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Rapid Industrial Growth: How Long Can It Last?

Industrial real estate has seen unprecedented demand and supply growth in recent years, driven by factors that include increasing e-commerce and retail sales. Absorption, rents and investor demand have surged, an unaccustomed trend for a historically slow-growing sector.

The rapid growth raises the question of whether the segment is in a bubble or if the demand will wane. To answer that question, Yardi Matrix looked at the economic factors that produce demand for industrial space. Our conclusion leads us to believe that industrial market fundamentals should remain strong for the next five years.

The study looked at the macroeconomic variables that historically have correlated with absorption and supply of industrial space. Those factors—including retail sales, housing starts and personal income—are projected to continue to grow robustly through the middle of the decade. Given the strong historical correlation, we believe that demand for industrial space will continue unabated for at least several more years.

Our forecast calls for a 2.0% to 2.3% annual increase in total stock over the next five years, which would generate between 350 million and 370 million square feet of new industrial space each year through 2026, a total of 1.8 billion square feet. That follows the more than 290 million square feet of industrial space that has been delivered annually over the last three years, peaking at 306 million square feet in 2020. All that development, however, may not meet the demand for industrial space.

