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Three emerging trend drivers energizing the industrial real estate market in southern New Jersey

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There are three drivers energizing emerging trends in the industrial real estate arena.

The first has to do with supply chain and logistics. Warehousing and transportation issues are playing an increasing role in many businesses today. Demands for increased ROI are driving calls for lower costs and greater efficiencies. Logisticians are now reporting directly to the c-suiteâ€”generally to the CFO.

This is having an increasing affect on the way businesses view and manage their real estate portfolios by raising the emphasis on cycle times, throughput, time-to-market, and the direct costs needed to achieve higher performance.

At the same time, products are becoming increasingly smaller as a result of digitalization and componentization. This has decreased the demand for full truck load transportation, increased the demand for LTL, and added capacity without increasing fleet size.

The net result of these internal dynamics is softness in the marketâ€”shrinking fleet sizes and idling capacity, (one national carrier has idled 2,000 trucksâ€—another 1,000 trucksâ€—and one local carrier has idled 200 trucks.)

Increasing costsâ€—equipment, labor, fuel, tolls, maintenanceâ€—have also raised barriers to entry for new operators which have traditionally serviced smaller requirements and offered specialized routing. And operating costs (especially, most recently, fuel - it now costs about $0.85 per mile just to fuel a truck) are placing greater emphasis on site selection parametersâ€—especially proximity to customers and markets.

The result is that supply chain optimization studies are now de-emphasizing mega distribution centers in favor of smaller regional warehouses as a direct function of operating costs. This is propelling an emerging demand for smaller warehouse and distribution facilities within regional markets.

The second driver is sustainabilityâ€—that green thing our kids are always talking about. It's not just for kids. As James Mascaro described in great detail in the June 13-26 issue of this publication, the demand for sustainable constructionâ€—LEED, solar, etc.â€—is real and is increasing exponentially.

In a recent conversation with one of the major institutional investors in U.S. commercial real estate we were told, in the most direct terms, that the green stuff stays and the non-green stuff goes (i.e., don't bother bringing us investment opportunitiesâ€—no matter how sweet the returnsâ€—that don't meet strict sustainability standards in terms of construction, energy management, and other related factors).

If you follow the money you can easily discern where the market is going.

The third driver is construction costs. Despite falling demand for new residential construction, escalating construction material costs are making it almost impossible to obtain forward pricing for commercial projects of any size and complexity. Recent trends in steel prices, for example, have been increasing at 6% to 8% per month. Global demand for steel and other construction-related commodities are likely to push this trend for some time to come.

That's not necessarily bad news. Higher replacement costs support higher values-even in an unsteady market. So don't promise aspiring tenants and buyers that their market has arrived.

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