U.S. industrial market report

Q3 2025

AVISON YOUNG

U.S. industrial market trends

9.4%

vacancy expansion cools in Q3 2025

Although vacancy rates rose quarter over quarter (QoQ), the 0.1% increase was the smallest gain recorded in the post-COVID cycle. Slowing vacancy rate increases are signaling a return to stability after a tumultuous past year marked by uncertainty around U.S. federal elections, trade negotiations, fiscal policy, and taxation.

While some uncertainty remains, confidence is growing in the U.S. industrial sector, which is expected to be underpinned by continued growth in e-commerce sales, as well as a surge in manufacturing investment heading into 2026.

+24.8 msf

net absorption rebounds after Q2 dip

Net absorption rebounded in Q3 2025 after a slight dip in the previous quarter. This growth can be attributed to renewed tenant confidence, as deals previously on hold due to broader macroeconomic uncertainty were signed in Q3 2025 amidst greater clarity around U.S. trade policy. While uncertainty remains a common theme across both the broader economic and commercial real estate landscape, Q3's positive net absorption points to growing confidence in the economy at large as unexpected strength in consumer spending and overall GDP buck economic projections.

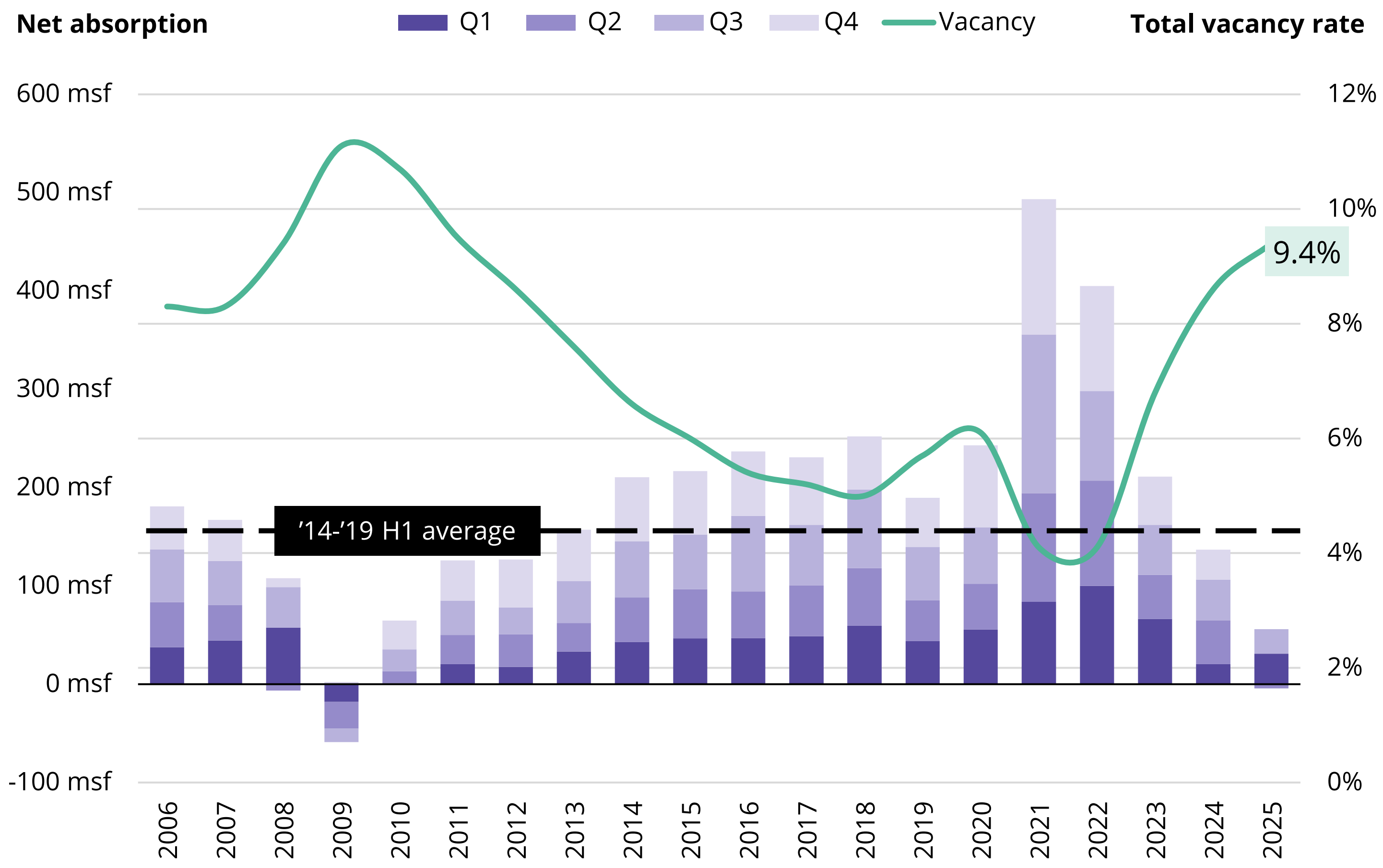
1.9%

inventory under construction rises for first time since 2022

The percent of total inventory under construction has risen for the first time since the Federal Reserve began increasing interest rates in 2022. After nearly two years of developers pulling back amid tighter financing and broader economic uncertainty, this uptick marks a modest expansion of the construction pipeline. While the story differs market to market, conviction appears to be growing in markets that were not oversupplied.

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

U.S. industrial net absorption vs. vacancy

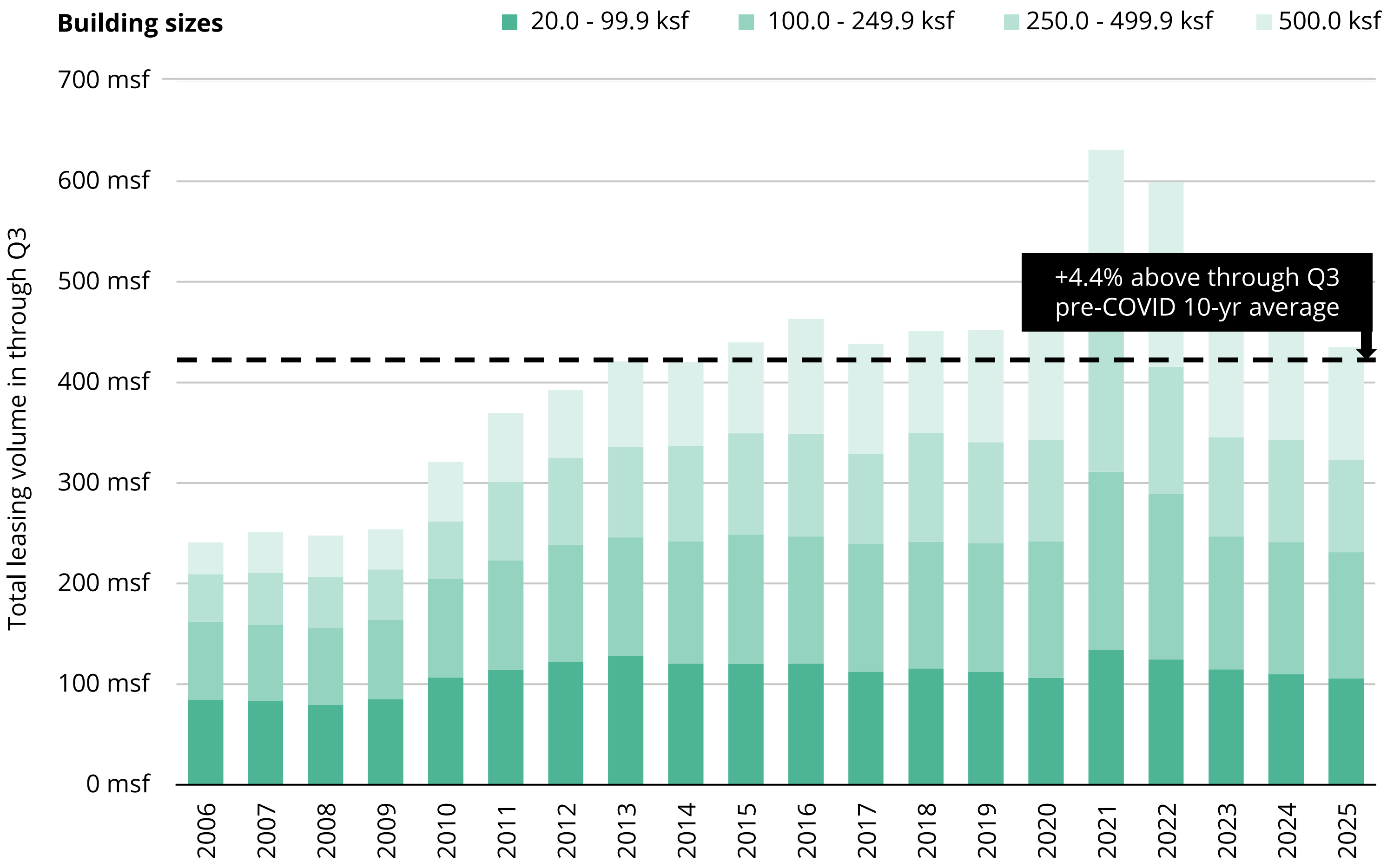


The first three quarters of 2025 were marked by the first negative net absorption figure since 2009, as several deals slated to be finalized stalled due to trade/tariff uncertainty.

The slight QoQ rise in vacancy, coupled with a rebound in net absorption, shows the industrial sector is stabilizing as the temporary effects of aggressive trade negotiations and tariffs appear to wane.

Source: Avison Young Technologies, CoStar

Industrial leasing volumes slightly above pre-COVID 10-year average through Q3 2025

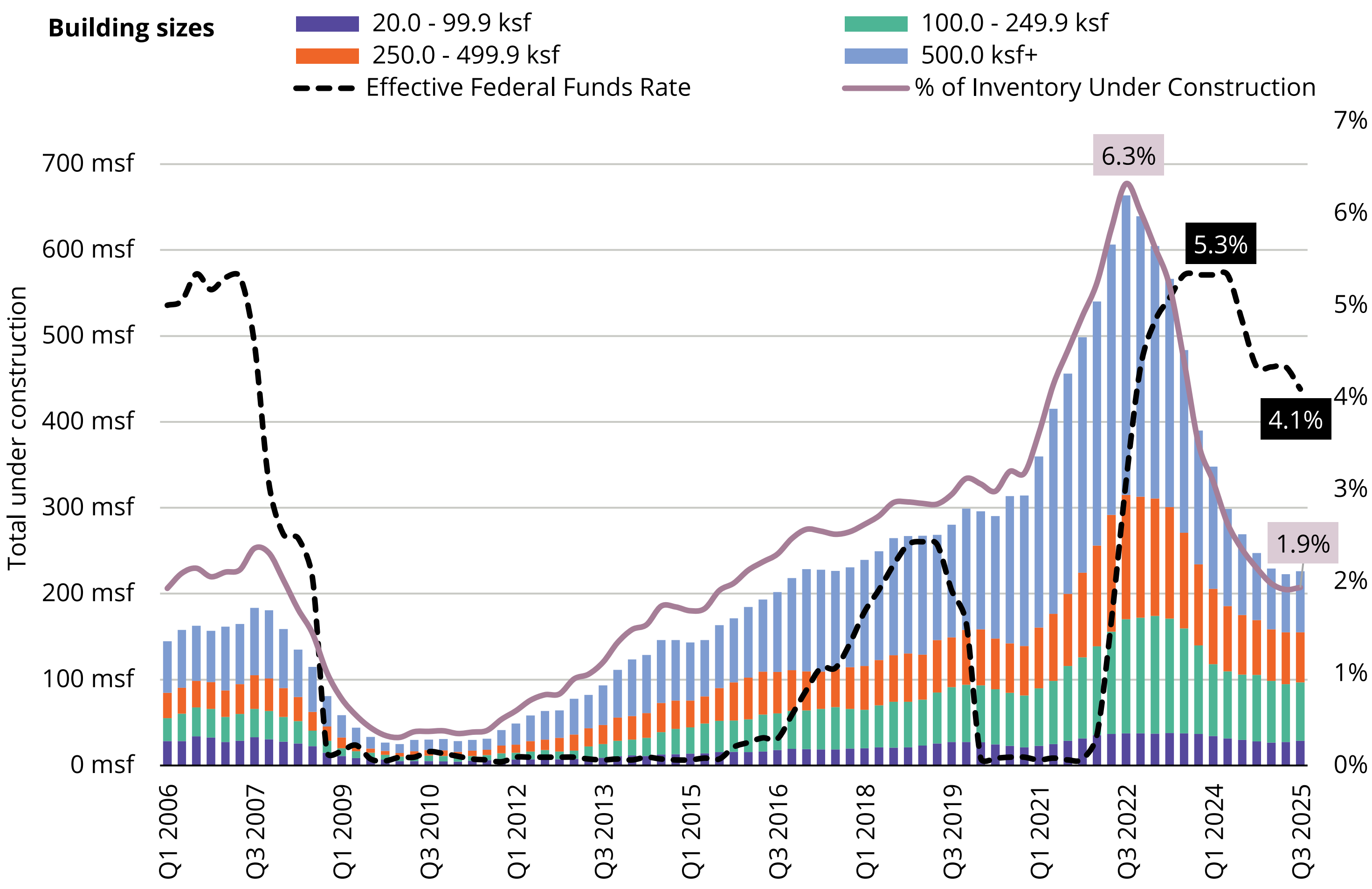


Despite trade negotiation and tariff uncertainty, industrial leasing is proving to be lasting and resilient. Industrial leasing was on par with pre-COVID levels through the first three quarters of 2025.

Additionally, the OBBBA (One Big Beautiful Bill Act) law is expected to catalyze U.S. manufacturing and refining, as well as complementary industrial demand on an aggressive timeline. As leasing statistics are a laggard indicator, a strong close to 2025 is expected, with an accelerated increase in industrial leasing beginning in 2026 and beyond.

Source: Avison Young Technologies, CoStar

Construction pipeline reversing after effectively halting for over 24 months

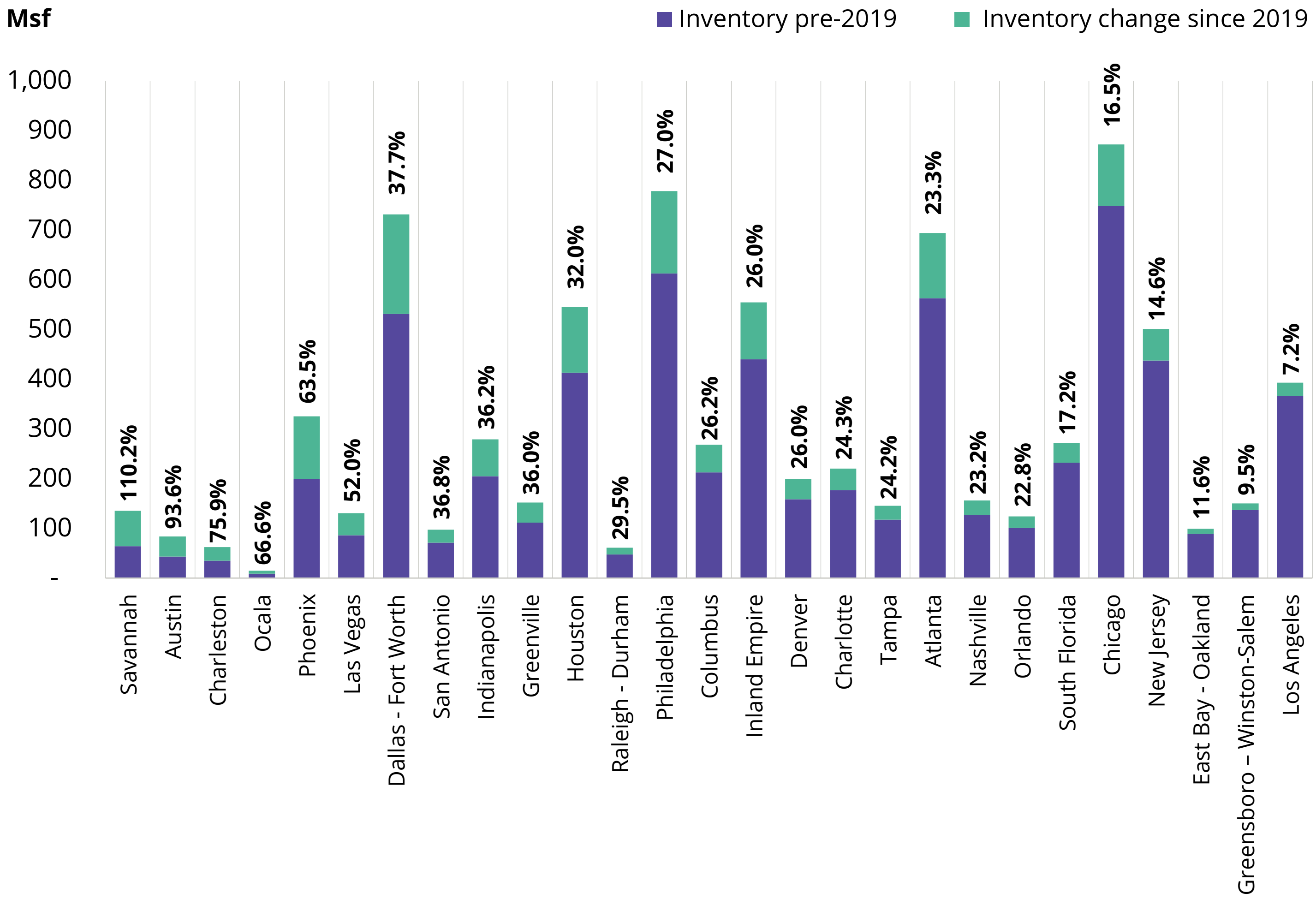


Aggressive Federal Reserve policy, coupled with waning demand due to broader economic uncertainty, lowered the construction pipeline to levels not seen in over 10 years.

