U.S. industrial market report

Q4 2025

AVISON YOUNG

U.S. industrial market trends

9.3%

vacancy rates plateau to end 2025

For the first time in the post-COVID cycle, national vacancy did not rise quarter over quarter, as no change in vacancy was recorded the final two quarters of the year. Plateauing vacancy rates signal a return-of-market equilibrium as demand begins outpacing newly delivered supply. The boost in demand in the second half of 2025 — despite a tumultuous year mired by uncertainty around U.S. federal elections, trade negotiations, fiscal policy, and taxation — is a positive sign the market is poised to accelerate in 2026.

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 and complimentary supplier demand heading into 2026.

+54.9 msf

net absorption surges to highest level since Q1 2023

Net absorption rebounded heavily in the second half of 2025 after a slight negative dip in Q2. This growth can be attributed to increasing confidence from tenants, as deals that were paused due to broader macroeconomic uncertainty were signed in the second half of the year, amidst greater clarity around U.S. trade policy. While uncertainty remains common in the broader economic and CRE sector landscapes, the positive surge in net absorption during the second half of the year — with Q4 representing the highest total in the post-COVID environment — signals rising confidence as robust consumer spending and GDP outpace expectations. Further conviction in inking deals for space is expected after SCOTUS rules on the current administration's tariff legality in Q1 2026.

2.0%

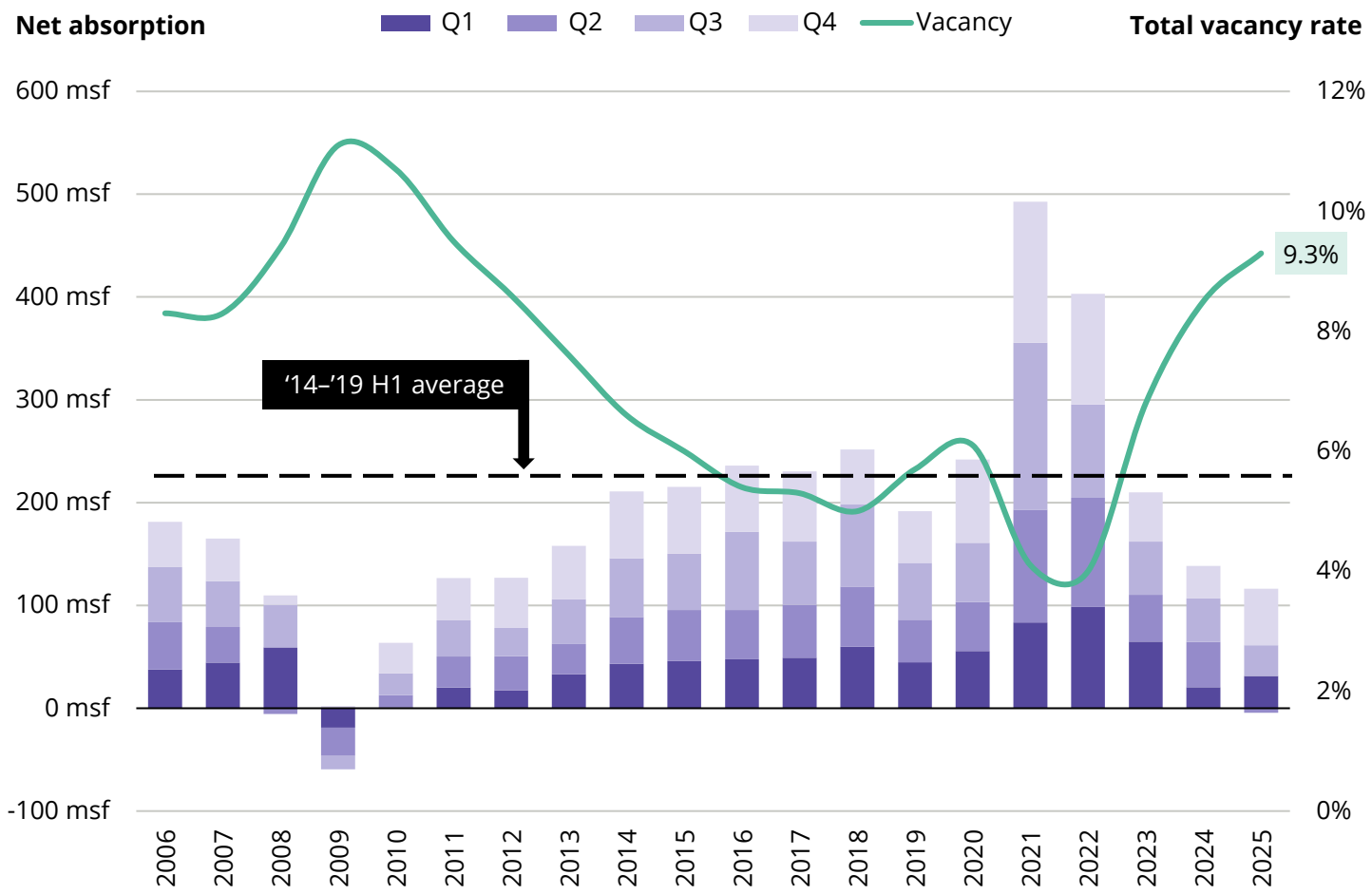
inventory under construction rises as development picks up

The percent of total inventory under construction rose for the second 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.

Ground-breakings are expected to accelerate in the first half of 2026 as rising tenant demand is met with scarce newly delivered vacant space and no new options for 12–18 months. While the story differs market to market, conviction appears to be growing in markets with limited speculative space delivered in the past three years.

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

U.S. industrial net absorption vs. vacancy

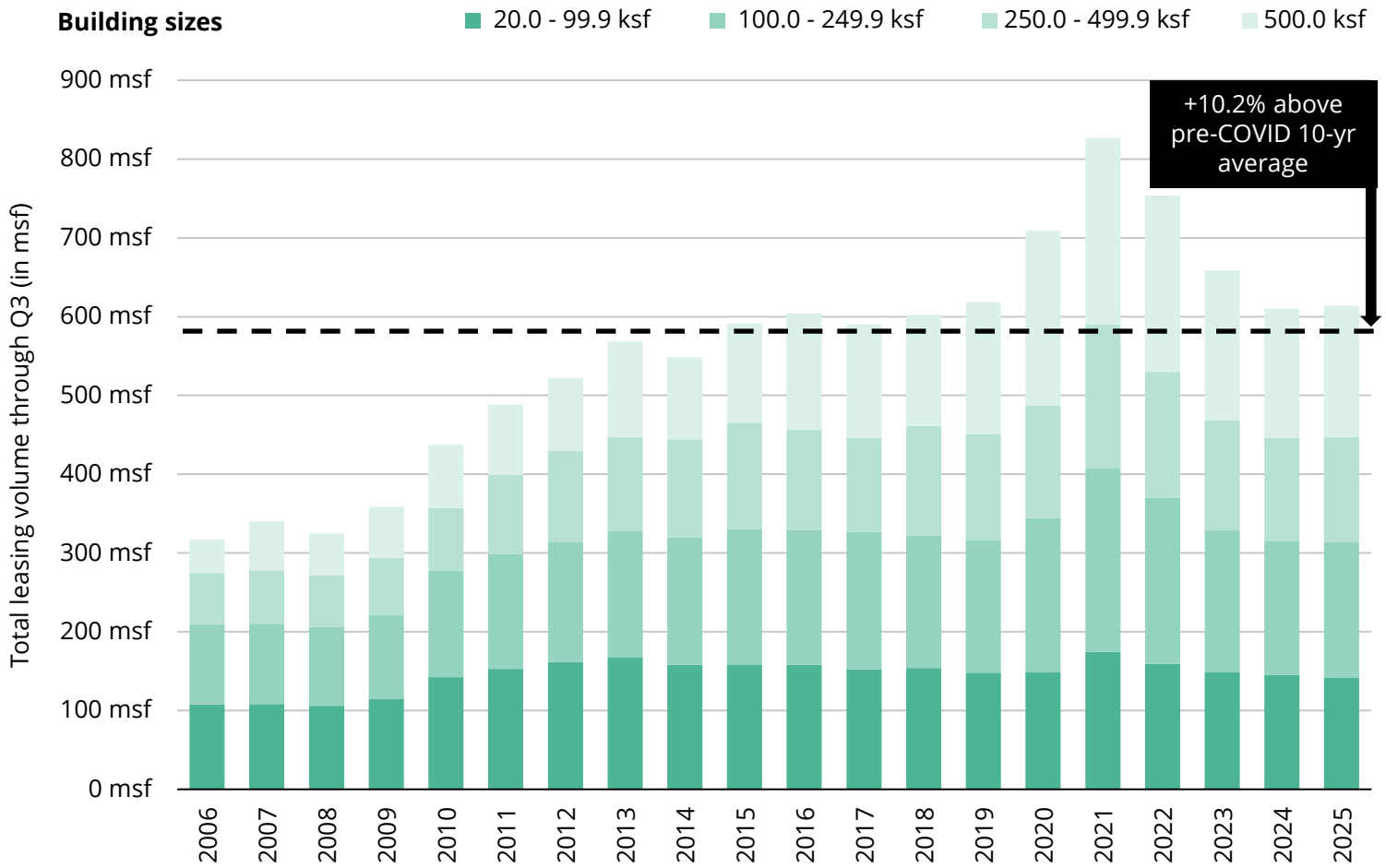


Despite 2025 representing the first negative net absorption figure since 2009, a large influx of leasing activity in the second half of the year — led by a very strong final quarter — carries momentum into 2026. The robust second half appears to be driven by renewal activity that had been waiting for more economic certainty under the new administration.

Vacancy rates completely plateaued in the final two quarters of the year and are finally expected to fall again in the first quarter of 2026 as the market digests vacant buildings.

Source: Avison Young Technologies, CoStar

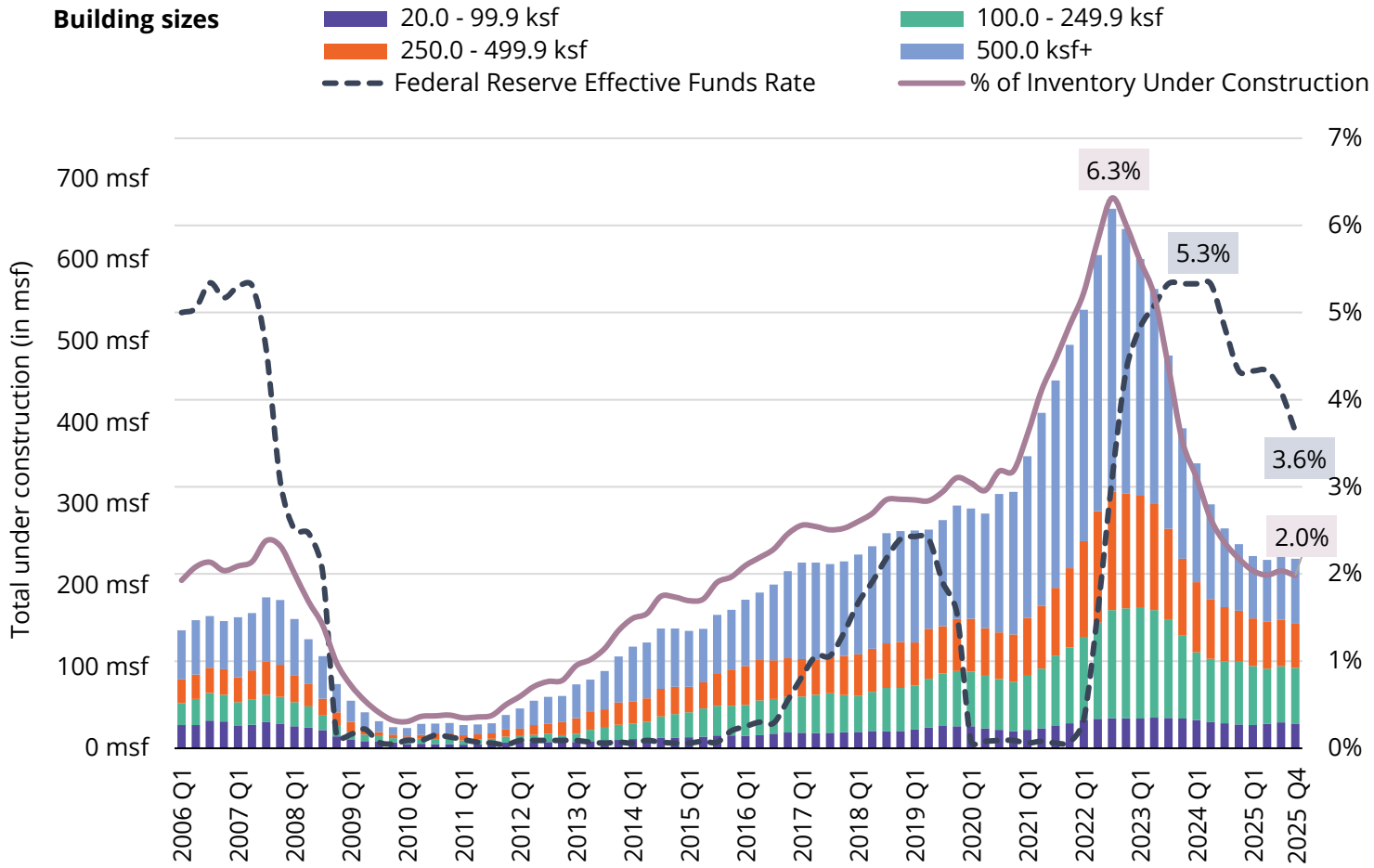
Industrial leasing surges above pre-COVID 10-year average



A strong second half of the year propelled leasing volumes past 2024's total, and surpassed pre-COVID record gross leasing totals. The momentum is expected to accelerate as announced manufacturing taking advantage of the OBBBA (One Big Beautiful Bill Act) begins to select locations and break ground. Newly announced manufacturing facilities will require substantial supplier-network support, creating additional momentum for markets within a six- to eight-hour drive of a major manufacturing center of gravity.

Source: Avison Young Technologies, CoStar

Construction pipeline pre-groundbreaking activity ramping up leading into 2026

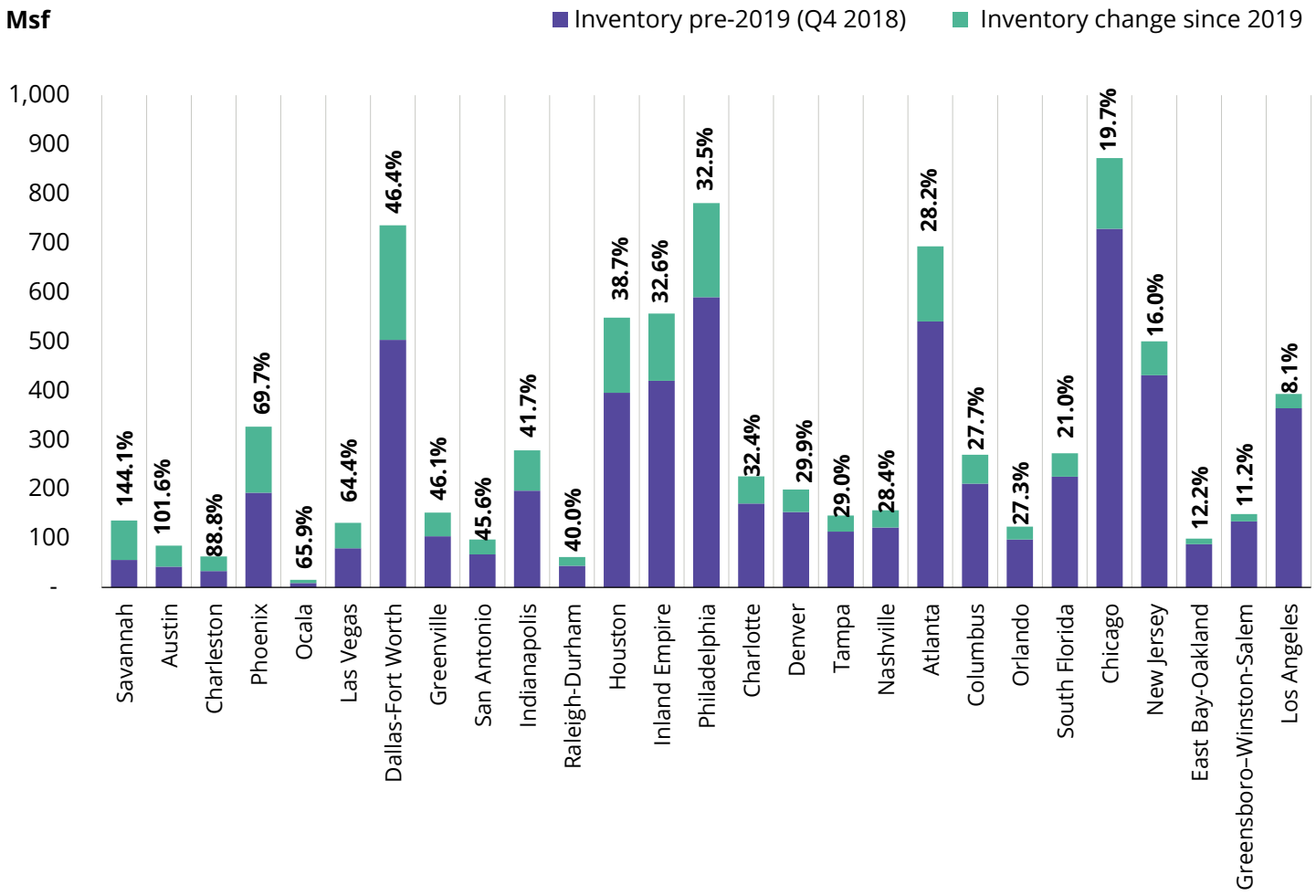


Source: Avison Young Technologies, CoStar

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

The four quarters of 2025 represented a plateau of construction nationally; however, pre-groundbreaking activity is rapidly escalating as the Federal Reserve cuts rates amid signs that inflation is stabilizing. Economic indicators have also been unexpectedly high, giving some developers conviction to begin projects again.

