

INDUSTRIAL/ LOGISTICS INVESTOR OUTLOOK

FALL/WINTER 2025 UPDATE



Better never settles

INDUSTRIAL INVESTOR SURVEY & OUTLOOK

Cushman & Wakefield's Valuation & Advisory 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, assessment of risks associated with current market conditions and tenancies, and a forecast of future trends driven by changing demand indicators.

In Spring 2025, 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. However, since our Spring 2025 Edition, interest rates have decreased, which corresponds to lower lending and yield requirements. The current Effective Federal Funds Rate (EFFR) is now targeted at between 4.00% and 4.25%, following the first rate cut of the year in September 2025. This rate, and all interest rates, tend to move in the same direction as inflation, however they typically lag because they are also the primary tool used by central banks to manage inflation. When inflation is falling and economic growth is slowing, central banks may lower interest rates to stimulate the economy. The 10-Year Treasuries are hovering near 4.00% versus in the mid-4.50% range seen in Spring 2025. However, better news is ahead as the Federal Fund rate is anticipated to be cut by the end of the year with another decrease in 2026, pending inflationary risk. The Fed has taken another (25 bps) step towards a more accommodative stance despite tensions on both sides of its dual mandate. Their latest Summary of Economic Projections points to another 50 bps of cuts anticipated through the end of this year with another 25 bps in cuts expected for 2026, thereby bringing target policy rates to a range of 3.25%-3.5% by the end of 2026.

PHYSICAL CRITERIA/LOCATION CRITERIA

For the Fall/Winter 2025 and prior Editions, these participants, typical for the market, focused 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.
- **Class B Industrial:** Buildings in this category command lower rents or sale prices compared to Class A properties. Such buildings offer utilitarian space without special features, and have ordinary design or, if new or fairly new, good to excellent design. 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 qualify as no-frills, older buildings that offer basic space and command lower rents, or sale prices compared to other buildings in the market. Such buildings typically have below-average maintenance and management, and could have 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 and near-term and weighted average rollovers
- Potential for market rent increases and/or decreases and competing buildings in the area
- 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, adequacy of parking and truck storage, truck turning radius), as well as the age and condition of the asset, including the roof structure and parking areas
- Access to major transportation linkages (interstate, rail, port access, etc.) in order to offer the ability to ship product more efficiently and faster
- Proximity to growing and/or declining populated urban areas
- Creditworthiness of the tenant(s) and contractual rent in place in relationship to market rent levels (above/below market)
- Replacement cost relative to purchase price and feasibility of new construction

UNDERSTANDING THE IMPACT OF CHANGING POLICY

For reference, 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, and the results are as follows along with prior years:

Industrial Overall Capitalization Rates - Comparison Analysis Spring 2024									
	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)*
Class A	4.50% - 6.50%	4.50% - 6.25%	4.00% - 6.00%	2.50% - 4.75%	3.25% - 5.50%				
Range Average	5.36%	5.49%	4.91%	3.66%	4.22%	-0.13	0.45	1.70	1.14
Class B	5.50% - 7.00%	5.50% - 7.50%	4.50% - 7.00%	3.00% - 6.00%	4.00% - 7.00%				
Range Average	6.16%	6.28%	5.83%	4.76%	5.14%	-0.12	0.33	1.40	1.02
Class C	6.50% - 8.75%	6.50% - 9.00%	5.00% - 9.00%	4.25% - 7.50%	5.00% - 9.00%				
Range Average	7.34%	7.49%	6.97%	5.67%	6.57%	-0.15	0.37	1.67	0.77
Overall Average	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).

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.

The recent decline in interest rates, with more rate cuts expected, and lower yields on 10-Year US Treasuries all correspond to lower cost of capital, yield rates and overall capitalization rates. However, concern still exists regarding the outcome of the results of the recent tariffs imposed, especially for the coastal regions of the US.



Even though interest rates and 10-Year US Treasuries have declined since our Spring 2025 survey, investors are still cautious and have not significantly moved their pricing relative to overall rate (yield) strategies. Based on our recent investor responses, most participants have indicated that overall rates (yields) have remained relatively stable to only slight reductions typically cited around 25 basis points, compared to our Spring 2025 survey. However, most participants indicated that for the up-coming 2026-year, overall rates are expected to decrease by another 25 basis points in anticipation of additional interest rate cuts, which should correspondingly lower the benchmark of 10-Year US Treasuries.

Based on the most frequent responses relative to overall capitalization rate decreases, albeit slight, (by asset Class), the following illustrates the results/observations:

Industrial Overall Capitalization Rates - Comparison Analysis Spring 2025 To Fall/Winter 2025		
	Fall/Winter 2025 (Adjusted) (*)	Spring 2025 Edition
Class A	4.25% - 6.50%	4.50% - 6.50%
Range Average	5.24%	5.36%
Class B	5.50% - 7.00%	5.50% - 7.00%
Range Average	6.04%	6.16%
Class C	6.00% - 8.75%	6.00% - 8.75%
Range Average	7.22%	7.34%

