SPRING 2014
Avison Young Industrial Market Report
Canada & U.S.
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North American industrial markets positioned to reap benefits of economic rebound as industrial/retail product is redefined

Canada's industrial markets continue to be driven by regional forces influenced by their geographic locations. The industrial landscape offers a mix of traditional manufacturing-based product, along with an increasing transition to distribution and logistics uses. In the U.S., meanwhile, many markets reported historic performance in market fundamentals such as vacancy rates, new construction and pricing as the economy recovers and demand for space rebounds.

Canada Overview

Approaching an inventory of 2 billion square feet (bsf), Canada's industrial market continues to operate under relatively healthy fundamentals. The outlook for the manufacturing sector in Canada's major industrial markets is optimistic for 2014. Although the various major markets are driven by different industries, many are experiencing a gradual rebound in manufacturing after losing ground through the 2000s. A steady stream of new construction has edged the national vacancy rate to 4.6% in the first quarter of 2014 from 4.4% a year earlier. Single-digit vacancy rates persist across the country, with eight of the 11 markets surveyed recording rates below the national average.

Increasing demand from the U.S. and a weaker Canadian dollar are good news for the export sector, while the growth in global demand for energy continues to support resource-based markets in Western Canada, which displayed slightly lower vacancy levels versus the manufacturing-laden markets in the East. The vacancy spread has narrowed to 40 basis points from 150 bps in the past 12 months. Led by the nation's largest (and North America's second-largest) industrial market, Toronto, the Eastern markets (72% of the national stock) collectively registered a vacancy rate of 4.4% (-40 bps). Sitting 40 bps lower, at 4%, vacancy among Canada's Western markets has increased 70 bps over the past 12 months.

The development pipeline is slightly ahead (+2%) of the 2013 pace, with almost 9 million square feet (msf) currently under construction (34% preleased) — equating to less than 1% of the existing inventory. Construction is slightly weighted towards speculative projects offering larger bay sizes and higher clear heights. These features are aimed to secure leases from major domestic and U.S. retailers with near-term plans to expand or establish distribution networks as part of their e-commerce and omni-channel strategies, which are marrying warehouse/logistics and retail. Toronto is the biggest development market with 2.6 msf underway (29% share), all of which is in the Toronto West submarket. Vancouver is close behind (2.2 msf/25%) with future anticipated demand expected to come from natural resource development in BC, particularly a new liquefied natural gas (LNG) sector, as well as growth in container traffic and exports of Canadian raw materials.

Asking net rents increased in eight of the 11 markets in first-quarter 2014 from first-quarter 2013, lifting the national average to $7.90 per square foot (psf). With continuous upward pressure on construction, land and labour costs, rents are highest in Regina, Calgary and Edmonton. However, the gap between more expensive modern facilities and increasingly obsolete and non-competitive older product has held rents relatively in check in some markets.

Leasing velocity will remain steady; however, new supply will outpace demand, resulting in a modest rise in vacancy rates over the course of 2014.

U.S. Overview

Avison Young's U.S. industrial markets have strengthened significantly since the first quarter of 2013 due to ongoing improvement in such fundamentals as vacancy, absorption and pricing with many cities reporting historic market indicators. Nationwide, there has been an uptick in demand for class A and big-box space. As well, the overall market has improved to such an extent that companies seeking to reshore operations may find their options limited in prime locations.

Ports capable of handling New Panamax-class vessels are complete, or underway, in several markets, including: Baltimore, Los Angeles, Oakland, Houston, New York/New Jersey and Miami. Once upgrades are complete, those ports will be able to accommodate larger vessels expected as a result of the Panama Canal expansion. For the first time, East Coast and U.S. Gulf Coast ports will be able to receive container ships directly from Asia via water – and should be well-positioned for further expansion.

Warehouse product comprises the bulk of the 7.6 bsf covered in Avison Young's U.S. industrial markets. Year-over-year vacancy has declined 100 bps to 8.1% from 9.1% and all markets, except Houston, registered vacancy decreases. While Houston's vacancy rate rose slightly due to the delivery of new inventory, the city still ranked among the lowest (4.9%). Other top-performing markets included Denver, Long Island, Los Angeles, Orange County, San Francisco and San Mateo, with each posting vacancy rates of 5% or lower. While a handful of markets have persistent double-digit vacancy, all showed improvement year-over-year.

Market improvement is also creating a need for new development. In first-quarter 2014, a total of 61 msf was under construction compared with 36 msf one year earlier, with Dallas having the most development (15.7 msf) underway. As owners seek to capitalize on improved overall market conditions in Dallas, development has shifted largely to speculative construction. Other cities with notable levels of product in the construction pipeline include Philadelphia (8.1 msf) and Houston (6.8 msf). Development is concentrated in the East, South and Texas, with Dallas and Houston comprising 37% of all industrial product under construction nationally.

Rental rates in most of Avison Young's markets (except for Philadelphia, Pittsburgh and Detroit) rose year-over-year with asking net rents averaging $6.30 psf, up from $5.96 psf. Due to a lack of existing inventory and no pending development, San Francisco boasted the highest average rent ($12.96 psf) and lowest vacancy (3.1%). Other well-above-average rental markets included San Diego County ($10.32 psf), San Mateo ($10.08 psf) and Washington, DC ($9.38 psf).

