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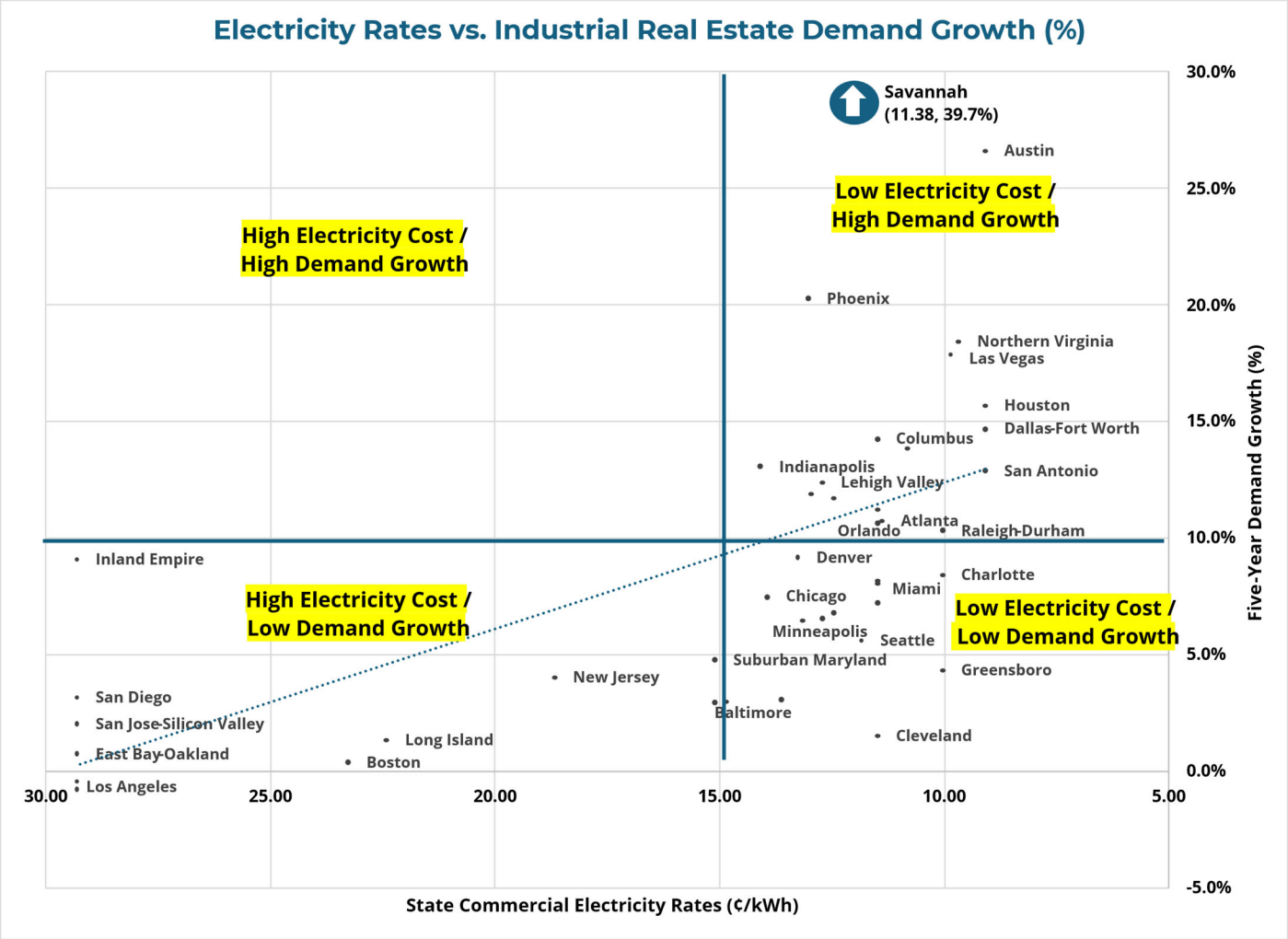
The Increasing Imperativity of Energy for Industrial Real Estate

Rising energy demand—driven heavily by data center expansion—is reshaping industrial real estate development. Industrial users are concerned that data centers will drive up electricity rates, and local communities across the U.S. are increasingly resisting new projects over concerns such as water use, noise, energy costs, and encroaching industrialization. What was once a low-profile asset class has become a political flashpoint tied to expanding energy needs, and those who are willing and able to provide it are likely to benefit the most.

