listed asking rents,

## NET ABSORPTION



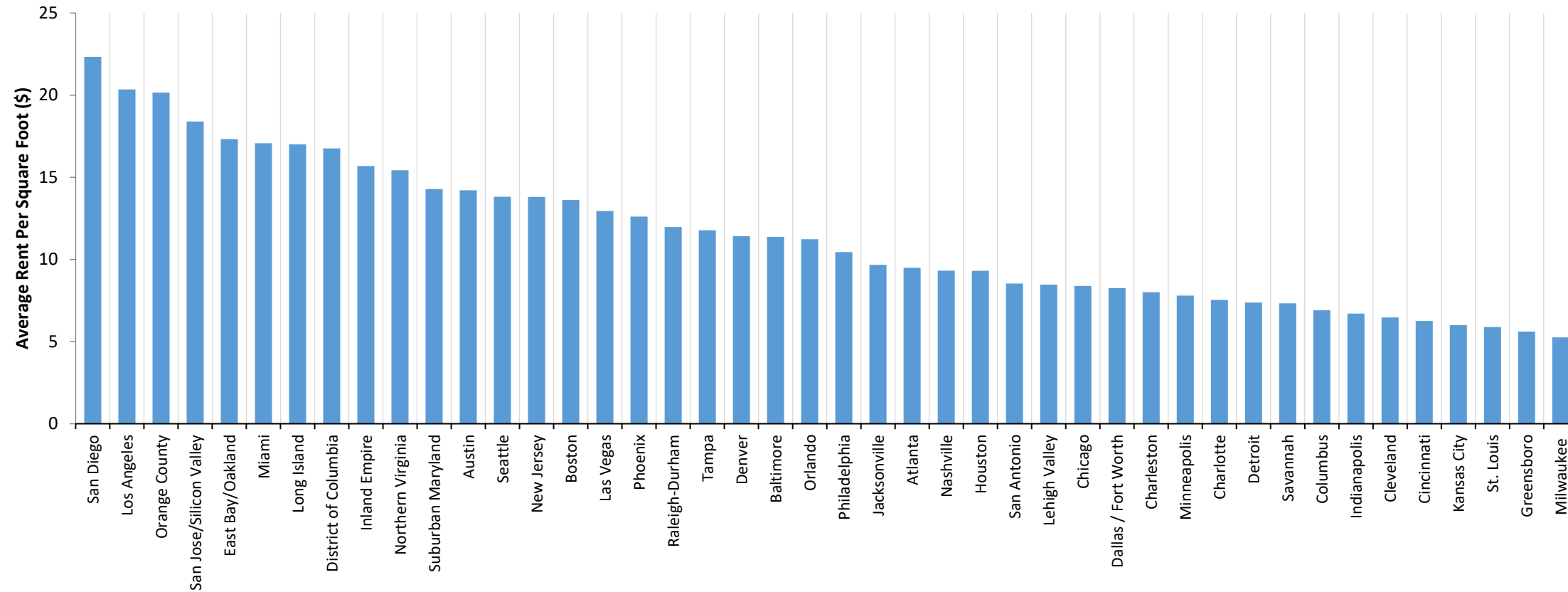
- Positive net absorption was reported in 82% of markets over the past 12 months. Down from 91% in 3Q 2023
- While market growth had been slowing, this quarter saw a stabilization in growth with around half of markets posting quarterly net absorption higher than the quarterly average for the past year. The strongest market by this measure was Inland Empire.
- Over 58% of all net absorption over the past 12 months occurred in the top six markets: Dallas-Fort Worth, Houston, Chicago, Phoenix, Savannah, Columbus, and Indianapolis.