Q3 2025 marked the first expansion of the construction pipeline since it peaked in Q3 2022, signaling some conviction in markets that were not oversupplied.

Source: Avison Young Technologies, CoStar

Post-2019 construction has transformed industrial supply in many markets

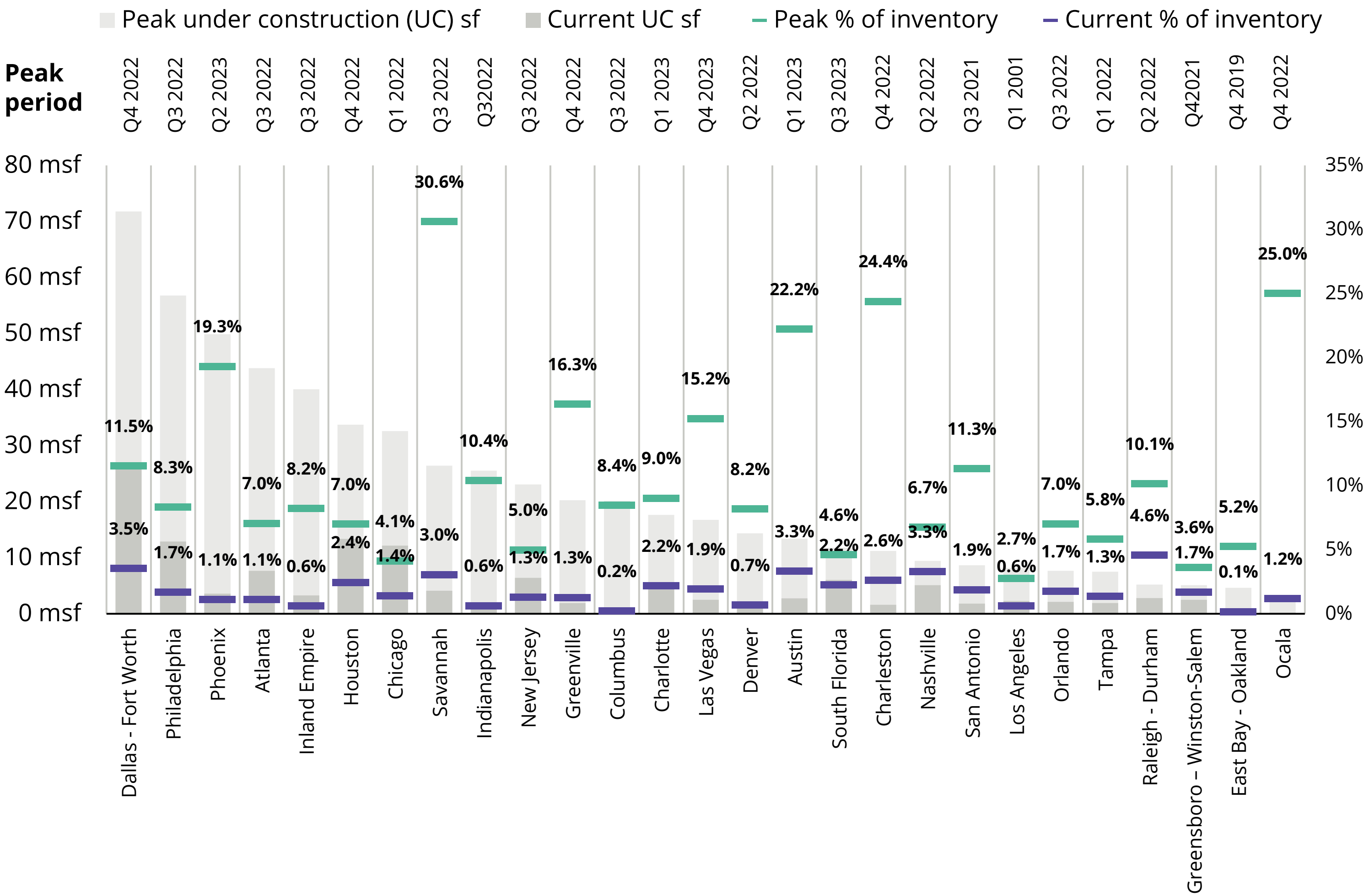


Source: Avison Young Technologies, CoStar
Note: Inventory square feet (sf) figures exclude manufacturing

In many key U.S. markets, more than 20% of existing inventory has been delivered since 2019, with much of this expansion occurring during the unprecedented COVID industrial construction boom. The surge in industrial construction introduced short-term challenges in several regions, including higher vacancies, slower lease-up, and increased pressure on rents as new supply works through the market.

However, as the construction pipeline continues to drop, a new space gap is likely to develop as leasing increases.

Industrial construction volumes have fallen significantly from peak levels

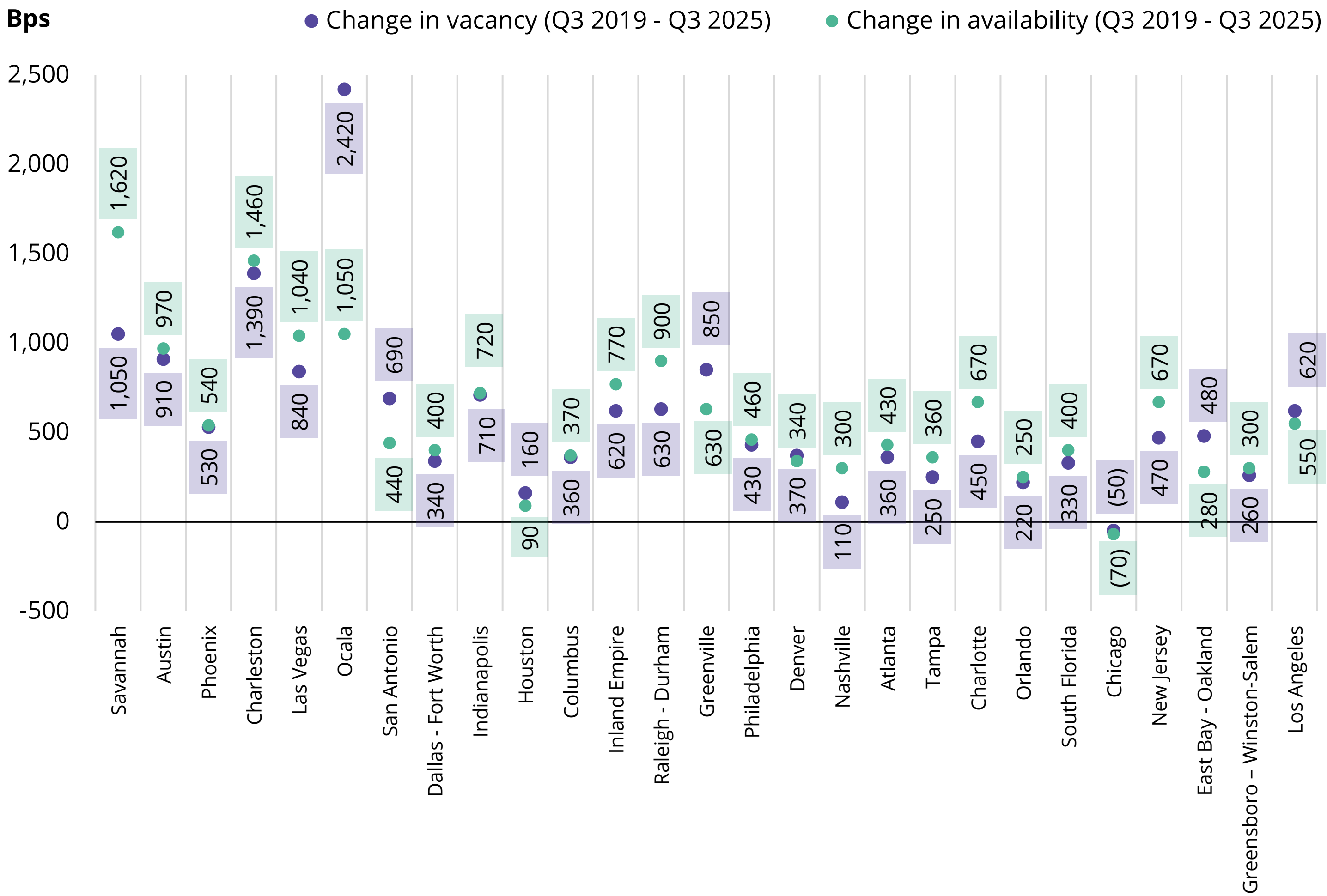


Source: Avison Young Technologies, CoStar
Note: UC, total inventory sf figures exclude manufacturing

Industrial development has slowed dramatically following the record surge of new product that peaked between 2021 and 2023. The amount of space under construction is now a fraction of record highs, both in total square footage and as a share of existing inventory.

The limited number of projects moving forward has set the stage for potential space shortages as market absorption begins to reaccelerate.

The difference in the change of vacancy and availability across markets

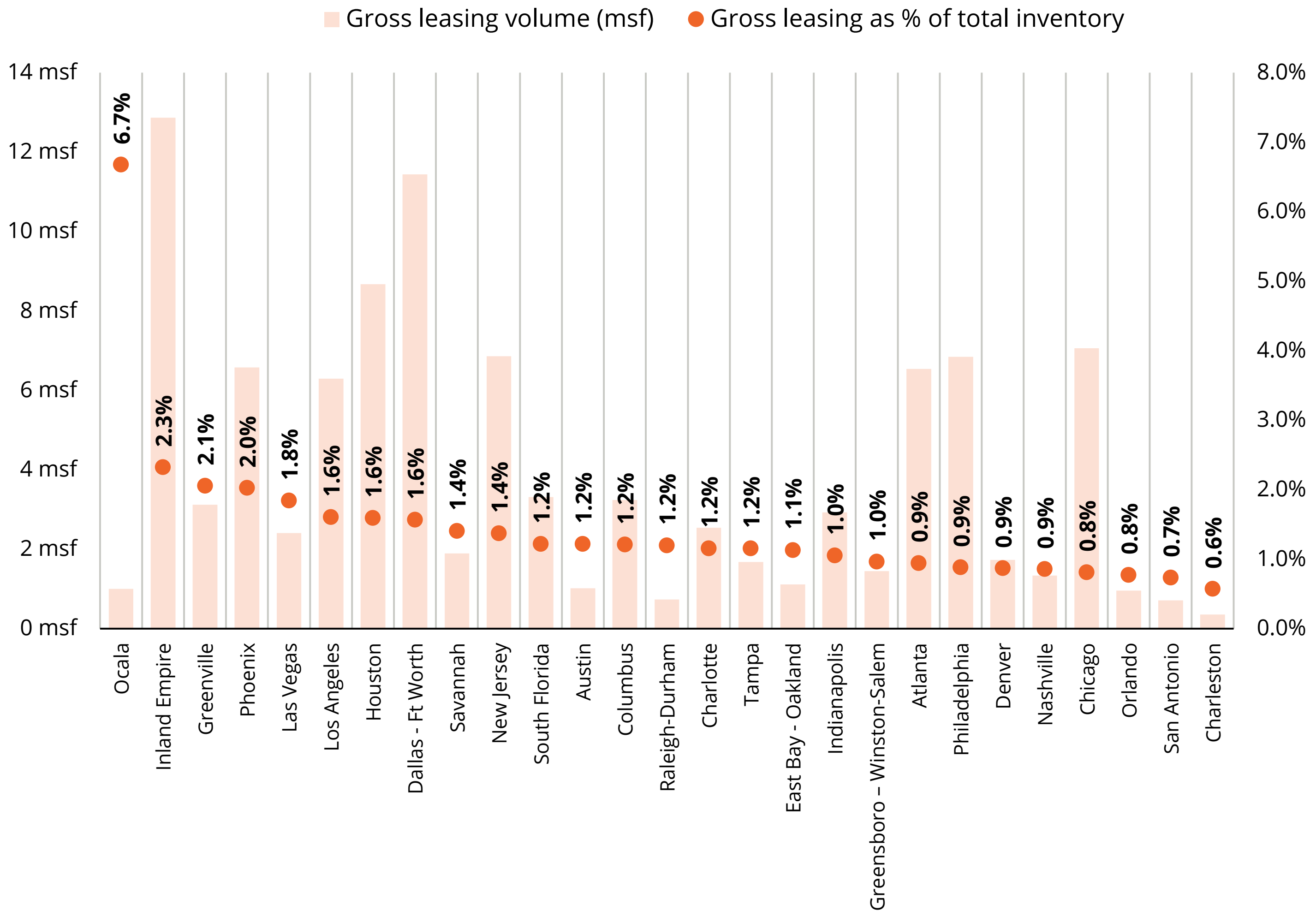


Source: Avison Young Technologies, CoStar
Note: Vacancy and availability sf figures exclude manufacturing

Most markets have experienced upticks in availability that outpace change in vacancy, typically indicating a softening in demand. However, a comparison to historical Avison Young data shows the delta between vacancy and availability has lessened when compared to the five-year period of 2018–2023.

Additionally, several markets have experienced changes in vacancy and availability within 100 basis points (bps), suggesting shifting market dynamics and overall tightening.

