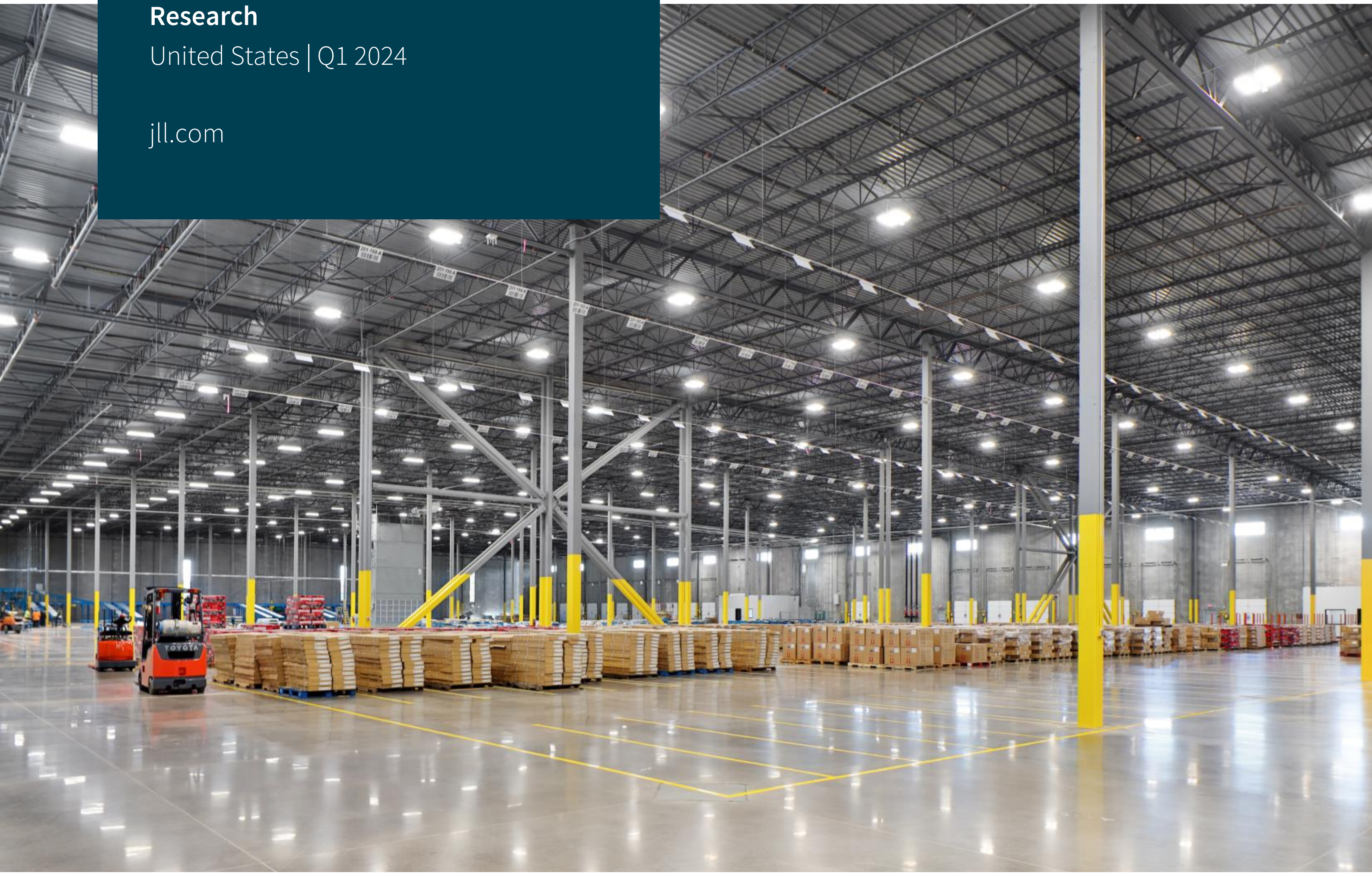
Research
United States | Q1 2024

jll.com



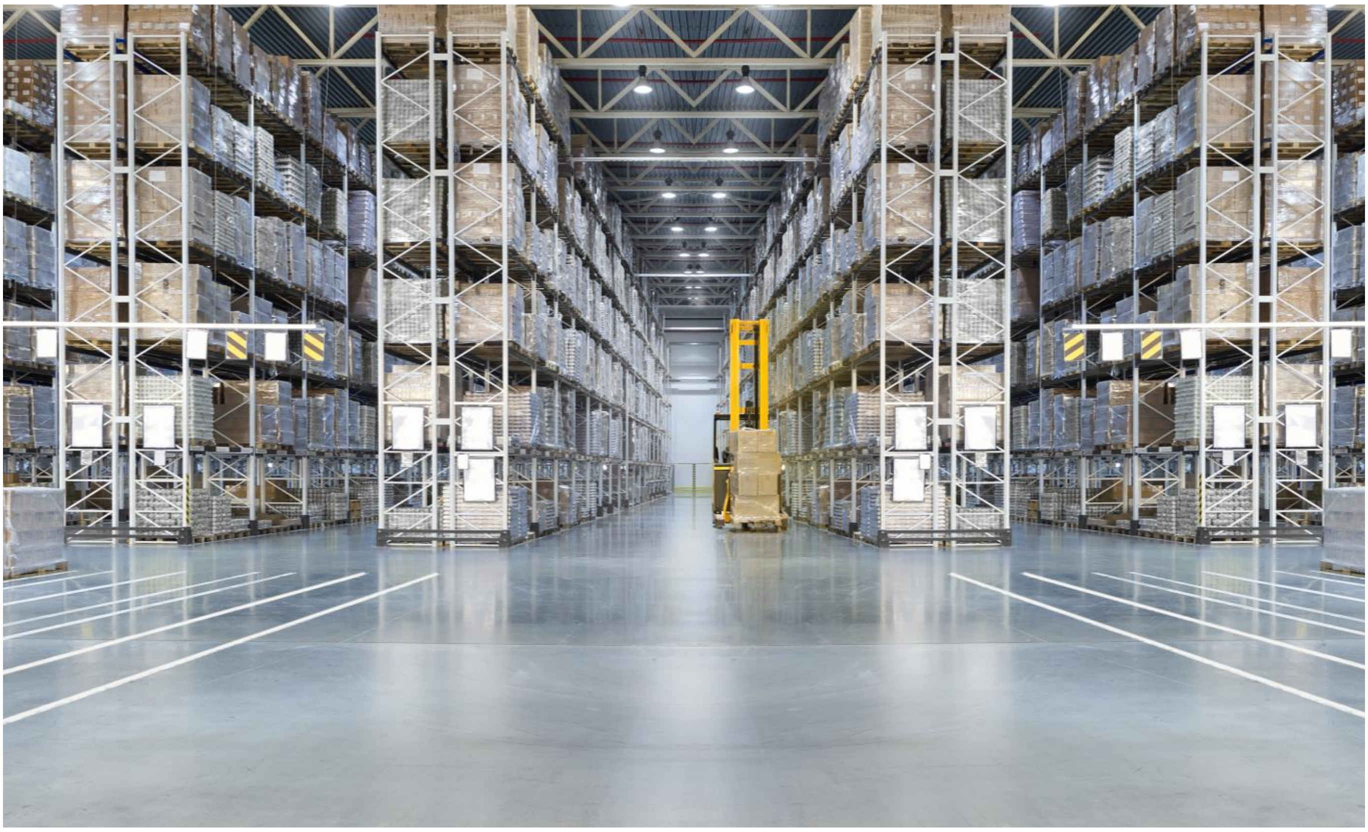
Industrial Outlook

Industrial fundamentals continue to recalibrate

SEE A BRIGHTER WAY

Executive Summary

Industrial fundamentals continued to normalize to their pre-pandemic figures in the first quarter of 2024. While absorption is typically lower in Q1, this marks the sixth consecutive quarter of declining absorption, which started 2024 with 27.9 million s.f. absorbed. As anticipated, the slowdown in pre-leasing and overall leasing, coupled with higher-than-average deliveries, caused the vacancy rate to inch up to 6.1%, an increase of 40 basis points quarter-over-quarter. The availability rate also increased by the same amount quarter-over-quarter to 9.1%. New deliveries were down 36.3% from the previous quarter, with 109.3 million s.f. of new product coming online. Deliveries in the Dallas/Fort Worth, Phoenix, Chicago, Atlanta and Inland Empire markets accounted for 56.7% of that total figure. New construction starts were stagnant, bringing the total amount of industrial space under development to 362.3 million s.f. Rental rate growth remained positive while still