



INDUSTRIAL/LOGISTICS INVESTOR  
**OUTLOOK**

SPRING 2025 EDITION



Better never settles



Cushman & Wakefield's Valuation & Advisory Industrial/Logistics Practice Group (LPG) periodically surveys investors regarding their decision-making process in selecting overall capitalization rates. The process involves a myriad of factors, but primarily includes analysis of the physical aspects by asset quality (Class A, B or C) and location, in relation to current market conditions and tenancies, as well as a forecast of future trends driven by changing demand indicators. For our Spring 2025 Edition, we interviewed representatives from some of the nation's most prominent institutional buyers and sellers of industrial assets, including Cushman & Wakefield's Industrial Capital Markets.

## PHYSICAL CRITERIA/LOCATION

Market participants typically focus on the type (Class A, B and C) and location of an industrial asset prior to selecting an appropriate overall capitalization rate. While the criteria relative to defining the asset type may vary, most agree on the following, as defined by CoStar Group Inc.:

- **Class A Industrial:** Class A buildings generally qualify as desirable investment-grade properties that command the highest rents or sale prices compared to other buildings in the same market. Such buildings are well located and provide efficient tenant layouts as well as high-quality (and in some buildings, one-of-a-kind) floor plans. These buildings contain the best quality materials and workmanship in their trim and interior fittings, and typically have clear heights in the 32 to 40 foot range.
- **Class B Industrial:** Buildings in this category command lower rents or sale prices than Class A properties, as Class B buildings tend to offer utilitarian space without special features. These buildings typically have average to good maintenance, management, and tenants. They are less appealing to tenants than Class A properties, and may be inferior in a number of respects, including floor plans, condition, and facilities.
- **Class C Industrial:** These structures generally can be classified as no-frills, older buildings that offer basic space, commanding lower rents or sale prices compared to other buildings in the market. Such buildings typically have below-average maintenance and management, with mixed or low tenant prestige, low clear ceiling heights, and/or inferior mechanical/electrical systems.

## RISK FACTORS/MARKET CONDITIONS/TENANCIES

Although the above criteria are of primary focus, the participants also identified the following risk factors influencing their purchasing decisions:

- Overall vacancy and strengths/weaknesses of the local market, occupancy, lease terms, and near-term rollover
- Readily available developable land for potential competition
- The functionality of the asset (clear ceiling height, layout, design, ratio of office to total warehouse space, lighting, power, adequacy of parking and truck storage, truck turning radius, etc.), as well as the age and condition of the asset, including the roof structure
- Access to major transportation linkages (interstate, rail, port access, etc.)
- Proximity to growing populated urban areas
- Creditworthiness of the tenant(s) and contractual rent in place in relationship to market rent levels (above/below market), and potential of rent increases over the initial lease term
- Replacement cost considering current construction costs

In addition to the above, investors are far more attuned to addressing the needs of the end-users/occupiers who want facilities that are more efficient to operate and offer the ability to ship product faster, while being located in close proximity to readily available labor markets.

# FINAL RESULTS

## SPRING 2025

The results of our investor survey (overall capitalization rates), conducted in Spring 2025, were provided by representatives of some of the largest institutional/pension fund buyers and sellers of industrial assets nationally. They are presented as follows:

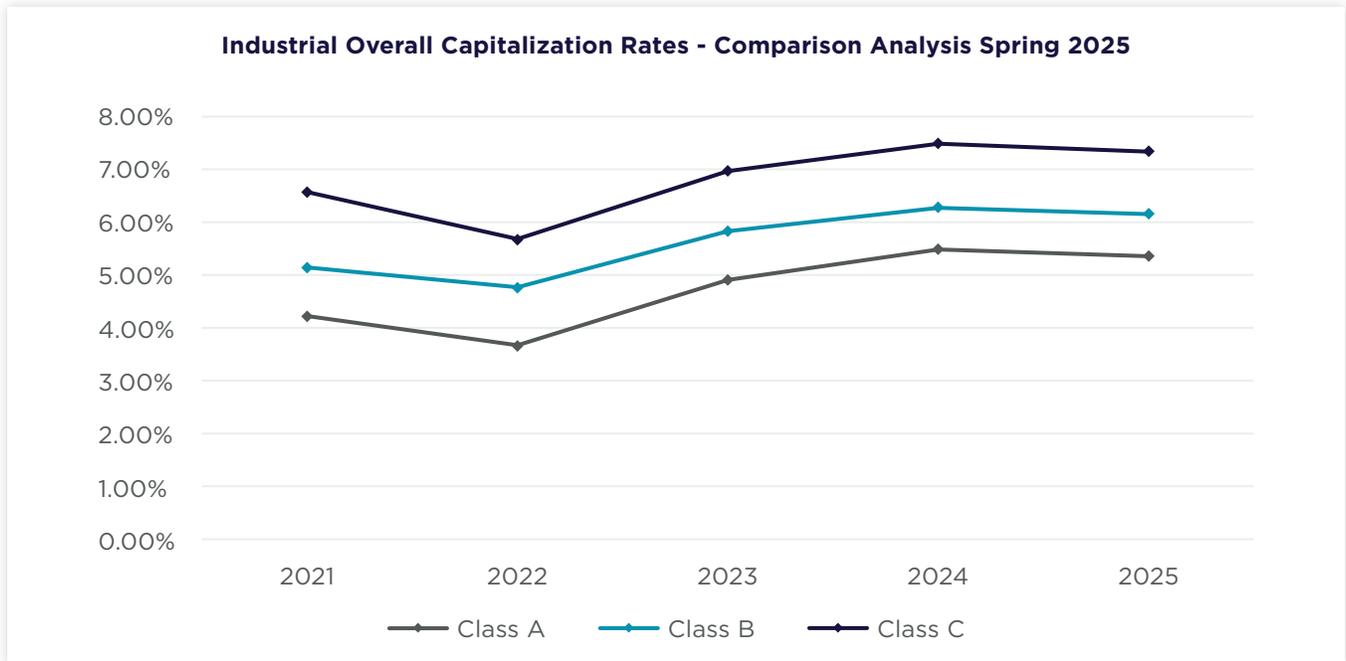
Industrial Overall Capitalization Rates - Comparison Analysis Spring 2025									
	Spring 2025	Spring 2024	Spring 2023	Spring 2022	Spring 2021	12-Mth Change (BPS)*	24-Mth Change (BPS)*	36-Mth Change (BPS)*	48-Mth Change (BPS)*
<b>Class A</b>	4.50% - 6.50%	4.50% - 6.25%	4.00% - 6.00%	2.50% - 4.75%	3.25% - 5.50%				
<i>Range Average</i>	5.36%	5.49%	4.91%	3.66%	4.22%	-0.13	0.45	1.70	1.14
<b>Class B</b>	5.50% - 7.00%	5.50% - 7.50%	4.50% - 7.00%	3.00% - 6.00%	4.00% - 7.00%				
<i>Range Average</i>	6.16%	6.28%	5.83%	4.76%	5.14%	-0.12	0.33	1.40	1.02
<b>Class C</b>	6.00% - 8.75%	6.50% - 9.00%	5.00% - 9.00%	4.25% - 7.50%	5.00% - 9.00%				
<i>Range Average</i>	7.34%	7.49%	6.97%	5.67%	6.57%	-0.15	0.37	1.67	0.77
<b>Overall Average</b>	6.29%	6.42%	5.90%	4.70%	5.31%	-0.13	0.38	1.59	0.98

Note - The lower-end of the range reflects Class A assets with long-term credit tenants at market rent levels (with escalations) or short term tenants with below market leases in-place located in Southern CA, New Jersey (Northern), Dallas and Southern Florida.

\*Ending Spring 2025

Compiled by Cushman & Wakefield's Valuation & Advisory Industrial/Logistics Practice Group (IPG).

The results of our survey over the previous 5-year period are graphically presented as follows:



Based on the Spring 2025 results, overall capitalization rates range widely by asset class, indicating an 80-basis point (bps) differential between Class A and B industrial product, and a 198-bps difference between Class A and C industrial facilities. Overall rates for Class C properties are 118-basis points lower than Class B industrial product. The lower-end of the range reflects Class A assets with long-term credit tenants at market rent levels (with escalations) or short-term tenants with below market leases in-place located in Southern CA, New Jersey (Northern), Dallas and Southern Florida (Miami). Chicago, Houston, Seattle, Raleigh and Atlanta were also noted as high demand and growth markets, but to a lesser extent.

Investors are also targeting Class B and, in some cases, Class C product, seeking higher rent growth and greater yield/return expectations—especially from those assets with below-market leases in place and located near populated urban areas with access to a readily available work force. Assets near urban areas continue to be in demand due to reduced shipping and delivery times.