Anticipate further improvement in fundamentals throughout 2014 if reshoring accelerates and the economy continues on a path to recovery.
Canada & U.S. Industrial Market Highlights

U.S. - Overall Industrial Vacancy Rate Comparison

- Vacancy Rate (%)
- Q1 2013
- Q1 2014

U.S. - Industrial Area Under Construction Q1 2014

- Area Under Construction (msf)
- Q1 2013
- Q1 2014

U.S. - Industrial Average Triple Net Asking Rental Rates Q1 2014

- Average Triple Net Asking Rental Rate ($psf)
- Q1 2013
- Q1 2014

Rental rates are shown in US $
Calgary's overall industrial vacancy rate was 5.3% in the first quarter of 2014, compared with 3.4% a year earlier. This increase was due to 3.5 msf of inventory being brought to the market during 2013. Leasing activity, while strong, did not absorb the full volume of new space within the given time frame.

Robust leasing and investment activity defined Calgary's industrial real estate market in the first quarter of 2014, with more than 500,000 sf of space absorbed. Large users, such as Dominion Warehousing and Sears Canada, were major contributors. Sears Canada moved its distribution centre from Regina to Calgary in support of Sears' online catalogue business, while Dominion Warehousing occupied a 250,000-sf former Loblaw's distribution centre, recently purchased by KingSett Capital.

The bulk of new industrial construction has been located in the Northeast, due largely to transport advantages such as shorter distances to the Red Deer and Edmonton markets and proximity to a large labour pool. This Northeast area is home to several food distribution facilities and serves as a key hub in the provincial supply chain.

Distribution centres in and around Calgary include an expanded Canadian Tire facility and a 1.3-msf warehouse for Target that was completed in 2013. Walmart has announced the construction of a 500,000-sf distribution centre to support the company's national expansion strategy, and Home Depot Canada announced in March 2014 that it will build a new 658,000-sf Canadian Rapid Deployment Centre near Canadian Pacific Railway's distribution and intermodal site. Gordon Food Services is also building a new distribution facility in the nearby town of Balzac.

Continued high demand for industrial real estate in Calgary stems largely from retailers recognizing the city as Western Canada's central distribution hub. Calgary boasts a highly integrated transportation and logistics system that includes two class one railways with major intermodal sites.

Edmonton's industrial market continued to thrive in 2013 as the region's main driver – the energy sector – enjoyed a relatively stable business climate. Low unemployment and steady GDP growth above 3% fuelled a confident market and greater willingness to accept more risk.

In 2013, developers decided to re-focus their attention on filling market niches that were largely neglected from 2009-2012. Pinnacle Park and Commerce West Business Park, both in Edmonton's northwest, have been designed to meet the needs of small-bay tenants and feature structures demisable to roughly 3,500 sf. In the city's southeast and the neighbouring hamlet of Nisku, several land developments are close to reaching the market. These developments are being driven by the success of larger industrial parks, such as Oxford's Cityview Business Park and Hopewell's Cornerstone Business Park, which have all but exhausted the serviced land supply on the inside of the Anthony Henday ring road. QE II Business Park (also developed by Hopewell) and WAM's Border Business Park are likely next in line for development. Both properties abut Alberta Highway 2 (QE II), and lie just south of the city's border at 41 Avenue S.W.

The longer-term outlook is for lands available in the outlying counties to become more sought-after, as the prime locations in Nisku are saturated. Sturgeon and Parkland counties, in particular, are becoming attractive to oilfield-service industries by virtue of their location on the northern leg of the QE II and Yellowhead Highways, respectively.

On the development side, the Edmonton market may be stymied to some extent by rising construction costs, particularly in comparison with the rest of the country. These increases are driven primarily by demands placed on the labour pool by oilfield-services companies, and an increase in the cost of materials. Offsetting this trend, however, are the comparatively high lease rates achieved by industrial facilities in Alberta's Capital Region.
The Southwestern Ontario market is located 40 minutes west of the Greater Toronto Area (GTA) and provides immediate access to three border crossings: Niagara Falls, Sarnia and Windsor. Highways 401 and 403 provide the main transportation network throughout the area. The Southwestern Ontario market consists of Guelph, Cambridge, Kitchener, Waterloo, Woodstock and Brantford and has a combined population of 1 million people.

The geographic scope and population size of the market provide a diverse economy, giving the region the opportunity for continued growth and investment. Historically, industrial vacancy has stayed fairly consistent year-over-year. As companies became more confident and economic development across the area encouraged growth, industrial buildings – both new and second-generation – were filled by expanding companies and startups. There has also been an influx of national and international companies that have been attracted by lower real estate and labour costs, high quality of life and lack of traffic congestion.

Continued absorption in the Southwestern Ontario market, combined with the lack of product in surrounding areas, has fuelled ongoing development. Investors and developers are taking advantage of less expensive land costs and development charges and plan on speculative construction in all markets. This situation, in turn, is boosting vacancy rates year-over-year, but the developers’ calculated strategy is backed by continued demand, resulting in a rise in average asking rental rates for newer product coming to market and older buildings being refurbished or redeveloped. Average asking rental rates for new buildings have risen nearly 10% since the first quarter of 2013 while older product has seen rate growth of up to 25% year-over-year. The continued strength and growth of the Southwestern Ontario market is driven by local and outside investors and companies, and further absorption is anticipated during the coming year.

