



cresa

Occupier Outlook | Industrial

United States Overview:

The Economy and Its Impact on Commercial Real Estate

Cresa Research | Q4, 2025

COMMERCIAL REAL ESTATE MARKET AT CROSSROADS: ENCOURAGING ECONOMIC GROWTH FUELS CAUTIOUS OPTIMISM

OCCUPIER OUTLOOK

Executive Summary

Macro Economic View

- The Fed pauses rate cuts, after three consecutive cuts to close 2025, balancing weak employment gains and an expanding economy.
- The labor market has devolved into a low-hire, low-fire environment, as unemployment claims remain contained while the hiring rate is at a decade low.
- Despite heavy investment, the manufacturing sector is under significant pressure and has shed 85,000 jobs over the past year.
- Rising tariffs and other restrictive policies are making mid- to long-term demand for consumer goods uncertain, particularly non-durable goods, and may slow decision-making for companies.

Office Market

- Net absorption for Class A office space was positive for 2025, the first time there have been gains since 2019.
- Office demand remains complex and highly variable across markets, with only about half of the nation's top 50 markets seeing positive demand in 2025.
- Overall office occupancy improves in the margins as workers come to the office more frequently, but hybrid work scenarios remain prevalent.

Industrial Market

- Leasing levels have remained steady for the past three years, returning to historical averages after a sharp increase in 2022 and 2023.
- Large distribution spaces (over 250,000 square feet) expand vacancy as smaller bay spaces (under 50,000 square feet) surge in demand.
- Extended, elevated vacancy and availability have shifted leverage to the tenant.
- Industrial sales volume picks up steam as investors look to cash in on substantial lease rate increases over the past five years.

Economic Overview



U.S. Economy Shows Resilience Amid Slowing Growth and Elevated Interest Rates

The U.S. economy continues to grow overall, with solid consumer demand and business investment supporting GDP expansion. However, employment growth has slowed significantly, with private hiring weaker than expected and modest job gains, despite a relatively low unemployment rate. Inflation has eased from prior highs but still sits above the Fed's 2 percent target, prompting policy makers to remain cautious about further interest rate cuts. Persistent policy uncertainty, labor-market cooling, and lingering affordability pressures on households add mixed signals to an otherwise resilient economic landscape.

Inflation has slowed from its cycle peak in 2022 but remains above the Fed's target. During the Fed's January meeting, the federal funds rate was unchanged, marking a pause after three consecutive rate cuts in late 2025.

The commercial real estate sector is becoming increasingly divided. Industrial and logistics properties remain relatively strong due to ongoing demand from e-commerce, reshoring and supply chain requirements, although some markets are beginning to experience oversupply. On the other hand, the office market, while showing signs of improvement, is still grappling with high vacancy rates and changes in corporate workplace strategies.

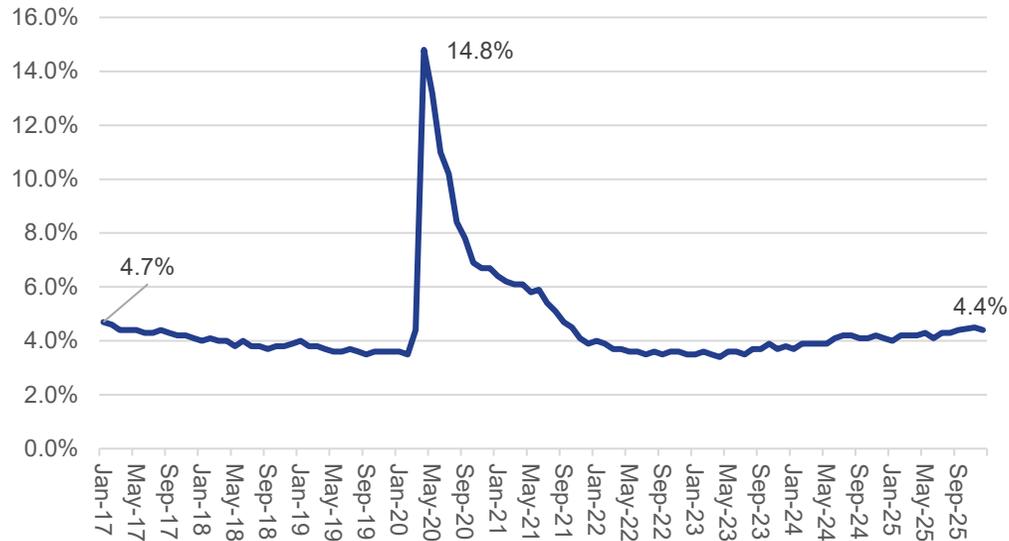
Investment volumes are on the rise, and institutional capital is demonstrating renewed interest. There is a noticeable trend towards higher-quality investments, with investors favoring core assets in gateway markets that provide stable income streams. Properties with long lease terms, strong tenant credit, or unique value propositions are attracting more attention from investors.

Unemployment

Unemployment Steadies After Drifting Higher

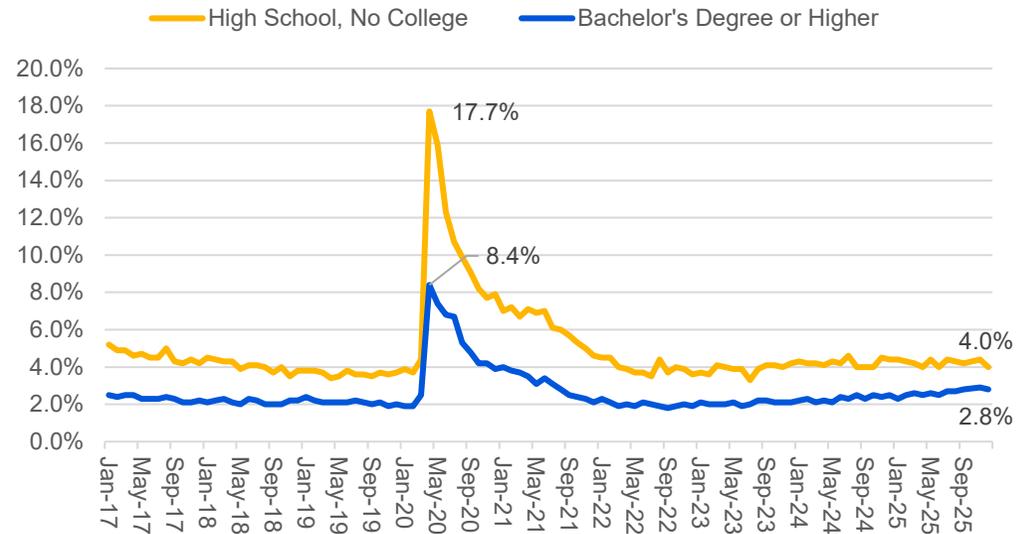
The Bureau of Labor Statistics (BLS) reported a slight decrease in the U.S. unemployment rate to 4.4 percent in December 2025. The overall labor market shows signs of slowing and low hiring and limited turnover, indicating a “low-hire, low-fire” environment. The labor market is shifting from resilient growth to a late-cycle slowdown.

Total Unemployment: (United States)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>; Seasonally adjusted

High School Only vs. Bachelor's Degree or Higher



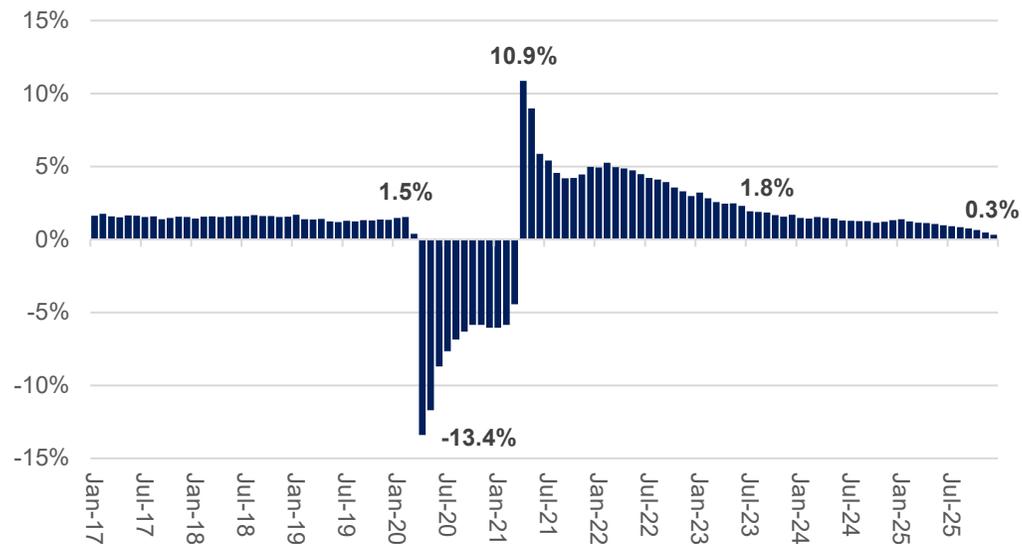
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>; Seasonally adjusted

Employment

Job Creation Falls Below Pre-Pandemic Levels

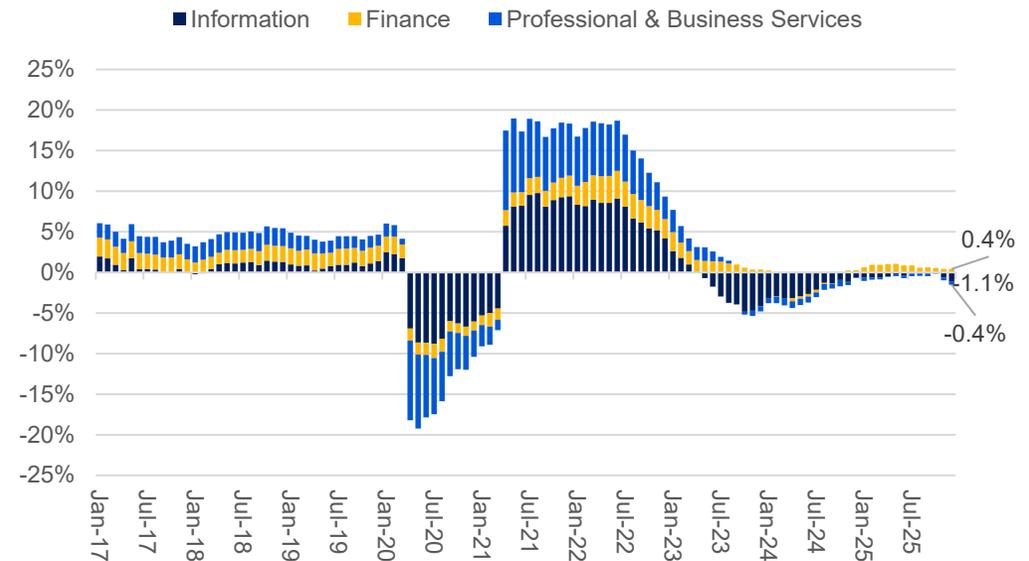
The December jobs report showed weak growth, with non-farm payrolls increasing by only 50,000 jobs, missing expectations. Key trends include slow hiring and a significant decline in federal employment to its lowest level since 2014. Knowledge worker jobs slowed to their levels since the pandemic recovery.

All Job Sectors (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Not seasonally adjusted

Office-Occupying Jobs (12-Month Change)



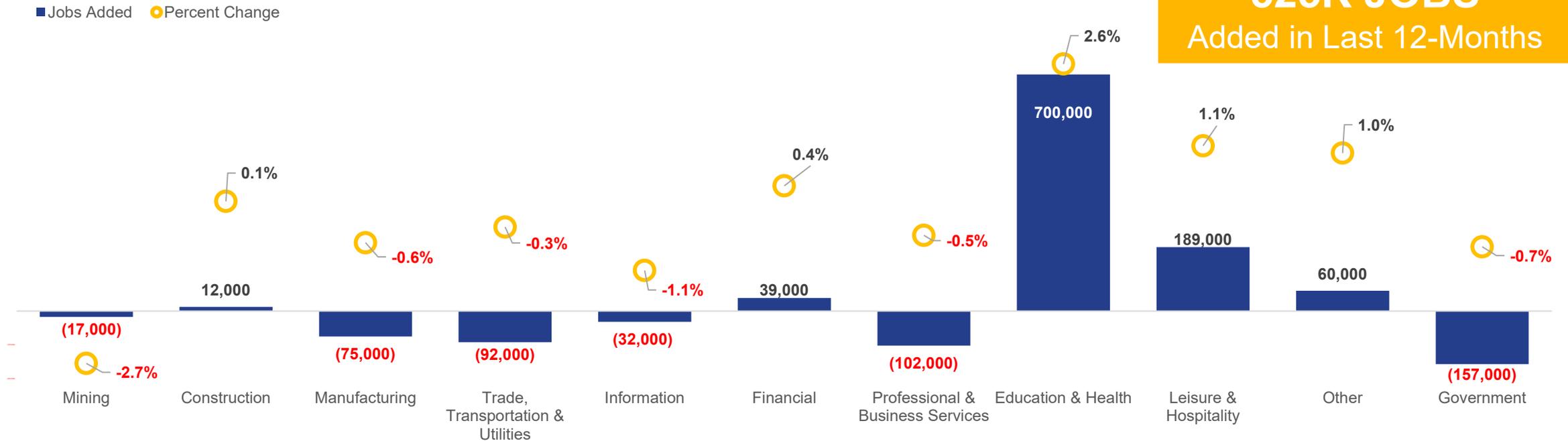
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Not seasonally adjusted

Employment

Education and Healthcare Sectors Lead the Way

A total of 50,000 jobs in December, with employment in food services and healthcare trending higher. Retail trade shed 25,000 jobs in December, driven by a reduction in warehouse clubs and supercenters. Over the past year, professional and business services, manufacturing, and government sectors reduced total employment.

