



Occupier Outlook – Industrial

United States Overview:

The Economy and its Impact on Commercial Real Estate



Executive Summary

Macro Economic View

- The US economy continues to grow, albeit at a moderate pace compared to previous quarters. GDP growth remains positive, supported by consumer spending, business investment, and government expenditure.
- The labor market has shown resilience with unemployment rates hovering at low levels. Job creation remains steady, although there are ongoing challenges related to labor shortages in certain sectors.
- Inflation remains stubbornly elevated, although it has moderately dropped for three straight months.
- Housing starts are consistent, but sales drag as interest rates discourage both buyers and sellers.

Office Market Slows Free Fall

- Return-to-office levels are now firmly stable as employee attendance levels have shown little movement for more than 18-months.
- Lack of new office construction is limiting top-tier space availability as flight-to-quality remains.
- Leasing velocity still lags pre-pandemic levels, along with shrinking deal sizes as companies right-size.

Industrial Sector Cautious, But Still Expanding

- Distribution/warehouse space asking rates slow their outsized growth, as availabilities tick higher.
- Supply is outpacing demand as new industrial products deliver, but a dramatic decrease in new starts will bring stability in the mid-term

Economy Stabilizes, as Commercial Real Estate Sector Continues to Search for Buoyancy



Economic Overview

Through the first half of 2024, the economy has continued to expand. However, there are signals that a broader slowdown may be in store. While inflation continues to remain above historic levels, it has been trending lower over the past few months. Meanwhile, unemployment levels are pushing higher from historic lows and job openings are approaching pre-pandemic levels as annual wage growth is slowing.

Despite these signals, consumer spending, the primary driver of economic growth, has been strong as households spend excess savings. According to the latest data, inflation-adjusted spending rose by 2.4 percent over the prior year in May.

The outlook is for economic activity and job growth to continue to slow through 2024 as the full impact of higher interest rates flows through the economy. Factory activity has contracted for 19 of the last 20 months as investment and production cooled due to higher financing costs. The housing market, one of the most interest-rate-sensitive sectors of the economy, has stagnated as higher mortgage rates and still-elevated prices erode affordability and impact demand. At the same time, inventories of homes for sale remain lean.

The **US Economy Hits Pause** Moving Into the Second Half of 2024

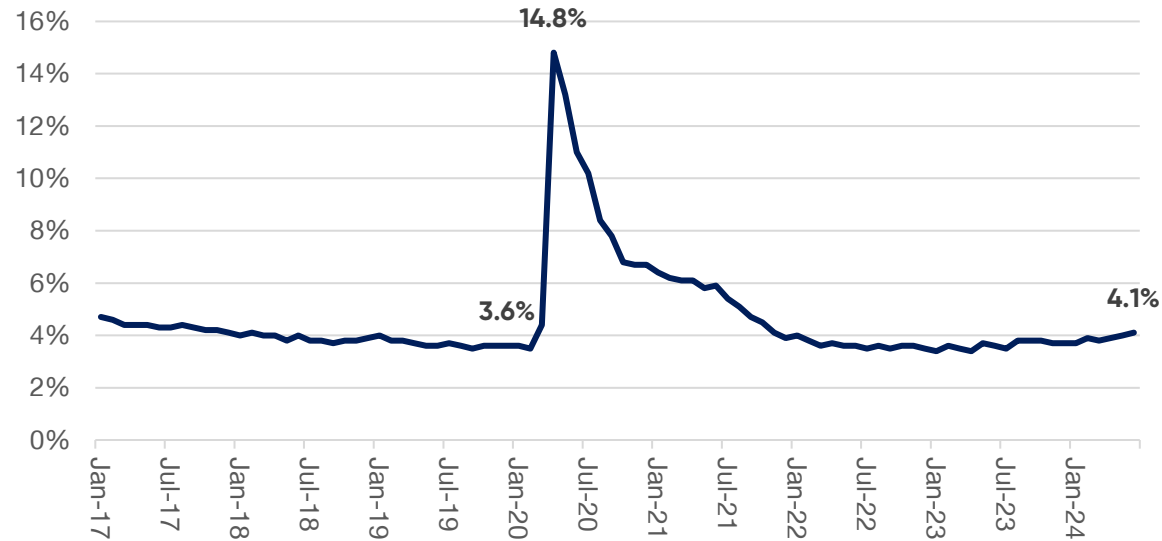


Unemployment

Unemployment Drifting Higher

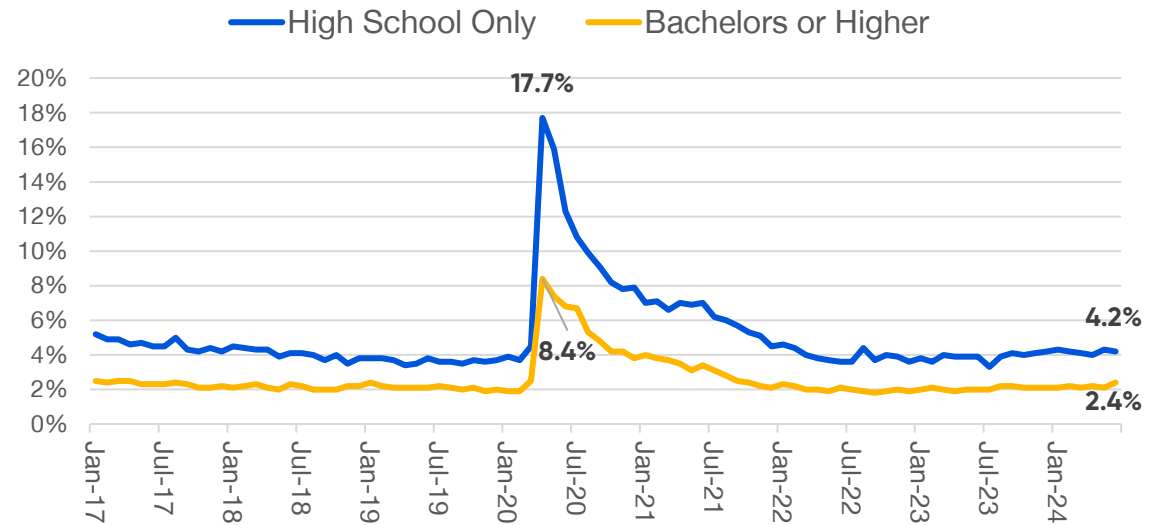
Unemployment, while low from an historic-standpoint, has been ticking higher. The market is closely watching Fed rate changes as inflation remains elevated. College-educated employees remain near full-employment despite recently announced layoffs in the tech industry. Additionally, lower-skilled service-oriented jobs are the main driver of job growth.

Total Unemployment: (United States)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

High School Only vs. Bachelor's Degree or Higher



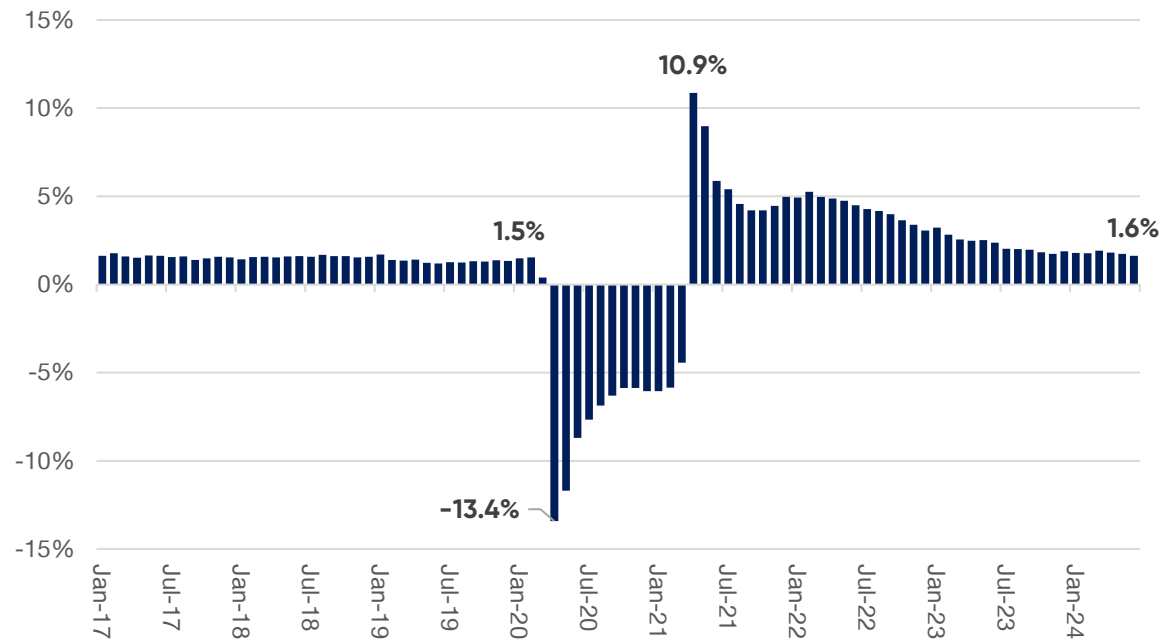
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

Employment

Job Creation Slows to Pre-Pandemic Levels

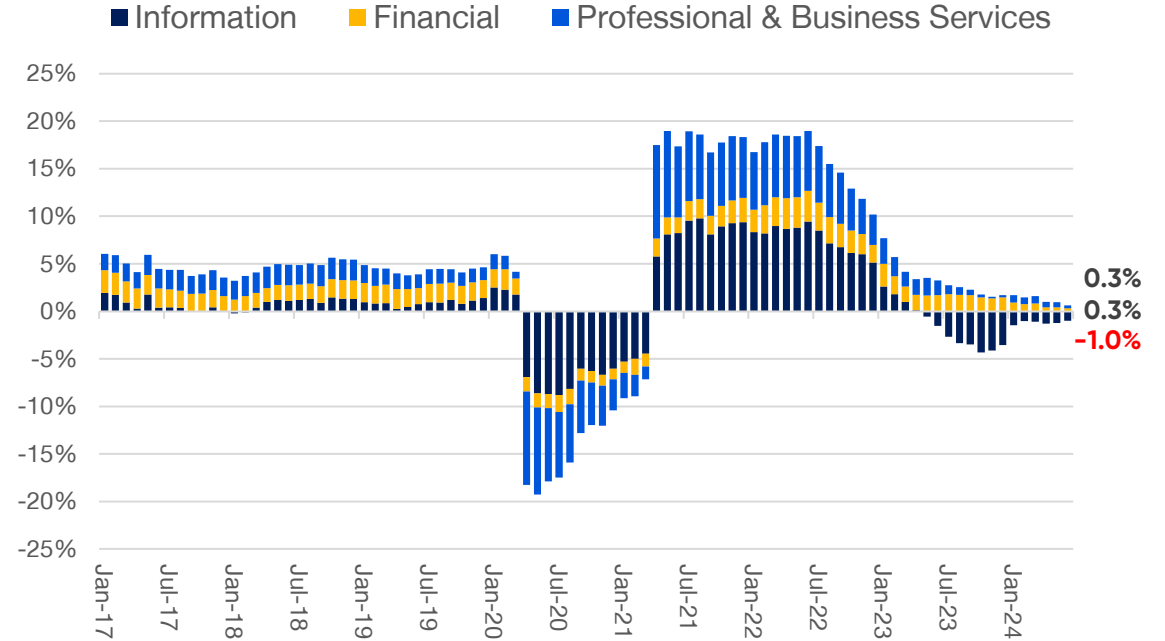
Total nonfarm employment rose by 206,000 in June, in line with average job creation over the past year. Job gains occurred in government and healthcare jobs underpinned the growth. Office-occupying job creation is slowing to a trickle, with information sector jobs down 0.3 percent from a year earlier, recovering from sharper drops in late 2023.

