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As Price for Warehouse Space Continues to Fall, Now May be Time to Move or Renegotiate

Prices Off by 40% or more in some Markets; Getting Relief even in Mid-Lease?

SCDigest Editorial Staff

The price for warehouse and distribution center space, like other real estate categories in this market, have taken a big tumble, offering opportunities for many companies to reduce their distribution costs.

It's hard to get precise figures, and there are some regional differences, but some logistics managers are saying they have seen the price per square foot for warehouse space fall by 40% or more in some markets, the result of lower demand for space and a glut of distribution center space erected during the past few years before the financial crisis hit.

The price declines seem to be strongest in areas served by ocean ports, as the steep drop in import volumes combined with a building boom of import DCs near those areas has put the supply-demand balance strongly in favor of shippers.

Prologis, which in the past has published distribution center price analyses for the US market twice per year, has not produced a new report since mid-2008. Even then, however, it noted that "The nation's bulk distribution property leasing markets are in the early stages of a cyclical slowdown."

Bloomberg reports overall commercial real estate prices dropped 15% in 2008, but some believe the warehouse market declined at an even greater rate.

The current strong decline that started in 2008 comes after a three-year run-up in distribution center costs, fueled by a strong economy and huge growth in import volumes, as shown in the graphic on page 2.

One company says that it has switched facilities in a number of cases already to nearby warehouses in the same area as the existing one, often receiving reductions in the 40% range in terms of cost per square foot.

Prologis itself is feeling the effects of the DC market slow down. One of the world's largest owners and managers of distribution center space, the company had been on a building boom over the last several years, but lately the wheels have been coming off. When the financial crisis hit last fall, it had $8 billion in development projects in its pipeline.

Amid a tanking stock price, its CEO resigned in November, and the company announced it would stop all new development for now.

How to Take Advantage

If your lease end is coming up, this is certainly an ideal time to see if a better deal can be found. Of course, moving distribution center operations is a difficult and potentially costly initiative that most companies would prefer to avoid. However, for smaller facilities the pain of moving may not be too great and easily cost justified given the savings in space costs.

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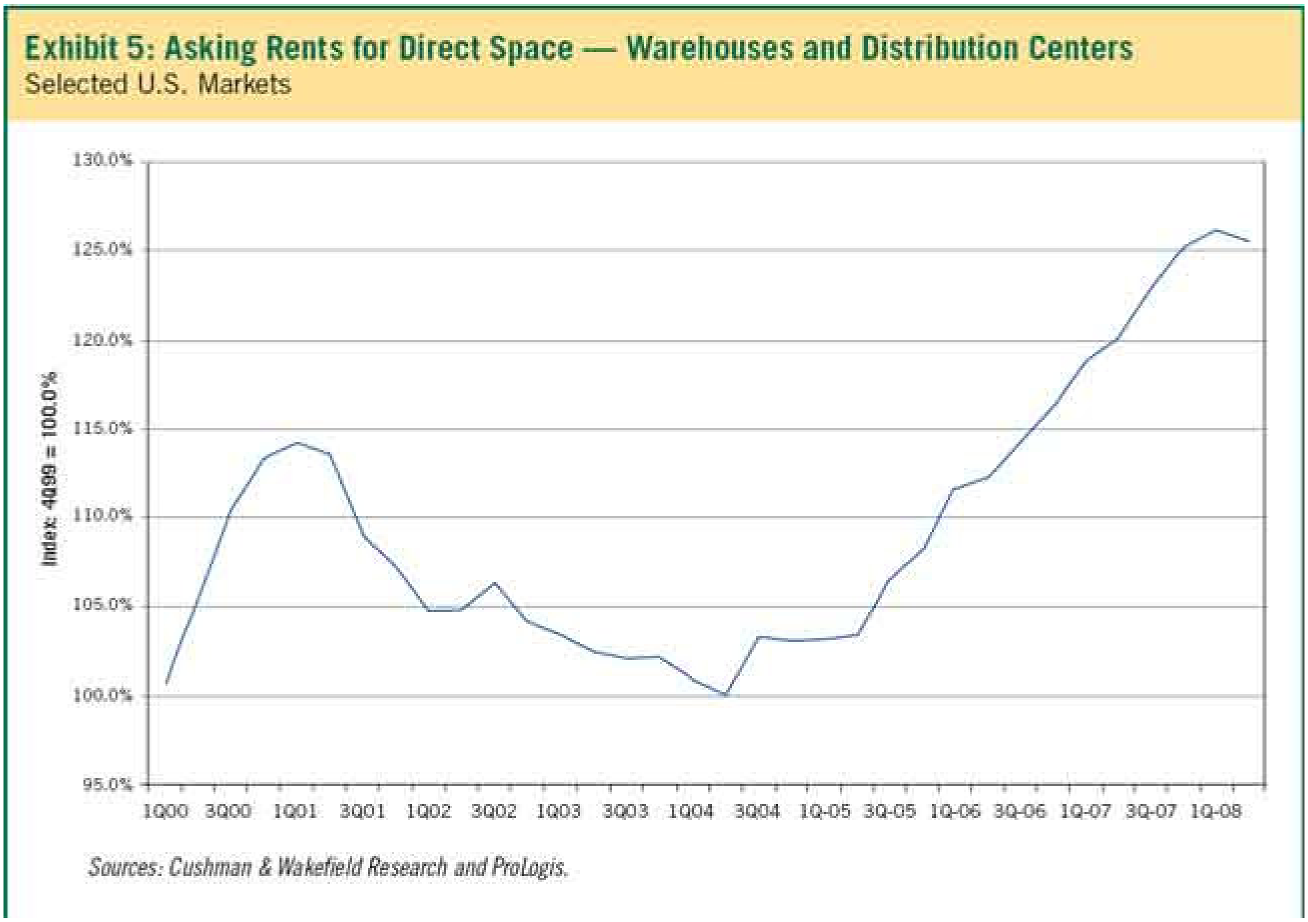

Sources: Cushman & Wakefield Research and ProLogis.

SCDigest recently spoke to a logistics executive at a publishing company that leases several dozen local distribution facilities around the country, which are fed by a few large master DCs. The local facilities are small, ranging in size from 25,000-75,000 square feat, but in total add up to a considerable DC footprint and cost.

The company says that it has switched facilities in a number of cases already to nearby warehouses in the same area as the existing one, often receiving reductions in the 40% range in terms of cost per square foot.

"There is tremendous opportunity right now to get very favorable terms," the manager told us.

In some cases, the company has even been able to renegotiate lease terms with the landlord even with a year or more of the current lease term still to go.

"In some cases we've been able to show the landlord they have published prices for space like we have in the same market well below what we are paying, and let them know we think an adjustment is required," he said.

The subtle or not so subtle message: if you don't help us now, you can count on us moving when the lease term is actually over.

One challenge is finding the time and resources to doing the analysis and negotiating. However, given the level of potential savings, it might be time to put real estate near the top of the priority list.