1Q25

The U.S. Industrial Market: Conditions & Trends

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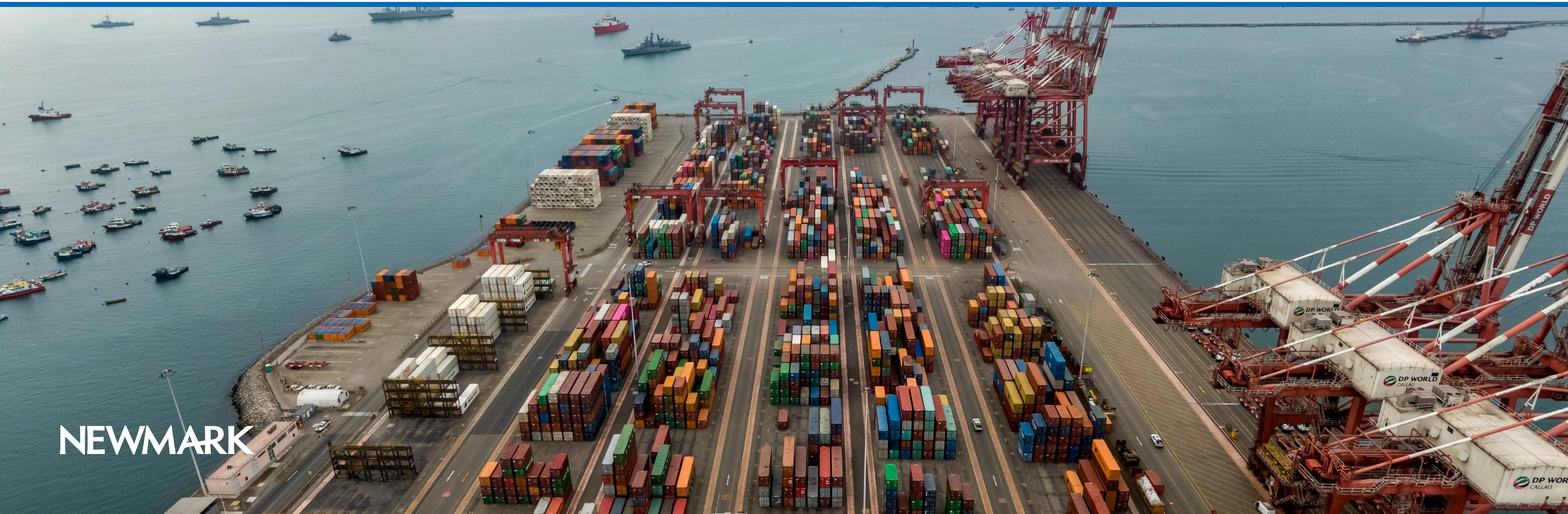
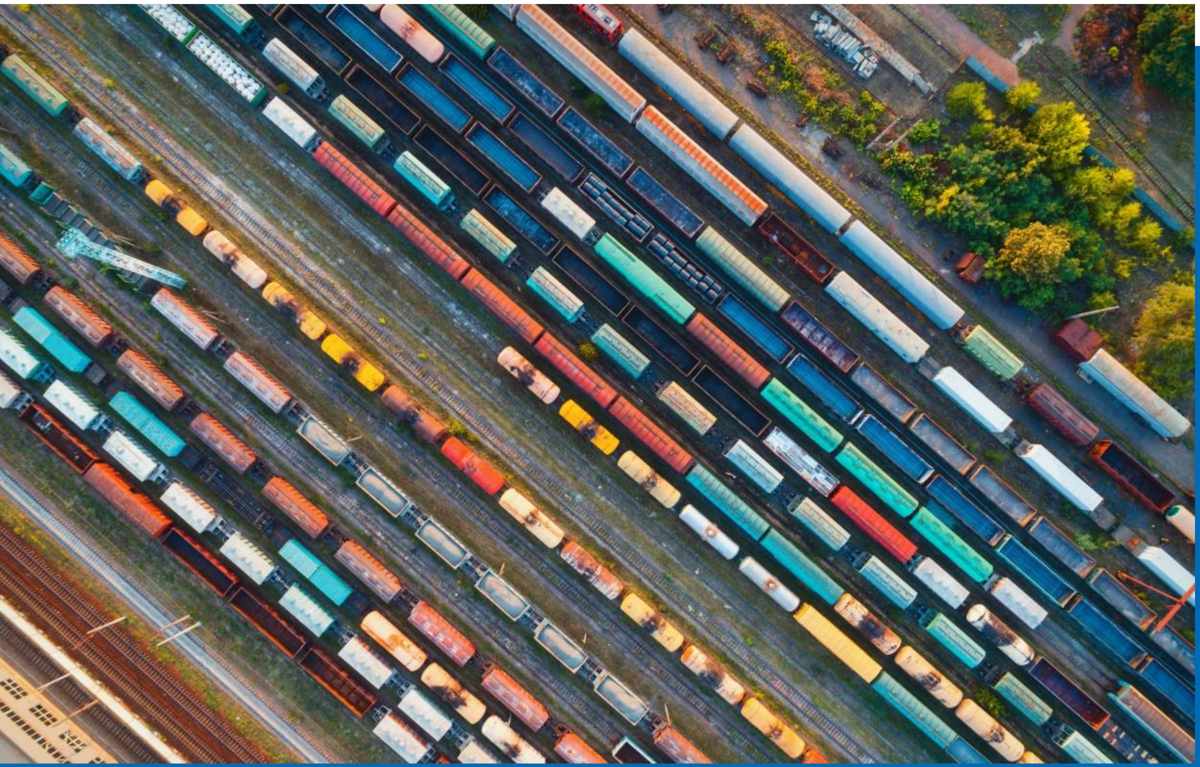


U.S. Market Fundamentals

1Q25 Key **Leasing Market** Fundamentals

U.S. VACANCY RATE	Availability Rate	Average Asking Rent (Direct, NNN PSF)	Net Absorption 1Q25	New Leasing Volume 1Q25	Deliveries 1Q25	Construction Pipeline	Quarterly Construction Starts
UP	UP	DOWN	UP	UP	DOWN	DOWN	DOWN
7.0%	9.5%	$10.24 / SF	57.6 MSF	215 MSF	78.5 MSF	297.2 MSF	51 MSF
93 bps YOY	130 bps YOY	-0.2% YOY	84% YOY (from 1Q24)	2.0% YOY (from 1Q24)	-37% YOY (from 1Q24)	-33% YOY	-21% YOY



1Q25 Key **Capital Market** Fundamentals

Average Top Quartile Industrial Cap Rate	Average Total Industrial Cap Rate	Sales Volume 1Q25	Average Sale Price PSF
UP	UP	UP	UP
5.3%	6.4%	$19 B	$133
10 bps YOY	20 bps YOY	9.9% from 1Q24	5.6% YOY

U.S. Market Observations

Economic Conditions and Demand Drivers

- Economic data presents a mixed outlook. Consumer confidence surveys are at the lowest levels since May 2020, business indicators are pessimistic, yet the job market remains mostly sound and some factory activity gauges are strong.
- As of May 20, the average effective U.S. tariff rate is at its highest level in a century. This impacts business models and consumption yet is a relatively small share in the totality of costs for logistics operators and consumers.
- Manufacturing construction spending continues at near record highs, reaching an inflation-adjusted $121.7 billion in February 2025, which is nearly double the pre-pandemic 5-year average. The South captures the majority of this investment.

Leasing Market Fundamentals

- U.S. net absorption and new leasing activity both accelerated in the first quarter of 2025, with net absorption the strongest since Q4 2023. This momentum indicated occupier positivity in the post-election window and prior to the enactment of tariff policies and associated injection of uncertainty into the market.
- Overall market vacancy rose from 6.9% to 7.0% quarter-over-quarter, reaching its highest level in more than a decade. Vacancy is highest in newly-delivered product but is coming down swiftly year-over-year. Conversely, older-vintage properties are experiencing modest increases in vacancy rates.
- Average asking rents have declined less than 1% from the peak in mid-2024, while remaining nearly 50% higher than at the end of 2019. Contract rents have reset approximately 7% from their mid-2023 peak.

Capital Markets

- The first quarter of 2025 ushered in $19 billion in sales volume, 10% above first-quarter 2024 volumes. Tier 2 markets such as Miami, Houston, and Phoenix have seen increased activity, while Tier 1 markets experienced a pullback.
- Industrial cap rates have fluctuated over the past 12 months in the 5% range, which will likely be the case throughout 2025. Following tariff announcements in April, REIT-implied cap rates expanded to 6.0%.
- Across the ecosystem of investor profiles, private capital continues to account for nearly half of total acquisitions. Users have boosted their acquisition share substantially during the last few years but have been net-disposers in the last two quarters. Sale leaseback sales volume grew to a 2-year high in 1Q25 as firms seek infusion of capital to pay down existing debt or, reinvest into the business.

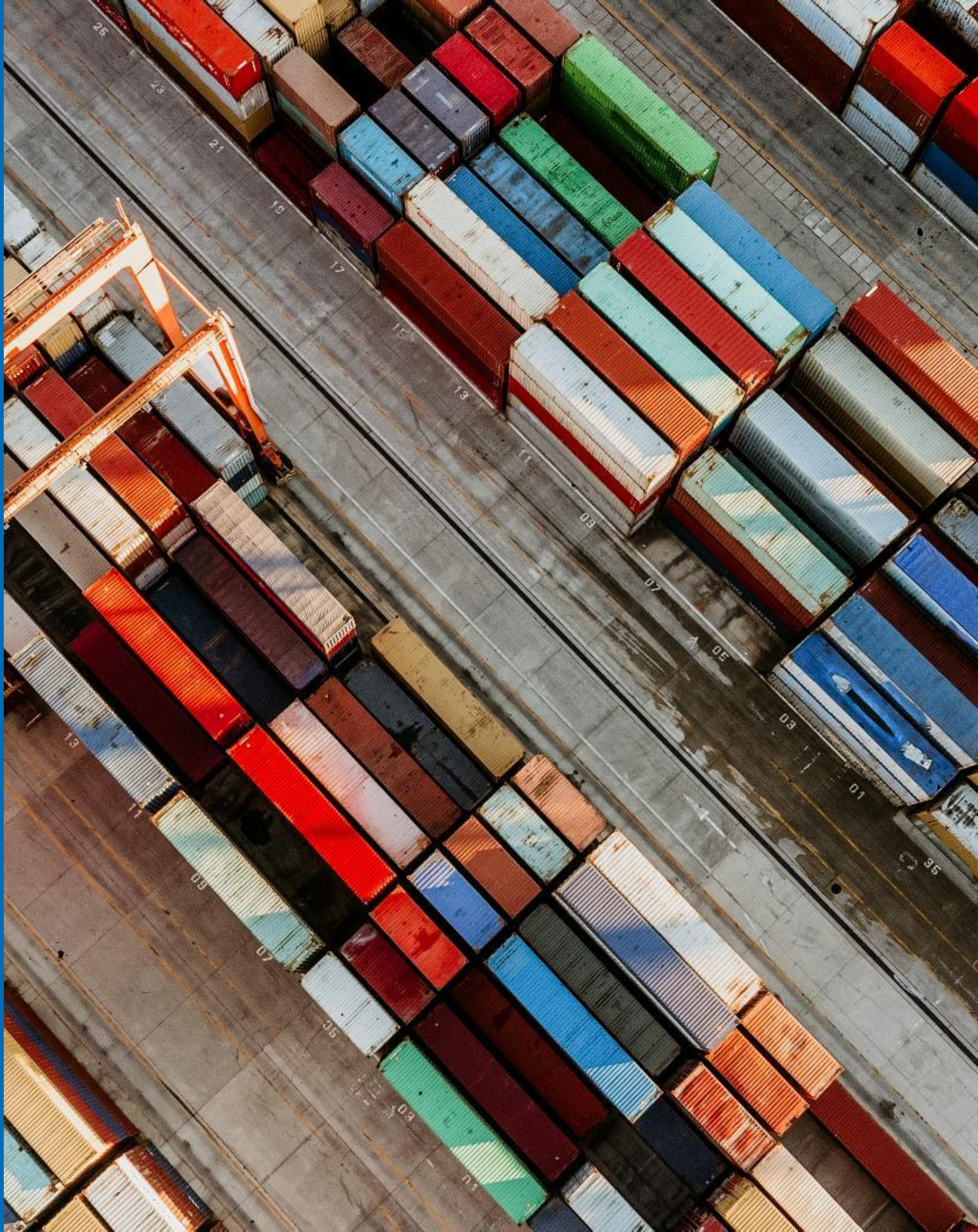
Outlook

- Predicting peak vacancy is a challenge this year due to a wave of macro uncertainty. Depending on how net absorption plays out, vacancy could range from 7.0% to 7.5% by year-end.
- Tighter labor and higher input costs along with more subdued occupier demand could result in further downward pressure on new starts. This could help balance a potential demand shortfall.
- Turbulence should be anticipated this year, particularly in the second half following in the wake of the pre-tariff inventory build and higher consumer spending. If trade deals are made and certainty brought to market, there could be a snap-back in goods moving through the supply chain, capital investment, and industrial leasing activity.

TABLE OF CONTENTS

1Q25

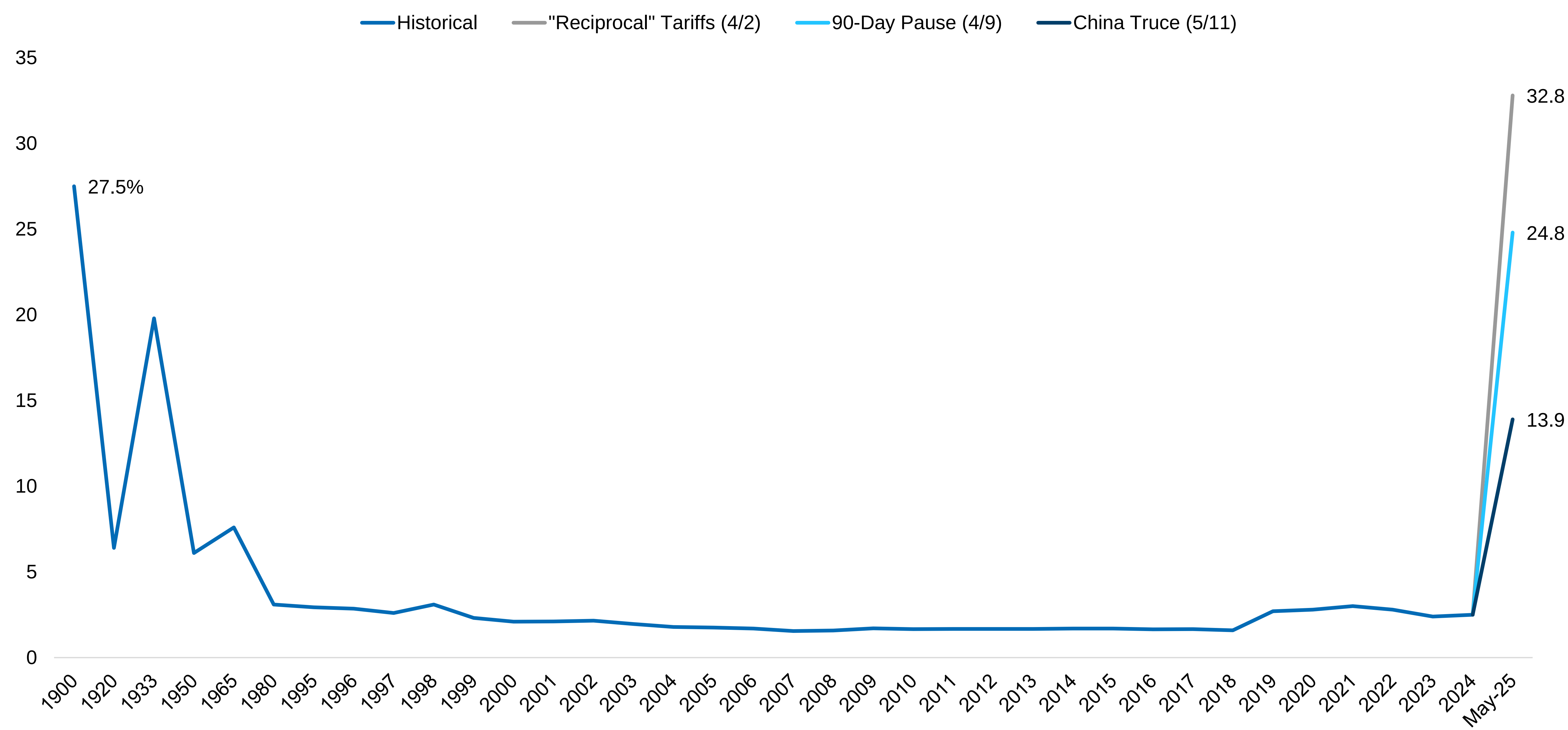
Economic Conditions



The Average Tariff Rate Is at Its Highest Level Since the Early 1900s

The rapidly changing and expanding nature of U.S. tariff implementation year-to-date has created a prevailing miasma of uncertainty across the global economy. Excluding the raft of "reciprocal" tariffs proposed on April 2 and paused for 90 days on April 9, the weighted average tariff rate is currently near 14%, up from the low single-digits at the start of the year.

