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ONE OF THE SURPRISES IN THE RECENT ECONOMIC RECOVERY HAS BEEN MANUFACTURING. ALTHOUGH THERE IS STILL CONSOLIDATION GOING ON, MANY AREAS OF THE COUNTRY ARE REPORTING GROWTH IN THIS SECTOR. EXPANSION OF EXISTING FACILITIES WAS THE PRIMARY FOCUS OF CORPORATE AMERICA. SOME OLDER MANUFACTURING REGIONS ARE EXPERIENCING A RESURGENCE OF DEMAND.

BY STEVE BERGSMAN

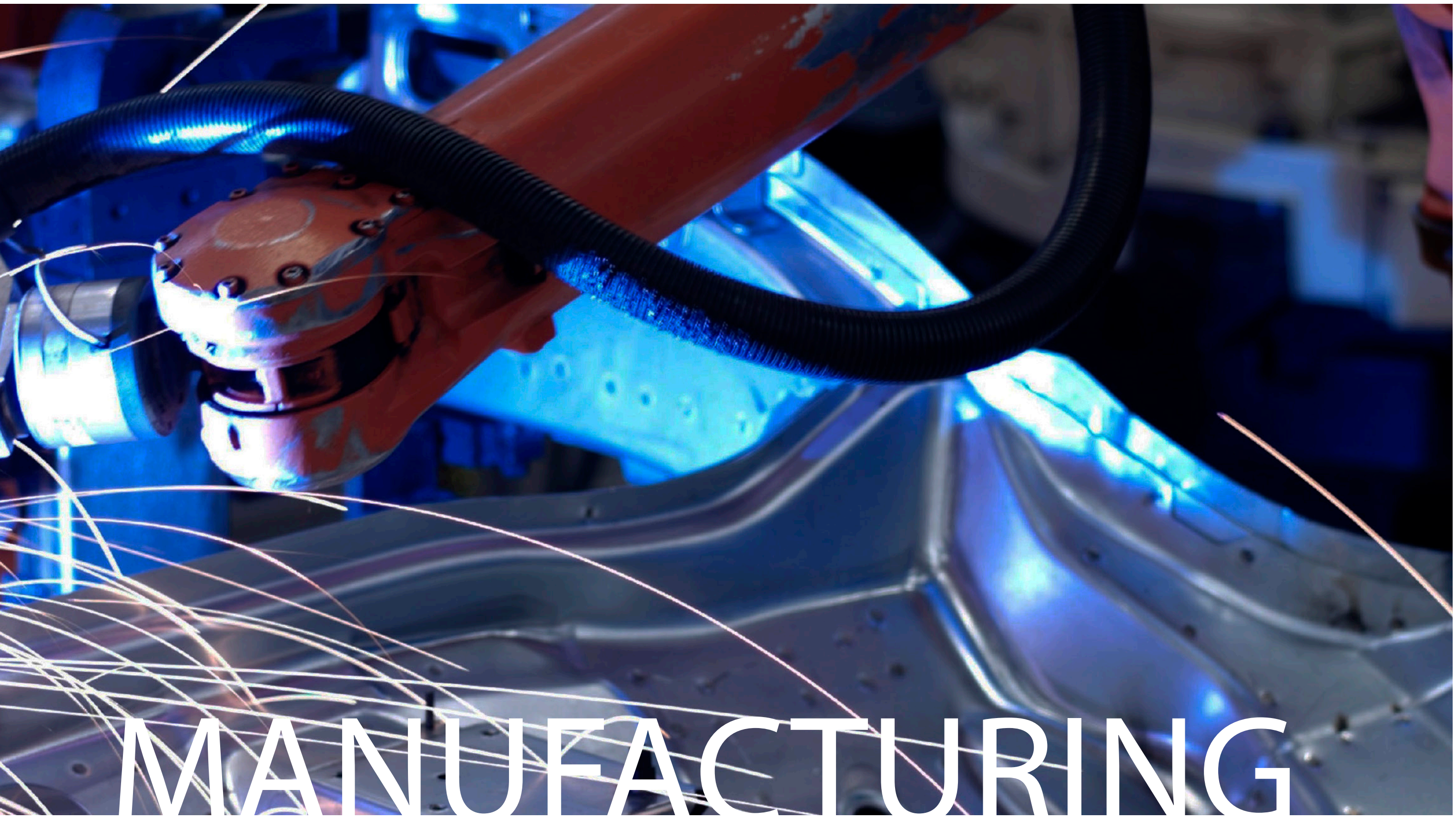
Since the onset of the Great Recession back in 2006, U.S. industry has been extremely frugal in terms of new investments. The continuing mindset has been to trim expenses, realign businesses, control costs and, finally, to build up a nest of cash reserves.