## MARKET EXPANSION: 3 YEAR NET ABSORPTION % STOCK



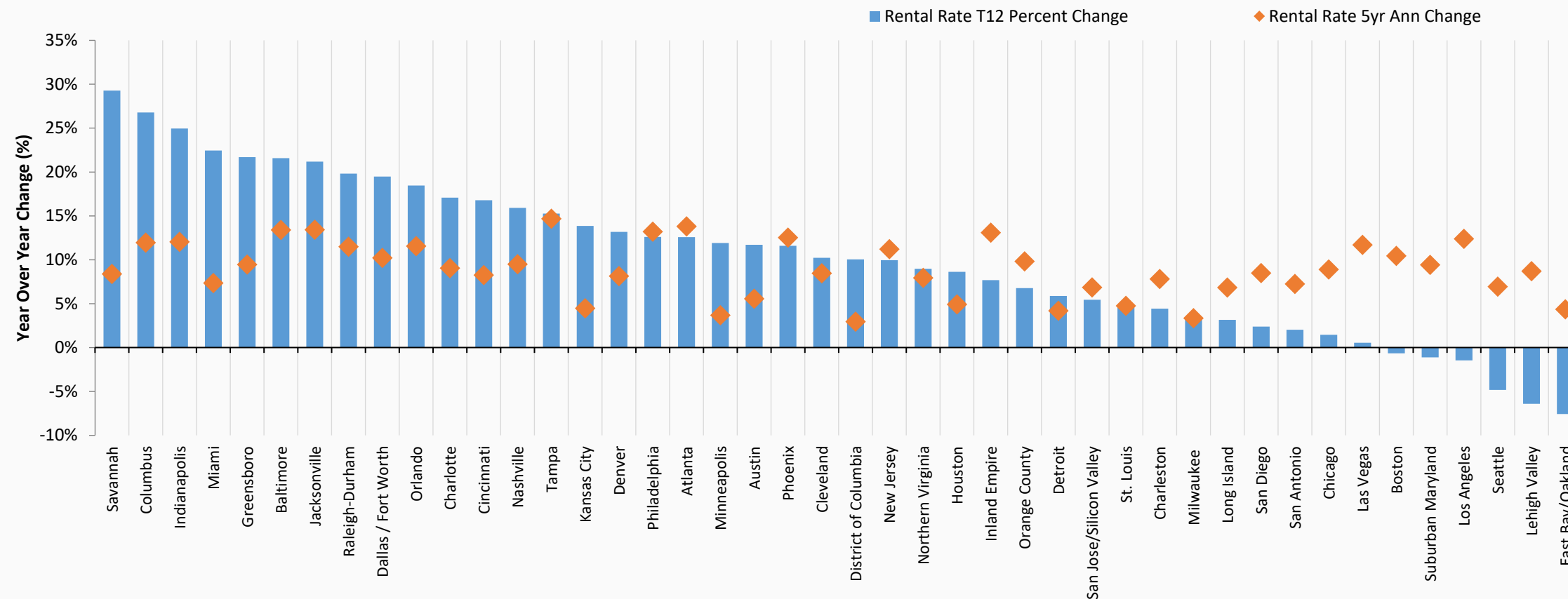
- Here, we consider 3-year net absorption as a percent of stock. A higher percentage indicates that a market is more expansionary.
- As population shifts to the Sun Belt, tenants continue to seek industrial space in the region. The Sun Belt included the top five - and seven of the top 10 - markets for expansion.

