

# Industrial's next chapter

Why the sector's golden age demands new investment thinking



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The era of easy wins in industrial real estate is over. The market's explosive growth, fueled by cheap capital and seemingly limitless demand, has transitioned into a more complex cycle where success is no longer a given. To win in this new landscape, investors must make a deliberate shift, from relying on broad market momentum to executing a precise, fundamentals-driven strategy built for resilience.

► E-commerce requires nearly three times more warehouse space per dollar of sales than traditional retail





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## KEY TAKEAWAYS

## RECALIBRATED MARKET

After a period of unprecedented volatility, the industrial sector has entered a more mature, fundamentals-driven cycle where disciplined execution, not broad momentum, will determine success.

## DEMAND REMAINS SOUND

Continued e-commerce growth, accelerating domestic manufacturing, and rising demand from data centers, life sciences, and other core infrastructure sectors will underpin long-term occupier needs. These drivers, coupled with the sector's role in serving dense population centers and critical logistics corridors, provide insulation from cyclical and geopolitical shocks.

## DIFFERENTIATION IS PARAMOUNT

Returns will increasingly be captured at the asset level through investments in structurally constrained formats and properties that combine operational, technological, and locational advantages. Success will depend on identifying resilient assets and executing with precision.

The past five years have marked a period of profound transformation for industrial real estate. Driven by the pandemic's acceleration of e-commerce, persistent supply chain upheavals, and evolving consumer behavior, the sector's trajectory has defied linear trends, marked by rapid expansion and a necessary recalibration.

COVID-19 served as the primary catalyst, fundamentally reshaping consumption and distribution patterns worldwide. Even before the pandemic, demand was robust, but lockdowns condensed years of digital adoption into months, sending shockwaves through logistics networks. This triggered an unprecedented wave of demand for warehousing and distribution space as companies scrambled to re-architect supply chains for new consumption models.

This article examines US industrial real estate's transition from pandemic-era expansion to a more disciplined, fundamentals-driven cycle. It traces how the sector's explosive growth evolved into multifaceted opportunities along with compelling subsectors, from shallow bay and

IOS to cold storage, and explores the capital trends and strategic approaches investors can employ to position portfolios for the next phase of the market.

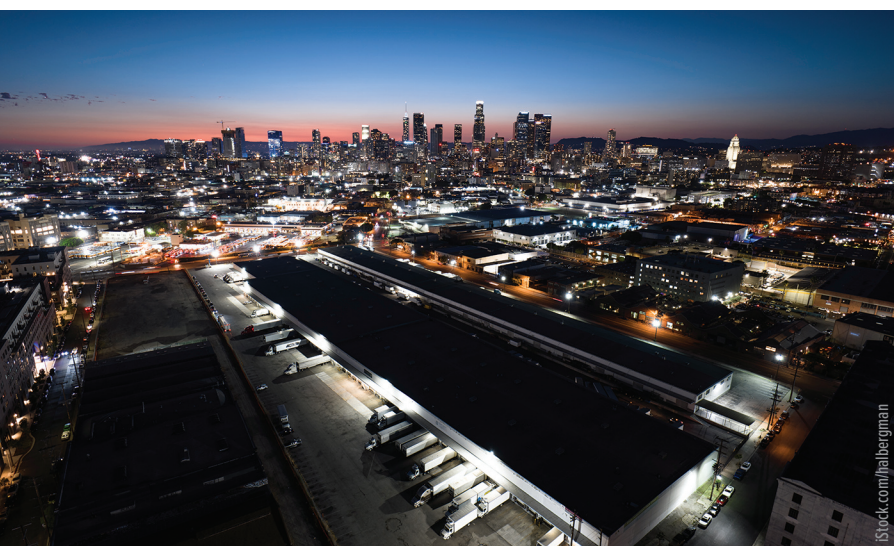
## The pandemic boom and subsequent correction (2020–2024)

Developers and investors responded to the pandemic surge with fervor. Leveraging historically low interest rates, the industrial pipeline expanded rapidly. Construction volumes soared over 60% in a single year, from 273.6 million square feet (sf) in 2020 to 496.3 million sf in 2021. Leasing activity rose 24% between 2019 and 2021. Scarce market availability pushed vacancy rates below 4% for the first time in 2021 (3.8%) and further to 3.4% in 2022.<sup>1</sup> These pandemic-era metrics, while extraordinary, represented a temporary deviation from the sector's longer-term baseline rather than a sustainable new normal. This fueled record rent growth, with average asking rates surging over 11% in 2021 and an unprecedented 27% in 2022, alongside elevated preleasing and speculative development.