cooling, coming in at $9.94 p.s.f., marking an 8.2% year-over-year increase. Sublease availability is up 13.8% quarter-over-quarter. However, the vast amount of sublease space is being marketed only for shorter terms, as occupiers have plans to eventually reoccupy that space.



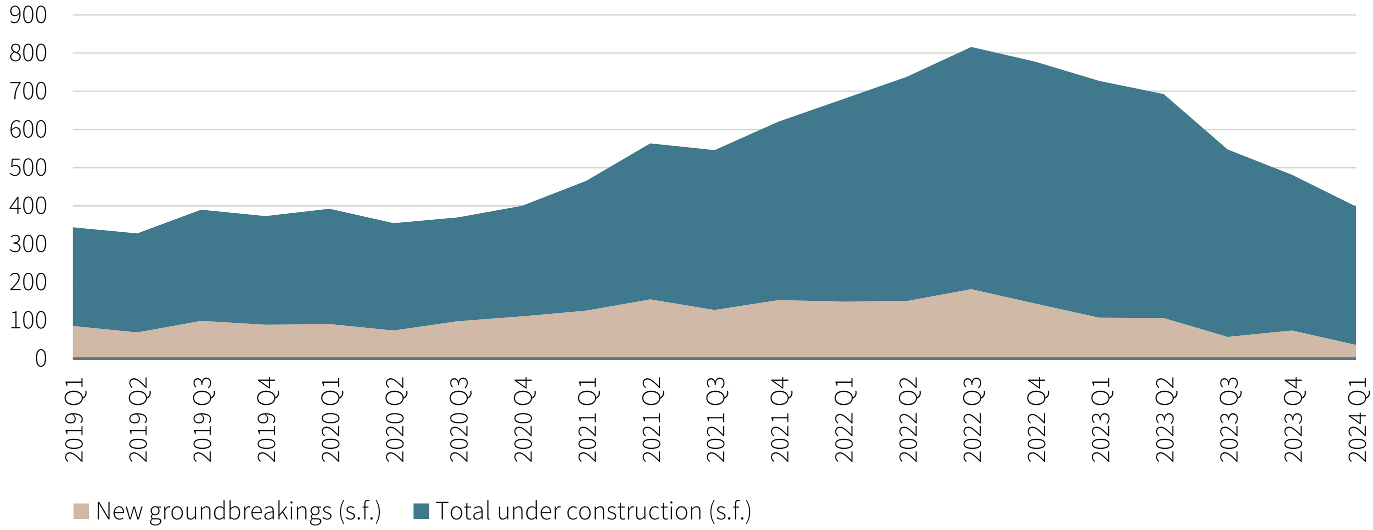
New deliveries and groundbreakings continue to slow

The pace of new deliveries decreased by 36.3% quarter-over-quarter with 109.3 million s.f. coming online. Deliveries in the Dallas-Fort Worth, Phoenix, Chicago, Atlanta and Inland Empire markets accounted for 56.7% of that total figure. Mid-size buildings measuring 100,000 to 250,000 s.f. accounted for 41% of all new deliveries this quarter. Given that the average lease size has decreased 15.3% year-over-year, the influx of space in this size tranche is welcome, as buildings in this size range currently have the most availability. Groundbreakings slowed for the sixth consecutive quarter as less than 40 million s.f. broke ground, bringing the total construction pipeline to 362.3 million s.f. One challenge facing potential development sites is the availability of power, which can significantly impact their suitability and attractiveness.

