Dermody

Geographic demand

Demographic shifts are playing a pivotal role, influencing where tenants and residents are located and how space is used

As new developments come online, has the supply surge met the pent-up demand, or do markets still face significant shortages? Has the supply wave ended? What are the new gateway markets? Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, spoke in late-April with members of the leadership team from Dermody – **Amy Curry,** chief strategy officer; **Elizabeth Kauchak,** chief operating officer; and **Timothy Walsh,** chief investment officer, to address these questions and more. The following is an excerpt of that conversation.

We're hearing talk about demographic shifts. What are some examples of demographic trends in specific regions, and how are those trends affecting where your customers want to be?

Elizabeth Kauchak: We're seeing notable demographic shifts, including significant inland migration from coastal areas. On the West Coast, both people and companies are moving out of Northern and Southern California into markets such as Phoenix, Reno and Las Vegas. This migration has led to a surge in demand in those areas and an increase in property tour activity. The groups relocating are diverse and represent a strong customer base.

On the East Coast, we're observing a similar trend and have expanded our investment in the Southeast, one of the fastest-growing regions in the United States. These migration patterns tend to follow particular cycles, and the good news is that we are well positioned to serve both tier 1 and tier 2 markets. Our geographic footprint allows us to capture this inland momentum and continue supporting our customers as they shift operations.

How are these demographic shifts impacting the specific types of logistics facilities that are in demand? Are you seeing changes in size, location or amenities preferences?

Timothy Walsh: The principal demographic shift we've been tracking, which has been under way for some time, involves the increase in U.S. manufacturing and the growth of the supply chains that support it. Much of this activity is happening in the Southwest and Southeast, where both population and industrial development are accelerating.

We're seeing new factories being built in these regions, and our assets are strategically positioned around those facilities and ports to support the activity. These are mid-range feeder buildings for users that serve these large manufacturing hubs. We've become increasingly focused on places such as Savannah, Ga., for these reasons. At the same time, we are seeing compelling activity taking place in the Phoenix markets.

Boggs Road in Villa Rica, Ga. – LogistiCenter® at Boggs Road is a two-building logistics park currently under construction in Villa Rica, Ga.

Beyond the usual factors such as land availability and transportation access, are there any emerging factors that Dermody considers when evaluating new markets?

Amy Curry: We're focused on the micro-market level – drilling down even deeper than the traditional submarket. Our site selection process is highly specific and disciplined. For instance, we are not looking at "all of Atlanta" or "all of Seattle." Rather, we target micro-locations with high barriers to entry, sustainable demand drivers and limited competitive supply on the hyper-local level. This granular approach helps us avoid commoditization and preserve pricing power throughout market cycles.

Regulatory environments are becoming an increasingly important part of our evaluation criteria – particularly in markets such as California. Regulations restrict new supply and strengthen the value of existing assets, but complicate future development and capital deployment. We weigh that risk-reward carefully for each new investment.

Can you give us an example of a specific market where you've seen a demographic shift directly influence your acquisition and development strategy? What new "gateway" regions or cities are emerging as key logistics hubs?

The Logistics Campus in Glenview, Ill. – Construction was recently completed on Phase 1 of The Logistics Campus, which consists of more than 1.2 million square feet spread out over five buildings. Dermody is committed to sustainable design and supporting its tenants in sustainable operating goals. Buildings 1 through 5 are LEED Silver certified in recognition of this environmentally conscious redevelopment project.

Curry: In our most recent investment cycle, we increased our focus on the Southeast, largely due to demographic tailwinds. The MSAs in the Southeast have been exhibiting and are expected to continue to exhibit a strong growth trajectory with no signs of slowing down. The region has strong infrastructure – airports and ports – to support supply chain growth.

Has the supply wave effectively met the pent-up demand, or do significant shortages still exist in key markets?

