Industrial Real Estate: From Cold to Hot

Industrial may be the hottest asset class in commercial real estate today. With changing consumer and lifestyle trends, industrial property values are producing the highest returns of any real estate sector. According to JLL (Industrial Outlook 2016), vacancies in this sector are at a 16 year low, falling below 6%. The popularity of e-commerce, growth of foreign trade and technology are top factors driving growth.

Proximity to the customer is essential to the success of e-commerce, driving demand for facilities with modern technologies close to higher population centers. Online retailers are constantly perfecting their distribution process to deliver products more and more rapidly. Multifamily operators are repurposing parking lot spaces into package lockers because their customer tenants are demanding a seamless delivery process. Delay is unacceptable, driving the need up the development chain for more distribution centers closer to delivery points.

The push to improve last mile delivery capabilities could change how the build environment is envisioned and repurposed. We may see an increase in multistory warehouses near mixed use developments providing opportunities for non-industrial developers to get involved.

The rise of sustainable energy production, legalization of marijuana in some states, and popularity of global trade additionally add to the demand for industrial real estate. The industry has also benefited from increased demand for cloud-server farms and the rising importance of e-commerce.

Barriers to entering the industrial real estate market may be steep. Larger investors will seek large portfolios to enter the market as construction lags behind demand. The market could also be limited by quick over-development, changes to the trade policy, or a cooling economy. On the one hand, a promise to rebuild America’s infrastructure will drive demand for raw materials storage. On the other hand, President Trump’s proposed changes to global policy could potentially diminish the demand for industrial spaces if global trade is limited. Isolating export partners would greatly lessen industrial real estate demand.

The combination of the popularity of e-commerce, foreign trade, and technological advancements all contribute to rent and property value growth and rapidly rising property values. While it is important to exercise caution due to the possible changes in global trade and difficulties entering the market, it is clear that industrial real estate is a primary focus for the coming years.