### RENTAL RATES (NNN)



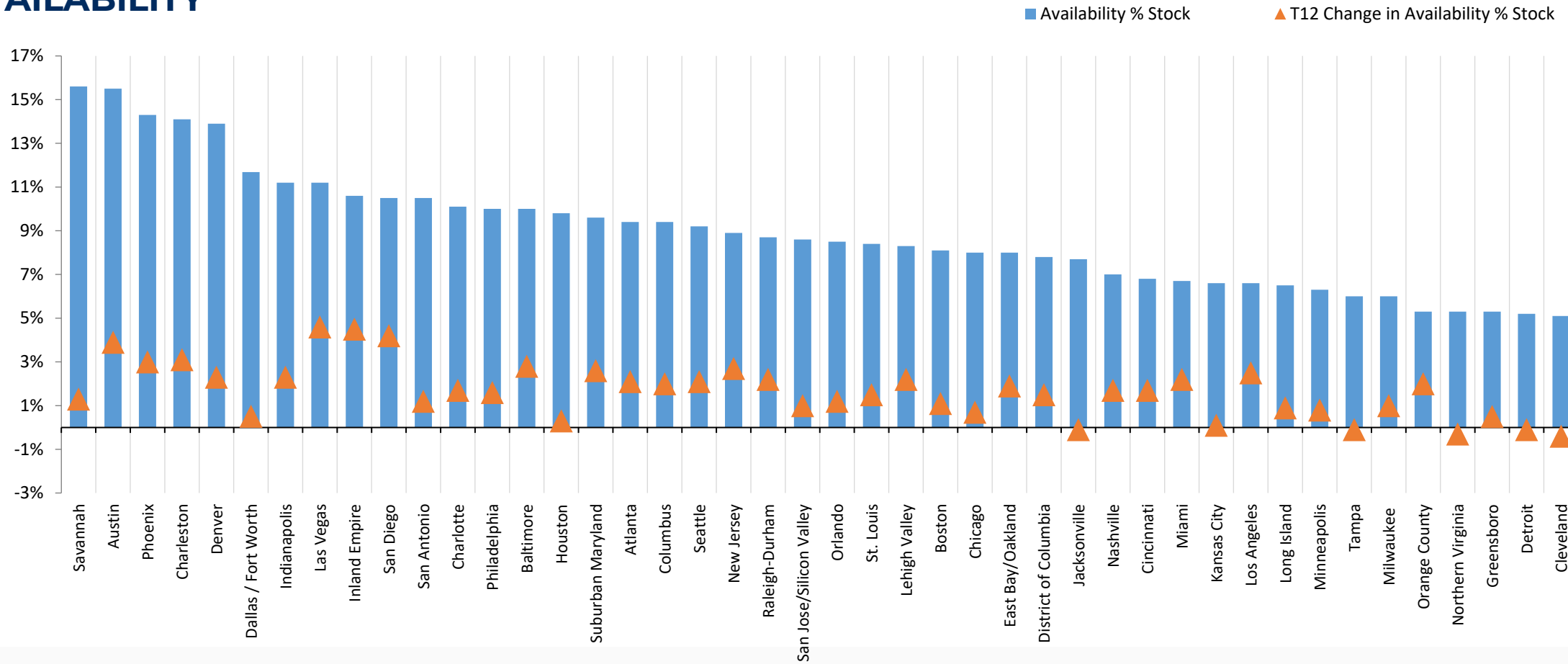
- The top 10 markets with the highest rental rates are predominantly located in the largest shipping port regions on the west and east coasts.
- New construction coupled with constraints on supply account for many of the high rent averages in these core, coastal markets. Despite higher rental rates, demand remains strong as their prime locations reduce transportation costs.

### RENTAL RATE CHANGE



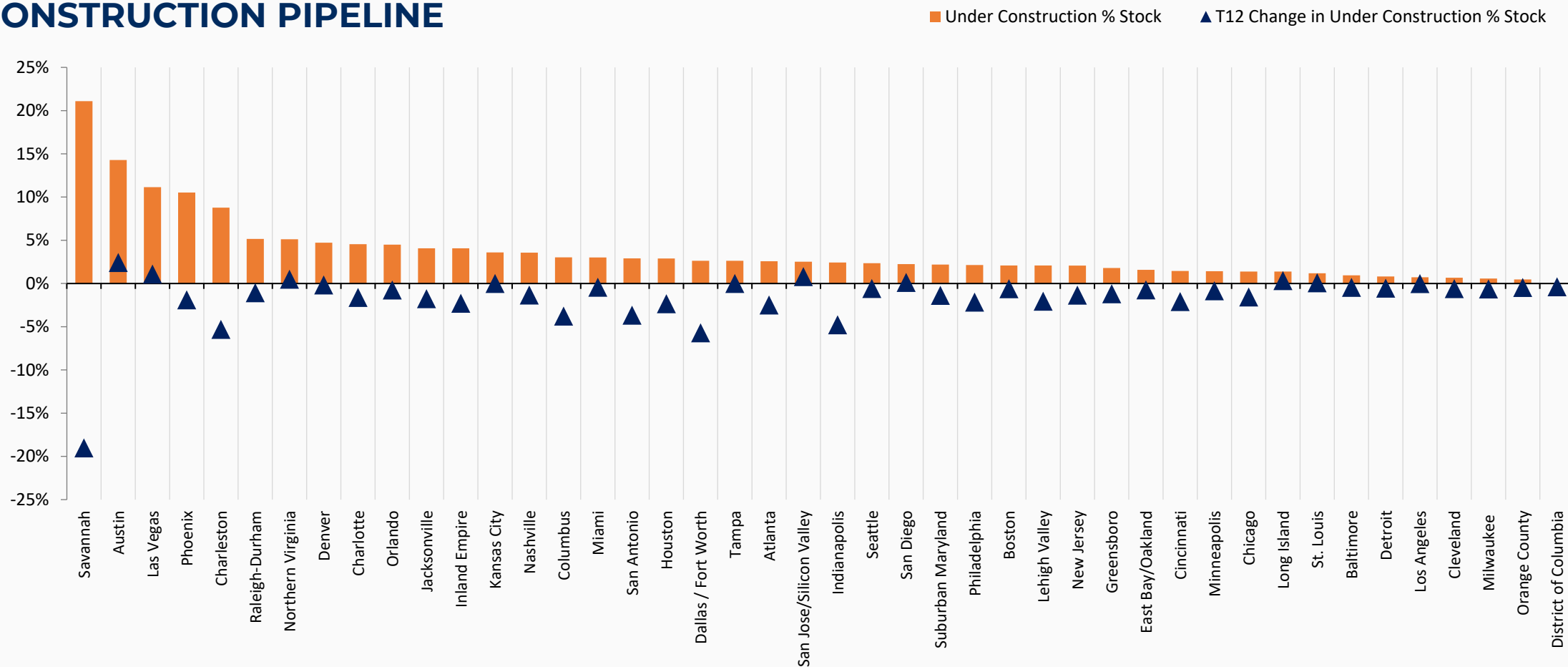
- Over 50% of the tracked markets recorded rent increases of over 10% YoY, and 86% of all tracked markets saw positive growth during the period.
- Three markets recorded rent growth of 25% or above during the past 12 months: Savannah, Columbus, and Indianapolis.
- While rent growth is elevated compared to the five-year average for many of the top performing markets, others are seeing a pull back in growth after the highs of the past few years.

