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Why Industrial space vacancy rate is lowest ever

January 30, 2018

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Warehouses 'R' Us, anybody?

While some traditional retail outlets continue to struggle — Toys 'R' Us is closing 182 stores, including three in San Diego, for instance — the need for warehouse space is booming. That's because of the growth of the e-commerce industry, which has been the primary culprit behind retail's brick-and-mortar woes.

Take San Diego's industrial space vacancy rate. At the end of last year, it stood at 4.2 percent.

How low is that historically?

How about the lowest ever recorded, according to a recent report by Colliers International.

And it doesn't appear to be a short-term trend. That's because of the burgeoning growth of businesses such as Amazon, which need distribution centers near major metropolitan areas so their quick delivery model can work.

Big, national retailers such as Wal-Mart — which has a growing online service — also need such space. Indeed, Wal-Mart bought Jet.com — an online concern founded just four years ago — for \$3.3 billion dollars last year. Target is upping its e-commerce game too. On Black Friday last year, online sales jumped 44 percent from the previous year, according to the website, RetailDive.

"I've never seen this kind of appetite for quality warehouse space in my career," said Ted Cuthbert, a senior executive vice president for Colliers who's been in the business for 30 years.

The e-commerce support network — particularly delivery businesses, such as UPS and FedEx — also need more warehouse space to handle growing demand, he said. The so-called "last mile delivery" is key to getting products to customers quickly — in as little as two hours in cases.

FedEx, for one, opened a \$50 million, 300,000-square-foot distribution center in Oceanside last year.



"I don't think this is going to burst," said Cuthbert, noting how e-commerce is growing — and quickly so. Indeed, the number of home deliveries is expected to double over the next 10 years.

He expects this year to be the best year for net absorption in his career, he said. In addition to e-commerce, other growing businesses still need industrial space too. General Atomics, for instance, has been gobbling up a lot of such space, Cuthbert said.

The demand is driving up asking rents to all-time highs, averaging \$1.04 per square foot, according to the Colliers report. The highest asking rents were along the I-15 corridor, where the average reached \$1.22 per square foot.

The vacancy rate has now fallen for eight straight years, Colliers reported. Some submarkets saw vacancy rates nearing zero. Poway stood at just 1 percent.

This is happening nationally as well. The vacancy rate has fallen to 5.3 percent. Again, e-commerce is said to play a major role. Amazon rents as much as 114 million square feet of warehouse space today, compared to the nine million it did in 2009, according to The New York Times.

Amazon has five distribution centers in the Inland Empire alone. Today, the average footprint of a warehouse is double what it was about 20 years ago.

A lot of space is needed for e-commerce businesses. Analysts say they need three times the space as brick-and-mortar stores to make certain they have the many various products offered online available.



Having such space near large metropolitan areas is key as well, Cuthbert said. If they are too far away, the promise of quick delivery — which customers are demanding — won't work.

However, building in places like San Diego is difficult because of the shortage of available, affordable and properly zoned real estate. "I'm a land guy," Cuthbert said. "And for all intents and purposes, I'm out of business because there is no more land."

More space can be added by tearing down older buildings and constructing larger ones, he said. In some cities, developers are building multi-story warehouses. In a twist of irony, some shuttered malls and shopping centers are being repurposed into warehouse space.

Much of this warehouse growth is not exactly like the warehouse growth of old, Cuthbert said. Back in the day, warehouses were pretty simple structures without many bells and whistles.

Today? Some of them come with all sorts of amenities, such as volleyball courts and spaces for food trucks to park. It's all about making the younger generation of workers happy, he said.

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