



## COSTAR INSIGHT

# After Driving Up Vacancy Rate, Record Wave of US Industrial Development Begins To Recede

Decline in Projects Expected To Play Out Differently Across Markets



Building 3 at Bridge Point Melrose Park was one of the largest industrial developments completed last quarter in metropolitan Chicago, where industrial completions fell 50% compared to the fourth quarter of 2023. (Andrew Bruah/CoStar)

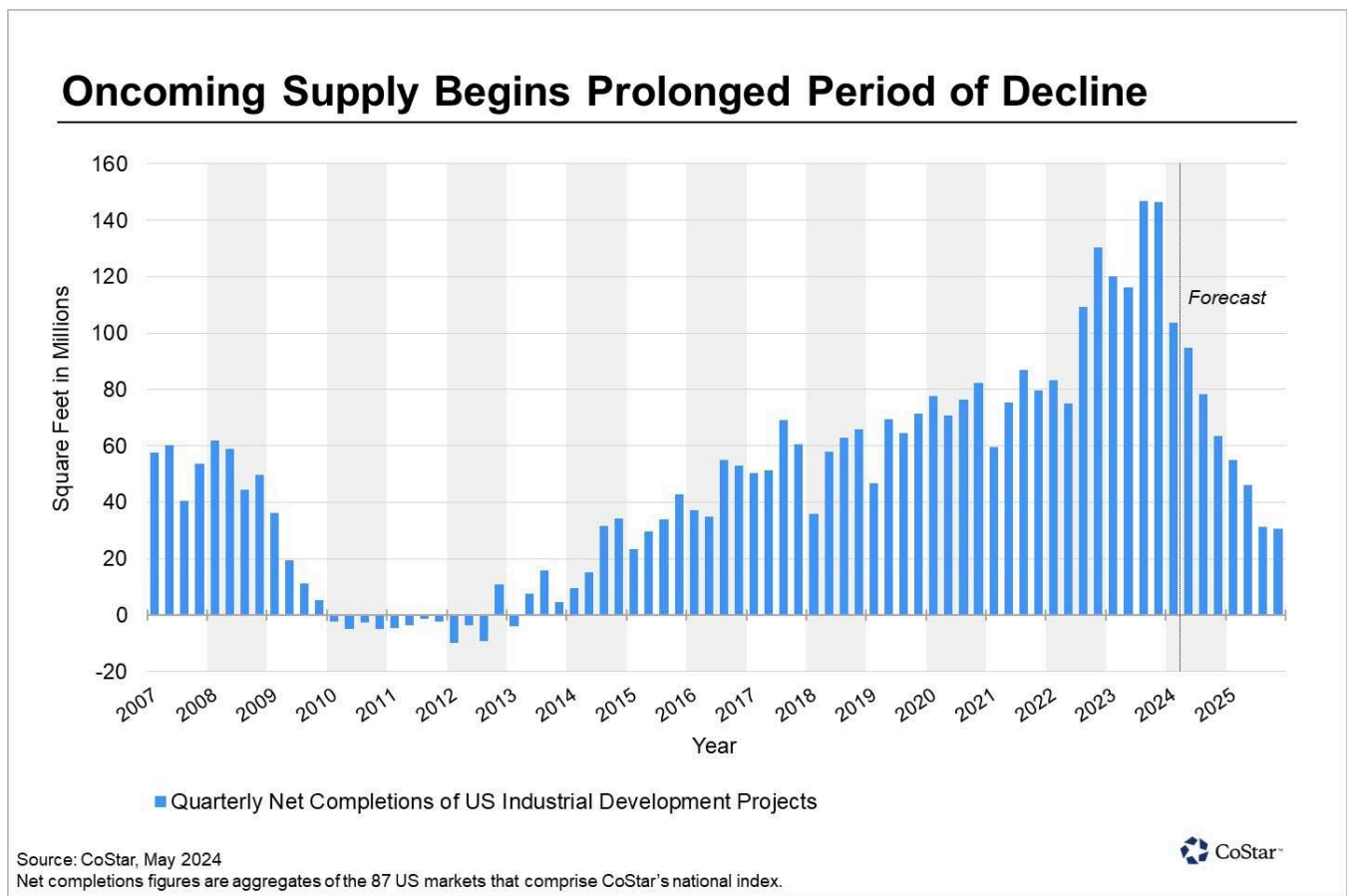
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In 2022 and 2023, developers completed more than 1.5 billion square feet of U.S. industrial projects, a tally equivalent to adding all the existing industrial space in metropolitan Chicago.

