

THE SUPPLY CHAIN'S IMPACT ON INDUSTRIAL REAL ESTATE

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The supply chain crisis is impacting virtually every industry and market in the world. Consumers may see this in out-of-stock products or shipping delays. Behind the scenes, though, the industrial real estate market is experiencing the shock waves to an extreme degree.

Between skyrocketing prices and year-long waitlists, industrial real estate space is one of the most in-demand purchases in the world today. Warehouses, in particular, are driving up the cost of these properties. The supply chain crisis may have started this trend, but other factors are worsening the situation.

Supply Shortage, Demand Surge

The industrial real estate market is in an interesting place right now. Supply shortages are still making headlines, yet warehouses remain so packed that new space is at an all-time premium. Many looking in from the outside would wonder how this is even possible. If there is a supply shortage, how can warehouses be full of goods?

The reality is that even if the supply chain is experiencing delays and shortages, demand for goods has not gone down. What has gone down is shopping in brick-and-mortar stores. COVID-19 sparked a surge in e-commerce, which demands vast amounts of warehouse space. In fact, the International Trade Administration recorded a 19% increase in online sales resulting from the pandemic. Projections estimated continued growth at even higher rates over the rest of the decade.

Warehouses are not sitting empty simply because of supply shortages. If anything, the supply chain is leaving warehouses overfilled. They are becoming crowded hubs of the supply chain, taking on the storage role that physical stores used to occupy.

The Warehouse Ripple Effect

The national vacancy rate for warehouse space was 3.2% at the close of 2021. In many key areas, it is even lower than that. Billions of dollars worth of new facilities are under construction, too. Although part of this is due to a widespread shift to e-commerce, another trend is also influencing this industrial real estate shortage.

Businesses are adapting to the supply chain crisis by changing how they stock items and manage inventory. Companies are overstocking items to minimize the impact of supply chain issues on consumers. They anticipate delays and order an excess of products to cover the extra time it will take to restock.

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This is generally a reasonable strategy on its own, but it has the side effect of rapidly crowding warehouses. As a result, industrial real estate prices are surging while businesses rush to build new facilities.

Warehouses may be driving demand for industrial real estate, but every kind of industrial space is feeling the impact. The supply chain is motivating many businesses to move their manufacturing to domestic facilities. These spaces have to fight for the same type of development space that warehouses use.

Demand is no less strained in manufacturing than in warehousing, either. A prime example of this is the international chip shortage. Most computer chip manufacturing takes place in various hubs throughout the Asia-Pacific region. Supply chain issues are sparking a widespread shift to domestic manufacturing, though.

For example, Intel poured over \$20 billion into 1,000 acres of industrial real estate to build a massive domestic chip manufacturing plant in Ohio. That's just for one plot. Countless other manufacturing companies are also trying to shift to domestic facilities.

The New Supply Storage

How long can commercial real estate professionals and industrial businesses expect this space shortage to last? It depends heavily on the supply chain crisis, and how industrial real estate standards shift and adapt. Industry experts estimate that the market may not normalize again until 2023 or later.

In some ways, the industrial real estate market resembles the booming housing market in the U.S. today. There are not enough spaces to meet demand, and new ones are taking too long to build.

Construction delays are another factor contributing to the problem. Teams are severely understaffed and struggling to manage their own supply shortages. This creates extra delays in filling the industrial real estate shortage. Ironically, construction companies also need industrial real estate for storing vital vehicles, trailers, equipment and supplies.

The industrial real estate market is running out of viable development sites even without construction delays. This is resulting in a shift in standards for what constitutes an ideal site for a warehouse or manufacturing facility. Location is the key determining factor, specifically proximity to ports.

The Lehigh Valley in eastern Pennsylvania is a great example of this. It is in a highly valuable location near three major ports, but development is beginning to exhaust available space. So, developers are turning to some unusual sites, including an old water park. Considering abnormal locations like this may help relieve industrial real estate prices.

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The Supply Chain and Innovation

Industrial real estate is experiencing a transformation in response to the space shortage. Businesses are implementing new ways to use what they already have while waiting for the real estate market to catch up to demand. The supply chain will continue to strain warehouses and manufacturers, so the only option right now is to adapt.

For example, automation and technology are helping industrial spaces operate more efficiently and maximize their space utilization. A warehouse manager can optimize their inventory management with Internet of Things sensors and logistics software. This allows them to fit more items in the same amount of space. Mezzanines are also helping to improve space utilization in warehouses.

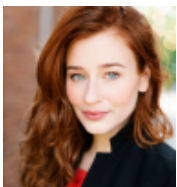
Meanwhile, manufacturing is also benefiting from automation. The same issues driving the supply chain crisis are also sparking growth in industrial automation technology. Warehouses and manufacturing are facing staffing shortages, and automation helps maximize productivity, even with a limited amount of space.

A Recipe for Long-Term Industry Growth

The current state of the industrial real estate market may be frustrating, but it's sparking innovation that will have long-lasting benefits. Booming demand is also a sign that businesses are on track for a new wave of growth over the years ahead, and the need for more industrial real estate space isn't showing any signs of slowing down. When the market eventually bounces back and catches up, industrial facilities will be more productive and resilient than ever before.

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