All Job Sectors (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

Office-Occupying Jobs (12-Month Change)



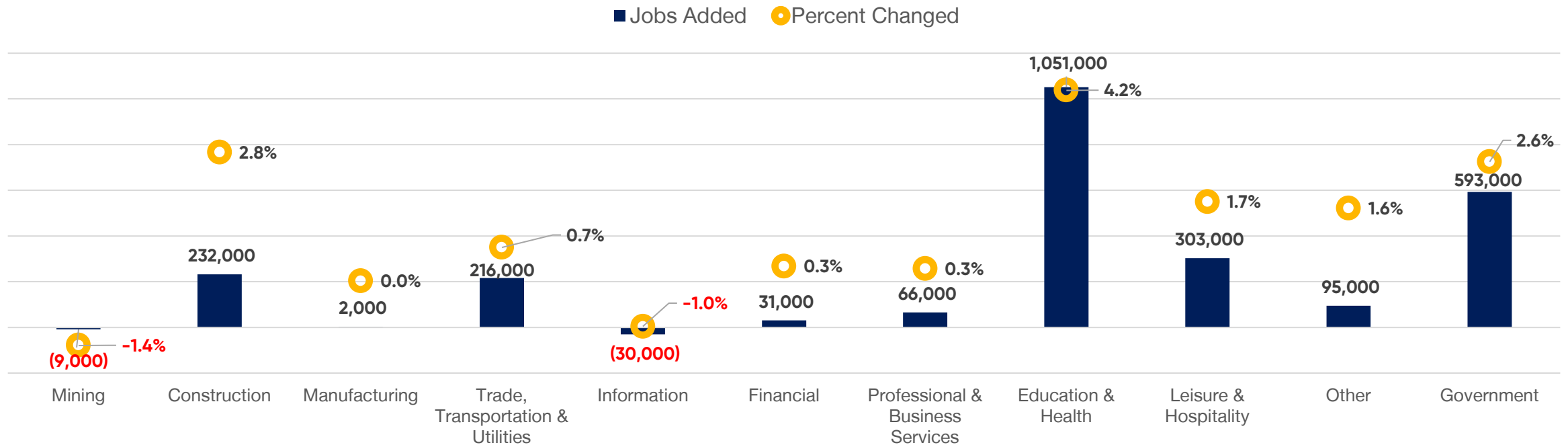
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

Employment

Education/Healthcare Sector Leads the Way

Pent-up demand leads to increases in health services sector jobs, with more than 1.0 million jobs added in the past year. The jobs being added are not concentrated in office-occupying sectors, meanwhile nearly 450,000 jobs were created in the industrial sector last year, highlighted by the construction and trade, transportation, and utilities sectors.

Job Creation by Sector (12-Month Change)

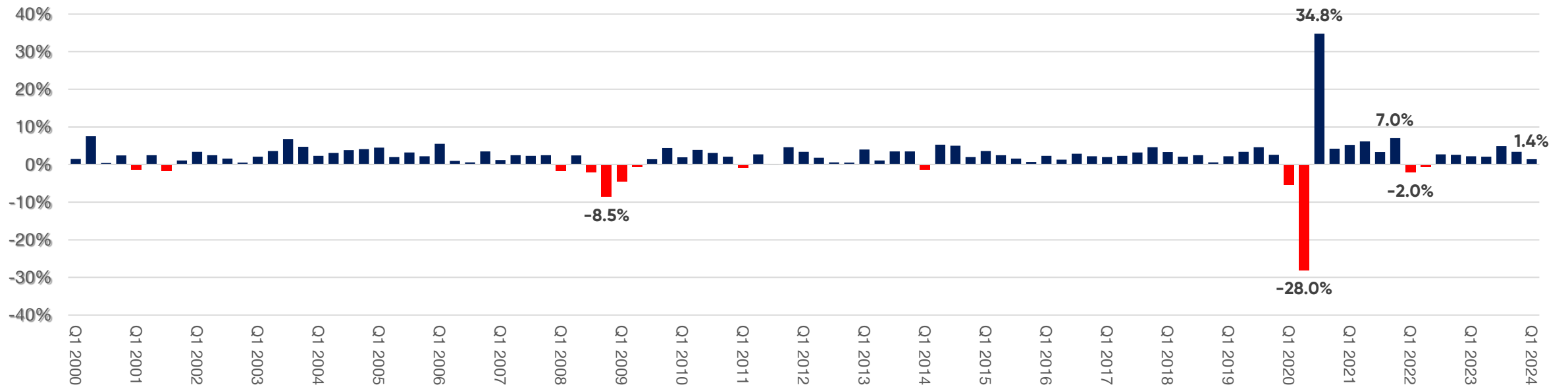


GDP

Gross Domestic Product Posts Seventh Consecutive Quarter of Growth

The GDP has expanded for the past seven quarters. According to the *Bureau of Economic Analysis*, growth in the first quarter primarily reflected increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending that were partly offset by a decrease in private inventory investment. **Profits increased 1.4 percent in the fourth quarter after increasing 3.4 percent in the fourth quarter.**

Real GDP Percent Change from Preceding Quarter



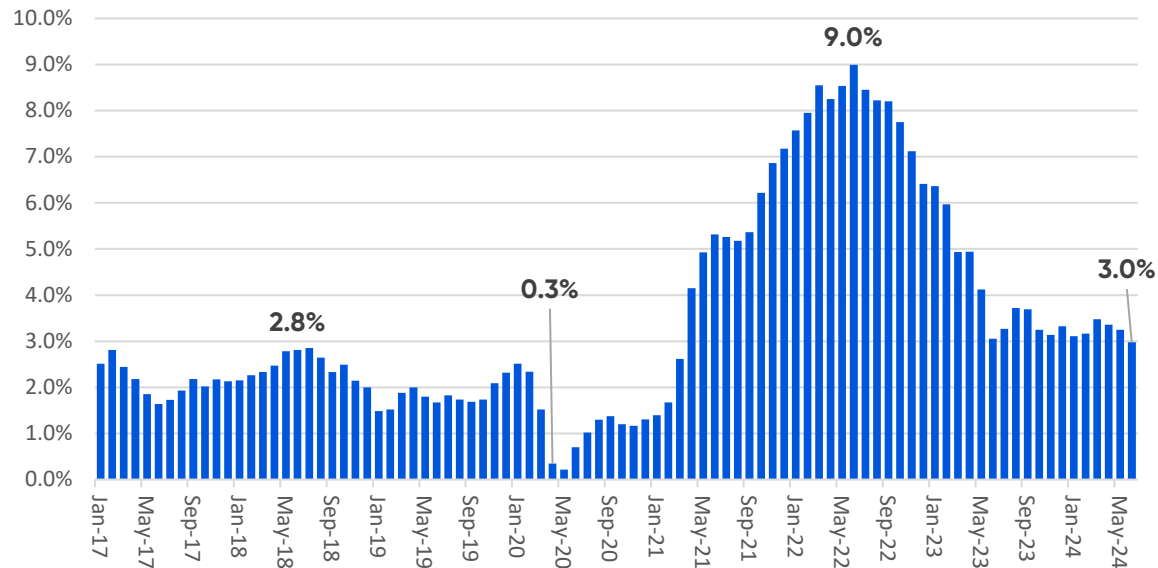
Source [Real Gross Domestic Product \(A191RL1Q225SBEA\) | FRED | St. Louis Fed \(stlouisfed.org\)](#)
Note: Seasonally adjusted at annual rates, Bureau of Economic Analysis date published May 30, 2024 (second estimate)

Inflation

Inflation Remains Elevated

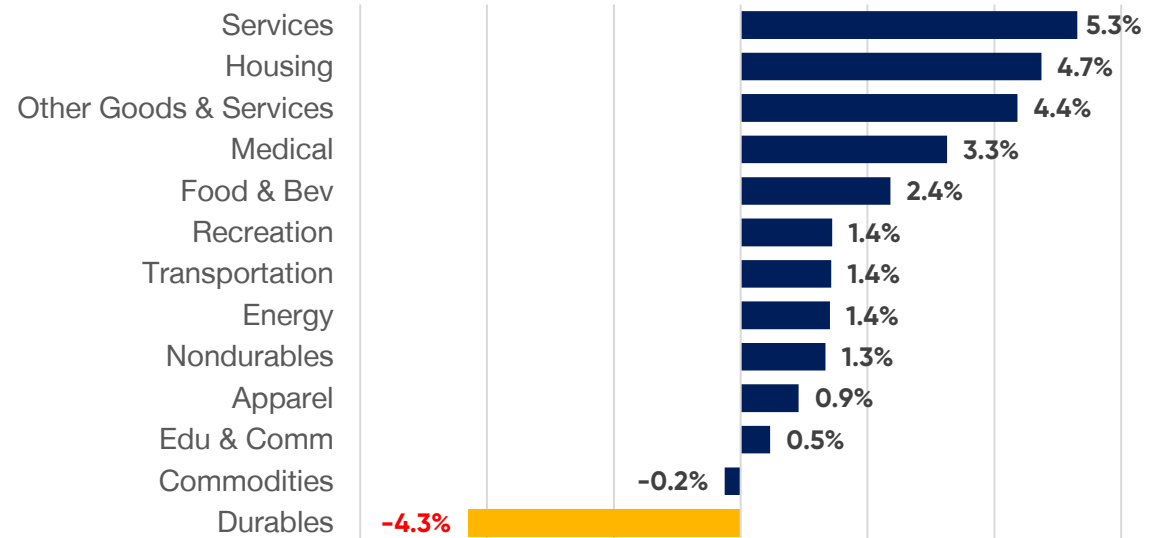
Driven by consumer demand, supply chain disruptions and a tight labor market, inflation pushed prices higher, peaking in June 2022. Inflation growth had slowed for 12 consecutive months, before ticking higher in mid-2023. Overall, inflation has dropped the past three months, lead by services and houses. The drop in durable goods means demand for big-ticket items like vehicles, household goods, and electronics are slowing.

Consumer Price Index (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>
Note: Seasonally adjusted, Data pulled July 2024.

Consumer Price Index by Sector (12-Month Change)



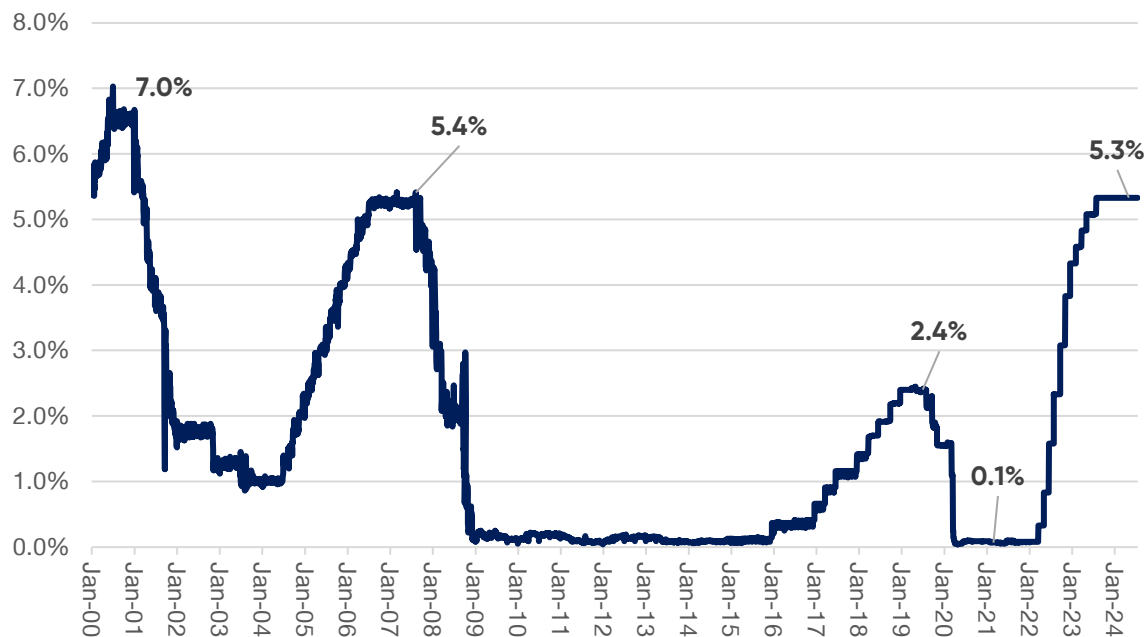
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>
Note: Seasonally adjusted, Data pulled July 2024

