Research
United States | 2023-2024

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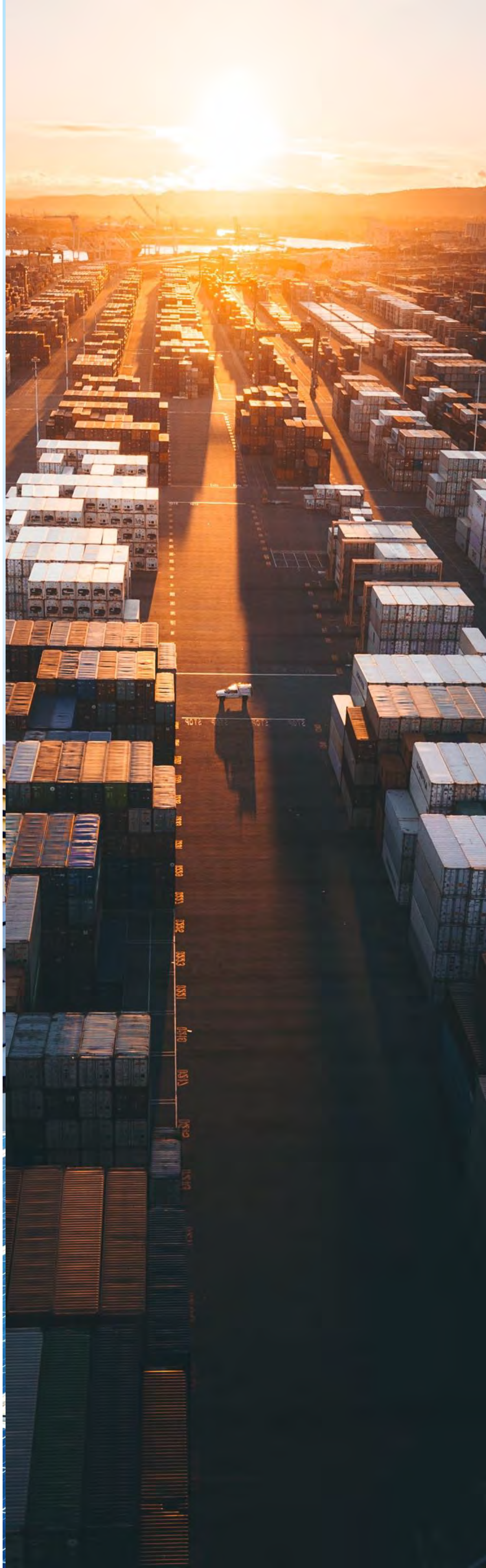
Industrial tenant demand study

A comprehensive glimpse into future potential leasing decisions

SEE A BRIGHTER WAY

Contents



Foreword

This is the 11th annual U.S. Industrial Tenant Demand Study, and it is more insightful than ever. By utilizing JLL local market intelligence across 60 U.S. markets, we have compiled robust data on tenant behavior, including where they are looking, what industries are driving activity, and how external economic factors affect demand. This study provides an in-depth analysis and a compelling narrative on the state of U.S. Industrial real estate demand.

In this year's report **we tracked over 2,100 individual tenant requirements needing over 807 million s.f. of space.** Although there has been a slowdown in overall demand when compared to last year, Logistics & Parcel Delivery continues to be the leading industry across the board. Demand has declined from recently high-performing industries, such as e-commerce, but we are seeing a varied range of requirements across all markets and sectors this year. Moreover, the emergence of demand from industries like renewable energy, advanced manufacturing, and technology has shed light on upcoming trends to be on the lookout for in the coming year.

We know that not every tenant in the market will amount to net new space absorption (some will end up renewing in place, some may simply cancel their space searches given the current macroeconomic conditions, etc.)—but this Demand Study gives us the most comprehensive glimpse into future potential leasing decisions that couldn't otherwise be modeled out in an econometric fashion. While this is just a snapshot in time, it has been proven to provide great directive insight.

We are confident that you will find this report very valuable and come away with a new perspective on the projected Industrial tenancy.

Craig S. Meyer, SIOR
President, Americas Industrial
Chairman, Global Industrial Board

Key takeaways

Is the glass half empty or half full in the Industrial market?

1

The growing demand for clean energy and the rise of electric vehicles (EV) and batteries have contributed to an **increase in demand for manufacturing facility requirements.** Since 2018, **demand for these facilities has more than tripled.**

2

Warehouse and Distribution requirements are down 12.1% year-over-year. Many companies are adopting the wait-and-see strategy to save on capital and see where the market is heading, which has **prolonged decision-making times, especially when compared to the COVID era.**

3

Almost 60% of manufacturing requirements are in the "Smile States." These states are a highly desirable destination for Logistics & Distribution as well as automotive, EV, and battery companies.

4

Demand diversified this year, with Logistics & Distribution companies leading the way. Discount retailers are actively looking for new nodes, while Food & Beverage companies seek cost-saving options through consolidation. Consumer Product companies are utilizing Mexico for production. Population and manufacturing are driving demand in the Construction & Materials industry.

5

While there are **few cancellations in deals,** many are being **pushed out to 2024** and even to 2025. Companies are exploring their options and **opting for renewals instead of expansions** and in some cases regionally consolidating operations.

Source: JLL Research

Demand overview

Overall economic factors have contributed to demand softening. Year-over-year demand decreased by 7.6%. **The number of markets with at least 20 million s.f. of active requirements accounted for over 58% of demand with Atlanta and Inland Empire topping the list this year.** Demand in these markets corresponds to the population density and other additional factors such as economic growth, increase in manufacturing requirements and proximity to ports.

Expansions and new-to-market transactions are driving demand; however, it's anticipated that many may renew or push their decisions out until 2024 or 2025. Renewing tenants are also exploring their options, but being more cautious with their spending, which has resulted in many occupiers taking longer to execute deals. This extended decision-making process has led to **tenants taking an average of six months touring in the market,** which is double that of COVID time.

While industry demand was diversified in this year's study, **Logistics & Parcel Delivery remains the top industry in terms of demand.** Availability of warehouse space in close proximity to ports and densely populated areas continues to drive demand for this industry.

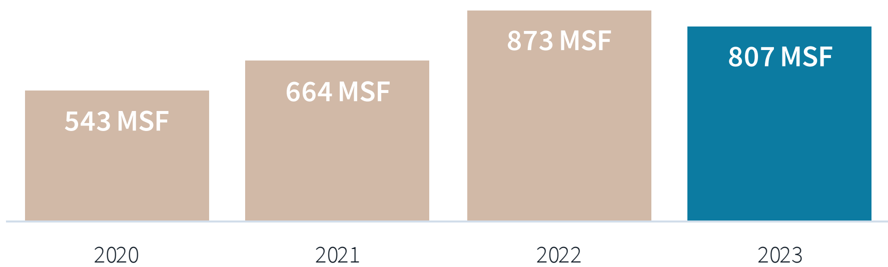
While demand for Warehouse & Distribution facilities declined by 12% year-over-year, **Manufacturing requirements are increasing.**
The growing demand for clean energy and rise of EV and batteries have contributed to this increase. **Almost 60% of requirements are in the "Smile States," and nearly a third of all manufacturing requirements are in the Southeast,** which is primarily being driven by automotive, EV, and battery companies.

There is a growing emphasis on mitigating supply chain risks, which will contribute to future demand for manufacturing facilities and data centers across all industries. The establishment of operations by manufacturers in the U.S. is expected to increase demand for warehousing and their supplier networks. Additionally, sectors such as **renewable energy, advanced manufacturing, technology, and medical devices are actively seeking occupancy to accommodate future growth.**
The rising demand for data centers in the industrial markets has created intensified competition and pricing pressure for land. Despite the increased costs, developers have not been deterred and are continuing to move forward with their projects. As a result, we anticipate witnessing another record-breaking year for construction activity.

