Research
United States | Q4 2024

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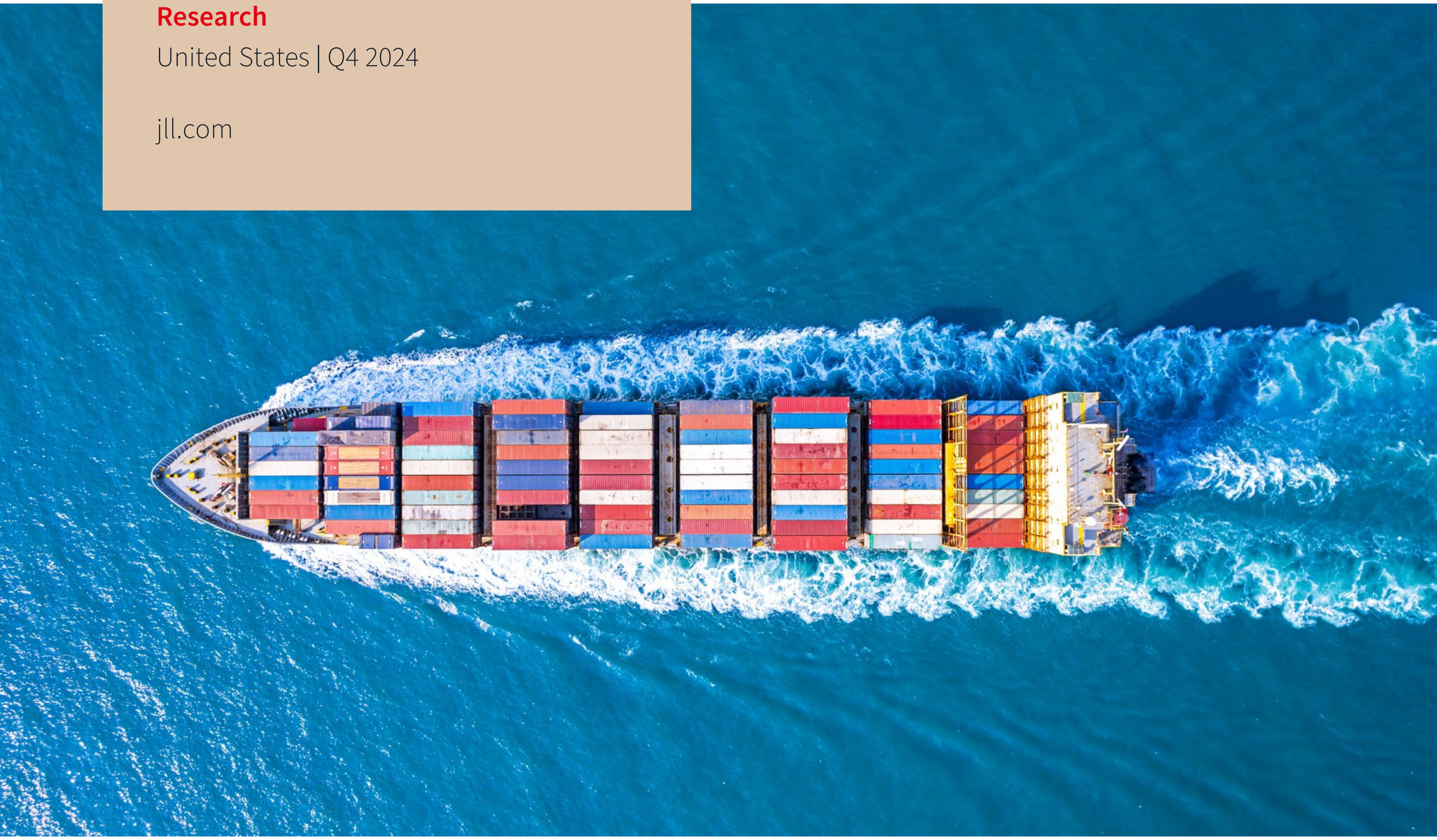

United States Industrial Market Dynamics

Industrial markets still recalibrating in evolving economic landscape

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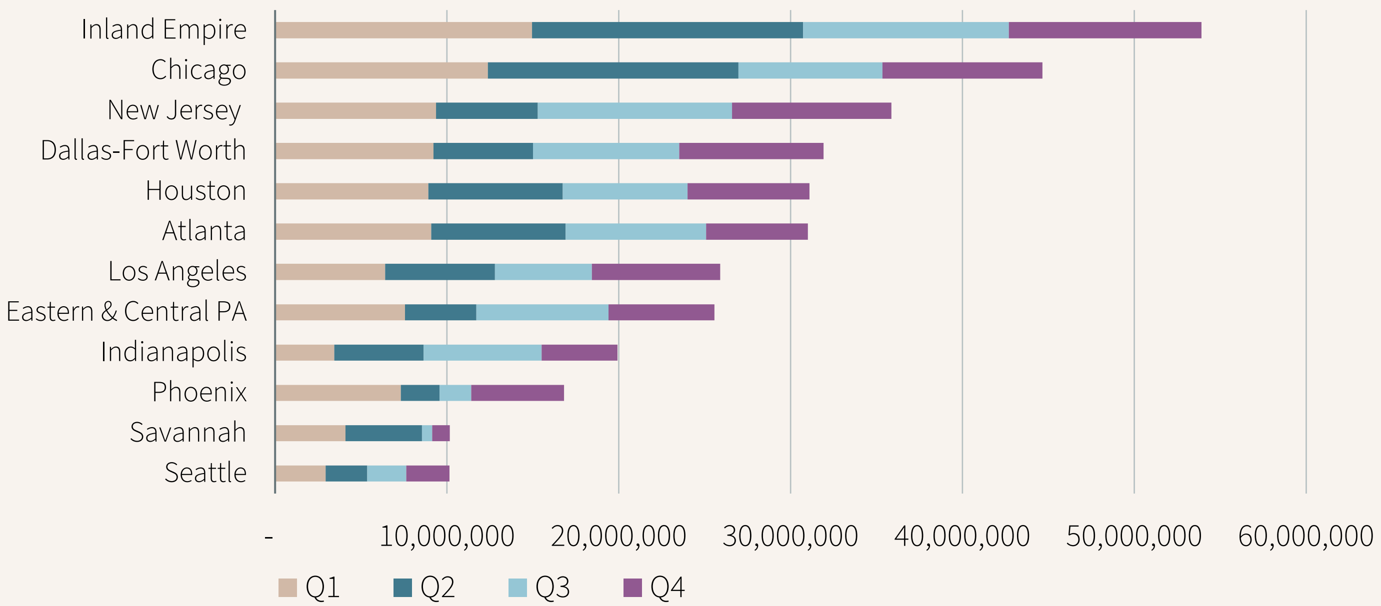
Industrial markets still recalibrating in evolving economic landscape

