

SQUARE FEET

Warehouse Space Is the Latest Thing Being Hoarded

Logistics firms are finding new options to deal with a scarcity of storage, including building multistory facilities and choosing locations farther from coastal ports.

By Miranda S. Spivack

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As retailers and logistics companies try to stockpile goods to hedge against supply chain problems, they are facing a new challenge: In many parts of the United States, there is little to no space available to stash the merchandise.

The shortage of commercial warehouse and industrial space is the latest fallout from pandemic-fueled growth in online shopping and shows few signs of abating. But the squeeze is spurring new thinking about how to manage storage, handle distribution and set up new delivery systems for everything from pet food to beauty supplies.

Logistics firms are taking several steps to deal with the scarcity of storage space, like signing deals for new space long before ground is broken and expanding searches for sites farther from coastal ports, to such areas as Knoxville, Tenn.; the Lehigh Valley in Pennsylvania; and Reno, Nev.

They are also reimagining the commercial warehouse space they already occupy. And in densely populated areas where land is scarce and zoning restrictive, they are vying to build taller warehouses or spread their goods to smaller spaces such as vacant storefronts that were shuttered during the pandemic.

“The supply-and-demand imbalance is more significant than I have seen,” said Robert Thornburgh, the chief executive of the Society of Industrial and Office Realtors. “There is limited inventory of industrial space. It is almost evaporating before your eyes, if you are even lucky enough to know about it.”

Atlanta, the Dallas-Fort Worth area and the Lehigh Valley had the most industrial space under construction in the fourth quarter of 2021, and the national vacancy rate fell to 3.2 percent, according to a study from CBRE Group. Rents rose 11 percent in the quarter, setting a record, the study showed.

For months, Maribel Koella, an industrial real estate broker in Knoxville, has had nothing to offer.

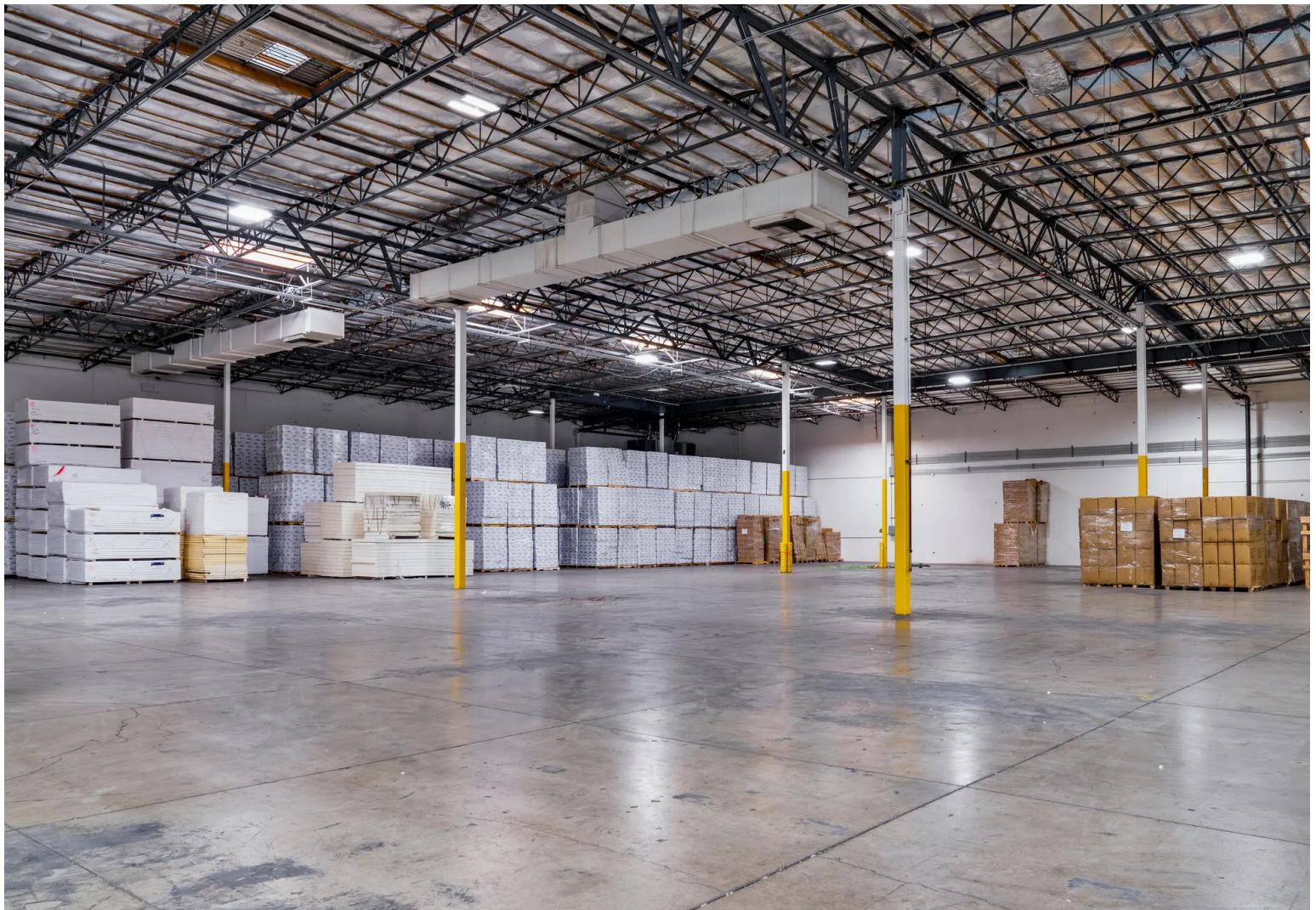
The vacancy rate for warehouse space in Knoxville and its surroundings was about 1.4 percent a few months ago, and now is even tighter. “I don’t know where we are going to get the product,” she said.

