



COSTAR INSIGHT

Industrial Tenants Stage Spring Leasing Surge

Tenants Capitalize on Abundance of Vacant, Newly Built Distribution Space To Upgrade Facilities



In April, Frito-Lay leased 515,000 square feet at Prologis Mountain Creek, a Dallas distribution center completed in 2023. (Elon Walton/CoStar)

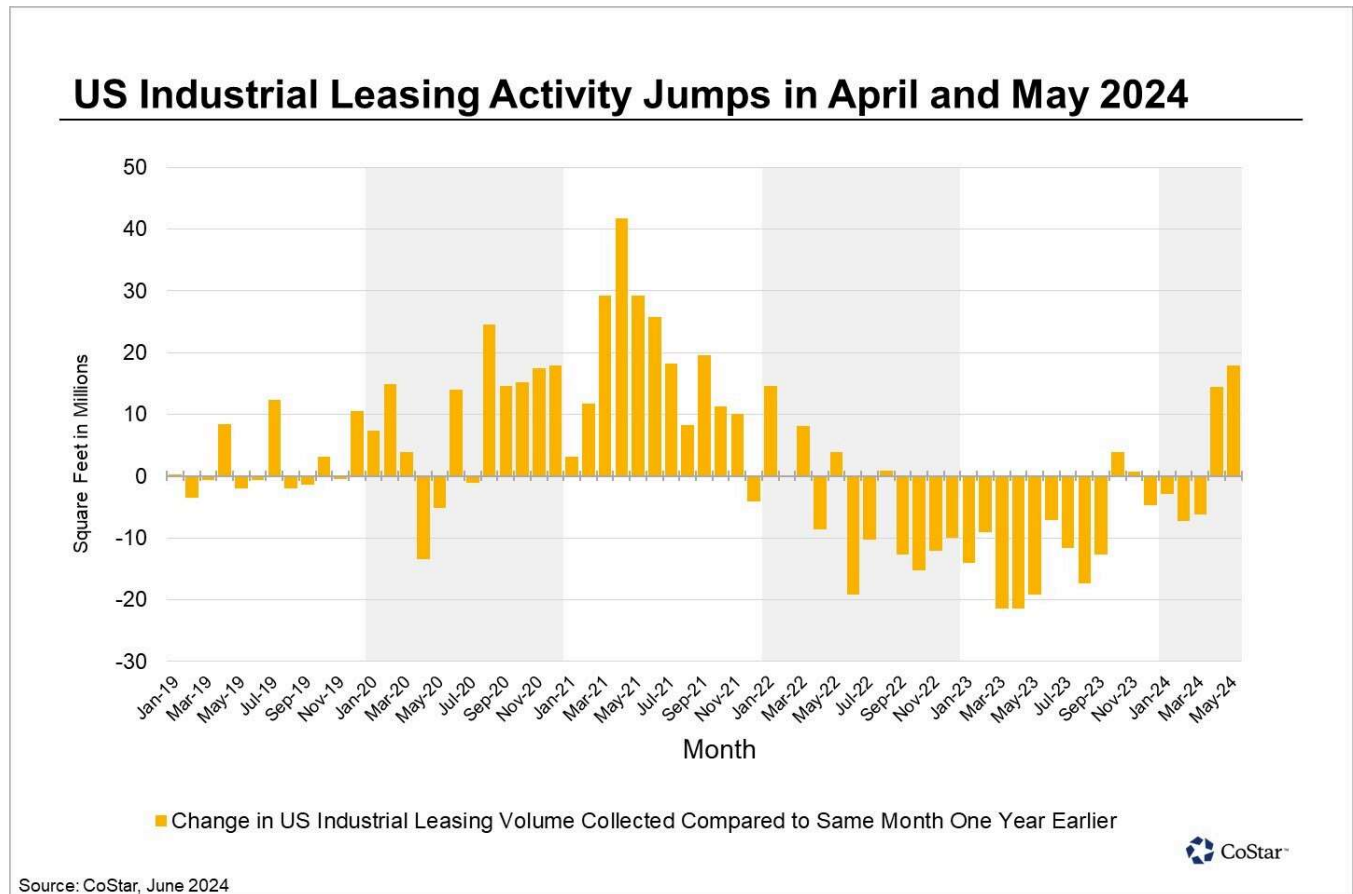
By **Adrian Ponsen**
CoStar Analytics

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Concerns over the effects of inflation and higher interest rates on consumer spending remain widespread but are no longer causing industrial tenants to pull back on lease transactions as happened last year.

Preliminary CoStar data for the spring of 2024 indicates that the volume of new U.S. industrial leases signed in April and May increased by 30% compared to the same time in 2023.

Leasing is also gaining momentum as the second quarter progresses, putting the U.S. industrial market on pace for its first large increase in quarterly leasing in the past three years.