The lack of new construction starts is largely limited to new speculative product , as owner-user and build-to-suit endeavors currently account for 26.2% of all assets under development, whereas that figure was only 16% one year ago. The overall slowdown of new construction starts was not unwelcome in markets such as Dallas-/Fort Wort, Atlanta, and Phoenix, where there was a concern of oversupply. With 87% of all assets under construction slated to deliver by the end of 2024, coupled with the lack of meaningful construction starts, supply shortages in some markets could be a reality in 2025 and 2026, because leasing activity and demand are predicted to increase in coming quarters. Any supply shortage could reignite rental rate growth due to intensifying competition between occupiers.

New construction starts slow for sixth consecutive quarter

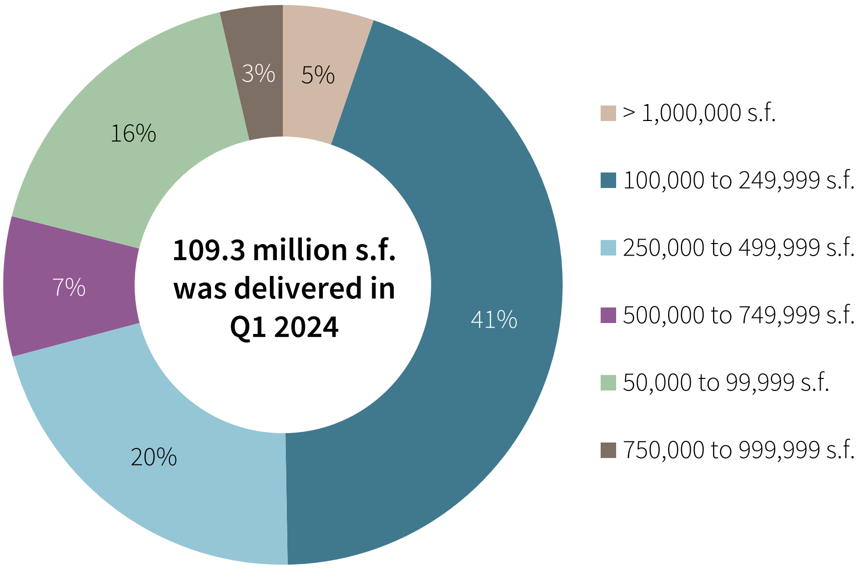
Quarterly construction figures (in millions of s.f.)



Source: JLL Research Q1 2024

Mid-size buildings account for 41% of new deliveries

Count of new building deliveries by size tranche



The **100,000** to **249,999 s.f.** building size tranche also has the highest availability at **34%** which lends more options to tenants

*Mid-size being defined as buildings measuring from 100,000 to 249,999 s.f.

Source: JLL Research Q1 2024

With the advancement of industrial developments requiring heavy power, such as manufacturing sites and data centers, the rapid growth of the U.S. electric load has put a strain on power grids within certain markets. The load forecasts are changing rapidly with regulators and utilities trying to keep up to the unprecedented demands. The timeline can be quite fragmented and prolonged, though; as the report notes that "it may take only one or two years to connect new load to the grid, while it may take over four years to bring new generation online and even longer to build new transmission connections between regions to enable power sharing during peak periods".

*Source: National Load Growth Report

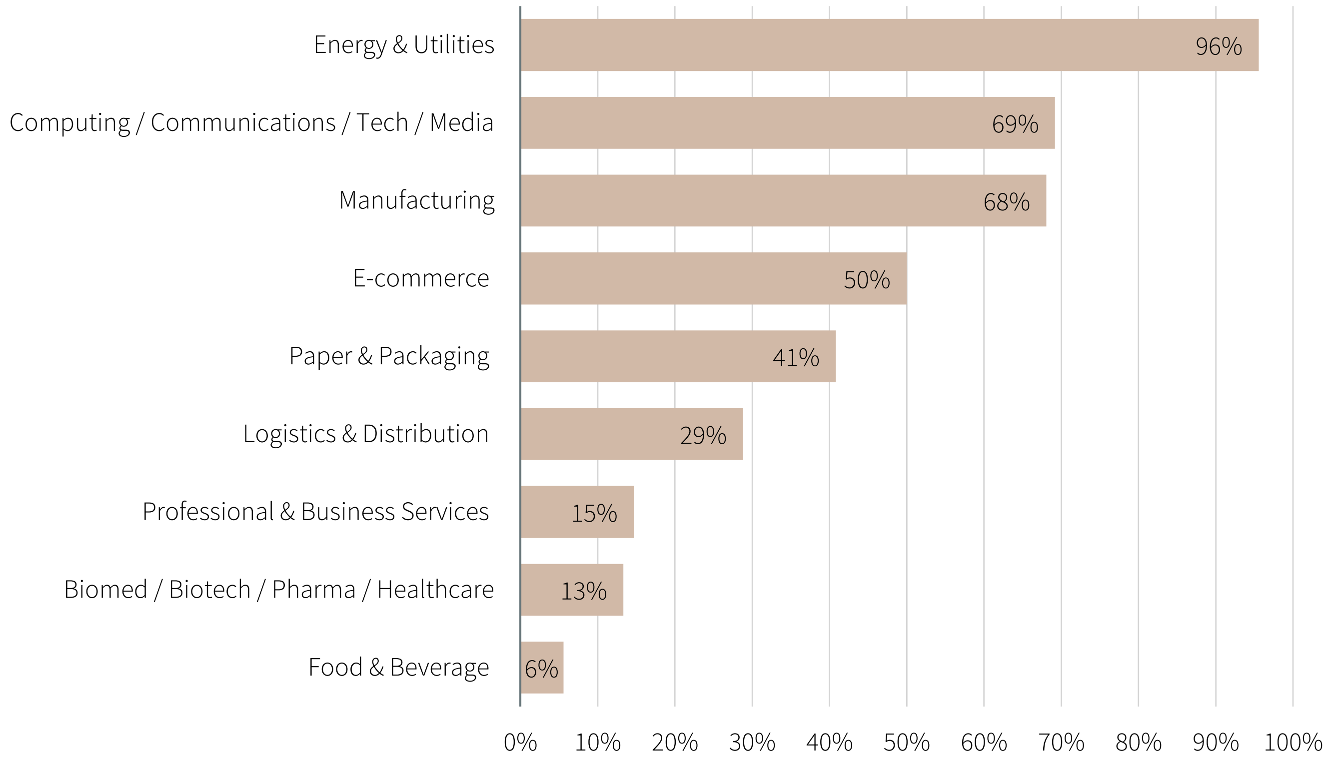
Steady leasing volume propelled by increase in e-commerce deals

Leasing volume saw a slight uptick, largely due to a noticeable increase in e-commerce leasing figures, as 137.6 million s.f. of space was leased. Furthermore, leasing momentum is expected to continue to gain traction throughout the remainder of the year because of factors such as elevated manufacturing requirements and the ongoing shifting of supply chains. surged in Q1 with 11.7 million s.f. of deals signed.

