CommercialEdge

National Industrial Report

January 2025

2025: A Year of Transition

- The pandemic-driven industrial supply boom is fading away, but its ripple effects continue to reshape the sector. We anticipate that 2025 will be a year of transition for industrial, as it adapts to a new status quo.

- Developers responded swiftly to a surge of demand early this decade, completing more than 1.1 billion square feet of space between 2022 and 2023 combined. While the 358 million square feet of new supply delivered in 2024 was a sharp decline, it still accounted for more supply than any year this century before 2020. The development slowdown will continue this year and next, as just 236 million square feet of starts were recorded in 2024 and we do not anticipate a significant increase in starts during 2025.

- At the same time the supply pipeline's size contracts, the composition of what is being built is changing. A growing portion of the pipeline is made up of manufacturing and data centers, a shift from previous years, when warehouse and distribution facilities accounted for upwards of 90% of industrial starts. Data centers will remain in high demand as long as tech firms invest heavily in resource-intensive artificial intelligence. Manufacturing has accounted for nearly 150 million square feet of starts since 2022, according to CommercialEdge. In November, annualized construction spending on manufacturing facilities was $235 billion—a figure that has tripled since 2021, according to the U.S. Census Bureau. We expect this trend to continue in 2025, though cuts to the incentives for clean energy production could cause disruptions to the sector.

- Industrial space, scarcely available in 2021 and 2022, is now much easier to come by for occupiers. The national vacancy rate in December was 8%, a far cry from two years prior, when the rate hovered below 4%. The contrast is even more stark in port-adjacent markets like the Inland Empire, which had a sub-2% vacancy rate in 2022 but a 7.8% vacancy rate in December. We expect vacancy rates to plateau in the early part of this year before beginning to slowly tick down starting sometime in the second half of 2025 as supply is absorbed and new deliveries dry up.

- Fundamentals remain solid, but 2025 will not be without headwinds for industrial. The threat of tariffs from the new administration hangs over the stability of supply chains and port markets, while immigration policy could upend labor markets and local restrictions on industrial development have started appearing across the country.

Rents and Occupancy: New Lease Premiums Slow

- National in-place rents for industrial space averaged $8.30 per square foot in December, up three cents from November and 6.6% over the past 12 months.

- Port markets continue to see some of the highest growth for in-place rents, but they no longer greatly outpace the pack. New Jersey grew the most in the last 12 months, with in-place rents increasing 9.8%, followed by Miami (9.6%), the Inland Empire and Atlanta (both 8.7%).

- Midwestern markets saw the lowest rent growth, with in-place rents increasing just 2.0% in Kansas City, 2.3% in Detroit and 2.4% in St. Louis.

- The national vacancy rate was 8.0% in December, an increase of 50 basis points in the month.

- The spread between the market average in-place rent and a lease signed in the last 12 months was $2.04 in December. This spread has been shrinking in recent months, another indicator of normalizing demand for industrial space. Just six months ago, the national average for a new lease was $2.50 more per foot than the average for all leases. Twenty-two of the top 30 markets covered by CommercialEdge have seen the spread between new leases and the market average rent decrease since June.

- The largest spreads between new leases and the market average were in Miami ($4.87 more per foot for a new lease), New Jersey ($4.08), Phoenix ($3.98) and Charlotte ($3.90). New Jersey has been the only market with significant acceleration in the spread between new leases and market average rents, with the difference increasing $1.10 per foot in the last six months.