Though data centers require more power, the broader surge in manufacturing, reshoring, e-commerce, and AI adoption means industrial projects vastly outnumber data center developments. This increases the need for expanded energy capacity while intensifying competition for land and power access. Developers are prioritizing early land acquisition and avoiding markets with long utility lead times, given permitting challenges, grid constraints, and community opposition.

Developers Embracing Lower Electricity Rates

With power surging as a major factor when choosing a site to operate or develop over the past five years, it is logical that there is a correlation between lower electricity rates and industrial real estate demand.

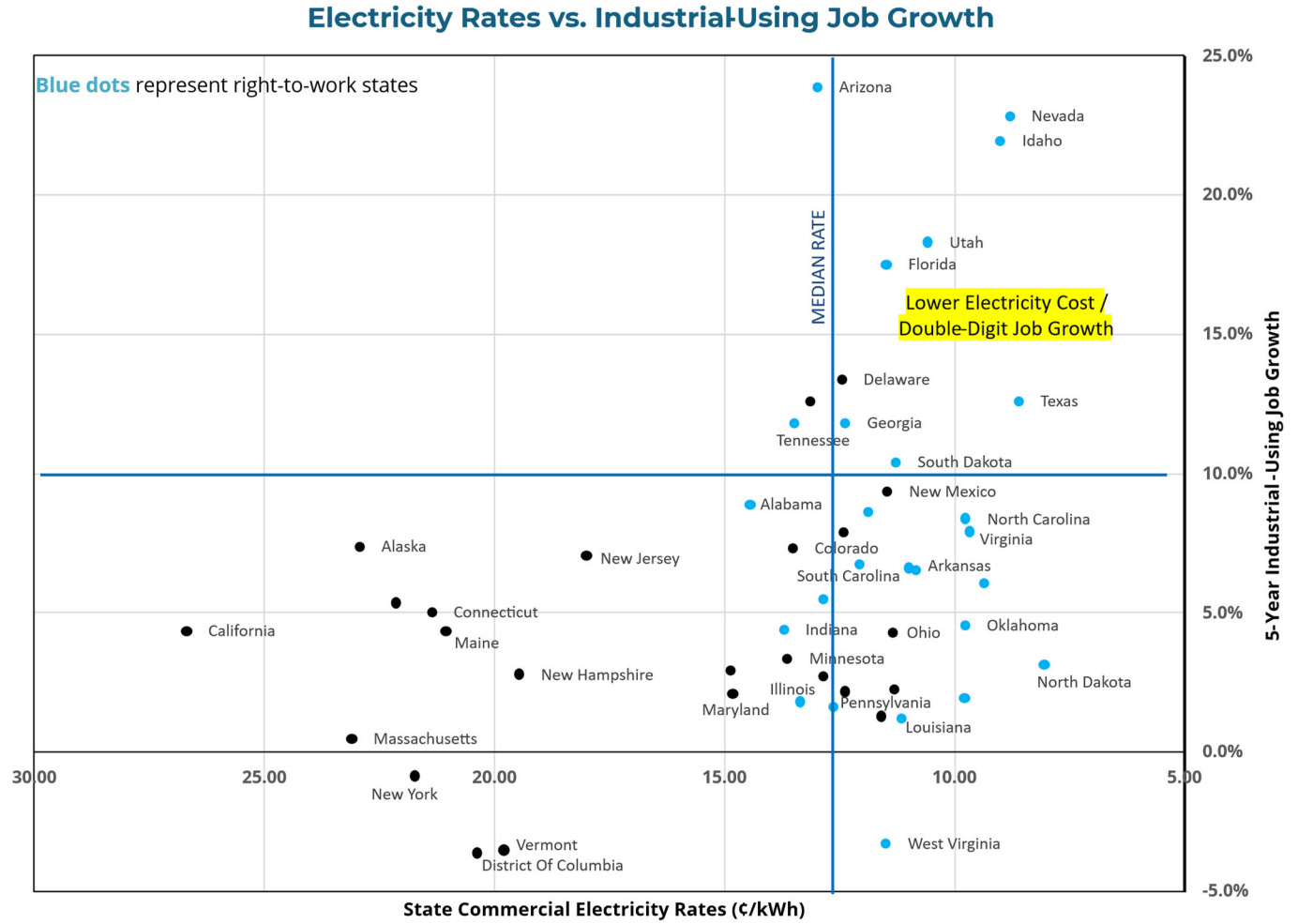


Much of the growth has been in Sun Belt states which boast some of the lowest electricity rates. Among 43 markets within 24 states, Savannah has recorded the highest level of net demand since 2020, while its state of Georgia