A pivotal shift also occurred as allocations within the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) leaned more heavily into industrial. By the end of 2021, the sector led the index, accounting for 31% of total holdings — nearly double its 18% share in 2015. Liquidity surged by 86% year over year (YoY) in 2021, reaching \$152.3 billion in industrial investment volume. Private and high-net-worth investors represented just over 40% of the buyer pool, with their acquisitions rising 18.6% YoY. Top buyers significantly boosted their industrial allocations, with some posting multifold annual growth.

Rapid growth brought challenges, already compounded by disruptions caused by the pandemic. Construction materials and labor supply chains became strained, prolonging project timelines. As economic uncertainty mounted and consumer spending cooled — particularly

Distribution warehouse with Downtown LA in the distance



as inflation and interest rates rose during 2023 and 2024 — market sentiment shifted. Absorption slowed markedly, dropping 54.0% in 2023 and 34.8% in 2024. Under-construction volumes began declining but remained elevated due to the oversized pandemic-era pipeline. With supply temporarily outpacing demand, vacancy rates rose 230 basis points (bps) YoY in 2023.<sup>2</sup>

### The 2025 pivot: from uncertainty to renewed demand

The year 2025 began with caution, as shifting tariff policies prompted many tenants and investors to adopt a wait-and-see approach before making long-term commitments. However, the market’s underlying fundamentals demonstrated clear signs of stabilization by the second half of the year. Although vacancy rates peaked in 2025, the fourth quarter delivered the first quarterly vacancy decline since 2022,<sup>3</sup> signaling renewed absorption (see [1](#)).

The market’s recalibration was confirmed by a moderation in new deliveries nationwide, which totaled 259 million sf — the lowest annual volume since 2017 —

and a pipeline increasingly composed of build-to-suit and owner-user projects. This stabilization was evident even in the most active construction markets. For example, Dallas-Fort Worth, the national leader in completions, recorded a significant 90 bps drop in vacancy YoY.

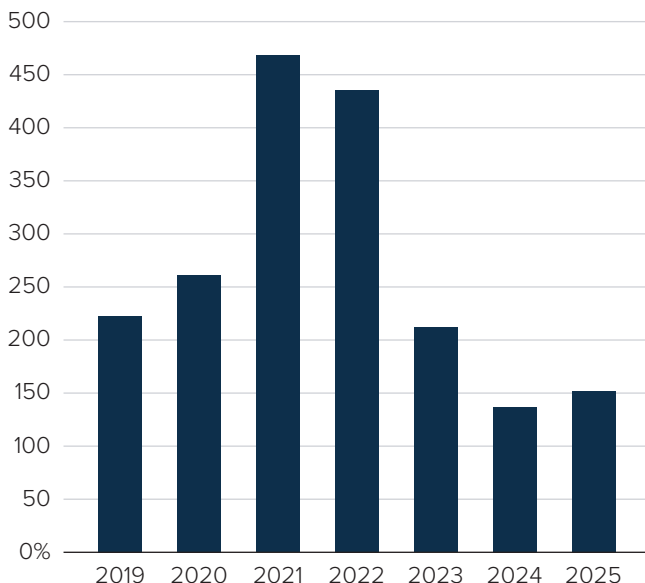
Leasing velocity reaccelerated in 2025, increasing 8.4% YoY. This resurgence was led by large-scale occupiers reprioritizing network optimization after a period of caution. Demand proved to be broad-based, with third-party logistics (3PL) providers cementing their role as the market’s most active occupier. These providers accounted for 15.8% of total leasing as companies increasingly outsource for operational flexibility. Strong gains were also posted by logistics and distribution tenants, while sectors like construction materials and consumer products expanded their footprints to enhance supply chain resilience. This renewed corporate demand is particularly evident in the big-box segment (buildings 500,000 sf and up), where vacancy declined 100 bps YoY. Foundational gateway markets such as Chicago, the Inland Empire, New Jersey, and Los Angeles continue to attract significant volume, underscoring their critical role in the national supply chain.