Source: JLL Research

Demand by the numbers

Year-over-year demand has decreased by 7.6%

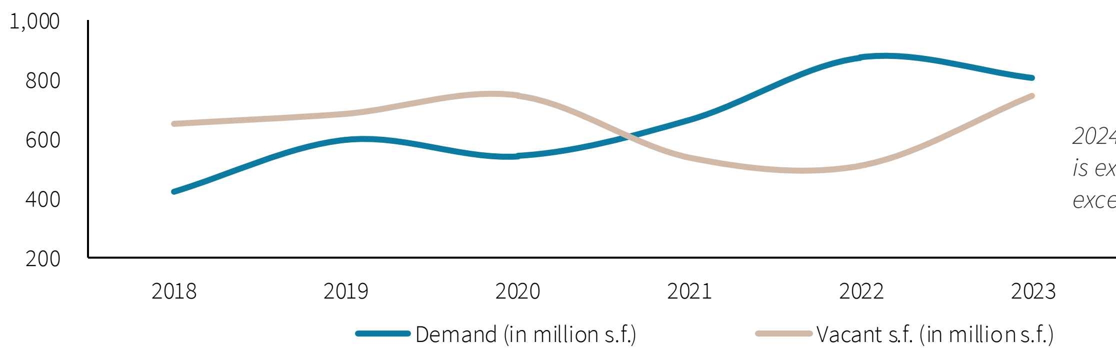


Companies are taking a more cautious approach and pushing requirements into 2024 or 2025

Source: JLL Research

Demand and vacancy are changing paths

Prior to 2020 these two were flowing in tandem, however, more vacancies are hitting the market as demand is declining

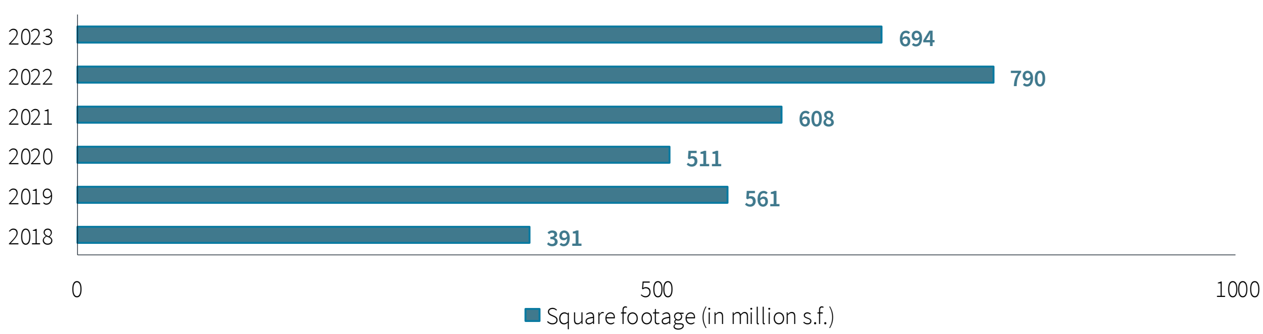


2024 vacant space is expected to exceed demand

Source: JLL Research

Demand for Warehouse & Distribution facilities is softening

Demand for Warehouse & Distribution facilities declined by 12% year-over-year as tenants are being more cautious in their decision-making thereby extending their duration of presence in the market



Source: JLL Research
Note Flex/R&D and Special Purpose facilities not included in chart
*Higher participation rate from JLL markets yielded elevated results in 2023

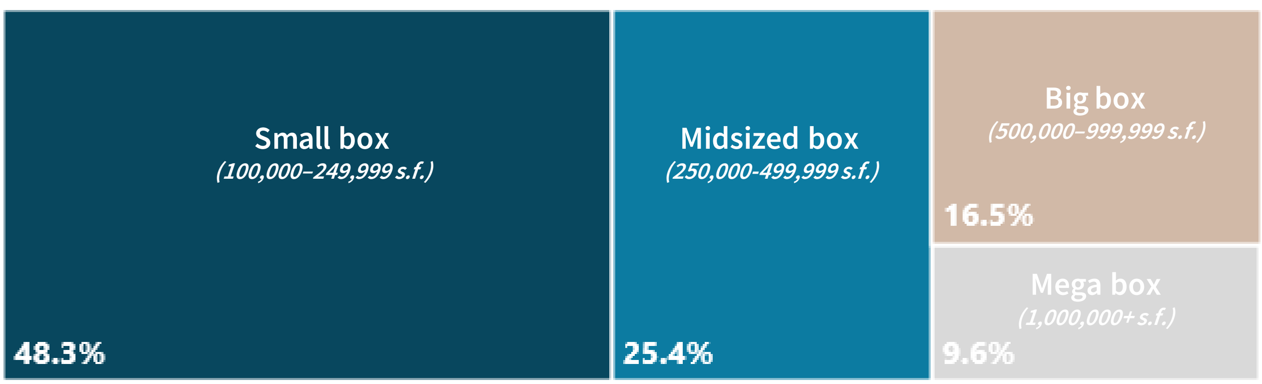
Demand by the numbers

Manufacturing requirements are growing

Year-over-year, there was a significant increase in manufacturing requirements, driven by the growing demand for clean energy and the rise of EV vehicles and batteries

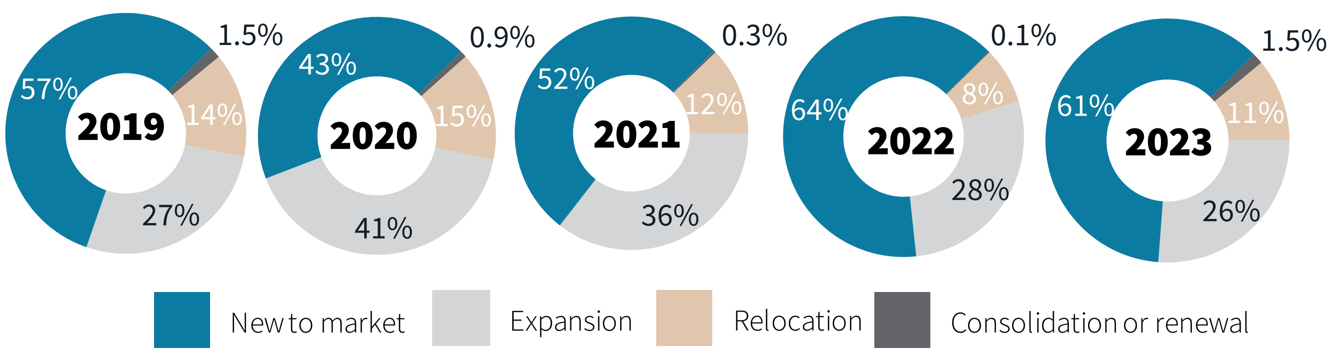
Source: JLL Research

Majority of the tenants in the market are small-box deals



Source: JLL Research
Note: Percentages based on deals by count. Deals 50,000-99,999 accounted for 0.1%.

