AEROSPACE & DEFENSE INDUSTRY TRENDS

Understanding The Impact on Commercial Real Estate

May 2025

INTRODUCTION

AEROSPACE & DEFENSE MANUFACTURERS NAVIGATE CHANGING LANDSCAPES

The Aerospace & Defense (A&D) manufacturing industry has seen shifting priorities as companies look to keep up with quickly advancing technology, supply chain challenges and the priorities of a new government administration. The following are underlying themes that are impacting decisions within these industries:

- Defense spending has grown steadily over the past several years due to geopolitical tensions, modernization efforts, and an emphasis placed on investment on domestic manufacturers and suppliers.

- The growth of the space industry has been spurred by the creation of the US Space Force (2019) and the privatization of space travel. Companies have revolutionized the industry with reusable rockets and more cost-efficient space travel. NASA and the Department of Defense are increasingly outsourcing space operations to private companies.

- Supply chains have been prioritized due to disruptions starting with the pandemic and rising geopolitical tensions. The result has been a renewed focus on reshoring manufacturing and diversifying suppliers to reduce reliance on foreign companies.

- Labor constraints are prioritizing decision-making for companies as finding enough skilled-labor to support growing demand, particularly with many qualified workers approaching retirement age, requires strategic thinking when considering location requirements.

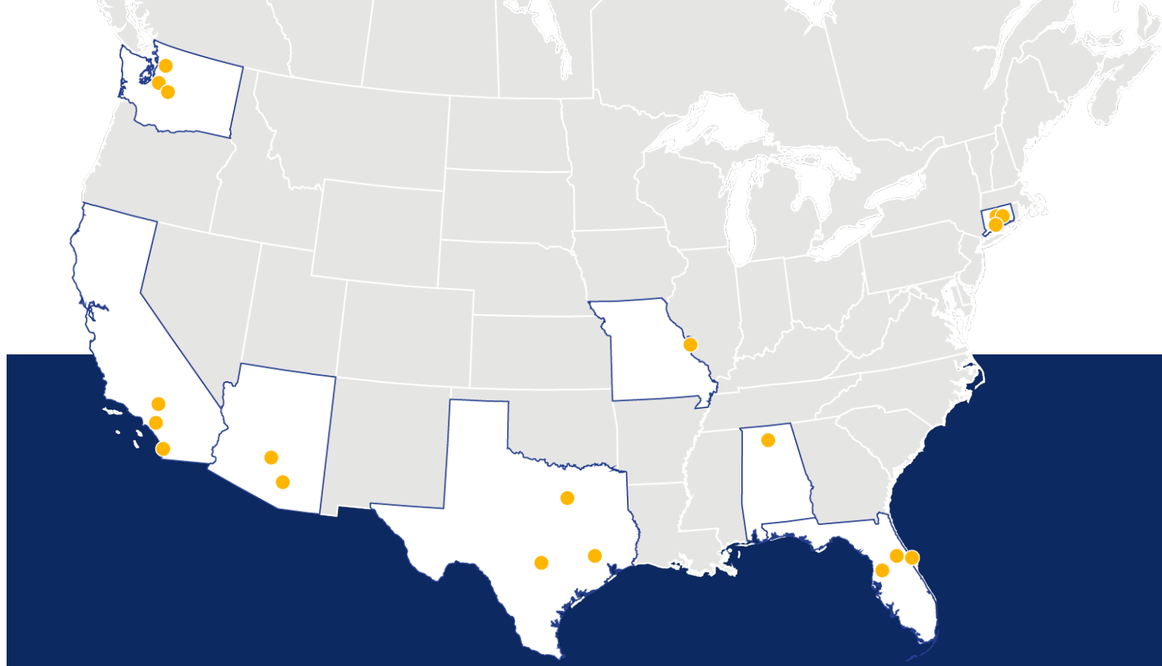
- Mergers & Acquisitions (M&A) in the A&D industry in the form of mega mergers have taken place in the past several years. Organizations undergoing M&A have an opportunity to think strategically about their real estate footprint and economies of scale.

LARGEST AEROSPACE & DEFENSE COMPANIES

Over 100+ aerospace and defense companies have either global, regional, or divisional headquarters in the Washington, D.C. metro area.

			Estimated Breakdown of US Real Estate					
Company	**US Headquarters**	**Ownership**	**Owned**	**Leased**	**Sublet**	**Office**	**Mfg.**	**Flex**
The Boeing Company	Arlington Co, VA	Public	69.6%	30.3%	0.0%	20%	79%	1%
Lockheed Martin	Bethesda, MD	Public	68.9%	30.4%	0.7%	28%	60%	13%
General Dynamics	Reston, VA	Public	51.3%	46.8%	1.5%	19%	77%	4%
Northrop Grumman	Falls Church, VA	Public	23.3%	73.0%	3.7%	46%	40%	14%
L3 Harris Technologies	Melbourne, FL	Public	35.4%	63.6%	0.5%	28%	42%	30%
Raytheon	Arlington Co, VA	Public	46.2%	53.0%	0.7%	51%	40%	9%
GE Aerospace	Cincinnati, OH	Public	52.7%	46.4%	0.9%	4%	92%	3%
Honeywell	Charlotte, NC	Public	50.7%	48.9%		22%	59%	19%
Collins Aerospace	Charlotte, NC	Public	43.0%	56.3%	0.7%	15%	53%	32%
Textron	Providence, RI	Public	68.4%	31.6%		6%	94%	0%

Source: CoStar, Cresa
Note: Facilities include all property types, including office, manufacturing, and flex properties.



The U.S. is the largest aerospace and defense market, home to major companies like Boeing, Lockheed Martin, Northrop Grumman, and Raytheon.

KEY LOCATIONS

WASHINGTON (SEATTLE, EVERETT, RENTON)
Boeing's commercial aircraft production hub.

CALIFORNIA (LOS ANGELES, PALMDALE, SAN DIEGO)
Aerospace R&D, defense contractors (Northrop Grumman, SpaceX, Lockheed Skunk Works).

TEXAS (DALLAS-FORT WORTH, HOUSTON, SAN ANTONIO)
Defense aircraft production (Lockheed Martin F-35 plant in Fort Worth).

FLORIDA (CAPE CANAVERAL, ORLANDO, TAMPA)
Space industry (NASA, SpaceX, Blue Origin), military tech (Raytheon, L3Harris).

MISSOURI (ST. LOUIS)
Boeing's defense and military jet production.

ALABAMA (HUNTSVILLE)
Home to NASA's Marshall Space Flight Center & missile defense programs.

ARIZONA (PHOENIX, TUCSON)
Aerospace manufacturing (Honeywell, Raytheon's missile systems).

CONNECTICUT (HARTFORD, EAST HARTFORD, STRATFORD) – Aircraft engine and helicopter manufacturing (Pratt & Whitney, Sikorsky).