The industrial sector finished 2024 with tenants continuing to exercise prudence by postponing significant commitments amid persistent ambiguities in the market. Net absorption fell by 35.1% year-over-year with 140.4 million s.f. absorbed with 31.8 million s.f. of that occurring in Q4. Furthermore, 34.2% of absorption in 2024 came from the Texas markets of Dallas/Fort-Worth, Houston, and Austin. With new deliveries coming online vacant, the vacancy rate crept up to 7.1%. The last time the vacancy rate was above 7% was in Q3 of 2014. New deliveries contracted by 53.9% from the prior year with only 79 million s.f. delivering. Of that figure, 18% can be attributed to the first phase of Hyundai's meta-plant in the Savannah market. Leasing volume was only marginally better than the previous two quarters with 114.6 million s.f. of deals signed in Q4, bringing the 2024 leasing volume total to 491.7 million s.f. which marked a 28.4% year-over-year decline. Due to the influx of new deliveries and slower occupancy gains, rents contracted by $0.04 per s.f. from the previous quarter to $10.00 per s.f. but this figure is still elevated by 0.6% year-over-year.

68.5% of all leasing activity in 2024 propelled by top industrial markets

Industrial markets with most leasing volume in 2024 (s.f.)

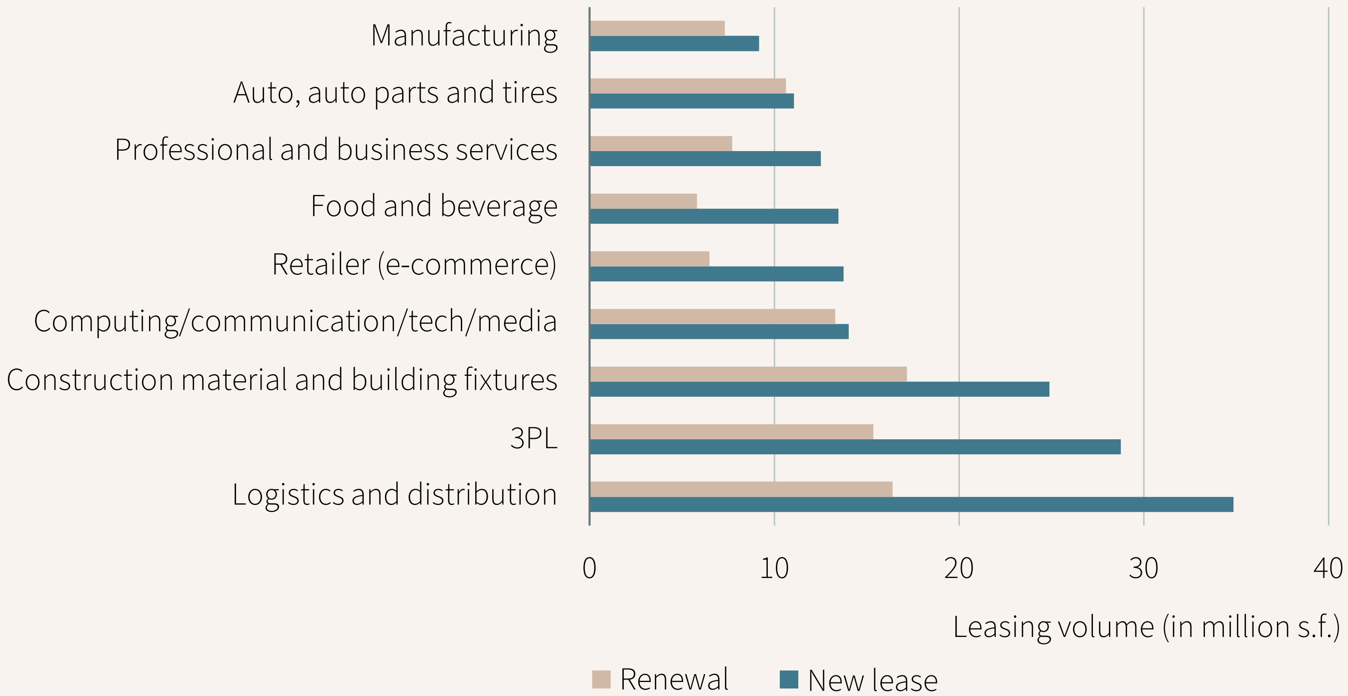


Source: JLL Research Q4 2024

Leasing volume propelled by mega-markets in 2024, accounting for 68.5% of all leasing activity