Kauchak: [Answer provided the week of April 21] We are definitely seeing a slowdown in construction, with fewer new projects breaking ground in certain markets. At the same time, demand is starting to pick up. While demand was choppy in the first quarter of 2025, tours and new activity are on the rise.

It's encouraging to see this new tenant demand coming in and being absorbed. By 2026, I think we are going to see demand and supply come into balance.

How are economic factors, such as interest rates and construction costs, affecting project timelines, deal structures and customer demand?

Walsh: Market factors naturally fluctuate, but what's notable in this cycle is that inflation rose and stayed elevated. As a result, construction costs followed suit and remained high. When the Federal Reserve raised interest rates, yield expectations also increased, which meant rental rates had to rise to keep pace. However, with a significant amount of new supply in the market, tenants are now pushing back on these higher rental rates. This is causing friction as developers need to achieve their required yields, which are based on a spread over those interest rates. The whole system has shifted upward.

What we've seen during the past few years is a widening bid-ask spread – deals that previously penciled are now much harder to make work. While construction costs have leveled off, they haven't come down. We're in the midst of a transition where the entire rent regime needs to recalibrate. That shift is still unfolding across the market.

Looking ahead, will you share what you think the biggest challenges and opportunities for the logistics real estate sector will be during the next three to five years?

Walsh: That answer might have been different 90 days ago. But as of this week [week of April 21], the challenge is the uncertainty around where all these tariffs will ultimately land. No one knows how many of them are going to stick. If the proposed tariffs are implemented and maintained, they could drive a significant shift of activity onto U.S. soil. Historically, a good deal of the Chinese manufacturing had moved to ancillary countries such as Vietnam, but it was still subcontracted back to China. That particular loophole appears to be closing in an effort to force that activity directly into the United States. If that shift materializes, it could represent a meaningful opportunity for U.S. logistics real estate. That is a big bet, realigning global production of goods is no small pivot, and it carries risk.

From a macroeconomic standpoint, one could make an argument that the current administration recognizes that much of the federal debt is financed on a short-term basis. Forcing short-term economic shifts could deliver a more acceptable interest-rate environment, even if it increases the risk of a recession. It also serves the goal of managing the country's debt burden, which has been pushed to an unmanageable level.

Is there a difference between the regions that will be attractive to standard logistics facilities versus data centers?

Curry: There are certainly parallels between data centers and logistics facilities – but also some stark differences. Both asset types rely heavily on land availability and infrastructure, but the nature of that infrastructure varies significantly.

For logistics, proximity to transportation networks – intersections, highways and traffic flow – is essential. Data centers, on the other hand, prioritize access to power and water over physical transportation access. Power, in particular, is non-negotiable. If you can't secure adequate power on the right timeline, a data center project simply doesn't happen. While logistics facilities also need power and water, the scale of demand is much smaller.

Access to labor is another nuanced factor. Data centers require a significant labor pool during construction due to the sheer scale and complexity of the projects. Once operational, they require far fewer employees – though typically at a higher pay scale than traditional logistics roles.

Access to fiber and scalable power cannot be emphasized enough when it comes to data centers. Even on the logistics side, power is quickly becoming a top priority. Today's logistics facilities demand more electricity than ever due to automation, robotics and increasingly electrified truck fleets. Compared to a warehouse built a decade ago, the modern facility is far more power-dependent – both inside and out.

Quite a bit of pending legislation may impact new and existing development and assets. These regulations may constrict where trucks will be and at what times. What will the impact be, and how is Dermody preparing?

Walsh: Dermody is taking a proactive role in shaping the future of logistics legislation. We've joined the executive board of a new organization called the Supply Chain Federation. This is a broad-based national coalition representing the full spectrum of logistics stakeholders – from real estate companies and labor unions, to ports, users and trucking companies. The organization's goal is to represent the entire logistics ecosystem with a unified voice.

