Industrial Market Dynamics

Research

United States

Q1 2025

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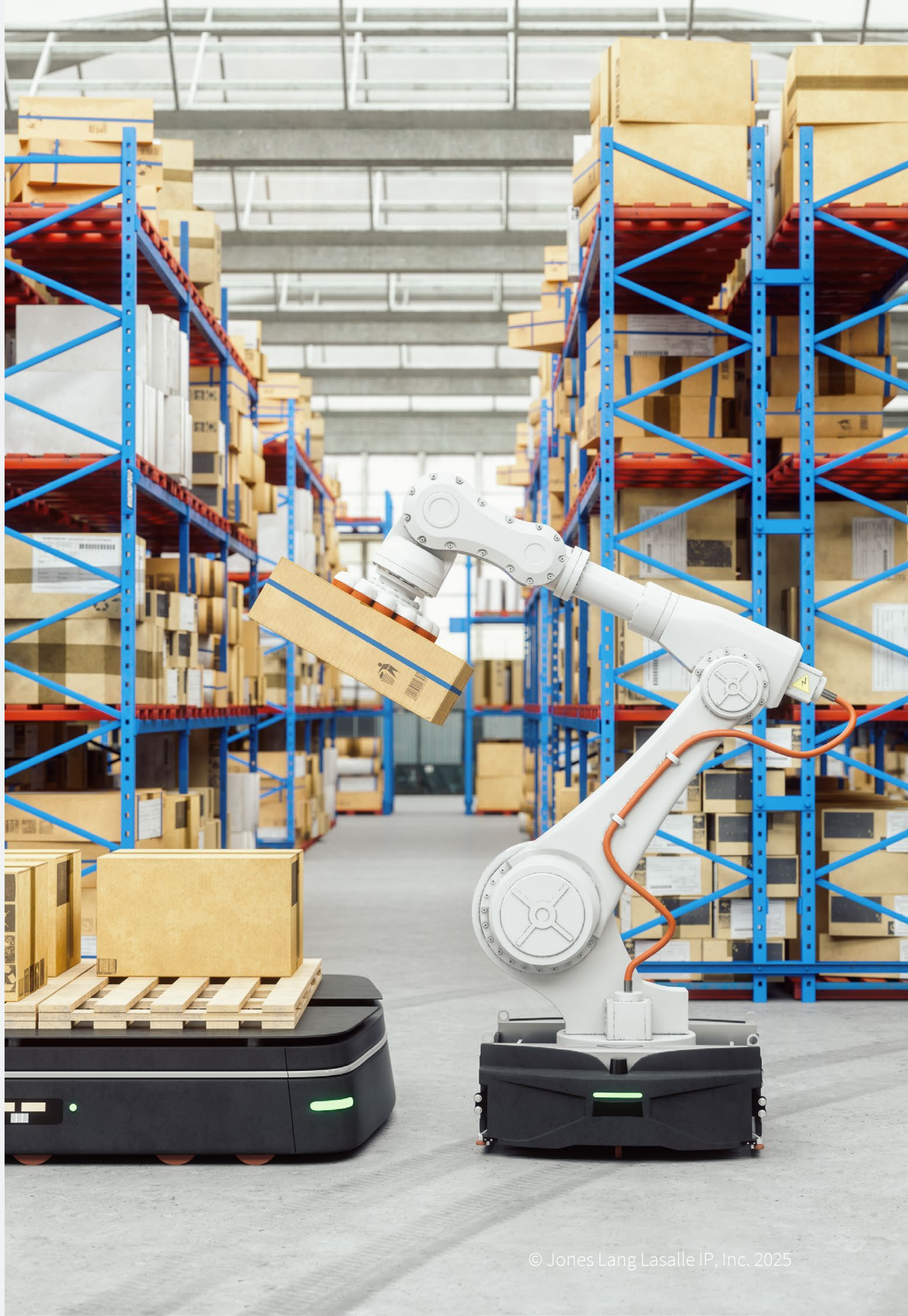
Contents



Key Trends

1

Leasing activity improves 7.5% quarter-over-quarter

- The industrial real estate sector posted its' best quarter since Q2 of last year, with 123.3 million s.f. of leasing activity.
- Leasing activity highlighted a strong preference among occupiers for mid-sized facilities. Leases ranging from 100,000 to 250,000 s.f. emerged as a significant driver of market activity, accounting for 27.3% of total leasing volume.

2

Vacancy likely approaching its' peak while absorption improves

- The vacancy rate climbed to 7.3%, a 20 basis-point increase from the previous quarter, due to ongoing deliveries of unoccupied industrial space.
- With increased leasing activity in Q1, net absorption increased 43.4% year-over-year as 40 million s.f. was absorbed.

3

Industrial deliveries slow as construction pipeline contracts

- New industrial deliveries were unchanged from the previous quarter with 79.6 million s.f. coming online in Q1.
- The development pipeline contracted to its lowest point since 2015, shrinking by 29.9% year-over-year to 253.2 million square feet. Of this total, 86.7% is anticipated to be delivered in 2025.

4

Manufacturing is a long-term game and driver of demand

- The average manufacturing building is over 50 years old and there's an urgent need for modernization. This is evident in the current industrial construction pipeline, where manufacturing buildings now comprise 16%, up 14.2% year-over-year.
- New manufacturing leasing activity increased 17.4% quarter-over-quarter.

By the numbers

16.3 billion
Existing inventory (s.f.)

253.2 million
Under construction (s.f.)