Weighted Average Tariff % Rate on U.S. Imports, Select Years

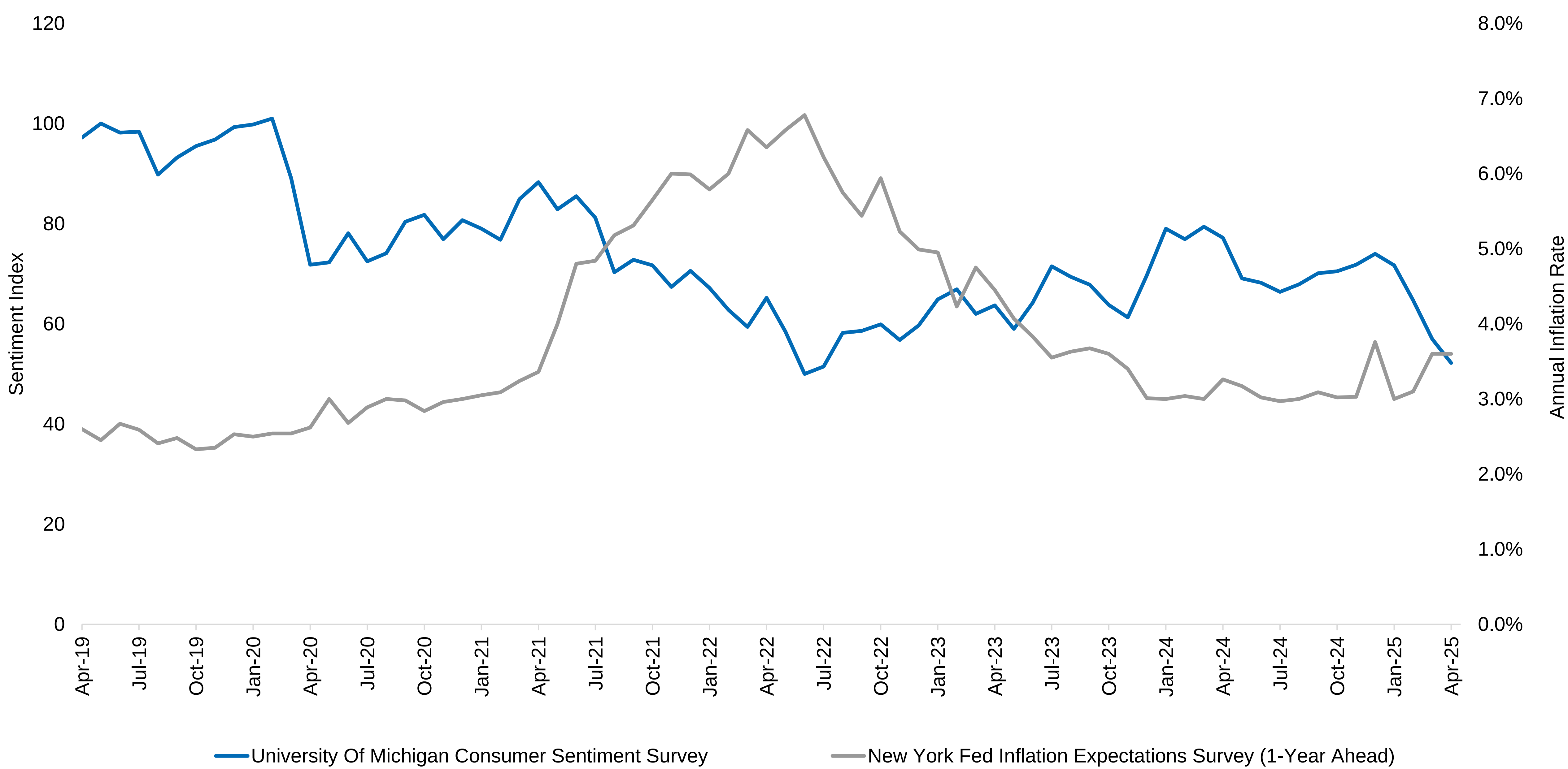


Sources: World Bank, Wells Fargo, Yale Budget Lab, Statista

Consumer Sentiment Deteriorates Throughout the Start of the Year

Consumer sentiment fluctuated throughout 2024 but has generally trended upward since its 2022 low. This trend reversed in the first quarter of 2025 amid financial and labor market concerns.

Consumer Sentiment and Inflation Expectations

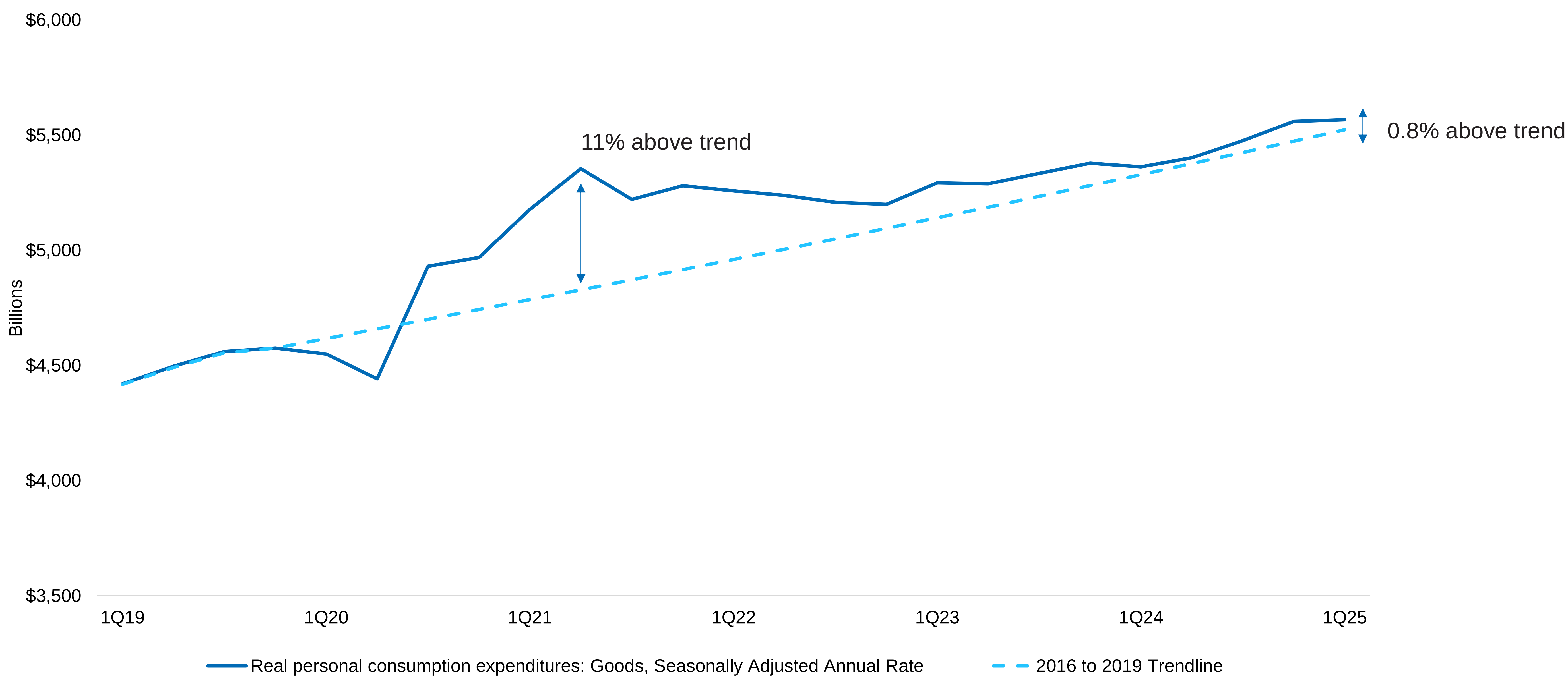


Source: Newmark Research, Federal Reserve of NY, University of Michigan, May 2025.

Consumer Goods Spending Increased – Partly as a Hedge Against Expected Inflation

Inflation-adjusted spending on goods has effectively returned to the pre-pandemic trendline. Consumers demonstrated resilience and a willingness to spend in the first quarter of 2025 as sales modestly grew over the previous quarter. Overall retail sales rose 1.4% in March, after rising 0.2% in February, in particular driven by auto and parts sales ahead of tariffs.

Real Personal Consumption Expenditures, Goods

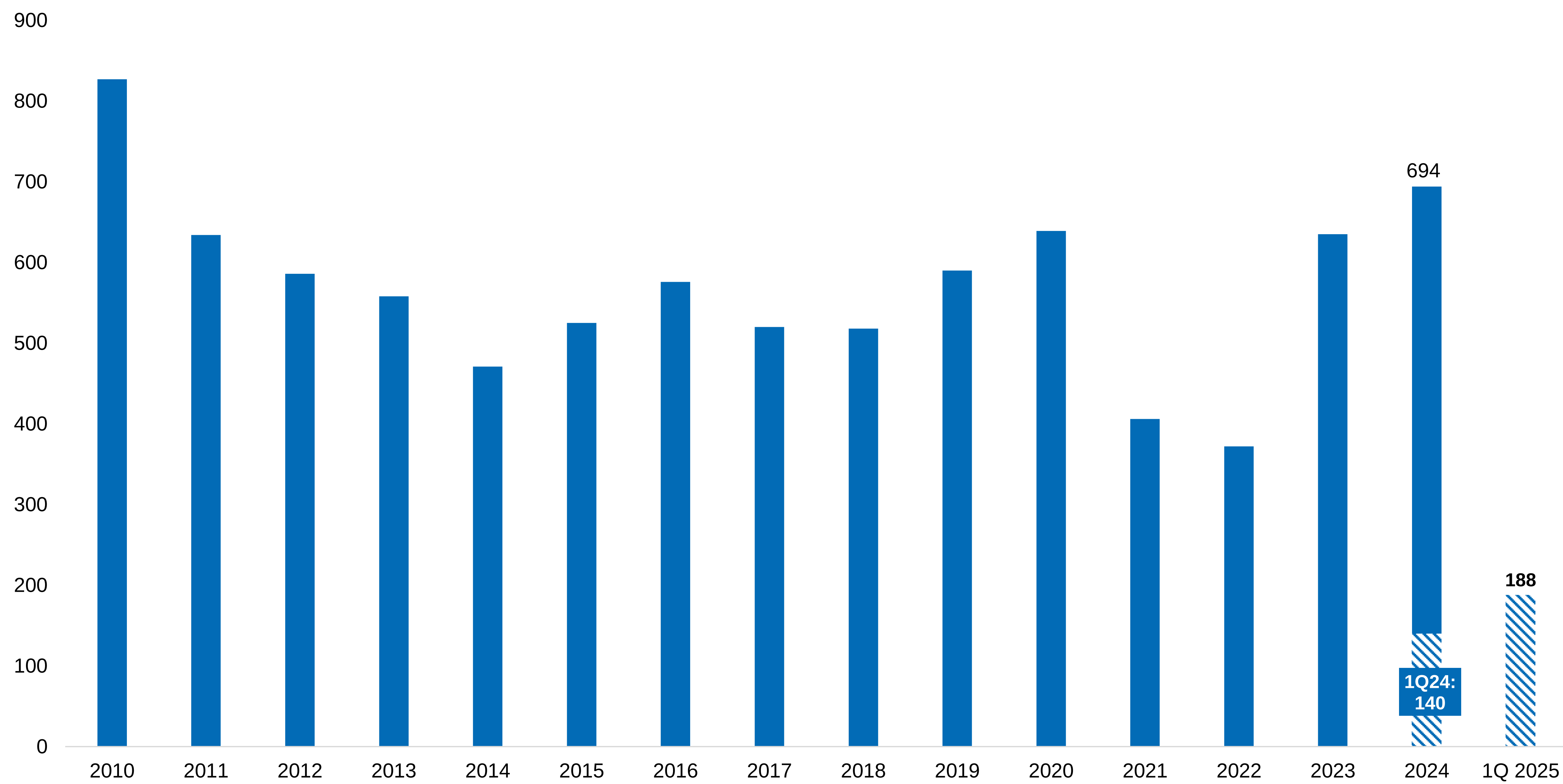


Source: St. Louis Federal Bank, US Commerce Department, Newmark Research, May 2025.

Bankruptcies in First Three Months of 2025 At Highest First-Quarter Level Since 2010

Companies continue to face headwinds as record volumes of corporate debt matures and needs to be refinanced at higher interest rates. Corporate bankruptcies reached a 14-year high in 2024 and will remain historically elevated this year. In the first quarter of 2025, 188 large companies went into bankruptcy, the highest first-quarter figure since 2010 in the wake of the GFC. Tariffs, if they persist, will further drive insolvency.

U.S. Bankruptcy Filings by Year



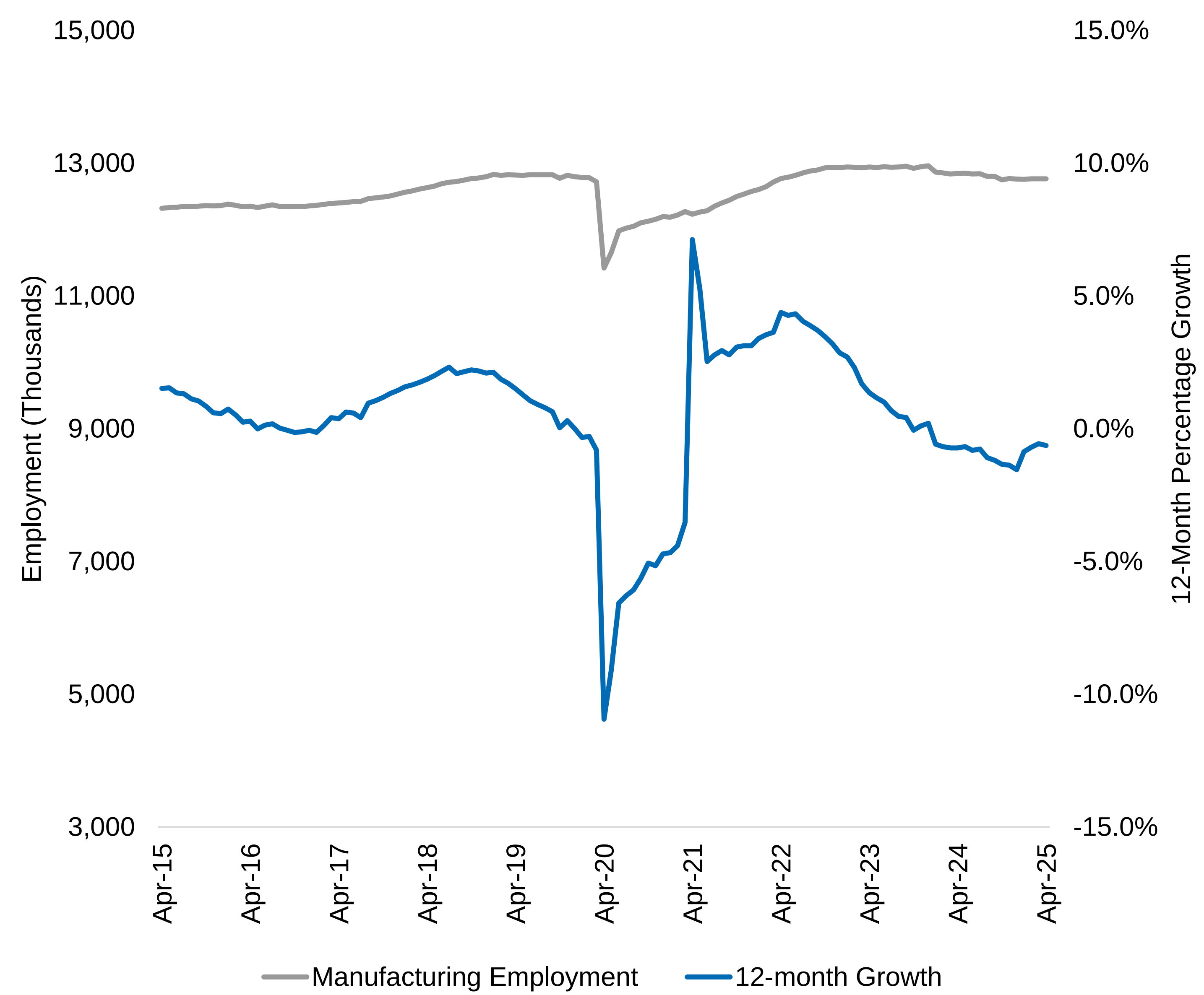
Source: Newmark Research, S&P Global. May 2025.

Improving Industrial Labor Landscape Now Complicated By Trade Policy Uncertainty

Improving warehousing and manufacturing employment trends are at a crossroads: tariffs have yet to meaningfully impact economic and labor data, but future staff reductions are likely due to uncertain near- to medium-term demand, and less imported freight moving through the domestic supply chain.

