



# LoopNet™

## Cold Storage Heats Up the Industrial Market

How and Where Developers Can Find Opportunities



*(Getty Images)*

Contributed By Liz Froment - Published On October 21, 2019 - category Industrial & Warehouse

One of the hottest trends in warehousing is going cold.

With storage demands on the rise across industries, cold storage—which safely stores perishable or temperature sensitive products—is emerging as a pressing need throughout the supply chain.

When thinking about what's happening with cold storage, the trends are important, but there are also some under-the radar costs—and opportunities—that investors and developers should consider.

## **Consumers Demand Fresh Groceries**

"Cold storage is the fastest growing sector in distribution warehousing today. It's fueled not just by the food and beverage sector but also by the pharmaceutical industry," says John Boyd, principal of the Boyd Company, a corporate site selection firm in Princeton, N.J.

With the rise of e-commerce, the "last mile" of supply chain logistics, getting goods from the final distribution center to the consumer is more critical than ever.

A recent survey from Capgemini found that 40% of consumers surveyed cited grocery delivery as a "must-have" service. Nearly the same number get groceries delivered to their homes at least once a week.

Boyd cites brands like Hello Fresh, Sun Basket, and Green Chef as examples. These grocery delivery brands must have proximity to consumers and rely on cold storage facilities in areas where the last mile matters.

Because there isn't currently the supply to keep up with demand, retrofitting current warehousing to cold storage is becoming increasingly popular. As Boyd explains, "New construction costs are very costly to build, especially in last-mile population centers like New York, Boston, Chicago, and LA. There's a scarcity of land in these highly populated areas as well, so retrofitting is a growing trend."

## **Pharma Continues to Drive Needs**

While much of the discussion around cold delivery is on food and beverage, it's just as crucial to the pharmaceutical industry. One major reason is that constant temperature-regulated cold storage is a continuous need.

"Products like vaccines, blood plasma products, and insulin all require specific temperatures maintained throughout the supply chain process," says Boyd.

Location matters here, too. Cold storage needs for grocery tend to center around more populated urban cores. However, the opportunity for pharmacy cold storage can often lie closer to the sites of major pharmaceutical manufacturers and life science research centers.

Boyd highlights both Indianapolis, home of massive drug manufacturer Eli Lilly, as well as North Carolina's Raleigh-Durham Research Triangle as places to watch. These are two regions where the global logistics giant, DHL, recently announced \$150 million in investments to expand their medical device and pharmaceutical supply chain.

## **Energy Costs Matter**

Another critical factor for cold storage is energy costs. Cold storage facilities need to run continuously, so they are incredibly energy-intensive.

"Energy costs are one of the untold stories with respect to cold storage warehousing," Boyd notes. "What companies, our clients, and developers building these cold storage warehouses look at is utility prices, which vary significantly throughout North America."

Developers and investors interested in cold storage are exploring a variety of solutions to help manage energy costs.

One area of focus is warehouse location. Boyd points to Central Washington State as an area of opportunity. It's close to major food production centers, and boasts some of the lowest energy costs in the country, thanks to green-friendly hydroelectric power.

Sustainable energy is also part of this trend. In Washington State, for example, the Columbia River is one source of energy. In other regions, both solar and wind energy are increasingly popular, and developers are working with local utility companies to capitalize on it.

Repurposing is a potential option as well. With millions of vacant square feet in malls and other retail stores across the country, it's possible to transform abandoned zones into new mixed-use purpose space that includes cold storage.

Boyd notes that many state and local legislatures are also introducing specific tax credits to incentivize developers. Some of these focus on investments in sustainable energy as well as packages that make repurposing vacant spaces easier.

For developers and investors, cold storage warehousing is something to watch. With a dwindling supply and increasing demands across several industries, there are potential opportunities around the country.