7.3%
Total vacancy

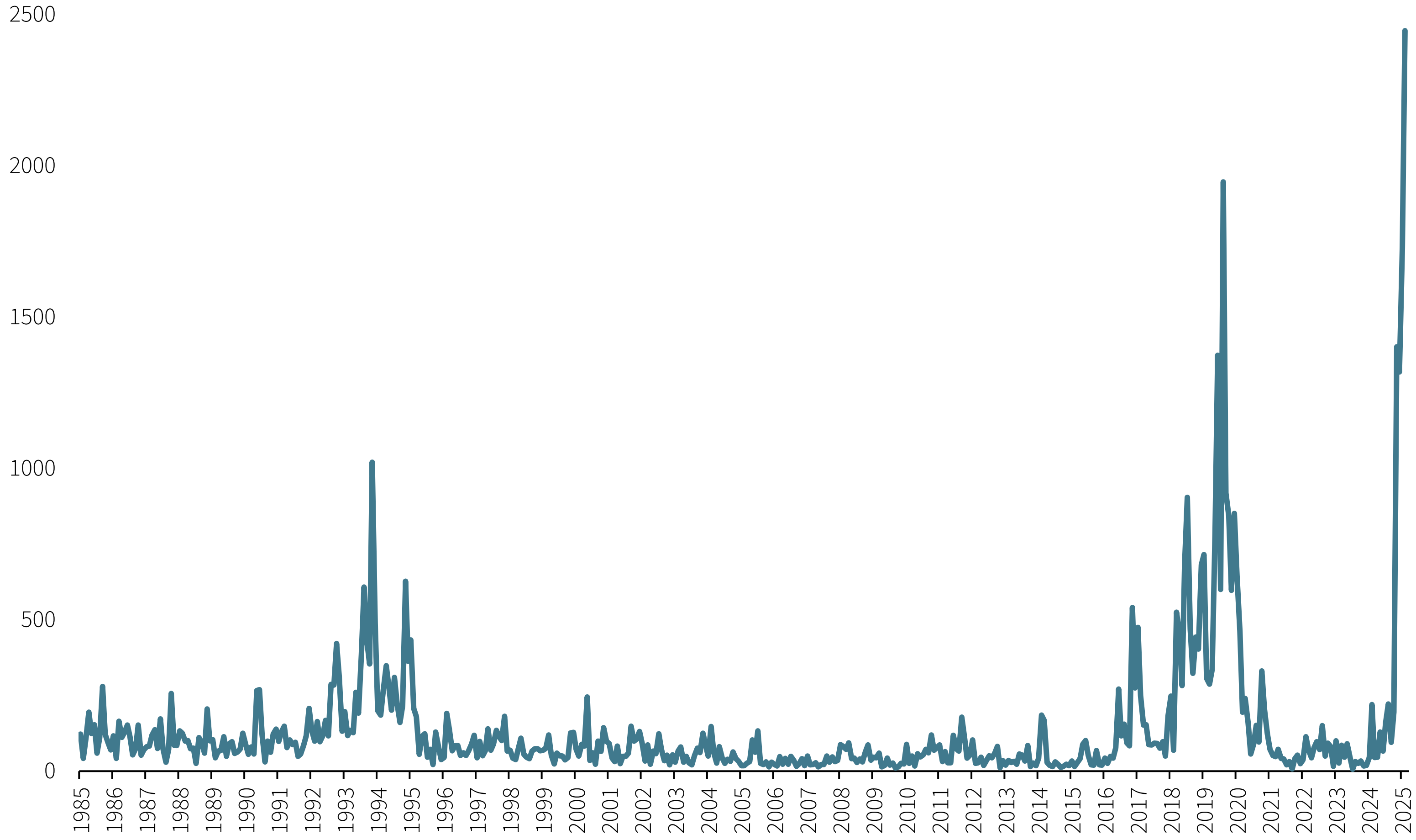
123.3 million
YTD leasing activity (s.f.)

40 million
YTD net absorption (s.f.)

Economy

- Escalating trade tensions and rising prices have led to decreased consumer confidence and a shift in spending habits as people tighten their budgets. The combination of reduced consumer spending and potential slowdowns in production may impact the demand for industrial spaces. Businesses are likely to reassess their operational needs and adjust their real estate strategies to align with the evolving economic landscape.
- Many businesses have adopted a cautious hiring approach with elevated trade uncertainty, leading to slower job creation or even job losses in sectors directly affected by trade tensions. Industries that rely heavily on exports or imported inputs may be particularly vulnerable and many occupiers have halted expansion plans in response to potential tariffs.
- Trade uncertainty doesn't affect all sectors equally, with some industries being particularly vulnerable. Manufacturing, especially sectors reliant on global supply chains or those producing goods subject to tariffs, often feels the impact strongly. Agriculture is often among the first to feel the effects of trade disputes through tariffs or changing export markets. The automotive industry is also at risk due to its complex, international supply chains and high-value exports.