Most notably, eight leases measured over 1 million s.f. a piece and were all leased to the same e-commerce giant. Q1 saw increased leasing volume in key industries such as Energy & Utilities, Communications/Technology/Media, and Advanced Manufacturing. The Inflation Reduction Act (IRA) has helped propel capital investments into new manufacturing sites, to which the 68% increase in manufacturing leasing volume from the previous quarter can likely be attributed.

Quarterly leasing volume increases in key industries amid shifting market landscape

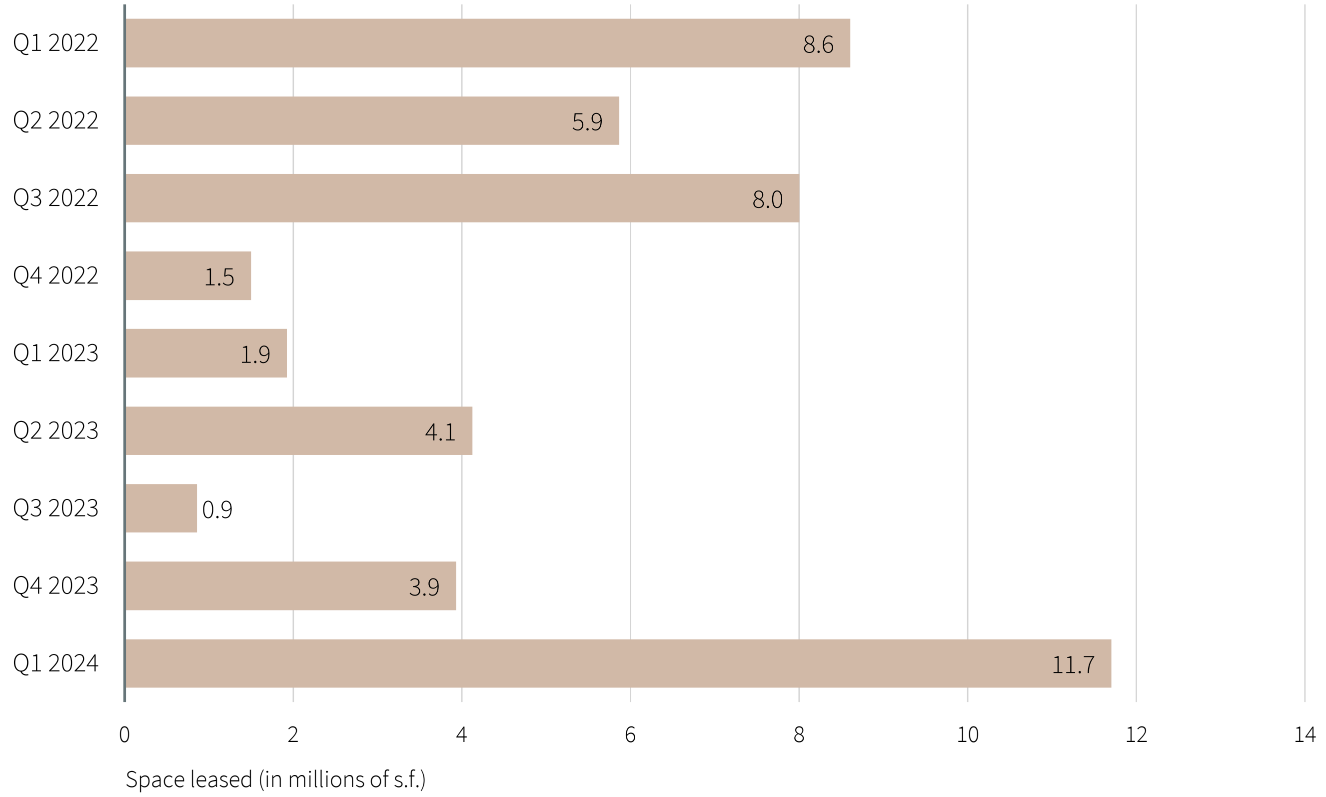
Quarter-over-quarter change in leasing volume by industry