Further complicating the competition for space is that the large warehouses are attracting high-tech manufacturing and life sciences, said Steve Kapp, the executive managing director for Newmark’s San Francisco East Bay Industrial division in Oakland, Calif., where space is extremely tight.

Adding to the space crunch, companies aren’t just amassing goods for future sales, they are also stockpiling warehouse space when they can, even if they aren’t yet able to fill it, said Greg Sanguinetti, president of Pro Group Logistics in Sparks, Nev.



Greg Sanguinetti, left, president of Pro Group Logistics. Emily Najera for The New York Times



In the past two years, the company has expanded the warehouse space it leases from one building with 40,000 square feet to four buildings with 300,000 square feet. Emily Najera for The New York Times

“Companies are grabbing warehouses with 50 percent more space than they need,” he said. “They are lowering operating margins just to increase infrastructure so they have it.”

The tight warehouse market has spurred logistics companies to try different strategies for storing and moving goods across the country.

Understand the Supply Chain Crisis

- **The Origins of the Crisis:** The pandemic created worldwide economic turmoil. We broke down how it happened.
- **Explaining the Shortages:** Why is this happening? When will it end? Here are some answers to your questions.
- **A New Normal?:** The chaos at ports, warehouses and retailers will probably persist through 2022, and perhaps even longer.
- **A Key Factor in Inflation:** In the U.S., inflation is hitting its highest level in decades. Supply chain issues play a big role.

Mr. Sanguinetti has been looking at ways to reduce truckers’ idle time: He has expanded his company’s services to allow truck drivers to drop their goods, pick up an empty container and leave without waiting for unloading.

That substantially cuts waiting time, lessening the risk that truck drivers will have to pause work because they hit the maximum number of hours they can drive under federal regulations, Mr. Sanguinetti said.

“We have multiple drayage companies champing at the bit,” he said, referring to short-haul trucking firms. “People are looking for ways to get this done.”

