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INVESTING IN THE FUTURE OF DEVELOPMENT

NEW TRENDS AND OPPORTUNITIES IN TENANT DEMANDS



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As the economy continues to improve across the nation, city centers and industrial locations are experiencing changing tenant demands for industrial warehouse and office spaces.

According to JLL, a financial and professional services firm, industrial vacancy was at a 16-year low in the first quarter of 2016. This vacancy presents an opportunity that developers are eager to act upon, spurring a change in industrial development across the country that is influencing the requirements of tenants. From location to design and even city infrastructure, there are many factors impacting these evolving needs.

this remains true today, tenants are no longer clamoring for available space in these business parks, in part due to the competition for labor they present. Tenants are wary to place their employees in a location filled with similar companies, where better compensation or benefits may intrigue and pull their labor pool across the street.

For example, southwest Indianapolis is home to one of the most well-leased, successful industrial parks in the region and some of the top employers in the nation have distribution centers in the park. For many years, this strong population of companies was attractive to users seeking new space in the

service” and where “public transportation choices are often unavailable.” Where public transportation is, so are the people. Where public transportation isn’t, neither are the people.

Tenants that find themselves in a location far from other established business parks but near a city center are in a win-win situation. Labor availability from the city, a strong public transportation presence, and overall great visibility for a company are three key factors to a successful tenancy in a business park. While competition for labor may still exist, it tends to be relatively small when compared to the competition that would be apparent in an established business park.

While there are many factors that impact a company’s decision to lease or buy a building, one thing is for sure: location is paramount.

"THE LOCATION OF A DEVELOPMENT PLAYS A CRITICAL ROLE IN ITS SUCCESS"

Location, Location, Location

As the famous saying emphasizes, the location of a development plays a critical role in its success, especially when it comes to filling the space and securing tenants. Whether residential or commercial, buildings are more difficult to lease if they are not in a location that makes sense for tenants and the employees that need to commute to the building every day. That begs the question: do tenants prefer to be in established business parks or in a newer, emerging location?

In the past, established-business parks were a sought-after destination for industrial properties for a handful of reasons, including the belief that the name and success of the park would be a positive reflection on a company that leases or buys space there. While

area. However, as time passed, tenants have become increasingly cautious to commit to space in such close proximity to their competitors for the local labor pool. Because of this fear of labor competition, users are beginning to consider emerging parks that are farther away from these locations to avoid the potential loss of employees to nearby businesses.

However, challenges do not disappear once a user finds space away from an established business park or warehouse district. While land farther from the city may be more affordable and lack the labor competition of established business parks, these sites also tend to be more difficult for employees to access. According to the U.S. Department of Transportation’s Federal Highway Administration division, developed rural areas are home to economies that include “mixed industrial and

City Infrastructure: The Road to Success

Many markets are beginning to see cities invest heavily in public infrastructure, updating roads, and constructing new bridges and highways. These investments are connecting less established locations with the city center. Quick and direct access to industrial developments that are further out via these roads is a strong draw for users looking to provide their employees with an accessible location, all while avoiding the strong labor competition in established business parks.

In 2016, we (Opus) started construction on an industrial warehouse and office project in Jeffersonville, Indiana. Located within the Louisville submarket, this project was our first in the area and a strong indicator of the increase in demand for industrial space in the region. However, this project would have been much less attractive just a few years ago due to the lack of major highways in the area. In 2015, the Federal Highway Administration initiated the

Louisville-Southern Indiana Ohio River Bridges Project, which will add two new bridges over the Ohio River between Indiana and Kentucky. One bridge, the Downtown Crossing, will connect downtown Louisville and Jeffersonville, Indiana. The second bridge, the East End Crossing, will connect the east end of Louisville to southern Indiana. These bridges mean users will have easier and faster access to areas beyond the central part of the city, making developments outside of Louisville a more viable option.

An unchanging desire for the majority of industrial users is the need to be close to major freeways. As cities invest in infrastructure, the number of easily-accessible locations increases, intriguing developers due to the fact that many industrial tenants require distribution services and prefer to lease in an area with quick access to major roads. The access to freeways proves to be a benefit for both employees and businesses that serve customers with distribution needs.

It's What's Inside that Counts

In the JLL report previously mentioned, research showed that "quality space options remained limited in many of the nation's markets." Additionally, "new construction leasing in facilities built in or after 2014 comprised nearly eighty percent of overall net absorption

activity during the first quarter." Clear in this research of new developments is the fact that the inside of a building plays a critical role in the leasing and use of space.

A dynamic previously only seen in multifamily and student housing, industrial tenants are now requesting high ceilings, abundant natural light, and amenities including fitness centers and lounge areas in their warehouses and office buildings. This rapidly emerging trend highlights the importance of interior architecture and design. Clients want unique areas to inspire employees and encourage strong performance. When a company offers employees spaces that allow them to be creative and active, employees are more likely to perform at a higher level.

To examine this phenomenon, Tom DeMarco and Timothy Lister, American software engineers, carried out an experiment with 600 software developers at 92 different companies. Each participant completed a series of tasks and kept a log of the amount of time he or she spent working in order to see how programmers at specific companies compared to their competitors.

The results were astounding. The best programmers outperformed the average programmer by 2.1 times, showing that employees in the top quartile were far more productive than those in the bottom. DeMarco and Lister found little to no correlation between salary and

performance or years of experience and performance and instead discovered that those who performed in the top quartile had much more positive things to say about their workspace than those who did not perform as well. Ultimately, employees who enjoyed their workspace performed at a higher level than those who did not, emphasizing the importance of a worker's office.

While interior design isn't the main reason an employee remains at a company, it affects a worker's experience and can play a positive role in their careers and the success of their business.

The Future is in Our Hands...Literally

Companies are looking for buildings to suit their changing sizes, their unique needs, and to serve their employees best. Whether that means it's a build-to-suit or speculative development, tenants are interested and buildings are going up.

As of early 2016, Opus had 8.4 million square feet of industrial developments currently in its pipeline or completed in the previous 24 months. The market holds a lot of potential and shows no signs of slowing. From improving city infrastructure to users becoming more aware of their timelines for moving and working with Opus, to develop buildings fit perfectly for them, all the signs are pointing toward many years of demand and success. ▽

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