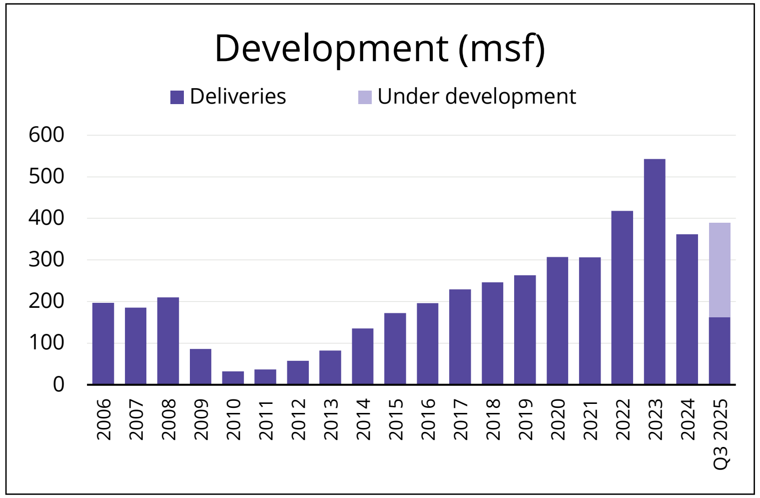
Several markets exceed 1.0% of total inventory leased in Q3 2025

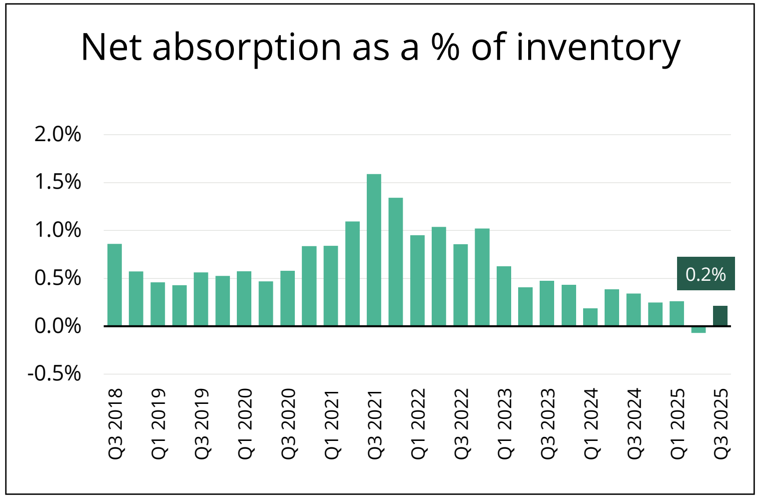


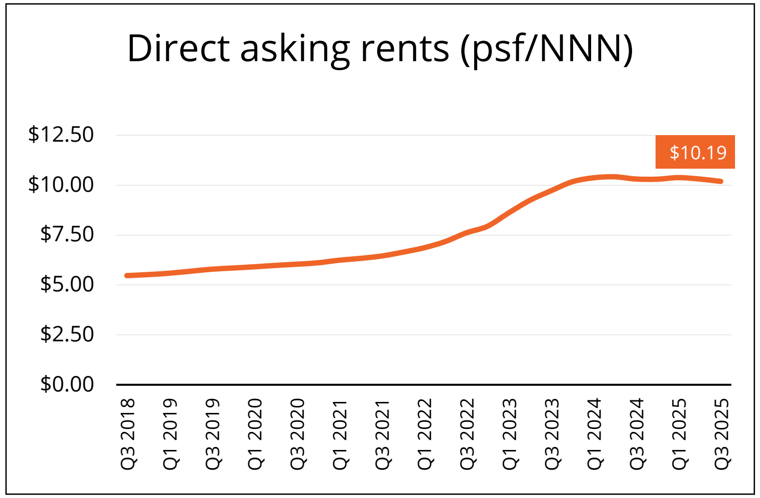
Source: Avison Young Technologies, CoStar
Note: Gross leasing and inventory sf figures exclude manufacturing

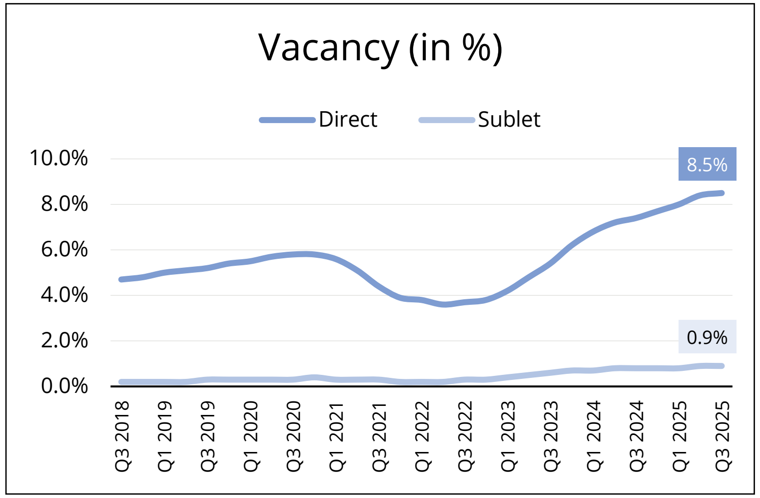
Industrial leasing activity has remained heavily concentrated within the nation's largest distribution networks, with core hubs accounting for the bulk of gross leasing volume. Several markets stood out for their strong leasing as a share of total inventory, including Ocala, Inland Empire, Greenville, Phoenix, and Las Vegas.

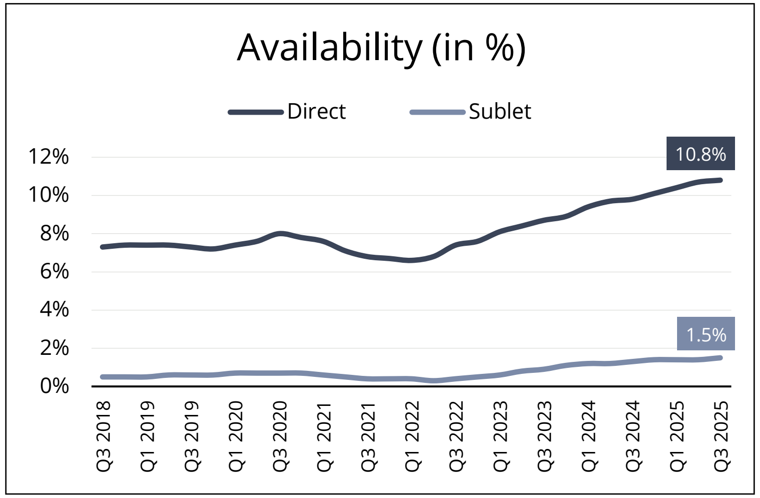
U.S. industrial market indicators

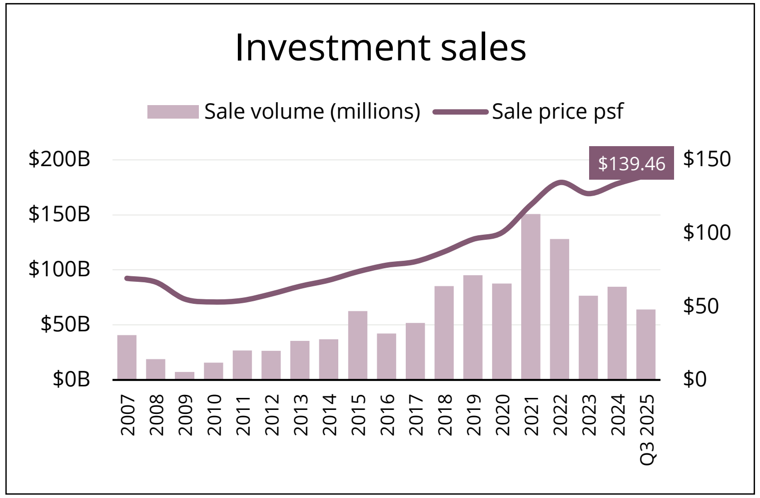






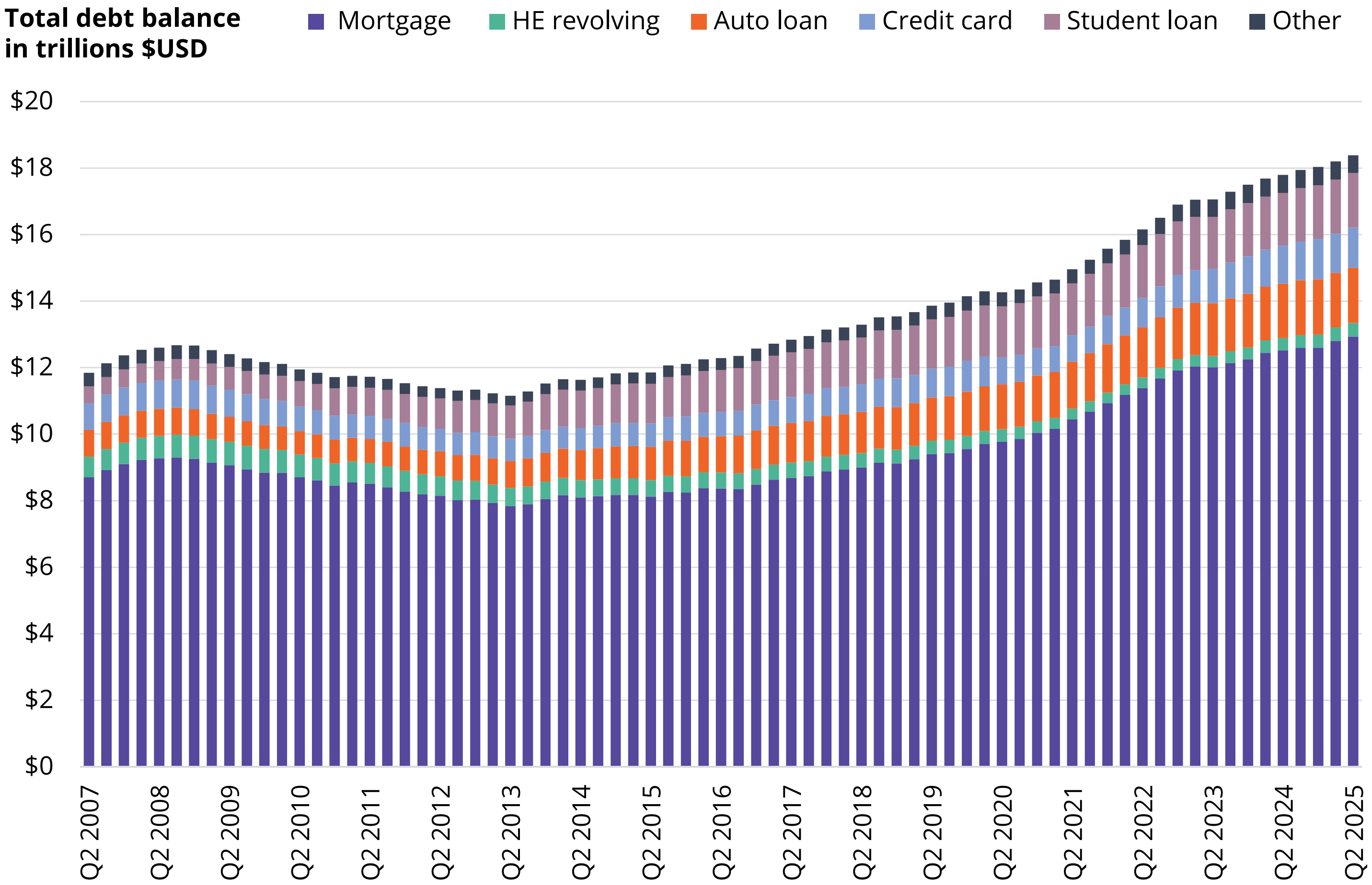






Source: Avison Young Technologies, CoStar, MSCI Real Capital Analytics

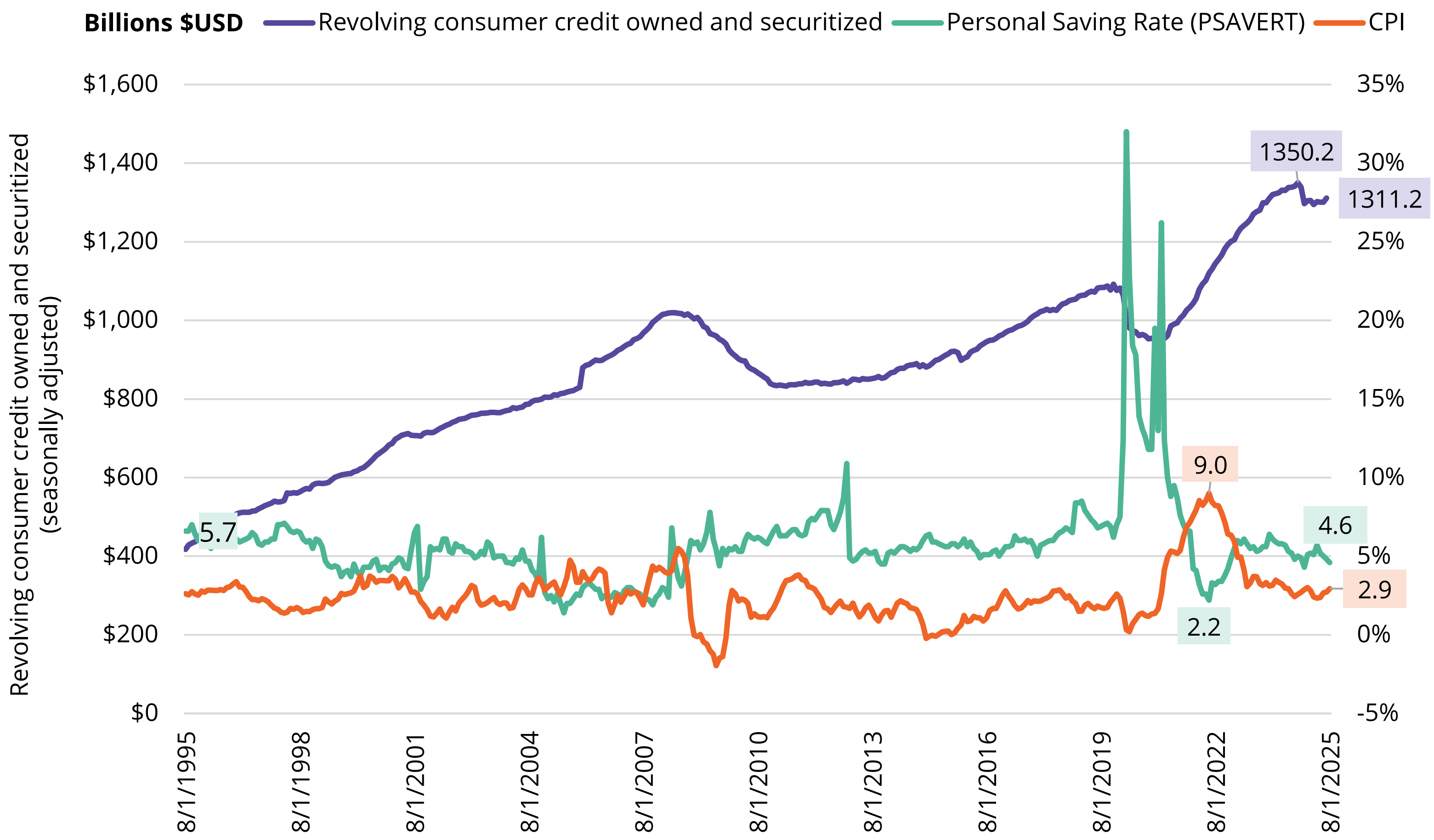
Household debt hits unprecedented level of $18.4T



Note: As of Q2 2025 (most recent update)
Source: Avison Young Technologies, FRBNY Consumer Credit Panel, Equifax

U.S. household debt hit a record $18.4 trillion in Q2 2025, rising 28.9% since early 2020. Mortgage balances represent the largest quarterly increase driver, while credit card debt has surged nearly 50% since 2020, underscoring the lasting burden of inflation.