Monetary Policy

Rate Increases Pause as Fed Attempts to Control Inflation

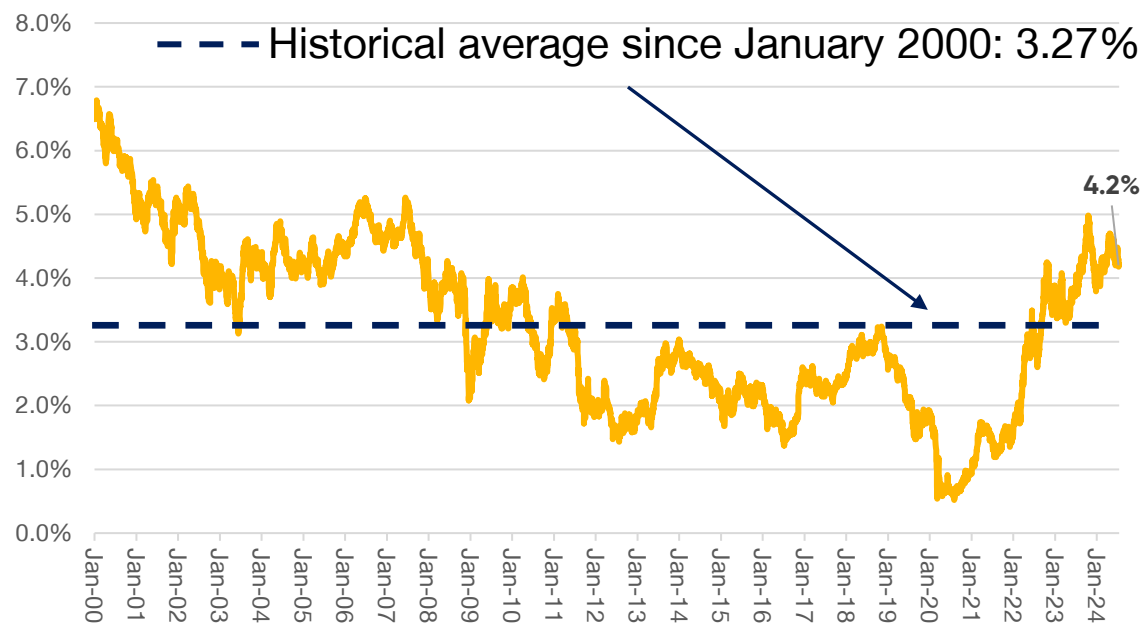
A series of increases in the Fed rate, including three 75bps increases in 2022, has bumped the range to 5.25% to 5.50%, the highest level in more than 20 years. The Fed has held rates steady after a 25-basis point increase in July 2023. Rate movement is being closely monitored as stubborn inflation remains above 3 percent annual growth. Meanwhile, the 10-year US treasury note, an indicator for broader investment confidence, has slowed, falling to 4.2 percent in early July.

US Effective Fed Fund Rate



Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>
Data is through July 15, 2024

10-Year US Treasury Note



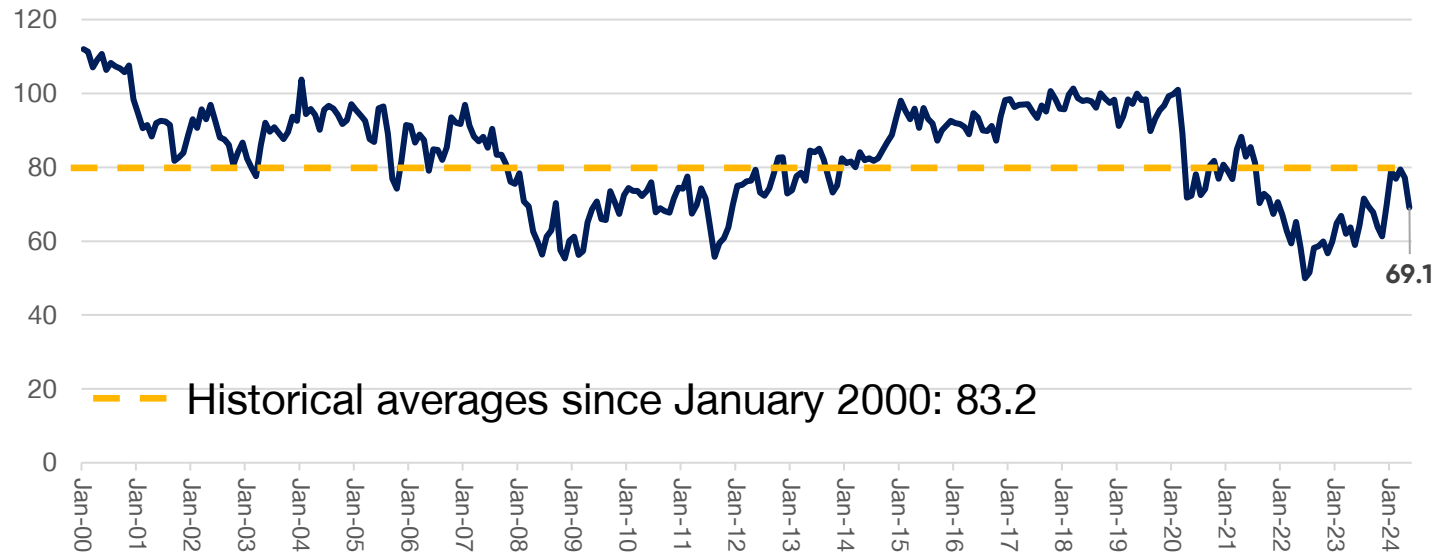
Source: Wall Street Journal
Data is through July 15, 2024

Consumers

Consumer Sentiment Trending Higher

Despite strong consumer spending related to pent-up demand, the consumer sentiment index remains well-below pre-pandemic levels. The index is now (69.1) near levels following the end of the Great Recession in 2011 before going on a near decade long trend of increases leading up to the start of the Covid-19 pandemic. Moving into the second half of 2024, consumer sentiment is moving lower.

Consumer Sentiment Index: (United States Total)



Consumer Sentiment Index

Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion. It considers people's feelings toward their current financial health, the health of the economy in the short-term, and the prospects for longer-term economic growth.

Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>;

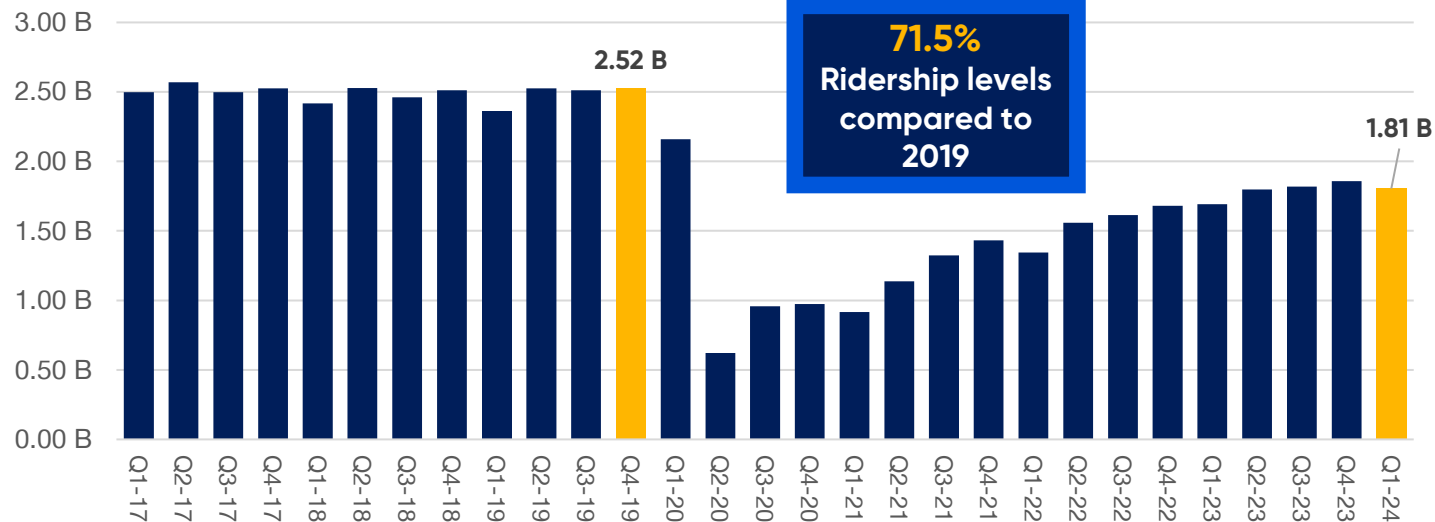
Note: Data thru May 2024

Public Transit

Public Transit Levels Off

A good indicator of the health of an urban core, and by extension the downtown office market, is the use of public transportation. Public transit ridership decreased in the first quarter after rising for seven straight quarters, experiencing a 35.1 percent increase since the start of 2022. Based on several other indicators, return-to-office momentum has appeared to stabilize.

Public Transit Ridership: (United States)



Ticket to Ride

Public transportation has been reliably consistent since the turn of the century. Sky-rocketing gas prices temporarily encouraged public ridership in 2008, but quickly dropped back to historic levels. During the first year of the declared pandemic, ridership was cut in half (52.8% decrease). The economy opened wider in 2021, but ridership still only increased 3.1 percent from the previous year. The beginning of 2022 marked the beginning of the economy opening back to near pre-pandemic levels, yet ridership on public transportation ended the first quarter of 2024 at 71.5 percent of the average ridership of 2019, the last full-year before the start of the pandemic.

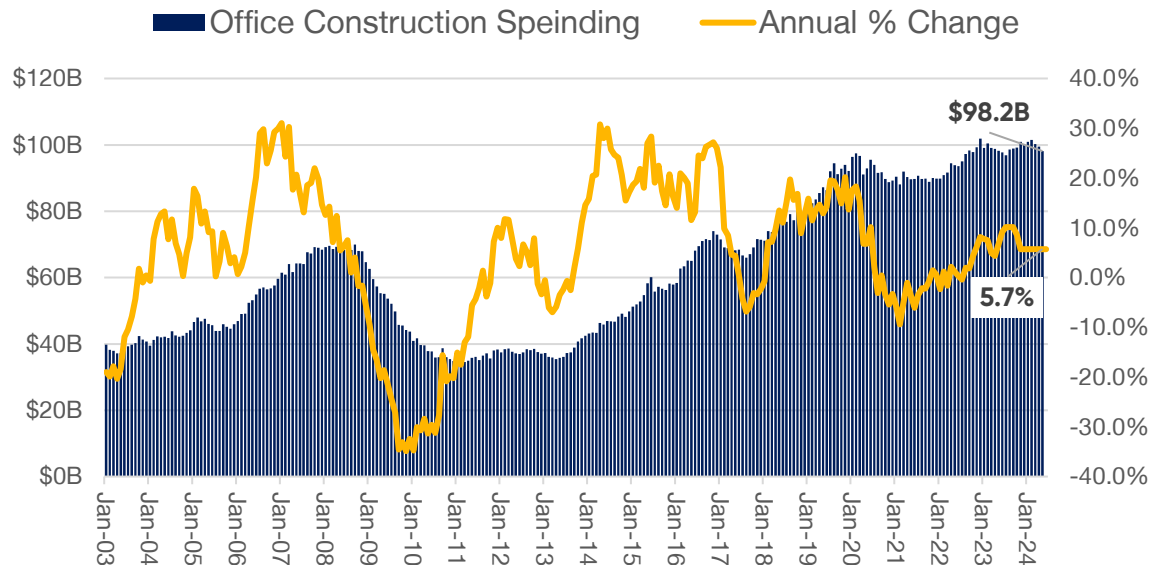
Construction

Office Construction Spending Falls, While Industrial Spending Peaks

Perhaps surprisingly, the amount spent on office construction has not fallen below pre-pandemic levels, according to the *US Census Bureau*. New, well-located office construction with plentiful amenities are drawing interest from occupiers as they look to entice people to the office.