Total Employment and 12-Month Growth Rate, Transportation/Warehousing

Total Employment and 12-Month Growth Rate, Manufacturing

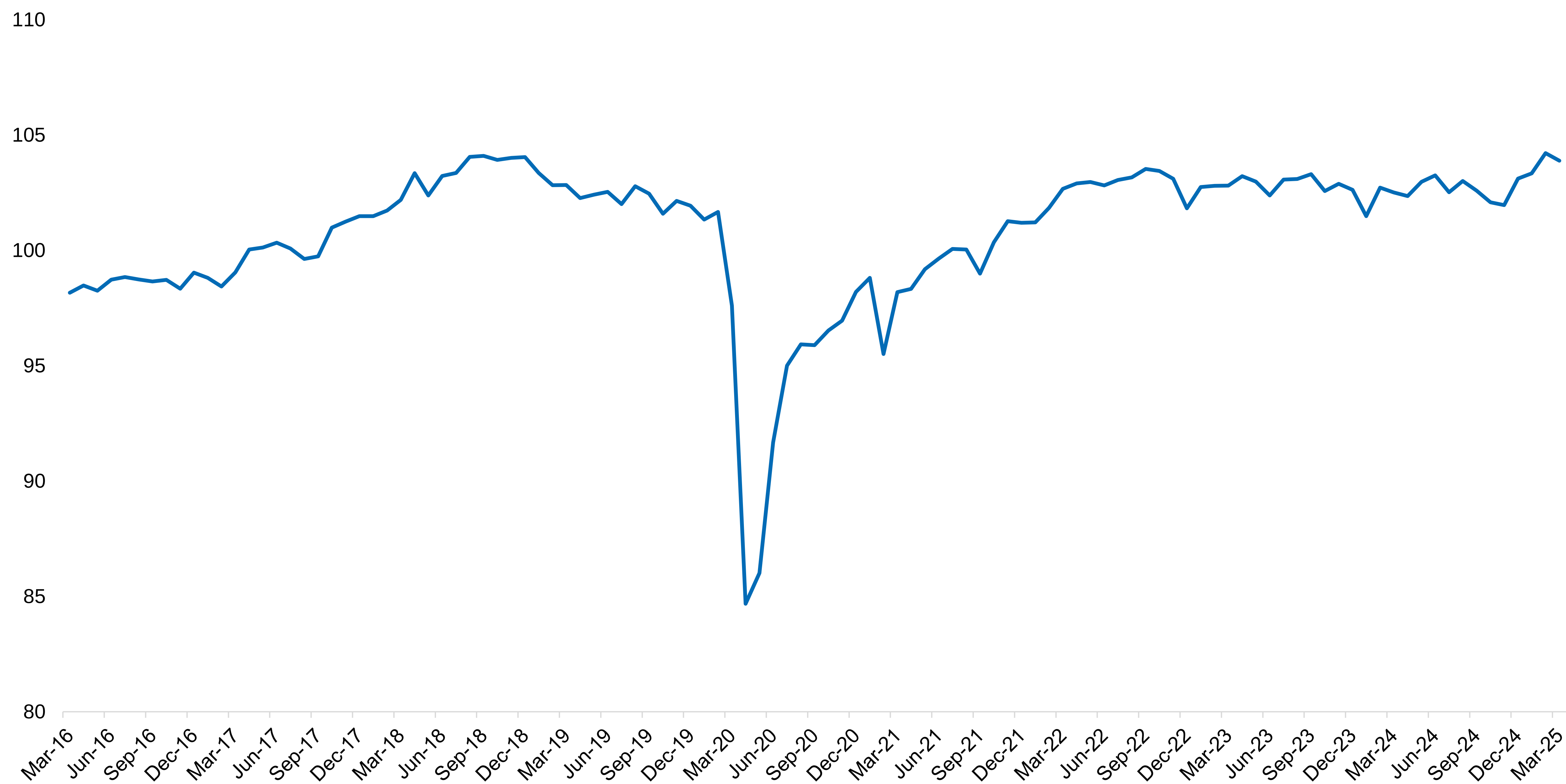


Source: Newmark Research, U.S. BLS, May 2025.

Industrial Production Hit A Record High in February 2025

U.S. industrial production reached an all-time high during the first quarter of 2025. An increase in the production of durable goods such as construction materials and equipment suggested that domestic companies ramped up production ahead of tariffs. While overall production gains is a positive, it might lead to a supply / demand imbalance in inventories.

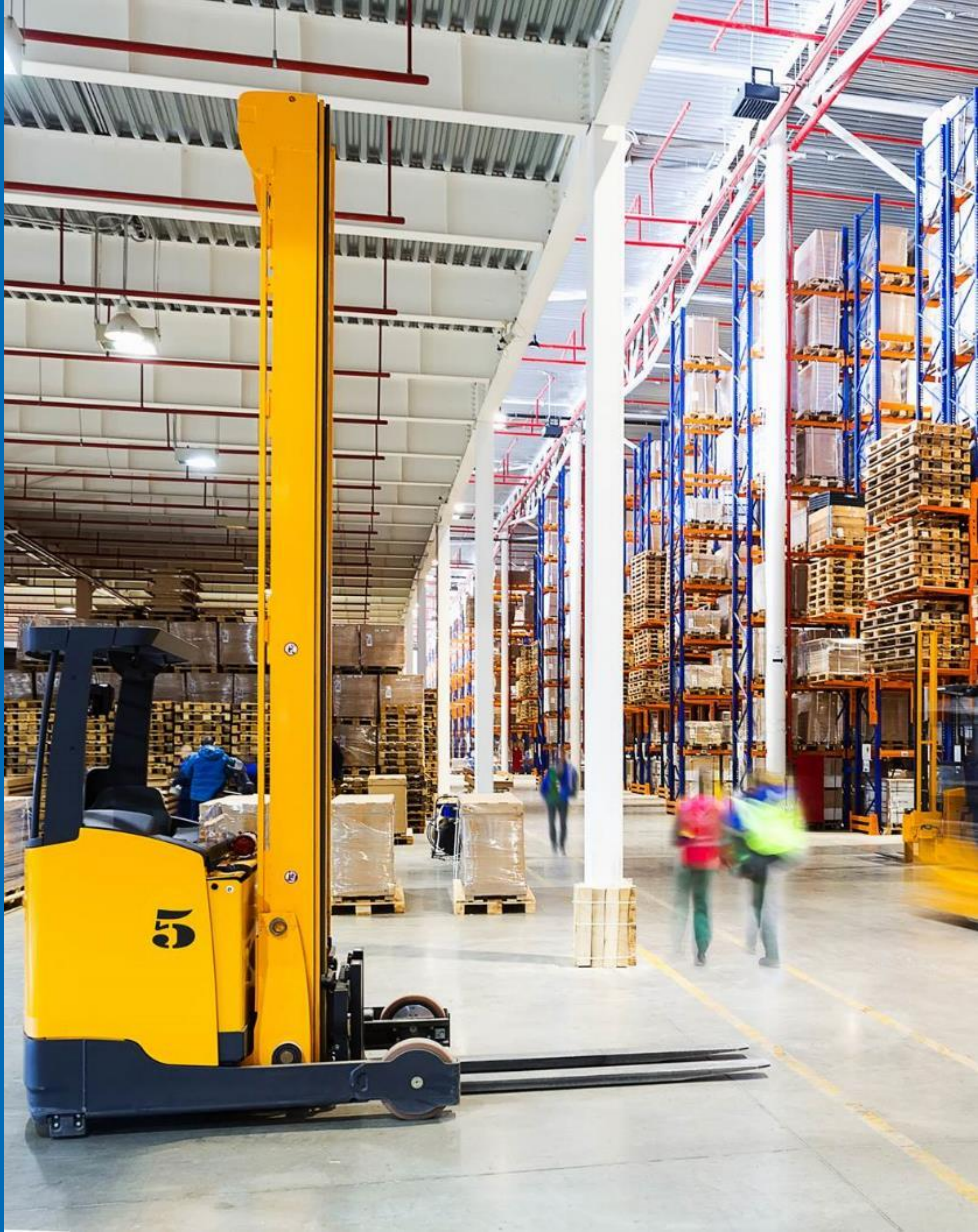
U.S. Industrial Production Index



Source: Newmark Research, FRED, May 2025.
Note: Index 2017=100, Seasonally Adjusted

1Q25

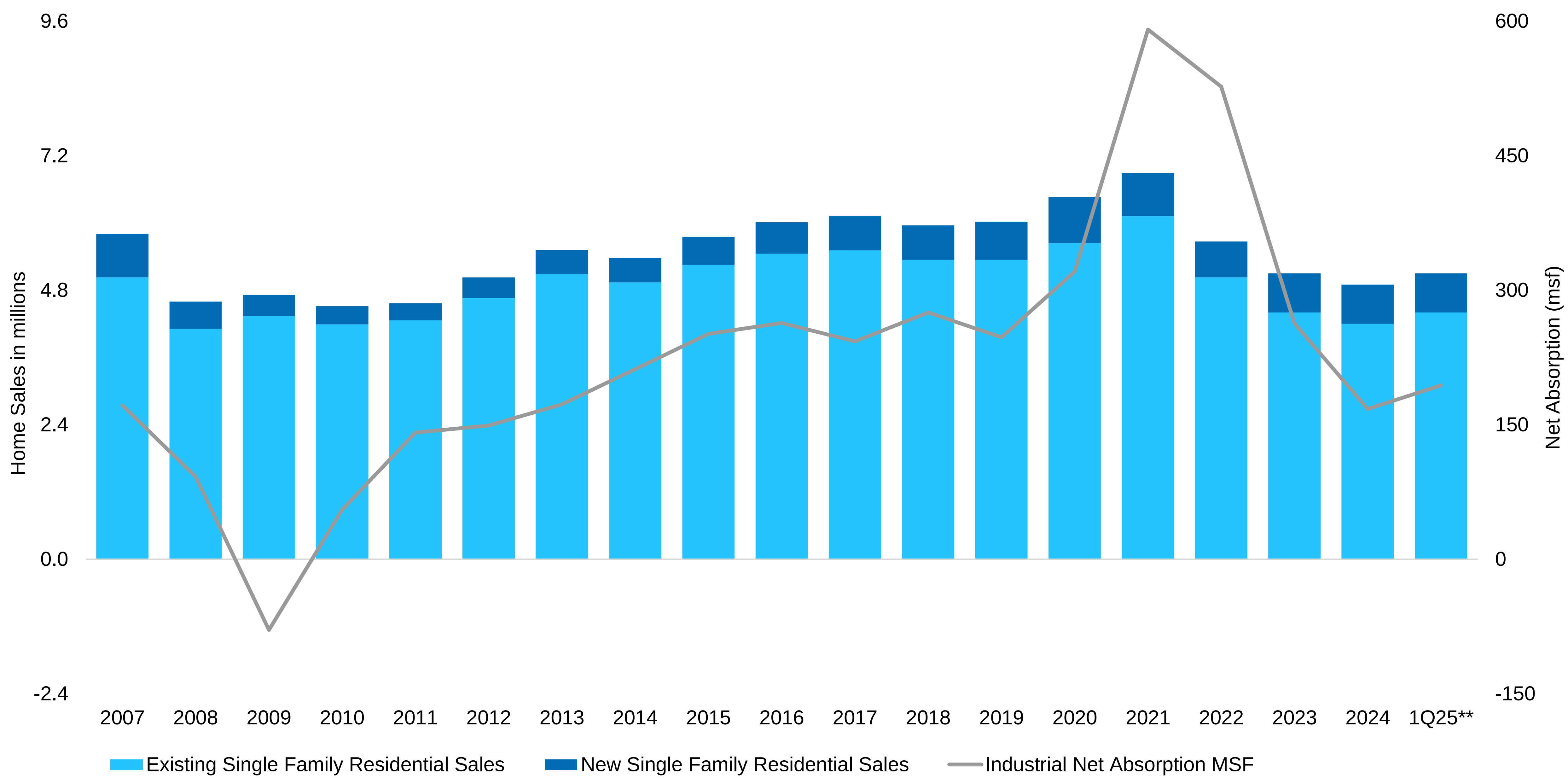
Industrial Demand Drivers



The Housing Market Still Mired In Multi-Year Lows, Impacting Industrial Demand

Persistent stagnation in the home buying market is primarily driven by higher interest rates, as well as limited affordable inventory. The sharp decline in home sales negatively impacting industrial demand. In 2022, The Home Depot was second only to Amazon in total annual leasing activity; by the end of 2024, the home improvement retailer had given back ~5 MSF of space. Federal immigration and trade policies could potentially impact the construction industry and the overall economy, further clouding the outlook for home sales.

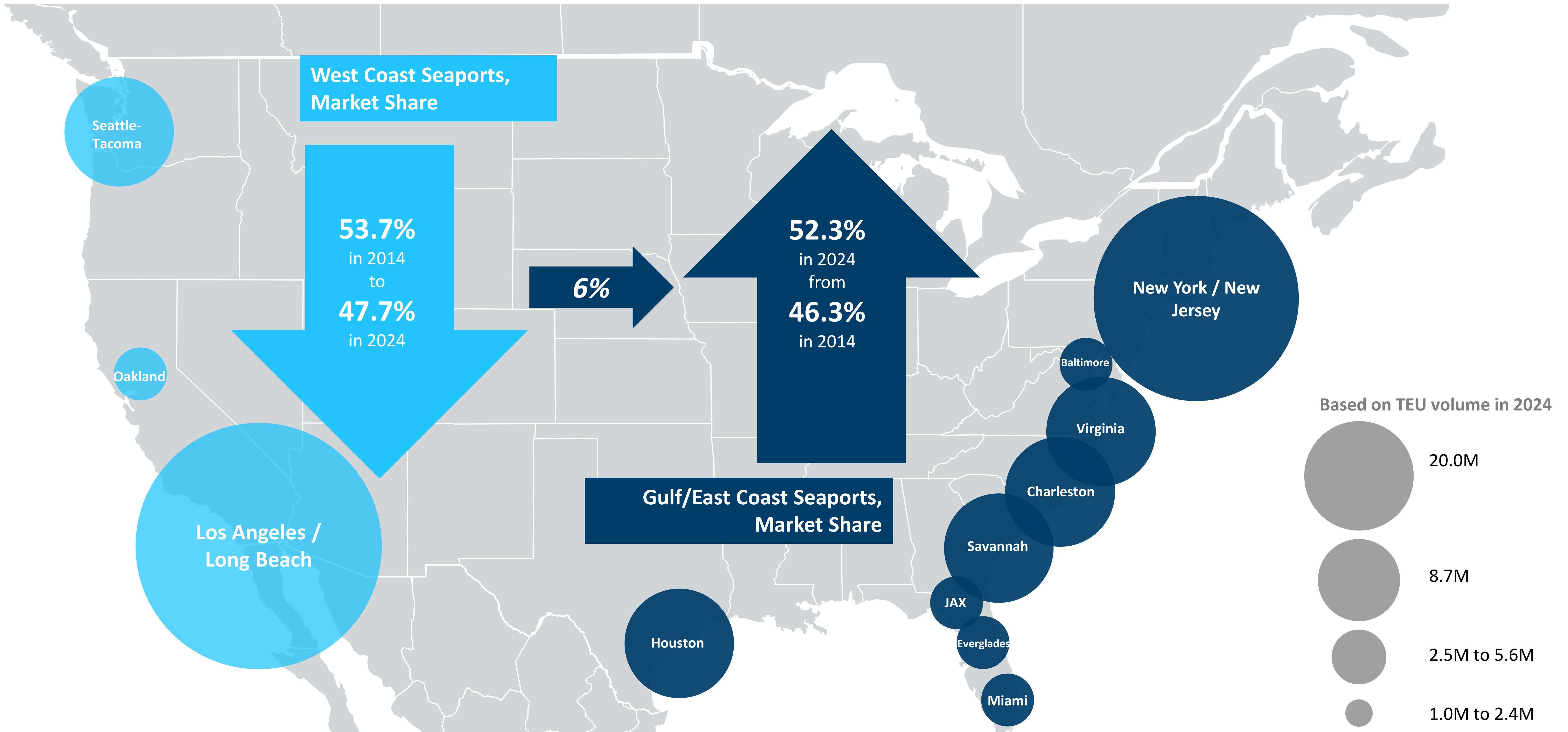
Single Family Residential Sales and Industrial Net Absorption*



*Single Family Residential Sales not seasonally adjusted.
*Annualized through March 2025.
Source: Newmark Research, CoStar, St. Louis Federal Bank, National Association of Realtors, U.S. Census Bureau, May 2025.

Import Market Share Has Been Shifting Eastward

Over the last decade, U.S. Gulf and Eastern seaports have steadily gained market share from the West Coast seaports thanks to the investment in accommodating larger container vessels and other supportive infrastructure. Additionally, global supply chains are moving from China toward friendlier South Asian countries like India, which align with East Coast sea routes for cost and speed to delivery considerations. Current U.S. rhetoric and trade policy is accelerating this shift.