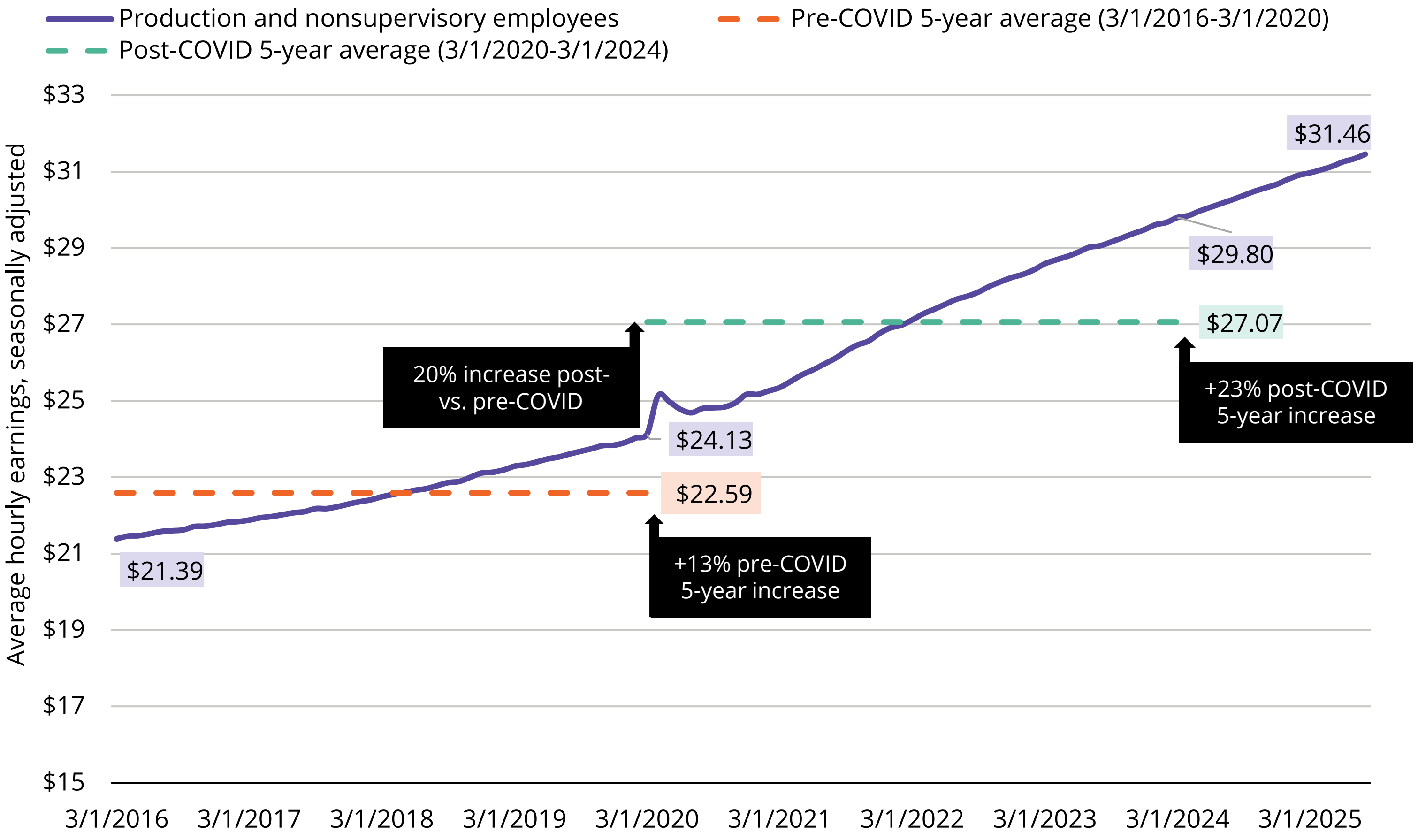
Revolving consumer credit remains below peak amid strong blue collar wage gains



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

Revolving consumer credit remains below last year's peak of $1.35 trillion. While this could signal softer consumer spending ahead, it may also reflect improved financial stability among blue-collar workers, who have generally benefited from elevated wage growth. Stronger incomes in this key labor sector could be helping drive reduced reliance on credit. The CPI continues to steadily decline year over year, helping preserve consumer purchasing power.

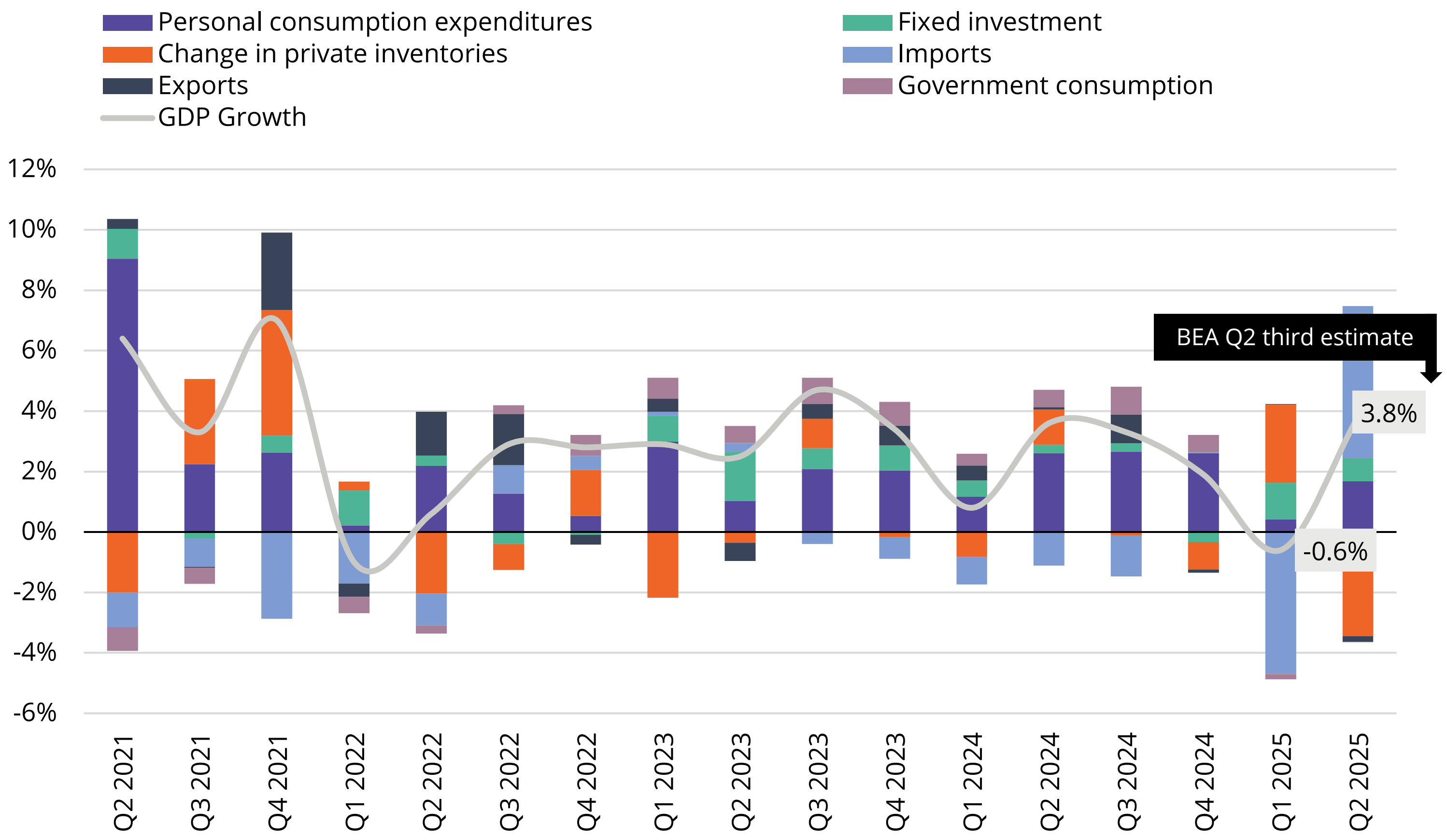
Average hourly earnings for blue collar roles see 20% increase post-COVID



Note: As of August 2025 (most recent update); Assumes 3/1/2020 as "midpoint" of COVID recession
Source: Avison Young Technologies, Federal Reserve Bank of St. Louis

Average hourly earnings for production and nonsupervisory employees have climbed steadily over the past decade, with the pace of growth accelerating markedly after the pandemic. From 2016 to 2020, wages rose 12%, from $21.39 to $24.13. The post-COVID period has experienced much sharper gains, with wages jumping 23% from $24.13 in 2020 to $29.80 in 2024. On a five-year average basis, blue-collar workers earned $27.07 per hour compared to $22.59 pre-COVID, a 20% increase.

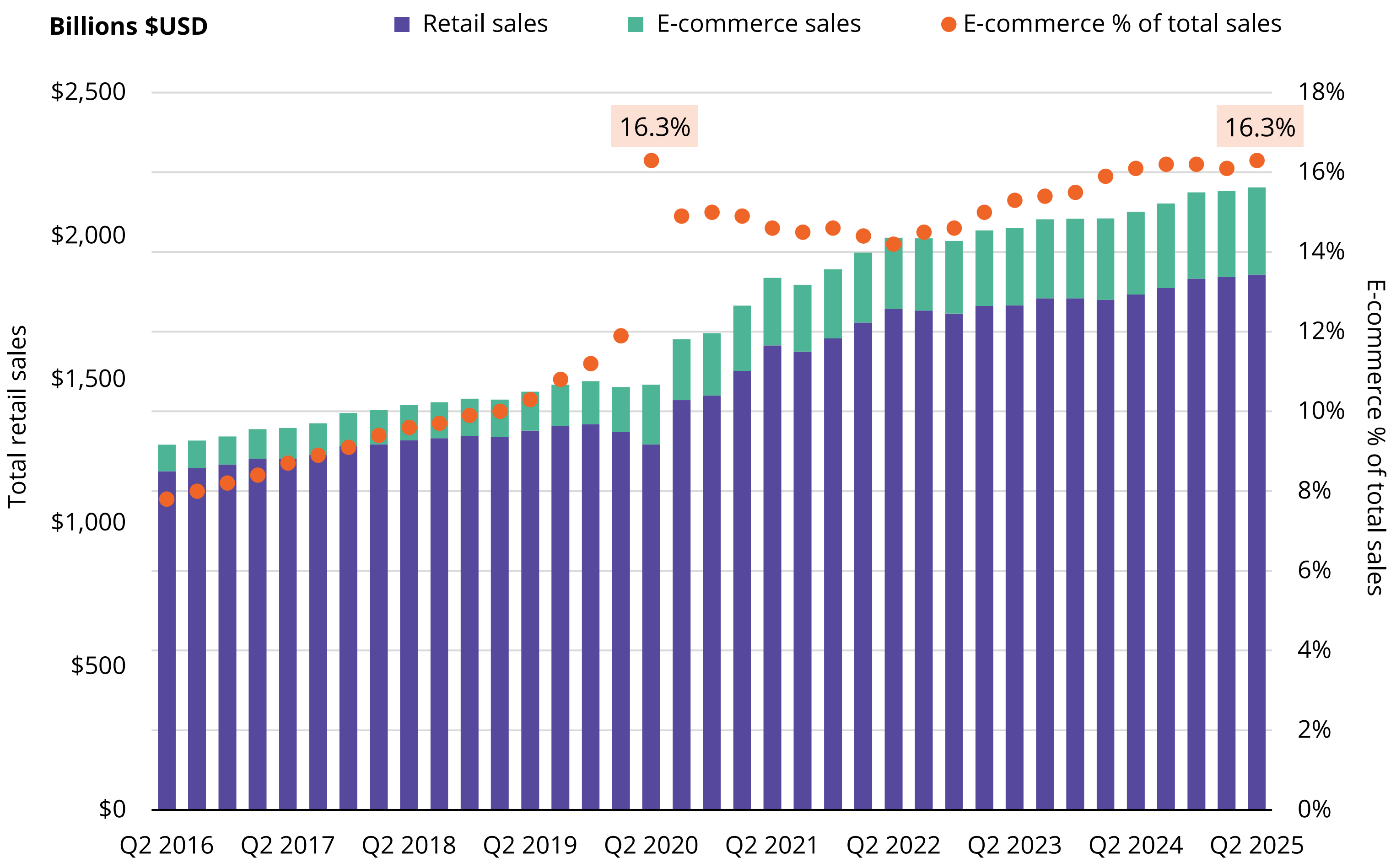
GDP rebounds in Q2 on surge of net decrease in imports, and strong personal consumption



GDP growth recovered in Q2 2025 following a precipitous drop in the previous quarter, which stemmed largely from a surge in inventory imports amid tense and uncertain trade negotiations. As those negotiations continue and initial tariff shocks subside, net exports are expected to recover, further contributing to positive readings in GDP growth.

Note: As of September 25, 2025 (most recent data)
Source: Avison Young Technologies, Atlanta Fed GDPNow real GDP growth estimates, Bureau of Economic Analysis

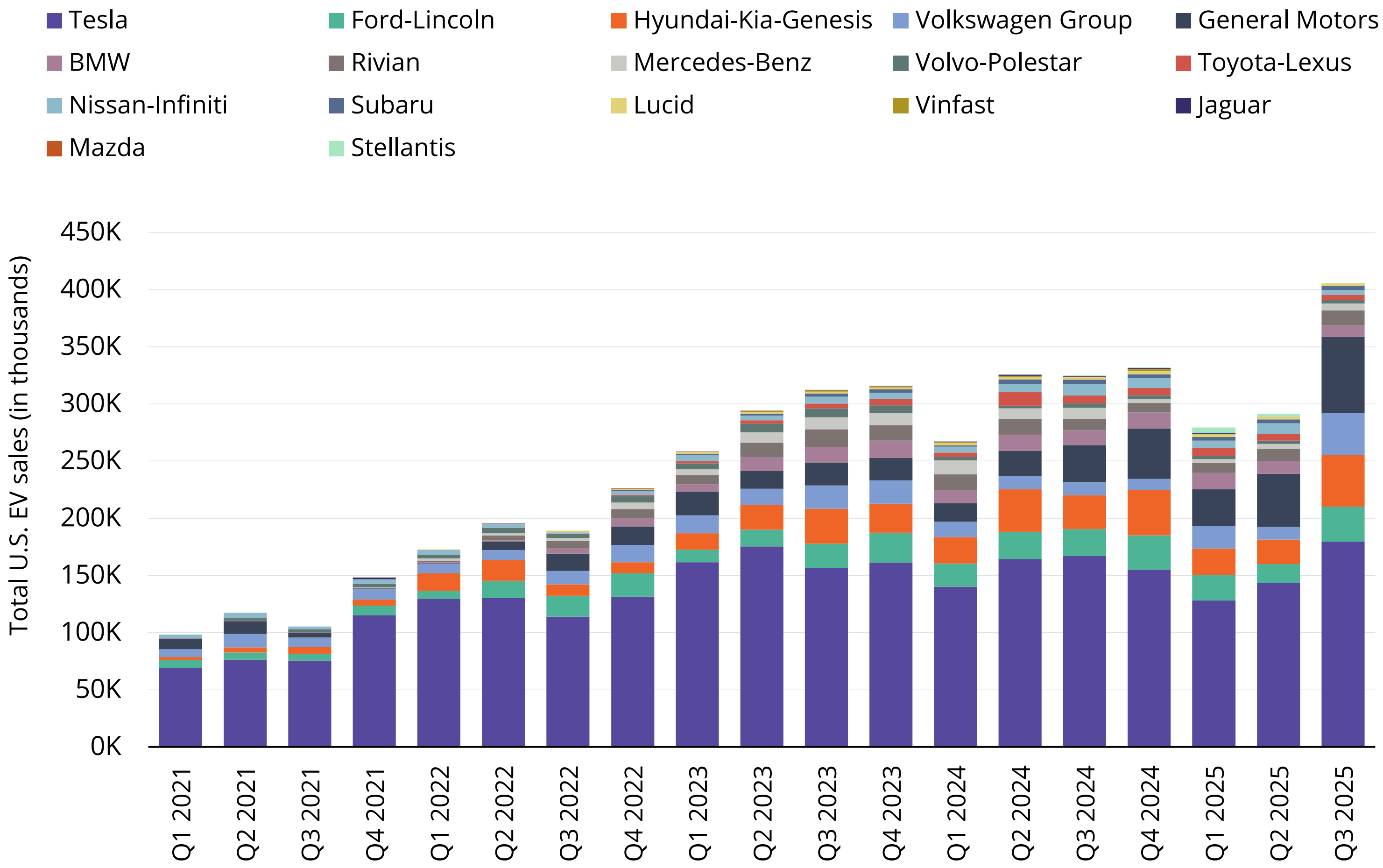
E-commerce sales reach COVID-era high of 16.3%



Note: As of September 16, 2025 (most recent update)
Source: Federal Reserve Bank of St. Louis

E-commerce as a percent of total sales has officially reached the COVID-era high of 16.3%, continuing the trend of steady increases seen over the past three years. Since Q2 2021, total e-commerce sales have increased 28.9%, as opposed to 15.2% for traditional retail sales.

