

Among major property sectors, industrial real estate was the most directly impacted by trade policy volatility in 2025. Shifting tariff regimes, uncertainty around global trade relationships, and evolving industrial policy created meaningful hesitation among occupiers, particularly manufacturers and logistics users with cross-border supply chains. As a result, lease execution slowed, and in many cases demand was deferred as tenants waited for greater clarity on sourcing, pricing, and long-term location strategy. This uncertainty weighed on near-term absorption.

Importantly, the forces driving that hesitation also point toward **structurally higher long-term demand for industrial space**. A fracturing global economy, defined by reshoring, nearshoring, supply-chain redundancy, and greater regional self-sufficiency, requires broader and more geographically distributed manufacturing and logistics footprints. At the same time, secular demand from e-commerce continues to underpin the sector. Online sales growth continues to outpace brick-and-mortar retail, and most retailers now operate an omnichannel model that depends on modern distribution infrastructure. Whether supporting last-mile fulfillment, regional bulk distribution, or returns processing, industrial space remains central to how goods move through the economy. While 2025 was characterized by pauses and recalibration, the direction of travel remains clear: these dynamics favor more industrial capacity over time, even if the path is uneven.

That long-term demand backdrop now intersects with a meaningful supply-side adjustment. Development activity has slowed sharply from its 2022 peak. Space under construction has declined from approximately 710 million square feet in Q3 2022 to roughly 318 million square feet today.¹

Construction starts remain low, down 67% from peak levels and averaging just 59 million square feet over the past five quarters. As a result, **total deliveries in 2026-2027 are projected to decline by roughly 75% from the 2022-2023 peak**. National vacancy has risen to 7.5%, modestly above its 20-year average, as certain markets continue to digest recent elevated deliveries. Notably, industrial land pricing has generally held across most markets, signaling that capital continues to underwrite the sector's long-term relevance despite near-term normalization.

This environment is particularly supportive of modern, Class A industrial assets. Our **RESEARCH** shows that **newer, well-located facilities consistently outperform in the early stages of real estate recoveries**, a pattern illustrated in **Exhibit 1**. With new supply deliveries sharply curtailed, competition for high-quality space diminishes just as tenant demand begins to re-engage, allowing modern assets to capture leasing velocity, occupancy gains, and rent growth ahead of the broader market. This dynamic reinforces the persistent flight to quality observed across leasing activity and helps explain why performance dispersion within the industrial sector is widening as the cycle turns.

EXHIBIT 1: HISTORICAL OUTPERFORMANCE OF MODERN LOGISTICS IN THE EARLY RECOVERY PHASE²

	Decline in Completions	Avg Annual Return: Industrial Buildings < 10 Years Old	Avg Annual Return: Industrial Buildings > 10 years Old	Annual Outperformance: Modern Product
DOT.COM BUST	-56%	13.7%	11.5%	2.16%
Under 250K SF		12.8%	10.0%	2.76%
250-500K SF		13.6%	11.2%	2.40%
500K+ SF		14.2%	12.5%	1.70%
GFC	-84%	12.0%	10.1%	1.88%
Under 250K SF		10.0%	9.1%	0.90%
250-500K SF		11.9%	10.3%	1.60%
500K+ SF		13.1%	10.7%	2.30%
CURRENT CYCLE	-72%			?

Source: NCREIF, Affinius Capital Research, CoStar

1. CoStar, as of Q3 2025
 2. Covers the initial five years of real estate value recoveries in prior cycles

At the same time, a disconnect remains between core industrial valuations and real-time market signals. As of mid-2025, ODCE fund appraisals continue to imply cap rates below 4%, a level increasingly difficult to reconcile with observed transaction activity. For several years, appraisals have leaned on embedded mark-to-market upside to justify low implied cap rates; yet with average lease terms under five years, a substantial portion of that upside has already been captured. Against that backdrop, the persistence of sub-4% implied cap rates appears increasingly untenable. We expect this imbalance to begin correcting over the coming quarters as a meaningful volume of transactions reaches the market, with early indications pointing toward cap rates in the 5%-6% range, particularly for assets with longer-duration leases. Selectively, these levels present compelling entry points, especially in markets with durable rent growth or in assets that can be acquired with vacancy and repositioned. For now, however, capital has been slow to mobilize, as many institutional investors prioritize liquidity within existing portfolios rather than deploying new capital, extending the repricing process.

Looking beyond near-term valuation adjustments, the more constructive signal lies in the early contours of the next development cycle. The excesses of recent years are being worked through more quickly than many expected. Chicago offers a clear illustration: vacancy for bulk facilities of one million square feet or more rose from roughly 5.5% at the end of 2021 to over 11% as inventory expanded rapidly, only to round-trip back to 5.4% vacancy today,³ with just two buildings currently under construction. Similar patterns are emerging across multiple markets as supply pipelines contract sharply. Combined with renewed e-commerce growth, continued reshoring of manufacturing and logistics, and demand tied to aerospace, defense, energy transition, and data center supply chains, fundamentals are quietly firming. Construction economics have also improved: hard costs for bulk buildings are down 20-25% from peak levels, general contractor pricing has become more competitive, and while tenant improvement costs remain elevated, **overall yields on cost for new projects now exceed 7%** in many cases. With speculative supply constrained, **build-to-suit activity is likely to increase in 2026**, alongside selective opportunities for well-located speculative development. Despite uneven conditions across regions and slow-moving capital, we believe 2026 represents one of the most attractive entry points in a decade for combining acquisition and development strategies within the industrial sector, particularly for disciplined investors with patient capital and operational reach.

