

Rise in Construction Completions Increases Industrial Vacancy Rate



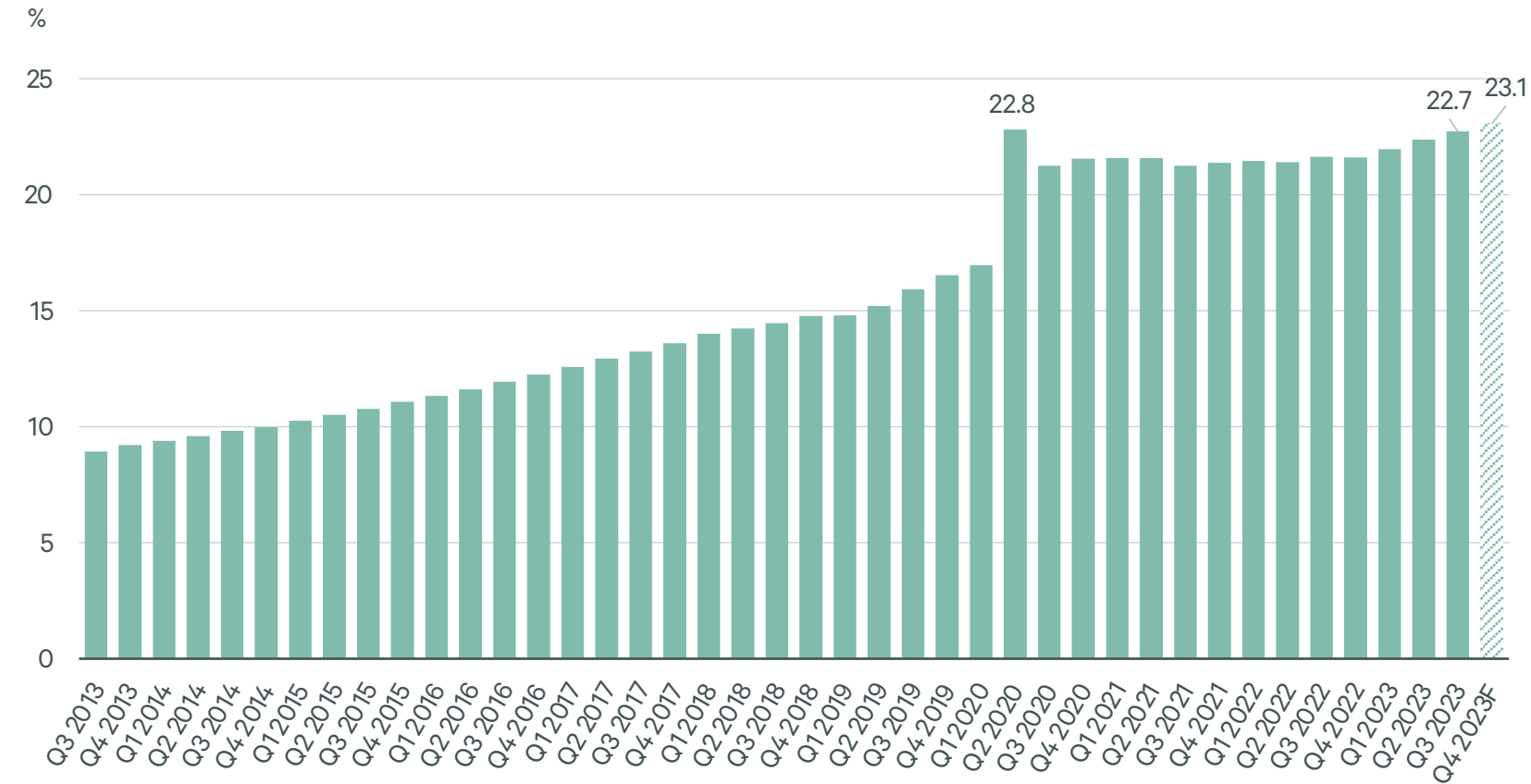
Arrows indicate year-over-year change.

Executive Summary

- Construction completions totaling 168 million sq. ft.—64% of it vacant—pushed up the overall industrial vacancy rate by 50 basis points (bps) to 4.2% in Q3.
- Construction starts fell by 37% quarter-over-quarter and 64% year-over-year to 40 million sq. ft. in Q3, lowering the under-construction total for the third consecutive quarter to 479 million sq. ft.
- Sublease availability climbed to 160.6 million sq. ft., the highest amount since the Global Financial Crisis, but accounted for less than 1% of total industrial inventory.
- Year-to-date leasing activity fell by 12.4% from the same period last year to 590.6 million sq. ft. Renewals made up more than one-third of total activity.
- Net absorption of 55.8 million sq. ft. in Q3 brought the year-to-date total to 200.7 million sq. ft.—down from the 380.8 million sq. ft. absorbed this time last year.
- Average asking rent rose by 2.0% quarter-over-quarter and 9.1% year-over-year to a record \$10.16 per sq. ft. Average taking rent increased by 1.6% quarter-over-quarter and 15.4% year-over-year.

