



## Banking on the Warehouse Boom

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**Summary:** Warehouse development reached a new record in 2022. While 2023 is not expected to be as robust, it is still shaping up as another big year. We discuss why CFIs may want to capitalize on warehouse financing for loan growth.

Today is National Franklin Day. Although the name isn't topping any popularity lists lately, it has been associated with some impactful people throughout history. In fact, the oldest independent retail franchise in the US was named after Ben Franklin. Opening originally as Butler Brothers in 1877, the five-and-dime chain was renamed after the founding father in 1927 and at the peak of its business, had [over 2.5K stores nationwide](#).

Nowadays, discount chains like Ben Franklin are a lot less common, with the business landscape leaning into the digital shopping trend and distribution centers popping up on every corner. Commercial warehouse development saw its greatest increase during the pandemic [since the 1980s](#), largely due to increased inventory demands, among other reasons. Although the warehouse building boom that arrived with the pandemic is starting to cool, the spread of warehouse construction is expected to continue for some time. For community financial institutions (CFIs), participating in warehouse financing remains a potential source of loan growth.

Communities from California to New Jersey, however, have begun fielding complaints about the rapid growth of concentrated warehouse districts. Amazon has also begun retrenching as it considers whether it has overbuilt, [halting plans indefinitely to build 42 new facilities](#). It all makes the warehouse boom a tricky trend to play.

### Warehouse Development Is Still Strong

Yet despite the warning signs, warehouses continue rising across the country. Amazon is such a big player in the commercial warehouse space that its announced intention to slow down new construction will be a major drag on the sector. Amazon accounted for [16% of all warehouse construction over the past 3Ys](#), according to Dodge Construction Network.

But trend watchers say the [boom still has legs](#), even without Amazon.

For example, the Dodge Construction Network expects overall warehouse construction to fall 10% in 2023, to \$51.3B, from the record \$57.1B in 2022. But that 2022 peak was unusual, representing a 19% increase over the previous year, which was around \$50B. So, the projected total for 2023 still represents an increase over 2021, which was a healthy year for warehouse building.

### Smaller Warehouse Projects May Be an Opportunity

All the math aside, the bottom line is that new warehouse construction looks like it could still have a good year in 2023. The focus may not be on the giant warehouses built by large retailers, but rather smaller facilities that are rented out and shared by multiple companies. Those smaller buildings, particularly ones being built by local/regional companies rather than big chains, could be deals that are more likely to use financing from local CFIs.

While rising interest rates and the prospect of a slowing economy are potentially worrisome to the commercial construction sector, other broad trends point toward resilience. Prologis, the world’s biggest industrial developer, remains optimistic, as they should — almost every foot of warehouse space Prologis owns is leased or in negotiation. Although the company expects to scale back somewhat on new development, overall it sees no “*meaningful slowdown*.”

Citizen Complaints Against Warehouse Sprawl Mount

One wild card is community sentiment toward the new sprawling warehouse districts that have sprung up in certain locations. These dense warehouse districts are convenient for logistics as consumers do more of their shopping online and require local delivery. When an advantageous spot is found, warehouses tend to cluster there.

But residents who live near them complain of noise, traffic congestion, and pollution from trucks. In New Jersey, citizen complaints have caught the attention of politicians; state lawmakers are [considering bills to put limits on new warehouses](#). There are similar citizen resistance movements in Southern California and parts of Pennsylvania and Wisconsin.

So far, the protests have failed to put a damper on development, but if you’re looking to participate in warehouse development, you might want to gauge local sentiment before wading in.

Despite a slowdown, warehouse development is expected to remain fairly healthy in 2023. That trend provides potential new lending opportunities to CFIs, although should be mindful of any economic slowdown as well as pushback by neighbors upset about warehouse sprawl.

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ECONOMY & RATES

Rates As Of: 04/28/2023 05:36AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.18	0.33	0.76
6M	5.05	0.11	0.29
1Y	4.76	0.16	0.05
2Y	4.06	0.03	-0.37
5Y	3.54	-0.04	-0.47
10Y	3.46	-0.01	-0.42
30Y	3.69	0.04	-0.28
FF Market	FF Disc	IORR	
4.83	5.00	4.90	
SOFR	Prime	OBER	
4.81	8.00	4.82	

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