

Sector Spotlight: Industrial Outdoor Storage

ARA Research

 **AMERICAN**
REALTY ADVISORS
INSTITUTIONAL CAPITAL MANAGEMENT

As core real estate portfolios venture beyond the traditional four sectors in search of better returns, specialty sectors are becoming increasingly popular. These once-niche markets are now capturing the attention of institutional investors. One standout alternative is Industrial Outdoor Storage, a sector that's hot on investors' buy lists due to its low capital requirements and persistently limited available space.

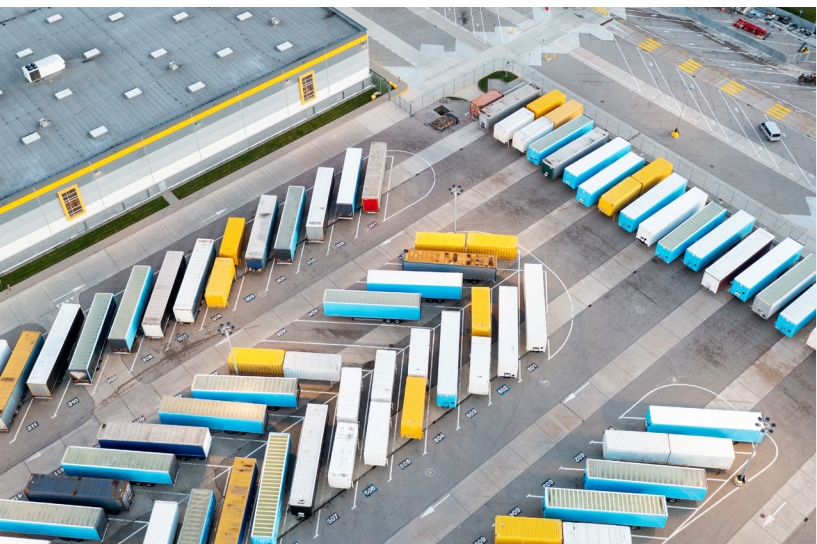
industrial outdoor storage **noun**

real estate dedicated to storing equipment, materials, and vehicles outdoors.

What is IOS?

This sector is vital for e-commerce, construction, logistics, and infrastructure, providing essential storage for everything from consumer products and mechanical equipment to raw materials, containers, trailers, and vehicles. Traditionally, IOS has been a niche market, mostly held by small private investors and mom-and-pop operators due to their smaller transaction sizes. Recently, the IOS market has surged to an estimated \$214 billion, drawing significant interest from institutional investors. Typically located near shipping ports, rail terminals, large airports, and major highways, IOS lots range from 2 to 30 acres and can be either paved or unpaved, often featuring a small on-site facility and/or security structure. For those looking beyond the immediate horizon to 2025 and beyond, the current market conditions offer a unique window to acquire assets at potentially lower valuations. Now is not necessarily a moment for caution, but rather for discerning, proactive engagement. An ability to anticipate fundamental improvement (and translate that through an informed submarket and asset strategy) should further drive conviction in taking advantage of today's distressed buying opportunities.

Types of IOS



Trailer Parking

- Designed to provide e-commerce and logistics companies with secure off-site parking for trailers near their distribution facilities and transportation infrastructure.
- These lots help cut down on labor, fuel, and maintenance costs.



Fleet Parking

- Offers secure parking for delivery vehicles, particularly for last-mile logistics.
- Often used by auto dealerships and municipalities, they help reduce operational costs through proximity to distribution centers and urban areas.

Types of IOS



Cargo Container Depots

- Serve as critical interim storage areas for cargo containers before they are transferred to fulfillment centers.
- These depots can be located within or near ports, or at inland locations to alleviate congestion.



Heavy Equipment/Contractor Machinery Yards

- Provide secure storage and maintenance facilities for construction and related companies to store tractors, cranes, industrial generators, and other heavy equipment.
- Proximity to major transportation infrastructure is a key feature.



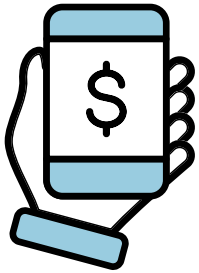
Material Yards/ Laydown Storage

- Secure storage facilities for suppliers of construction materials like lumber, roofing, concrete, and steel.
- These yards may feature basic roof structures or be open-air and are typically located near major highways or rail for efficient distribution.

What Drives the Need for IOS?

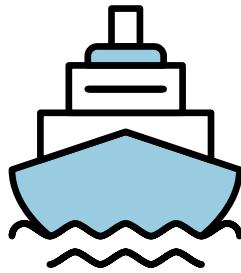
IOS meets a fundamental need: storage and support. As we move towards an increasingly online, e-commerce world, more consumer goods need to be stored and transported. This growing online demand, coupled with the needs of international trade, which relies on efficient storage and logistics solutions near docks and piers, drives the demand for IOS facilities.

