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Structural Drivers Propel U.S. Industrial's Next Growth Wave

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AUTHOR

JOHN VITOU
Executive Director, Real Assets Research and Strategy

In a macro environment characterized by higher growth, higher interest rates and divergent demand drivers, investors need to target industries and real assets which take advantage of pockets of outsized growth. This growth will likely be closely aligned to long-term thematics including AI capex, manufacturing reshoring, and higher defense spending. Equities aligned with these mega trends have delivered +50% compounded annual growth over the last three years while industrial property values remained broadly flat.[1]

The cyclical operating environment appears to have moved beyond its inflection point

Net absorption over the last four quarters in the main U.S. industrial markets was healthy at >260M SF and exceeded pre-Covid normal annual absorption of 225-250M SF, according to CBRE Research. Industrial demand is accelerating across regions, as LTM demand in Q2 2026 was 2x the pace of growth in Q2 2025.[2] National vacancy fell 10 basis points to 6.5% y/y and most excess availability across markets falls within the mid-sized boxes between 100-700K SF – a supply glut from the Covid-era of 2021/2022. Construction activity fell -60% from the Covid-era peak and new quarterly development starts averaged a subdued 50M SF quarterly for the last three years.[3] As industrial demand ramps and limited development pipelines deliver, it appears that the U.S. industrial market has passed its cyclical inflection point, offering a compelling market setup for NOI growth over the medium-term horizon.

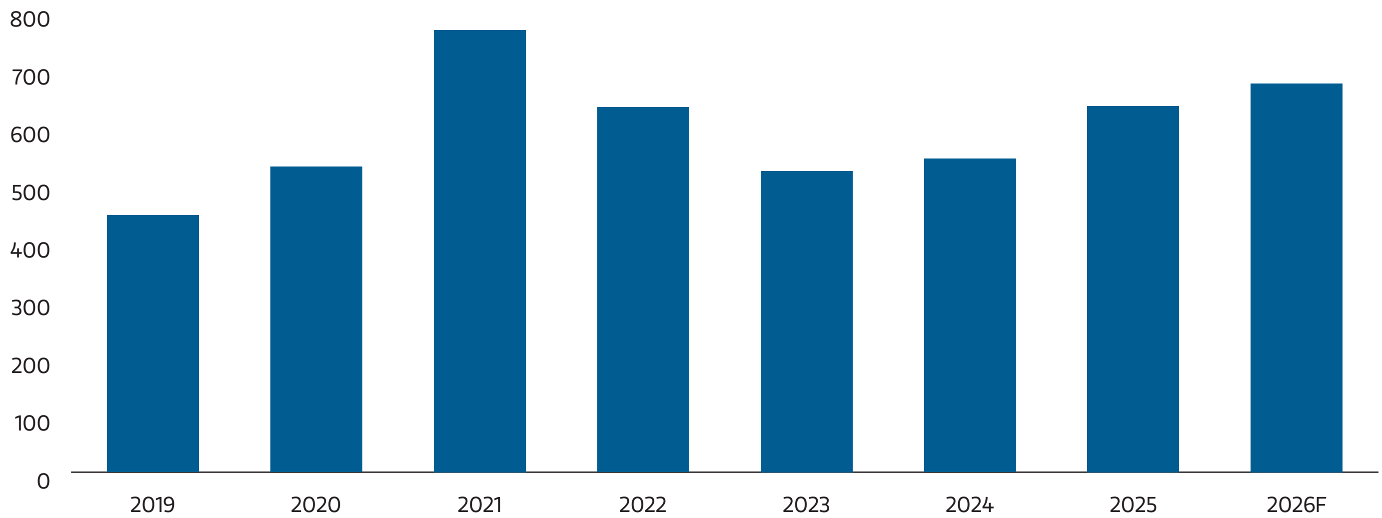
[1] Morgan Stanley MSRSTATD Index
[2] CBRE, MSREI Strategy calculations of Top 60 markets
[3] CBRE, MSREI Strategy calculations of Top 60 markets

EXHIBIT 1

Coastal market weakness in recent years masked the overall strength of U.S. industrial demand; New leasing volume in 2026 is on track to exceed Pre-Covid levels by ~50%.