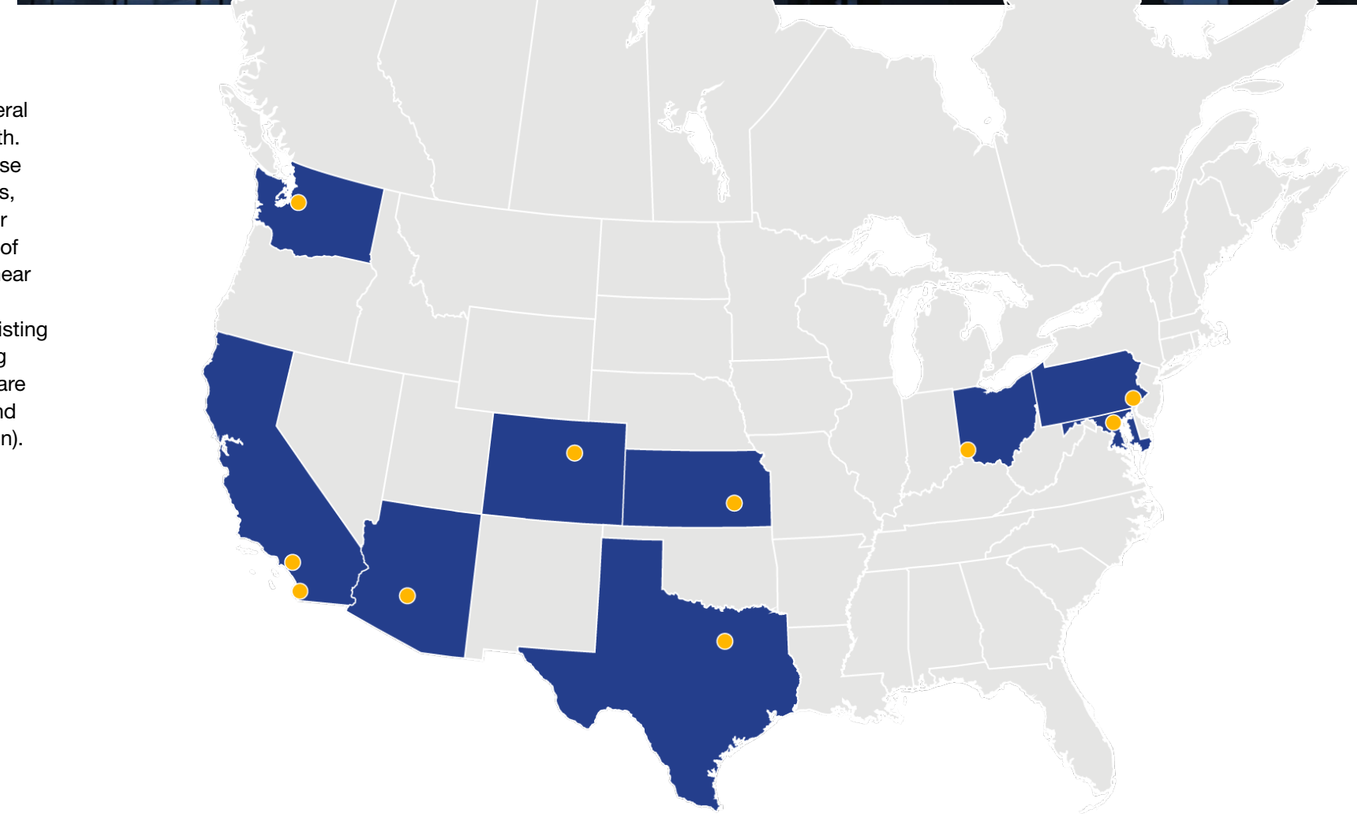
AEROSPACE & DEFENSE TRENDS IN CORPORATE REAL ESTATE

STATE LEVEL

The A&D industry has traditionally located manufacturing facilities in California, Florida, and Texas, while office locations have been located near these locations and concentrated around the Washington, DC metro. Much of this was driven by proximity to research centers, military bases, and research corridors near colleges and universities. The adjacent map shows the top 10 states with the largest A&D presence in terms of square footage of existing manufacturing, flex, and office space.

METRO LEVEL

The A&D Industry has established deep roots in several markets, including Los Angeles and Dallas-Fort Worth. Existing locations are centralized around large defense contractors like Boeing in Seattle, Lockheed in Dallas, and Northrop Grumman in Southern California. Other established metros are locations close to the center of government in Washington, DC and central Florida near NASA's Cape Canaveral, and rocket development in Huntsville, Alabama. The largest concentration of existing office space is within Washington, DC. Other existing concentrations of Aerospace & Defense companies are Wichita, Kansas (Spirit Aerosystems and Textron), and Cedar Rapids, Iowa (Collins Aerospace and Raytheon).



Source: CoStar, Cresa
Note: Facilities include all property types, including office, manufacturing, and flex properties.
Companies were identified as having the following NAICS codes: 336414, 336415, 336419, 927110, 336411, 336413

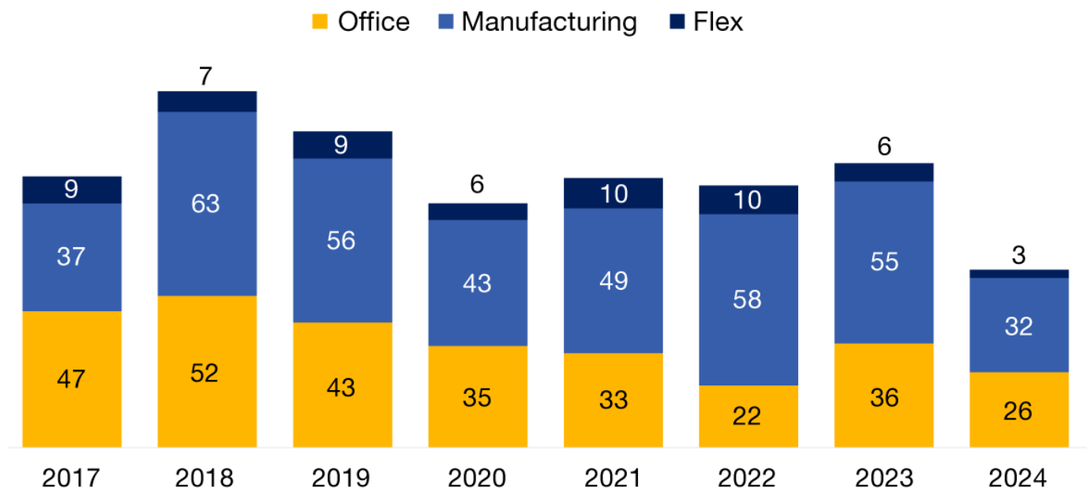
2025 | Aerospace & Defense Industry Trends

RECENT MOVE-INS

Aerospace & Defense Companies Thrive

The number of recent A&D move-ins (tenants who moved into new spaces since 2017) has stayed relatively steady, even with the onset of the Covid-pandemic. Even office space, which shed nearly 250 million square feet across all industries, only dipped in 2022 before rebounding in 2023. The A&D manufacturing sector does not appear to have been deeply impacted by Covid restrictions, which speaks to the strength of the industry.

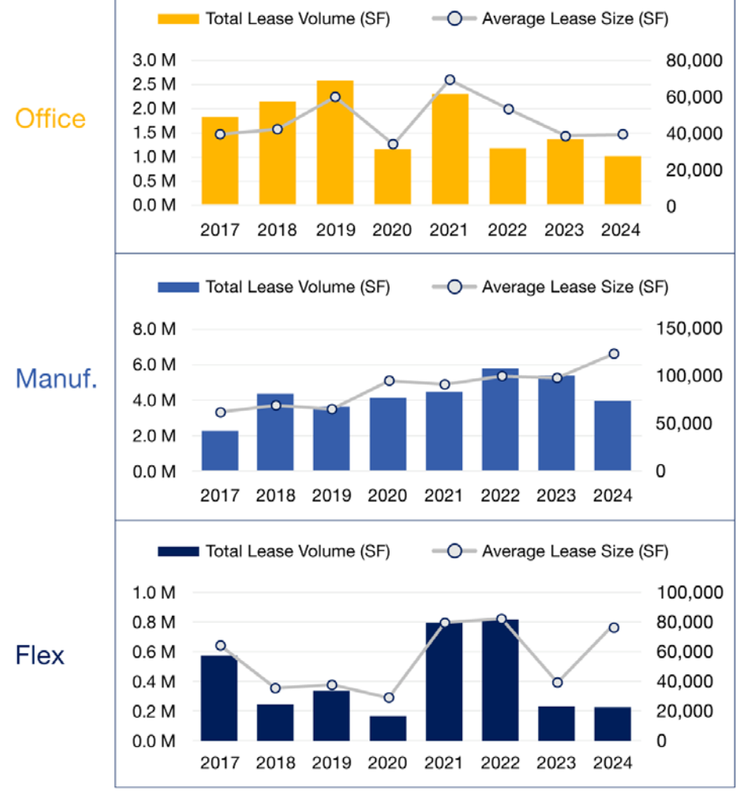
NUMBER OF MOVE-INS AEROSPACE & DEFENSE CO.