Here are the key drivers fueling this growth:



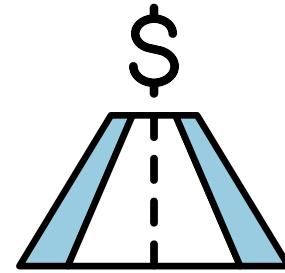
E-Commerce Boom

The explosive growth of online shopping, further accelerated by the pandemic, has created robust demand for storage and logistics solutions. E-commerce sales now account for 15.9% of total sales as of Q1 2024, up 33.6% from pre-pandemic levels. Fulfillment centers, like those operated by Amazon, require extensive space for fleet and trailer parking, driving demand for IOS. Global same-day delivery is expected to grow by a compound annual growth rate of 17% through 2028, further boosting the need for well-located IOS sites that can help reduce labor, fuel, and maintenance costs.



Steady Growth in Port Volumes

The exponential growth of e-commerce has driven record import volumes into U.S. ports. This surge has significantly increased demand for adjacent land to help alleviate port congestion and provide storage for additional shipping containers. In fact, December 2023 U.S. container import volumes were 9.2% higher than they were a year prior. Even with recent economic headwinds, demand for container storage remains strong due to trade imbalances between the U.S. and Asia and low industrial vacancies in many coastal markets. Projections from the Maritime Strategies International (MSI) suggest that U.S. port volumes will continue to grow at a rate of 4% in 2024.



Infrastructure Investment

The \$1.2 trillion Infrastructure Investment and Jobs Act, passed by Congress in 2021, is set to inject significant investment over the next five years into repairing and modernizing the country's infrastructure. Large-scale projects, like those that will come from this act, boost demand for IOS as companies servicing the construction industry, such as lessors and dealers of heavy equipment or construction materials, seek additional storage space to increase their inventories and meet the rising demand.

Desired Site Characteristics

- ✓ **Environmental Clearance**
Free of major environmental hurdles.
- ✓ **Infrastructure**
Adequate offsite infrastructure with minimal required upgrades (e.g., roads, power supply, water and sewer lines, sidewalks, landscaping).
- ✓ **Zoning**
By-right zoning for IOS use, avoiding discretionary reviews and public hearings.
- ✓ **Location**
Close proximity to highways, airports, rail, and ports, as well as proximity to warehouse distribution centers that lack required parking.
- ✓ **Pavement**
Fully paved lots for heavy trucking and storage.
- ✓ **Security**
Controlled/guarded access points, with electric gates, high-security fencing around the perimeter, high lumen lighting, and surveillance cameras.

Representative Investment

A short-term leaseback provides near-term cash flow and best-in-class repositioning upside in a highly infill, port-adjacent submarket.

Use	Truck / Trailer Parking
Location	Compton, CA
Site Size	3.38 Acres / 147,306 sf
Net Rentable Area	1.96 Acres / 85,322 sf
Zoning	LCM-2 – Heavy Manufacturing



Disclaimer

The information in this newsletter is as of June 1, 2024, and is for your informational and educational purposes only, is not intended to be relied on to make any investment decisions, and is neither an offer to sell nor a solicitation of an offer to buy any securities or financial instruments in any jurisdiction. This newsletter expresses the views of the author as of the date indicated and such views are subject to change without notice. The information in this newsletter has been obtained or derived from sources believed by ARA to be reliable but ARA does not represent that this information is accurate or complete and has not independently verified the accuracy or completeness of such information or assumptions on which such information is based. Models used in any analysis may be proprietary, making the results difficult for any third party to reproduce. Past performance of any kind referenced in the information above in connection with any particular strategy should not be taken as an indicator of future results of such strategies. It is important to understand that investments of the type referenced in the information above pose the potential for loss of capital over any time period. This newsletter is proprietary to ARA and may not be copied, reproduced, republished, or posted in whole or in part, in any form and may not be circulated or redelivered to any person without the prior written consent of ARA.

Forward-Looking Statements

This newsletter contains forward-looking statements within the meaning of federal securities laws. Forward-looking statements are statements that do not represent historical facts and are based on our beliefs, assumptions made by us, and information currently available to us. Forward-looking statements in this newsletter are based on our current expectations as of the date of this newsletter, which could change or not materialize as expected. Actual results may differ materially due to a variety of uncertainties and risk factors. Except as required by law, ARA assumes no obligation to update any such forward-looking statements.

© 2024 American Realty Advisors, LLC

Authored by:

Britteni Lupe
Assistant Vice President,
Research & Strategy
blupe@aracapital.com

Edward Fonseca
Senior Associate,
Investments
efonseca@ay-ara.com