



Logistics as the Logical Commercial Real Estate Investment



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While industrial assets may lack the glitz and glamour of the hospitality industry or the name recognition of architects attached to towering skyscrapers, warehouses and distribution centers have emerged as an area of growth for astute investors in commercial real estate.

Warehouses and logistics properties or industrial buildings with the capacity to receive, store and process an increasing volume of e-commerce orders for delivery are in particularly high demand. According to data from the U.S. Census Bureau, from 2012-2017, e-commerce sales grew 14.4 percent annually, and e-commerce deliveries tripled between 2013 and 2018. Such rapid growth has produced a growing need for additional space in and near densely populated areas to facilitate the delivery of orders in a timely fashion. As an increasing number of consumers take advantage of e-commerce and, with it, shorter, less expensive shipping options, such as Amazon Prime and similar offerings, the warehouse and industrial sectors of the real estate industry continue to grow. “Final mile” distribution facilities are integral to the strategy of companies like Amazon to provide services such as same-day and 2-day shipping to consumers in urban areas. Additionally, while major markets with larger populations have dominated the industrial market, a national network of distribution centers that allows for goods to reach less-populated areas in shorter time frames creates a spreading demand beyond major cities and into secondary markets. Lastly, industrial properties are experiencing a historically low vacancy rate at around 4%.

Large real estate investors are betting big on logistics. Ken Caplan, co-head of the Blackstone Group’s real estate business, was quoted in a June 3 article in *Forbes*, calling logistics Blackstone’s “highest conviction global investment theme today,” in response to the announcement that Blackstone signed an \$18.7 billion deal for the U.S. logistics assets of Singapore’s GLP. This follows the company’s \$7.6 billion purchase of the industrial REIT, Gramercy Property Trust, in 2018 and its investment in the European logistics company, Logikor.

In the New York City area, while the sales of multifamily assets are facing valuation issues and potential stalled development in the face of changes in rent regulation

legislation, commercial and industrial property sales have increased. The owner of a pair of warehouse properties in the Bronx was able to sell the properties for a record \$603 per square foot last year, according to the *Commercial Observer*, after securing Amazon as a tenant, and Amazon is reportedly considering another distribution facility in Industry City in Brooklyn. Unique challenges in the New York City market, such as high premiums and low availability of land and potential zoning concerns, will continue to shape the market for industrial properties, and it is likely that vertical warehouses are more likely to develop as was the case in Asian markets.

As the sector continues to grow, however, challenges to the pace of growth are likely to arise. There is a strong demand for industrial space, and a typical e-commerce order requires significantly more space than traditional retail transactions. With the rapid growth of e-commerce relative to traditional retail and a low vacancy rate, a lack of available space may lead to a slow-down in the number of sales of industrial assets. Automation and changes in technology will likely result in older facilities requiring significant capital expenditure projects for updates to meet the demands of the industry. Increases in interest rates and macro changes in the economy are also likely to impact this sector as well. As certain e-commerce markets become saturated, there will likely be some contraction in those markets and, with that, a reduction in the need for specialized spaces for those retailers.

Despite potential challenges, nearly all models suggest the industrial sector is poised for continued growth over the next year, as demand for goods delivered both quickly and conveniently continues to increase.