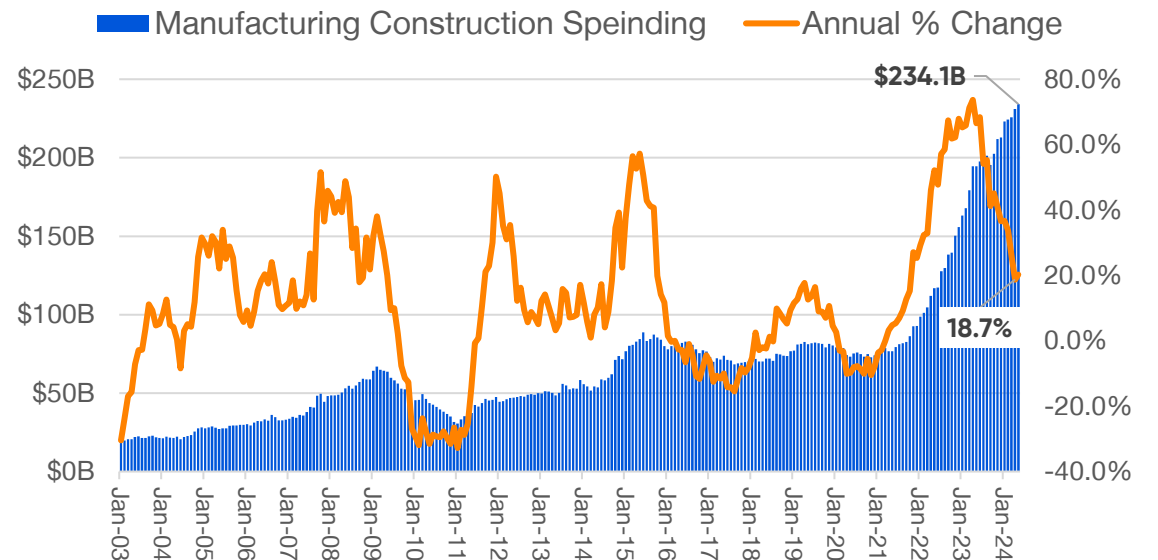
After sky-rocketing for the past three-plus years, spending in the industrial sector has begun slowing from prior years. While still near record highs, spending will likely decelerate as investors/ developers wait to test demand as new products deliver.

Construction Spending: Office



Source: U.S. Census Bureau, <https://census.gov/construction>
Note: Data thru May 2024

Construction Spending: Manufacturing



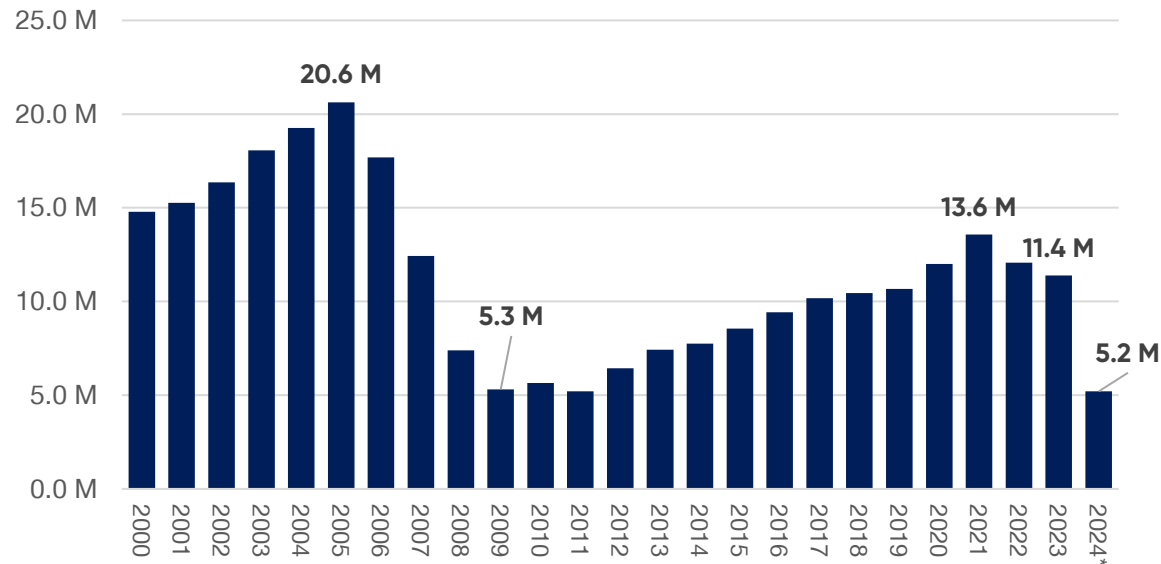
Source: U.S. Census Bureau, <https://census.gov/construction>
Note: Data thru May 2024

Housing

Housing Starts Pick Up, as Interest Rates Slow the Market

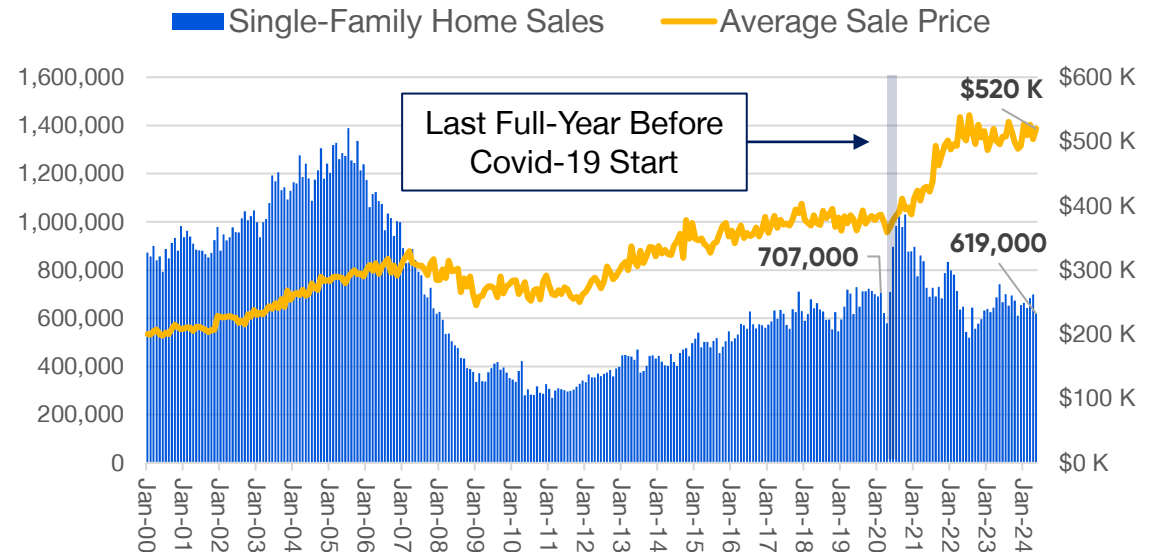
The number of residential housing starts soared at the start of the pandemic, while sale prices reached record highs in 2022. This growth is being tempered as mortgage rates increase, labor costs rise, and supplies remain scarce. During 2023, home starts declined from the previous two years but remain near pre-pandemic levels. Meanwhile, prices have begun to fall as demand softens. After passing an average sale price of over \$569,000 to end 2022, prices have fallen 8.6 percent through May.

Residential Housing Starts



Source: U.S. Census Bureau, <https://census.gov/construction>
*Note: Data thru May 2024

Single-Family Homes: No. of Sales (Thousands) vs. Price



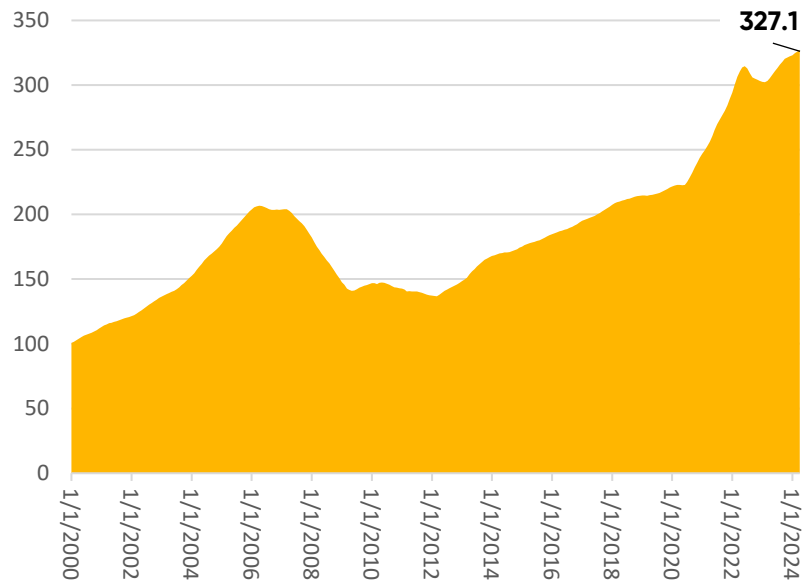
Source: U.S. Census Bureau, <https://census.gov/construction>
Note: Data thru May 2024

Home Price Index

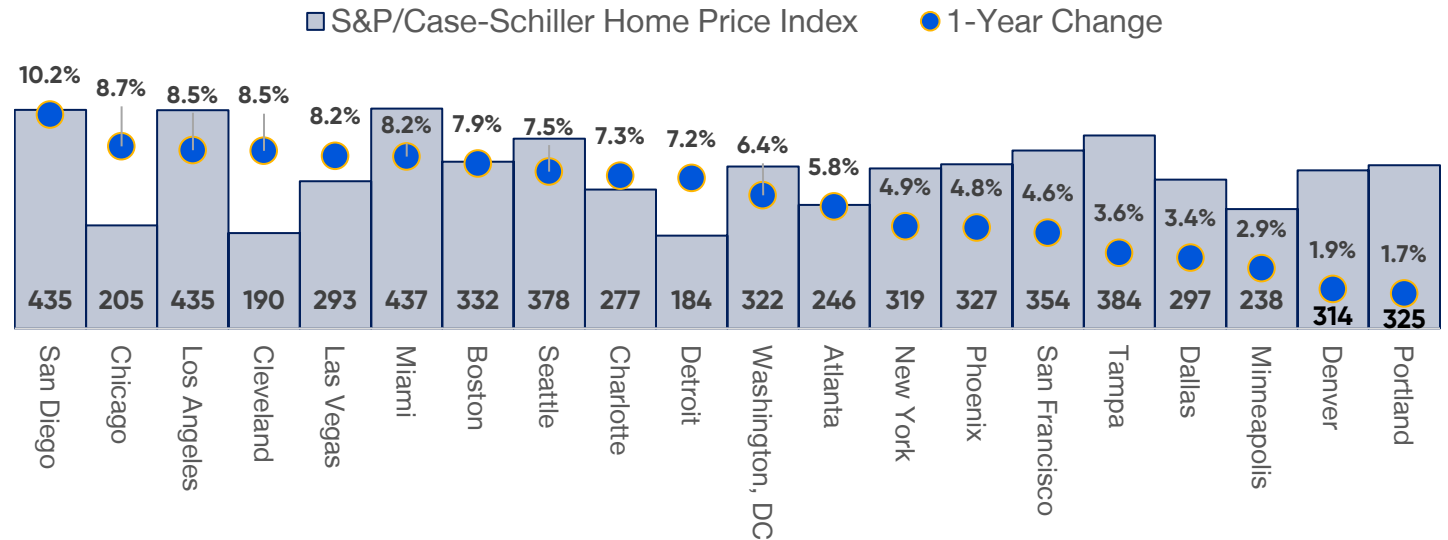
Case-Schiller Home Price Index Reclaims Recent Drops to Reach Record High

The Case-Schiller Index is an economic indicator that measures the monthly change in the value of the U.S. single-family home market. The 20-City Home Price Index peaked in June 2022 and dropped for eight straight months, before ticking higher for the past 11 months closing April at a record high. Miami holds the highest Home Price Index, followed closely by Los Angeles and San Diego. Portland and Denver increased the least in the past 12-months, while San Diego jumped the highest, closing April 10.2 percent higher than a year earlier.