Transaction trends by year

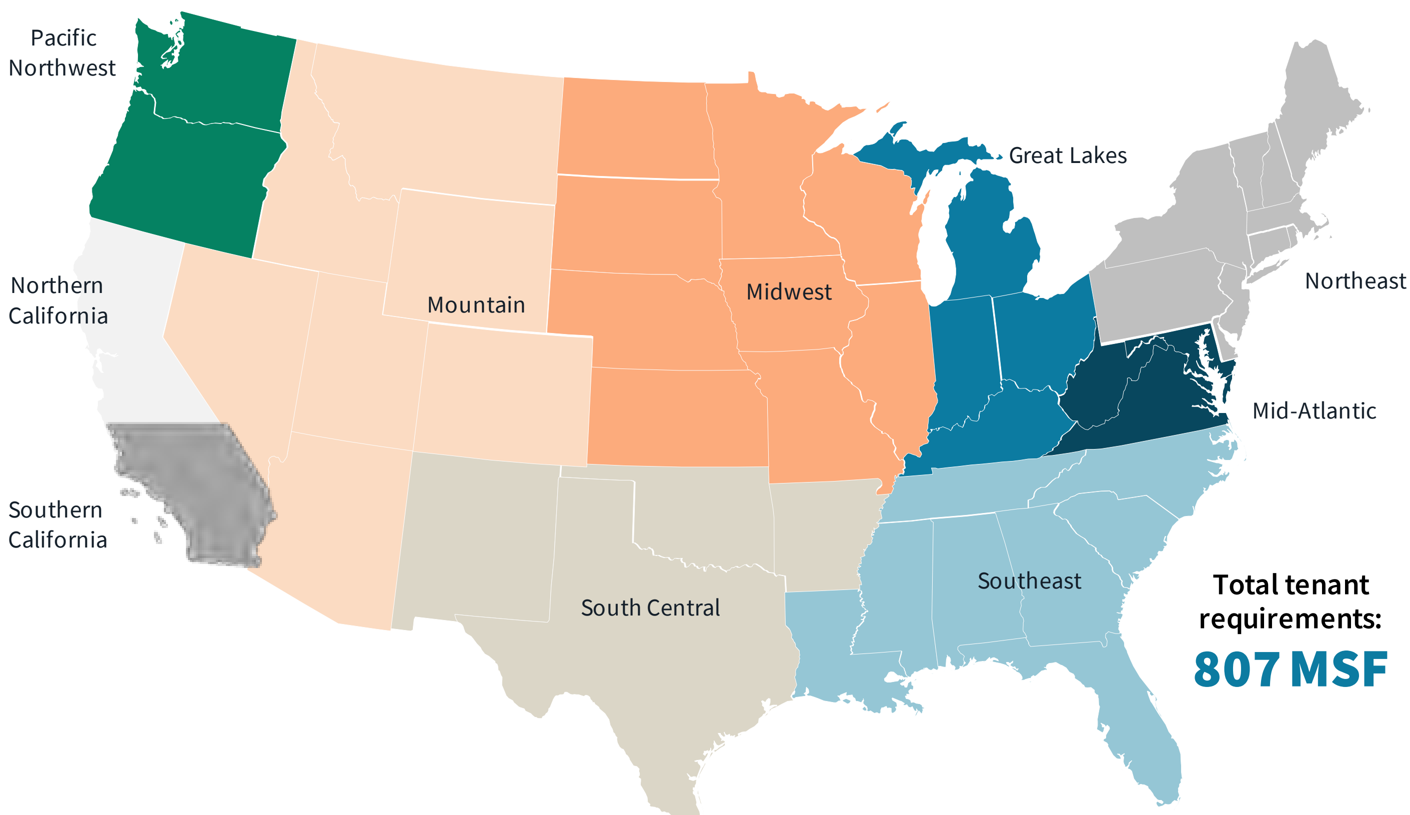


Source: JLL Research
*Higher participation rate from JLL markets yielded elevated results in 2023

Demand by region

Regional breakdown of demand

The Southeast region remains a highly desirable destination for Logistics & Distribution as well as Manufacturing



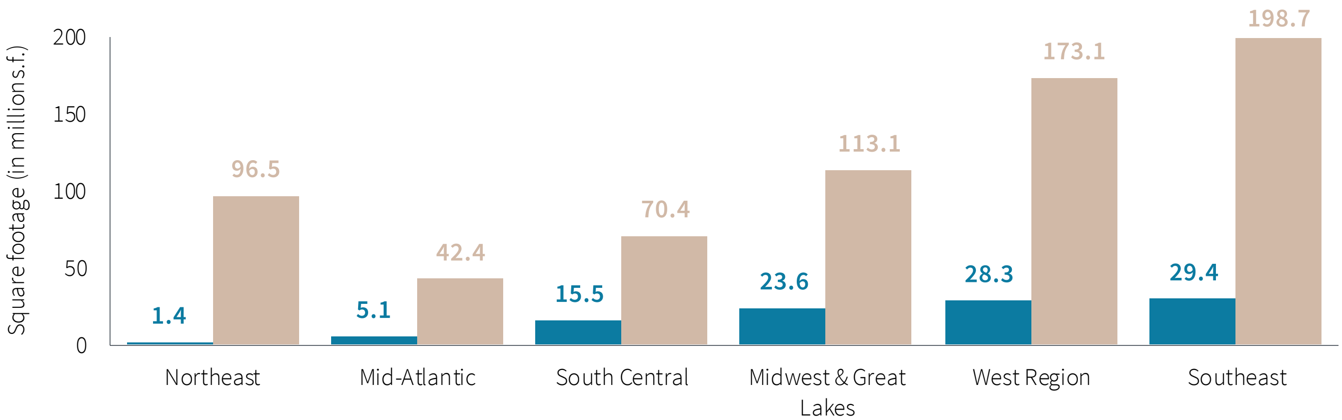
Region	Total tenant demand (MSF)	% of U.S. total demand	% change, 2022 to 2023	Most active industry (not including undisclosed)
Southeast	232.3	29%	-6%	Logistics & Parcel Delivery
Northeast	98.8	12%	-16%	Traditional Retailer
Mountain	91.4	11%	-14%	Logistics & Parcel Delivery
South Central	86.2	11%	5%	Logistics & Parcel Delivery
Midwest	80.9	10%	-12%	Logistics & Parcel Delivery
Southern California	65.7	8%	6%	Logistics & Parcel Delivery
Great Lakes	56.3	7%	-10%	Logistics & Parcel Delivery
Mid-Atlantic	48.6	6%	27%	Logistics & Parcel Delivery
Northern California	29.2	4%	-27%	Logistics & Parcel Delivery
Pacific Northwest	17.4	2%	-24%	Logistics & Parcel Delivery
U.S. Total	**806.8**	**100%**	**-8%**	Logistics & Parcel Delivery

Sources: JLL Research
*Higher participation rate from JLL markets yielded elevated results in 2023

Demand by region

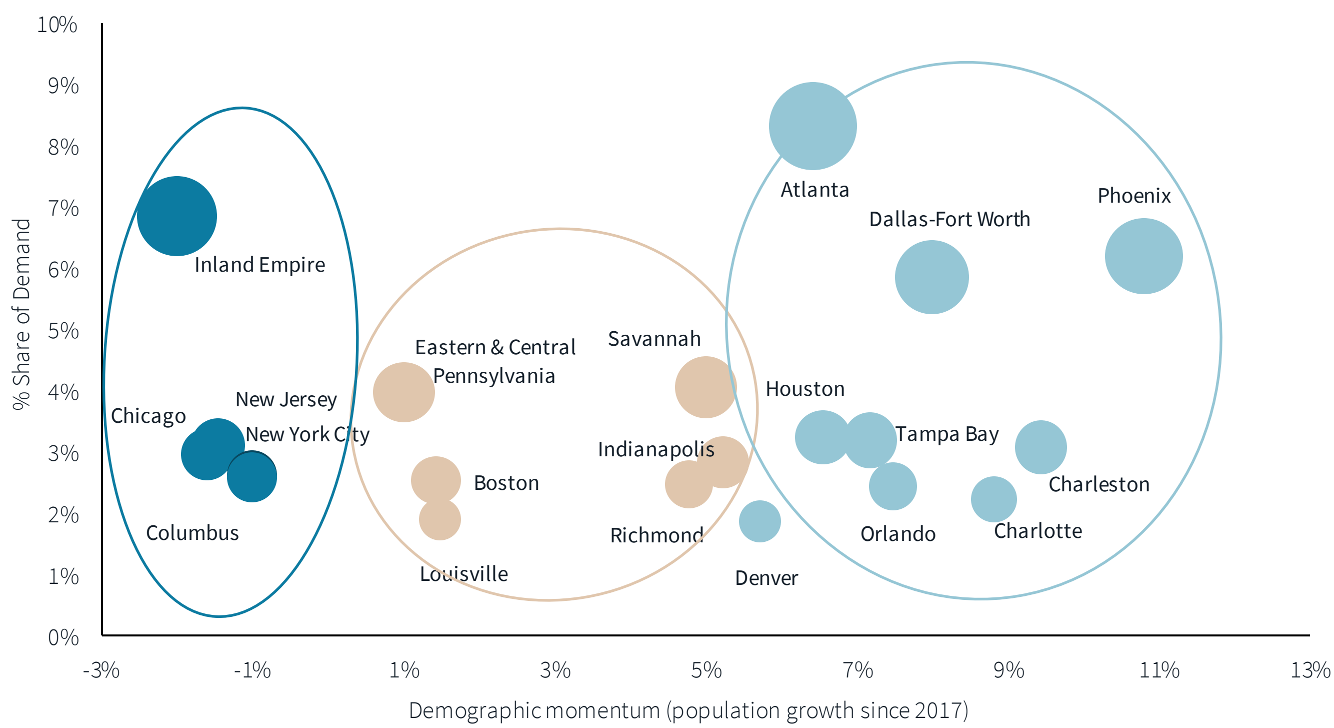
Almost 60% of requirements are in the "Smile States"