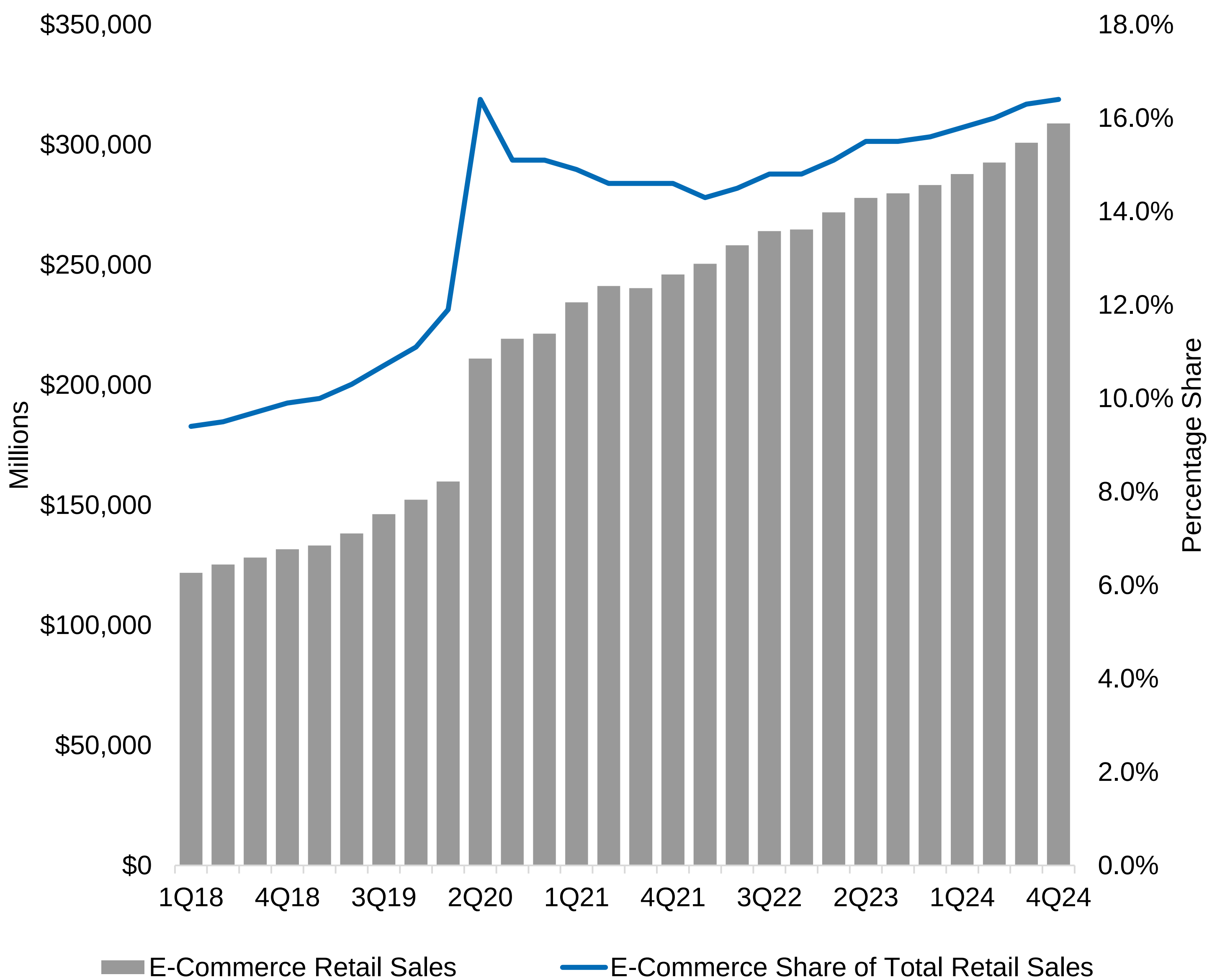


Source: Newmark SoCal Research, port websites.

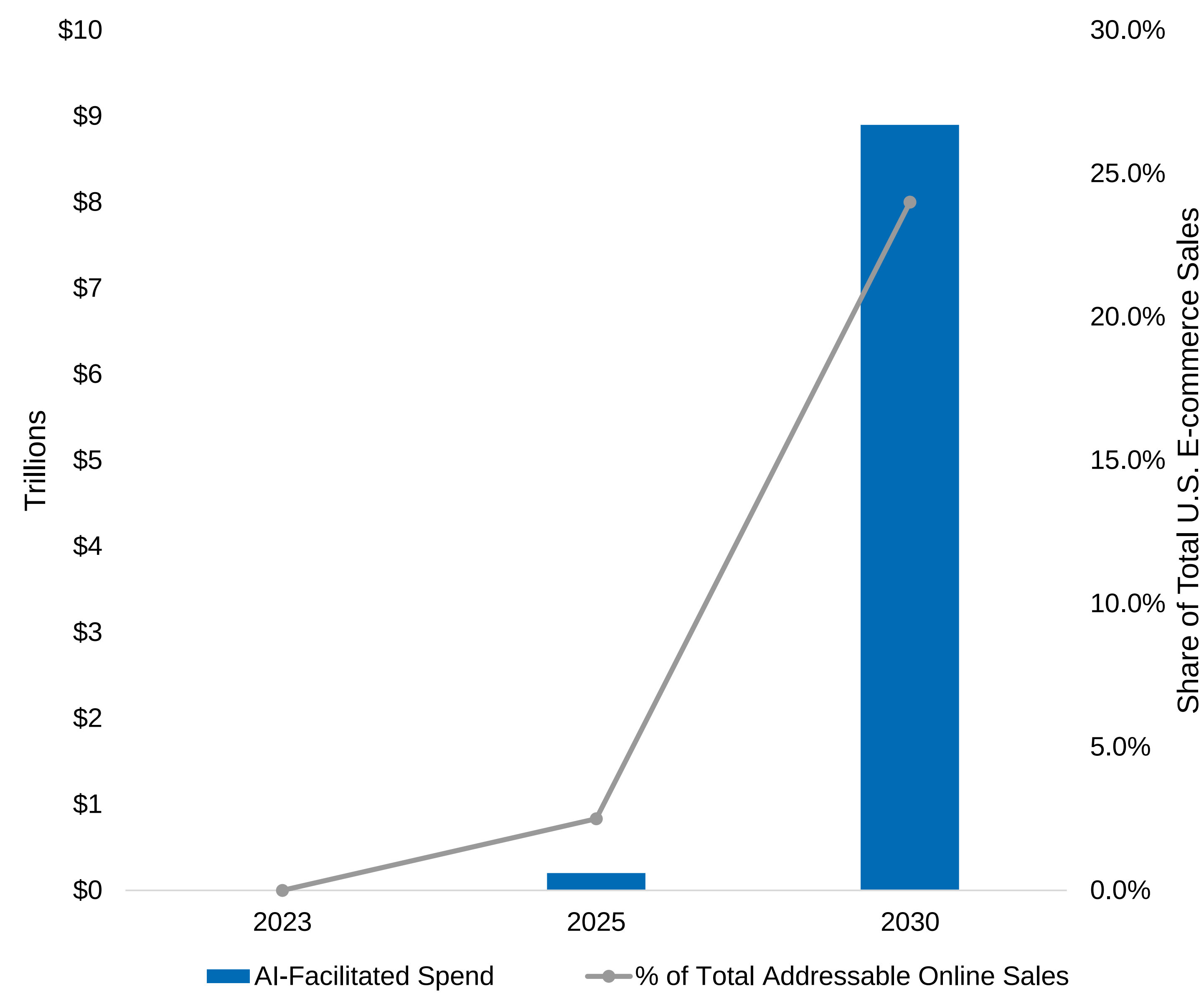
Evolving Trends In E-Commerce Continue Driving Demand

Consumer spending increasingly mixes in-store, online, and omnichannel behaviors as major retailers invest across these channels. At a forecasted 8.7% CAGR between 2025 and 2028, e-commerce growth will continue to drive industrial demand. The use of AI agents in consumer shopping is an emerging factor that could further accelerate e-commerce penetration. AI-mediated shopping could approach 25% of the total potential market for online sales globally by 2030 from below 5% currently, according to some forecasts.

U.S. E-commerce Sales and Share of Total Retail Sales



Global AI-Facilitated Online Spend ($T)

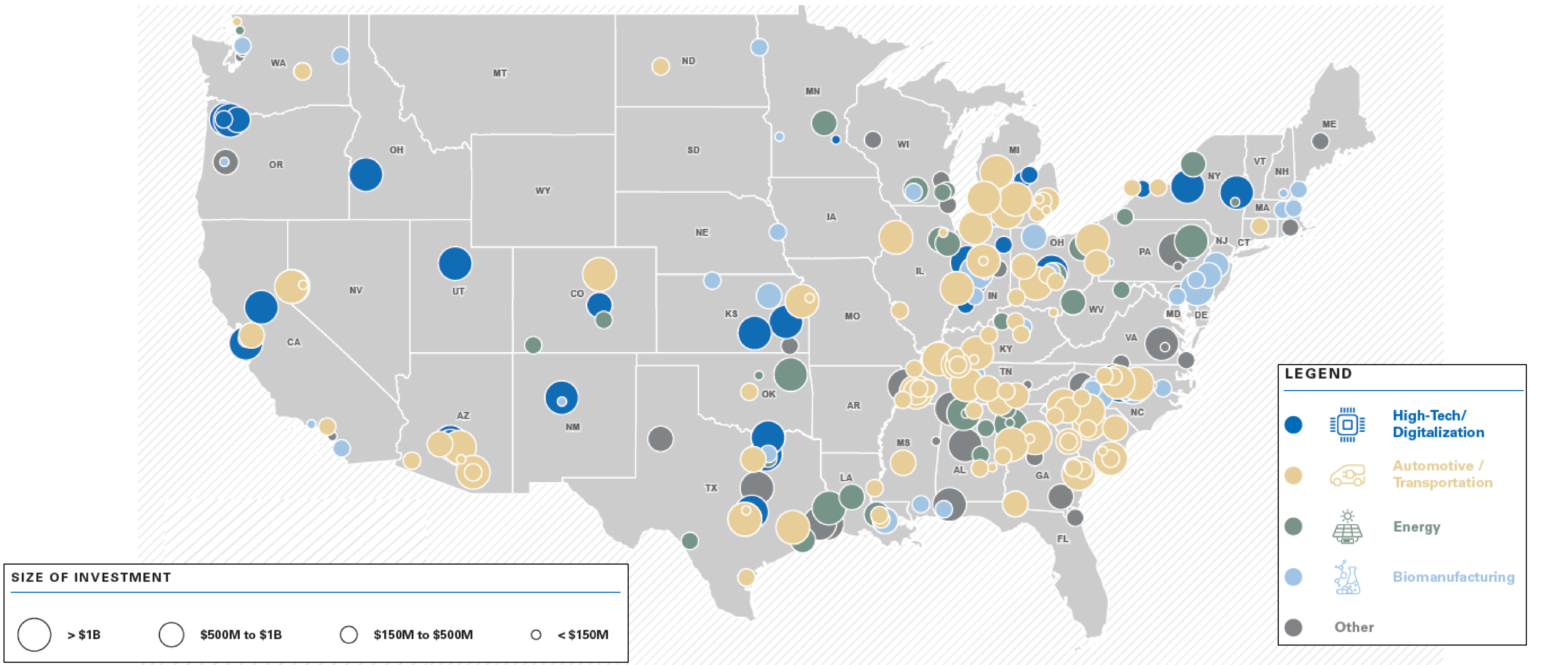


Source: U.S. Census Bureau, St. Louis Federal Bank, Green Street, Ark Invest, Emarketer, May 2025.

Monumental Growth in Domestic Manufacturing is Underway

A snapshot of initial manufacturing investments totaling a minimum of $100 million since 2020 reveals approximately $640 billion in investments pledged, 270,000+ new jobs and a minimum of 270 MSF of new industrial projects, a notable portion of which have already delivered. Four key advanced manufacturing sectors are driving the greatest volumes of investment and development, capturing over 90% of the major investments pledged: High-tech/digitalization, Automotive/transportation; Energy; and Biomanufacturing.

U.S. Major Manufacturing Announcements, 2020-2024 2Q

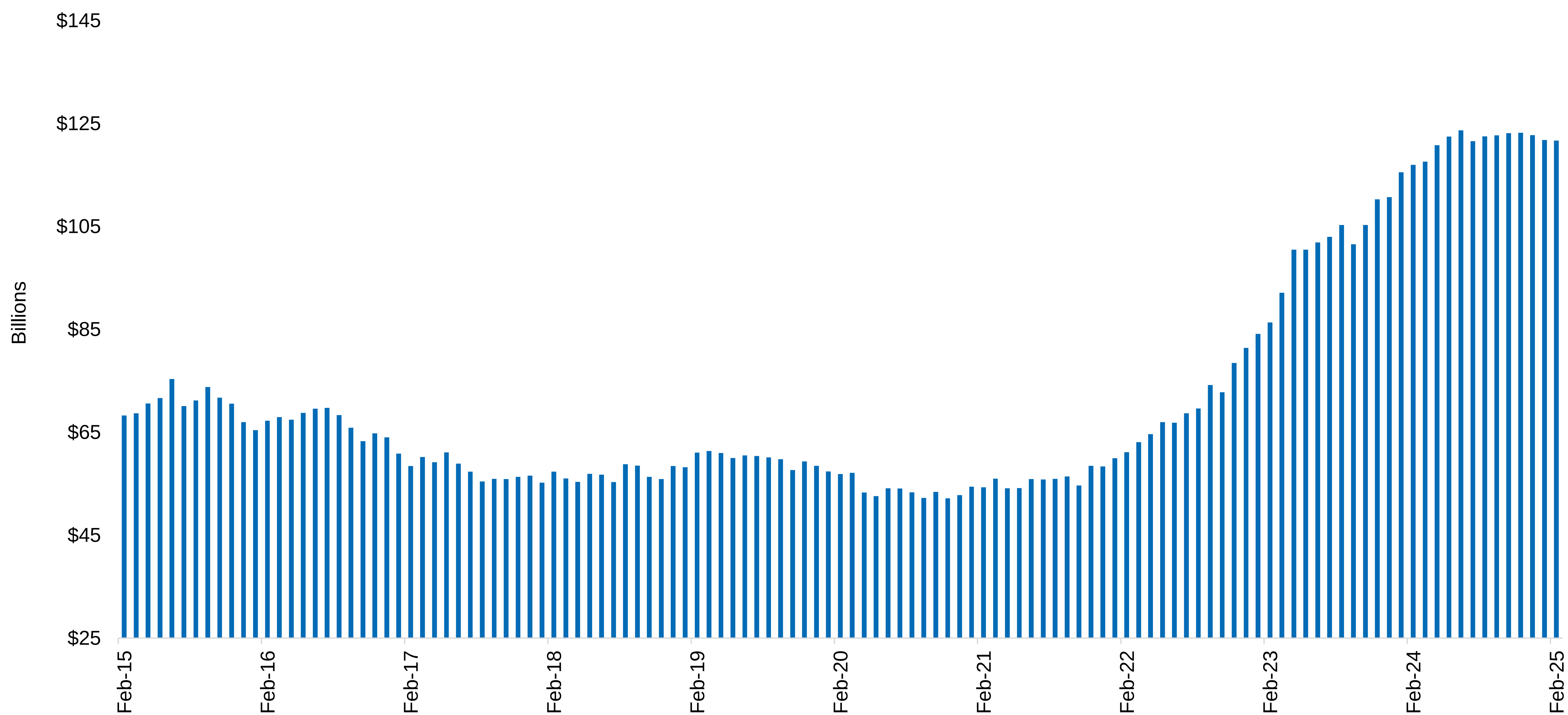


Note: Investments of at least $100 million. Investment dollars may include allocations to real estate and equipment, infrastructure, intellectual property, and other outlays.
Sources: Newmark Research, Newmark Global Strategy & Consulting, various press releases and articles

U.S. Manufacturing Construction Spending Remains Near Record Highs

Advanced manufacturers are investing heavily in new construction. In real terms, manufacturing construction measured $121.7 billion in February 2025, nearly double the pre-pandemic 5-year average. Growth is driven by both private and public investment, driven by geopolitical and supply chain risks affecting these critical sectors.