Job Creation by Sector (12-Month Change)

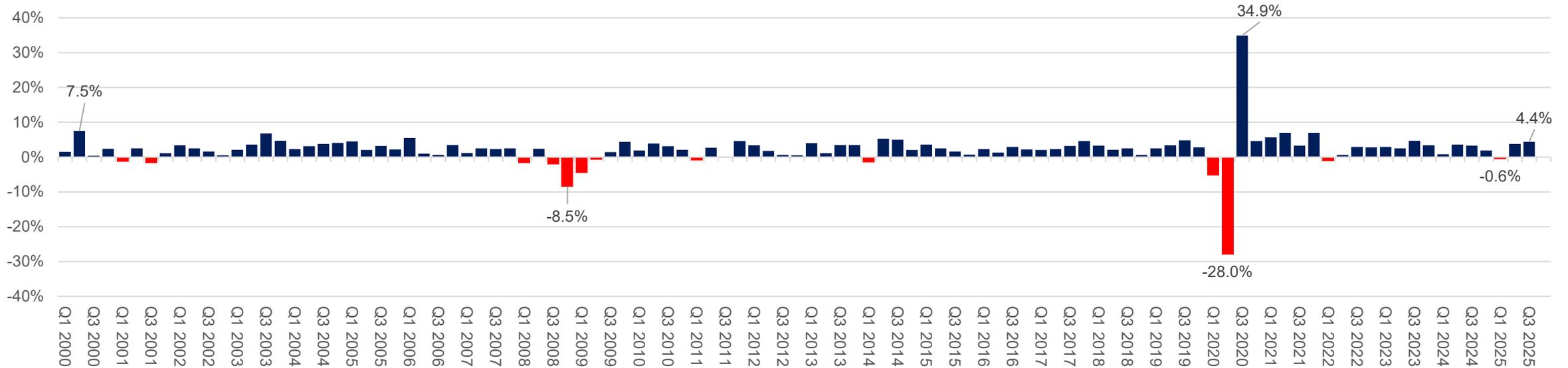


GDP

Real GDP Increases For Second Straight Quarter

The GDP increased at an annualized rate of 4.4 percent in the third quarter. Growth was driven by strong consumer spending, exports, government spending, and investment. Private services-producing industries grew by 5.3 percent and good-producing industries grew by 3.6 percent. The growth in the third quarter is the largest quarterly jump since the third quarter of 2021.

Real GDP Percent Change from Preceding Quarter: Q4 2025



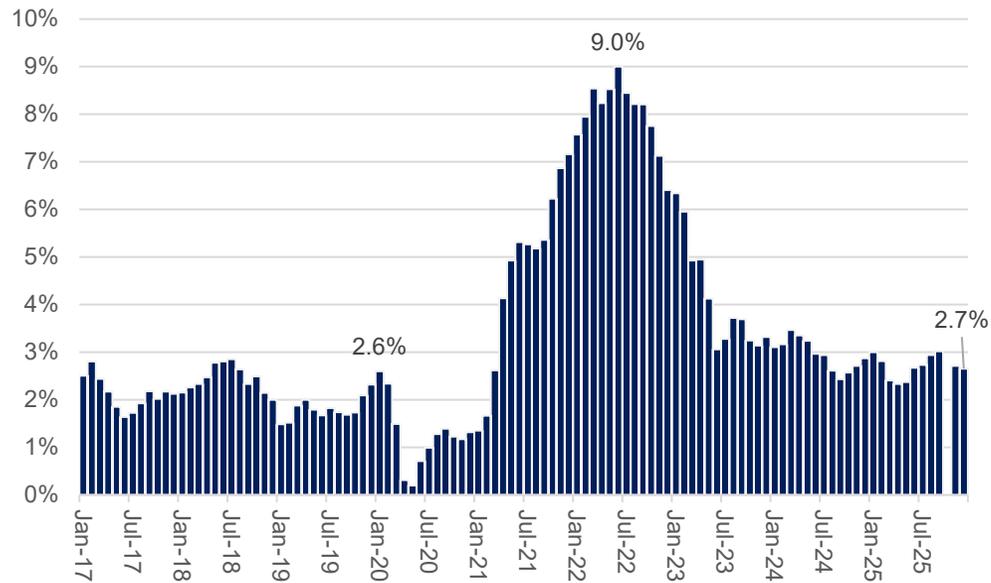
Source [Real Gross Domestic Product \(A191RL1Q225SBEA\) | FRED | St. Louis Fed \(stlouisfed.org\)](https://fred.stlouisfed.org/series/A191RL1Q225SBEA)
 Note April 15, 2024. Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/A191RL1Q225SBEA>, January 25, 2026.

Inflation

Inflation Moderates But Food and Shelter Increases Hit Consumers

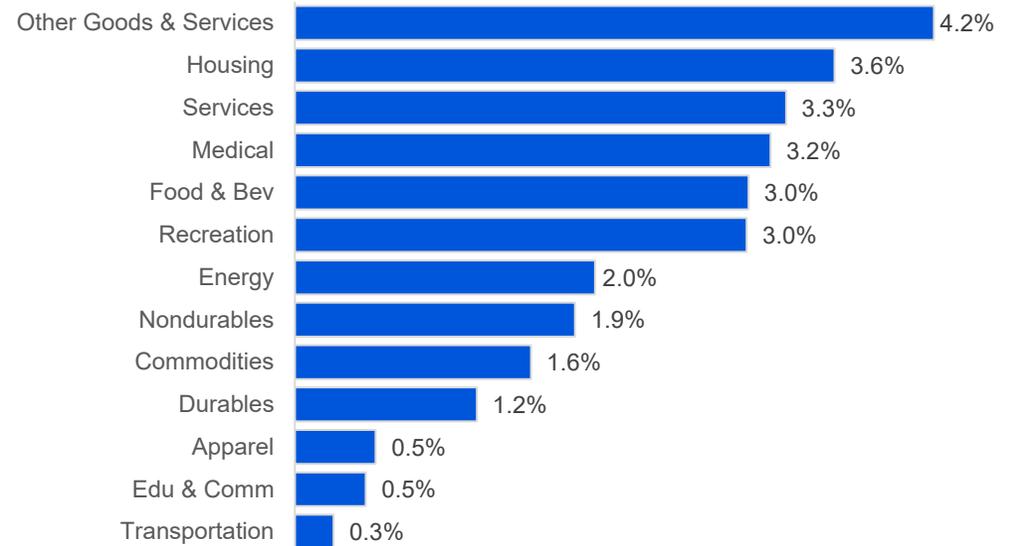
The December release from the Bureau of Labor Statistics reported that CPI rose 0.3 percent, with a 2.7 percent increase over the last 12-months. This indicates a continued moderating inflationary trend. Housing and food prices jumped the highest, with food prices increasing 3.1 percent over the past year.

Consumer Price Index (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>
 Note: Seasonally adjusted, Data pulled January 2026. Data not reported in September 2025

Consumer Price Index by Sector (12-Month Change)



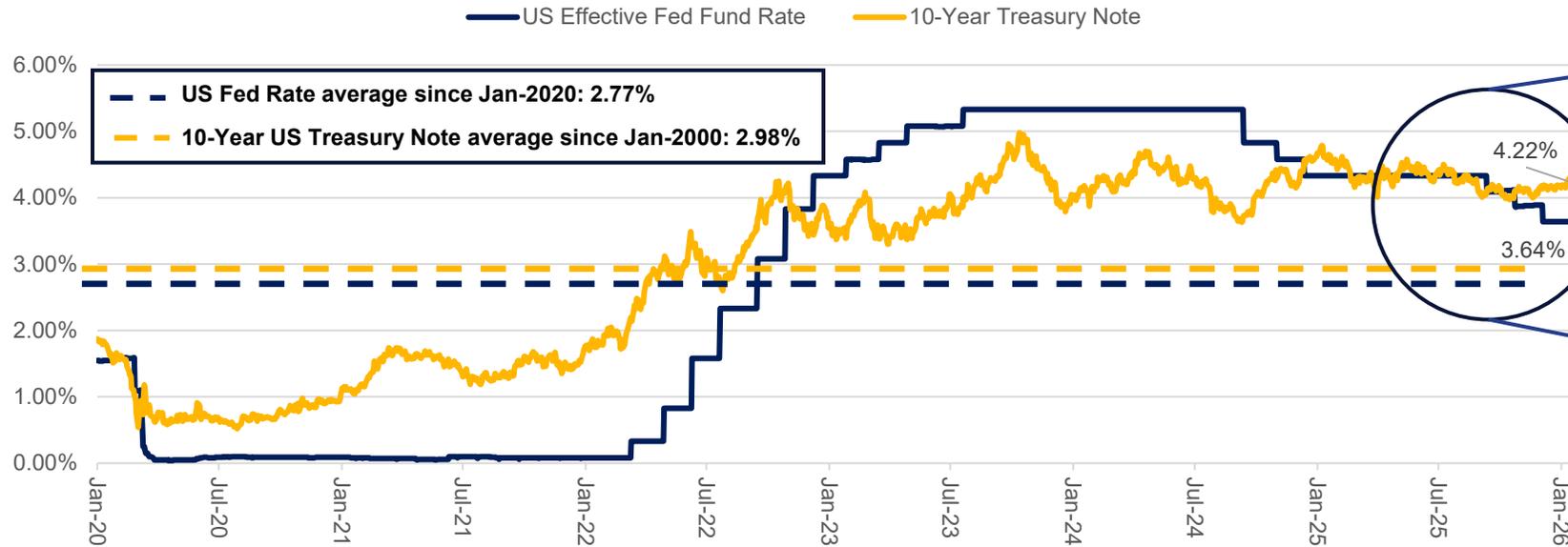
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>
 Note: Seasonally adjusted, Data pulled January 2026

Monetary Policy

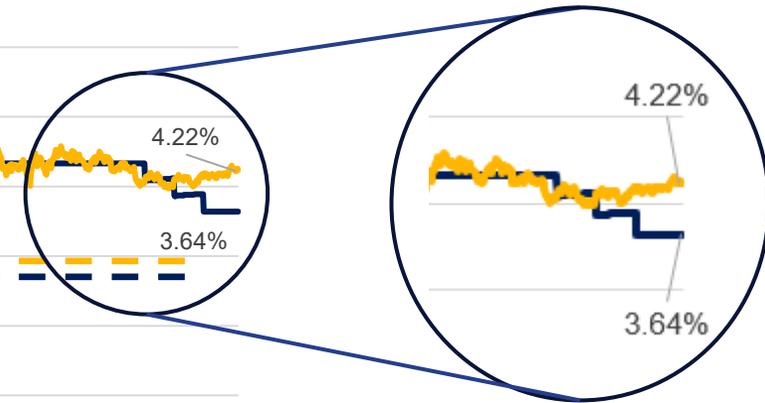
The Fed Holds Rates Steady

At the Fed's meeting in January 2026, interest rate cuts were paused, maintaining the rate at 3.5 to 3.75 percent. The decision was driven by a resilient economy and stable labor market. Chair Powell signaled a cautious approach, with markets anticipating cuts later in the year. The Fed has cut the federal funds target rate three times since the middle of 2025. The current rate of 3.64 percent suggests that investors expect a moderate amount of inflation and or moderate growth ahead.

US Effective Fed Fund Rate & 10-Year Treasury Note



10-Year Treasury Passes US Fed Fund Rate



When the 10-year treasury note yield is higher than the US effective rate, it indicates that investors are demanding higher returns on longer-term bonds. The result is typically higher mortgage rates and higher interest rates on other debt like credit cards.

Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>; Data is through January 25, 2026
 Wall Street Journal; Data is through January 27, 2026

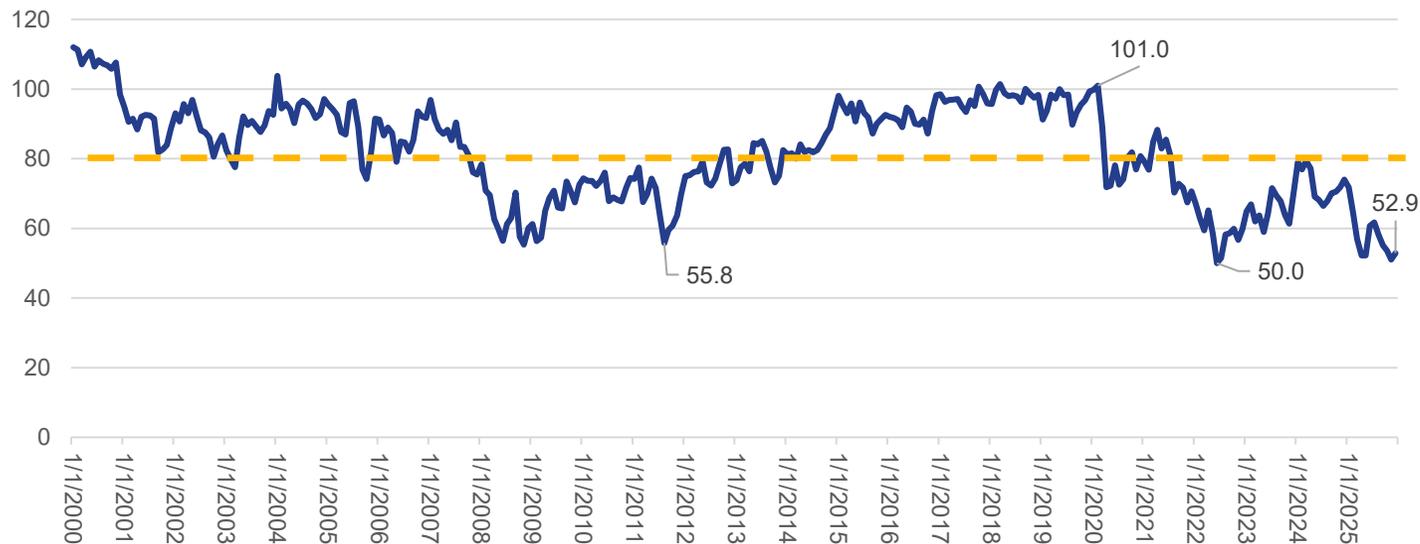
Consumers

Consumer Sentiment Moves Lower

The Consumer Sentiment Index reported a reading of 52.9 in December, which is low by historical standards and suggests consumers are cautious. Broad concern across the economy, including job-market concerns, inflation, trade/tariff worries, is negatively impacting sentiment. Since the start of 2025, the Consumer Sentiment Index has generally been declining, decreasing from a reading of 71.7 in January.