Nearly a third of all manufacturing requirements are in the Southeast, much of this being driven by automotive, EV and battery companies



Source: JLL Research

Sunbelt and Southeast markets are seeing significant population and demand growth



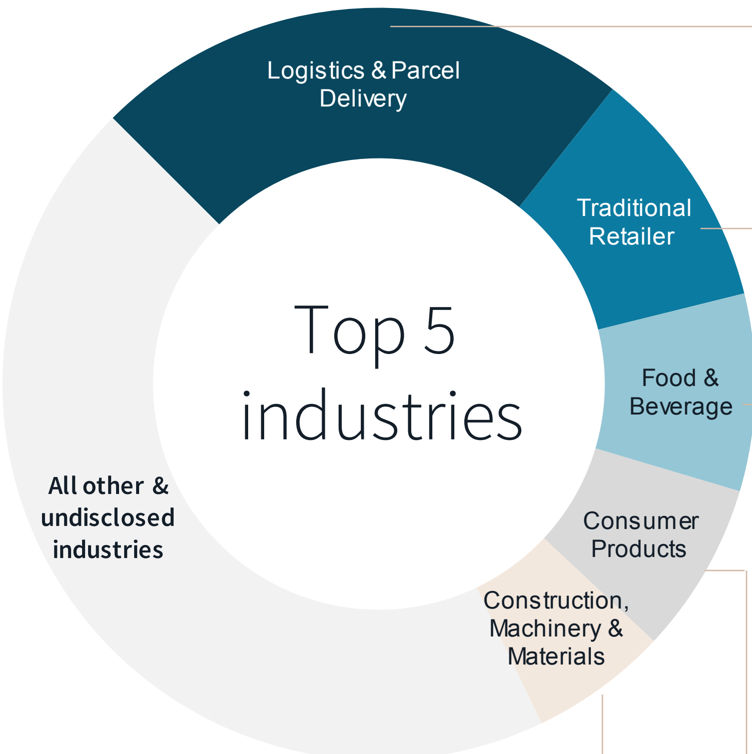
Sources: JLL Research
*Higher participation rate from JLL markets yielded elevated results in 2023
Note: Flex/R&D and Special Purpose facilities not included in chart

Industry highlights

Top industries

Take a peek at the top industries driving demand in logistics.

Most active industries



Logistics & Parcel Delivery

Air freight & parcel carriers, warehouse & storage, rail freight, trucking & shipping
Company examples:
FedEx, UPS, USPS, DHL

Traditional Retailer

This covers retail broadly
Company examples:
Ikea, Home Depot, Target

Food & Beverage

Distributors, manufacturing & processing, packaging & bottling
Company examples:
Coca-Cola, Nestlé, ConAgra

Construction Machinery & Materials

Construction & building materials, equipment rental & leasing, industrial manufacturing, chemical/materials, farm & industrial machinery, agriculture & forestry, other materials
Company examples:
Sunbelt Rentals, Scotts Miracle-Gro

Consumer Products

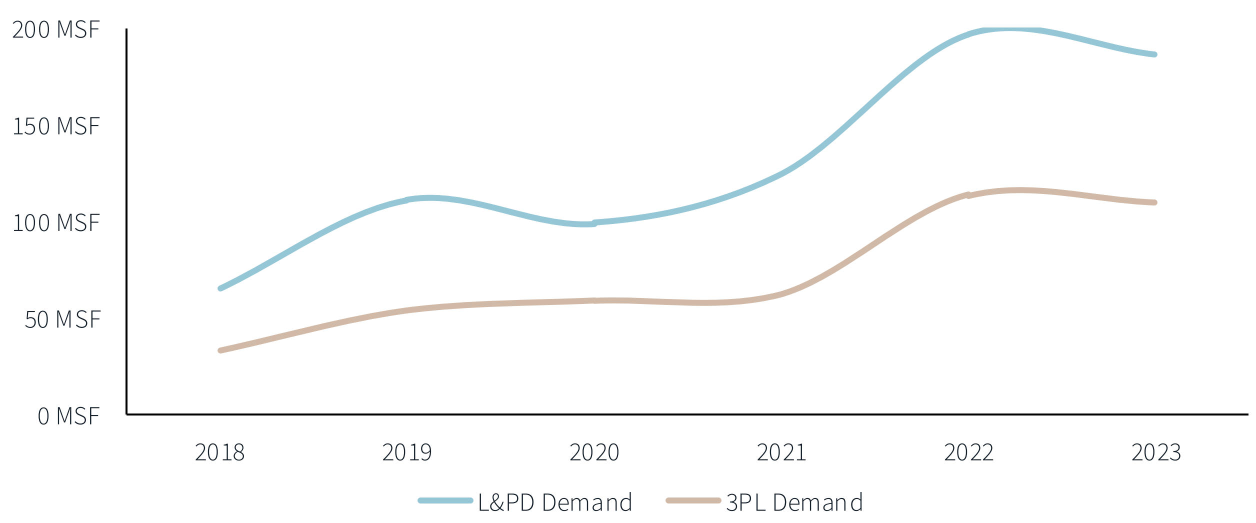
Durables (3+ years of life), apparel & accessories manufacturing, personal products & household goods, pet food & supplies, textiles
Company examples:
Ethan Allen, Carter's, Mohawk, P&G

Source: JLL Research
All other & undisclosed industries include E-commerce Retailer, Paper & Packaging, Automotive, Consumer Services, Health, Communications/Tech/Media, Professional & Business Services, Government & Education, Energy & Utilities and Aviation, Aerospace, Defense.

1. Logistics & Parcel Delivery

- Logistics & Parcel Delivery remains the dominant industry in terms of anticipated demand for the upcoming year.
- Demand within this industry is primarily driven by retailers and e-commerce companies seeking the expertise and resources of Logistics & Parcel Delivery companies to efficiently manage their logistics operations for the distribution of goods to consumers.
- Markets such as Atlanta, Inland Empire and Phoenix rank prominently among the most sought-after locations by tenants in this industry.
- The subset category, **3PL which falls within the Logistics & Parcel Delivery industry, has started to stabilize in terms of demand but remains significantly higher than its 2020 levels, a nearly 84% increase.** Despite a slight softening in demand from this industry, a study conducted by eMarketer projects steady growth in e-commerce sales, with it accounting for 21.2% of retail sales by 2026, further driving the demand for Logistics & Parcel Delivery companies.

