

US Industrial Development Finally Catches Up With Tenant Demand Leasing Remains Strong at New Buildings

By Adrian Ponsen

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.

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.

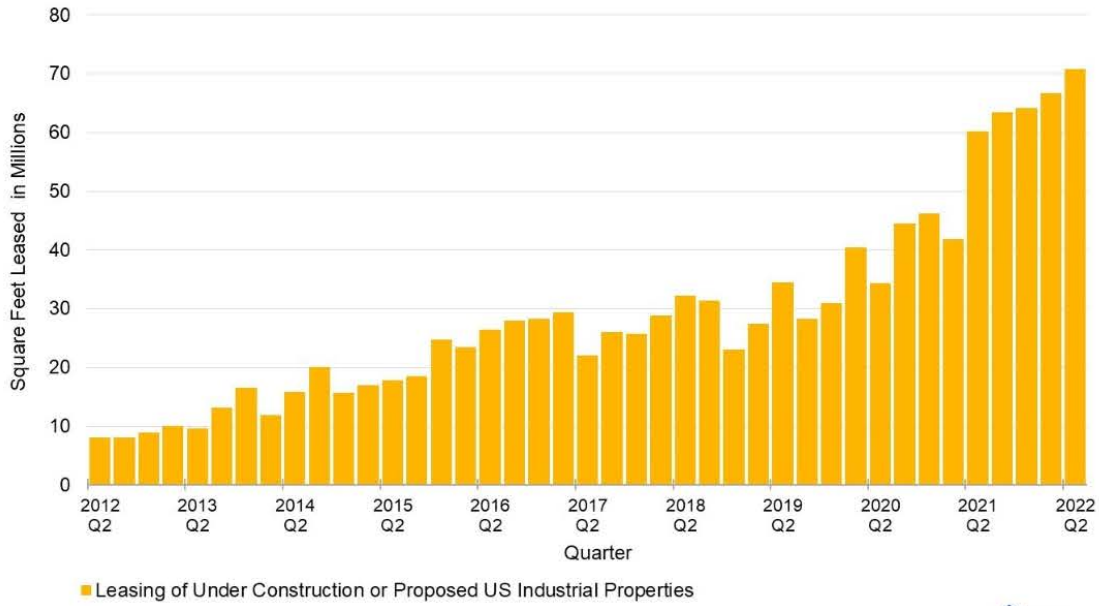
Even as Amazon pumps the brakes, other major retail tenants including Dollar General, Williams Sonoma, Puma and Bed Bath & Beyond have stepped up in 2022 to prelease proposed or under-distribution centers larger than 1 million square feet. In a nod to just how high a priority growing distribution capacity 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.

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.

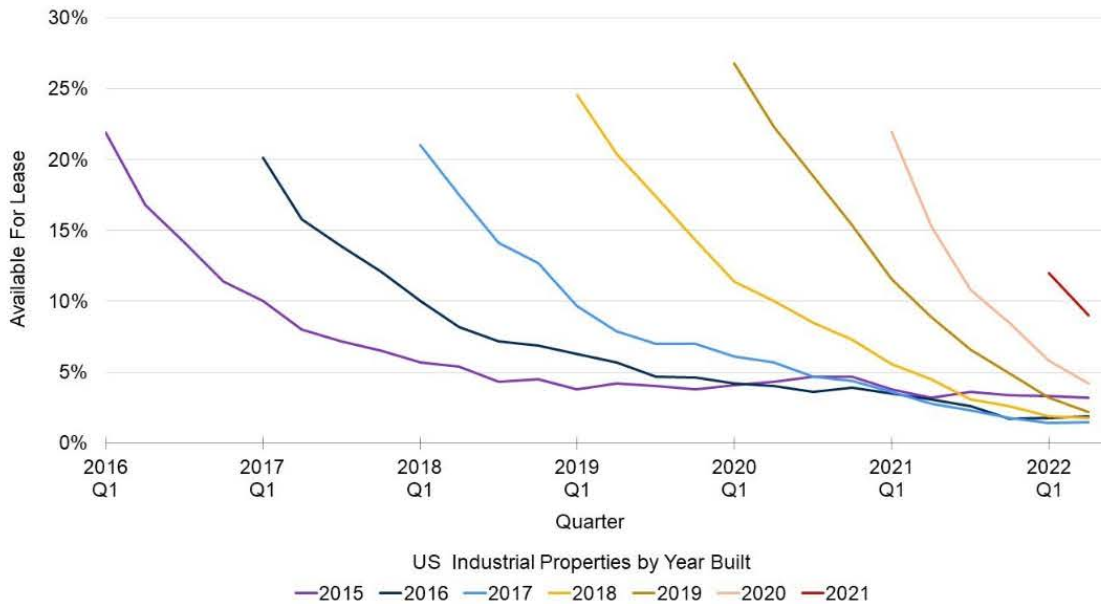
Leasing of Industrial Development Projects Accelerates



Source: CoStar, August 2022



Properties Built in 2021 Post Record Low Availabilities



Source: CoStar, August 2022