U.S. trade policy uncertainty index

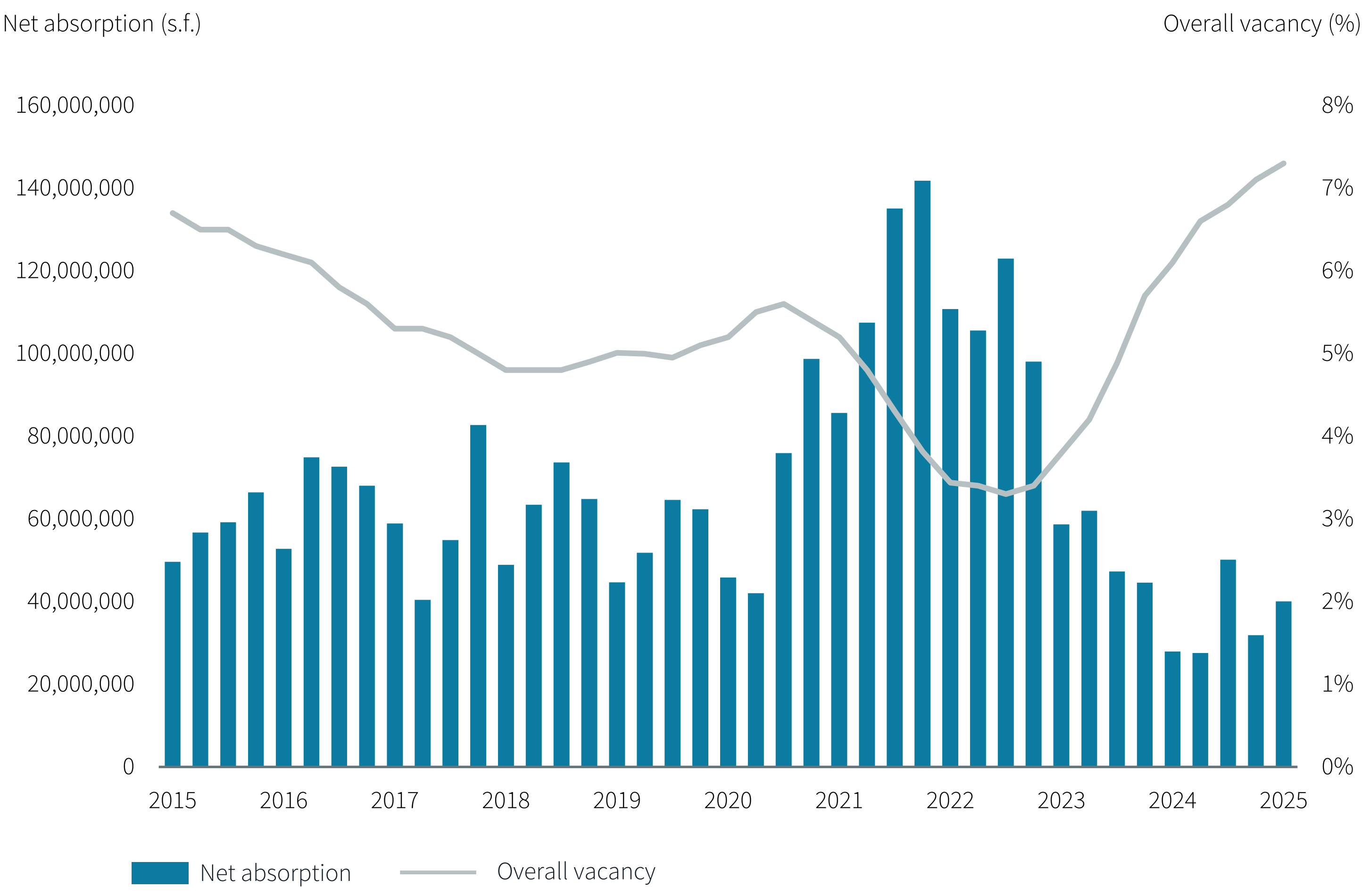


Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

Net absorption and vacancy

- Net absorption improved 43.4% year-over-year with 40 million s.f. of positive absorption in the first quarter. Despite economic headwinds, net absorption numbers were bolstered by several large-scale move-ins of build-to-suit projects in Q1 which accounted for 25% of total net absorption. The automotive sector alone accounted for 4.3 million s.f. of build-to-suit occupancy with Tesla occupying 2.3 million s.f. in the Houston market and Toyota taking occupancy of their battery plant measuring 2 million s.f. and spanning three buildings in the Greensboro/Winston-Salem market.
- The ongoing delivery of vacant buildings continued to exert upward pressure on the vacancy rate, which increased by 20 basis points from the previous quarter. However, this trend is expected to be temporary. In conjunction with a notable slowdown in new groundbreakings, the vacancy rate is projected to decline in the coming quarters as markets gradually absorb the available product.