New Industrial Leasing Volume, United States

M SF, New Leases >10K SF (excludes Renewals)



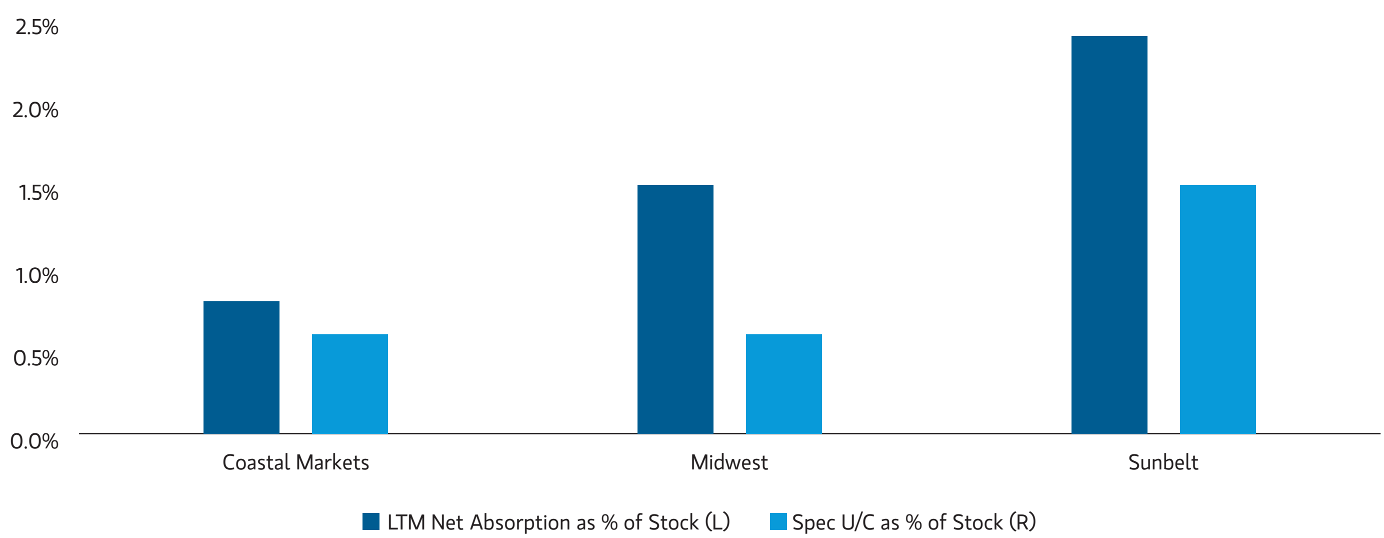
Source: CBRE Research

EXHIBIT 2

Improved demand across all regions over the last 12 months and outstripping development

Demand Rate v. Supply Rate, United States

%, LTM Net Absorption as a % of Stock versus Speculative Development Under Construction as % of Stock



Source: CBRE Research, MSREI Strategy

Emerging structural drivers in view

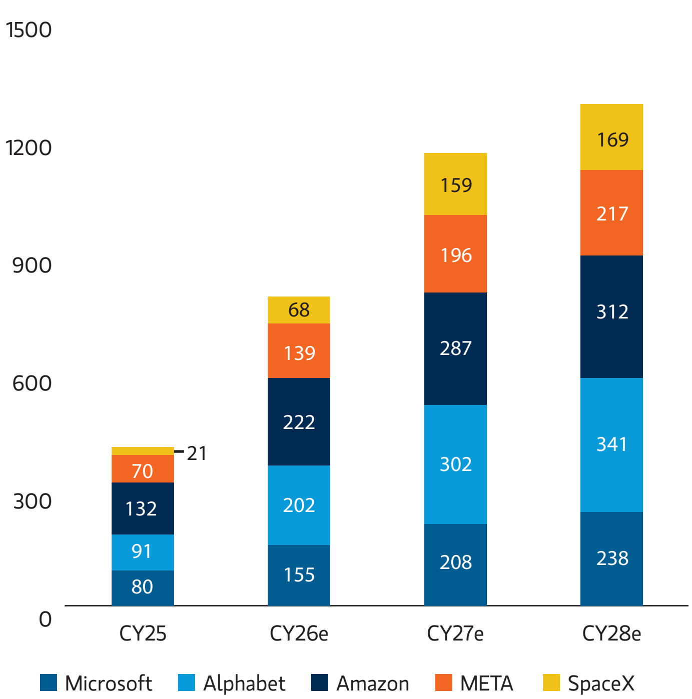
We highlight three emerging structural tailwinds shaping the ongoing U.S. industrial super-cycle:

1. **Data center suppliers:** The ecosystem of tenants serving the data center capex buildout is spurring demand for industrial real estate. In the upstream AI supply chain (e.g., semiconductors, equipment development, power innovation, server testing), industrial R&D demand is spiking in a few highly constrained coastal innovation clusters, led by Silicon Valley. As an example, market rental rates for functional product in Fremont, CA increased by nearly 20% y/y in Q2 2026.[4] Supply is severely constrained for heavy powered facilities with excess parking which underpins the growth. In the locations in close proximity to data center clusters, industrial real estate demand spurred by derivatives of the data center capex spend is driving outsized demand in new markets. For example, an ecosystem of data center adjacent suppliers accounted for 30% of gross leasing volume in Dallas since Q4 2024, and 40% of bulk leasing (>700K SF), according to Stream Realty. Examples range from construction service users to bulk distribution facilities leased directly to hyperscalers and 3PLs for hardware storage. Similar leasing trends are present in Virginia, and certain Midwest markets including Ohio and Kansas City. New data center-adjacent industrial demand in these clusters has offset weaker-than-normal demand in recent years from traditional logistics real estate users. For example in Dallas, data center-related bulk industrial leasing exceeded 7 million square feet over the last 12 months, accounting for nearly all of the market's increase in leasing activity compared with pre-COVID norms.[5]

EXHIBIT 3

Hyperscaler Capex Expected to Reach $1tr in 2027; >$2tr Invested Since 2024

Hyperscaler Bottoms Up Capex Spend ($bn)

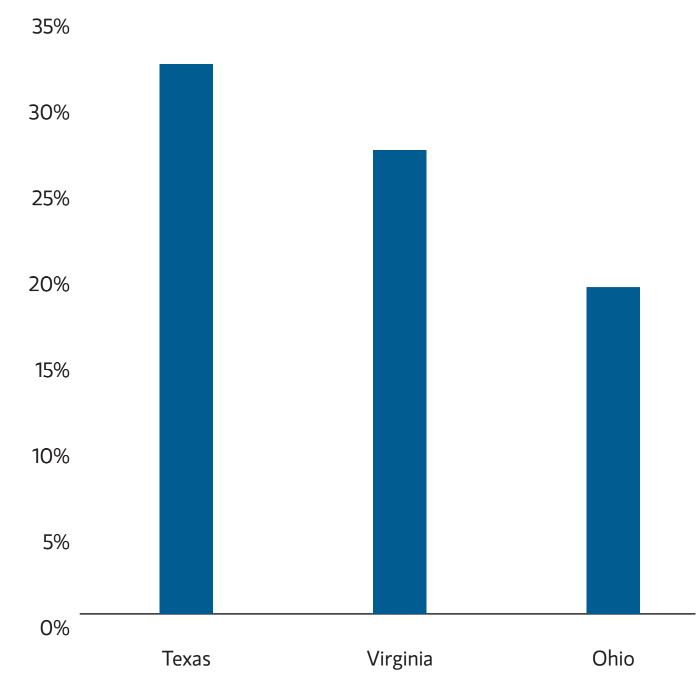


Source: Company data; Morgan Stanley Research Estimates

EXHIBIT 4

Data Center adjacent leasing share accounts for a meaningful and rising share of industrial leasing actitivity in certain DC markets

