



Industrial's Building Boom Continues

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Demand for modern e-commerce, distribution and manufacturing space continues to fuel a building boom in the U.S. industrial sector, says Avison Young. "As vacancy rates remain at record lows in many markets—and rental growth is strong—developers are working to feed the construction pipeline," writes the firm's Erik Foster.

Citing CoStar and Real Capital Analytics data through Oct. 31, Avison Young says construction activity remained strong or steady in many core industrial markets including Northern New Jersey, Los Angeles and Atlanta—and investor demand for newly-built product has been comparably robust this

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year. Through the third quarter, investors ponied up a total of \$11.6 billion to buy 130 million square feet of new construction, at an average price per square foot of \$101.

There was 237.7 million square feet of construction delivered through Q3 of 2018. That's a slight decrease from the 243.9 million square feet delivered in the year-ago period.

"The construction pipeline also remains strong, with an additional 337.3 million square feet under construction nationally," writes Foster. "This bodes well for investors, who continue to focus on the industrial sector as a top asset class."

This wave of construction activity hasn't been confined to the leading markets. Rather, it has spread to secondary markets, where developers often find more available land and lower costs of entry. Avison Young says this is occurring in Southeast markets, such as Nashville and Greenville/Spartanburg, and in the Midwest in Columbus and Indianapolis, among other markets.

The Nashville market, for example, has seen solid construction growth since 2015, with typical yearly activity averaging around 3.1 million square feet. Year to date, there has been 1.4 million square feet delivered, as the market absorbs the previously completed space. 2017 was an exceptionally busy year for industrial deliveries in the Music City, with some 9.7 million square feet coming on line.

Over the past six years, developers have added 1.56 billion square feet of industrial space across the U.S.—or more than triple the amount of Manhattan's existing office stock. "While build-to-suit activity has been strong, much of the construction has been speculative," according to Foster.

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