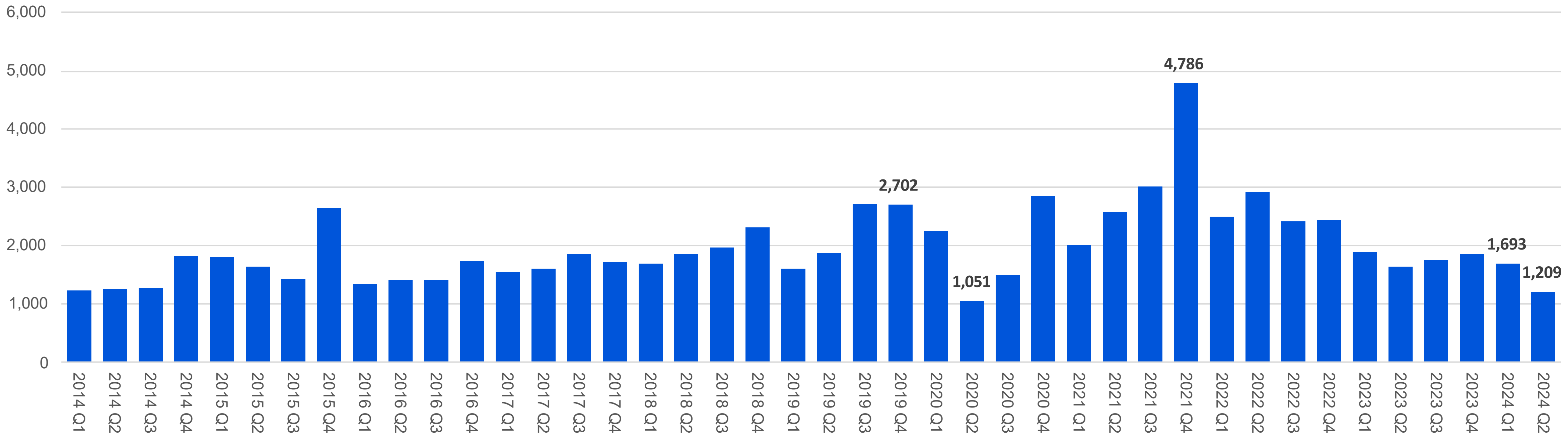
Capital Markets

Industrial Sales Velocity Decelerates

Strong demand has caused industrial sales velocity (number of sales) to nearly double in the year following the Covid lockdown. Warehouse/distribution spaces consist of nearly 70 percent of the sales volume in 2023. Higher interest rates, lack of available buildings for sale, and broad economic volatility have all contributed to the slower pace of sales over the past 12-months, which **trailed total transactions by 22.4 percent for the prior year**. The second quarter of 2024 is the second lowest level of transactions over the past five years, only higher than the second quarter of 2020.

Industrial Sales Velocity: (United States)



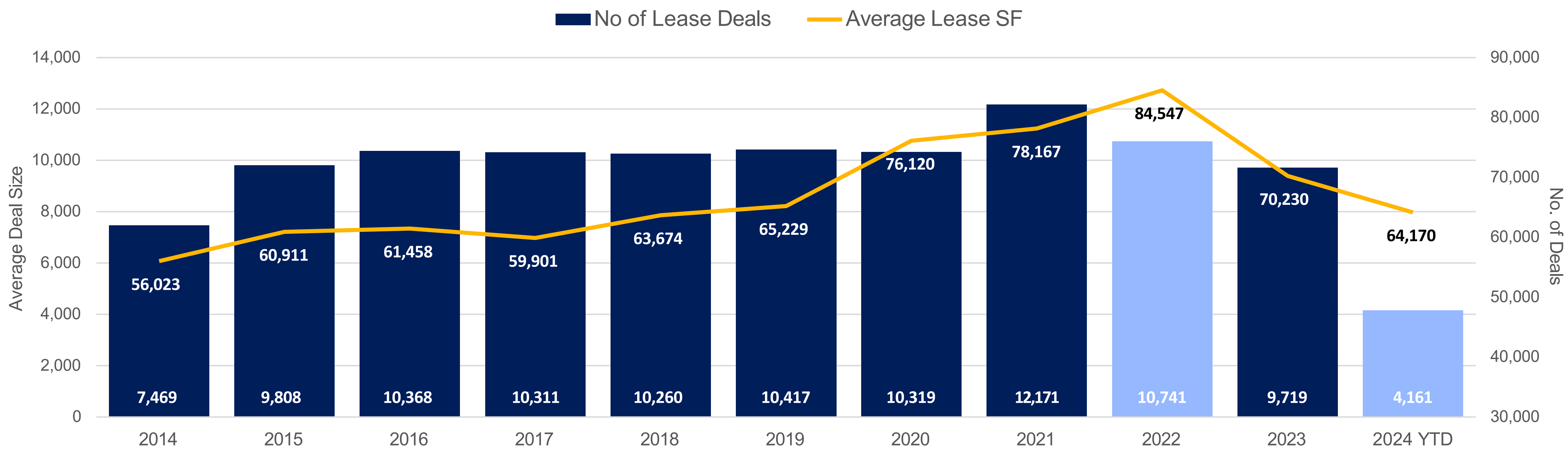
Source: Real Capital Analytics and Cresa; thru Q2 2024

