

Views from the sheds

Four regional managers in the real estate Industrials sector explain how the sector works and where its future prospects lie



US – Exeter Real Estate Advisors

Institutional investors are attracted to industrial product for its stable cash flow.

Faced with aggressive prices, buyers have had to be more creative in sourcing product. Institutions have formed turnkey ventures with local developers while developers have swapped investment interests in finished buildings for fully entitled surplus land held by institutions. Pricing remains driven largely by land costs.

In major industrial markets with particularly high vacancies such as Dallas (18.1%), Atlanta (16.6%), Phoenix (14.4%) and San Francisco (13.1%), tenants are demanding better quality buildings and lower occupancy costs.

US companies continue to be squeezed by thin margins and respond by demanding building designs with locations that allow for greater efficiencies and speed to market.

Demand characteristics differ considerably among the three industrial product types – warehouse/distribution space, manufacturing space and flex. Warehouse/distribution space is the hottest market and demand continues to be driven by the movement of domestic manufacturing offshore, particularly to Asia. Concurrently, supply chain logistics are demanding increased economies of scale. Warehouse size is still on the rise as many companies consolidate facilities and opt for locations conveniently served by major ports, airports and highway interchanges.

The eroding US manufacturing base continues to dampen demand for manufacturing space. Vacancy rates for this industrial product remain high with limited relief in sight. Further compounding the problem is the large scale and protracted period of economic fallout from the 'tech wreck'.

Industrial flex space is also a laggard in most markets around the US. This hybrid product type, which can be fitted out with widely varying percentages of office finish, suffers in weak office markets.

One of the bright spots in the US economy has been consumer confidence and the performance of retail sales throughout the recession. This has helped support the industrial warehouse market and kept regional economies going as business expansion starts to gather steam. Atlanta and Phoenix are two of the better-positioned metro areas to benefit from an economic rebound. Phoenix job growth plodded along even during the recession, while Atlanta's turnaround occurred just recently.

Investment professionals in other regions are now hoping that Atlanta's increasingly visible recovery is a bellwether for the balance of the US.

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