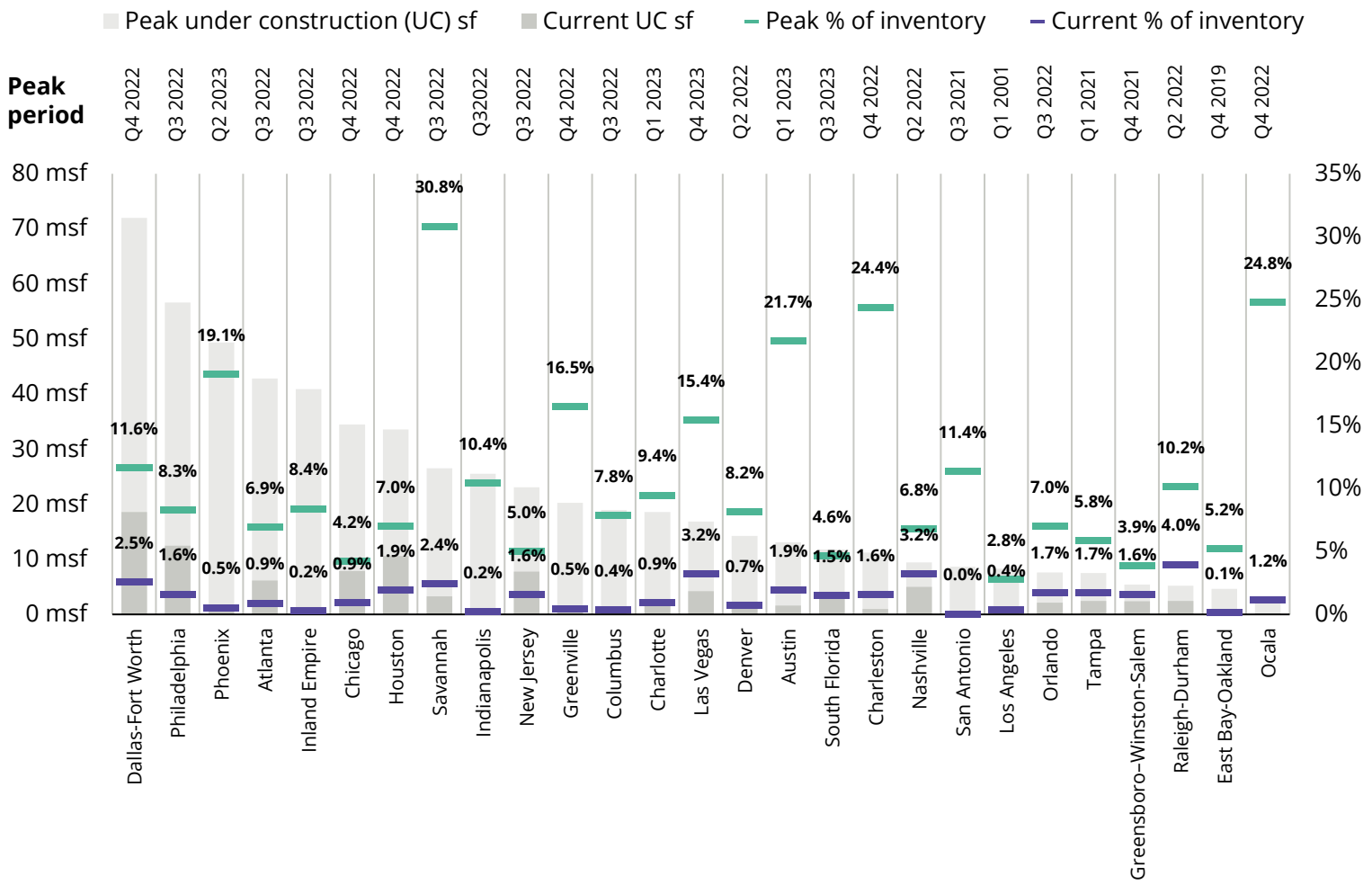
Post-2019 construction comprises a large share of inventory in most markets



Source: Avison Young Technologies, CoStar
Note: Inventory sf figures exclude manufacturing

In most key U.S. industrial markets, post-2019 inventory comprises over 20% of current inventory. In several high-growth markets, well over half of existing inventory was constructed in the past seven years, with Savannah and Austin standing out as front-runners. Despite the rapid increase in supply, strong leasing conditions nationally point to a stabilizing industrial market as new space is occupied.

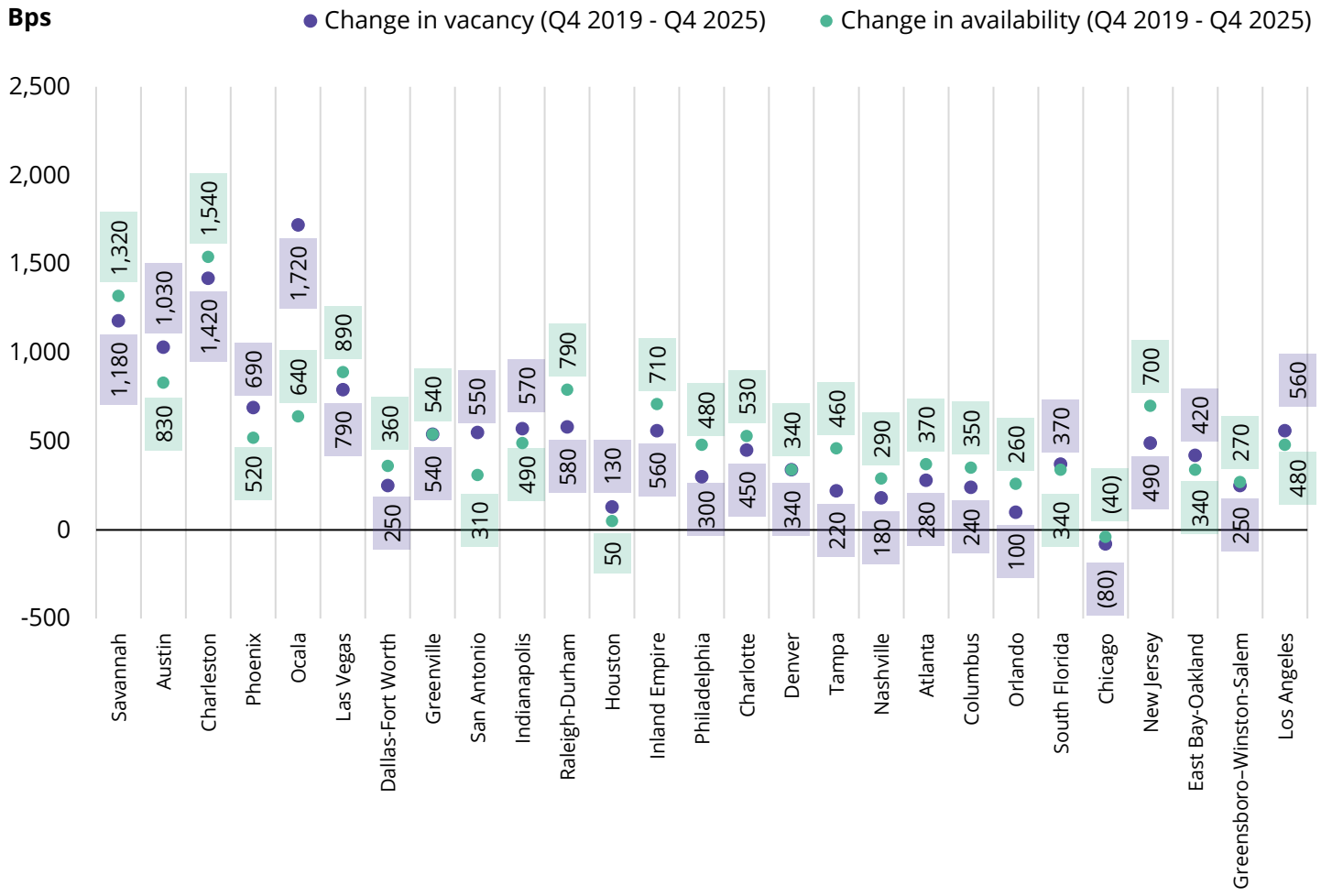
Industrial construction levels well below peak share of inventory



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

Industrial construction volumes — when measured as a percent of total inventory — paint a clear picture of the COVID-era construction boom. Many markets across the U.S. experienced construction levels upward of 10% of total inventory, whereas current levels generally stand below 2%. While a handful of markets have remained above the 2% threshold, in general, square feet under construction is well below peak.

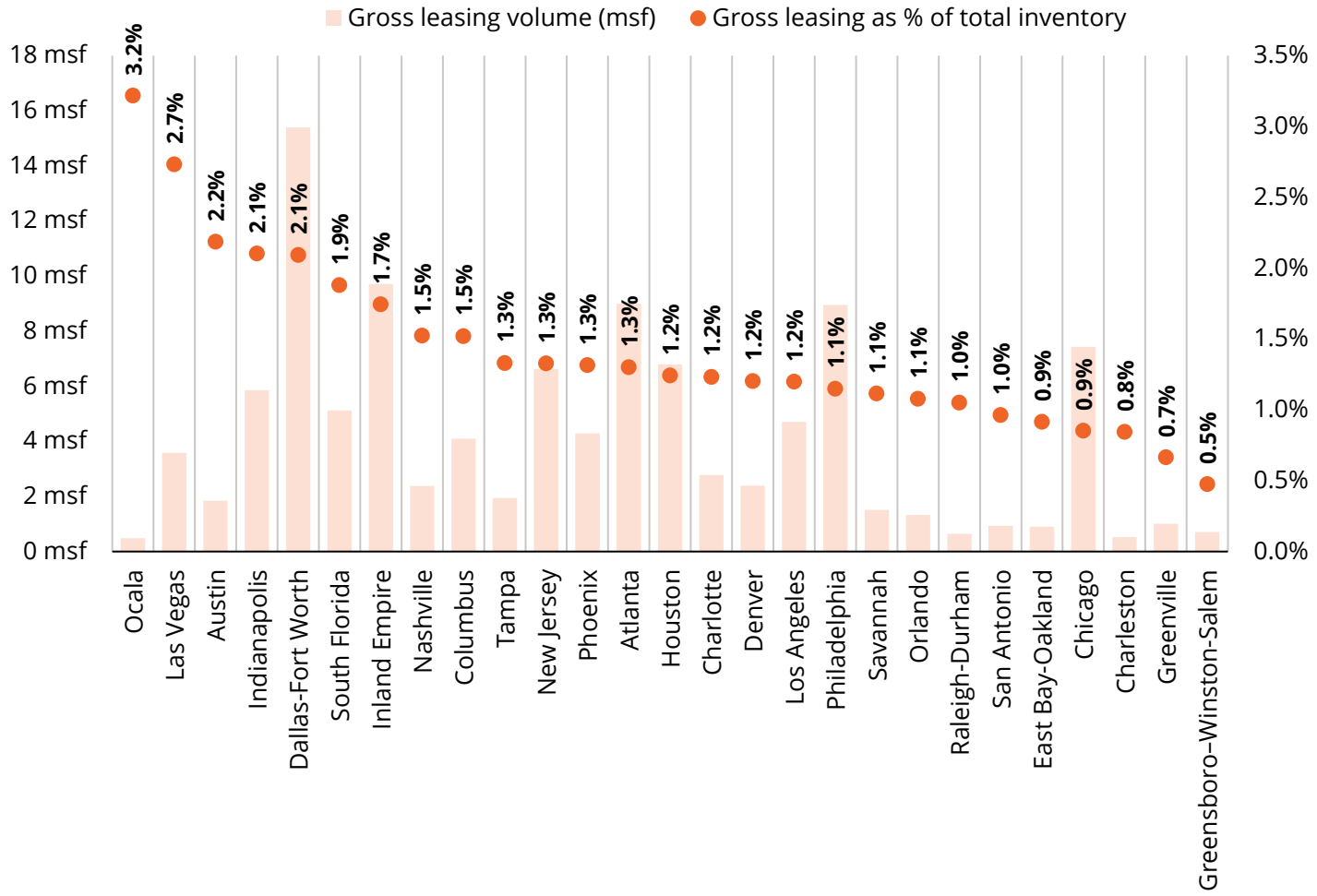
The change in vacancy and availability across markets



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

Most markets experienced an uptick in both availability and vacancy rates between 2019 and 2025. Several markets are notable outliers, seeing severe rises in both metrics due to a rapid increase in construction volume over a similar period. Other markets have stayed tighter with decreases in both vacancy and availability — Chicago stands out as an exception.