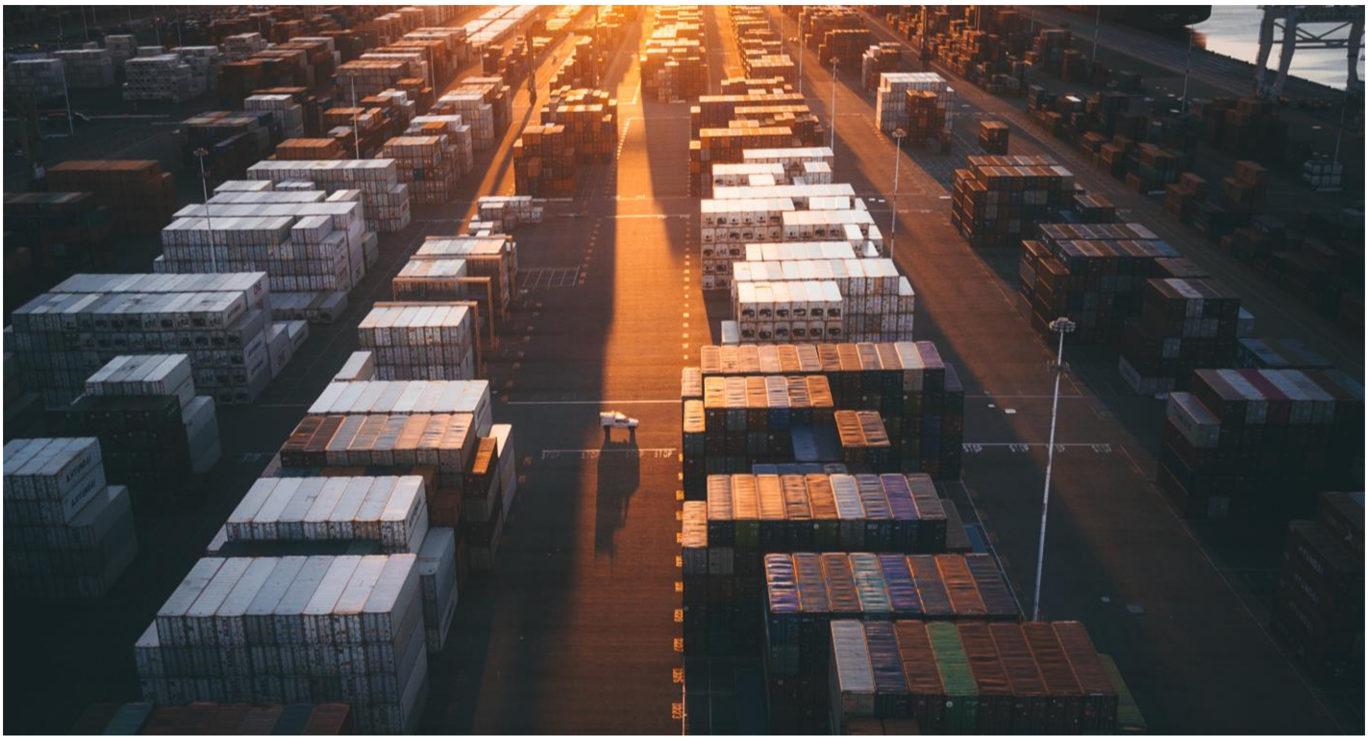
Source: JLL Research Q1 2024

E-commerce leasing volume surges after a brief lull

Quarterly e-commerce leasing volume



Source: JLL Research Q1 2024



Lease expirations facing greater scrutiny due to sustained asking rate growth

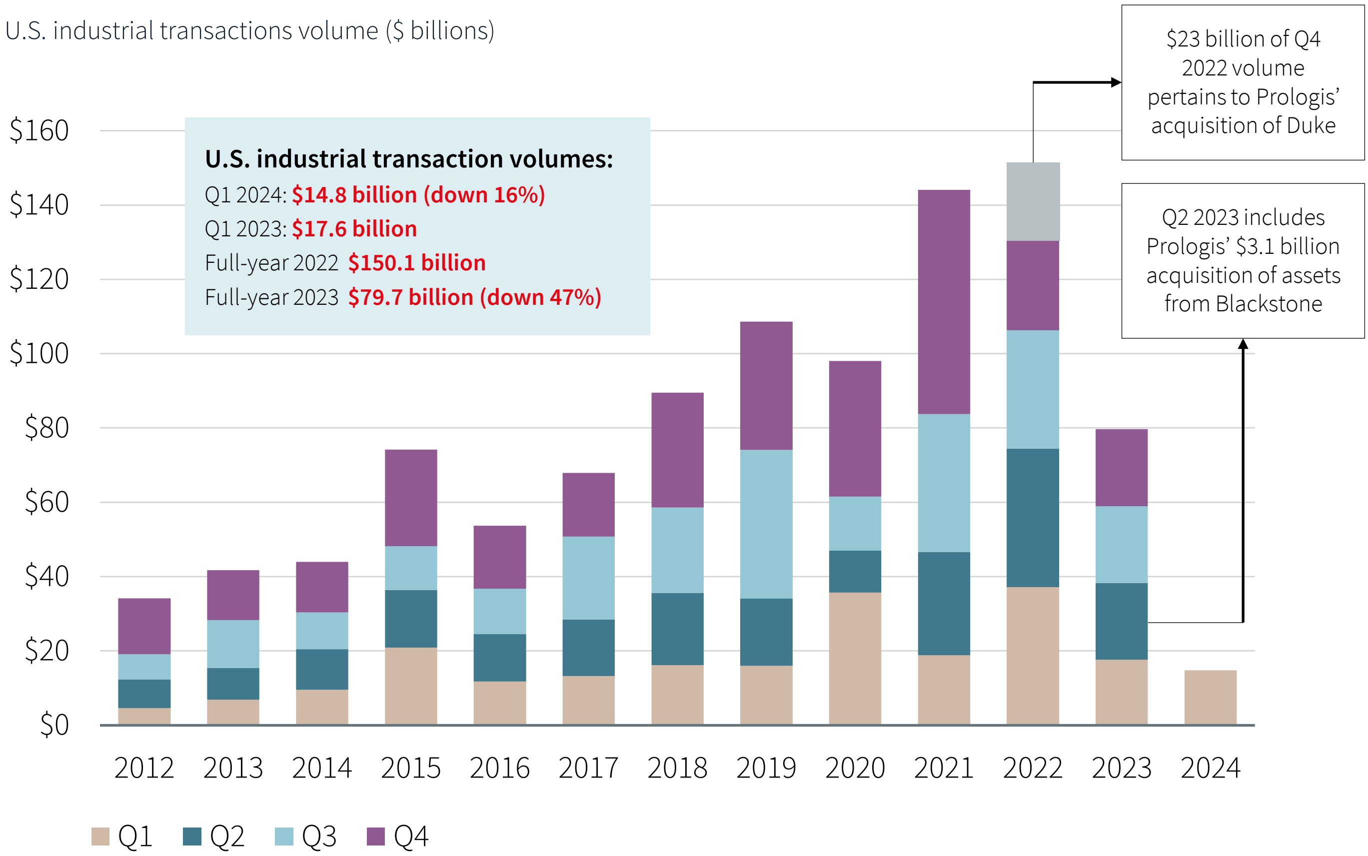
Nationally, asking rates have ballooned nearly 55% since 2020, and as part of portfolio reviews, occupiers are focusing on key opportunities including cost optimization, operational efficiency, and the strategic importance of proximity to desirable locations. Over the next 36 months, 69.7% of expiring leases are in the midsize range of 150,000 to 250,000 s.f., followed by 20.3% in the 250,000 to 500,000 s.f. size segment. With the national vacancy rate at 5.7%, tenants are carefully considering their options at lease expiration, weighing the efficiency of renewing in their current space against relocating for a better rate, despite associated relocation and build-out costs. In terms of transaction type, new leases continued to lead, accounting for 57% of all leasing activity. Lease expansion decreased by 68% quarter-over-quarter as tenants have opted to lease less space with the opportunity to expand later, instead of leasing too much space at one time. Looking at the count of leases that were greater than 100,000 s.f., the majority of leases signed were in the midsize mid-size range of 100,000 to 250,000 s.f. However, there are still large deals being executed, as the volume of leases of at least 1 million s.f. totaled more in Q1, than that total through the second half of 2023. While new leases continued to dominate the leasing landscape, it is worth noting that renewal activity in Q1 reached its highest level in recent first quarters, accounting for 30.3 million s.f. of leasing activity. Some industrial occupiers continue to consolidate their footprints as they reevaluate their warehouse and fulfillment centers to boost efficiency, cut costs, and enhance productivity.

