U.S. industrial market report

Q1 2025

AVISON YOUNG

U.S. industrial market trends

8.7%

National vacancy rate flat at highest point since 2012

Industrial net absorption remained positive in 2024 but continued to decline as a whole due to global economic, political, and financial headwinds, coupled with record levels of new construction completions. Peak deliveries have passed in every market nationally, showcased by flattening vacancy rates throughout the country. The decline in deliveries is allowing markets to digest the excess space that flooded the sector for five quarters. Demand headwinds ramped up to start 2025, as trade negotiations have fueled uncertainty, and severely limited trade with China. Resolutions are expected by the second half of the year and could lead to a drastic increase in industrial demand as supply chains revamp their near/reshoring efforts.

-4.3%

Gross leasing below pre-COVID 10-year average to start year

Overall leasing volume to start 2025 was slightly lower compared to historical levels. However, pre-leasing activity – such as touring and expansion requirements for industrial demand – picked up following the U.S. national election. Sudden and unexpected disruptions in trade negotiations have briefly paused decision-making, but once this uncertainty is resolved, industrial demand is expected to drive an increased need for companies to secure space to accommodate expanded manufacturing in the U.S. We are expecting an uptick in leasing in the second half of this year.

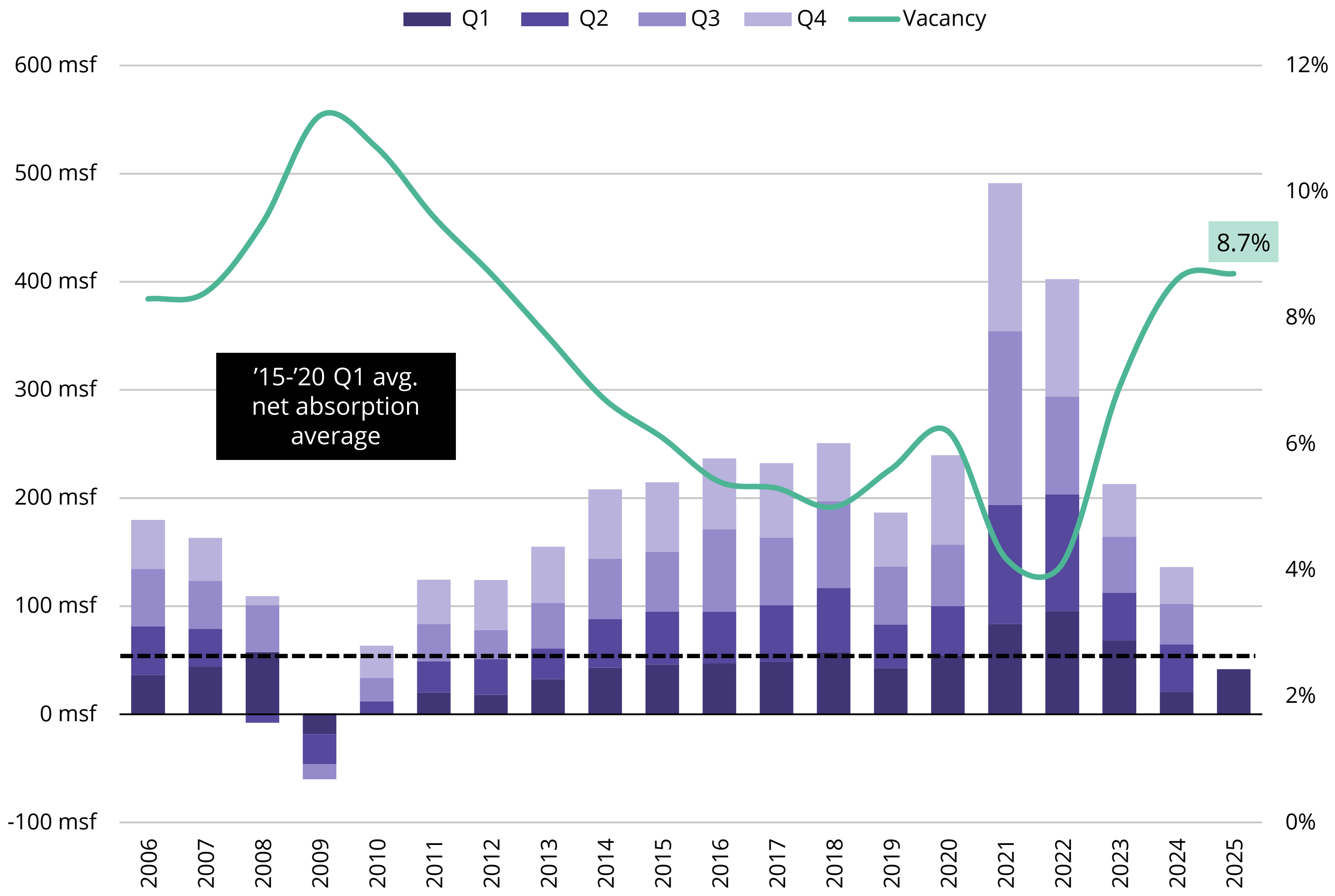
+$2.5T

Announced manufacturing commitments to begin 2025

With improved policy clarity, advancing project pipelines, and growing confidence in long-term domestic production needs, manufacturing construction is expected to experience a significant resurgence in the second half of 2025 and after. The supplier networks for these announced projects will drive industrial demand far beyond the needs of the facilities, substantially strengthening industrial demand fundamentals for years to come. Additional support for industrial demand is anticipated upon the passing of the July 2025 Tax Bill, which is expected to renew the full expensing of all equipment investment, similar to the 2017 Tax Bill, but will also include the building itself.

Source: Avison Young Technologies, CoStar, MSCI Real Capital Analytics

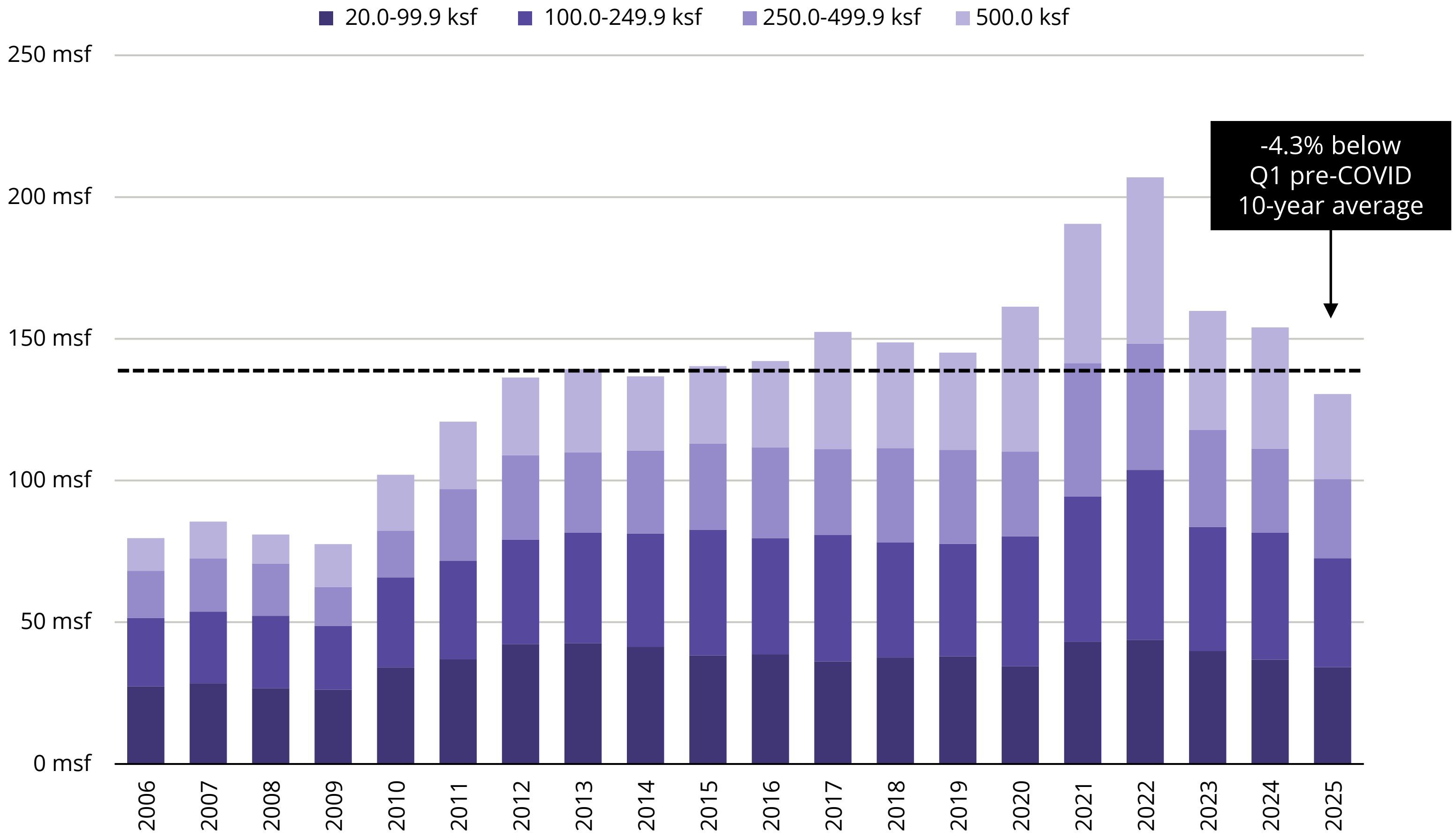
U.S. industrial net absorption and vacancy



Peak increases in vacancy appear to have passed, as the national rate has been plateauing since the second half of 2024. Net absorption increased in Q1 2025, a first since 2022, and is on par with the pre-COVID average.

Source: Avison Young Technologies, CoStar

Industrial leasing volumes slightly below pre-COVID 10-year average to kick off 2025