Looking to the south of the U.S. border, **Mexico is appearing increasingly well positioned to capitalize on the evolving global trade order**, shaped by nearshoring,



supply-chain diversification, and the reconfiguration of manufacturing away from single-country dependence. Now the largest trading partner of the United States,⁴ Mexico sits at the intersection of these shifts, offering scale, proximity, and manufacturing depth as North American supply chains continue to regionalize.

From an operating perspective, these trends are already translating into tangible activity. Over the past year, **Affinius completed more than three million square feet of build-to-suit industrial transactions in Mexico for high-quality credit tenants**, monetizing several assets and positioning others for exit in the coming year. We maintain strong conviction in Mexico's ongoing expansion, supported by rapid growth in e-commerce penetration, rising domestic consumption, and increasing inbound demand from multinational manufacturers and third-party logistics providers. Construction financing markets in Mexico have also continued to mature, across both build-to-suit and speculative development, improving execution certainty and supporting the launch of multiple inventory projects designed to serve a broader and more diversified tenant base.

Looking forward, nearshoring remains a powerful secular tailwind. Mexico combines **competitive labor costs, a skilled manufacturing workforce, and immediate access to the world's largest consumer market**. Demand is not only coming from U.S. firms; we are also seeing increased activity from Asian e-commerce and logistics companies, driven by efforts to diversify production away from China while maintaining access to U.S. end markets. With exports reaching record levels and manufacturing investment continuing to migrate from Asia to North America, we believe Mexico stands to benefit disproportionately from the reordering of global supply chains. Our established local partnerships, control of strategic land positions, and long-standing relationships with global tenants leave us well positioned to capitalize on this next phase of industrial growth south of the border.

3. CoStar, as of Q3 2025

4. September 2025 YTD imports from Mexico into the U.S. total \$400 billion, compared to \$292 billion for Canada and \$242 billion for China. <https://www.census.gov/foreign-trade/statistics/highlights/topyr.html>



MARK FITZGERALD,
CFA, CAIA

Managing Director, Head of Research

mark.fitzgerald
[@affiniuscapital.com](mailto:mark.fitzgerald@affiniuscapital.com)



LANGE
ALLEN

Senior Managing Director
Head of North American Industrial Development

lange.allen
[@affiniuscapital.com](mailto:lange.allen@affiniuscapital.com)



JASON
HANS

Senior Managing Director

jason.hans
[@affiniuscapital.com](mailto:jason.hans@affiniuscapital.com)

Important Disclosures

Affinius Capital® is the brand that applies to it and its advisory subsidiaries including Affinius Capital Advisors LLC and Affinius Capital Management LLC. The information contained in this report is being provided to you by Affinius Capital (together with its affiliates, "Affinius") for information purposes only and is not, and may not, be relied on in any manner as, legal, tax or investment advice. The information contained herein does not constitute an offer to sell or a solicitation of an offer to buy an interest in any investment vehicle sponsored by Affinius and any such offer will only be made pursuant to a confidential private placement memorandum and/or the Partnership's subscription documents, which will be furnished to qualified investors in connection with such offering and will be subject to the terms and conditions contained therein. The information in this report is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons. Affinius Capital assumes no obligation to update the information herein. Investment in a Partnership will involve significant risks, including risk of loss of the entire investment.

This Report may contain forward-looking statements that include statements, express or implied, regarding current expectations, estimates, projections, opinions and beliefs of Affinius, as well as the assumptions on which those statements are based. Words such as "believes," "expects," "endeavors," "anticipates," "intends," "plans," "estimates," "projects," "targets," "assumes," "potential," "should" and "objective," (or the negatives thereof) or other variations thereon and comparable terminology identify forward-looking statements. Forward-looking statements are hypothetical in nature and involve a number of known and unknown assumptions, risks, uncertainties and other factors outside of Affinius' control, and accordingly, actual events or results may differ materially from those projected. No assurance can be given that any investment will be able to achieve returns comparable to those projected or targeted. Investors and prospective investors should not place undue reliance on any forward-looking statements or examples included in this Supplement, and Affinius does not assume any obligation to update any forward-looking statements contained herein.

Investments and Market Risk. Investments involve significant risks, including risk of loss of the entire investment. Prospective investors should consult their own legal, tax and financial advisors as to the consequences of an investment. Leveraged investments may present additional risks to the investor, including, capital structure risk. Dependence on key personnel may result in operational risk. An investment sponsored by Affinius Capital is intended to be a long-term investment.

Third-Party Data. Certain information contained in this report has been obtained from published and non-published sources. Recipients should understand that any such information may not have been independently verified. Except where otherwise indicated herein, the information provided herein is based on matters as they exist as of the date of preparation and not as of any future date and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof.

The opinions and recommendations herein do not take into account the individual circumstances or objectives of any investor and are not intended as recommendations of particular investments or strategies to particular investors. No determination has been made regarding the suitability of any investments or strategies for particular investors. Portions of this report may reflect our opinions and beliefs regarding general market activity and potential impacts of current market conditions. Such opinions and beliefs are subjective, do not represent a complete assessment of the market and cannot be independently verified.



9830 Colonnade Blvd., Suite 600
San Antonio, Texas 78230 USA

affiniuscapital.com