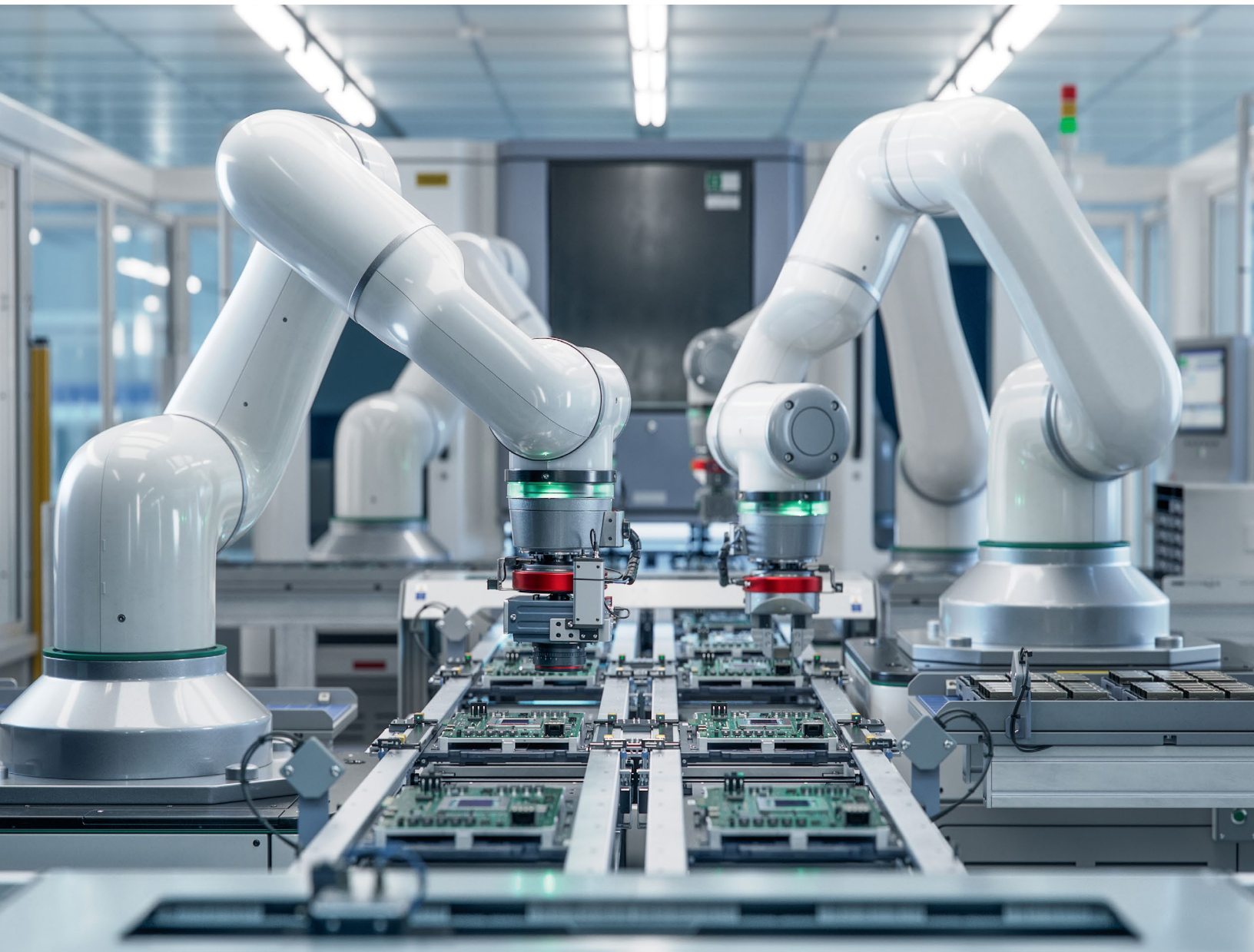




Yardi Matrix

National Industrial Report

February 2024



New Development Continues to Slow

- After record levels of deliveries in the previous two years, the industrial pipeline has been undergoing a rebalancing. Starts are slowing and the amount of new supply will decelerate in coming years. More than 1.1 billion square feet of new industrial space (5.7% of stock) have been delivered since the start of 2022, helping to ease the pressure in industrial markets with red-hot demand and extremely tight vacancies coming out of the pandemic. However, that amount of growth is unsustainable over the long run. After bottoming at about 4.0%, the national vacancy rate has increased by 80 basis points over the last 12 months to 4.8%.
- New industrial starts in 2023 totaled 314.6 million square feet, down significantly from 2022 (593.2 million) and 2021 (557.4 million). Normalizing demand for industrial space and record levels of new deliveries were the main drivers of this cooling, but higher construction loan rates, banks pulling back on lending and general economic uncertainty have played a significant role, as well.
- The reshoring and nearshoring of manufacturing has the potential to reshape the geographic composition of new supply in coming years, especially from the growth in trade at the southern border. Mexico overtook China as America's top trading partner last year, according to the Census Bureau. We expect this trend to continue to increase demand in markets with access to the border with Mexico, particularly those in Texas along the I-35 Corridor—San Antonio, Dallas and Austin—which provides access to Laredo, the nation's busiest truck and rail border port, according to the Bureau of Transportation Statistics.
- While nearshoring is having an immediate impact on industrial real estate markets, the reshoring of manufacturing to the U.S. is still playing out. Annualized construction spending on manufacturing facilities was \$214 billion in December, roughly tripling in the last three years, per the Census Bureau. This figure only began to increase at the end of 2021 and didn't see its largest gains until the beginning of last year.
- Starts may be hitting a lull in 2024, but we anticipate they will pick up in another year or two, once interest rates come down and the industrial sector has had time to digest the recent levels of development. Economic growth and technology will continue to create demand. For example, new computer chip manufacturing facilities will allow for more advanced processes to occur stateside, spurring demand for more facilities.