Total Real Private Manufacturing Construction Spending

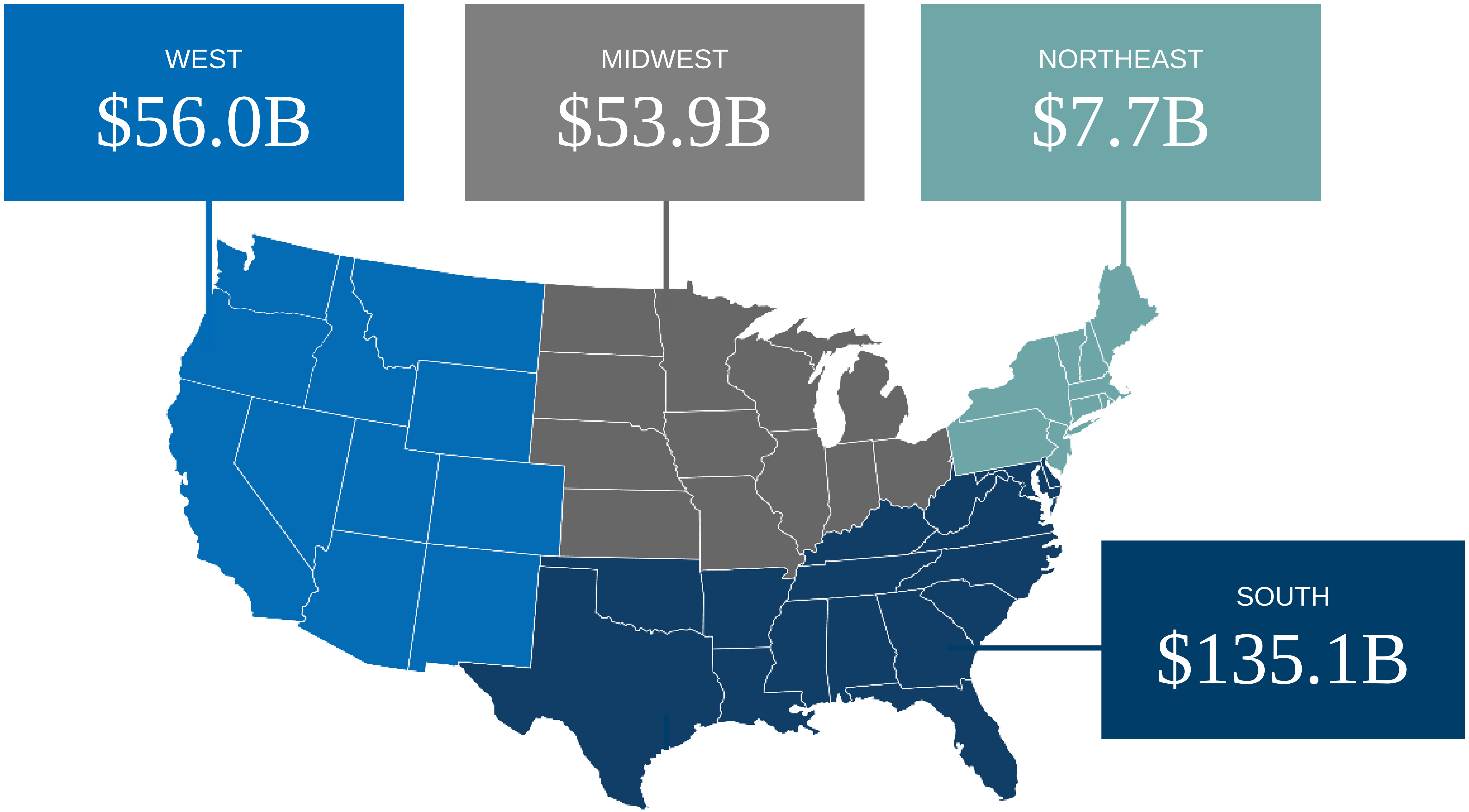


Source: Newmark Research, U.S. Census Bureau, FRED, April 2025
Note: Seasonally adjusted annual rate deflated by New Industrial Construction PPI, chained to 06/2007.

The South Leads the Nation In Manufacturing Construction Spending

Over the past 12 months, Southern states have seen $134 billion in nominal manufacturing construction spend, more than the rest of the country combined. Within the South, the West South Central states - Texas, Oklahoma, Arkansas and Louisiana – saw the largest portion of that spending ($60 billion).

Private Manufacturing Construction Spending by Megaregion, March 2024 to March 2025



Source: Newmark Research, U.S. Census, May 2025.

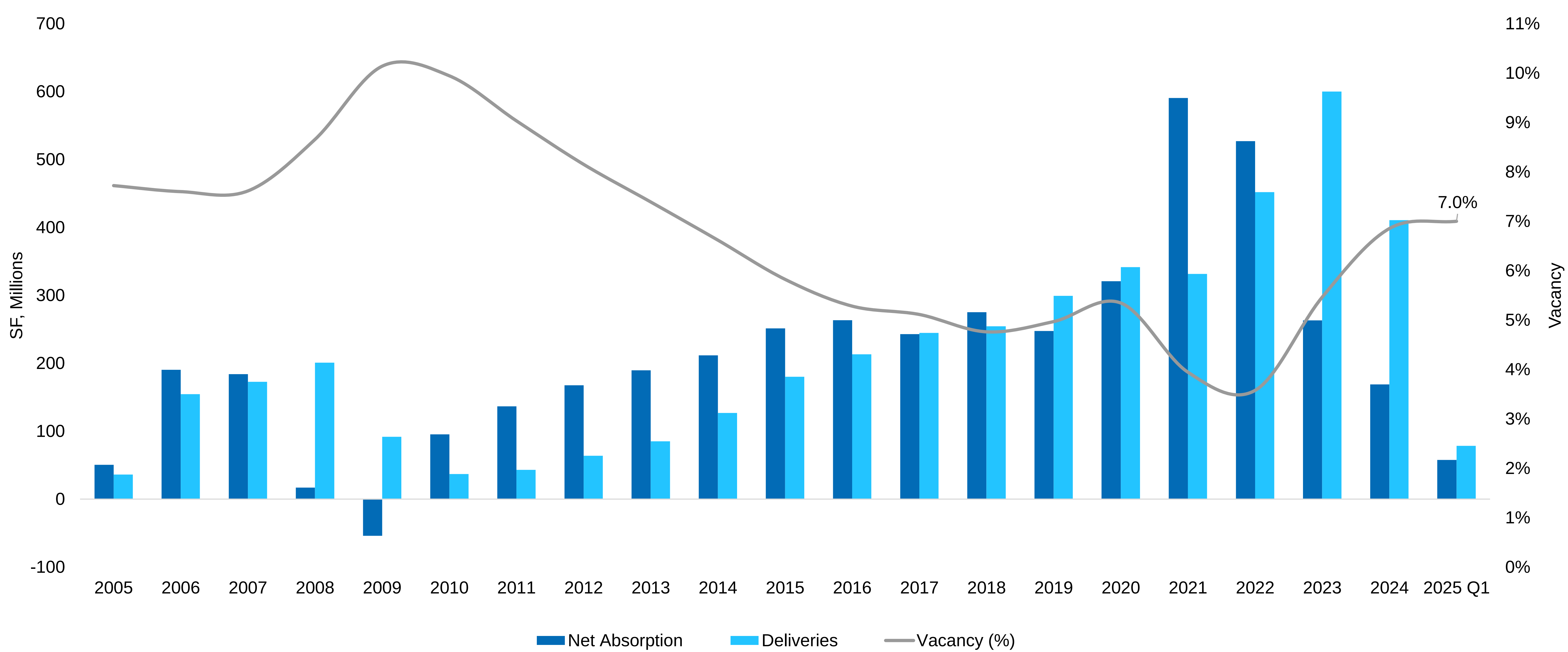
1Q25

Leasing Market Fundamentals

A Strong Start to 2025 Faces Mounting Headwinds

The market surged with 57.6 msf of net absorption in Q1 2025, the best quarterly performance since Q4 2023. Larger volumes of supply additions nudged the national vacancy rate higher by less than 10 basis points to 7%. This strong start faces mounting headwinds as the year unfolds. Pre-tariff-turmoil projections anticipated annual net absorption reaching 200 msf in 2025. This is now "best case scenario"; should the tariff regime persist; absorption is expected to soften in the second half of the year.

U.S. Industrial Deliveries, Net Absorption, and Vacancy

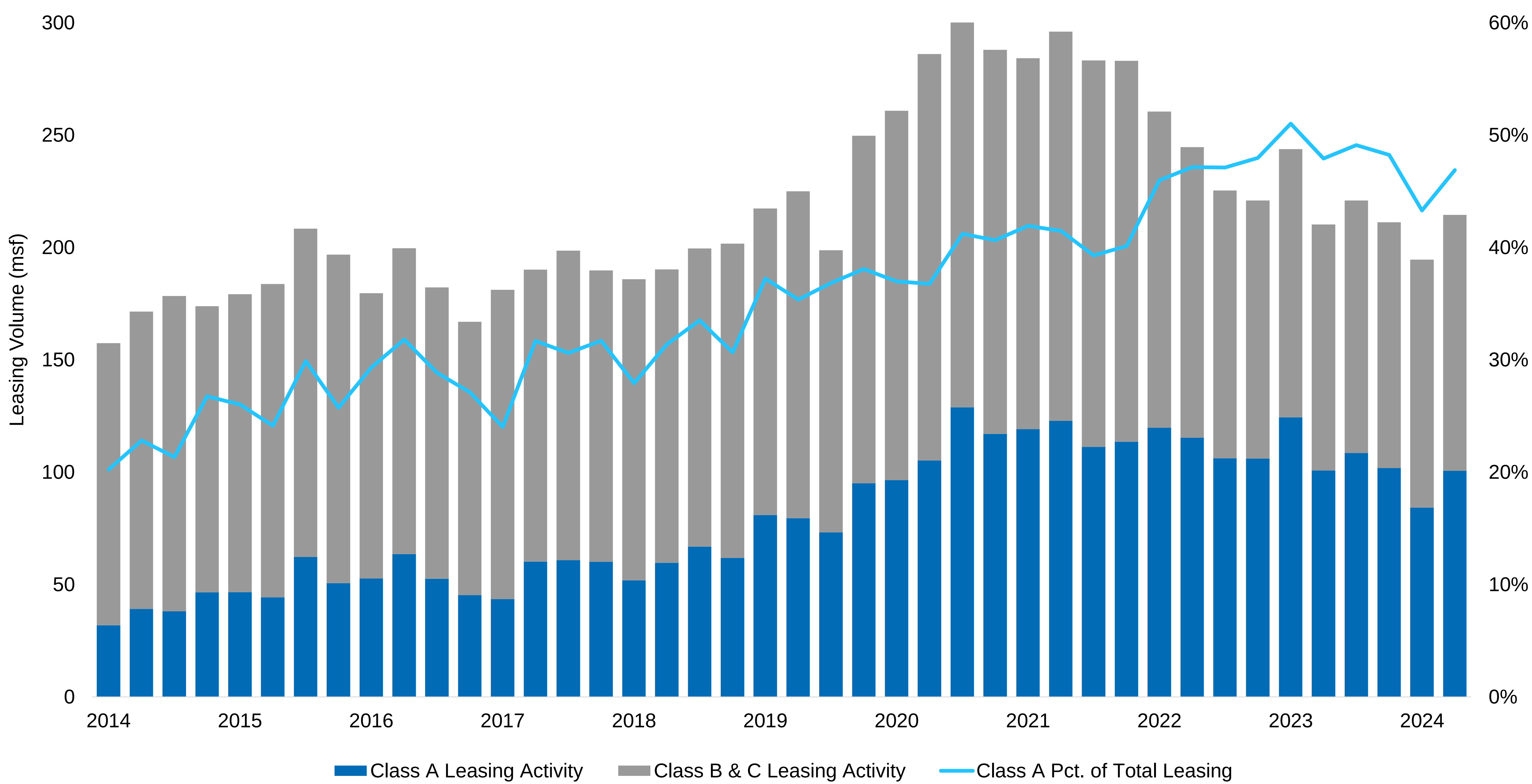


Source: Newmark Research, April 2025.

New Leasing Activity Bounces Back, But Sustainability of Growth Is Uncertain

New leasing activity rebounded from a low Q4 as some of the deals that would have closed by the end of last year were delayed into 2025. Not all new leasing was playing catch-up; tenants that have been on the sidelines for years demonstrated appetite to move forward on real estate decisions. March 2025 leasing volumes were just as strong as January. However, the extent to which the miasma of uncertainty caused by U.S. trade policy may have a chilling effect on some momentum going forward is unknown.

U.S. New Industrial Leasing Activity by Class

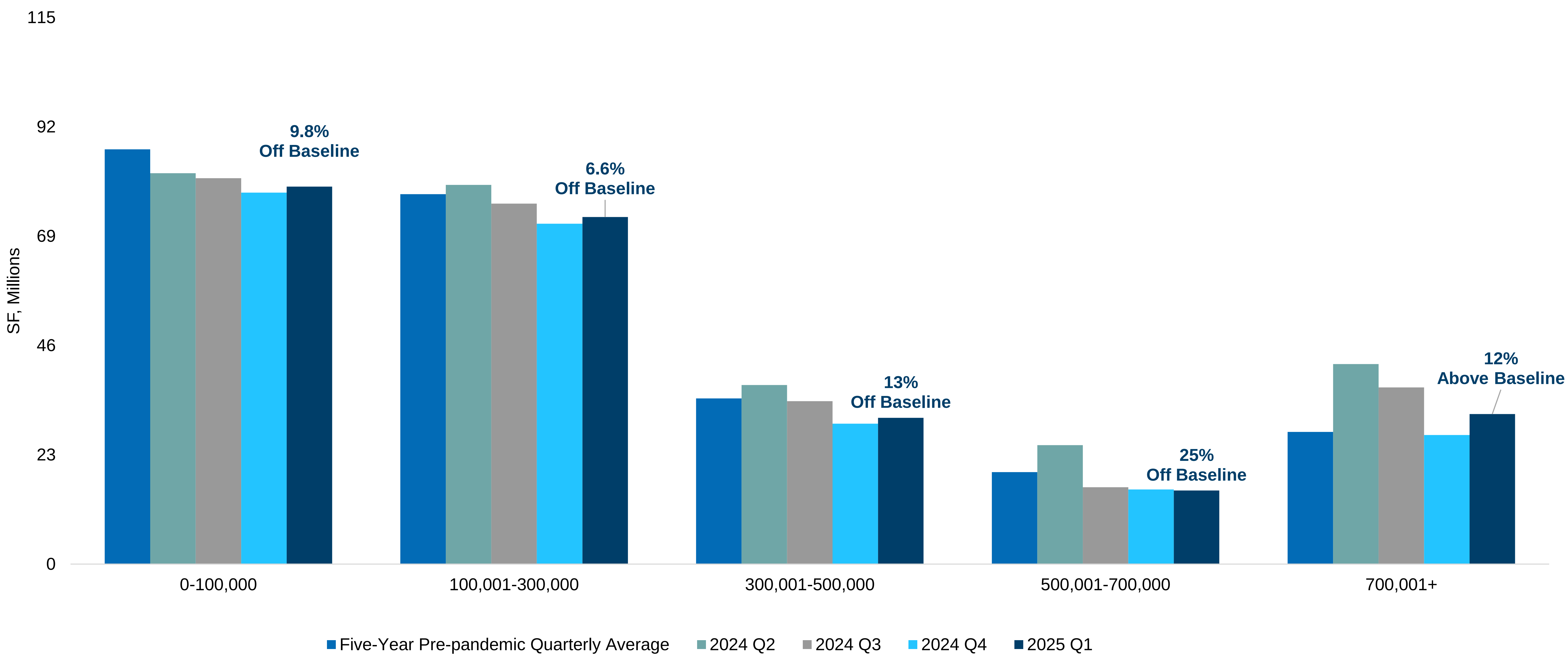


Source: CoStar, Newmark Research. Quarterly leasing volume data compiled April 2025 and is preliminary. Class A is broadly defined as 21st century build with clear heights that accommodate today's modern occupiers.

Megabox Leasing Above Historic Averages

Leasing activity in buildings sub-300,000 SF accounted for 66% of total activity for the quarter, a predictable outcome since the average industrial tenant is well below 100,000 SF. On the other end of the spectrum, the megabox segment (14% of total leasing volume) is currently the only size segment to see leasing volumes above the pre-pandemic baseline.

