

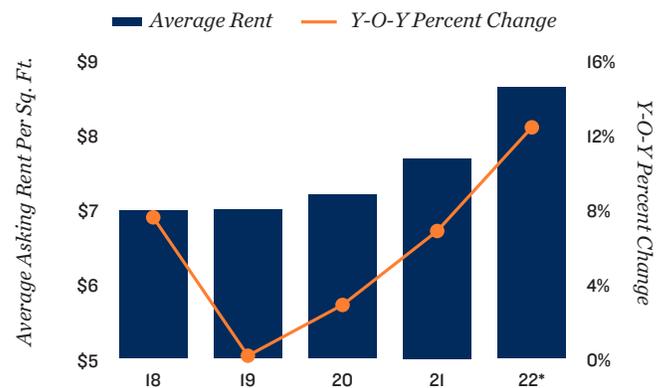
Industrial Outdoor Storage: Last-Mile Industry's Highly Demanded, Yet Underdeveloped Cornerstone

Specialized property emerging as industrial mainstay. Serving a mission-critical role for last-mile distributions, industrial outdoor storage, or IOS properties, have emerged as a highly in-demand subset of the broader industrial sector by tenants. IOS users primarily derive value from utilizing uncovered lots to store large equipment, vehicles or materials, in addition to possible onsite service operations. IOS facilities are often found at ports of entry and infill locations proximate to transportation nodes, providing auxiliary storage capacity for logistic operations. For this reason, tenant demand for IOS has surged as supply chain disruptions and evolving consumer expectations have directed firms to key-in on last-mile distribution.

Constrained supply puts spotlight on available IOS space. Existing IOS facilities have become increasingly coveted by industrial users, as developers have been largely dissuaded from starting new projects. A combination of strict zoning requirements, unfavorable building-to-land coverage ratios, and municipal development restrictions has confined many developers to traditional industrial properties, suppressing additional supply. Limited development has helped keep vacancy consistently under that of the industrial sector at large, encouraging more rapid rent growth for active facilities. IOS vacancy fell under 3 percent in mid-2022, below the historical average, while IOS rents have advanced by nearly 30 percent on average since the end of 2019. General industrial rents rose 24 percent during the same span.

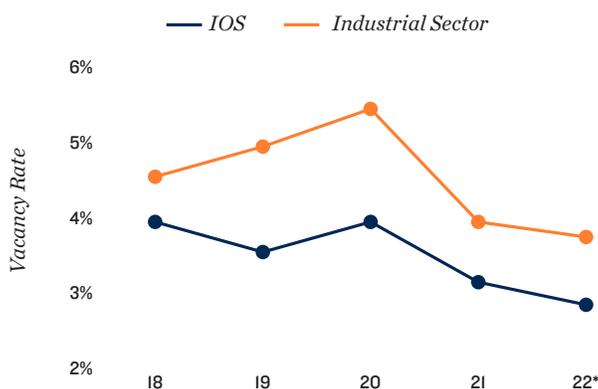
Consumer expectations, supply chain evolution bolster outlook. The ongoing adoption of e-commerce and the pandemic's disruption of supply chains will continue to drive the need for these distribution support spaces. The global same-day delivery services market is expected to grow by 25 percent through 2022, creating additional demand for last-mile storage. Rising fuel costs have also caused firms to place further emphasis on consolidating operations, making the infill nature of IOS particularly attractive. In either case, IOS will play a major role in supporting firms' operations, efficiently linking the wider supply chain to individual municipalities.

IOS Rent Trends



* As of 2Q
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.

IOS vs. Industrial Vacancy



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