1

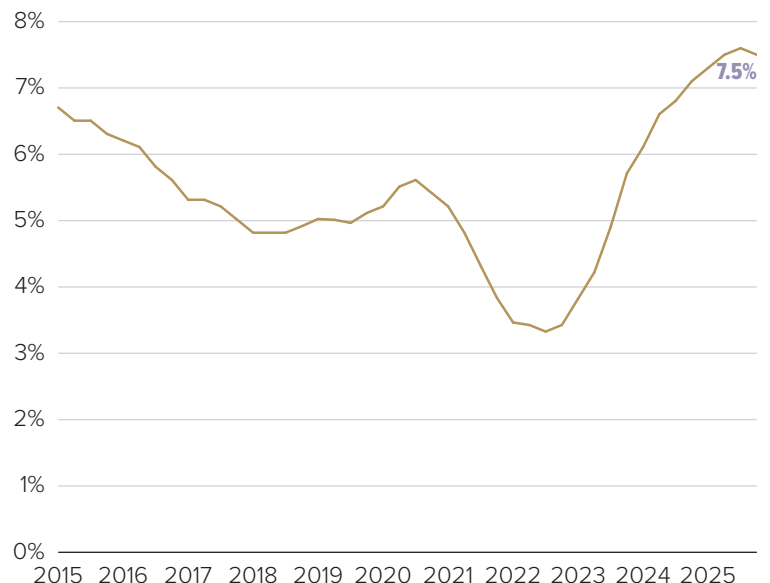
### Industrial market fundamentals are stabilizing

In 4Q2025, quarterly vacancy declined for the first time since 2022, easing to 7.5%, while net absorption rose 11% YoY to 152.7 million sf as new deliveries nationwide moderated and pipelines increasingly comprised build-to-suit and owner-user projects.

ANNUAL NET ABSORPTION (M SF)



VACANCY RATE

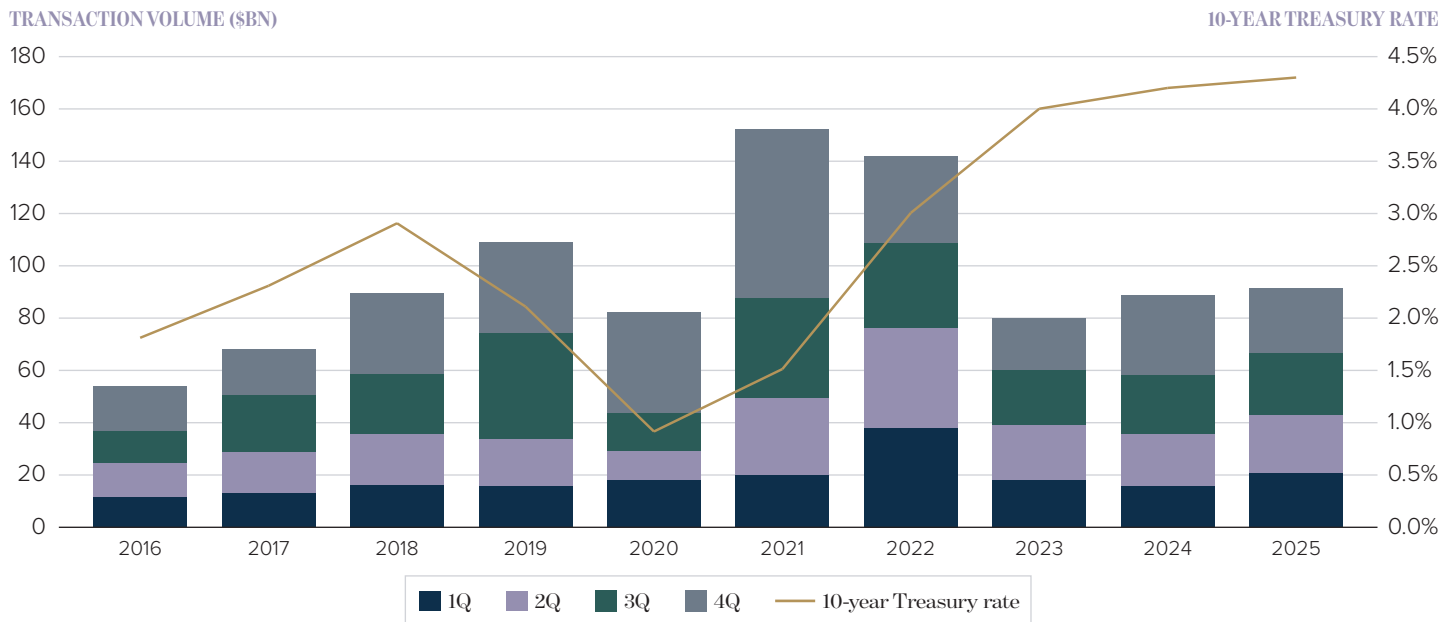


Source: JLL Research.