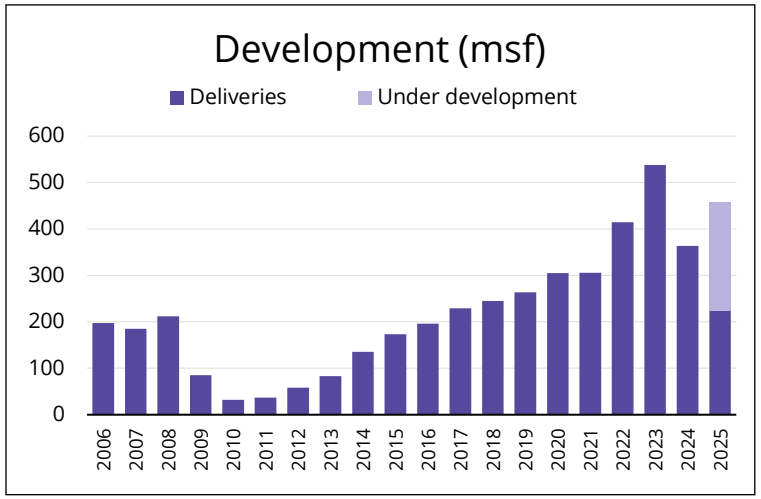
Gross leasing volume as a percent of total inventory

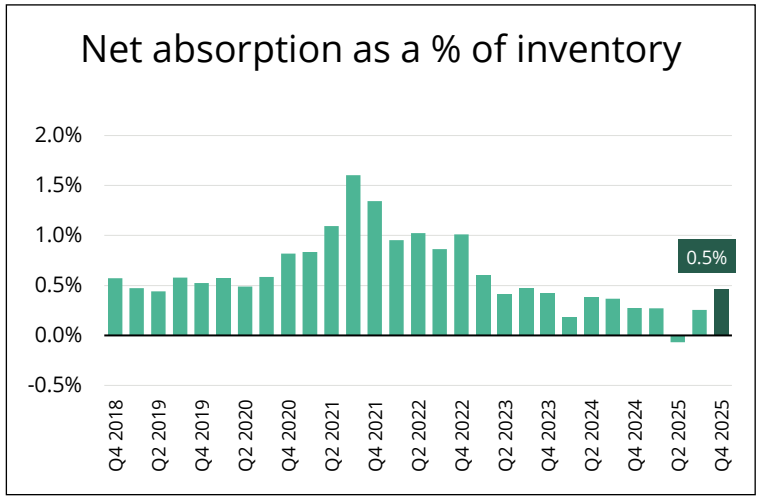


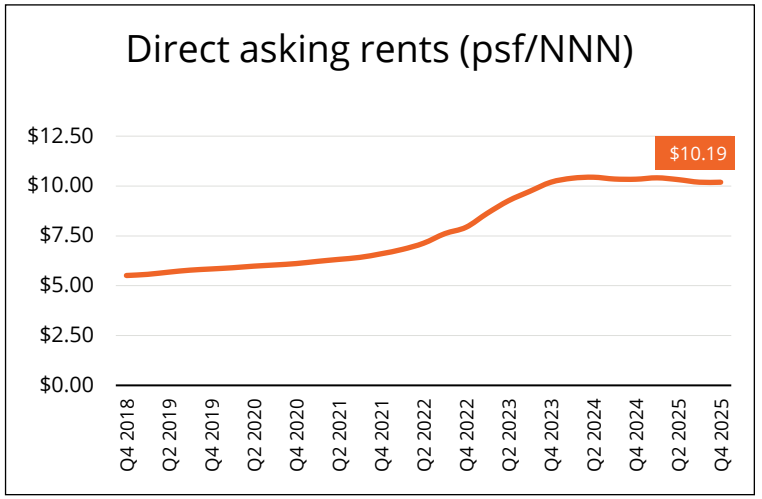
Source: Avison Young Technologies, CoStar
Note: Gross leasing and inventory sf figures exclude manufacturing

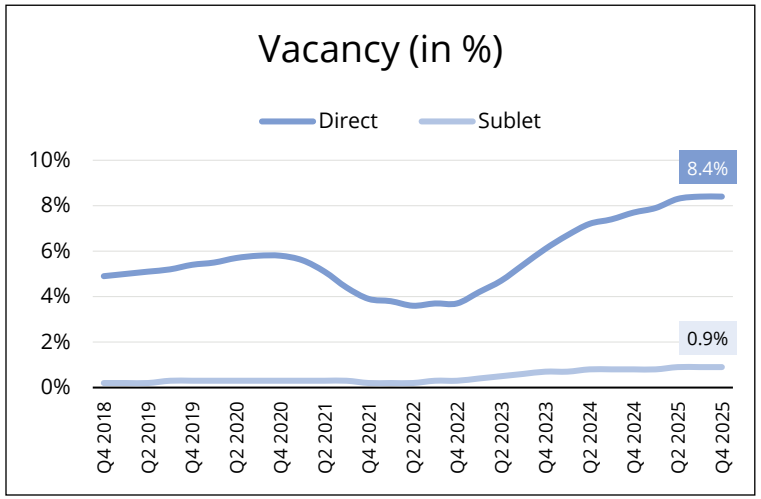
In terms of total leasing volume, traditional industrial hubs remained the clear leaders, such as Dallas, Inland Empire, Atlanta, Philadelphia, and Chicago. Several markets saw gross leasing volumes as a percent of total inventory over 2%, indicating higher levels of activity relative to market size.

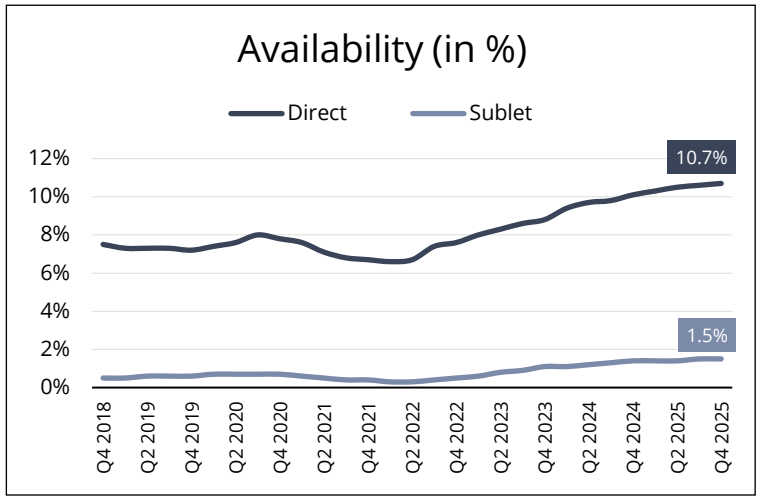
U.S. industrial market indicators

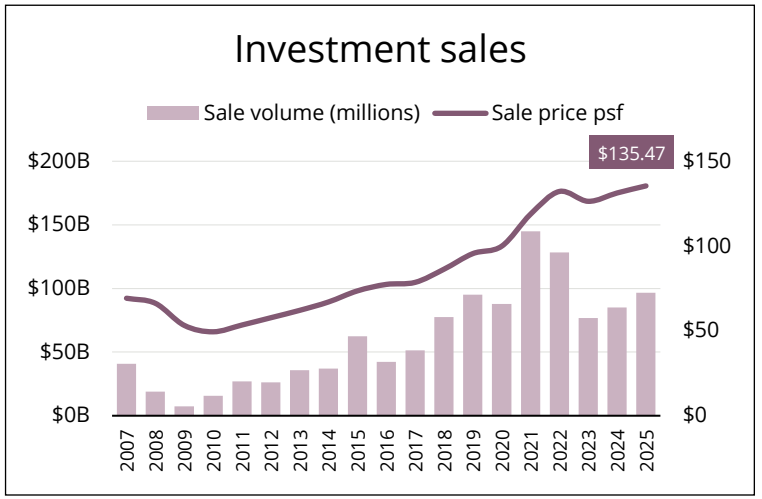






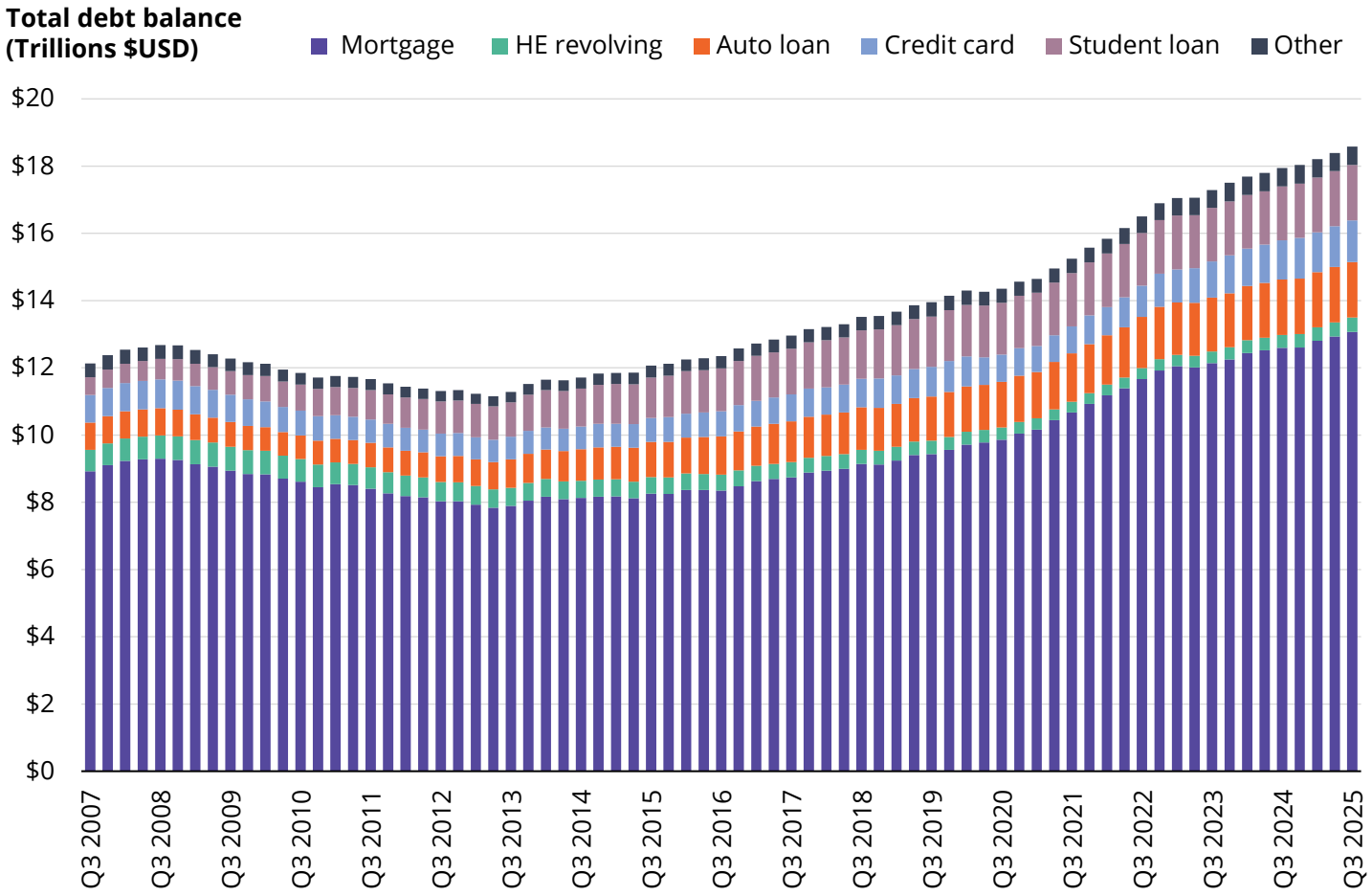






Source: Avison Young Technologies, CoStar, MSCI Real Capital Analytics

U.S. household debt reaches record high in 2025

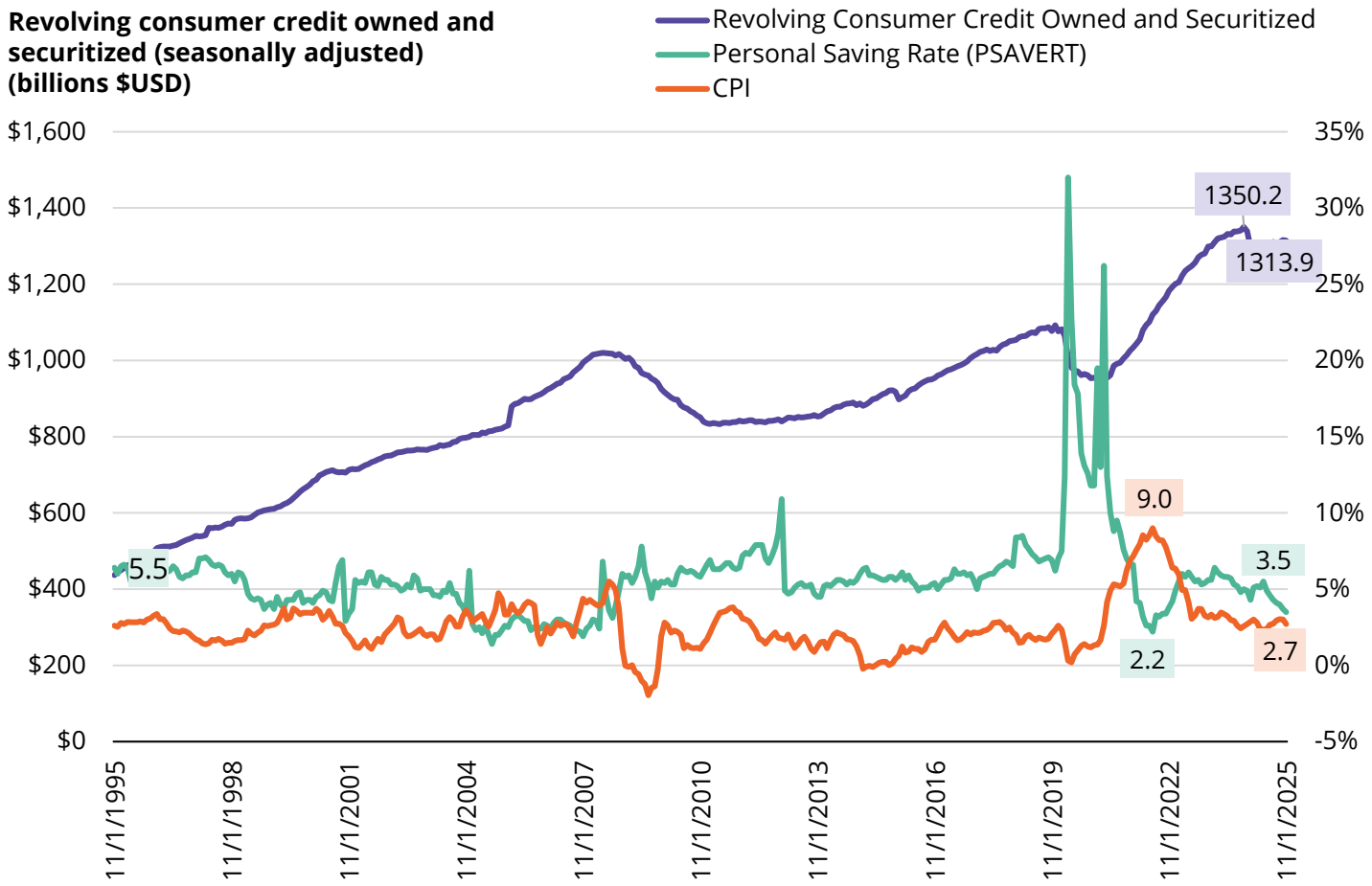


Total household debt climbed to $18.6 trillion in Q3 2025, continuing a steady upward trend since 2013. Mortgage balances remain the dominant component, comprising approximately 70% of the total debt balance. Auto loan debt sits at a proportionally high level when compared to the low in 2013, which was just under 9%.

Note: As of Q3 2025 (most recent update)
Source: Avison Young Technologies, FRBNY Consumer Credit Panel, Equifax

CPI and savings rates remain well below 2020–2021 extremes

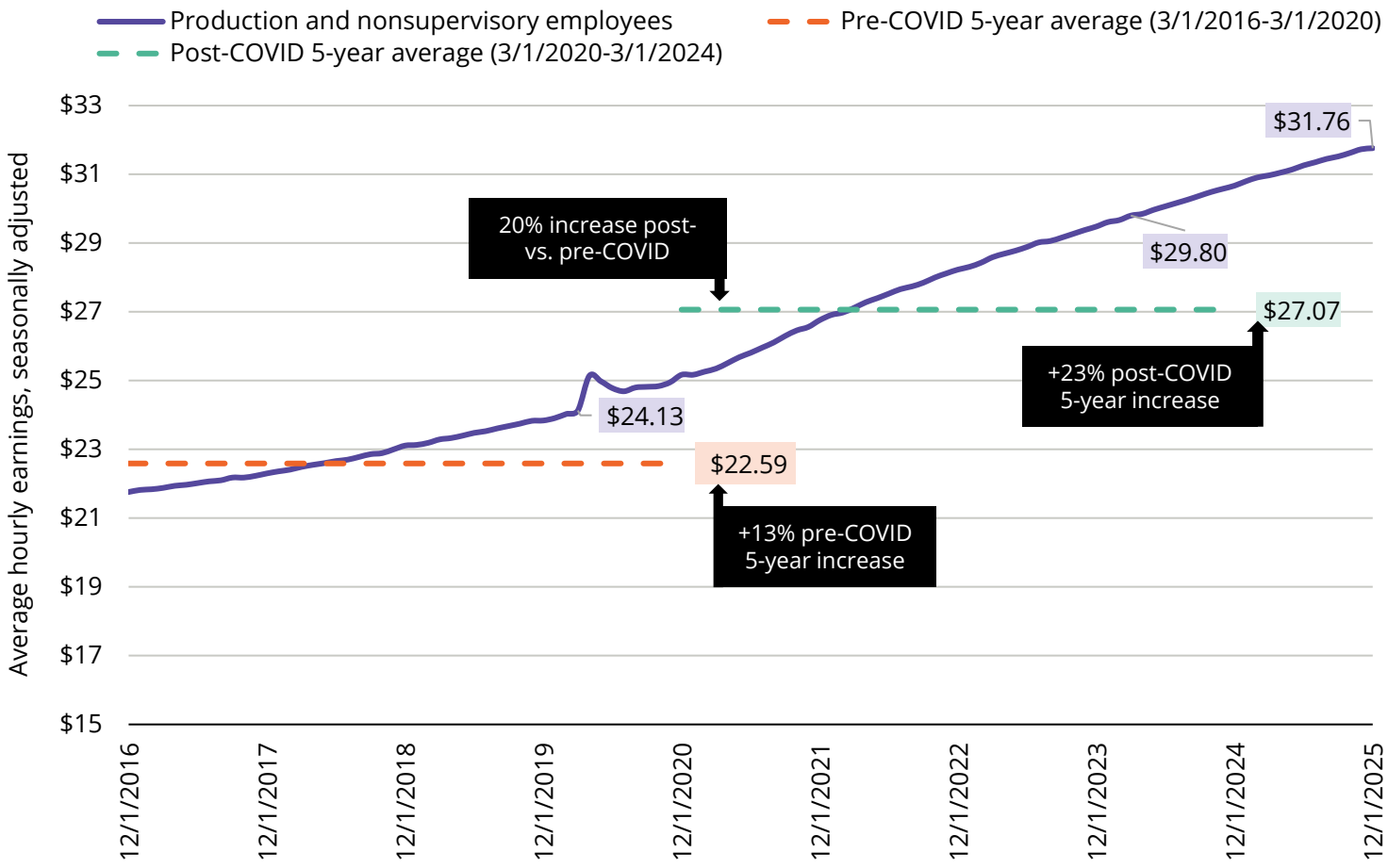
Revolving consumer credit owned and securitized (seasonally adjusted) (billions $USD)



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

Both inflation and household savings remain well below their pandemic-era peaks, signaling a return toward more normalized consumer behavior. While credit balances stay elevated in absolute terms, the lack of near-term volatility suggests consumers have largely adjusted to the current inflation and rate environment. Overall, the three metrics point to steadier, more predictable consumption dynamics to start 2026.

