AFFINIUS CAPITAL

THE NEXT BIG THING:

THE INVESTMENT CASE FOR BULK LOGISTICS

August 2026

EXECUTIVE SUMMARY

Following an unprecedented post-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 1 MSF+ facilities declining nearly 70% 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, signaling a bifurcated recovery.
- **Structural demand remains firmly intact.** E-commerce, third-party logistics, manufacturing reshoring, automation, and supply chain optimization continue to drive demand for modern large-format distribution facilities.
- **Market selection is increasingly important.** Several major logistics hubs for mega-industrial facilities, including Louisville, Dallas/Ft. Worth, Nashville, Phoenix, Philadelphia, and Chicago, combine rapidly shrinking development pipelines with improving vacancy trends, which may position them to outperform as the cycle advances.
- **Compelling acquisition and development opportunities are emerging.** Modern bulk logistics assets continue to trade at near or below 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

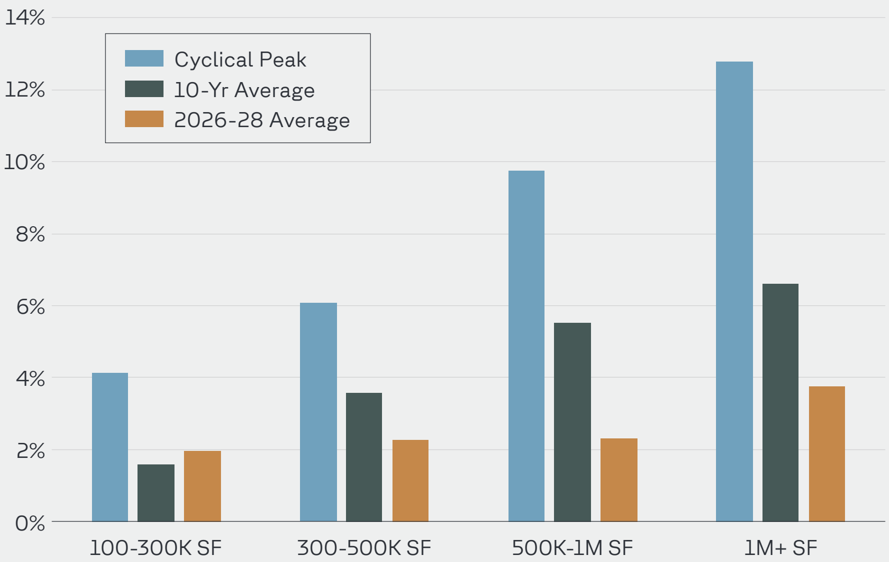
The U.S. industrial market is entering a new phase of the supply cycle. Following an unprecedented wave of development during and immediately after the pandemic, new construction has slowed dramatically as the industry works through the excess capacity created by the record building boom. Industrial construction starts totaled just 53 million square feet in the first quarter of 2026, the lowest quarterly level since 2014 and less than half the quarterly average recorded between 2020 and 2023. The economics of new development over the past few years have become considerably more challenging as higher interest rates, tighter construction financing, moderating rent growth, and elevated vacancy in certain markets have caused many developers and lenders to step to the sidelines.

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 are approximately 48% above year-end 2020 levels, reflecting a 7.4% annualized increase that has significantly outpaced broader inflation. Unlike previous cycles, demand for labor and materials has been 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. As the market moves beyond the post-pandemic supply surge, meaningful differences are emerging.

While development activity has slowed across the industrial sector, the decline has been particularly pronounced among the largest logistics facilities. As shown in **Exhibit 1**, the amount of space currently under construction has fallen most sharply in the 500,000-to-1 MSF and 1 MSF+ categories, declining not only from the record levels reached during the post-pandemic development boom but also well below their average share of inventory under construction over the past decade.

Over 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 e-commerce, 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.

EXHIBIT 1: CONSTRUCTION DELIVERIES AS % OF STOCK, 2026-28 ANNUAL AVERAGE VS. PREVIOUS[1]