2

### Leasing transaction volumes reached the fourth highest annual figure on record in 2025

A recovery in leasing fundamentals translated to industrial transactions reaching \$91.3bn in 2025. Liquidity tracked 3% ahead of the prior year, buoyed by renewed corporate demand, particularly in the big-box segment.

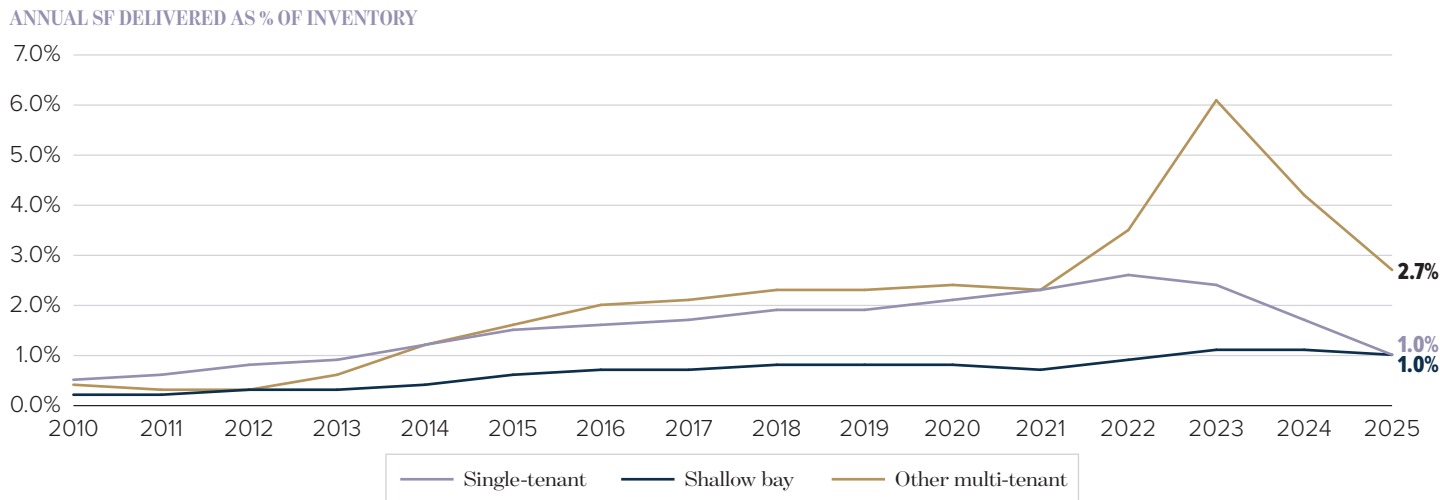


Sources: JLL Research, Real Capital Analytics (\$5m transactions & greater), Federal Reserve Bank of St. Louis (10-year yield as of January 13, 2026).

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### Shallow bay new construction accounts for only 1.0% of existing inventory

Tenant demand for shallow bay has been stable, but chronic undersupply continues to plague the sector as of 3Q2025. The sector's lower vacancy rates vs. multi-tenant assets insulate it from broader warehouse market volatility and enable higher rents.



**Single tenant:** Minimum building size of 20,000 sf; pertains to industrial and flex (distribution, light distribution, flex telecom, manufacturing, light manufacturing, R&D, cold storage/refrigeration, food processing, warehouse) assets; **Shallow bay:** Multi-tenant industrial and flex buildings between 20,000–150,000 sf; **Other multi-tenant:** Multi-tenant industrial and flex buildings larger than 150,000 sf.

Sources: JLL Research, CoStar.

This recovery in leasing fundamentals is directly translating to the investment market. US industrial transaction volume reached \$91.3 billion in 2025 — the fourth-highest annual figure on record — with liquidity tracking 3% ahead of the prior year (see [2]). Buyers are becoming increasingly selective, focusing on differentiated product in top-tier markets, with core and trophy assets pricing at cap rates between 4.85% and 5.50%. This disciplined investor sentiment has set the stage for a new, fundamentals-driven cycle.