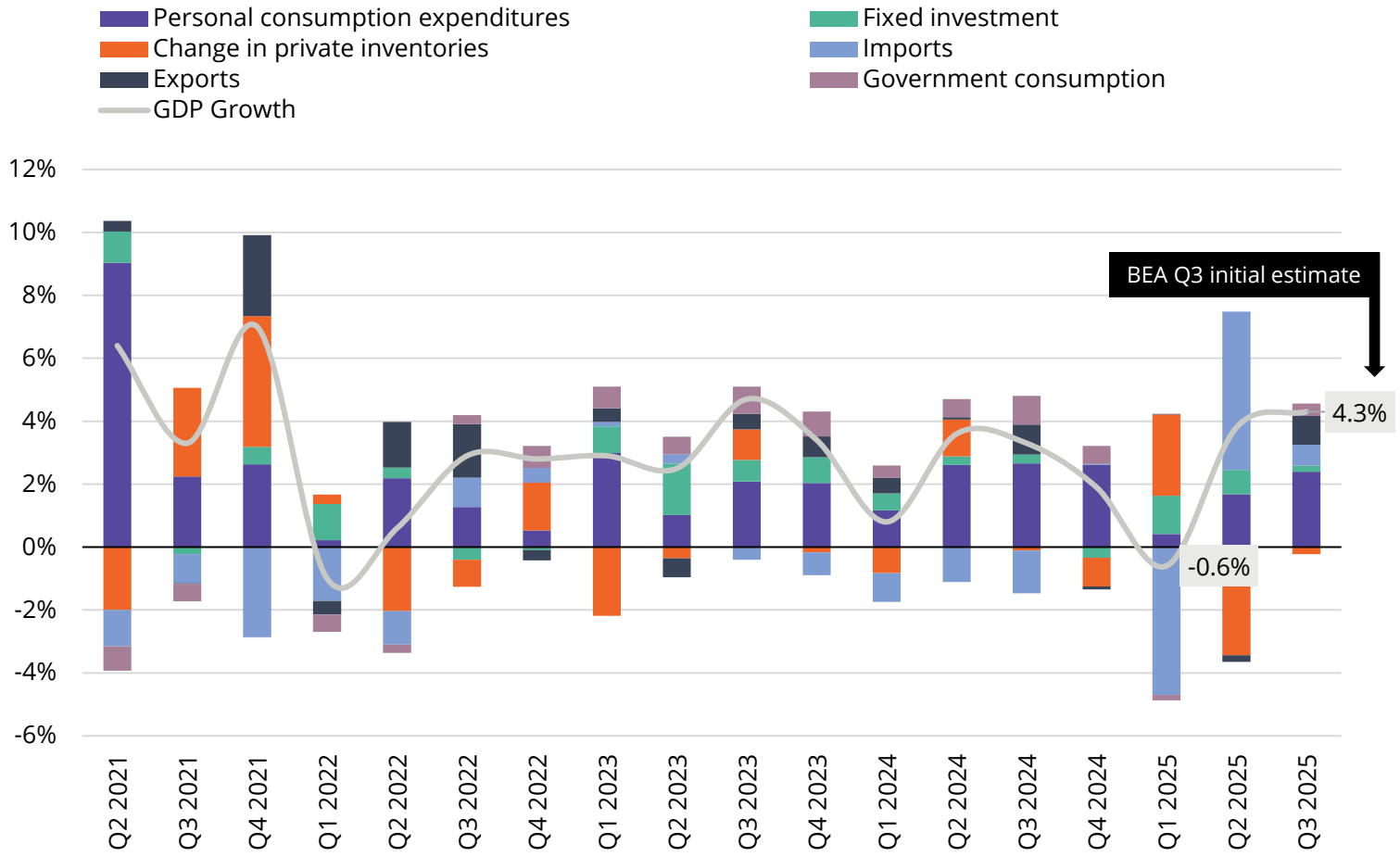
Average hourly earnings for blue collar roles at all time high levels



Note: As of December 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 rapidly in the past few years, with average wages 20% higher than before COVID. At the end of Q4 2025, average hourly earnings for production and nonsupervisory employees stood at a record $31.76 per hour.

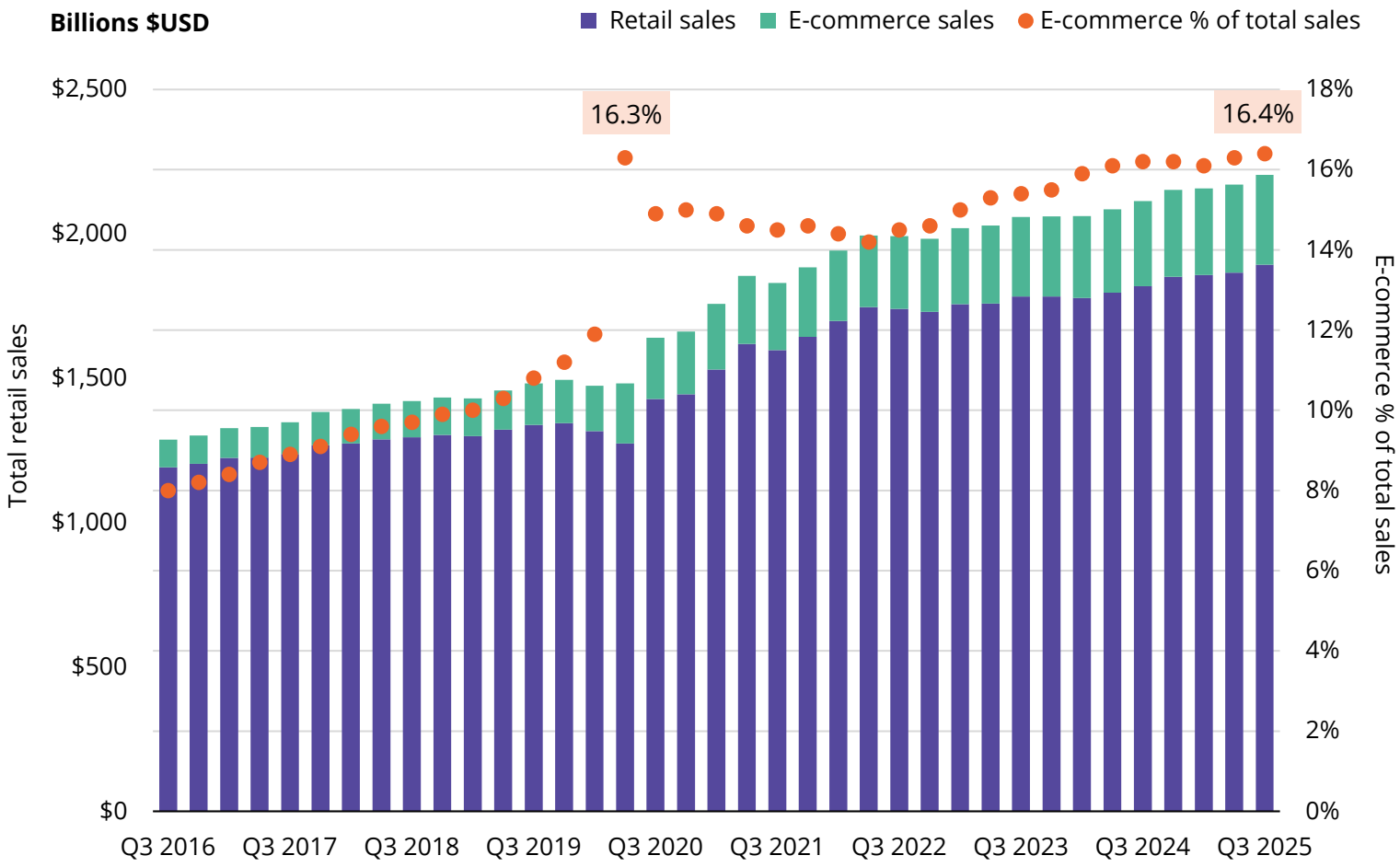
GDP growth continues in Q3, building on rebound from Q1 lows



Note: As of December 23, 2025 (most recent data)
Source: Avison Young Technologies, Atlanta Fed GDPNow real GDP growth estimates, Bureau of Economic Analysis

GDP growth was recorded at 4.3% in Q3 2025, surpassing Q2 2025 growth by 0.5%. This increase was primarily driven by a resurgence in personal consumption, as consumers regained confidence after a period of uncertainty in the first half of 2025. A decrease in private inventories caused a significant strain on overall GDP in Q2 2025 but has since leveled off as businesses gain clarity on the impact of trade policy changes.

E-commerce sales reach record levels at 16.4% of total sales

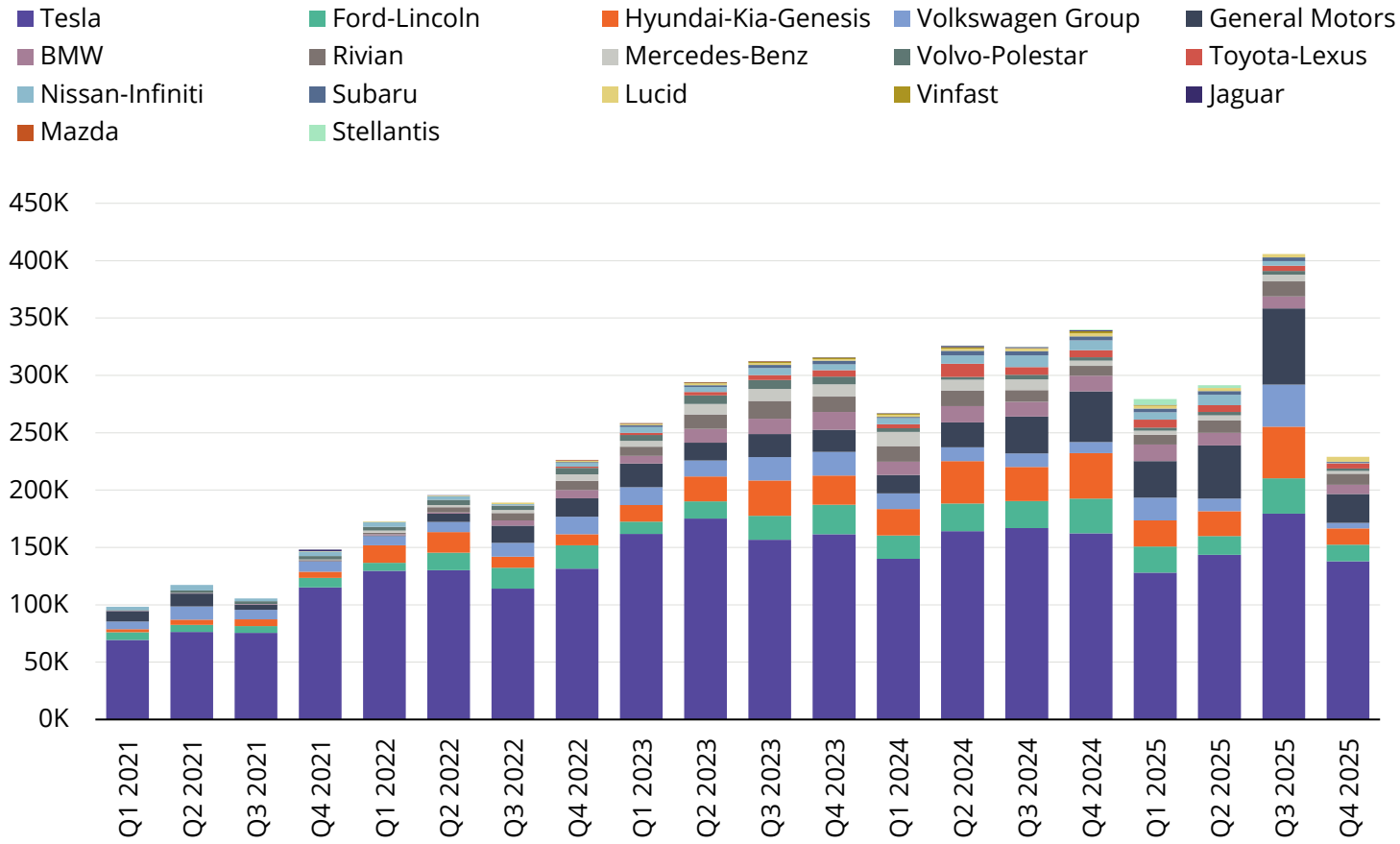


Note: As of 12/16/2025 (most recent update)
Source: Federal Reserve Bank of St. Louis

E-commerce sales reached a record of 16.4% of total sales — a figure surpassing even that in Q2 2020. The continued growth of e-commerce sales signals a lasting demand driver for industrial and logistics real estate.

Q4 sees sharp drop in EV sales as federal tax credit expires

Total U.S. EV sales (in thousands)

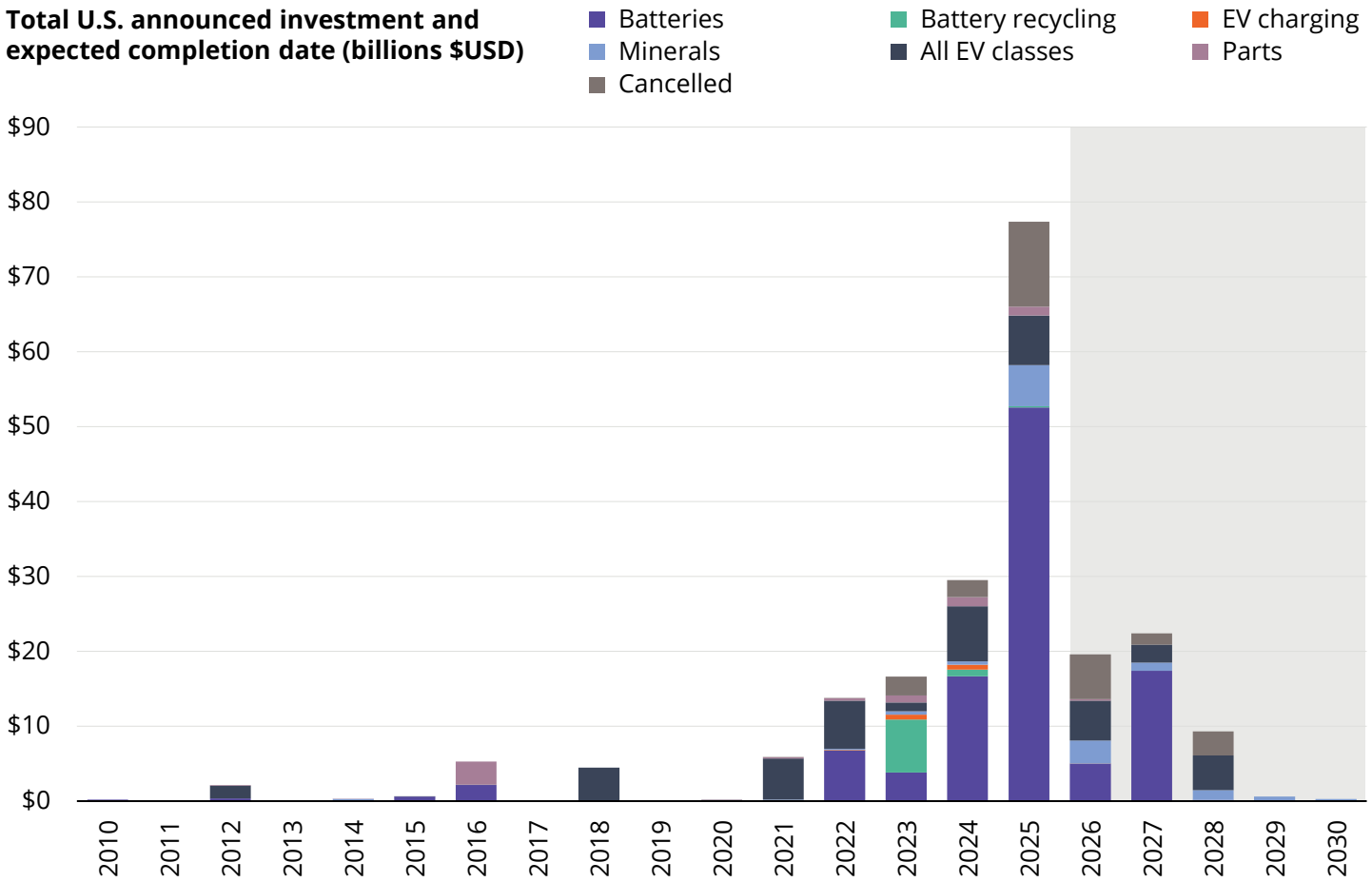


As anticipated, EV sales were down 33% quarter over quarter, as the federal EV tax credit expired at the end of Q3. Despite the year-end drop in sales, total sales for 2025 were only slightly lower than in 2024, meaning 2025 was the second strongest year for EV sales on record. The near-term future of EV sales and production remains in flux, as shifting government priorities create uncertainty for the industry.