Home Price Index: 20-City Average



S&P/Case-Schiller Home Price Index: April 2024





Construction Starts Fall Dramatically as Developers Navigate Leasing of Existing Inventory

Q2, 2024

Industrial Trends

The second quarter of 2024 continued the trend of tepid growth within the U.S. industrial sector as occupiers look to navigate the fallout of significant investing during pandemic and softening consumer demand. A wave of new construction deliveries has placed a significant amount of space on the market, slowing several years of rent increases. While asking rates are not expected to drop, the growth rate is slowing to levels not seen since the end of the Great Recession. There are signs that this lull is likely only temporary as real U.S. business inventories and good imports that spent most of last year in decline have resumed growth in recent months meaning the volume of goods flowing through distribution centers across the U.S. is back on the rise.

Industrial Tenant View

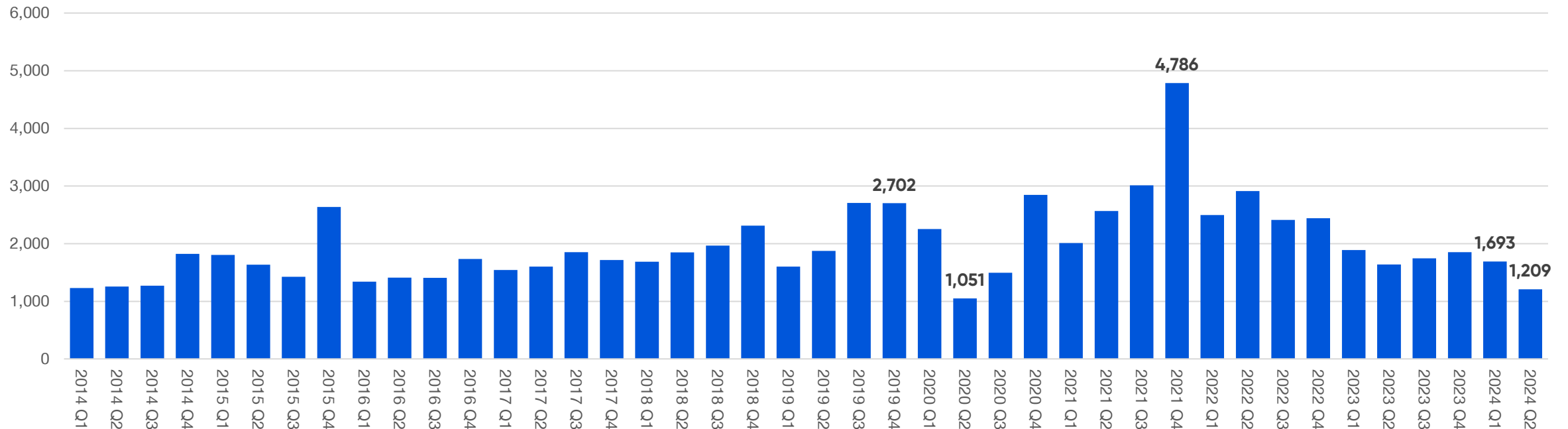
- Tenants have a window to negotiate, particularly for early renewals as new supply additions will increase vacancy in the near-term and cause rent growth to decelerate further, 2024 rent growth is on pace to register the slowest growth since 2012
- While overall space availabilities are growing, demand for mid-size spaces in the 75,000 to 150,000 range continues to grow, as occupiers move away from spaces 300,000 square feet and larger.

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.

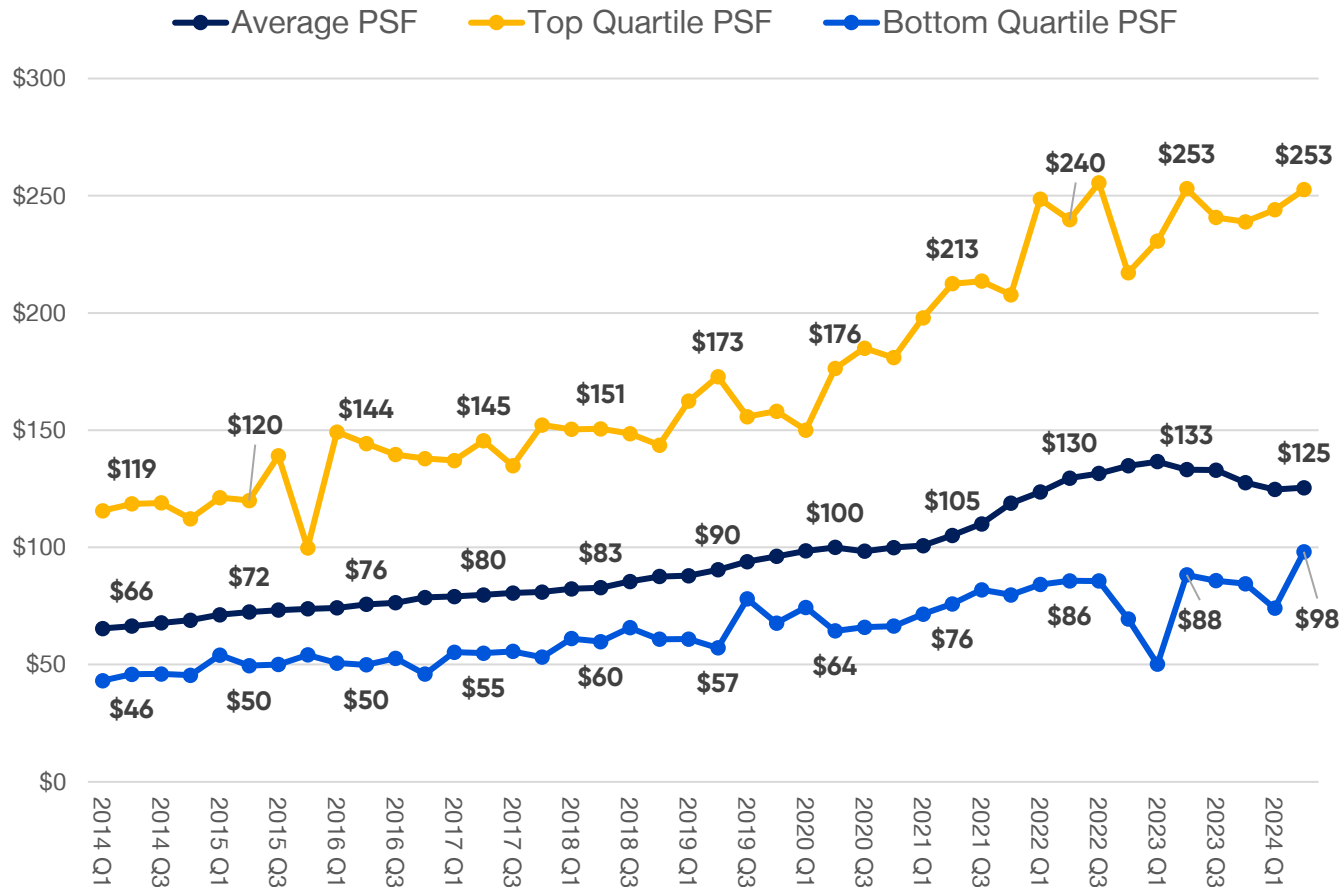
Industrial Sales Velocity: (United States)



Capital Markets

New Class A Industrial Properties in the Top-Quartile Increase

Average Industrial Sale Price/SF (United States)

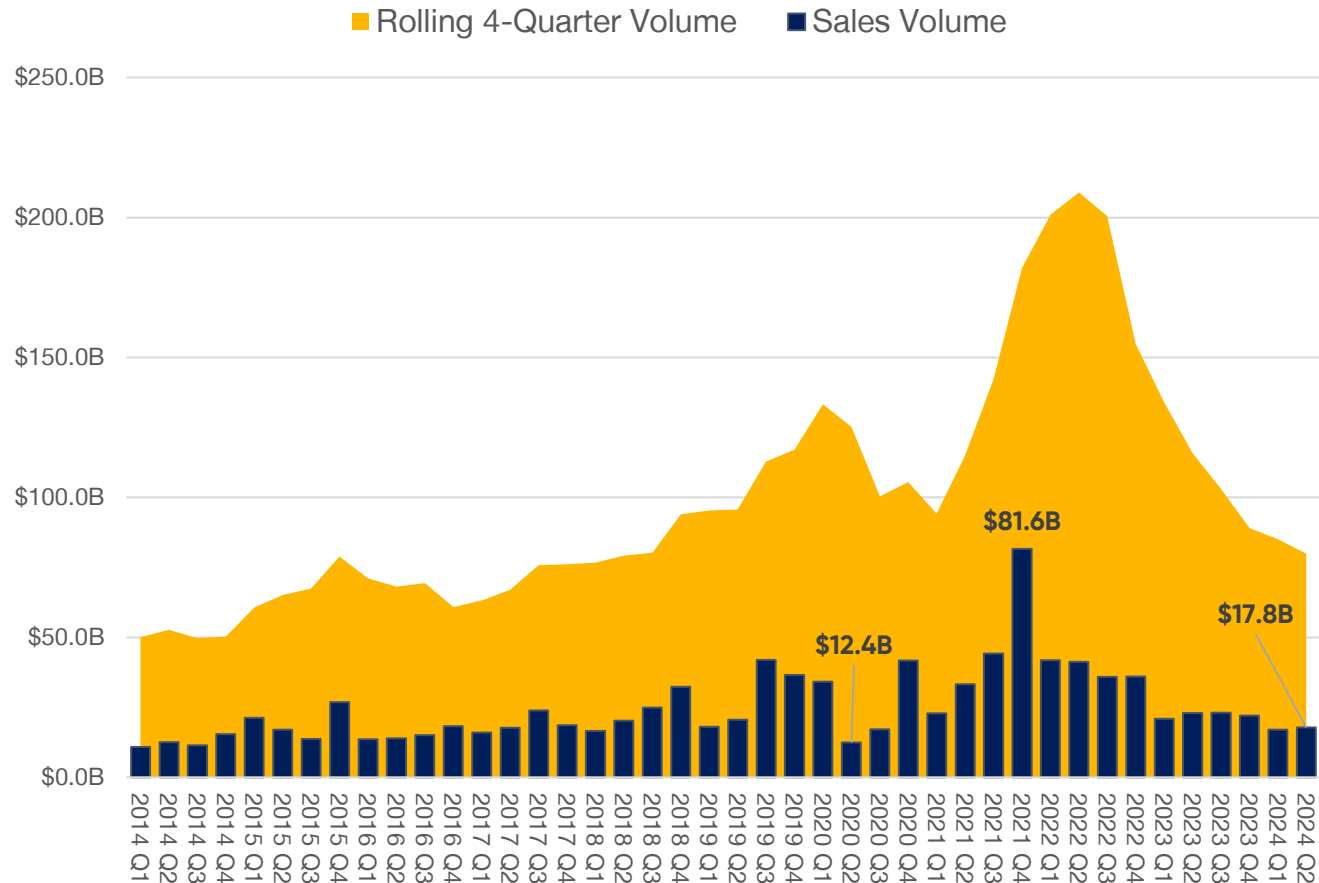


The average sales price per square foot of industrial properties has dropped over the past year. Nevertheless, the average sale price of \$125 per square foot has still increased 30 percent over prices realized since before the start of the pandemic (fourth quarter of 2019). With the high volume of sales in the past four years, the pool of available properties, particularly newer, class A buildings, on the market is considerably down, potentially skewing numbers for the most recent quarter. Still, prices are trending higher on a per square foot basis.

