

BRIEF | Intelligent Investment

New Jersey Industrial Properties Pivot Toward Sustainability

By Nicole LaRusso, Ben Wurtzel

New Jersey’s immense stock of industrial inventory is making the transition toward a renewable future, prodded by market sentiment and government mandate. While industrial space, on average, consumes less than half as much energy per square foot than offices, the impact is magnified by the sheer size and quantity of industrial inventory.

Based on national consumption averages, New Jersey’s 860 million square feet of industrial space consumes more than twice as much energy as the state’s 150 million square feet of office space. This calculation does not account for associated transportation emissions from commuting and commercial vehicle traffic.

With Great Storages Comes Not So Great Sustainability

Figure 01: Average Energy Use Intensity (EUI) for Warehouses and Office Buildings Nationally

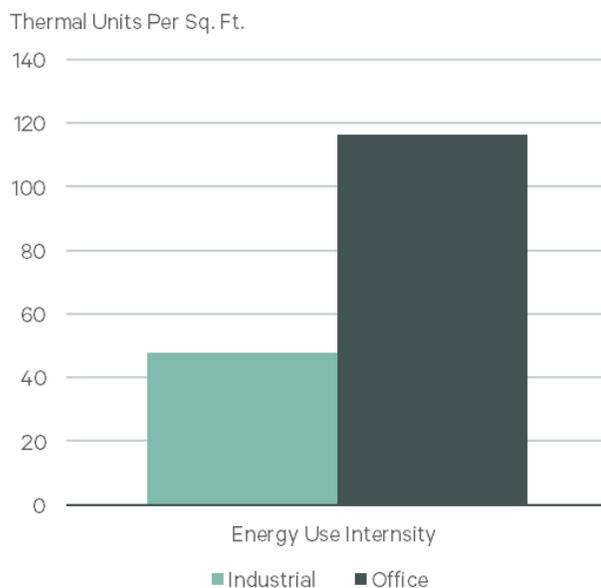
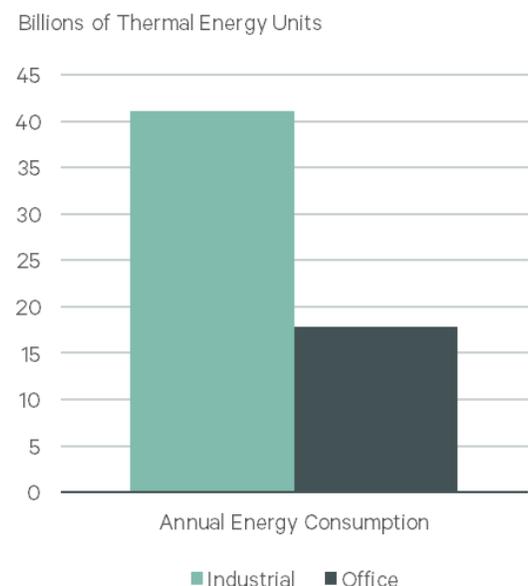


Figure 02: Approximate Energy Use of New Jersey’s Industrial and Office Properties Based on National Averages



Source: Energy Star, CBRE Research, Q1 2023.

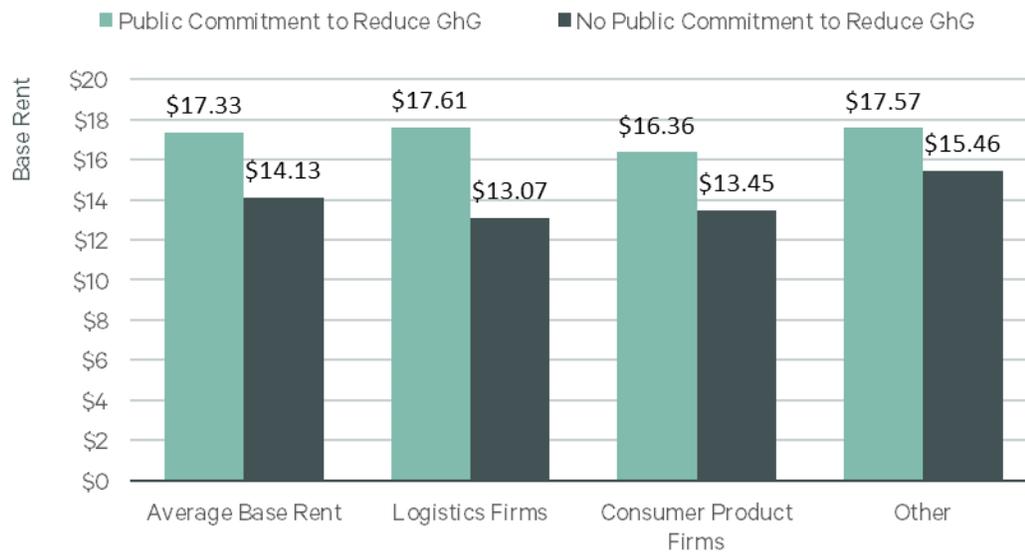
Industrial Users Want Their Real Estate to Do More

New Jersey’s frenzied industrial market has supply constraints that have narrowed options for eco-conscious occupiers. However, with rising demand for sustainability from customers and investors, industrial users are increasingly likely to make sustainable investments in their properties or be willing to pay a premium for properties that offer these features from the onset.