Leasing Trends

Transaction Size is Smaller Than 2019

Lease deal sizes in 2022 were **31.8 percent** larger compared to the first of half of 2024. This represents the trend of tenants looking for smaller deals (in the 75,000 to 150,000 square foot range) over the past 24 months. The number of deals between 2022 and 2023 have stayed relatively flat, with deals peaking in 2021.

Historic Industrial Leasing Activity/Average Deal Size



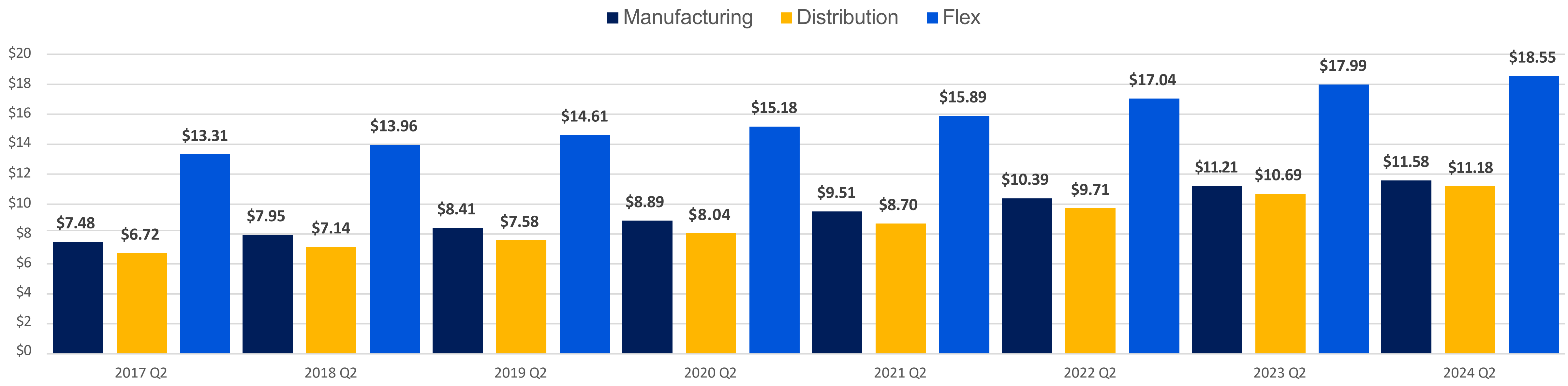
Source: CoStar, Cresa
Data is through Q2 2024.

Market Rent

Industrial Rents Growth Slows

Industrial rates have steeply increased since the end of 2020, particularly distribution space, which has increased by 39.1 percent in the past four years. Logistics asking rates have increased every quarter since 2017. While rates continue to rise, quarterly increases have begun to slow, with rates jumping just 0.1 percent last quarter, the smallest quarterly increase since before the pandemic.