Expiration of federal tax credits causes surge in EV sales

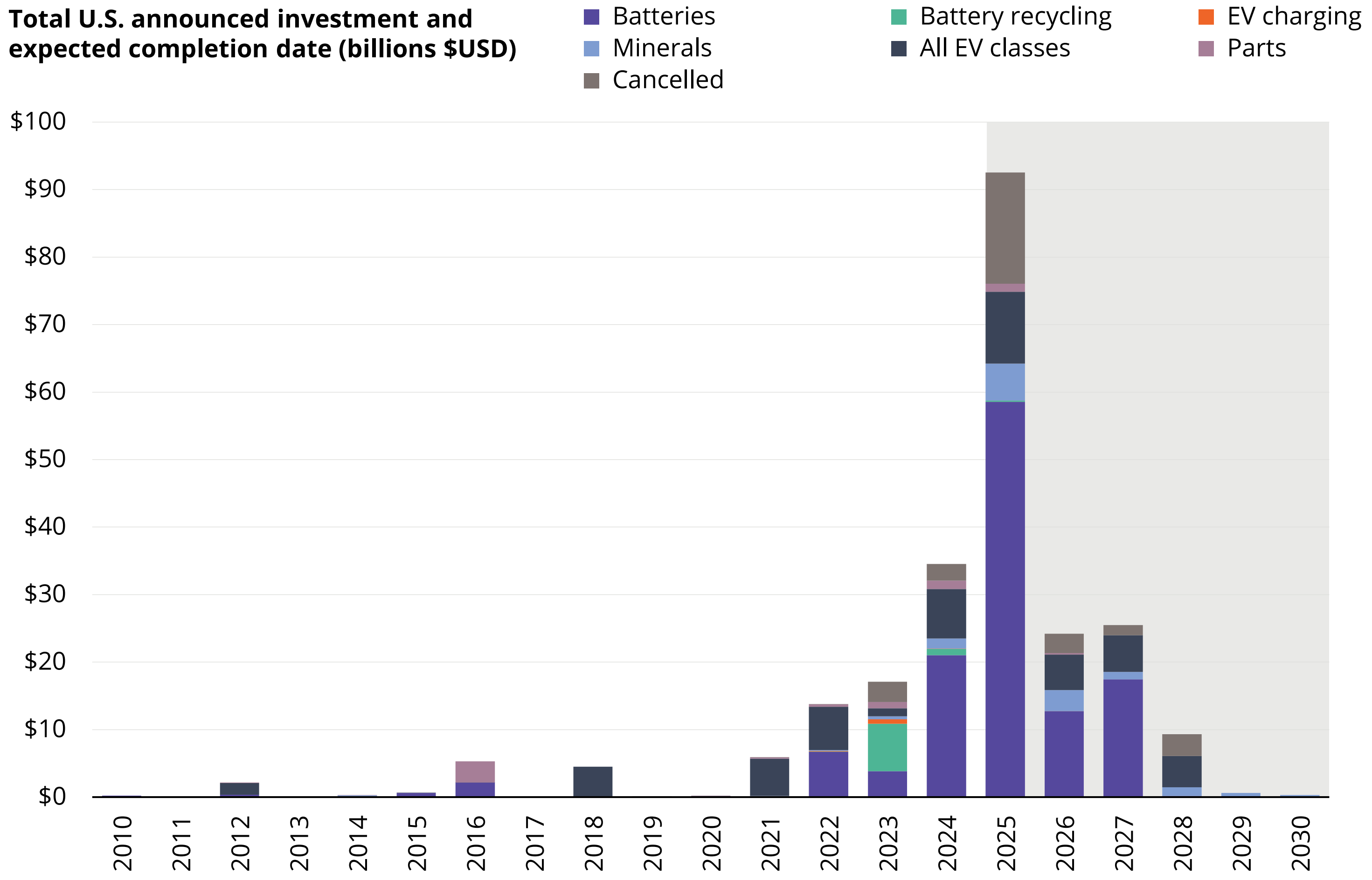


Source: Avison Young Technologies, Cox Automotive

The federal EV tax credit program expired at the end of Q3 2025, leading to a surge in EV sales as consumers rushed to take advantage of the incentive before it ended. This spike highlights the pivotal role policy support has played in driving adoption across both established automakers and newer entrants. While the near-term outlook for EV demand is less optimistic, the broad adoption of EVs over the past few years — alongside improved technology and competitiveness with traditional internal combustion vehicles — means EV sales are unlikely to see a large-scale collapse.

Boom in EV infrastructure continues through 2025, but projected cancellations rise

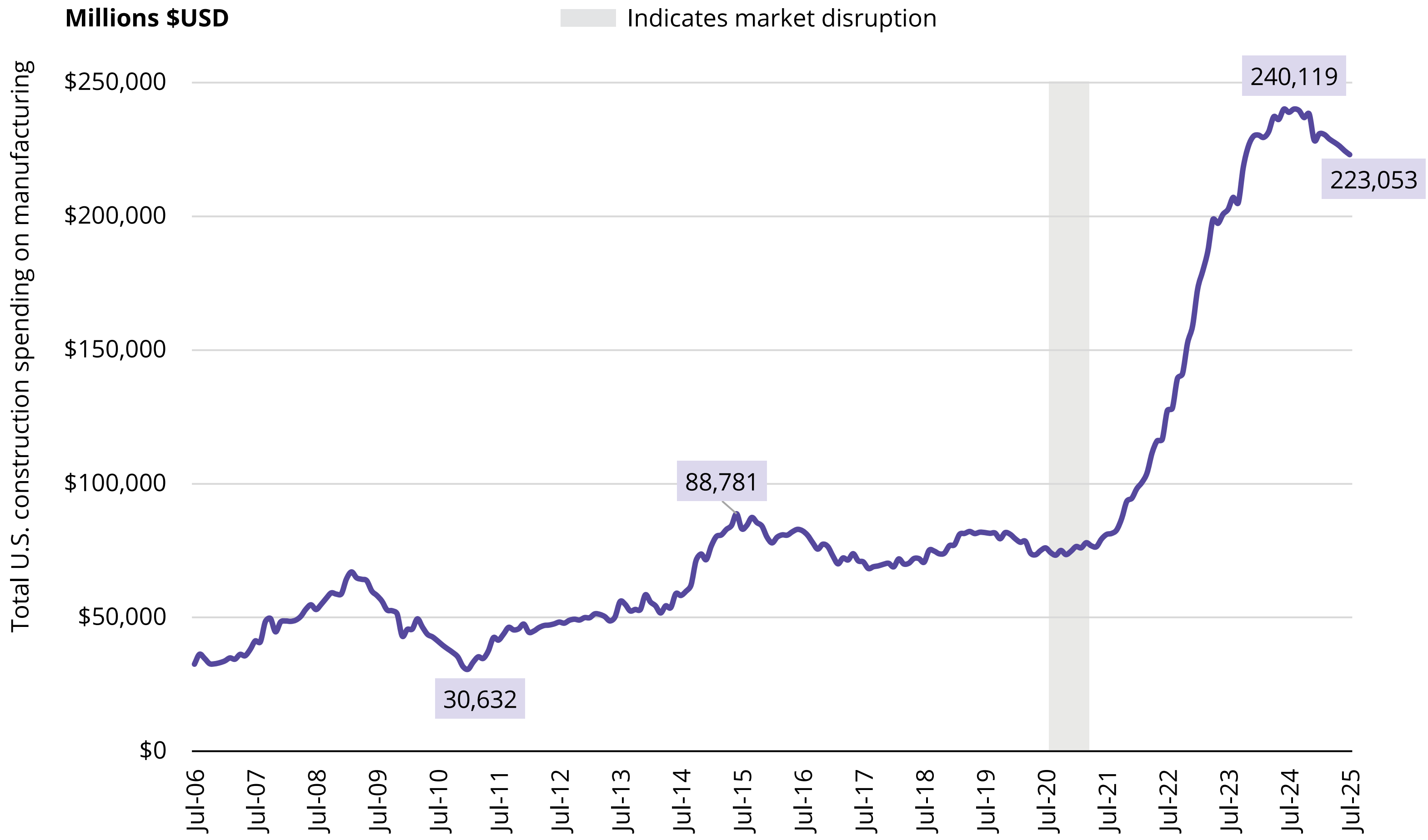
Total U.S. announced investment and expected completion date (billions $USD)



EV infrastructure investment remains at record levels in 2025, with battery production facilities making up the largest proportion of total investment amounts. Amid rising geopolitical tensions over rare earth minerals, announcements to increase domestic mineral refinement capabilities are also expected in the next several months.

Source: Avison Young Technologies, Bluegreen Alliance Foundation

Manufacturing construction cools, but policy and projects position for rebound



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

U.S. manufacturing construction spending has pulled back from recent record highs spurred by policies incentivizing domestically strategic industries. The decline reflects political uncertainty surrounding the 2024 election and delayed clarity on federal incentives within the OBBBA and trade policy, leaving many on the sidelines.

As guidance solidifies and announced mega-projects begin to break ground, spending is expected to reaccelerate in early 2026 and reach new highs.

Passage into law of OBBBA to spur surge in manufacturing and industrial development

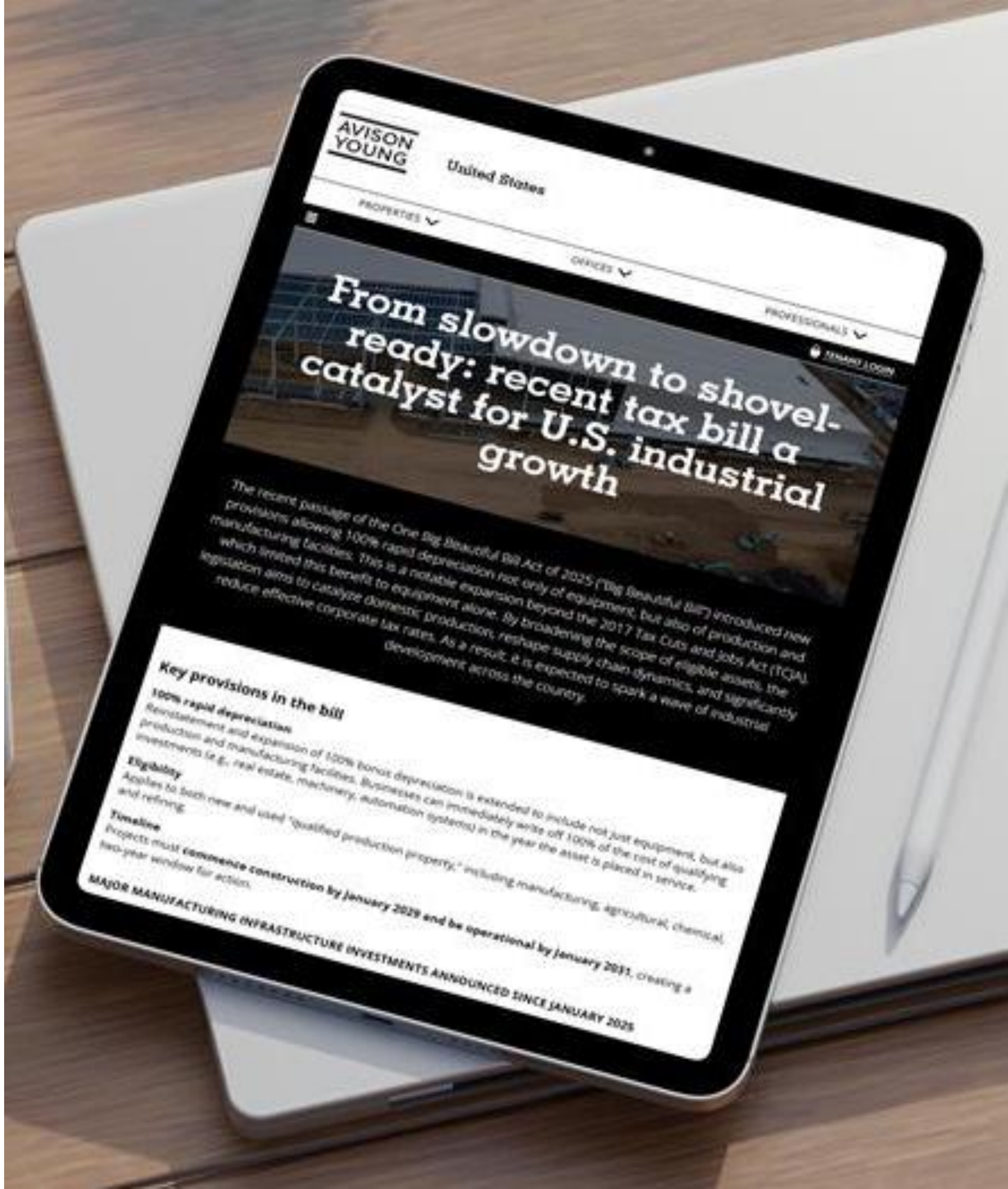
A major new tax provision in the OBBBA now allows 100% immediate expensing not only for equipment but also for qualified production property (QPP). This change, quietly included throughout each chamber’s version of the bill, significantly reduces effective corporate tax rates and is expected to supercharge U.S. industrial development.

Catalyst for future-proofed production
The 100% expensing provision is expected to accelerate the deployment of next-generation manufacturing and automation facilities. Producers are incentivized to invest now in long-term, future-ready infrastructure

Urgency driven by tight construction timelines
To qualify, projects must break ground by January 1, 2029, and be operational by January 1, 2031. This creates a narrow window for execution, likely triggering a surge in announcements and activity.

Acceleration of industrial asset pricing
The shift toward owner-occupancy could reduce the availability of sale-leaseback (SLB) assets in the market. This decrease in investable inventory is expected to intensify competition for high-quality industrial assets.

Read Avison Young’s take here



What types of assets are eligible for QPP?

QPP-eligible
(directly related to production)

- HVAC
- Electrical
- Plumbing (main supply, drain lines)
- Permanently affixed fire protection systems
- Built-in conveyor systems
- Built-in cranes or hoists
- Paved truck aprons

Not QPP-eligible
(not directly related to production)

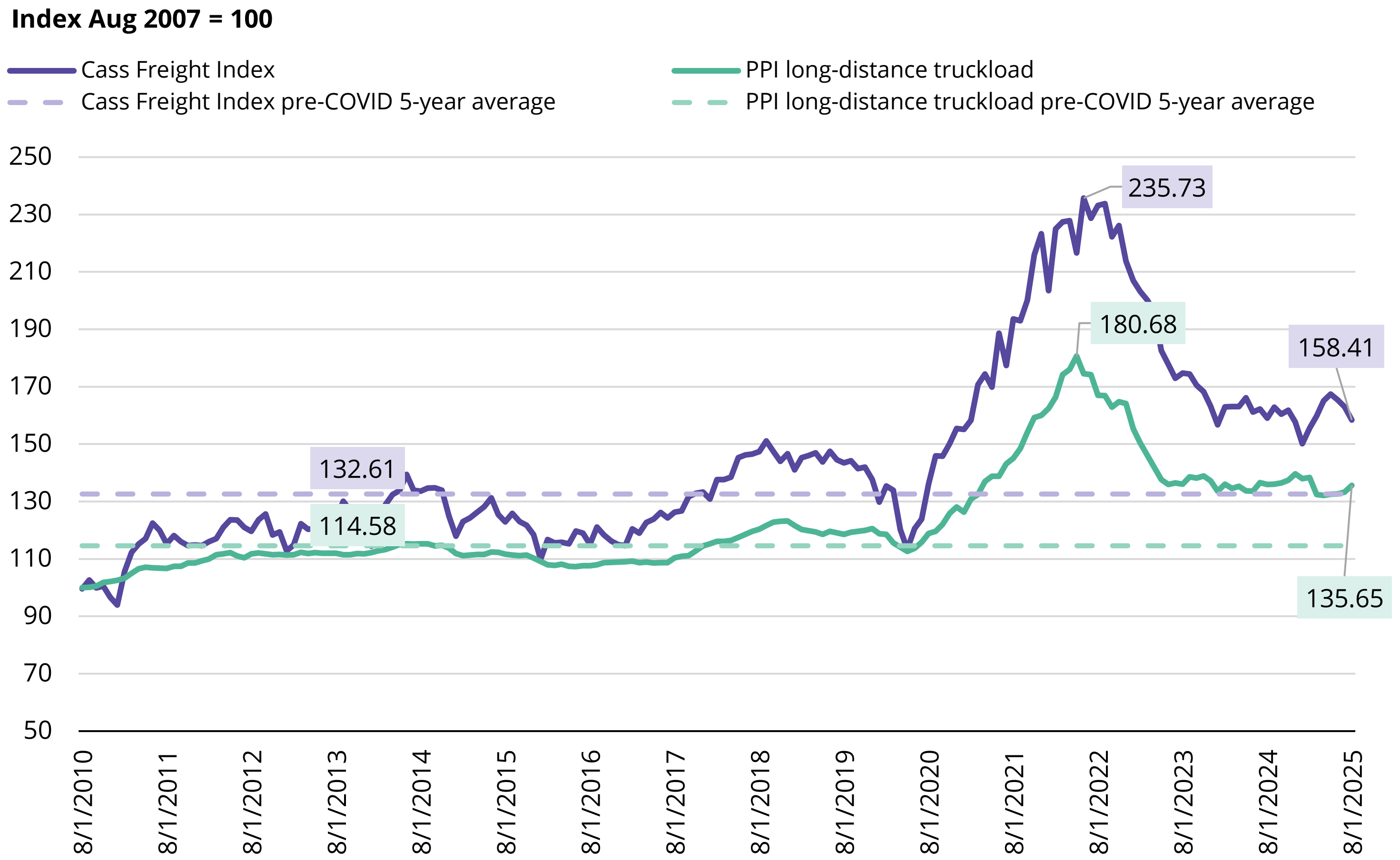
- Office space
- Sales or customer service areas
- Data centers
- Distribution centers
- Parking
- Decorative landscaping
- Unrelated storage

TBD
(waiting on guidance)

- Component part storage and production prep areas
  - Are these directly related to production?
- Land transfer timing
  - Does the owner need to have purchased the land before ground is broken?