Capital Markets

Industrial Sales Volume Drops to Pre-Pandemic Levels

Industrial Sales Volume: (United States)

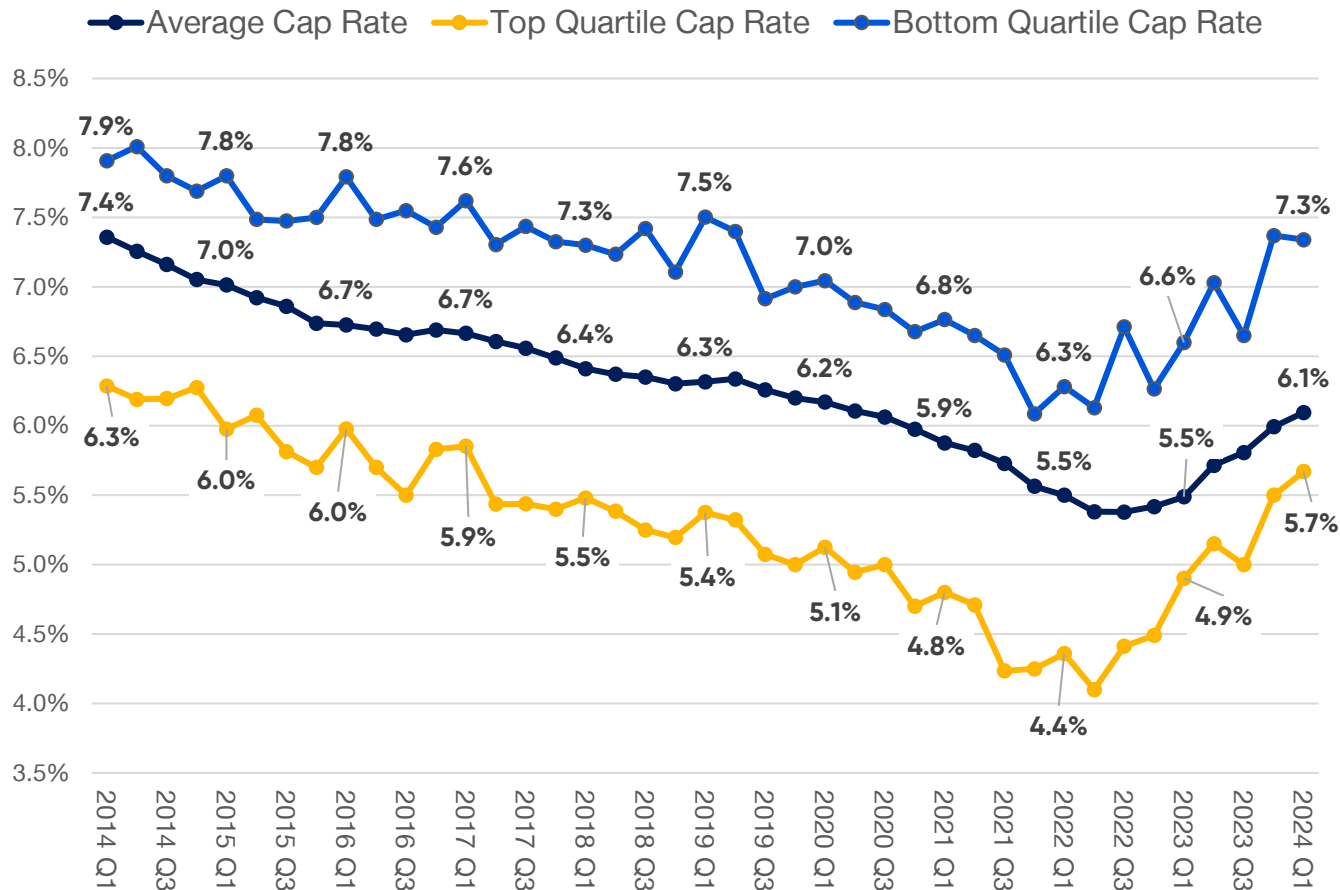


Sales volume in 2024, while trailing 2022 and 2023 levels, is comparable to pre-pandemic levels. Higher prices have pushed volume higher, despite the number of total sales declining from prior years. The second quarter of 2024 is the second lowest sales volume since the start of 2020.

Capital Markets

Industrial Cap Rates Float Higher as Risk Increases

Industrial Cap Rates (United States)



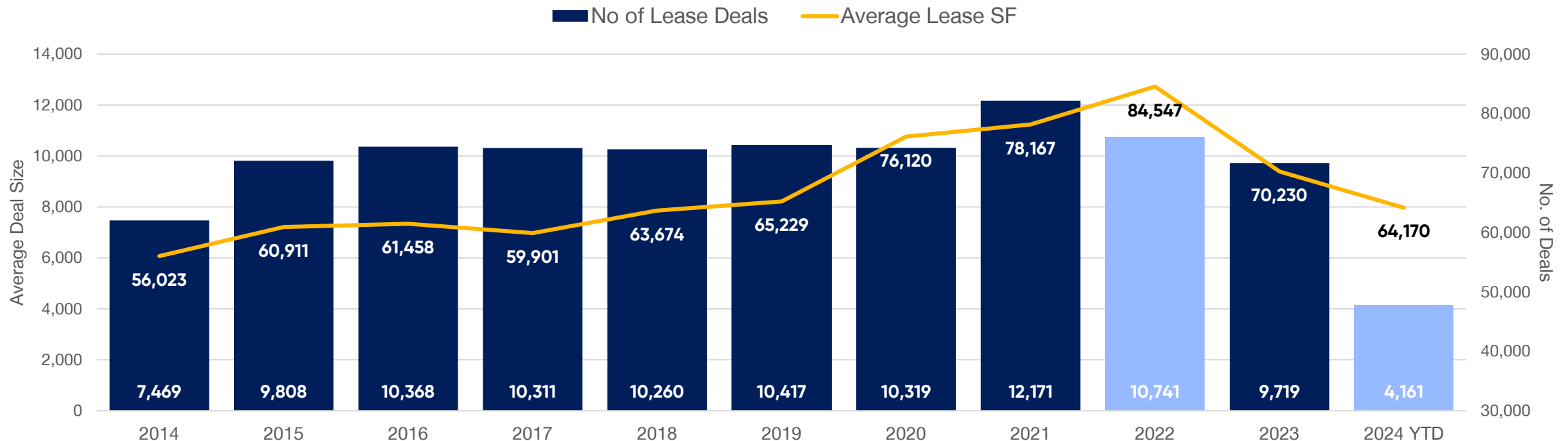
Economic volatility, increasing borrowing rates, and rising construction costs have pushed cap rates for industrial properties higher in the past 24 months. This **higher risk has slowed overall sales and leveled prices paid for industrial assets**. While there is still money available for investment in a stable asset class, the lack of available top-quality properties with modern amenities is causing hesitation in capital markets. The industrial market will likely adjust as economic conditions stabilize and the market better understands demand after buildings are delivered in the current robust industrial pipeline.

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

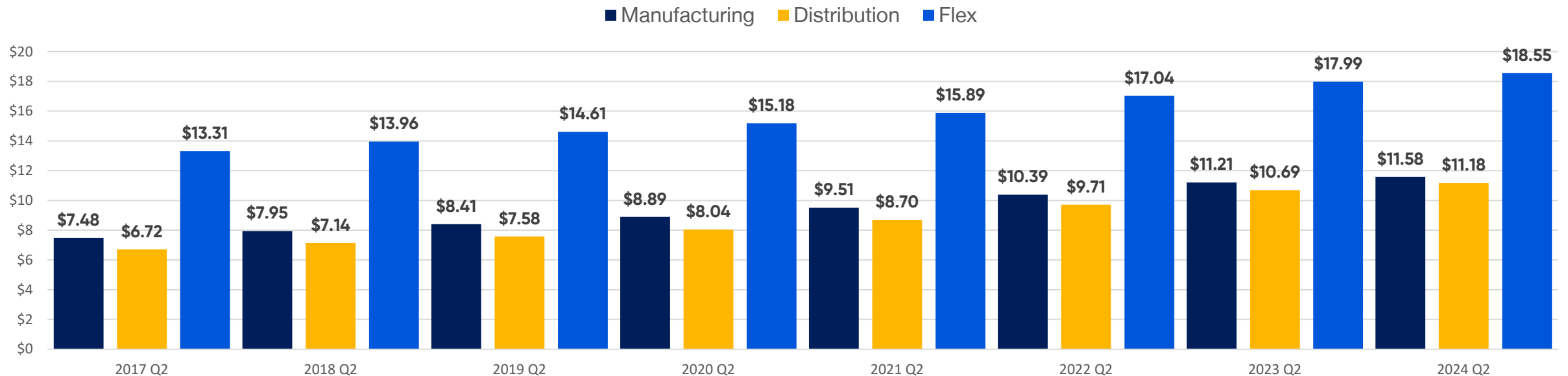


Market Rent

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.

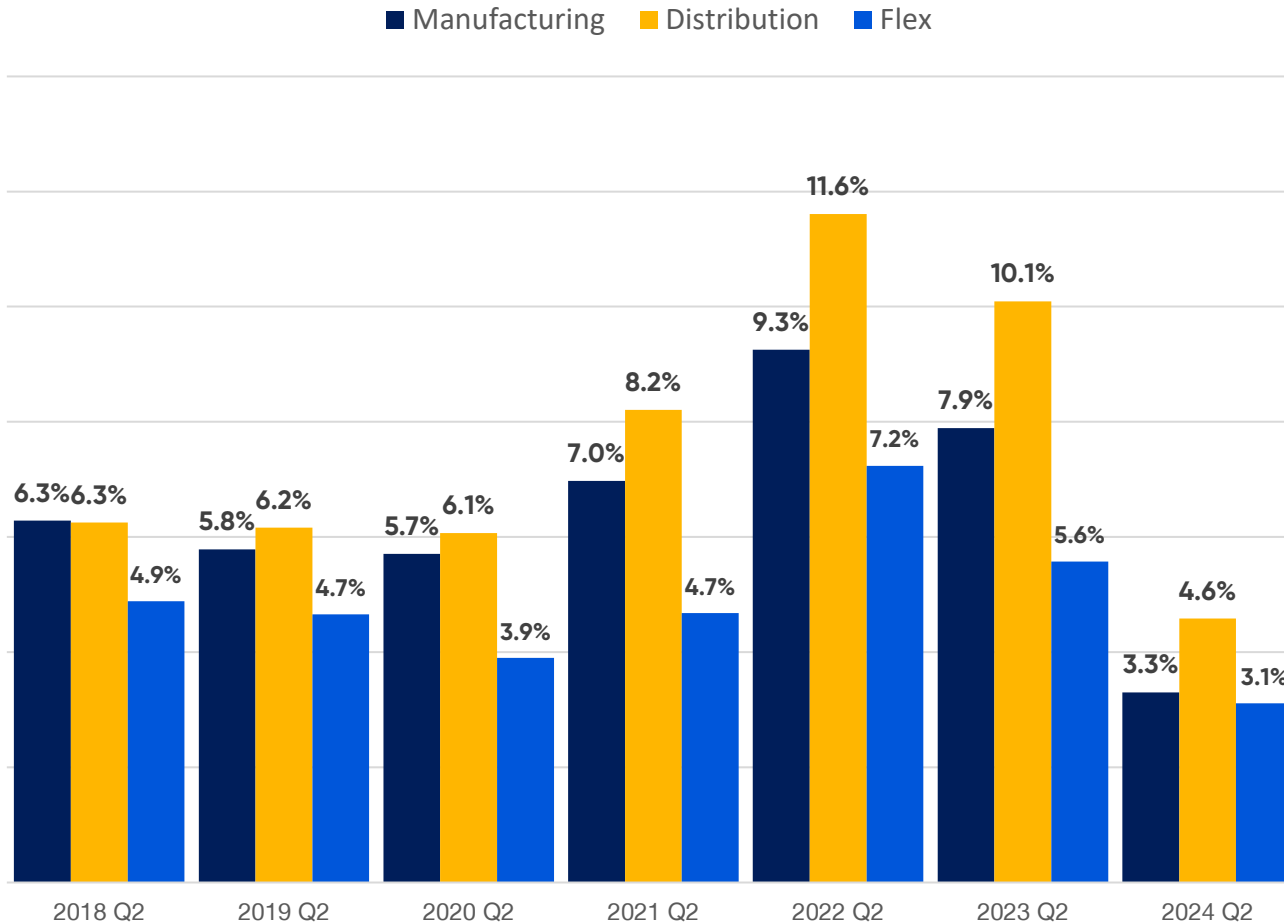
Industrial Lease Asking Rates (\$/SF): (United States)