Industrial occupiers stayed the cautious course when making leasing decisions to close out 2024. While the volume of leases signed in Q4 was largely unchanged from the previous quarter, the makeup of lease sizes has started to shift towards a smaller footprint. For example, leases under 100,000 s.f. accounted for 34.7% of leasing volume in Q4 followed by leased in the 100,000 to 250,000 s.f. size segment that accounted for 26% of leasing volume in Q4. The size segment with the most sluggish leasing were those measuring over 750,000 s.f. which only accounted for 8.4% of leases in Q4.
In terms of geography, leasing was still largely concentrated to the mega-markets of the Inland Empire, Chicago, New Jersey, Dallas/Fort-Worth, Houston and Atlanta that were responsible for 46.5% of all leases signed throughout 2024.
One persisting trend is the **ongoing flight to quality Class A space which accounted for 39.4% of all new leases in 2024, up 7% year-over-year**. Logistics & Distribution users and 3PL tenants were once again the top lessees of industrial space. The average lease size for a 3PL user increased by 10.6% year-over-year to 245,000 s.f. When diving further into the leasing activity of 3PL companies, there has been an uptick in leasing by Asian 3PL companies. While their leasing activity has generally been limited to California port markets, East Coast markets like New Jersey and Savannah, and the Texas markets of Houston and Dallas/Fort-Worth have all denoted leasing activity by these occupiers. E-commerce growth was accelerated by the pandemic and is expected to continue growing at nearly 9% annually. It is also important to note that this growth is further driven by social media usage in which these Asian 3PL providers help manage the storage, shipping, and delivery of products for online retailers like TikTok, Shein, and Temu.

