

INDUSTRIAL OVERVIEW: RENT GROWTH REMAINS STRONG DESPITE SPUTTERING DEMAND

Demand for industrial space in North America sputtered in 2023, hobbled by a host of post-pandemic economic and supply-chain issues. Among them were declining imports, retailers caught with surplus inventories and slumping receipts for furniture, appliances and building materials from a 12-year low in home sales. Additionally, there were wide expectations for an economic recession.

Net absorption totaled 164.8 million SF in the United States in 2023, a 61% drop from the 422.7 million SF of tenant growth in 2022 and a 69% decline from the record 524.7 million SF in 2021. It was 32% less than the 242-million-SF average of the five years prior to the pandemic.

It was a similar story in Canada, but the reduced demand was less acute as Canadian landlords realized stronger rent growth, 11.2% compared to 7.4% in the U.S. Canadian net absorption of 25.1 million SF in 2023 was down 12% from the 25.2 million SF of growth in 2022. It was 44.4% off the 39.9-million-SF record in 2021. The nation's low 1.7% vacancy rate is a record. There are 48.7 million SF in the construction pipeline, 46.2% of which are in the Greater Toronto Area. About 70% of the 6.1 million SF underway in Vancouver is pre-leased.

In the U.S. there are recent signs of stabilizing tenant demand as a record 528.7 million SF were delivered in 2023. The increasing supply is expected to push up the vacancy rate through the first half of 2024, but construction starts have fallen to a 10-year low. Across the 87 markets in the Lee & Associates survey, there are 451 million SF of projects under construction and most remain unleased. New product has driven up the U.S. industrial vacancy rate from a record low 3.9% in mid-2022, to 5.9% at the end of 2023. That is still comfortably below the market's 20-year average vacancy rate of 7.3%. The stock of industrial properties in the U.S. is set to grow by more than 3% in 2023, the fastest pace of growth in more than 30 years.

The recent slowdown in demand has been broad-based, but Los Angeles, the Inland Empire and Seattle recorded outsized increases in space available for lease. While U.S. imports have been declining since November 2022, the slowdown has been most pronounced at major West Coast ports. But after year-long contract talks, dockworkers recently agreed to a six-year deal that should help stabilize tenant demand.

In the majority of major coastal markets including Los Angeles, South Florida, Richmond, Northern New Jersey and Lehigh Valley, the current pipeline of projects underway is barely large enough to meaningfully ease the distribution space shortages that developed during the pandemic. Markets including Tampa, Jacksonville, Milwaukee and Detroit have bucked the national trend and recorded tightening availability rates through most of 2023.

Jacksonville and Tampa have been direct beneficiaries of rapid in-migration and the continued diversion of Asian imports through the Panama Canal to East Coast and Gulf Coast ports. Milwaukee and Detroit also have benefitted from limited or fast-declining levels of speculative construction, coupled with continued expansions by manufacturing tenants and distributors.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
BC, Vancouver	1.7%	CA, San Diego	\$22.44	BC, Vancouver	\$443 CAD
ON, Toronto	1.9%	FL, Miami	\$20.16	CA, Orange County	\$346
NE, Omaha	2.3%	CA, Orange County	\$19.68	CA, San Diego	\$338
CA, Orange County	3.3%	NY, New York	\$19.56	CA, Los Angeles	\$325
FL, Miami	3.3%	CA, Los Angeles	\$19.08	ON, Toronto	\$276
U.S. Index	5.8%	U.S. Index	\$11.88	U.S. Index	\$151
Canada Index	2.2%	Canada Index	\$12.96 CAD	Canada Index	\$234 CAD

MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
AZ, Phoenix	44,983,474	IL, Chicago	1,402,664,411	BC, Vancouver	4.1%
TX, Dallas-Fort worth	43,180,736	TX, Dallas-Fort Worth	1,146,601,616	ON, Toronto	4.3%
CA, Inland Empire	28,390,284	CA, Los Angeles	956,577,491	CA, Inland Empire	4.4%
ON, Toronto	22,504,396	NY, New York	874,965,627	CA, Los Angeles	4.8%
TX, Houston	22,018,691	ON, Toronto	871,930,812	CA, Orange County	5.0%
U.S. Index	450,101,565	U.S. Index	18,775,853,735	U.S. Index	7.0%
Canada Index	47,788,465	Canada Index	1,861,099,968	Canada Index	5.1%

* Please note that the statistics represented in these tables are based on CoStar defined market territories and may not all represent the geographic area the label depicts.