

How New Federal Infrastructure Investments Could Impact Industrial Real Estate

In Alex. Brown Realty's [Special Report on U.S. Industrial Real Estate](#), we noted that industrial real estate could benefit from potential federal investments in infrastructure. The bipartisan infrastructure legislation that was being negotiated when the report was released has now been enacted into law. This report summarizes the legislation and the impact it could have on industrial real estate.

On November 15, 2021, President Biden signed the \$1.2 trillion Infrastructure Investment and Jobs Act into law. The Act increases federal spending on infrastructure to its highest level as a percentage of GDP since the early 1980s, it extends various existing transportation programs, and it authorizes \$550 billion in new infrastructure spending over the next five years. The Act is funded by using previously authorized, but never used, COVID-19 relief funds, revenue from new cryptocurrency reporting requirements and Superfund fees, government sales of oil from the Strategic Petroleum Reserve and wireless spectrum space, by delaying the implementation of a new Medicare rule, and through a series of smaller pay-for provisions. The Congressional Budget Office has projected that the Act will add \$256 billion to the national debt because the unused COVID-19 relief funds it uses were obtained through deficit spending and will not be returning to the Treasury.

Economic growth projections that are based on federal infrastructure spending vary considerably depending on estimates of the number and quality of projects that are financed, the timing of these projects, multiplier effects and other data points, but economists generally agree that the Infrastructure Investment and Jobs Act will help grow the economy as funds are dispersed and projects get underway. Because economic growth is a primary driver of real estate values, the Act is expected to increase values of coveted CRE properties in markets that receive an appreciable boost to their economy from the law.

In addition to the Act's economic impact, it contains several spending provisions that could benefit the following types of industrial real estate:¹

MANUFACTURING FACILITIES

The Act includes \$750 million to fund an energy manufacturing and recycling grant program for manufacturing firms with less than 500 employees and no more than \$100 million in annual sales. It also includes funding for the Department of Energy to develop a rare earth extraction and separation facility and refinery. This funding is expected to result in the development and expansion of new manufacturing sites.

WAREHOUSES AND DISTRIBUTION CENTERS

The Act contains more than \$100 billion to improve the nation's roads, highways, bridges, seaports, and railways. New and improved transportation infrastructure will quicken the movement of goods throughout the supply chain and increase the demand for the warehouses and distribution centers that store, sort, and distribute these goods.

AIRPORT CARGO FACILITIES

The Act includes \$25 billion in funding to expand and modernize the nation's airports. These improvements are expected to generate additional airport traffic for goods and could lead to the expansion or development of new airport cargo facilities to accommodate the increase in traffic.

THIRD PARTY LOGISTICS COMPANIES (3PLS)

3PLs such as Amazon, FedEx, and UPS, that own and lease industrial facilities for their businesses should also benefit from the improvements the law makes to roads, highways, bridges, airports, seaports, and railways. These companies will get the benefit of lower supply chain costs from reduced congestion and delays as the nation's transportation infrastructure is upgraded, at no cost to them because the federal government is financing the upgrades.

DATA CENTERS

The Act provides data centers with significant benefits. An estimated 10% of the U.S. population does not have access to high-speed broadband internet. The Act aims to change this by providing at least \$100 million to every state to expand broadband access and by funding broadband subsidies for low-income Americans. Expanded access to high-speed broadband will result in new internet users and more data consumption. Because additional servers will be required to store this data and more data centers will be required to house these servers, this provision of the Act will encourage the development of new data centers.

Further stimulating new data center construction is the \$1 billion the Act provides for middle-mile connectivity grants. Middle-mile connectivity refers to broadband infrastructure that connects to data centers, cable landing stations, or other digital equipment. Instead of connecting directly to an end-user, such as a home or business. According to Mike Rehtin, the head of Seyfarth Shaw's data center practice, this funding "opens up the ability to put some size of data center anywhere. Right now, putting in fiber is super expensive, and to do that with a bunch of different providers is prohibitive, and this is going to take the cost element out of it."² By providing funding for middle-mile connectivity costs, the Act provides additional opportunities for new data centers to be built, particularly in markets that already have an expansive data center infrastructure environment that new data centers can benefit from – such as Northern Virginia, Chicago, and Silicon Valley.