Leasing Activity by Building Size

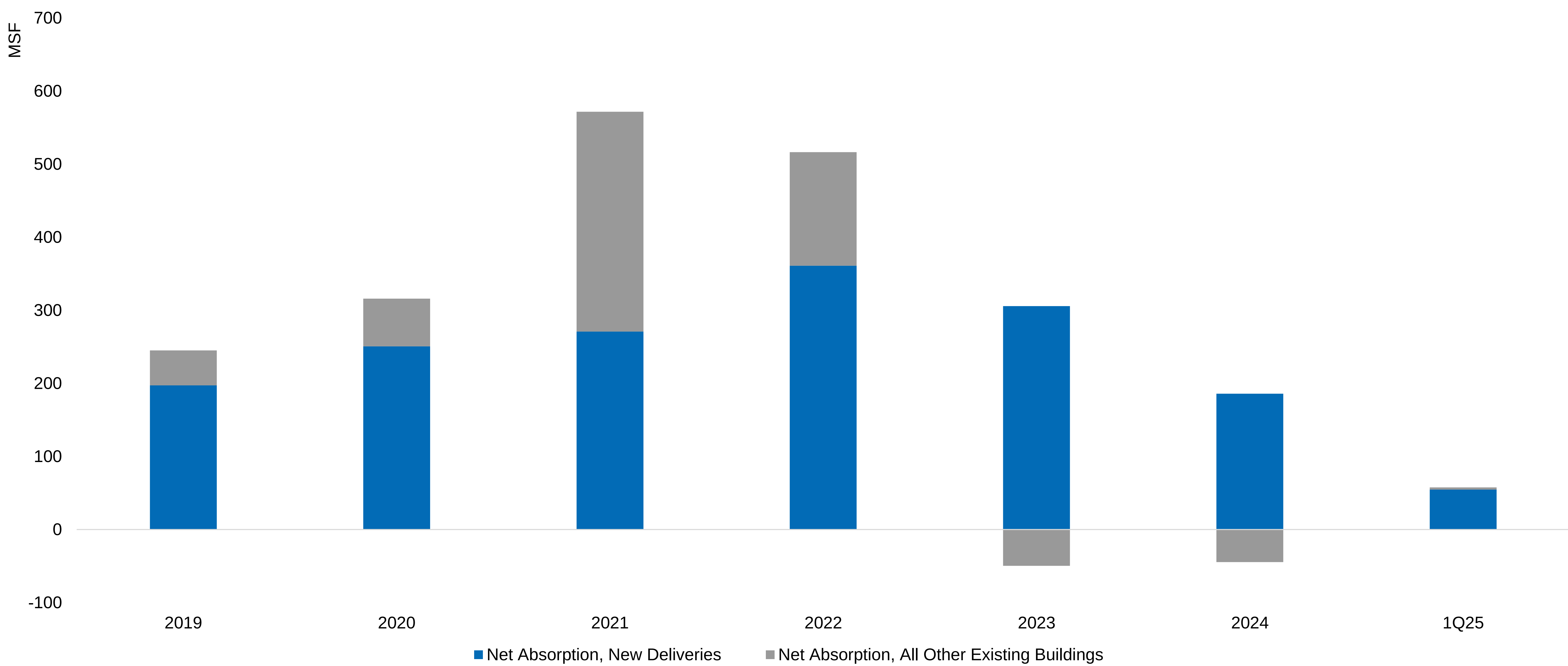


Source: CoStar, Newmark Research, May 2025.

New Deliveries Overwhelmingly Drive Net Absorption

Newly delivered logistics facilities continue to account for the lion's share of net absorption (54 of 57.6 MSF year-to-date), underscoring a powerful tenant preference for efficient, modern space. Throughput and efficiency are of utmost importance for sophisticated logistics occupiers, which is driving a persistent flight to quality. Availability of brand-new space has improved since the record vacancy lows of 2021 and 2022, creating a window of opportunity for occupiers to lease best-in-class assets.

Annual U.S. Net Absorption, New Deliveries vs. All Other Building Vintages

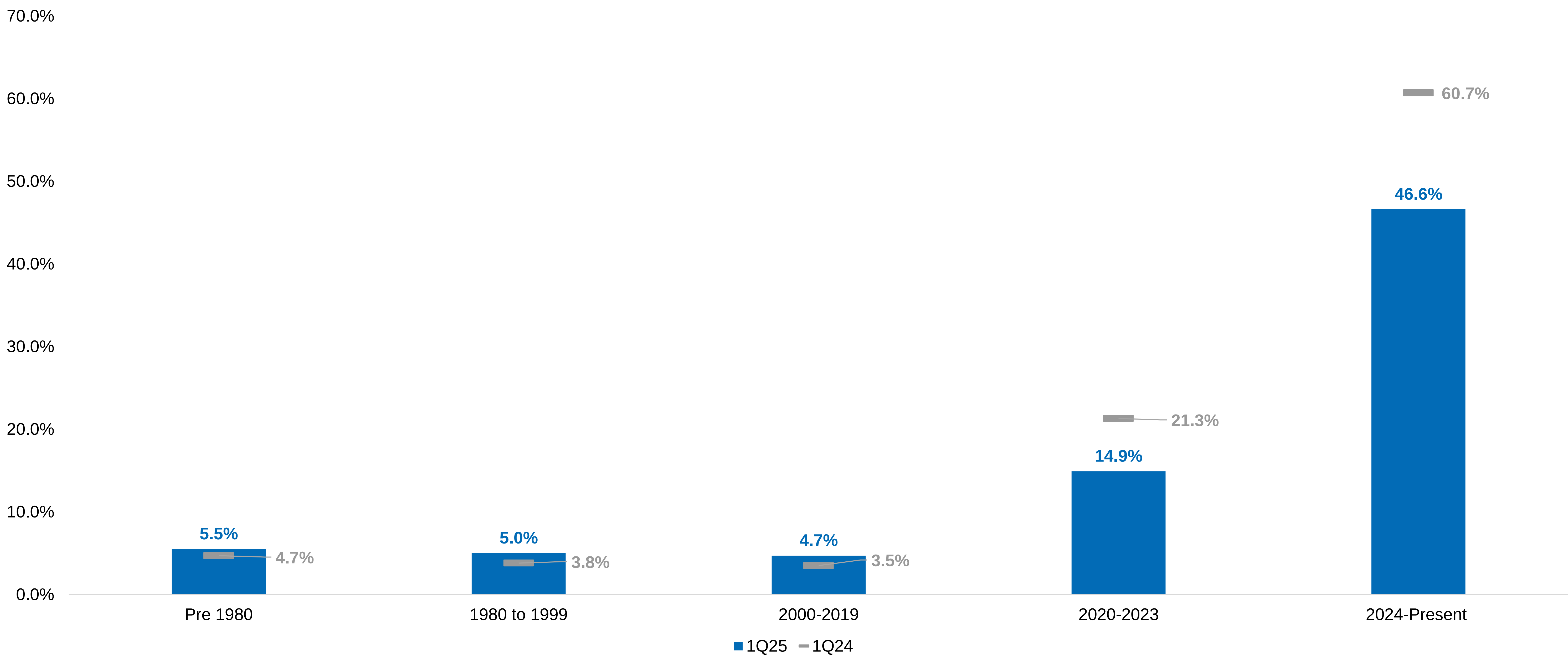


Source: Newmark Research, CoStar, May 2025.

However, Vacancy by Far Highest in Newly Delivered Product

Logistics operations run most efficiently in a modern warehouse. With the majority of the nation's industrial inventory constructed before 2000, many occupiers are in pursuit of new space to bring their supply chain into the 21st century. This trend is visible the faster rise in vacancy for older building vintages, and the swift downward momentum in vacancy for newly delivered product. However, 47% of approximately half a billion sf of space delivered to the market since 2024 was vacant in the first quarter of 2025.

U.S. Vacancy Rate by Existing Building Vintage , 1Q24 vs 1Q25



Source: Newmark Research, CoStar, May 2025.

Inland Intermodal Markets Largely Led Industrial Demand in 1Q

Inland intermodal markets dominated demand rankings in the first quarter of the year, with Kansas City taking the top spot and realizing the best quarterly performance since 2022. The delivery of three build-to-suits, totaling nearly 3 msf, contributed to the market's outperformance. In addition, the largest available block of sublease space in the market was subleased during the quarter.

Net Absorption: Top 10 Markets

Market	2025 YTD Net Absorption (msf)
Kansas City	7.5
Dallas	6.7
Phoenix	6.2
Greenville, SC	5.1
Indianapolis	2.7
Savannah, GA	2.5
Raleigh/Durham	2.4
Washington, DC	2.3
Inland Empire, CA	2.2
Columbus	2.2
United States	**57.6**

Demand Growth: Top 10 Markets

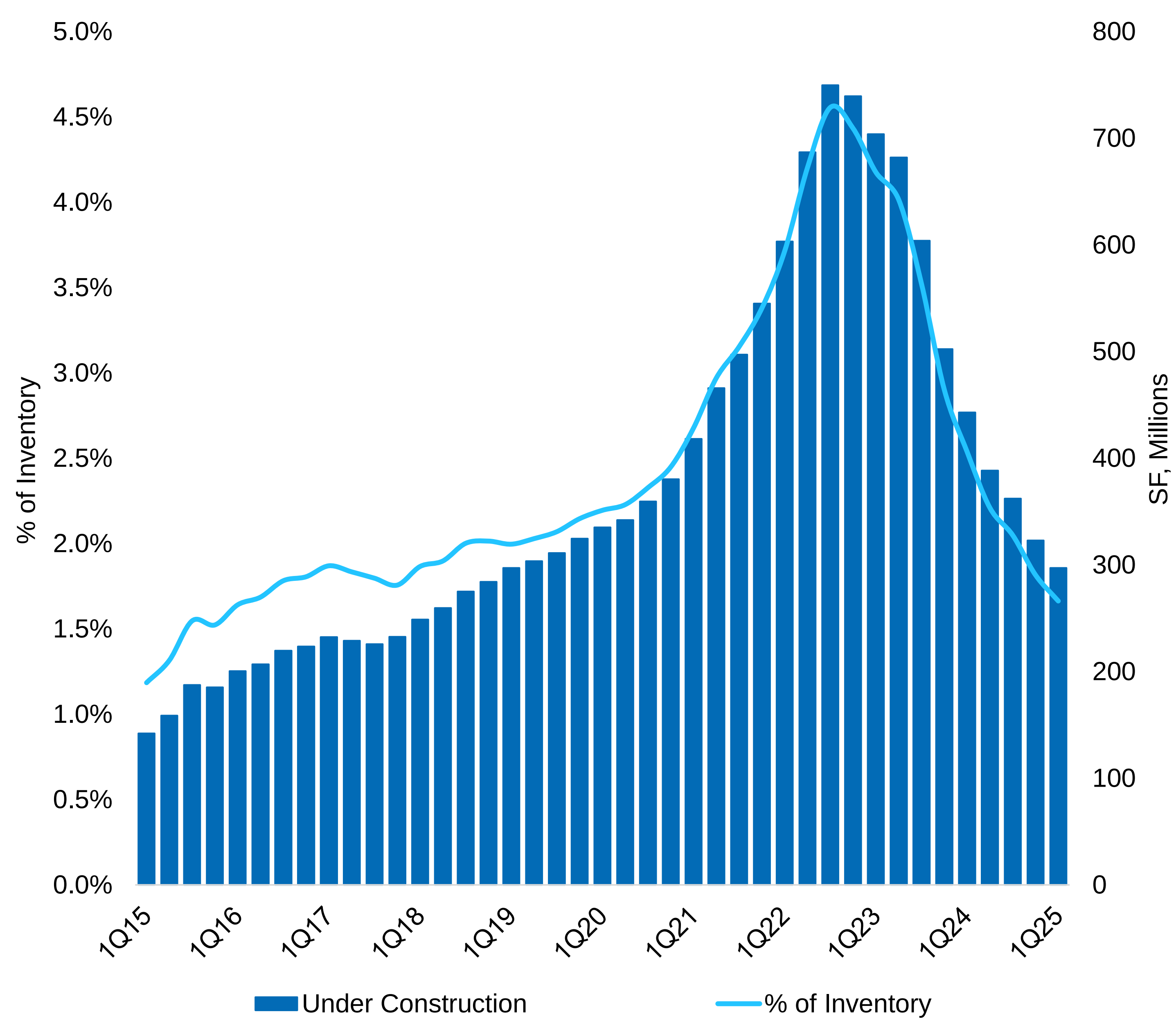
Market	2025 YTD Net Absorption (% of Inventory)
Kansas City	2.2%
Greenville, SC	1.8%
Savannah, GA	1.6%
Raleigh/Durham	1.6%
Charleston, SC	1.5%
Phoenix	1.4%
Austin	1.1%
Columbia, SC	1.0%
Jacksonville	0.9%
Las Vegas	0.8%
United States	**0.3%**

Source: Newmark Research, SmartAsset, U.S. Census Bureau, April 2025.

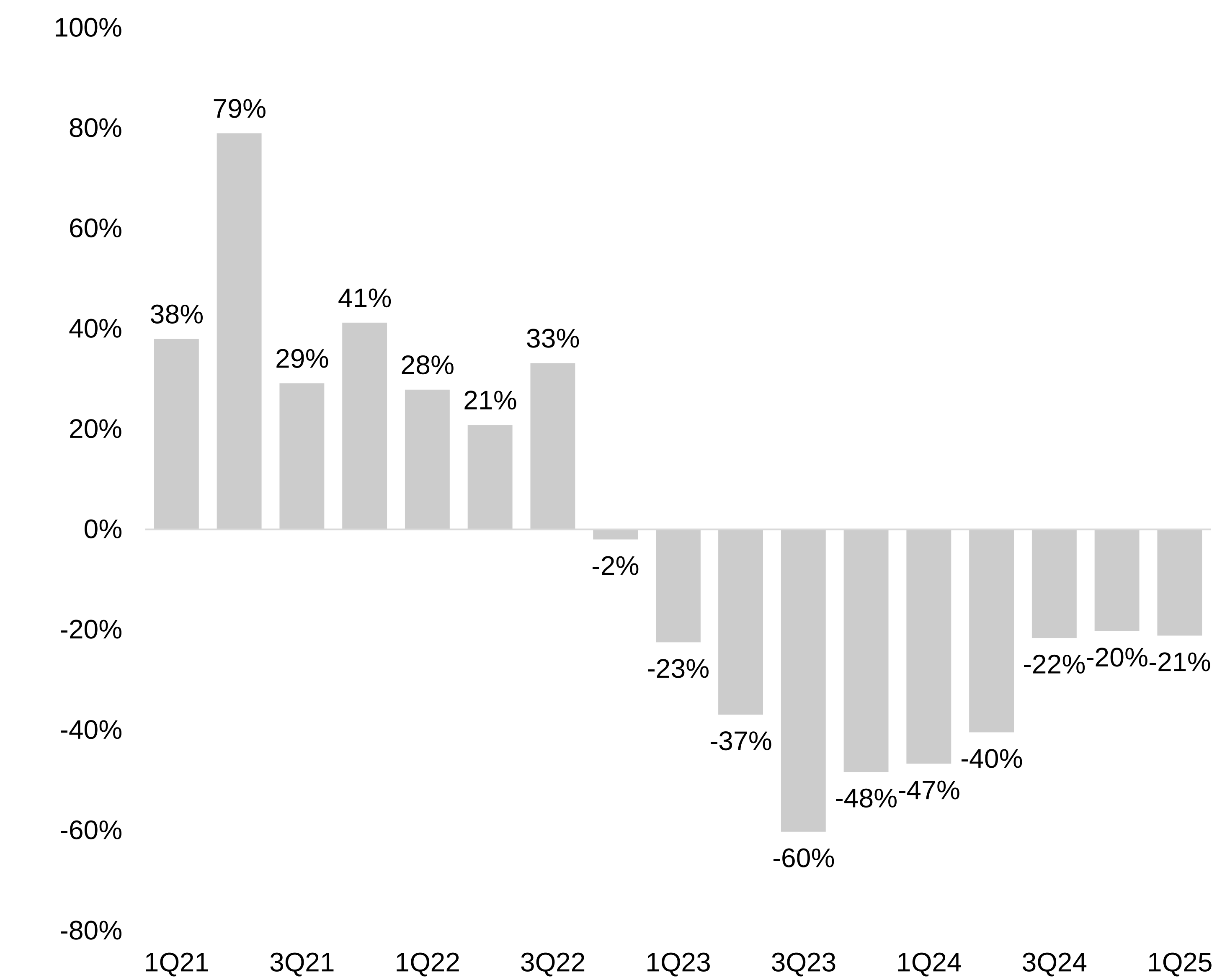
The Supply Side Continues to Improve, And Now May Stay Lower For Longer

The pipeline dipped below 300 msf for the first time since 2019 in the first quarter of 2025. New starts, still declining on an annual basis, were expected to see the reversal of that trend in the coming quarters but with macro uncertainty and higher costs, it now seems more likely that spec commencements will remain muted, and the pipeline will continue to decline through the balance of this year.

