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Trends in industrial warehouse development: Demand driven by e-commerce, parcel delivery, third party logistics, and large retailers

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While demand for industrial warehouse and distribution space is not expected to match the record-setting highs seen over the past two years, it will likely keep up with supply as vacancy rates are expected to remain low throughout 2023. Higher interest rates may affect some developers and end-users that would otherwise be looking to expand causing a decrease in new construction starts. However, major players with financing ability will most likely remain active to keep up with steady consumer spending and in preparation for economic recovery. Demand will largely be driven by e-commerce, third-party logistics and parcel delivery, and large traditional retail users looking to expand their distribution networks nationwide.

Industries Driving Demand

Although e-commerce growth has normalized since spiking in response to COVID-19, it continues to grow at a pre-pandemic pace with the share of retail purchases made online compared to in-store increasing. Because of this, in 2023, online retailers can be expected to continue seeking strategic industrial facility sites close to consumers and growing MSAs with large industry players at the forefront. For example, ARCO is currently partnering with a Boston-based, industry-leading national online retailer on a 1.2 million s/f distribution facility.

Additionally, online and traditional retailers looking to improve efficiency in their supply chains are turning to third-party logistics and parcel delivery providers such as ARCO repeat clients DHL, UPS, and FedEx. Third-party logistics and parcel delivery was one of the most active industries in the U.S. last year and is expected to continue driving demand for industrial space in 2023. With services such as warehousing and fulfillment operations highly sought after, it is expected that many players in the industry will seek to expand their networks nationwide. However, because of land constraints, expansions may occur beyond major metro areas in growing secondary markets.

In addition to e-commerce and third-party logistics and parcel delivery, large-scale traditional retailers are also expected to drive demand for industrial space in 2023. Along with mass merchandisers, consumer trends are driving growth for other traditional retail categories such as home furnishings and improvement. This category will most likely account for the majority of big box distribution construction in 2023 with most developments being build-to-suit. For example, ARCO is currently partnering with National Development on a 1.3 million s/f distribution facility for an industry-leading national retailer in East Hartford, CT.

Mitigating Ongoing Market Challenges

While pricing for many major commodities began stabilizing at the end of 2022 and major spikes seen in response to COVID-19 are not likely to occur, supply chain disruptions are expected to continue impacting construction material lead times in 2023. Because of this, partnering with an experienced contractor that utilizes a design-build approach is critical to avoiding major schedule delays. On a broad scale, design-build delivery is beneficial from both a cost and schedule standpoint as an integrated approach like ARCO's consistently results in the most functional solution and tremendous time savings.

Because of ongoing market disruptions, design-build delivery is especially beneficial. With preliminary design completed internally during the proposal phase, immediately upon project award, full design and buyout can begin simultaneously. This combined with the national buying power of a general contractor like ARCO allows for the purchase of long lead time materials well before mobilization resulting in significant overall schedule savings.

ARCO is recognized by Engineering News-Record as the 5th largest design-build general contractor in the U.S. and the largest builder of domestic distribution and warehouse space.

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