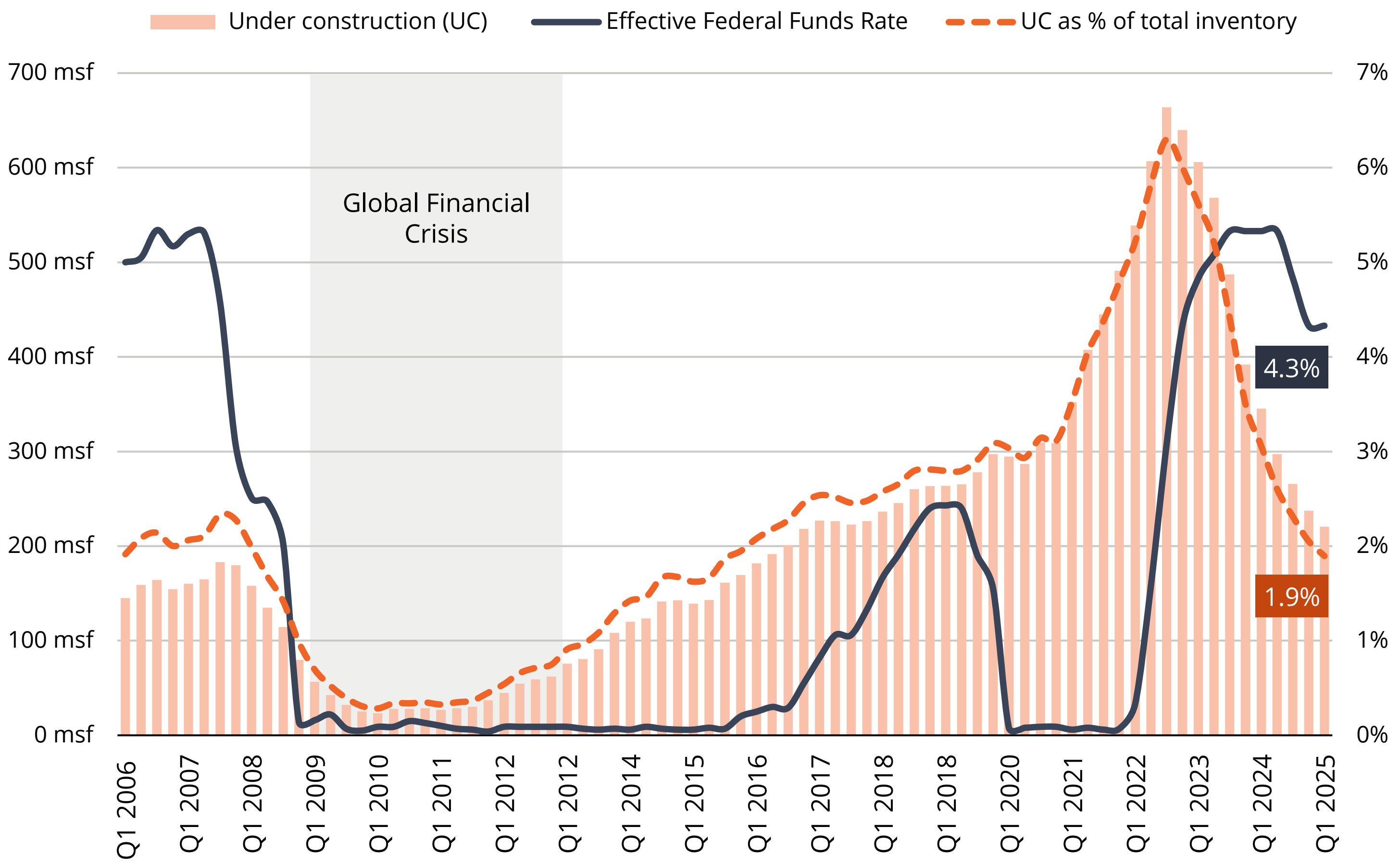


Source: Avison Young Technologies, CoStar

Industrial leasing was on par with pre-COVID levels to start 2025. Strong trade policy has been aimed at aiding U.S. manufacturing investment. Pre-leasing activity – such as touring and evaluation of new space requirements – accelerated immediately following the election, but uncertainty with global trade negotiations may dampen planned action until the second half of the year.

Construction pipeline continues to drop

Leading to new space gap as leasing increases



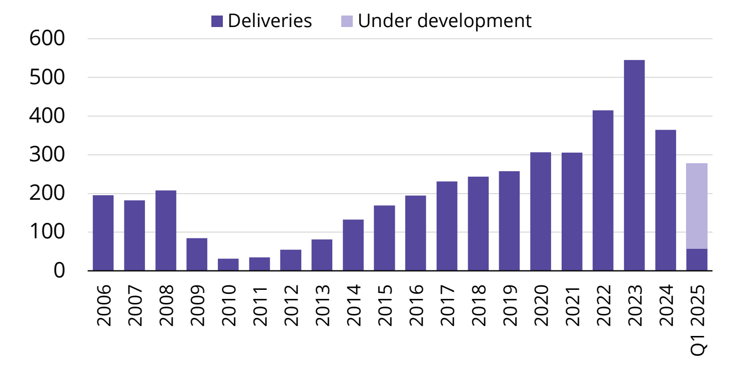
Source: Avison Young Technologies, CoStar

The construction pipeline has decreased to levels not seen since the beginning of 2015 and is expected to reach historic lows matching the aftermath of the Global Financial Crisis.

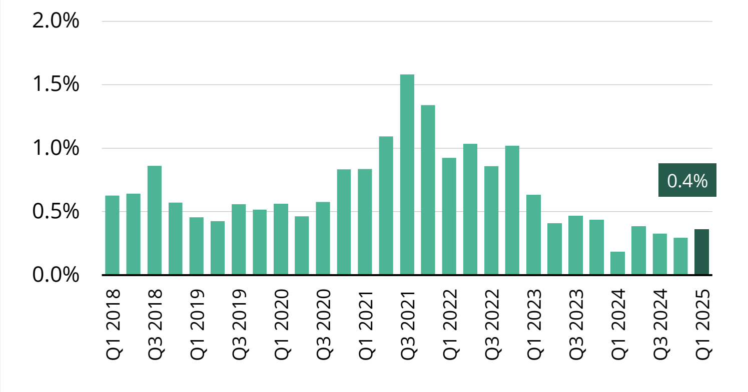
The industrial construction pipeline continues to reduce in size, as product that started construction just after the peak of Q3 2022 has largely delivered without replacement.

U.S. industrial market indicators

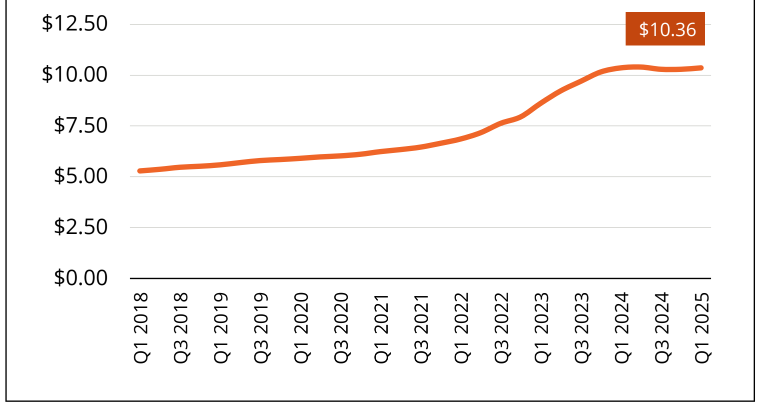
Development (msf)



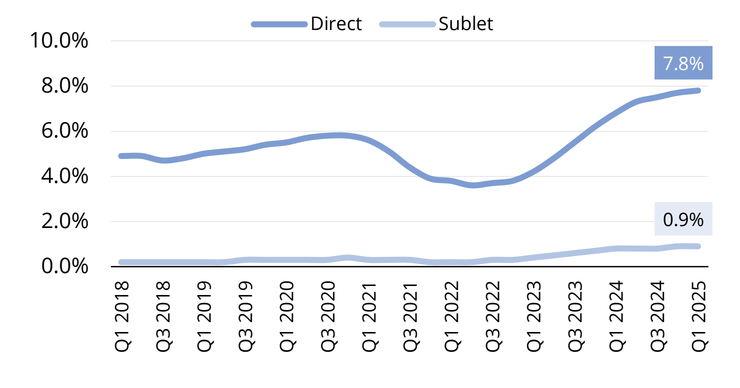
Net absorption as a % of inventory



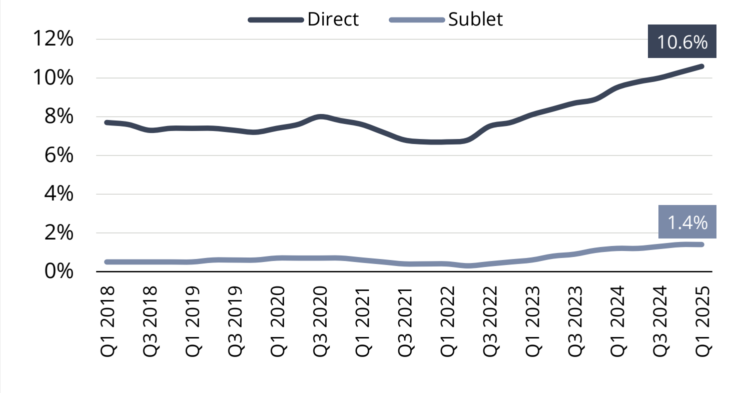
Direct asking rents (psf/NNN)



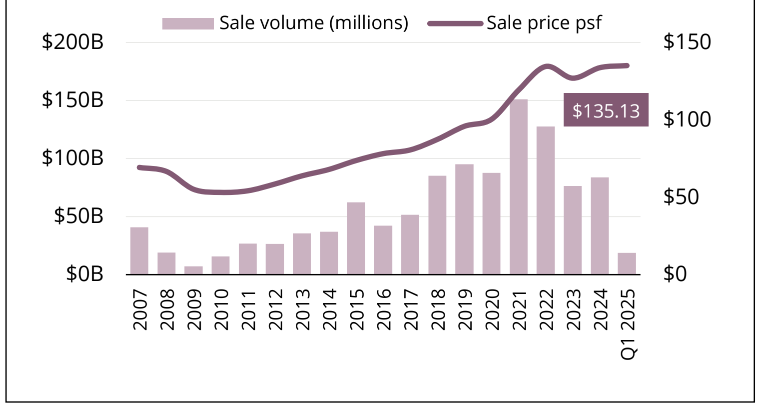
Vacancy (in %)



Availability (in %)