%, Data Center Support as % of Industrial Leasing



Source: JLL

[4] MSREI Strategy calculations of Class A likekind lease comps

[5] Stream Realty, MSREI Strategy

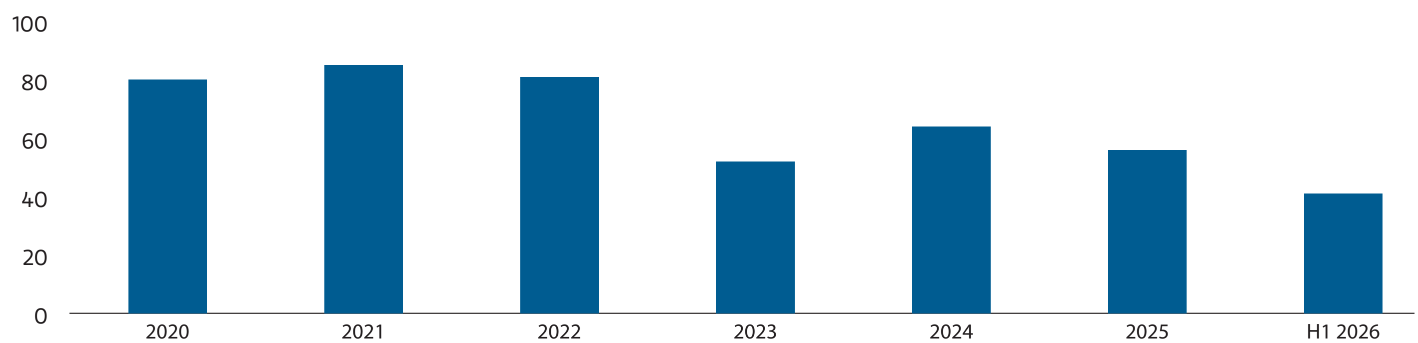
2. **Artificial Intelligence adopters:** Adopters of AI technology and next generation automation equipment are fueling demand for modern large bulk facilities (>1M SF). Next generation warehouse automation technology requires modern building specifications and allows tenants to drive meaningful throughput and labor cost savings. Examples of warehouse automation technology includes Automated Mobile Robots (AMR), inbound conveyance systems, shuttle-based Automation Storage and Retrieval Systems (AS/RS), and automated packaging systems. Industry adoption varies by product sortability / SKU sales velocity, but may allow certain tenants to dramatically increase pick productivity and reduce labor costs. Bulk leasing activity (>1M SF) was 41M SF in H1 2026, 2x the pace of leasing activity in H1 2025[6]. E-commerce users accounted for 50% of the bulk leasing volume and driving the adoption of warehouse automation technology.[7] U.S. bulk market vacancy is severely constrained with only 12 modern bulk facilities currently under construction available for lease. Tenants are now being forced to pre-lease planned projects which will deliver in 2027 / 2028. AI may accelerate e-commerce sales growth to ~11% per annum, up from post-COVID (last five years) annual growth rate of 8% per annum. In total, industrial demand from tenants associated with AI enablers and adopters each account for about 10-20% of total industrial leasing activity today. As AI continues to advance and integrate into the physical economy, it is likely we will continue to see outsized growth in select markets and real estate size categories.[8]

EXHIBIT 5

35 bulk leases >1M SF signed in H1 2026 and 2x the pace of H1 2025 (18 signed)