Consumer Sentiment Index: (United States Total)

— Historical average since January 2000: 81.9



Consumer Sentiment Index

Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion. It considers people's feelings toward their current financial health, the health of the economy in the short-term, and the prospects for longer-term economic growth.

Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>;

Note: Data thru December 2025 (UMCSENT)

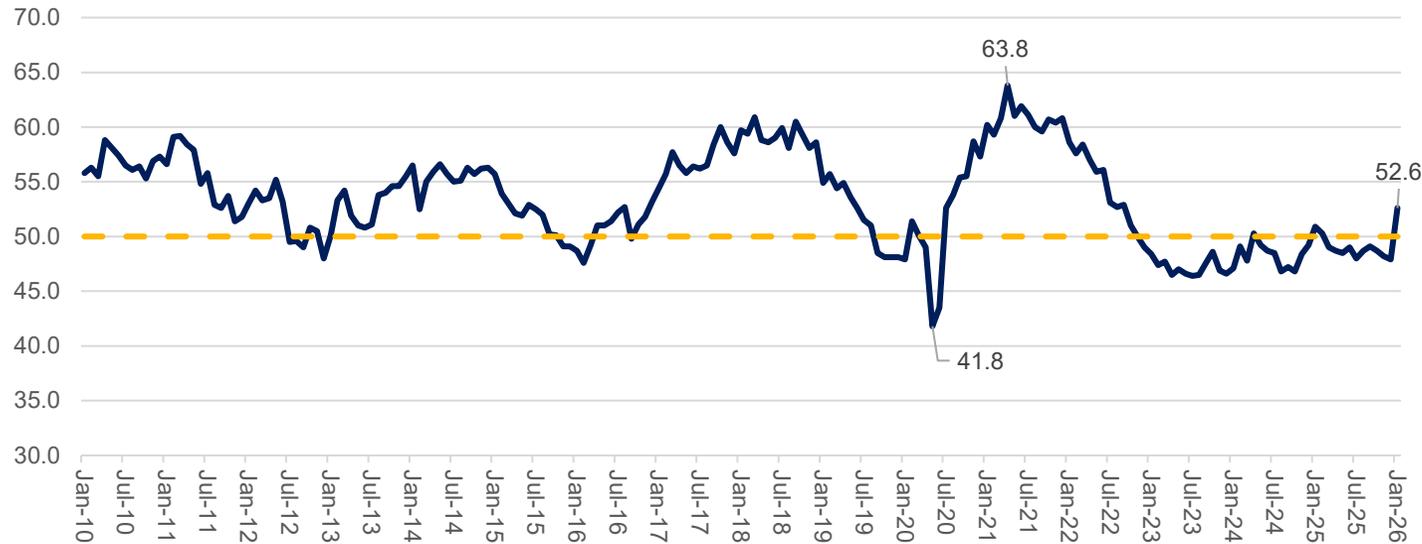
Consumers

ISM Manufacturing PMI Trails After Peaking in January 2025

The Institute for Supply Management (ISM) Manufacturing PMI (Purchasing Managers Index) for January registered at 52.6, signaling the first expansion in 12 months, driven by a surge in new orders and production. While the headline number is positive, the growth is partly driven by typical post-holiday reordering and efforts to front run potential price increases due to ongoing tariff issues.

ISM Manufacturing Index: (United States Total)

— A score of 50 indicates that the manufacturing sector is generally expanding



ISM Manufacturing PMI

The ISM Manufacturing Index is a key economic indicator that measures the level of demand for products by surveying purchasing managers at manufacturing companies. The PMI is based on five major components: new orders, production, employment, supplier deliveries, and inventories. The index is seasonally adjusted to account for differences in weather, holidays, and other factors. A reading above 50 percent indicates that the manufacturing sector is generally expanding; below 50 percent indicates that it is generally contracting.

Source: [Institute of Supply Management](https://www.ism-usa.com/)

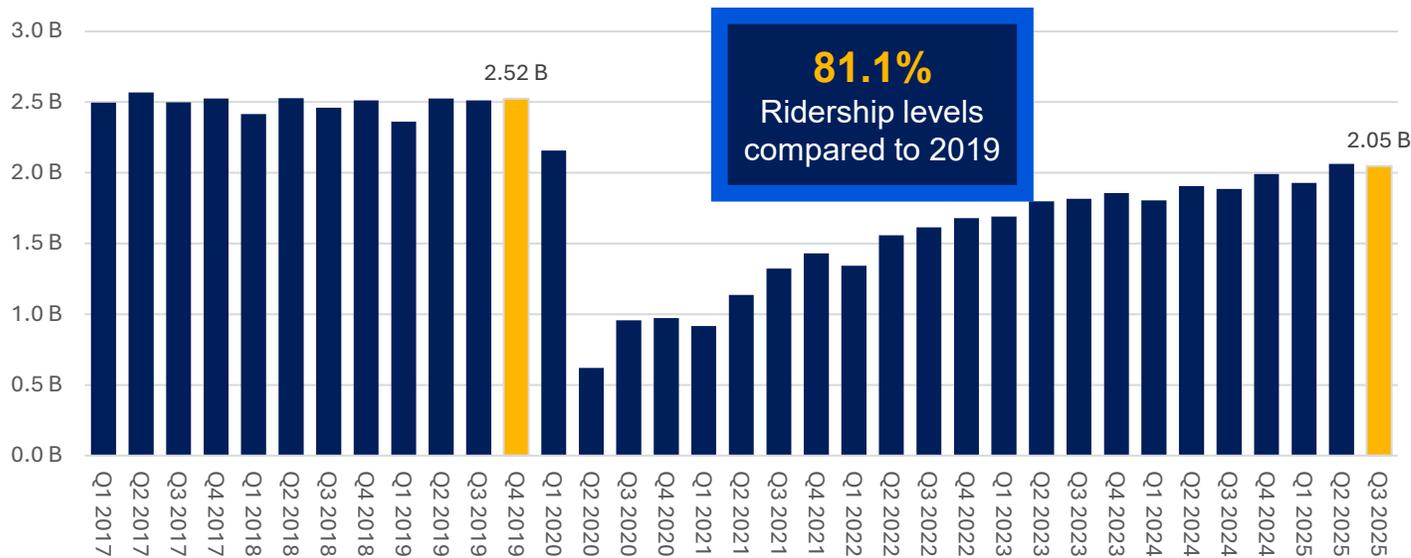
Note: Data thru January 2026

Public Transit

Public Transit Ridership Speeds Up

A good indicator of the health of an urban core, and by extension the downtown office market, is the use of public transportation. Public transit ridership jumped to 2.05 billion in the third quarter. Based on several additional indicators, return-to-office momentum has appeared to stabilize, but given the new administration’s view on return-to-office, it may shift in the future. Nevertheless, public transit has been flat over the past 8 quarters. Still, public transit crossed 2 billion riders in the second quarter for the first time since the first quarter of 2000.

Public Transit Ridership: (United States)



A Fare to Remember

Public transportation has been reliably consistent since the turn of the century. Sky-rocketing gas prices temporarily encouraged public ridership in 2008 but quickly dropped back to historic levels. During the first year of the declared pandemic, ridership was cut in half (52.8% decrease). The economy opened wider in 2021, but ridership still only increased 3.1 percent from the previous year. The beginning of 2022 marked the beginning of the economy opening back to near pre-pandemic levels, yet ridership on public transportation ended the third quarter of 2025 at 81.1 percent of the average ridership of 2019, the last full-year before the start of the pandemic.

Source: American Public Transportation Association Quarterly Ridership Report. [Ridership Report - American Public Transportation Association \(apta.com\)](#)

Housing

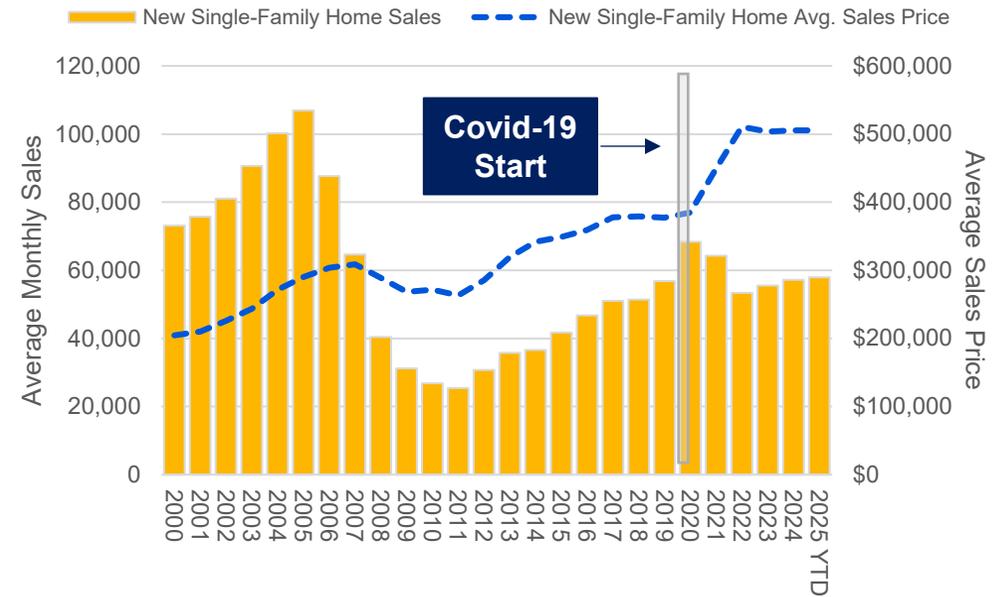
Sale Prices Fluctuate But Remain Near Historic Highs

The number of residential housing starts soared at the start of the pandemic, while sale prices reached record highs in 2022. This growth is being tempered as mortgage rates remain elevated, labor and material costs rise, and supplies remain scarce. During 2023, home starts declined from the previous two years but remained near pre-pandemic levels. Meanwhile, prices have begun to stabilize as demand softens. The housing market is defined by a significant affordability crisis, with home values vastly outpacing income growth.

Single-Family Residential Housing Starts



Single-Family Homes: No. of Sales vs. Avg Sales Price



Source: U.S. Census Bureau, <https://census.gov/construction>
 *Note: Data thru October 2025

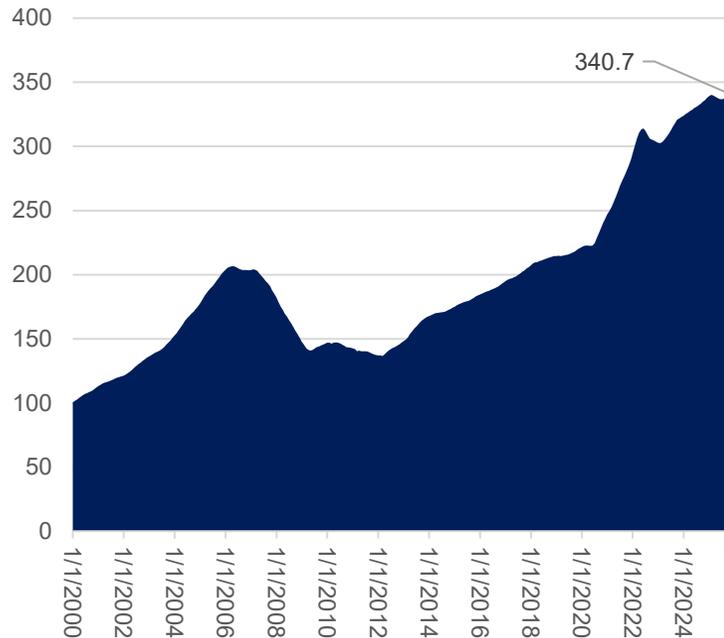
Source: U.S. Census Bureau, <https://census.gov/construction>
 Note: Data thru October 2025