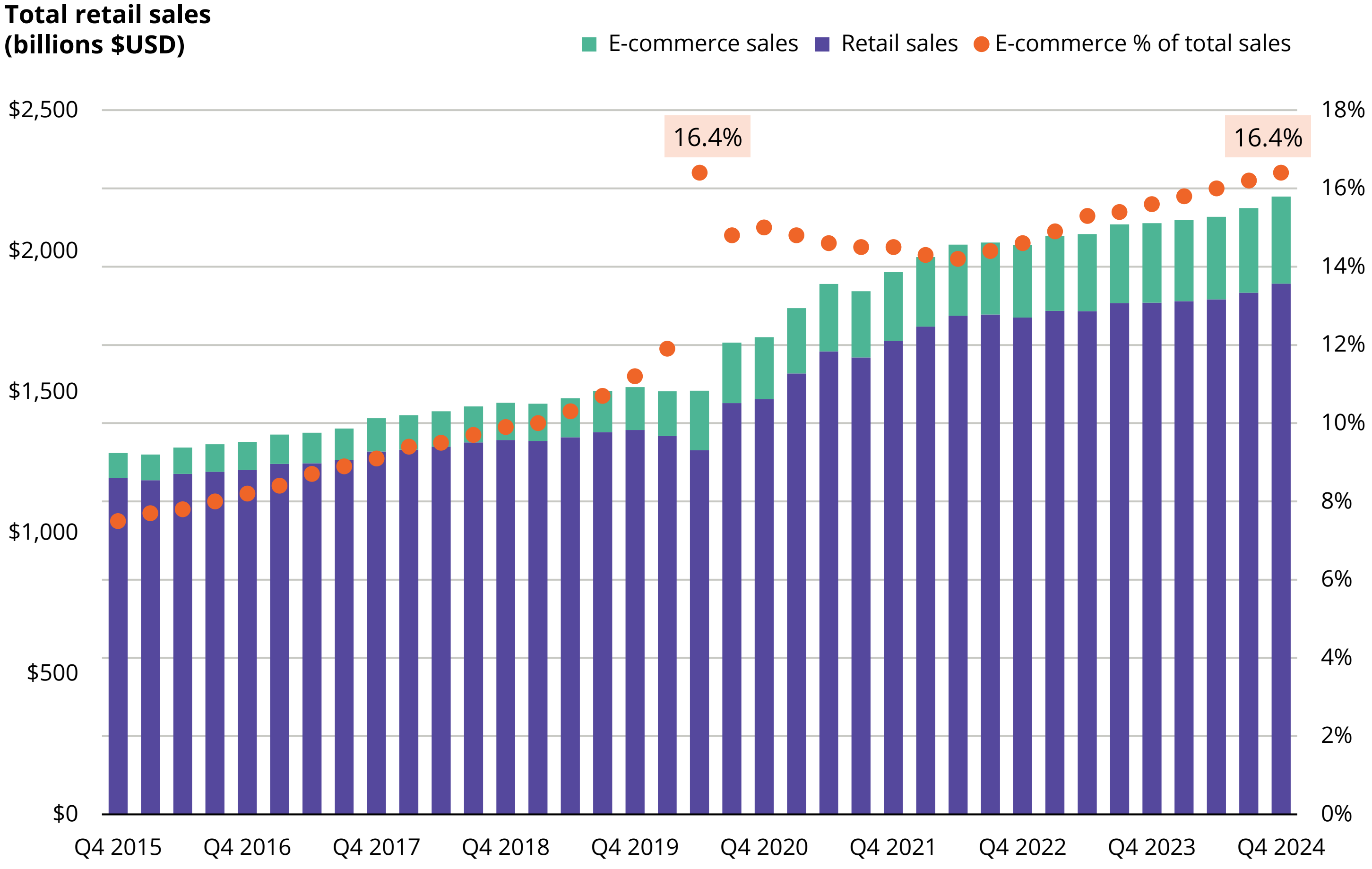


Investment sales



Source: Avison Young Technologies, CoStar, MSCI Real Capital Analytics

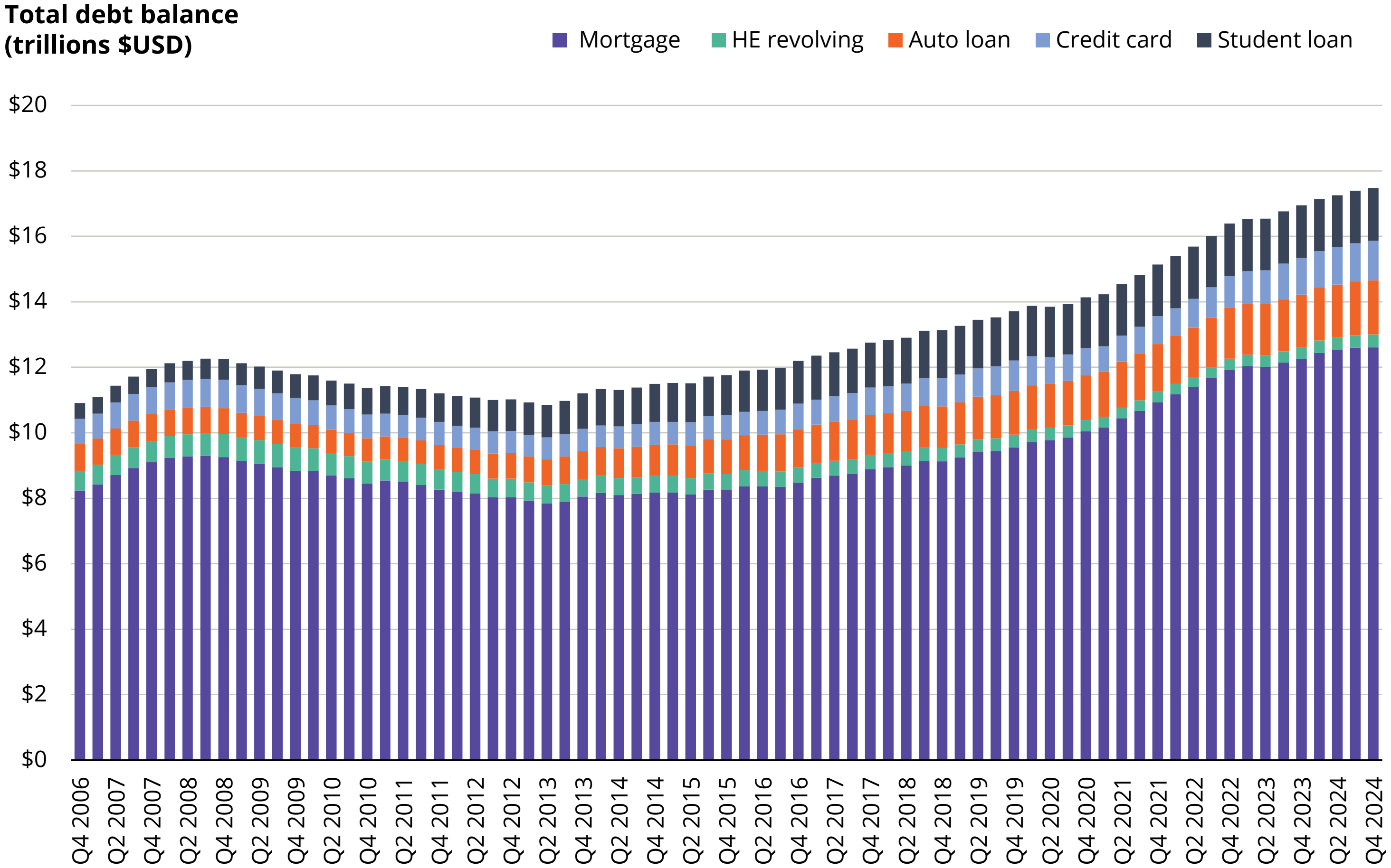
Retail sales continue slow climb as e-commerce sales reaches all-time high levels



Note: As of February 19, 2025 (most recent update)
Source: Federal Reserve Bank of St. Louis

E-commerce retail spend has increased 339.7% in the past 10 years and now matches the high watermark of 16.4% set during COVID. This has driven emerging sources of industrial demand for supportive fulfillment operations, including last mile providers, 4PLS and return-order specialists.

Household debt continues to surge to historic record of $18 trillion

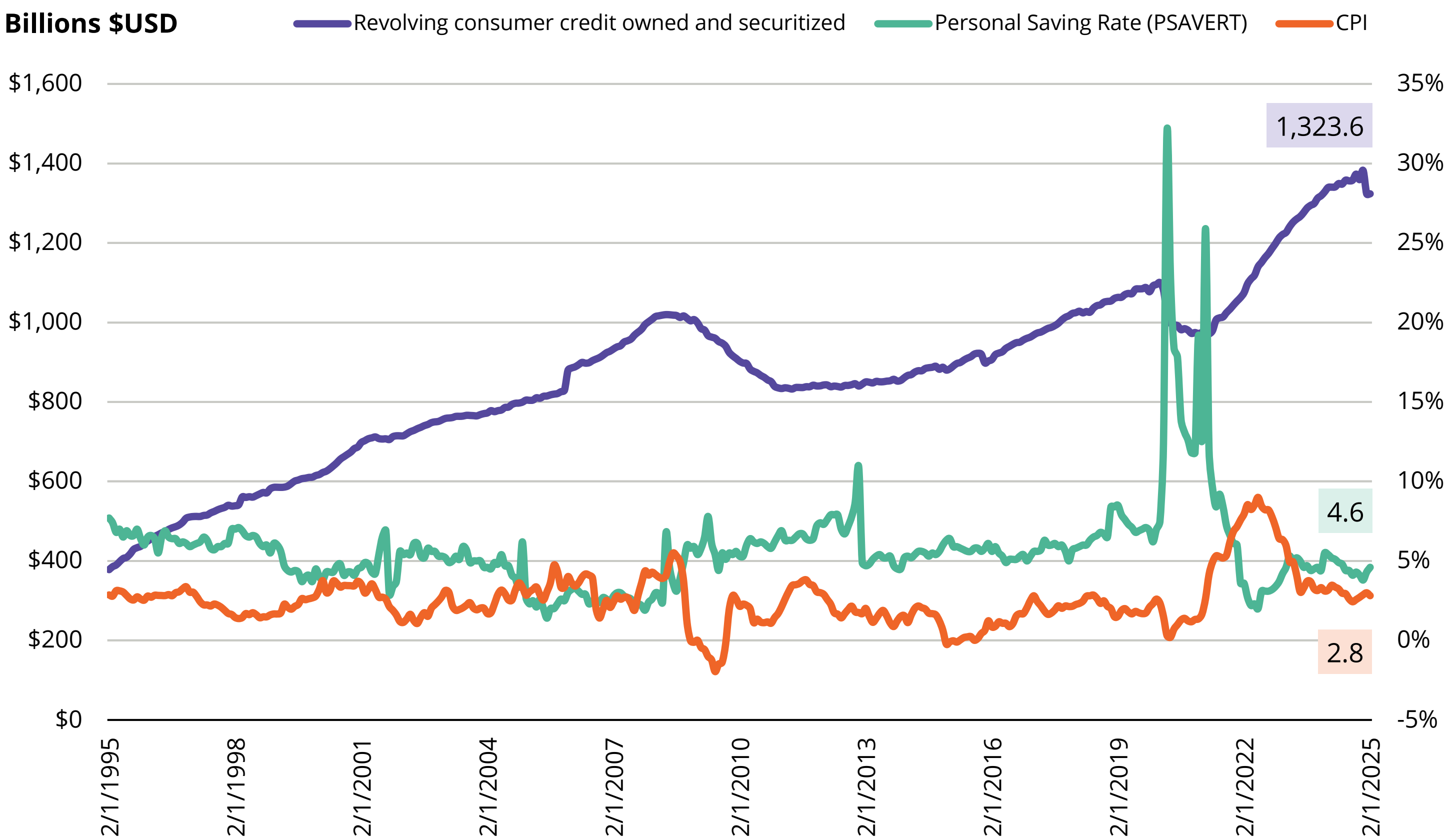


Source: Avison Young Technologies, FRBNY Consumer Credit Panel, Equifax

The U.S. consumer continues to pay for accelerated inflationary costs via increases in overall household debt. Since the beginning of the COVID cycle, U.S. household debt has increased 26.4% as of the start of 2024, as credit card debt surged to nearly 50% in the same timeframe.

CPI shows inflation is moderating, but consumers remain under pressure

Revolving consumer credit owned and securitized (seasonally adjusted)

