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Positive trends are developing during COVID, and industrial real estate is as healthy as ever - by Sam LeGejt

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Industrial real estate has been generally strong across the nation in the response to the last recession and prior to COVID-19. In Maine it doesn't look like that is going to change anytime soon. Two factors that we are keeping an eye on are supply chain management and E-commerce. Two very intertwined segments that in this day can't be discussed without each other.

It is very likely that the disruptions to the supply chain that have been highlighted throughout COVID-19 will increase demand for warehouse space in the future and change the way we store and move items around the world. The value of having staple goods and other products (think ventilators and personal protective equipment) readily available has never been higher. Although the virus has ceased some business activity in the industrial market, we are seeing manufacturers and logistics companies looking for more space to warehouse safety stock and everyday items.

E-commerce, an industry that typically sees the highest increase in online sales during the holiday season (November 1-December 31), has shown unprecedented growth during COVID-19. Consider that online sales during the most recent holiday season grew 13% year-over-year. Impressive growth many might note, that is until you learn that this year in the month of May alone, we saw a 77% increase in online sales. Speculators claim that this has propelled the industry ahead to a point that would have taken six years to reach, otherwise.

The heart of this growth is ultimately fueled by two things: logistics and convenience. Households are finding it more convenient, but also safer to utilize the internet to obtain necessary goods. Why would a family take a trip to a store and risk being in contact with COVID-19 when instead, they can order whatever they need from the convenience of their home? To make this all work, E-commerce giants must strategically set up distribution warehouses to allow for the most efficient delivery routes. Thus, shortening the amount of time it takes for customers to receive products, which in turn incentivizes them to continue ordering products online. This further incentivizes companies to expand and occupy a greater capacity of industrial space throughout populous areas. According to a poll by Inmar, a data analytics and technology provider for retailers and manufacturers, brand

manufacturers saw a 117% increase in direct-to-consumer grocery sales after the onset of COVID-19, while online grocery stores saw a 48% increase. We expect to see this translate to a direct need for expanded warehousing and specifically cold storage.

Another factor one might attribute to the growing need for industrial space is the current political/economic tension with China as seen under the Trump administration. Rising tariffs and an ignited distrust following the initial breakout of the virus have driven many businesses to move manufacturing operations back to domestic soil. Too early to tell what this effect will be on Maine, but worth keeping an eye on.

In Greater Portland in particular, Amazon has been searching for distribution space for their last mile delivery services for over three years now. The heavy tenant and investment demand has made finding a suitable location, big enough to fit their needs, an ongoing battle. With the vacancy rate of 2.79% at the mid-year mark 2020, there were only two or three buildings in the size range and location that fit Amazon's search parameters. Add to the requirement the need for a parking ratio of 4 spaces per 1,000 s/f and there are limited suitable options.

With the dearth of industrial buildings and land in and around Greater Portland the tertiary markets are also poised to see more new development, interstate connectivity, and more skilled labor pools thanks to shake ups in supply chain management and E-Commerce. While we don't know the full effects of the coronavirus outbreak yet, some positive trends are developing, and industrial real estate is as healthy as ever.

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