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The cold storage sector comes with challenges but offers valuable opportunities

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The future of cold storage is bright, as increasing global demand for fresh and frozen food products place this asset class in an irreplaceable position on the global supply chain. In an interview with IREI, Jonathan Epstein, managing partner at BGO, discussed the outlook for cold storage, barriers to entering its market, and suggestions on investing in this emerging sector.

Considering the industry's need for modernizing and evolving alongside the increase for ecommerce as well as fresh food, there is a transformation under way for cold storage assets. This transformation is evolving through modernization and technological advancements.

“Significant changes in grocery shopping, restaurant operation, pharmaceutical storage — including new diet drugs — online ordering and meal kits, agriculture, food manufacturing, and grocery logistics demand more refrigerated storage space, and in some cases, collocated food prep areas, which created a surge in demand for cold storage,” said Epstein.

However, there is a large chunk of cold storage stock that is functionally obsolete, due to old constructions and outdated designs. With flaws such as smaller footprints, lower ceiling heights, and inefficient refrigeration systems, Epstein suggests about 20 percent to 25 percent of existing cold storage buildings are in dire need of modernization and new development.

“Over the long term, demand isn't slowing, and supply is unlikely to catch up due to those food and pharmaceutical trends,” said Epstein. “We estimate the nation was already short 40 percent in terms of cold-storage capacity due to changing demographics and migration patterns, and 90 percent of the existing stock needs to be replaced. With roughly 350 million square feet of space in operation now, we estimate a \$150 billion potential market for new development.”

While this outdated stock can sound daunting, it still holds strong investment value. Though needing advancements and renovations, the value of these properties is maintained by their strategic locations and proximity to population centers.

“For investors, the obsolescence of cold storage assets underscores the dual opportunity: capitalizing on the high-demand environment for modern, build-to-suit developments while also considering value-add retrofitting in constrained markets. This dynamic creates a pathway for substantial returns as the sector transitions to meet contemporary and future needs,” explained Epstein.

These returns are feasible, but the modernization efforts are no small feat. A major barrier to entry in this market includes the complex technological advancements that must be up to date for optimal functioning. Epstein noted that heated flooring to avoid cracking from the extreme cold as well as multiple temperature zones for different products are examples of technological sophistication needed in cold storage buildings.

In addition to the modernization challenges, other barriers to entry include high development costs, specialized technical expertise, geographic constraints, and evolving tenant demands. Development costs are steep, due to the specialization required for these buildings. This specialized technical expertise requires knowledge from seasoned experts in the field. In addition, location is pertinent in cold storage, for it must be close to population centers, production hubs and near transportation infrastructure, which all provide overall logistical advantages. Tenants in these buildings require facilities that are flexible and adaptable to the various needs of the food supply system.

“Investing in cold storage requires a thoughtful and informed approach to navigate the sector's unique challenges and opportunities. Aligning with experienced partners who understand the technical and operational complexities of cold storage — such as refrigeration systems and tenant requirements — is essential. Similarly, focusing on high-potential markets with strong logistical advantages, such as proximity to population centers and transportation hubs, can ensure long-term relevance and demand for assets,” said Epstein.

Though the barriers to entry are powerful, the possible returns are stronger. Because the need for cold storage is necessary and resilient, this sector presents valuable opportunities. With proper research, investors are able to capitalize on the inevitable growth of the cold storage sector.