New leases in top industries outpaced renewals in 2024

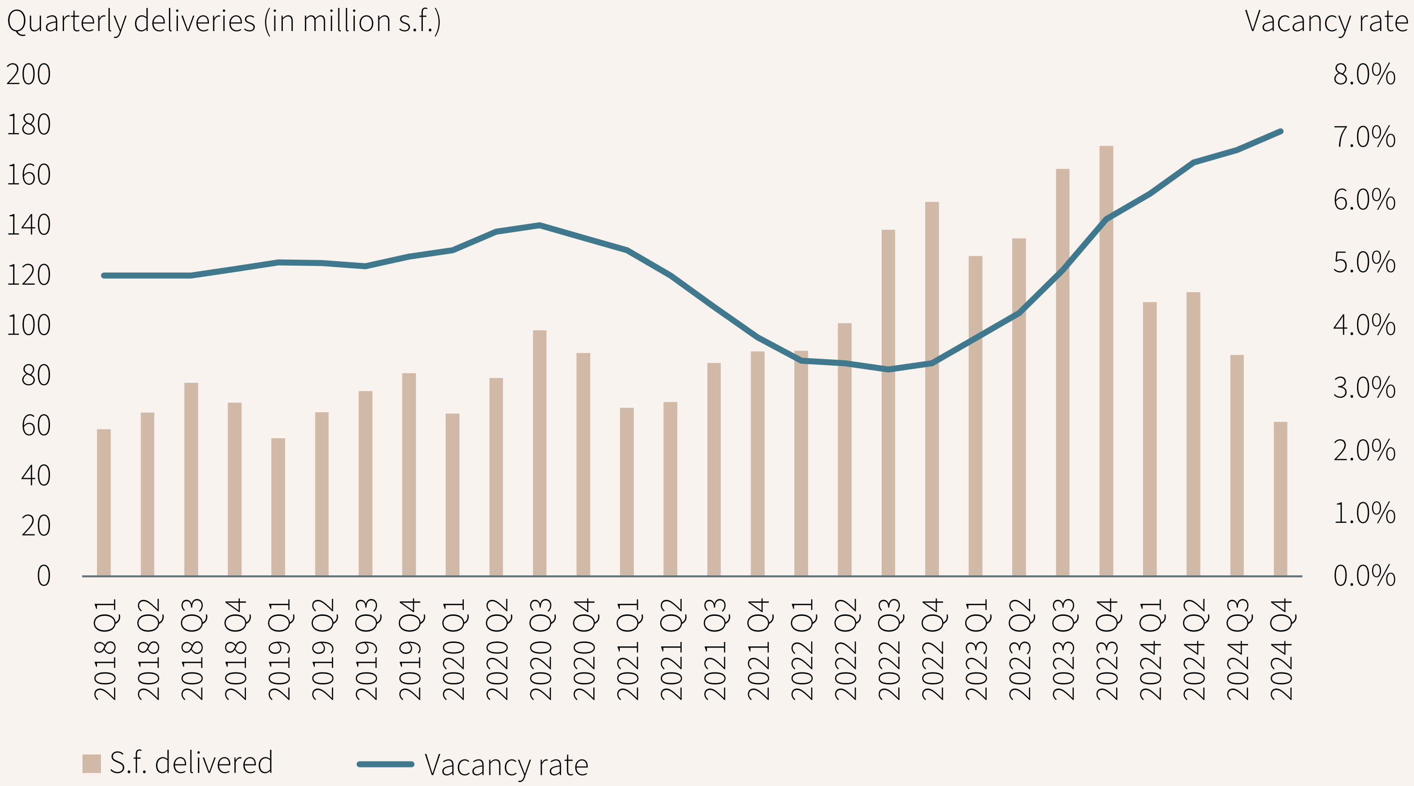


Source: JLL Research Q4 2024

New deliveries continue to decline as the vacancy rate ticks higher

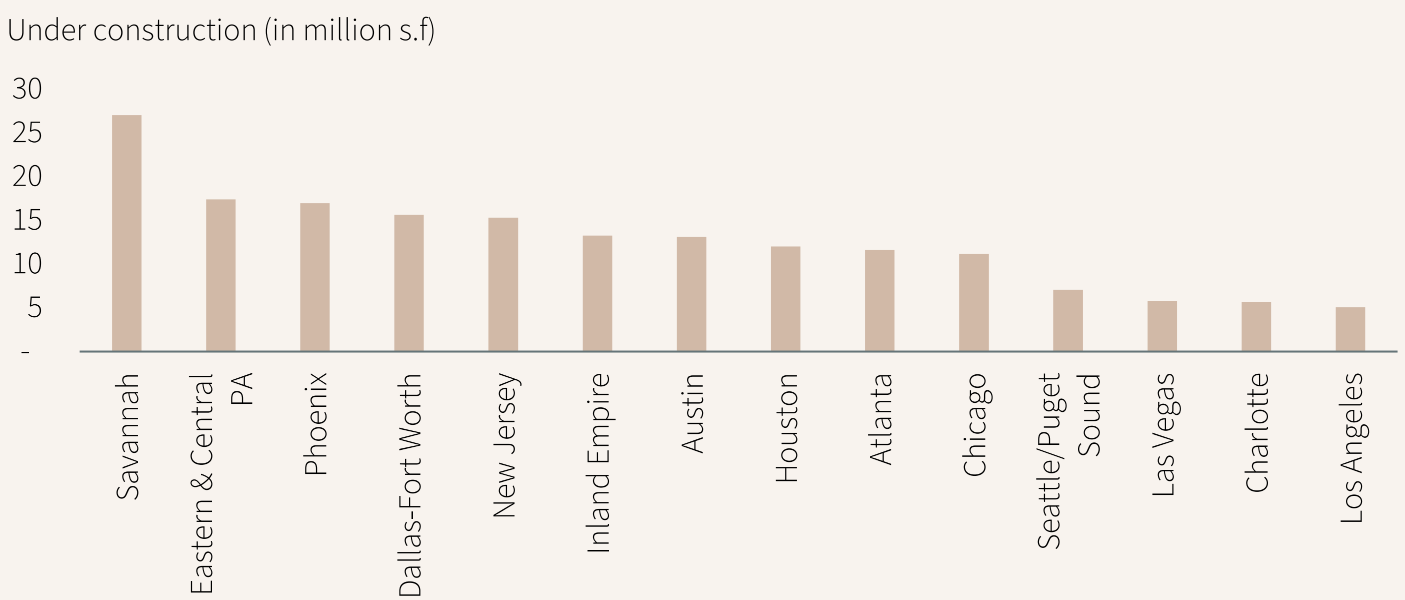
Q4 marked the fourth consecutive quarter of falling completions as 79 million s.f. was delivered of which, nearly one third were owner-user or built-to-suit projects. The industrial construction pipeline is generally fueled by speculative development where these projects account for around 80% of the total pipeline but the pipeline has shifted to having more build-to-suit and owner-user projects due to market condition and pricing constraints. On an annual basis, new deliveries totaled 395.6 million s.f., marking a decrease of 33.4% year-over-year. There were thirteen markets that had over 10 million s.f. of new product delivered but the top markets for deliveries were Dallas/Fort-Worth with 37.4 million s.f., Phoenix with 34.3 million s.f., and Atlanta and Savannah both with 25.6 million s.f. of new deliveries. The current development pipeline has narrowed by nearly 34%, year-over-year coming in at 269.5 million s.f. now under construction. With an abundance of newly constructed and in-progress industrial buildings available, pre-leasing rates for speculative buildings have declined by 46.7% compared to the previous year and is the ninth consecutive quarter of declining pre-leasing rates on speculative buildings currently under construction. When vacancy was at historical lows during the pandemic, users snapped up space under construction due to lack of viable options. In recent years, the flood of new deliveries has increased the optionality in existing product that can be upfit to tenant specifications, leading to the decline in speculative pre-leasing rates. With the current imbalance of newly delivered vacant space, the lower-than-average pre-leasing rate should be viewed in context rather than an isolated trend. Mega-box buildings measuring over 1.0 million s.f. have the tightest availability of buildings under construction with 82.2% being pre-leased while buildings falling in the 100,000 to 250,000 s.f. size has the most availability with only 17% being pre-leased. Over 80% of what is currently under construction is slated to deliver by the end of the year, so as remaining product gets absorbed, new construction starts will be easier to justify.

New deliveries decline by 64.1% year-over-year as vacancy ticks higher



Source: JLL Research Q4 2024

Fourteen markets currently account for 65.8% of all industrial buildings under construction



