Yardi Matrix

National Industrial Report

July 2024

Development Pipeline Slows

- Following two years of record industrial deliveries, the development pipeline has slowed in recent quarters. The amount of new stock coming to market will decline during the next couple of years, but the long-term outlook for industrial development remains bright.

- The size of the industrial supply pipeline has shrunk for six straight quarters as deliveries have outpaced starts. More than 1.1 billion square feet began construction between 2021 and 2022, but starts fell to 357.5 million last year. Through the first six months of 2024, only 97.8 million square feet have been started. This slowdown has been driven by normalizing demand from tenants, the record level of new supply recently delivered or set to be delivered, higher costs of construction loans and economic uncertainty.

- The reshoring of manufacturing will have a significant impact on industrial real estate supply over the long run. Many of the projects that have broken ground in recent years are manufacturing facilities. According to Yardi Matrix, between 2018 and 2021, manufacturing accounted for 7-8% of square feet started annually. In 2022 and 2023, manufacturing's share jumped to more than 13%, and so far in 2024 it accounts for 16.1%.

- Data from the Census Bureau confirms this surge in manufacturing development. In May, annualized construction spending on manufacturing facilities totaled $234.1 billion. That is more than double the amount of spending two years prior and triple the amount in May 2021. However, the rapid pace of growth appears to be over, as May's figure was up 20.3% year-over-year and 1.3% month-over-month. Manufacturing returning stateside will propel the industrial sector because much of this spending is on semiconductor plants that will allow additional advanced manufacturers to set up shop in the U.S. The ripple effects from the current spending boom will be felt throughout this decade.

- We anticipate that the new development pipeline will grow again in the next few years, albeit not at the historical levels seen recently. Developers remain interested in adding industrial space, as the planned portion of the pipeline currently has 561.2 million square feet. Once the market absorbs recently completed stock and the cost of capital begins to decrease, we expect that many of these projects will see shovels in the ground. Manufacturing, data centers, and the long-term shift to e-commerce and omnichannel retail all remain positive drivers for industrial development.