Bulk Leasing Volume (>1M SF), United States

M SF

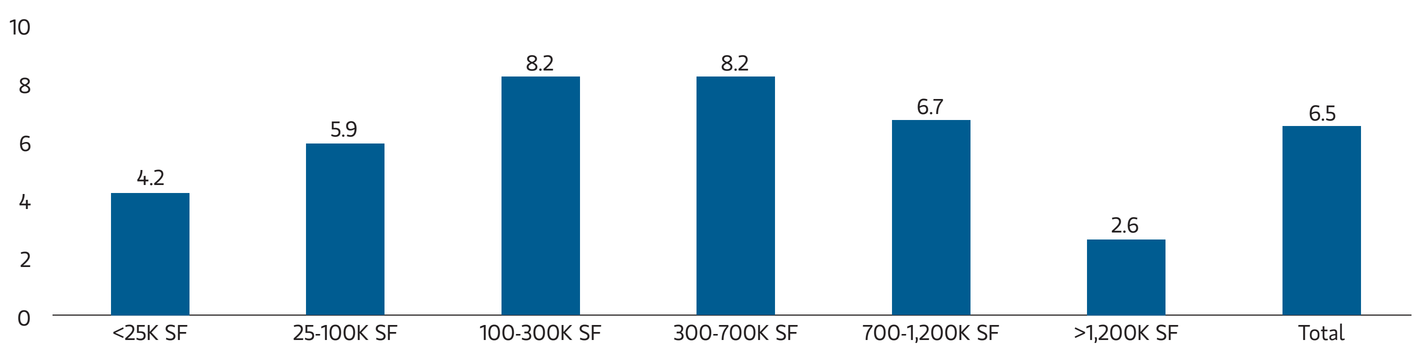


Source: KBC

EXHIBIT 6

Frictional vacancy for bulk industrial

%, Market Vacancy by Size, United States



Source: CBRE Research

[6] KBC

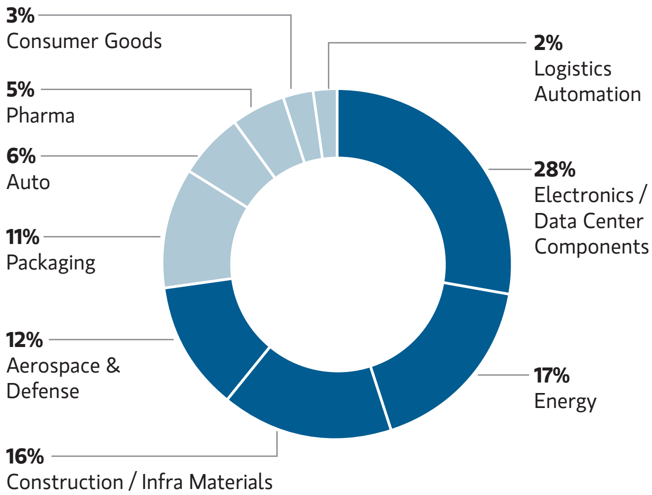
[7] KBC

[8] Morgan Stanley Research, MSREI Strategy

EXHIBIT 7

Structurally adjacent industries underpin rising demand for manufacturing real estate

H1 2026 Manufacturing Leasing by Occupier Type, United States



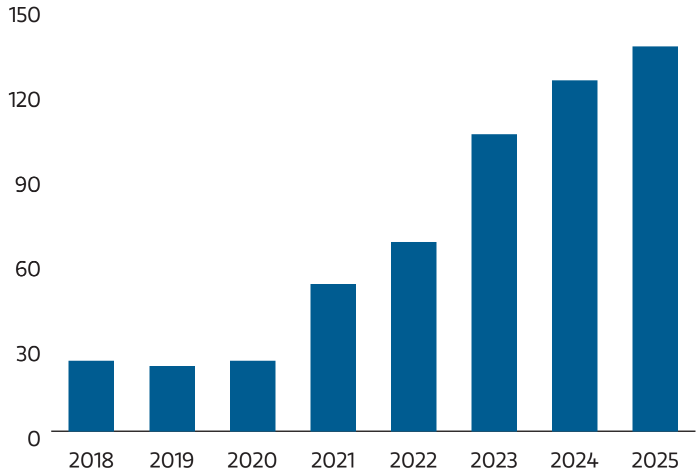
Source: CBRE Research; >100K SF Leases

EXHIBIT 8

Manufacturing accounts for 19% of total active industrial requirements

Active U.S. Manufacturing Requirements

M SF



Source: JLL

3. **Multipolar World:** Advanced manufacturing now represents 19% of U.S. industrial tenant requirements, according to JLL. Total square footage of active requirements spiked by >40% CAGR since 2020, and leasing activity is led by Texas, Georgia, Arizona and Ohio[9]. Reshoring of advanced manufacturing and the related logistics needs, as well as higher defense spending fueled the growth. Put simply, U.S. manufacturing requirements accelerated while personal consumption (one driver of traditional logistics) normalized. Of note, more than 50% of U.S. manufacturing stock is between 30-60 years old which is driving demand for modern product.[10] Data center-related product manufacturing and other high value-added sectors account for the vast majority of leasing activity. Defense is also among the sectors leading the market recovery particularly in the coastal markets and led by premier infill pockets in Southern California, Virginia and New England. Defense tenants are benefiting from accelerating governmental spending and the ongoing conflict in the Middle East. In Greater LA, Aerospace & Defense-related leasing activity in the first half of 2026 was 30% more than full year 2025 and >140% more than full year 2024, according to CBRE. Importantly, Defense users are location-sensitive and their real estate decisions are underpinned by proximity to top engineering talent and need for highly secured environments.

Conclusion

The U.S. industrial operating environment appears to be transitioning away from cyclical recovery to its next growth cycle. Demand growth is reaccelerating, development activity is disciplined and vacancy is normalizing. Most importantly, the drivers of future demand are increasingly structural in nature rather than shaped by cyclical drivers, such as GDP or retail sales. The buildout of the AI ecosystem, adoption of next-generation warehouse automation by occupiers, and ongoing reshoring of manufacturing is creating durable sources of absorption which extends well beyond traditional logistics demand. While market performance will remain uneven by geography and asset type, industrial real estate is increasingly benefiting from these long-duration themes. However, the bifurcated environment with assets and locations linked to the super-cycle requires a selective 'stock picking' investment approach.

[9] JLL

[10] JLL

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