

Absorption Dips, Leasing Volume Holds

A Closer Look at Q2 2025 Industrial Performance

Preliminary Q2 data shows that the US industrial real estate sector experienced the first negative quarter of absorption since Q1 2010. Put simply: more occupiers moved out of warehouse space than leased new space.

On one hand, this shift is fairly unsurprising given the significant uncertainty caused by “Liberation Day” at the start of April, which led many occupiers to pause decision-making and new investments in their businesses while they waited for clarity on US trade and tariff policies. Nevertheless, this news marks the end of an unprecedented 15-year period of continuous growth of the occupied logistics real estate stock in the US. While negative net absorption is certainly reason for concern, a deeper analysis of the underlying data reveals some important nuances.

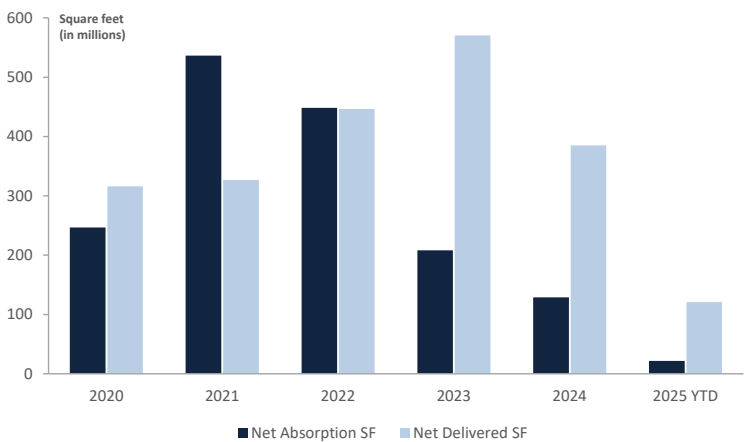
Year-to-Date (YTD) Absorption is Positive

Despite the dip in absorption in Q2, YTD data remains positive. The anticipation of tariffs in Q1, followed by the announcement of higher-than-expected tariffs in Q2 created a lot of “noise” in the leasing activity over the first half of the year. Q1 net absorption was relatively strong at 31 million square feet, driven in part by occupiers leasing space to pull inventory into the US ahead of expected tariff announcements – essentially a pull-forward of activity that perhaps would have otherwise occurred in Q2.

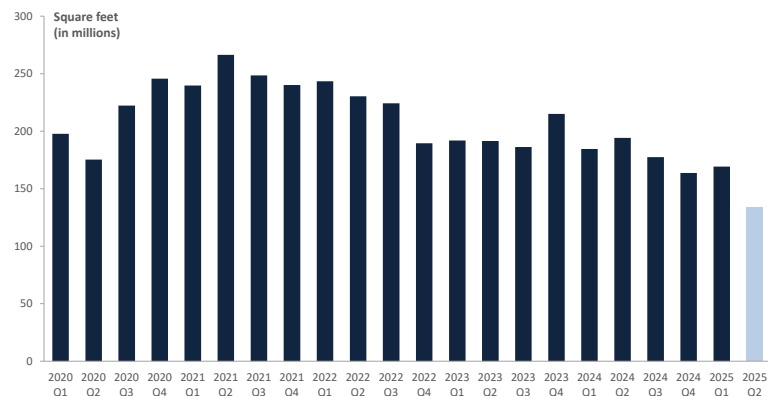
The second quarter, meanwhile, was severely impacted by uncertainty. The Liberation Day tariffs were much higher than forecasted and then subsequently changed on a near daily basis. This volatility, which was mirrored in the US equity and credit markets, led to a broad pause in decision-making while businesses waited for clarity on trade policies. Anecdotally, within our own portfolio we saw leasing activity resume to a more normal pace by the end of Q2 as the trade volatility settled down and tariff rates were, at least temporarily, lowered.

Notably, quarter-over-quarter leasing volumes held relatively consistent despite the dip in Q2 absorption. Occupiers leased just shy of 150M square feet in U.S. industrial space last quarter — a welcome sign for investors demonstrating the persistent attractiveness of the industrial sector.

US Index Net Absorption & Completions by Year



US Index: Quarterly Leasing Volume



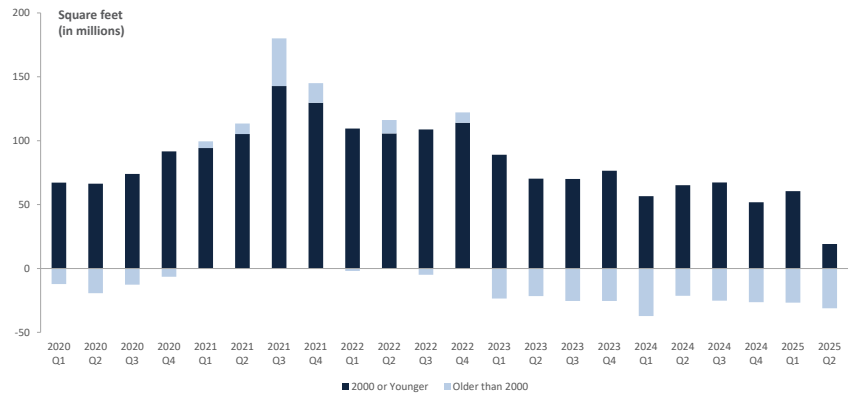
Source: CoStar US Index preliminary data as of 7/16/25. Data is subject to change.