Value-add assets driving industrial capital market transactions

Capital markets activity across commercial real estate as a whole continues to be impacted by higher borrowing costs and the uncertainty around the timing of interest rate cuts. But the industrial sector in particular has seen renewed green shoots from a capital markets standpoint to start 2024. The first quarter saw an increased number of transactions launches, and increased bidder depth on transactions vs.compared to the latter part of 2023 . Investor interest continues to be strong for shallow bay and value-add assets, and there is also an increase in activity around core and core-plus transactions. In addition, there are also more investors again expressing interest in executing larger portfolio transactions.

Industrial transactions volume declines beginning to level off; Q1 2024 volumes down by a lesser 16% y-o-y

U.S. industrial transactions volume ($ billions)



Note: Q1 2024 transaction volumes are preliminary

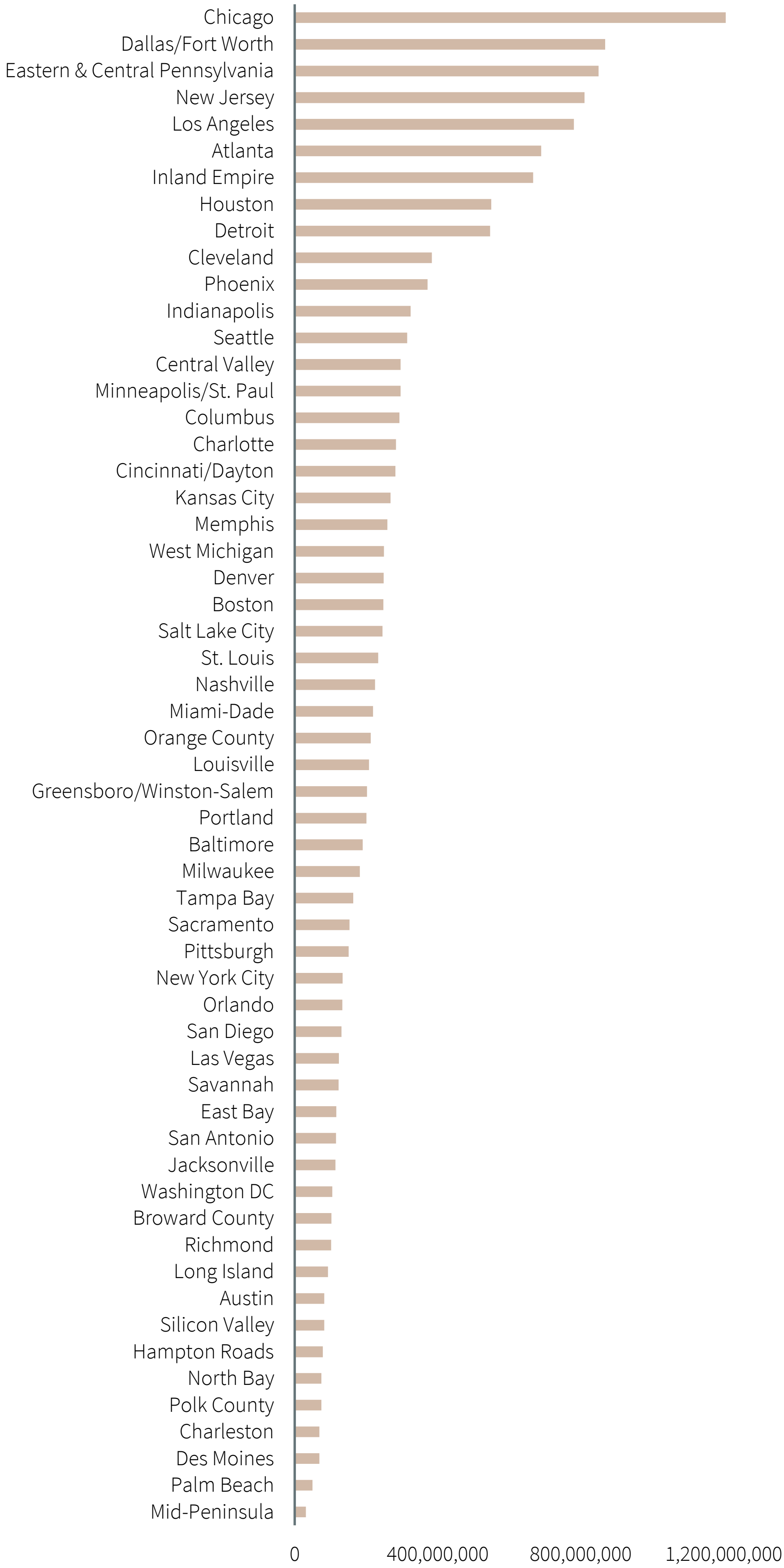
Source: JLL Research, Real Capital Analytics (transactions $5 million and above)

