



Real Estate Market Report

Industrial | Q1 2025



Executive Summary

The U.S. industrial real estate market has faced 10 straight quarters of rising vacancy rates, impacted by retailers leaving large distribution centers combined with new construction rates well above historic levels. Overall, rents continue to rise at a slower pace; however, each segment is unique. Larger warehousing space is abundant and is being built at 2.5 times more square feet than flex and specialized manufacturing buildings. Manufacturers with smaller space requirements will continue to find it challenging to identify space as vacancy remains low and likely to remain so for smaller footprints.

Industrial Real Estate Statistics

National Average

7.0%
Vacancy

\$12.12
Rent per SF

Logistics

7.9%
Vacancy

\$11.24
Rent per SF

Specialized

4.0%
Vacancy

\$11.83
Rent per SF

Flex Space

7.6%
Vacancy

\$18.75
Rent per SF

2.1%
12-Month
Rent Growth

129M SF
12-Month Net
Absorption

340M SF
12-Month Delivered
Construction

\$153 PSF
Average Sales
Price per SF

Leasing Activity

The rebound in industrial tenant demand that started in mid-2024 has decelerated, with the fourth quarter showing the lowest net absorption in a decade. However, ongoing growth in key industrial demand drivers indicates that net absorption is unlikely to decline further.

New Builds

The U.S. industrial market is approaching the end of a record-making development phase. Quarterly net supply additions are projected to fall below the pre-pandemic three-year average by mid-2025. This fall is expected to continue through 2026, when supply growth is set to hit an 11-year low.

Rent

U.S. industrial rent growth has slowed from the record highs seen during the pandemic, reaching 2.1%, a rate far below the pre-pandemic five-year average. To secure large leases, property owners are increasingly offering concessions, inclusive of free rent and large tenant improvement packages.

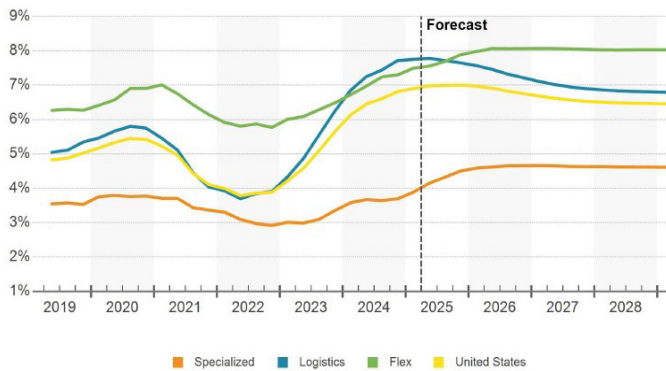
Labor & Economy

The U.S. economy entered 2025 with relatively strong momentum, growing faster than other advanced economies. However, consumer sentiment dropped sharply in April, reaching 50.8, near its lowest reading ever. This decline is driven by soaring inflation expectations and concerns over tariff impacts. As a result, households may rein in spending, potentially slowing the economy.

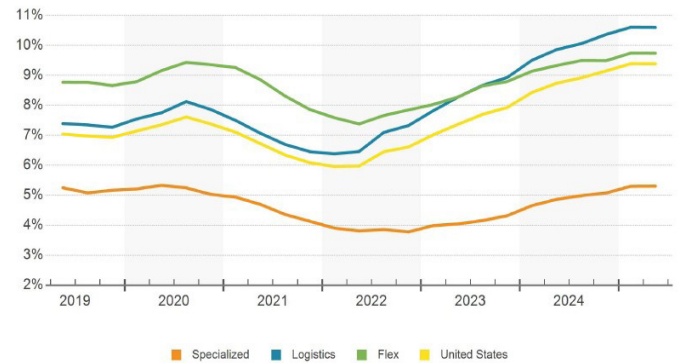
Leasing Outlook

The U.S. industrial tenant demand recovery that began in mid-2024 has lost momentum. Weaker fourth quarter net absorption and retail distribution center closures have pushed the national vacancy rate to 7.0%. Recent developments in tariffs may put stress on the very small amount of manufacturing space available in the United States, as the majority of new construction has been in warehousing and logistics.