Multiple investment and development projects that commenced in 2013 were completed in the fourth quarter of 2013 and the first quarter of 2014, resulting in a surge of available properties for lease. Total new construction in 2013 and projected completions for 2014 amount to more than 5% of the existing market square footage. The increase in construction was caused, in part, by a lack of suitable lease product in 2012 and low interest rates. This situation has resulted in a slight decrease in average asking rental rates to $7.90 psf – down from $8.50 psf in most of 2013 – as landlords compete for the best tenants. New construction has driven vacancy up to 4.2% from 2.2% during the past two years, but this upswing is expected to level off and remain short of the market’s five-year high of 5.7% in 2010.

Tenants now have more selection with respect to building features, landlords and location, resulting in a longer selection process and extended negotiations. Tenants from all sectors are looking for space that can offer more features and efficiencies. The most active tenants have been logistics companies looking for new properties because of increased capacity or new systems needed to maximize workflow.

There is also a strong new-build trend, with owner/users moving from smaller or leased premises, as existing buildings are hard to find or costly to modify. Many long-standing property owners are reluctant to sell because of tax implications, and this factor continues to push building and land purchase prices higher and drive cap rates lower. These effects are seen in both the city’s industrial and investment sectors.

While new construction starts have slowed, overall leasing activity remains healthy; hence, a level market is anticipated through 2014 as some vacancy is absorbed and new projects are held off until late 2014 or early 2015. This situation gives tenants an opportunity to find attractive offers to relocate and landlords and investors a chance to modify plans to target sectors with specific needs or improvement requests.
Montreal Industrial Market

The Greater Montreal Area’s (GMA) industrial-building inventory represents nearly 348 msf, or approximately 18% of the Canadian industrial market. The GMA transportation hub, which comprises road and rail networks, airports and the St. Lawrence Seaway and its port, makes Montreal an ideal location for goods shipment.

Almost 70% of the city’s industrial product is located in the West Island and Montreal Midtown districts. This inventory consists of single-user buildings (65%) and multi-tenant buildings (35%). Since 2011, inventory has been reduced by 3 msf due to a decrease in demand for the older, obsolete buildings that are common to the Montreal Midtown district. Many obsolete properties have been redeveloped into condominium, office or retail space.

During the first quarter of 2014, more than 22 msf of industrial inventory was available for lease. The vacancy rate increased to 6.6% in the first quarter of 2014 from 6% a year earlier and from 5.3% for the same period in 2012. The vacancy rate for multi-tenant buildings is 11%, compared with 4% for single-user facilities.

The industrial vacancy rate of 7% on the Island of Montreal (which comprises West Island, Montreal Midtown South and Montreal East) is slightly lower than the vacancy rate of 11% off the island (Laval, South Shore and North Shore).

Average asking rental rates have increased by 5% since 2011. During the first quarter of 2014, the average asking rental rate was $5.66 psf with additional rent of $3.19 psf, bringing the total gross rental rate to $8.85 psf. Broken down by district, the net rental rate in the West Island and Montreal Midtown districts. This inventory consists of single-user buildings (65%) and multi-tenant buildings (35%). Since 2011, inventory has been reduced by 3 msf due to a decrease in demand for the older, obsolete buildings that are common to the Montreal Midtown district. Many obsolete properties have been redeveloped into condominium, office or retail space.

The acquisition market continues to see strong demand. While the typical investment funds and investors seek quality product with good returns, it is the owner/user market that actively pursues any reasonable purchase opportunity. Small- and medium-sized companies with strong balance sheets and good, retained earnings continue to seek buildings to purchase for relocation purposes. While demand is high, supply is low, meaning sellers can obtain premium pricing. Typical sale rates for buildings less than 20,000 sf range from $110 psf to $125 psf. Smaller buildings are selling in the $140-psf to $180-psf range. These market conditions are expected to persist through the remainder of 2014.

Ottawa Industrial Market

The Ottawa industrial market remains strong. Most landlord portfolios are substantially full and stable while rental rates are high for a minor market compared with other major Canadian markets. Some older inventory in individual portfolios has lagged in lease-up; however, this trend is due to either physical or functional obsolescence related to each building or property.

A trend for most industrial users continues to be a desire to stay inside the Greenbelt as opposed to considering suburbs further east or west, as main transportation routes and public transit services for employees are more accessible within established urban areas.

While there is inventory available at both the smaller and larger ends of the market, there is a shortage of good-quality space available in the 10,000-sf to 20,000-sf range. The demand for high ceilings, multiple docks and grade-level loading is ongoing; however, the limited new product coming to market in 2014 will not effectively alleviate demand.

Typical industrial rental rates range from $8.50 to $9 psf and can escalate in flex-type buildings that offer modern, clean office space. Operating costs vary across the market, but $4.50 to $6 psf net (excluding hydro and gas) is typical.

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As of the first quarter of 2014, Regina's industrial inventory sits at 17 msf, with a vacancy rate of 3.6%. Demand for new and redeveloped space is expected to remain strong through 2014 and beyond. The current vacancy rate and the strength of the economy are expected to force new land development within the city limits, the Sherwood municipality and surrounding areas. Inside the city, new lots in the Ross Industrial Park are close to being sold out while west of Regina, the Global Transportation Hub (GTH) is well underway, including Morguard's world-class TransLink Logistics Centre.

