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MATTHEW.MARSHALL@AVISONYOUNG.COM

From the Philadelphia Business Journal:

<https://www.bizjournals.com/philadelphia/news/2021/01/07/cold-storage-hot-investment-in-industrial-market.html>

# Cold storage is heating up with Philadelphia-area real estate developers and investors

Jan 7, 2021, 1:11pm EST

Long before the onset of the Covid-19 pandemic, Scout Capital Partners had ambitions to develop a network of cold storage facilities in major metropolitan areas across the country and began to construct on speculation a 332,000-square-foot climate-controlled building in South Jersey.

Though the developer knew there was pent-up demand for cold storage, it was fortuitous that a global pandemic would accelerate that demand to unprecedented and unexpected levels. An early bet on moving forward with that building appears to be paying off for the Miami real estate company. So far, 97,000 square feet of the space has been leased to an undisclosed company.

“We see a lot of activity for this product,” said Marc Isdaner, a broker with Colliers International who is working to lease up the building at 450 Swedesboro Ave. in East Greenwich. “We see a lot of activity from central and northern New Jersey where the cost is significantly higher and this product is harder to find everywhere. It’s not like you can get it off of the shelf.”



PHILADELPHIA BUSINESS JOURNAL  
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The cold storage market in the Philadelphia region and South Jersey is small but growing. It totals 15.8 million square feet, according to Colliers International data. Of that space, 68.9% is occupied by third-party logistics companies and the remainder by users.

There are several drivers for the space in the region and population is one of them. In the case of the Scout cold-storage facility, it is located 18 miles outside of Philadelphia and 100 miles from New York City, which means it is within a two-hour drive of nearly 20 million people.

Prepared food such as the sandwiches one might get at a convenience store, groceries, fresh fruit and vegetables, and other perishable products are also big drivers. "There is a global supply chain for food," said Matthew Marshall, a broker with Avison Young. "That has created more demand for these cooler facilities."

Fresh cut flowers, pharmaceuticals and even cocoa contribute to the local need as well. Philadelphia is a hub for cocoa and that gets distributed across Pennsylvania and New Jersey, Marshall said. There's also a push by the Philadelphia Industrial Development Corp. to bring more shipping lines through PhilaPort, which is less expensive than other ports.

Greek Development of East Brunswick, New Jersey, specializes in cold storage and owns a portfolio of industrial buildings in suburban Philadelphia and throughout New Jersey. The company is looking for land to build new facilities.

"One of the biggest areas we saw potential growth was e-commerce grocery," said David Greek, director of acquisitions at the family-owned real estate company. "It was a space that was struggling to get off of the ground for the last five years but with the coronavirus, about 10 years in growth of e-commerce grocery happened in a matter of months and we think it's sticky. It's a good service, it's convenient and it works. It's a trend that is just getting started and we will get a lot of action on that in the next two or three years."

Greek has already started to see requirements for cold storage pick up over the last four months, and he expects a couple of those

deals to get hammered out and development to get underway this year in New Jersey and eastern Pennsylvania.

This niche area of industrial real estate is fast becoming a darling to real estate investors. Though cold storage is more expensive to build, rents are higher, leases longer — typically 20 to 25 years — and tenants seldom move out once they occupy the space.

“What’s happening in the world has made everyone take a look at this and say there is something bigger here,” Greek said. “This is a bigger part of industrial than we anticipated five to 10 years ago and you’re seeing a lot of that on the investor side as well. It’s a solid investment and the big investment allocators are looking to increase their allocation into it. It’s increased the value of existing cold storage properties because of that.”

Speculative development of cold storage facilities such as the one Scout is building in South Jersey aren’t expected to be common because they are expensive and can be complex. For example, unlike a typical warehouse for dry goods, one design doesn’t fit all. Cold storage tenants frequently have custom designs they prefer to use. In some cases, a tenant may use a portion of a building as cold storage and the remainder for food processing, making it hard to predict how to fit out the space ahead of time.

“We just haven’t been able to find a design that will work with a broad enough audience,” Greek said.

Scout’s South Jersey project was built on spec but with some caveats. The structure was built as shell space and the interior will be customized to the specific needs of a tenant or tenants whether that means cooler, freezer or ambient use, Isdaner said.

Interest for the remainder of the space has come from a variety of tenants including those in the ice cream and food kit business and those companies that deal with perishables such as fruits and vegetables. There are also companies that are in existing cold storage facilities but are considering moving into more modern space. More than half of the existing cold storage buildings in the region were built before 2000, according to Colliers data.

Pharmaceutical companies involved with Covid-19 vaccines are not in the mix as prospective tenants.

“The demand has definitely increased and companies are clamoring for space,” Isdaner said. “We have two categories of users: those who need it yesterday or those who will take their time because it is part of planned growth and an expansion strategy.”

**Natalie Kostelni**

Reporter

*Philadelphia Business Journal*