



Yardi Matrix

# National Industrial Report

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# The Changing Face of Manufacturing

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- Changes to the tax law this year will have a substantial impact on manufacturers, with far-reaching consequences for the industrial sector.
- The long-term impact of shifting tax and tariff policies on investment and supply-chain strategies remains uncertain, but The One Big Beautiful Bill Act (OBBBA), passed into law over the summer, is likely to have significant long-term effects on the U.S. manufacturing sector, influencing both the scale and nature of goods produced domestically. The OBBBA includes provisions to encourage the stateside production of goods, such as the restoration of 100% bonus depreciation for equipment and facilities placed in service after January 19, 2025. The restoration of the expensing of domestic research costs will also free up capital for R&D and could spur innovation in domestic production of goods. These changes should provide benefits to manufacturers fairly soon, while other parts of the new tax code may help spur long-term investments, like incentives for reshoring and enhanced interest deductibility.
- Yet the OBBBA also sunset tax credits for both producers and consumers of electric vehicles much earlier than expected, as well as limiting incentives to other parts of the green energy sector. While the full impact of recent policy changes remains uncertain, a significant portion of recent manufacturing investment focused on EVs and battery production. Now, with reduced tax incentives and slowing EV sales growth, many manufacturers are reassessing their strategies. Although solar panel production is a smaller segment, that emerging industry now faces an uncertain future. Construction spending on manufacturing has slipped from record highs in recent months, but remains nearly three times higher than it was in 2022.
- While tax policy will play a considerable role in manufacturing's future, the other factors that have driven the recent manufacturing boom remain. The supply-chain bottlenecks and backlogs that plagued the early part of this decade persist in the minds of manufacturers and logistics providers, and that continues to impact decision making. We expect supply chains to continue to become more localized in coming years, as companies balance risk mitigation against cost effectiveness when locating a manufacturing plant. When a manufacturer establishes a large facility in a region, it often triggers a ripple effect, attracting other businesses to the area. Supplier networks and downstream companies are likely to follow, aiming to streamline supply chains and minimize transportation costs.

