

US Industrial Development Finally Catches Up With Tenant Demand

Leasing Remains Strong at New Buildings



Developer EQT Exeter completed construction earlier this year on its first building in a new distribution center complex in Hesperia, California. (CoStar)

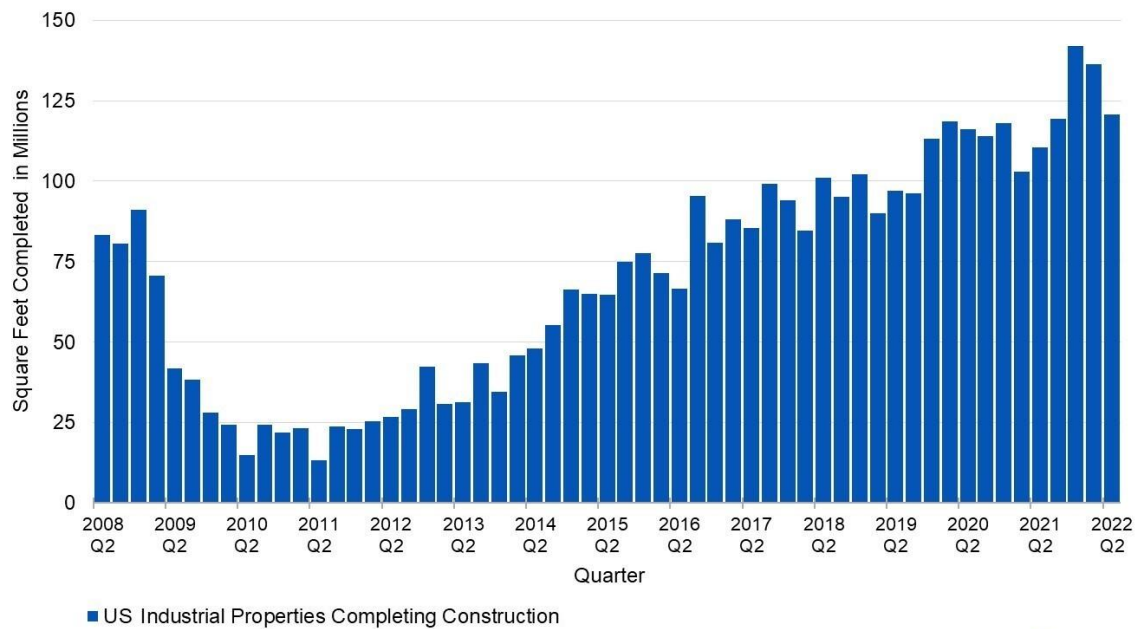
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Last year, developers completed a bumper crop of new industrial property tallying 475 million square feet across the U.S. covering a combined land area the size of Boston. This building boom resulted in the most new industrial space completed in a single year in more than two decades.

It's well into 2022, and developers have continued to accelerate industrial construction levels to the point where the pace has finally caught up with tenant demand, just as the economic backdrop becomes increasingly unstable.