Net rental rates for new product range from $11.50 psf to $14 psf for small- to medium-sized buildings that have limited compound area. Larger buildings with large fenced compound space and 24-foot-plus sidewalls are drawing up to $12 psf and can demand higher rates depending on design parameters. Net rental rates for existing buildings range from $9 psf to $11.50 psf for medium-sized buildings. Construction costs for new product continue to be volatile. Demand for space has driven up purchase prices for existing product to, and sometimes above, the cost of new construction. The rapid rental-rate escalations experienced recently are flattening, and seem to have reached a plateau, despite continuous upward pressure on construction and land prices.

Prices for serviced development land in the city are currently $425,000 to $450,000 per acre, a new threshold not expected to change in the future. Land prices in the Sherwood municipality range from $50,000 to $100,000 per acre. GTH land is priced at around $196,000 per acre. Highway frontage land east of Regina is priced at $250,000 per acre -- and higher in some instances. The recently announced East Regina Bypass route has been finalized and construction should begin in two years. Upon completion, the twinned highway around the south and east sectors of the city will facilitate heavy-haul traffic without restriction.

With more than 856 msf of space, the Greater Toronto Area (GTA) is Canada's largest, and North America's second-largest, industrial market. Traditionally part of Canada's manufacturing heartland, the area is seeing an increased focus on warehousing, logistics and distribution, with some of the largest logistics and supply-chain management companies operating facilities across the region. Historically, there has been a healthy balance between supply and demand for industrial product, keeping both vacancy and rental rates within relatively narrow and predictable parameters. Overall, vacancy has retreated 150 bps from the height of the recession in 2010 to finish the first quarter of 2014 at just under 4%. Leasing velocity has accelerated over the past 12 to 18 months, spurring an increase in speculative construction. Overall construction levels are picking up and the entire 2.6 msf underway is concentrated in GTA/Toronto West, predominantly in Mississauga, Milton, Brampton and Caledon. Multinational retailers' search for large-block industrial space has contributed to the development of modern facilities focused on maximizing trailer parking and truck-level doors, as well as high clear heights. Examples include Orlando Corporation's 377,000-sf project at 7825 Winston Churchill Boulevard and Hopewell Development's 575,000-sf speculative Mayport Distribution Facility at 12333 Airport Road.

A widening gulf between more expensive new, high clear height space and increasingly obsolete and non-competitive older product has held average rates in check ($5.76 psf). The GTA/Toronto West is leading the way in rental-rate growth, as the submarket has become the focal point for new development, thanks to increasing demand for logistics and distribution-centre space from major international (Amazon) and domestic (Canadian Tire) retailers. While e-commerce and omni-channel retail strategies will continue to transform the marketplace, the GTA will also benefit from recovery in the U.S. economy. The recent retreat of the Canadian dollar will alleviate some of the pressure exerted on the battered export-oriented sector with the prospect of increased manufacturing output across the region going forward.
The Greater Toronto Area (GTA) West market, driven by its three key sectors – e-commerce, warehousing and supply chain-logistics – has seen an evolving trend in the design of its industrial facilities throughout 2013 and into the first quarter of 2014. With approximately 3 msf of inventory under construction in early 2013, developers were focused on capturing new demand by offering energy-efficient features, greater clear ceiling heights and low-maintenance designs by investing in higher-grade materials. Such cost-effective features have assisted distribution centres in offsetting one of their highest costs: transportation.

As development projects launched in 2013 are delivered to market – the latest significant addition being 2995 Peddie Road, a 303,200-sf facility in Milton – the market is set to welcome an additional 2.6 msf slated for completion in 2014. If tenant velocity remains constant, it is anticipated that the new additions may lead to a softening market in the short term. Early indications can be seen, such as the flattening vacancy, availability and rental rates in GTA West.

GTA West’s vacancy and availability rates have remained relatively stable during the past 12 months – in stark contrast to the consistent annual declines observed since 2010. While asking rental rates have shown signs of stabilizing, they are still above the GTA average. The average rental rate rose by $0.11 psf between 2013 and 2014 as compared with a year-over-year $0.38-psf average rise from 2010 to 2013. Developers, who enjoyed a strengthening market in early 2013, will now face an increasingly competitive environment as the market stabilizes and then encounters upward pressure on vacancy rates in conjunction with limited rental-rate growth.

If not for this year’s anticipated additions, flattening market indicators could be interpreted as the GTA West momentarily reaching market equilibrium. Nevertheless, developers such as Orlando Corporation, Emery Investments and CREIT have announced they will not build on spec in regards to their proposed facilities in part due to market considerations.

Vacancy in Metro Vancouver’s active 188-msf industrial market rose slightly to 3.7% at the end of the first quarter of 2014 – up 20 bps from 3.5% a year earlier – due primarily to the addition of almost 2.7 msf to the region’s industrial inventory in that period. The five-year low was set in the first quarter of 2009 when overall vacancy was 3.2%.

One significant difference from five years ago is the bustling development activity underway throughout the region, despite a moribund provincial economy in 2013 and the first quarter of 2014. With more than 2.2 msf of new inventory currently under construction, developers are gearing up to accommodate future anticipated demand. The demand for the new space will come from container traffic and, additionally, from anticipated demand related to the development of a new liquefied natural gas sector.

Industrial asset pricing remains strong with extremely limited options available in terms of both land and built product for all purchaser types, ranging from small local owner/users to investors. Strata remains a very popular alternative for users seeking less than 25,000 sf, with low interest rates making mortgage payments comparable with, or cheaper than, leasing.