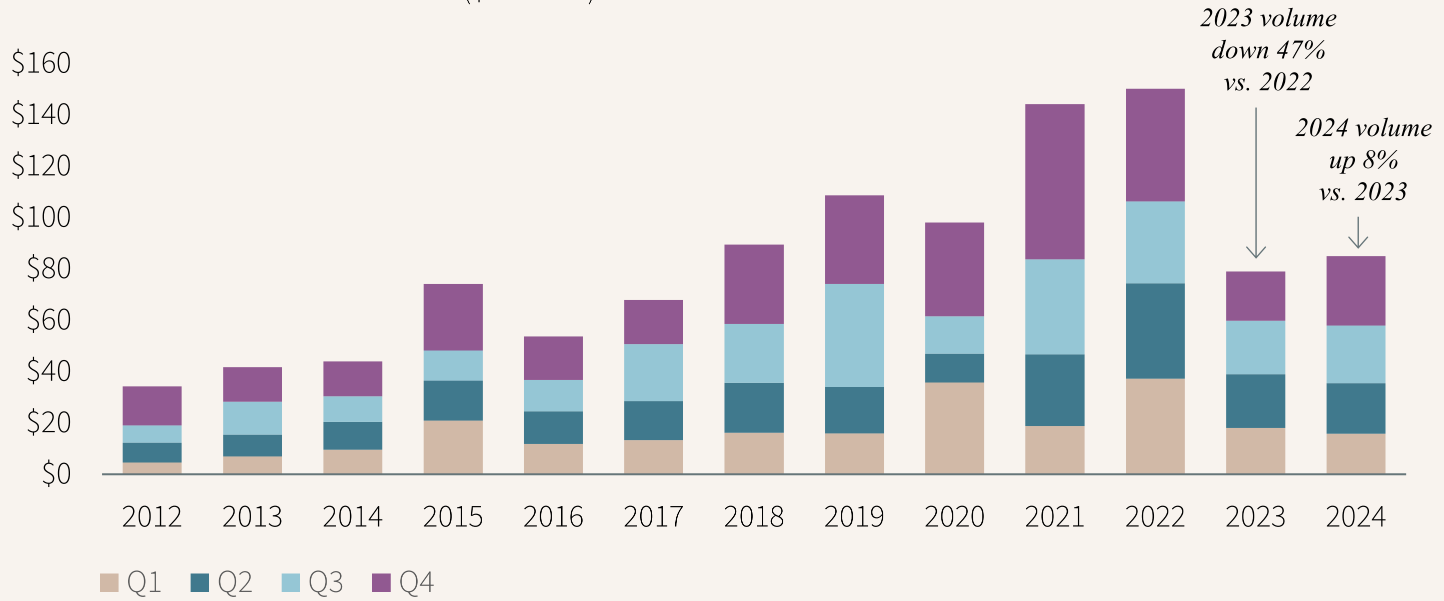
Source: JLL Research Q4 2024

CRE liquidity improving; industrial sector posts 8% growth in transaction volumes in 2024

The commercial real estate capital markets environment returned to growth mode in 2024, with the industrial sector posting 8% growth in transaction volumes in 2024. Driving the rise in transactions activity were an increased in the number of institutional investors returning to the market and liquid debt markets, with robust lending activity across lender types. Approximately 10 transactions $200 million+ closed in Q4 2024, demonstrating increased liquidity for mid-sized portfolio transactions compared to 2023 levels. Notwithstanding the improving capital markets environment in 2024, the rise in bond indices in late 2024 and early 2025 is having an impact on investor sentiment across CRE and stands to introduce renewed bid-ask variability, with investors focusing closely on cost of capital and rent growth assumptions.

CRE liquidity improving; industrial sector posts 8% growth in transaction volumes in 2024

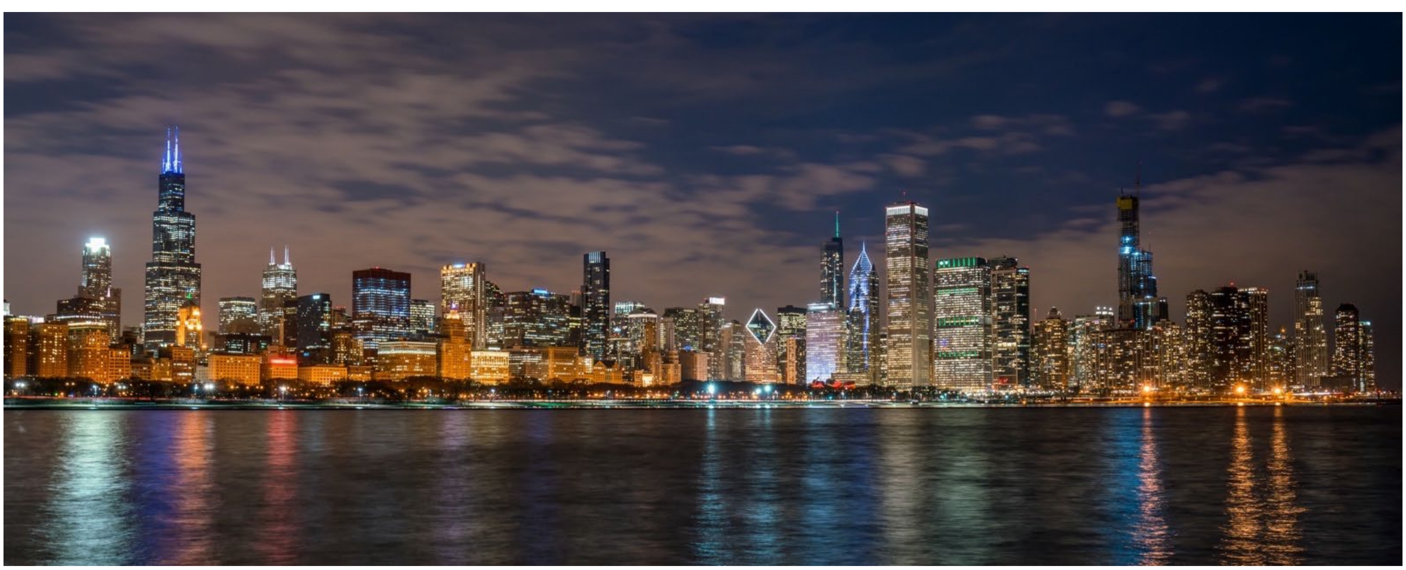
U.S. industrial transactions volume ($ billions)



