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IRE Continues to Feel Pressure

In 2022 the industrial real estate market is expected to continue experiencing a shortage of space and high rents while the industry works to create more warehouse stock to meet the growing need.

Robust demand and construction delays slashed the overall industrial vacancy rate down to 3.6% in the third quarter of 2021, with record year-over-year asking rent experiencing growth of up 10.4%, reports the global commercial real estate firm CBRE.

Occupiers who signed five-year leases in 2016 with an average 3% annual rent increase now face much steeper 25% average increases when they make new occupancy decisions.

Many markets will see even higher increases. An occupier with a five-year lease expiring in Central New Jersey will see the biggest average increase in the U.S. at 64%, followed by Philadelphia and the Inland Empire at 62%.

California markets dominate five-year rent growth stats because of their low vacancy rates and large population concentrations, CBRE says.

The company stresses that an occupier with a 10-year lease expiring today can expect even steeper rent increases.

Industrial market conditions favored occupiers in 2011, when the overall vacancy rate stood 5.1 points higher at 8.7%. Asking rents in 2011 were 67% lower than today, with much smaller annual rent escalations.

“Overall, occupiers may face rent increases of between 65% and 75% compared with the lease they signed in 2011,” the company reports. In spite of this sticker shock, the overall demand for industrial space hasn’t faltered a bit.

CBRE holds that a rebounding U.S. economy, the growing need to hold more inventory onshore and increased ecommerce sales are what led to record leasing of 826 million square feet year-to-date through October 2021.

It also says that industrial occupancy planning has become highly strategic given today’s tight market conditions and the inescapable need for companies to optimize their supply chain networks, which was thrown into high relief during the current supply chain crisis..

Nevertheless, rising prices may have some impact on demand over the course of 2022, according to the CBRE analysis

Optimism Grows for Economy

The economic recovery and the accelerated buildout of ecommerce and third-party logistics last-mile facilities, fulfillment centers and bulk warehouses

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will reinforce demand for industrial real estate in North America, say analysts for the industrial real estate giant Cushman & Wakefield.

“Although the COVID-19 pandemic brought on new challenges for the industrial market, with port congestion, materials shortages, and commodity pricing skyrocketing, the market has and will continue to excel,” report Rebecca Rockey, who is head of economic analysis & forecasting, global research, and Carolyn Salzer, senior research manager, industrial logistics, global research for the company.

The forecast for North American industrial absorption from 2022 to 2023 is a healthy 855 million square feet (msf).

New supply -- which trailed demand significantly in 2021 -- will revert to outpacing demand slightly over the next two years. Specifically, C&W predicts that new deliveries are projected to reach 932 msf from 2022 to 2023.

Nonetheless, North American vacancy will remain low, ending 2023 at 4.1% -- an increase of only 30 basis points (bps) from year-end 2021. Despite the forecasted uptick, North American vacancy will remain 170 bps below its 10-year average (2012-2021) of 5.8%. Average net asking rents in North America will increase to a new nominal high of USD 8.72 per square foot by year-end 2023.

Supply-side constraints, such as onerous municipal approval processes, will continue to constrain supply growth in Canada where overall net rents will remain the highest in North America at USD 12.37 psf by the close of 2023.

Rockey and Salzer says the key takeaways are:

- Industrial demand is still booming, supply is going to catch up and alleviate some of the pressure by 2023

- Strong market fundamentals will continue to generate strong rent growth that will continue throughout the next few years

- Markets will remain tight on available quality space, despite record deliveries to come

- Pandemic issues will begin to subside into 2022, bringing a bit of equilibrium back to the market

Congress Passes Anti-Slavery Bill

Over President Biden’s early opposition, an overwhelming majority of congressional Democrats and Republicans joined to pass a bill banning imports of goods produced by Chinese slave labor.

The Uyghur Forced Labor Prevention Act was signed into law on Dec. 23 by Biden in spite of his earlier attempts to water it down. This was days after the administration announced a diplomatic boycott of the 2022 Winter Olympics in Beijing, citing China’s “egregious human rights abuses and atrocities in Xinjiang.”

Days earlier, the China slavery legislation passed the House by a vote of 428-1 and the Senate by 99-1, which made it veto-proof if there had been any continued opposition by Biden.

The law bans imports into the U.S. of items “mined, produced, or manufactured wholly or in part in the Xinjiang Uyghur Autonomous Region (XUAR) or by persons working with the XUAR government for purposes of the “poverty alleviation” program or the “pairing-assistance” program.

The new law goes into effect 180 days after enactment. It establishes a rebuttable presumption that all goods originating from XUAR violate existing U.S. law prohibiting the importation of goods made with forced labor.