Figure 1
E-commerce share of total retail sales continues to rise

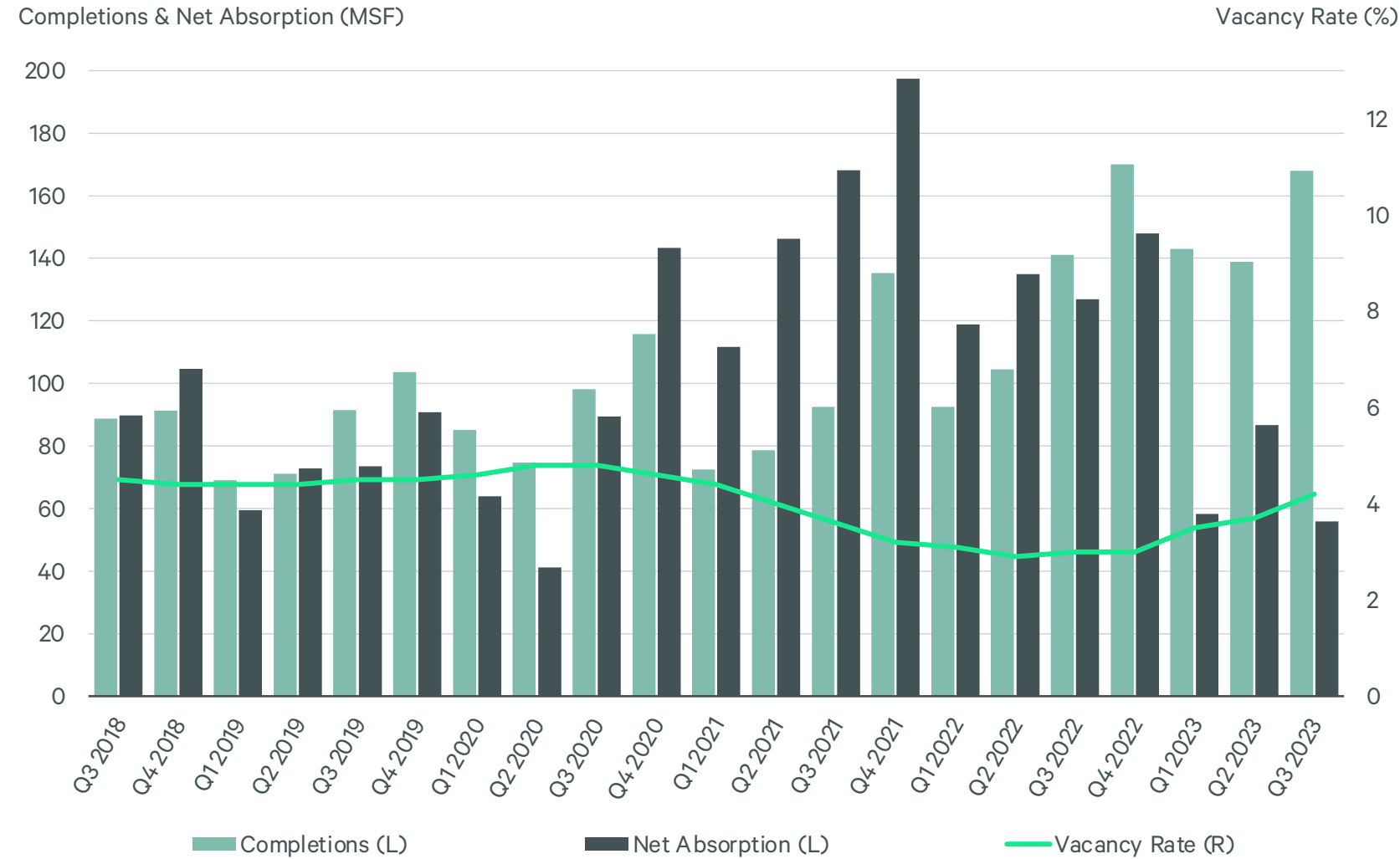
- The e-commerce share of total retail sales—a key indicator of demand for warehouse space—increased by 30 bps in Q3 to 22.7%.
- The e-commerce share is expected to exceed 23% by year-end.



Note: E-commerce percentage of retail sales excluding auto and gas.
Source: CBRE Research, Q3 2023.