## Strategy shifts to differentiated assets

As industrial fundamentals become more nuanced, differentiation among property types carries important implications for investors and operators. A broad array of specialized sub-types and alternative formats has emerged, each offering distinct fundamentals and growth prospects.

### Shallow bay: Stability through scarcity

The shallow bay industrial segment, comprised of multi-tenant industrial and flex buildings between 20,000 sf and 150,000 sf, is defined by its enduring resiliency and powerful investment fundamentals.

Its core appeal lies in a chronic supply-demand imbalance: while tenant demand has proven remarkably stable, new construction is severely constrained, accounting for just 1.0% of existing inventory as of year-end 2025 (see [3]).

Although shallow bay vacancy is at its highest point in years, it is expected to reverse as development activity slows and limited new supply is absorbed into the market. Compounding this advantage is a lease structure of short three-to-five-year terms, which allows owners to mark rents to market frequently, creating a natural hedge against inflation and maximizing income growth. As a result, shallow bay assets consistently achieve higher rents than the broader industrial sector, currently commanding a premium of approximately \$3.00 psf annually.<sup>4</sup>

Originally developed on the urban fringe, these properties are now irreplaceable infill assets embedded within dense population centers. This strategic proximity is critical for a diverse and loyal tenant base — including service contractors, light manufacturers, last-mile distributors, and e-commerce fulfillment centers — whose business models depend on quick access to customers.



▲ Companies are aggressively targeting urban and infill IOS sites to reduce transportation costs and accelerate delivery times

The result is exceptionally high tenant retention and predictable cash flow.

For investors, these compounding fundamentals of inelastic demand, limited supply, and mark-to-market leasing power deliver a uniquely defensive and profitable profile, capable of generating double-digit IRRs. Shallow bay liquidity is up 11% YoY, accounting for its largest share of industrial transaction volume on recent record.

### IOS: A niche defined by scarcity and demand

Industrial outdoor storage (IOS) has evolved from a niche strategy to a fully institutionalized asset class. The investment thesis centers on structural supply constraints and mission-critical functionality for logistics, construction, and infrastructure operators. As e-commerce and supply chain innovation place a premium on last-mile efficiency, companies are aggressively targeting urban and infill IOS sites to reduce transportation costs and accelerate delivery times. Robust tenant demand, favorable rent growth, and persistently low vacancy rates continue to support IOS performance.

Lender awareness and acceptance have expanded in parallel. Once viewed as a specialized segment, IOS now draws increasing interest from banks, debt funds, and insurance companies that recognize its income durability and operational importance. Cap rates, currently in the 5.0%–6.5% range in most major markets,<sup>5</sup> are expected to compress further, potentially converging with or surpassing bulk warehouse pricing as supply remains structurally limited. The long-term appeal of IOS lies in its flexibility and functionality: well-zoned, strategically located sites near ports, population centers, and major transportation corridors provide essential infrastructure for tenants and resilient income for investors — advantages amplified by the sector's fragmented ownership and high barriers to entry, which keep institutional quality assets scarce and prized.

## Cold storage: Navigating a cyclical correction

The cold storage sector is navigating a full-cycle correction after a pandemic-fueled surge drove vacancy to a historic 2.6% low in 2021. As new development met moderating consumer demand, vacancy has since returned to 5.5%, essentially in line with its pre-pandemic average of 5.6%. The sector's core challenge remains a bifurcation in asset quality: with an average facility age of 42 years, an oversupply of obsolete space obscures a clear shortage of modern, state-of-the-art capacity (see [4](#)).

This dynamic, unfolding within a challenging macroeconomic environment, has driven a marked repricing of risk in the cold storage segment. Green Street's Commercial Property Price Index (CPPI)<sup>6</sup> shows that from November 2022 through mid-2024, cold storage outperformed the broader industrial sector by roughly 20 index points, averaging 110.7 versus 93.0. As of January 2026, however, cold storage CPPI stands at 86.3, now below industrial at 94.6 — a clear reversal after two years of sustained gains.

The pullback has driven higher yield expectations, as investors seek greater returns to offset elevated capital costs and sector-specific risk. Cap rates have expanded to 6.25%–7.50%, compared with the mid-5% range typical of the industrial market, reflecting a wider risk premium for specialized assets.