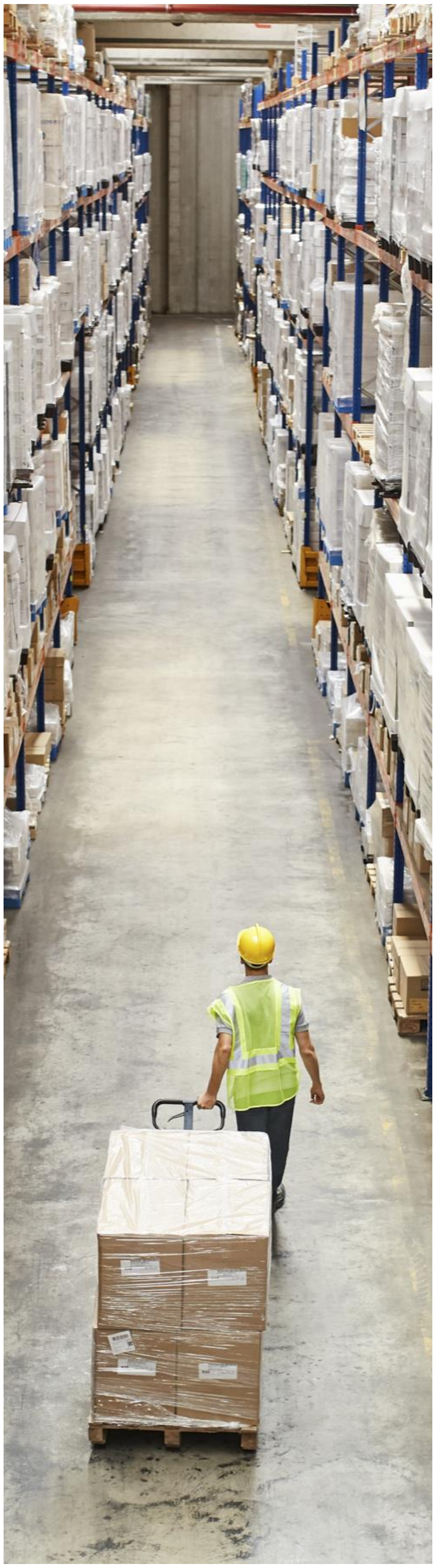
Manufacturing and shifting supply chains will drive long-term demand

With an increase in tenant inquiries coupled with pent-up demand, absorption is expected to grow for the duration of 2024, which will cause rental rates to remain positive. Of the total construction pipeline, **87.1% of the 362.3 million s.f. under construction is slated to deliver by the end of this year.** Because of lagging preleasing rates, the vacancy rate will likely increase moderately. Once those new deliveries are absorbed, the vacancy rate is predicted to begin to contract again. Sustained growth in manufacturing requirements attributed to ongoing reshoring and regionalization trends shows no signs of abating in the foreseeable future, and these manufacturing requirements will be one of the core demand drivers of industrial fundamentals over the long- term. Supply chains will look to capitalize on these opportunities, seeking strategically located facilities that can accommodate localized manufacturing, efficient distribution and resilient inventory management systems. With advances in technology and automation, demand for new specialized industrial properties will emerge.

