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MANAGERS

EQT Exeter's Henry Steinberg talks backlash against warehouses

The firm's president of North America believes NIMBYism will cause development to stall and rents to rise in the popular sector

In US private real estate, warehouses have been among the most preferred asset types since the end of the global financial crisis, according to Henry Steinberg, president, North America at EQT Exeter, the Philadelphia-based real estate investment arm of Swedish private equity firm EQT.

Institutional players favored them for their steady returns amid the boom of online retail, as suppliers like Amazon looked to decrease delivery times, and local governments welcomed warehouses for the tax revenues they generated and limited impact on city services or school systems.

While industrial remains one of the most in-demand property sectors, Steinberg sees a change in sentiment from some local governments. These municipalities are starting to reject new warehouse development, which is forcing managers to more carefully select their sites and forecast a longer development cycle.

Steinberg recently sat down with PERE to discuss the rise of NIMBYism in warehouse development and his outlook for the sector. The following conversation has been condensed and edited for clarity.

Q Why has NIMBYism been growing against warehouses?

Hundreds of millions of square feet of warehouses have been built around the United States. I don't know exactly when, but in the last few years, I would say it's reached a point where we've seen local communities saying, "whoa, wait a second, this traffic is a problem for us."

We've seen a tremendous amount of pushback from neighbors when new developments are proposed, saying "we have too many warehouses – we don't want this, the truck traffic is noisy, it's clogging up our streets. It is actually impacting city services."

And of course, we haven't seen a decrease in people shopping online. People are still clicking "buy now." Everyone thinks it's a good idea because e-commerce is very convenient and it's kind of the way we shop now, but there's a conundrum – nobody wants the warehouse in their backyard.

Q Is NIMBYism strongest in cities or in smaller communities?

I wouldn't say it's necessarily near cities because there's less industrially zoned land in those last-mile areas. It's the big boxes that are in further out, smaller communities. The state of New Jersey I think has gone on record saying we don't want to be America's warehouse any more. And they're doing that in response to their constituents in places like central New Jersey, which you wouldn't think of as an urban infill area or even a suburban infill area. It's a suburban community.

You also see a ton of pushback across the entire state of California, you see it in the Lehigh Valley in Pennsylvania.

Q What impact will this have on industrial real estate funds?

In the long run, it's going to have an impact on the time it takes to develop warehouses and the cost to develop those warehouses. Municipalities are adding regulations to limit size, and they're adding traffic impact fees. The amount of square footage yield that the developer is able to get on the site will be more constrained.

It's going to mean that the companies that are on the ground and have truly local development teams that are able to figure out the communities that are comfortable having warehouses, and who understand the development process and can take something through a development process, are going to be better able to compete.

Q What impact will it have on warehouse pricing?

I think it's ultimately going to lead to higher rents in warehouse spaces. There are a lot of demand factors – onshoring, nearshoring and manufacturing – that are going to create more demand for warehouses rather than less.

I think another impact could be that warehouses further out from the epicenter become on a relative basis more in-demand. When our tenants evaluate a warehouse, they look at the cost of transportation, the cost and availability of labor – maybe most importantly – and then lastly, the cost of the real estate.

Historically, they'd rather pay more for real estate that's closer in because it has better transportation access and better access to labor. If they have to go further out, maybe their transportation costs [will] increase. But the biggest problem with going further out is you need to be in a community that has available labor. And this is where I think we could ultimately see even more increased automation in warehouses, to balance out a lack of access to labor.

Q Do these headwinds present any longer-term opportunities?

If it gets harder to build this stuff, the local experts with the most expertise in the space are going to be relative winners. And one of the reasons that the market has been successful has been because of rental rate growth. And if these pressures put a meter on supply, which they are, then I think we're going to get outsize rental rate growth. That generally would be great news for our investors. ■