Industrial Lease Asking Rates ($/SF): (United States)

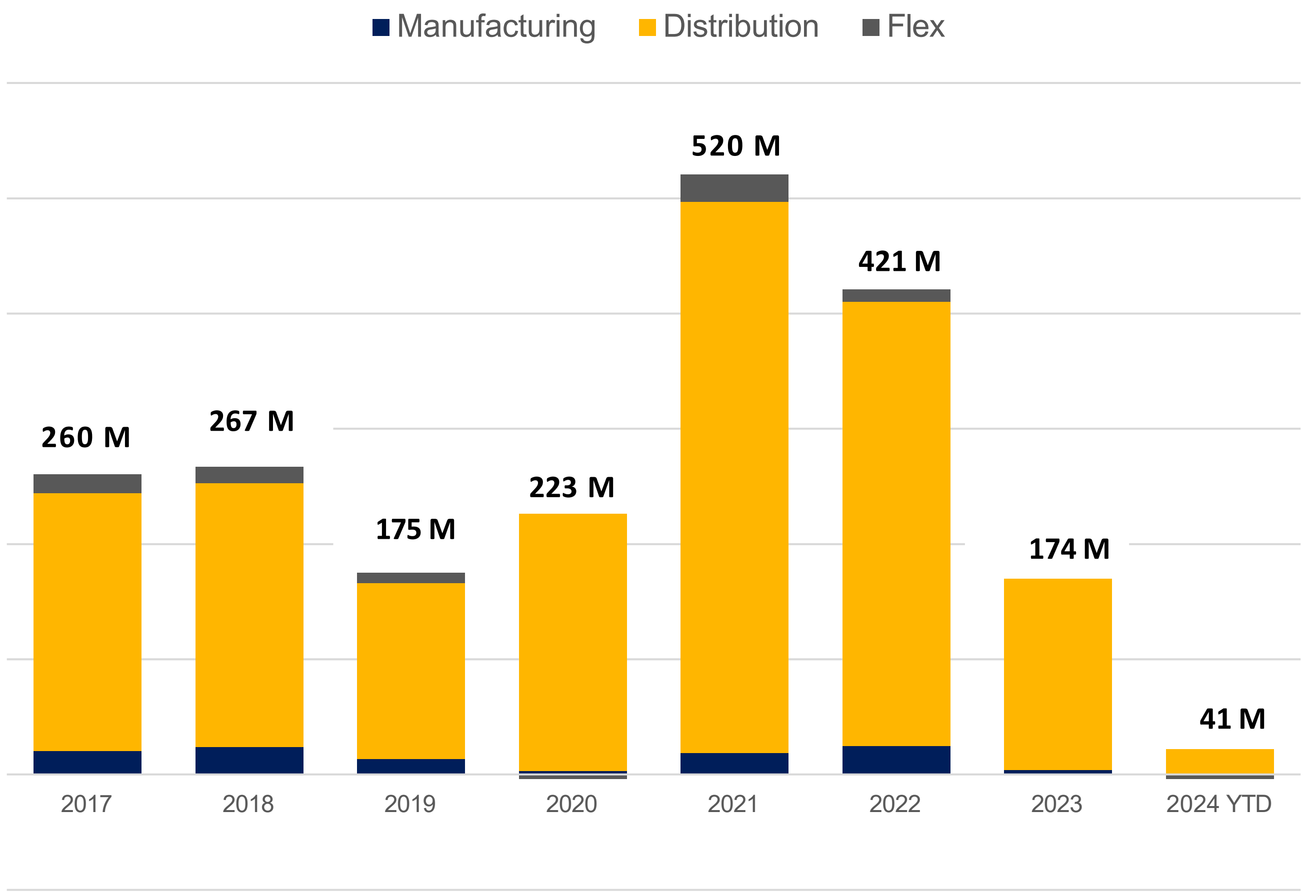


Source: CoStar and Cresa; thru Q2 2024

Absorption

Industrial Absorption Dramatically Slows

Industrial Net Absorption (SF): (United States)