Average Rent by Metro

Market	Dec-24 Average Rent	12-Month Change	Avg Rate Signed in Last 12 Months	Vacancy Rate
National	$8.30	6.6%	$10.34	8.0%
New Jersey	$11.35	9.8%	$15.43	8.8%
Miami	$12.28	9.6%	$17.15	8.2%
Inland Empire	$10.86	8.7%	$13.87	7.8%
Atlanta	$6.13	8.7%	$9.04	6.8%
Dallas–Ft Worth	$6.26	8.3%	$9.08	9.0%
Los Angeles	$14.95	8.0%	$16.77	9.7%
Orange County	$16.20	7.9%	$18.17	4.2%
Boston	$11.01	7.4%	$13.05	9.9%
Phoenix	$9.28	7.4%	$13.26	8.4%
Seattle	$11.58	7.2%	$13.68	7.6%
Baltimore	$8.20	7.0%	$11.30	8.7%
Philadelphia	$8.14	7.0%	$10.75	7.4%
Nashville	$6.34	6.9%	$9.28	7.6%
Columbus	$5.08	6.7%	$7.23	8.7%
Portland	$10.10	6.2%	$11.22	6.0%
Tampa	$8.05	5.9%	$9.31	9.0%
Bridgeport	$9.52	5.9%	$8.72	4.7%
Charlotte	$6.88	5.7%	$10.78	6.6%
Bay Area	$13.62	5.3%	$13.86	7.8%
Indianapolis	$5.01	4.8%	$6.64	9.8%
Central Valley	$6.39	4.8%	$8.60	8.7%
Chicago	$6.34	4.6%	$8.12	9.7%
Twin Cities	$7.16	4.2%	$8.83	7.5%
Memphis	$4.02	4.1%	$4.52	8.6%
Houston	$6.85	4.1%	$6.83	7.2%
Denver	$8.65	4.0%	$9.57	10.0%
Cincinnati	$4.91	3.6%	$6.14	5.6%
St. Louis	$4.71	2.4%	$4.51	7.8%
Detroit	$7.14	2.3%	$8.89	5.0%
Kansas City	$5.07	2.0%	$5.58	4.9%

Source: CommercialEdge. Data as of December 2024. Rent data provided by Yardi Market Insight. National rent and occupancy data is a weighted average of the top 30 markets.

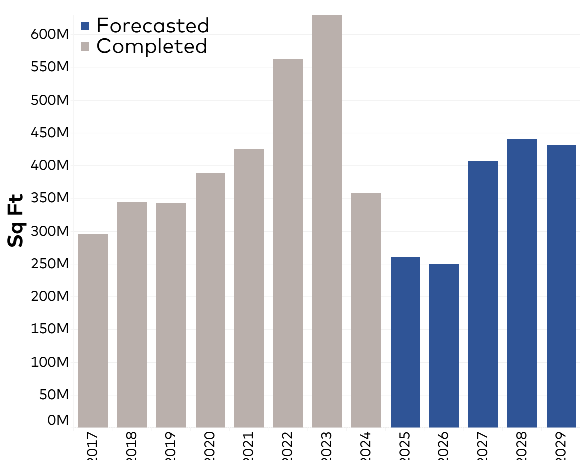
Supply:
Starts Slowdown to Continue in 2025

- Currently, 349.6 million square feet of industrial space, or 1.7% of stock, are under construction nationally, according to CommercialEdge.

- Starts totaled just 236 million square feet in 2024, a drop of 35% from 2023 and more than 60% from 2022. The combination of slowing demand for space and higher borrowing costs for construction loans has cooled the development pipeline, and we do not anticipate any significant increases in starts this year. Though borrowing costs have come down somewhat in recent quarters, inflation remaining stubbornly above the Fed's target rate will lead to fewer benchmark rate cuts than was previously anticipated. Beyond more expensive construction loans, the wave of new supply delivered over the past few years is still being absorbed and will temper developer enthusiasm for new projects for the time being.

- Kansas City has consistently had one of the largest pipelines in recent years, in part due to its central location driving logistics activity but also due to an emerging manufacturing sector. Panasonic's 4.7 million-square-foot, $4 billion electric vehicle battery plant in De Soto accounts for more than 40% of the pipeline, and is on track to start developing batteries this year.