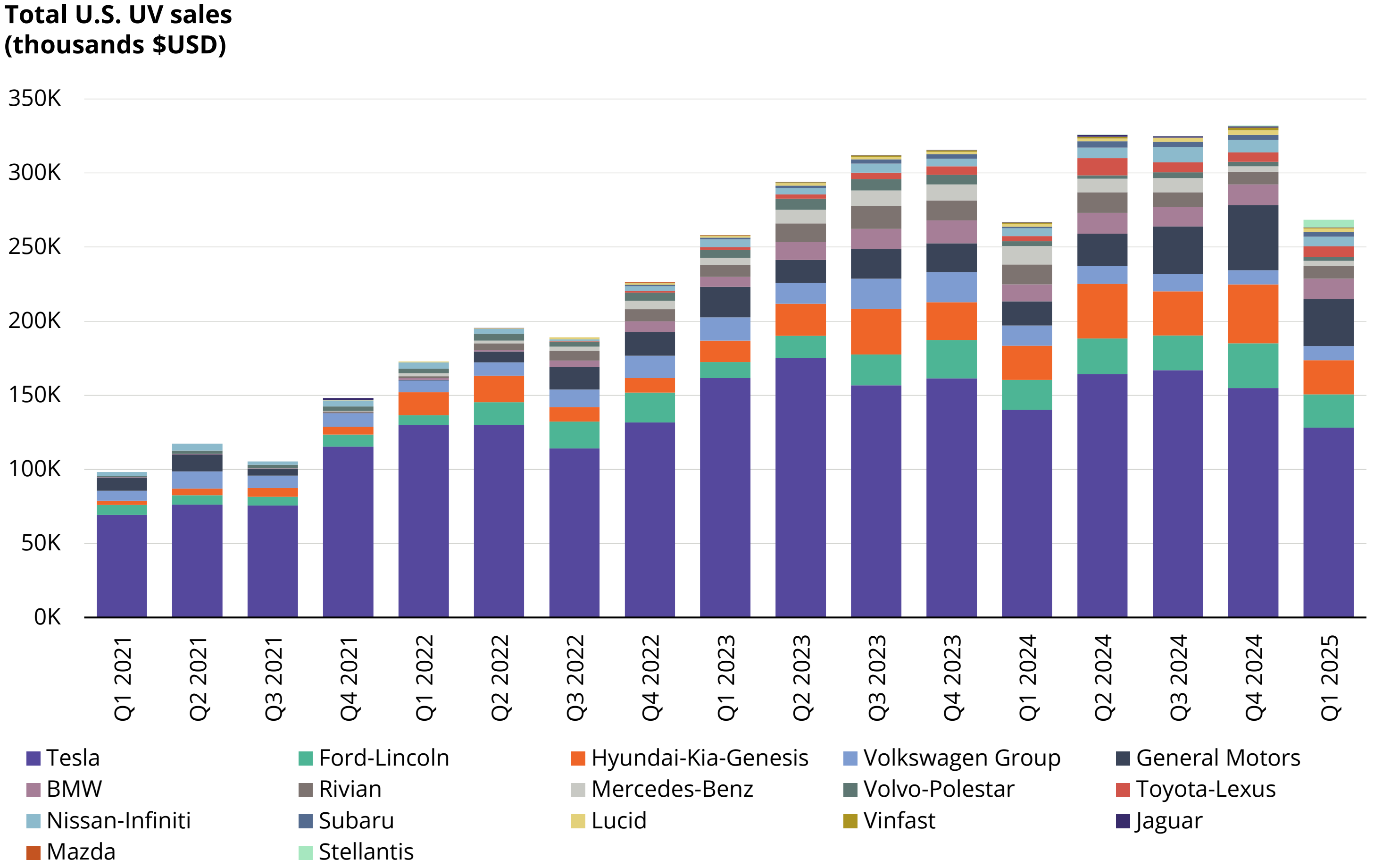


Note: As of March 2025 (most recent data)
Source: Avison Young Technologies, Federal Reserve Bank of St. Louis

Consumer credit remains at record levels but started to see a dip in early 2025. Personal savings are under pressure as households are forced to tap into rainy day funds for rising monthly expenses, especially homeowners' insurance and groceries.

Households may also look to postpone spending on big ticket items, such as furniture, appliances and automobiles. Further tariff decisions could push CPI higher in coming months as importers continue to directly pass along costs to consumers.

New EV sales cool in Q1 2025, matching Q1 2024 levels after year-end surge

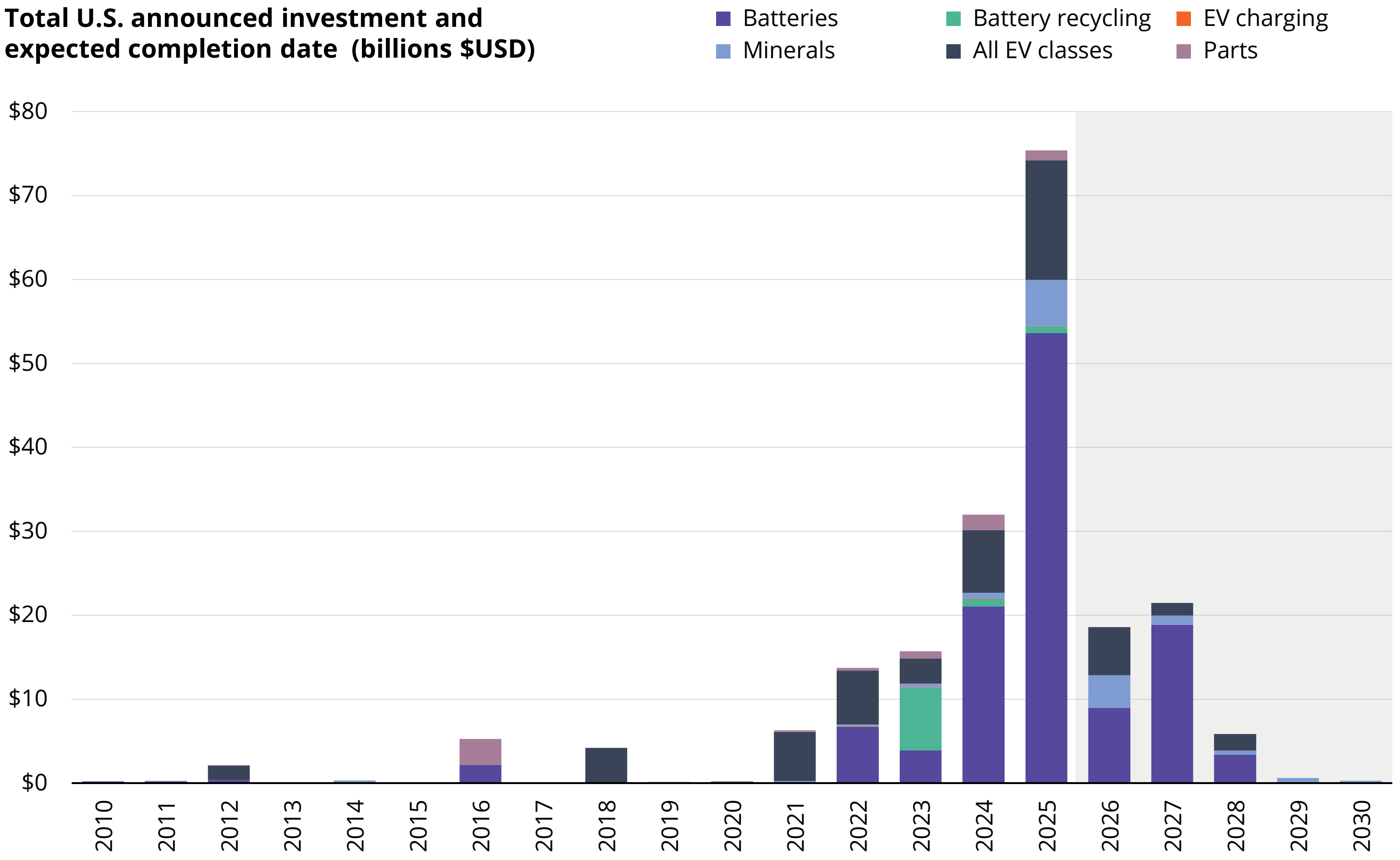


Q1 2025 U.S. EV sales totaled just under 270,000 units, which is steady with Q1 2024 volumes. While this is a decline from a record-setting Q4 2024, year-over-year stability suggests a maturing EV market with sustained demand. The Q1 dip is consistent with seasonal consumer trends, as purchases typically slow after year-end promotions.

Broader adoption across more automakers and growing model variety have helped maintain momentum, even as the market becomes more competitive.

Source: Avison Young Technologies, Cox Automotive

Battery and mineral boom fuels EV infrastructure investment

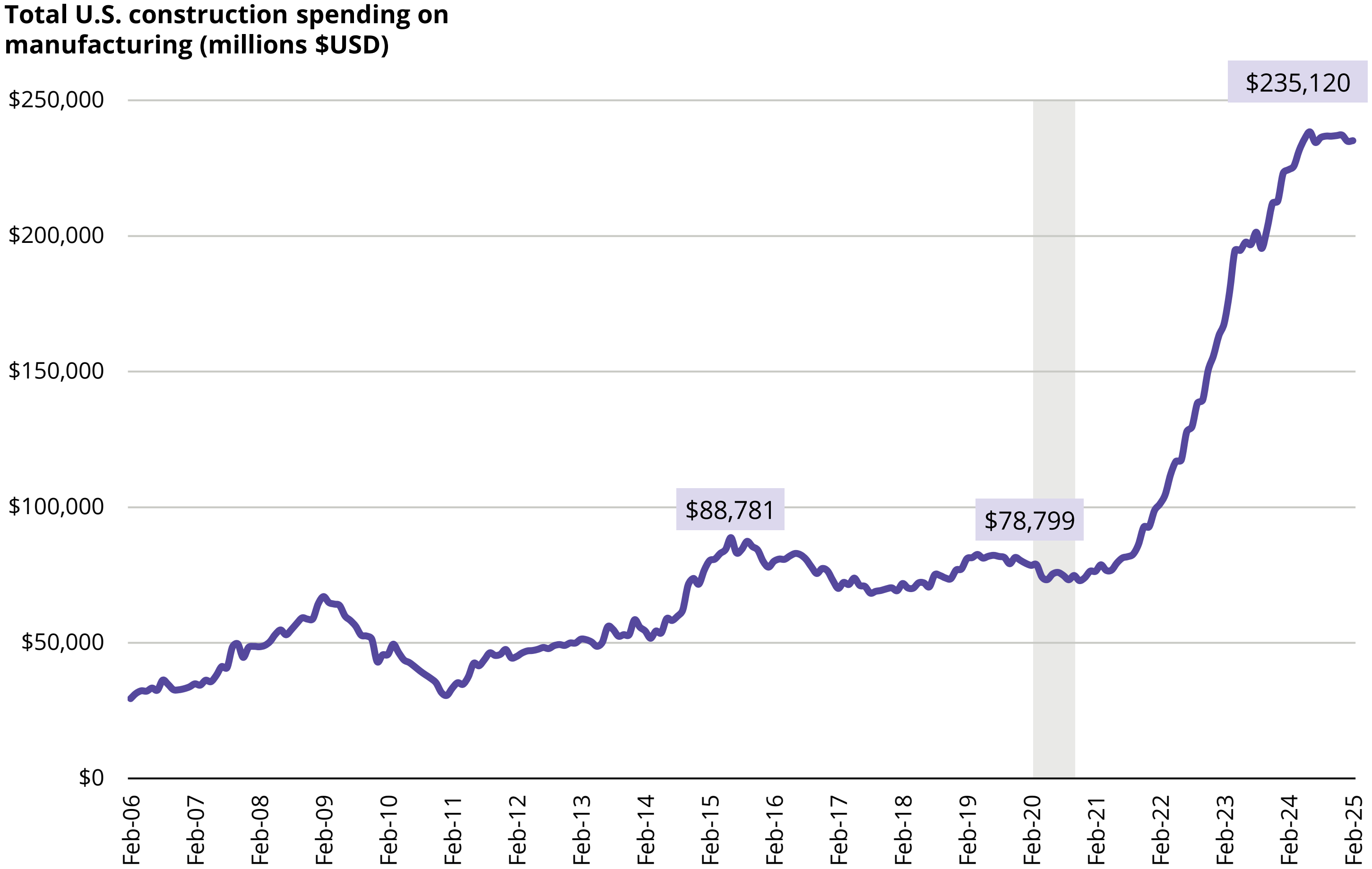


Source: Avison Young Technologies, Bluegreen Alliance Foundation

A historic wave of investment in battery and critical minerals continues to reshape the EV industry. The sharp rise in announced projects reflects a strategic shift toward strengthening domestic supply chains and reducing reliance on imports.

While consumer demand shows signs of restrained growth in the short-term, the surge in upstream spending signals confidence in the sector's long-term growth.

