

# Industrial building construction costs soar



A new warehouse facility under construction in Diamond Bar off of Grand Avenue is seen Oct. 13. Construction costs for industrial properties in Southern California have skyrocketed 68% in two years, according to Gerald Singh of Oltmans Construction.

WILL LESTER — STAFF PHOTOGRAPHER

Occasionally it's good to purge my inbox and my mind. After a week in the place of my birth — Texarkana, Arkansas — there's much to unpack, literally and figuratively.

So allow me to unload a few items swirling in my consciousness.

The outpouring of love and kindness resulting from my column last week — 6 lessons my mom taught me about commercial real estate — was amazing! Thank you to each of you who took the time to read the column and send me a note.

## **CRE fall market trends**

The Association of Industrial Real Estate met in November in Los Angeles for a discussion of what's happened in 2022 in Southern California and what we can expect in 2023.

On the dais were Jaclyn Ward of JLL, Kelly Johnson of Colliers, Michael DiBernardo of the Ports of Los Angeles and Gerald Singh of Oltmans Construction. Moderating the discussion was James Breeze of CBRE. As panels go, this was very well done and filled with information.

I found particular value in Ward's description of the state of office leasing — given the uncertainty that mires long-term space decisions. But three applications were unveiled in her talk that I found interesting.

Office tenants are separating into distinct genres: office first, home first and hybrid.

Companies such as Goldman Sachs have adopted the attitude: You'll come to an office to ply your trade or you won't. But if you don't, look for employment elsewhere. Many of the content creators — Apple, Amazon, Facebook, Zoom and DropBox — eschew the work-anywhere mantra.

And then you have those — our company being one — that allow a mix of in and out. The out is fine as long as productivity is maintained. Our production is easy to track: you're either selling buildings or you aren't.

Perhaps these are old themes, certainly since 2020. But home first and hybrids realize that culture, employee attraction and retention, mentorship and training all ebb as time away flows.

There's a concept known as clubhouse that is gaining traction. Akin to a ballroom at the Marriott reserved for an annual meeting, club housing retools space to suit the needs of an organization.

Michael DiBernardo answered a burning question I posed in this space a few months ago. Why are there Christmas decorations in Lowe's in September?

The answer is simply this: Many big-box retailers front-loaded inventory early in 2022 to avoid supply chain snags. Faced with warehouses filled with seasonal items, retailers shipped things like fake Christmas trees to their stores to free up space.

Things at the Port of Los Angeles largely have returned to normal, DiBernardo said, with four to six cargo ships waiting in the unloading queue. At the supply chain zenith, it wasn't unusual to have 104 waiting at anchor.

Container costs also have returned to par with a cost of \$2,000 versus \$20,000 this time last year. You'll see some changes in the months and years to come as the basin edges toward zero-emission vehicles by 2030 and 2035.

Gerald Singh recapped construction topics: cost escalation and lead times since March 2020. Since May of 2020, construction costs have increased 68%! A typical 100,000 industrial box now weighs in at \$86.75 per square foot.

Before you race out to build your own, remember that land, architectural, engineering, off-site costs such as storm drains and curbs, and on-site costs such as drainage plus carrying expenses must be added.

Oh, yeah: Don't forget if you said go today, you'd be lucky to have a building completed by Q4 of 2024. This is largely due to the city's entitlement processes and long lead times for construction elements. As an example, a roof structure requires one year to deliver.

*Allen C. Buchanan is a principal with Lee & Associates Commercial Real Estate Services in Orange. He can be reached at [abuchanan@lee-associates.com](mailto:abuchanan@lee-associates.com) or 714-564-7104.*