Home Price Index

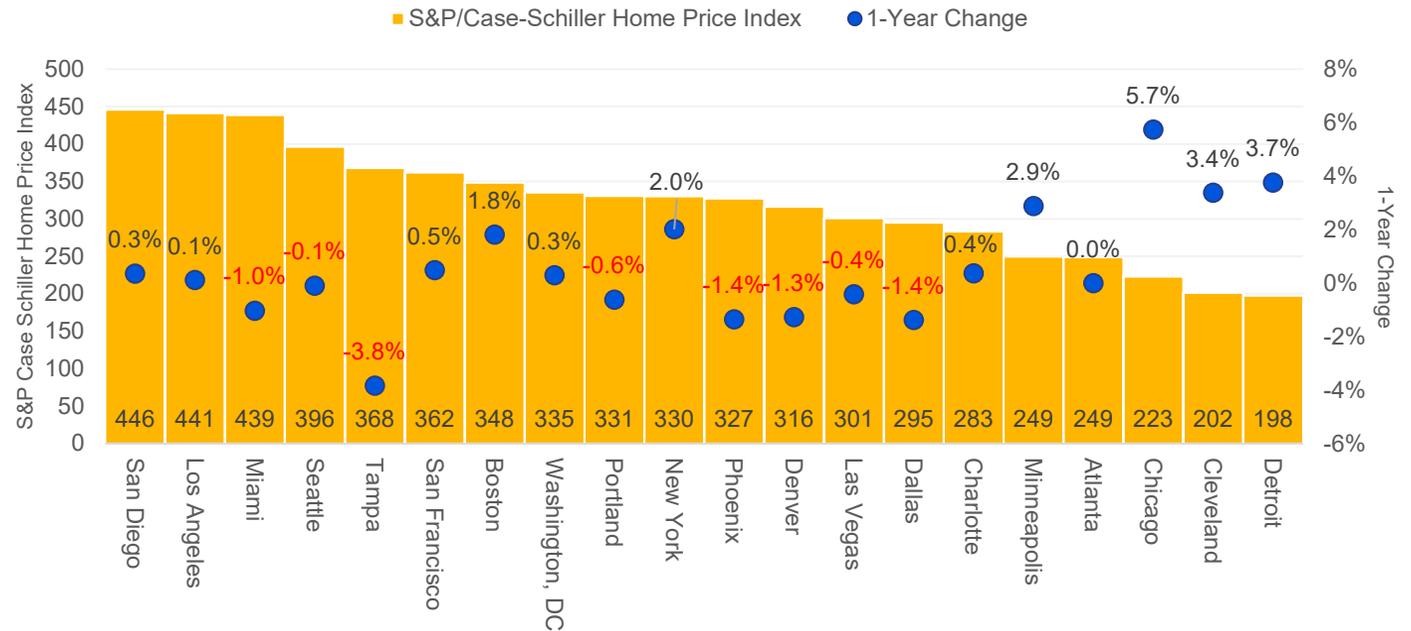
Case-Schiller Home Price Index Peaks in February

The Case-Schiller Index is an economic indicator that measures the monthly change in the value of the U.S. single-family home market. The 20-City Home Price Index briefly peaked in June 2022 and dropped for eight consecutive months before ticking higher over the past two years. The current level marks a continuation of high, albeit potentially slowing, price levels, showing a deceleration in growth. San Diego and Los Angeles hold the highest Home Price Index, followed closely by Miami. Chicago, Detroit, and Cleveland increased the most in the past 12-months, while 8 of the 20 markets in the index retreated in the past year.

Home Price Index: 20-City Average



S&P/Case-Schiller Home Price Index



Source: S&P Dow Jones Indices LLC, S&P/Case-Schiller U.S. National Home Price Index [CSUSHPINS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CSUSHPINS>, January 2026.

Industrial Trends



The US Industrial Market Wobbles
as Demand Normalizes and
Supply Rises

Availability rates have been steadily increasing over the past three years, primarily due to a strong construction pipeline. Although the pace of new deliveries is slowing, demand from occupiers is not keeping up with the available supply. As a result, tenants now have more leverage during negotiations. While annual rent growth continues to rise, it is not keeping pace with inflation. Tenants who signed leases five or more years ago are likely to face rent increases, as the significant hikes in 2022 and 2023 have reset lease rates. Net absorption showed a modest rebound in the second half of 2025, following rare negative net absorption figures earlier in the year. Retail spending is expected to remain positive but slow down in 2026, which will lead to a gradual erosion of business inventories over time. Assuming the economy continues to expand, albeit at a reduced pace, vacancy rates are forecasted to increase through 2026.

Industrial Tenant View

- Many occupiers are balancing expansion with economic uncertainty, consolidating into modern, efficient facilities that support supply chains rather than aggressively growing their footprint.
- Some well-positioned occupiers are opting to purchase facilities for long-term cost savings and customization.
- Tenants with more options due to oversupply are increasingly preferring higher-quality, Class industrial properties with modern infrastructure.

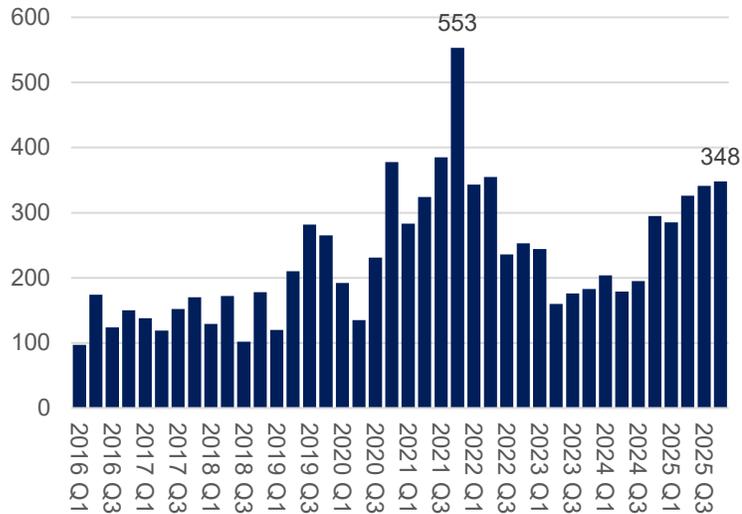
Capital Markets

Industrial Sales Velocity Jumps

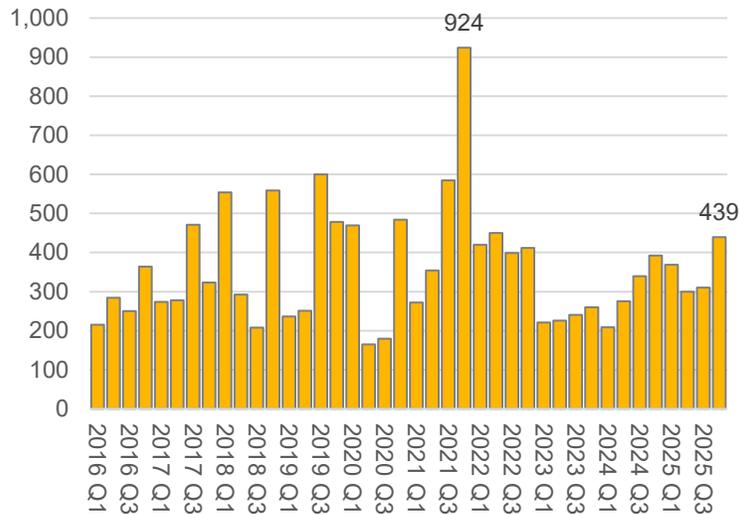
Strong demand caused industrial sales velocity (number of sales) to nearly double in the year following the COVID-19 lockdown. Warehouse/distribution spaces consist of nearly 70 percent of the sales volume in 2023. **Strong demand in manufacturing caused sales to spike in the first quarter of 2021, before falling back to historic levels.** Meanwhile, sales of warehouse/distribution spaces have leveled off in the past two years. Warehouse/distribution sales jumped in the fourth quarter of 2025. Meanwhile, manufacturing flex properties have trended higher.

Industrial Sales Velocity: (United States)

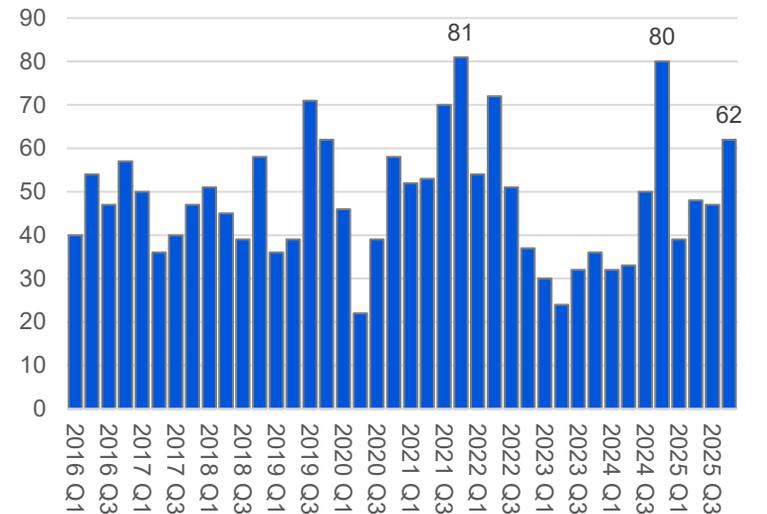
Manufacturing



Distribution



Flex



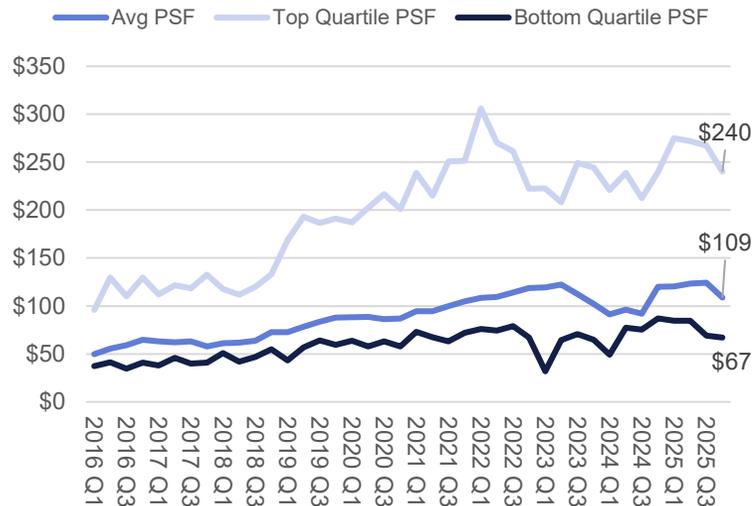
Capital Markets

Sales For Top-End Manufacturing Properties Have Spiked in the Manufacturing Sector in 2025 on a Per Square Foot Basis

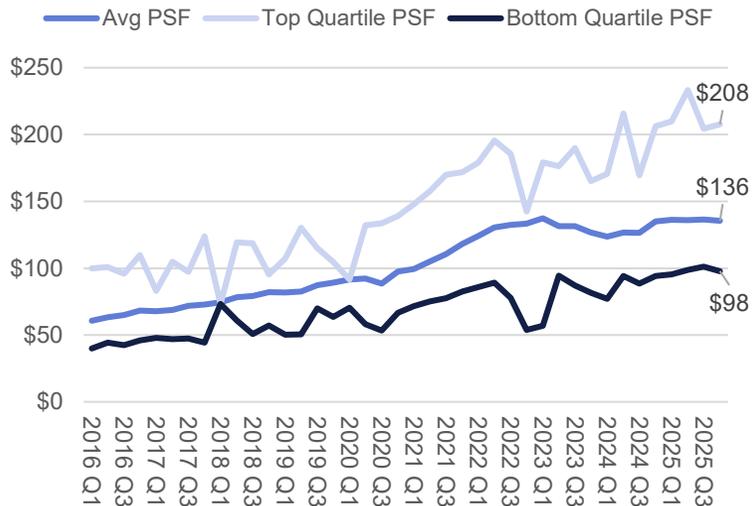
The average sales price per square foot of industrial properties remained steady in the second quarter. However, the average price per square foot of manufacturing space reached its highest level during the third quarter of 2025. Averaged realized prices per square foot for both manufacturing space and distribution space have each increased more than 60 percent compared to the start of 2019, while flex spaces have seen spike on a per square foot basis during the most recent quarter.

