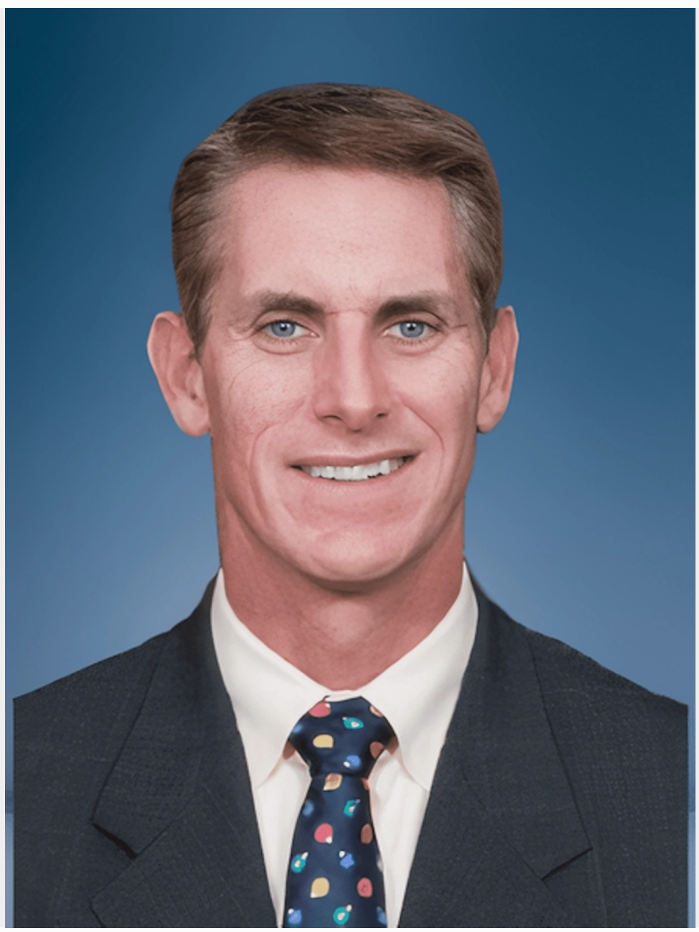
COMMERCIAL OBSERVER

Chesapeake Real Estate Group’s Jim Lighthizer Dissects Maryland Industrial Market

BY KEITH LORIA MAY 27, 2021 5:31 PM



JIM LIGHTHIZER. PHOTO: BY CHESAPEAKE REAL ESTATE GROUP industrial real estate in Maryland, and things are only getting more complicated as space becomes ever more scarce.

Jim Lighthizer, principal and managing partner of Chesapeake Real Estate Group, a Hanover, Md.-based company that serves Maryland, Virginia, D.C. and Pennsylvania, has been one of the most active in the industrial market over the course of the last year.

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Lighthizer, who is also finishing up his two-year term as president of NAIOP Maryland, spoke to Commercial Observer about what he's seeing in the hot Maryland industrial market.

Commercial Observer: How would you characterize the industrial sector in your area as we head into summer?

Jim Lighthizer: Beyond crazy, based on continuing investor interest, tenant demand and overall fundamentals of this asset class, and I see no letup in sight. Tenants are snatching up available spaces as quickly as developers can build them, and they are also making leasing decisions with the fear that space will not be available down the line. In essence, some are over-committing for that reason.

product in our area. I never expected to see the available inventory to be as limited as it is now. Nor did I expect to see the rental rate and property values to be as high. This is happening throughout the country for many of the same reasons, but the population in Baltimore-Washington, D.C., is keeping things particularly hot.

This is obviously unprecedented. When did you start to notice the big change and how surprised were you when it happened so fast?

The market was strong before COVID-19 given the year-over-year increase in e-commerce, then in the fall of 2021, the transition in the market really took off as businesses and consumers had no other option [than] to purchase goods during the lockdown. I read somewhere that online sales were more than 30 percent higher last year and this has had a ripple effect on the industrial real estate industry. Consumers want products either the same day or the next day and, to accomplish this demand, companies need large warehouses near major population centers.

What are we seeing with land costs and rental rates for industrial product? Do you have numbers to share on how they've increased?

Rents are up 50 percent over the last few years, and land costs are double what they were a few years ago. But this is not true for all submarkets and all industrial assets. The bigger the project, the more the economies to scale reduce those rental-rate and land-value percentage increases.

Of course, e-commerce, along with our country moving towards less dependence on imports, relying more on U.S.-based supply chain management. Industrial land also requires large properties, and they are harder to come by in the infill markets. Less land and supply also seems to stoke demand. National retailers continue to reinvent and repurpose the way retail locations and warehouses are being utilized.

Best Buy, for instance, is positioning stores as a showroom, where consumers view products in person and shop online later. The company's warehouses, in turn, are doubling as a venue for customers to take their electronics for repair and to retrieve products ordered online.

What is being done to keep up with the demand? Where is new space coming from?

Minimum amounts of supply are being provided in suburban and urban infill markets. Developers are turning to tertiary markets that are located 60 miles or more from a port as well as the Baltimore-Washington metro areas. Hagerstown, Md., is extremely active with new speculative buildings being built, as is Frederick, Md.

How do you expect the segment to look by 2022? Will it still be as strong as it is today? What factors are generating your opinion?

demand will continue to push rental rates, and increase building and land values. End-users are investing considerable resources to install state-of-the-art technology into buildings to modernize logistics operations, which is making it more difficult for companies to exit buildings and move to a new location. Buildings are smarter and the workers are highly skilled.

What's happening with new development? Will enough be coming down the pipeline? What challenges are there?

No, NIMBYs and local municipalities are getting in the way of allowing corporate demand to be satisfied with new product. The relative lack of new development and properly zoned land could be the reasons the spigot slows or is turned off completely in Maryland in the future. The general public also needs to be better educated about the economic development benefits of warehouse and logistics buildings, as well as understanding that these facilities are being built to service their growing needs.

Why is this area such an important area for companies needing industrial space? What's unique about our area?

The ports, the number of people in this Baltimore-Washington, D.C., market, the modern road network, and the proximity to the number of people in the region. The region is within a one-day truck drive to nearly 50 percent of the nation's population. I think this area ranks in the top three or four best places in the country

KEYWORDS: Chesapeake Real Estate Group, Jim Lighthizer, NAIOP Maryland

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