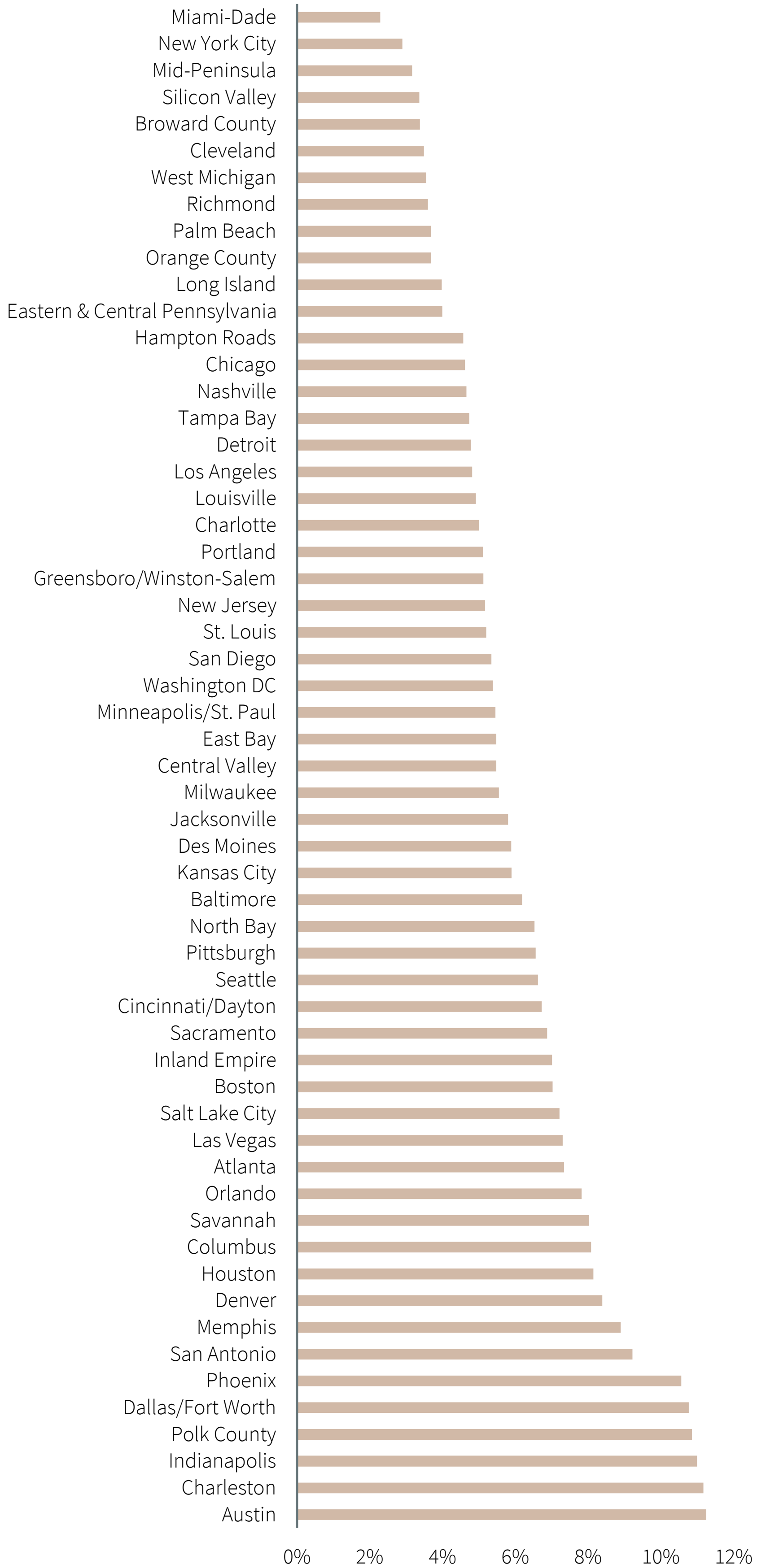
Appendix

Total inventory (millions of s.f.)





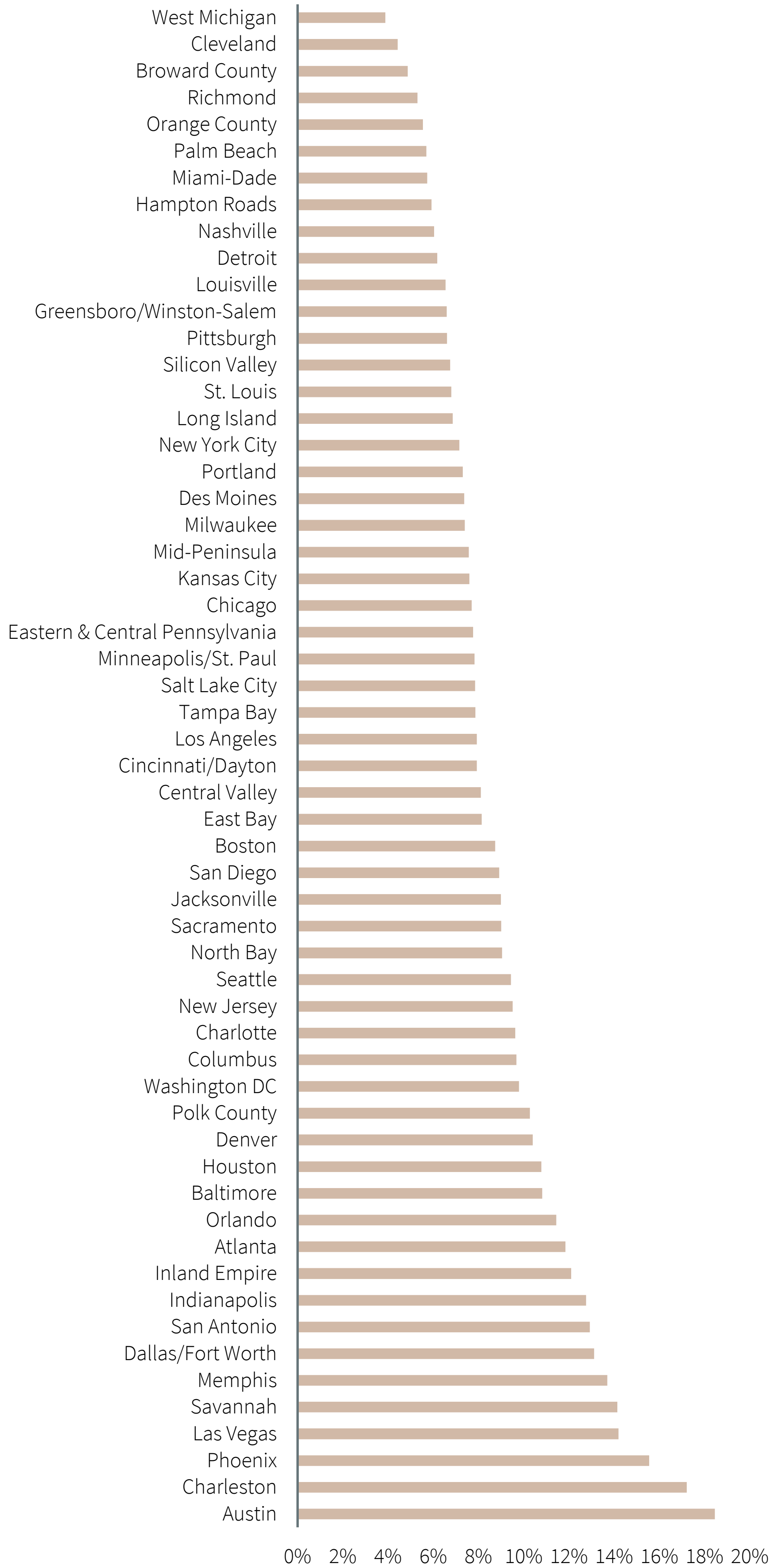
Vacancy rate



YTD net absorption

Q-O-Q rent change

Availability rate



Reach out with questions

Mehtab Randhawa
Global Head of Industrial Research
mehtab.randhawa@jll.com

Elizabeth Keiger
Senior Research Analyst
elizabeth.keiger@jll.com

Kelsey Nastasi
Research Manager
kelsey.nastasi@jll.com

Research at JLL

JLL's research team delivers intelligence, analysis and insight through market leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 550 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

About JLL

For over 200 years, JLL (NYSE: JLL), a leading global commercial real estate and investment management company, has helped clients buy, build, occupy, manage and invest in a variety of commercial, industrial, hotel, residential and retail properties. A Fortune 500® company with annual revenue of $20.9 billion and operations in over 80 countries around the world, our more than 106,000 employees bring the power of a global platform combined with local expertise. Driven by our purpose to shape the future of real estate for a better world, we help our clients, people and communities SEE A BRIGHTER WAY℠. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com