With pricing and yields resetting, investment activity has moderated from pandemic-era peaks, yet transaction volumes since 2021 have averaged about 30% above pre-2020 levels, signaling sustained investor interest in the sector. Investors are responding with a more strategic, selective approach — prioritizing price discovery and niche opportunities over broad expansion.

Despite near-term adjustments, the sector's long-term prospects are reinforced by powerful secular demand drivers, including e-commerce integration, evolving food preferences, and life sciences expansion. This demand is anchored in the need for modern infrastructure, creating a compelling opportunity for investors and operators to deliver the next generation of cold storage facilities.

## Secular tailwinds driving the next cycle

Multiple secular tailwinds will continue to propel industrial demand. E-commerce remains a dominant force, with sales projected to reach \$1.6 trillion by 2030 and account for 20% of all retail activity.

Critically, e-commerce requires nearly three times more warehouse space per dollar of sales than traditional retail, creating a powerful multiplier effect on demand. Simultaneously, demand from core infrastructure — including data centers, which are projected to double US capacity by 2030 — is not abating. This increasing complexity benefits 3PL providers, who are poised to capture more market share by managing specialized supply chains for e-commerce, data, and energy projects.

The expansion of US manufacturing — accelerated by government incentives and a strategic shift toward onshoring and nearshoring — is generating a new wave of industrial demand. This is projected to account for 30% of overall US industrial demand by 2028, a significant increase from 19.2% in 2025. As companies prioritize access to skilled labor and reliable power, markets are differentiating. Phoenix, for example, has emerged as a premier destination for capital-intensive reshoring, attracting massive requirements from semiconductor and advanced manufacturers. Simultaneously, broad-based manufacturing job growth has been heavily concentrated in the Southeast and Texas, which together account for four of the top ten markets for job posting increases since 2019.

This movement represents a durable, structural shift in supply chain strategy — not a temporary response.

## Liquid and competitive debt market

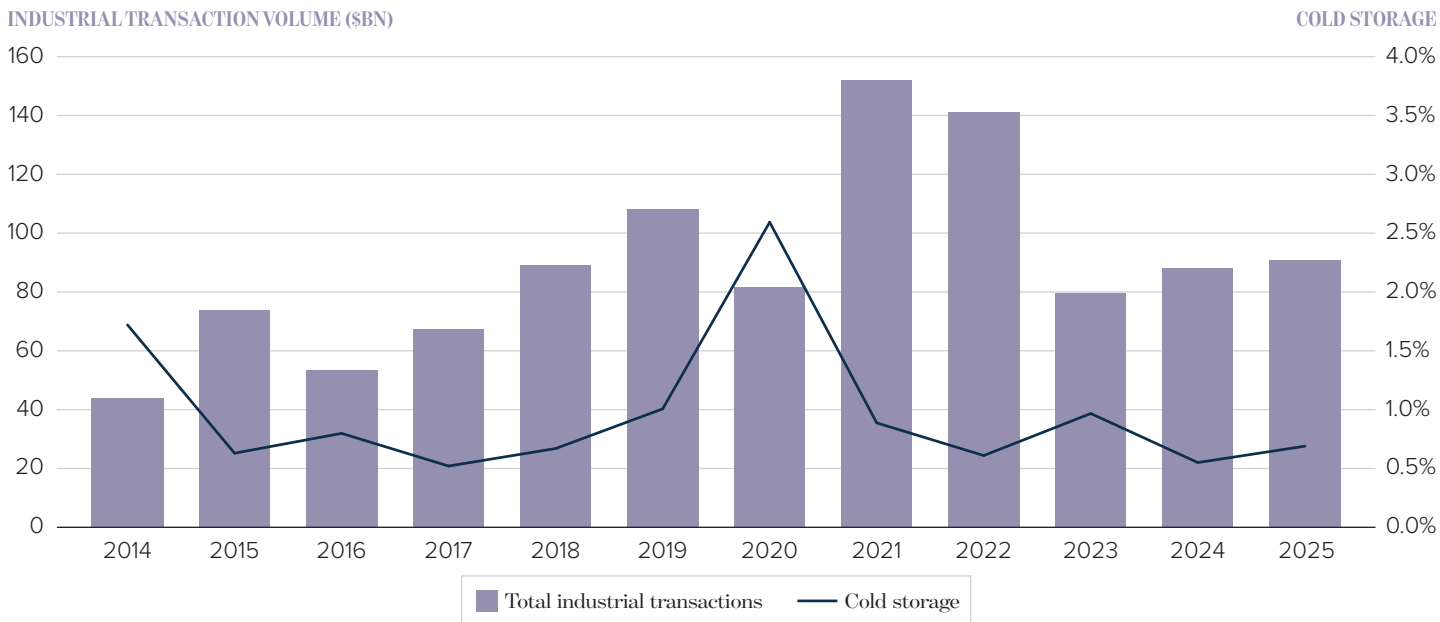
Secured financing for industrial assets remains highly liquid, with origination activity surging in 2025. Industrial loan originations increased 29% YoY to \$101.1 billion, marking the third-highest annual volume on record (see [5](#)). Banks maintained the largest share of lending, accounting for 47.6% of total originations, while debt funds continued to gain momentum, doubling their participation from 6.9% in 2021 to 14.3% in 2025. This influx of capital, alongside growing insurance company allocations, has intensified competition among lenders and underscores industrial's standing as one of the most sought-after asset classes in today's debt market.

