



Coronavirus Ignites Opportunities in Cold Storage

Demand for Online Groceries and Pharmaceuticals
Drive Growth in the Supply Chain



(Getty)

May 28, 2020 - With most of the world abiding by stay-at-home and similar restrictions due to the coronavirus pandemic, more people are turning to e-commerce solutions for groceries. Coupled with a growing need to increase pharmaceutical capabilities in the United States, cold storage — an area of industrial warehousing that has been poised for growth for some time — now stands out as an increasingly important part of the supply chain.

This increased need presents an interesting opportunity for developers and investors who wish to penetrate the industrial market, which has been notably more resilient than other real estate sectors during the crisis.

Online Groceries Are Here to Stay

Online shopping has become a way of life for many as the use of e-commerce options to order goods has become a daily habit. With fewer people physically going out of the home to shop, the delivery of online perishables, including frozen foods, is seeing a massive surge as well, and those trends are expected to continue in the future.

"The tendency in a pandemic is to overreact and predict radical new market forces, market trends, or new behavior trends, but this is one where I think most analysts are pretty comfortable," explains John Boyd, principal of The Boyd Company, a New Jersey-based corporate site-selection consultancy. "Just as online buying has become a norm for virtually all parts of consumer spending, it's likely to be an enduring trend in the food and beverage industry."

According to a recent COVID-19-related MarketFlash report from commercial real estate firm CBRE, approximately 95% of food imported to or produced in the U.S. goes through third-party distribution centers before it reaches consumers. In CBRE's 2019 report, "Food on Demand Series: Cold Storage Logistics Unpacked," it was estimated that between 75 and 100 million square feet of freezer/cooler space was needed to keep up with projected trends. The coronavirus crisis has accelerated that process.

It will be increasingly critical that the availability of cold storage fulfills the needs of the supply chain, says Albert Goldson, executive director of New York City-based think-tank and advisory service Indo-Brazilian Associates, LLC.

"In a post-pandemic world, cold storage will probably be deemed an essential service for food security — the equivalent to an agricultural version of our strategic petroleum reserve," Goldson said.

And it's not only third-party distributors looking at cold storage opportunities; retailers will also have to determine how they can best utilize their footprints in this new normal. That might mean expanding their current square footage or looking to create networks of smaller warehouses for quick delivery, especially in more densely populated and urban areas.

Big Pharma Tackles the Supply Chain

Another significant player in the cold storage boom is the pharmaceutical industry. Overall growth within the industry, especially as new medicines are tested and trialed by the biggest pharmaceutical brands, means an increased need for cold storage and shipping capabilities where they are.

One area in particular that's catching the eye of investors and developers is Rocky Mount, North Carolina. "It's close to the Research Triangle, the nation's largest, fastest-growing pharmaceutical production area," Boyd says. "And you also have proximity to all the major markets along that I-95 corridor from Boston to New York to Washington, D.C. and Miami."

The emergence of the coronavirus is speeding up some of this need. "Less than 30% of active pharmaceutical ingredients in pharmaceutical products are produced here in the U.S.," Boyd says, pointing out that roughly 70% of the ingredients and products for the nation's pharmaceutical industry are produced abroad, and mostly in China.

When the coronavirus outbreak first hit China, its government-instituted lockdown also slowed the flow of goods out of the country, including these much-needed pharmaceutical ingredients. The disruption highlighted the need for additional space for stockpiling in-demand items, and caused companies to consider on-shoring many of their operations.

Pharmaceutical giants are also developing new products, including many that rely on cold storage throughout the entire supply chain, from development to consumer. Biologics, drugs and medicines developed from living organisms, including vaccines, blood and viruses, have been part of this trend.

"Beyond COVID-19 disruptions, a driving force in new demand for cold storage space in the U.S. is the increasing use of biologics and biosimilar pharmaceutical products within the medical community," Boyd says.

Since production is driving much of the growth within the industry, pharmaceutical brands have increasing needs for cold storage space to accommodate future plans and fit within their specific temperature needs as well U.S. Food and Drug Administration (FDA) requirements.

Building a More Automated Warehouse

The average age of a cold storage warehouse in the U.S. is 34 years, according to CBRE. Coupled with the high costs and complexity of retrofitting room-temperature warehouses means it's often more cost-effective, albeit still expensive, to build a new state-of-the-art cold storage facility.

These new builds present the opportunity to go all-in on technology, especially robotics and artificial intelligence (AI). Boyd notes that AI will allow warehouse robots to do more than move goods — they can also learn how to pick and pack individual items. Plus, with robots, there's no social distancing restrictions, which can help reduce future warehouse-based outbreaks and keep the supply chain moving without delays.

The ability to scale when needed is an important factor as well, especially when trying to balance between business-to-business and consumer needs. Goldson highlights this idea by noting that warehouses will need to develop systems that can differentiate between commercial and consumer enterprises, which can often have different packaging sizes.

It's here that AI can also provide a solution by being able to manage the inventory needs of commercial and consumer-facing businesses, all while able to ramp up if additional demand arises.

"For optimal inventory control and distribution, particularly during a crisis, an AI-driven system will be invaluable," Goldson says.

Cold storage was already on track to play a far more significant role in the supply chain in coming years, and the impact of coronavirus means there are plenty of opportunities in the market. "I expect to see keen investor interest in the construction of new cold storage facilities as well as upgrades for the current ones," says Goldson.