

U.S. Industrial Market First Look: 2011-Q3

- 24 million square feet of positive net absorption
- 5 million square feet of new completions
- 9.7 percent national vacancy rate
- Construction pipeline rises to 23 million square feet

The national industrial real estate market continues to outperform the general economy. Based on preliminary numbers, 23.6 million square feet was absorbed during the quarter. Although this level of activity represents a 20-percent decline from the previous quarter, it also represents a level that is sufficient to lower vacancies and spur new speculative construction.

At the market level, 33 markets saw positive demand versus 16 with negative net absorption. There is no one common theme to markets that are still not on a firm path to recovery. Both coasts – San Diego, San Mateo, Boston and Philadelphia – as well as the middle of the country – Minneapolis, Columbus and Albuquerque – were represented among the 16 underperformers. The best performer, once again, was Inland Empire where strong demand for large, bulk distribution buildings totaled 4.1 million square feet, bringing the year-to-date total to 17.1 million square feet. Other large distribution markets – Chicago, Dallas and Northern New Jersey – also displayed strong demand. The one market that continues to shine is Detroit with 1.5 million square feet absorbed during the quarter and ranking as the eighth most active market in the country year-to-date.

As we signaled in our second quarter release, new completions are on the rise. During the third quarter, 5.3 million square feet was completed, which is both a very low total by historic standards as well as the highest quarterly completion total in five quarters. A more telling statistic is the 23.3 million square feet that is currently under construction, of which 8.3 million is speculative.

Positive demand and limited new deliveries continue to drive the national vacancy rate downward. During the quarter, vacancy declined an additional 10 basis points to 9.7 percent. This was a slower rate of decline than during the previous two quarters, but on a year-over-year basis, vacancy has been down 80 basis points for three consecutive quarters.

Despite the economic uncertainty, the national industrial market is on pace to post in excess of 100 million square feet of positive net absorption in 2011. As it does, the market will reach a milestone, as all the space that was returned onto the market during the recession will be re-absorbed.

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