Manufacturing construction spending levels off, but reshoring momentum accelerates



Note: As of March 2025 (most recent data)
Source: Avison Young Technologies, Federal Reserve Bank of St. Louis

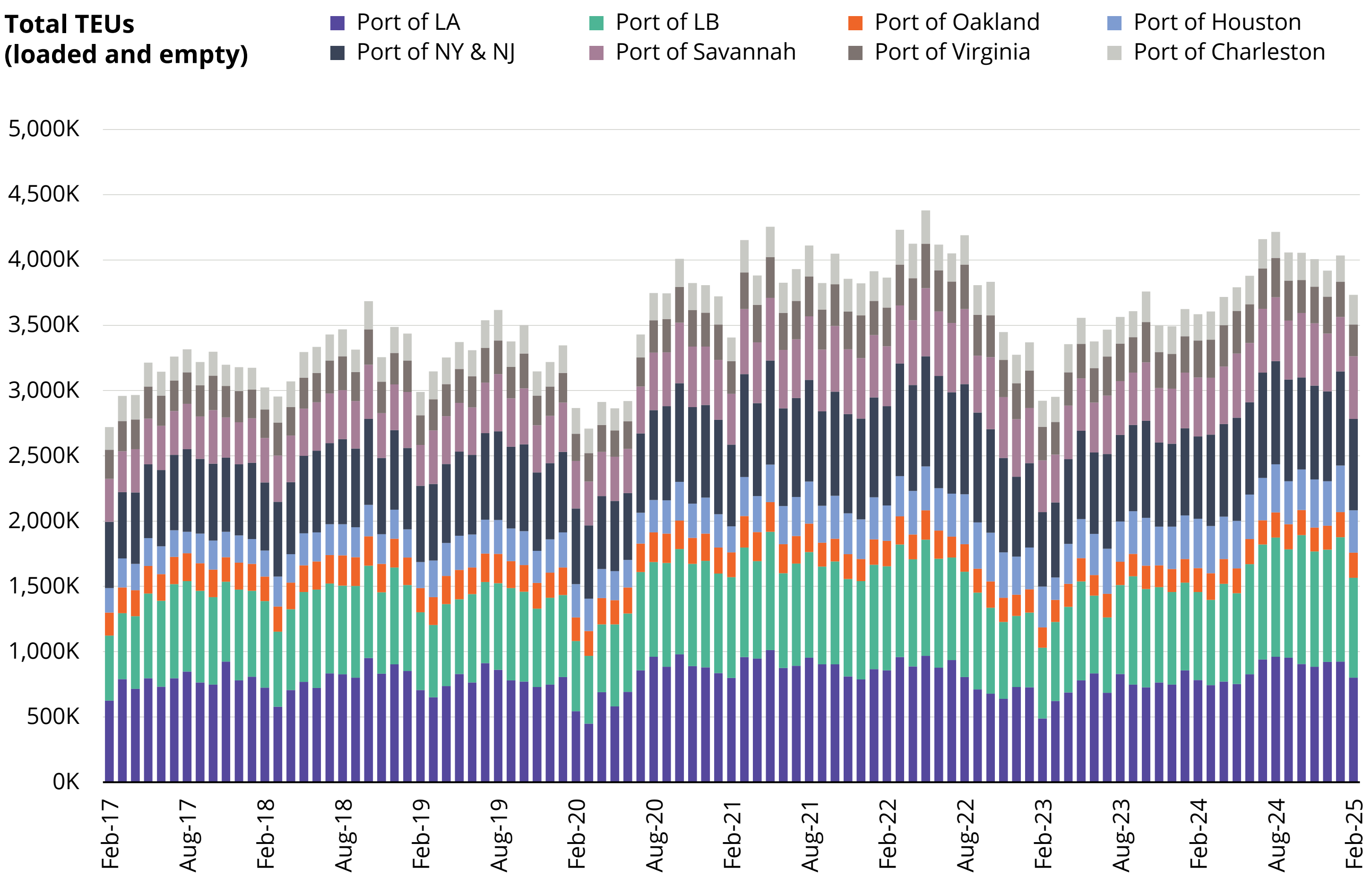
After a historic surge, U.S. manufacturing construction spending has plateaued in early 2025, signaling a moment of recalibration. This pause is expected to be short lived. With stronger policy clarity, maturing project pipelines, and rising certainty around long-term domestic production needs, a renewed surge in manufacturing construction is anticipated in the second half of 2025 and beyond.

Major manufacturing infrastructure investments announced since Q1 2025

Company	Country	Commitment amount	Industry	Total jobs	Notes
Apple	United States	$500 billion	Technology / Electronics	Not specified	Over 4 years, includes AI and jobs
SoftBank	Japan	$500 billion	AI Infrastructure / Technology	Not specified	Combined AI pledge
Oracle	United States	$500 billion	AI Infrastructure / Technology	Not specified	Combined AI pledge
OpenAI	United States	$500 billion	AI Infrastructure / Technology	Not specified	Combined AI pledge
Nvidia	United States	Hundreds of billions	Semiconductors / AI Technology	Not specified	Over 4 years, amount unspecified
TSMC	Taiwan	$100 billion	Semiconductors	~6,000	Chip production facilities
Johnson & Johnson	United States	$55 billion	Pharmaceuticals / Technology	Not specified	Manufacturing, research, tech
Eli Lilly and Company	United States	$27 billion	Pharmaceuticals	~2,000	New manufacturing plants
Novartis	Switzerland	$23 billion	Pharmaceuticals	5,000	1,000 direct, 4,000 indirect
Hyundai	South Korea	$20 billion	Automotive / Steel Manufacturing	~3,000	Includes $5.8B steel plant
DAMAC Properties	United Arab Emirates	$20 billion	Data Centers / Technology	Not specified	Data center development
CMA CGM	France	$20 billion	Shipping / Logistics	Not specified	Shipping and logistics infrastructure
Toyota	Japan	$14 billion	Automotive / Battery Production	~2,000	Battery plant
Merck	United States	$8 billion	Pharmaceuticals	~1,500	Over several years
Clarios	United States	$6 billion	Energy Storage	~1,200	Energy storage manufacturing
Stellantis	Netherlands	$5 billion	Automotive	~2,500	Reopen/upgrade plants
ArcelorMittal	Luxembourg	$1.2 billion	Steel Manufacturing	~600	Electrical steel production
GE Aerospace	United States	$1 billion	Aerospace	~1,000	Across 16 states
Leprino Foods	United States	$1 billion	Food / Dairy	~500	Cheese and dairy facility
GE Vernova	United States	$600 million	Energy Equipment	~500	Factory upgrades
GlobalFoundries	United States	$575 million	Semiconductors	~400	Semiconductor packaging
Diageo	United Kingdom	$415 million	Beverages	~200	Beverage production
Eaton	Ireland	$340 million	Electrical Components	~250	Electrical component manufacturing
Siemens	Germany	$285 million	Electrical Products	~300	Electrical product manufacturing
Honda	Japan	No new investment	Automotive	Minimal new jobs	Shifted Civic hybrid to Indiana

Source: Respective company press releases, announcements
Note: Amounts and jobs are approximate, based on public announcements; actual amounts may very. Some pledges include non-manufacturing components (e.g., R&D, AI) but focus on manufacturing where noted

Trade pressures shift port activity as aggregate YoY volumes reach highest in three years

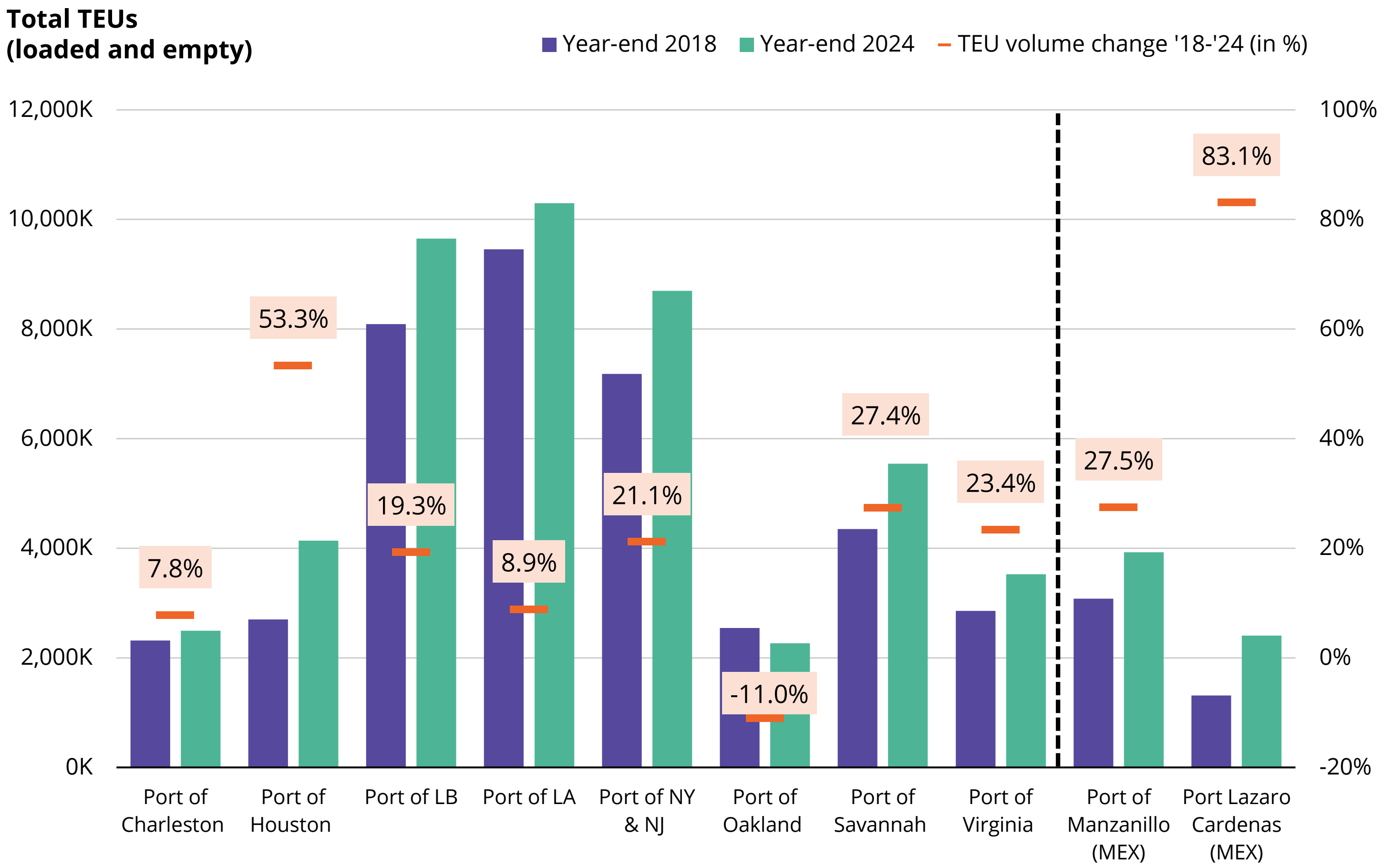


Note: As of February 2025 (most recent data available for all ports)
Source: Avison Young Technologies, Individual Port Authorities

Major U.S. ports in aggregate posted their highest February container volumes in three years amid ongoing shifts in trade dynamics.

The ports of Savannah and Charleston posted strong month-over-month growth, while Gulf and Pacific ports saw drops in volume. A shift in port activity provides early insight on the impact of nearshoring and changing economic policy.