U.S. Industrial Under Construction and % of Inventory



Construction Starts, Year Over Year Percentage Change

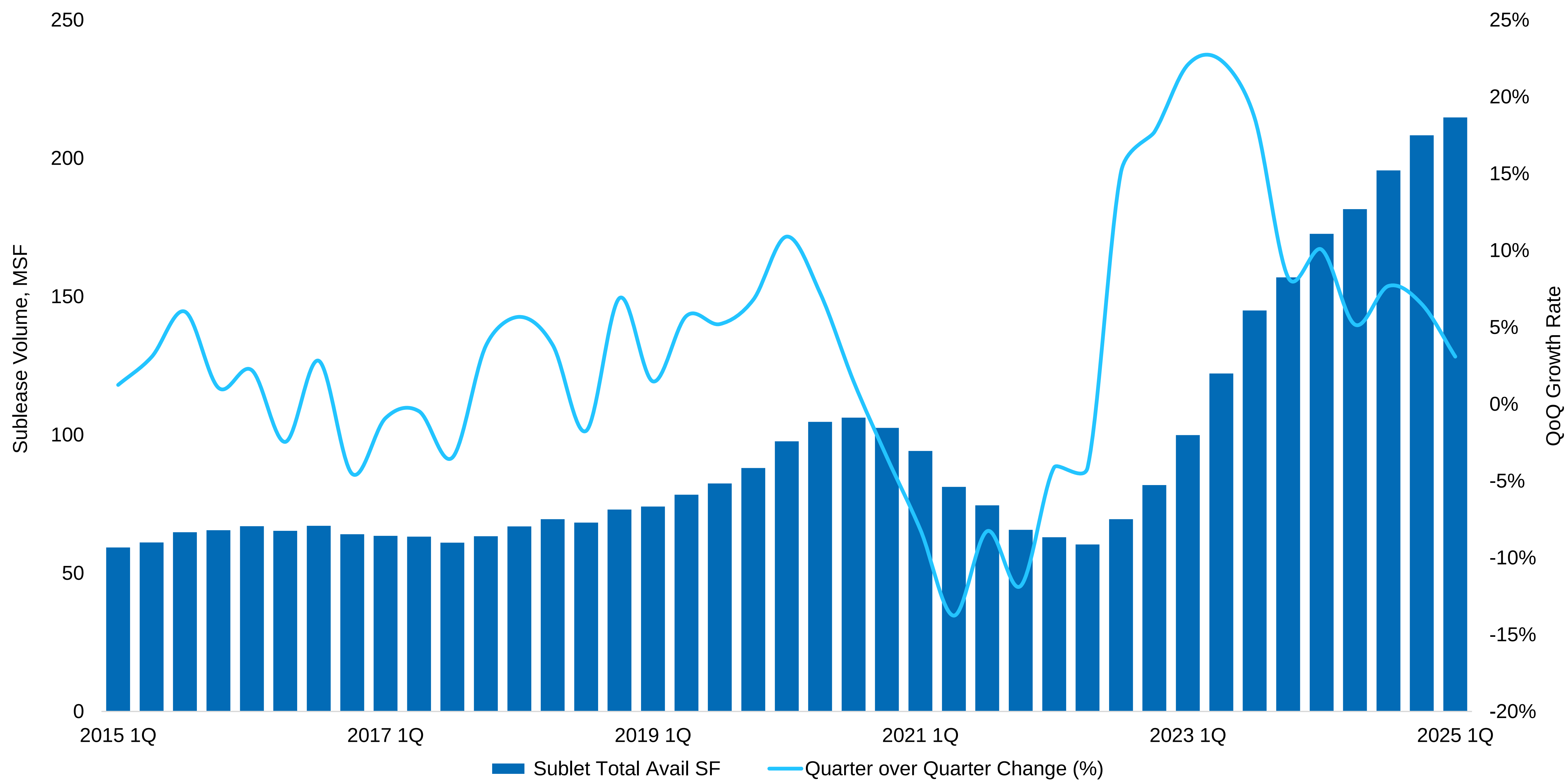


Source: Newmark Research

Industrial Sublease Availability Still Growing, But at a Slower Clip

Sublease space hit 215 msf in 1Q25. While historically, sublease availability has risen faster in recessions and been absorbed faster in recoveries than direct space, this pattern may change. Factors that could cause direct availability to decline before sublease availability in this cycle include FASB accounting rules (like GAAP amortization requirements) adopted in the previous cycle of rapid expansion, non-transferable lease options preventing sublesees from receiving direct extension options and the cost of modern facility build-out.

Available Industrial Sublease Volume and QoQ Change



Source: Newmark Research, May 2025.

An Increasing Number of Markets Post Vacancy Declines Amid National Uptick

The national vacancy rate rose to 7.0% in 1Q25, up from 6.0% one year ago. Some markets continue to see stark upward pressure on vacancy, but an increasing number of markets are signaling they're past "peak vacancy." Four markets saw annualized vacancy declines in 4Q24; that increased to nine markets in 1Q25.

Lowest Vacancy: Top 10 Markets

Market	1Q25 Vacancy
St. Louis	4.1%
Los Angeles	4.1%
Cleveland	4.2%
Minneapolis	4.2%
Broward County, FL	4.3%
Detroit	4.6%
Kansas City	4.6%
Orange County, CA	4.7%
Salt Lake City	4.7%
Milwaukee	4.7%
United States	**7.0%**

Vacancy Stability: Top 10 Markets

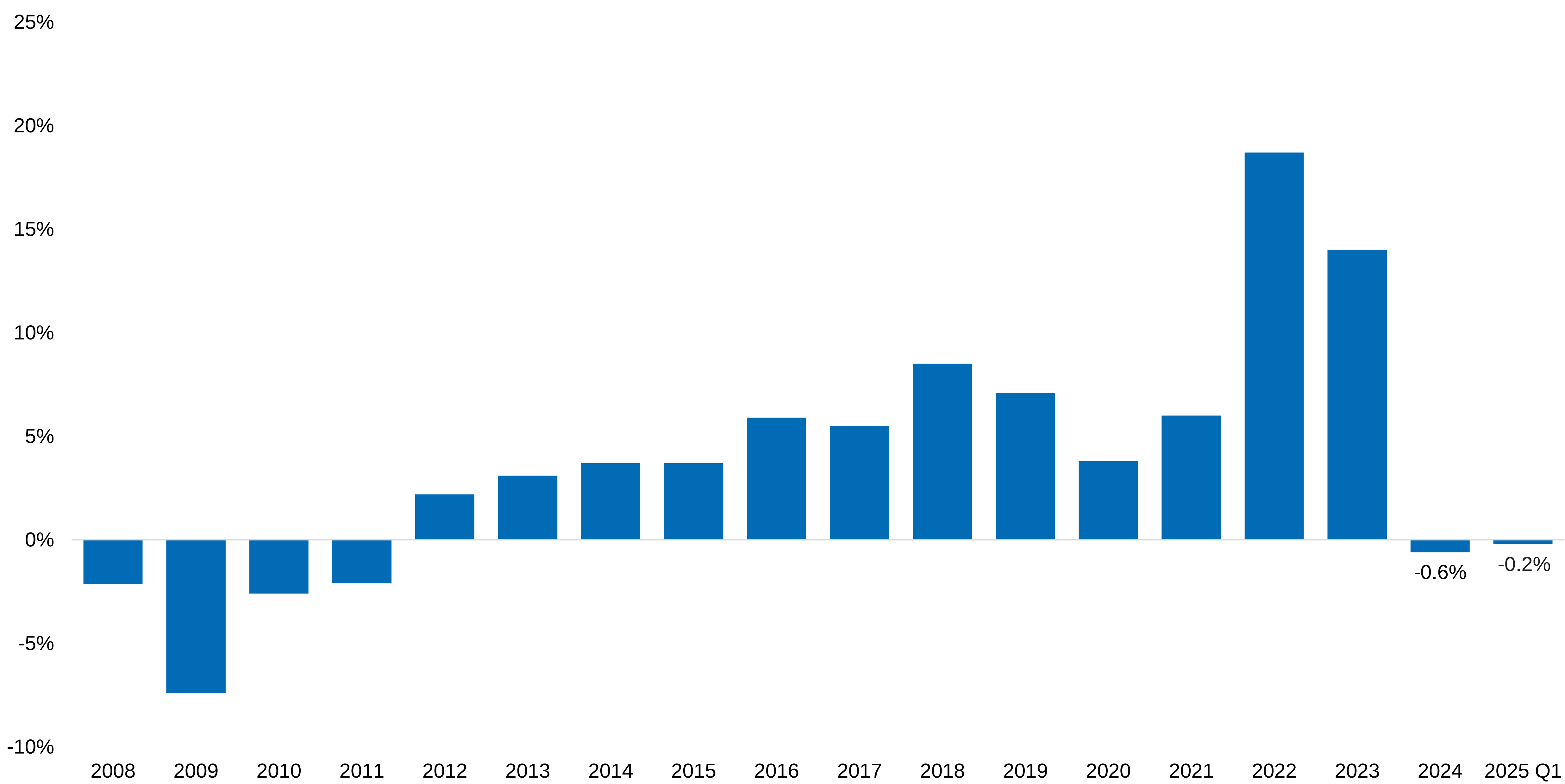
Market	1Q24 – 1Q15 Vacancy Change (BPS)
St. Louis	-110
Kansas City	-90
Savannah, GA	-80
Cincinnati	-46
Houston	-30
Greenville, SC	-10
Minneapolis	-10
Nashville	-10
Denver	-3
Dallas	0
United States	**93**

Source: Newmark Research, May 2025.

Industrial Asking Rents Continue Modest Decline

Average asking rents recorded a slight -0.2% annualized decline in 1Q25; altogether rents have declined less than 1% from the peak in mid-2024, while remaining nearly 50% higher than at the end of 2019.

Year-Over-Year Industrial Asking Rent Growth



Source: Newmark Research, May 2025.

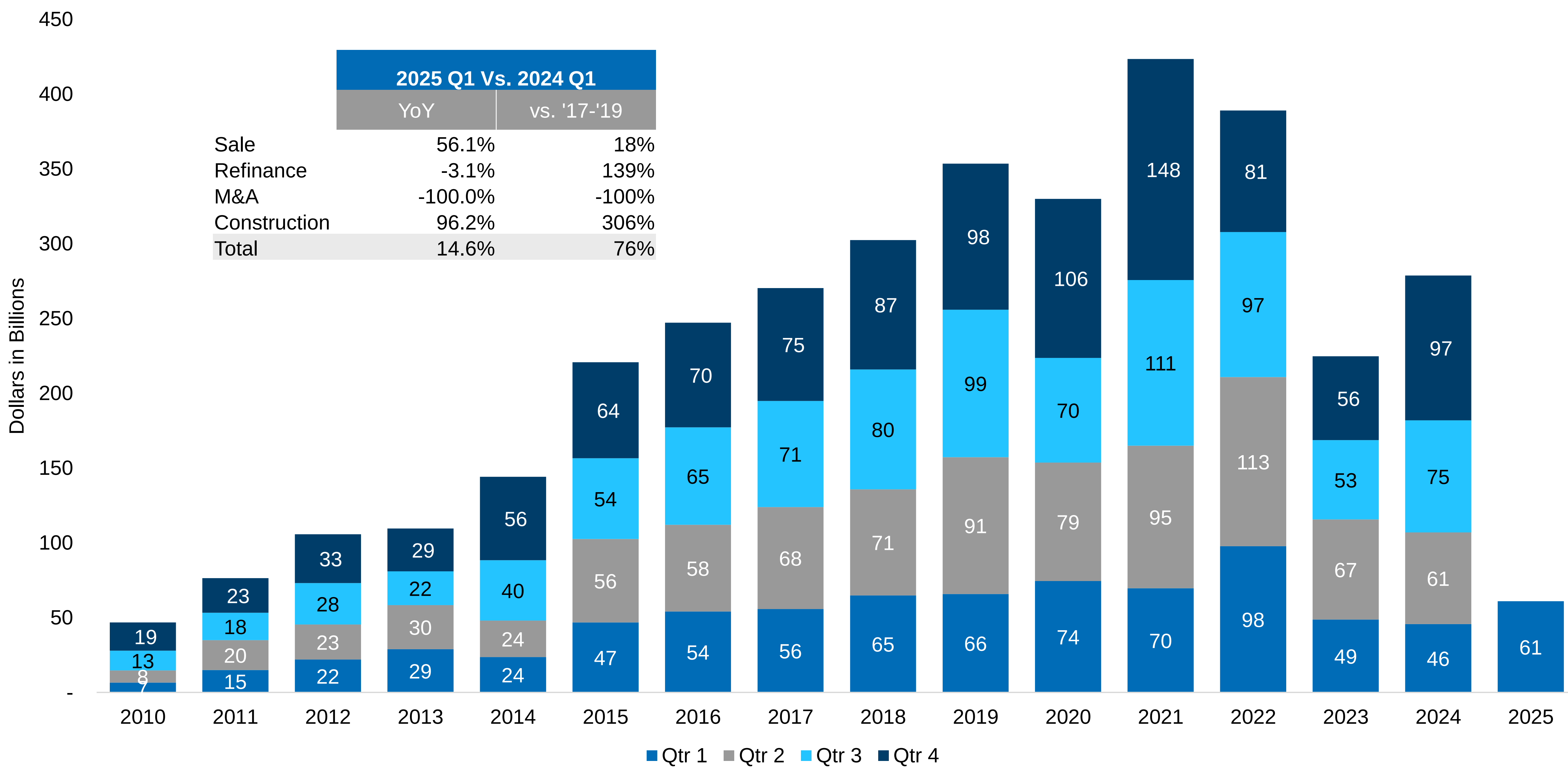
1Q25

Capital Markets

Industrial Sale And Construction Financing Jumped Compared To 24Q1

Industrial debt origination volume increased 14.6% in the first quarter of 2025 compared to 24Q1, with sales and construction financing pushing growth. Sale financing was up 56% vs. 24Q1, while construction financing was up 96%. Refinance was down year-over-year but running well ahead of the average first quarter pre-pandemic.

Industrial Debt Origination Volume



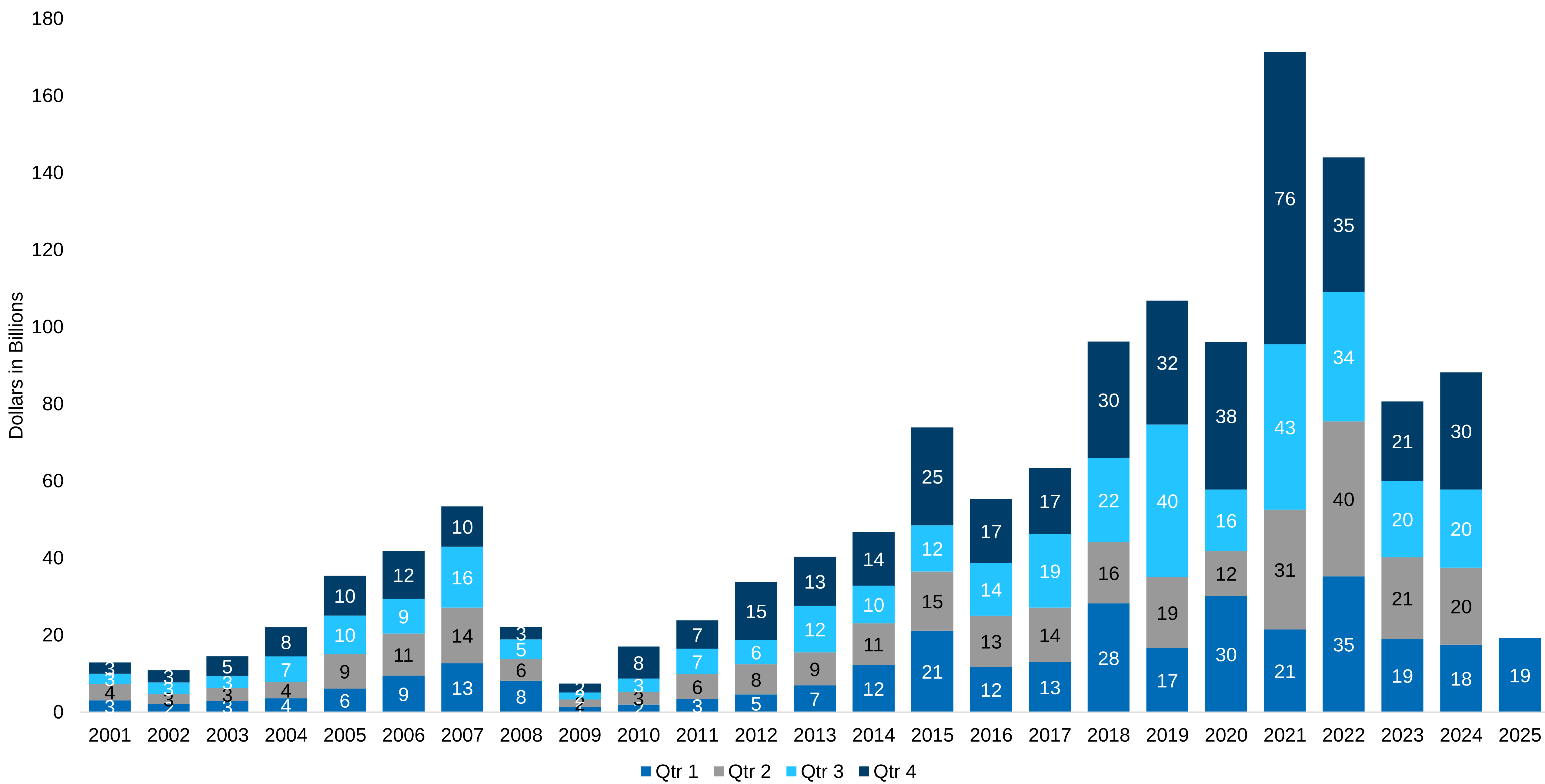
	2025 Q1 Vs. 2024 Q1	
	YoY	vs. '17-'19
Sale	56.1%	18%
Refinance	-3.1%	139%
M&A	-100.0%	-100%
Construction	96.2%	306%
Total	14.6%	76%

Source: RCA, Newmark Research
Note: loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models

First-Quarter Sales Volume Up Nearly 10% Year-over-Year

The first quarter ushered in $19 billion in sales volume, solidly above first-quarter 2024 volumes.