Market Rent

Direct Asking Rent Growth Reverts to Pre-Pandemic Levels

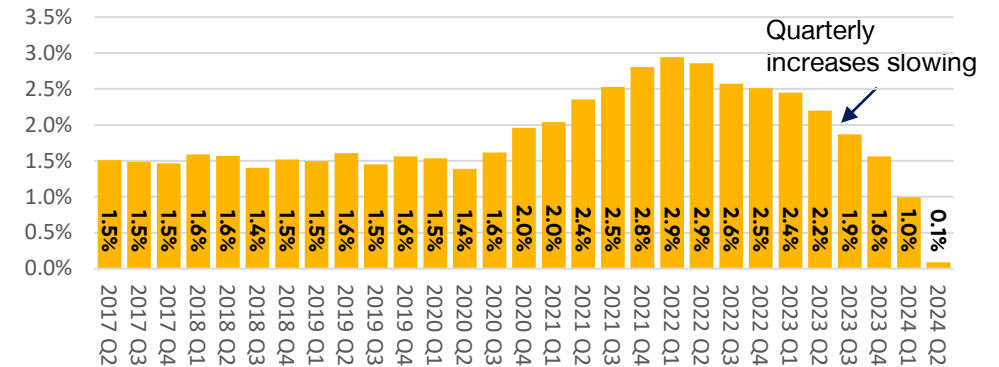
Industrial Asking Rent Annual Increase: (United States)



Source: CoStar and Cresa; thru Q2 2024

Industrial lease rates continue to set new water marks each quarter. The growth rate is slowing. Still, **the compounded annual growth rate (CAGR) for distribution spaces has increased 7.5 percent per year since the start of 2017.** With demand remaining firm and vacancy low, rates are expected to grow in line with pre-pandemic levels in the near-term. While it is unlikely rates will correct, other incentives like TIs and abatements may become more negotiable for occupiers.

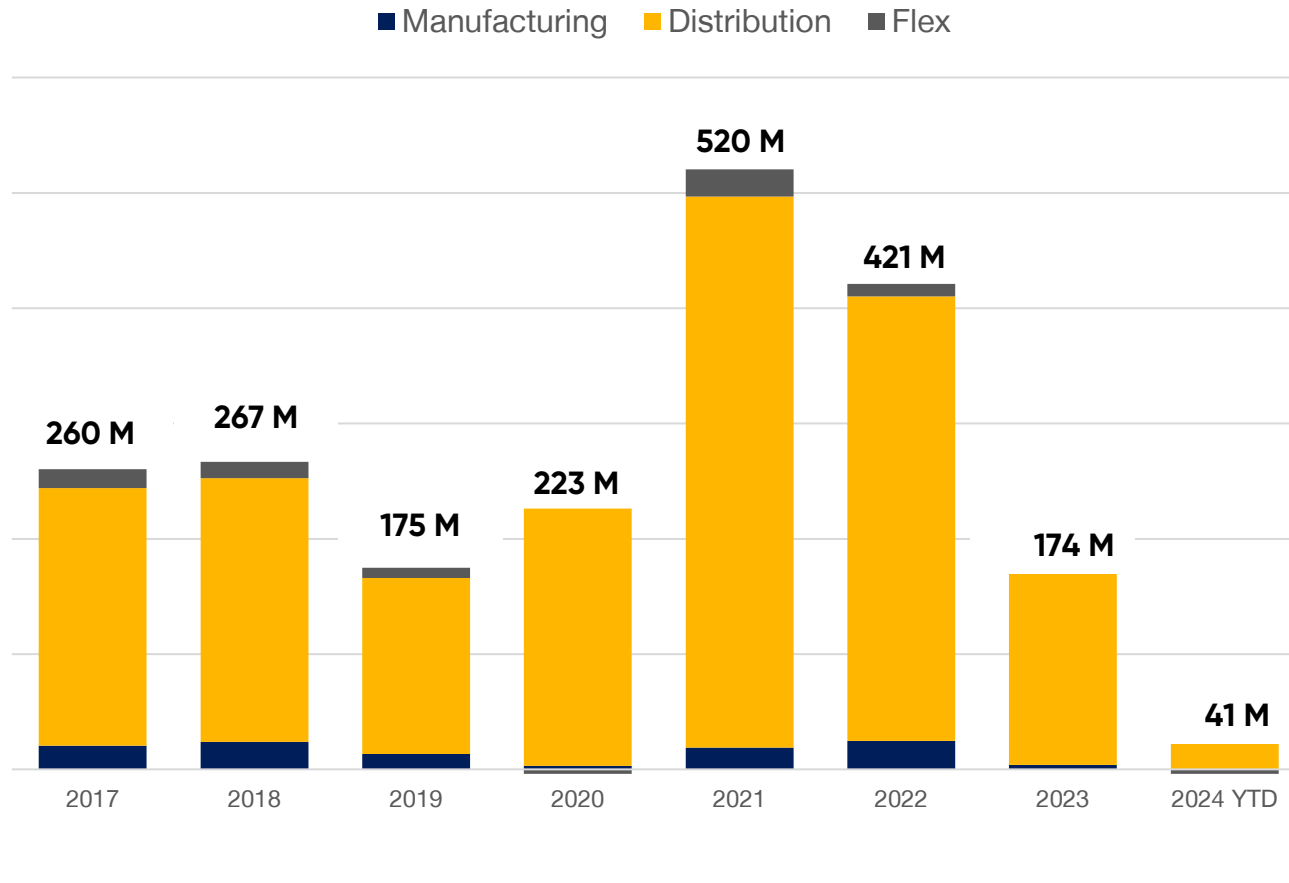
Distribution Asking Rent Quarterly Increase



Absorption

Industrial Absorption Dramatically Slows

Industrial Net Absorption (SF): (United States)

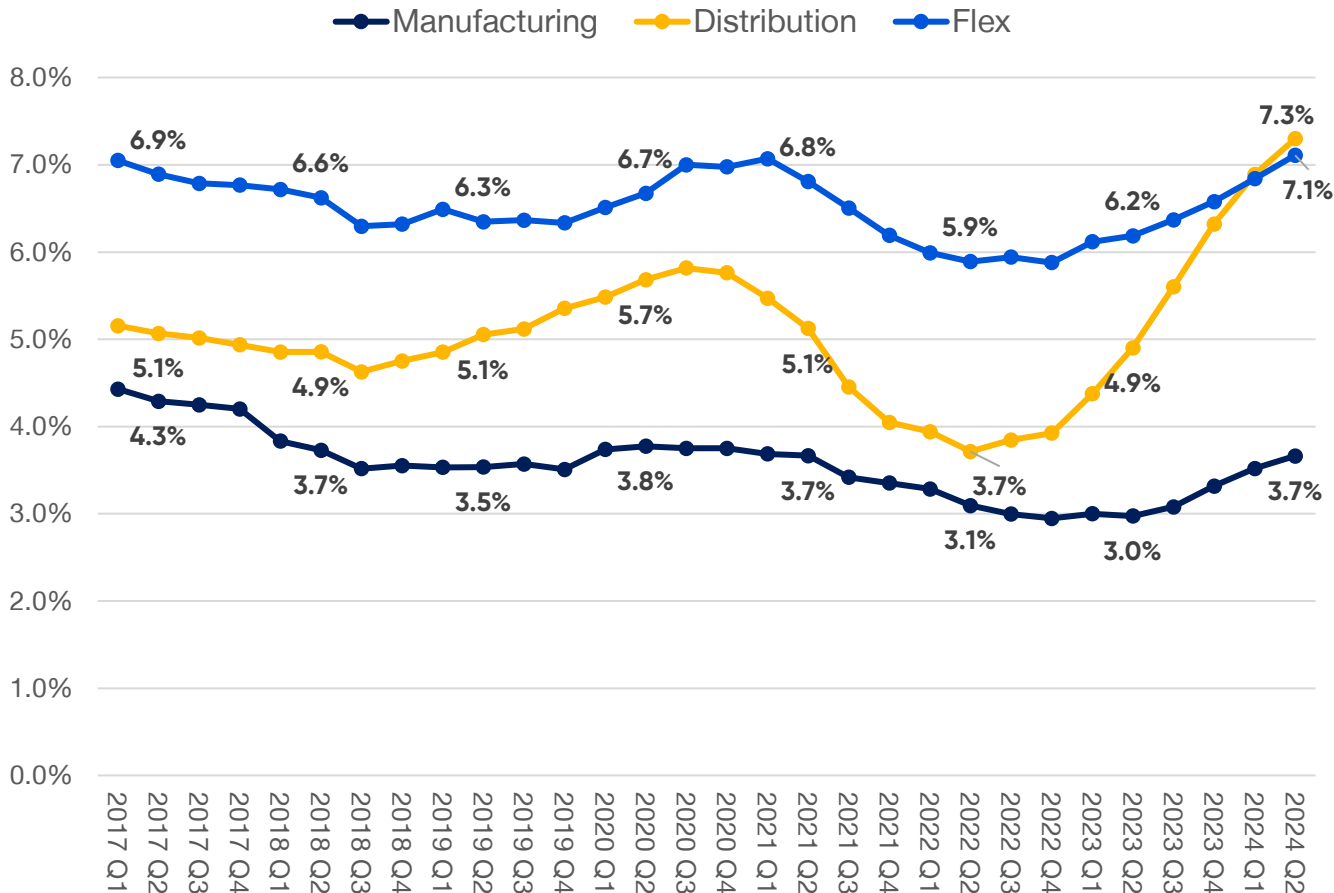


After a record-breaking 2021, absorption has experienced a slowdown. Some of this can be explained by economic conditions softening, but overall imports have been slowing, too. Absorption through the first half of 2024 is on track to be at the lowest levels in the past seven years. Nevertheless, the 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)