has the sixth lowest electricity rate. Texas had the lowest cost for commercial electricity, and its four major metros rank within the top 11 industrial market growth areas. Conversely, three of the five markets with the lowest demand growth are in California, the state with the highest commercial electricity rate. Perhaps predictably, no markets with high electricity costs have experienced strong demand growth.

Source: CoStar, U.S. Energy Information Administration (EIA), Transwestern

Industrial Real Estate Growth Drives Labor Demand

Workforce availability is a top concern when users are targeting locations. In a similar way to warehouse demand, industrial-using job growth occurred in areas with lower electricity rates. Many of these markets were also located in right-to-work states where warehouse occupiers avoid union resistance if and when increasing robotics.



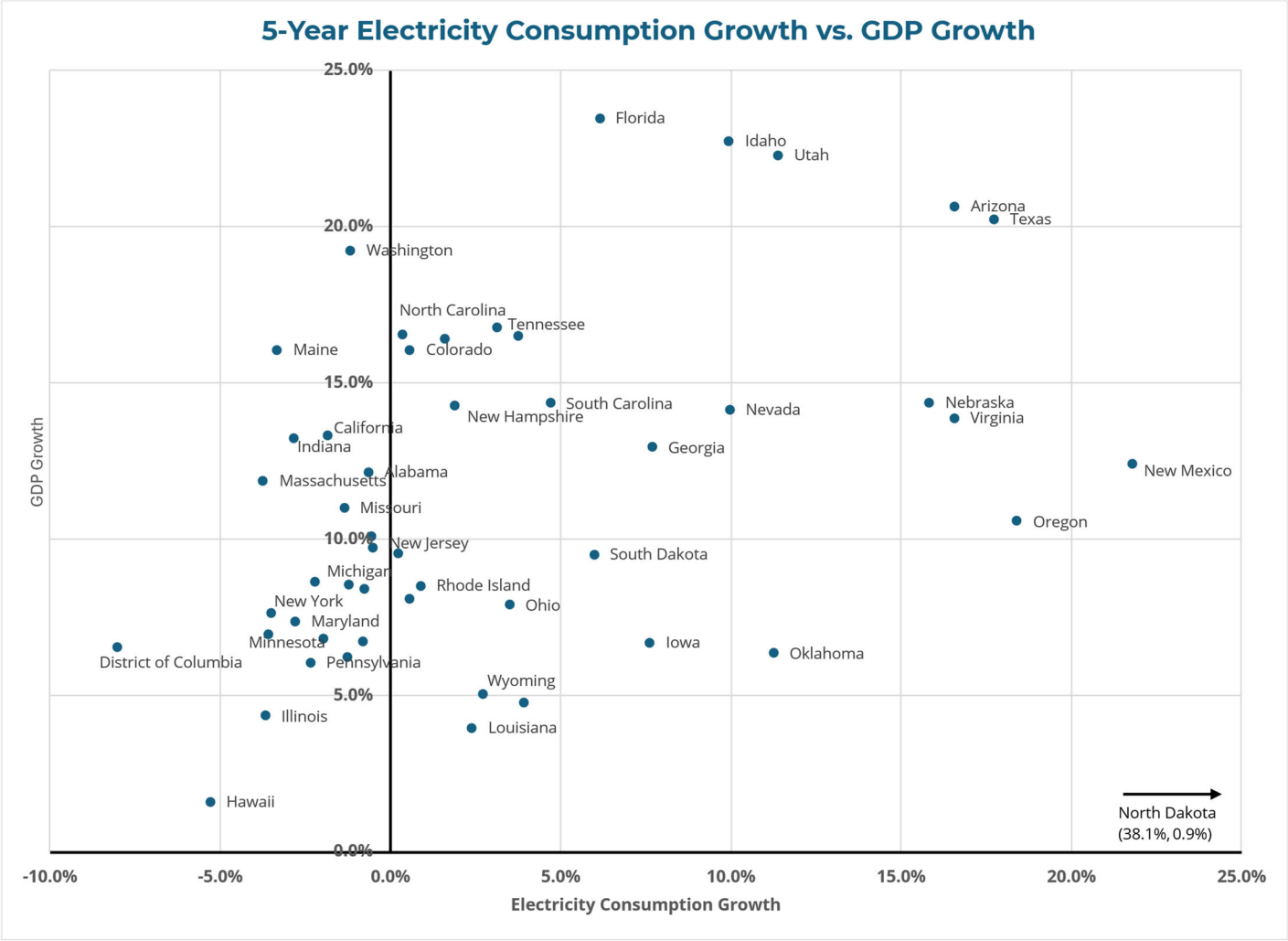
Source: Oxford Economics, U.S. Energy Information Administration (EIA)

