

Intelligent Investment

# 2025 U.S. Real Estate Market Outlook

REPORT

Increased Leasing &  
Investment Activity  
Expected

CBRE RESEARCH  
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CBRE



# 2025 Will See a Return of Pre-Pandemic Demand Drivers

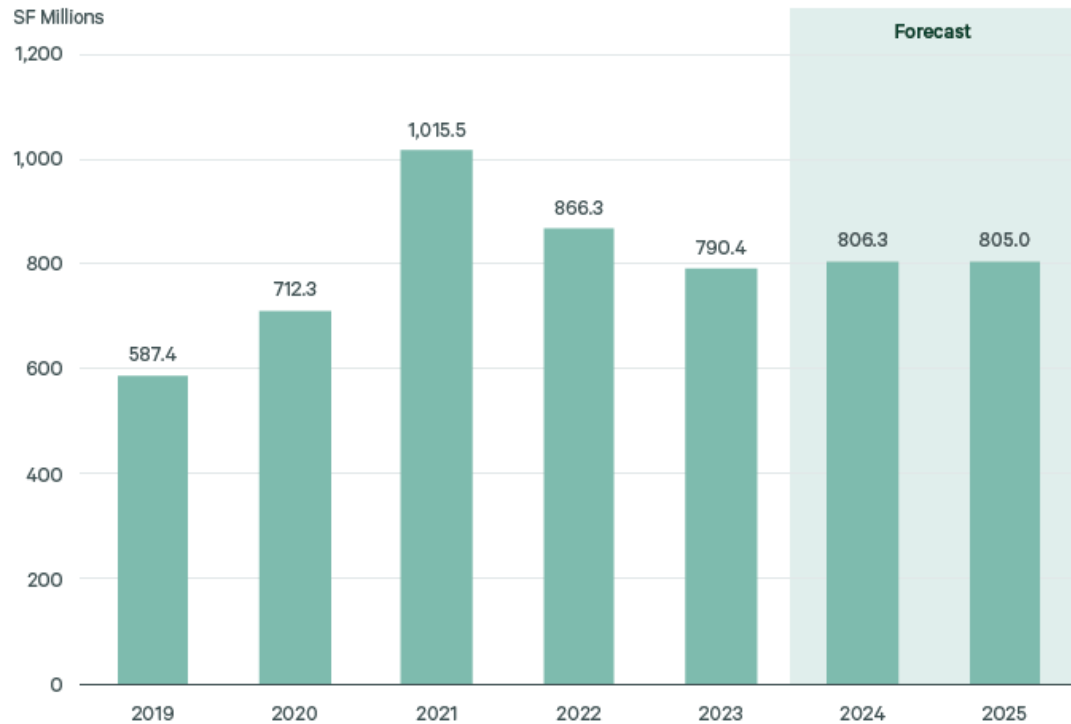
The U.S. industrial market will enter a new cycle in 2025 with a return to pre-pandemic demand drivers. Industrial occupiers will focus on longer-term strategies to improve warehouse efficiency, ensure supply chain resiliency and meet the needs of an evolving consumer base. Demand for newly constructed space will drive up the vacancy rate of older buildings.

Companies will continue a flight to newly constructed and more modern space in 2025 to facilitate their use of automation and artificial intelligence and provide more employee amenities. Power capacity will become a top priority for site selection. Markets with reliable power grids, including Chicago, Phoenix and Las Vegas, will benefit most.

Demand for new space will grow the most from third-party logistics (3PL) providers. Retailers and wholesalers outsource their distribution operations for three primary reasons: import flexibility, capital preservation and a focus on core competency. Labor disruptions, extreme weather events and geopolitical conflicts have led companies to diversify import locations. Utilizing 3PLs allows for more inventory flexibility, a key component to retailer success in times of uncertainty. It also allows companies to focus on core business competencies that drive revenue, such as product development, sales and customer service. The increase in outsourcing will keep 3PLs' share of overall industrial leasing activity at or near 35% in 2025.

Companies will continue a flight to quality in 2025 to facilitate their use of automation and artificial intelligence and provide more employee amenities.

Figure 12: Industrial Leasing Activity



Includes new leases and renewals of 10,000 sq. ft. or more.  
Source: CBRE Research, Q3 2024.

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Industrial &  
Logistics

While leasing activity over the past 24 months has not reached the record levels of 2021 and 2022, it remains well above pre-pandemic levels. Leasing activity should stabilize at just above 800 million sq. ft. in 2025.

Despite robust leasing, net absorption will remain low as much of the new leasing will come at the expense of older facilities. Buildings constructed before 2000 accounted for more than 100 million sq. ft. of negative absorption in 2024, while those completed after 2022 posted more than 200 million sq. ft. of positive absorption. This trend will continue in 2025 as long as there still is first-generation space to lease.