National New Supply Forecast



Source: Yardi Matrix. Data as of December 2024

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	UC Plus Planned % Stock
National	349,559,129	1.7%	4.2%
Kansas City	11,462,248	3.9%	14.4%
Phoenix	22,359,341	5.3%	13.7%
Charlotte	5,726,652	1.7%	6.4%
Denver	6,787,561	2.4%	5.9%
Dallas	18,895,241	1.9%	5.6%
Inland Empire	9,101,312	1.4%	5.3%
Houston	12,376,385	1.9%	5.0%
Tampa	1,540,574	0.6%	4.3%
Philadelphia	11,014,513	2.4%	4.1%
Memphis	10,518,000	3.5%	4.0%
Atlanta	8,049,929	1.4%	3.7%
Seattle	4,834,203	1.6%	3.6%
Columbus	7,111,849	2.2%	3.5%
Indianapolis	4,514,172	1.2%	3.1%
Nashville	2,784,364	1.3%	3.1%
Boston	1,877,684	0.7%	2.8%
Bay Area	1,985,719	0.7%	2.4%
New Jersey	5,496,634	0.9%	2.3%
Baltimore	2,533,333	1.2%	2.3%
Los Angeles	5,020,012	0.7%	2.0%
Detroit	7,875,052	1.3%	1.9%
Portland	2,561,699	1.3%	1.9%
Chicago	7,631,412	0.7%	1.8%
Central Valley	4,226,623	1.1%	1.8%
Orange County	1,521,079	0.8%	1.3%
Twin Cities	2,215,923	0.6%	1.1%
Cleveland	2,979,622	0.7%	0.9%
Cincinnati	1,881,000	0.6%	0.9%
Bridgeport	160,000	0.1%	0.6%

Source: CommercialEdge. Data as of December 2024

Economic Indicators: Producer Prices Tick Back Up

- In December, the Producer Price Index, which measures the prices that producers pay for goods and services, marked its biggest yearly increase since February 2023. The PPI grew 3.3% year-over-year and 0.3% in the month. The goods portion of the index increased 0.6% in the month and 1.8% year-over-year, while services was flat for the month but up 4.0% yearly.
- The PPI averaged a yearly increase of 1.3% between the second quarter of 2023 and the first quarter of 2024, but in the last three quarters of the year the index grew at an annual average rate of 2.6%. While these are minor increases compared to the growth the index experienced in 2021 and 2022, it remains a somewhat worrisome development. Higher prices on the supply side of the economy can be a leading indicator of increases in the consumer index. Inflation remaining above target will lead the Fed to enact fewer rate cuts this year. In addition, higher borrowing costs will impact construction activity and transaction markets, and lead to occupiers holding back on expansions and new leases.

Economic Indicators

National Employment
(December)
159.5M
0.2% MoM ▲
1.4% YoY ▲

ISM Purchasing Manager's Index
(December)
49.3
0.9 MoM ▲
2.2 YoY ▲

Inventories
(October)
$2,585.6B
0.0% MoM
2.3% YoY ▲

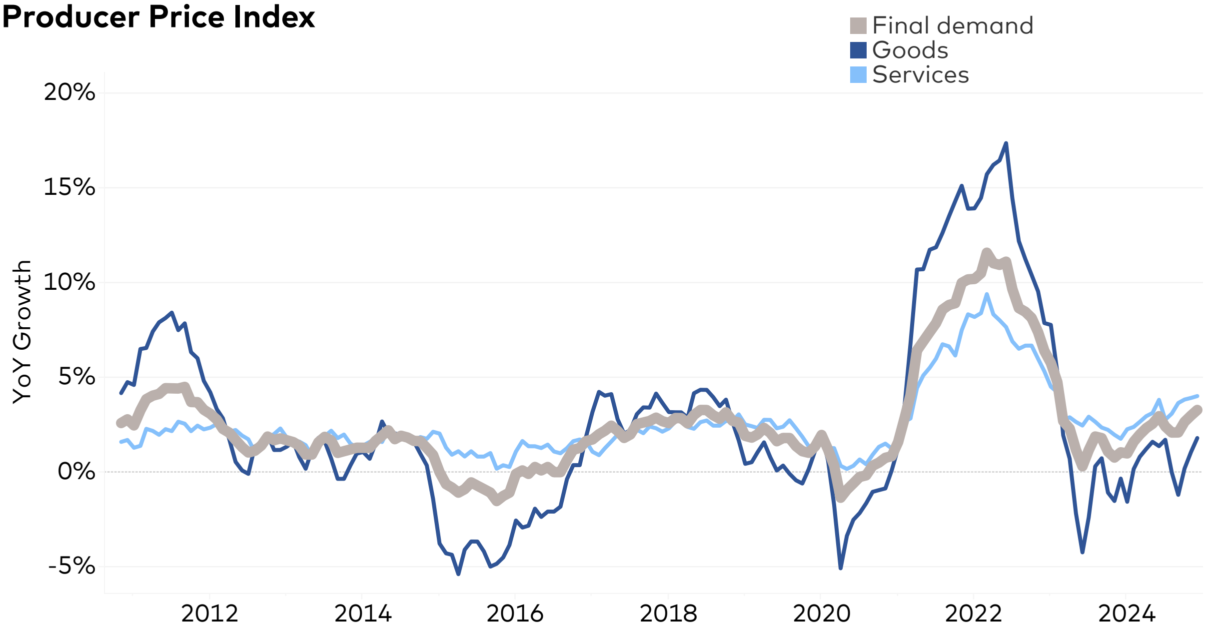
Imports
(November)
$280.9B
4.3% MoM ▲
9.2% YoY ▲