Historical absorption and vacancy

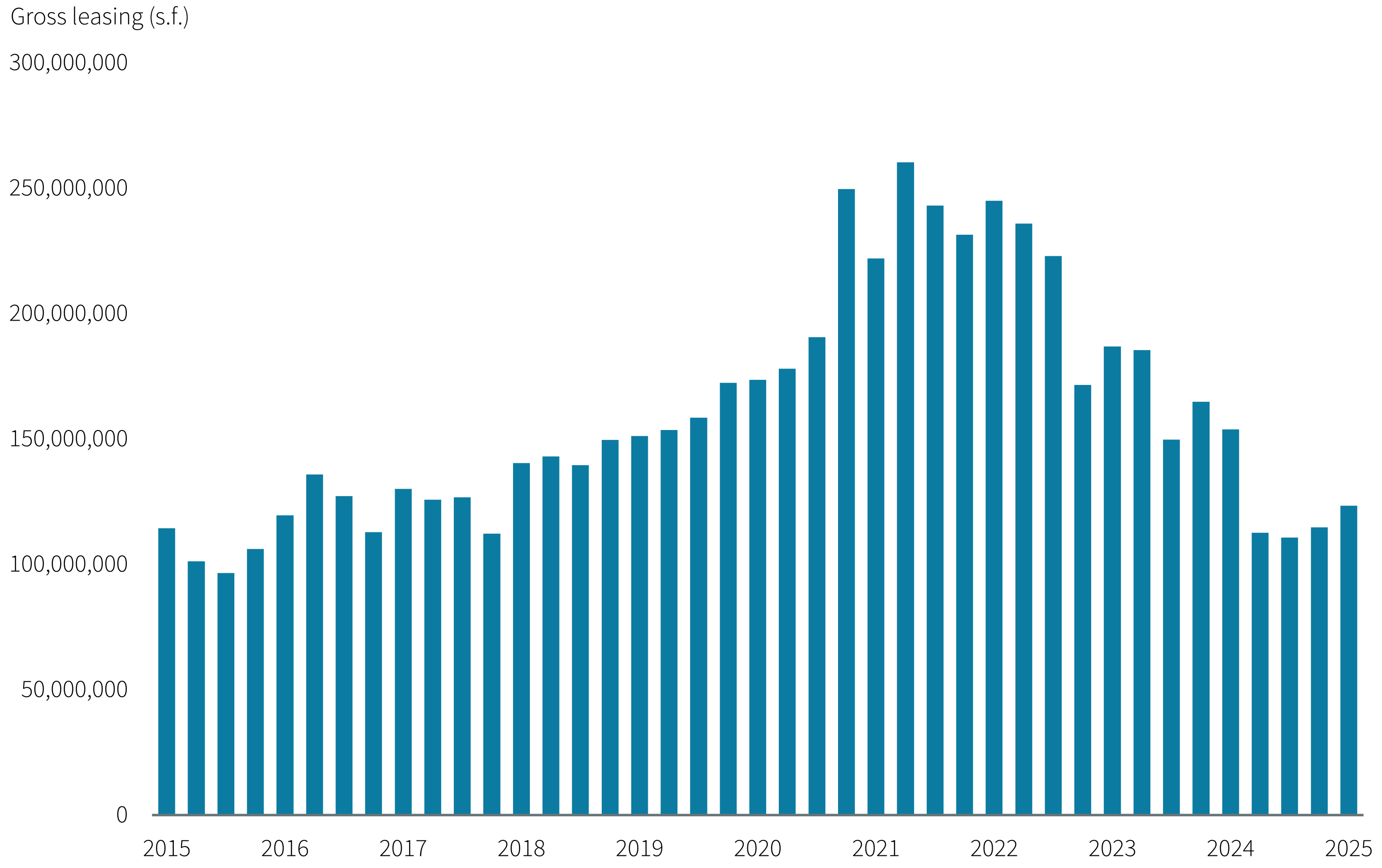


Source: JLL Research, 2025

Industrial Leasing Highlights

- Industrial leasing reached its highest total since Q2 of last year, with 123.3 million s.f. of leasing activity marking a 7.5% increase quarter-over-quarter, although down 37.9% from the previous year.
- The 50,000 to 250,000 s.f. segment dominated Q1 activity, accounting for 43% of total leasing volume. This size range has shown the most consistent demand over the past five years, exhibiting the least volatility and suggesting a steady appetite for versatile mid-sized facilities.
- In contrast, properties exceeding 750,000 s.f. have experienced significant demand fluctuations, reflecting the cyclical nature of large-scale industrial requirements. These spaces saw higher demand during the pandemic when industrial vacancy rates were at historic lows.
- Occupiers demonstrated resilience in Q1, with new leases comprising 68.4% of activity. The preference for quality space was evident, as 62.7% of these new leases were for Class A buildings.

Historical gross leasing activity

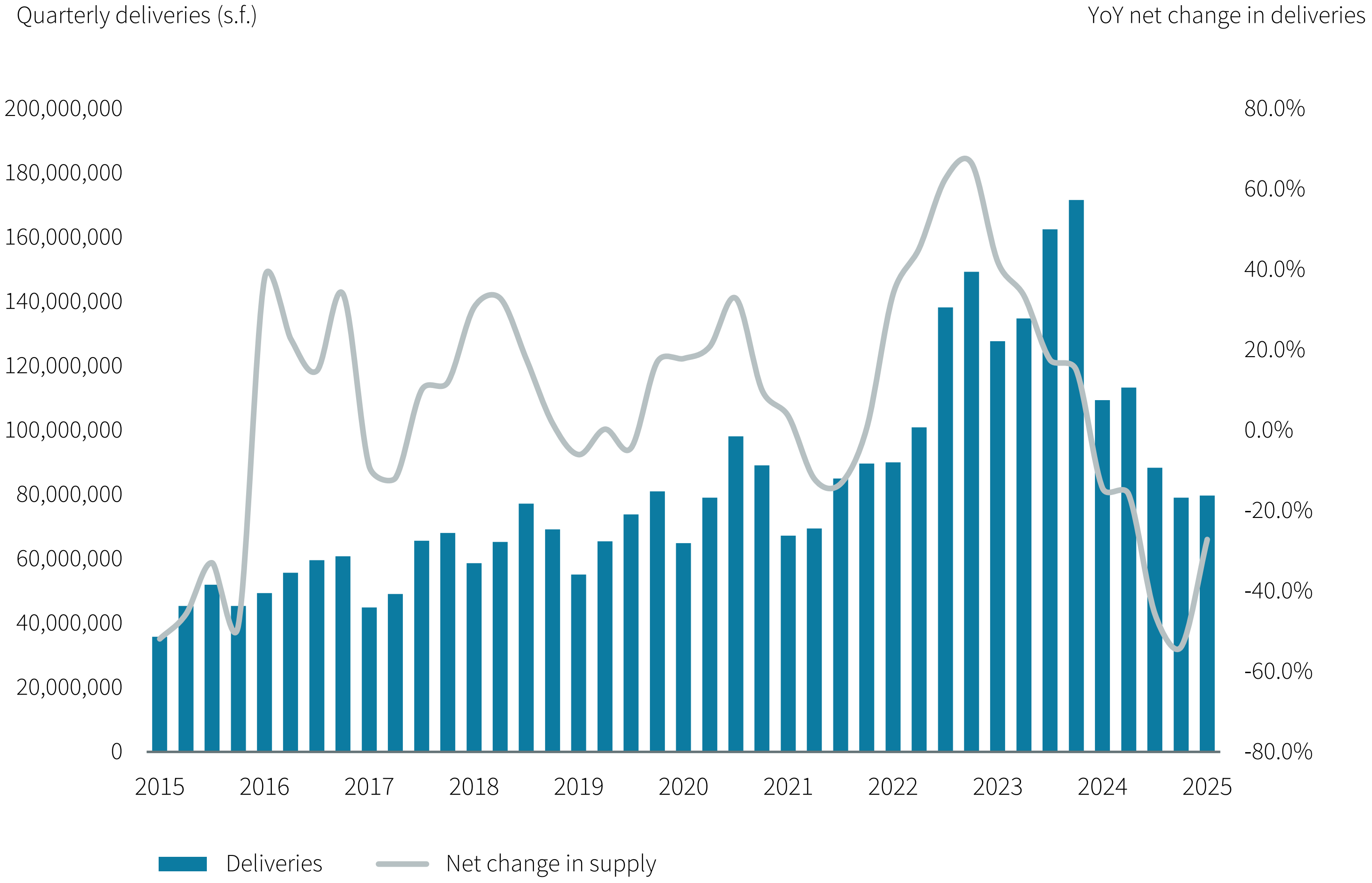


Source: JLL Research, 2025

Development activity

- Since 2015, nearly 4 billion s.f. of new industrial space has been added across the country, roughly 25% of total inventory. Dallas-Fort Worth, Atlanta, the Inland Empire, Eastern & Central PA, and Chicago have seen the most intense development, accounting for nearly 1.1 billion s.f. of that total figure.
- Construction activity has been declining since late 2023 when many properties that broke ground during the pandemic were completed. For the past seven quarters, new construction starts have totaled less than 100 million s.f., which hasn’t been observed since Q3 2020. Moreover, this quarter’s new starts of 44.8 million s.f. was the lowest quarterly figure since 2014.
- The Construction and Building Materials sector faces significant challenges as tariffs reshape industrial development projects. Rising costs of imported materials, particularly steel and aluminum, are forcing developers to reevaluate project budgets and timelines. This ripple effect impacts the pricing of finished products like HVAC systems and electrical components, further straining project finances. However, this situation also presents opportunities for domestic suppliers to fill market gaps, potentially leading to increased investment in local manufacturing capabilities.

