

U.S. Industrial Market First Look: 2011-Q2

- 32 million square feet of positive net absorption
- 3.5 million square feet of total completions
- 9.8 percent national vacancy rate
- 13.2 percent national availability rate
- Net asking rents retreated by 0.2 percent

Amid a slowdown across all drivers of industrial demand during the quarter, the national industrial real estate market defied the odds and posted quarterly results on par with the first quarter. Based on preliminary numbers, 31.8 million square feet was absorbed during the quarter. Of the 46 markets included, 37 experienced positive demand during the quarter versus just 9 with negative net absorption. Inland Empire was by far the most active market with 7.5 million square feet of positive activity, accounting for nearly 24 percent of total national demand. There were 10 markets with million-plus square feet of positive net absorption, totaling nearly 24 million square feet.

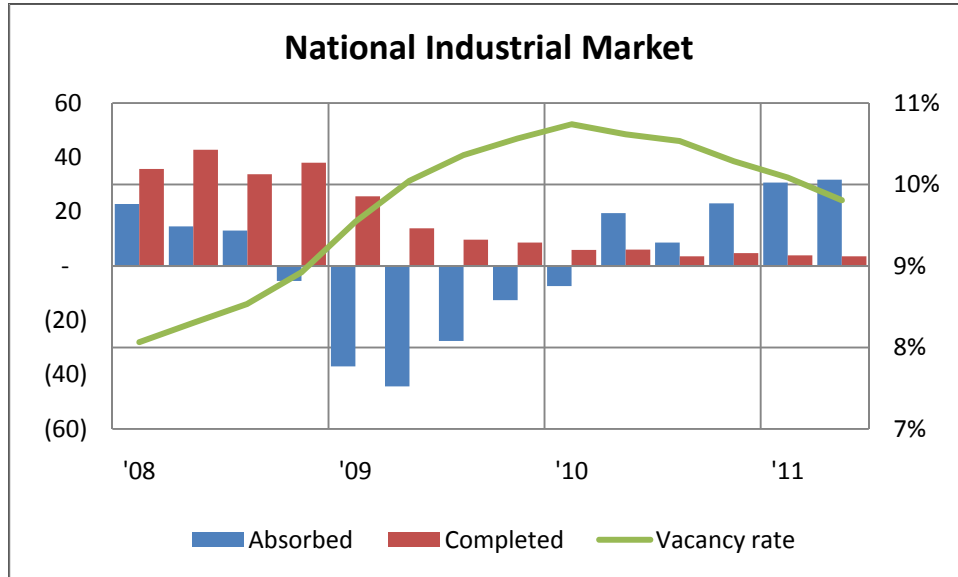
A lack of new deliveries continues to be the story for the overall industrial market. Just 3.5 million square feet was completed during the quarter across 11 markets. This was the smallest quarterly figure since the beginning of the recession. This dearth justifies the increased level of excitement among market participants regarding the planned speculative construction starts in Inland Empire, Central PA and few other distribution markets across the country.

Positive demand and minimal completions have been pushing vacancy rates lower for five consecutive quarters. The notable development during the second quarter was the market's entry into single-digit territory. Conventional wisdom suggests that 10 percent vacancy rate is the inflection point at which sustained rent growth is achievable. This time, however, the spread between vacancy and availability rates remains elevated, with national vacancy standing at 9.8 percent, down 30 basis points for the quarter, and national availability at 13.2 percent, down just 10 basis points. The availability rate needs to be closer to 12 percent before asking rents can rise on an overall scale.

The headline asking net rent declined during the quarter by 0.2 percent. However, there are segments in the market that are already seeing rent increases. This is particularly true for large blocks of space in markets such as Inland Empire that are starting to see a scarcity of vacancies in this segment. Even more notable is the tightening of market concessions (Second Quarter Grubb & Ellis Industrial Broker Sentiment Survey will be released shortly), which is creating a positive movement in net effective rents.

The industrial real estate sector outperformed the overall economy in the second quarter. This favorable performance, however, is not sustainable unless the U.S. economy picks up in the second half, as most forecasters are expecting. If GDP growth accelerates to 3.5 percent in the second half and 4 percent in 2012, speculative construction might be old news this time next year.

Stay tuned for the final national report, which is scheduled to be released later this month, while our local reports are being released this and next week.



Source: Grubb & Ellis

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