

How Some Industrial Developers Are Dealing with the Land Crisis

There seems to be a virtually unlimited need for warehousing and logistics. What happens when there's not enough land to build on?

By Erik Sherman

Need a warehouse? Get in line—one that keeps growing longer.

Getting enough industrial space built has become a big problem and looks like it will continue to be one. Blackstone expects record-low vacancies in industrial to continue because supply can't keep up with demand. Inflation and the Fed's push to drive up interest rates, increasing financing expenses are part of the reason. Another is continued critical materials and labor shortages. Then there's the availability of land. There's only so much land to go around, particularly in hot urban markets, whether you want a major staging warehouse or infill for secondary distribution and last-mile services.

A new report from CommercialEdge centers on the issues facing industrial developers.

"Despite levels of inflation not seen in 40 years and with many weary of a possible recession around the corner, demand for industrial space remains as high as ever," the report states. "In June, the average in-place rents grew 4.9% year-over-year, the vacancy rate fell to 4.6% and the average cost of a new lease signed in the last 12 months was 88 cents higher per foot than the overall average. Supply of new industrial space cannot maintain pace with demand, a problem more pronounced in areas where geography limits the amount of land available for development. Port markets, and Southern California in particular, are most attuned to this issue."

Some of those geographies that limit the availability of land are also places with some of the highest economic activity that are important in major supply chains.

An approach some developers are now using in the US is multistory industrial, a strategy long used in Asia, CommercialEdge says. One problem is cost. Multistory is 40% more expensive than single-story for the same amount of space. But saving money by building out instead of up is decreasingly an option. Industrial outdoor space has helped some, but zoning often excludes it, limiting the scope of effectiveness in many markets.

All the factors together are why "large multistory buildings are being developed, including many of the multimillion-square-foot Amazon facilities completed of late," the report says. "A joint venture between Turnbridge Equities and Dune Real Estate Partners will develop Bronx Logistics Center, a 500,000-square-foot multistory building with 800,000 square feet of parking between a garage and the roof."

Another option for some developers is to convert old office and retail space into industrial and

such conversions will likely pick up, according to Newmark. But these have their own challenges like zoning, land availability, location, and trying to fit new industrial requirements into old structures. The needs of warehouses and their users have changed significantly over the last 10 to 15 years. Older buildings likely lack the height and layouts new approaches to materials handling require.