Source: Avison Young Technologies, Capstan Tax Strategies

Shipping costs remain at historically elevated levels, despite fall from peak

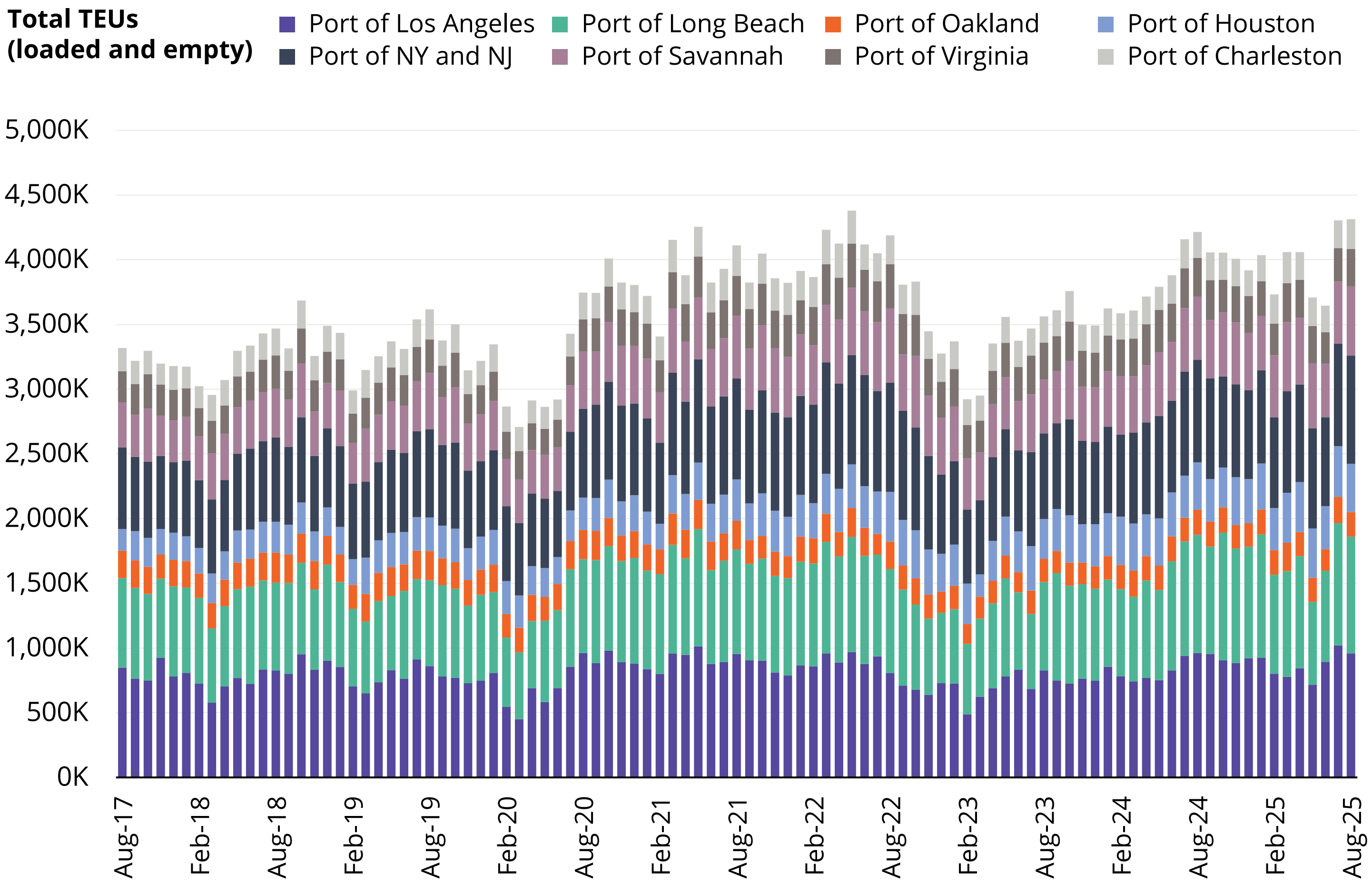


Note: As of August 2025 (most recent update)
Source: Avison Young Technologies, Federal Reserve Bank of St. Louis

The Cass Freight Index for expenditures and the Producer Price Index for long distance truckloads both highlight the rapid increase in shipping costs that occurred between 2020 and 2022. Although both indices have fallen sharply from peak levels, their relatively high values when compared to pre-COVID five-year averages indicate a structural increase in freight shipping costs over the past five years.

Additionally, the Cass Index has fallen 33% from peak, while the PPI has fallen 25%, indicating that per-unit prices have remained stickier than overall freight expenditures.

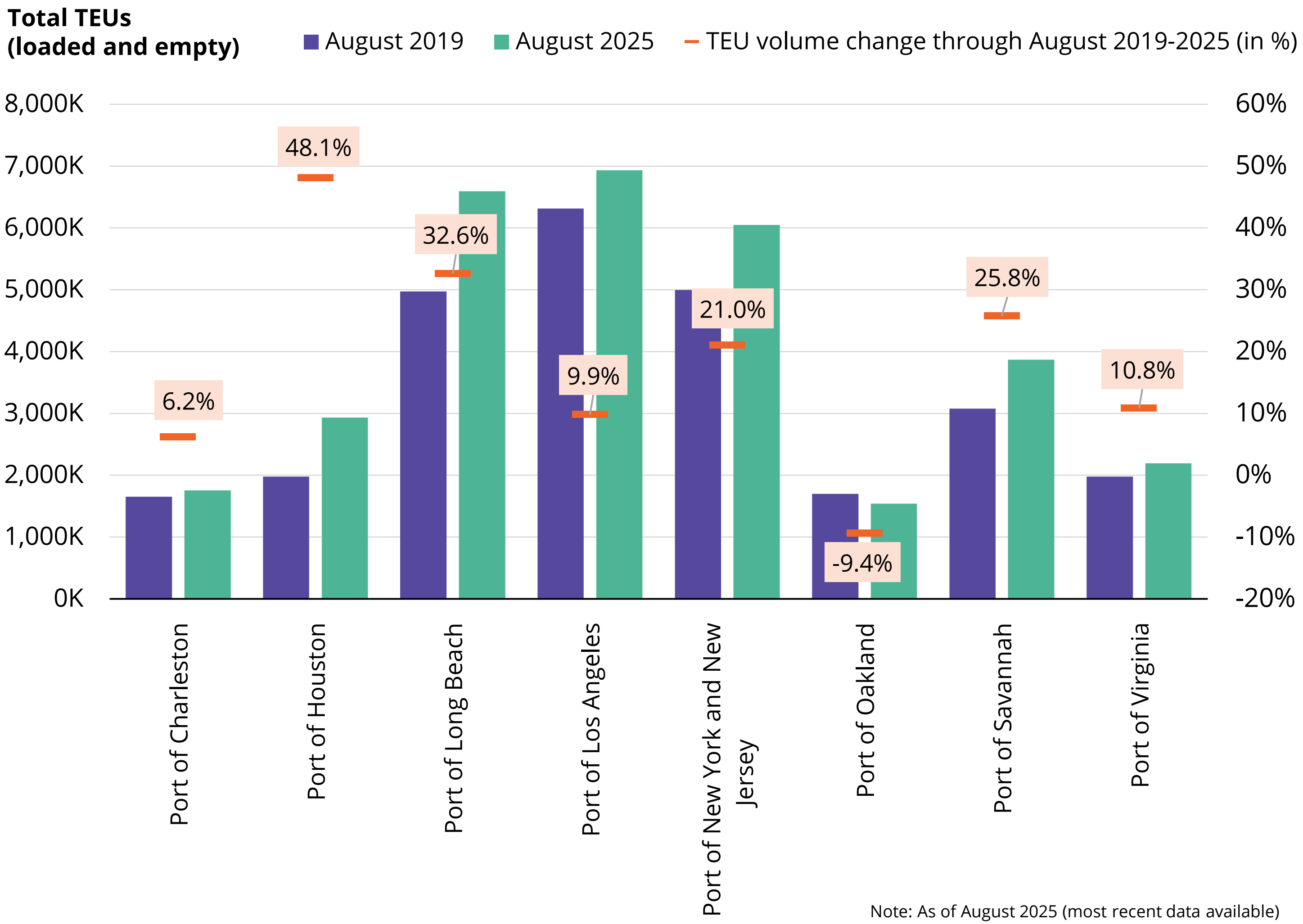
Aggregate TEU volumes surge to highest August on record



Despite tariff tensions, aggregate port TEU volumes reached their highest August figures on record, with notable rebounds at the ports of Los Angeles and Long Beach. While continued uncertainty around tariff policy has impacted TEU traffic, the cargo volumes experienced through Q3 2025 point to the resiliency of the overall economy in the face of economic headwinds.

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

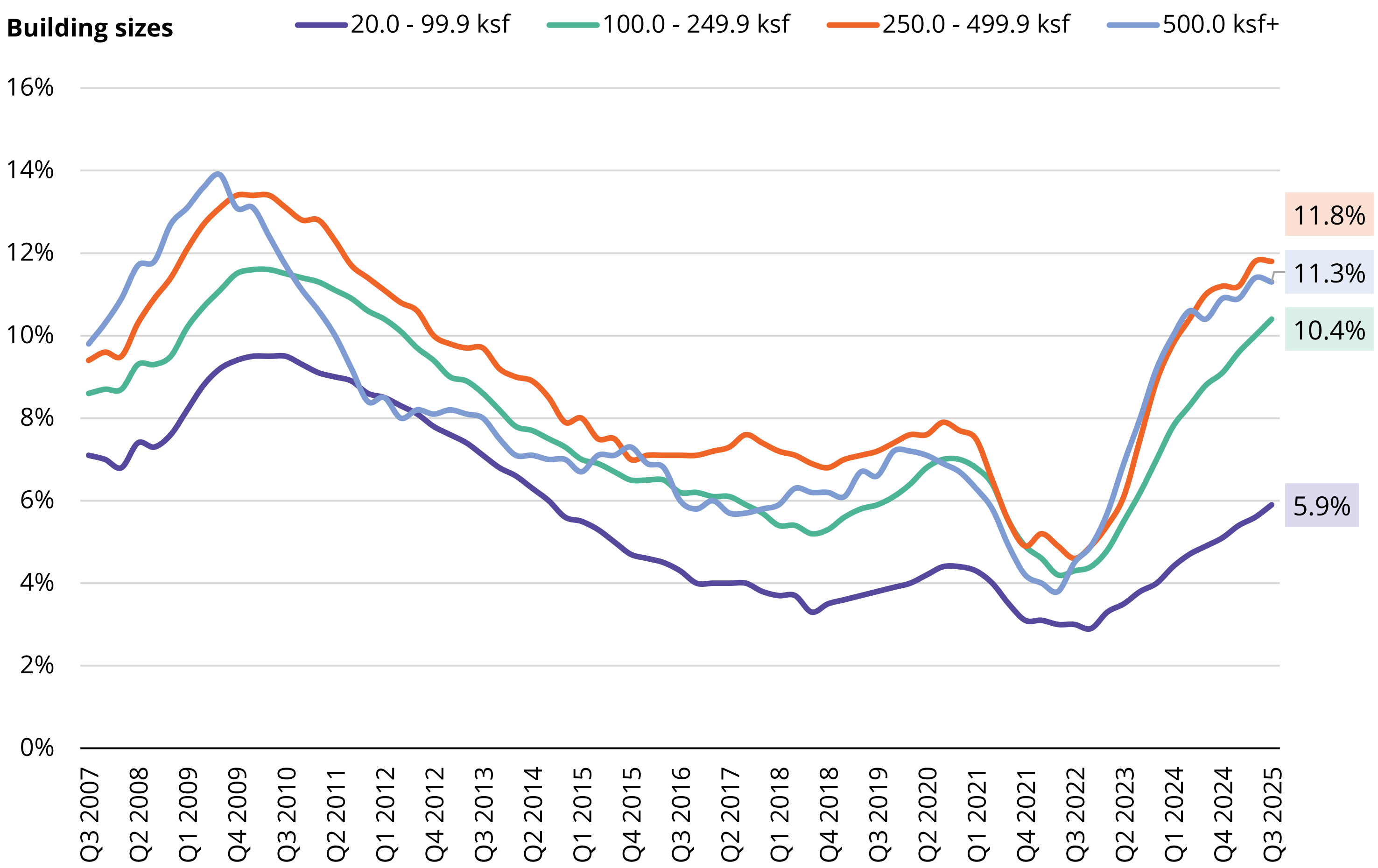
Major U.S. ports experience continued TEU volume growth since 2019



Note: As of August 2025 (most recent data available)
Source: Avison Young Technologies, Individual Port Authorities

Despite global supply chain disruptions and shifting trade dynamics, major U.S. ports have seen strong overall growth in TEU volumes. The Port of Houston is one example, experiencing a 48.1% YTD increase in TEU volumes from 2019 — reflecting the region's fast-paced economic and population growth across the Houston area and the broader Texas Triangle. Other well-established shipping gateways, including the ports of Long Angeles, Long Beach, Savannah, and New York and New Jersey, have also shown resilience and steady growth since 2019.