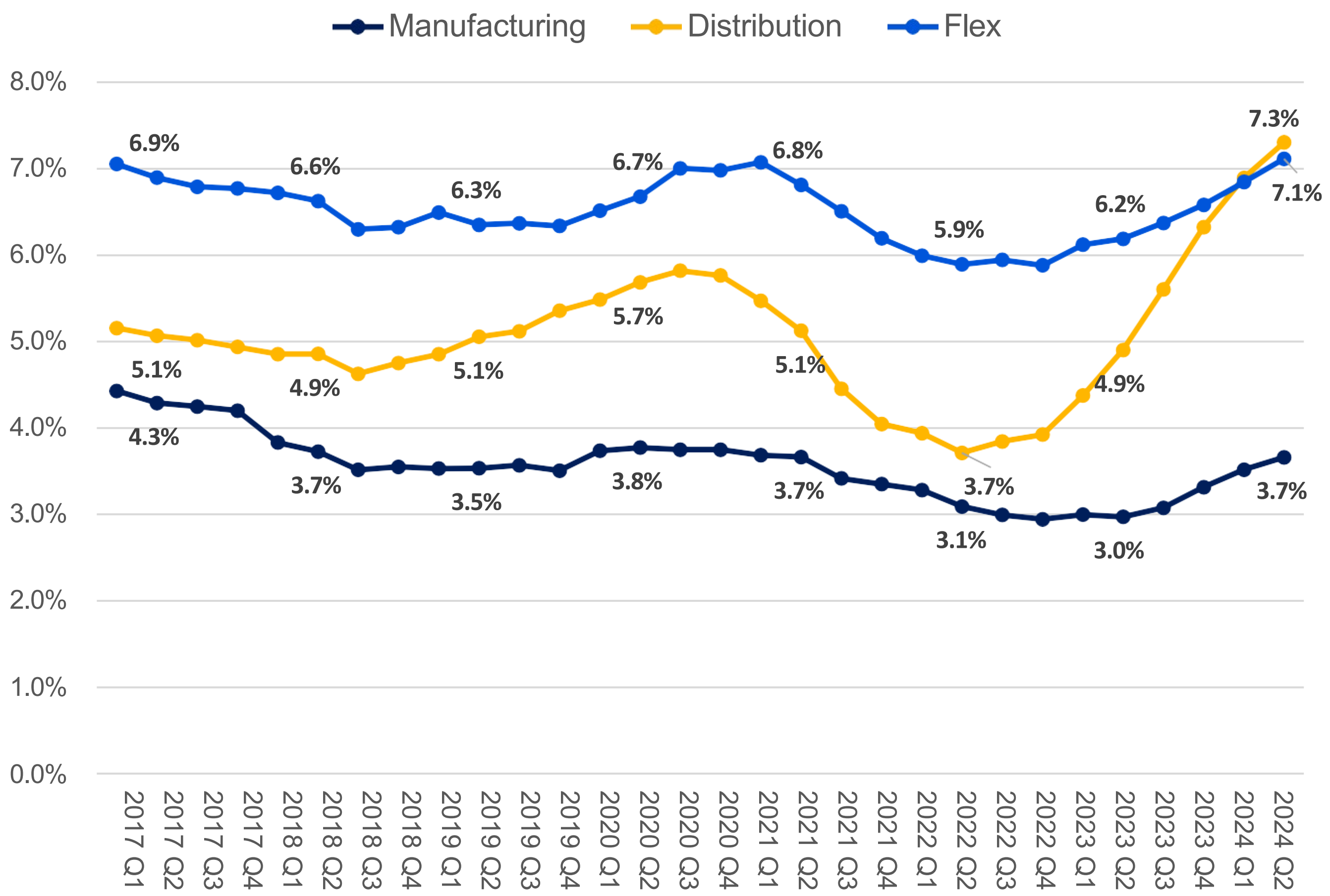
Source: CoStar and Cresa, thru Q2 2024

After a record-breaking 2021, absorption has experienced a slowdown. Some of this can be explained by economic conditions softening, but overall imports have been slowing, too. Absorption through the first half of 2024 is on track to be at the lowest levels in the past seven years. Nevertheless, the amount of new construction being delivered and ongoing demand over the next several quarters will likely keep absorption higher than historical averages.

