

Industrial Real Estate Poised to Outperform

User demand for new locations and modern buildings continues to support price appreciation.

Major users of industrial, warehouse, and logistics properties have adopted new post-COVID strategies to reach consumers, including enhancing technology and diversifying supply chain networks. Property developers responded to these secular trends by building new product, and even with the new supply, property prices have steadily increased. The increased cost of labor, materials, and debt have depressed the level of new construction starts, which we anticipate will continue to bolster property values for the sector.

Sector Commentary

- The growth of e-commerce and focus on supply-chain resiliency fueled demand for warehouse and logistics properties. According to CBRE, new leasing activity has cooled slightly since the peak in 2022 but remains well above pre-COVID averages.
- Technology also played a role, as occupiers demanded new properties that can accommodate automation, efficiencies, and modern amenities.
- We expect the threat of new tariffs on materials and the potential for further cost increases will continue to weigh on new construction, further supporting the value of existing properties. It could cost materially more to build the same building today than in 2023.

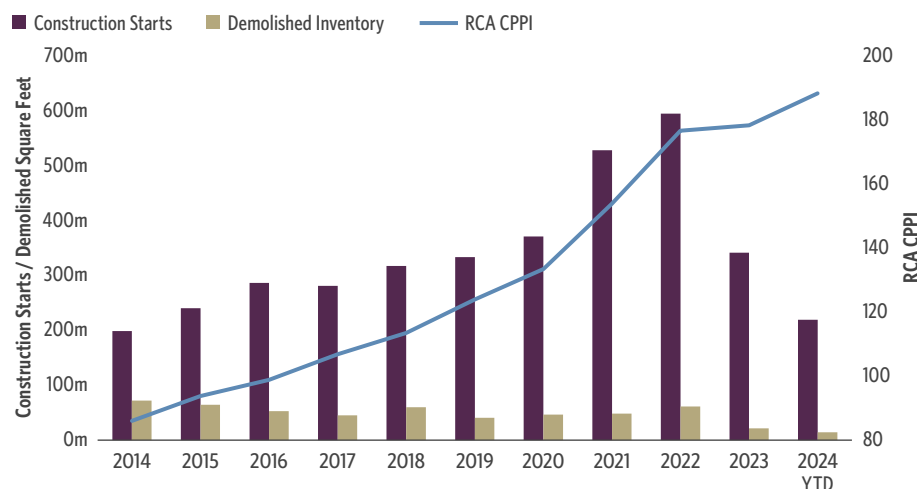
Investment Themes

- We expect demand will remain strong for industrial and warehouse properties as companies adopt onshoring and near-shoring strategies. This trend is creating new emerging industrial markets to support new manufacturing and distribution demand.
- Major retailers such as Amazon have adopted new supply-chain strategies, opting for multiple regional networks rather than one national network to reach consumers faster and limit supply chain dependencies.
- A growing factor in site selection is the availability of power and water. Both are important, as occupiers bring more energy-consuming uses into and around the traditional building core and shell, such as automation, infrastructure for electric vehicles, cooling, and data storage. We expect the growth of artificial intelligence and its insatiable appetite for power will drive demand.

By Jennifer A. Marler and Karen Karwoski

Even with new supply, property prices have steadily increased. Now that new construction starts have fallen, we expect continued support for property values.

Property Prices Have Increased but New Construction Starts Are Declining



Source: Guggenheim Investments, CoStar, MSCI, RCA. Data as of 12.31.2024. CPPI = Commercial Property Price Indexes.

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