Logistics & Parcel Delivery demand compared to 3PL demand

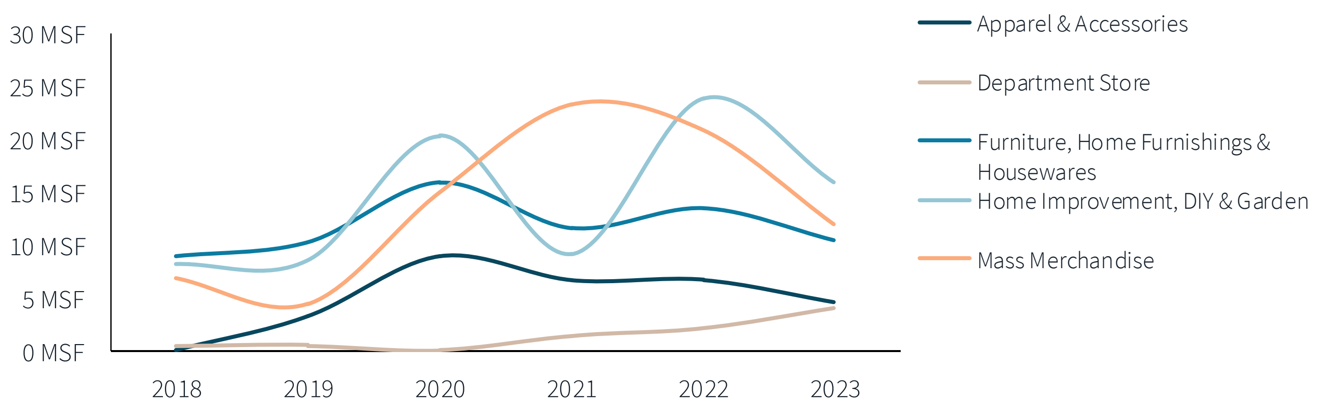


 Source: JLL Research

2. Traditional Retailers

- Traditional Retailers accounted for over **83.1 million s.f. of demand this year**.
- Discount Retailers that **prioritize affordability and convenience** are experiencing positive performance.
- As retailers have depleted their inventory from the previous year or reduced it to manageable levels, they are now seeking to **replenish their stock to optimize inventory levels**.
- To enhance operational efficiency, improve shopping experiences and reduce inventory adjustment volatility, many retailers are **investing in automation**.
- Traditional Retailers are expanding and building out their nodes to be closer to consumers

Top 5 Traditional Retailers

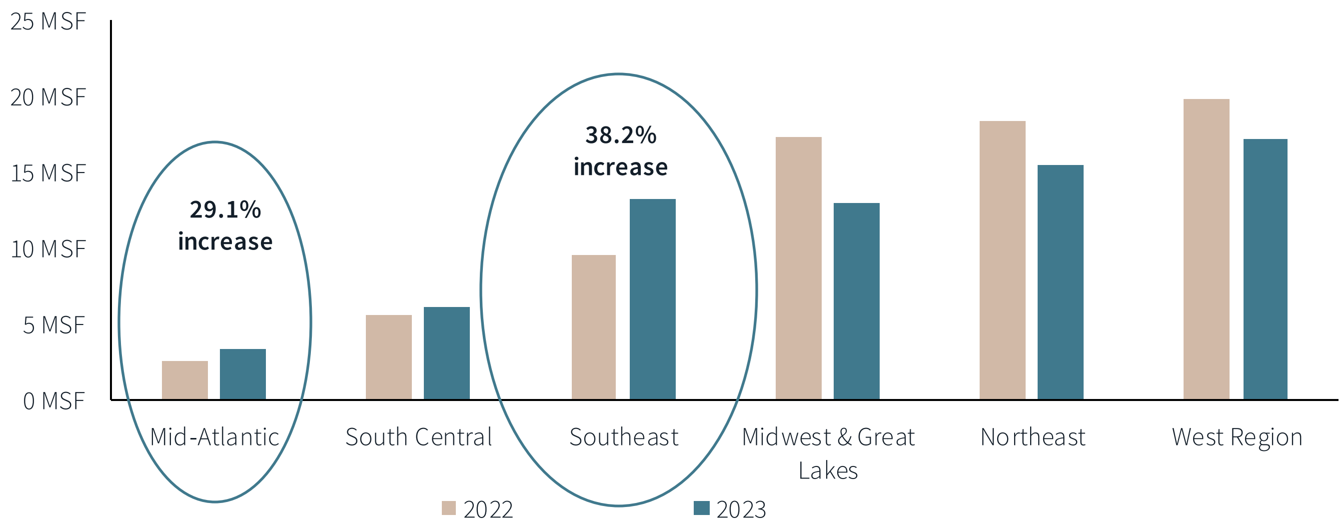


 Source: JLL Research

3. Food & Beverage

- The Food & Beverage industry has declined overall by 17% since last year.
- Inbound migration and population growth are driving **demand in the Southeast.**
- The **Mid-Atlantic is also seeing an increase in demand**, and despite stickiness in the market Food & Beverage tenants are staying there.
- Since many companies are looking to bring some of their operations in house to have more control, this industry could see an **increase in light manufacturing requirements** in the future.
- Some companies are trying to identify cost savings options via consolidating, but proximity of B2B remains a priority as much as direct to consumer.
- Demand for this industry is expected to continue as consumers utilize **e-commerce to purchase food online,** and a **shift to more budget-friendly options** will place additional focus on discount retailers in this silo.

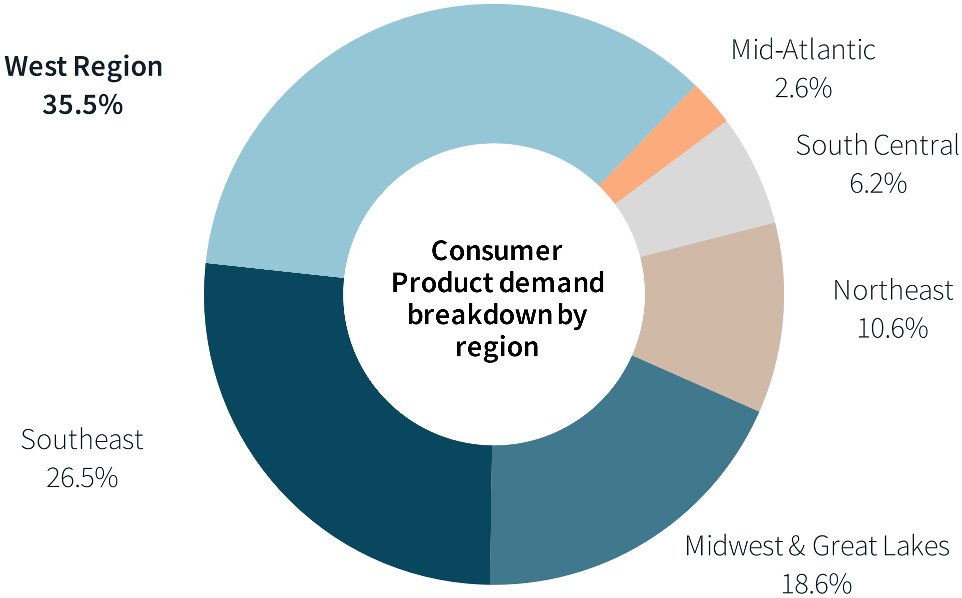
Food & Beverage demand by region



Source: JLL Research

4. Consumer Products

- There has been **an increase in Consumer Products demand in the West region** due to its well-connected transportation network, port and infrastructure.
- To be closer to consumers and leverage production capabilities in Mexico, numerous **furniture companies are relocating to the West region, specifically in the Texas and California markets**. This move allows them to drive distribution efficiently, ensuring that products reach consumers quickly.
- More **business-to-business requirements are also popping up,** which is increasing demand for this industry.