Historical deliveries and pipeline

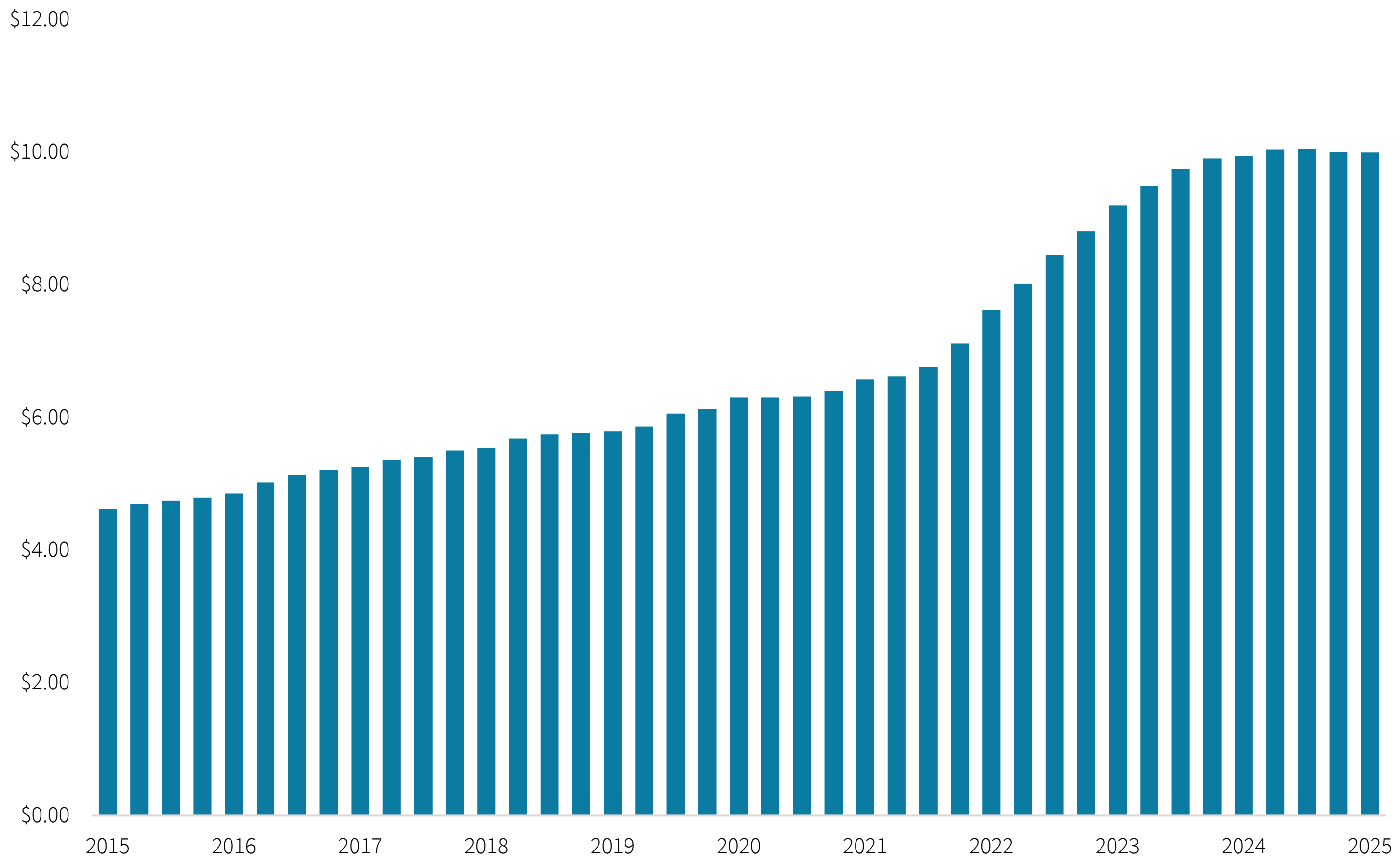


Source: JLL Research, 2025

Rents

- Direct asking rents fell by one cent in Q1 but have increased by 50 basis points (bps) year-over-year. Furthermore, the average direct asking rate was propped up by the increase in rents for manufacturing buildings, as five markets posted quarter-over-quarter increases of over $1.00 for manufacturing buildings.
- Markets and submarkets with high vacancy rates are seeing increased landlord concessions, including discounted rents, as owners prioritize securing long-term tenants. With ongoing trade uncertainty, landlords might be amendable to more attractive lease terms, such as rent abatements, and increased tenant improvement allowances.
- Industrial lease renewals have largely maintained their momentum, playing a pivotal role in sustaining elevated rental rates across the sector. The robust renewal activity is not only preserving high rental levels but often pushing them even higher, as businesses prioritize operational continuity over relocation risks.