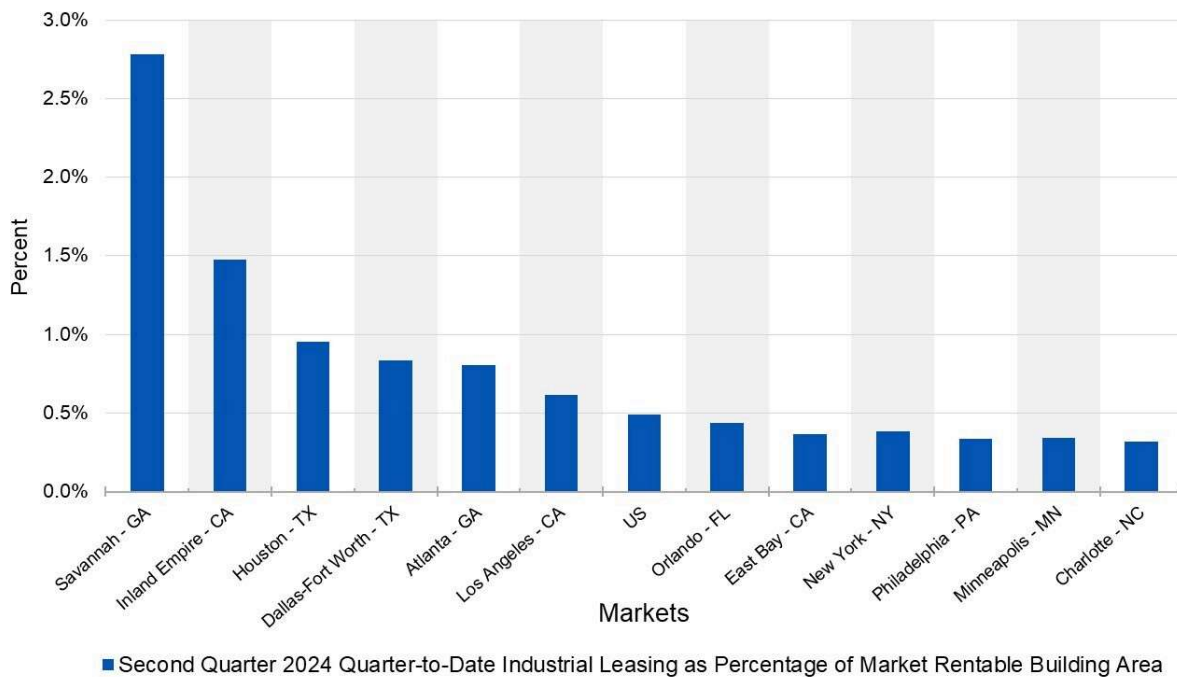
[Amazon's renewed leasing acceleration](#) supporting its distribution center network expansion has certainly been a key contributor to the recent pickup. CoStar has identified at least 10 million square feet of new industrial leases signed by the e-commerce giant in just the past three months.

Southern California's Inland Empire is among the U.S. markets where Amazon has been most active recently. Since the beginning of April, the company leased almost 3.5 million square feet across three properties there, all of which were new developments that were either under construction or close to breaking ground. These three deals alone account

for nearly all the uptick in industrial leasing volume that the Inland Empire recorded during April and May 2024 compared to the same time last year.

However, industrial leasing has also jumped this spring across a range of other major markets including Dallas-Fort Worth, Houston, Atlanta, and Savannah, Georgia. In all of these locations except Atlanta, distribution properties built since the beginning of 2020 accounted for more than half of all new leasing activity recorded so far in the second quarter.

Leasing Elevated in Savannah, Georgia, and Southern California



Source: CoStar, June 2024

Rising lease volume in these markets is also being driven by a diverse range of tenants including third-party distributors, food and beverage manufacturers, makers of electric vehicle components and even companies storing equipment used to supply data centers.

On its own, the recent uptick in new leasing does not necessarily mean that the tenants signing these deals are expanding their overall industrial footprints. Like many office tenants, distribution firms and manufacturers are simply upgrading to newer facilities.

Net absorption, the change in space occupied by tenants or owner users, has remained positive over the past several months but [slowed to the lowest levels in more than 10 years](#) as many tenants leasing newly built distribution centers are also closing older facilities.

For example, in April, packaging supplies firm Uline listed all 602,000 square feet of its space for sublease at a [Pleasant Prairie, Wisconsin, distribution center](#) with 30-foot ceiling heights that it had occupied since 2006. That move followed Uline's lease last year for 1.8 million square feet in two newly built distribution centers with 40-foot ceiling heights, both within a 15-minute drive of its existing Pleasant Prairie location.

Many other industrial tenants, including Walmart, Ace Hardware, and Home Depot, have closed older distribution centers as part of similar transitions into newer buildings so far this year.

However, key drivers of demand for industrial space, including inflation-adjusted goods spending and imports, have [both begun to grow again](#) over the past 12 months. In this context, the recent jump in leasing activity is another indicator that an eventual improvement in demand for industrial space is already taking shape.

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