Over 220 unique lenders quoting on industrial loans in 4Q2025 represent a 45% increase from the market trough in 4Q2023.<sup>7</sup> This surge in lender appetite is fueling intense competition, with bidding activity up 10% YoY and standard bid escalation now ranging from 6% to 10%. As more core and core-plus investors pivot toward cash-flow-oriented assets, this dynamic and well-capitalized debt market is poised to support a continued rise in transaction volume.

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### Cold storage rebounds to longer-term share of investment volume

The average existing facility is 42 years old. There is demand for modern infrastructure, creating a compelling opportunity for investors and operators to deliver the next generation of cold storage facilities.

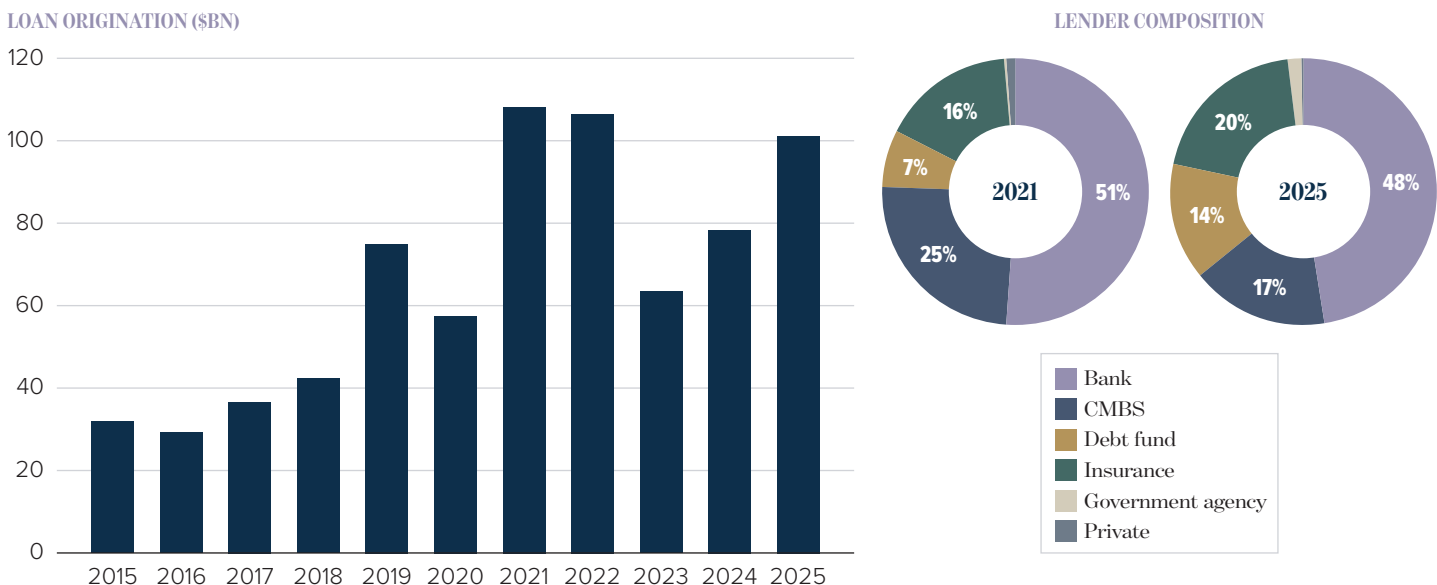


Sources: JLL Research, Real Capital Analytics (\$5m transactions & greater).

