FEATURED ARTICLE

HOT MARKETS

TO WATCH

By Steve Lewis

Comeback Markets Setting the Tone for 2016

After many years of tough markets, reversals have been seen across the country. Interestingly enough, some SIORs say that those markets that were hit the hardest will be among the leaders in 2016. And, they add, that will be especially true with industrial real estate.

"Atlanta was late coming out of the last recession, so Atlanta is still playing catch up," says Sim F. Doughtie, SIOR, CCIM, MCR, SLCR, president of King Industrial Realty / CORFAC International in Atlanta, Ga. However, he adds that downturn is rapidly becoming a memory. "The Atlanta industrial market has been on fire the last year or two, and it is currently one of the hottest industrial markets in the United States," he asserts.

Another "Comeback Kid" market is Central Florida, says David Murphy, SIOR, MAI, CCIM, senior vice president CBRE | Industrial Properties in Orlando. "The Central Florida market is poised to be one of the hottest commercial real estate sectors in 2016," he predicts. "Orlando was a little late to the recovery, but it is catching up quickly. Strong population and job growth, a sustained improvement in the residential real estate sector, no state income tax, and a pro-business government structure have helped Florida as a whole experience significant improvement."

Columbus, Ohio, also promises to be an industrial market leader in 2016 – particularly in warehousing – according to Brad Kitchen, SIOR, President of Alterra Real Estate Advisors. "Warehousing continues to flourish in Columbus, Ohio, as more companies realize that it is a low-cost, well located distribution center with access to over 50 percent of the U.S. population within a one day truck drive," he observes. "Columbus also has the benefit of excellent air cargo service with direct flights to China and other destinations utilizing the former air force base, Rickenbacker, which has been converted to a thriving Industrial park."

Which is not to say that the office market in Columbus has anything to apologize for, he continues. "The office market in Columbus is also performing well with vacancy rates down to 12.8 percent and new speculative office development in the CBD and some in the suburbs," says Kitchen. "With Class A rental rates ranging from $18.00 to $24.00 per square foot, Columbus is very reasonably priced and will continue to do well in 2016."

Another strong office market in 2016 will be Charlotte, predicts Keith Bell, CCIM, SIOR, senior vice president DTZ-Cushman & Wakefield (the companies have recently merged). "The momentum has really started to push 3Q 2014 and has not stopped," he says. This is evident, he continues, by "The amount of construction, push in rental rates, building trades and absorption."

"With Class A rental rates ranging from $18.00 to $24.00 per square foot, Columbus is very reasonably priced and will continue to do well in 2016."

The Statistics Don't Lie

Doughtie and Kitchen cite strong numbers to back up their market assessments. "First, the Atlanta industrial market just set a record for new construction for a four quarter period with over 21.6 million square feet of new construction…61 percent of that number was speculative construction," says Doughtie.

"Second, the Atlanta industrial market, over that same time period, just experienced the 4th highest activity number with more than 57 million square feet being leased or sold. Third, the Atlanta industrial market, after enduring four years in a row of negative net absorption following the capital markets melt-down, just experienced the 14th quarter in a row of positive net absorption, and almost 16 million square feet of positive net absorption the past four quarters."

"Columbus increased it's industrial base by a couple million square feet in 2015 and should exceed that level in 2016, with Amazon leasing two warehouses to be constructed totaling 1.9 million square feet and the completion of a 1 million square foot speculative warehouse at the Rickenbacker Air Industrial Park, which was leased as construction was being completed," notes Kitchen. "Amazon also completed three data centers in Columbus, and is rumored to be considering taking over the former 1 million plus square foot DHL Air Cargo facility south of Columbus to start their own air cargo service."

The market, he continues, is comprised of 250 million square feet with 7 percent vacancy (5.6 percent investment grade) with 5 million square feet under construction. Class A rental rates range from $3.25 to $3.75 net with CAM expenses as low as $.40 per square foot.

Bell notes that the office sector in Charlotte has over 2 million square feet of office space under construction. According to Cushman & Wakefield, the market really heated up in the second half of 2015. For example, net absorption for the overall office market was 662,016 square feet in the third quarter, which brought the YTD absorption totals to just over 1.1 million square feet. "If absorption levels stay on track for year-end, 2015 absorption totals will surpass the historical average of 1.4 million square feet," according to C & W's market report. Meanwhile, strong demand has cut the vacancy rate fro 9.4% to 9%. "As the market fundamentals continue to improve, sales activity is increasing in the CBD and suburban markets," says the C & W market report. "Several value-add and opportunistic offerings closed in Q3 with the expectation that more will trade by next year."

