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Industrial's Big Niche

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A whopping 120 million tons of consumer goods poured into the U.S. in 2004, up 140% over the 48 million tons imported a decade earlier. That dramatic import growth is having a profound effect on industrial warehouse/distribution space, leading to bigger and bigger boxes. A decade ago, 300,000 sq. ft. was the definition of a large warehouse — today it's upwards of 1 million sq. ft.

The number of warehouses is also growing. At midyear, 57 distribution centers under construction in the U.S. measured 500,000 sq. ft. or more, up from 15 at midyear 2001, according to Grubb & Ellis.

Researchers are beginning to treat this new high-volume, high-efficiency real estate as a distinct subcategory of industrial space, according to Bob Bach, national director of market research at Grubb & Ellis. "There clearly is a subset of the warehouse/distribution category that I would call modern logistics space," he says.

Researchers are still setting parameters, but the new product type will be defined by its large size, ceiling heights of 32 ft. or higher, state-of-the-art fire suppression, a high ratio of docks to floor area and other factors. A quick turnaround time also differentiates these facilities from their predecessors: Large truck courts enable drivers to park a full trailer, pick up an empty one and quickly get back on the road.

Most large logistics projects are located near seaports, where companies can unload oceanic shipping containers, sort goods and send them via truck or rail to stores or regional distribution centers. Others cluster at major crossroads of highways, rail lines and airports.

Capitalizing on the demand for modern logistics space, The Alter Group, a Chicago-based industrial developer, has begun more than 1 million sq. ft. of speculative industrial space divided between Southern California and Indianapolis. The ambitious pipeline is a bet that demand will remain strong for high-volume distribution space for the foreseeable future.

The Alter Group's 590,000 sq. ft. Calabash II, under development in California's Inland Empire, will handle imported goods from the Ports of Los Angeles and Long Beach.

In Airwest Business Park in Plainfield, Ind., Airwest Indianapolis measures 440,769 sq. ft. The center is within a day's drive of 65% of the U.S. population via four interstate highways and the Indianapolis International Airport.

"In the Inland Empire, in particular, demand is torrid and vacancy is 3.8%," Bach says. "That's incredibly low, considering it has by far the most space under construction at 22 million sq. ft."

The national vacancy rate for warehouse/distribution space registered 7.9% in the third quarter, down from 8.2% at midyear and slightly higher than the 7.7% vacancy rate for all industrial properties. Bach attributes that slightly



elevated vacancy rate to a high construction rate, and says demand continues to keep a heavy supply of new space from spinning out of control.

Evidence suggests developers expect distribution centers to remain a hot commodity for some time. Warehouse/distribution properties represent less than half, or 5.1 billion sq. ft., of the 10.5 billion sq. ft. of industrial real estate in North America, according to Grubb & Ellis. Yet warehouse/distribution accounted for a full 70%, or 80 million sq. ft., of the total 115 million sq. ft. of industrial space under construction nationwide in October.

"It's clearly a response to demand by large, logistically driven, import-type companies that are putting a lot of focus and attention on their distribution networks," says Patrick Gallagher, senior vice president at The Alter Group. The company is eyeing new development opportunities in Chicago, and would like to add Atlanta and the East Coast to its big-box industrial program in 2007.

"We've got major buildings going up in about four cities right now," he says, "and we look to expand even more so in those strategic cities that are tied to national and international logistics networks."

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