Average Industrial Sale Price/SF (United States)

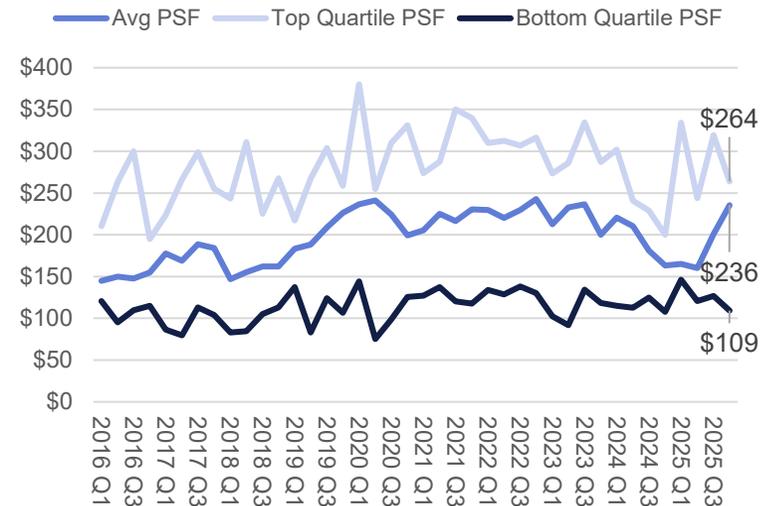
Manufacturing



Distribution



Flex



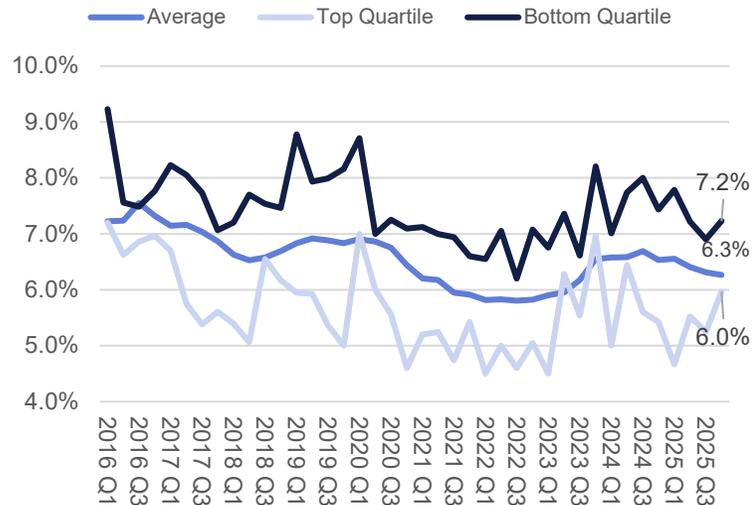
Capital Markets

Industrial Cap Rates Steady

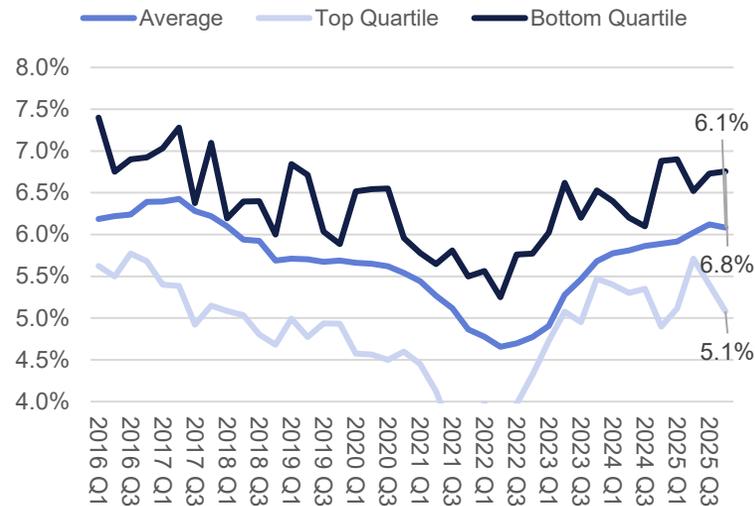
Economic volatility, increasing borrowing rates, and rising construction costs have pushed cap rates for industrial properties higher in the past 24 months. This **higher risk has slowed overall prices paid for industrial assets to increase**. While there is still money available for investment in a stable asset class, the lack of available top-quality properties with modern amenities has caused hesitation in capital markets. A market increase in sales volume in the fourth quarter of 2025 may charge an inflection point. Additional Fed cuts in interest rates may spur additional investment, particularly as the hold period investments purchased during the height of the pandemic begin to lengthen and investors look to cash out.

Industrial Cap Rates (United States)

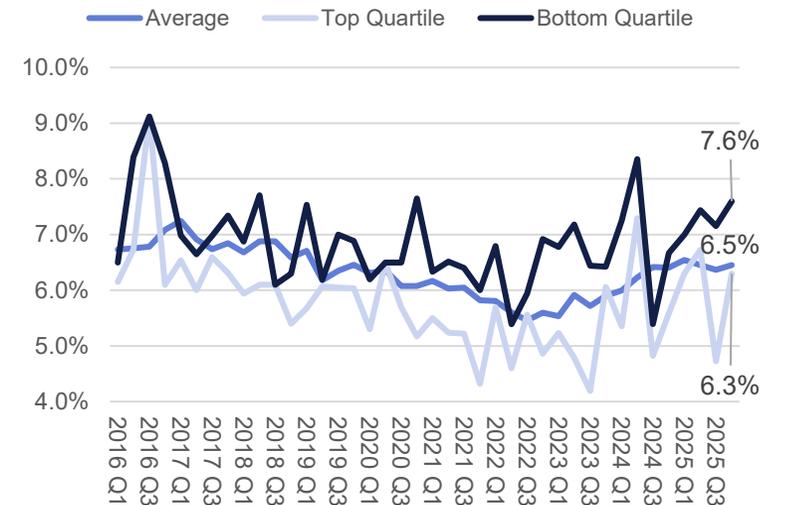
Manufacturing



Distribution



Flex



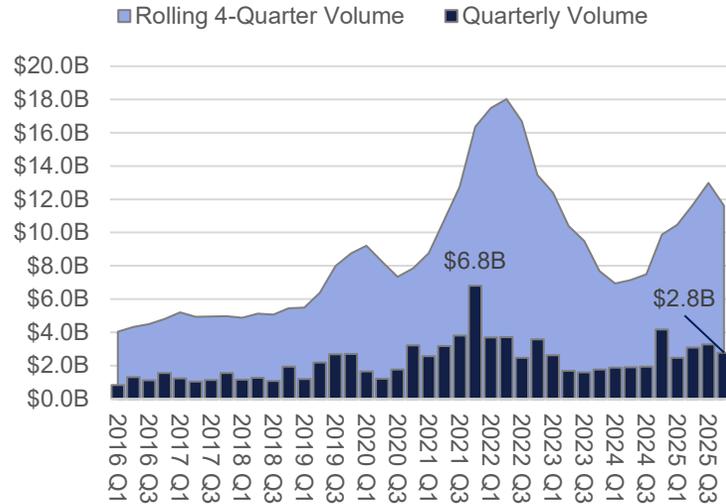
Capital Markets

Industrial Sales Volume Trends Higher

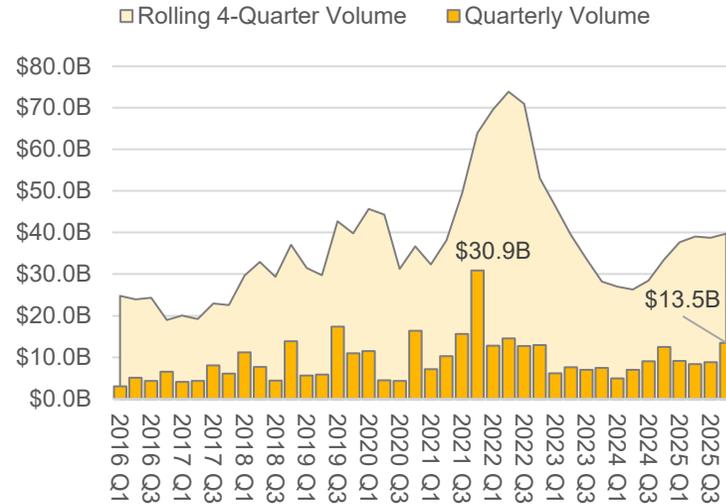
Sales volume for the trailing 12-months, while lower than 2022 and 2023 levels, is comparable to pre-pandemic levels. Higher prices and the number of sales increasing has pushed volume higher. **The sales volume for all three industrial asset types – manufacturing, distribution, and flex properties – has been trending higher in the past year, with manufacturing showing the biggest increase.**

Industrial Sales Volume: (United States)

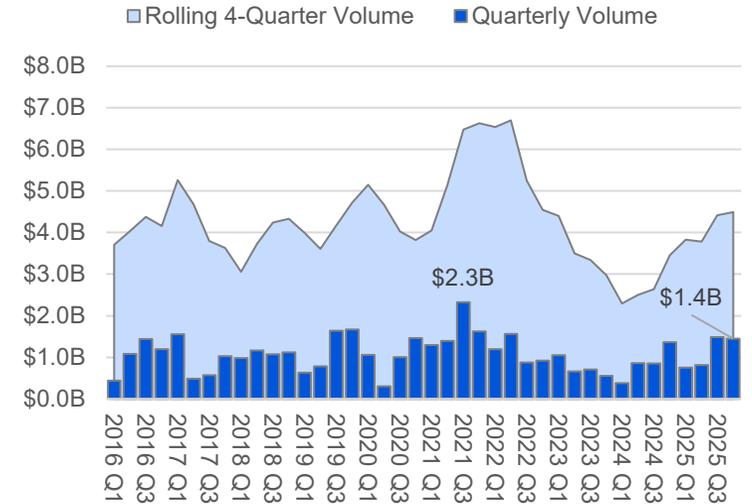
Manufacturing



Distribution



Flex

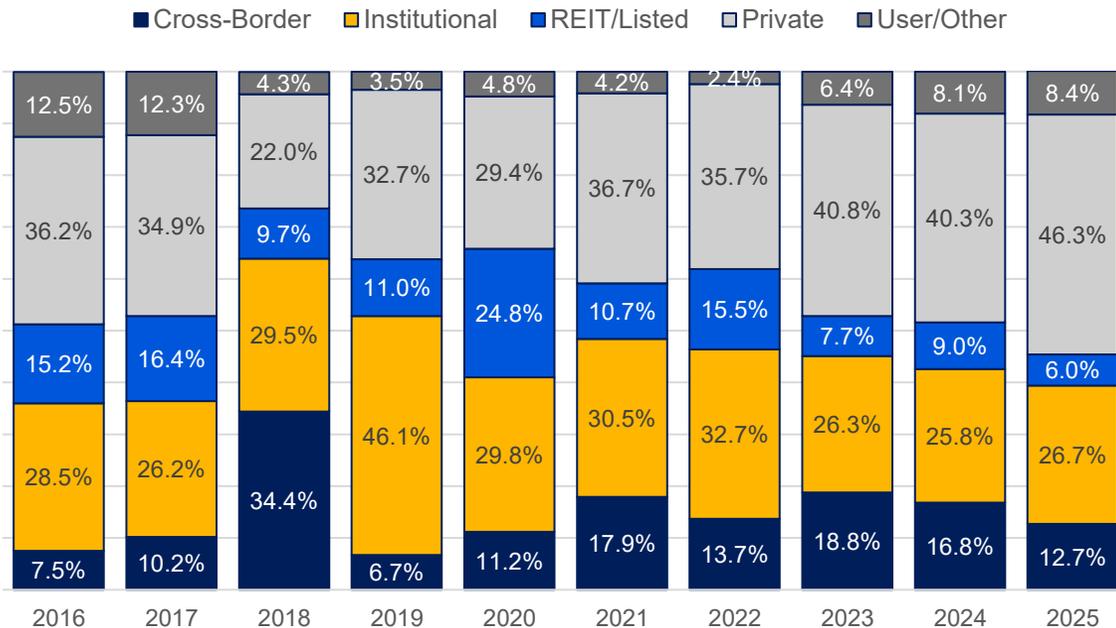


Capital Markets

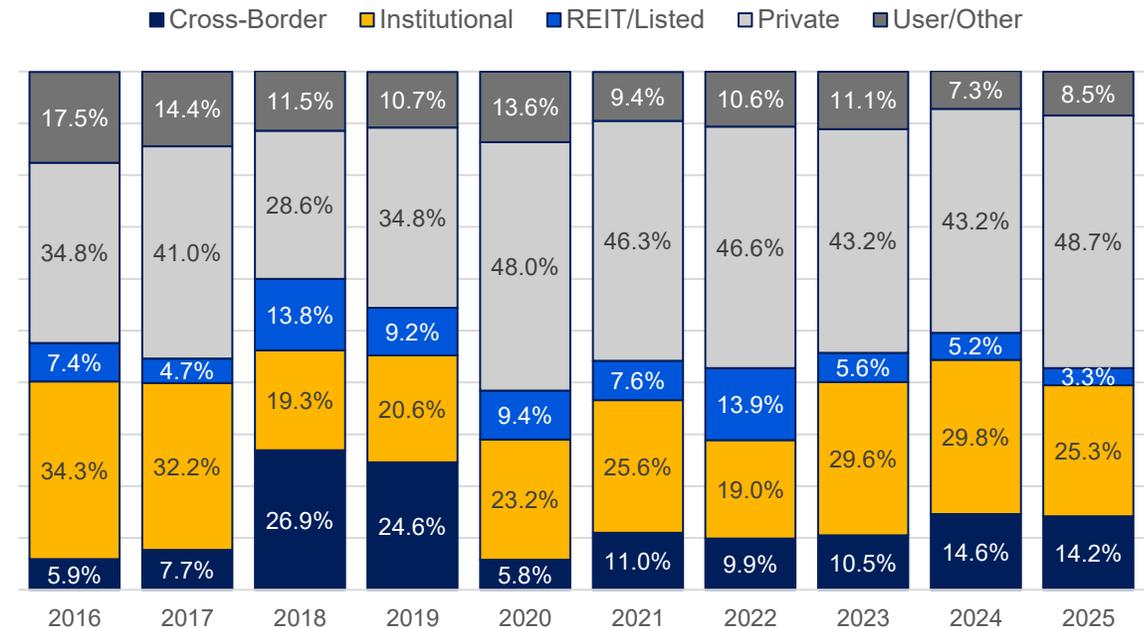
Industrial Capital Composition

Capital markets were very active in 2021 and 2022 before quickly slowing, due to both interest rates and rising costs, but also lack of investment grade industrial supply. Private investors have been active buyers in the industrial market, while Users/Others have increased their activity on the buy-side. REITS have trended lower on both the buy and sell-sides, meaning they are generally holding their existing assets longer. Cross-Border investors have been more active sellers in the past 7 quarters, looking to take profits as they held their investments over the past five years.

