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REAL ESTATE

Blackstone and Prologis Battle for Fast-Shipping Leadership

Investment firm and logistics company accumulate millions of square feet in warehouse space

Logistics centers owned by Prologis near Los Angeles International Airport. **PHOTO:** WOODY WELCH

By Peter Grant

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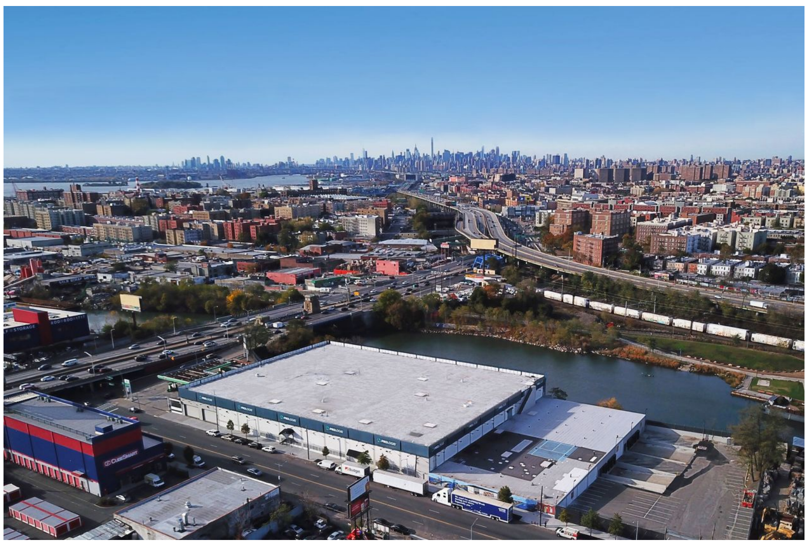
Two of the world's biggest real-estate owners are racing to dominate in the business of offering ever-faster e-commerce delivery.

Prologis Inc., a logistics company with $111 billion of assets under management, and the giant investment firm Blackstone Group Inc. are betting that supply chains operated by Amazon.com, Walmart Inc. and other retailers will keep pressing for greater speed, more choices and more convenience.

Prologis last week announced plans to acquire Liberty Property Trust, an owner of industrial space, for about $12.6 billion including debt. The deal would help Prologis maintain its status as the country's largest supply chain owner, with 572 million square feet of space in the U.S. after the transaction and another acquisition close in 2020.

Close behind is Blackstone, which manages over $250 billion worth of property globally and has made logistics a priority. In September, the firm closed on the purchase of a portfolio with 179 million square feet from Singapore-based GLP and announced plans to buy 60 million square feet from Colony Capital Inc. Blackstone's total after the Colony deal closes would put it in control of 443 million square feet.

Together, the two heavyweights would control about 10% of the U.S. logistics space market when their recent deals close. Other major players in the business include the real-estate investment trusts Duke Realty and Cole Real Estate Investments Inc. as well as the investment firm Clarion Partners.



A Prologis facility in the New York City borough of the Bronx. **PHOTO:** PROLOGIS

Their bets reflect a transformation taking place in the once-sleepy industrial-property sector. Before the days of online shopping, supply chains consisted mostly of warehouses and distribution centers far away from cities for manufactured goods awaiting transportation to malls and other bricks-and-mortar retail locations.

Today, with retailers and distribution companies offering millions of consumers next-day delivery, supply chains are expanding to include thousands of new industrial properties closer to population centers. This is greatly amping up demand because the closer supply chains get to homes, the more space they need.

The economics work for merchants because they are trading in more expensive bricks-and-mortar retail space.

"Rents for industrial can be $5 a square foot," said Thomas Catherwood, a REIT analyst at BTIG LLC. "Even if you're paying three times that, you're still not paying $75 to $100 a square foot to be in the Short Hills mall," he said, referring to a popular shopping destination in New Jersey.

The flood of new capital will likely increase the efficiency of these new supply chains, reducing costs for shippers and retailers. The top 50 markets now have more than 14 billion square feet of space, according to Green Street Advisors.

"The more investment dollars going into industrial real estate, the lower your supply chain costs will eventually be over the long run," said Eric Frankel, a Green Street analyst.

For investors, industrial real estate has been a bonanza for most of the recovery. Prologis's shares, which fell to below $10 during the depths of the financial crisis, hit their record high of over $92 last month.

Earlier in the recovery, Blackstone sold IndCor Properties Inc. for $8.1 billion. The firm sold its European portfolio to the sovereign-wealth fund China Investment Corp. for about $14 billion.

Buying property today is more expensive, as values have more than doubled since they hit bottom in 2009, according to a Green Street index that tracks the sector.

Moreover, as delivery times increasingly determine success, the battle of landlords is shifting deeper into city centers. This development is tricky in cities where "last mile" industrial properties, referring to the final segment of a product's journey from manufacturer to customer, are either spoken for or have been converted into other uses, such as loft condos.

"There is no perfect building in the perfect location that's going to be the perfect last mile building in these major metropolitan areas," said Hamid Moghadam, Prologis's chief executive, in an interview Monday. He noted that the company is dealing with this challenge partly by developing over $3 billion of real estate annually.

Blackstone, which recently launched its Link Industrial Properties operating brand, is developing a few small properties known as infill in high-growth urban markets including Seattle, Miami and Los Angeles. Its investment strategy is also focusing heavily on infill.

"You're seeing an evolution in the logistics space with an ever-increasing focus on warehouses near population density," said Nadeem Meghji, Blackstone's head of real estate for the Americas, in an email.

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But investing in development and paying higher prices for property depend heavily on the ability of landlords to keep raising rents. Rents have increased 5.7% year-over-year since 2012, according to CBRE.

Big industrial property investors believe they can keep increasing rents partly because they can offer occupants multilocation deals to meet their supply chain needs. Link Industrial has 250 employees in the U.S. and 13 offices "whose sole focus is operating our national infill warehouse business," Mr. Meghji said.

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