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CNBC PROPERTY PLAY

There's an outperforming real estate sector hiding in plain sight

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KEY POINTS

Industrial outdoor storage (IOS) is suddenly seeing significant demand and rent growth amid lean supply.

These sites are often located near highways, ports and other key infrastructure, but are now becoming essential staging grounds for data center construction.

Leo Addimando, CEO of Alterra IOS, said there's \$300 billion worth of IOS space that's owned by businesses, ripe for investment.



Industrial outdoor storage in Elgin, Illinois.

Courtesy of Alterra IOS

A version of this article first appeared in the CNBC Property Play newsletter with Diana Olick. Property Play covers new and evolving opportunities for the real estate investor, from individuals to venture capitalists, private equity funds, family offices, institutional investors and large public companies. [Sign up](#) to receive future editions, straight to your inbox.

The rapid buildout of AI and quantum infrastructure is sparking a boom in an often overlooked commercial real estate sector. Industrial outdoor storage (IOS) is suddenly seeing significant demand and rent growth amid lean supply.

IOS comprises all types of either paved or gravel land where companies can park construction equipment, vehicles, containers, supplies, really anything that can be stored outside. It acts as essential, back-office support for the movement of goods around the country – everything that isn't a warehouse or a factory. It can have a structure on it, but the designation requires that structure be less than 25% of the overall space.

These sites are often located near highways, ports and other key infrastructure, but are now becoming essential staging grounds for data center construction. Developers are parking millions of dollars' worth of generators, tractors and other critical equipment, according to Alterra IOS, a prominent player in the space that has acquired over 400 sites nationwide.

“It’s the real estate hiding in plain sight,” said Leo Addimando, CEO of Alterra IOS. “There is over a trillion dollars of IOS real estate in the U.S., but most of that is municipally, government-owned. It’s the shipyard, it’s the airport. There’s about \$300 billion of it, which is owned by mostly small local owners that own businesses, not institutional, and that’s the addressable market.”

The sector was once considered a mom-and-pop-dominated corner of the CRE market, but it is now attracting big investment from big names. In August, Zenith IOS formed a \$700 million joint venture with institutional investors advised by J.P. Morgan Asset Management, for IOS properties nationwide. The gross asset value will be over \$1.5 billion, making it one of the largest IOS portfolios in the U.S., according to a Zenith release.

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Also this year, Blackstone provided a \$189 million loan commitment to Alterra IOS for 49 sites and a \$231 million loan to Jadian Capital for a 43-property portfolio.

The fundamentals are attractive and becoming even more so, outperforming the bulk warehouse sector. While warehouses may have won investors’ attention in the last five years, given the growth of e-commerce, IOS has delivered twice the rent growth and has roughly half the vacancy rate of the bulk warehouse sector, according to a report from Newmark.

IOS rents have increased 123% since 2020. Phoenix, Memphis and Atlanta lead in rent growth. In some markets, IOS delivers rents similar to bulk warehouses when normalized per acre.

“It’s bigger than self storage. It’s bigger than manufactured housing. It’s bigger than marinas. It’s bigger than RV parks. It’s bigger than a lot of categories of real estate that are already institutionally owned,” said Addimando.

Alterra just announced the close of a \$150 million loan facility from funds managed by Blue Owl Capital. The initial funding of the facility was collateralized by 21 properties in 12 states. Subsequent fundings of the loan commitment will support acquisitions for Alterra IOS Venture

III, a closed-end fund with \$925 million in equity commitments, according to Alterra. The deal is Blue Owl's first financing in the IOS space.

“Our investment in Alterra reflects Blue Owl's focus on working with market-leading operators in high-growth, resilient sectors,” said Jesse Hom, chief investment officer for Blue Owl's real assets platform. “We see strong, sustained demand for IOS assets and believe Alterra is well positioned to lead in this evolving space.”

IOS spans an estimated 1.4 million acres in the U.S., but well located sites remain scarce due to zoning, according to Newmark, which points to users such as FedEx, J.B. Hunt and Maersk on the transportation and logistics end. For equipment and bulk materials storage, users would include TruGreen, ABC Supply and United Rentals, which has approximately 1,400 locations across the U.S.

The fundamentals are strong and improving, but the sector is not without risk. Data center demand is huge, but some are already cautioning that it's getting overheated. Still-high interest rates, tariffs, and a weakening economy are also a concern, and then there are more basic issues, such as zoning.

“The No. 1 biggest risk is zoning, which goes back to why it's so land-constrained. Not only are they not making more IOS real estate, no one's giving zoning variances for IOS real estate,” said Addimando, explaining that if anything, municipalities are trying to reduce IOS acreage because it doesn't really generate jobs or higher taxes.



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