Over 90% of states have experienced industrial-using job growth since 2020. The highest levels occurred in Florida and out west, as Arizona, Nevada, Idaho, Utah each increased by greater than 15%, thanks to an influx of Californians. All but Arizona were in the lower half of electricity rates.

Electricity Consumption Effect on GDP

Industrial market expansion and corresponding workforce increases contribute to a rise in electricity consumption, often correlating with economic growth.

Arizona and Texas, states with many of the most expansionary industrial real estate markets and strong industrial-using job growth, have each experienced 15% or greater increases in electricity consumption and, consequently, 20% GDP growth over the past five years. Other states with expanded electricity consumption are largely a result of data center growth. North Dakota, New Mexico, Oregon, Virginia, and Nebraska fall into this category, though New Mexico has also experienced a significant increase in advanced manufacturing.

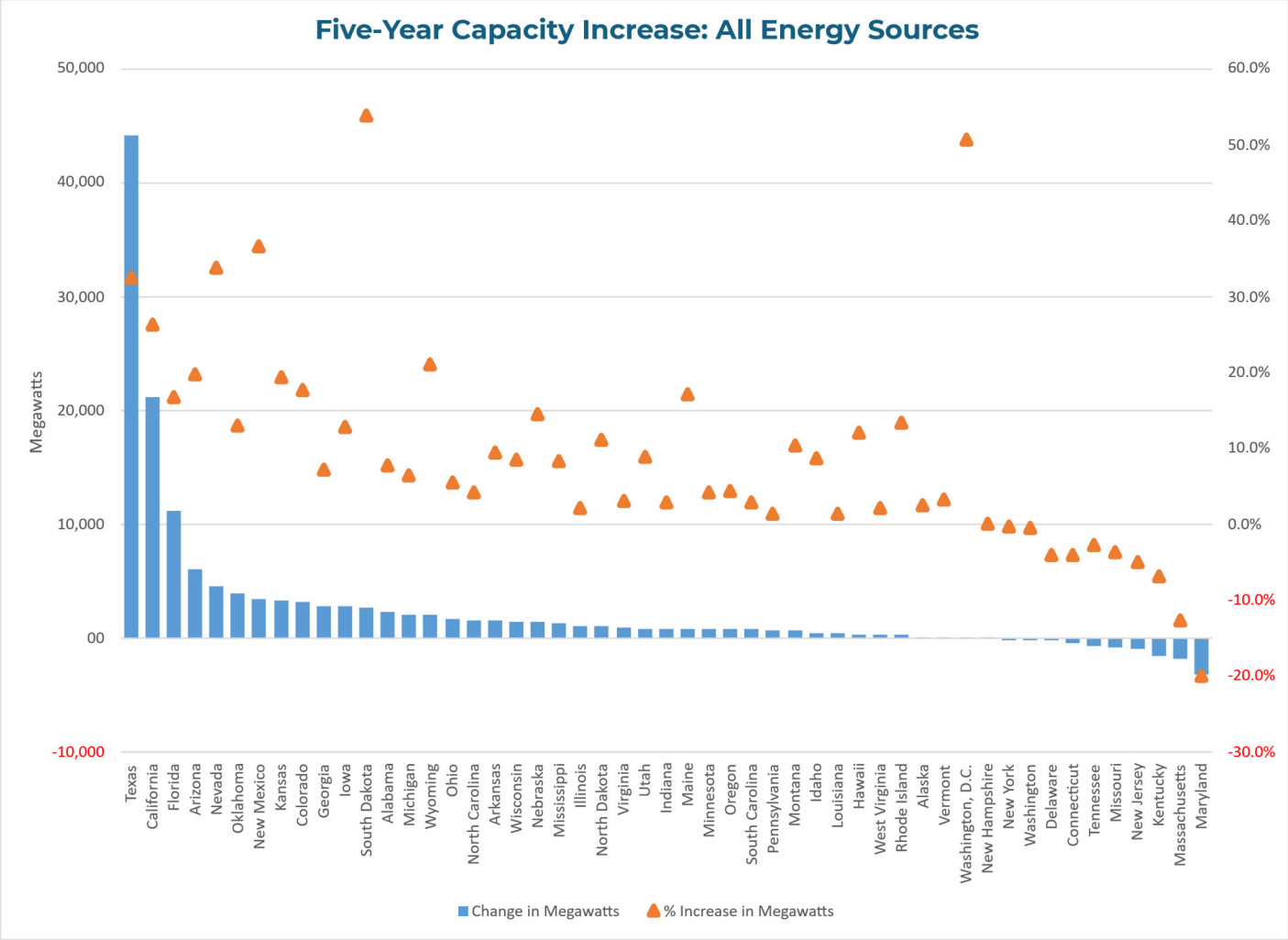


Source: Oxford Economics, U.S. Energy Information Administration (EIA)

Of note, some states have achieved significant GDP growth with decreased electricity consumption due to a shift in energy mix and a greater focus on more energy efficient industrials. States experiencing this decoupling phenomenon include Washington, Maine, California, Indiana and Massachusetts.

Location, Location, Location: Top Destination City is "Capacity"

Power has surpassed labor as a site-selection driver for many industrial users, second only to transportation. This shift is especially critical for cold-chain operations where power interruptions can be catastrophic. At the same time, companies are increasingly exploring AI for operational efficiency, and e-commerce labor shortages are accelerating demand for Automated Storage and Retrieval Systems (ASRS), which are highly power-intensive. Major operators like Amazon are expanding robotics—planning for hundreds of thousands of robots—which further increases industrial power needs.



