Research Brief

INDUSTRIAL OUTLOOK

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IPA INSTITUTIONAL PROPERTY ADVISORS

Supply Cooldown Provides Support as Demand Flashes Signs of Optimism

Industrial demand maintains resiliency in mid-2026. Consumer spending continues to support logistics activity. Headline retail sales rose 6.7 percent year-over-year through June, and non-store sales increased 14.2 percent, reinforcing the importance of distribution and fulfillment networks for e-commerce. At the same time, industrial leasing activity has climbed to multiquarter highs, indicating that firms remain willing to commit to space despite an uncertain economic backdrop. Adjusted for inflation, business inventories have been declining, and the inventory-to-sales ratio has fallen steadily since late 2025, suggesting sales are outpacing inventory accumulation as businesses maintain relatively lean stock positions. Recent ISM surveys also point to continued demand resilience, with both the manufacturing and service sectors remaining in expansion territory during June. Taken together, these trends suggest inventory levels may remain lean, leaving scope for a future restocking cycle if sales hold and uncertainty eases, potentially providing an additional tailwind for warehouse demand.

Headwinds, however, persist for the industrial sector. Supply-chain costs have risen notably following conflict in the Middle East. Producer prices for truck and water freight increased 16.0 percent and 9.9 percent year-over-year in June, respectively, underscoring cost pressure across both domestic and international freight. Even so, import activity increased during the first half of 2026, which may partly reflect accelerated purchasing ahead of potential supply-chain disruptions and the July expiration of the temporary Section 122 tariffs. Although the latest tariff framework, ranging from 10 percent to 12.5 percent, may provide greater visibility into future trade costs than the preceding measures, the broader policy landscape remains fluid. As a result, firms may remain cautious as they navigate sourcing, inventory, and expansion decisions.

Industrial fundamentals find better footing. Deliveries have slowed from the post-pandemic construction wave, while first-half net absorption remained above the 2023-2025 average despite second-quarter moderation. This improved balance kept vacancy at 7.8 percent for four consecutive quarters as prior-wave space was absorbed. Second-half deliveries should roughly match the first half, bringing annual completions to their lowest level since 2014. Still, economic headwinds could cap absorption and lead to new supply modestly outpacing demand, lifting vacancy by year-end. Market performance remains uneven. Among warehouses and distribution spaces, vacancy declined among facilities larger than 200,000 square feet and properties completed since 2020. Smaller and older assets generally experienced modest softening, suggesting tenants continue to favor newer, more efficient space.

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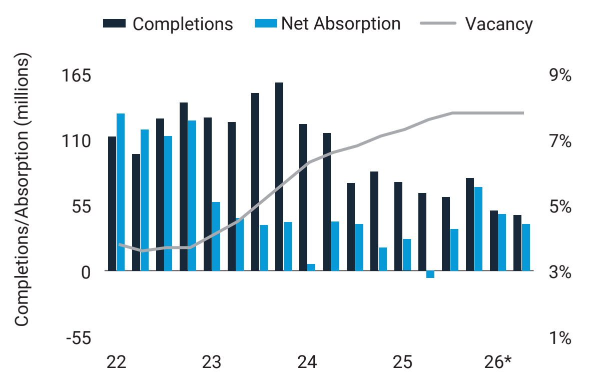
Fundamentals vary by geography through mid-year. Sun Belt metros continued to lead inventory expansion, though growth broadly moderated, with Austin and Phoenix pulling back from recent peaks. Meanwhile, Midwestern markets emerged as leading performers, led by Indianapolis, which posted the strongest rent growth and vacancy compression among major metros. Coastal markets, however, generally faced rising vacancy. Weakness was most pronounced on the West Coast, where Oakland and Portland recorded declining occupancy and falling rents. At the same time, select East Coast markets like Philadelphia and Northern New Jersey saw positive absorption despite broader vacancy pressure.

Investor engagement strengthens as the market stabilizes. National industrial transaction velocity increased 21 percent year-over-year in the 12 months ended June, marking the second-most active period on record and the strongest growth among major property types. Activity remained concentrated in Class B/C assets and tertiary markets, though transaction growth was strongest in Class A properties and primary markets, suggesting investors are increasingly gravitating toward higher-quality assets. Pricing has also remained relatively firm, with cap rates compressing modestly during the second quarter and remaining among the least repriced of the major CRE sectors since 2022.

97.2 Million SF
Lowest First-Half Delivery Total Since 2014

86.8 Million SF
Largest First-Half Net Absorption Since 2023

SUPPLY-DEMAND GAP HAS NARROWED



* Through June | Sources: IPA Research Services; Bureau of Economic Analysis; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Institute for Supply Management; U.S. Census Bureau