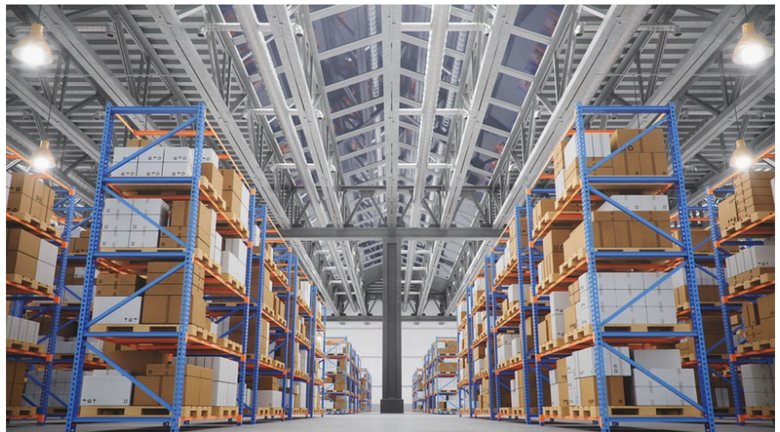
THE COLD FRONT

By RLS LOGISTICS

Frozen and Refrigerated Cold Chain Insights

Welcome to The Cold Front, presented by RLS Logistics, the Cold Chain Experts! We proudly offer nationwide cold storage warehousing, ltl shipping, truckload freight brokerage, and eCommerce fulfillment cold chain solutions. This month's edition focuses on these topics for our February 2025 issue: Commercial Warehouse Occupancy, Freight Market Update, and Diesel Energy. The Cold Front is a monthly summary highlighting pertinent cold chain storage market data in one concise location. These insights ensure that you have the data to make better decisions to fuel your growth. We hope you find this information useful! **If you want data on your specific market, click the button below.**

Commercial Warehouse Occupancy and Leases: Navigating Post-Pandemic Realities



As we progress through 2025, the commercial warehouse sector could be at the precipice of change. Leases established during the COVID-19 pandemic are reaching their expiration dates, prompting landlords and tenants to reassess their needs in a market that has seen a surge in development. Data indicates that over 265 million square feet of commercial real estate leases are set to expire this year, with industrial properties accounting for approximately 100 million square feet. This represents nearly 11% of the total industrial space within the Commercial Mortgage-Backed Securities (CMBS) landscape.

The expiration of these leases allows landlords to adjust rental rates to current market values, potentially leading to increased revenues. However, tenants may face challenges securing favorable terms, especially in prime locations. The expectation that expiring leases might lead to more favorable terms for tenants is being tempered by decreased demand and the current state of construction costs. The industry has seen a significant slowdown in new warehouse developments, with a 43% reduction in industrial real estate under construction compared to the previous year. This decline is primarily attributed to rising construction costs, influenced by tariffs on imported materials and labor shortages exacerbated by recent immigration policies.

Consequently, the limited supply of new warehouse space has maintained upward pressure on rental rates, even as demand growth stabilizes. Tenants approaching lease renewals are encountering a market where average asking rents have risen to $10.13 per square foot in the fourth quarter, a 4.5% increase from the previous year and a substantial 61% surge from 2019.

Despite doubling vacancy rates to 6.7% since late 2022, rental prices remain elevated due to the constrained supply. In response, some tenants are exploring relocations to less expensive regions or negotiating for concessions such as rent-free periods to offset costs. However, the financial and operational implications of moving can be significant, making lease renegotiation a more viable option for many.

The confluence between expiring leases, high construction costs, and limited supply suggests tenants may not experience the anticipated relief in rental rates. Landlords, aware of the favorable market conditions, are likely to leverage this in maintaining or even increasing rents. Both parties must engage in strategic negotiations, with tenants advocating for favorable terms and landlords aiming to capitalize on the current market dynamics.