Source: CoStar, Affinius Capital Research

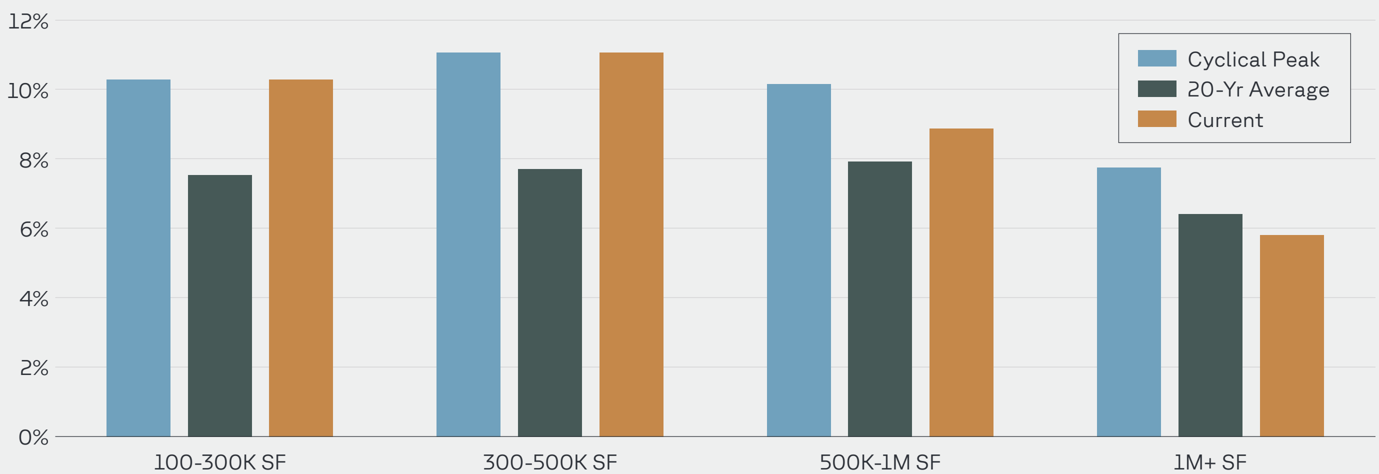
1. Note that 10-year average covers 2016 to 2025. Peak reflects highest calendar year of post-pandemic period. Covers the Top 42 U.S. industrial markets.

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 MSF and by 130 basis points within the 500,000-to-1 MSF category (**Exhibit 2**). These improvements suggest that the excess supply created during the post-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 SF and 300,000-to-500,000 SF segments have continued to drift higher over 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 MSF are now the only major industrial size cohort with vacancy below its long-term average over the past 20 years. Historically, vacancy rates below long-term equilibrium have been associated with accelerating rent growth as landlords may regain pricing power and available space becomes increasingly scarce. These rent increases are often more pronounced during periods of rapidly slowing supply, especially for newer product, as demonstrated in our previous **RESEARCH**. Although recent rent growth across the broader industrial market has moderated following the extraordinary gains recorded during the pandemic, the largest logistics facilities appear to be entering the next phase of the cycle earlier than the rest of the market, supported by a combination of rapidly declining supply and structurally resilient occupier demand.

EXHIBIT 2: INDUSTRIAL VACANCY RATES BY SEGMENT, CURRENT VS. HISTORICAL[2]



Source: CoStar, Affinius Capital Research

2. Note that 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. Importantly, the composition of industrial inventory also varies considerably across the country. As shown in **Exhibit 3**, among major U.S. industrial markets with at least 150 MSF of inventory, several of the largest, including Dallas/Fort Worth, Chicago, the Inland Empire, and Phoenix, have a meaningful concentration of mega-warehouse product, with facilities exceeding 1 MSF representing 10% or more of total inventory. The concentration is even more pronounced in several smaller Midwest and inland logistics hubs, including Columbus, Kansas City, Memphis, St. Louis, and Louisville, where large-scale distribution facilities comprise an outsized share of the industrial base. This reflects the important role these markets play in national and regional distribution networks and highlights why the improving fundamentals for bulk logistics will have a particularly meaningful impact in certain markets.

EXHIBIT 3: PERCENT OF MARKET INDUSTRIAL INVENTORY BY SIZE CATEGORY[3]