Supply chain network shifts creating gains in Eastern ports and losses in Western ports

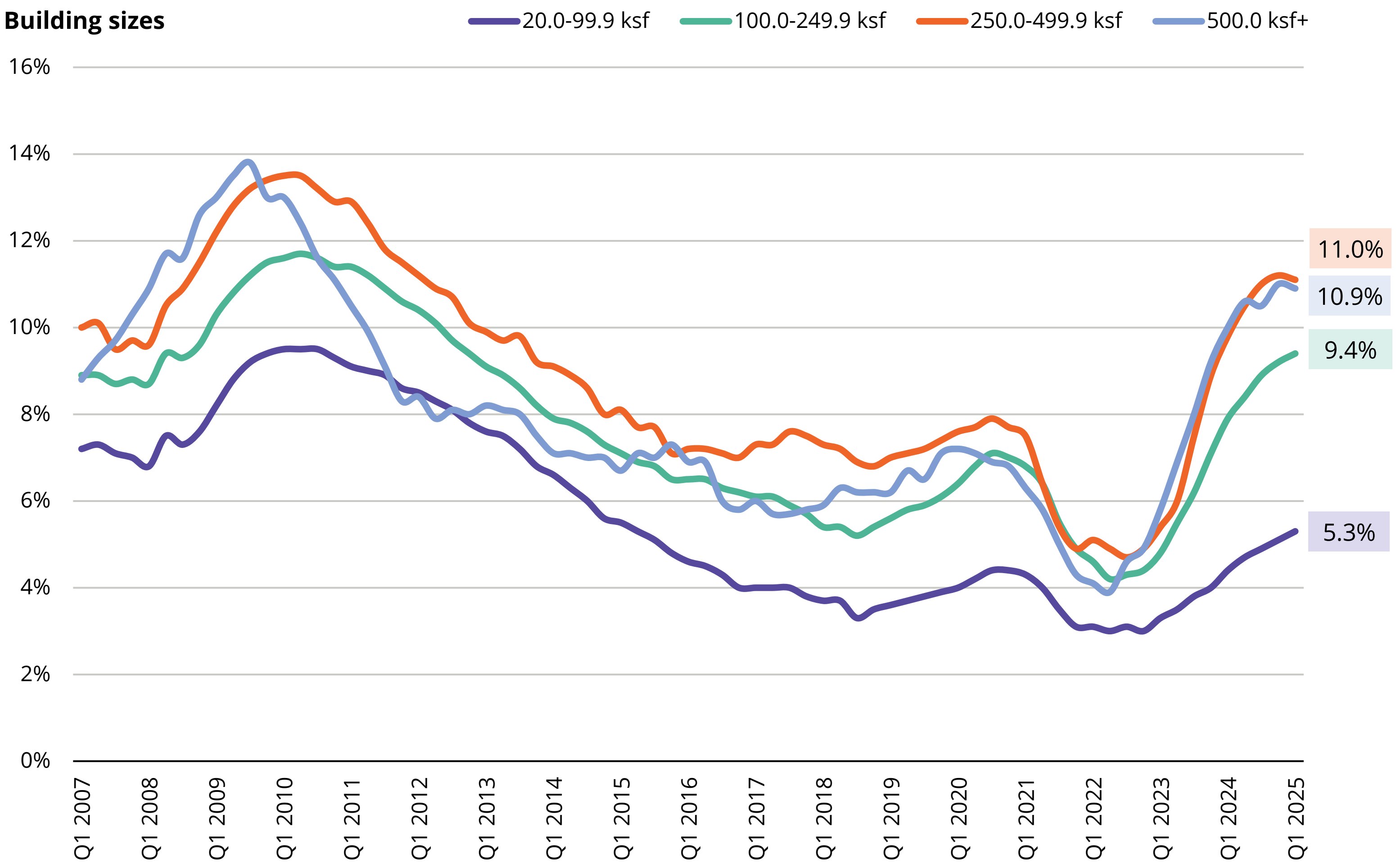


Significant growth due to investment in port infrastructure, coupled with emerging population shifts, have driven substantial growth in Eastern, Gulf Coast, and Mexican ports, while Western ports have been growing slowly or shrinking.

Trade negotiation friction, the continued trend toward port-of-entry diversification, coupled with substantial manufacturing-favorable policy, will drive further growth outside of Western ports.

Source: Avison Young Technologies, Individual Port Authorities
*Most recent data through December totals

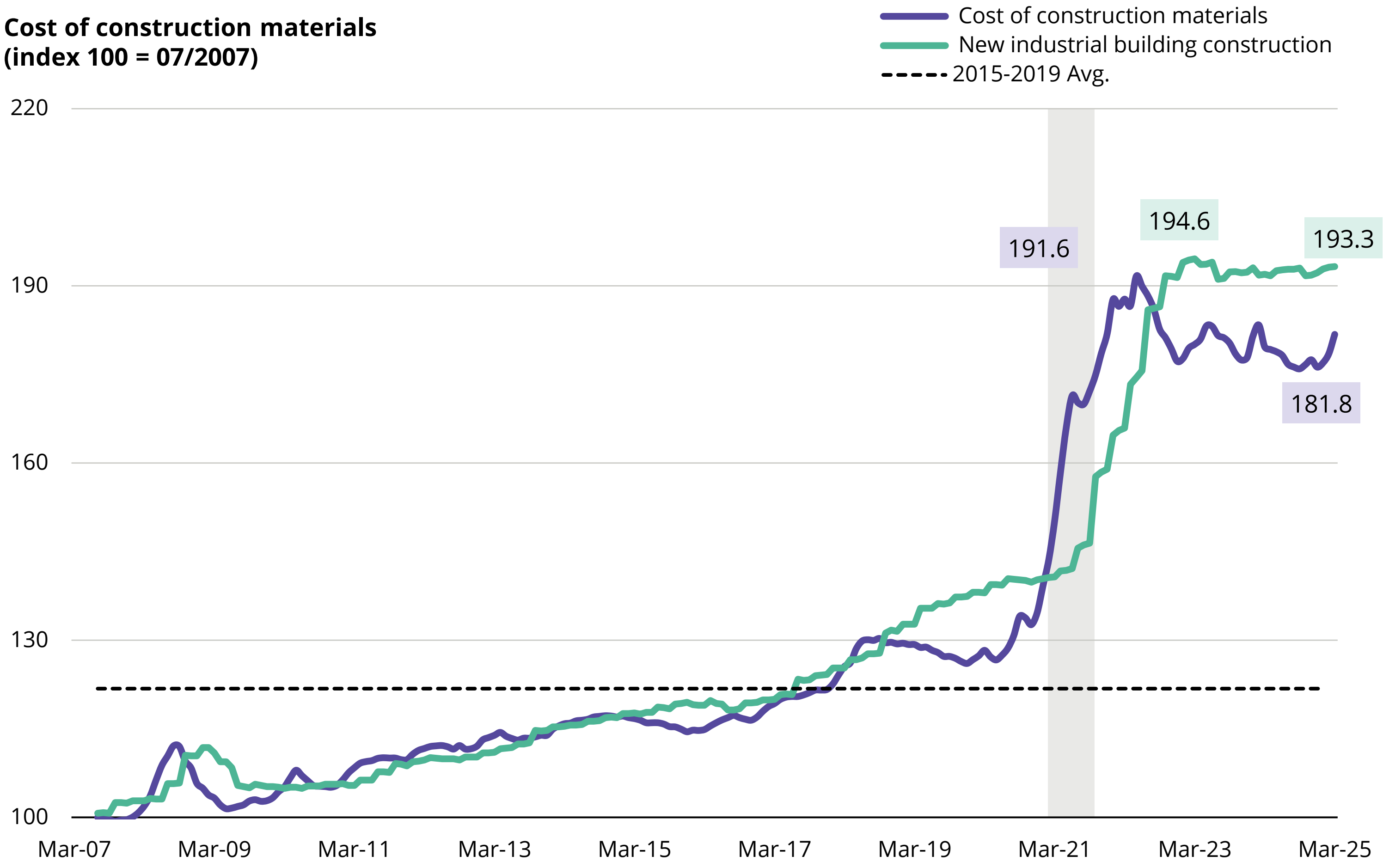
U.S. industrial vacancy by building size



After hitting historic construction pipeline volume in late 2022, a record amount of new industrial space was delivered and topped out in 2023. Peak deliveries have passed, and a flattening of vacancy among larger buildings is expected by the end of the first half of 2025.

Source: Avison Young Technologies, CoStar

Construction costs endure near historic highs, and are rising for industrial materials

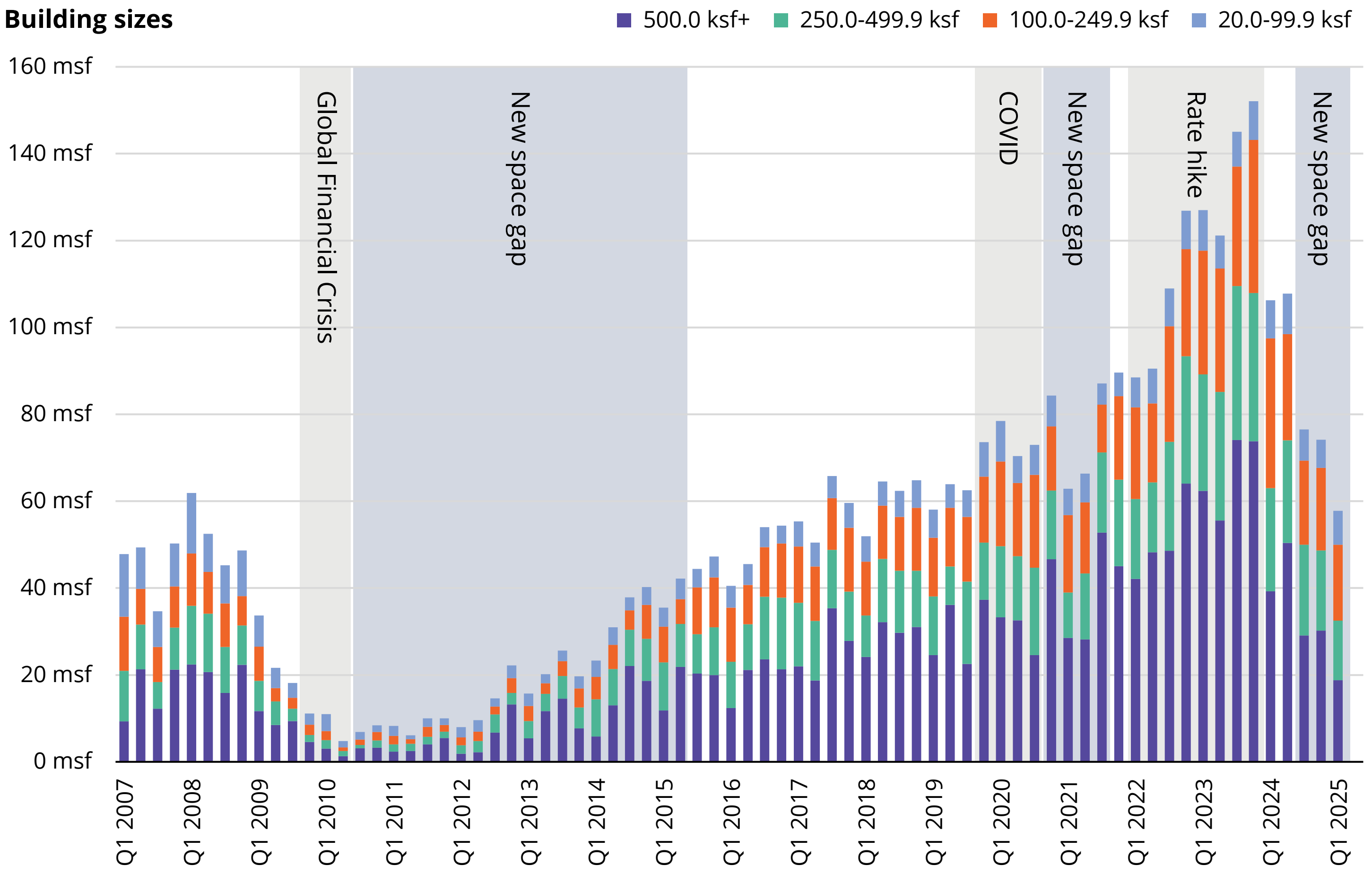


Source: Avison Young Technologies, Federal Reserve Bank of St. Louis

As some landlords and developers consider demising large vacant blocks to target more active occupier requirement sizes, the added costs of this option make it unlikely to flood markets with smaller space inventory in 2025.