U.S. industrial vacancy by building size

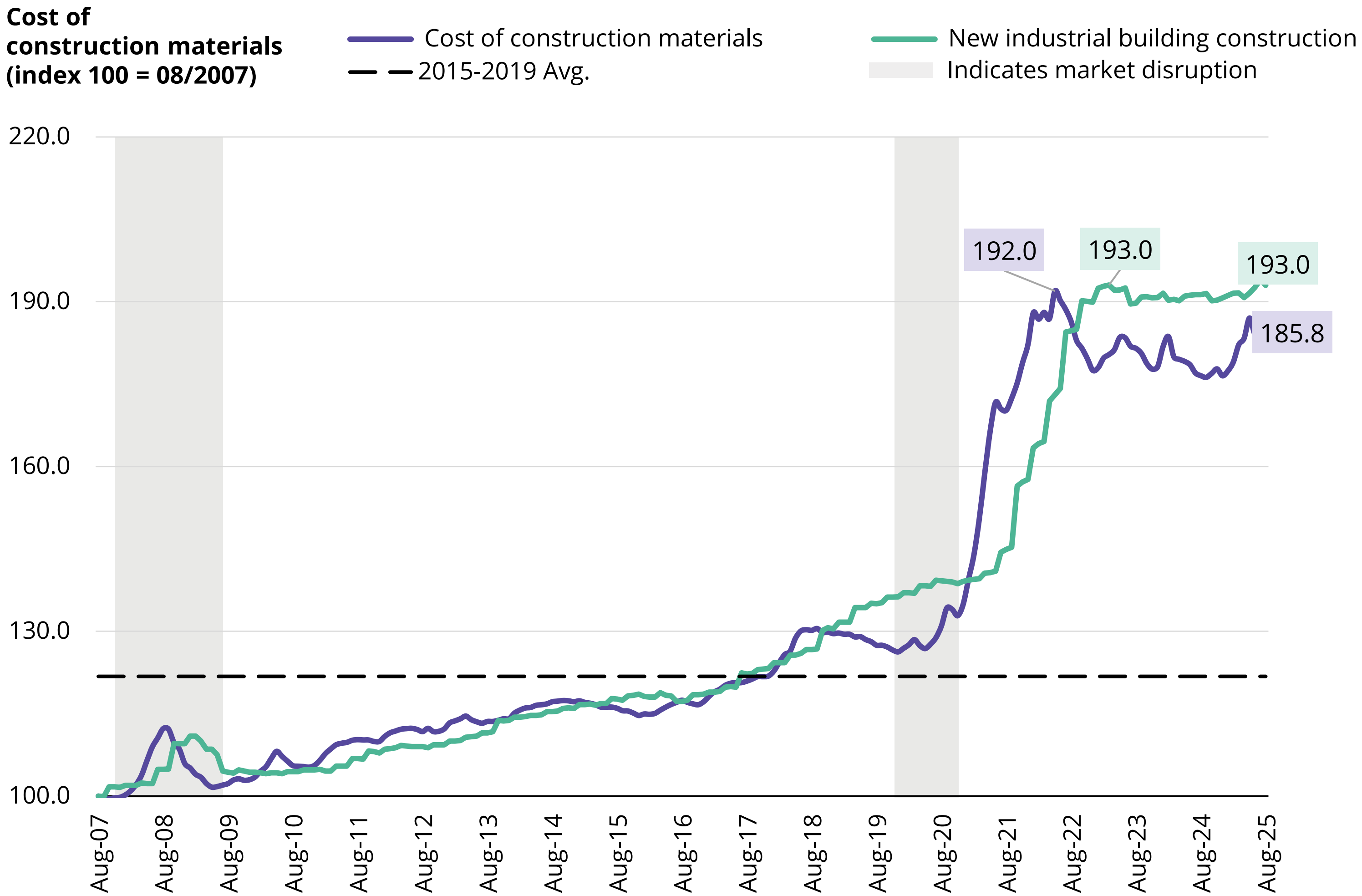


Source: Avison Young Technologies, CoStar

Following historic construction pipeline volume in late 2022, a record amount of new industrial space was delivered and topped out in 2023.

With peak deliveries now behind us, stabilizing vacancy rates in larger buildings are signaling healthy upticks in demand throughout the market. As a lagging indicator, vacancy is beginning to reflect improving market sentiment after more than 24 months of uncertainty.

High construction costs persist, placing continued pressure on new development

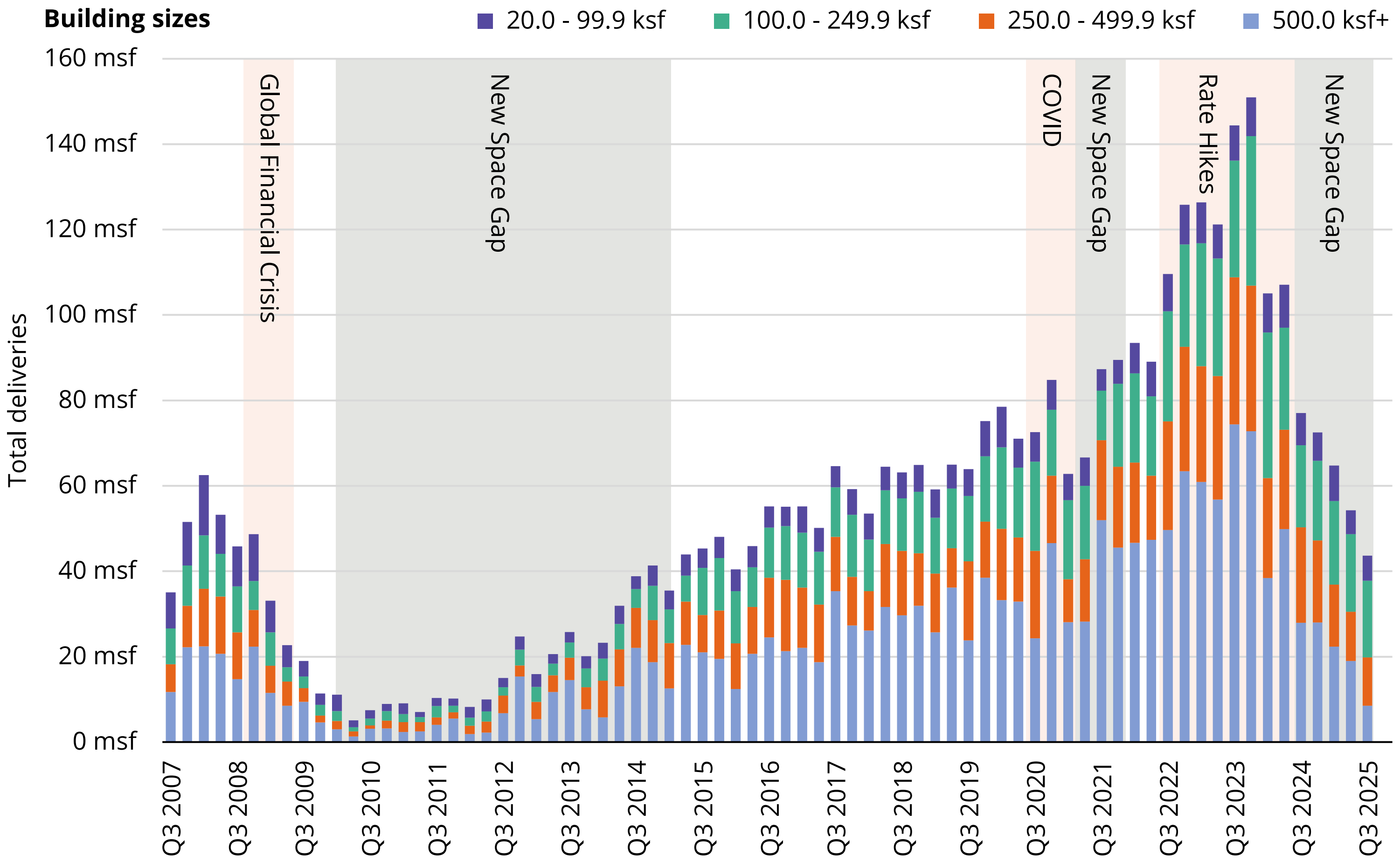


Source: Avison Young Technologies, Federal Reserve Bank of St. Louis

Construction costs remain elevated, hovering near historic highs and continuing to exert pressure on industrial developers nationwide. The combination of inflated material prices, labor constraints, and extended project timelines has made new development increasingly complex and capital intensive.

Despite these challenges, increased investment in domestic manufacturing offers a promising counterbalance. As companies expand production capabilities across sectors, demand for modern industrial space is expected to rise, providing developers with targeted opportunities in an otherwise constrained environment.

Few new projects could create a space gap by mid-2026 as demand rebounds

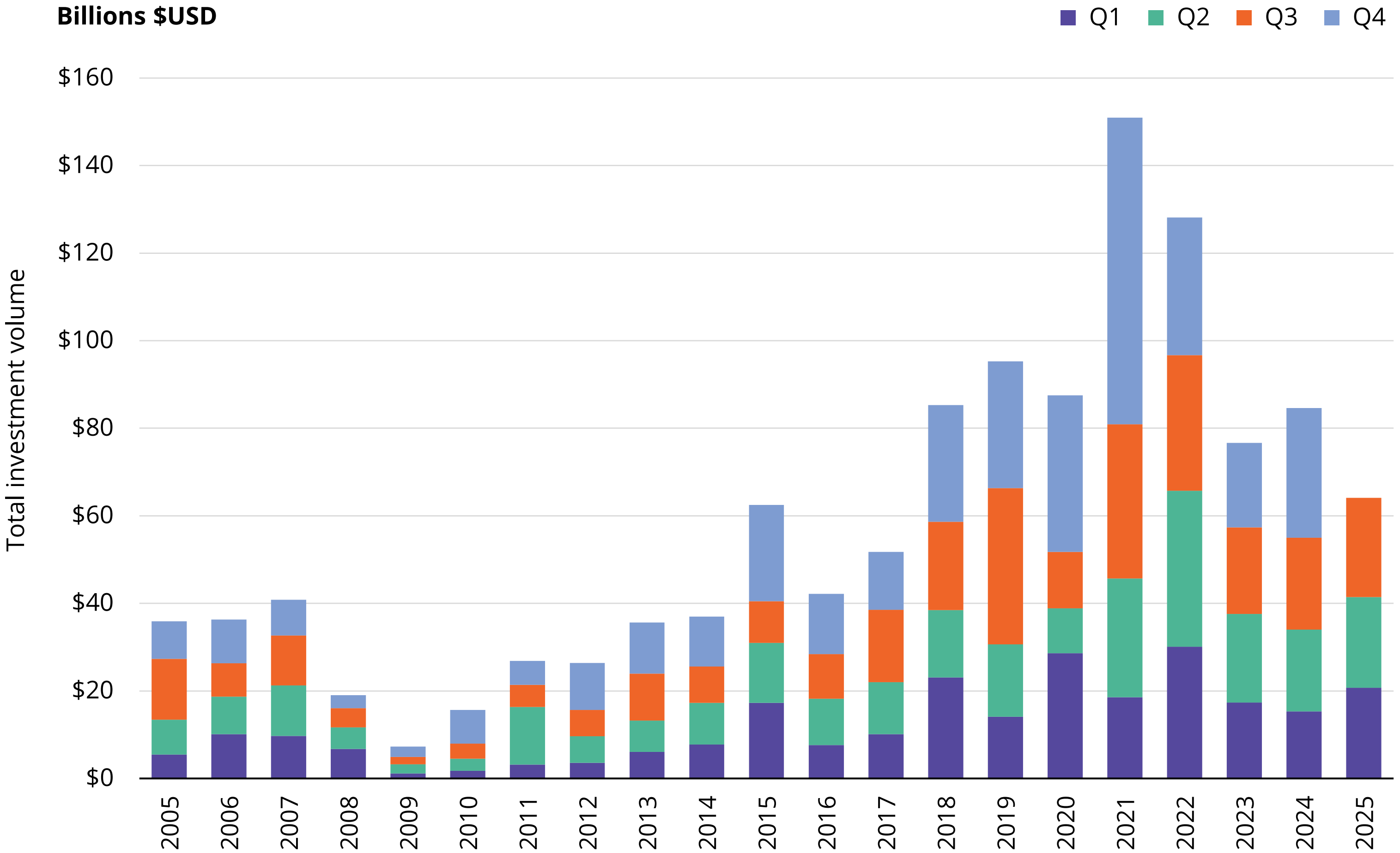


Source: Avison Young Technologies, CoStar

2023 represented the largest number of deliveries in industrial history, and 2024 showcased the start of a drastic drop in new deliveries. Ongoing declines in national deliveries have pushed the sector to levels not experienced since the aftermath of the Global Financial Crisis.

As newly delivered vacant space is leased up, a new space gap that will last for at least 15 months is expected in the first half of 2026, as speculative groundbreakings paused nationally for nine quarters.

Industrial investment volume

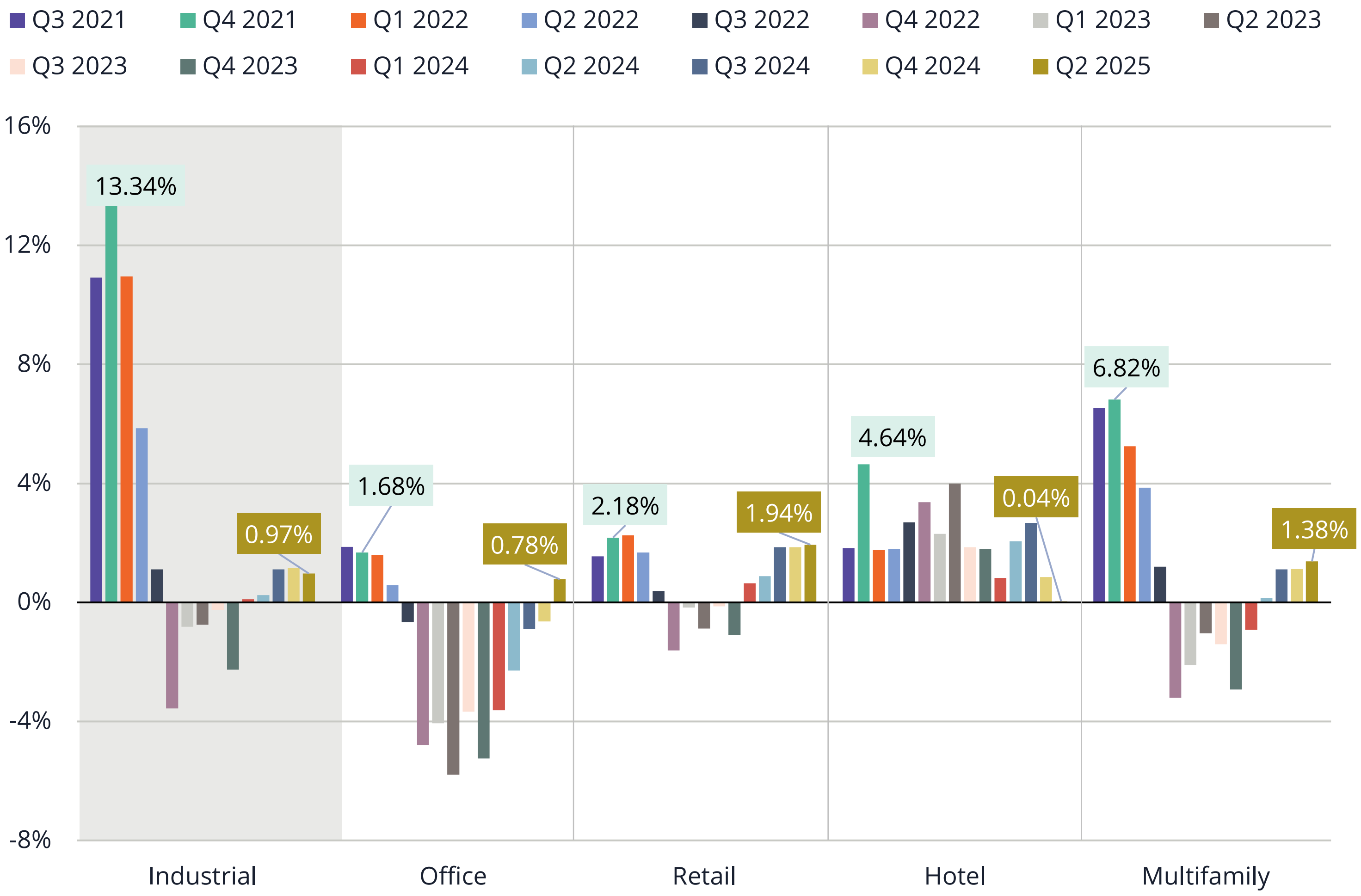


Note: Transactions >$2.5M. Q3 2025 does not include September investment volume.
Source: Avison Young Technologies, MSCI Real Capital Analytics

Industrial investment volume is continuing to accelerate to historic levels in 2025, as the year is poised to close with increased momentum heading into 2026.

The year is on pace to finish as the third strongest in sector history, marking a second consecutive year of growth following the sharp volume decline in 2023.

