Yardi Matrix

National Industrial Report

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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 Yardi Matrix. 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.