Historical direct asking rents

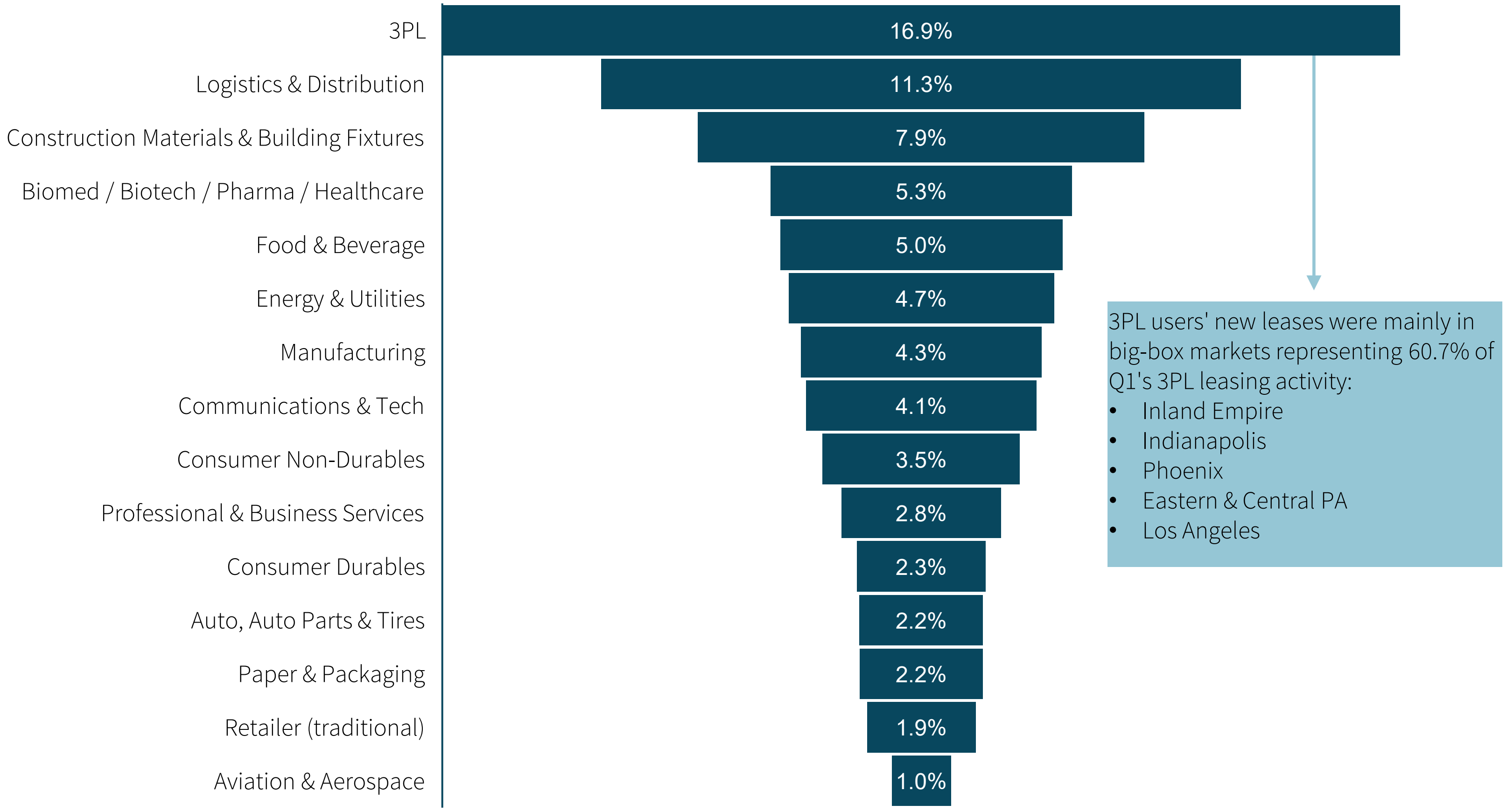


Source: JLL Research, 2025

3PL's topped Q1 leasing with healthy mix of core industries

- There has been a notable surge in leasing activity stemming from Asian 3PL's. This uptick is largely fueled by the rush to stockpile inventory in anticipation of potential tariffs as well as a growing trend towards regionalization. Asian 3PL's are strategically expanding their presence to position themselves closer to end customers, adapting to the evolving global trade landscape. Furthermore, the Inland Empire saw a noticeable proliferation of Asian 3PL's leasing space in the 200,000 s.f. range.
- E-commerce sales are predicted to grow to $1.6 trillion by 2030, accounting for 20% of all retail sales. 3PL's will support the transition from just-in-case to just-in-time inventories by being closer to the end user and leveraging advanced technologies for better demand forecasting and real-time visibility. Overall preleasing rates for industrial products under construction showed a modest improvement this quarter, with 39.6% of space already leased. Notably, preleasing rates for mega-box sites in Q3 reached 82%, indicating strong interest in this particular size segment.

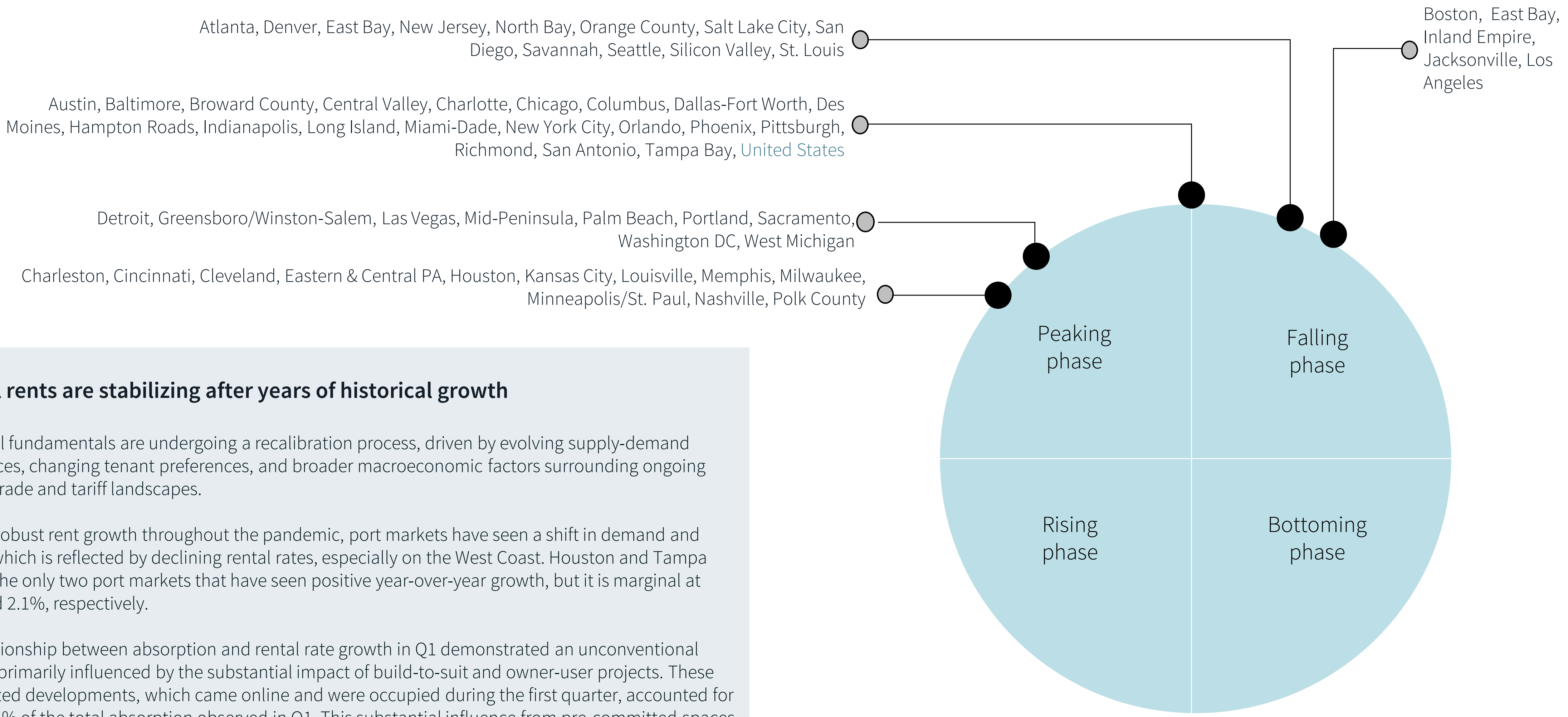
New leasing, by industry, as a % of total new leasing volume