Note: Q4 2024 transaction volumes are preliminary
Source: JLL Research, Real Capital Analytics (transactions $5 million and above)

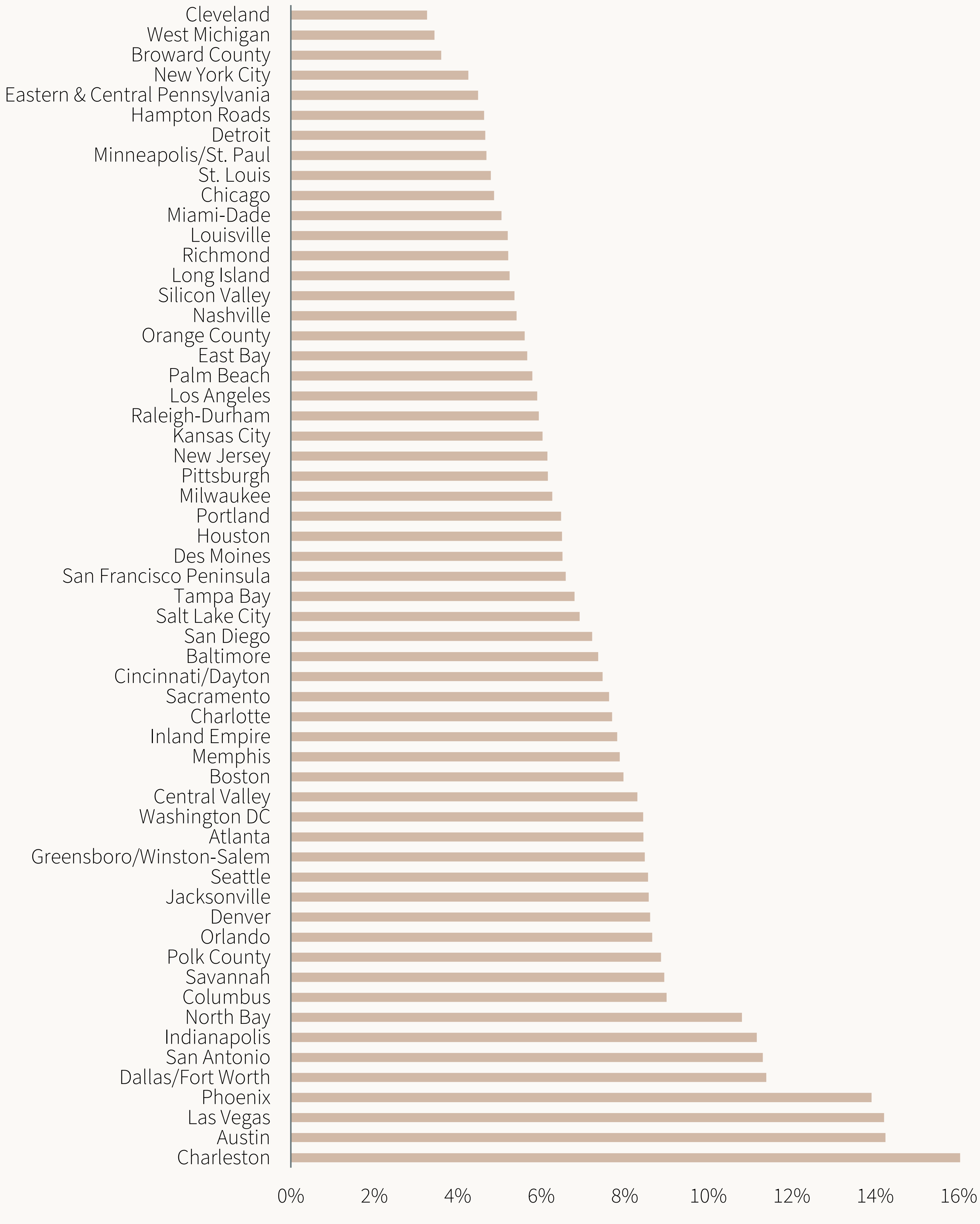
Industrial sector hopefully approaching bottom of cycle; poised for future growth

The industrial real estate sector appears to be nearing the trough of the current cycle, given the prevailing economic conditions. Looking forward, vacancy could increase marginally in the first half of 2025 as the transaction to deal conversion timeline continues to be extended in conjunction with more new deliveries coming online. In markets with increased vacancy, landlords will continue to demonstrate increased flexibility, offering more concessions to attract and retain tenants. After three years of robust rent growth, it is expected to continue moderating which also aligns with broader economic trends and that natural maturation of market cycles. Despite a challenging year, it is important to note that the industrial sector is poised for continued growth. The ongoing focus on supply chain resilience and nearshoring strategies may lead to increased demand for warehouse and distribution facilities in key logistics hubs. Furthermore, the adoption of advanced technologies such as automation and robotics in industrial spaces could drive the need for more specialized and technologically advances facilities, potentially creating new opportunities for developers and investors in the industrial real estate market. Lastly, the growing emphasis on sustainability and energy efficiency in real estate could prompt a wave of green retrofits, further shaping the sector's future landscape.

