

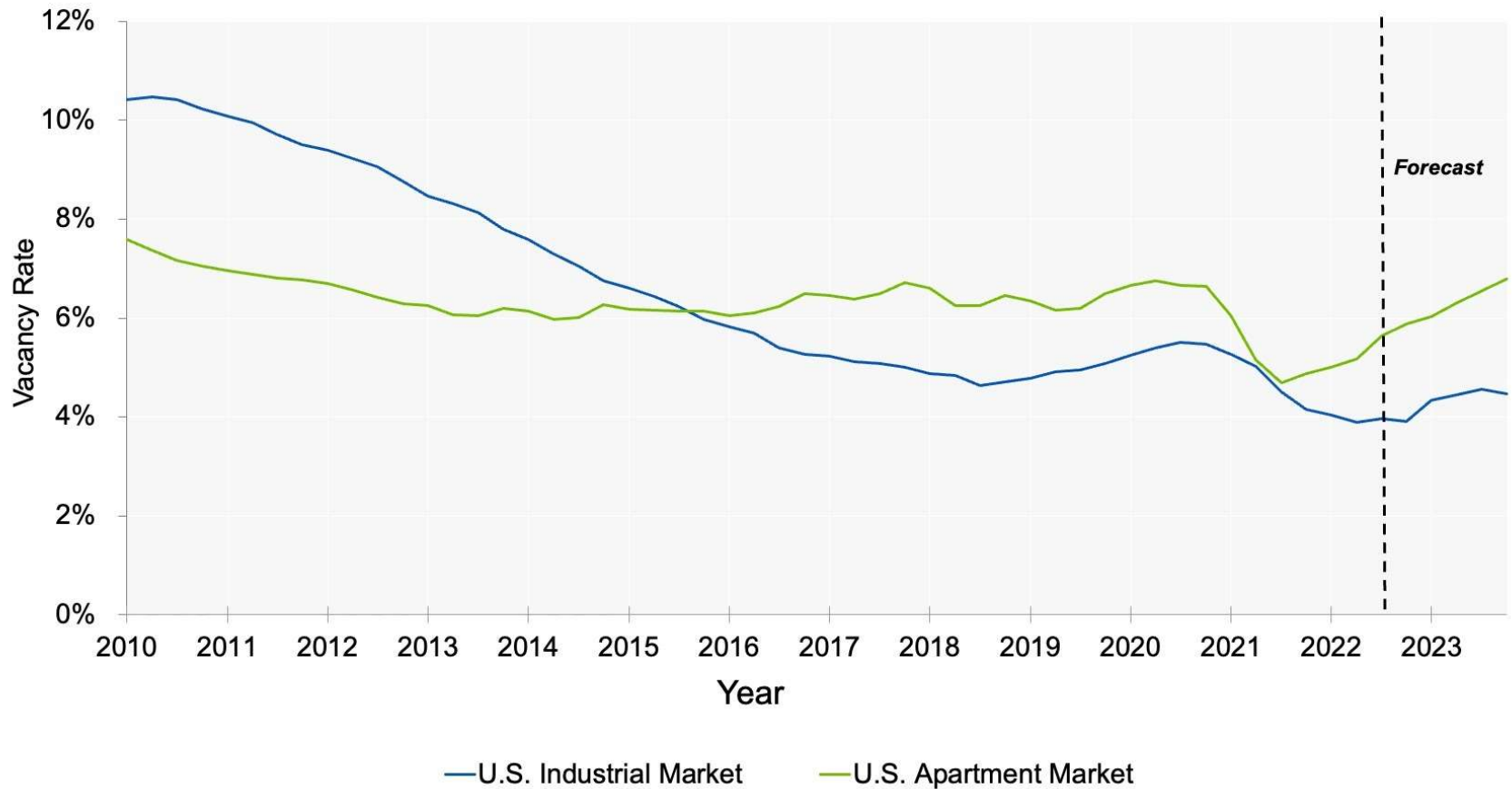


COSTAR INSIGHT

CoStar Predicts: Industrial Will Best Apartments To Lead Major Property Types in Rent Growth

E-Commerce Growth Expected To Keep Driving Demand for US Warehouses

Industrial Will Lead Major Property Types in U.S. Rent Growth



Source: CoStar Group, Third Quarter 2022



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The U.S. industrial real estate market won't be immune to economic headwinds in 2023, but the sector enters the year with the lowest vacancy rate and strongest absorption level of the major commercial property types.

The industrial property sector also has the potential to keep leading all property types in rent growth resulting from the continued demand and lower vacancy. This comes in part because the apartment sector, typically a close competitor in terms of its ability to generate out-sized rent gains, has shown clear signs of weakening demand.

Apartments may trail industrial in performance because elevated mortgage rates, inflation, and worries over a potential recession drove a slowdown in U.S. household formation during the second half of 2022, with third-quarter apartment absorption at less than half of typical seasonal levels recorded during the three years before the pandemic. This, combined with apartment development at a multi-decade high, has resulted in the U.S. apartment vacancy rate rising by a full percentage point since late 2021.

In contrast, the U.S. industrial vacancy rate has held within 20 basis points of all-time lows in the face of record new completions.

Heading into 2023, U.S. industrial absorption is still running more than 25% above typical pre-pandemic levels. That comes as e-commerce retailer Amazon has resumed signing large leases, making major commitments for new space in the Bronx, Pennsylvania's I-81 Corridor and the San Francisco Bay Area for space needed for delivering goods ordered online to doorsteps.