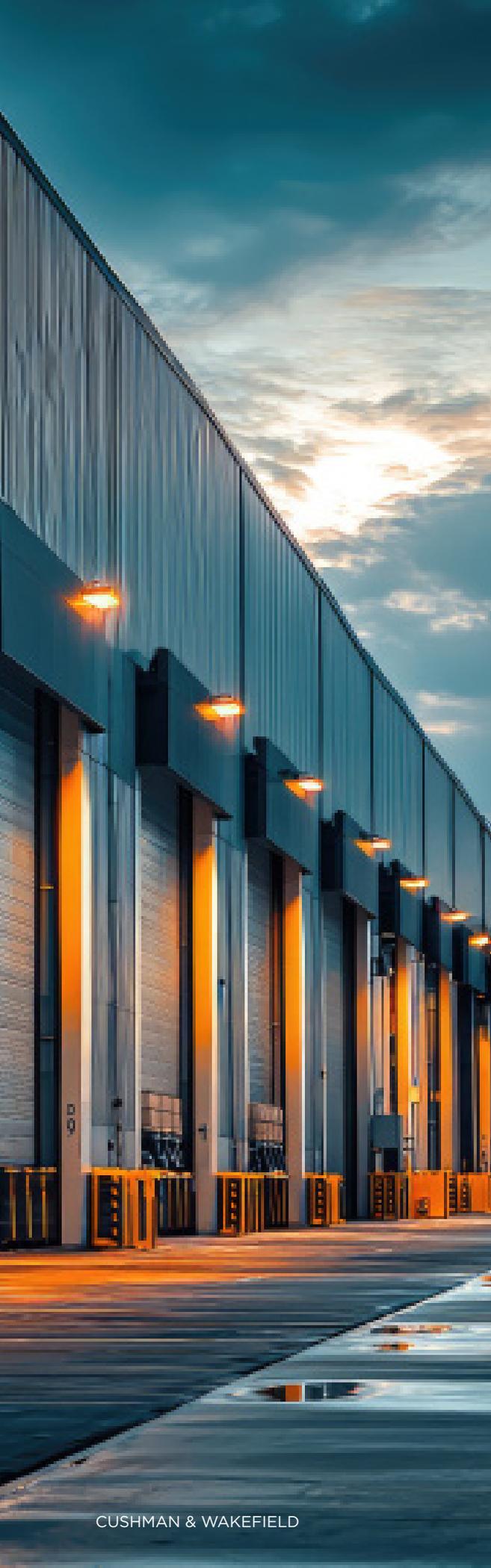
(*) The Fall/Winter 2025 Adjusted rates were calculated based on reducing the average rates (by Asset Class) of the Spring 2025 results by .12 basis points across the board, the most frequent cited overall average reduction of OARs provided by market participants surveyed. The overall range of Class by space remained stable with our Spring 2025 results (no significant change).

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 rates in-place located in Southern CA, New Jersey (Northern), Dallas, and Southern Florida.

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Investors are closely monitoring the volatility of the market as it relates to the recent interest, lending, and US 10-Year Treasury rate reductions, as well as the recent tariff implementations especially regarding the coastal US Markets. While the fundamentals of the US Industrial market remain positive, investors are also monitoring rising vacancy rates, rent growth, leasing activity, net absorption, and demand.

The top U.S. Markets will continue to command more aggressive overall capitalization rates—predominately U.S. port cities, but as lending rates continue to decrease, return expectations have become more realized.



FINAL OBSERVATIONS

Investors continue to see strong demand for industrial assets in the near term, and sales transactions have clearly picked up over the last 6 months. Some final market observations were noted:

- Rent growth is expected to decelerate, dipping below 2% by late 2025 in some US markets. However, as market conditions improve and supply and demand rebalance in late 2026, rent growth is projected to rebound toward the historical 3-4% range.
- As larger occupiers continue to seek new construction for efficiency, the smaller development pipeline will likely lead to supply constraints in some markets. The construction pipeline continues to dissipate amid modest groundbreakings and healthy delivery totals, with 286.6 million square feet underway - reflecting a 45% decrease from one year ago.
- Value-add projects with shorter weighted average lease terms, ideally close to 3 years or less, are 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 and continue to be the drivers, and cash buyers have the competitive edge in today's environment.
- Acquisitions are moving forward, and the deal flow/interest has increased, 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.
- Industrial fundamentals are expected to remain solid for the remainder of 2025, with continued rent growth, albeit at a more normalized pace. Nonetheless, investors are closely monitoring the interest rate environment and fluctuations in 10-Year Treasuries regarding their pricing strategies. If inflation starts to rise again or recession fears emerge, the US consumer could pull back spending, which would negatively impact industrial demand going forward.

- Logistics, food and beverage, cold storage and Data Center assets are the preferred asset classes. However, e-commerce is clearly driving demand as online shopping continues, especially with the infusion of artificial intelligence driving the supply-chain efficiencies.
- Given impending trade policies, port volumes will likely slip after the front loading of imports subsidies. Some occupiers and manufacturers will likely seek to mitigate the costs by diversifying supply chains and sourcing parts and goods from countries that have lower tariff rates. The west coast markets are most exposed to downside risks due to reliance on imports from China.
- With a strong infrastructure in place in most U.S. markets, vacancy rates still at historical lows, the continued push for onshoring and the availability of natural resources, the long-term investment outlook for the national industrial market is positive.
- Industrial demand improved for the second consecutive quarter. U.S. industrial net absorption reached 45.1 million square feet (msf) in the third quarter of 2025, a 30% increase quarter-over-quarter (QOQ) and 33% year-over-year (YOY). Year-to-date (YTD) net absorption measured 108 msf, in line with the 109 msf recorded during the same period in 2024.
- Asking rent growth slowed but remained positive. National asking rents averaged \$10.10 per square foot (psf) in the third quarter, up 1.7% YOY. Nearly 60% of U.S. markets posted positive YOY rent growth, with nine markets reporting double-digit rent increases.
- Vacancy held steady amid positive demand and slowing construction. With new construction deliveries (63.6 msf) hitting an eight-year low, the national vacancy rate remained at 7.1% in the third quarter. While stable this quarter, the rate is slightly elevated from the pre-pandemic historical average of 6.8%.
- The pipeline continues to be strong, and Core+Capital and traditional buyers have returned to the market. Overall, leasing activity and sales transactions have picked up, and now is a good time to buy.



ABOUT CUSHMAN & WAKEFIELD

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