While the number of options for tenants seeking large floorplates has increased significantly since the first quarter of 2013, the pool of large mandated tenants currently in the market is shallow after a burst of leasing activity in mid-2013 that was driven primarily by consolidations. Leasing activity among small-to-mid-sized users remains active, but is constrained by a lack of options and limited new small- and mid-bay lease product in the development pipeline. Rental rates remain stable with average asking rates facing upward pressure due to the accelerating addition of tier-one space that commands higher rates.

The remainder of 2014 will see the delivery of new product and set the stage for the economic expansion forecasted for 2015 and beyond.
Winnipeg Industrial Market

Winnipeg and its surrounding capital region encompass more than 1 million residents and approximately 81 msf of industrial space. With Manitoba’s GDP growing by 2.6% in 2013, the province’s population adding approximately 16,000 new residents per year, and record crop harvests reported, the provincial economy appears to be doing extremely well.

Industrial vacancy rose to 3.8% at the end of the first quarter of 2014 from 2.7% one year prior. The increase was caused by the functional obsolescence and vacancy of old stock and the 150,000-plus sf of inventory being added in 2014.

Approximately 65% of Winnipeg’s industrial space is owner-occupied. The surge of vacant land and building values in the last few years has seen many tenants question existing leases and contemplate buying or building their own shop or warehouse. For many industries, that may be a reasonable move, especially when there is a need for a more specialized building with static future requirements. Others, such as growing enterprises or manufacturers, are likely better off preserving their capital and investing in their business with equipment and people. The recent depreciation of the Canadian dollar is fueling manufacturing exports.

Well-maintained commercial and industrial buildings are selling very quickly if they have reasonable ceiling heights and utilization of land and building. Southern Winnipeg is playing a very important role with property trades occurring more frequently than in other areas. Available property is limited and a lack of shovel-ready land is also impacting demand. Price ranges for owner-occupied transactions range from $45 psf to more than $100 psf. New developments by the major institutional players, such as Artis REIT and Bentall Kennedy, and local developers, such as Terracon, are leasing to choice tenants, although there are few speculative construction options.

Atlanta Industrial Market

Atlanta’s long-standing role as a significant center for logistics, its centralized location bisected by key transportation corridors, and its airport have resulted in the development of a leading warehouse/distribution market. Prominent firms such as Home Depot, Toyota, Mitsubishi, Georgia-Pacific and others have recently opened facilities in the region.

Metro Atlanta’s industrial market tallied 5.9 msf in net absorption during the first quarter of 2014, marking the eighth consecutive quarter of positive gains. First-quarter absorption was more than double that of the same period a year earlier. Year-over-year, vacancy fell 190 bps to 9.8% with nearly 59 msf of vacant space. In recent months, some tenants, who had delayed decisions, lost out on their first choice as spaces leased up. There is now, arguably, a shortage of quality first-generation big-box warehouses available in several key submarkets, such as I-85 South, I-85 North and I-20 West.

Rental rates have, for the most part, remained stable with a marginal increase in the first quarter of 2014. The average quoted asking rental rate was $3.28 psf at the end of the first quarter, up from $3.26 psf at year-end 2013 and $3.20 psf year-over-year. The Atlanta industrial market is clearly shifting from an absolute tenant’s market to a more balanced market, particularly in some select submarkets and size ranges. Rents are beginning to edge upwards for the first time in seven years, and concessions such as free rent, while still available in some districts, are beginning to taper off.

Atlanta’s industrial sector should continue to rebound throughout 2014 as the city’s housing market steadily improves, suppliers require more warehouse space, and retailers seek more distribution space to meet the needs of their growing e-commerce business.
As the Massachusetts economy continues to expand, commercial real estate fundamentals continue to recover across all property segments. The Boston industrial market is no exception, posting improvements in availabilities, vacancies and asking rents on strong absorption gains during the past year.

The state unemployment rate dropped to 6.5% in February after adding 55,000 jobs in 2013, according to the Office of Labor and Workforce Development. The decrease from the February 2013 rate of 6.9% is the largest year-over-year drop since September 2012. Continued declines in state unemployment are expected through 2013, according to the Office of Labor and Workforce Development. The state unemployment rate dropped to 6.5% in February after adding 55,000

between the first quarter of 2013 and the first quarter of 2014, the industrial market posted positive net absorption of 2.8 msf – 24.3% higher than the 12-month period ending March 31, 2013. The industrial vacancy rate of 14.1% was down 130 bps from 15.4% a year ago. The South market declined 13%, while the North market fell 10.4%. The West submarkets posted a year-over-year decrease of 3.8%. Availability fell 60 bps across the metro to 16.2% from 16.8% in the first quarter of 2013. Consequently, quoted asking rents posted a marginal (1%) gain year-over-year to $6.18 psf per year from $6.12 psf one year earlier. This is the highest average asking rent level seen in greater Boston since 2009.

With shrinking inventories due to obsolescence and the conversion of older industrial properties to other uses, and with a virtually non-existent construction pipeline, industrial fundamentals are expected to continue to improve throughout 2014. Demand for high-tech manufacturing, including medical devices and robotics, as well as the logistical needs of major new office and retail developments throughout the metro area, mean that modern industrial facilities are in high demand across the region. With availability rates in the mid-to-high teens and rental rates more than 14% off historical highs, there is no speculative industrial construction, but there is modest build-to-suit activity for tenants with specialized requirements.