Source: Avison Young Technologies, Cox Automotive

2025 marked record EV infrastructure investment, sharp drop-off in 2026

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

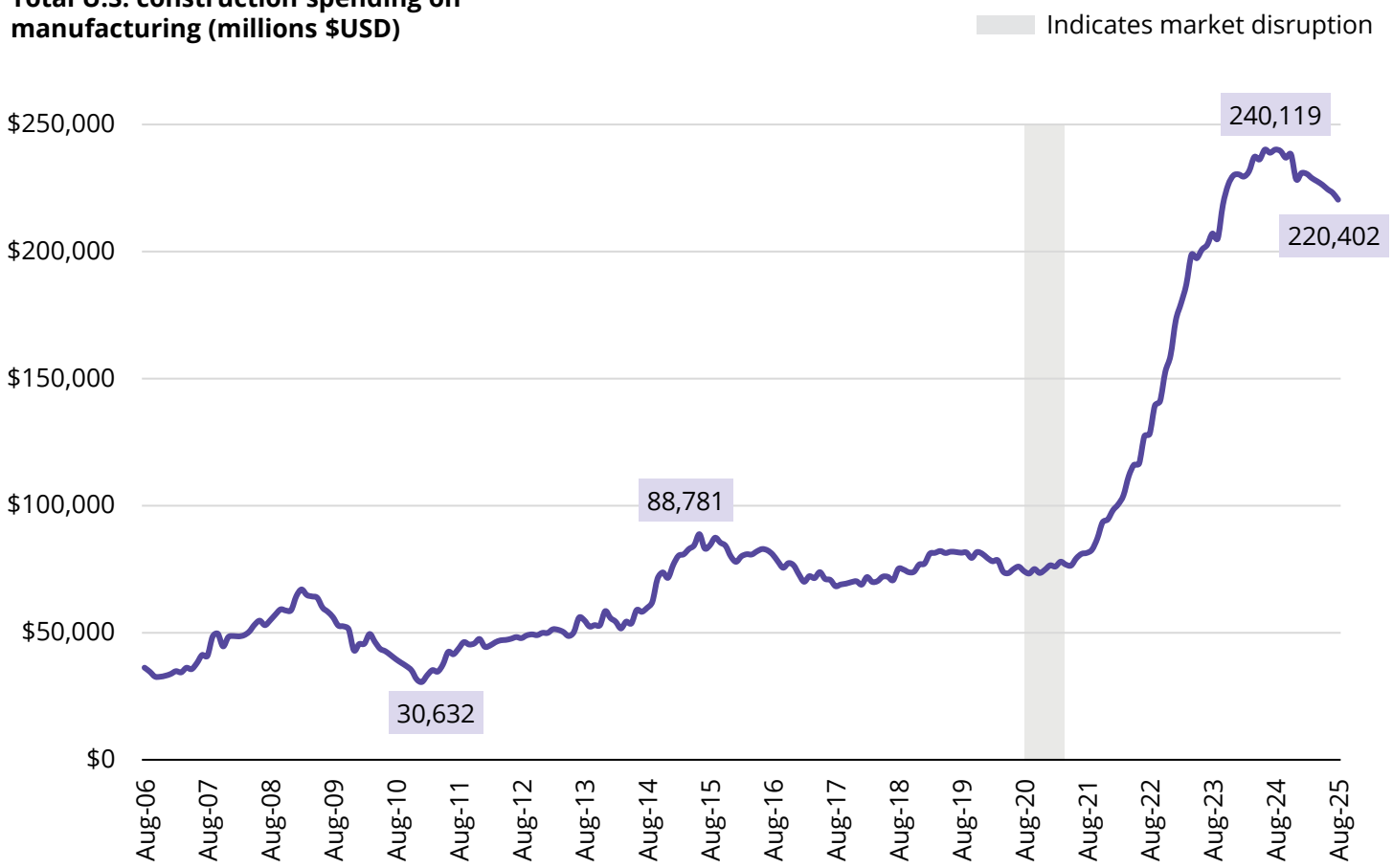


Q4 2025 culminated a record year for electric vehicle infrastructure investment, with over $70 billion spent across a variety of direct and supportive areas. Future investments currently fall off sharply — a trend that will likely be amplified by the recent expiry of the federal EV tax credit.

Source: Avison Young Technologies, Bluegreen Alliance Foundation

Manufacturing construction spending slows ahead of 2026 spending surge

Total U.S. construction spending on manufacturing (millions $USD)



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

U.S. manufacturing construction spending continued to decline through August, following its peak in August 2024. This was largely expected, as changing administrations and policies takes time for decision makers to digest and execute strategies to expand.

Despite spending trends the past several months, manufacturing catalysts are currently in place, as the federal government continues to implement various incentive programs to drive domestic manufacturing.

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

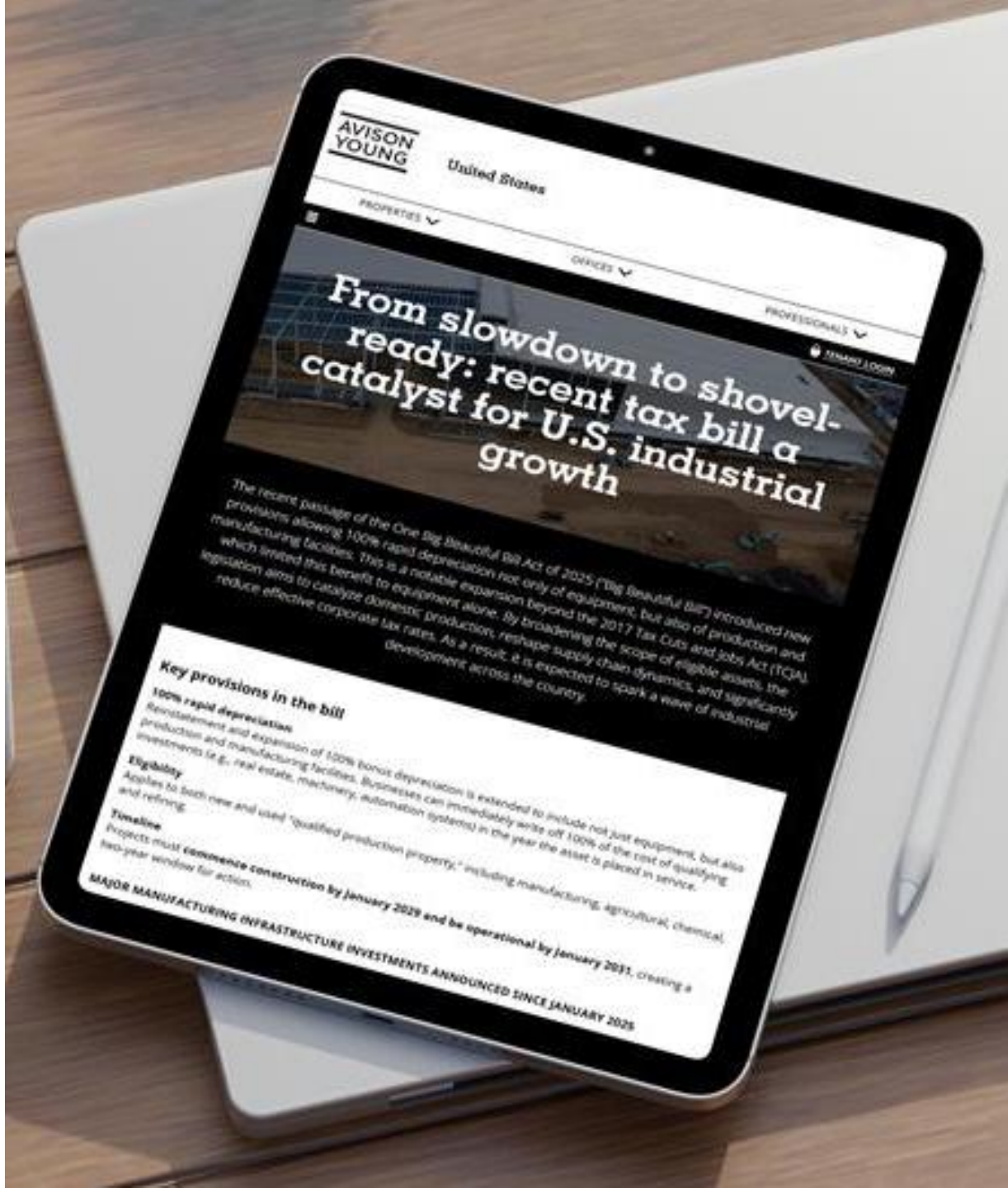
A major new tax provision in the OBBBA now allows 100% immediate expensing not only for equipment but also for qualified production property (QPP). This change, quietly included throughout each chamber's version of the bill, significantly reduces effective corporate tax rates and is expected to supercharge 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 they directly related to production?
- Land transfer timing — Do owners need to have purchased the land before ground is broken?

Learn how to maximize these benefits

Source: Avison Young Technologies, Capstan Tax Strategies

OSC represents major catalyst for industrial real estate

The **Office of Strategic Capital (OSC)** is a Department of War organization focused on attracting and scaling private capital investments into critical technologies and supply chains essential for national security. It provides debt financing, loans, and loan guarantees to U.S.-based companies in 31 covered technology categories, including advanced manufacturing, microelectronics, clean energy, quantum computing, and critical minerals. Debt financing offers direct loans available up to $150 million to finance domestic projects, and investment fund financing offers fund-level leverage up to $175 million per fund.

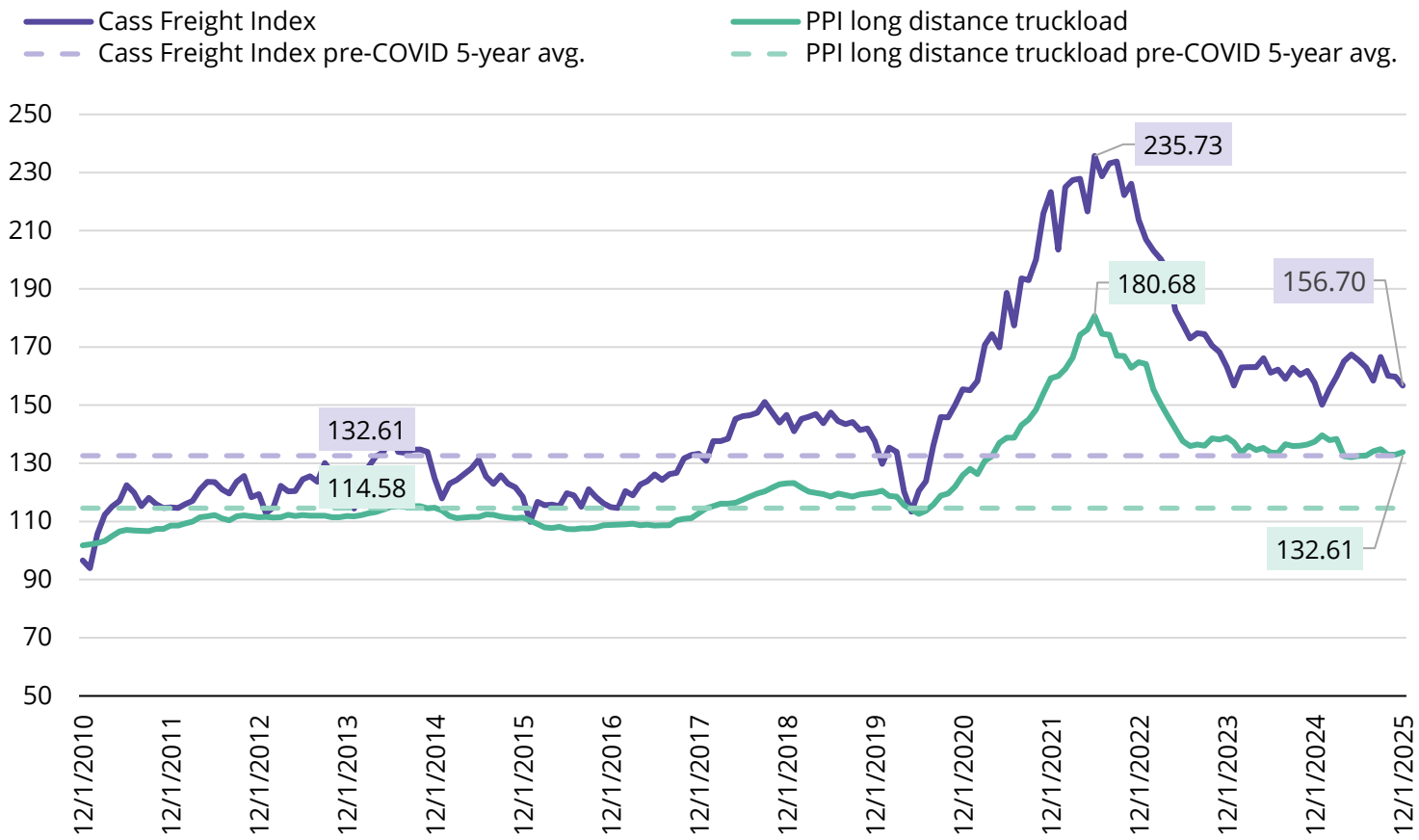
Impact on industrial real estate
The OSC investments in critical industries will impact industrial real estate in a tangible way. In addition to new space demand from companies directly receiving OSC funding, the supportive supply chain networks that will be built out to service these companies will create demand from tenants and owners, likely in nascent industries spurred by targeted government investment.

Discretionary funding
The OSC was initially authorized with $984 million in loan authority for a pilot program through FY2026, focused on equipment financing for manufacturing expansion. The OSC was expanded significantly under the OBBBA in 2025, enabling up to $100 billion in loans for critical minerals and related strategic industries.

Current spending
As of early 2026, the OSC has committed at least $850 million in loans, including $150 million to MP Materials in California, $620 million to Vulcan Elements in North Carolina, and $80 million to ReElement Technologies in Indiana.