As interest/lending rates began to normalize over the last six months, and 10-Year U.S. Treasuries continued to hover in the low to mid 4.0% range, the current survey indicates that average capitalization rates for Class A assets have remained relatively constant but have nevertheless shown a slight decline over the last year by 13-bps, Class B assets by 12-bps, and Class C assets by 15-bps, since our Spring 2024 survey. However, investors are anticipating interest/lending rates will subside by the second/third quarter 2025, thus potentially reducing yield/overall capitalization rates especially in the core markets. Nonetheless, investors are closely monitoring any signs of interest rate increases and/or decreases, 10-year Treasury yield rates and the resulting effects of the recent announcement of the U.S. tariff hikes.



# FINAL OBSERVATIONS/ KEY TAKE AWAYS

- Investors continue to see strong demand for industrial assets in 2025, especially for Class A assets in core growth markets.
- Steady demand is expected to persist, and the coastal (port-proximate), Southwestern and Southeastern regional markets are expected to continue their growth level but at a more normalized level compared to 2023 and 2024. Assets located in Southern CA, New Jersey (Northern), Dallas and Southern Florida (Miami) are still in high demand, but Chicago, Houston, Seattle, Charlotte, and Atlanta were also noted as high demand and growth markets, but to a lesser extent.
- Class A properties in core U.S. Markets will continue to command more aggressive overall capitalization rates, especially in U.S. port cities. Class B and, in some cases, Class C assets in proximity (infill locations) to populated urban areas with readily available workforce are in demand as investors/occupiers seek higher yields compared to Class A assets and well as continuing to solve the last-mile dilemma in urban locations.
- Value-add projects with shorter weighted average lease terms, ideally close to three years or less, continue to be on investors radar. The ability to quickly achieve mark to market rents upon rollover and yield growth, escaping the negative spread to current financing options are the sweet spot for market activity. Nonetheless, credit and term are the drivers, and cash buyers have the competitive edge in today's environment.
- Acquisitions are moving forward, and the deal flow/interest has significantly increased over the last quarter as the buyers are back in the market. Both buyers and sellers have become more realistic with their pricing expectations, as the "bid/ask" differential continues to narrow, and capital will continue to pursue infill locations.
- Industrial fundamentals are expected to remain solid throughout 2025 and into 2026, with continued rent growth, albeit at a more normalized pace (2% - 3%) than the previous three years. Nonetheless, investors are closely monitoring the interest rate environment and fluctuations in 10-Year Treasuries regarding their pricing strategies and will be tracking the effects of the recently announced U.S. tariffs.
- On March 4th, the U.S. imposed an additional 10% tariff on Chinese imports, bringing the total increase to 20%. Tariffs of 25% on Mexico and Canada along with just 10% tariffs on energy from Canada have been imposed. However, the tariff landscape has been evolving briskly, leaving a lot of uncertainty in the marketplace. The implications of the administration's tariffs on both the economy and the industrial sector are being closely monitored.



- Minimal concern is seen with the Fed potentially increasing interest rates, with most investors foreseeing an interest rate reduction but not until the second half of 2025; thus, potentially reducing overall capitalization rates. Overall capitalization rates have in fact subsided since the 10-Year Treasury peaked at around 5.0% in October 2023.
- Construction starts slowed in 2024 to a six-year low. This has led to the development pipeline shrinking by 60% since its peak in 2022 and will help keep vacancy levels from rising substantially higher. Meanwhile, demand for shallow-bay space remains strong, driven by local and regional tenants seeking flexibility and proximity to population centers for efficient freight movement. Strong rent growth, attractive income returns, and ongoing investor demand are expected to continue driving outperformance of shallow-bay multitenant warehouses.
- Logistics, food and beverage, cold storage, and Data Center assets are the preferred asset classes. However, e-commerce is clearly driving the demand as online shopping continues to accelerate, especially with the infusion of artificial intelligence driving the supply-chain efficiencies. Onshoring will continue to increase demand in some pockets of the country.

With a strong infrastructure in place in most U.S. markets, vacancy rates still at pre-pandemic averages, the continued push for onshoring and the availability of natural resources, the long-term investment outlook for the national industrial market is positive. More specifically, in the long-term, seaport cities and major distribution hubs are expected to remain the strongest performers, especially as e-commerce continues to expand as artificial intelligence takes hold, to satisfy customer demand. However, investors will be closely monitoring the recent announcements by the current administration relative to U.S. tariff hikes and the effects on the industrial markets especially in port markets which rely on inbound cargo as a demand driver.



**ABOUT CUSHMAN & WAKEFIELD**

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**Service Lines**

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