

| FEATURE ARTICLE |

NEW TRENDS IN WAREHOUSE DISTRIBUTION FACILITIES

By Steve Bergsman

The industrial building continues to evolve from a location standpoint, change of usage, and through new construction technologies. Constructing and brokering industrial buildings might look like a mundane business to an outsider, but for those folk in the commercial real estate world, trend lines change consistently.

At first glance, the average industrial building seems like a consistent, non-descript, mundane product. New structures might look prettier or bigger, but the basic box doesn't change that much.

That's only partially true; the industrial product has evolved over the past three decades; not only structurally, but as anyone in the commercial brokerage business knows, new locations suddenly become hot, while older venues for manufacturing or warehousing die out. Sometimes a region might clock through numerous cycles, up, then down, then miraculously up again.

So, the reliable industrial markets, and the buildings we erect in those markets, evolve or devolve over time, and industrial brokers have to spot the trends.

Tim Lescalleet, primary delegate, a senior vice president with Griffin Industrial LLC in Hartford, Conn., works an area of New England, that includes northwestern Connecticut and western Massachusetts. Except for Hartford, there are not a lot of big cities in the area, which might be considered a good thing because this region has suddenly been tacked onto the map of internet and hard-goods retailers looking for distribution into New England.

Although there are some major population centers in New England, particularly the Boston region, New England sits in the northeast corner of the country and was not considered a good area for large scale distribution operations. Over the past half-decade, that kind of thinking has changed and Big Box America has begun to migrate to the region.

"The types of buildings you would see in other major industrial/distribution nodes are now coming to New England," says Lescalleet. "They are coming to

New England for the same reason these facilities are proliferating elsewhere in the country, the need to get closer to the customer."

Indeed, most of these distribution facilities, whether in western Massachusetts or in Phoenix, are retail fulfillment or internet-retail fulfillment. That's because the retailer wants to be in closer proximity for restocking stores or to get goods into householder hands.

There is an evolution to big-box distribution and parts of the country where the 200,000-square-foot facility was once considered top of the market are now getting the 700,000-square-foot or million-square-foot distribution building.

A 200,000-square-foot distribution would have been considered a real coup for a New England broker until about six years ago when, around the city of Windsor, Conn., Walgreens opened a million-square-foot facility. It was followed by Dollar Tree, and more recently, Amazon. In addition, there has been an uptick in build-to-suits for such companies as Tire Rack, Hyundai Mobis, and Performance Food Group.

Companies are choosing northwestern Connecticut and western Massachusetts for a number of reasons. First, shipping goods to New England is not as easy as you might think because if the product comes by rail or road it has to cross the Hudson River and there are not many bridges. In addition, the traffic is usually immense. To get better distribution in New England, the northwestern and western parts of Connecticut and Massachusetts are closer to the rest of the country and the area is within a one day's drive to the rest of New England. A driver can get from Hartford to Bar Harbor, Maine, in a trucker's day.

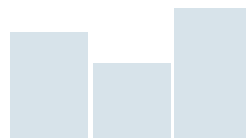
Although there might be some distribution into upstate New York, these centers do not distribute 360 degrees. They are meant to distribute solely to New England. Secondly, unlike the congested Boston or southern Connecticut area, there is plenty of land in northwestern Connecticut and western Massachusetts. The land is cheaper than those other areas, as are rents. "What might cost you \$4.75 or \$5.50 a square foot for a lease here would run you \$7 to \$8 a square foot outside of Boston – and the wages are higher in Boston," says Lescalleet.

The spread of the big box distribution center from the usual hubs of Los Angeles, Chicago, New Jersey, or Dallas is not the only factor that will change certain specific industrial markets in the country.

Trends sometimes arise from the solving of a particular problem.

Most goods from Asia arrive in the United States through West Coast ports, the largest being the one at Long Beach/Los Angeles. In recent years, longshoreman strikes at these ports have kept container ships backed up in the Pacific Ocean for as long as a hundred miles. The smaller container ships could enter the Panama Canal and eventually unload at ports on the East Coast. Those that did, continue to do so. Meanwhile, the Panama Canal is in the process of expanding to make room for the large container ships, and when that is completed there will be a boom at the bigger East Coast ports such as Miami, Jacksonville, and some might say, most importantly, at Savannah.

"If only 10 percent of the shipping that is received at Long Beach is diverted to the eastern seaboard, all of our ports will be inundated with business that they can't handle – that's how much



volume is coming into Long Beach,” says Art Barry, SIOR, a partner with Coldwell Banker Commercial/Eberhart & Barry in Macon, Ga.