Core Retail Sales
(November)
$532.4B
0.2% MoM ▲
4.1% YoY ▲

Exports
(November)
$177.6B
3.6% MoM ▲
5.2% YoY ▲

Sources: Bureau of Labor Statistics, Institute for Supply Management, U.S. Census Bureau, Bureau of Economic Analysis, Moody's Analytics

Producer Price Index



Sources: U.S. Census Bureau, CommercialEdge

Definitions

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- Average Rents—Provided by Yardi Market Insight, a cutting-edge service that uses anonymized and aggregated data from other Yardi platforms to provide the most accurate rental and expense information available.
- Vacancy—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations. Also provided by Yardi Market Insight.

Stage of the supply pipeline:

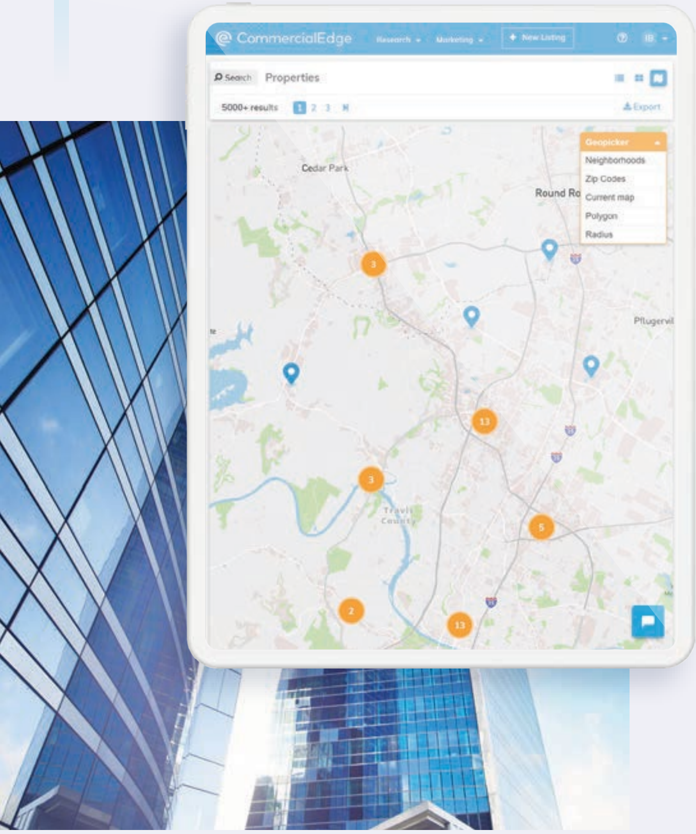
- Planned—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- Under Construction—Buildings for which construction and excavation has begun.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

CommercialEdge provides the industrial segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



Key features:

- Continually growing nationwide coverage with 162 markets currently included
- Researched and verified data, powered by a team of 400 experienced property research specialists
- Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research
Nationwide property and listing data all in one place, specifically engineered for CRE professionals.

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