Industrial Buyer: (United States)



Industrial Seller: (United States)



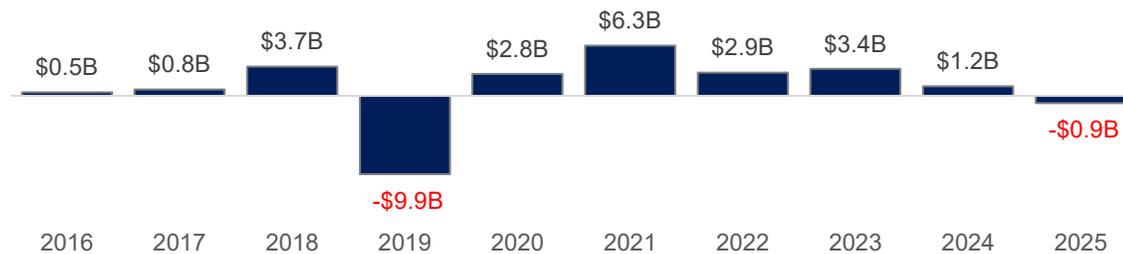
Source: Real Capital Analytics and Cresa; thru Q4 2025

Capital Markets

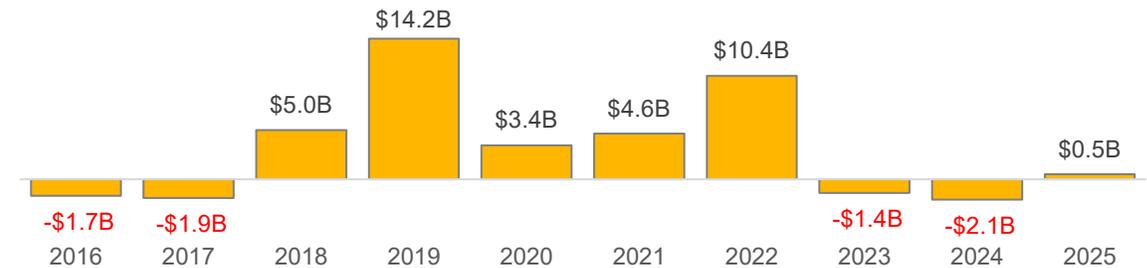
Industrial Capital Flows: Net Acquisitions

While private investors have been more bullish on the investment side, they have generally been sellers in the industrial asset type, more actively selling than buying for the past nine years. Meanwhile, cross-border and REIT investors have made big bets on the buy-side as they have acquired more than disposed of industrial assets in six of the past seven years.

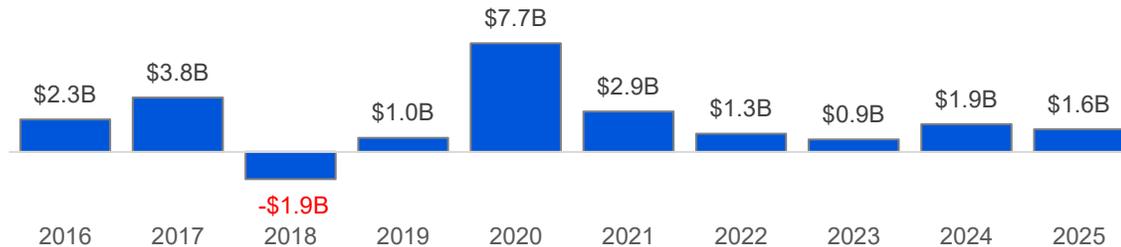
Cross-Border



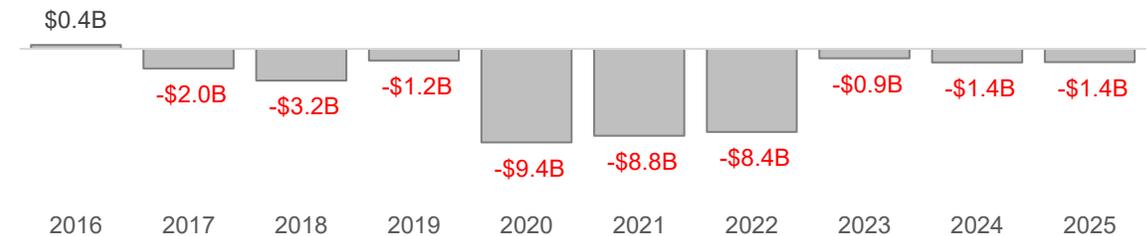
Institutional



REIT/Listed



Private



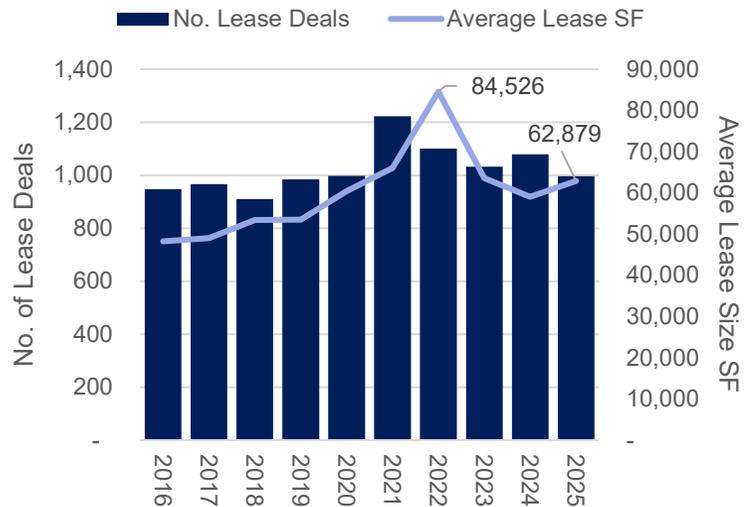
Leasing Trends

Transaction Reverts to Historic Averages

Lease deal sizes in 2022 were higher for all industrial property types compared to the second quarter of 2025. After beginning to spike in 2020, average deal sizes have reverted closer to historic averages. The number of lease deals for manufacturing, distribution, and flex spaces are on track to align with the past two years.

Historic Industrial Activity – Average Deal Size

Manufacturing



Distribution



Flex

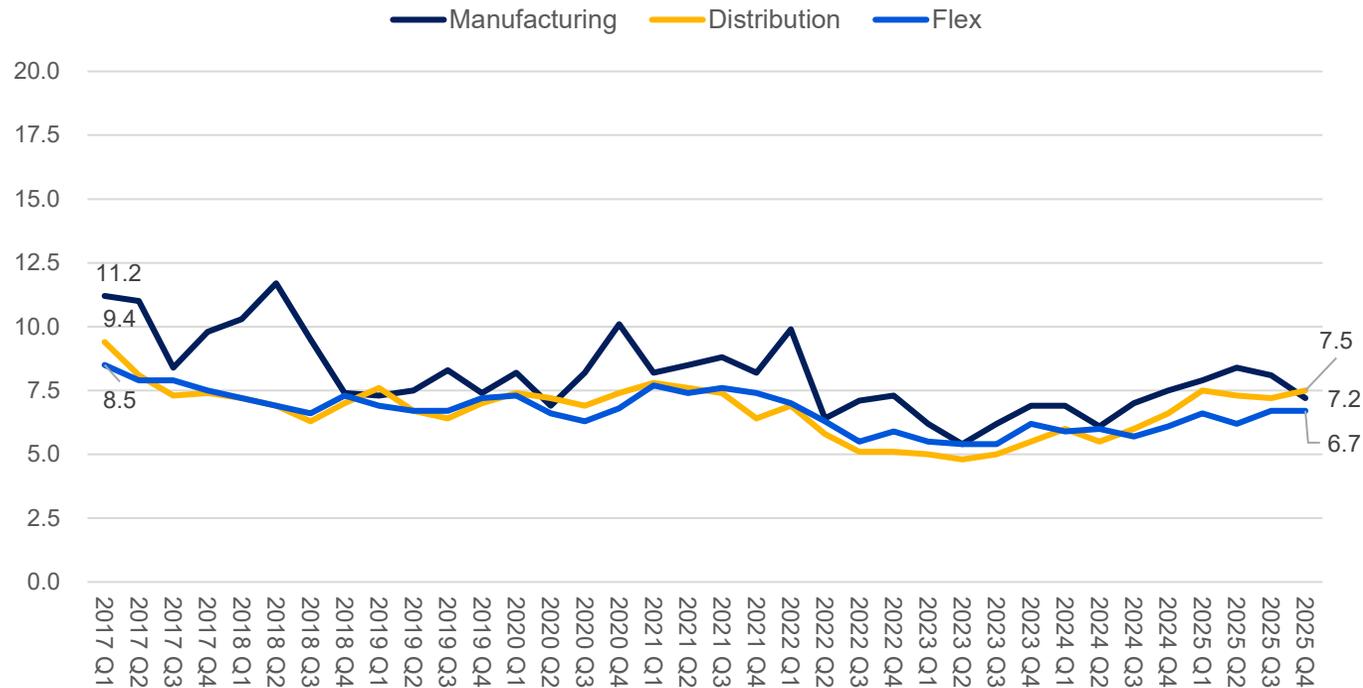


Source: CoStar and Cresa; thru Q4 2025

Leasing Trends

Months to Lease Properties Moves to Historic Norms

Months-To-Lease



The number of months to lease industrial properties have generally trended lower in the past seven years, bottoming out in 2023 before moving higher.

Distribution spaces have taken 2.5 months more time to lease since the start of 2023.

Manufacturing spaces have taken 1.8 months longer to lease since the start of 2023, while flex space has taken a little more than a month to lease.

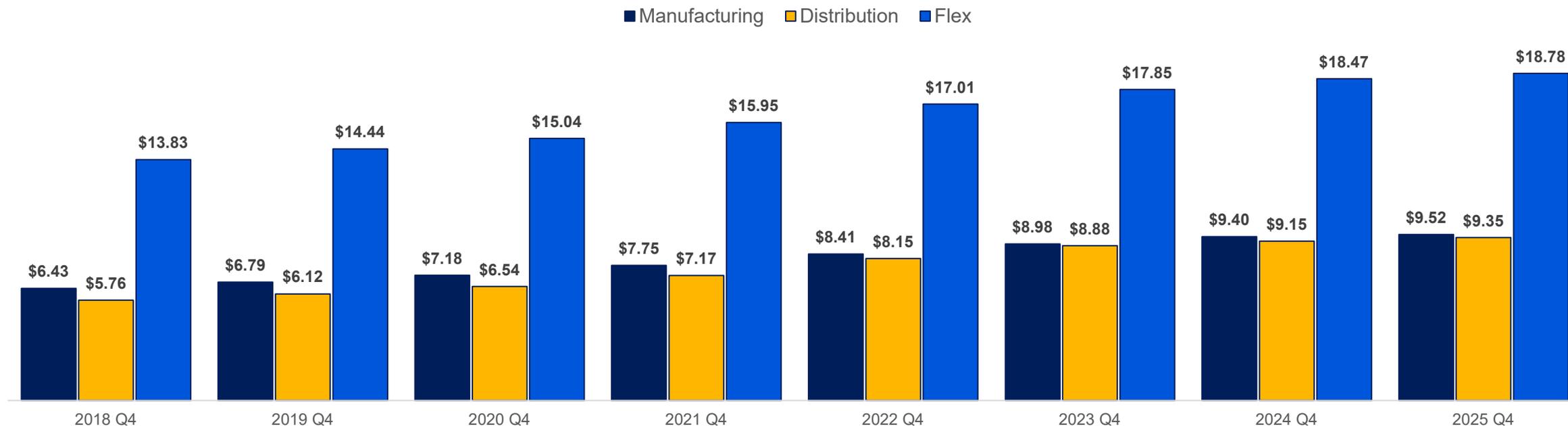
All three industrial asset leasing times are generally reverting to historical averages.

Market Rent

Industrial Rents Growth Slows

Industrial rates have steeply increased since the end of 2019, particularly distribution space, which has increased by nearly 50 percent in the past five years. Nationwide, average logistics asking rates have increased every quarter since 2017, although the rate of increase has substantially slowed. It should be noted that some markets that underwent dramatic rate increases have experienced rates moving lower. While rates are generally expected to increase, landlords will need to wait for demand and absorption to catch up before rates see a meaningful increase.