Source: CoStar, Cresa

Note: Move-ins are classified as companies that were identified as moving into a space since the start of 2017. This may include moving into a new space or moving into a space within the same building or complex. It does not include renewals, unless the renewal including an expansion of existing space.

MOVE-INS VOLUME AND AVERAGE MOVE-IN SIZE



OFFICE

While the number of new office space move-ins dropped in 2020 and 2022, the average size of move-in remained around 40,000 square feet. This is significantly larger than other industries.

MANUFACTURING

Aerospace and Defense industry companies continued to invest in manufacturing, accelerating both total lease volume and average lease size. The average manufacturing move-in 2024 was nearly double the size of 2017 move-ins.

FLEX

Flex space, which is often used for research and development have been more volatile, but this may be explained by the relatively low number of move-ins.

RECENT MOVE-INS

Average Manufacturing Deal Size Steadily Increases

In terms of location, move-ins by property type did follow historical metros like Washington, DC, Seattle, and Dallas. However, there were several additional metros that experienced significant move-ins, such as Tucson, Phoenix, Baltimore, and Indianapolis. These moves away from traditional Aerospace and Defense industry locations is consistent with sites that provide skilled labor, location near strong supply chains, and more affordable real estate options.

OFFICE

Metro	No. of Move-ins	Volume SF
Washington, DC	19	457 K
Houston	3	411 K
Brownsville-Harlingen	1	329 K
Melbourne	6	240 K
Baltimore	4	190 K
Huntsville	8	180 K
Tucson	1	142 K
Dallas-Fort Worth	5	91 K
Fort Lauderdale	3	87 K
San Diego	5	78 K

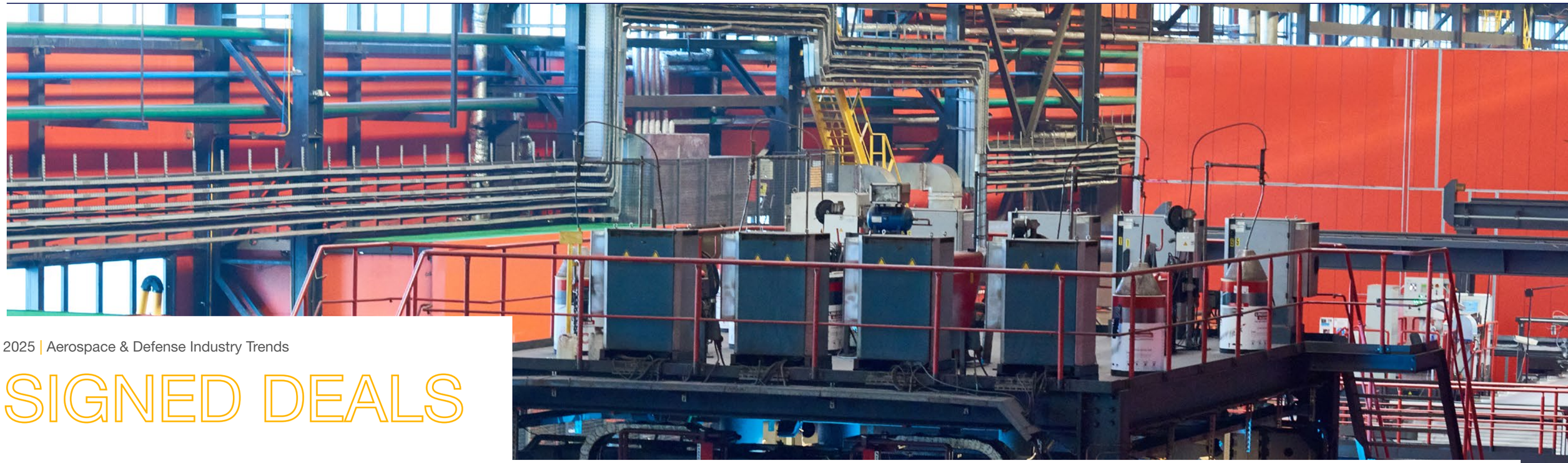
MANUFACTURING

Metro	No. of Move-ins	Volume SF
Seattle	12	3.4 M
Los Angeles	7	1.1 M
Dallas-Fort Worth	4	1.0 M
Phoenix	1	599 K
Sacramento	2	490 K
Orange County	8	464 K
Indianapolis	3	460 K
Jacksonville	2	440 K
Akron	1	372 K
Dayton	1	331 K

FLEX

Metro	No. of Move-ins	Volume SF
Tucson	1	175 K
Orange County	2	162 K
Worcester	1	139 K
East Bay	3	122 K
Huntsville	1	120 K
Ann Arbor	1	85 K
San Diego	1	76 K
San Jose	2	61 K
Charlotte	1	51 K
Washington, DC	1	44 K

Source: CoStar, Cresa



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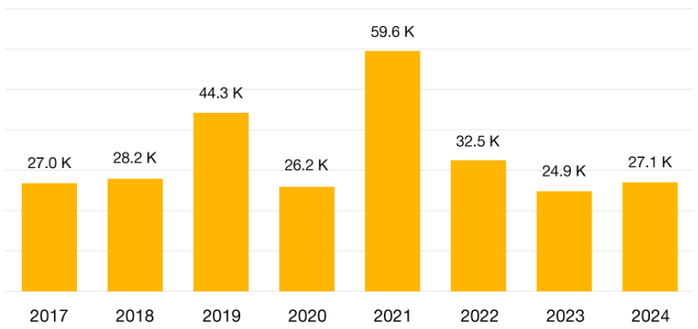
SIGNED DEALS

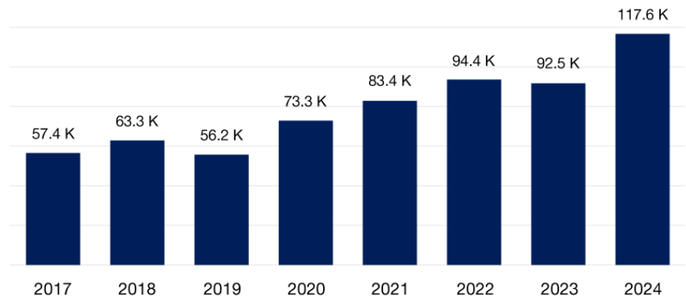
OFFICE

The number of newly signed office deals for the Aerospace and Defense industry has remained consistent for the past several years. The average size of signed deals spiked in 2021, which was counter to the overall office sector. The average size of deals has reverted to pre-Covid norms the last three years.



MANUFACTURING/FLEX

The number of manufacturing signed deals for the A&D industry has remained steady, however the volume and the average deal size has grown. The signed deals in 2024 were on average more than twice the size of deals signed in 2017.



Source: CoStar, Cresa

Note: Signed leases include the date the lease transaction was signed, not necessarily when the tenant moved-in to the space.

2025 | Aerospace & Defense Industry Trends

LABOR

Aerospace & Defense Employment Levels

EMPLOYMENT FOR MANUFACTURING: AEROSPACE PRODUCT AND PARTS MANUFACTURING (NAICS 3364)

Source: BLS

10.7%

Increase in jobs within the A&D industry since 2021

51,600

Total jobs added in the A&D industry in the past two years

Technological advancements, including automation, robotics, and smart manufacturing are spurring job creation, particularly in automotive, aerospace, and electronics sectors. Shifting production back to the U.S. to reduce supply chain vulnerabilities have also aided hiring skilled manufacturing jobs. Government initiatives such as the Chips Act and the Inflation Reduction Act are prompting companies to heavily invest in advanced manufacturing sectors, which is expected to place additional emphasis on skilled labor roles.

LABOR

Location Quotient for Aerospace Product & Parts Manufacturing

Access to a skilled labor force is a crucial factor driving site location for companies in the A&D industry. As industries increasingly rely on specialized skills—such as robotics programming, data analysis, and advanced engineering—companies seek locations where they can easily recruit workers with the necessary expertise. Regions with strong educational institutions, vocational training programs, and established manufacturing clusters tend to attract businesses, as they provide a steady pipeline of qualified talent.