More than 400 million sq. ft. of the nearly 1 billion sq. ft. of new industrial supply added since Q1 2023 remained vacant in Q3 2024. While fewer construction starts will reduce construction completions by half in 2025, this relatively plentiful amount of available first-generation space will allow for further flight to quality.

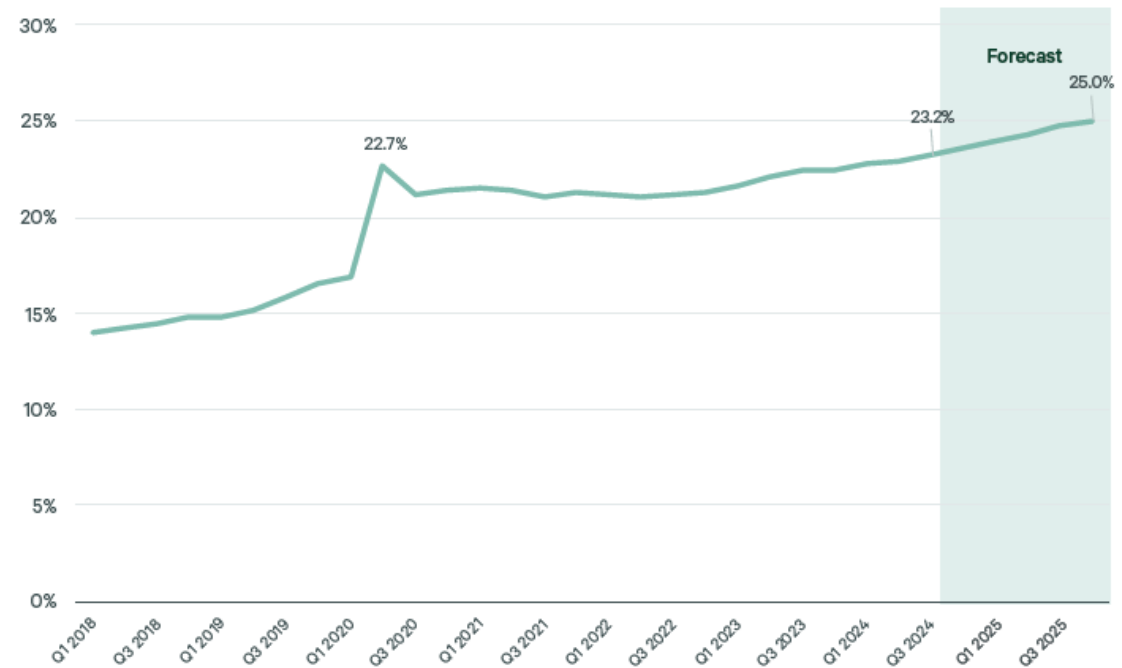
Owners of older buildings that are largely vacant likely will pursue one of three options: stay the course and wait for demand to rebound as new space dries up in 2026, make capital investments to add modern amenities or simply sell the building. Owners that put older buildings up for sale could attract certain own-and-occupy buyers who do not need modern amenities and want to avoid paying rent.

Occupiers will continue to favor primary markets that meet consumer expectations and ensure supply chain resiliency. The e-commerce share of total retail sales, excluding autos and gasoline, hit a record-high 23.2% in Q3 2024 and is expected to reach 25.0% by year-end 2025, creating more demand for warehouse & distribution space.

Perhaps the most important consideration in site selection is a market's ability to offer supply chain resiliency. Core industrial markets like the Inland Empire, Dallas-Ft. Worth, Atlanta, Chicago and the New Jersey/Pennsylvania region will remain leaders in leasing activity. However, there are emerging industrial markets that service manufacturing in both the U.S. and Mexico. These include Houston, Kansas City, Louisville, Nashville and Raleigh-Durham.

Occupiers will continue to favor primary markets that meet consumer expectations, act as a prime location and ensure supply chain resiliency.

Figure 13: E-Commerce Share of Total Retail Sales\*



\*Excluding auto and gasoline sales.  
Source: CBRE Research, Q3 2024.

# Reshoring of Manufacturing

A primary component of supply chain resiliency is a diverse source of products that lead to onshoring of manufacturing to North America. While the U.S. has seen a slight increase in manufacturing, companies will continue to seek lower labor costs for products like automobiles and computers. Mexico, for example, has a highly skilled and lower-cost labor force to manufacture products that require large warehouse & distribution operations.

However, Mexico's record-low industrial vacancy rate will force companies to open more U.S. distribution centers, preferably either near the Mexico border or along the major north-south highways (Interstates 29 and 35) to store and distribute this product.

With the potential for increased tariffs on products from Asia and perhaps Europe, along with other supply chain constraints, having a warehouse either near the Mexico border or along these two main interstate highways will become nearly as important for some companies as having a seaport location. This should increase demand in markets like San Antonio, Austin, Dallas-Ft. Worth, Oklahoma City, Kansas City, Des Moines and Minneapolis.