Direct Vacancy

Industrial Vacancy Moves Higher as New Product Delivers

Industrial Direct Vacancy: (United States)



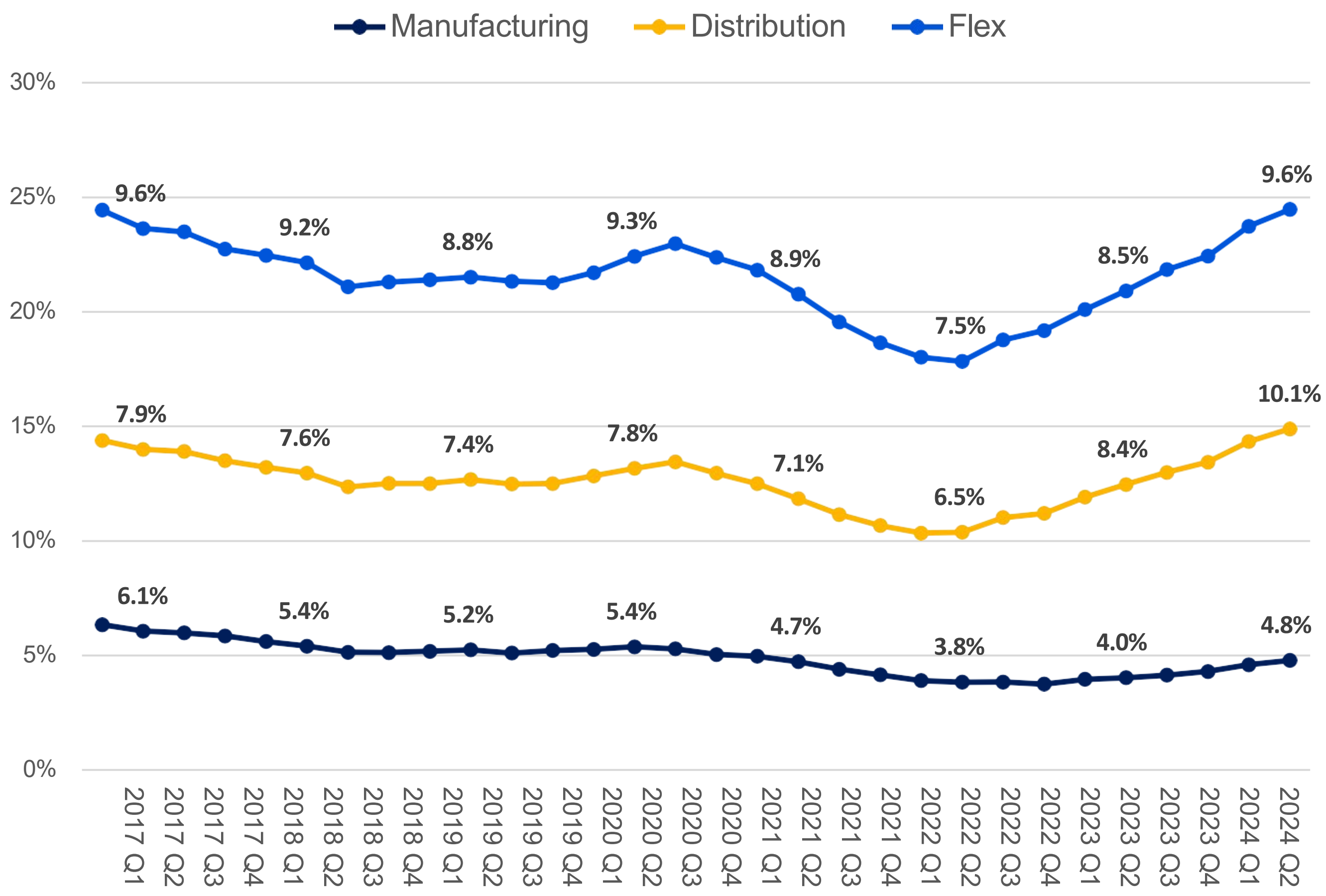
Source: CoStar and Cresa, thru Q2 2024

Direct vacancy has remained below historical averages, despite a bump in distribution and flex space vacancy over the past 12-months. It is likely that the large amount of new construction being delivered contributed to the increase. Large occupiers of space like Amazon have also curtailed new commitments as tenants prepare for lessened demand due to volatile economic conditions. Large retailers are still looking to shore up distribution facilities, so they are better positioned for future growth.