Source: JLL Research, 2025

Property Clock

Q1 2025 U.S. Industrial clock



Source: JLL Research, 2025

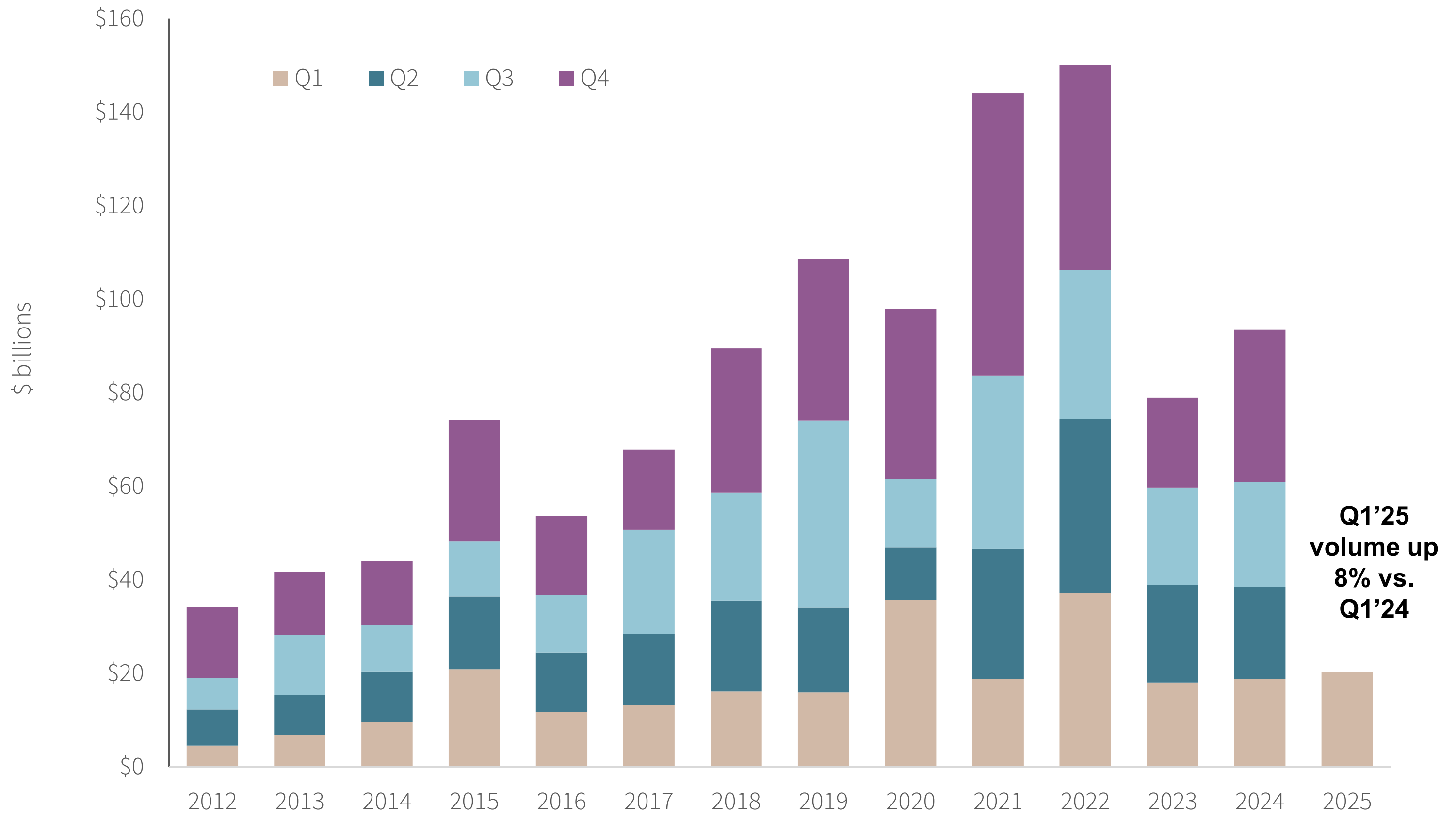
Industrial rents are stabilizing after years of historical growth

- Industrial fundamentals are undergoing a recalibration process, driven by evolving supply-demand imbalances, changing tenant preferences, and broader macroeconomic factors surrounding ongoing shifting trade and tariff landscapes.
- Despite robust rent growth throughout the pandemic, port markets have seen a shift in demand and activity which is reflected by declining rental rates, especially on the West Coast. Houston and Tampa Bay are the only two port markets that have seen positive year-over-year growth, but it is marginal at 3.5% and 2.1%, respectively.
- The relationship between absorption and rental rate growth in Q1 demonstrated an unconventional pattern, primarily influenced by the substantial impact of build-to-suit and owner-user projects. These customized developments, which came online and were occupied during the first quarter, accounted for nearly 25% of the total absorption observed in Q1. This substantial influence from pre-committed spaces drove heightened net absorption in some markets without influencing prevailing market rates.