Now that we're a couple of years into a recovery, economic growth has been steadily moving forward. This recovery has not been America's strongest though. As a result, Corporate America has – slowly and steadily – begun to re-invest in operations, expand business opportunities, and for all the commercial real estate professionals out there, add millions of square feet of new space.

For the first half of 2013, the country's industrial market showed strong recovery, with many individual metros showing increased transaction volume and revenue, according to Cushman & Wakefield. New industrial completions totaled 19.7 million square feet at the end of the second quarter, adding to 12.5 million square feet of speculative development. Cushman & Wakefield also reports an additional 21.8 million square feet of speculative projects are scheduled through the end of 2013.

In the first wave of corporate expansion after the recession, Corporate America leaned heavily toward expansion of existing of facilities or further local expansion. These were not necessarily small add-ons, but additions of hundreds of thousands of square feet so the cities that were lucky enough to hold onto certain industrial concerns through the downturn have benefitted tenfold in the recovery.

Perhaps the most interesting example is a venue known more for distribution than manufacturing, coastal Northeast Florida, encompassing the cities of Jacksonville and St. Augustine. Through its economic development agencies, Florida has been aggressively trying to boost manufacturing in the state as these jobs pay well, plus it would improve transportation costs for distributors as trucks wouldn't be leaving the state empty.



MANUFACTURING

According to **Mark Scott, SIOR**, a senior director with Graham & Company in Jacksonville, state and local efforts have recently paid off with three key deals: Northrup-Grumman is adding 350,000-square-feet of space to an existing facility near St. Augustine airport; Vistakon, a division of Johnson & Johnson Vision Care, is expanding an existing manufacturing facility by 150,000 square feet; and SG Synergy recently expanded to about 60,000 square feet. "With all the ports in Florida, including the one in Jacksonville, we think the ability for our markets to handle near-shoring, manufacturing facilities is in-play," says Scott.

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Not all the manufacturing deals in Northeast Florida are expansion. Scott is working on two new transactions. The first with an energy company looking to establish a facility in Jacksonville, and secondly, he is trying to nail down the relocation of a fuel filter manufacturing firm from the Midwest to the St. Augustine area.

Don't count out the Midwest though. It, too, is flexing manufacturing muscle. Columbus, Ohio, is also mostly known as a distribution and logistics location, although Honda of America has a large plant not far away in Marysville. Honda's expansion in Ohio is bringing with it a new wave of secondary manufacturing, assembly, and distribution from its suppliers.

"Honda not only manufactures cars for the domestic market, but it also exports a great deal – and it is looking to double exports," says **Richard Trott, SIOR**, first vice president with CBRE in Columbus. "Honda has also been investing quite a bit of money into its facilities around the state, over a billion dollars in the last three years."

As a result, Trott adds, "we are seeing existing suppliers expanding and new suppliers looking for locations. I recently spoke with a supplier looking to relocate into a 100,000-square foot space in the Marysville area. I've also been talking to an Asian supplier as well and CBRE has been working with a supplier that has outgrown its existing Marysville facility and wants to double its space." It's not only big companies expanding in Columbus. Suppliers to a locally-based retailer, The Limited Brands Inc., have taken a lot of space to do assembly, packaging and light manufacturing for the company's beauty supply lines.

CONTRIBUTING SIORS

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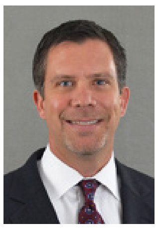

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EXISTING, AS WELL AS NEW MANUFACTURING COMPANIES ARE BUILDING OR EXPANDING THEIR FACILITIES AT SURPRISING RATES, LEADING TO NEW OPPORTUNITES FOR REALTORS.

One of the places that has benefited the most by Corporate America's re-emergence from the Great Recession is not even in the United States. Monterrey, Mexico, a two-hour drive south of the Texas border, always had a large presence of American companies that made big products. Many of these companies are now expanding, reports **Baltazar Cantu, SIOR, CCIM**, Colliers International's Industrial Director of Manufacturing & Automotive in San Pedro Garza Garcia, Mexico. Among the American industrials expanding in Monterrey are Caterpillar, Polaris, Navistar and Whirlpool – not a bad collection of companies.

"Monterrey is one of the oldest and largest industrial hubs in Mexico," says Cantu. "The market here is strong and new expansion has been driven by domestic and foreign companies. The main industries here are automotive, home appliances, aerospace, construction equipment and tractors."

American and European companies come to Monterrey for manufacturing and assembly due to the city's wide labor pool, communications grid, highway system, and network of professionals. However, due to the presence of the prestigious Monterrey Institute of Technology, a lot more R&D work is being done there as well by the university graduates.

"Before the economic recession, we had a vacancy rate of just 4 percent," says Cantu. "Now it's 7.7 percent, but declining. Things started to look better in 2011 as we had more companies expanding due to improving economies in the United States and Mexico."

