

Industrial's Fixer-Upper Phase

Value-add investors see healthy warehouse fundamentals as a sign to start upgrading

BY PATRICK SISSON

The nation's recent warehouse boom may seem to have promised endless space for storing goods. But recent market corrections have suddenly created a shortage of certain types of logistics real estate — and an opportunity in an increasingly complex industrial market.

With the numbers for industrial properties moving in all the right directions for owners and investors — decreasing vacancy, rising rents, a shrunken construction pipeline and improving valuations — a value-add strategy for investment has hit its stride. Big boxes and top-tier corporate offices may seem to be wholly different real estate sectors, but they're both exhibiting a flight to quality.

And investors see pricing dynamics as particularly enticing. "The fundamentals have just crossed an inflection point in many markets," said John Carrafiell, CEO of investor and lender BGO. He predicts the next two to three years will be an incredibly strong run for those strategically acquiring and updating industrial assets, with BGO analysts predicting that "industrial should deliver the strongest rent growth of any major property sector over the next several years."

The sector has entered a new cycle, said JLL Director Nick Stefans, who focuses on industrial assets in New Jersey. Per JLL data, the first quarter of the year alone saw 145 million square feet of national leasing — 72 percent of which were new — with total volume up nearly 18 percent over the same period last year. Investors have begun to underwrite with more conviction, he said, due to a drop-off in supply, rising rent and a shift toward a more landlord-favorable market.

"What we've seen in the Northeast especially is almost a flight to quality," said Stefans. "It's happening in real time."

Institutional capital had recently shied away a bit from the space, said Tyler Mattox, principal at MCA Realty, viewing larger properties in particular as susceptible to oversupply, sinking rents and softening demand. Now, the market has turned around, and, like the big rigs parking in warehouse lots, once it starts picking up speed, it really gains momentum. First-quarter investment volume across the country hit \$28.6 billion, up 36.6 percent year-over-year, a strong start to what is on trend to be the third straight year of increased investment.

Making the investment even more timely, many owners of industrial assets, especially those who bought early in the decade, face maturity dates for loans and pressure to return capital and fund redemptions, a dynamic pushing almost-new assets into the marketplace at a time of low but rising valuations. Buyers can pick up warehouses just as their value begins moving in the right direction. Because of where national rents are going today — inching up just under a percentage point, per

JLL, but starting to pull out of a three-year plateau — yields will grow, offering a mark-to-market opportunity.

It helps that supply has shrunk after demand last year caught up with the post-COVID supply glut. The delivery of just 55.7 million square feet of space in the first three months of the year was the lowest quarterly figure since early 2017. National vacancy plateaued at 7.5 percent at the start of the year, with JLL research predicting that will start to trend down.

According to Carrafiell, the number of so-called "bombers" available on the market — warehouses of at least 1 million square feet — dropped from 50 to 25 in just the last 12 months. Leasing of warehouses of a half a million square feet or more skyrocketed 80 percent year-over-year.

"To hit those value-add returns, you need conviction in not only what market rents are today, but what market rent growth is in the future," said Stefans. "Even 12 months ago, investors predicted rent would grow half as fast as it did. All of a sudden, we're seeing a fair amount of single asset and portfolio trades."

Tenants also see this as a moment to recalibrate, said Zak Mirkowski, a Chicago-based vice chairman at Savills. Some want to shed legacy locations in older markets, and perhaps shrink their footprint and find a more modern space. Others have been driven to reorient their strategies after mergers and acquisitions. Offering new, top-flight warehouse space at a higher per-foot rate can attract tenants who want to consolidate and still save on their overall rent.

There's also a sense of sprawl, said Mirkowski, that's widening the playing field. Larger tenants wrestling with less vacancy in core markets (Chicago, Dallas, New Jersey and California's Inland Empire accounted for 42 percent of national leasing activity in the first quarter of 2026) have been more willing to operate in secondary or even tertiary markets. This makes sometimes overlooked industrial assets in those markets much more attractive to acquire and upgrade.

Ed Brickley, a managing director at owner and manager Realterm, agreed. He's seen reshoring and shifts in manufacturing slowly redirect logistics routes and supply chains in the last few years, leading to tenants giving non-traditional markets a second look. A wave of supply chain restructuring and optimizing has also benefited midsize properties.