Charleston Industrial Market

The first quarter of 2014 began with speculative development coming out of the ground as MeadWestvaco moved forward with its 350,000-sf cross-dock facility. The dynamics followed a bullish start in 2013, when Boeing announced plans to invest $1 billion and create 2,000 jobs by 2020. The construction now underway comes in the wake of continuing growth of cargo volume passing through the Port of Charleston. Container traffic was up 7% year-over-year in January 2014, and intermodal rail lifts were up 18% year-over-year for the same month. The demand has also prompted other speculative projects along the I-26 corridor, with two developers moving forward with one 50,000-sf and three 200,000-sf speculative projects in the Jedburg Road area.

Industrial vacancy in the center of the metro area continues to decline, while class A space continues to command a premium, but older spaces are leasing for much less. While some defense contractors have shrunk their footprints, additional research and development and IT firms have come to the area to serve the growing IT, auto and aerospace clusters. As a result of the absorption and increasing demand, rent concessions have largely disappeared. Demand for pad-ready industrial land and the prices for it have increased compared with 2013. Availability of raw industrial tracts has lagged. Multiple industrial tracts are under contract for build-to-suit and speculative development.

The Charleston industrial market is poised for robust growth in 2014. Vacancy is well below its recent peak, and speculative development is underway. Rent growth is expected to return in 2014 to justify broader speculative construction increases.
Chicago Industrial Market

The Chicago industrial market witnessed steady improvement year-over-year between the first quarters of 2013 and 2014. First-quarter 2014 vacancy was recorded at 8.3%, a 50-bps decrease from a year earlier. Popular areas, such as the O'Hare and I-90 East Corridor submarkets, saw substantial drops in vacancy year-over-year – 130 and 90 bps, respectively.

With many transactions pushed to close at year-end 2013, leasing activity remained slow throughout the first quarter of 2014, prompting net absorption for the quarter to dip slightly to 1.7 msf. Notable transactions included Midwest Warehouse & Distribution System taking 650,000 sf, Segerdahl Corporation renewing 285,000 sf, and Woodland Foods taking 155,000 sf. Rental rates increased across all submarkets, averaging $4.25 psf in the first quarter. Some users with major distribution-facility requirements chose to relocate operations to Southern Wisconsin or Northwestern Indiana, where taxes remain lower and incentives are more abundant. The most notable of these users was Amazon, which chose Wisconsin over Illinois. The company’s first facility is currently under construction and expected to bring 1,675 jobs to the Midwest once completed.

The construction of both build-to-suit and speculative buildings has seen a significant uptick year-over-year, primarily in the construction of big-box space with a clear ceiling height of more than 30 feet. Most major owners and developers – including CenterPoint, IDI and KTR Capital – have projects in development. There were 14 buildings comprising 4.6 msf under construction during the first quarter of 2014, compared with only six buildings totaling 738,000 sf a year earlier. Of that 4.6 msf, build-to-suits account for 1.7 msf and the remaining 2.9 msf is speculative development, of which only 214,000 sf is preleased. As vacant space continues to tighten in key submarkets, developers remain confident that tenants will filter into these newer big-box facilities rather than existing outdated buildings. For the remainder of 2014, the 1-bsf Chicago industrial market should see an uptick in leasing activity, causing the vacancy rate to drop as space is absorbed.

Columbus Industrial Market

The Columbus industrial market continued to set record-low vacancy and high absorption rates in the first quarter of 2014. First-quarter 2014 vacancy continued to rise as a result of improving demand and a focus by users and investors on Columbus as a critical logistics hub in the Midwest region. Ongoing job growth, in Ohio overall and in Columbus in particular, is fueling the recovery further and helping to expand the economy. The strongest indicator of this perceived strength is more than 1.9 msf of speculative construction (48% preleased) currently slated for delivery in 2014.

The Columbus industrial market, which comprises approximately 241 msf, saw vacancy drop to 6.6% in the first quarter of 2014 from 8.6% in the first quarter of 2013. Accordingly, year-over-year average net rental rates rose modestly to $2.89 psf net from $2.82 psf net as the market digested new construction delivered in 2013 and into 2014. The largest lease signing was Bon-Ton Stores’ 743,000-sf build-to-suit deal with Duke Realty in the suburb of West Jefferson. Other new leases included deals signed by Philips Electronics, Spartan Logistics, Pier 1 Imports, Staples, Bunzl and Williams-Sonoma.

Capital markets activity has been relatively flat year-over-year with a number of portfolio transactions occurring with Columbus components. Capitalization rates have risen modestly over the last year as investors acquired older Columbus inventory in anticipation of an overall rise in market rental rates. Major transactions in the last year have ranged from $13.54 psf to $76.62 psf, demonstrating a broad spectrum of investor interest in both new and old stock.

The outlook for the Columbus industrial market is strong, with both rents and investor interest expected to rise through 2014.
As one of the nation’s most dynamic markets, Dallas continues to rank among the top metros for employment and population growth. Dallas has become a major inland port, due largely to its central location and the presence of the Dallas-Fort Worth International Airport, one of the largest airports in the world. Many major companies have announced plans to expand in Dallas, which will increase the presence of warehouse and distribution properties – the main driving force of the region’s industrial market. The cost of doing business in Dallas remains relatively inexpensive compared with other major metropolitan areas, and this affordability will continue to attract large corporations to the area.