Availability

Industrial Availability Drifts Higher

Industrial Availability Rate: (United States)



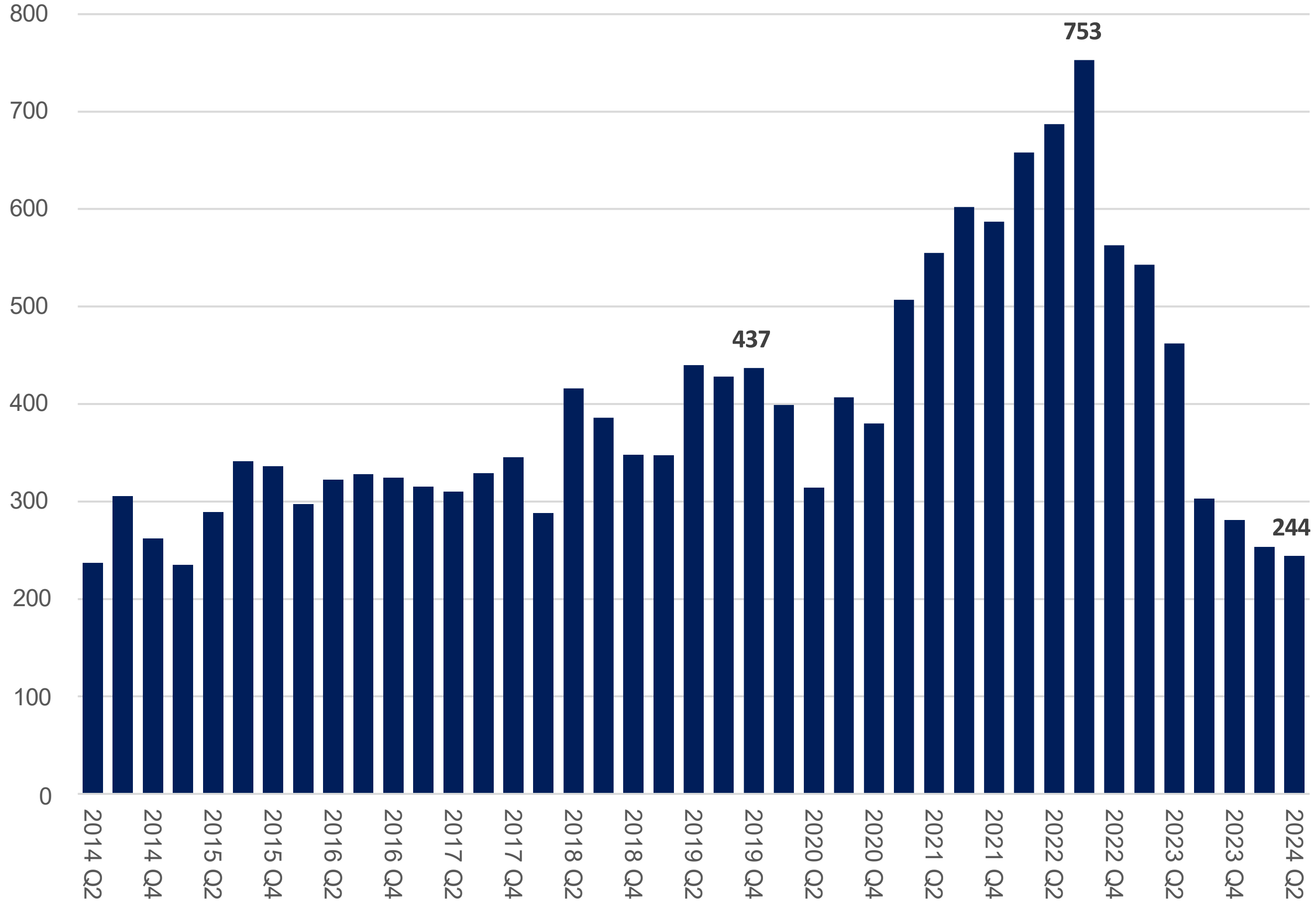
Source: CoStar and Cresa, thru Q2 2024

The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date. Therefore, the availability rate may be a more accurate depiction of the market during this volatile period than the direct vacancy rate. **Availability in the distribution asset type jumped from 6.5 percent over the past two years to 10.1 percent in the second quarter of 2024.**

Construction

Industrial Construction Starts Fall Sharply

Industrial Construction Starts: All Types (United States)