Investment Sales Volume

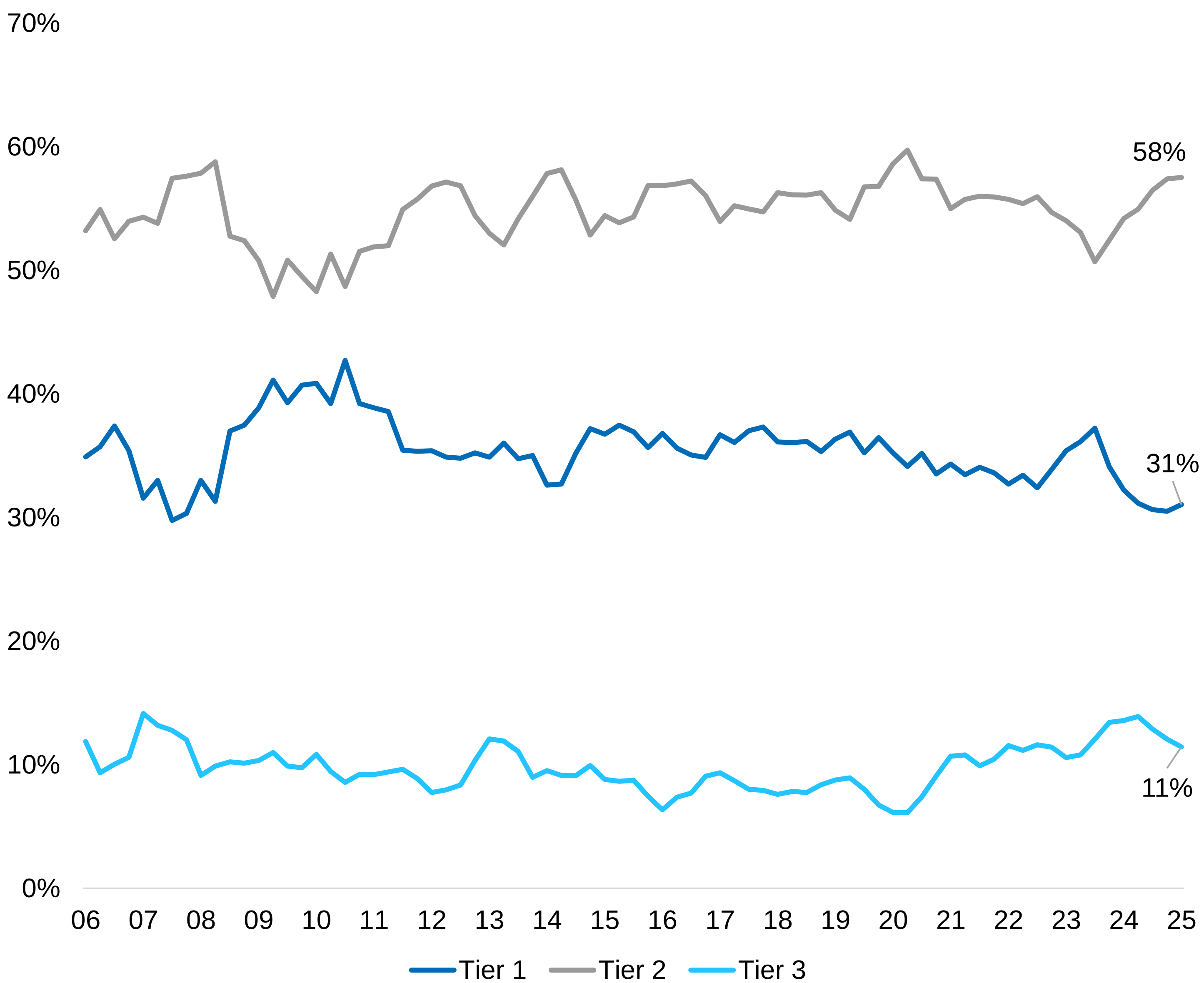


Source: Newmark Research, MSCI Real Capital Analytics.

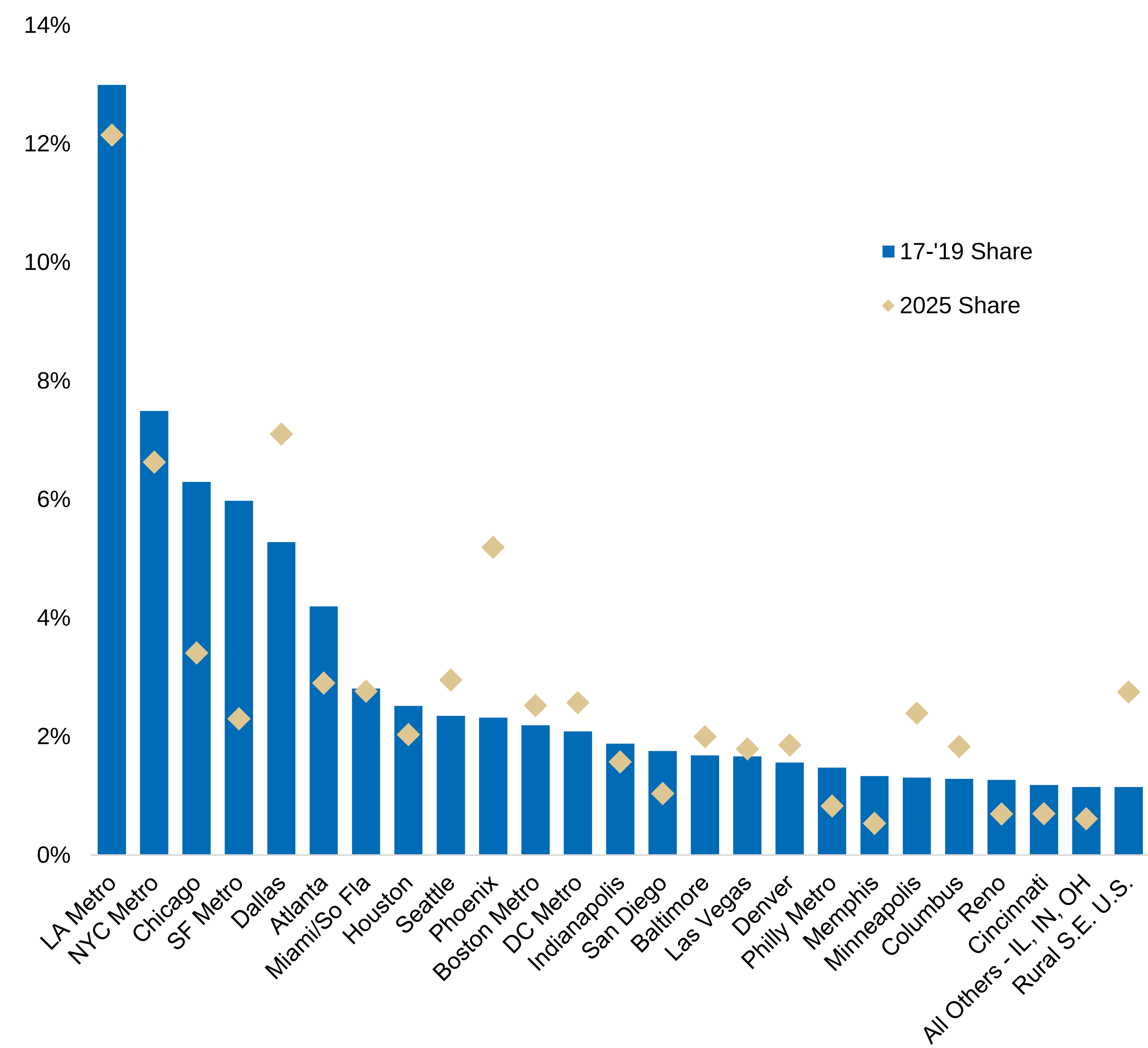
Tier 2 Markets Continue To Win Back Market Share

In the last 5 quarters, investment trends shifted back toward diversification into Tier 2 markets, with Miami, Houston, and Phoenix seeing increased activity, while Tier 1 markets like Los Angeles, New York, and Chicago experienced a pullback. Investment volume has increasingly followed population growth, favoring high-growth Sunbelt markets.

Investment Sales Share By MSA Tier*



Investment Sales Share By MSA – Top 25*

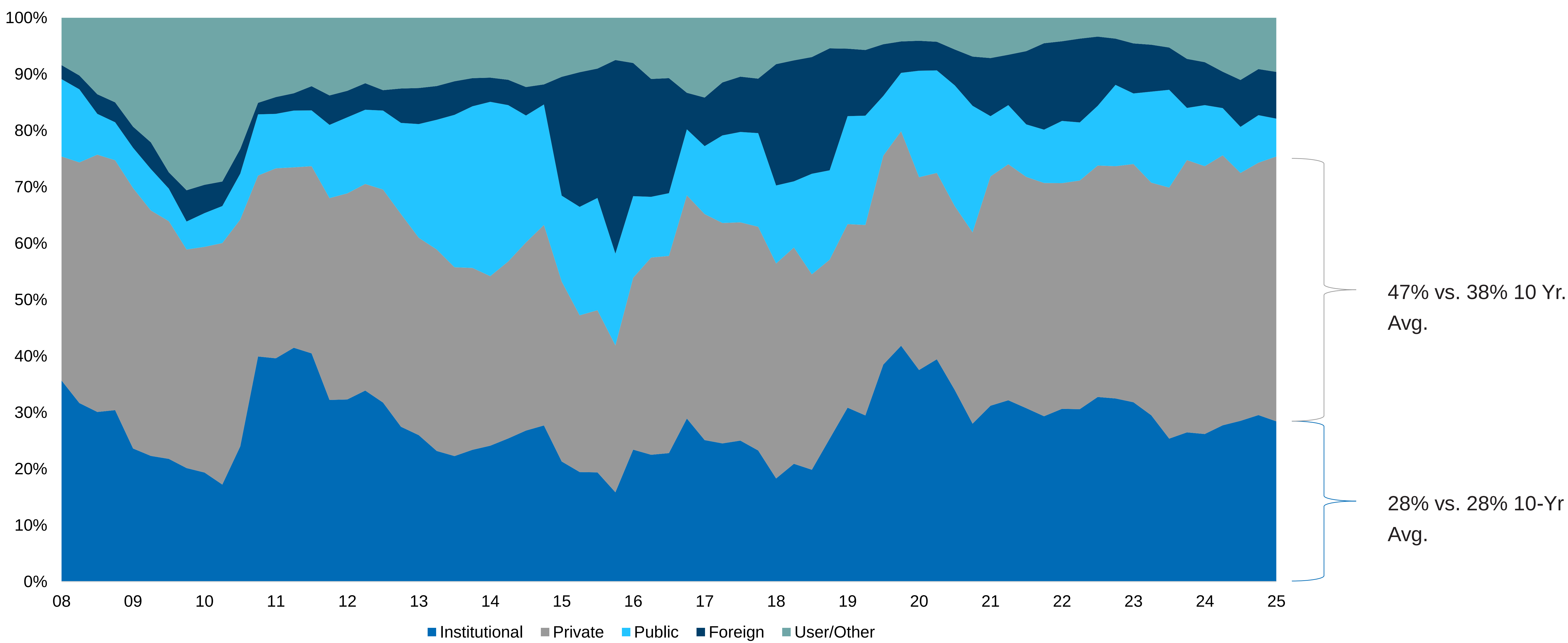


Source: Newmark Research, U.S. Census, MSCI. *Tier 1 metros include: Los Angeles, New York, Chicago, Dallas, and Atlanta, while tier 2 consists of the remaining top 50 markets by transaction volume. Tier 3 encompasses all other markets.

Private Buyers Account for ~Half of All Volume; Users Maintain Above-Average Share

Across the ecosystem of investor profiles, private capital continues to account for nearly half of total acquisitions. Users are seeing more opportunity than the buyer type has seen in years, growing from 3% share in 2022 to 10% share in 1Q25.

Composition of Industrial Buyers

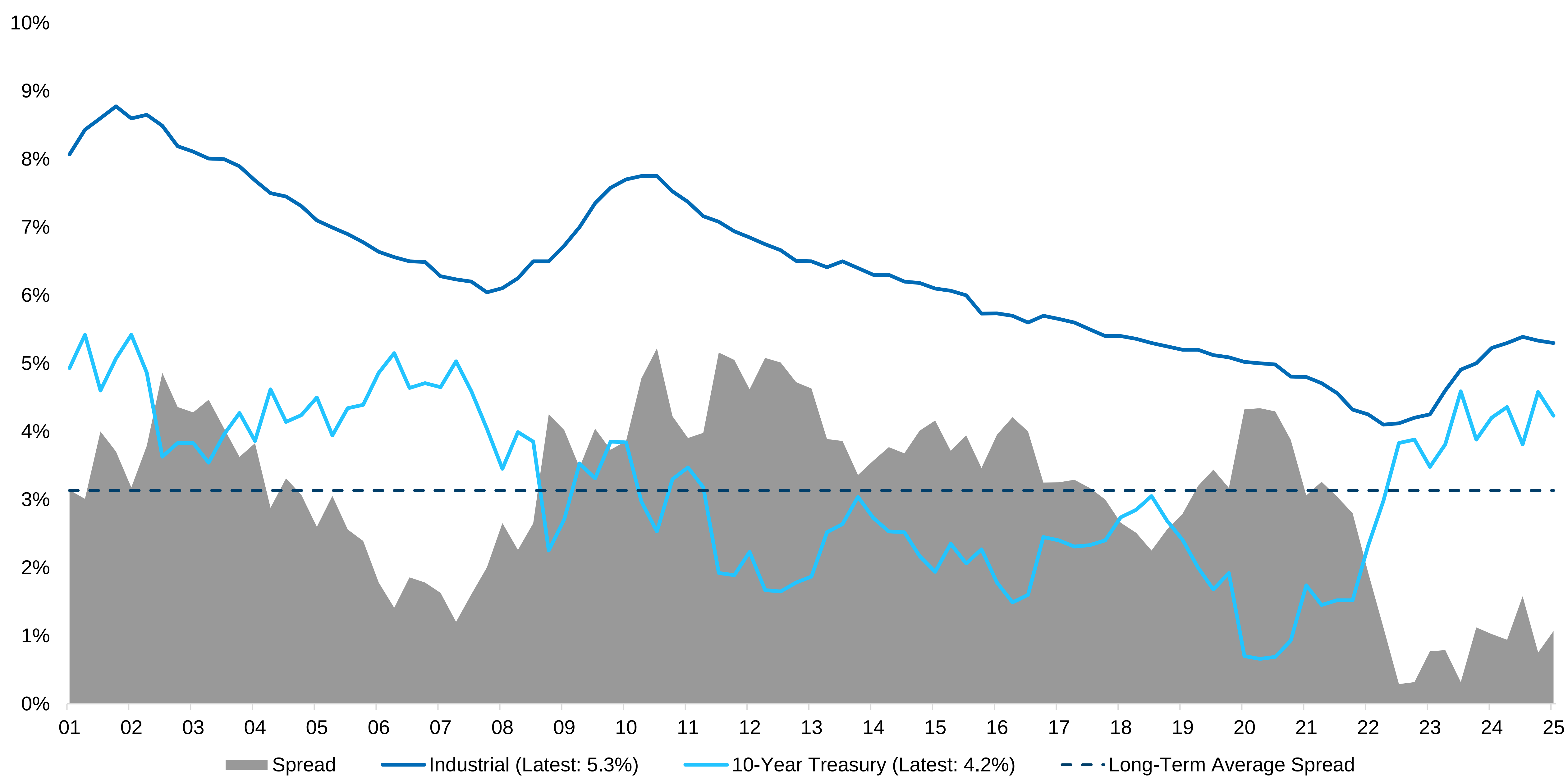


Source: Newmark Research, MSCI Real Capital Analytics, May 2025.

Industrial Cap Rates Stable in 1Q25; Spreads Remain Narrow

Industrial transaction cap rates have fluctuated over the past 12 months in the 5% range, which will likely be the case throughout 2025. Spreads to 10-Year Treasury Yields remain well below long-term averages.

Top Quartile Transaction Cap Rate*



Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's, May 2025. *Quarterly

Access the Extended 1Q25 U.S. Industrial Market: Conditions & Trends Report

The extended version of this report includes:

- **Commentary on Real-Time Occupier and Investor Sentiment:** Insightful analysis on how current trends and market dynamics are affecting both occupiers and investors.
- **Impact of Global Supply Chain Shifts on U.S. Markets:** Identification of U.S. markets that are poised to benefit from changes in global supply chains.
- **Detailed Lease and Rent Analysis:** In-depth examination of lease terms, contract rents, operational expenses (opex), and rent forecasts.
- **Economic Outlooks from Newmark**: A comprehensive review of economic projections across various scenarios.

To access, please reach out to Lisa.DeNight@nmrk.com or your Newmark contact.

Extensive content across 81 slides—a detailed presentation packed with useful industrial information and in-depth analysis.

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