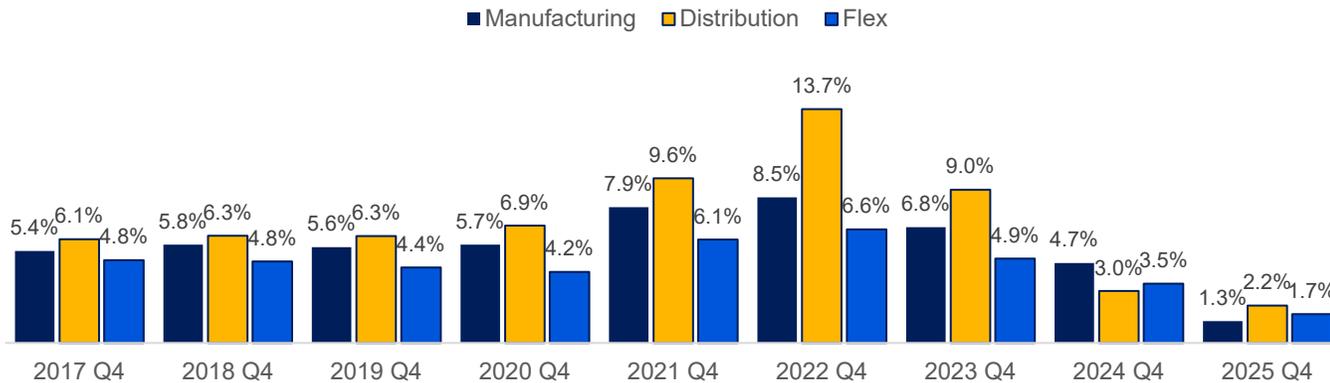
Industrial Lease Asking Rates (\$/SF): (United States)



Market Rent

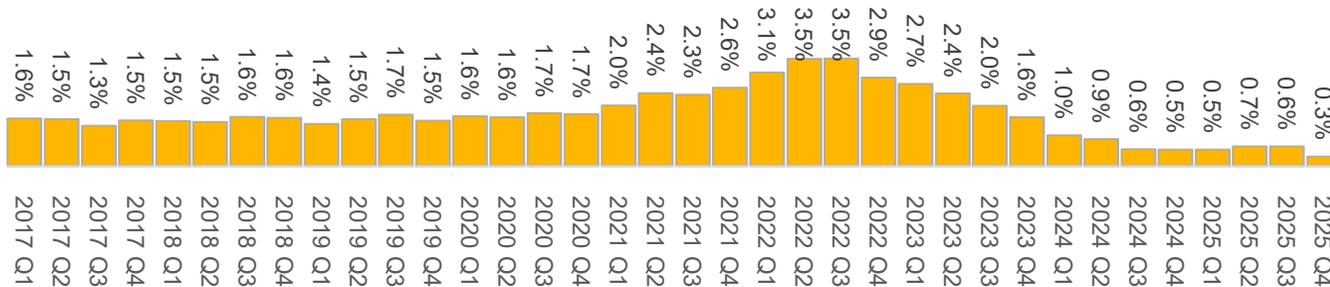
Direct Asking Rent Growth Dips Below Pre-Pandemic Levels for the Past Year

Industrial Asking Rent Annual Increase: (United States)



Industrial lease rates have stalled after an extended run of big increases. Still, the compounded annual growth rate (CAGR) for distribution spaces has increased 7.1 percent per year since 2017, while manufacturing spaces have increased 5.8 percent and flex spaces increased 4.5 percent during the same time. While it is unlikely rates will meaningfully decline, other incentives like TIs and abatements may become more negotiable for occupiers.

Distribution Asking Rent Quarterly Increase

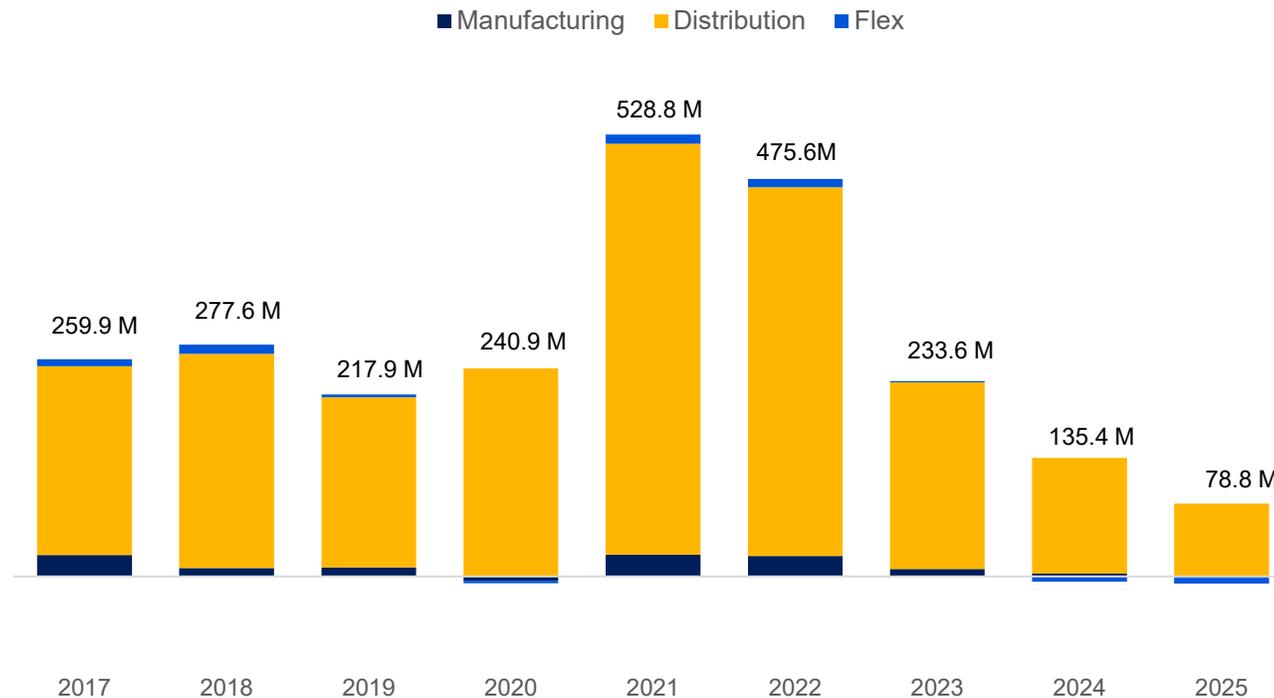


Source: CoStar and Cresa; thru Q4 2025

Absorption

Industrial Absorption Dramatically Slows

Industrial Net Absorption (SF): (United States)

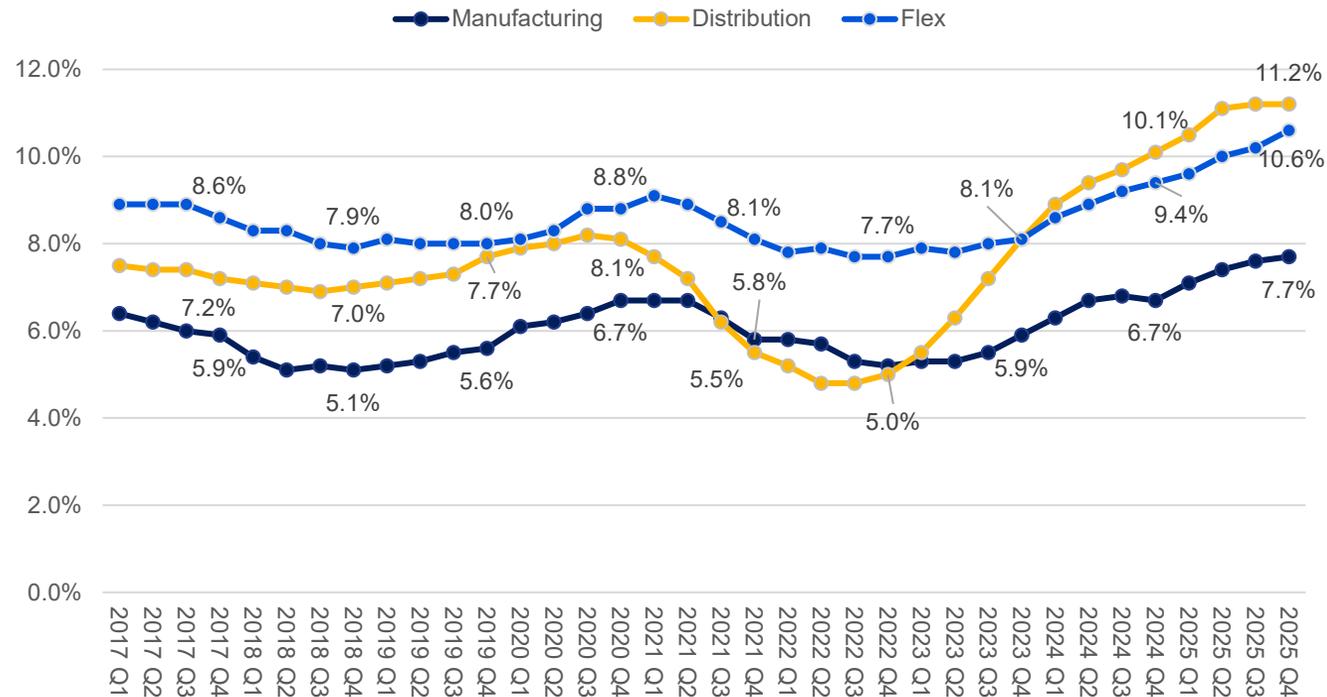


After a record-breaking 2021, absorption has experienced a dramatic slowdown. Some of this can be explained by economic conditions softening with overall imports slowing. **Absorption in 2025 was at the lowest level in the past decade.** Nevertheless, the steady amount of new construction being delivered and ongoing demand will likely keep absorption in positive territory with modest gains. However, net absorption for both manufacturing and flex properties have recorded minor negative absorption in 2025 (-1.7 M SF and 6.8M SF, respectively).

Direct Vacancy

Industrial Vacancy Moves Higher as New Product Delivers

Industrial Direct Vacancy: (United States)

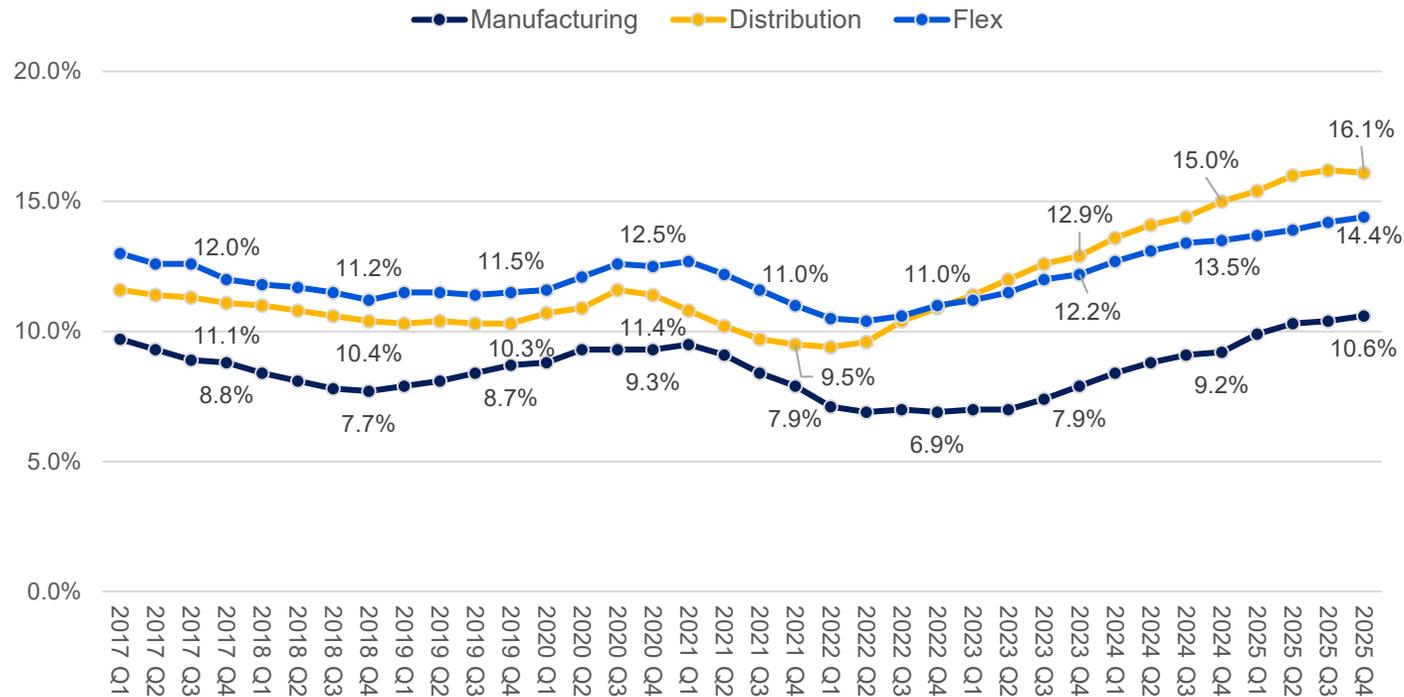


Direct vacancy is drifting higher than historical averages after spending 2021 – 2023 near historic lows. The large amount of new construction being delivered likely contributed to the increase. Still, large retailers are looking to shore up distribution facilities, so they are better positioned for future growth. Vacancy in manufacturing space has remained low due to increased demand as more companies move operations closer to US markets to stabilize supply chains. The impacts due to the uncertainty around tariff increases is still unknown. It may increase attractiveness for distribution spaces as retailers look to hold inventories at higher levels, but it also may create hesitancy for further investment as companies await a clearer picture. Bonded warehouses and locations free trade zones (FTZs), will likely be highly desirable for some occupiers of space because of their ability to avoid initial costs related to rising tariffs.

Availability

Industrial Availability Moves Higher

Industrial Availability Rate: (United States)



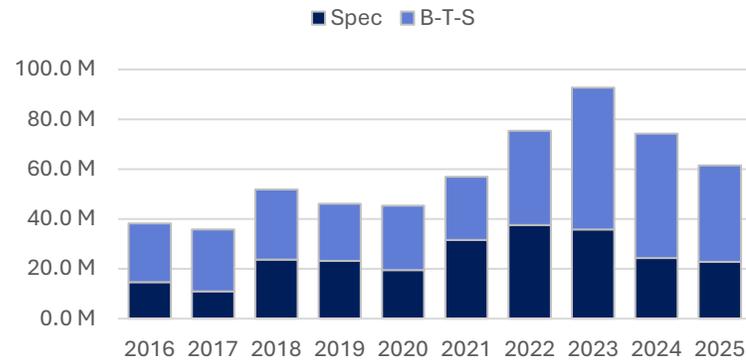
The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date. Therefore, the availability rate may be a more accurate depiction of the market during this volatile period than the direct vacancy rate. **Availability in the distribution asset type jumped from 10.1 percent over the past three years to 16.1 percent to close 2025.**

Construction

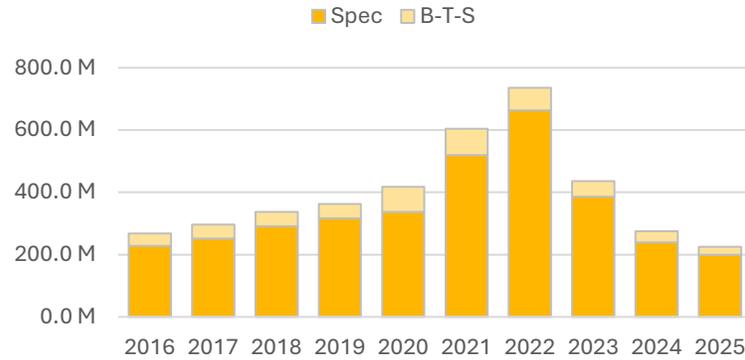
Distribution Properties Under Construction Fall Sharply, While Manufacturing and Flex Projects Steady

While spec development still dominates distribution construction, more specialized build-to-suit properties make up more than half of new manufacturing and flex development. Both manufacturing and flex construction are still elevated compared to historical norms, in terms of square footage.

