Affinius Capital

The next big thing: the investment case for bulk logistics

Following an unprecedented pandemic development cycle, the U.S. industrial market is entering a new phase characterized by rapidly declining new supply and increasingly differentiated performance amongst various size categories. While the broader industrial sector continues to normalize, bulk logistics facilities exceeding one million square feet appear to be emerging as relative leaders, supported by tightening vacancy, structurally resilient occupier demand and sharply reduced development pipelines.

- **The supply wave is receding.** Industrial construction has fallen to its lowest level in more than a decade, with the development pipeline for million-square-foot and larger (MSF+) facilities, declining nearly 70 percent from its 2022 peak.
- **Bulk logistics fundamentals are improving first.** Vacancy has fallen meaningfully across 500,000 SF+ facilities, while smaller warehouse segments continue to experience rising vacancy.
- **Market selection is increasingly important.** Several major logistics hubs for mega-industrial facilities, including Louisville, Seattle, Nashville, Phoenix, Philadelphia and Chicago, combine rapidly shrinking development pipelines with improving vacancy trends.
- **Compelling acquisition and development opportunities are emerging.** Modern bulk logistics assets continue to trade at attractive values relative to replacement cost, while constrained future supply creates an attractive environment for well-located speculative development to deliver into the next phase of the industrial recovery.

The Receding Supply Wave

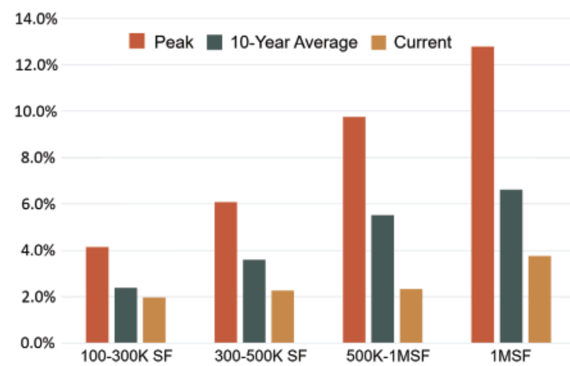
The U.S. industrial market is entering a new phase of the supply cycle. Following an unprecedented wave of development during and immediately after the pandemic, new construction has slowed dramatically. Industrial construction starts totaled just 53 million square feet in 2026 Q1, the lowest quarterly level since 2014.

At the same time, construction costs have remained stubbornly elevated, preventing the normal cyclical reset that often follows a slowdown in development activity. According to the Bureau of Labor Statistics, warehouse construction costs remain approximately 48 percent above year-end 2020 levels, reflecting a 7.4 percent annualized increase that has significantly outpaced broader inflation. Unlike previous cycles, demand for labor and materials has continued to be supported by robust investment in data centers, advanced manufacturing and energy infrastructure, while tariff uncertainty has added further cost pressure and underwriting complexity. Although the pullback in development has been broad-based across virtually every major industrial market, it has not been uniform across segments.

Recent declines have been particularly pronounced among the largest logistics facilities. As shown in Figure 1, the two categories in which the amount of space currently under construction has fallen most sharply are the 500,000-to-1MSF category and the 1MSF+ category, declining not only from the recent peaks, but also well below their average share of inventory under construction over the past decade.

During the past 20 years, larger-format logistics facilities have maintained higher construction levels as a percentage of existing inventory because occupier demand has steadily migrated toward bigger, more sophisticated distribution networks. The rapid expansion of ecommerce, the growing role of third-party logistics providers (3PLs), and the reshoring and nearshoring of manufacturing have all increased demand for facilities capable of serving regional and national supply chains. Modern logistics operations increasingly favor fewer, larger distribution centers that can accommodate automation, higher clear heights, greater trailer storage and more efficient transportation networks.

Figure 1. Average Net SF Construction Deliveries as % of Stock, 2026 to 2028 Average vs. Previous



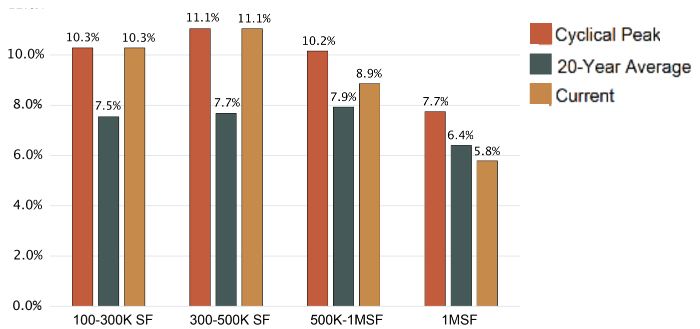
Source: CoStar, Affinius Capital Research.
Note: 10-year average covers 2016 to 2025. Peak reflects highest calendar year of post-pandemic period. Covers the Top 42 U.S. industrial markets.