Shipping costs remain structurally higher than pandemic-era highs

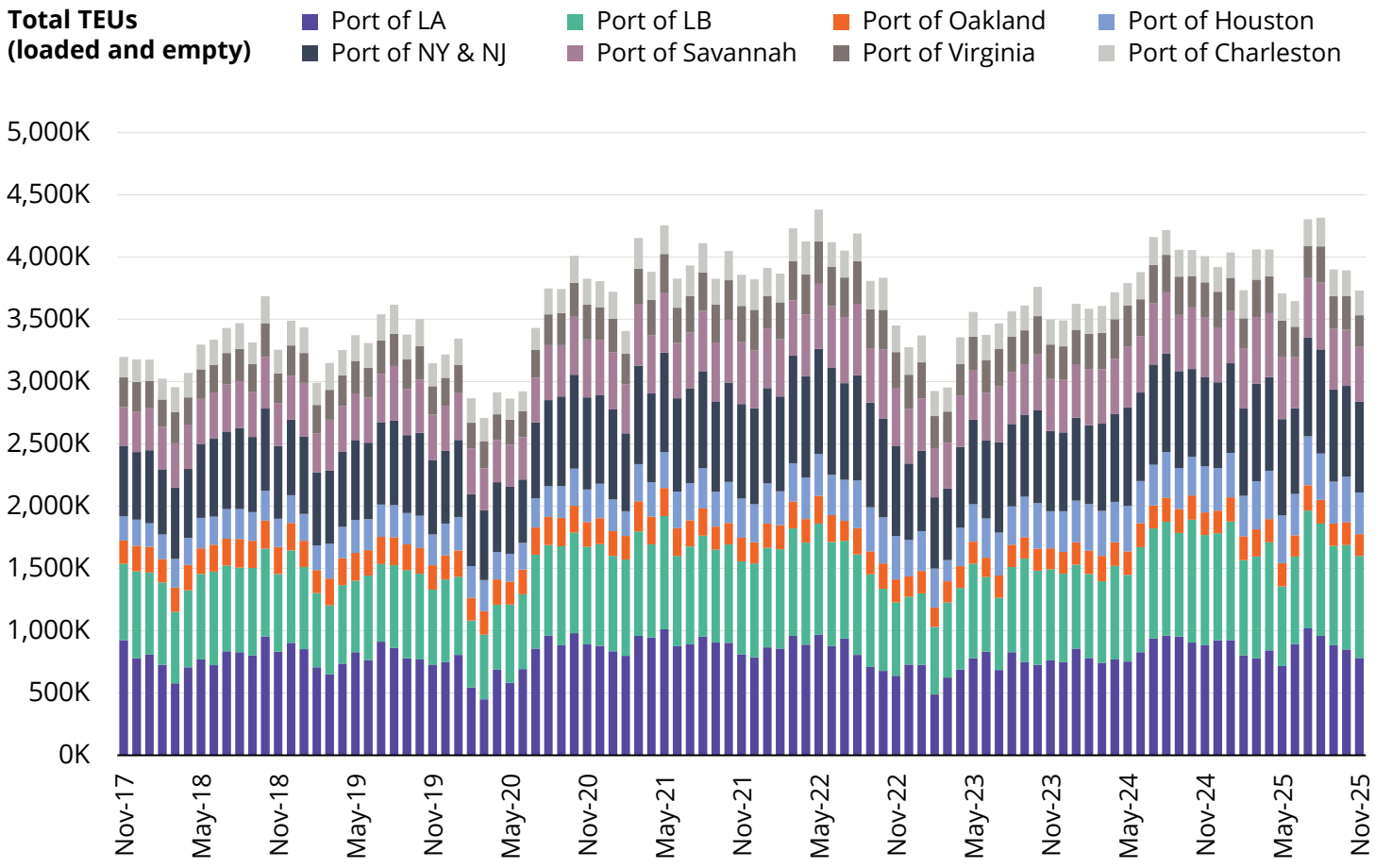
Index Aug 2007 = 100



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

While shipping costs have moderated from their 2021–2022 peaks, both the Cass Freight Index and PPI Long Distance Truckload remain structurally elevated relative to pre-COVID norms. Current index levels sit meaningfully above their pre-pandemic five-year averages, suggesting a higher baseline cost environment for freight and logistics.

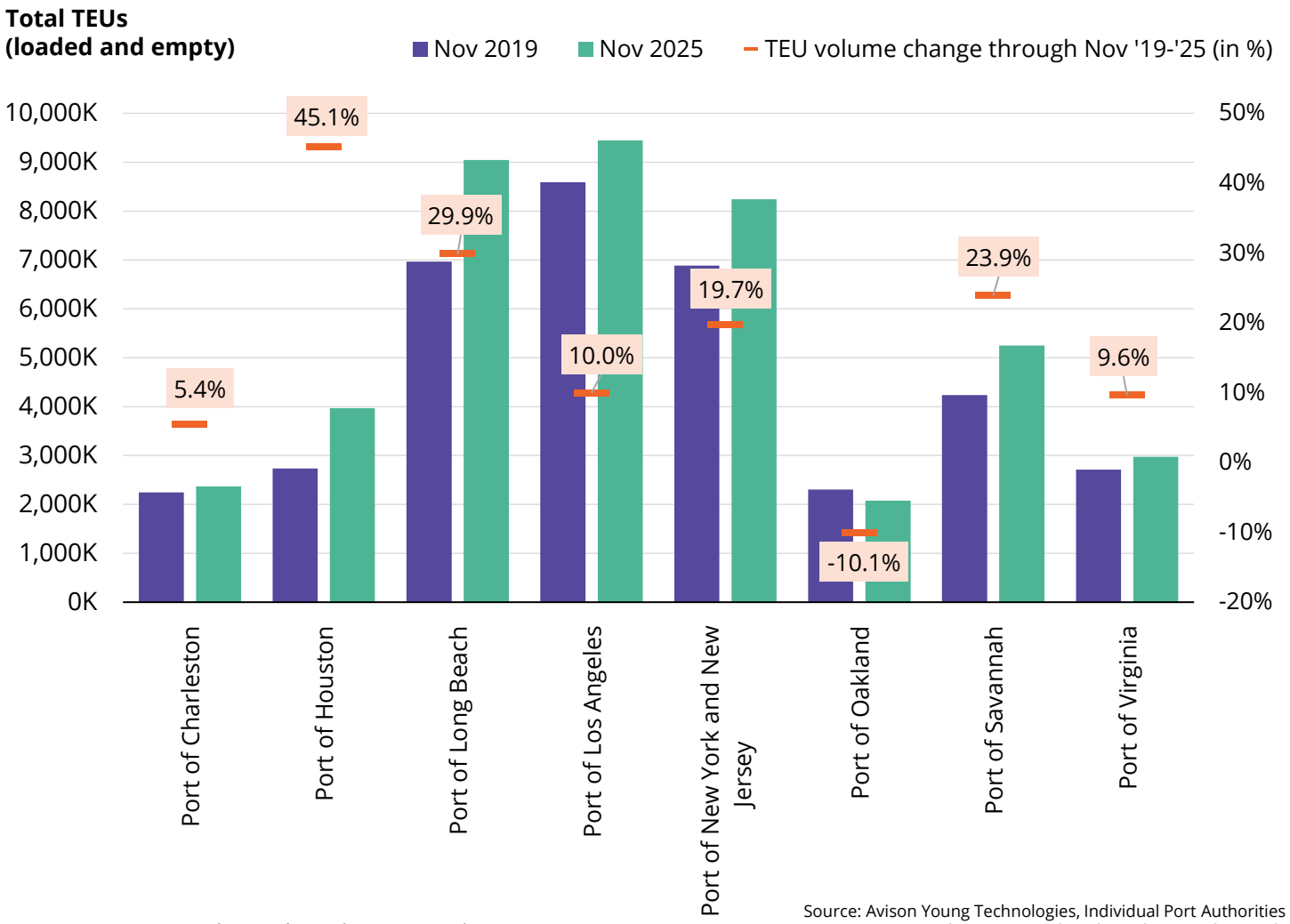
2025 YTD TEU volumes track ahead of 2024 despite trade uncertainty



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

2025 TEU volumes at major U.S. ports surpassed 2024 figures as of November 2025. Despite tariff announcements at the start of 2025, container traffic at many major ports remained strong. Although data is not yet available for year-end 2025, overall performance YTD has surpassed many expectations considering the trade tensions that served as an undertone throughout the year.

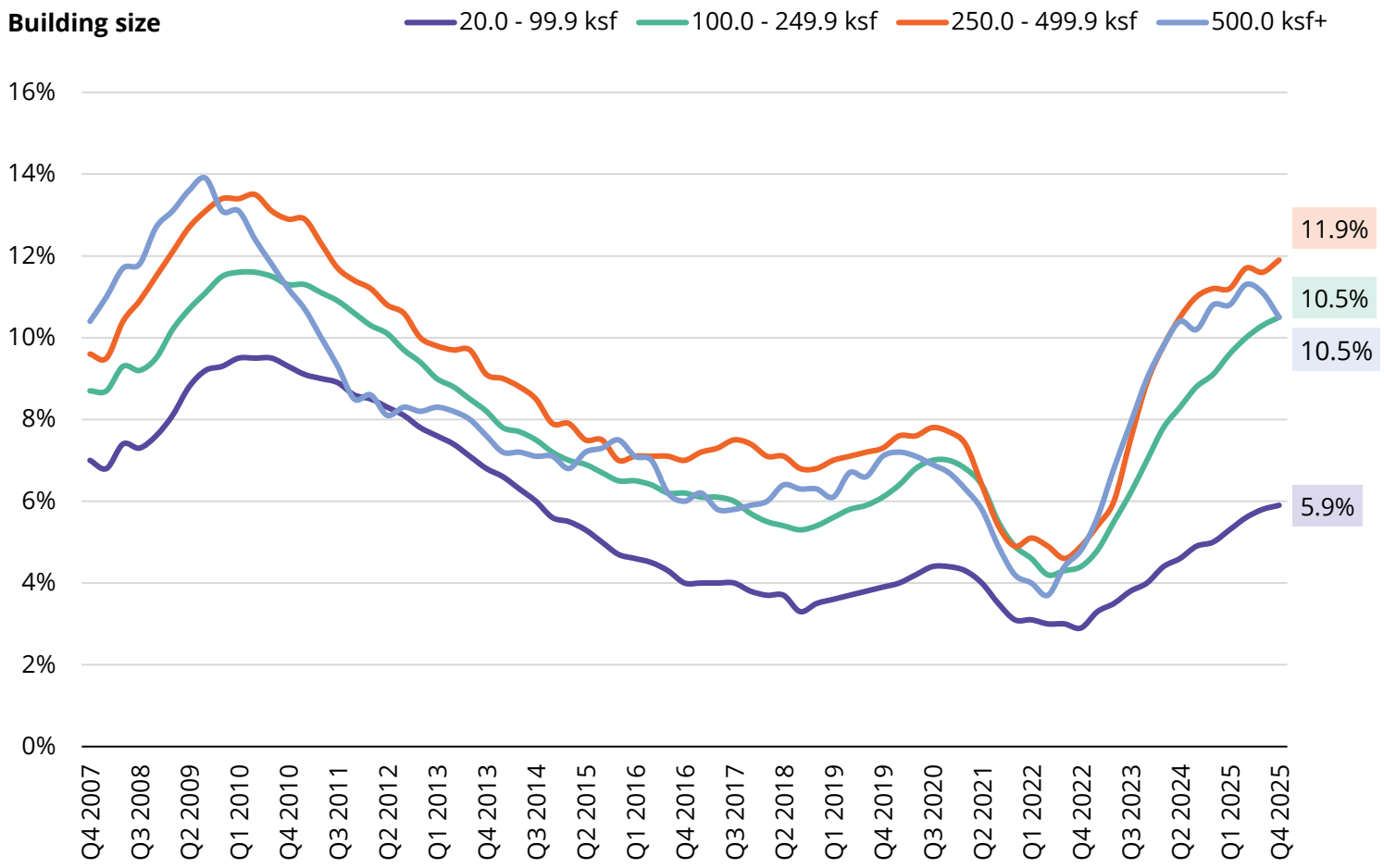
Port Houston continues to lead major U.S. ports in TEU volume growth



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

TEU volume growth at Port Houston remained robust through November 2025, leading all major U.S. ports when compared to 2019 figures YTD. Shifting global trade dynamics will continue to impact regional U.S. ports, as countries and ports of origin shift for certain goods.

U.S. industrial vacancy by building size

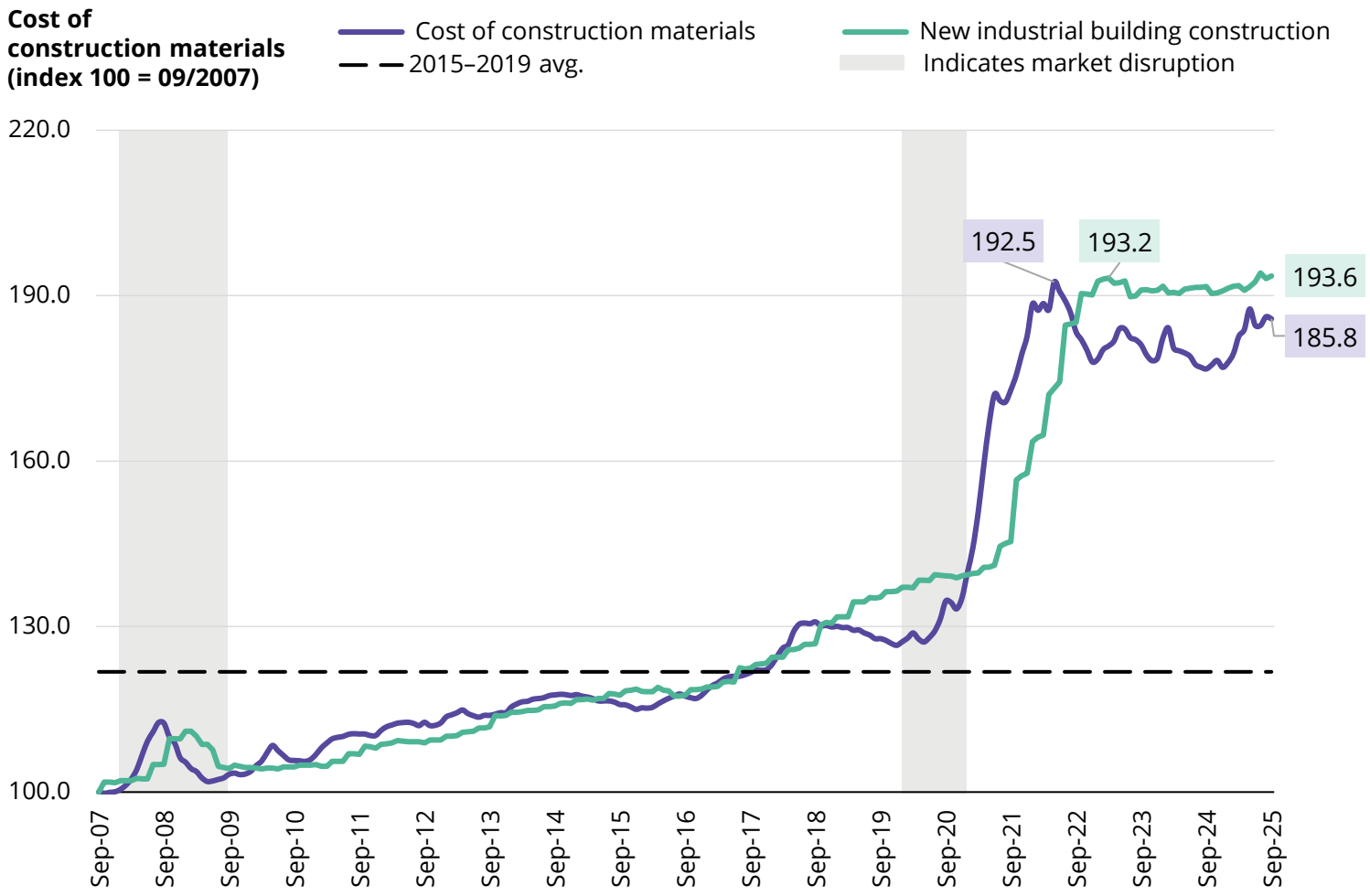


After hitting historic construction pipeline volume in late 2022, a record amount of new industrial space was delivered and topped out in 2023.

Peak deliveries have passed and a flattening of vacancy among larger building sizes is signaling healthy upticks in demand throughout the market. Vacancy, being a laggard indicator, is beginning to suggest current market sentiment is recovering from the uncertainty of the past 24+ months.

