

# KEEPING ONE EYE ON THE FUTURE OF INDUSTRIAL REAL ESTATE

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I'm not sure how closely late New York Yankee, Yogi Berra followed the industrial real estate market, but he was on to something when he said, "It's tough to make predictions, especially about the future."

However hazy our crystal ball might be, one thing is certain, the business of industrial real estate is rapidly responding to the winds of change. As advisors to clients who own, use, develop, manage, or finance industrial properties it is necessary that as we address the challenges

of the present, we also keep an eye on the future.

While technology, innovation, and capital sources have always been drivers that have shaped our business, the evolution of these influencers is rapidly accelerating. Exactly where this will lead in 10, 20, or 30 years is only speculation, however, as the fifteen-time All-Star also noted, "You can observe a lot just by watching."

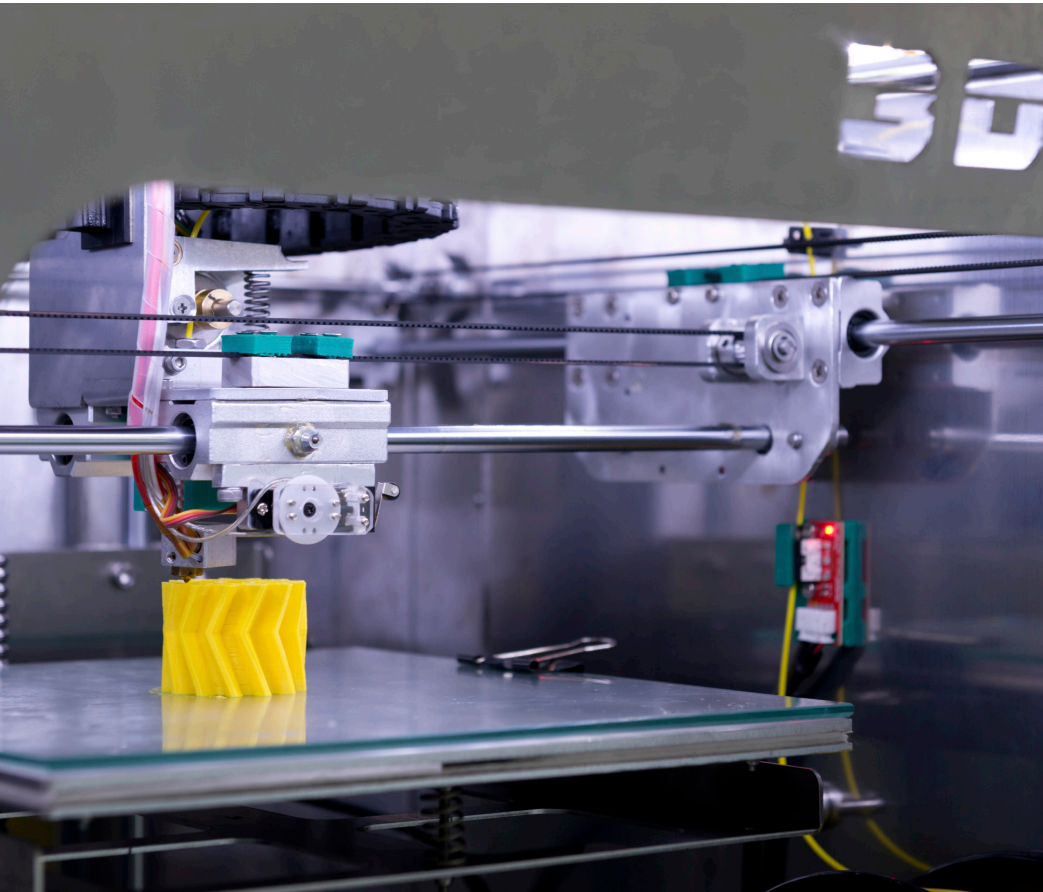
Many of us have seen e-commerce giants like Amazon roll into our markets in an effort to provide demanding customers with unprecedented low cost and speed of delivery. While Amazon and a few others clearly have the scale of on-line sales to roll out massive, dedicated fulfillment centers, many previously committed "bricks and mortar" retailers are adapting to customer demands by blurring the lines between channels on the way to a purchase.