Location quotients are ratios that allow an area's distribution of employment by industry to be compared to a reference area's distribution. An LQ of 1.5 means the metro has a concentration of workers in the industry that is 50 percent greater than the national average. The adjacent table shows markets with a location quotient for the aerospace product and parts manufacturing sector above 1.50, and how each market stacks up against national averages for wage levels and lease rates.

Well Above	+15% Above
Above	+10% - 15% Above
Similar	Within 10%
Below	10% - 15% Below
Well Below	-15% Below

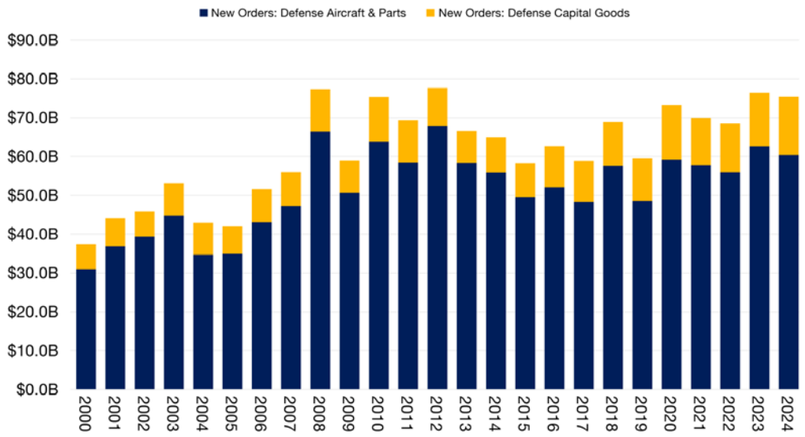
					Compared to National Average		
Metro	**State**	**Employment Location Quotient**	**Average Weekly Wage**	**Wage Levels Above-Below US Average**	**Office Asking Rates ($/SF)**	**Industrial Asking Rate ($/SF)**	**Flex Asking Rate ($/SF)**
US		**1.00**	**$2,232**		**$33.84**	**$9.75**	**$17.55**
Wichita	KS	25.93	$1,705	Well Below	Well Below	Well Below	Well Below
Savannah	GA	16.81	$1,970	Below	Below	Below	Similar
Seattle	WA	10.63	$2,455	Above	Above	Well Above	Well Above
Melbourne	FL	9.78	$2,449	Similar	Well Below	Well Above	Below
Hartford	CT	9.09	$2,510	Above	Well Below	Similar	Well Below
Ogden	UT	7.65	$2,233	Similar	Well Below	Below	Below
Wichita Falls	TX	6.87	$1,456	Well Below	Well Below	Well Below	Well Below
Tulsa	OK	4.89	$1,695	Well Below	Well Below	Well Below	Well Below
Waco	TX	4.88	$2,387	Similar	Well Below	Well Below	Well Below
St. Louis	MO	3.82	$2,364	Similar	Well Below	Well Below	Well Below
Cincinnati	OH	2.94	$2,613	Well Above	Well Below	Well Below	Well Below
Mobile	AL	2.92	$2,167	Similar	Well Below	Well Below	Well Below
Los Angeles	CA	2.87	$2,450	Similar	Well Above	Well Above	Well Above
Fort Walton Beach	FL	2.65	$2,110	Similar	Similar	Well Above	Similar
Carson City	NV	2.45	$1,375	Well Below	Well Below	Similar	Well Below
Dallas-Fort Worth	TX	2.41	$2,478	Above	Similar	Similar	Similar
San Diego	CA	2.29	$2,292	Similar	Well Above	Well Above	Well Above
Oklahoma City	OK	1.80	$2,251	Similar	Well Below	Well Below	Well Below
Dayton	OH	1.76	$1,718	Well Below	Well Below	Well Below	Well Below
Waterbury	CT	1.63	$2,341	Similar	Well Below	Similar	Well Below
Bend	OR	1.62	$1,405	Well Below	Below	Well Above	Well Below