Source: Avison Young Technologies, CoStar

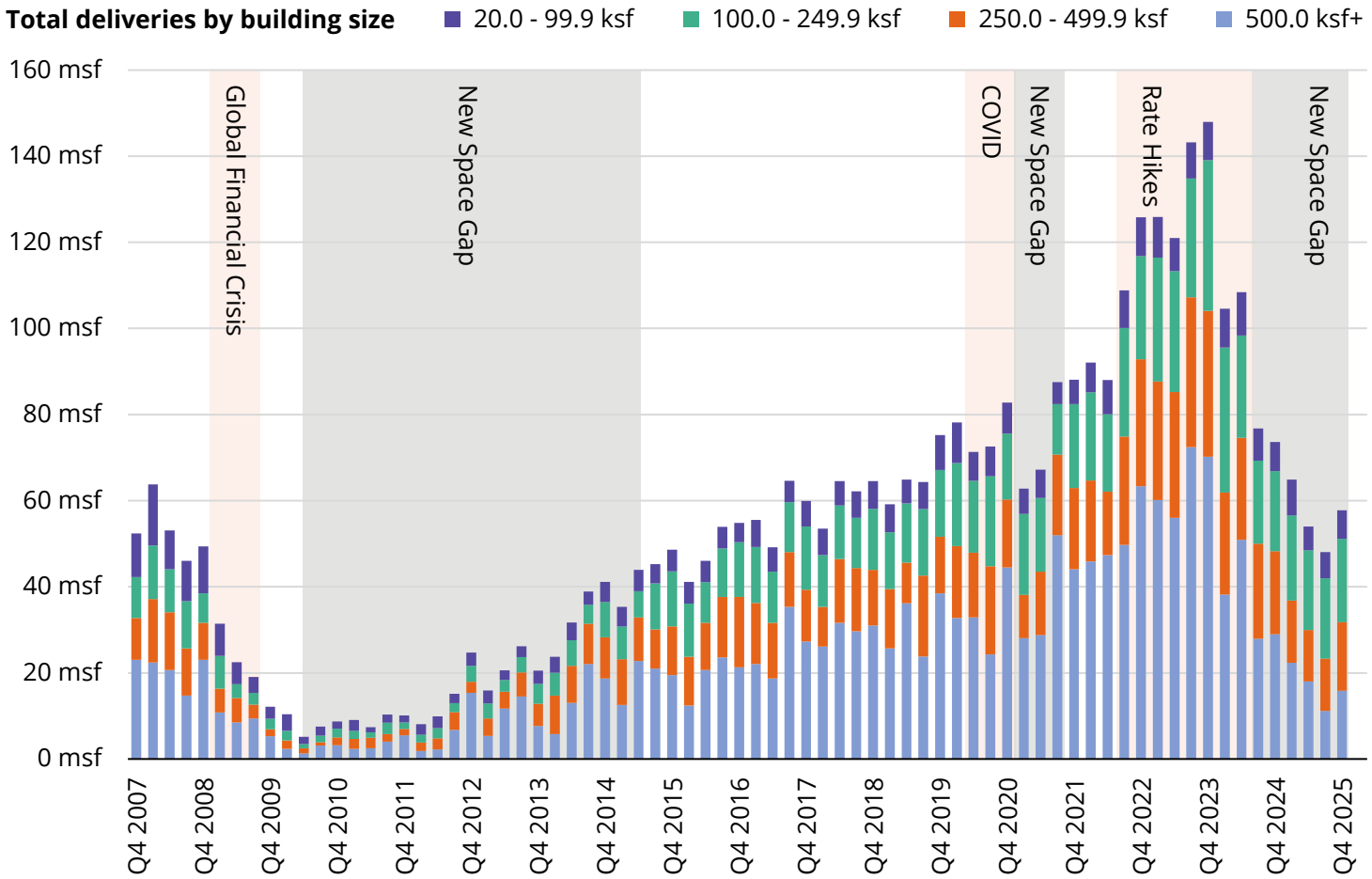
Post-pandemic cost inflation has reset the baseline for industrial construction



Construction material costs remain well above the 2015–2019 average, even after moderating from peak pandemic-era levels. Industrial construction ramped up during the post-COVID expansion and costs have remained well above pre-pandemic norms. The persistence of higher input costs reflects structural changes in labor, materials, and supply chains rather than a temporary increase. These dynamics continue to influence industrial real estate economics.

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

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



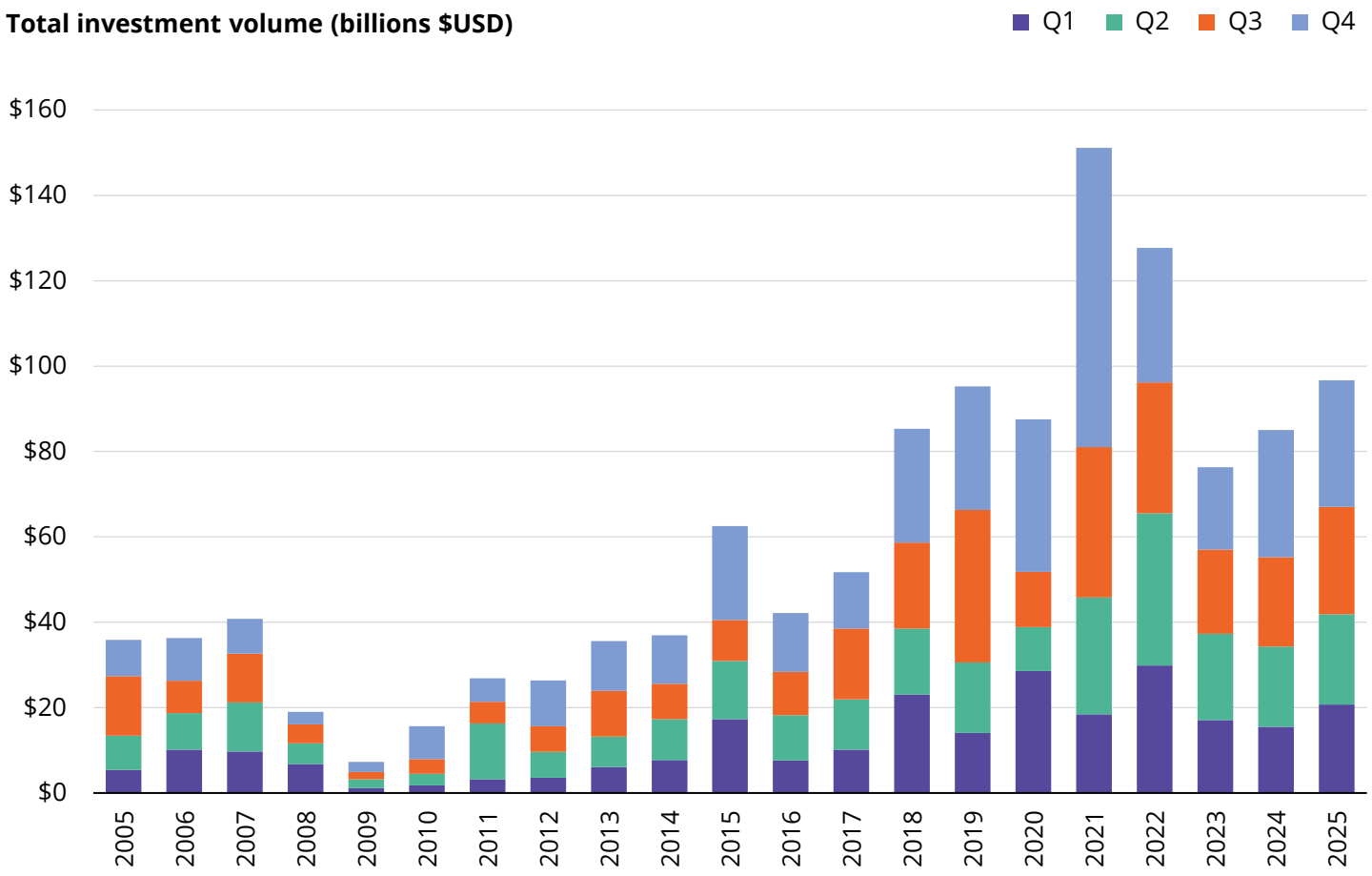
2023 represented the largest number of deliveries in industrial history, and 2024 showcased the start of a drastic drop in new deliveries. Continued drops in deliveries nationally push the sector to levels not experienced since the aftermath of the Global Financial Crisis.

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.

Source: Avison Young Technologies, CoStar

Industrial investment volume

Total investment volume (billions $USD)

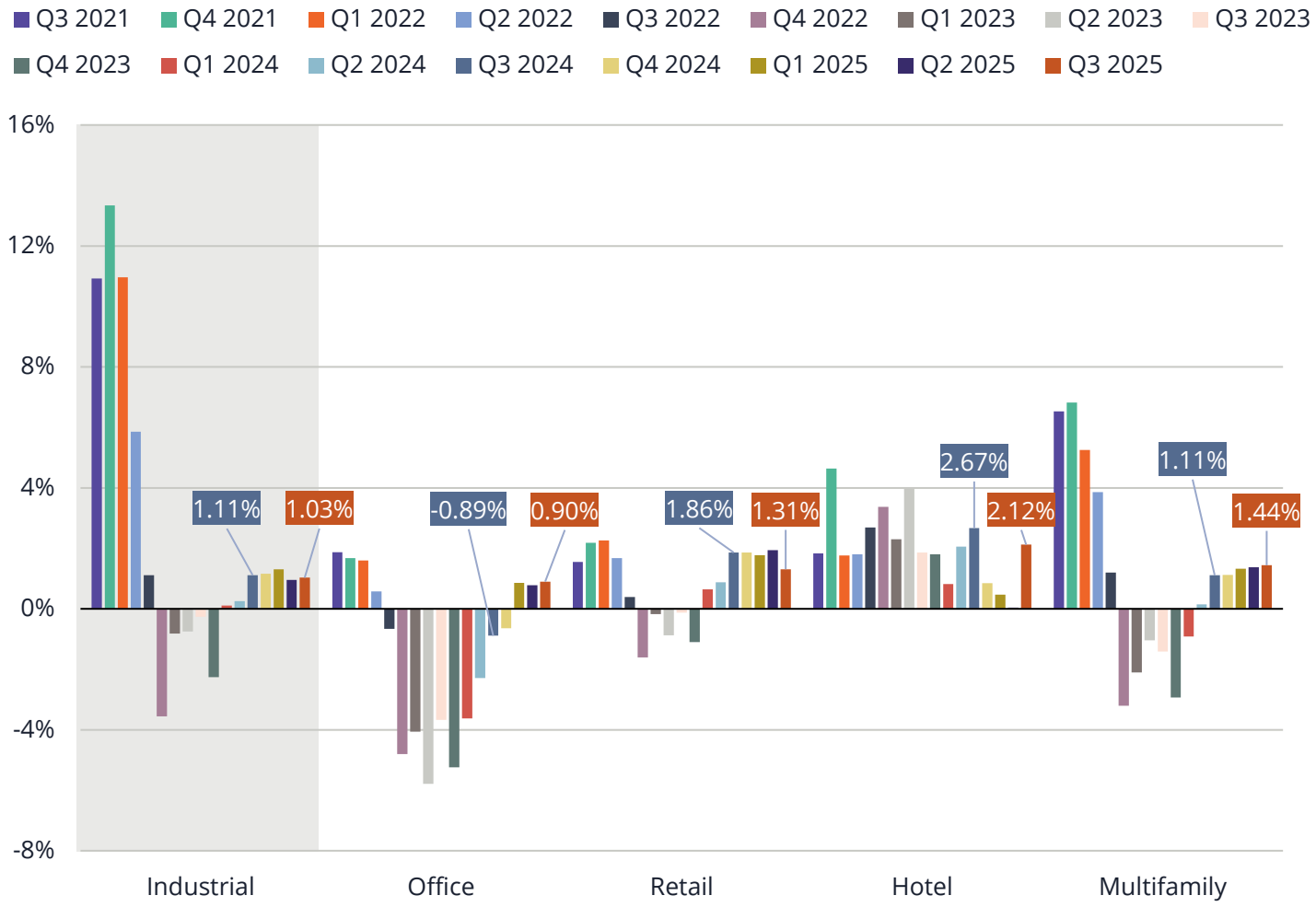


Note: Transactions >$2.5 million
Source: Avison Young Market Intelligence, MSCI Real Capital Analytics

Industrial investment volume continues to rise, with 2025 volumes exceeding all pre-COVID levels as the second half of the year accelerated dealflow.

With record levels of dry powder ready to transact, investment sales are expected to keep surging into 2026, particularly catalyzed by any positive trends in the economy.

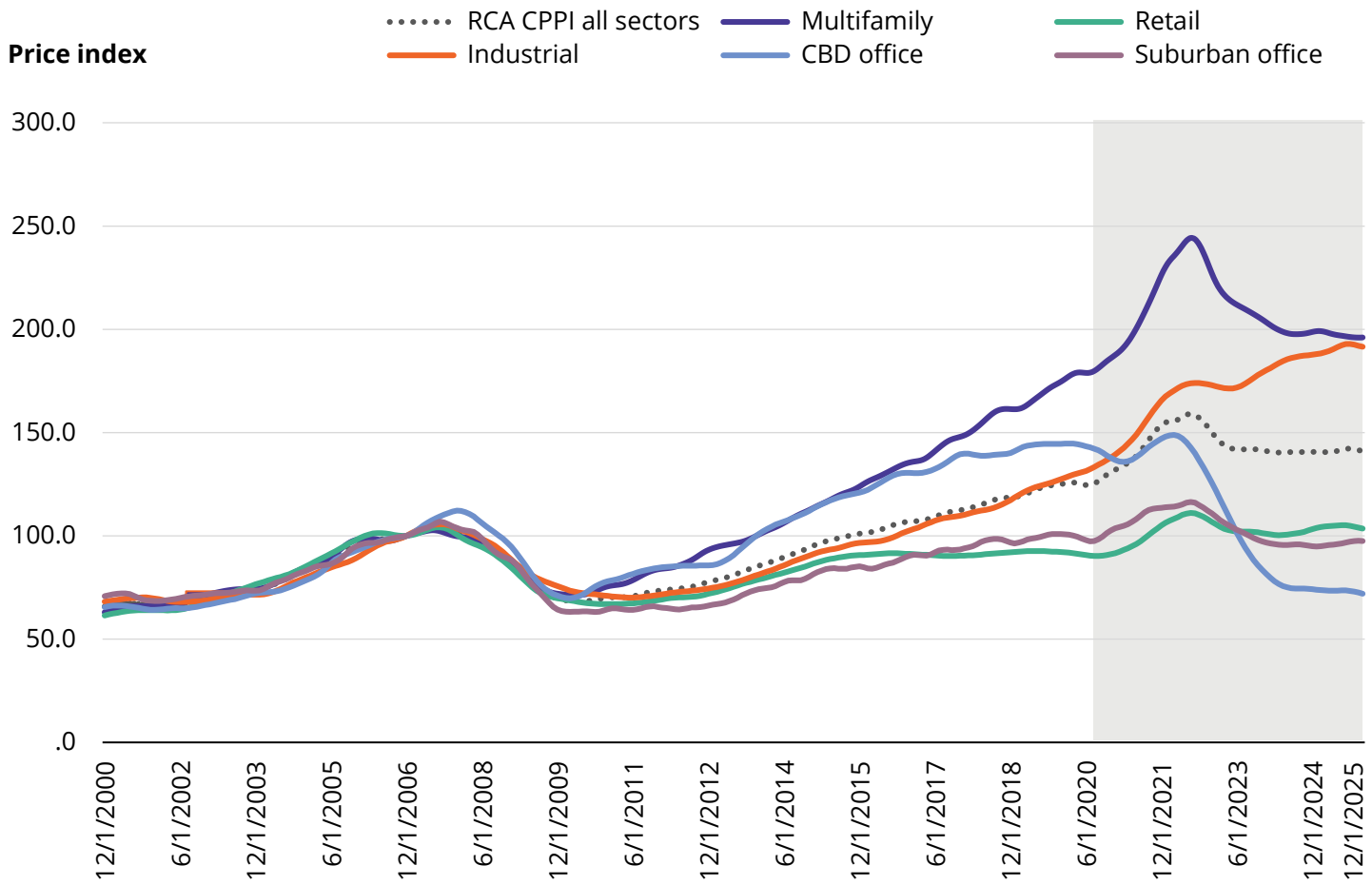
U.S. NCREIF NPI quarterly returns



Industrial investments delivered solid returns for five consecutive quarters, jumping 7 basis points from Q3 2025.