### AVAILABILITY



- Markets with the highest availability are also those with the highest construction levels and include fast-growing Savannah, Austin, and Phoenix.
- Many markets loosened over the last year as demand eased, with over 88% experiencing an increase in availability.
- Markets experiencing the largest increases include Las Vegas, Inland Empire, and San Diego, all of which rose over 400 basis points.

### CONSTRUCTION PIPELINE



- Under-construction stock is indicative of future expansion.
- Capitalizing on much-needed industrial real estate inventory due to substantial population growth and a recent shipping shift, developers continue to build in the Sun Belt. The region dominates the top 10 highest growth markets as it pertains to under-construction stock.
- Normalizing demand and a difficult capital markets environment has caused construction to slow over the past year in over 80% of markets.

Market	Inventory Square Feet	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent NNN	Annual Rent Change	Under Construction
Atlanta	771,467,993	6.5%	5.6%	(2,200,047)	4,529,712	\$9.49	12.6%	19,881,296
Austin	133,242,966	10.1%	9.3%	2,070,517	4,821,915	\$14.21	11.7%	19,035,017
Baltimore	235,081,207	6.9%	6.1%	281,749	157,151	\$11.38	21.6%	2,220,667
Boston	337,104,411	5.5%	5.1%	(516,851)	156,187	\$13.62	-0.7%	7,032,943
Charleston	95,611,832	6.3%	5.3%	1,579,694	3,530,955	\$8.01	4.4%	8,385,499
Charlotte	349,132,292	6.4%	5.9%	(35,483)	6,601,501	\$7.54	17.1%	15,859,402
Chicago	1,350,082,796	5.2%	4.9%	1,094,595	16,684,471	\$8.39	1.5%	18,637,562
Cincinnati	339,237,716	4.7%	4.5%	1,549,354	3,939,671	\$6.26	16.8%	4,909,460
Cleveland	332,623,289	3.7%	3.6%	253,466	860,046	\$6.47	10.2%	2,209,880
Columbus	348,047,347	6.6%	5.6%	679,853	8,215,531	\$6.91	26.8%	10,514,813
Dallas-Fort Worth	1,090,914,812	9.6%	8.6%	6,238,674	34,436,090	\$8.26	19.5%	28,709,341
Denver	177,674,462	9.2%	8.7%	674,194	2,793,366	\$11.42	13.2%	8,384,579
Detroit	580,664,848	3.9%	3.6%	272,582	5,238,349	\$7.38	5.9%	4,690,890
District of Columbia	8,794,850	5.3%	4.9%	4,290	(22,681)	\$16.76	10.0%	0
East Bay-Oakland	254,608,264	6.1%	4.8%	(1,372,760)	(1,973,822)	\$17.33	-7.6%	4,015,206
Greensboro	160,398,238	3.3%	3.0%	(611,615)	971,542	\$5.61	21.7%	2,869,351
Houston	744,161,800	7.1%	6.7%	2,298,502	18,421,197	\$9.31	8.6%	21,540,346
Indianapolis	398,118,899	8.3%	7.7%	733,696	7,219,020	\$6.71	25.0%	9,646,346
Inland Empire	718,217,440	5.8%	4.5%	6,125,874	1,115,439	\$15.69	7.7%	29,213,982
Jacksonville	145,609,830	3.3%	2.8%	1,295,378	3,114,046	\$9.67	21.2%	5,934,434
Kansas City	327,771,692	4.9%	4.2%	566,404	4,607,880	\$6.00	13.9%	11,781,442
Las Vegas	157,841,345	3.6%	3.1%	1,068,677	6,207,309	\$12.95	0.5%	17,582,506