Other older, North American manufacturing centers are attempting a comeback as well. Wisconsin wrestles back and forth with Indiana for bragging rights to start the largest percentage of employees in manufacturing. About 18 percent of the Wisconsin workforce is employed in manufacturing jobs, reports **Jeff Hoffman, SIOR, CCIM**, senior vice president with Judson & Associates in Pewaukee, Wisconsin. "In the last 12 months, we have added about 3,000 more manufacturing jobs."

Part of that success is due to state public policy initiatives including elimination of a state income tax for manufacturing by the year 2016. "We found this to be a large incentive, resulting in a broad base of new industrial users, from five to ten employee tool-and-dye shops to a company like Quad/Graphics which just invested in a 200,000-square-foot plant in Wisconsin," says Hoffman.

One county that has done well is Kenosha, which abuts the Illinois border just north of Chicago. "We landed a 350,000-corporate-headquarters that relocated from Illinois, which is in addition to another 100,000-square-foot building that has been 'taken out,'' Hoffman says proudly.

Hoffman's company has been busy, leasing up 80,000 square feet to a Louisiana energy company; a 46,000-square-foot expansion for Product Service Manufacturing; a build-to-suit brownfield development at 150,000 square feet; and a 30,000-square-foot expansion for Wisconsin Oven.

"There's a lot of space out there that's third or fourth generation, and while you might be able to get a good deal on it, that in and of itself will create operational issues," says Hoffman. A lot of the manufacturing that we are seeing has been requiring more modern industrial space."

One traditional manufacturing area, Southern Georgia, hopes to attract manufacturers to its old mills and factories that were closed when textile jobs began moving overseas. Cotton product companies were once found all over the South, particularly in rural areas because of voluminous amounts of water that were needed to manufacture textiles. Those facilities have been vacated.

"Over the last three years, there has been as much as 700,000 square feet of space available at any given time in Georgia, two-thirds of which was located in the northern part of state, mostly in and around Atlanta," says **Arthur Barry III, SIOR**, associate broker and partner, with Coldwell Banker/Eberhardt & Barry in Macon, Ga.

Most of the space in the southern part of the state is second generation or older. It's not leading edge or high-tech, but still useful. "We have sold several million square feet of plants at relatively inexpensive pricing," says Barry. "People were buying them to tear down, retrofit, and reposition for alternative uses."

Recently, for example, two Canadian groups snapped up vacant properties in Southern Georgia. One needed space to smelt metals for the automotive industry and the other acquired a 385,000-square-foot former plastics extrusion facility.

Perhaps the most interesting deal was the sale of a 1.1 million square foot BF Goodrich plant to the Blackstone Group, which successfully remarketed the property to a developer. About 450,000-square-feet was torn down and the building materials sold. The rest of the space will be residential lofts, dry bulk warehouse and medical offices. In addition, the production team for the sequel to the Hunger Games movie has temporarily taken up some of the empty space.

The driving force for redevelopment here, says Barry, is still "cheap labor, dependable resources, and numerous national, state, and local incentives."

Not every region in the country has come out winning the manufacturing game. Many more have lost manufacturers than gained new companies. And the hits keep coming.

In Baltimore County, Maryland, the closing of the huge Sparrows Point steel mill, which in the 1960s employed 30,000 workers, not only affected the remaining 2,500 workers who were still there when the announcement was made in 2012, but nearby ancillary plants that worked with the mill over the decades were also impacted by the closure.

One of those plants was the former 235,000-square-foot, 10-acre Signode operation, also in Sparrows Point. Tasked with the job of selling the property, J. Allan Riorda, SIOR, a principal with Lee & Associates, has been marketing the property to local owner-occupied businesses, one of which is a big distribution company. The property is in negotiations. "It's in a good location on the east side of Baltimore," says Riorda, "and it has decent loading. The negative is, it is a fairly cut-up property and the ceiling heights aren't ideal for distribution. But, it all depends on the price at the end of the day."

Despite the old steel mill property having been closed, Riorda reports a lot of space in the area has been absorbed and vacancy rate in the area has been sliding downward since the recession. Also, there is good access to I-95 and not a lot of competitive new product nearby. "This is an older building and the company that buys it will probably be a local- or regional-owner occupant," says Riorda.

Industrial space, in general, has been expanding with new developments and additions to older structures. Whether that space is for distribution or manufacturing, completion time is faster than for other property types. That's the good news; the downside is, expect occupancy and lease-rate improvements in 2014 to be moderate as new building roll-outs pick up speed.

ABOUT THE AUTHOR

STEVE BERGSMAN is a nationally recognized financial and real estate writer. For more than twenty-five years, he has contributed to a wide range of magazines, newspapers and wire services, including the New York Times, the Wall Street Journal Sunday, Global Finance, Executive Decision, and Chief Executive.

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