Figure 2
Industrial completions & demand

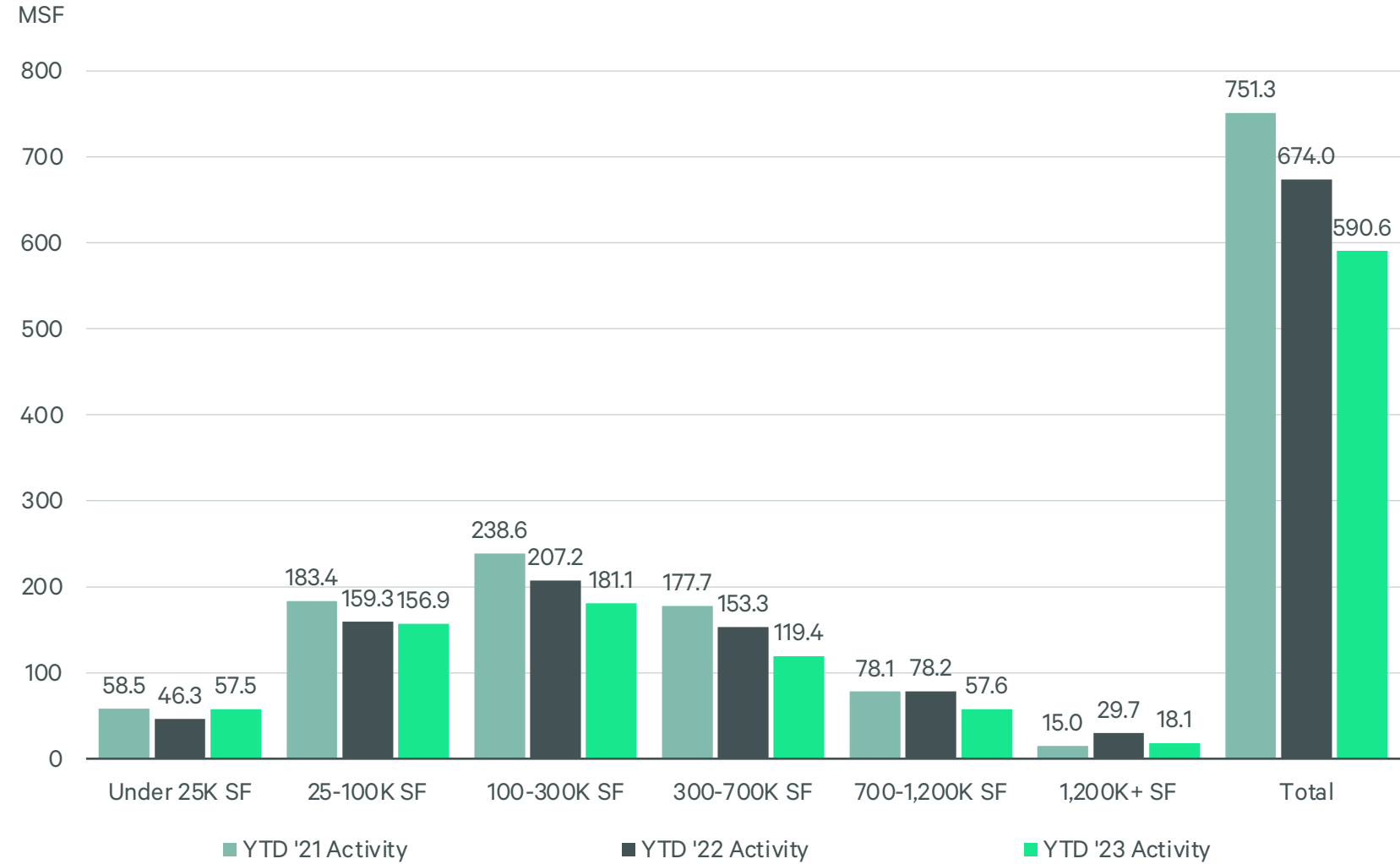
- Construction completions increased by 20.9% quarter-over-quarter to 167.9 million sq. ft. Year-to-date completions totaling 449.8 million sq. ft. are up by 33.1% from the same period last year.
- Net absorption declined by 35.6% quarter-over-quarter to 55.8 million sq. ft., while the year-to-date total of 200.7 million sq. ft. was down by 47.3% from the same period last year.
- The large difference between completions and net absorption increased the overall vacancy rate to 4.2%, the highest level since Q1 2021. Although this was the fourth consecutive quarter of rising vacancy, the rate remained below the 10-year average of 4.7%.



Source: CBRE Econometric Advisors, Q3 2023.