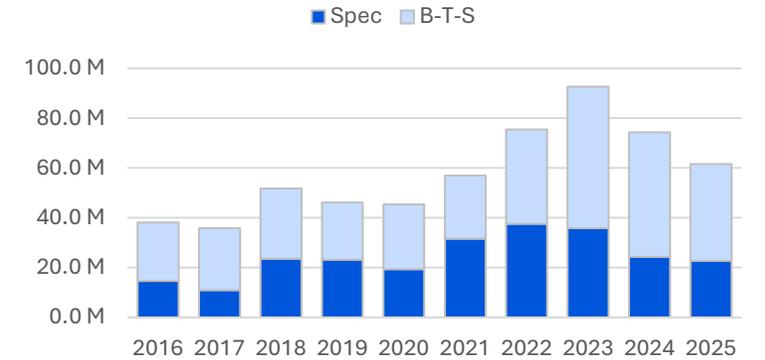
Manufacturing : Under Construction: Spec v. Build-to-Suit



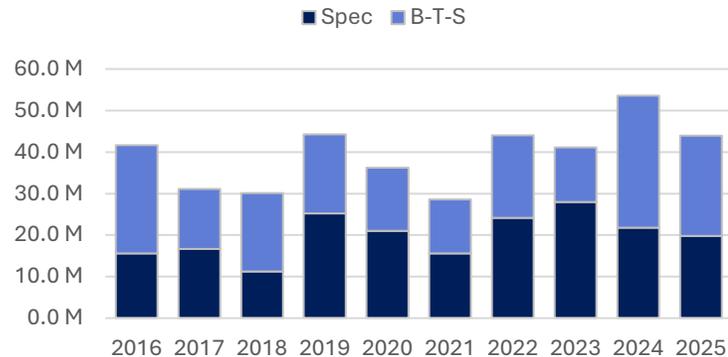
Distribution : Under Construction: Spec v. Build-to-Suit



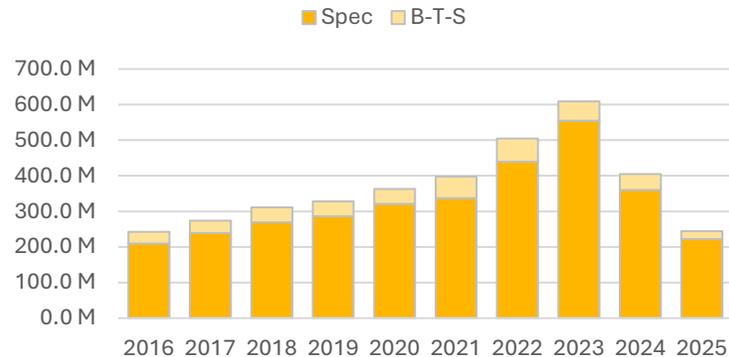
Flex : Under Construction: Spec v. Build-to-Suit



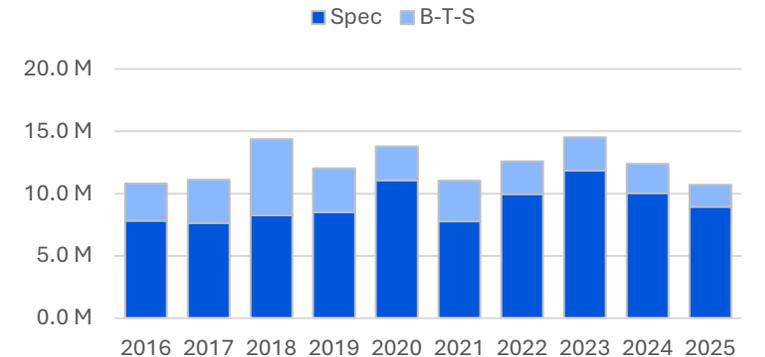
Manufacturing : New Deliveries: Spec v. Build-to-Suit



Distribution : New Deliveries: Spec v. Build-to-Suit



Flex : New Deliveries: Spec v. Build-to-Suit



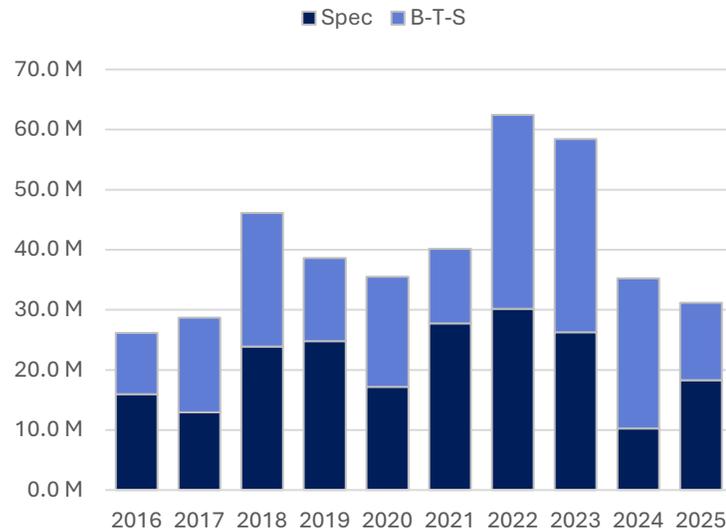
Source: CoStar and Cresa; thru Q4 2025

Construction Starts

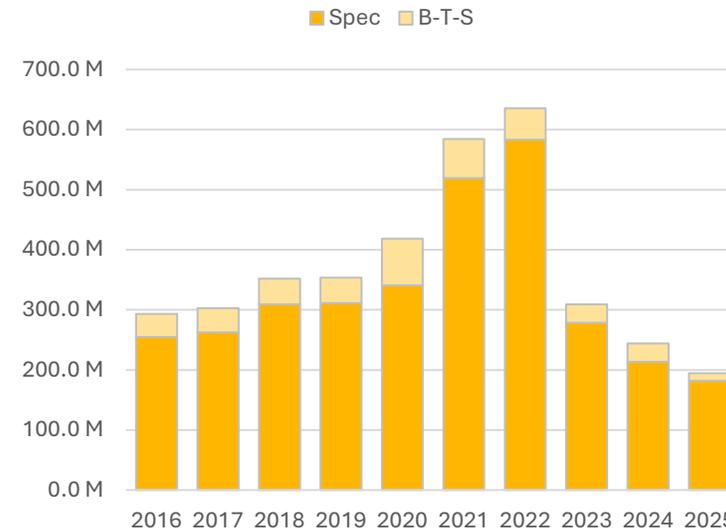
New Industrial Projects Pull the Reins

Construction starts, including both speculative and build-to-suit projects, have declined over the past two years. Notably, the number of flex build-to-suit projects slowed down in 2025. Despite this, manufacturing developments continue to emerge, fueled by a renewed interest in on-shoring manufacturing and supported by government incentives and other subsidies.

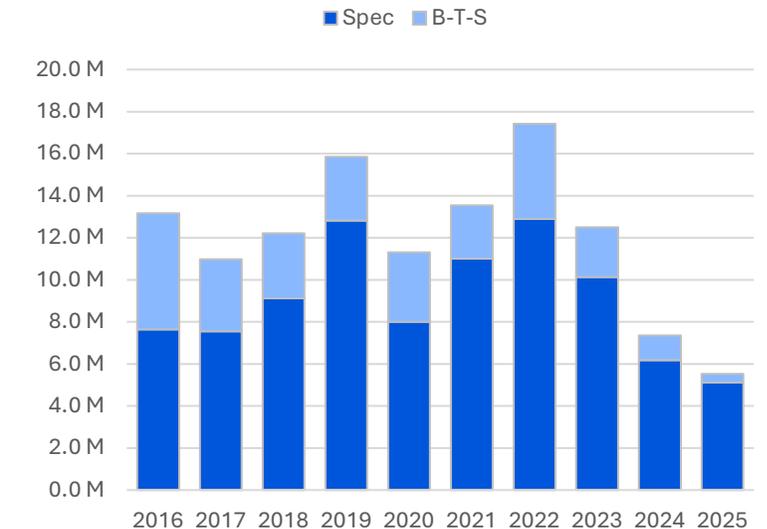
Construction Starts: Manufacturing: Spec v. Build-to-Suit



Construction Starts: Distribution: Spec v. Build-to-Suit



Construction Starts: Flex: Spec v. Build-to-Suit



The problem with the real estate market is the market itself.

THE MARKET SEES YOU AS A **TARGET**.

THE MARKET CHASES THE **DEAL**.

The stakes are high for occupiers. Real estate is expensive and inflexible. With the pandemic, labor dynamics, and economic instability, all bets are off.

THE MARKET IS SHORT TERM AND **REACTIVE**.

THE SYSTEM FAVORS **LANDLORDS** NOT OCCUPIERS.

It's time to go beyond the market and uncover how your commercial real estate can drive your goals, not impede them.

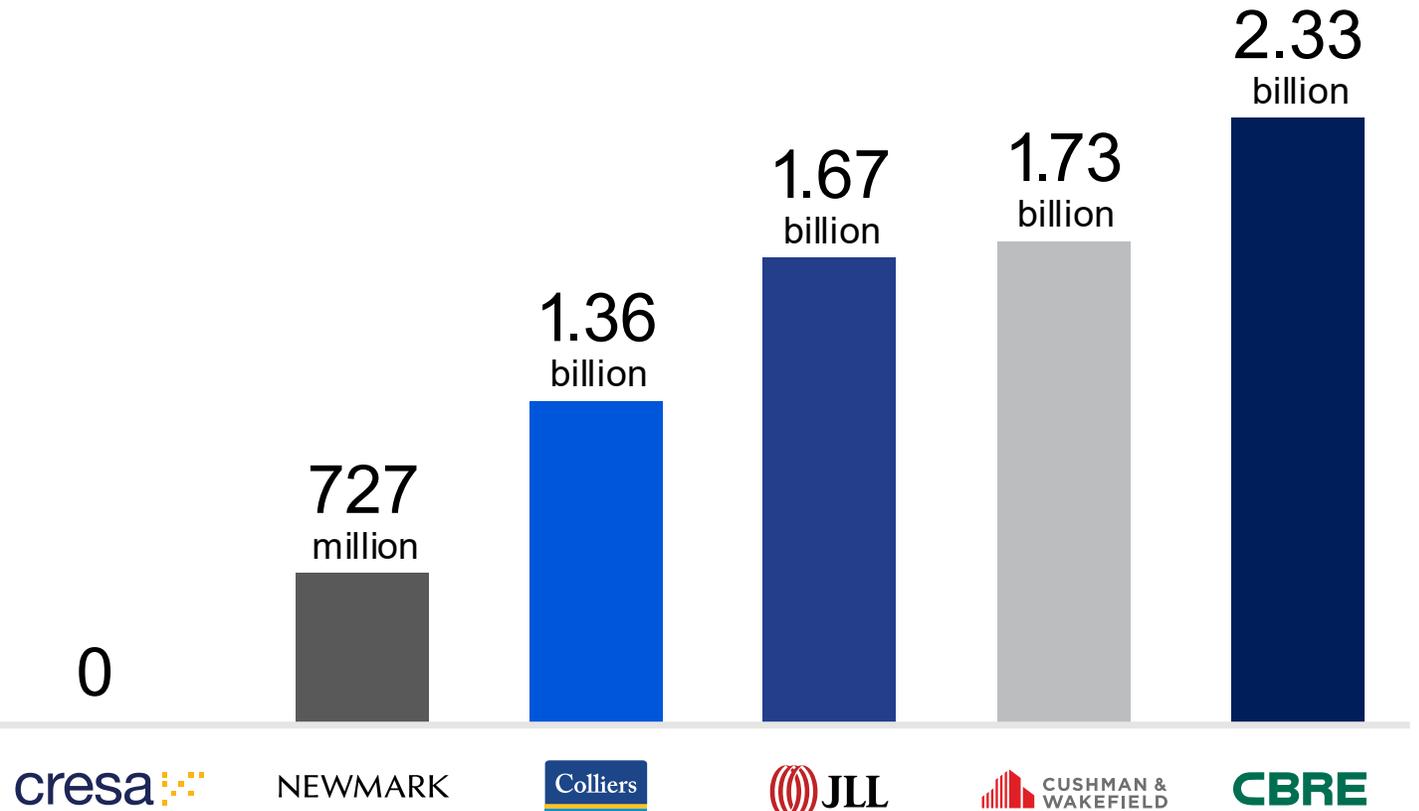
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We believe this combination of transparency and executive involvement generates the superior service our clients have come to expect from Cresa.

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