High vacancy in newly delivered buildings

Current high vacancy expected to lead into second half new space gap

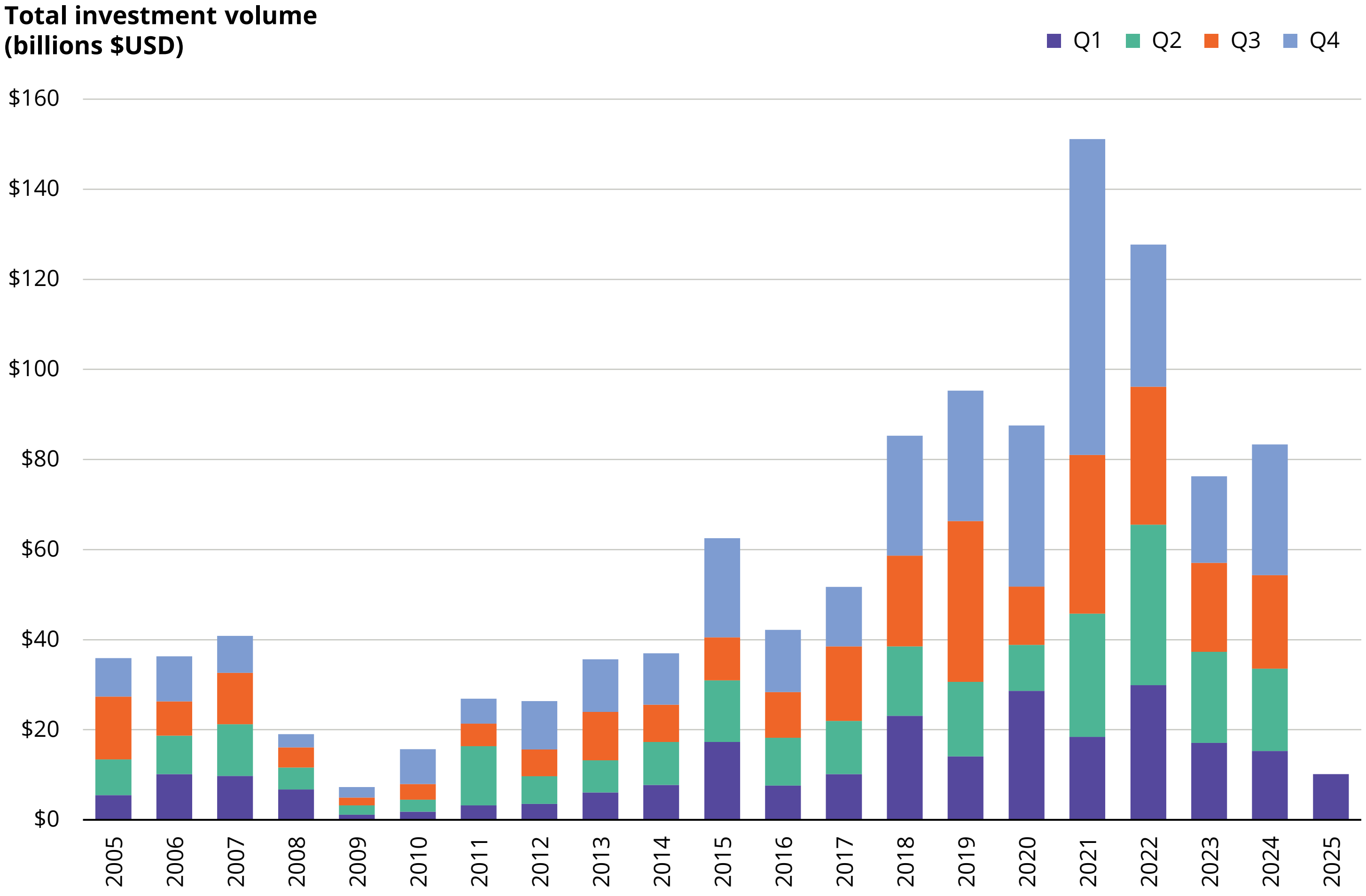


Source: Avison Young Technologies, CoStar

2023 represented the largest number of deliveries in industrial history, but 2024 showcased the start of a drastic decrease in new deliveries. Continued drops in deliveries nationally are pushing the sector to levels not experienced since the aftermath of the Global Financial Crisis.

As existing new space is leased, a new space gap is expected to emerge in the second half of 2025 and persist for at least 15 months, due to a nearly eight-quarter half in new groundbreakings.

Industrial investment volume

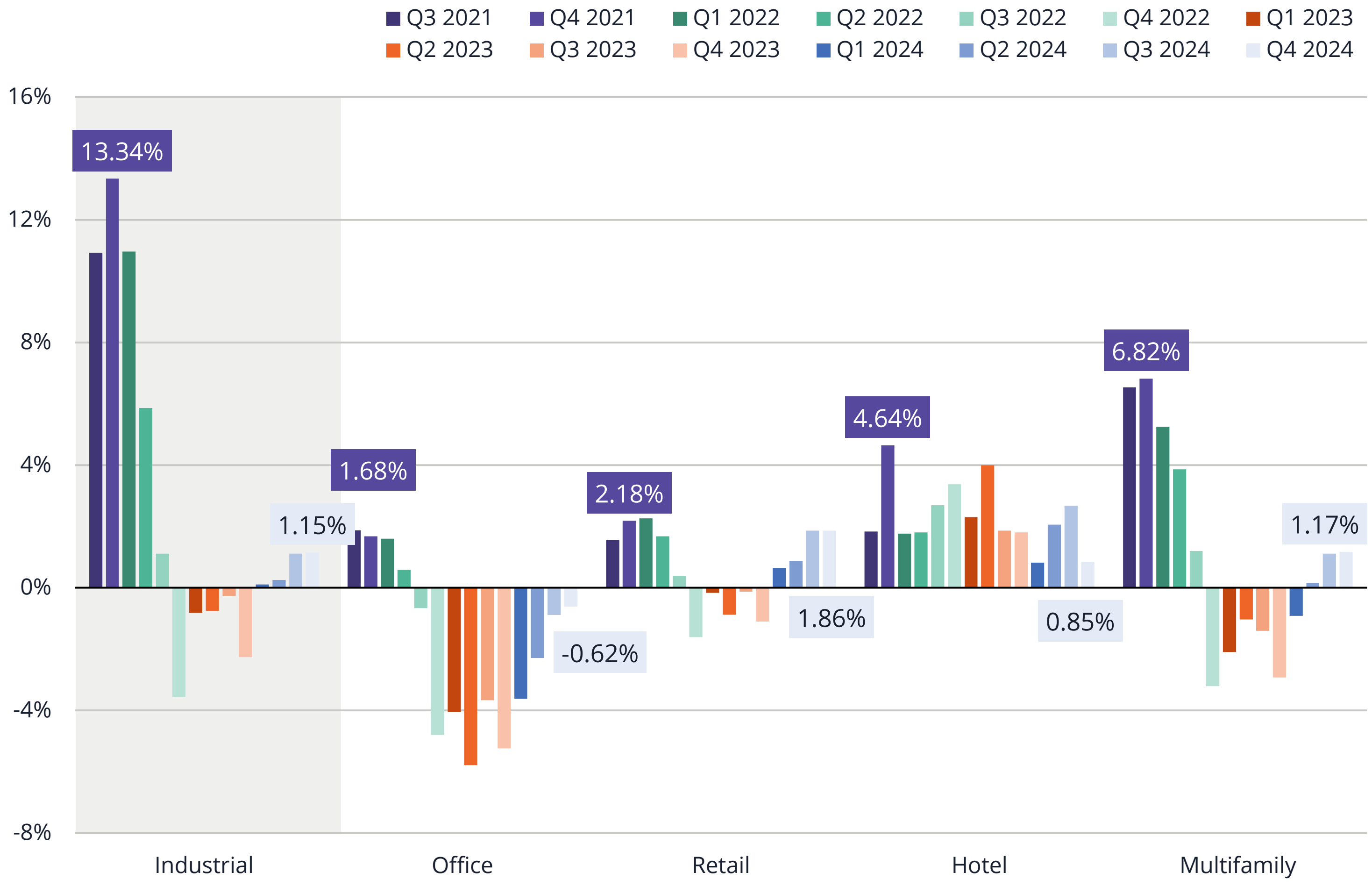


Note: Transactions >$2.5M. As of April 2025 (most recent update)
Source: Avison Young Technologies, MSCI Real Capital Analytics

Industrial investment volume experienced a reverse of the previous two years, as Q4 2024 surged to the largest tally since Q4 2022.

With record levels of dry powder ready to transact, a surge in investment sales is expected to continue in 2025, particularly catalyzed by any positive trends in the economy.