Significant tenant demand, coupled with conservative development in 2013, has caused market fundamentals to tighten significantly during the past year. In the first quarter of 2014, the industrial vacancy rate fell to 6.6% from 7.7% in the first quarter of 2013. Development has ramped up thus far in 2014, with 15.6 msf currently under construction, exceeding pre-Great Recession building volumes. At the end of the first quarter, 24% of the space was preleased. Many large build-to-suits, such as Quaker’s and BMW’s distribution buildings, made headlines in the beginning of 2013, but development has largely shifted toward speculative construction in 2014 as available space has become increasingly limited.

Vacancy is near historically low levels, but the tight space should be alleviated later in the year as a large amount of speculative development (approximately 12 msf) is set to be delivered. Average asking rental rates have increased to $5.09 psf in the first quarter of 2014 from $4.41 psf in the first quarter of 2013. Rental-rate increases are expected throughout 2014 as a result of high demand and low vacancy, but should begin to level off as new supply is delivered to the market.

The industrial sector is currently the most active market in Denver with low vacancy rates, climbing asking rental rates and intense competition for available space. The market consists of approximately 288 msf with more than 2.8 msf under construction. Historically, vacancy has been low, but the 5% vacancy rate recorded at the end of the first quarter of 2014 (down from 7.2% one year earlier) is the lowest since the second quarter of 2000. Rental rates are on the upswing, with an average asking rate of $6.79 psf, up almost 12% year-over-year. Net absorption during the first quarter of 2014 was negative 338,000 sf, down from positive 115,805 sf in the first quarter of 2013.

Total leased space fell 27% to 2.3 msf in the first quarter of 2014 from 3.1 msf in the first quarter of 2013, but leasing activity is expected to increase exponentially in coming quarters. Large first-quarter transactions included 160,000 sf leased at 5200 E. Smith Road, 88,758 sf leased at the Colorado Trade Center to Colorado Doorways, and 49,164 sf leased at Montbello Industrial Park to NAMJet. Industrial sales are on track for 2014, with $186.8 million in properties sold during the first quarter at an average of $52.50 psf. This is a significant improvement compared with the first-quarter 2013 total of $94.4 million. The top sale for the first quarter of 2014 was a portfolio of 18 industrial buildings in Montbello Industrial Park. The 906,845-sf portfolio sold to TA Associates for $36.9 million, or $41 psf, with a 7% cap rate.

The industrial market will likely continue to thrive in coming quarters. There is great demand for industrial space with many tenants moving to Denver or expanding their footprint in the market. It is expected that the retail marijuana industry will continue to have a huge impact, driving high rental rates and increasing competition for industrial space.
The greater Detroit industrial sector (Southeast Michigan) continues to recover steadily due to strong underlying market fundamentals. The biggest catalyst is the automotive sector which, despite recent setbacks related to major product recalls at General Motors (GM), Ford and Toyota, shows strong signs of continued recovery and eventual stability. Much of the auto sector’s revival has occurred despite record-low global production costs, supporting the recent trend of reshoring manufacturing capacity to the United States. Meanwhile, Michigan’s first-quarter 2014 unemployment rate, which hit a six-year low of 7.5% as a result of continued white-collar and blue-collar job growth, points to a broader economic recovery that should drive demand for quality industrial space.

As a result of major reinvestment by GM ($2.4 billion) and Ford ($1.2 billion) in the past three years, the automotive supply sector will likely continue to be the biggest driver of commercial real estate demand in Southern Michigan. Continuing a trend reported in 2013, first- and second-tier automotive suppliers are struggling to find space in a market that has an unusually large supply of antiquated building stock. However, the market’s total inventory declined 4 msf to just under 511 msf (in approximately 17,000 buildings) year-over-year as some older stock was retired or demolished. Some new demand is being met by approximately 812,000 sf of space currently under construction. But with 80% of that total preleased, steadily rising demand will likely drive additional construction.

Despite a continuing decline in vacancy, to 10.1% in the first quarter of 2014 from 11.3% in the same period in 2013, the average lease rate remained relatively flat at $4.21 psf. Year-over-year sales dollar volume also stayed level at $100 million between first-quarter 2013 and first-quarter 2014. Ironically, capitalization rates actually rose year-over-year, to 10.4% from 9.1%, due to the age and poor quality of available product. Consequently, ongoing demand will likely continue to drive new construction and phase out obsolete inventory.

Houston remains one of the most active markets nationwide, boasting continued job growth, population gains and a low unemployment rate of 5.7%. As the epicenter of the energy industry, Houston is benefiting from high oil prices and a booming petrochemical industry. Houston has surpassed New York as the top U.S. export market, a position that will be further strengthened with the expansion of the Panama Canal in 2015. The positive economic indicators have led to an expanding industrial market. Houston has also been ranked by the Urban Land Institute as the second-best place in the U.S. to invest in industrial properties.

Space in Houston’s industrial market continues to be extremely tight. A wave of construction deliveries has slightly alleviated the market, causing the vacancy rate to rise to 4.9% in the first quarter of 2014 from 4.6% in the previous year. Construction activity has increased, with 6.7 msf currently under construction, compared with 3 msf in the first quarter of 2013. A lack of stabilized land has become a central issue as developers are struggling to keep up with demand. Houston is the only major metro area with no zoning regulations, causing industrial developers to compete with multi-residential, retail and office developers for prime land parcels. Consequently, the Houston industrial market is unlikely to become overbuilt.

