Industrial Demand Slows and Vacancies Normalize

A true manufacturing resurgence remains years away.

By Erik Sherman

Industrial CRE has seen high inflation and costs slow demand. And yet, according to CommercialEdge, that has only caused vacancies to normalize.

There has been a push by the federal government for more manufacturing, particularly in semiconductors and clean energy, respectively through the CHIPS and Science Act and the Inflation Reduction Act. In April, annualized manufacturing construction spending was $233 billion, a triple jump over the last three years. CommercialEdge's own data shows that manufacturing accounted for 30% (124.8 million square feet) of all space under construction

"We anticipate that manufacturing will continue to drive a great deal of activity for industrial real estate, but it will be years before the impacts are fully seen, our industrial property outlook indicates," CommercialEdge writes. "The new tariffs will increase the prices of clean energy technology for consumers but will be a positive for the industrial sector. Once projects are delivered, we expect manufacturing employment to rise and supplemental firms to take root as well."

High interest rates and operational costs have acted as a damper on demand, but any significant negative effects seem not to have taken root.

"National in-place rents for industrial space averaged $7.96 per square foot in April, an increase of 11 cents from March and up 7.4% over the last 12 months, our latest U.S. industrial market report reveals," they say. "The average rate for new leases signed in the last 12 months was $10.31 per square foot, $2.35 more than the average for all leases."

Full national statistics were average rent on April 24, 2024 of $7.96 per square foot, for that 7.4% 12-month change. The average rate signed in the last 12 months is $10.31, with the 5.2% vacancy rate.

The 10 areas with the highest average per-square-foot rent on April 24 were Orange County ($15.37); Los Angeles ($14.32); Bay Area ($13.14); Miami ($11.39); Seattle ($11.07); Baltimore ($10.96); New Jersey ($10.53); Boston ($10.48); and Inland Empire ($10.010.

Look instead at the 12-month change and the top 10 are Inland Empire (12.5%); Miami (12.0%); Los Angeles (11.2%); Orange County (9.4%); New Jersey (8.9%); Seattle (8.8%); Phoenix (8.7%); Baltimore (7.9%); Boston (7.7%); and Atlanta (7.5%).

The top 10 lowest vacancy rates were Columbus (2.7%); Kansas City (3.0%); Nashville (3.6%); Charlotte (3.8%); Dallas-Fort Worth (3.9%); Orange County (4.0%); Portland (4.0%); Phoenix (4.2%);

Bridgeport (4.5%); and Miami (4.6%).

The five markets with the largest industrial supply pipelines were Phoenix (41.80 million square feet); Dallas-Fort Worth (23.36 million square feet); Kansas City (13.30 million squire feet); Atlanta (12.03 million square feet); and Chicago (11.11 million square feet).