U.S. NCREIF NPI quarterly returns

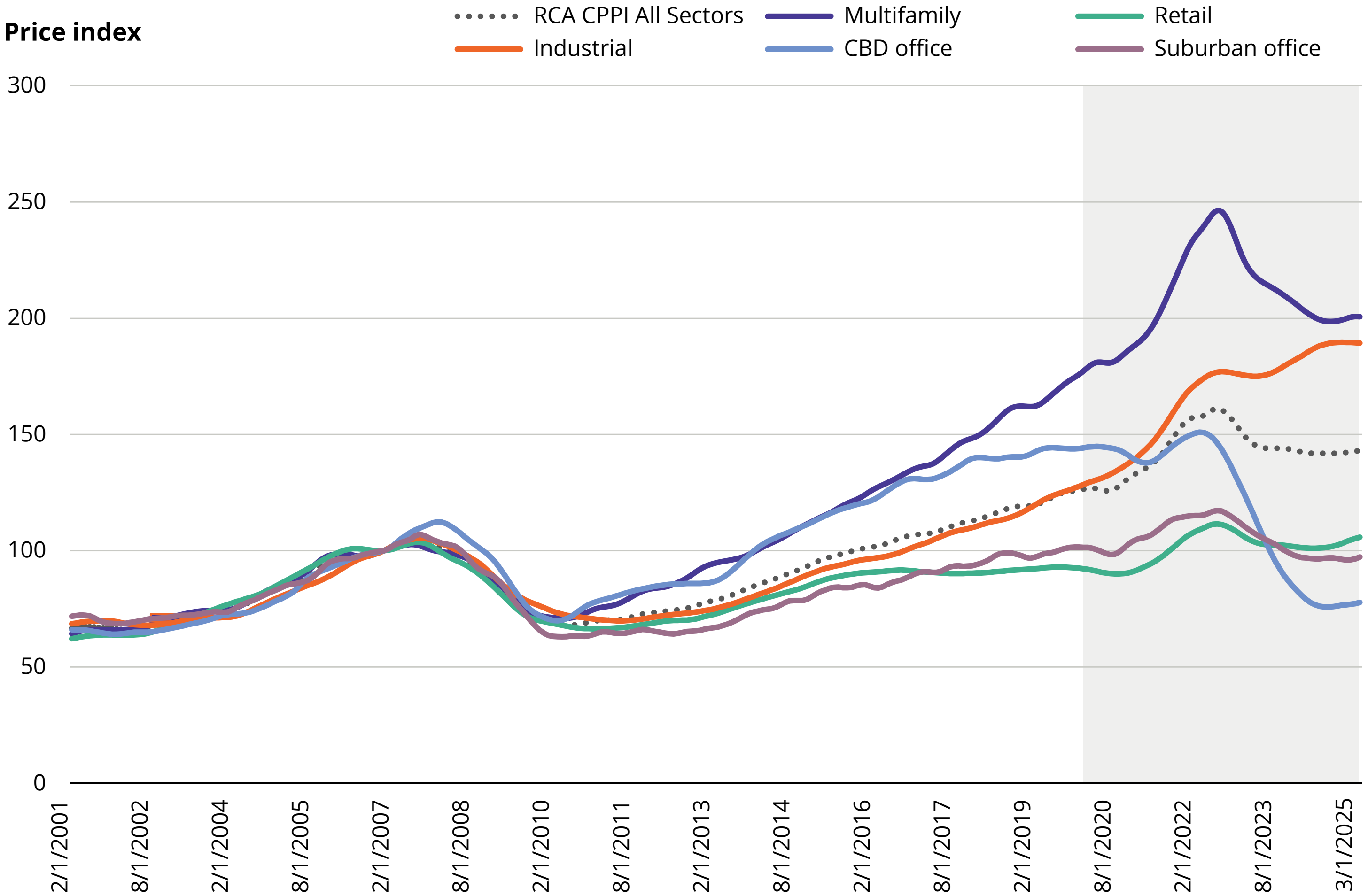


Note: As of April 2025 (most recent update)
Source: Avison Young Technologies, NCREIF

Industrial investments showcased continued successful returns for four consecutive quarters, jumping 4 basis points (bps) quarter-over-quarter.

Throughout the COVID cycle, industrial has led returns for all NCREIF investment peer sectors as the asset type remains resilient in economic uncertainty.

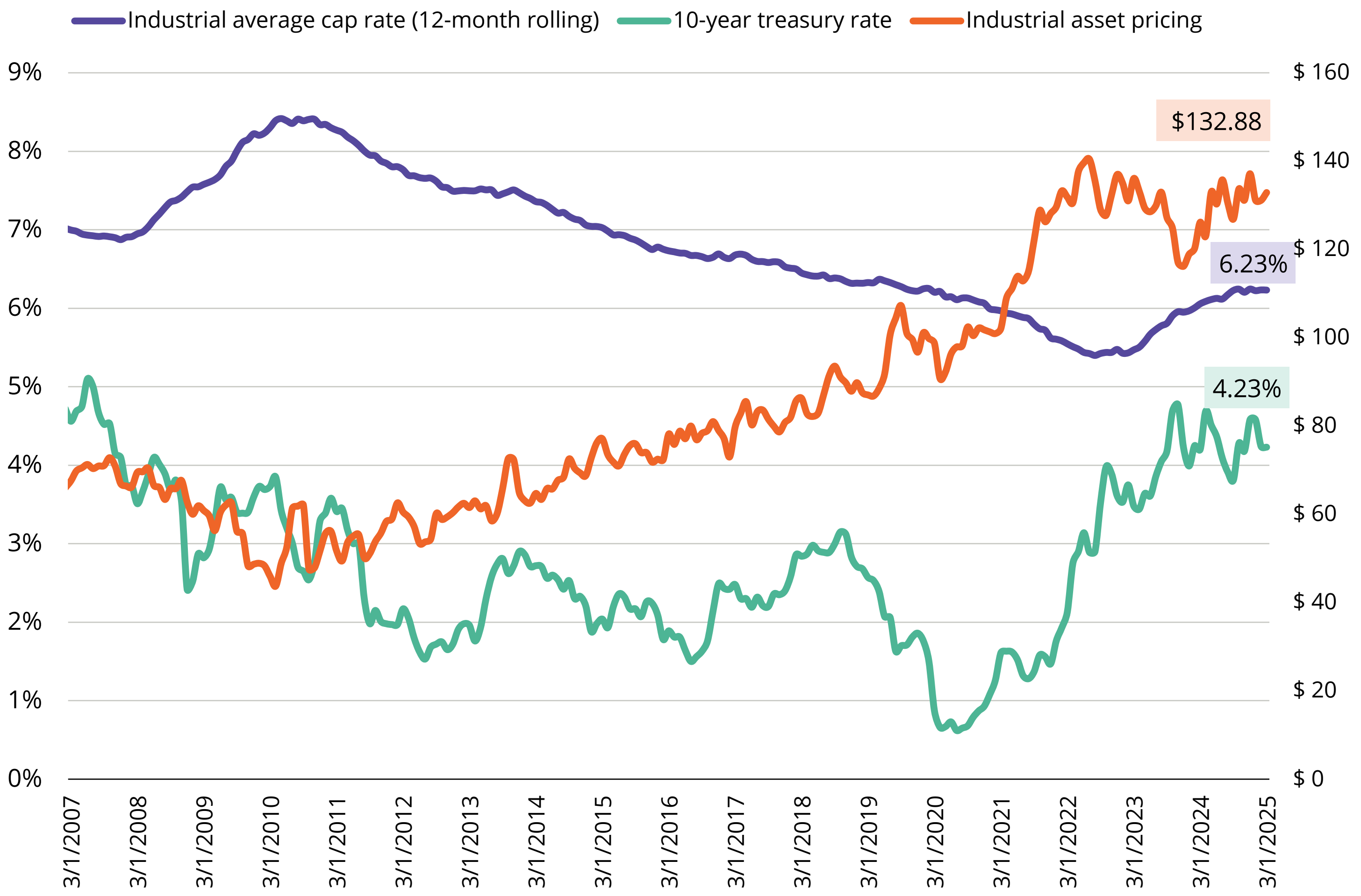
RCA commercial property price indices



Note: Transactions >$2.5M. RCA CPPITM measure the actual price movements for commercial properties based on exclusive transaction data using repeat-sales regression methodology.
Source: Avison Young Technologies, MSCI Real Capital Analytics

Industrial pricing (+15 bps since peak pricing in 2022) has retained the gains experienced during COVID better than any other peer sector and is the only sector that is again appreciating in value despite the current cost of capital.

U.S. industrial cap rates vs. asset pricing

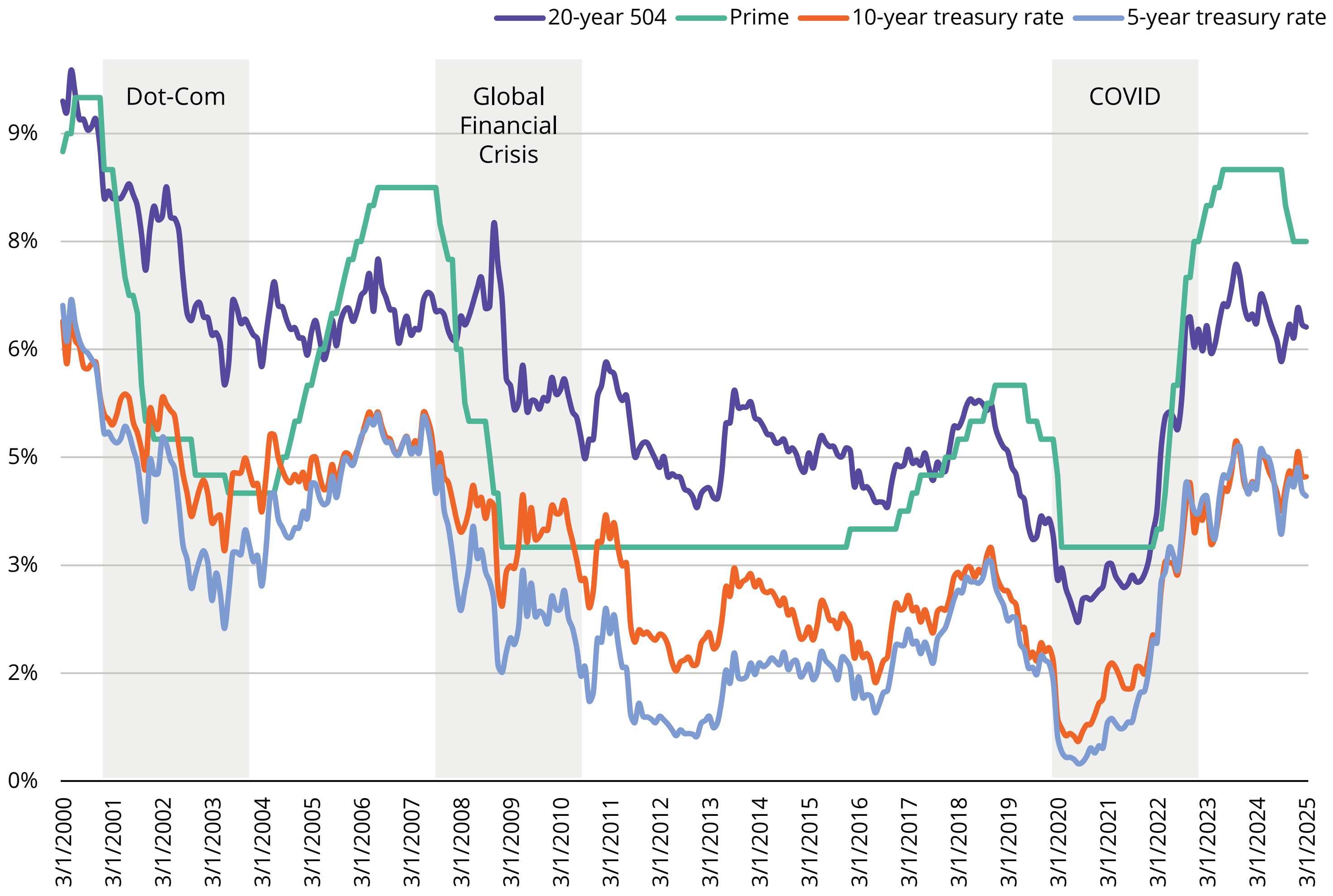


Note: Transactions >$2.5M
Source: Avison Young Technologies, MSCI Real Capital Analytics, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis

Despite the limited transaction volume compared to the COVID and pre-COVID environment, industrial assets have remained attractive to investors.

Recent convergence between the effective federal funds rate and 10-year yield are complicating the increase in transaction volume for 2025.

Cost of borrowing in historical context



Source: Avison Young Technologies, Federal Reserve Bank of St. Louis

As we've just experienced the most aggressive jump in borrowing rates this century, historic context is important to consider where policy heads further into 2025 and beyond.

Industrial insights glossary of terms

Demand

Leasing activity: total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space

Absorption: period-over-period change in occupied square footage

Supply

Direct vacancy rate: space operated by landlords that is ready for immediate occupancy

Sublease vacancy rate: space operated by sublandlords that is ready for immediate occupancy

Total vacancy rate: sum of direct vacancy rate and sublease vacancy rate

Availability rate: space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

Triple net rents: tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance

Asking rents: pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)

Base rents: fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)

Free rent period: months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite

Tenant improvement allowance: an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs

Net effective rent: base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

Investment volume: industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale

Asset pricing: unweighted average per-square-foot asset pricing of market-level closed sales

Cap rate: net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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