The sharp reduction in new construction is already translating into stronger operating fundamentals for the largest logistics facilities. As deliveries have slowed and occupier demand has remained resilient, vacancy rates have begun to decline meaningfully across the bulk logistics segment. Since peaking in the fourth quarter of 2024, vacancy has fallen by 196 basis points among buildings exceeding 1 million square feet and by 130 basis points within the 500,000-to-1MSF category (see Figure 2). These improvements suggest that the excess supply created during the pandemic construction boom is being absorbed more rapidly than many anticipated.

In contrast, smaller regional distribution facilities have yet to experience a similar inflection point. Vacancy rates within the 100,000-to-300,000-square-foot and 300,000-to-500,000-square-foot segments have continued to drift higher for the past two years and currently sit at cyclical highs. While fundamentals across the broader industrial market have stabilized, the recovery has become increasingly bifurcated, with the largest logistics facilities separating themselves from smaller warehouse formats.

Perhaps most notable, buildings exceeding 1 million square feet now constitute the only major industrial size cohort with vacancy below its long-term average of the past twenty years. Historically, vacancy rates below long-term equilibrium have been associated with accelerating rent growth as landlords may regain pricing power and as available space becomes increasingly scarce.

Figure 2. Industrial Vacancy Rates by Segment, Current vs. Historical



Source: CoStar, Affinius Capital Research.
Note: 20-year average covers 2006 to 2025. Peak reflects highest calendar year of post-pandemic period. Covers the top 42 U.S. industrial markets.

Targeting the Next Generation of Bulk Logistics Leaders

While the national outlook for bulk logistics has improved, the opportunity is unlikely to emerge uniformly across every market. The concentration of 1MSF+ facilities varies considerably across the country, as do development pipelines and vacancy trends. As a result, market and submarket selection will play an increasingly important role in identifying where fundamentals are likely to tighten most rapidly during the next several years.

To better identify where the most compelling opportunities may emerge, we evaluated the 22 largest U.S. markets by inventory of 1MSF+ logistics facilities. This framework considers both the level and direction of two key indicators: the amount of space currently under construction as a percentage of existing inventory relative to recent peak levels, and current vacancy rates relative to their cyclical highs. Together, these metrics provide a useful gauge of both future supply pressure and the pace at which market fundamentals are improving.

Several markets stand out on both measures. Louisville, Seattle, Nashville, Phoenix, Philadelphia and Chicago have experienced substantial reductions in construction activity while simultaneously demonstrating meaningful improvements in vacancy. As development pipelines continue to shrink, these logistics hubs appear particularly well positioned to benefit from potential occupancy gains and renewed pricing power.

Positioning for the Next Phase of the Cycle

While conditions will continue to vary by market, the combination of limited future construction and tightening vacancy suggests that many bulk logistics markets may be approaching conditions in which landlords regain pricing power and rent growth could begin to accelerate.

Importantly, this backdrop creates opportunities on both the acquisition and development fronts. Although the operating outlook has improved meaningfully, many institutional-quality logistics assets continue to trade at valuations that remain below current replacement cost. Investors therefore may have an opportunity to acquire modern facilities at prices that would be difficult to replicate today, while benefiting from what appears to be an increasingly favorable supply-demand environment. Unlike previous periods when investment returns depended largely on aggressive rent growth assumptions, today's underwriting is generally supported by more disciplined expectations.

The opportunity extends beyond existing assets. In many markets, rental rates for modern bulk logistics facilities already support new speculative development, particularly for larger distribution centers where vacancy has tightened most rapidly. With the national pipeline of 1MSF+ facilities having declined by nearly 70 percent from its peak, developers capable of securing well-located, entitled sites today have an opportunity to deliver product into what is likely to be a materially more supply-constrained market for the next several years. Rather than competing against a wave of new construction, these projects may be among the first to deliver during the next expansion phase of the cycle.

This opportunity is particularly compelling because occupier demand continues to evolve toward exactly this type of product. Today's distribution networks increasingly require facilities capable of supporting automation, robotics, higher electrical capacity, expanded trailer storage and more sophisticated site layouts than were common a generation ago. Retailers, manufacturers, third-party logistics providers and distributors alike are consolidating operations into fewer, larger, and more technologically advanced facilities that improve operating efficiency while reducing long-term supply chain costs. As tenants continue to invest significant capital in automation and specialized equipment, the premium placed on modern, highly functional logistics facilities is likely to widen further.

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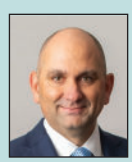

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COMPANY OVERVIEW

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