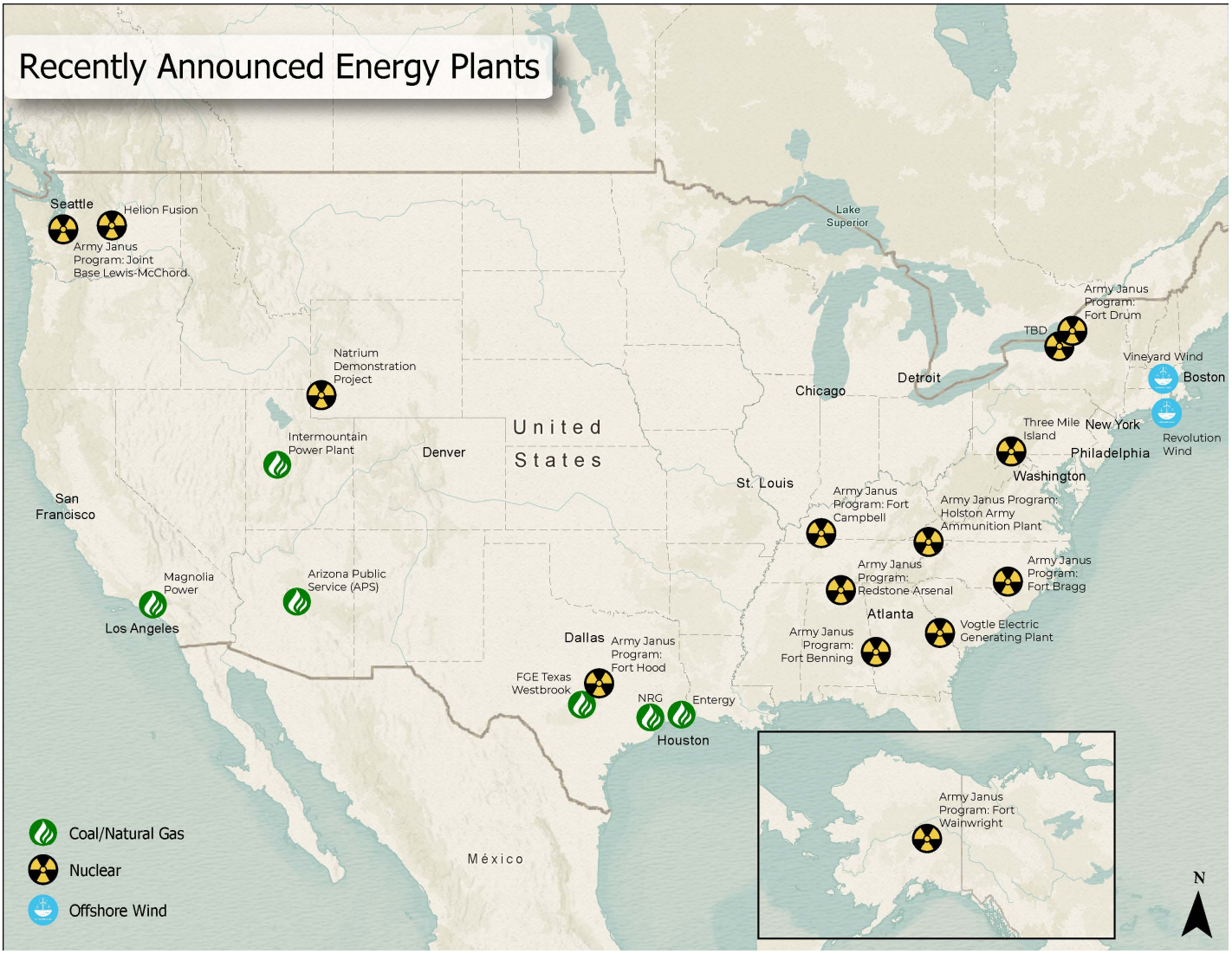
Source: U.S. Energy Information Administration (EIA)

Texas increased its total energy capacity by more than twice that of any other state. California, which ranked second, expanded capacity at nearly double the pace of third-place Florida, with growth driven primarily by solar and other clean energy sources. Texas and Florida also added solar capacity, but both relied heavily on increases in natural gas. Texas additionally leads the nation in wind power generation and installation.

Areas with the highest rate of growth include South Dakota with wind providing over 50% of its electricity, Washington D.C. which is rapidly increasing its solar energy capacity, New Mexico where the focus is solar and wind, and Nevada which has significant investments in solar power and battery storage.

Projects in Progress to Support Growth

Recognizing the need for additional energy capacity, real estate's rapidly rising demand for increased electricity has spurred a diverse portfolio of projects across the nation. While fossil fuels are being prioritized, renewable energy sources continue to receive substantial funding while nuclear energy, once heavily criticized due to accident risks and fear of nuclear conflict, is gaining momentum.



In addition to the sampling displayed on the map, an $80 billion partnership is underway with Westinghouse Electric, Brookfield Asset Management, and Cameco Corp. to build new nuclear reactors nationwide. Xcel Energy announced a portfolio 17 new projects adding 5,168 MW in new generation and storage by 2030 to meet growing demand in the Texas and New Mexico area.

Of note, power plants are often constructed in coastal areas near oceans, rivers, and gulfs due to the critical need for a reliable water supply to help with the cooling process.

Private and Public Sectors: A Powerful Partnership to Propel Prosperity

As the proverb popularized by Spiderman goes, “With great power comes great responsibility.” U.S. utilities are planning a significant build-out of new fossil fuel capacity, primarily natural gas, with reports pointing to around 120 GW planned by 2030. Local utility companies, facing strained capacity but understanding the importance and urgency of energy needs, are becoming more selective, prompting investors to engage earlier and be transparent with their requirements. More townships are becoming open-minded when considering energy expansion, leveraging local land for renewables or revitalizing existing infrastructure. Developers are increasingly considering alternatives such as building private substations, as proximity to a power line or substation does not guarantee access. This collective effort of both the public and private sectors emphasizes that expanded energy capacity is essential to industrial growth, and if the past few years is any indication, the future belongs to those who embrace the responsibility of providing it.

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