Continuing Success Envisioned

For the foreseeable future, the local experts expect the current market trends to continue. "Barring a major world catastrophe," says Doughtie, "the Atlanta industrial market could be strong for another 4-5 years." He cites several reasons for his confidence. "New construction has been the big story lately with the 21.6 million square feet of new construction the last four quarters…a record. There was little or no new spec construction over the past seven years or so (except for the past four quarters), so there were no new state-of-the- art/next generation buildings being built…lack of supply," he notes.

"As the Fortune 500 type firms began re-entering the Atlanta industrial market, they were being put in the position of building a new built-to-suit facility, because what they wanted (36' ceiling height for example) did not exist…so there was strong demand," he continues. "Banks starting lending 65 percent or better non-recourse money to developers to build spec construction…so inexpensive money became available again.

"In addition," he observes, "We have been experiencing (like everyone else has across the country) cap rate compression in the investment market. It would not be unreasonable to say that for a well located, good credit tenant, with a long enough lease term, that the cap rate range for a 500,000-1,000,000 square foot investment property would be in the 5.5 to 5.8 percent range…I've been told that one deal just closed at a 5.25 and cap rate—certainly the lowest number we have seen to date in the Atlanta investment industrial market."

Finally, says Doughtie, "I believe that as retail spaces get smaller (I do not believe that they are going to be building many more 1 million square foot malls any time soon), that the industrial market will benefit and build to meet the need of the new category for e-commerce. Big buildings (800,000-1,200,000 square feet) to facilitate all of the new Internet orders on-line, and smaller facilities (200,000-500,000 square feet) to handle Internet orders in high population urban areas for same day delivery."

"We expect industrial to be a stand-out market segment for Orlando," adds Murphy. "Central Florida is at the confluence of a rapidly growing population, improving housing market, and central location that provides access to the entire state. An excellent and continuously improving road network allows distributors the ability to service the entire state of Florida from the Orlando market. Additional infrastructure such as the recently opened Central Florida Intermodal Logistics Center operated by CSX is enhancing an already compelling supply chain solution for companies that want to service the third most populous state."

While Orlando "suffered greatly" during the great recession, Murphy believes that history may not be repeated. "Unlike past downturns, where Orlando was last to enter a recession and first to come out, Central Florida languished due to severe weakness in the residential market and a slowdown in population and job growth," he notes." This has corrected itself and Orlando's quality of life, coupled with substantial immigration and job creation has created an environment that bodes well."

Stay on Top of the Market

All real estate markets, even strong ones, bring their own set of challenges. As markets continue to strengthen, what must SIORs do to ensure optimal success?

"Local market intelligence is key," says Bell. "On the tenant representation side, think ahead of the curve; what is being built, who is relocating and what space can we expect to be back on the market."

"When a market changes, clients need advisors who can understand their business and objectives," says Murphy. "SIORs bring a skill set that shines in this environment. The days of just being a deal junkie are over; it is not enough to be a vendor — you need to be a strategic partner. Clients need a broker with the skill set of an SIOR who can navigate a changing environment. In this environment, the professionals that can rely upon both market knowledge and an understanding of the client's business will be successful."

Doughtie agrees. "SIORs are known for being the best of the best...experienced, knowledgeable, professional, ethical, etc.," he says. "Our good reputations and strong work ethic many times precedes us. The long-term relationships that we create over time ensure that we will enjoy future success in our business." The key to enduring success, he asserts, is "hard work, staying in touch with our clients, protecting our clients, and meeting their real estate needs which support their business decisions." ▽

CONTRIBUTING SIORS

Sim F. Doughtie, SIOR, CCIM, MCR, SLCR.

David Murphy, SIOR, CCIM

Brad Kitchen, SIOR

Robert Keith Bell, CCIM, SIOR

SPONSORED BY SIOR FOUNDATION

Promoting and sponsoring initiatives that educate, enhance, and expand the commercial real estate community. The SIOR Foundation is a 501 (c)(3) not-for-profit organization. All contributions are tax deductible to the extent of the law.