U.S. NCREIF NPI quarterly returns

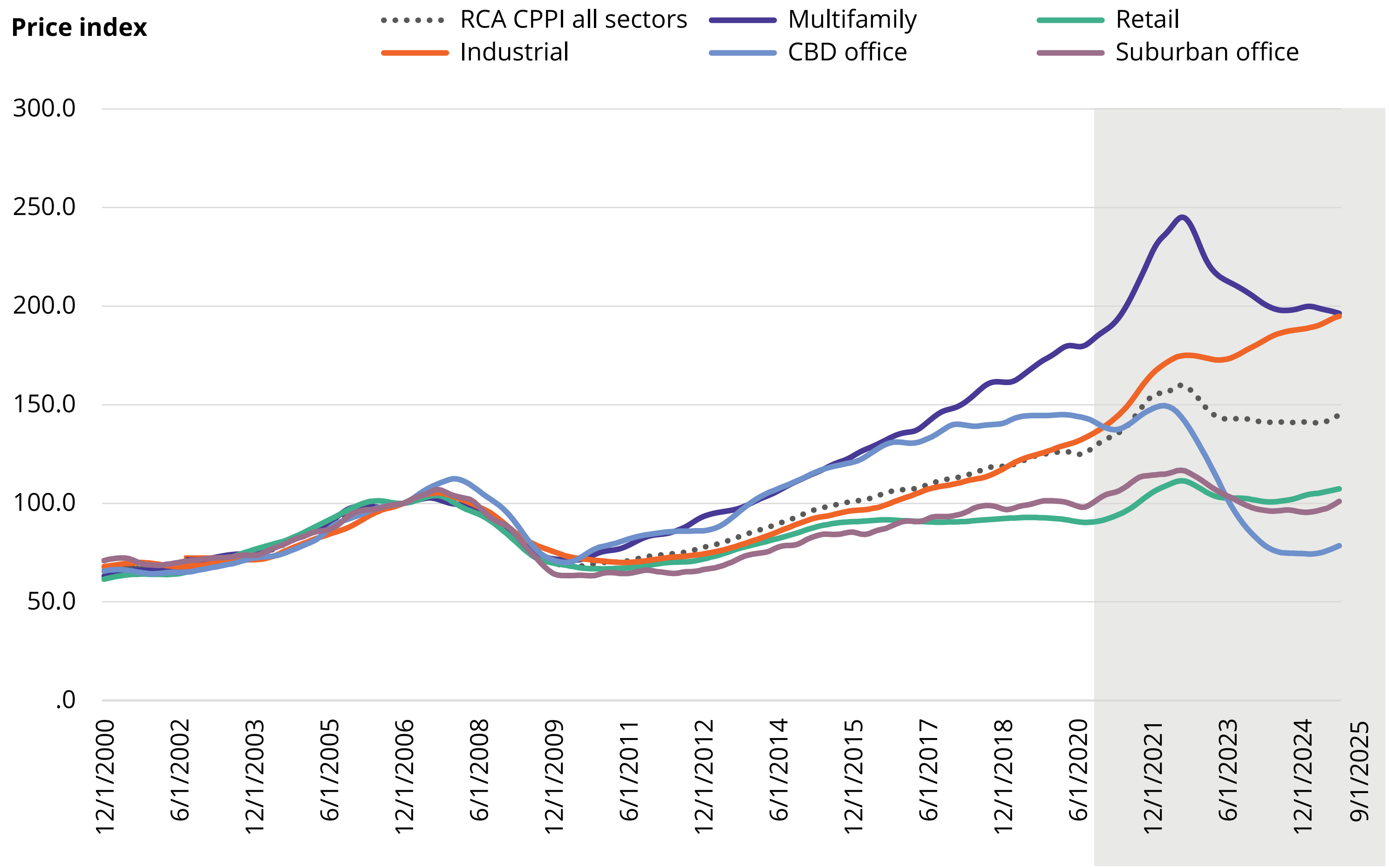


Note: As of July 2025 (most recent update)
Source: Avison Young Technologies, NCREIF

Industrial investments showcased continued positive returns for the fifth consecutive quarter, which is second in performance only to retail in the same timeframe.

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

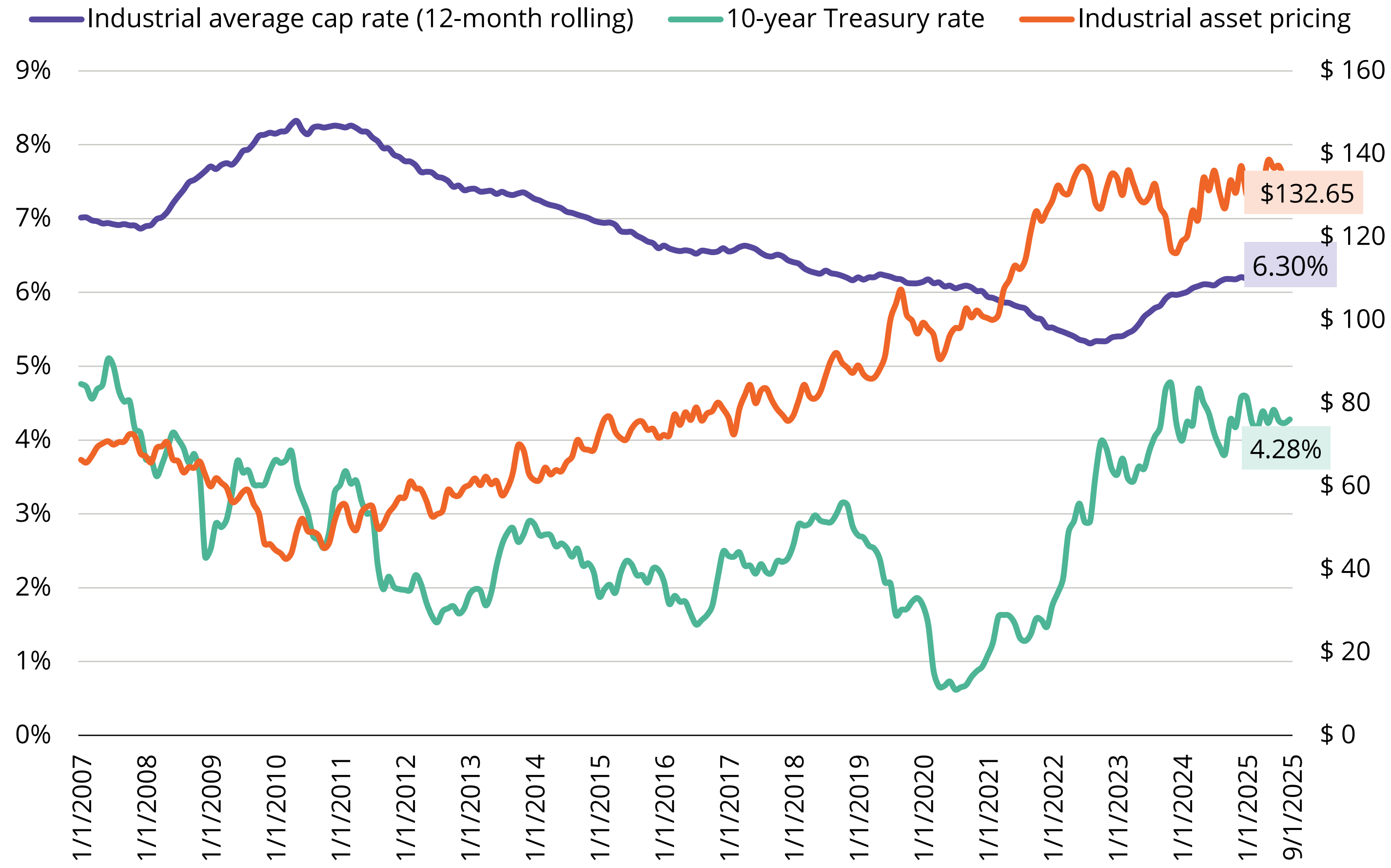
RCA commercial property price indices



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

Up 21 bps since its peak in 2022, industrial pricing has retained and expanded the gains experienced during the COVID cycle, out-performing all other peer sectors. Industrial is also the only sector that continues to appreciate, nearly overtaking multifamily for highest overall pricing.

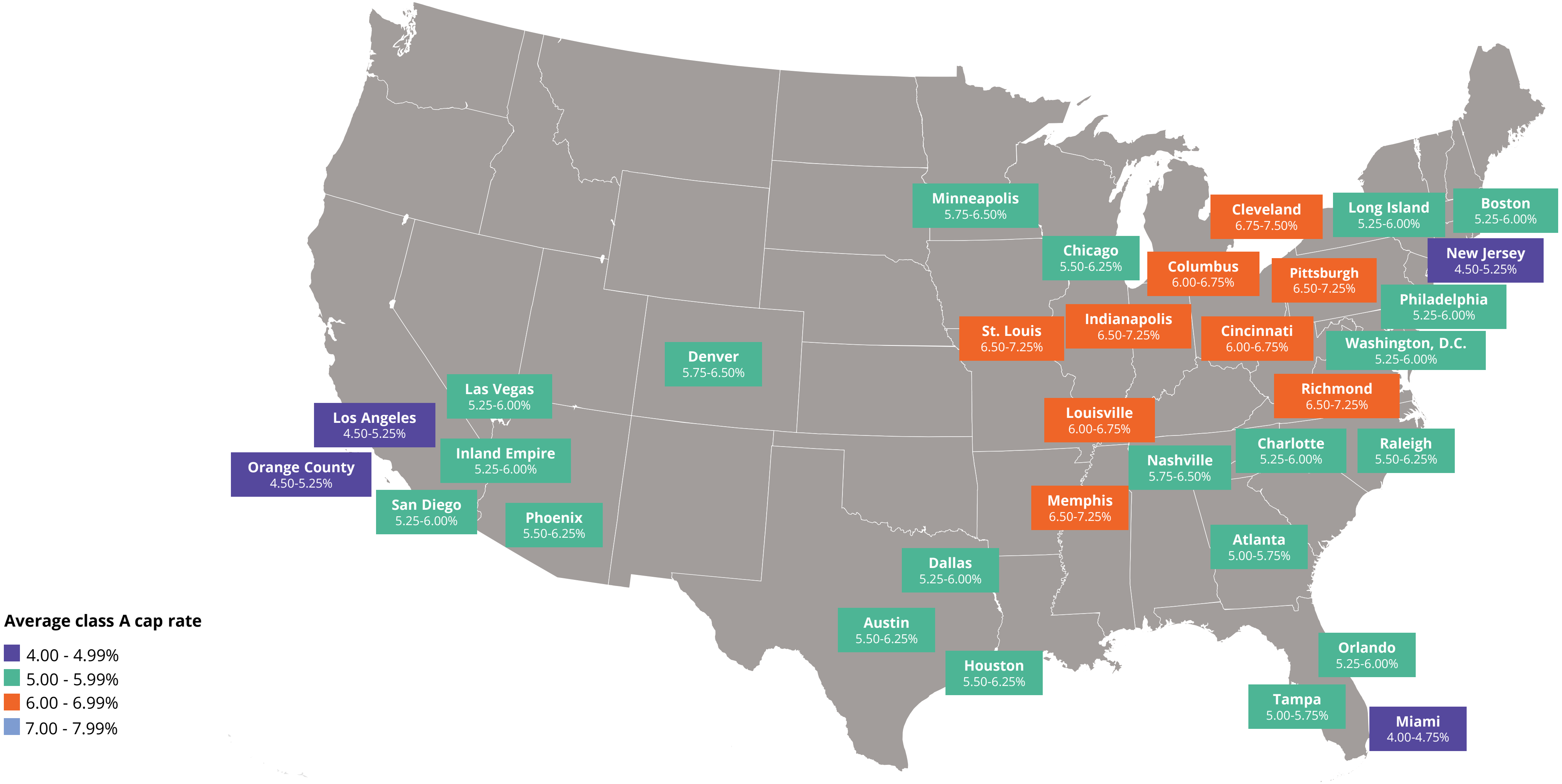
U.S. industrial cap rates vs. asset pricing



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

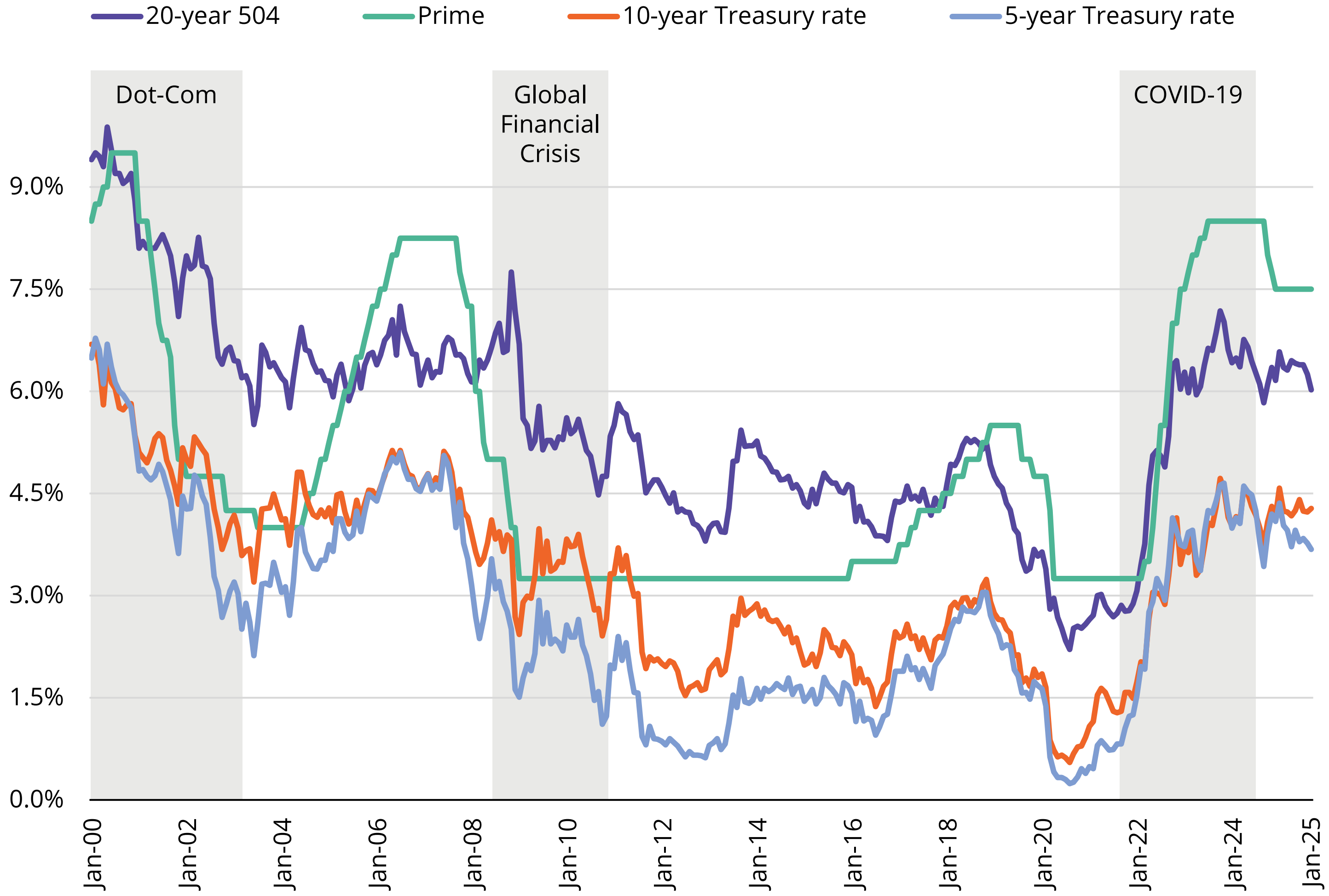
Despite the recent rise of 10-year Treasury rates since 2023, industrial cap rates have remained consistently near pre-COVID historic lows, as industrial assets remain attractive to an expanding variety of investors bidding up pricing to historical highs.

U.S. industrial market average class A cap rates



Source: Avison Young Technologies, MSCI Real Capital Analytics

Cost of borrowing in historical context



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

Amid recent Federal Reserve adjustments and anticipated rate cuts through 2026, understanding the historical context regarding the cost of borrowing and its influence on industrial asset pricing is key as both the economy and sector appear poised for growth in 2026.

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

2025 Avison Young U.S. industrial leadership team

Paty Perman
Leadership
Los Angeles

Sean Kessel
Marketing
Denver

Peter Kroner
Market Intelligence
Chicago

Chad Buch
Market Intelligence
Connecticut

Jeff Estep
Occupier Services
Atlanta

Erik Foster
Capital Markets
Chicago

Randy Waites
REMS
Chicago

Lee Sellenraad
Project Management
Detroit

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