Note: As of November 2025 (most recent update)
Source: Avison Young Market Intelligence, NCREIF

RCA commercial property price indices

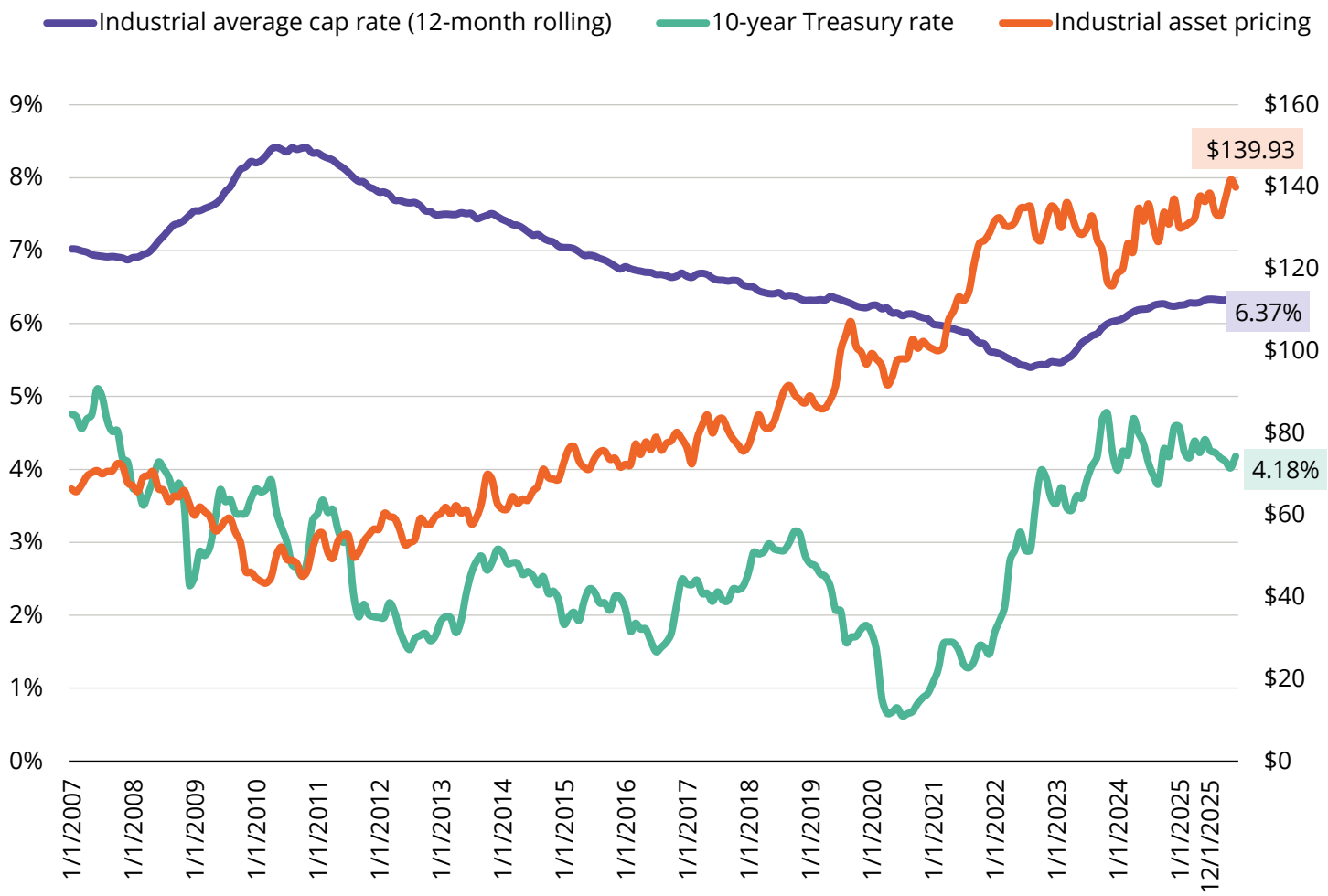


Note: Transactions >$2.5 million. RCA CPPITM measure the actual price movements for commercial properties based on exclusive transaction data using repeat-sales regression methodology.

Source: Avison Young Market Intelligence, MSCI Real Capital Analytics

Industrial pricing (+18 bps since peak pricing in 2022) held on to its COVID-era gains more effectively than any other peer sector and is the only one now appreciating in value despite the current cost of capital.

U.S. industrial cap rates vs. asset pricing

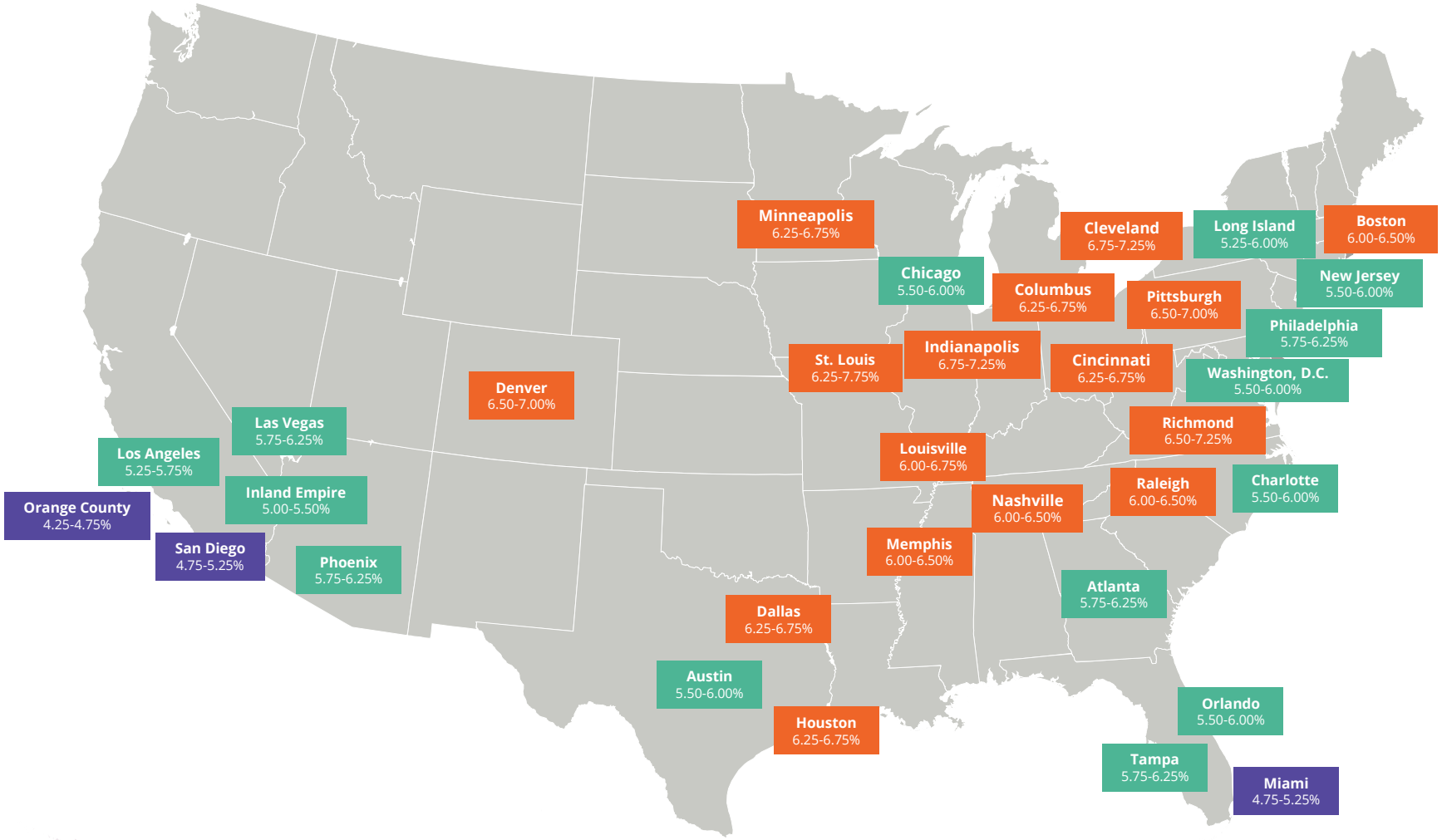


Note: Transactions >$2.5 million
Source: Avison Young Market Intelligence, MSCI Real Capital Analytics, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis

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

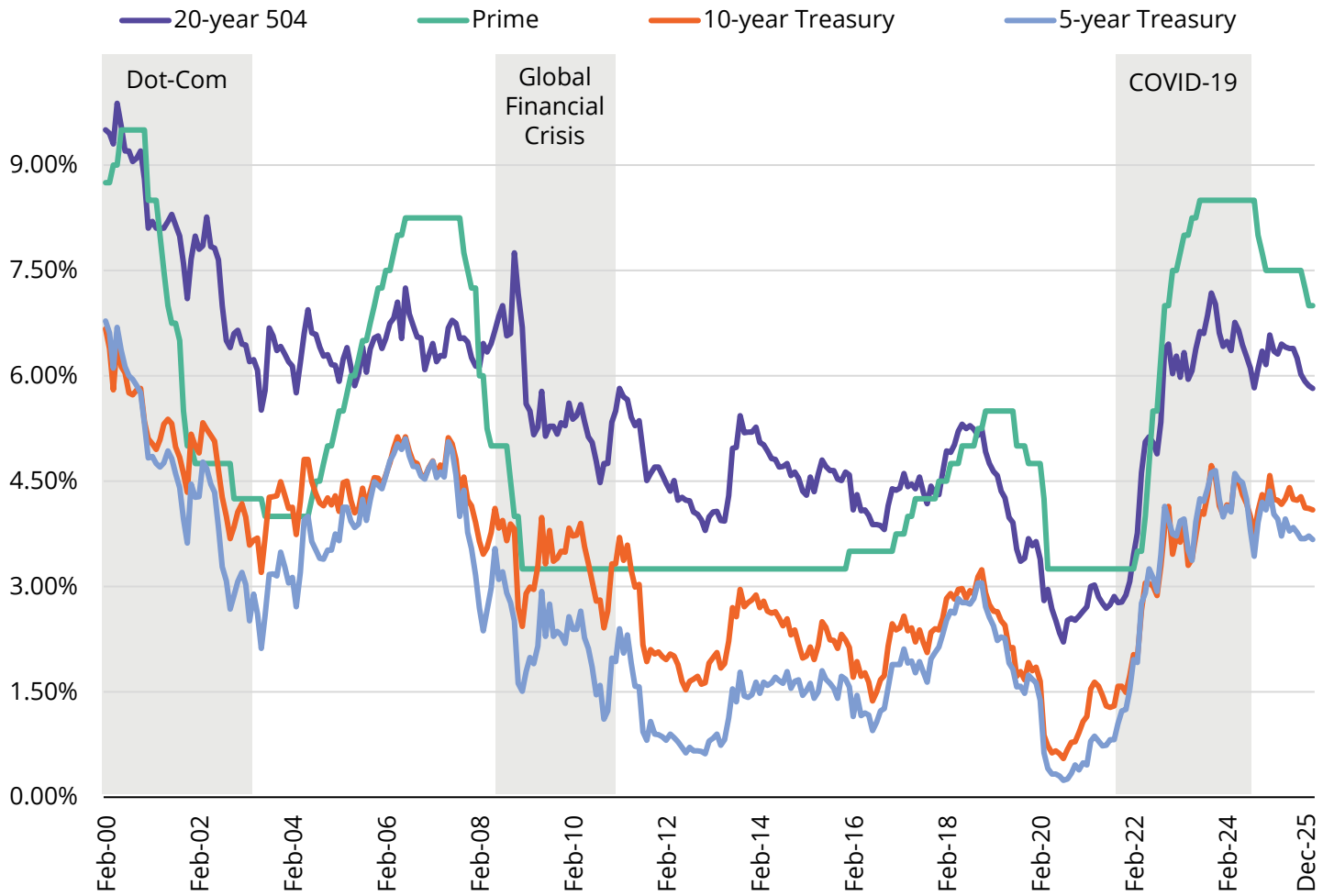
Recent convergence between the effective federal funds rate and 10-year yield are complicating the increase in transaction volume for the remainder of 2025.

U.S. industrial market average class A cap rates



Source: Avison Young Market Intelligence, MSCI Real Capital Analytics

Cost of borrowing in historical context



After the most aggressive spike in borrowing rates this century, historical context is essential for understanding where policy may head in 2026.

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

New

OUTLOOK

2026

A new year, a fresh outlook.

As 2026 unfolds, there's a real sense of potential in the U.S. What does it mean for the industrial sector?

Our top Market Intelligence experts break it down – sector by sector – so you can start the year with confidence.

Explore now

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

2026 Avison Young U.S. industrial leadership team

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Denver

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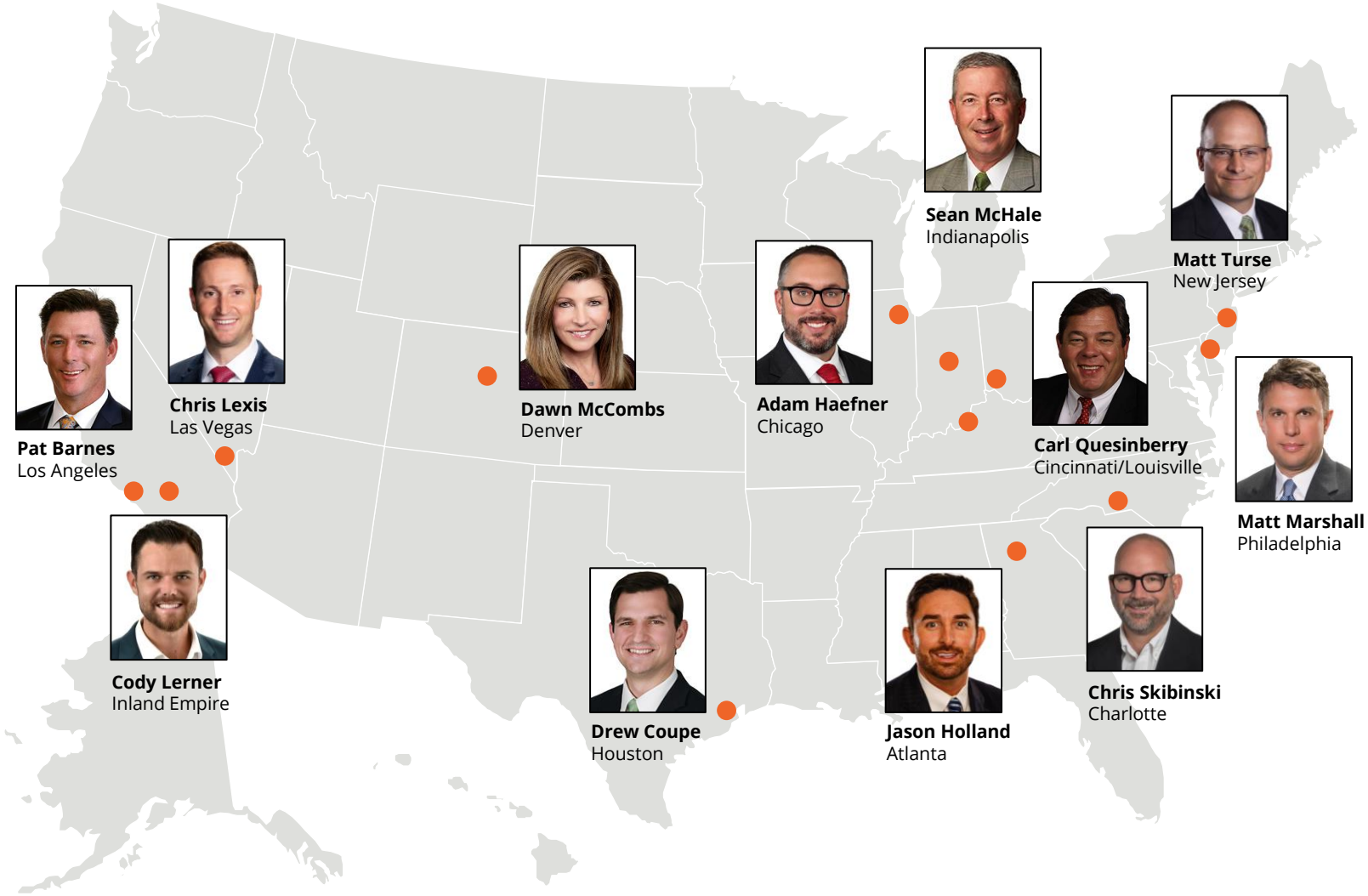
Erik Foster
Capital Markets
Chicago

Randy Waites
REMS
Chicago

Lee Sellenraad
Project Mgmt.
Detroit



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