Source: BLS

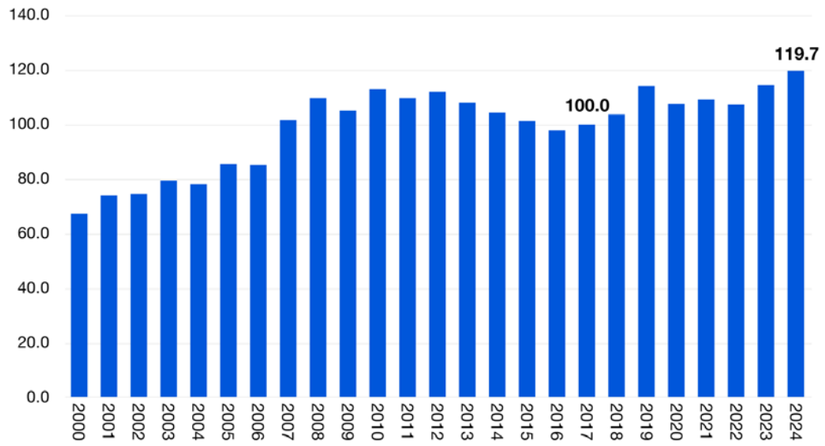
AEROSPACE & DEFENSE

New Orders and Production Are Increasing

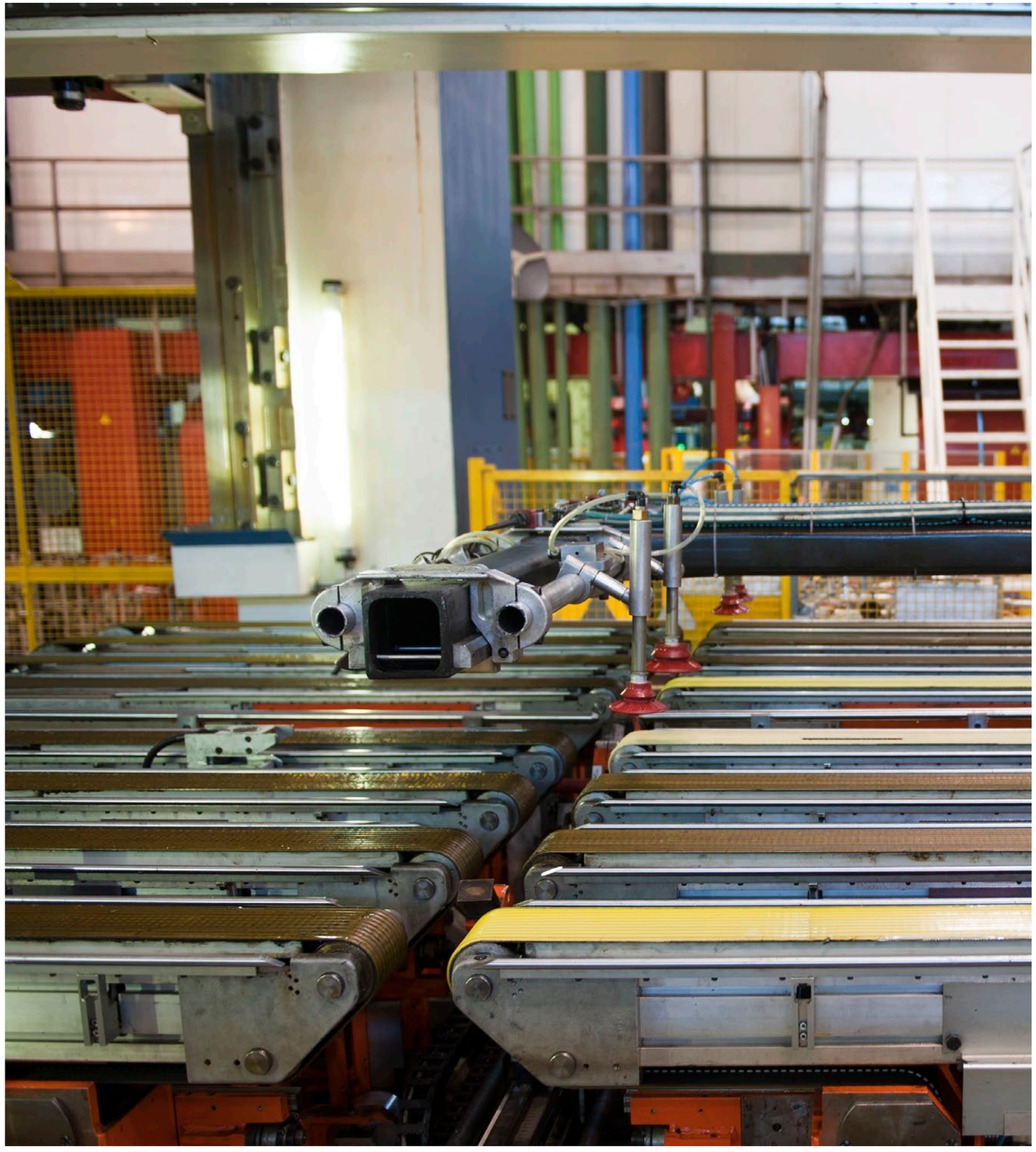
MANUFACTURERS' NEW ORDERS: DEFENSE AIRCRAFT & PARTS & DEFENSE CAPITAL GOODS



INDUSTRIAL PRODUCTION: EQUIPMENT: DEFENSE & SPACE EQUIPMENT INDEX



Source: U.S. Census Bureau, Manufacturers' New Orders: Defense Aircraft and Parts [ADAPNO], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/ADAPNO



HOT MARKETS

Several U.S. markets are excelling in producing advanced manufacturing jobs, driven by a combination of factors such as local industry presence, workforce development, and technological innovation. Here are some key regions:

1. Huntsville, Alabama (“Rocket City”)
Large defense presence (Redstone Arsenal, U.S. Space Command) with Boeing, Lockheed Martin, Northrop Grumman, and several space startups and missile manufacturers expanding here.

2. Tucson, Arizona
Significant Raytheon footprint, including growth in missile systems, space systems, and defense R&D.

3. Colorado Springs & Denver, Colorado
Fast-growing defense and space sector and home to U.S. Space Command HQ, plus Lockheed Martin Space, Sierra Space, and many startups.

4. Dallas-Fort Worth, Texas
Longstanding aerospace base, but increasing MRO (maintenance, repair, and overhaul), unmanned systems, and advanced manufacturing investments.. Bell Helicopter, Lockheed Martin Aeronautics, plus a rising drone manufacturing scene.

5. Greenville-Spartanburg, South Carolina
Boeing expansion in the Carolinas and Lockheed’s F-16 production facility in Greenville is ramping up deliveries.

6. Oklahoma City, Oklahoma
Emerging as an MRO & sustainment hub for military aircraft and home to Tinker Air Force Base — large investments in depot maintenance.

7. St. Louis, Missouri
Boeing Defense HQ based and recent expansion plans for fighter jet production (F/A-18, F-15EX, T-7 trainer jet).

8. Midland-Odessa, Texas & El Paso region
Smaller, but big push toward border security tech and UAV manufacturing and proximity to Fort Bliss and growing DoD contracting ecosystem.

9. Northern Florida (Panhandle area)
Significant defense cluster around Eglin AFB, Hurlburt Field, Naval Air Station Pensacola. Emerging manufacturing, simulation, and cyber defense markets.

10. Salt Lake City, Utah
Northrop Grumman is heavily investing here for solid rocket motor production and ICBM modernization (GBSD program).

These markets are capitalizing on their unique strengths, attracting investments, and fostering innovation to boost advanced manufacturing job creation.

REAL ESTATE THEMES

Trends in Corporate Real Estate in Aerospace & Defense Companies

1. Footprint Optimization
Many Aerospace and Defense (A&D) companies have massive real estate portfolios — office campuses, manufacturing plants, R&D labs, and logistics hubs. The broader trend of hybrid work and office downsizing are impacting A&D companies.A few ways companies are implementing this trend include:

- Re-evaluating non-core office spaces (admin, HR, sales offices) and shifting to hybrid or remote models.
- Investing heavily in secure, high-tech campuses for sensitive operations that cannot be remote — defense manufacturing, classified R&D.
- Adopting the hub-and-spoke model for less sensitive roles while keeping secure, centralized campuses for core defense work.

2. Flight to Quality + Defense Infrastructure
The “Flight to Quality” trend in CRE aligns with the A&D sector’s need to modernize and secure facilities. We see companies investing in high-security, cutting-edge facilities to handle sensitive defense contracts as well as moving out of outdated, inefficient office/plant buildings into smart, energy-efficient, sustainable campuses — often government-mandated in defense contracts.

3. Sustainability Goals + Defense Real Estate
There’s increasing pressure on defense contractors to meet ESG goals (Environmental, Social, Governance). To meet these goals companies are:

- Retrofitting existing facilities for energy efficiency.
- Building LEED-certified production and R&D centers.
- Partnering with the government on green energy defense infrastructure initiatives.

4. Flexible Leasing + Defense Supply Chain
The defense sector relies heavily on tiered suppliers — many of these smaller suppliers are re-evaluating their factory and warehouse footprints by negotiating shorter, flexible leases so they can scale production up or down based on unpredictable government defense budgets. Larger manufacturers are more frequently taking over lease commitments for smaller suppliers to stabilize their supply chains.

5. Supply Chain Resilience & Localization
The A&D industry is reworking supply chains to reduce dependencies, especially on Asia-Pacific and single-source suppliers. Near-shoring and reshoring efforts are underway to bring production closer to home. While vertical integration is being implemented through acquiring or investing in key suppliers to control critical production.

6. Talent Strategy + Office/Manufacturing/Flex (R&D) Real Estate
The A&D industry’s labor shortage intersects with real estate strategy in several ways. To attract engineering talent, defense companies are investing in high-quality, well-located campuses and manufacturing (near urban centers with good amenities). They are also incorporating modern, wellness-focused designs to lure young talent back to physical locations.

7. Digitalization + Smart Buildings
A&D companies are adopting digital twin technology and advanced manufacturing — which requires modernized, tech-enabled real estate including:

- Integrating IoT sensors, predictive maintenance, and cybersecurity protocols in their facilities.
- Collaborating with CRE developers to ensure new facilities meet these highly specialized digital requirements, including power and infrastructure needs.

Advanced Manufacturing Trends Impacting Aerospace & Defense Sector

1. Increased Demand for Specialized Facilities:
Advanced manufacturing requires facilities equipped to handle high-tech machinery, robotics, and other cutting-edge equipment. As a result, demand is growing for buildings with enhanced electrical power, cooling systems, reinforced floors, and high ceilings to accommodate large or sensitive equipment.

2. Proximity to Urban Areas:
To streamline production and reduce lead times, advanced manufacturers seek industrial spaces closer to urban centers and major transportation hubs. This trend is driving a shift from traditional large-scale, remote industrial parks to smaller, flexible facilities located within or near cities.

3. Growth in R&D and Hybrid Spaces:
Advanced manufacturing often includes research and development (R&D) components, blending production, testing, and office functions. This hybrid approach is increasing the demand for flexible industrial properties that can integrate R&D labs, offices, and production spaces under one roof.

4. Emphasis on Sustainability and Smart Facilities:
Manufacturers are focusing on sustainability, leading to demand for green buildings with energy-efficient systems, renewable energy capabilities, and environmentally friendly designs. Smart factories incorporating IoT, AI, and data-driven management also require facilities equipped with modern connectivity and automation infrastructure.

5. Reconfiguration of Supply Chains:
The trend toward reshoring and localizing production to increase supply chain resilience is driving demand for new industrial spaces domestically. Manufacturers want locations that support just-in-time production, easy access to raw materials, and efficient distribution networks.

These shifts are reshaping the industrial real estate sector, prompting developers and investors to adapt to these advanced manufacturing needs.

