

5 THINGS TO KNOW: WHY COLD STORAGE IS STILL A HOT INVESTMENT

1. EVEN IN THE ERA OF COVID-19, THE FACTORS DRIVING DEMAND FOR COLD STORAGE FACILITIES ARE ONLY INCREASING.

An understandable but mistaken assumption many make is that COVID-19 is causing the demand for cold storage facilities to abate, or that these facilities have shut down during the pandemic. Not so. Americold Realty Trust, the largest publicly traded owner and operator of temperature-controlled warehouses, states that its network of more than 180 facilities remains operational amid the coronavirus outbreak.^[1] Demand has only gone up. The reason why this is the case is that the key factor driving demand for cold storage - the growth of online grocery sales - has only been enhanced and fortified by the mandates requiring people to stay home and to “socially distance” themselves. More and more people are shopping online. Even before the advent of COVID-19, the Food Marketing Institute and Nielsen (FMI/Nielsen) projected that online grocery sales were poised to reach \$100 billion (13%) by 2022. This level of growth translates into demand for up to 100 million square feet of industrial real estate space over the next five years.^[2]

2. THE COLD STORAGE INDUSTRY HAS A LOT OF SMALL OPERATORS, BUT THE BIGGEST PLAYERS IN THE SECTOR ARE CONSOLIDATING QUICKLY.

Although there are over 2,300 enterprises in the cold storage industry,^[3] the biggest players are consolidating the sector by buying up smaller competitors. Just two firms, Lineage Logistics LLC and Americold Realty Trust, control 63% of the cold-storage warehouses held by the top 25 owners in North America,^[4] according to the International Association of Refrigerated Warehouses. For instance, at the end of 2019, Americold said it would acquire Canada-based Nova Cold Logistics, which owns three locations, for 337 million Canadian dollars (\$253 million). It also completed the purchase of two facilities in Maryland and Pennsylvania.

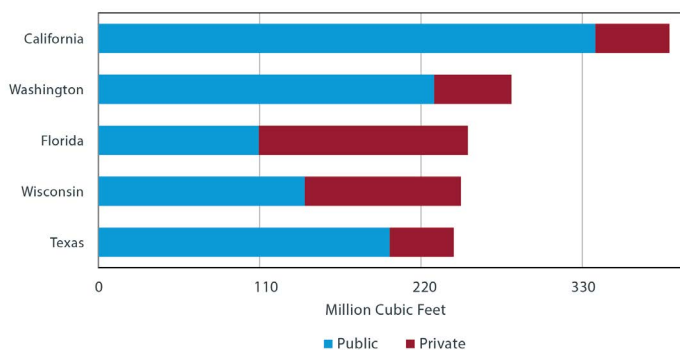
3. THE TOP FIVE STATES FOR COLD-STORAGE FACILITIES ARE CALIFORNIA, WASHINGTON, FLORIDA, WISCONSIN, AND TEXAS.

Cold storage facilities are in states where food production is substantial: in the Midwest for meatpacking, South Central states for chicken, and along the coasts for fish. Seaports markets such as Los Angeles, Seattle, Oakland, Houston, New Jersey, and Miami are also essential for the industry as food products imported and exported are handled by cold storage operators there. In the United States, there are a total of 912 cold storage facilities per the latest USDA count.^[5]