Modern Buildings¹ Are Significantly Outperforming Older Buildings

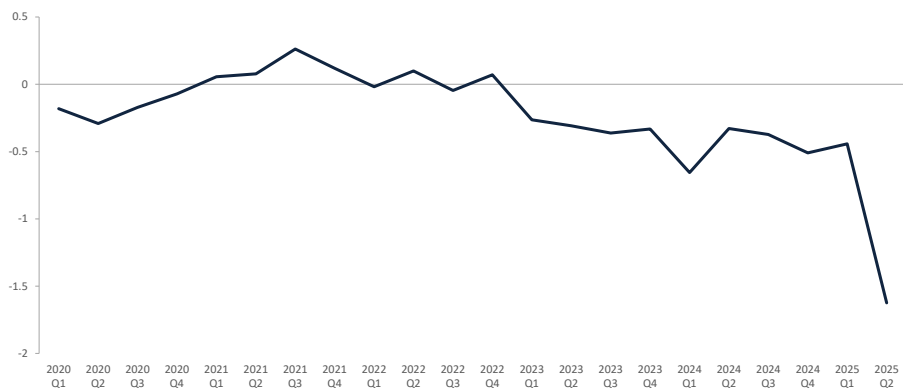
A closer look at the data reveals a dramatic difference in performance by building age, the best proxy for building quality. In the second quarter, net absorption for buildings constructed in 2000 or later was positive 13 million square feet, while older buildings saw negative 27 million square feet of net absorption. Toward the same end, the modern building stock segment captured 61% of total leasing activity in the quarter, despite being only 43% of the total inventory.

This “flight to quality” has been playing out since the leasing market peak at the end of 2022 and has accelerated sharply during the first half of this year, with the quarterly ratio of negative absorption in older building stock vs. positive absorption in the newer building stock reaching the deepest level we’ve seen. We believe this is a durable trend as occupiers look to maximize efficiency in their supply chains and deploy new technology including AI and robotics, which typically require infrastructure only available in modern facilities.

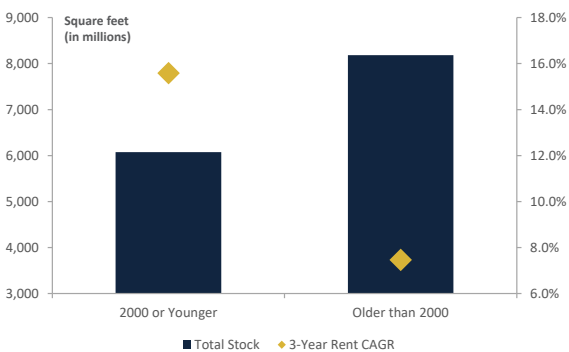
Net Absorption by Building Age



Ratio of Negative Net Absorption in Older Stock to Positive Net Absorption in Modern Stock¹



Total Stock and 3-Year Rent CAGR by Building Age



The difference in performance between building vintages is not just apparent in demand, but also in rent growth as older buildings have struggled to maintain pricing power in a much more competitive leasing environment. Over the past three years, the compound annual rent growth for older buildings was 7.3% – roughly half of the 14.3% seen in modern buildings. This divergence is driven partially by rent declines in the older building stock over the last five consecutive quarters during which period the modern stock was able to hold rents flat.

We believe modern buildings will be particularly well positioned as the sector moves toward equilibrium: following record levels of logistics deliveries in 2021 and 2022, new supply has steadily diminished in recent quarters. The first half of 2025 saw just 127 million square feet in new deliveries — the lowest first-half recording since 2017.

Structural Drivers Remain

Although quarterly absorption was negative, the decline in occupancy as a percentage of the total stock was very small at only 0.13% of the total market. We believe this to be a symptom of near-term uncertainty rather than an indication of a reversal of the sector's structural drivers over the long term. The main drivers for demand looking forward appear to be sound. While total retail inventories have moderated very slightly, total business inventories have continued to increase.¹

Meanwhile, eCommerce as a percentage of retail sales has plateaued, but remains at the all-time high levels achieved during COVID. Over the long term, we expect eCommerce will continue to capture a higher share of total consumption. As the composition of the consumer class shifts from Baby Boomers and Gen X (currently responsible for 55% of total consumption)² to the digitally native Millennial and Gen-Z generations, the eCommerce growth rate will likely continue its climb.

While near-term uncertainty will likely persist, we remain steadfast in our view that the long-term outlook for the logistics sector appears promising. With tenant preferences for modern assets becoming a dominant theme in the leasing markets, well-located modern assets should remain relatively insulated from the near-term headwinds.

Source: CoStar US Index preliminary data as of 7/16/25 unless otherwise noted. Data is subject to change.

¹ Source: FRED, Federal Reserve Bank of St. Louis Retailers Inventories and Total Business Inventories as of 7/9/25.

² Source: World Data Lab.

Endnotes + Disclosures

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