

Modest Pickup in Demand for US Industrial Space Suggests Slowdown May Be Easing Jump in Leasing Activity Shows Tenant Appetite Stops Deteriorating



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July 22, 2024 | 12:00 P.M.

At first glance, the second quarter saw little change to recent U.S. industrial market conditions, which have been gradually shifting more in tenants' favor since the beginning of last year as available industrial space accumulated in ever-greater amounts. Just over 100 million square feet worth of new industrial developments finished construction in the second quarter, more than three times the level of tenant demand growth in the quarter. Net absorption, which represents the net change in occupancy, increased for the first time since late 2022 but was still relatively weak at 30 million square feet, the lowest second-quarter tally since 2012.

With the new supply of industrial space far outpacing demand, the U.S. industrial vacancy rate rose 30 basis points to 6.5% and has entered uncomfortable territory for owners of large logistics properties, which have comprised most of the recent speculative development wave. As a result, industrial rents are beginning to flatline. While asking rents increased 4% nationwide over the past 12 months, they remained essentially unchanged during the second quarter.

Still, the spring and summer of 2024 brought several signs that tenant appetite for additional space is no longer deteriorating and is potentially on the cusp of another upswing. The decline that prevailed last year in key indicators of industrial space demand such as business inventories and warehousing and storage employment has leveled off.

Thanks to a strong showing in June, inflation-adjusted spending on a composite of retail goods typically stored in distribution centers, increased by more than 1% in the second quarter alone. These gains were stronger than typical quarterly growth recorded during the three years prior to the pandemic and were led by spending on online platforms such as Amazon which utilize warehouse space at higher rates than brick-and-mortar retailers.

With spending on goods back on an upward path, more items are flowing into the U.S. and moving through distribution centers to meet consumer demand. The weight of goods arriving at U.S. seaports increased between 9% and 16% year-over-year during each of the last four months as reported by the U.S. Census Bureau, a notable improvement from the 13% decline that occurred in 2013.

Industrial leasing also jumped in the second quarter, driven by improvements in these economic drivers. CoStar will likely uncover more second-quarter lease deals in the weeks ahead, but preliminary figures suggest that the square footage of new industrial leases signed during the second quarter increased 12% compared to the second quarter of 2023.

There is no guarantee that U.S. industrial tenant demand will build on recent momentum and continue to reaccelerate over the next several months. Risks remain that with [credit card balances rising at double-digit rates](#), consumers will eventually retrench and demand for distribution space will follow suit.

However, the current supply glut is being addressed. Construction lenders have pulled back on financing for speculative industrial projects, and groundbreakings for new industrial projects have plummeted from all-time highs in 2022 and continued to fall in the second quarter. Year-to-date U.S. industrial construction starts are also down more than 30% compared to typical construction starts during the three years prior to the pandemic. This suggests that even modest increases in tenant demand would be enough to cause the U.S. industrial vacancy rate to begin tightening again by the second half of 2025, given the limited number of projects on track to complete construction during that time.