

- **Volatile capital markets backdrop:** The COVID-19 pandemic triggered global monetary easing and fiscal stimulus around the globe. As the pandemic receded in the United States, the Federal Reserve intervened in 2022 and 2023 with aggressive rate increases to combat inflation. This spike in financing costs cooled the transaction market and brought a wave of repricing across all real estate sectors.
- **COVID-specific demand spike:** After the onset of the pandemic, a rapid increase in demand for warehouse space to address supply-chain disruptions and meet the significant increase in ecommerce demand drove an already tight industrial market to record-low vacancy levels and triggered a spike in rents and elevated new construction of space.
- **New supply and normalization:** Given the strength in fundamentals, the industrial asset class experienced a spike in speculative development in recent years, leading to areas of oversupply and higher vacancies, which are now stabilizing as new construction starts have recently dropped sharply (today, down nearly 70 percent from the 2022 peak), according to the June 2025 report in *Commercial Property Executive's* "Industrial construction starts to plunge in 2025." Markets with low barriers to new supply experienced the steepest increases in vacancy, while infill locations and other supply-constrained regions have continued to experience low vacancy levels and persistent tenant demand.

There are also several factors that make industrial an inflation outperformer:

- **Favorable lease structures:** Industrial leases are typically five to seven years, with regular contractual escalations and mark-to-market resets upon renewal, allowing cash flows to grow with inflation. Industrial leases are also typically structured as triple-net, with the tenant bearing all operating costs, including taxes, which allows landlords to pass operational cost increases through to tenants.
- **Moderate capital expenditure levels:** Industrial assets are long-lived and require limited ongoing capital expenditures. While a portion of the industrial stock does become obsolete more quickly, the majority of industrial facilities have a useful life of several

decades. A tenant may upgrade and reinvest in the equipment and operation inside the building, but the building envelope can remain relatively static.

- **Facility costs are a small percentage of overall logistics costs:** Rents typically account for a small portion of a company's overall logistics costs, making inflationary rental increases less impactful to the overall business. In addition, site location can allow companies to offset inflationary costs in other areas of the business, giving industrial landlords pricing power for well-located sites, even in times of rising costs.
- **Urban sprawl has placed an increasing premium on well-located sites:** As cities grow, land available for new industrial development is increasingly located well beyond city centers, while at the same time, tenants

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are pushing for space requirements closer to those centers to access populations and minimize transportation costs. This has allowed industrial landlords with well-located sites in major urban areas to offer tenants a strong value proposition, despite rising rents. In addition, because industrial demand has pushed further into population centers, new industrial development experiences NIMBY ("not in my backyard") pressures and competes with other land uses such as multifamily, making it more and more difficult for developers to put new industrial supply into production.

- **Industrial is a more mature and institutional asset class today:** Over the past 25 years, especially the past 15 years, the industrial market has experienced increasing institutional ownership, according to Real Capital Analytics data. The asset class has become a more significant piece of a typical institutional real estate portfolio and, as a result, benefits from deeper capital markets and more disciplined landlords. This has moderated cyclicity somewhat, leading



to quicker responses to excess supply. During the current cycle, industrial developers responded quickly to excess demand during the COVID-19 pandemic with a building boom, but just as quickly pulled back as demand waned. This has contributed to the asset class experiencing minimal distress.

A new cycle

While Rockpoint believes the industrial sector offers powerful inflation-hedging char-

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acteristics, the environment is not without risk. The euphoria of COVID-driven industrial demand has led to significant excess supply in certain markets. Absorption of this excess space will take time and will remain a headwind in these markets. Additionally, some markets and sectors of the economy are more exposed to shifting international trade policy and tariffs than others, which could have an outsized impact on local industrial

demand, making market selection critical to overall performance.

During the COVID boom, large portfolio purchases were an effective way to benefit from the tailwinds that the industrial market was experiencing, as nearly every market saw favorable dynamics, with attractive financing terms and historically low interest rates artificially enhancing returns. An environment with higher rates, increased supply and normalizing industrial demand has exposed significant differences in how regions, markets and asset types have performed, making a high-level allocation strategy complicated to execute well. Selectivity and active management are key to maximizing opportunities amid today's numerous converging headwinds.

Conclusion

In an environment in which uncertainty and the prospect of high inflation rule the headlines, industrial real estate remains a compelling asset class for new investment. However, broad-based exposure is no longer the answer — success in 2025 and beyond will require a highly selective market and asset focus, aggressive execution, and operational skill. Rockpoint's "address-level" investing, hands-on management and long-cycle experience provide robust inflation protection and durable value creation. ♦

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