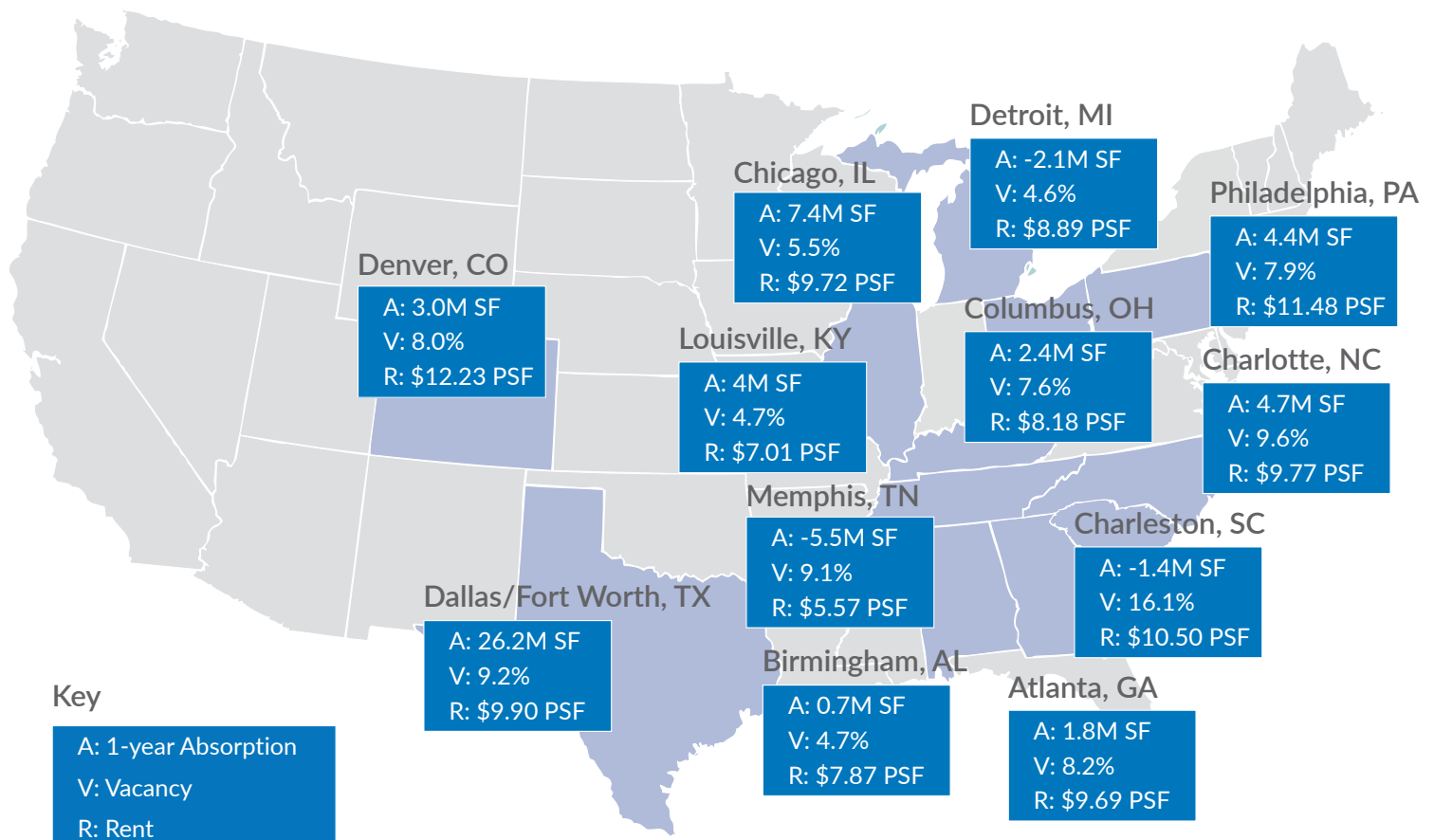
Vacancy



Asking Rental Rate Growth



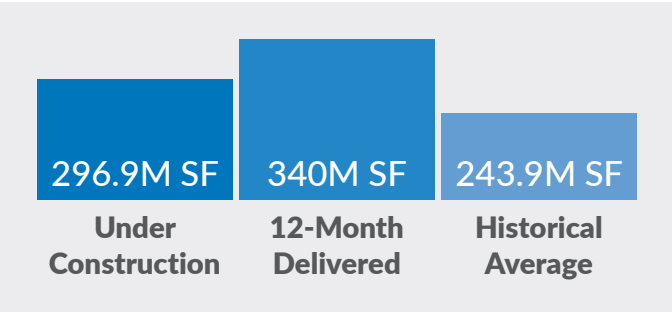
Metrics from Select Metros



Construction & Deliveries

The U.S. industrial market is nearing the end of a record development wave. Net supply additions are set to fall below pre-pandemic averages by mid-2025 and hit an 11-year low by 2026. Construction starts peaked in mid-2022 and have steadily declined due to higher interest rates, rising construction pricing, and slowing absorption. Some markets, like Phoenix, face prolonged high vacancy rates due to speculative development.