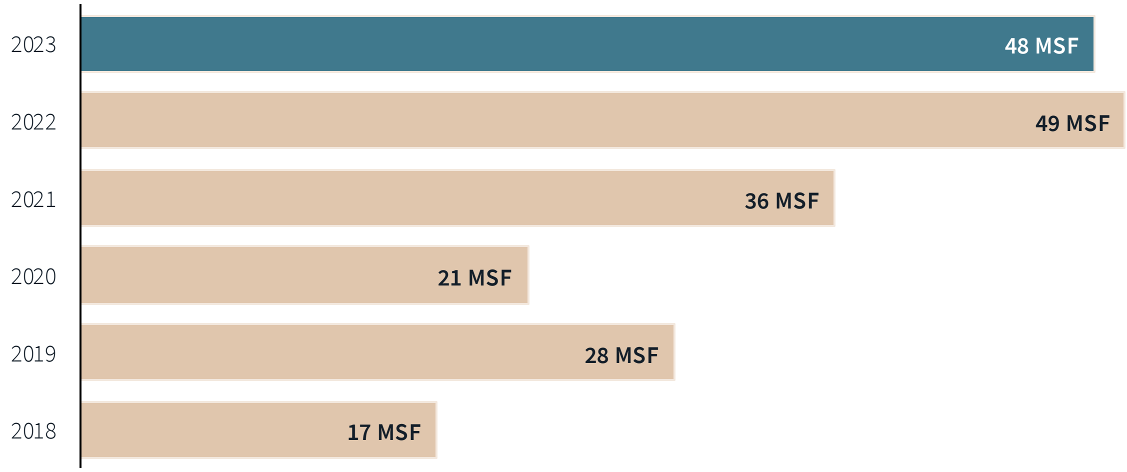


Source: JLL Research

5. Construction Machinery & Materials

- This industry has consistently seen growth. Since 2018 it has seen demand grow by more than 187%.
- The Southeast and South Central regions are experiencing a surge in demand from this construction industry due to two key factors: the **need for single-family homes to accommodate population growth** and the **demand for manufacturing plants** driven by the presence of EV, automotive and clean-energy companies.
- Building materials such as **glass, HVAC and cabinet companies are also impacting the momentum of demand** for this industry.
- This industry stands to **benefit from the increasing emphasis on sustainable construction practices and the construction of energy-efficient buildings.** Proposed incentives to building owners to convert to energy-efficient buildings could further drive the demand for construction materials needed to adhere to the sustainable criteria.

Construction Machinery & Materials growth over the years



Source: JLL Research

Other industries of note: Energy & Utilities

- The enactment of the 2022 Inflation Reduction Act (IRA) has had a significant impact on the Energy & Utilities industry, driving **increased demand and competition for land suitable for constructing build-to-suit facilities that require substantial power and supply.**
- Since the passage of this act, there has been a surge in demand for manufacturing facilities from Energy & Utilities companies. **Notably, over 60% of the industry's requirements for the upcoming year are related to manufacturing space,** which is a 22% increase compared to its share the previous year.
- The drive for more energy-efficient operations and cost reduction in electricity expenses is expected to sustain this demand, **with solar and wind companies playing a pivotal role** in driving this trend.
- **Locations with heavy power and water will be very important features** in demand for manufacturing facilities.

46.6 m.s.f.

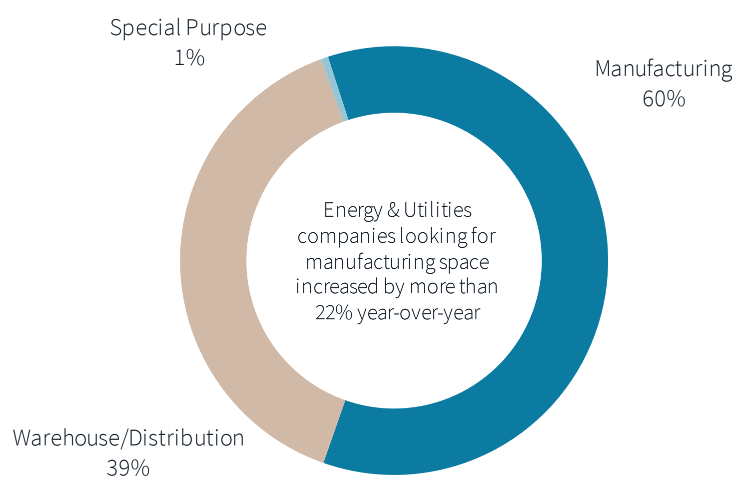
demand in the market

5

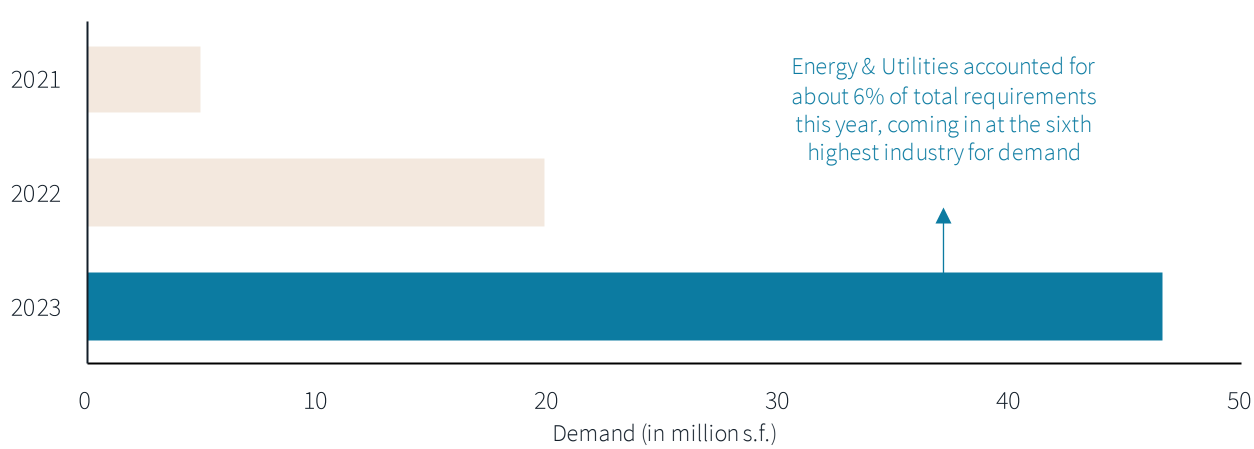
Top markets with demand

1. Atlanta
2. Dallas-Fort Worth
3. Phoenix
4. Chicago
5. Houston

Breakdown of facility type



Energy & Utilities requirements (in million s.f.)



Source: JLL Research

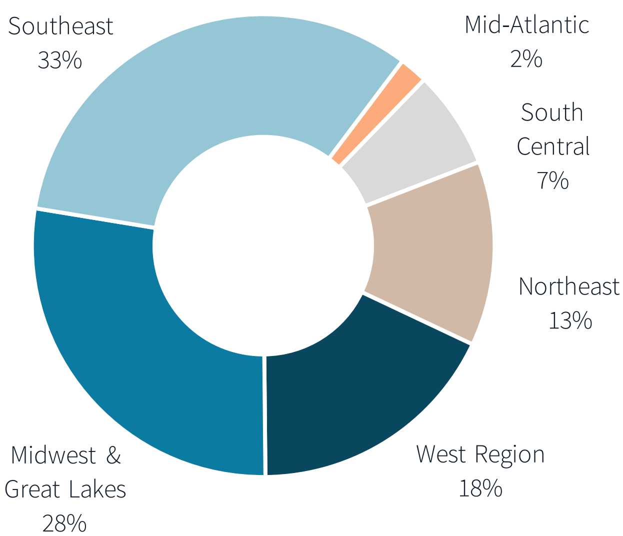
Other industries of note: Electric Vehicles

- The electric vehicle market has experienced remarkable growth in recent years, fueling a surge in demand for logistics and manufacturing space.
- As companies move their operations into the U.S. it's prompting their suppliers to follow suit. This trend is expected to be a major focal point in the upcoming year, **with demand requirements estimated at over 19 million s.f.**
- **The Southeast region, boasting a robust labor market and robust infrastructure, has emerged as a key player, accounting for more than 30% of all demand.** Leading companies like Rivian and VinFast have already made significant investments in the Southeast, solidifying its position as a prime location for electric vehicle ventures.
- **Phoenix is also observing a flurry of investment activity** from electric vehicle manufacturers, including Lucid.
- Anecdotally, markets with a high volume of demand from EV users are also seeing 3PL companies come into the market to help efficiently manage the logistical operations and distribution of goods.