Figure 3
Industrial leasing activity

- Year-to-date leasing activity was down by 12.4% from last year and by 21.4% from 2021.
- Leases of less than 25,000 sq. ft. were the only size range with increased volume year-over-year.
- Only 32 leases for spaces of 1 million sq. ft. or more have been signed year-to-date, down from the 50 signed at the same time last year.
- Total square footage in lease renewals was up by 11% year-over-year, while new leasing activity fell by 21%.



Activity includes new leases and renewals since Jan. 1, 2023.
Source: CBRE Research Q3 2023.

Figure 4
Space under construction down
for third consecutive quarter

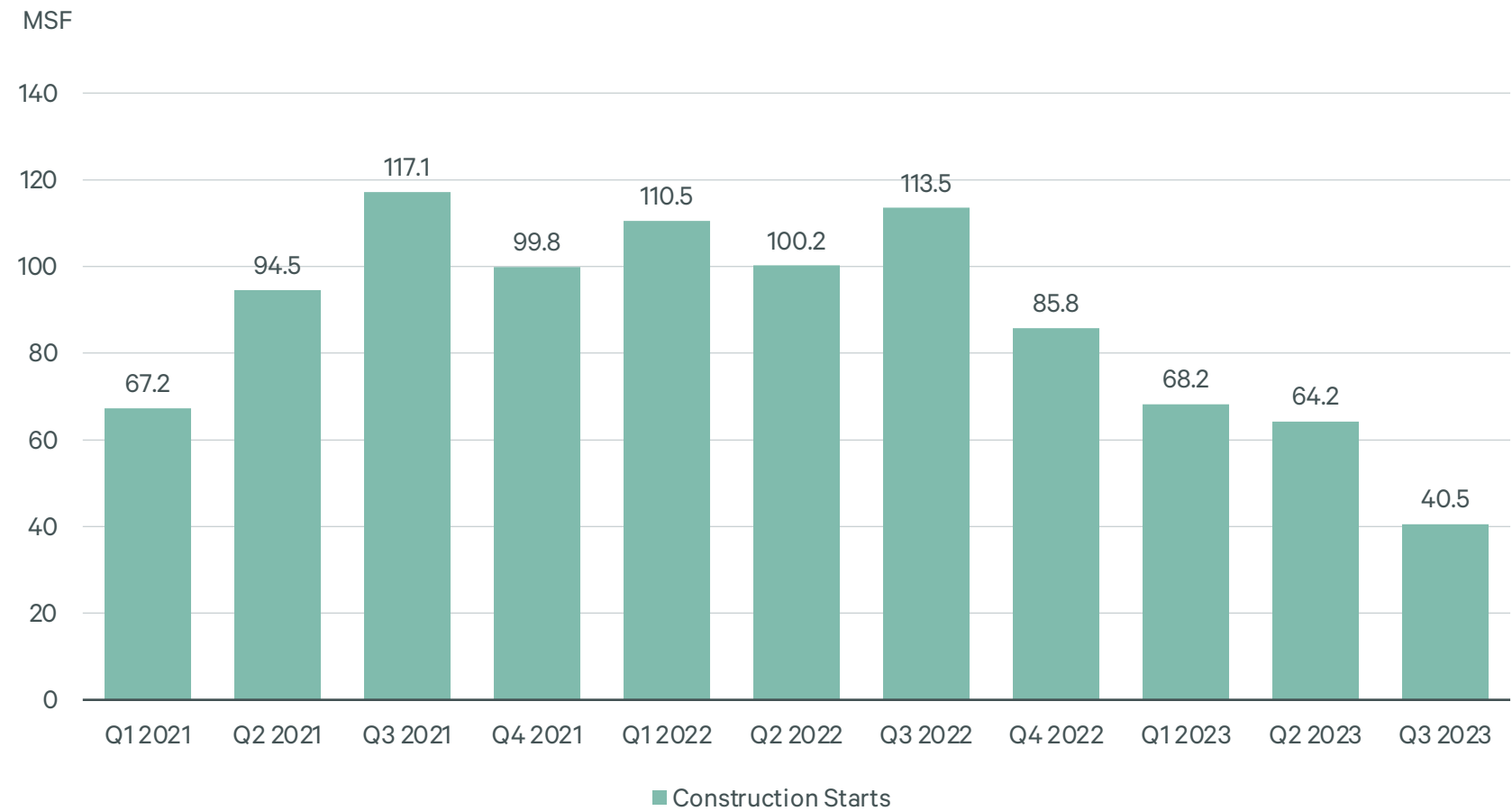
- Industrial space under construction fell by 27.7% year-over-year in Q3 to 479.1 million sq. ft.—26.9% of it preleased.
- The Southwest region had the most space under construction totaling 174.4 million sq. ft., followed by the West with 144.3 million.



Source: CBRE Research, Q3 2023.