Addressing Power Needs Essential to Propelling Aerospace & Defense Sector

Power availability and consumption play a critical role in the A&D sector, influencing everything from production efficiency to sustainability and supply chain resilience. Companies are increasingly adopting renewable energy, energy-efficient systems, and backup power solutions to mitigate risks and reduce costs. Manufacturers are increasingly seeking locations that can support high energy consumption, as many advanced manufacturing processes require substantial electricity for operations, especially in advanced systems like radar, directed energy weapons, and aerospace simulations. As a result, developers are focusing on sites with robust electrical infrastructure and access to reliable, clean energy sources, often favoring regions with renewable energy initiatives to meet sustainability goals.

Additionally, the push for energy efficiency and sustainability is influencing building design and construction practices in advanced manufacturing facilities. Developers are incorporating energy-efficient technologies and renewable energy systems, such as solar panels and energy storage solutions, into their projects to reduce operational costs and minimize environmental impact. This alignment with energy demands not only enhances the attractiveness of these sites to manufacturers but also positions real estate developers as key players in the transition to a more sustainable and energy-efficient manufacturing landscape.

DRIVERS IMPACTING POWER SUPPLIES

HIGH ENERGY DEMAND

Advanced manufacturing processes often require significant energy, particularly in semiconductor production, aerospace, and electric vehicle manufacturing.

INFRASTRUCTURE LIMITATIONS

Many areas may lack the necessary electrical infrastructure to suppler large-scale manufacturing operations due to the cost of upgrading or expanding power grids.

REGULATORY AND ENVIRONMENTAL CONSTRAINTS

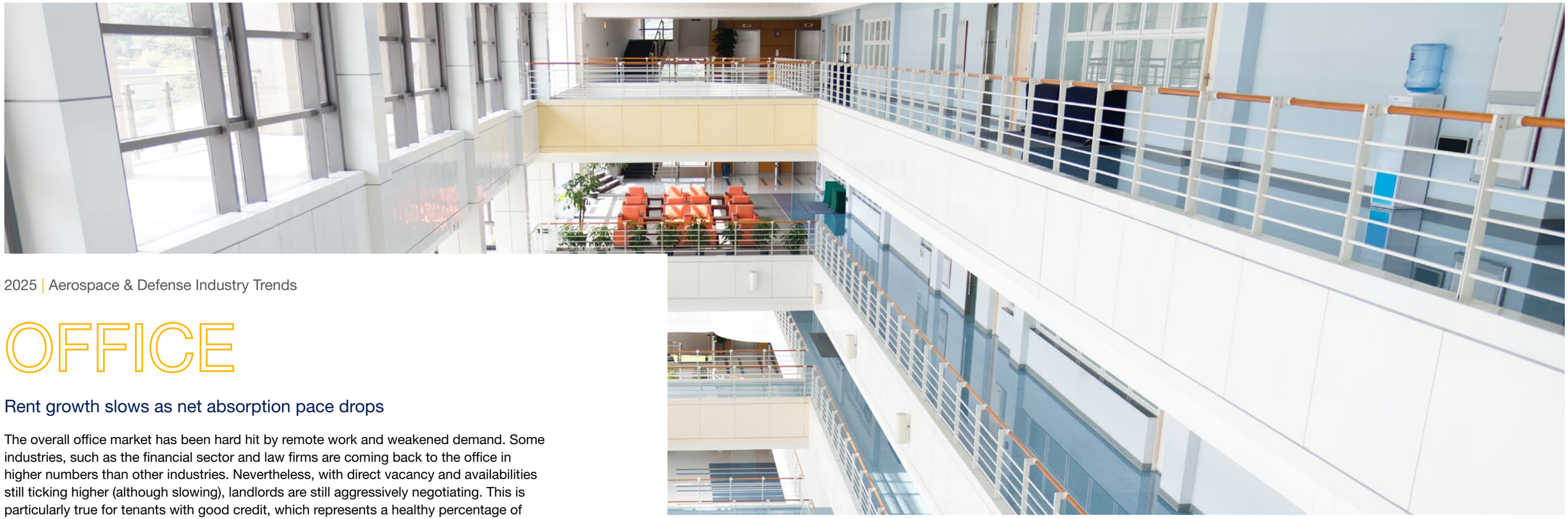
The development of new power generation facilities can face regulatory hurdles and environmental concerns.

MARKET VOLATILITY

Fluctuations in energy prices and availability can complicate long-term planning for manufacturers.

REGIONAL DISPARITIES

Energy resources and infrastructure vary across regions. Ares with abundant renewable sources may struggle with grid stability or energy storage or others with traditional energy sources may face challenges in transitions to sustainable options.



OFFICE

Rent growth slows as net absorption pace drops

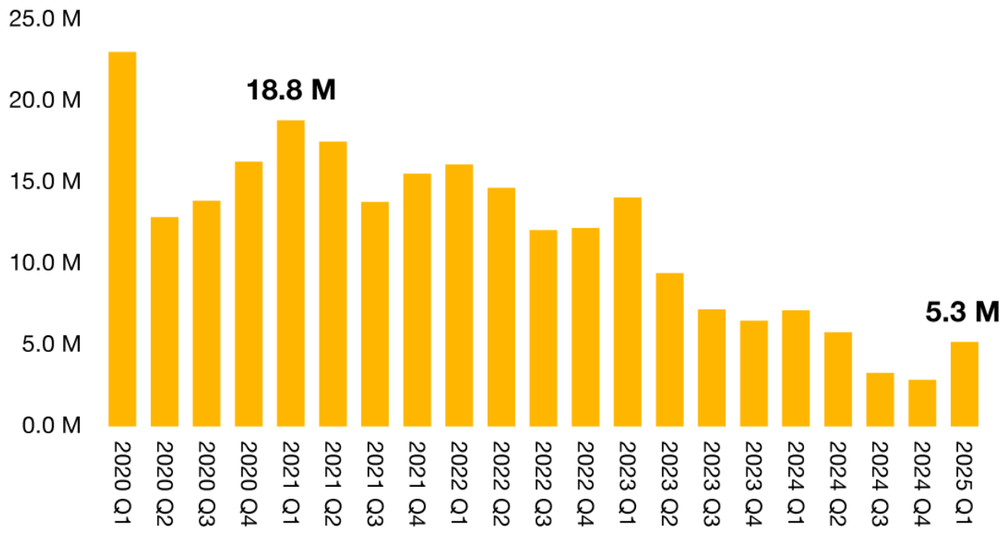
The overall office market has been hard hit by remote work and weakened demand. Some industries, such as the financial sector and law firms are coming back to the office in higher numbers than other industries. Nevertheless, with direct vacancy and availabilities still ticking higher (although slowing), landlords are still aggressively negotiating. This is particularly true for tenants with good credit, which represents a healthy percentage of A&D companies. With limited new construction and additional leverage, many tenants are looking to move into high-quality space, which has resulted in more competition for well-located and amenitized spaces.