A closer examination of the data behind [CBRE’s Global ESG Survey](#) revealed some divergence between the owners and occupiers of North American industrial space when it comes to ESG (Environmental, Social, and Corporate Governance) considerations. While 60% of industrial asset owners considered GHG (greenhouse gas) reduction to be an area of “major” concern for their real estate portfolio, 96% of occupiers felt this way. Where 40% of industrial owners placed a high priority on reducing resource waste, 86% of occupiers felt similarly.

In New Jersey, 36% of companies that signed a warehouse lease in 2022 have made a public commitment to reduce their firms’ carbon emissions – a pledge with significant ramifications for the supply chain infrastructure. This subset of firms signed more deals for Class A space and paid 23% more in base rent than firms with no public commitment to reducing GHG emissions. The rent gap widens to 35% for logistics firms with public GHG commitments compared to those without.

FIGURE 03: Firms With Carbon Reduction Commitments Seek Out the Best Space



Source: CBRE Research, Q1 2023.

While the fossil-fuel burning commercial vehicles which frequent warehouses remain a significant obstacle to reducing GHG from the supply chain, industrial owners and users can take several measures to improve the environmental credentials of their real estate. These include motion-activated LED lighting, solar panels, rainwater harvesting, electric vehicle charging, automation technology, and something as obvious as paying a premium for centrally located logistics and reverse-logistics facilities that reduce the travel distance between facility and consumer.

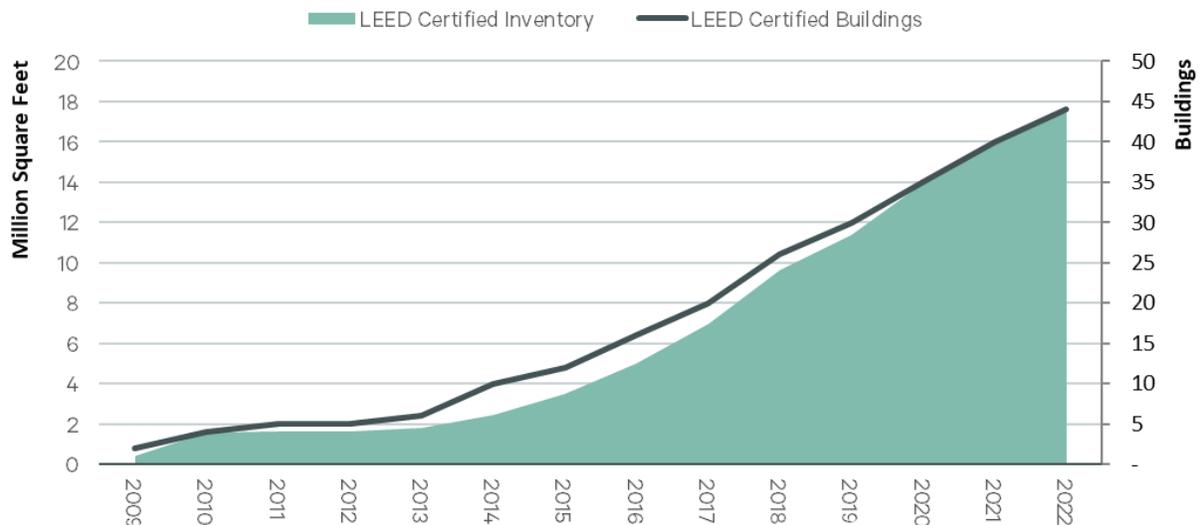
While some of these costs are shouldered by landlords and others by tenants, the results of the global ESG survey and New Jersey rent trends suggest that plenty of tenants are prepared to pay a premium for properties that will help them achieve their carbon reduction goals.

LEED Certifications on the Rise

The global ESG survey found that roughly 60% of investors and occupiers of North American industrial real estate view “green building” certifications favorably when evaluating an asset. While slower to embrace LEED (Leadership in Energy and Environmental Design) than the office sector, New Jersey’s industrial inventory is increasingly seeking the designation, which can help differentiate sustainable inventory in a crowded marketplace.

The volume of LEED-certified industrial space in New Jersey has increased by 54% since 2019 to 17.5 million square feet, or 2% of New Jersey’s total industrial inventory. Of the 17 million square feet currently under construction or recently completed, 14% is marketed as targeting LEED certification or being built to LEED standards, including the Arsenal Trade Center in Sayreville and the Morris Companies’ Avenel Distribution Center.

FIGURE 04: Industrial LEED Certification Accelerates as Sustainability Concerns Grow



Source: U.S. Green Building Council, CBRE Research, Q1 2023.

Regulators Encourage Sustainability

While occupier and investor sentiment play an important role in the greening of industrial real estate, recent legislative action by the State of New Jersey is expected to push owners into a more proactive position in charting their properties' sustainable future.

As of July 2022, all new warehouse construction of over 100,000 sq. ft. must be able to support the installation of a solar array, a feature that could potentially result in significant cost savings while also helping investors and occupiers achieve their net zero targets. Beyond potential cost savings for occupiers, warehouses with solar arrays also have the potential to generate enough clean energy to contribute power to surrounding communities.¹

This mandate does not require the installation of solar panels themselves, leaving the decision to individual owners and occupiers. However, [CBRE's 2022 Industrial & Logistics Occupier survey](#) showed that more than 70% of occupiers would pay a rent premium for a green-energy powered property, providing impetus for owners to install the panels.

As regulation and market sentiment encourage industrial occupiers and investors to shrink their carbon footprint, owners that embrace the latest energy efficiency technologies at their properties could be rewarded by tenants willing to pay a green premium.

1. <https://www.nytimes.com/2022/04/12/business/green-warehouses-solar-rooftop.html>

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