Figure 5
Sharp drop in construction starts

— Construction starts fell for the fourth consecutive quarter to 40.5 million sq. ft.—less than half of the Q3 2022 total. As a result, new deliveries are expected to drop considerably by H2 2024.



Source: CBRE Research, Q3 2023.

Figure 6
Year-to-date net absorption &
under-construction rankings

- Dallas-Ft. Worth had the most net absorption year-to-date (22.2 million sq. ft.), followed by Chicago with 16.4 million and Houston with 15.6 million.
- Dallas-Ft. Worth also had the most space under construction in Q3 (46.9 million sq. ft.), approximately 40% less than its record high of 76.9 million sq. ft. in Q4 2022.
- Savannah had the biggest year-to-date growth rate (net absorption as a percentage of total inventory) for the fifth consecutive quarter at 7.9%, followed by Charleston at 7.4% and Nashville at 3.9%.
- Phoenix had the biggest quarter-over-quarter drop in space under construction of 12.1 million sq. ft., while Austin had the largest increase of 1.7 million sq. ft.

Net Absorption

Ranking	Market (Existing Inventory MSF)	MSF
1	Dallas-Ft. Worth (960.3)	22.2
2	Chicago (1,244.7)	16.4
3	Houston (619.7)	15.6
4	Pennsylvania I-78/81 Corridor (522.2)	11.5
5	Phoenix (401.8)	10.5
6	Indianapolis (353.3)	10.3
7	Atlanta (720.2)	9.3
8	Savannah (115.6)	9.1
9	Nashville (217.6)	8.5
10	Charlotte (285.0)	7.2

Under Construction

Ranking	Market	MSF
1	Dallas-Ft. Worth	46.9
2	Phoenix	40.3
3	Inland Empire	29.2
4	Atlanta	28.8
5	Chicago	23.3
6	Las Vegas	19.8
7	Austin	16.7
8	Houston	15.6
9	Charlotte	15.5
10	Savannah	15.3