Industrial Project Completions Ramp Up



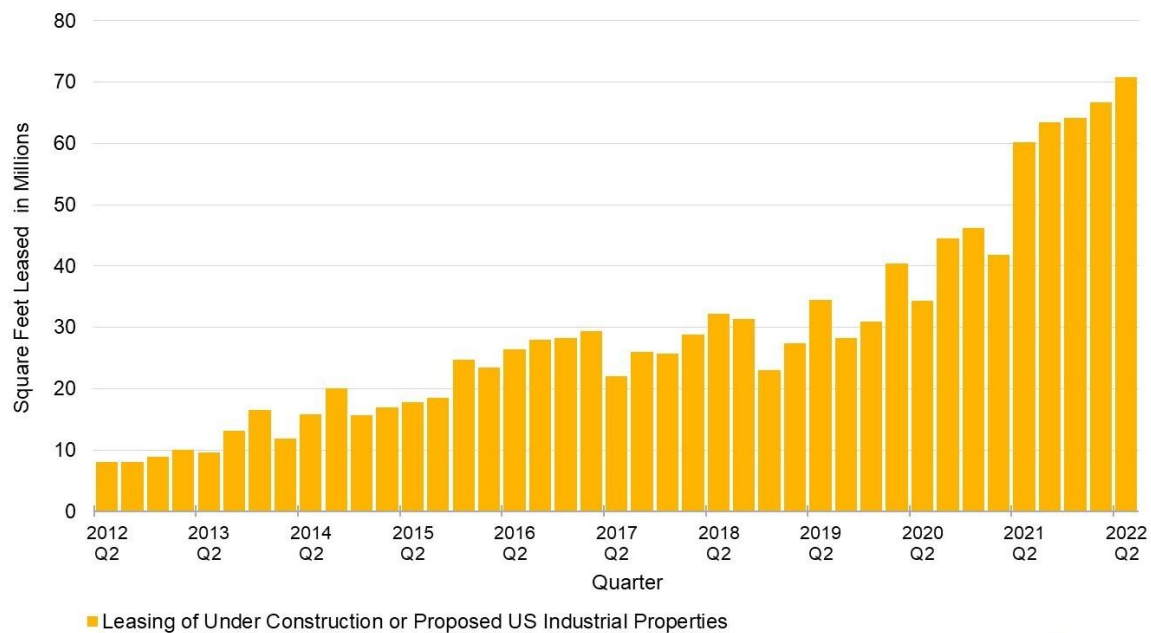
Source: CoStar, August 2022



For two consecutive quarters, the U.S. gross domestic product has been declining. Amazon, North America's largest industrial user, [has been slowing its distribution network expansion](#). Walmart and Target [cut their profit forecasts](#) this summer as inflation weighed on both their business expenses and consumer finances.

So far, however, the inflationary environment hasn't stopped most major retailers, third-party distributors and manufacturers from continuing to expand rapidly and lease space in the wave of newly built industrial properties wrapping up construction.

Leasing of Industrial Development Projects Accelerates



Source: CoStar, August 2022

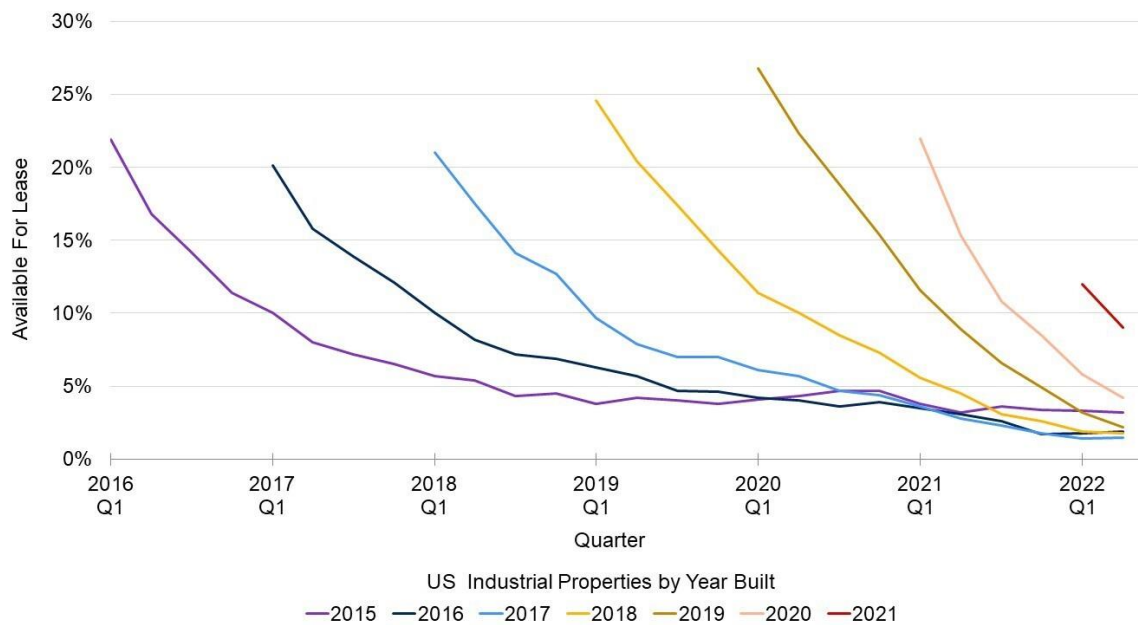


Even as Amazon pumps the brakes, other major retail tenants including Dollar General, Williams Sonoma, Puma and Bed Bath & Beyond have stepped up in 2022 to prelease proposed or under-distribution centers larger than 1 million square feet. In a nod to just how high a priority growing distribution capacity remains for many major retailers, Target and Walmart both recently announced [plans to open multiple new distribution centers across the U.S.](#) within weeks of lowering their profits forecasts.