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### In 2025, industrial debt origination reached \$101.1bn, the third highest annual level on record

Loan origination rose 29.1% in the past year. Debt funds and insurance companies increased participation in lending to the sector, from 23% in 2021 to 34% in 2025.



Sources: JLL Research, Real Capital Analytics (\$5m transactions & greater).

Investors must position their portfolios for manufacturing's lasting impact on warehouse networks and regional demand patterns.

## Navigating headwinds and market risks

Despite powerful tailwinds, investors must navigate several persistent headwinds. Labor shortages continue to present challenges to tenant expansion and cost control. More significantly, the US trade policy framework remains a primary source of uncertainty. While dramatic tariff fluctuations have entered a temporary lull, the environment remains fragile and subject to sudden change. As demonstrated in 2025, any future shifts could unsettle this uneasy calm, prompting tenants to delay leasing commitments and reevaluate supply chain strategies.

Port dynamics represent another key area of risk and opportunity. Over the past decade, East and Gulf Coast ports — notably Houston and Savannah — have captured significant market share as shippers strategically diversify away from West Coast congestion and geopolitical risk.

However, import volumes remain volatile, fueled by ongoing uncertainty around Asia-origin cargo. This dynamic tends to favor established primary gateway markets over secondary ports, creating a clear performance divergence. Success will require identifying logistics corridors with sustained throughput and proven resilience as global supply chains continue to realign.

Crucially, these external risks are mitigated by the sector's foundational strength: domestic consumption. According to Prologis research, an estimated 75% of US industrial demand is driven by local and regional activity, focused on efficiently moving goods to end consumers rather than processing international trade.<sup>8</sup> This domestic core, fueled by e-commerce and the need to serve dense population centers, insulates the majority of the market from port volatility and global trade disputes. It is this domestic engine that has powered demand over the past decade and will continue to define the sector's fundamental resilience.


## The new playbook

The frenzied, supply-starved highs of the past have given way to a more measured and nuanced environment where success is no longer guaranteed by market

momentum. In this new landscape — defined by persistent challenges like higher interest rates, elevated construction costs and more strategic tenant decision-making — one-size-fits-all approaches are now obsolete. Value will be created through disciplined execution and asset-level differentiation, not broad market tailwinds.

Industrial real estate remains a compelling long-term allocation for investors who can adapt. The next cycle will be won not just with location, but with power, technology, and sustainability. Outperformance will be found in assets designed for modern users: buildings with higher power capacity, automation-ready layouts for robotics and material handling systems, robust electric vehicle charging infrastructure, and certifiable sustainability features. Moreover, a premier location is now defined by more than logistics; it must also provide tenants with access to a deep and qualified labor pool.

Winning strategies will focus on high-barrier markets where such assets are scarce and on resilient, non-commoditized formats such as infill shallow bay and IOS. When paired with a diversified tenant base of durable operators, these investments create a truly defensive and profitable portfolio.

Institutional conviction reinforces this thesis: industrial now comprises roughly 39% of the NFI-ODCE index, more than twice its share a decade ago, underscoring its durability as a core allocation. In the next cycle, success will hinge on disciplined execution and fundamentals-driven strategy, pairing resilient assets with targeted underwriting and active portfolio management. As fundamentals strengthen through 2026, selective cap-rate compression will favor the most well-positioned assets. Capital will increasingly concentrate among proven winners, and outperformance will be captured by those who remain nimble, informed, and relentlessly focused on the fundamentals that create — and protect — lasting value. 

<sup>1</sup> JLL Research, US Industrial market.

<sup>2</sup> JLL Research, US Industrial market.

<sup>3</sup> JLL. 2025. "US Industrial Market Dynamics." Q4 2025.

<sup>4</sup> JLL. 2025. "US Shallow Bay Industrial Report." October 2025; CoStar.

<sup>5</sup> JLL IOS data.

<sup>6</sup> Index starts date of August 2021 aligned to match commencement of Green Street's Commercial Property Price Index for the cold storage sector.

<sup>7</sup> JLL proprietary bid data as of January 2026.

<sup>8</sup> Prologis. 2025. "Trade in Flux: What Global Shifts Mean for US Logistics Real Estate." April 22.

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