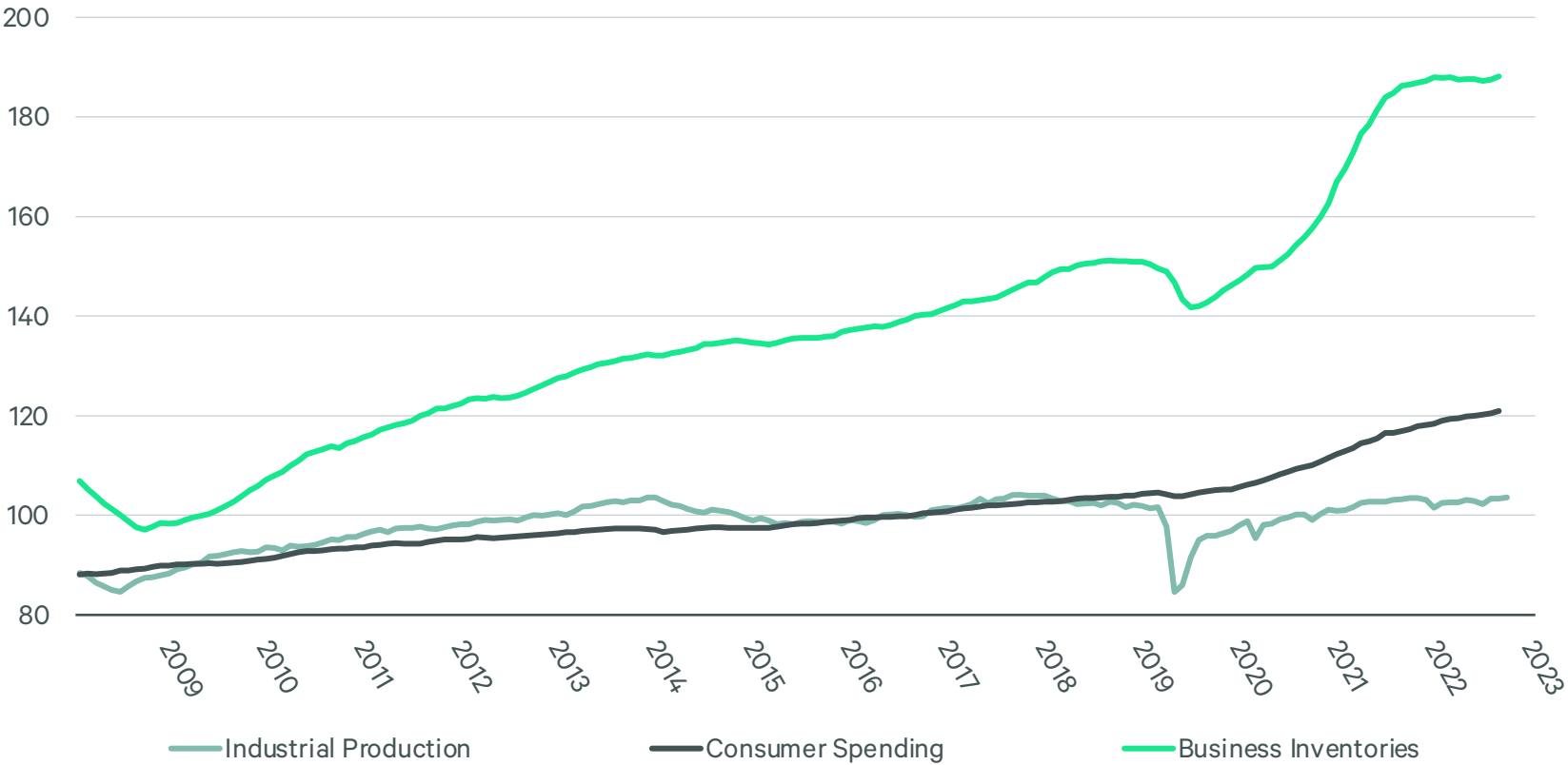
Growth Rate*

Ranking	Market	%
1	Savannah	7.9
2	Charleston	7.4
3	Nashville	3.9
4	El Paso	3.7
5	Louisville	3.3
6	Reno	3.2
7	Austin	3.2
8	Las Vegas	3.1
9	Indianapolis	2.9
10	Phoenix	2.6

*Growth Rate = YTD net absorption as % of existing inventory.
Source: CBRE Research, Q3 2023.

Figure 7
Indexed supply chain indicators

- U.S. industrial production increased slightly year-over-year in September.
- Business inventories rose by 0.4% quarter-over-quarter and 1.0% year-over-year.
- The Consumer Spending Index reached its highest point in more than a decade.



Source: Federal Reserve Bank of St. Louis.
Notes: Jan 2017 = 100: Industrial Production through Sept 2023; Consumer Spending through Aug 2023.
Jun 2009 = 100: Business Inventories through Aug 2023.

Figure 8
Consumer sentiment improves
year-over-year; unemployment
rate rises

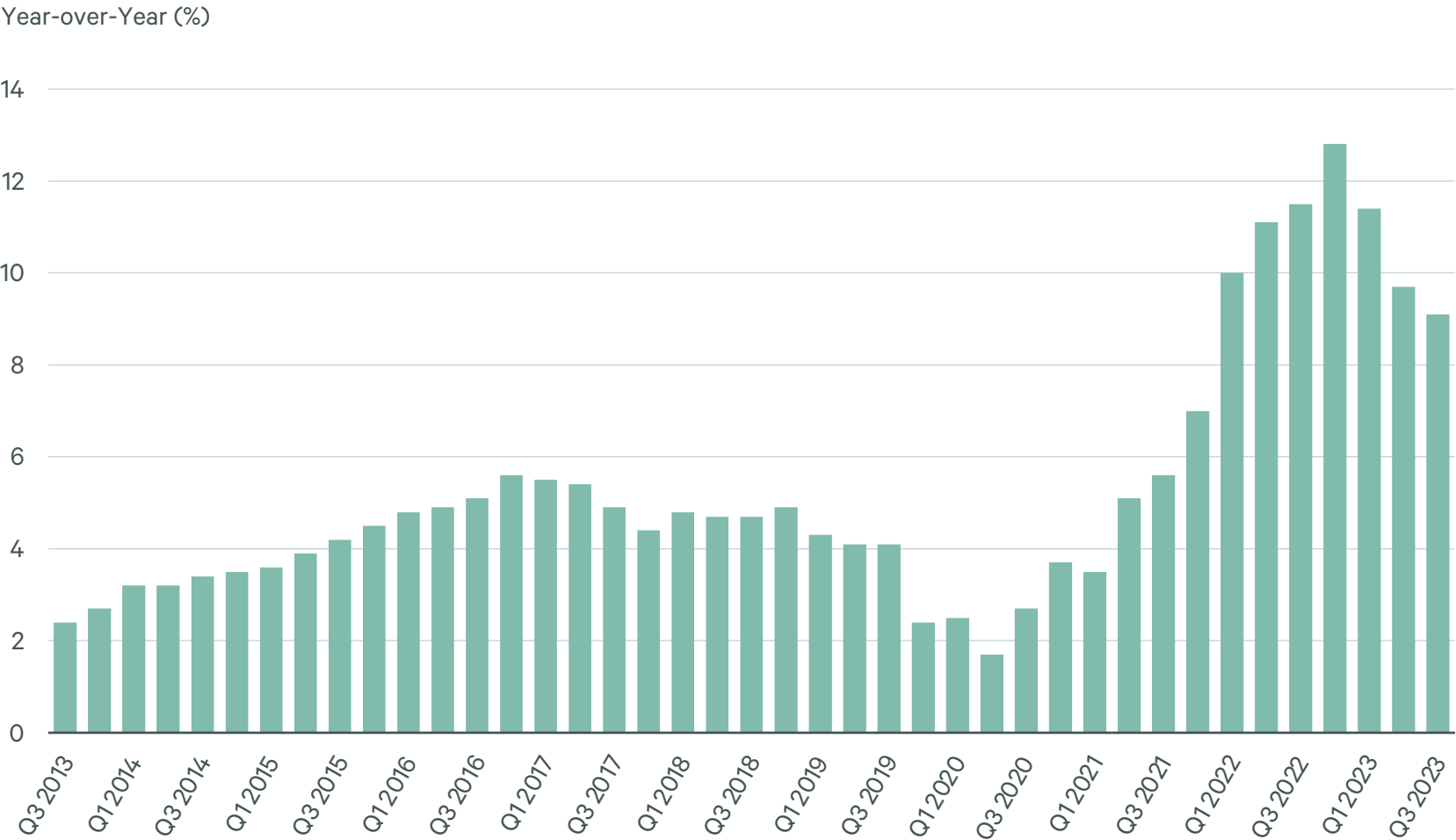
- The U.S. unemployment rate increased by 20 bps quarter-over-quarter and 30 bps year-over-year to 3.8%.
- The consumer sentiment index fell to 69.5 in August but was up by 19.4% from a year earlier.