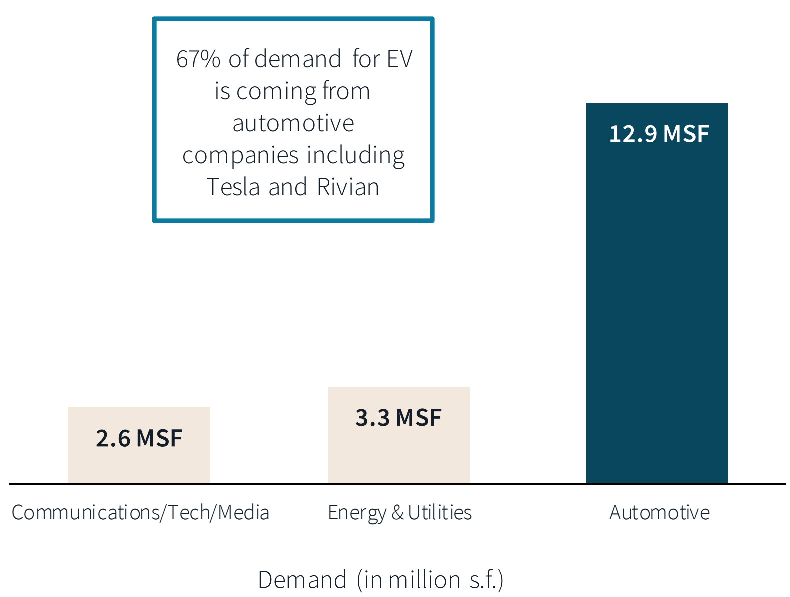
19.3 m.s.f.

Electric Vehicle requirements

Where do EV companies want to go?



Top industries impacted by Electric Vehicle demand



Source: JLL Research

Markets to watch: The underlying factors driving demand

This year four markets stood out in our analysis, with Industrial demand expanding. Find out which markets are seeing such growth and why.

Atlanta

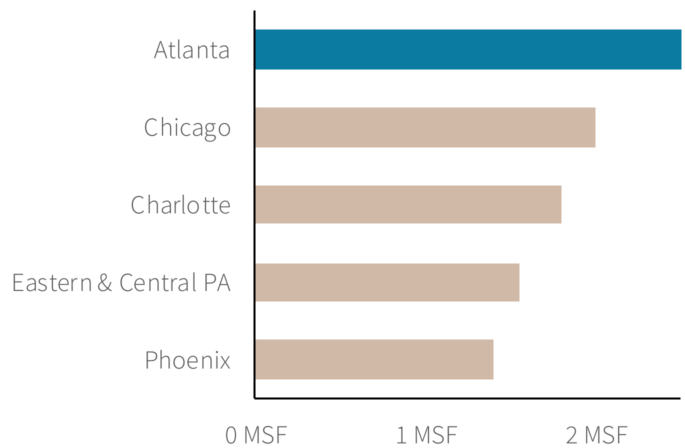
Atlanta's market is driven by factors such as a skilled workforce, superior logistical infrastructure and a favorable business environment

- Demand for the Atlanta market is being fueled by a skilled workforce, excellent logistical infrastructure including highways, ports and the airport, a favorable business environment and a **growing emphasis on sustainable products and renewable energy solutions.**
- Within the last two years the metro has seen industrial jobs grow by more than 48,400 in the Trade, Transportation & Utilities and Manufacturing sectors.
- The Southeast region has experienced significant growth in **demand from EV companies and related investments.** Major companies like Rivian and Hyundai Motor Group/ SK On have already chosen Atlanta as the location for their advanced manufacturing plants.
- Future **demand from EV companies is expected to reach over 2.5 million s.f. in the coming year.** Looking forward, Atlanta is expected to be the Southeast epicenter for future demand.
- Onshoring is also expected to further boost demand in the coming year as the market isn't landlocked but close to major ports and has room to expand.

Industry & facility type demand

Manufacturing facilities*	8.8%
Electric Vehicle*	13.3%
Energy & Utilities*	13.3%

Top 5 markets with EV demand



#1

Energy & Utilities and EV/Battery requirements

17.3%

increase in demand from 2022 to 2023

Atlanta drive time to major ports

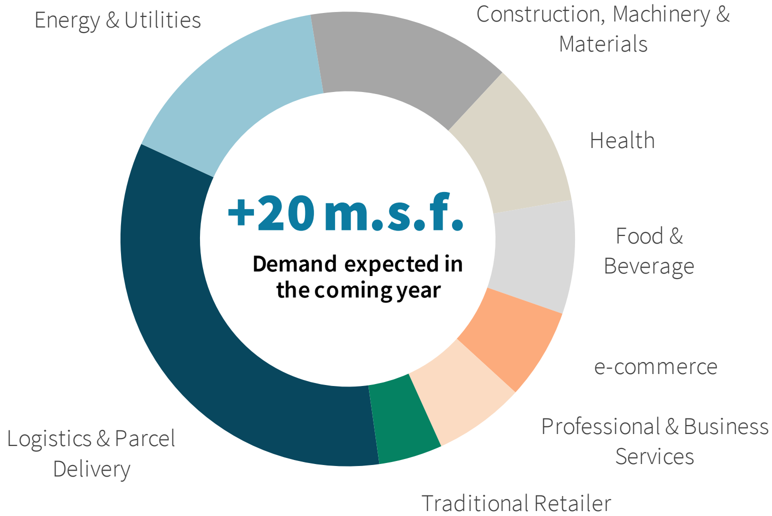
Savannah	+/- 3.40 hrs.
Charleston	+/- 4.42 hrs.
Port of Jacksonville	+/- 4.58 hrs.
Port of Tampa Bay	+/- 6.25 hrs.

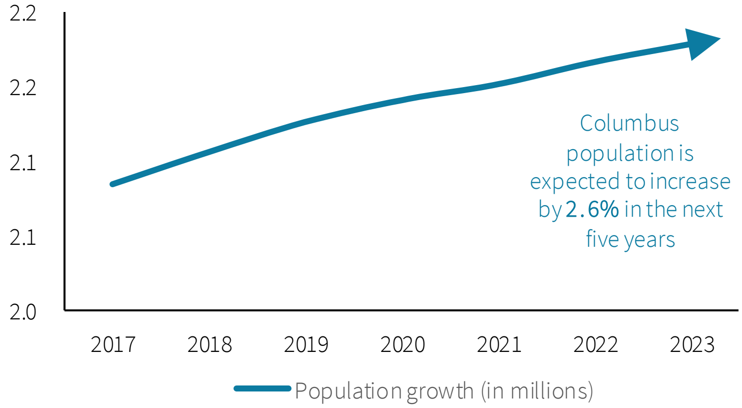
Sources: JLL Research
Note: *denotes as a percentage of total demand

Columbus

Demand in the Columbus market is being propelled by affordability, diversification and notable investments in solar energy and electric vehicles

- Although this market traditionally been known as a Logistics & Parcel Delivery hub, it's **experiencing diversification with increasing demand for manufacturing and data centers.** The investment in microchip factories has stimulated the need for additional warehousing from suppliers, and this trend is expected to continue in the coming year.
- The market has also witnessed significant **investments in solar energy, electric vehicles and auto manufacturing.**
- Land prices are rising due to the growing demand across the industrial sector, and a supply crunch is expected for 2024. Developers are still proceeding with their projects, albeit with more urgency, which is expected to make this a record-breaking year for construction in the Columbus market.