National Metrics



Top Metros Under Construction

Dallas Fort-Worth, TX 28.3M SF	Houston, TX 17.0M SF
Phoenix, AZ 18.0M SF	Austin, TX 17.7M SF
Atlanta, GA 17.4M SF	Inland Empire, CA 14.5M SF

Cost of Materials

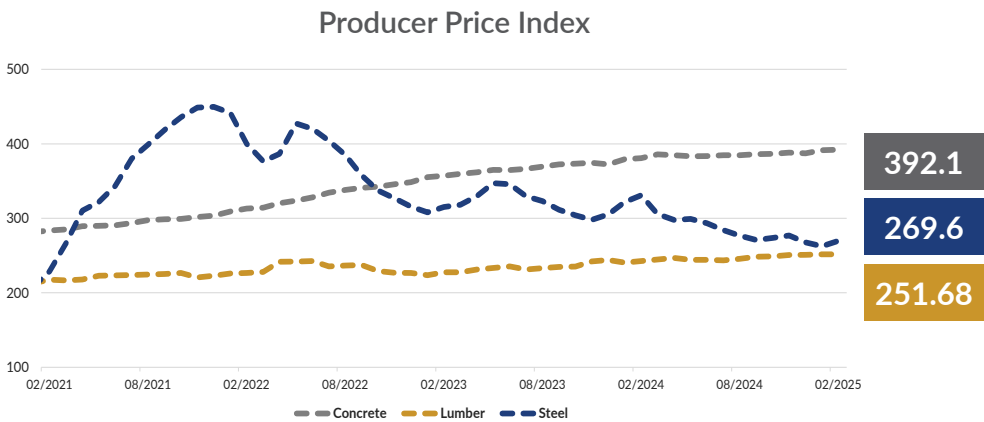
The price of construction materials in the first quarter continues to impact the cost of construction. As determined by the U.S. Bureau of Labor Statistics, the Producer Price Index (PPI) for concrete, lumber, and steel have shown significant changes in construction material costs, with concrete and lumber prices rising by 2.9% and 3.75% respectively over the past year. Steel is a different story, declining 18.5%. The decline in steel prices is signaling slowing construction spending, flat manufacturing activity, and global trade dynamics.

Construction Cost Index

+0.9% Over Year

Materials Cost Index

+3% Over Year



Economy

The U.S. economy entered 2025 with relatively strong momentum, growing faster than other advanced economies, driven by consumer spending and business investment. The labor market is strong, though inflation and higher interest rates pose challenges. Economic activity and job growth are expected to slow gently in 2025, with a potential re-acceleration in the next two years.

National Labor Statistics

+4.2% Unemployment

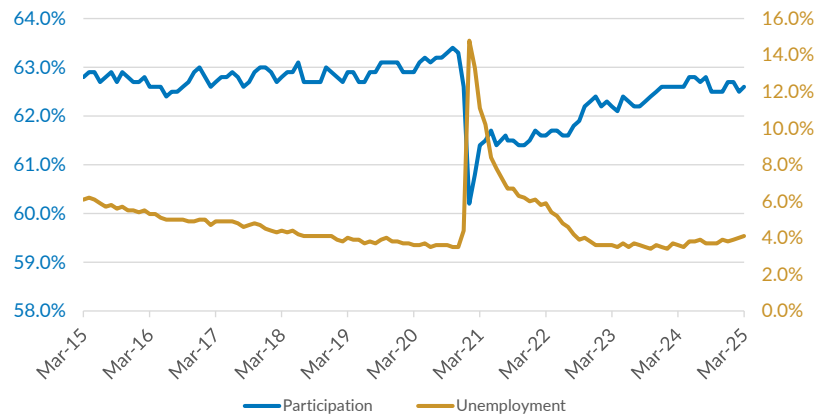
+62.5% Participation

+7.6M Job Openings

+4.5% Rate of Job Openings

Changes in data are reflective of the previous month.

Labor Statistics, 2015–2025



About Plante Moran Realpoint

Plante Moran Realpoint offers unbiased advocacy for companies looking to lease, buy, build, invest, or develop a real estate strategy that will align their company goals and real estate. Learn more at pmrealpoint.com/industrial.

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To learn more about your real estate market or to discuss your company's real estate needs, contact us today.



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