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Prologis Sees More Opportunities Amid Disruption in Global Logistics Market

Despite Numerous Real Estate Challenges Ahead, SD Conference Panelists Point to Growth in E-commerce Driving Demand for Innovation in Logistics Space

Barbara Cambon of the Burnham-Moores Center for Real Estate interviews Prologis CEO Hamid Moghadam during a recent conference in San Diego.

Credit: Burnham-Moores Center for Real Estate.

The CEO of Prologis Inc. says even the company known as "Amazon's landlord" has plenty of disrupters to deal with in an ever-shifting demand climate for commercial real estate.

But Hamid Moghadam, along with other panelists at a recent conference in San Diego, pointed to multiple growth opportunities for investors and developers willing to make the necessary adjustments. Moghadam is chairman of San Francisco-based Prologis, among the world's largest owners of industrial properties - approximately $80 billion in assets spanning 700 million square feet in 19 countries, with about 3.5 percent of that space occupied by its biggest tenant, Amazon Inc.

Moghadam told attendees how his company has recently 'gone vertical' in developing several highly-amenitized warehouses and other logistics facilities in land-constrained markets like Tokyo and Seattle.

"You have trucks going up like in parking garages - six or seven stories in the air," said Moghadam, describing some of Prologis' recently completed warehouse projects at a March 1 conference presented by University of San Diego's Burnham-Moores Center for Real Estate.

"But that's our future," he told the crowd of more than 600 at Hilton San Diego Bayfront Hotel. "I don't know if it's going to happen in the next 10 years, but it will eventually have to happen."

The continued growth of e-commerce was cited by panelists as a major shaper of supply-and-demand for both industrial and retail space for the coming decades.

There is opportunity for growth even in mature markets like

Japan, where Moghadam said companies are investing significantly in consolidating operations housed in outdated facilities into larger and more efficient ones.

Also, as consumers globally demand quick delivery of goods, facilities will need to be built closer to urban centers, and developers like Prologis must adjust planning for those logistics centers to address limitations including land constraints, and in the case of Japan, seismic and soil conditions among other factors.

"I have not seen the consumer become any more patient over the last 10 years," Moghadam said of the e-commerce delivery influence on warehouse location and planning decisions, adding, "Think of industrial as the old retail. You count rooftops and you count dollars in the pockets of the people in those rooftops."

Evolving technologies like autonomous-driving trucks, he said, could help industrial tenants address neighborhood concerns by running trucks at off-peak times and otherwise routing vehicles in a way that maximizes efficiencies within fixed transportation infrastructures that are often already stretched to capacity.

Thanks to the size of its portfolio and customer base, Moghadam said there will be opportunities to serve customers and build tenant loyalty by collecting and sharing data on energy and space usage, on-site vehicle movement and other factors to help tenants operate more efficiently.

In the meantime, Prologis is in the early planning stages for a financial assistance program that will aid community workforce development agencies nationwide in finding and training people to fill crucial warehouse jobs that many companies are having difficulty filling.

Moghadam and other experts pointed to labor shortages being a key challenge going forward, and in the industrial sector companies are seeing a shortage of workers able to pass drug tests, due in part to problems like the nation's opioid epidemic.

Local developers are seeing technology and environmental trends impact the planning of major projects. Yehudi Gaffen, CEO of Gafcon Inc., said the recent discovery of an earthquake fault on the property resulted in significant but beneficial changes to an upcoming $1.3 billion, mixed-use redevelopment of the downtown San Diego waterfront, slated to include hotels, retail, offices, beaches, an aquarium and observation tower.

The fault area will likely now remain greenspace rather than buildings. He said the 70-acre, multi-phase project could evolve even further - with changes to parking space configurations and passenger drop-off points, among others - due to rapid acceptance of ride-sharing services and advances in self-driving vehicles that are reducing the number of drivers and cars on the road.

Mitch Roschelle, partner and real estate advisory leader with consulting firm PricewaterhouseCoopers (PwC), said further adjustments in real estate planning nationwide will be necessitated by changing generational preferences.

For instance, the recent trend toward open, collaborative office spaces may not fly as the latest population segment, the 20-and-under Generation Z, becomes more established in the workforce. That segment has learned to collaborate remotely, and primarily online, via Google Docs and various other web and software programs.

"Office space as currently designed may have to change because there's something that Gen Z wants when they get into the office, and that's a door," Roschelle said, adding further changes to the national office stock may be necessitated by the continued rise of freelancing in the overall economy. More than 57 million people in the U.S., including 47 percent of the 34-and-under Millennials, are freelancing in some way.

The good news, Roschelle said, is that recent slow growth in the U.S. economy has prevented overbuilding and kept all of the major property categories from becoming overheated, meaning developers have the opportunity to address those emerging demands in new projects.

"The slow growth in the U.S. economy has been one of the best things to happen to real estate," he said.

Markets considered most attractive, based on PwC's recent national surveys of investors and other commercial real estate professionals, are those that are attracting young people or have low taxes and other living expenses. Roschelle's list includes Austin, Nashville, Salt Lake City, Fort Lauderdale and Denver.

Those and most other markets still have other disrupters to contend with in coming years.

Norm Miller, Hahn Chair of Real Estate Finance at USD's School of Business, pointed to other issues impacting real estate, such as declining affordability, longer life spans, dropping U.S. workforce participation, decreased legal immigration, climate change, growing government budget deficits, and tech advances including virtual reality and 3-D printing.

He said advances in virtual reality, for instance, with other conferencing technologies could reduce the need for office space required for in-person meetings.

Miller also said three-dimensional printers, being used to automate production of certain industrial parts and prototypes, could potentially reduce the need for some manufacturing and logistical facilities; though Prologis' Moghadam said the plastics, inks and other materials used in 3-D printing will likely come with their own needs for storage and distribution.

Lou Hirsh, San Diego Market Reporter **CoStar Group**