The mission is twofold. First, to influence legislation, much of which starts in California and then spreads nationwide. Second, to reframe the narrative being shaped by a small but vocal minority of community opposition groups, which get a lot of attention from legislators and have gained influence over policy. We want to partner with the government to shape legislation that is necessary and valuable, provided it is thoughtfully structured and inclusive of all stakeholders within the supply chain, not just those representing environmental interests.

There's no question that thoughtful regulation is necessary. But we're not satisfied with how current legislation is being drafted. Too often, the logistics conversation, especially around trucks, is overly negative, drawing comparisons to historically harmful sectors, such as tobacco. The reality is, trucks play a vital role in daily life, delivering medicine, food and essential goods on a timely basis to consumers, and they do so with increasing energy efficiency. In fact, many studies show that ecommerce logistics reduces passenger car trips and are a net positive for both congestion and emissions. We believe the logistics industry is playing a vital role in supporting humanity. It's time the broader narrative reflected that – and we're working to change it.

How have tariffs impacted the industry? Is Dermody seeing demand in port markets, and are there new demands being seen because companies are reconfiguring, given the new tariff environment?

Kauchak: [Answer provided the week of April 21.] As we've seen, President Trump could re-engage in tariff negotiations with countries, adjusting them up or down based on a wide range of factors. We are already seeing some companies pause their decision-making until these trade wars end. In Las Vegas, for example, there were four groups with active requirements in the market who said they are pausing their site-selection process, choosing to wait and see how trade negotiations unfold.

The broader goal of the tariff policy is to bring manufacturing and high-tech jobs back to the United States. We've seen some firms announce domestic expansion plans in response. That said, many of the tariffs were paused following "Liberation Day," so it's

Miner's Mesa in North Las Vegas, Nev – LogistiCenter® at Miner's Mesa at Apex Industrial Park is a 664,300-square-foot, state-of-the-art logistics facility ideally suited for manufacturing and/or warehouse/distribution and logistics companies. The property is in North Las Vegas and situated on 38.55 acres.

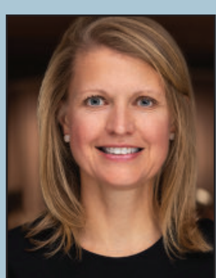
Copperwing in El Mirage, Ariz. – The property is within an approved Foreign Trade Zone (FTZ), meaning companies within the park that are active users of FTZ, can receive up to a 72 percent reduction in real estate and personal property taxes. Dermody also intends to bring new electric power, water and sewer sources to the site along with substantial road improvements throughout the park.

still too early to gauge their true impact – whether short term, in terms of construction costs and material imports, or long term, in terms of reshoring and supply-chain realignment. It takes time to reshape the global supply chain, and there are many different factors that impact it. Even economists seem to have very different opinions on what this could mean for the global economy.

Is Dermody seeing demand in port markets rise? Have you seen any labor impacts as a result of tariffs, or even the threat of tariffs?

Kauchak: As of this interview, we have not observed any direct labor impacts. However, we are seeing an uptick in activity in port markets, which is notable because with increased onshoring, you'll need more labor to support the logistics facilities being built to handle that volume. It will be interesting to see how those dynamics influence residential growth in those areas, as well. Additionally, we have seen a recent uptick in activity from Chinese 3PLs. Whether that trend continues, or if these groups will sit on the sidelines, remains to be seen.

CONTRIBUTORS



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CORPORATE OVERVIEW

Dermody is a privately owned real estate investment, development and management firm that specializes in the acquisition and development of logistics real estate in strategic locations for ecommerce fulfillment centers, third-party logistics and distribution customers. Founded in 1960, Dermody has invested more than $10 billion of total capital across all platforms nationwide, having acquired and developed approximately 110 million square feet of logistics and industrial facilities. In addition to its corporate office in Reno, it has regional offices in Atlanta, Chicago, Dallas, Indianapolis, New Jersey, Northern California, Phoenix, Seattle and Southern California. For more information, visit **www.Dermody.com.**

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