The Act also contains \$65 billion in funding to help protect communities from adverse weather events. These funds should benefit properties in markets with elevated hurricane and flood risks and will be used for water modeling, flood and drought mitigation systems, flood mapping, flood control, coastal storm risk management, hurricane and storm damage reduction, and river dredging.

The Act's other notable spending provisions include the following:³

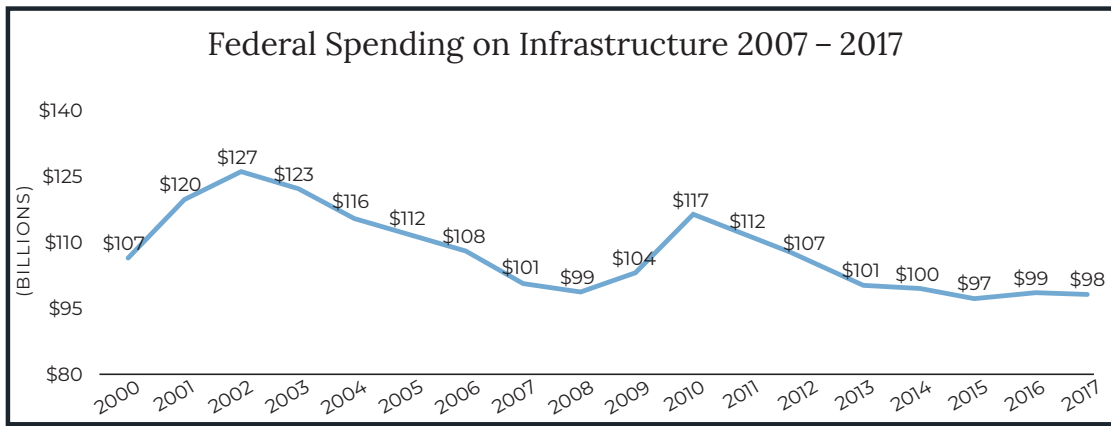
- \$73 billion to protect the nation's electricity grid from cybersecurity threats and to upgrade the grid so that it can deliver more renewable energy. The Act's green energy funding will benefit major users of data centers such as

Microsoft, Google, and Facebook, who have all pledged to reduce their dependence on fossil fuels and increase their use of carbon-free energy. And by bringing green energy to markets that currently do not have any, these funds will also encourage new data center construction in those regions.

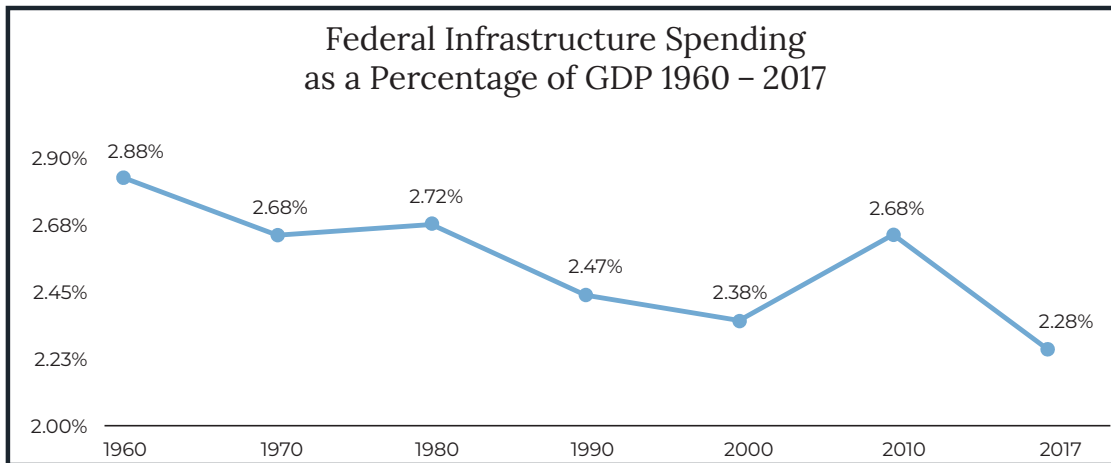
- \$66 billion to maintain, repair, and upgrade passenger and freight rail services. The heavily trafficked Northeast Corridor from Boston to Washington, D.C. is expected to benefit significantly from this funding.
- \$39 billion to upgrade and modernize public transit systems, buses, subways, and rail cars. Public transportation improvements can make communities more accessible and spur new CRE development projects in these markets.

