

# Vacancies Reach 18-Year Low as E-Commerce Keeps Growing

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Industrial vacancies nationally have reached their lowest point since 2000, Dallas-based valuation advisory firm BBG said Tuesday. The second quarter saw vacancies slip another 10 basis points to 7.2%, representing the 32nd consecutive quarter of declining supply, even as new construction continues apace.

The markets posting the largest Q2 declines in industrial space vacancy were New Haven, CT, down 430 bps; Tucson, down 310 bps; Sacramento, down 260 bps; and Jacksonville, down 220 bps.

The digital economy has been the growth engine for industrial real estate, of course, and BBG cited a study illustrating both the economy's current size and its longer-term outlook. U.S. retail e-commerce sales rang up \$409.2 billion in 2017, compared with \$360.3 billion in the prior year. Online purchases are predicted to reach \$638 billion by 2022, with positive implications for space demand.

Although the gap between supply and demand is smaller than it was a year ago, it remains substantial. BBG reported that demand outpaced supply by 22 million square feet nationally for the 12 months that ended in June, compared to 65 million square feet in the year prior to that.

The geographic shift in construction also has implications for the cost of development. A need to accommodate last-mile delivery means that more warehouses and distribution centers are being built closer to areas with larger population hubs, meaning higher costs for labor, land and real estate taxes compared to the pre-digital era.

Regardless of whether they've become more expensive to build, or lease, "We're continuing to see increasing demand for our services from companies in need of these facilities in order to receive and ship products to customers' homes and physical retail locations," said BBG CEO Chris Roach.

"While more warehouse and distribution centers are being built or renovated to accommodate demand, we anticipate that the direction of the vacancy rate won't change dramatically in the near future, as many companies are in the process of setting up their e-commerce operations," he added.