Source: University of Michigan, U.S. Bureau of Labor Statistics, Q3 2023.
Note: Consumer Sentiment®, Index 1966:Q1=100

Figure 9
Average asking rent growth

- Average net asking rent rose 2.0% quarter-over-quarter and 9.1% year-over-year to a record \$10.16 per sq. ft.
- Despite rising vacancy rates, average asking rents increased in several markets quarter-over-quarter, including the Walnut Creek/I-680 Corridor (13.7%), Savannah (13.4%), Jacksonville (11.2%), San Francisco Peninsula (7.9%), San Antonio (7.2%) and Houston (7.2%).



Source: CBRE Econometric Advisors, Q3 2023.

Figure 10
At-a-glance industrial market metrics

	YTD 2023						
Market	Size Rank	Vacancy Rate (%)	YTD Net Absorption (SF)	YTD Construction Completions (SF)	Under Construction (SF)	Preleased (%)**	NNN Asking Rate (\$)***
Baltimore	32	6.8+	797,949	3,245,265	4,150,929	61.0	10.10+
Boston	22	4.0+	(57,011)	1,899,790	5,048,269	7.1	15.74+
Charleston	50	2.9+	6,101,494	7,386,037	7,532,456	46.1	8.79+
Charlotte	21	4.5+	7,223,312	7,349,636	15,507,724	23.0	7.20+
Greenville	28	7.3+	2,568,877	9,546,816	12,182,465	0.5	5.14+
Hartford	52	3.5+	582,935	530,000	2,686,050	93.7	6.49+
Louisville	34	3.2+	5,652,084	4,690,893	4,825,317	36.0	5.63+
Central New Jersey	9	4.0+	268,0547	7,469,144	7,565,520	14.6	17.06-
Northern New Jersey	10	4.3+	(3,242,324)	3,605,616	2,983,310	13.0	17.97-
Northern Virginia*	51	4.3	778,058	594,466	739,709	0.0	15.80+
Pennsylvania I-78/81 Corridor	8	6.0+	11,525,437	19,960,199	9,599,249	17.0	8.55+
Philadelphia	12	5.7+	4,610,283	10,588,230	13,486,803	14.2	12.08+
Pittsburgh	38	4.7+	1,246,128	1,364,080	2,604,144	68.1	8.62+
Suburban Maryland*	49	4.7+	545,858	1,806,457	2,668,017	63.0	13.13
East		4.9+	41,013,627	80,036,629	91,579,962	24.8	11.23-
Chicago	1	3.8+	16,367,917	26,721,447	23,298,663	37.7	6.47+
Cincinnati	16	4.7+	2,284,768	8,319,597	4,302,180	25.5	6.34-
Cleveland	23	2.5	531,022	937,000	2,703,382	51.6	5.87+
Columbus	18	5.8+	6,529,682	12,739,656	7,359,417	15.1	6.19-
Detroit	7	2.3-	1,025,687	2,832,114	4,280,768	36.8	7.76+
Indianapolis	14	8.6+	10,341,704	28,399,751	7,185,483	24.8	5.98-
Kansas City	17	3.0-	6,510,102	8,727,018	6,387,110	15.8	5.29+
Milwaukee	15	3.9+	3,341,177	8,573,446	6,827,512	48.8	5.26-
Minneapolis-St. Paul	13	3.8+	3,832,750	6,329,728	5,054,780	56.8	9.23+
St. Louis	27	4.3+	(1,644,721)	1,633,703	1,479,865	51.9	5.50-
Midwest		4.1+	49,120,088	105,213,460	68,879,160	34.5	6.42+

