Yardi Matrix

National Industrial Report

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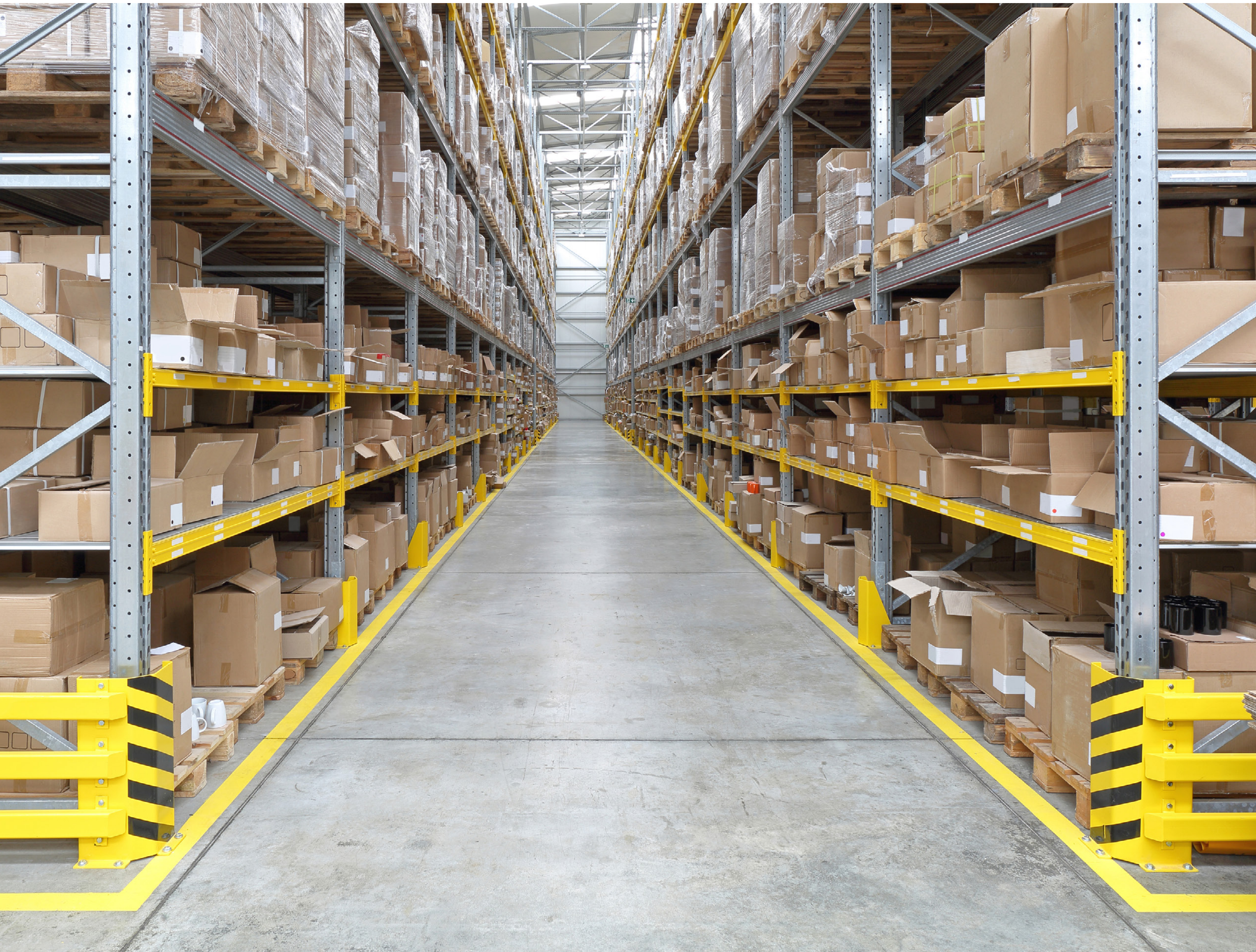

New Supply Slowdown on the Horizon

- The impressive run of new industrial supply is set to slow in 2024 and 2025, but long-term demand drivers will continue to fuel development in the sector for years to come.

- A delivery slowdown is on the horizon, with starts falling sharply this year. Just 204.3 million square feet of industrial space have been started so far in 2023, down from 614.1 million last year and 586 million in 2021. A convergence of factors is leading to the slowdown. Demand for industrial space has normalized from the significant levels seen in previous years. Interest rate hikes and stricter lending standards have made construction financing more expensive and harder to come by. Spec development has become a riskier proposition due to inflation hitting material and labor costs as well as general economic uncertainty. Despite all these headwinds, the long-term outlook for industrial development remains positive.

- Logistics demand has normalized and e-commerce sales growth has returned to its prepandemic trendline, yet many of the responses to the pandemic and ensuing supply-chain issues are now deep rooted within the economy. To avoid disruption, many firms moved from just-in-time inventory management to just-in-case, which reduces exposure to supplier delays but requires more warehouse space. Further, online sales require more logistics space than brick-and-mortar, because distribution networks need to be larger and decentralized to deliver goods quickly.

- The reshoring and nearshoring of manufacturing will be a massive driver of industrial demand going forward. Annualized construction spending on manufacturing facilities totaled $202 million in July, a year-over-year increase of more than 70%, according to the Census Bureau. Massive, multibillion-dollar semiconductor and electric vehicle facilities are being built across the country, driven in large part by government incentives and geopolitical trends. The clustering of supplier networks in markets that have these large facilities—locations including Phoenix, Austin, Columbus, Georgia and South Carolina—will fuel additional development. Nearshoring of manufacturing will also drive demand, with markets such as San Antonio and El Paso set to grow rapidly due to increased levels of trade with Mexico.

- Even with normalized demand, competition for space will increase once deliveries slow in 2024 and 2025. We anticipate that starts will pick up again in 2026.