After locating a target asset, the next step, said Carrafiell, is recapping and leasing, which explains why it's necessary to have good submarket-level intelligence to determine the right locations for enacting this strategy. BGO has a proprietary machine learning algorithm analyzing rent and leasing movement in roughly 2,500 submarkets across the U.S.,

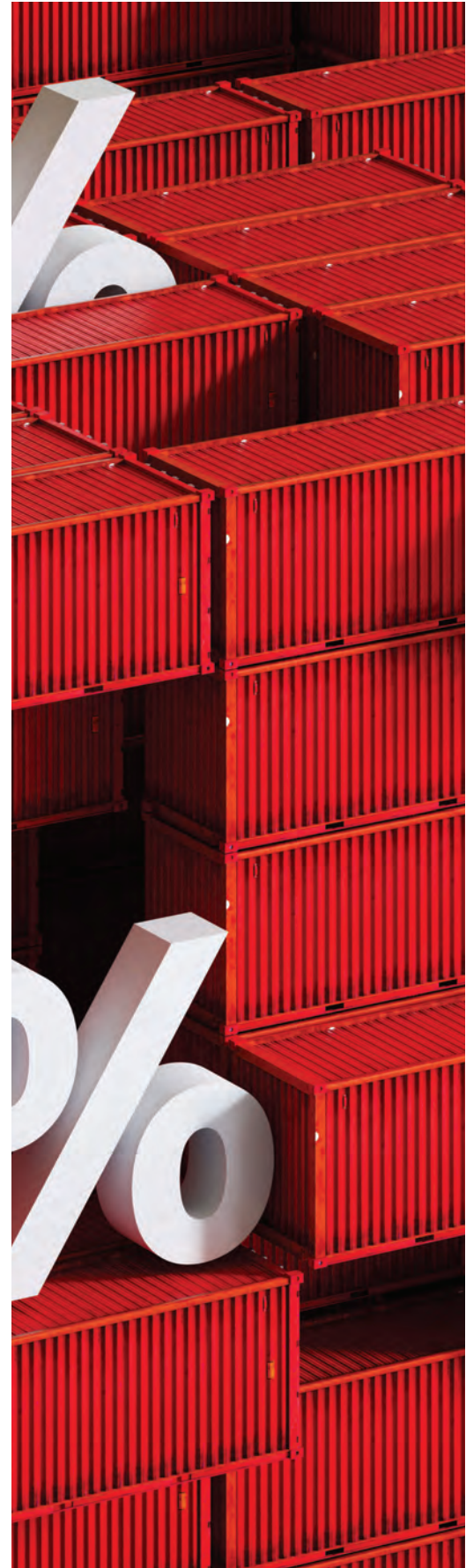


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and predicts significant disparity in performance — markets in the top quartile may see up to 30 percent growth in rent over the next five years, with the bottom quartile performance flat or even slightly declining. In late April, the firm acquired a pair of properties in Atlanta spanning 1 million square feet in total, in a deal specifically tied to a new value-add approach.

Stafans points to shallow-bay, multi-tenant buildings as particularly prudent investments, especially in his region in the Northeast. There’s always tenant interest, he said. And, given that the supply is relatively constrained, if there are rolling leases and an easy exit, they make excellent targets for value-add investments. Mattox at MCA, whose firm also focuses on small-bay and midsize industrial opportunities in the Western U.S., seconded the notion.

“The resiliency of our tenant base is higher than we would have thought, and frankly higher than I think has historically been the perception of these small kinds of mom-and-pop-type businesses,” said Mattox.

Adding value can come in many forms. That includes infrastructure improvements, such as new floors and truck courts; providing equity for shovel-ready developments; or increased power for future automation or advanced manufacturing tenants.

Carrafiell said he anticipates surging interest in top-tier warehouses offering medical-grade flat flooring for automation, proper power hookups and stacking-friendly double-height ceilings. Since approximately one-fifth of U.S. warehouses were built since 2010, only a small slice of overall inventory meets these latest requirements.

The boom in new manufacturing sites catalyzed by the ecosystems that grow around chip manufacturing plants or due to reshoring — instead of South Korea or Vietnam, they’re now in places like Ohio or Texas — has meant new tenants who need new spaces and new equipment. Even in the worst decades for U.S. industry, industrial vacancy still peaked at something like 7 percent, Carrafiell said. With today’s incremental growth in demand, and new facilities taking years to construct, he’s signing a bonanza of new deals, from cold-storage tenants to solar manufacturing.

“The demand today is driven by tenants who need more power than they needed 5, 10, 15 years ago,” said Carrafiell. “Even if they’re just distribution, they’re doing more in the building because of robotics, automation, and using AI to be more efficient.”

The 100 percent bonus accelerated depreciation for manufacturing facilities and logistics and manufacturing equipment — from the federal One Big Beautiful Bill passed last year — has boosted this growth, making those upgrades even more financially feasible.

These new economy users have buoyed industrial demand during a period when the national economy can seem unmoored and uncertain. Traditionally, commerce, spending and consumer sentiment tracked parallel to industrial demand. But Carrafiell isn’t worried that a challenging macroeconomic environment will blunt this moment for industrial.

In what he calls a two-gear economy, industries such as chip fabrication, data centers, defense and advanced manufacturing will continue to seek industrial space. Data center construction in particular requires a robust supply chain — and storage space for materials. Despite a tumultuous news cycle, the industrial market continues to perform.

“Follow the freight,” said Brickley. “You can flip on the TV, and it seems like the world is evaporating. But we’re seeing consistent performance and growth.”