Source: U.S. national figures provided by CBRE Econometric Advisors; all other figures compiled by CBRE Research, Q3 2023. *Suburban Maryland and Northern Virginia represent Washington, D.C. area. **Percentage of space under construction that is currently preleased. ***NNN asking rates are displayed on a per sq. ft. and per annum basis. + indicates increase / -indicates decrease from previous quarter.

Figure 10 (cont.)
At-a-glance industrial market metrics

YTD 2023							
Market	Size Rank	Vacancy Rate (%)	YTD Net Absorption (SF)	YTD Construction Completions (SF)	Under Construction (SF)	Preleased (%)**	NNN Asking Rate (\$)***
Atlanta	4	5.8+	9,343,007	24,336,204	28,825,503	23.5	7.31+
Austin	45	6.8-	3,666,799	7,459,545	16,692,640	41.3	12.04+
Dallas-Ft. Worth	3	6.8+	22,245,544	45,792,318	46,920,493	21.1	7.18-
El Paso	53	3.3+	2,646,085	3,807,596	3,945,402	21.2	8.93-
Ft. Lauderdale	48	3.1+	784,566	103,300	1,203,622	34.6	15.45+
Houston	6	5.4+	15,604,923	25,678,326	15,618,568	40.4	8.37+
Jacksonville	43	4.3-	2,958,299	4,346,145	5,729,739	43.7	6.96-
Memphis	19	6.4+	3,366,166	8,117,030	1,468,565	0	4.77-
Miami	26	3.6+	2,440,323	4,087,558	9,653,317	21.9	15.00+
Nashville	30	3.7+	8,545,462	8,221,440	10,694,018	0	7.73-
Orlando	39	6.0+	3,433,914	7,799,154	5,985,469	10.2	10.73+
Palm Beach	54	4.4+	246,232	1,082,812	1,699,319	7.5	15.40+
San Antonio	40	6.1+	3,174,538	5,399,725	5,709,511	19.2	7.22-
Savannah	44	7.6+	9,122,986	15,074,339	15,349,793	20.5	6.26+
Tampa	37	3.9+	3,421,074	2,888,406	4,880,219	57.7	9.03+
South		5.6+	90,999,918	164,193,898	174,376,178	25	8.02+

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Central Valley, CA	41	6.5-	2,354,757	3,406,663	6,014,239	32.4	8.84+
Denver	24	7.3	2,701,030	3,973,362	8,932,686	39.4	8.93+
Inland Empire	5	3.5+	2,834,140	20,008,923	29,190,802	29	18.00-
Las Vegas	36	2.8+	5,008,042	7,242,007	19,771,126	23.1	13.50-
Los Angeles	2	1.8+	(5,764,818)	1,853,783	9,517,336	31.5	18.24-
Oakland	42	3.5+	(303,161)	1,246,058	1,099,367	28	15.89-
Orange County	25	1.0+	803,728	1,367,739	1,741,459	19.7	21.00+
Phoenix	11	6.2+	10,466,062	23,215,668	40,341,183	19.3	13.97+
Portland	29	3.2+	(1,157,703)	1,727,453	3,097,317	35.7	12.34+
Reno	46	4.1	3,573,958	6,436,924	2,824,124	26.3	10.46-
Sacramento	31	3.3+	17,501	1,628,808	1,561,502	1.9	9.72+
Salt Lake City	35	4.6+	283,551	3,989,800	7,321,974	38.7	9.37-
San Diego	33	3.7+	(1,352,413)	1,427,524	3,022,187	24.8	17.76+
San Francisco Peninsula	57	3.4+	(533,014)	0	0	0	22.26+
San Jose	47	2.4-	(486,005)	50,727	1,247,199	27	18.09-
Seattle	20	5.9+	195,776	5,525,400	8,330,778	37.9	14.40+
Tucson	56	5.9+	154,628	1,518,152	274,889	0	10.20+
Walnut Creek/I-680 Corridor	55	5.5+	(1,016,842)	98,430	0	0	18.87+
West		3.7+	17,779,217	84,717,421	144,288,168	27	14.09+
U.S.		4.2+	200 M	450 M	479 M	26.9	10.16+

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