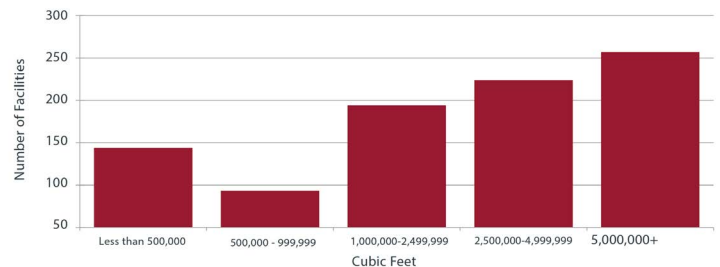
TOP 25 REFRIGERATED WAREHOUSING AND LOGISTICS PROVIDERS		CAPACITY (FT ³)
1	Lineage Logistics	1,097,054,354
2	Americold Logistics	1,016,817,797
3	United States Cold Storage	371,672,950
4	VersaCold Logistics Services	123,008,891
5	AGRO Merchants Group	119,879,599
6	Interstate Warehousing	115,735,371
7	Frialsa Frigorificos	105,790,821
8	Burriss Logistics	74,901,966
9	Henningsen Cold Storage Co	65,141,607
10	Congebec Logistics, Inc	57,741,880
11	Conestoga Cold Storage	56,621,606
12	NewCold Advanced Cold Logistics	47,972,150
13	Hanson Logistics	43,818,540
14	Holt Logistics Corp.	35,000,000
15	Trenton Cold Storage, Inc.	34,277,376
16	Confederation Freezers	34,580,000
17	Seafrigo Cold Storage	29,586,754
18	Nor-Am Cold Storage, Inc	22,221,792
19	WOW Logistics	23,406,700
20	MTC Logistics	25,206,254
21	Midwest Refrigerated Services	23,433,765
22	Interstate Cold Storage, Inc.	21,403,000
23	Hall's Warehouse Corp.	20,625,304
24	Nova Cold Storage	19,000,000
25	SnoTemp Cold Storage	19,067,775

Last Updated February 5, 2020; Source: <https://bit.ly/2JhUben>

GROSS REFRIGERATED SPACE - 5 LARGEST STATES



NUMBER OF FACILITIES BY SIZE GROUP



Updated October 1, 2019; Source: <https://bit.ly/2JlPkcd>

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4. INVESTORS IN COLD STORAGE MUST BE MINDFUL OF THE CHALLENGES UNIQUE TO THE SECTOR.

First, on account of restrictive government food storage regulations and the high cost of construction, there is virtually no speculative development market in the cold storage industry. (Depending on the market, the price per square foot range can be between \$80 - \$120.) Instead, developers typically join forces with cold storage operators to erect build-to-suit projects for them. Consequently, there is a scarcity of available assets. Second, unlike traditional warehouses, cold storage facilities require specialized equipment such as blast freezing, refrigeration systems, under-floor heating, massive HVAC systems, and the like. Third, in addition to having reliable and constant sources of power and water, cold storage facilities need a well-developed infrastructure network of roads, freeways, and ports to minimize drayage and food distribution costs.^[6]

5. EVEN WITH THE UNIQUE CHALLENGES FACED BY THE SECTOR, PROFIT MARGINS IN THE COLD STORAGE LOGISTICS SPACE HAVE EXPANDED OVER THE PAST FIVE YEARS AND ARE EXPECTED TO REMAIN STABLE IF NOT INCREASE.^[7]

The market forces fueling the cold storage industry are expected to generate growing demand for refrigerated warehousing. Grocery stores are becoming incredibly nimble and smart in finding ways to get food to consumers in a fast and convenient way. Industry operators continue to develop innovative, cutting-edge technology, such as voice recognition and radio frequency identification, to cut operational costs and thereby boosting profit margins. As IBIS reports, "Industry profit margins are generally high, as a result of the lower operating costs and high-value-added services." Moreover, precisely because of the limited supply of cold storage real estate, it is all the more valuable. The average age of cold storage facilities in the US is 34 years.^[8]

Sources:

^[1] Yahoo Finance: <https://yhoo.it/2WP4cHN>

^[2] Logistics Management: <https://bit.ly/3dBuhA7>

^[3] IBIS World <https://bit.ly/3apDMjX>

^[4] WSJ: <https://on.wsj.com/39kfEhj>

^[5] USDA Capacity of Refrigerated Warehouses: <https://bit.ly/2JIPkcd>

^[6] Logistics Management: <https://bit.ly/3dBuhA7>

^[7] IBIS World <https://bit.ly/3apDMjX>

^[8] CNBC: <https://cnb.cx/39gYGR2>

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