

ALL SYSTEMS GO IN THE INDUSTRIAL MARKET

BY RAY HANKAMER

INDUSTRIAL: U.S. and Four Texas Cities (and a mention of Mexico and Canada)

United State Industrial Market-Takeaway:

All monitored US markets have industrial rates in the single digits, and occupancies are expected to remain high ongoing. E-commerce warehousing demand to accommodate sorting, distribution, and logistics is strong and we are seeing higher (even multi-story) warehouses as developers work with tenants to meet their evolving needs. Labor markets are tight and will get tighter, resulting in rising wages. Asked rents are rising and this may offset projected rising interest rates over time. Industrial remains the most attractive segment to lenders and investors alike.



Source: Logistics News, Warehousing & Storage

- Shovel-ready entitled sites are at a premium for construction of E-commerce fulfillment facilities
- Last mile delivery in major metropolitan areas is crucial, and specialized logistics facilities within 5 miles of urban centers are hugely important to E-commerce
- Taller and more specialized warehouses are being customized to suit particular needs of users
- Industrial will remain a favored asset class in 2019
- Industrial returns have outpaced other property types and should continue to do so
- The demands and needs of the world's largest E-commerce companies are driving innovation in industrial, even to the point of redevelopment of old office buildings and empty big box stores which were made obsolete by...E-commerce!
- Most industrial markets are currently supply-constrained, which should ensure low vacancy rates and higher asking rents going forward-rents are expected to rise over 7% this year
- Consumer and government spending should continue to rise, ensuring demand for instant delivery and the industrial infrastructure to support it
- Trade remains the wild card-should shipments from China be pinched, other countries will partially fill in the gap over time
- Industrial facilities related to E-commerce are in high demand in Mexico City, which is under-supplied, also Monterrey, with its close proximity to auto and auto parts manufacturing and in the major Canadian cities of Vancouver, Toronto, and Quebec

Texas Industrial Markets: Houston, DFW Metroplex, San Antonio & Austin

Houston Industrial Market-Takeaway:

Fundamentals are solid with vacancy in the 5% range, and investor demand remains strong, including demand by foreign investors. Construction activity is busy, and Houston has double strength coming for a huge port and a rapidly expanding population base which requires service from E-commerce fulfillment.



Source: Port of Houston

- Demand for quality and specialized facilities will result vacating and repurposing older facilities built for a different kind of commerce
- Expansion in manufacturing, transportation, and distribution throughout 2019 is expected to drive leasing activity and drive demand for state-of-the-art facilities
- Petrochemicals and plastics production will drive demand for production and storage facilities near the port
- Job growth of 70-85,000 is projected for 2019, and this job growth will be spread over all sectors, including construction and manufacturing

ALL SYSTEMS GO IN THE INDUSTRIAL MARKET

<Continued from Page 8

Dallas / Ft. Worth Industrial Market-Takeway:

Vacancies remain low, while supply and demand remain balanced. Demand is coming from population growth so that E-commerce and third party logistics companies must have facilities to handle the resulting distribution of consumer goods. DFW is in the tenth straight quarter of positive absorption



Source: Institutional Real Estate, Inc.

- During the first quarter, 5.1 million SF was added to local inventory, of which just over half was build-to-suit
- Average building size delivered this quarter was 230,000 SF
- 30.1 million SF of product is currently under construction, of which 18 million SF is speculative
- Asking rates remain stable

San Antonio Industrial Market- Takeaway:

Construction is at an all-time high and vacancies remain steady at just over 7%, which ensures strong rental rates.



Source: Apartment Hunter

- Rising rents in 2019 are forecast
- Vacancy just over 9%
- Robust year projected in industrial segment
- Growth focus is on the Northeast, but activity in the South remains strong

Austin Industrial Market- Takeaway:

New deliveries continue to hit the market and leasing remains extremely active. Industrial development pushes outward, especially toward San Marcos along I-35.



Source: Amazon

- Population growth continues to drive Austin's industrial sector
- Industrial vacancies are just over 8%
- Austin has an available and educated labor pool, and job growth is matching space, creating more consumers and more need for E-commerce fulfillment
- Asking rents for industrial are at an all-time high
- Austin because of its central location and population growth is assuming an increasing importance as a logistics hub
- Development pressure is aimed along I-35, as Austin and San Antonio become a linear market of commerce along I-35