The Real Estate Roundtable has commended the passage of the Infrastructure Investment and Jobs Act and our analysis of the law illustrates why the Roundtable is so supportive. The Act's billions of dollars in infrastructure and transportation spending are expected to benefit industrial real estate investors by growing the economy, stimulating development in various markets, potentially reducing the risk of property ownership in markets that are prone to adverse weather events, and by increasing demand for manufacturing facilities, warehouses, distribution centers, airport cargo facilities and data centers across the country. As new federal dollars are spent on infrastructure, investors will be monitoring this spending and assessing which markets and properties are benefiting from the new law.

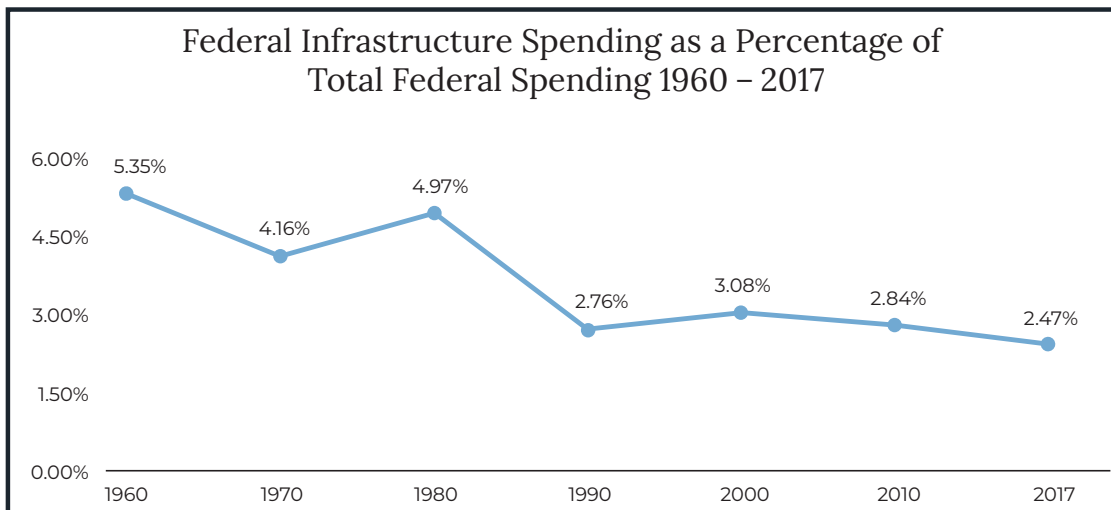
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Source: Congressional Budget Office



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ENDNOTES

- 1 H.R.3684 – Infrastructure Investment and Jobs Act. [Congress.gov](https://www.congress.gov/bills/116/3684).
- 2 Rabb, D. (2021, August 15). [Trillion-Dollar Infrastructure Bill Promises 'Significant' Changes for U.S. Data Centers](#).
- 3 Penn Wharton. [Budget model](#).

FOR ADDITIONAL INFORMATION

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