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Outside the box

Rebounding demand
prompts a shift in thinking



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KEYNOTE INTERVIEW

Steady demand, onshoring
boost US logistics

*The logistics sector is seeing a shrinking supply pipeline and a window for new development opportunities, says Mapletree Investments' **Richard Prokup***

The US logistics sector has been a favorite of global real estate investors, and continues to attract attention due to its relative outperformance over office and retail, as well as a number of positive factors. These include resilient demand drivers, the positive impact of reshoring and a contraction in the pipeline of future new supply, says Richard Prokup, chief executive officer, United States, at Singapore-based Mapletree Investments.

Q How has the US logistics sector maintained its popularity with real estate investors?

The factors that have drawn real estate

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investors to US logistics remain present and robust: growing e-commerce, the need for supply chain resiliency, and a strong national economy continue to provide supportive and enduring demand for warehouse and distribution space.

In addition, talk of potential tariffs associated with the shifting political environment is pushing the onshoring of more manufacturing and assembly within the US.

All of this will drive demand and rent growth for warehouse space in the

US over the course of the next three to five years.

We have seen a moderation compared with the red-hot demand experienced during the pandemic years. Presently, while rental rates remain healthy, tenants have adopted a more cautious stance, realigning their warehousing space requirements amid ongoing market uncertainty. However, this normalization is a move towards more balanced, stabilized and sustainable growth over the longer term. Vacancy in the market still remains below long-term averages.

Mapletree, as one of the top 10 logistics owners in the US, remains committed to the sector with plans to

deepen our logistics footprint through expanding current sites and extending into greenfield development with several ongoing projects in key American cities.

Q What do reshoring trends mean for US logistics real estate?

Supply chain reconfiguration will remain a crucial strategy for businesses in the world's leading economy as US trade policy continues to encourage the onshoring and nearshoring of manufacturing. This will provide further support for US logistics demand – particularly in emerging manufacturing hubs such as the Midwest and Sun Belt markets.

Upstream suppliers and downstream distribution networks will provide “trickle down” demand, while traditional industrial demand should grow to accommodate raw materials storage, specialized distribution, and materials and equipment used in construction and manufacturing locally.

In addition, greater e-commerce penetration across the country will result in more space demand from leading retailers and suppliers.

Onshoring investment is also likely to enhance employment, GDP and consumption, which in turn further drives logistics. This trend will be exacerbated in the near future with the potential of increased import tariffs by the Trump administration this year.

Import activity is expected to be robust in the near term, as overseas manufacturers attempt to get ahead of any changes.

Long term, the impact remains to be seen and will be largely dependent on the ultimate magnitude of the tariffs and how widely the net is cast. Markets will be impacted by the shifting flow of goods being imported, with demand likely to increase in markets such as Texas, Florida and the Northeast, in order to accommodate more goods from Mexico and other China alternatives.

Q How is logistics leasing performing in the US? How can asset owners maintain rental performance?

We anticipate that leasing activity in 2025 will be focused on higher quality assets in well-located markets. Smart investors will recognize this and be more selective in their acquisition efforts. According to CBRE, US industrial vacancy in 2024 rose slightly to 6 percent, but this remains below the long-term vacancy run rate for the sector. Leasing activity in 2024 rose 6.1 percent from the prior year, due to robust demand from third-party logistics firms.

Asset managers must proactively engage with tenants to understand their unique needs and plans, to ensure tenant retention. For vacant spaces, positioning them as move-in ready, ramping up marketing roadshows and, if needed, reconfiguring spaces are all important strategies to keep in one's back pocket.



SOURCE: MAPLETREE

The industrial building at 2935 Ramco Street in West Sacramento, California, is held under Mapletree's US logistics-focused private fund, Mapletree US Logistics Private Trust

Q What asset and location characteristics should investors target when building a US logistics portfolio?

Mapletree is always looking for assets that are strategically located, functionally built to meet the market's requirements, and have great connectivity to sizable populations and available skilled labor pools, as well as key transportation nodes and networks.

For example, we recently acquired a 22.5-acre site in New Jersey for development, which was selected due to its prime location. It offers convenient access to major transportation hubs and is well positioned as a distribution center and last-mile delivery hub for

e-commerce operators.

Against an uncertain economic backdrop with expectations of a higher interest rate environment and political change, these attributes are even more salient.

Pricing power in the market has softened due to elevated interest and capitalization rates, and as a result, investors should be far more selective and focused on quality.

Real estate is a local business, and it is imperative to understand tenant requirements in each submarket so that we can invest in the right product type – from big box to shallow bay industrial – to weather the inevitable market cycles.

From a tenant's perspective,

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“Supply chain reconfiguration will remain a crucial strategy for businesses as US trade policy continues to encourage the onshoring and nearshoring of manufacturing”

occupiers are increasingly looking beyond traditional asset characteristics to modern building features that can support investments in digital supply chain technologies. Investors should also look out for assets that can meet occupier sustainability requirements.

Nevertheless, as investors, it is prudent to avoid buildings that are too specialized. It is important to make sure that the bones of the building remain flexible so that it can be reconfigured for the next tenant.

Q What are the emerging investment trends in US logistics real estate?

Over 2024, investments across all asset classes, including logistics, saw a decrease in activity. This was a result of elevated interest rates and a reduction in the availability of credit from lenders.

For the logistics sector, which has been – and continues to be – a favored asset class, cap rate spreads compressed dramatically, which has resulted in negative leverage for most investment opportunities. It put many investors on the sidelines, hesitating to purchase in a falling market. Consequently, premiums for large portfolios evaporated and deal sizes became smaller.

On the plus side, built-in rent growth in most logistics portfolios allowed investors who were willing to endure short-term negative leverage to purchase at good pricing.

In the second half of the year, that dynamic began to change with inflation rates tapering down and the US Federal Reserve commencing rate cuts.

Looking into 2025, we expect to see a more active capital market for logistics with portfolio sizes increasing. On the buy side, there is pent-up demand for investment that was unsatisfied in 2024. Investors have dry powder that needs to be placed to work. On the sell side, owners, especially closed-end funds, cannot sit on the sidelines indefinitely.

Q What are the opportunities for

developing logistics assets in the US?

Bearing in mind increased construction and funding costs, we still believe this is a great time to be developing logistics properties in the US. New construction starts have been muted for over two years as a result of higher interest rates and lack of investment capital. Reduced supply likely means we will be looking at declining vacancy starting the second half of 2025. In 2026, we expect to see a shortage of Class A space in the market, which will spur rental growth.

Merchant developers have been sidelined due to the current dynamics of the capital markets. They are struggling to put together new deals and have been focused on leasing up newly constructed properties.

That means it may be well into 2025 before we see them back in the market. Development is a time-consuming effort, typically taking 15-24 months from planning to delivery. A window exists to take advantage of this lack of new supply, but developers cannot wait long if they want to capitalize on this opportunity.

While construction costs have indeed increased, so have rents, resulting in good yields in most markets. We have seen land prices decline because of sliding development demand, which helps to justify new projects.

However, developers must be more thoughtful in where and what product they develop. Certain markets are now overbuilt, and it may take several years for them to recover. Since large tenant demand has decreased, new developments must be designed to be flexible and allow owners to demise the building to accommodate smaller requirements, as well as to be ready once larger tenants re-enter the market.

New buildings must also be capable of meeting the requirements of modern tenants, in light of the mounting need for digital supply chain technologies. ■