

# Avison Young: Industrial spec construction continues to soar across the Midwest

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How strong is the industrial market in Minnesota and across the nation? A new report from Avison Young says that the volume of spec industrial construction delivered in the United States has jumped 240 percent since 2012.

In raw numbers? The volume of spec construction has jumped from 43.3 million in 2012 to 147 million square feet this year, according to Avison Young's research.

Erik Foster, principal of Avison Young and practice leader of the firm's industrial capital markets division, said that the speculative industrial boom started on the coasts — mostly the West Coast — and has now moved across the country, including to several major Midwest markets.

“Certain Midwest markets, such as Columbus and Indianapolis, Chicago, have seen a lot of spec industrial activity starting about two years ago,” Foster said. “We feel that this increase in spec development will only continue, and in more Midwest markets.”

One of those strong industrial markets in the Midwest? Foster said that the Minneapolis/St. Paul market is a solid one. It might not be quite as busy as traditional distribution-focused markets such as Indianapolis and Columbus, but Foster said that it continues to be a strong industrial performer.

Foster said that the Minneapolis market showed its industrial strength in July. That's when the market saw the \$48.5 million sales transaction of the 585,200-square-foot BAE Building at 4800 E. River Road. That property sold for an impressive \$80 a square foot.

“We think the trend toward more spec industrial development will only continue,” Foster said. “We are at record-low vacancies for many of the markets in the Midwest. Consequently, that will drive more spec development.”

Foster said that Avison Young is seeing more rent increases, too, in the industrial market, another factor that will inspire more speculative industrial building across the Midwest.

“The fundamentals are in a good place right now for continued spec development,” Foster said.

What do tenants want to see in these new spec industrial developments? Foster said that tenants with better credit are looking for new buildings in the best locations with the top amenities. This means plenty of trailer storage space, 32-foot to 36-foot clear heights and locations close to transportation options.

In certain Midwest markets — such as Minneapolis and Chicago — spec industrial developments are often of the infill variety.

Even with new spec buildings, industrial construction is not keeping up with demand, according to Avison Young’s report. The company said that while 476 million square feet of new distribution, warehouse and flex space has been delivered across the nation since 2012, these buildings are not coming online quickly enough for investors.

Increased demand will lead to sales-price increases of 3 to 6 percent during 2016, Avison Young predicted.

Avison Young reported, too, that investment sales of speculative industrial buildings increased by 63 percent from the first three quarters of 2014 to the same period in 2015, jumping from \$1.6 billion to \$2.6 billion. Avison Young predicts that going into 2016, the sales volume should continue to climb by as much as 15 percent in some markets.

A look at the construction deliveries in the industrial sector shows just how high demand is. In 2012, developers brought 43.3 million square feet of industrial deliveries to the market. In 2013, that number jumped to 71.3 million square feet. In 2014 it hit 105 million square feet, and in 2015 it reached 147 million square feet.

In the Midwest, Chicago was a leader with 10 million square feet under construction now, following 10.7 million square feet delivered in 2015 through the third quarter of the year. Indianapolis saw 5.7 millions square feet delivered in 2015 through the third quarter, while in the St. Louis market, Gateway 673, a 673,137-square-foot building at 9 Gateway Commons Center Drive in Edwardsville, Illinois, sold for \$35 million or \$52 a square foot in August.

Nationally, in the first three quarters of 2015, there were 1,522 industrial buildings under construction totaling 545 million square feet. The amount of space currently under construction, which is a sign of deliveries yet to come, stands at 183.7 million square feet versus 82.7 million square feet at the end of 2012.