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Online grocery and last mile growth continue to drive food space usage

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The growth in fresh and organic food products and last mile delivery is fueling significant demand for industrial space in Chicago and across the country. As a central location for food production, warehousing and distribution since the 1800s, Chicago continues to attract a diverse range of manufacturers, distributors and food ingredient companies.

The purchase of Whole Foods by Amazon was a game changer for many food businesses, providing the impetus for expansion in ecommerce. This, coupled with food companies expanding their specialty and convenience food selections, has generated significant activity in the Chicago industrial market.

One notable expansion of the city's food services capabilities is Pullman Crossings, a 62-acre, build-to-suit development designed for the region's growing food services companies. [Ryan Companies](#) recently announced plans to develop a 400,000-square-foot speculative industrial project in Pullman Crossings, which is located at I-94 and 103rd Street on Chicago's south side.

Heading into Q2 of 2019, there are several top trends driving the food sector.

Growth in online grocery

The online grocery sector is expected to more than triple in volume over the next five years, as online options expand and consumer acceptance increases. As a result, the food industry should see continued growth in food processing and distribution, which will translate into demand for industrial space. This is significant, given that the Chicago-area food and beverage industry has grown to become the second largest in the U.S., generating more than \$30 billion in sales and employing more than 130,000 people.

Shortage of cold storage space

Increased demand but limited supply is creating challenges in the cold storage sector, particularly in primary distribution markets such as Chicago. As with most food industry tenants, cold storage occupiers have specialized space needs, making it cost prohibitive for developers to build speculative facilities.

In Chicago, there was 747,755 square feet of cold storage space available as of January 2019, with 183,000 square feet under construction, according to CoStar research.

Last mile expansion

This market segment will continue to expand to meet demands from growing online grocery and fresh food sectors. This will intensify the competition for space, particularly near Chicago's urban core. Many industrial buildings in last mile locations were not designed for today's modern user, creating challenges for food occupiers looking for this type of space. Some developers are buying older properties and tearing down buildings as a way to add new space to the inventory.

Expanding use of automation

As food businesses look to improve efficiencies, they will increasingly turn to automation. In today's record-low unemployment environment, automation can also help food businesses meet production goals and continue to expand without relying on expanding their work force.

Food safety will be a bigger focus

Companies are looking closely at where food is sourced and how their facilities can support food safety and specialized requirements. Overall, there is a greater and greater emphasis on food safety and sourcing transparency within the food chain. This is being driven by the consumer.

Q2 2019 and Beyond

Given its central Midwest location, strong transportation and logistics network and diverse labor force, Chicago is a natural draw for food manufacturing and services businesses. Illinois ranks number four among the U.S. food manufacturing powerhouses, with over \$100 billion in annual output, following behind Ohio, California and Texas.

As demand for fresh and convenient foods, fresh meals, and organic selections increases, the global food industry will continue to evolve to bring more options to the consumer. These shifts will translate to further expansion in the industrial sector, as food occupiers position themselves to capture additional market share and compete given today's growing demand for public cold storage warehousing.

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