Trucking Freight Market Update: Between Recession and Recovery

The trucking industry continues to navigate a complex landscape, oscillating between the lingering effects of a freight recession and the early signs of a potential recovery. Recent data reveals a nuanced picture. While transportation stocks experienced a notable decline of over 2.6% in late February, attributed to weak economic indicators and tariff concerns, there are emerging positive signals.

For instance, XPO reported better-than-expected fourth-quarter earnings, with net income rising to $95 million from $84 million the previous year. This improvement is partly due to strategic initiatives such as insourcing, hauling needs, and enhancing service quality. Several elements are contributing to the current state of the trucking industry. High interest rates have hindered The U.S. industrial economy, affecting freight volumes. However, the Institute for Supply Management's index recently indicated growth, suggesting potential improvements in manufacturing output and, by extension, freight demand. Introducing a 10%-25% tariff on imports from China and potential tariffs on goods from Mexico and Canada have also introduced uncertainty. These measures have led businesses to adjust inventory strategies, impacting freight demand and contributing to market volatility.

Analysts suggest that the trucking industry is in a transitional phase. While challenges persist, including excess fleet capacity and high operational costs, the alignment of supply and demand appears to be gradually improving. Projections indicate that total truck tonnage will rise from an estimated 11.27 billion tons in 2024 to 13.99 billion tons by 2035, reflecting a compound annual growth rate of 1.6%. This anticipated growth is contingent on factors such as economic stability, resolution of trade disputes, and strategic capacity management by carriers. The trucking freight market remains in flux, balancing between the impacts of a recession and the early stages of

recovery. Stakeholders must stay informed and adaptable, leveraging data-driven insights to navigate the evolving landscape and position themselves advantageously for the anticipated market upturn.

Energy Outlook: Diesel

In 2025, the trucking industry faces a dynamic energy landscape, particularly concerning diesel fuel and oil. Several factors, including global supply and demand fluctuations, policy shifts, and technological advancements, are poised to influence fuel prices and availability. The International Energy Agency (IEA) projects a modest increase in global oil demand for 2025, estimating a rise of approximately 1.1 million barrels per day, bringing total consumption to around 103.9 million daily. At the same time, global oil production is expected to outpace demand, with forecasts indicating an increase of 1.9 million barrels per day, leading to a total supply of about 104.8 million barrels per day. This surplus suggests a potential easing of oil prices, which could translate to more stable or even reduced diesel costs for the trucking sector.

Shippers will welcome reduced fuel surcharges, which could potentially cause an uptick in transportation rates. In the United States, the Energy Information Administration (EIA) anticipates a 4% increase in distillate fuel oil consumption in 2025, primarily driven by GDP growth and heightened industrial activity. However, this projection comes amidst declining distillate demand in previous years, attributed to reduced manufacturing output and a sluggish trucking industry. Notably, a recent surge in heating oil demand, spurred by colder-than-average temperatures in the U.S. Northeast, has temporarily bolstered distillate consumption. Despite this uptick, the overarching trend points towards a gradual decline in diesel usage, influenced by economic factors and a shift towards alternative energy sources.

The trucking industry is actively exploring and adopting alternative fuel technologies to mitigate reliance on traditional diesel. The rapid adoption of liquefied natural gas (LNG) trucks in markets like China has demonstrated a viable pathway to reducing diesel dependence. In the U.S., similar trends are emerging, with increased interest in LNG and electric-powered trucks. Financial incentives further support this transition, as LNG has been noted to be approximately 23% cheaper than diesel, offering a compelling economic case for fleet operators. Fuel prices remain a critical concern for the trucking industry, directly impacting operational costs.

As of February 10, 2025, the average on-highway diesel fuel price in the U.S. stood at $3.665 per gallon, reflecting a slight increase from the previous week but a notable decrease compared to last year. While current prices offer some relief, the industry remains vigilant, recognizing that geopolitical events, natural disasters, and policy changes can swiftly alter fuel cost trajectories.

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