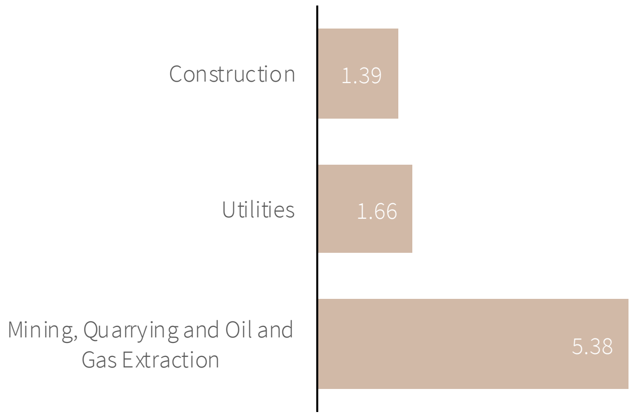
Source: JLL Research

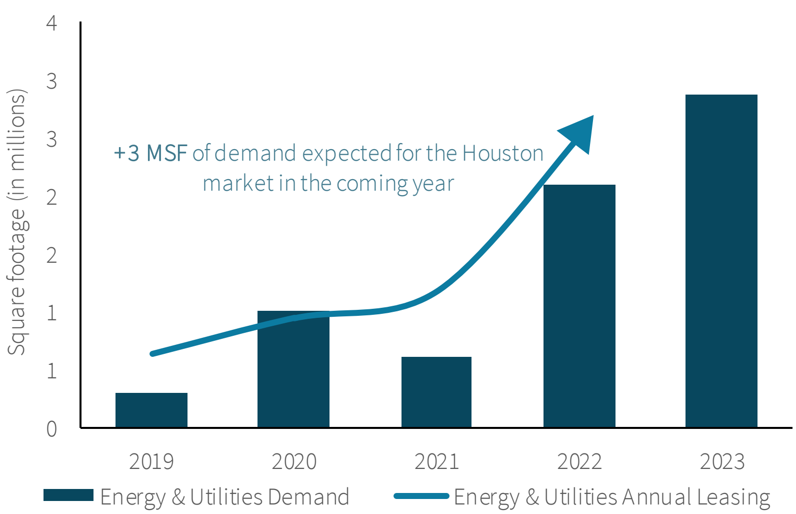
Houston

The push for renewable energy is propelling Houston's market to be a leader in demand from the Energy & Utilities industry

- Houston has seen demand **increase by more than 29% year-over-year,** with nearly a third of the current tenants seeking occupancy looking to plant a flag in the metro for the first time.
- The market has seen new entrants in demand space, specifically from companies within the Energy & Utilities industry. **Since last year this industry has grown by more than 37%.**
- Fundamentally, the market has a healthy construction pipeline, **strong port dynamics and population growth, which is also driving demand.**
- Texas is the leader in planned renewable energy installations and is positioned to assume a big role in leading the way toward a sustainable energy future.
- **Its infrastructure and skilled labor force has resulted in many clean-tech start-ups moving to the area.** According to a report by McKinsey, the city could receive as much as $250 billion in annual investments in the emerging energy sectors by 2040, which will further drive demand for this market.

Top 3 industries based on employment concentration (2022)





29.9%

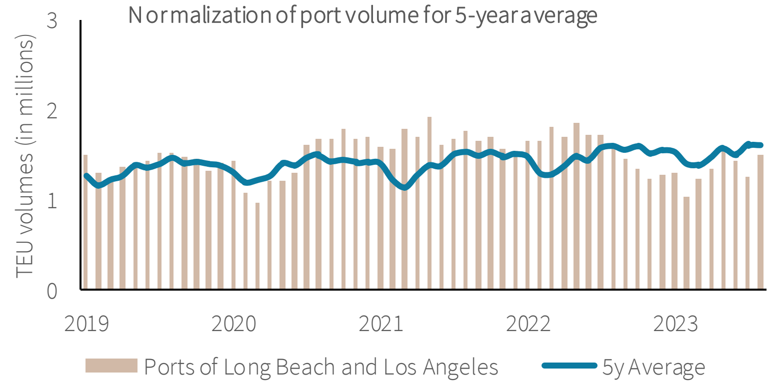
increase in demand from 2022 to 2023

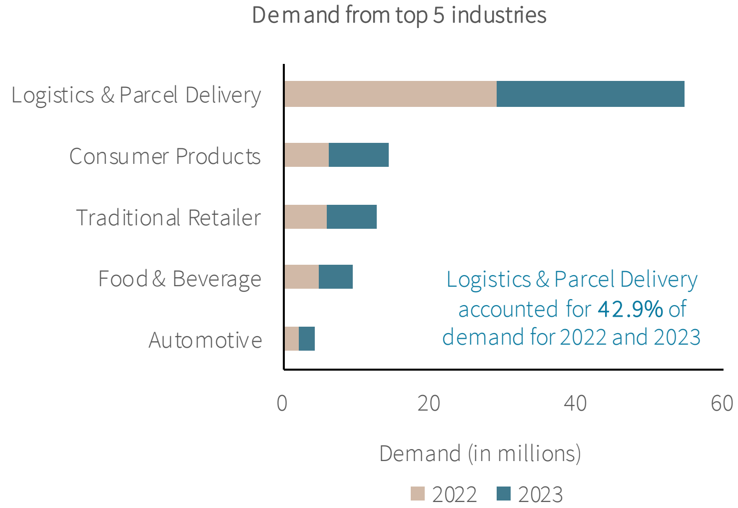
Sources: JLL Research, Lightcast

Southern California

As one of largest and most active markets, Southern California is expected to remain a top contender in demand moving forward

- Southern California is the **largest inbound market in the country and the top choice for Logistics & Parcel Delivery users** due to its large population, high consumer spending per household and strong port activity.
- Over the last two years the Logistics & Parcel Delivery industry accounted for over **42% of total demand** for this region.
- Southern California port activity is settling near seasonal norms. With the ILWU-PMA contract resolution this summer, SoCal ports are well positioned for market share recovery; tenant inquiries have also noticeably picked up.
- Leasing activities for the first three quarters this year are down 13% compared to 2022, but early market activities, including inquiries and tours, point to a potential pick-up down the line. More space availability and longer decision-making time have added to tracked tenants-in-market counts . While some tenants may look to markets on the perimeter, proximity to the ports and major retailers' distribution centers facilitate efficient B2B operations and keep SoCal an attractive location for 3PLs.





Note: Southern California includes Inland Empire, Los Angeles, Orange County and San Diego
Sources: JLL Research, Port of Long Beach, Port of Los Angeles; data as of August 2023

What’s next?

The U.S. market is reaching its maturity cycle of manufacturing for EV, battery production and semiconductors. **The next wave of requirements is expected to come in the form of renewable energy from the Energy & Utilities sector, with solar and wind companies being the driving force.**

Demand levels are expected to remain at the same level or weaken in 2024 as tenants place a slight pause on deals and the rate of tenant requirements that are converted into executed deals is expected to decline. But **tenants will still explore the market and evaluate their supply chains until they are able to find something that works for them over the long term.**

In the upcoming year, additional industries are expected to become prominent. **The need for manufacturing facilities and e-commerce companies to be geographically closer to customers has the potential to drive demand.** This will also have a positive impact on paper and packaging companies as well as demand for consumer goods and products. With the shift of production away from China, we can anticipate a gradual relocation of manufacturing to North America in the next few years.

Source: JLL Research

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