Barry works in the third and fourth tier towns of the southern Georgia region, which is dotted with older and some more modern manufacturing and warehouse buildings, many left over from the days when the textile industry was a major component of the Southern economy. Barry tells the story of a Fortune 500 company that in the 1970s constructed a plant in rural Georgia, which was initially priced at \$13-square-foot, but sold for \$2 a square foot, a testament to how dire the market was for these old buildings. The buyers of the building eventually put in on the market again and Barry’s company sold it for a significant increase in price.

The new buyers, he says, are expecting the Savannah port to boom with expanded Panama Canal shipping.

“We expect to get a whole lot more than 10 percent of the West Coast trade,” says Barry. “We’re planning for it. The South has three new inland ports like the one created at Virginia Beach. There’s one in south-central Georgia. It’s not very busy right now, but I will make a prediction: all these big empty buildings that are all over the South, from here to Miami, in two years will all be full of someone else’s freight.

Investors Smell Blood

“A lot of people are buying these things for cash and mothballing them,” says Barry. “We can’t get enough product. I have a building in Cochran, Ga., that was worth about \$2 to \$3 a square foot two years ago, now it’s being offered at \$6 to \$7 a square foot.”

What are investors looking for? Barry rattles off a few items: buildings with vertical stack height, 35-foot clear, wet (fire-fighting systems) and denser flooring — optimum choice would be 250 psi (pounds per square inch).

Floors have become very important. Don’t walk over this issue.

When it comes to innovations within the industrial buildings, John Barker Jr., SIOR, president and chief development officer of Charlotte-based Red Rock Development, points out two key features: floors and column spacing.

What’s rocking the industrial floor business has been technologies that have been around for a while but are just gaining ground, so to speak. Barker calls out one of these new technologies in concrete floor systems.” There are a number of companies that do this, but Barker uses as an example Ductilcrete, which his firm has used in 2 million square feet of flooring.

As Barker explains, here’s why the use of this new concrete system is becoming popular: “when you pour a floor, you have many construction joints (that are required because floors expand and contract), a huge amount of them especially in mega-distribution centers, or typical buildings greater than 500,000 square feet. The floors have to be maintained, typically by caulking the construction joints annually. That costs a ton of money. With this new concrete floor system the builder can reduce construction joints by as much as 65 percent, which is a big savings to a tenant over time.”

Barker lists a few other benefits with proprietary concrete systems such as Ductilcrete: stronger floors, better flatness/finish levelness, and performance guarantees for up to five years.

The new concrete floor systems have been a great innovation, exclaims Barker.

The other innovation Barker likes to point out is that, with higher heights, column spacing has increased as well. Now, the most economic and sought after column grid is 57 feet by 52 feet.

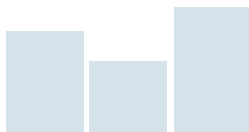
“This grid enables the warehouse to have the greatest flexibility in racking layouts, to use short-aisle or long-aisle racks,” he explains. “Prior, or typical, grids limited the warehouse to either short aisles or long aisles. Warehouse managers like the new grids because while they might be using long aisles today, product change can mean short aisles tomorrow. This grid creates maximum flexibility.”

In fact, the whole world of distribution is changing due to the rise of e-commerce, avers Daniel Jensen, SIOR, a principal with Kessinger Hunter & Company in Kansas City.

“The state of the art bulk distribution building in the last 10 years has been 32 to 36-foot clear, pass-through loading, 550 feet deep and lots of doors,” he notes. “E-commerce doesn’t adapt to this building. These companies want 800-foot deep with no pass-through. E-commerce warehouseers are conveying, using more hand-pick and automation throughout the building.”

Secondly, with automation comes more workers, so e-commerce buildings need more car parks, that’s in addition to more trailer parking.

Thirdly, e-commerce buildings are bigger. In the Kansas City market where Jensen toils, a 50,000 to 70,000-square-foot building used to be considered a big deal, but over the last 10 years, the market has been transformed by 700,000



and million-square-foot distribution buildings.

"In the last two years, we have seen about 4 million to 5 million square feet come on-line each year, the majority of that has been big box," he says.

Finally, he says, the terrors of the world have come to impact the industrial real estate world as companies now spend a lot of time controlling inventory as it moves from point-of-origin to point-of-destination. That has meant increased security even at distribution buildings.

"Older buildings had as many points of access as possible," Jensen explains. "Now the yards are being secured. Warehouse operators want one point of access for a trailer to enter or egress, and it is often gated with a guard house. Once the driver gets on property, they want to know he is there until they know he is no longer there."

Locations, external factors affecting commerce, security issues, the rise of e-commerce, and new technologies have subtly, but consistently, been changing the industrial/distribution

real estate business over the last couple of decades. The business may look mundane and old-school, but it has been quickly evolving to meet the needs of the modern world. ▾



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