Because some containers arriving from the ports include stacked boxes of goods that need to be removed individually and cannot be taken out with a forklift, his company is offering to unload containers and supply pallets for the next delivery, which his own trucking service can provide.

In the past two years, his company has expanded the warehouse space it leases from one building with 40,000 square feet to four buildings with 300,000 square feet. Even if the slowdown in the supply chain eases, the challenges it has highlighted are not going away anytime soon, Mr. Sanguinetti said.

What little space there is can be off the market before many even know about it.

“Space is limited — buildings are leased almost as fast as people are signing for space, let alone built,” said Robert Coon, the chief commercial officer for Dotcom Distribution, which leases space in Edison, N.J., from Prologis, a real estate investment trust that backs warehouses. The company uses its warehouse space to store beauty products, toys and other items for about 20 retailers.

The company’s lease is up in 2023, and Mr. Coon has already begun to think about the next steps. Dotcom has been in the space for 21 years, and it is seeking bids for alternatives. But Mr. Coon isn’t ruling out staying put, despite what he predicts could be a substantial rent increase.



Mr. Sanguinetti has expanded his company’s delivery services to allow truck drivers to drop their goods, pick up an empty container and leave without waiting for unloading. Emily Najera for The New York Times

One option for some companies is multistory warehouses, which have truck ramps and docks on multiple floors.

These facilities have begun to take hold in urban areas where quick delivery has become the norm, and companies have begun to stockpile supplies to prevent shortages, said Dov Hertz, the founder of DH Property Holdings. He said he planned to open a three-story warehouse in Red Hook, Brooklyn, by the third quarter of 2022, adding that it was already fully leased to Amazon.

Distributors “have to have additional supply on hand to weather the inconsistencies in supply chain delivery,” Mr. Hertz said.

How the Supply Chain Crisis Unfolded

The pandemic sparked the problem. The highly intricate and interconnected global supply chain is in upheaval. Much of the crisis can be traced to the outbreak of Covid-19, which triggered an economic slowdown, mass layoffs and a halt to production. Here’s what happened next:



Small businesses, which rely on local and regional producers, have been able to pivot more easily with the supply chain disruption than some larger companies that rely more on overseas producers, said Stacy Mitchell, co-director of the Institute for Local Self-Reliance.

But at the same time, as larger companies scoop up available warehouse space, smaller firms suffer. “Small businesses are pushed off to the sidelines and marginalized,” she said.

Some small retailers are becoming more strategic by using space that opens up in neighboring businesses that have shut down, as well as freed-up space within their own shops because they have fewer in-person customers and more online orders.

Gina Schaefer was grappling with storage issues before the pandemic, but has seen the need grow in the past two years.

“We have to make the most of everything we do,” said Ms. Schaefer, founder and chief executive of A Few Cool Hardware Stores, a chain of 13 Ace Hardware stores between Washington and Baltimore. “We cannot buy big warehouse space in the suburbs and send runners.”

For now, the company rents space from a local self-storage company and uses a garage that came with a hardware store the company acquired. Because the pandemic increased interest in home improvement projects, hardware stores have weathered it successfully, she said. That means the company, which had about \$50 million in revenue in 2021, could probably sell more items if it could store them.



Jackie Groat, a warehouse supervisor at Pro Group Logistics, taking inventory. Emily Najera for The New York Times



Rolls of paper in long-term storage in one of the company's warehouses in Sparks. Emily Najera for The New York Times

Jonathan Gold, vice president of supply chain and customs policy at the National Retail Federation, is looking for a digital solution that could resolve the supply chain slowdowns and the space crunch in warehouses.

He envisions a privately managed system, rather than an open data portal managed by the government. A unified database that shows the movement of a container from the port to its unloading, and data on available space for unloading, storage and last-mile delivery, would be a good place to start, he said.

“Everybody agrees we need better data and earlier in the process,” he said. The challenge is, how do we get together and make that a reality so that it is not a competition?”

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