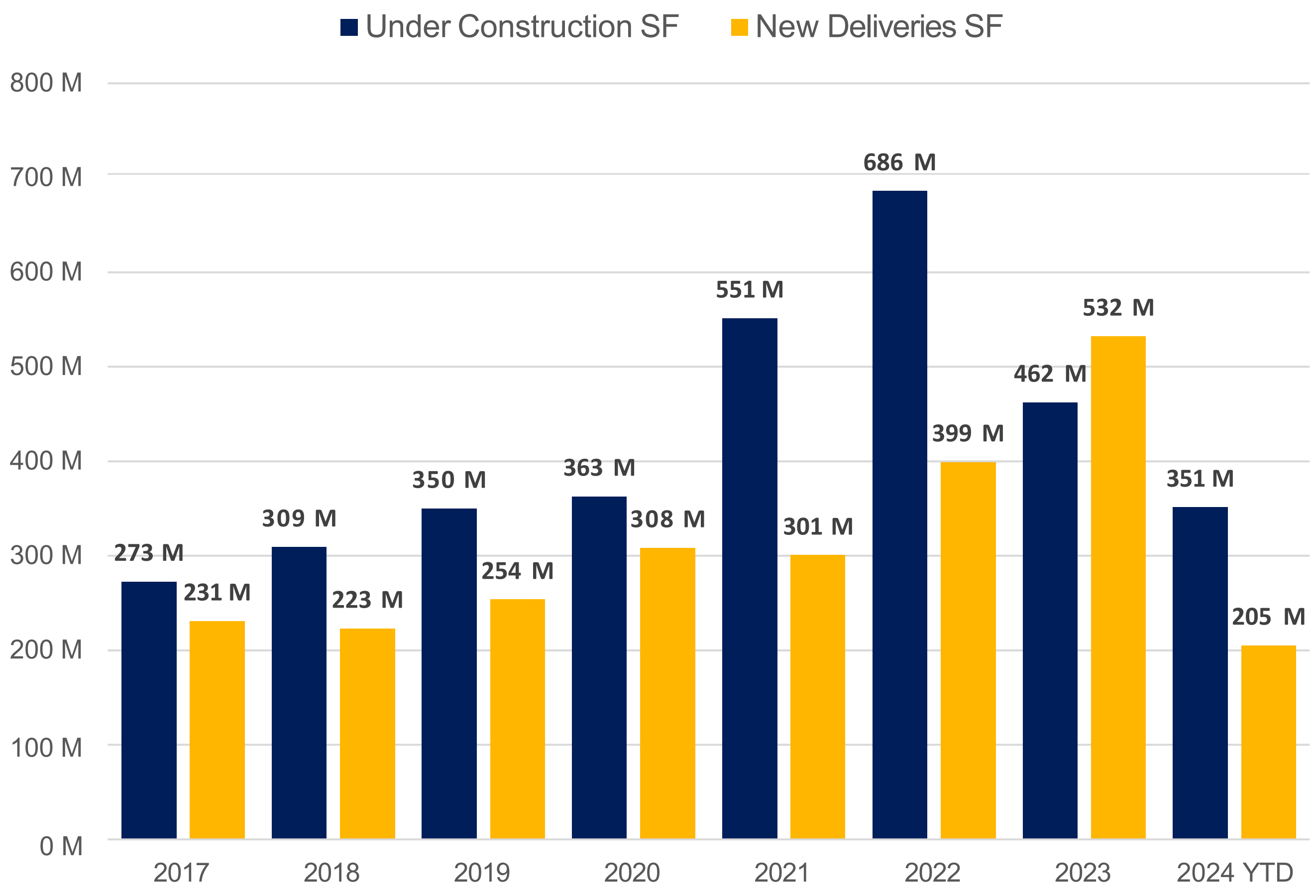
Source: CoStar and Cresa; thru Q2 2024

New industrial construction starts topped 2,600 in 2022, after breaking 2,000 for the first time in 2021. Starts for 2023 were comparable to pre-pandemic levels. However, given the torrid pace of construction and rising construction costs, elevated interest rates, supply chain constraints, the number of new industrial starts is robust. It is expected that construction starts will dip further in 2024 before falling back in line with pre-pandemic levels moving forward. **The number of quarterly industrial starts has dropped for seven straight quarters**