Markets	Total SF	Below 100K SF	100-300K SF	300-500K SF	500K-1MSF	1MSF+
Dallas/Ft. Worth	1,158,581,419	33%	26%	15%	16%	11%
Chicago	1,055,749,984	21%	37%	16%	16%	10%
Inland Empire	829,776,694	32%	19%	15%	19%	14%
Atlanta	741,253,079	27%	32%	15%	14%	12%
Houston	669,540,360	33%	36%	13%	11%	7%
Phoenix	460,766,488	38%	27%	11%	14%	10%
Philadelphia	453,055,162	24%	35%	16%	16%	10%
Indianapolis	442,393,458	31%	20%	14%	25%	9%
Los Angeles	406,889,871	12%	61%	13%	10%	4%
Columbus	372,513,633	26%	23%	15%	18%	17%
Kansas City	345,538,701	28%	24%	14%	18%	17%
Charlotte	339,672,331	26%	37%	16%	15%	6%
Memphis	336,049,287	23%	25%	13%	26%	14%
Cincinnati	294,064,511	20%	36%	16%	19%	9%
Nashville	277,191,416	27%	28%	13%	18%	14%
New York	261,081,575	14%	48%	17%	14%	7%
Louisville	260,662,912	26%	29%	16%	19%	11%
Seattle	255,940,377	25%	38%	16%	12%	9%
Minneapolis	241,549,812	20%	53%	13%	9%	5%
Saint Louis	240,406,044	20%	38%	13%	15%	13%
Denver	188,829,739	30%	40%	14%	13%	3%
Cleveland	188,085,320	8%	50%	16%	15%	12%
Baltimore	181,041,038	21%	41%	13%	17%	8%
Las Vegas	165,556,205	38%	32%	15%	14%	1%
Miami	159,935,226	30%	53%	9%	8%	1%
Salt Lake City	158,107,171	34%	31%	16%	15%	4%
Boston	147,472,821	16%	52%	18%	9%	6%
Milwaukee	147,176,714	15%	48%	15%	12%	9%
San Antonio	146,544,258	33%	35%	12%	11%	9%
Portland	141,687,219	22%	49%	13%	15%	1%
Pittsburgh	140,367,086	10%	45%	15%	15%	14%
Austin	138,600,777	40%	35%	9%	4%	12%
Orlando	133,009,102	29%	43%	13%	11%	3%
East Bay	125,656,984	18%	53%	15%	7%	6%
Northern New Jersey	119,920,011	16%	47%	14%	14%	10%
Tampa	117,950,576	26%	40%	13%	14%	6%
Washington	108,610,442	25%	49%	14%	13%	0%
Sacramento	101,710,545	22%	44%	15%	13%	6%
Orange County	93,765,199	14%	60%	17%	5%	4%
San Diego	66,102,411	23%	54%	9%	4%	10%
San Jose	48,900,519	18%	59%	8%	6%	9%

Source: CoStar, Affinius Capital Research, as of Q2 2025

3. Markets are color-coded by each size category, where markets with a larger relative exposure are green, and those with a smaller relative exposure are red.

These differences in market composition make geography increasingly important as the bulk logistics cycle turns. The national development pipeline for buildings exceeding 1 MSF has already contracted dramatically, falling from approximately **137 million square feet under construction in the third quarter of 2022 to just 43 million square feet as of the second quarter of 2026**, a decline of nearly 70%. To better identify where the most compelling opportunities may emerge, we evaluated the 21 largest U.S. markets by inventory of 1 MSF+ logistics facilities (**Exhibit 4**). 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, Dallas/Ft. Worth, 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.

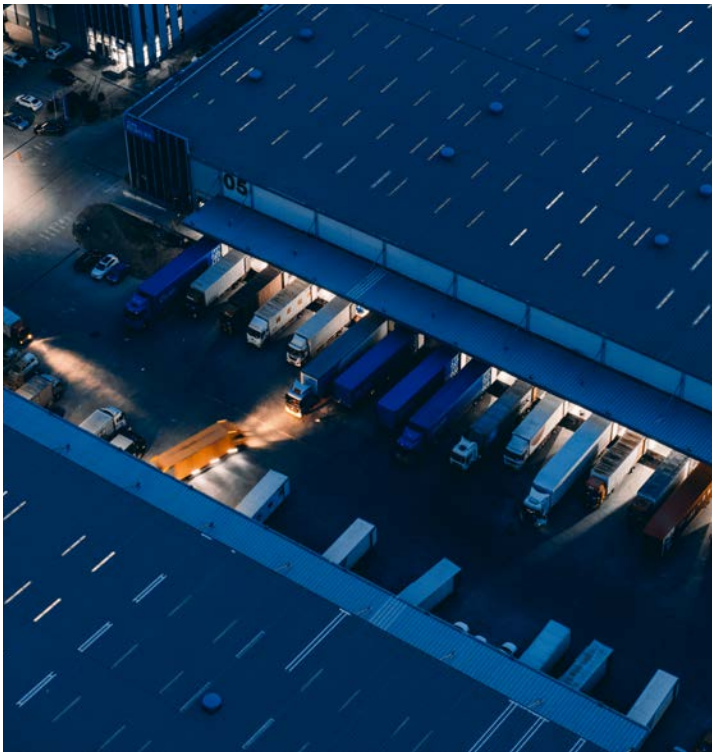


EXHIBIT 4: INDUSTRIAL 1MSF+ MARKET FUNDAMENTALS & TRENDS[4]

