IBJ.com
Powered By *Indianapolis Business Journal*

Jeremy Woods, CCIM, SIOR

Industrial holding up during downturn

Warehouse sector outperforming office, retail real estate

Industrial real estate in Indianapolis hasn't escaped a bumpy ride caused by the recession, but it has managed to withstand turbulence better than the office and retail sectors.

The industrial market here leased up more than 1.4 million square feet of new space in the third quarter, bringing the year's total to more than 2.4 million, according to stats from the local office of Colliers Turley Martin Tucker. And several deals in the works could add up to 2 million square feet to the 2009 deal total, said Luke Wessel, a Colliers principal specializing in the industrial market.

Still, absorption of new space probably won't reach the historical average of 4 million square feet a year.

That's less of a concern locally than in other markets since relatively little industrial space was built here in 2008 while the market absorbed between 5 million and 8 million square feet, depending on whose numbers you trust.

Jeremy Woods, the senior vice president for industrial at Summit Realty Group, compared the situation to musical chairs.

"When the music stopped, a lot of other markets didn't have any chairs left," he said. Indianapolis did.

But timing wasn't the only factor. Location also continues to work to the city's advantage. With its central location and seven interstate highway spokes radiating from the metro area, Indianapolis is still an easier sell than other markets.

And the importance of geography continues to grow as more companies use sophisticated mapping technology to locate distribution facilities, Woods added.

Those advantages have helped the city avoid losing tenants to consolidations and business failures, as has happened in other markets.

"We're going to lose some companies, but we're going to gain some, too," Wessel said.

Woods is tracking about 20 companies that are seeking more than 8 million total square feet of space.

“If all of it hits, there would be no Class A vacancy, but they won’t all hit,” he said. “If nothing happens the rest of the year, by any measure it’ll be a disastrous year for leasing activity.”

Compared with CTMT, Summit paints a more pessimistic picture of the local industrial market, with a vacancy rate of 10.5 percent, up from 9.2 percent last year.

Vacancy in the industrial sector stands at 7.4 percent, according to CTMT, the same as it was at the end of last year and less than the 8.6-percent vacancy at the end of 2007.

Office vacancies, on the other hand, reached 19.2 percent halfway through the year and no space had been absorbed. Nationwide, the vacancy rate for strip malls stands at 10.3 percent, the highest in 17 years, according to data from research firm Reis Inc.

The industrial sector has its share of challenges.

Chip Barnes, an industrial specialist with NAI Olympia Partners, said landlords are cutting rents and striking short-term deals to keep tenants and attract new ones. Rents are 10 percent to 15 percent less than they were a year ago, Barnes said.

In the local bulk warehouse market, vacancy grew from 13.25 percent at the beginning of the year to 15.3 percent at the end of September. Because of the soft leasing market and the scarcity of credit to finance development, there haven’t been any project groundbreakings this year, Barnes said.

That should work to the city’s advantage in the long run. Vacancies here are modest compared with competing markets, such as Chicago and Columbus, and the lack of new product coming on line should put Indianapolis in a position to absorb its excess space as the national economy rebounds, Barnes said.

Much of the available space is in three mostly vacant Class A buildings between 250,000 and 500,000 square feet. One is in AllPoints Midwest and two are in Axcess 70.•