OFFICE PROPERTY TRENDS

Tenant Leverage: Above Average				
Office Market	**Q1 2025**	**Q1 2024**	**12-Month Change**	**Trend**
Market Rent (PSF/Yr)	$36.21	$35.88	0.9%	Increased
Direct Vacancy %	14.40%	13.70%	0.70 bps	Increased
Availability %	18.50%	18.70%	-0.20 bps	Decreased
Net Absorption SF (TTM)	-18.6 M	-68.2 M	-72.7%	Decreased
Net Deliveries SF (TTM)	48.5 M	62.6 M	-22.5%	Decreased
Under Construction SF	77.7 M	110.5 M	-29.7%	Decreased

Source: CoStar, Cresa

OFFICE CONSTRUCTION STARTS



2025 | Aerospace & Defense Industry Trends

WAREHOUSE/ DISTRIBUTION

Rent growth slows as net absorption pace drops

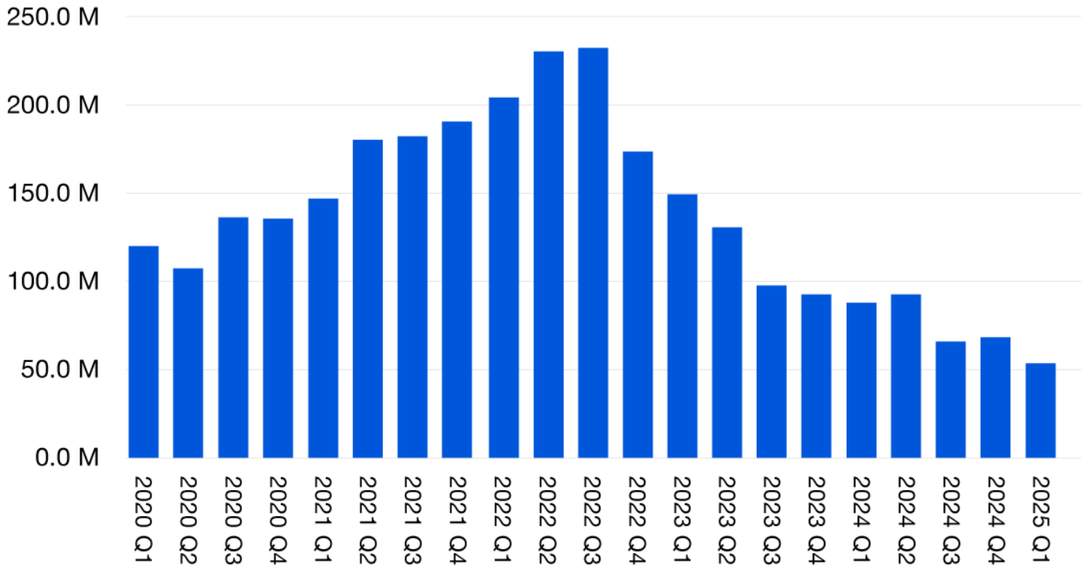
The warehouse/distribution market was one of the biggest benefactors of the Covid pandemic as disrupted supply chains led to record demand. After record rent increases and construction levels, the overall market has retreated with availabilities sharply rising and market rent coming to halt, with some markets lowering rates. With tariffs and other economic uncertainty, the lull may last into the second half of 2025. The result is a window for tenants to more actively negotiate.

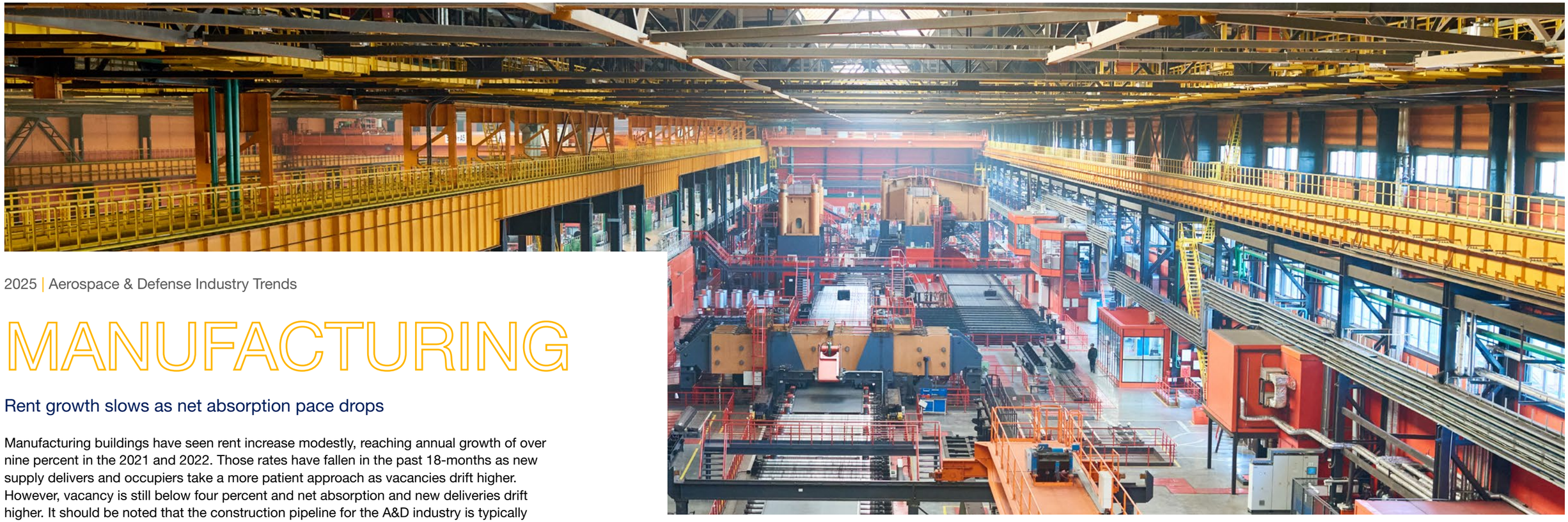
WAREHOUSE/DISTRIBUTION PROPERTY TRENDS

Tenant Leverage: Above Average				
	Q1 2025	Q1 2024	12-Month Change	Trend
Market Rent	$9.53	$9.37	1.7%	Increased
Direct Vacancy %	8.10%	6.40%	1.70 bps	Increased
Availability %	12.20%	10.20%	2.00 bps	Increased
Net Absorption SF (TTM)	156.0 M	265.7 M	-41.3%	Decreased
Net Deliveries SF (TTM)	416.3 M	629.2 M	-33.8%	Decreased
Under Construction SF	240.8 M	453.2 M	-46.9%	Decreased

Source: CoStar, Cresa

WAREHOUSE/DISTRIBUTION CONSTRUCTION STARTS





2025 | Aerospace & Defense Industry Trends

MANUFACTURING

Rent growth slows as net absorption pace drops

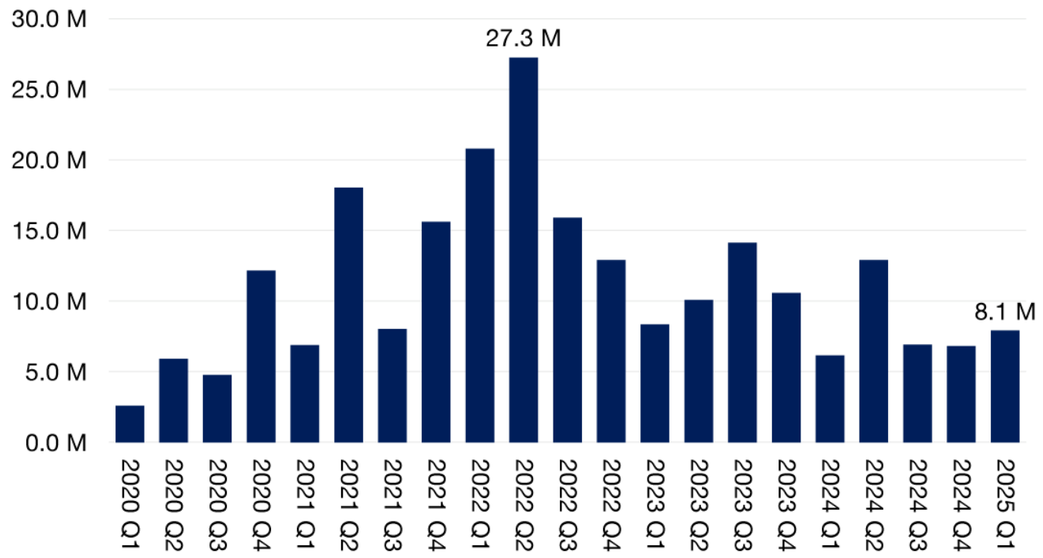
Manufacturing buildings have seen rent increase modestly, reaching annual growth of over nine percent in the 2021 and 2022. Those rates have fallen in the past 18-months as new supply delivers and occupiers take a more patient approach as vacancies drift higher. However, vacancy is still below four percent and net absorption and new deliveries drift higher. It should be noted that the construction pipeline for the A&D industry is typically around 50 percent build-to-suit because of requirements for classified and secure facilities and customized layouts for high-tech production.