The law also requires federal officials to solicit public comments and hold a public hearing to aid in developing a strategy for the enforcement of the import ban vis-à-vis goods alleged to have been made through forced labor in China.

“This rebuttable presumption will present significant challenges to businesses with supply chains that might touch the Xinjiang region,” say attorneys Ludmilla Kasulke and Rory Murphy of the law firm of Squire Patton Boggs

They note that many businesses don’t have full visibility into their supply chains and will need to act quickly to map their suppliers and respond to identified risks. In addition, detailed documentation will be required to obtain release of shipments.

WMS Revenues To Hit $10 Bil

Worldwide Warehouse Management Systems revenues are expected to $10 billion by 2030 largely because of ecommerce growth, according to the high-tech consulting firm ABI Research.

"The warehousing sector has been forced to ramp up its digitization efforts considering the increased order volume and growing omnichannel trends due to the ecommerce boom," the company says.

Adhish Luitel, ABI industry analyst, supply chain management and logistics, observes: "Companies are starting to combine the value of multiple hardware and software solutions. Productivity technologies can achieve far greater return on investment if combined correctly with other technologies."

He cites the example of companies combining location tracking data with a voice solution, that allows warehouses with WMS to optimize workflows by minimizing the distances traveled based on knowing a worker's whereabouts.

ABI explains that advancements in data collection and tracking allow more insights into warehousing operations, as well as boosting predictive analytics. "Operators can now deploy Machine Learning (ML) algorithms that capture the data and give insights in real time."

Luitel adds that WMS demand also is being driven by a need for warehouse operators to formulate a strong inventory management strategy.

"Inventory management is becoming an increasingly crucial pillar of supply chain management," he says. "Ensuring that workers can access the right technology to monitor inventory efficiently is important, but automated solutions for inventory management should also be explored."

WMS sales surged from $2.3 billion in 2019 to over $2.5 billion in 2020, an 8% year-over-year rise. The biggest sales were to logistics service providers generating more than $636 million in 2020. Sales in retail and food and beverages followed with sales of $509 million and $483 million, respectively.

Truck Accident Trends Studied

A new study from the American Transportation Research Institute quantifies the impact of small trial verdicts and settlements on trucking.

The new report takes a closer look at how verdicts and settlements under $1 million impact the industry.

An important revelation: is that settlement payments are approximately 37.7% larger than verdict awards, and are 393% more likely to occur in incidents that involve a fatality.

In addition, ATRI's study found that incidents involving a severe injury were 217% more likely to settle and 199% more likely to result in payments to plaintiffs of more than $600,000.

"This analysis proves a theory that I have always had; there are two markets as to the value of cases – the settlement market and the trial market," said Doug Marcello, an attorney with the law firm of Marcello & Kivisto. "There should be one market and that is what a case is objectively worth."

ATRI says that, in addition to an overview of the small litigation landscape in the trucking industry, the report also provides useful descriptions of strategies that can help carriers and attorneys to prevent more costly litigation outcomes.

During the institute's earlier research into highly expensive "nuclear" verdicts, the researchers had determined that a different plaintiff litigation model is impacting the industry in smaller cases.

The newer research examined a unique dataset consisting of more than 600 cases that resulted in either a monetary settlement or verdict award of less than $1 million.

"The report provides rich insight into key crash characteristics and litigation factors that contribute to substantial payments to plaintiffs," ATRI says.

CA Prolongs ETS to April 14

The California Division of Occupational Safety and Health (Cal/OSHA) has extended its Covid 19 Emergency Temporary Standard to April 14 and made some changes to its guidance for employers that were effective on Jan. 14.

Employers should revisit their workplace Covid 19 safety policies and revise their policies as required by the readopted ETS, to ensure compliance, advise attorneys Matthew Thomas Deffebach, Mini Kapoor and Christina Gad with the law firm of Haynes and Boone.

They say employers also should also monitor the status of the federal OSHA Covid 19 vaccination ETS in case California adopts the federal standard or uses it to modify its own ETS.

The facemask guidance largely remains the same, but cloth face coverings must now pass the "light test." To qualify as a face covering, a cloth face covering may not allow light to pass through it when held up to a light source. In addition, both vaccinated and unvaccinated employees must wear face-coverings during screening.

Employers must still exclude employees who test positive for Covid 19 until return-to-work requirements are met. Also excluded are employees who had close contact with a positive individual unless they are fully vaccinated and asymptomatic.

These employees can remain in the workplace, but they now must wear a face coverings and practice social distancing for 14 days.

Previously employers were not required to provide testing to fully vaccinated, asymptomatic employees who came into close contact with someone who tested positive or in an outbreak setting (defined as three or more employees testing positive during a 14-day period). The revised ETS removes this distinction between vaccinated and unvaccinated employees with respect to testing.