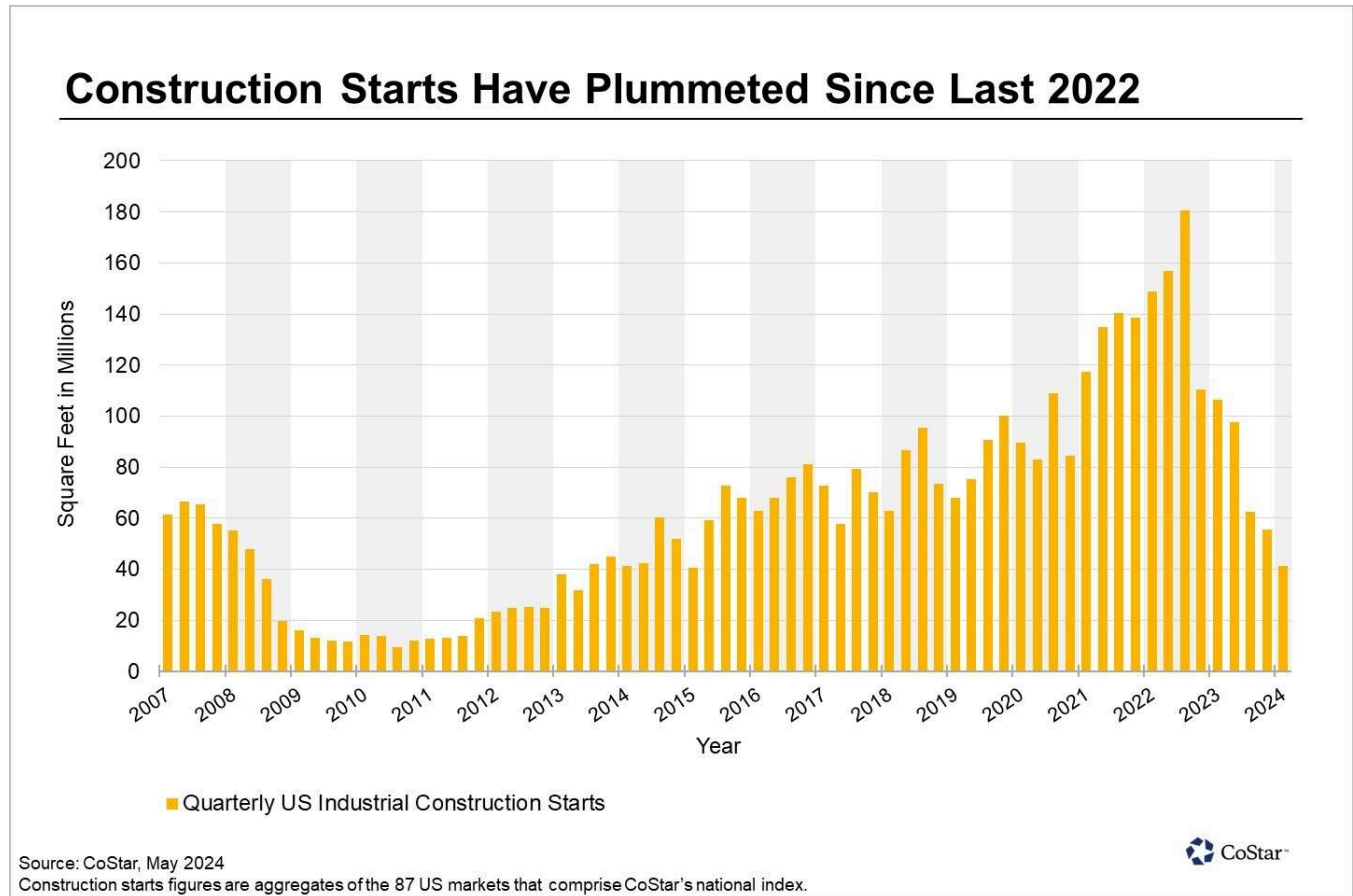
This was the largest expansion of the U.S. industrial supply over two years in more than half a century. And with most of the developments completing construction without any tenants, the recent supply wave has also been significant in pushing up the vacancy rate for the U.S. industrial property from its all-time low of 3.8% in mid-2022 to 6.4%.

However, early 2024 data indicates that the number of projects finishing construction has begun to decline. Within the 87 markets that comprise CoStar’s National Index, 106 million square feet of industrial property developments were completed during the first quarter of 2024, down 30% from the previous quarter and the lowest amount under construction in 18 months.