Capital markets

- Capital markets show gradual improvement, tempered by the Fed's restrictive stance, volatile 10-year UST, and growing uncertainty around presidential policies, particularly tariffs. Preliminary Q1 2025 U.S. industrial transaction volumes reached $20.3 billion, an 8% year-over-year increase.
- Prime core industrial assets command 4.8% to 5.5% going-in cap rates; multi-tenant properties in high-growth markets enjoy robust liquidity; long-WALT single-tenant deals face challenges. Potential shifts toward slower-growth or recessionary underwriting may reintroduce price volatility.
- The theme of excess debt capital relative to borrower demand continued to characterize the market. CMBS and SASB rose 110% in Q1 2025 with multiple transactions above $1 billion, particularly in the industrial and office sectors. JLL data indicated a 31% increase in lenders active in the industrial loan market, rising from the Q4 2023 trough to 200 lenders quoting on industrial loans in Q1 2025.

Historical industrial & logistics transaction volumes



Source: JLL Research, 2025

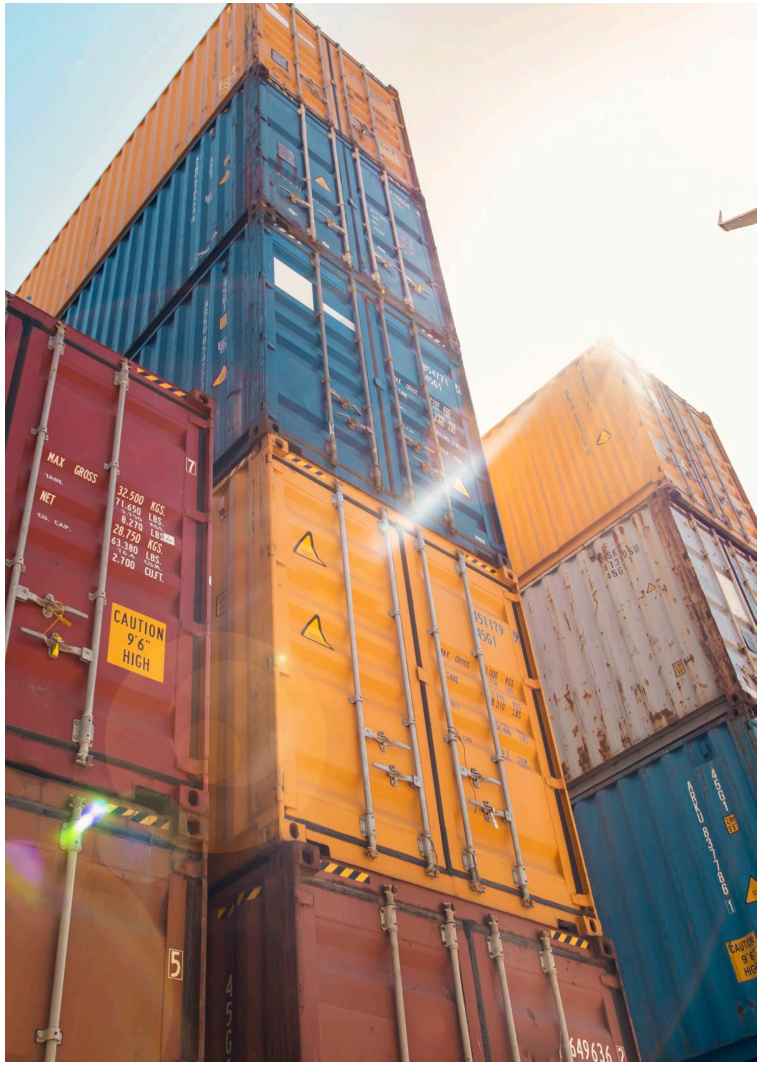
Outlook

- Trade-restrictive measures (tariffs and retaliatory measures) stand to disrupt supply chains by reducing trade volumes, incentivizing trade diversion and geographic diversification. Production supply chains generally take extended periods to adjust. For instance, it generally can take three to five years to bring a new manufacturing facility online. This prolonged adjustment period creates uncertainty in the industrial real estate market, as companies reassess their facility needs and locations. As a result, we may see increased demand for flexible industrial spaces and short-term leases in strategic locations, allowing businesses to adapt more quickly to changing trade dynamics

- While the industrial leasing landscape will continue to be led by core industries including Logistics & Distribution, 3PL's, Construction Materials & Building Fixtures, and Manufacturing, new industrial using tenants have been emerging in recent quarters and these will continue to evolve with varying advances across the sector. For example, some new tenant types that have grown of late include Clean Energy, Data Center Vendors that facilitate hardware salvage and specialized cleaning services

- Strategic market positioning will remain crucial for industrial occupiers in the short term, with locations offering affordability, proximity to consumers, and access to skilled labor becoming increasingly attractive. Long-term demand will be sustained by e-commerce growth and urbanization, while the rising costs of 3PL services could potentially prompt companies to internalize their logistics operations.

- The rapid integration of artificial intelligence into industrial operations is fundamentally transforming the industrial real estate sector. AI-driven technologies are revolutionizing warehouse management, inventory control, and logistics, creating demand for "smart" industrial spaces.



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Research authors

Elizabeth Holder
Senior Research Analyst
U.S. Industrial Research
elizabeth.holder@jll.com

Mehtab Randhawa
Global Head of Industrial Research
U.S. Industrial Research
mehtab.randhawa@jll.com

Kelsey Nastasi
Senior Research Manager
U.S. Industrial Research
kelsey.nastasi@jll.com

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