Construction

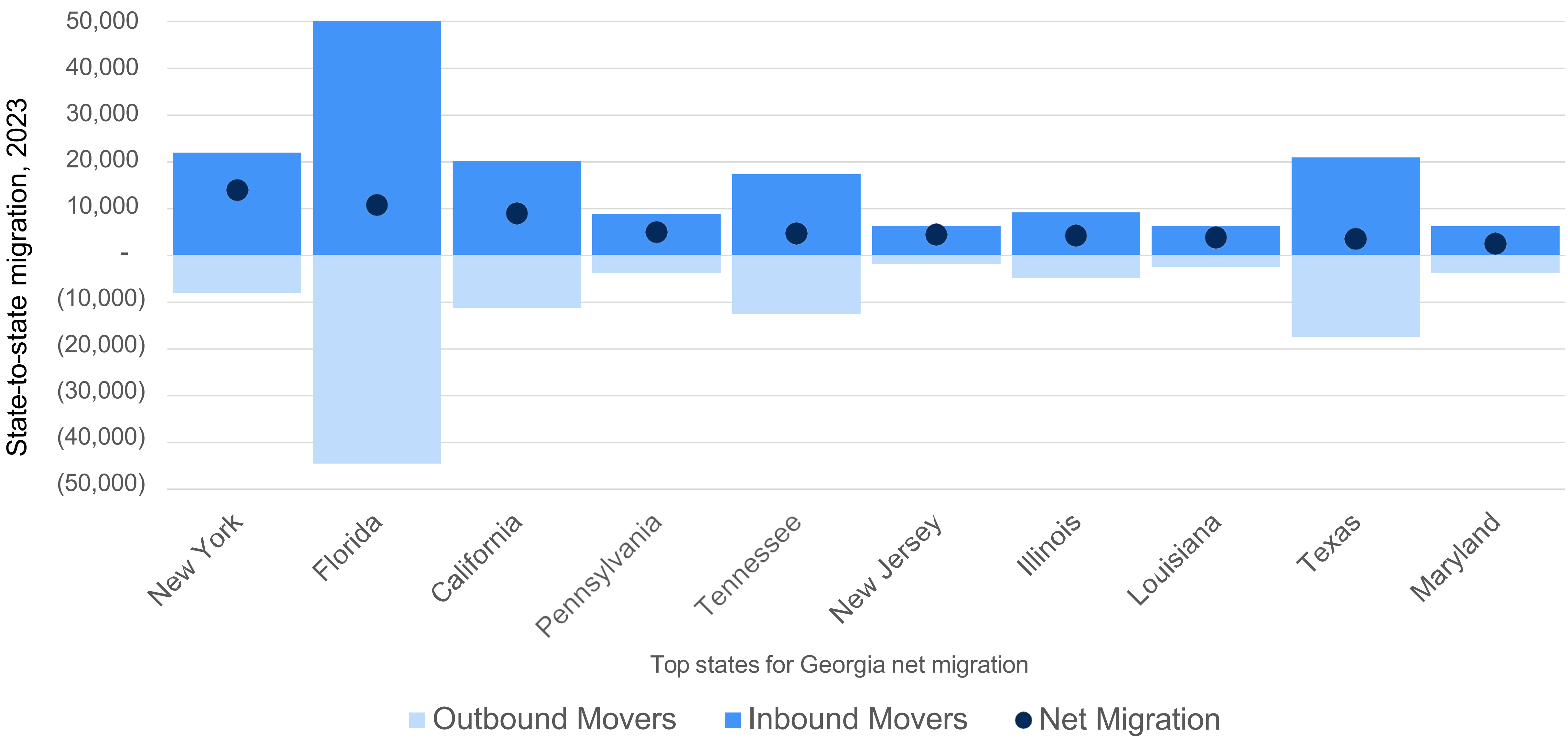
New Industrial Projects Pump the Brakes

Industrial Under Construction – All Types (SF): (United States)



Source: CoStar and Cresa; thru Q2 2024

Industrial inventory grew nearly three percent in 2023, an increase not seen in the United States in the past 30 years. The number of industrial starts appears to have peaked last year, as developers are taking a more cautious approach as interest rates increase, construction costs rise, and the amount of time to complete a project has lengthened. However, the demand for warehouse/ distribution space remains resilient, likely resulting in a temporary lull in the breakneck speed of new construction starts. **The total square footage under construction has fallen 24 percent in the past 12-months.**



Source: Census, October 2024