Market	Inventory Square Feet	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent NNN	Annual Rent Change	Under Construction
Lehigh Valley	157,636,836	4.8%	4.6%	688,083	3,707,819	\$8.47	-6.4%	3,275,400
Long Island	157,673,546	4.5%	4.2%	141,025	86,705	\$17.01	3.2%	2,174,506
Los Angeles	929,740,325	4.5%	3.8%	(2,115,137)	(14,218,888)	\$20.35	-1.5%	6,632,007
Miami	249,097,205	3.2%	2.9%	388,881	2,096,121	\$17.07	22.5%	7,504,166
Milwaukee	249,330,364	2.7%	2.6%	1,103,437	3,399,958	\$5.26	3.5%	1,435,660
Minneapolis	401,405,318	3.8%	3.5%	1,830,922	3,544,383	\$7.80	11.9%	5,691,783
Nashville	249,654,578	4.5%	3.4%	2,988,345	5,008,818	\$9.32	15.9%	8,918,996
New Jersey	786,906,598	5.7%	5.3%	60,862	(1,396,325)	\$13.81	10.0%	16,261,516
Northern Virginia	124,382,665	3.5%	3.3%	636,244	2,187,916	\$15.43	9.0%	6,357,672
Orange County	253,736,711	3.0%	2.6%	586,424	(1,177,135)	\$20.16	6.8%	1,196,980
Orlando	182,040,992	5.0%	4.5%	958,929	3,014,833	\$11.23	18.5%	8,185,045
Philadelphia	583,343,709	7.3%	7.0%	2,487,345	6,680,345	\$10.45	12.6%	12,479,389
Phoenix	419,164,894	8.2%	7.6%	2,326,073	13,670,044	\$12.61	11.6%	44,119,610
Raleigh-Durham	141,082,548	5.9%	5.4%	254,759	2,700,986	\$11.97	19.8%	7,268,482
San Antonio	158,163,520	7.7%	7.4%	732,254	2,505,150	\$8.54	2.0%	4,605,631
San Diego	185,924,614	6.2%	5.0%	(496,507)	(2,890,322)	\$22.33	2.4%	4,174,293
San Jose-Silicon Valley	185,161,341	7.1%	6.2%	49,212	(1,154,042)	\$18.40	5.4%	4,674,175
Savannah	109,588,020	11.4%	9.8%	2,690,563	10,639,444	\$7.33	29.3%	23,112,325
Seattle	326,318,418	6.7%	6.0%	(1,242,671)	(1,825,246)	\$13.82	-4.8%	7,684,815
St. Louis	314,290,590	4.4%	4.0%	10,927	1,757,964	\$5.89	4.8%	3,735,298
Suburban Maryland	108,868,862	6.9%	5.9%	228,987	650,520	\$14.29	-1.1%	2,386,942
Tampa	191,002,626	4.9%	4.6%	225,186	3,867,920	\$11.78	15.3%	5,024,069



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## ABOUT THE TRANSWESTERN COMPANIES

Four dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all. Learn more at [transwestern.com](https://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).

## RESEARCH METHODOLOGY

The information in this report is a compilation of single and multi-tenant industrial and flex properties located in select U.S. metropolitan areas. Government-owned buildings are excluded from analysis. All rents are reported as triple net and can be skewed, in some cases, due to factors including, but not limited to, the level of new construction and the amount of available space with no listed asking rents.