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How Wall Street's Big Bets on A.I. Are Driving Interest in Huge Parking Lots

J.P. Morgan, Blackstone and other financial giants are buying "industrial outdoor storage," sites vital to logistics, trade and the construction of data centers.

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By Patrick Sisson

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Gray, a construction firm in Lexington, Ky., is building 22 data centers, the sprawling facilities that house the powerful computers needed for artificial intelligence.

For each, Gray needs a space nearby that's large enough to store millions of dollars' worth of tools, generators, and tractors and trailers, said Ben Burgett, its vice president of data centers.

These lots, usually a couple of acres of gravel or asphalt near highways, ports and other shipping infrastructure, are a niche part of the commercial real estate world called industrial outdoor storage, or IOS.

Until recently, they drew mostly smaller investors, said Ryan Chambers, a director of financial markets and real estate for PwC. They would lease the space to trucking companies to store vehicles and trailers and maybe sell them when a surrounding community grew large enough that the lots could be built into something more profitable, like a manufacturing plant. Now, the demand for IOS lots that has accompanied the building boom for huge data centers is increasingly drawing some of Wall Street's biggest firms:

- In August 2024, J.P. Morgan Chase created a $700 million joint venture with Zenith IOS to buy the properties across the country. Zenith expects to close $150 million in deals by the end of this year.

- Blackstone said in February it had committed $189 million to a fund with Alterra Property Group, a real estate company, to buy 49 IOS sites across 22 states.

- And Alterra said in July that it had received nearly $344 million from Truist Financial Corp. and the Bank of Montreal to acquire 64 IOS properties.

Since 2021, institutional investors have poured more than $4.7 billion in the sector, said Matt Hunsucker, principal at the development firm Mackenan and founder of IOS List, an industry newsletter. Those same investors, which include pension funds, mutual funds, large banks and asset managers, accounted for less than $600 million of total investments in IOS properties from 2015 to 2020, he said.

The new wave of investments has come as Wall Street races to profit from A.I. in whatever way it can. Financial giants like Blackstone have invested hundreds of billions not only in data centers but also the construction firms that build the centers and power plants that supply the electricity needed to run them.

Data centers have created “tremendous demand for IOS use, every bit as much as traditional infrastructure work like bridges, tunnels and roads,” said Leo Addimando, managing partner of Alterra.

A construction site for a data center in Lithia Springs, Ga. The construction companies building huge data centers require IOS lots nearby to store their millions of dollars of tools, gear, tractors, trailers and other equipment. Dustin Chambers for The New York Times

An earlier wave of investment in the sector followed a boom in e-commerce, which requires huge spaces to park inventory, shipping containers and the vehicles used in last-mile delivery services. The large, outdoor spaces and proximity to major transportation nodes also make them a good solution for parking and storing large commercial trucks.

“If something’s manufactured or imported, when it leaves the factory or the port, it makes three to five stops before it gets to Walmart — and all of that generates direct and indirect demand for IOS,” Mr. Addimando said.

For investors in the sector, the appeal is clear: Since 2020, rents for IOS properties have jumped 123 percent, according to a report released last week by Newmark, a real estate brokerage. Industrial warehouses, by comparison, have seen rents rise 58 percent in the same period. Newmark expects data center construction to continue to spur the sector’s growing demand, it said in its report.

For construction firms like Gray, higher rent is just a cost of doing business. It is offset, Mr. Burgett said, by the fact that his firm is also getting a lot more business building data centers.

Limited supply is likely to continue propping up demand, according to investors. The vacancy rate for industrial outdoor storage, which in the United States has an estimated 1.4 million acres — equivalent to the size of Delaware — is around 5 percent, said Cary Goldman, chief executive of Timber Hill Group, a private equity group focused primarily on IOS properties. Stringent zoning codes and community pushback have prevented new properties from being built.

“Most municipalities don’t want it because it’s not pretty to look at,” Mr. Hunsucker of IOS List said.

As demand continues to rise, owners of anything that resembles an industrial outdoor storage site have been hearing more from brokers, Mr. Hunsucker said. Small dealers and brokers have also been buying old truck stops and auto repair yards, which they can combine into bigger portfolios that appeal to investors seeking larger acquisitions, he added.

“With supply shrinking and demand strong, it all just combines into a really attractive investment,” he said.

Data centers have created “tremendous demand for IOS use,” said Leo Addimando, managing partner of Alterra Property Group, a real estate company focused on industrial outdoor storage. Dustin Chambers for The New York Times