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INDUSTRIAL'S CHANGING FUTURE

In this issue's installment, let's focus on the "I" in SIOR. The shape of the industrial market, in fact, the very shape of industrial assets, is changing and changing radically. The sector that emerged from the long tunnel of the recession is a vastly different animal than the one that entered; and market, social, and technological forces are all drivers of that transformation.

In the run-up to the association's highly successful Spring World Conference, I had the opportunity to interview Mark Goode, SIOR, of Venture One Real Estate in Lincolnshire, Ill. In the interview, which appeared on GlobeSt.com, Goode was clearly bullish on the state and direction of the national industrial market.

Build-to-suit developments will especially explode, he said; and explode on a national basis as a growing population of tenants faces a tight inventory of available space. There's product out there, but in the year-long absence of new construction, the great majority of that vacant space is obsolete.

Goode noted that nothing new has been built in the last few years, but a joint study conducted by SIOR and the Industrial Asset Management Council, Designing Flexibility into the Industrial Workplace, shows that the problem runs much deeper than that. More than 60 corporate real estate executives who responded to the survey for the study, all reported that their warehouses, research sites, labs, and manufacturing facilities were at least 11 years old. No matter the age, Goode observed that as a result of this obsolescence, there's virtually no region of the country that won't see new class A products or refurbished older facilities spring up in the next few months.

Much of this demand, he noted, is coming from manufacturing companies returning to the United States. "Onshoring is real," he said, "Companies are bringing manufacturing and production back from overseas."

Builders of new and adapted space will find capital for "sensible projects," Goode said. "They're finding competitive capital from banks, insurance companies, and mortgage providers." The terms are still conservative, but deals are getting done.

I mentioned that there were cultural drivers behind the new shape of the industrial market. Goode said that car makers are leading the onshoring charge. But as an interesting side note there's apparently a new kid on the tenant block — at least depending on the market you're in. At the conference, I interviewed Steve Jaffe of BH Properties, Los Angeles, Calif., for SIOR Live (available on SIORglobal's YouTube channel). BH is active in the Colorado market, and Jaffe told me that there's been interest in industrial space by marijuana growers.

Like I said, this isn't your father's industrial market. Unless your old man is Cheech or Chong.

Doobies or Dodges, the way industrial tenants work is also undergoing a radical change, and this was made clear not only by Goode but by conference keynoter Jack Uldrich as well. For his part, Goode referenced the growing use of robotics in the slow job-growth economy. Tenants are taking large amounts of space and filling them with fewer workers, but tech changes aren't coming just at the articulating hands of robots. More on that in a bit.

Industry's new ways of working are putting serious strains on that existing vacant stock, underscoring the obsolescence factor. According to the white paper, conversion costs can vary wildly, from a low of $2 a square-foot to a high of $750. This, of course, is determined by the complexity of both the former and future uses.

Specialty-use facilities not only carry the heftier price tag, but because of time in gestation, they also deliver the slower return

on investment. Of course, the simplest adaptive re-use would be in warehouse spaces, essentially big open boxes. Forty-five percent of the respondents said they'd be in for a one-to-three-year ROI, while 29 percent said they'd consider a three-to-five-year through-time.

It's important to note that all of this unused space costs companies $15 million per year to maintain, while the potential lease rate drops 77 cents for every one of those years.

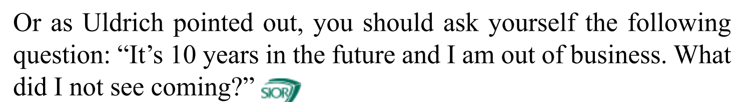
Some of the best advice to emerge from the study involved how to build into the re-use maximum flexibility for future functionality. Certainly not all fallow assets are candidates for re-use, but for those that are, some of the suggestions include planning for redundant power, clustering core services, and avoiding specialty configurations as much as possible. Also, have your exit strategy worked out in advance.

That last bit of advice might be the most critical if you're not ready to embrace what could be major changes in the supply chain that are coming as a result of current developing technology.

As Uldrich indicated during his keynote at the Spring World Conference in Las Vegas, there are technologies in place now that will only grow exponentially, becoming "faster, better, and more affordable." Many of them will dictate how we build — or at least how we distribute. Uldrich said that GE has committed to 3D-printing its aircraft parts by 2017; just imagine how our current ability to grocery shop via cellphone will impact the look and purpose of our neighborhood grocery store and distribution channels.

Yes, the industrial market is changing, and there's more dramatic change ahead. Whether it's the growing demand for class A space, welcoming a new (or returning) class of tenant, or the accommodation of new technologies, you'll need to be ahead of the curve to survive and make a competitive statement. Whatever comes…it won't be business as usual.

Or as Uldrich pointed out, you should ask yourself the following question: "It's 10 years in the future and I am out of business. What did I not see coming?"



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