How many times have you gone into a retail store only to end up comparison shopping, or even ordering the item from your iPhone before you left? Next-day and same-day delivery have made it acceptable for shoppers to use brick and mortar stores as showrooms rather than just point of purchase locations, and supply chains are responding. Proximity of the distribution center to the consumer placing an on-line order will become increasingly essential for retail operations of all types as customers are conditioned to expect same- or next-day delivery.

What's next? Consider only a few technologies that are no longer "around the corner" but are inevitable and will change the way many of our clients do business.

### 3-D PRINTING

Imagine needing a measuring cup, door stop, mixing bowl, plate, showerhead, etc., and rather than going to the store, you download the object design at home like an app and simply print it. This is already a reality. Now imagine inventories for thousands of slow turn replacement



parts, manufactured overseas, being replaced with domestic “print to ship” orders. This is becoming a reality. As this technology gains scale, entire segments of the supply chain in some industries could be collapsed, creating efficiencies that will permanently change established business models.

## INTERNET OF THINGS

Objects embedded with sensors can pass along data about itself or surroundings with no human assistance; everything from personal health, to inventory levels, to industrial machinery can be monitored in real time with appropriate alerts, self-directed adjustments, or replenishment ordering. In-transit visibility will also be dramatically enhanced increasing productivity and reducing costs.

## DRIVERLESS TRUCKS

Last summer Daimler took its driverless semi-truck from the Autobahn to the highways of Nevada for testing. Qualified drivers in the next decade, free to work on other tasks during the majority of a long haul drive, could find themselves in a safer, greener, higher paying position.

## DRONES

Drones are already having a marginal impact on business but the real sea-change that would come with delivery and other commercial applications cannot happen until the FAA issues commercial use regulations. This could happen “hopefully before June 17, 2016,” according to FAA Deputy Administrator, Michael Whitaker, in his testimony before a house oversight committee.

Countless other technology applications are creating efficiencies for business in much the same way Uber connects riders to drivers. Transfix, Flexe, Cargomatic, Roadie, and Dropship Commerce are just a handful of innovative examples of how technology is utilized to match capacity with demand, allowing smaller operators to enjoy efficiencies previously only known to scale players.



Technology and innovation are game changers for our clients, therefore they are game changers for us, but they are not the only catalysts at work shaping the future landscape of our industrial real estate market. Sovereign capital has found its way from gateway market trophy properties to the supply chain of American industry.

Recent examples of overseas capital writing big checks for U.S. logistics platforms:

- \$5.9B acquisition of KTR by a joint venture between Prologis and Norges Bank.
- \$8.1B and \$4.55B acquisitions by Singapore based GIC/GLP of both Indcor and IIT.

The stability, transparency, and predictability of quality U.S. industrial assets will continue to attract higher capital allocations from increasing numbers of sovereign wealth actors.

Does this accelerating shift in ownership profile change anything?

So far international capital has not only been abundant but also patient and

sometimes passive, often serving as a quiet partner. Top investment brokers suggest sovereign owned portfolios will likely bias toward longer hold periods than typical domestic investors. Many also note it would follow that we should reasonably expect a more active role in the management of these joint ventures over time.

Industrial real estate of tomorrow will no doubt accommodate revolutionary innovations, serving business in new and exciting ways. Capital will be deployed even more efficiently as investment conduits tap ever deepening pools of international funds seeking quality and safety.

There is no shortage of additional considerations that will impact the complexion of our business in years to come: continued consolidation of brokerage firms, regulatory policy, crowdfunding, geopolitical factors, etc. However, as we look forward, we can be certain some things will remain constant. People do business with people they know, like, and trust. Market knowledge is invaluable. The SIOR community will play a major role in each step toward the future. ■