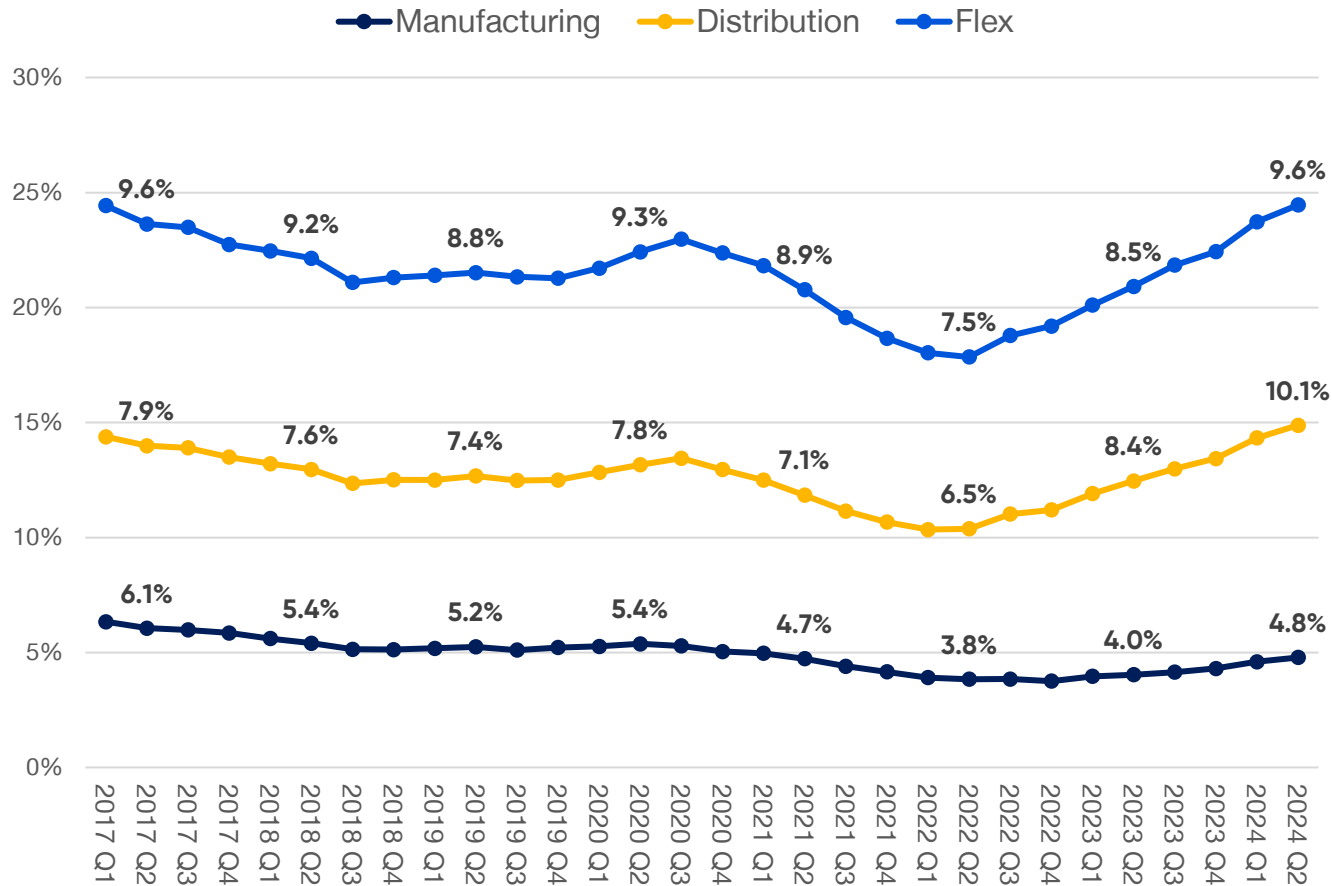


Direct vacancy has remained below historical averages, despite a bump in distribution and flex space vacancy over the past 12-months. It is likely that the large amount of new construction being delivered contributed to the increase. Large occupiers of space like Amazon have also curtailed new commitments 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)

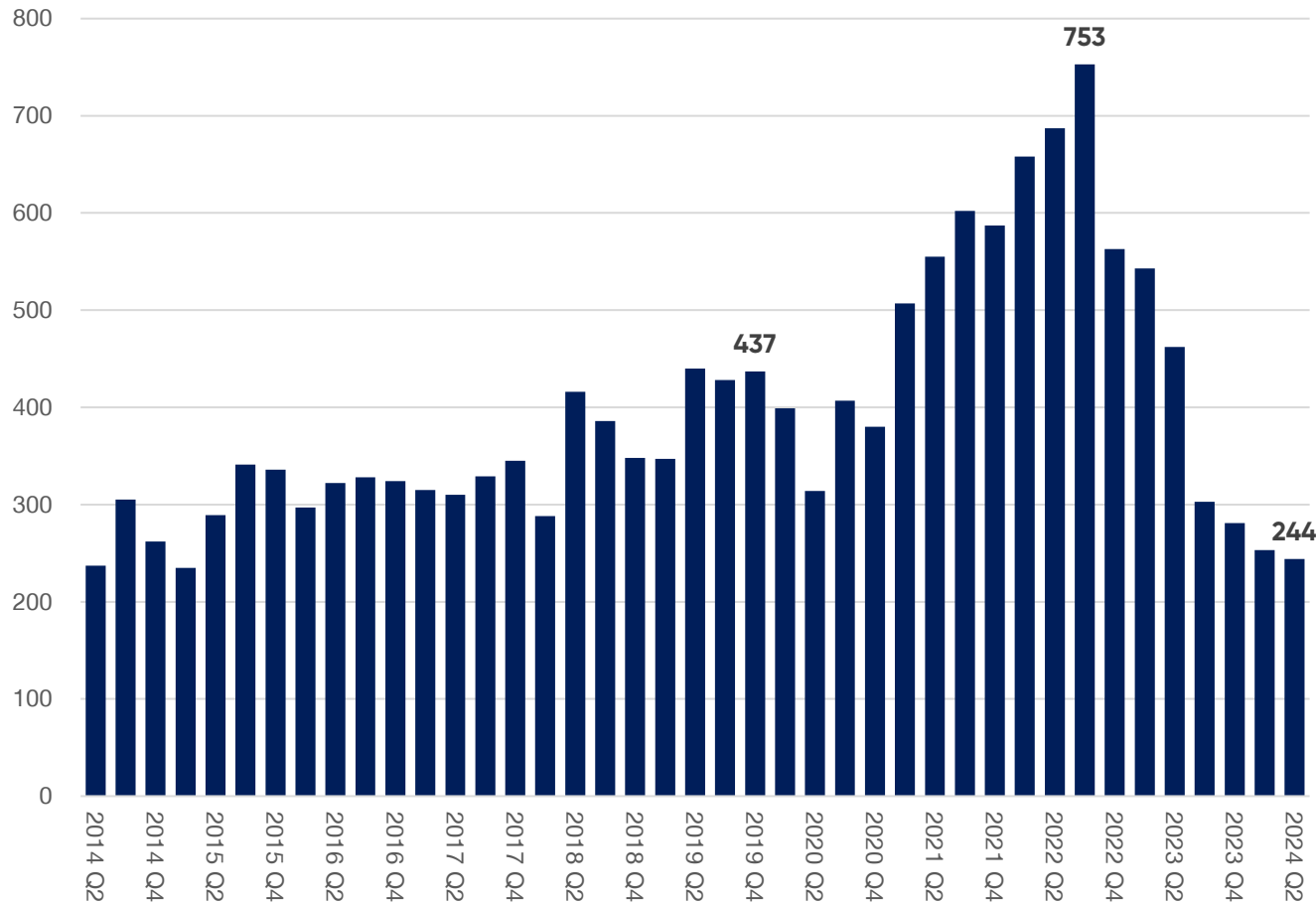


The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date. Therefore, the availability rate may be a more accurate depiction of the market during this volatile 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)

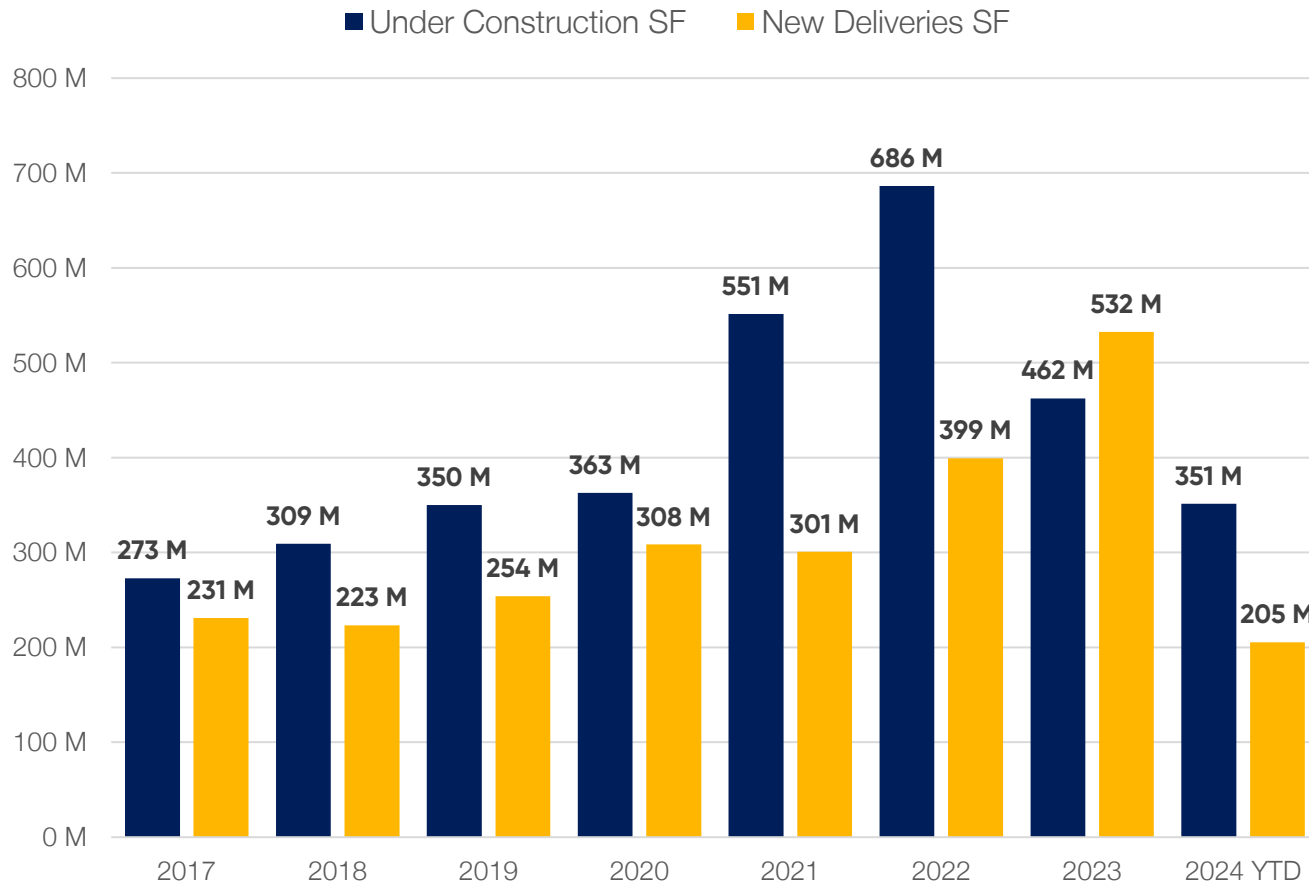


New industrial construction starts topped 2,600 in 2022, after breaking 2,000 for the first time in 2021. Starts for 2023 were comparable to pre-pandemic levels. However, given the torrid pace of construction and rising construction costs, elevated interest rates, supply chain constraints, the number 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)



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.**

The problem with the real estate market is the market itself.

The market
Sees you as
a **target**.

The market
chases the
deal.

The market
is short term
and
reactive.

The system
favors
landlords
not
occupiers.

The stakes are high for occupiers. Real estate is expensive and inflexible. With the pandemic, labor dynamics, and economic instability, all bets are off.

It's time to go beyond the market and uncover how your commercial real estate can drive your goals, not impede them.

How We're Different

As the world's leading corporate real estate provider committed exclusively to serving occupiers, we're in a league of our own. We offer creative solutions, unbiased advisory services and executive leadership on every account. We believe this combination of transparency and executive involvement generates the superior service our clients have come to expect from Cresa.

Billions of square feet are represented on the landlord's behalf nationally. Cresa never does business on behalf of landlords.



An Unbiased Advocate

We're unbiased, uninfluenced by landlords. Everything we do is from an occupier perspective – and to their advantage.

Our Structure

As a privately-owned firm, we can adjust quickly, easily scaling project teams or service offerings to suit client needs.

Our Integrated Platform

Our services, each led by specialists in their field, are interconnected to enrich our clients' businesses and ensure seamless delivery.

Our People

Led by seasoned principals with years of experience, we hire selectively and empower our employees to think innovatively.

Transparency

Transparency is what allows us to foster lasting, meaningful relationships with each other and with our clients.



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Cresa is the world's leading global commercial real estate advisory firm that exclusively represents occupiers and specializes in the delivery of fully integrated real estate solutions. Our purpose is to think beyond space, strengthening those we serve and enhancing the quality of life for our clients. Delivered across every industry, Cresa's services include Transaction Management, Workplace Solutions, Project Management, Consulting, Lease Administration, Technology, Investment Banking & Capital Markets and Portfolio Solutions. In partnership with London-based Knight Frank, Cresa provides service through 16,000 people, across 380 offices in 51 territories

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