Retail Imports Not as Strong

After a year of unprecedented increases, imports at the nation's major retail container ports are expected to return to normal growth rates in 2022 but volumes will remain high, reports the National Retail Federation

U.S. ports handled 2.11 million TEU in November, the latest month for which final numbers are available. That was down 4.5% from October but up 0.5% year-over-year.

Ports have not reported December numbers yet, but NRF projects the month at 2.18 million TEU, up 3.7% year-over-year. A TEU is one 20-foot container or its equivalent.

Those numbers would bring 2021 to a total of 25.9 million TEU, a 17.9% increase over 2020's record high of 22 million TEU set despite the pandemic.

January is forecast at 2.23 million TEU, up 8.6% year-over-year; February at 1.95 million TEU, up 4.2% year-over-year; March at 2.19 million, down 3.3%; April at 2.2 million TEU, up 2.5%, and May at 2.32 million TEU, down 0.5%.

"Even with the holiday season behind us, supply chain challenges continue," said NRF Vice President for Supply Chain and Customs Policy Jonathan Gold. "The huge increases in imports we've seen have leveled out, but volume is still at high levels."

He said the federation hopes the system will find a way to catch up, but there is much that remains to be done to clear out port backlogs and increase capacity throughout the supply chain.

"Amid all of this, the omicron variant is a wild card that could not only impact the supply chain workforce but once again drive more imports if consumers stay home and spend their money on retail goods rather than going out," Gold said.

Imports saw year-over-year growth as high as 65% in some months during 2021. But increases returned to single digits by last fall and should remain there this year, NRF forecast.

Is Office Conversion an Answer?

One solution to the paucity of warehouse space could come from converting unused office buildings, according to a report from the global real estate services firm Newmark.

"The pandemic has only accelerated obsolescence of some older, less-amenitized product," the company points out. "This divergence among asset classes is increasingly driving investors and developers to consider industrial redevelopment opportunities for some unproductive office properties." And it's not all due to Covid 19.

Even before the pandemic caused some office properties to be abandoned during the widespread lockdowns, the need for distribution facilities had already sparked the conversion of other kinds of properties, including retail facilities like shopping malls, department stores and big box stores into warehouses and distribution centers.

Since 2018, at least 45 office properties totaling 11.3 million square feet have been redeveloped or are in the process of redevelopment into industrial use, Newmark points out.

This activity has been predominantly concentrated in markets where density and land constraints are the driving forces that created perennially tight industrial vacancy, it said.

"While office space generally costs significantly more to build than industrial and yields higher rents when occupied, the economics supporting industrial redevelopment in these regions are buoyed by exceptionally strong market fundamentals, particularly when compared to each metro's office market, where office vacancies are roughly 10 to 18 percentage points higher as of third-quarter 2021."

Office-to-industrial redevelopment involves a complex scenario, Newmark explains. Being able to identify potential conversion projects could prove invaluable for investors and developers looking to meet increased tenant demand for modern industrial space, the company notes.

Newmark says the most likely office candidates for industrial conversion are older suburban assets with an average land area of roughly 15 to 25 acres, located within four miles of a major highway.

Layering in zoning considerations, existing land availability, industrial and office submarket fundamentals and other geographic attributes also will inform strategy. "Not all obsolete office buildings present opportunity," Newmark stresses.

Challenges can include community opposition and zoning restrictions, rising development costs, competing uses; such as, multi-family, healthcare and life science reuse, it admits.

Chicago tops the list of areas in the U.S. where office conversions have taken place since 2018, racking up a total of 3 million square feet.

It is followed by Los Angeles with 2.1 msf, Boston with 1.7 msf, Northern New Jersey and Orange County, CA, both with 1.5 msf, and Washington, DC, with 0.7 msf.

While it is not always that easy to identify appropriate properties that make good candidates for this kind of conversion, opportunities will continue to exist in many markets.

Newmark pointed to the wide disparity between office and industrial rates in various markets. These include Atlanta, where the vacancy rate for offices is 22.2% and IRE is just 5%. Others are Chicago, 20.6% vs 5.7%; Northern New Jersey, 20.2% vs 3.4%; Los Angeles, 19.2% vs 1.2%; Washington, DC, 18.3% vs 4.8%; Orange County, CA, 16.1% vs 2.3%; and Boston, 14.6% vs. 4.5%.

"Near- and long-term outlooks for industrial demand are strong, and many supply-constrained markets are facing limited development opportunities," Newmark says. "The trend, while niche, will grow and offer industrial tenants needed space while tightening existing office inventories by removing no longer competitive properties."