Yardi® Matrix

National Industrial Report

January 2024

Solid Industrial Outlook for 2024

- After running hot for the last several years, the industrial real estate market cooled considerably in 2023. In 2024, we anticipate a year of stabilization and normalization for the sector.

- In 2024, rent growth will decelerate and vacancy rates will climb, as record levels of new supply work their way through the market. Despite Mexico overtaking China as the United States' top trading partner in 2023, last year ended much like it started. Coastal port markets continued to see the biggest gains for in-place rents, headlined by those in Southern California. All three markets in the region finished the year with double-digit growth of in-place rents. While rent growth may drop into the single digits for these markets in 2024, we expect them to remain at or near the top of rent growth metrics. In recent months, shipping activity at the ports of Los Angeles and Long Beach has rebounded from the weak first half of 2023, and now is back near pre-pandemic levels.

- The new-supply pipeline will continue to slow this year. Deliveries peaked in 2023 following a historic ramp-up in starts that only ended when interest rates began to climb in the latter part of 2022. Despite the deceleration of new development, long-term demand drivers for industrial real estate remain positive. Reshoring and nearshoring of manufacturing will reshape the industrial sector over the long run, but many of those impacts will not yet be seen in 2024. Construction spending on new manufacturing facilities has nearly tripled in the last two years, according to the Census Bureau. Much of this spending is concentrated in computer chip and electric car manufacturing, and while the sites will take years to deliver, once complete they will fuel demand for supplementary firms along supplier and logistics networks. Further bolstering the long-term supply outlook, many of the gains that e-commerce made during the pandemic have become entrenched, permanently altering how goods get from retailers to consumers.

- Higher interest rates will continue to diminish transaction activity, with capital more expensive and underwriting tighter than in years past. Investment volume fell by roughly half in 2023, but average sales prices saw a slight increase, growing 4.7% year-over-year. Something of a bid-ask gap has formed in the sector, with strong fundamentals allowing owners to feel comfortable holding properties, whereas buyers may be hesitant to pay historically high prices while debt is expensive. A stabilized cost of capital may help the gap narrow and spur investment activity in 2024, but we do not expect this year to see a large increase in transaction volume.