

Industrial Insight

BUILD IT AND THEY WILL COME: MAJOR MARKETS EXHIBIT COMMON DYNAMICS IN SPEC CONSTRUCTION LEASING

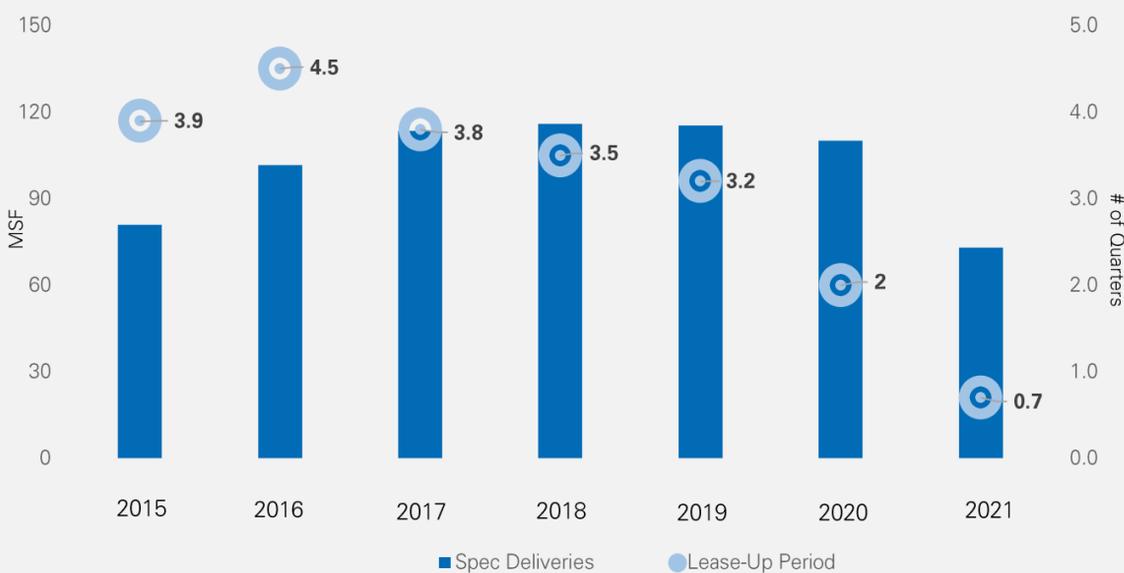
The sharp imbalance between supply and demand in the U.S. industrial sector is driving insatiable tenant interest in new-construction availabilities, which are in short supply. A survey of 23 key industrial markets found:

- Speculative construction deliveries fell significantly in 2021 with developers citing pandemic-related labor disruptions, sourcing materials, lengthening entitlement periods, and community pushback to warehouse development as the primary causes.
- Demand for modern warehouse space to improve supply chain efficiency and meet evolving consumption habits has never been higher, particularly from third-party logistics, consumer goods and e-commerce companies, which represented the majority of new-construction leasing.
- Developers are attuned to occupier needs and design specs for new warehouses are quite uniform across the country: new speculative construction offers tenants with immediate-occupancy requirements the agility to move in swiftly, contributing to quicker leasing decisions.

These dynamics are reflected in the shortened duration between warehouse delivery and stabilization*. For buildings that have reached stabilization, the average length of time between a speculative warehouse delivering to the market and being fully leased was less than a single quarter in 2021, with many preleasing well before delivery. This duration is down from an average of 3.9 quarters in 2015. Across the markets surveyed, 25% of spec space delivered in 2021 had yet to reach stabilization by year-end, the majority of which delivered in the second half of the year. Some landlords of newly-delivered properties are delaying leasing decisions to achieve the most current market rents – in some regions with extremely tight vacancy and high demand, the velocity of rent growth is such that a moment after a lease signs, the contract rate is already under-market.

NEW SPEC WAREHOUSES ARE IN SHORTER SUPPLY AND ARE LEASING FASTER THAN EVER

Speculative Warehouse Deliveries and Average Lease-Up Period Between Delivery and Stabilization (Stabilized Buildings)



Source: Newmark Research, data collected December 2021.

Note: Data reflective of new warehouses 100,000 SF or larger in 23 major markets.

*Stabilization: 98% of the stabilized buildings in this survey were fully leased; the remainder was at least 75% leased.

The construction pipeline rose to half a billion square feet underway in Q4 2021, the most on record. Speculative warehouses account for approximately 77% of that volume, in line with the 5-year average share. As disruption to construction timelines subsides and speculative deliveries increase, experts expect the average lease-up period to gradually lengthen over the next few years as tenants are presented with more options. Tenants with move-in requirements this year will face a continuing environment of scarcity and competition in most markets, as supply-chain and labor challenges persistently impact delivery timelines.

WAREHOUSE CONSTRUCTION AND LEASE-UP METRICS, SELECT MARKETS

Market	Total Spec Deliveries (MSF) 2015-2021	Spec Deliveries as a % of Total Market Size	Industrial Market Vacancy 4Q21	Average Spec Lease-Up Period (# Quarters), 2021*	Spec Lease-Up Period (# Quarters) 2015-2020	Total % of Spec Deliveries 2015-2021, Unstabilized
Inland Empire	115.1	17.5%	0.8%	0.3	2.0	0.3%
Chicago	104.8	9.0%	5.1%	1.0	6.0	8.0%
Atlanta	94.5	14.5%	4.8%	1.1	4.5	4.7%
I-81/78 Corridor	71.8	17.1%	7.2%	0.4	3.3	13.7%
Dallas/Ft. Worth	67.7	6.9%	5.5%	1.0	3.5	0.3%
Houston	38.3	6.2%	6.8%	0.7	3.7	5.9%
Phoenix	38.0	11.5%	4.6%	0.7	4.9	16.6%
Northern NJ	37.8	5.6%	3.1%	0.5	1.4	0.3%
Kansas City	32.8	10.7%	4.7%	0.9	3.7	11.7%
Seattle	32.4	10.5%	4.5%	1.6	1.5	7.9%
Las Vegas	27.3	19.7%	3.5%	0.3	1.9	5.7%
Los Angeles	20.6	2.0%	1.1%	0.1	1.5	0.7%
Philadelphia	19.3	3.9%	4.8%	0.4	2.0	14.3%
Salt Lake City	16.2	6.2%	1.8%	0.3	3.5	12.0%
Miami-Dade	14.2	6.4%	2.7%	0.9	3.4	9.1%

Source: Newmark Research, December 2021.

*Note: This average reflects buildings that have delivered and leased in 2021 and may increase slightly as unleased 2021 deliveries reach stabilization in 2022.

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