As a result, leasing within under-construction or proposed U.S. industrial projects reached an all-time high during the second quarter of 2022, tallying 70.8 million square feet, an increase of roughly 20% from year-ago levels recorded during the second quarter of 2021.

Industrial developers with projects under construction can also take comfort in knowing that only 9% of the 475 million square feet worth of new projects that completed in 2021 is still available for lease. Previous rounds of industrial projects that were built in 2018, 2019 and 2020 typically had availability rates twice as high when they were eight months out from finishing construction as properties completed in 2021.

Properties Built in 2021 Post Record Low Availabilities



Source: CoStar, August 2022

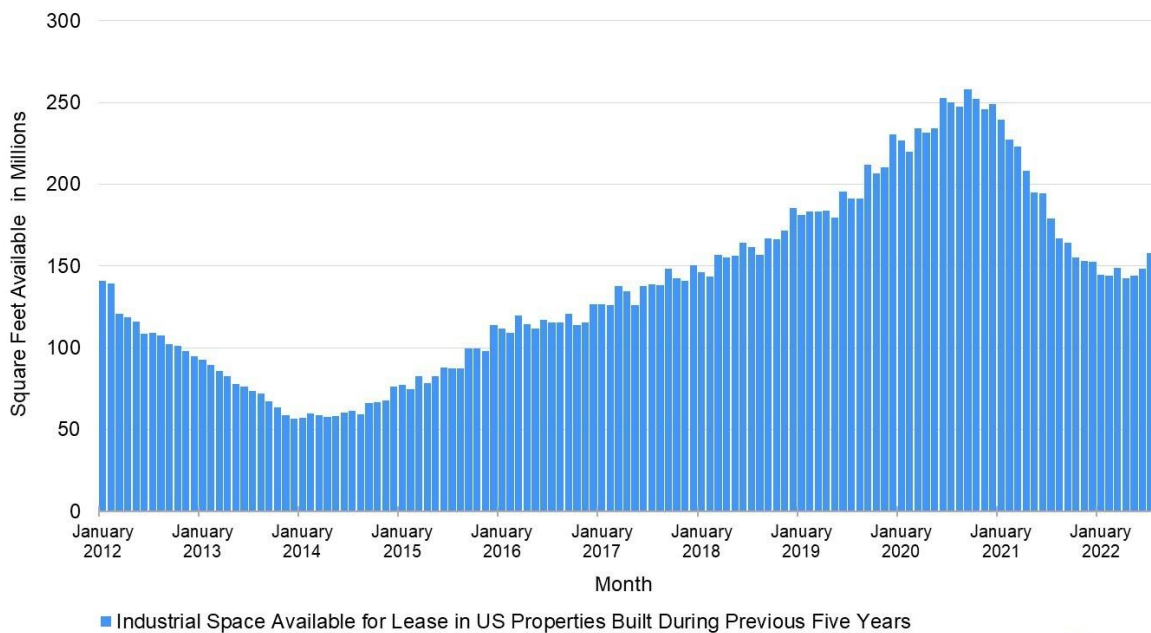


Lower availability rates among 2021-built properties owe partly to the fact that delays in securing construction materials resulted in these projects taking longer to reach completion than in previous years, meaning they had more time to secure tenants before finishing construction.

[A recent survey of major developers](#) published by Newmark, found that industrial construction timelines increased by an average of about 2.5 months or 24% since 2019 across 15 major U.S. markets, on top of increases in the time it takes to secure necessary permitting from local governments.

As a result, tenants looking for new, move-in ready industrial space continue to have limited options to choose from. The volume of space listed as available for lease in industrial properties built within the previous five years has fallen by almost 40% from the peak reached just after the early 2020 recession.

Developers Begin To Keep Pace With Tenant Demand



Since plummeting through 2021, the amount of available space in industrial projects built within the past five years has begun to stabilize and even move up slightly in 2022. This is a sign that completions of new distribution center developments are finally beginning to keep pace with tenant demand and could easily begin to push availability up as larger numbers of industrial developments are completed in the months ahead.

This should not be an immediate concern for developers and industrial landlords given how tight the industrial market is today. It would take several months of rising space availability, at least, before industrial space tenants would begin to feel significantly increased bargaining power in lease negotiations.

As long as the U.S. economy can avoid slipping into a painful recession, industrial projects on track to finish construction during the remainder of 2022 and early 2023 should continue to benefit from a market with limited available space and very high levels of leasing.