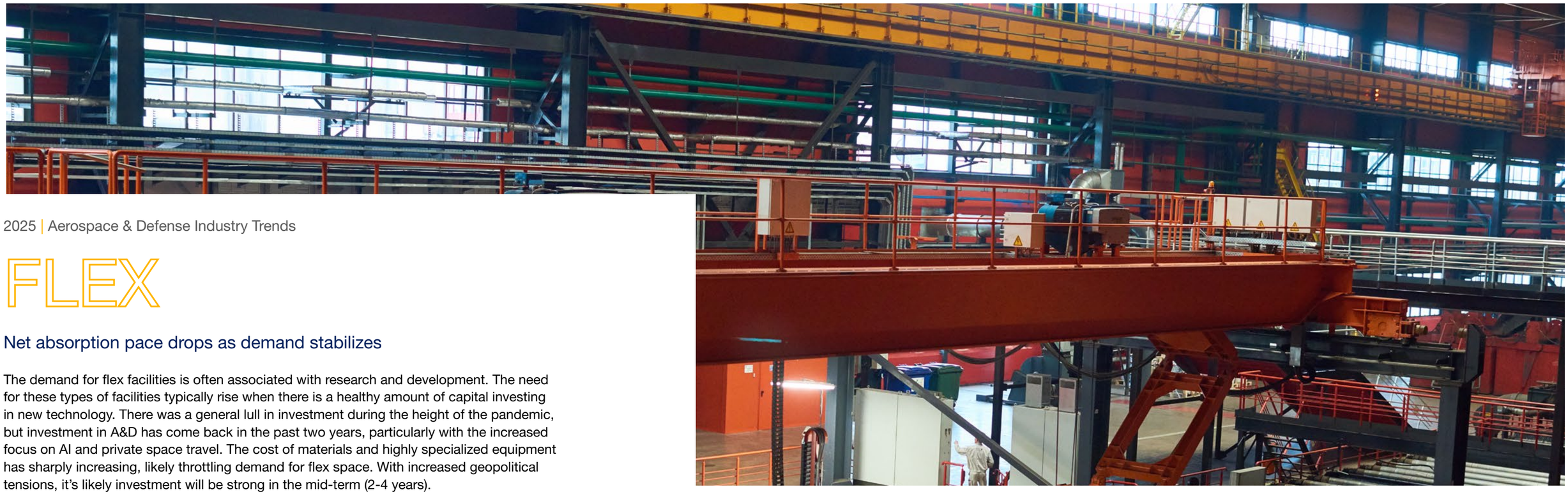
MANUFACTURING PROPERTY TRENDS

Tenant Leverage: Neutral				
	Q1 2025	Q1 2024	12-Month Change	Trend
Market Rent	$9.20	$9.12	0.9%	Increased
Direct Vacancy %	3.50%	2.80%	0.70 bps	Increased
Availability %	10.90%	9.40%	1.50 bps	Increased
Net Absorption SF (TTM)	34.9 M	16.6 M	110.2%	Increased
Net Deliveries SF (TTM)	53.1 M	39.3 M	35.3%	Increased
Under Construction SF	77.0 M	100.1 M	-23.0%	Decreased

Source: CoStar, Cresa

MANUFACTURING CONSTRUCTION STARTS





2025 | Aerospace & Defense Industry Trends

FLEX

Net absorption pace drops as demand stabilizes

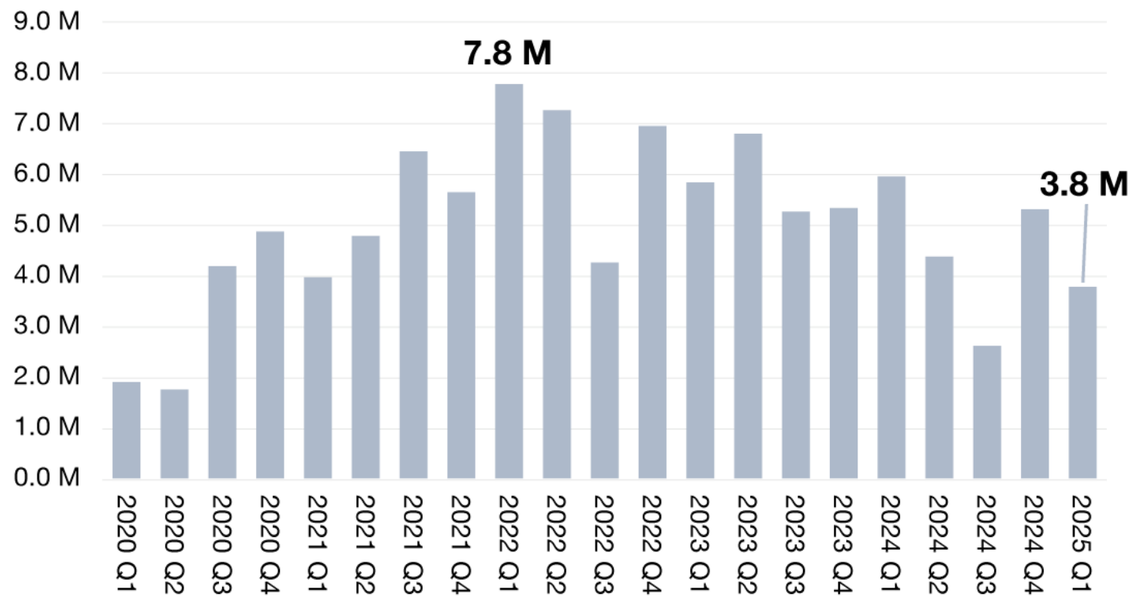
The demand for flex facilities is often associated with research and development. The need for these types of facilities typically rise when there is a healthy amount of capital investing in new technology. There was a general lull in investment during the height of the pandemic, but investment in A&D has come back in the past two years, particularly with the increased focus on AI and private space travel. The cost of materials and highly specialized equipment has sharply increasing, likely throttling demand for flex space. With increased geopolitical tensions, it's likely investment will be strong in the mid-term (2-4 years).

FLEX PROPERTY TRENDS

Tenant Leverage: Neutral				
	Q1 2025	Q1 2024	12-Month Change	Trend
Market Rent	$17.68	$17.25	2.5%	Increased
Direct Vacancy %	7.00%	6.20%	0.80 bps	Increased
Availability %	10.30%	9.30%	1.00 bps	Increased
Net Absorption SF (TTM)	3.1 M	8.8 M	-64.9%	Decreased
Net Deliveries SF (TTM)	18.8 M	20.5 M	-8.1%	Decreased
Under Construction SF	35.2 M	39.2 M	-10.2%	Decreased

Source: CoStar, Cresa

FLEX CONSTRUCTION STARTS



CONCLUSIONS

The Aerospace and Defense sector is rapidly transforming, pushing corporate real estate toward high-tech, secure, and sustainable facilities. Reshoring, automation, sustainability, and space expansion will be the biggest CRE trends in 2025. Continued importance on advanced manufacturing will put additional emphasis on talent and will drive many location decisions, which will include movement into new markets for the A&D industry.

Still, the importance of existing hubs like Washington, DC for office needs and a presence surrounding Florida's Space Coast, Texas, and California will continue. Supply chain securitization and other drives for nearshoring and onshoring, despite short-term uncertainties surrounding tariffs and other domestic and foreign policies, will be part of companies' strategic real estate decision-making. Lastly, securing adequate, consistent and predictable costs for energy will increase in importance.

TENANT PERSPECTIVE

Understanding local and federal incentive programs (like the Inflation Reduction Act, free trade zones, and special economic zones) is imperative early in the planning process.

Rise of flexible, modular factory designs that can adapt to new technologies will be important for occupiers to remain nimble.

The speed of mergers & acquisitions in the A&D industry provides an opportunity for companies to consider ways to optimize their footprints and future space needs.

About the Author

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Craig serves as the Head of Research for Cresa, the leading commercial real estate tenant advisory in the world. The research role provides insight, thought leadership, and trends impacting occupiers of real estate, and supports existing client relationships and business development.

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