			UC % OF STOCK			VACANCY RATE			% of 1MSF Stock Less Than 10yrs Old
Rank	Market	1MSF+ Stock	Current	Peak	Change	Current	Peak	Change	
1	Dallas/Ft. Worth	126,765,799	5.7%	18.5%	-12.9%	5.5%	13.3%	-7.8%	52%
2	Inland Empire	116,811,253	6.0%	19.3%	-13.3%	8.3%	8.3%	0.0%	60%
3	Chicago	105,978,915	3.3%	9.3%	-6.0%	3.0%	10.9%	-7.9%	41%
4	Atlanta	85,709,072	6.2%	8.6%	-2.4%	4.3%	12.6%	-8.3%	62%
5	Columbus	64,225,320	3.2%	12.1%	-8.9%	9.1%	13.6%	-4.5%	38%
6	Kansas City	57,287,822	0.0%	13.6%	-13.6%	7.2%	9.2%	-2.0%	29%
7	Houston	46,923,123	2.1%	19.5%	-17.3%	4.8%	13.6%	-8.8%	73%
8	Phoenix	46,314,811	5.0%	26.9%	-21.9%	0.9%	13.3%	-12.4%	65%
9	Memphis	45,765,147	2.4%	21.7%	-19.3%	3.7%	10.1%	-6.4%	50%
10	Philadelphia	45,402,225	3.1%	23.2%	-20.1%	3.1%	10.2%	-7.1%	52%
11	Indianapolis	39,794,106	7.0%	26.8%	-19.8%	8.7%	18.6%	-9.9%	55%
12	Nashville	38,196,113	0.0%	16.8%	-16.8%	3.0%	3.0%	0.0%	30%
13	Saint Louis	30,342,190	3.6%	4.1%	-0.5%	3.9%	12.0%	-8.1%	22%
14	Louisville	27,763,287	0.0%	11.2%	-11.2%	0.2%	5.5%	-5.3%	45%
15	Cincinnati	26,392,661	0.0%	13.6%	-13.6%	4.5%	10.7%	-6.2%	27%
16	Cleveland	23,020,010	0.0%	0.0%	0.0%	3.6%	11.8%	-8.2%	0%
17	Seattle	22,723,812	0.0%	16.8%	-16.8%	0.4%	5.2%	-4.8%	32%
18	Charlotte	21,922,493	10.9%	22.2%	-11.2%	9.8%	24.6%	-14.8%	51%
19	Pittsburgh	20,089,225	0.0%	5.2%	-5.2%	5.8%	9.5%	-3.7%	20%
20	New York	18,470,576	0.0%	16.9%	-16.9%	15.8%	17.1%	-1.3%	33%
21	Austin	17,175,225	22.7%	71.2%	-48.5%	0.7%	2.5%	-1.8%	75%

Source: CoStar, Affinius Capital Research

4. Note that peak reflects highest calendar year of post-pandemic period. Highlighted cells for both UC % of Stock and Vacancy are below national average.

POSITIONING FOR THE NEXT PHASE OF THE CYCLE

Taken together, the evidence suggests that bulk logistics facilities may be well positioned to benefit from the next phase of the industrial recovery. Development activity has contracted dramatically, vacancy has already begun declining across the largest building categories, and many of the nation's premier logistics markets are experiencing simultaneous improvements in both supply pipelines and operating fundamentals. While conditions will continue to vary by market, the combination of limited future construction and tightening vacancy suggests that many bulk logistics markets are entering an environment where 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, reflecting moderate rent growth, conservative exit cap rates, and stabilized yields that may be achievable through improving fundamentals rather than financial engineering.

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 1 MSF+ facilities having declined by nearly 70% 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 over 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. **Access to power is also becoming a key differentiator. Highly automated operations, advanced material-handling systems, climate control, EV charging, and other forms of electrification are materially raising the electrical requirements of modern logistics facilities, making access to sufficient, and expandable, power an increasingly important consideration in site selection. As power availability becomes more constrained in many markets, sites that can secure adequate capacity may become both more difficult to replicate and more valuable to occupiers.** 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 investing significant capital into automation and specialized equipment, the premium placed on modern, highly functional logistics facilities is likely to widen further.

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