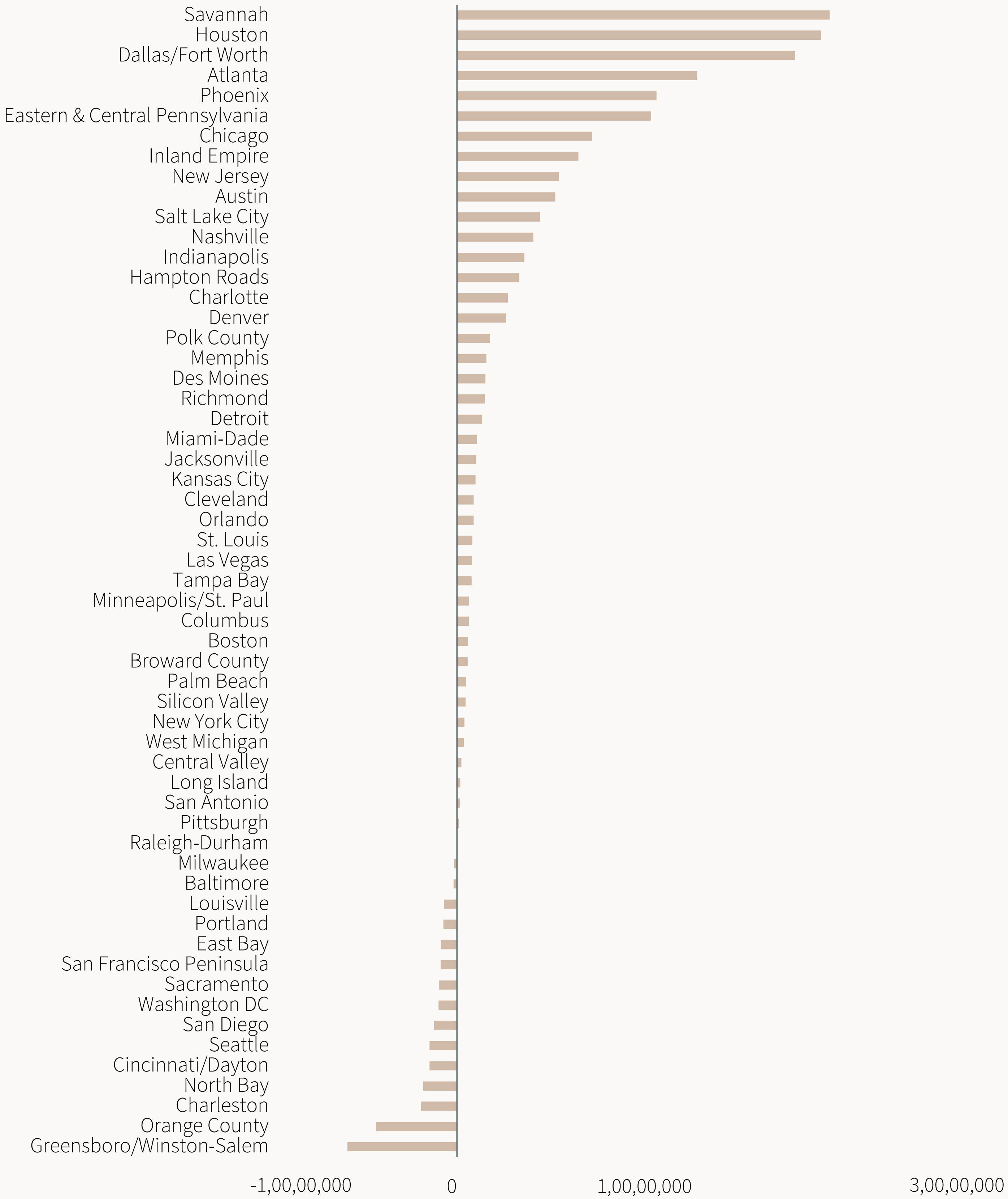


Appendix

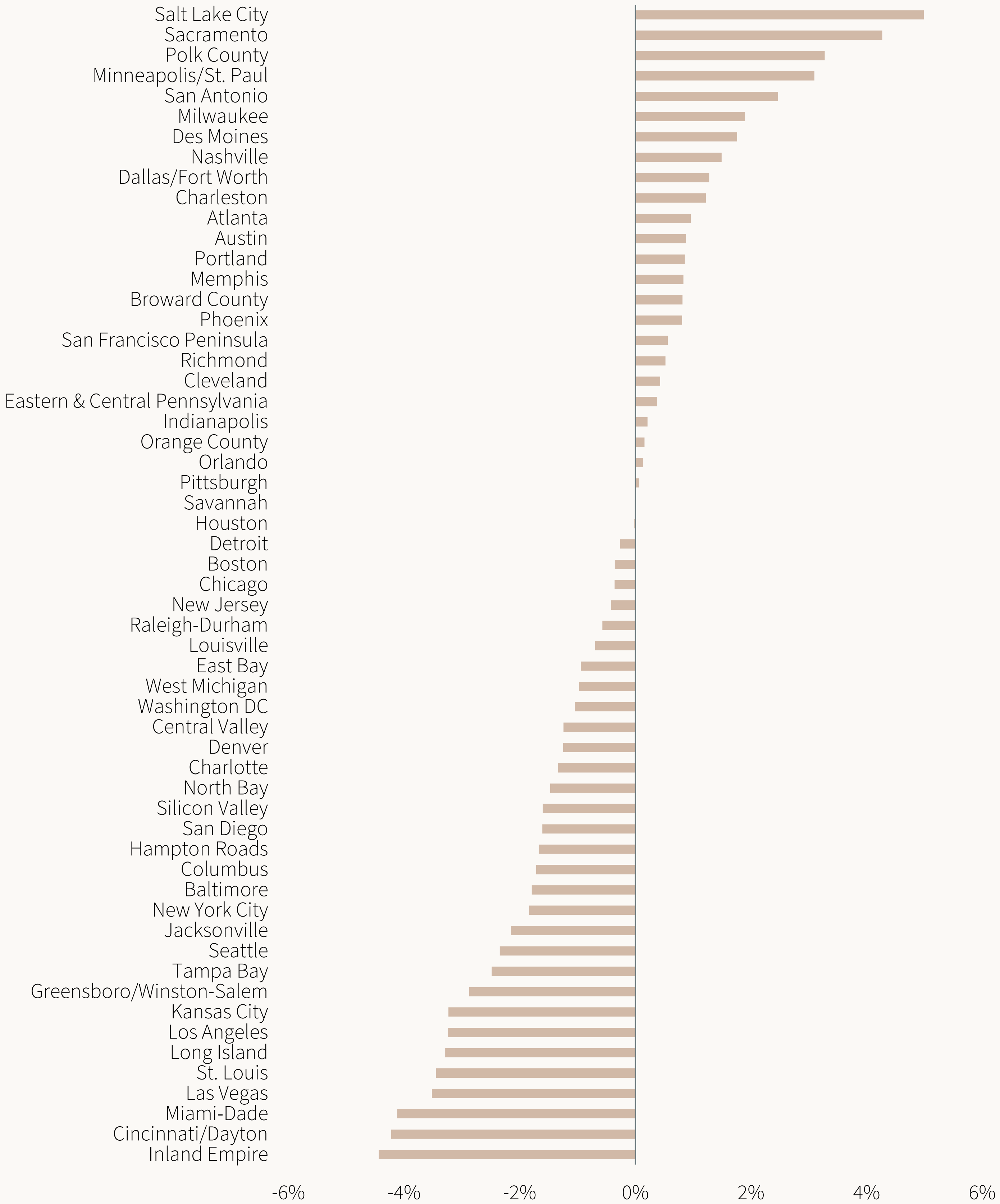
Vacancy rate



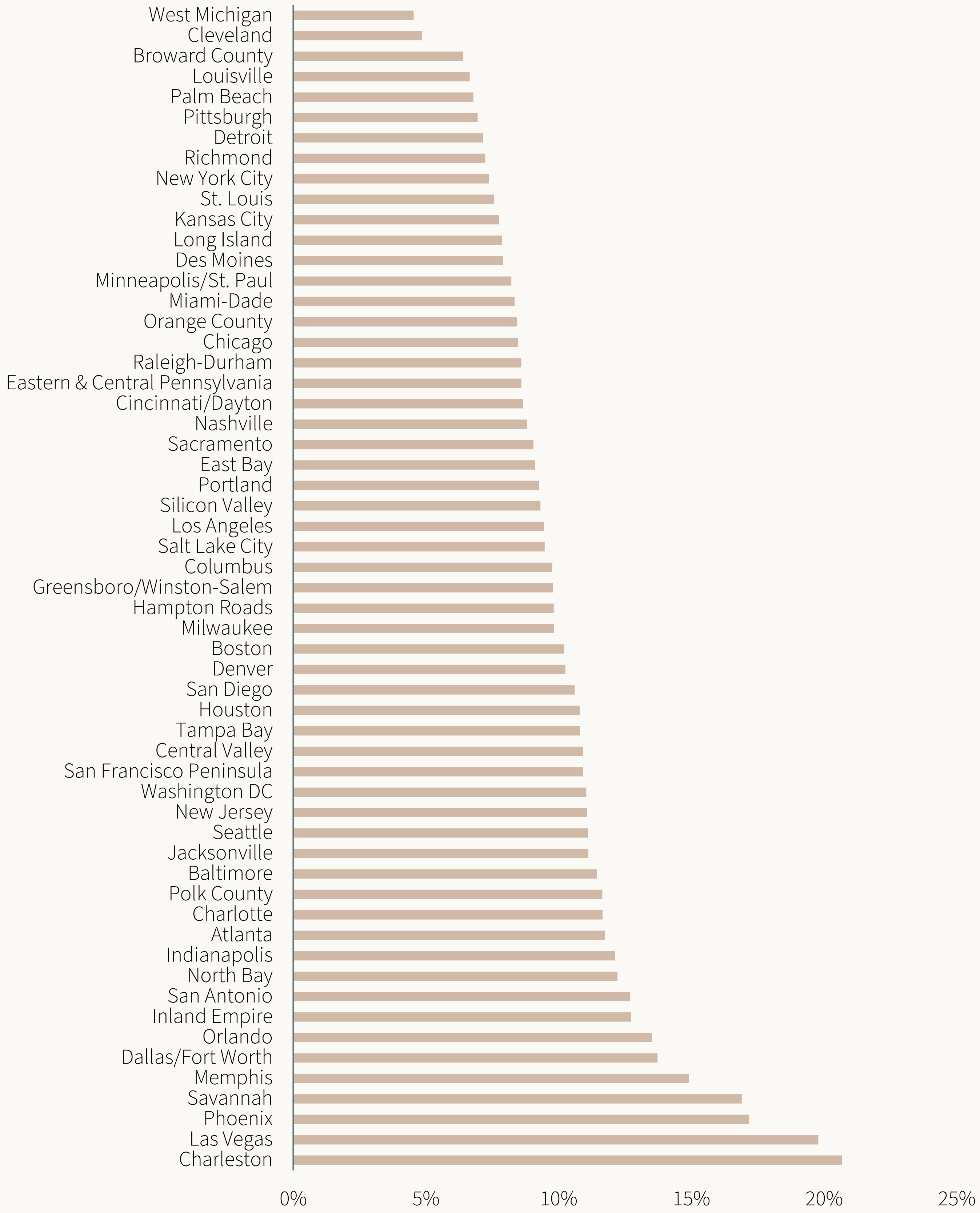
2024 net absorption



Q-O-Q rent change



Availability rate



Reach out with questions

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