A more prolonged reduction in industrial development completions is just beginning. Higher interest rates and a slower leasing environment began to curtail development starts for new projects in late 2022, with U.S. industrial construction starts falling to 10-year lows by the fall of 2023 and declining further in the months that followed.

According to CoStar, on average, U.S. industrial development projects larger than 100,000 square feet take 14 months from the start of construction to completion. As a result, the past 14 months of construction starts data provides a highly accurate reading of the completion levels that will occur in the months ahead.



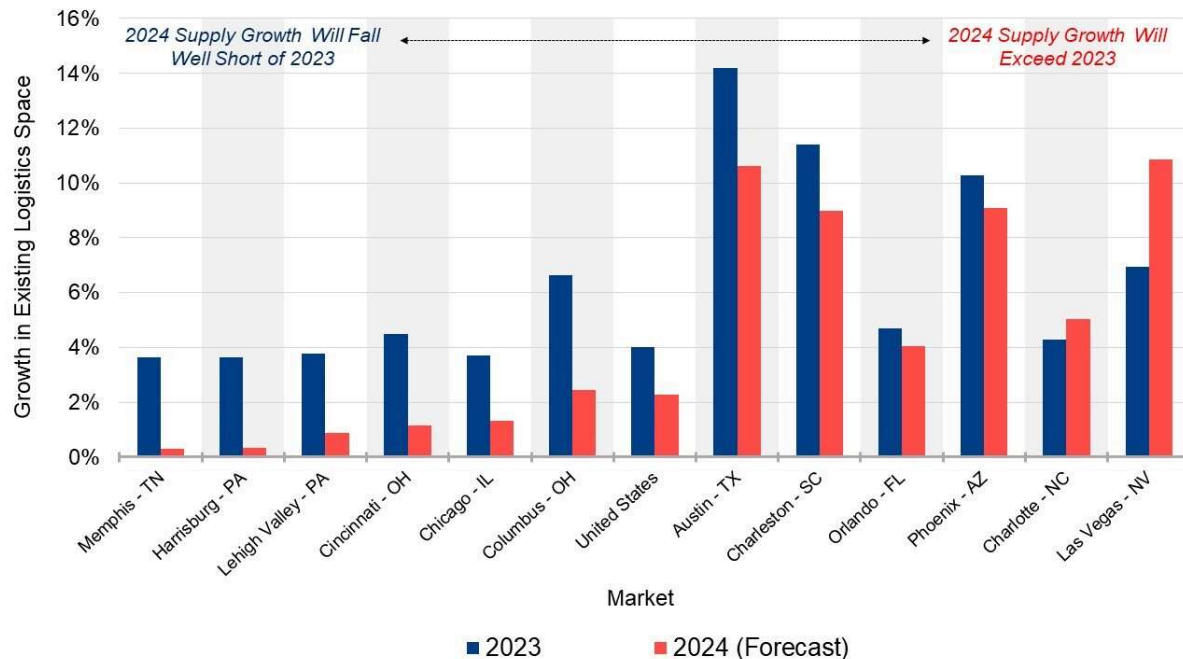
Fourteen months ago during the first quarter of 2023, industrial construction starts had already dropped 40% from peak levels but proceeded to fall another 60% in the 12 months that followed. This suggests that quarterly new construction completions will continue to fall precipitously through at least mid-2025, and will likely remain low in the face of persistently high interest rates, signaling limited potential for a recovery in construction starts this summer.

During the first quarter of 2024, the national industrial vacancy rate rose at a slower pace than in late 2023 even as tenant demand continued to soften, largely due to the lower number of new projects completing construction. Looking ahead, the reduction in new completions set to occur over the next 12 months signals the potential for the

national vacancy rate to stabilize, or even begin tightening if [recent improvements in industrial leasing drivers](#) continue apace.

However, the slowdown in new development completions are not expected to play out evenly across the country. In markets such as Memphis, Tennessee, Pennsylvania's Lehigh Valley and Chicago the recent pullback in construction starts has been more dramatic. This year, the number of new local logistics properties added in these markets is expected to increase at well below half the pace set in 2023.

## Dropoff in New Development Completions Will Play Out Differently Across Markets



Source: CoStar, May 2024



In contrast, developers have remained active in several other markets including Las Vegas, Phoenix and Charlotte, North Carolina, where logistics supply growth rates are expected to slow slightly or even increase in 2024.