Industrial demand continues to push further north and northwest. The construction of the Grand Parkway, Houston’s third highway loop, will encourage further development on the outskirts of the city, particularly in the segment that will join the suburb of Katy with Exxon’s new campus south of the Woodlands. On average, asking rates continue to rise, increasing to $5.82 psf in the first quarter of 2014 from $5.61 psf in the same period in 2013. Land prices have increased substantially in the past year and continue to rise, likely translating into increased asking rates through 2014.
Leasing and sales activity in the Las Vegas industrial market continued at a mild pace in the first quarter of 2014. Overall vacancy across the valley remained unchanged compared with recent quarters. However, vacancy in each individual submarket fluctuated slightly as tenants continued to relocate to more affordable spaces. These relocations and the lack of new tenancies have been a pattern in the local market for the past few years.

Available industrial buildings larger than 100,000 sf remain scarce. In the first quarter of 2014, there were few big-box industrial buildings marketed for sale and/or lease. In the past year, only a handful of warehouse/distribution buildings greater than 100,000 sf were sold or leased. The most significant issue for the future of industrial development in Las Vegas is where to build when the demand for this product type is once again justified, as there is a severe lack of available land.

That being said, things are starting to look up for the Las Vegas industrial market. In North Las Vegas, in particular, occupancy is on the rise. This submarket experienced the greatest volume of industrial sales in the past year, and the third-largest number of industrial leases, with 160 transactions. This activity is likely to push lease rates up and eventually create a spark for developers to start planning new speculative industrial buildings in North Las Vegas.

Many landlords have increased their asking rates slightly in recent quarters as occupancy in their properties began to rise, and demand continues to grow. The majority of the industrial transactions in the past year were for spaces less than 20,000 sf. Many of these transactions involved companies that focus on residential construction, retail expansions and increased construction activity on the Las Vegas Strip. It is likely that increasing activity in this product type will push lease rates higher throughout 2014.

The first quarter of 2014 marked a continuation of the strengthening trend recorded in 2013 in the industrial market. The vacancy rate ended the quarter at 5%, which is close to historic lows, despite the overall trend of manufacturing operations declining on Long Island. The industrial market was the first sector to show signs of improvement compared with such other sectors as office and retail, which are lagging.

There is a pronounced lack of high-ceiling, large-bay product on the market and rental rates and selling prices continue to rise. Average asking rental rates for industrial edged up to $8.06 psf from $7.80 psf in the first quarter of 2013. There is virtually no new construction underway and older, low-ceiling buildings are being renovated and, in some cases, undergoing “roof raises” to catch up with the high-cube needs of today’s warehouse users. The lack of product has also affected the small-building sector as 15,000-sf to 20,000-sf buildings for sale often experience multiple buyers and lessees in the process. Of the 130 msf of total inventory being tracked in Nassau and Suffolk counties, most of the available product is now limited to older, lower-ceiling, low-power facilities in need of updating. Any buildings built after 1995, which have higher clear ceiling heights and quality construction, are being placed on the market at a premium to the competition and experience the most activity.

This strength in the industrial market is, in part, fueled by the fact that Long Island’s unemployment rate has dropped to 5.3% — its lowest point since 2008. The Long Island unemployment rate is below the New York state average. As job growth continues to accelerate, it is expected that this strengthening trend in the industrial market will continue for the balance of 2014.
Los Angeles Industrial Market

Los Angeles County is continuing to see steady progress in its economic rebound. Growth in the market’s industrial sector has been pushed up by an increase in leasing activity along with growing investment activity. The market is striving to accommodate the increasing need for larger industrial buildings to house its manufacturing and logistics industries.

In 2013, the industrial real estate market was largely defined by the static level of cargo volumes at the San Pedro Bay ports. Although the county has one of the largest concentrations of industrial buildings in the U.S., the availability of large warehouse space is tight. The challenge for the county’s industrial market continues to be supply. Transportation and logistics firms must compete with the large-manufacturing sector for space.

Vacancy declined slightly to 3.8% at the end of the first quarter of 2014 compared with 4.1% one year earlier. Vacancy has been tightening since 2010. Current vacancy rates are now approaching the historic lows achieved during the past decade.

In addition, lease renewal rates are high, making it hard for companies seeking a presence in the region to gain entry. But recovery, which was already well underway in 2013, is increasing and lease rates should continue to rise appreciably – as they have each quarter since 2011, relative to corresponding decreases in vacancy. Rental rates in the first quarter of 2014 rose to $7.56 psf from the average rental rate of $6.84 psf in the first quarter of 2013. Los Angeles County’s industrial market recorded positive total net absorption for the third quarter in a row, with more than 1.8 msf in the first quarter of 2014. This figure is up from 151,000 sf in the first quarter of 2013. More than 1.7 msf of new industrial product is under construction as of the first quarter of 2014. Of that total, 316,000 sf has already been preleased. The health of the market is expected to continue to respond to positive drivers, including the latest drops in unemployment and the persistent increase in demand from major manufacturing facilities and transportation and logistics companies requiring a presence in this critical commercial hub.

New Jersey Industrial Market

Bolstered by accelerated leasing activity along the New Jersey Turnpike, the state’s industrial market continues to rally, as the overall vacancy rate has improved for three consecutive years. E-commerce, distribution and port-related activity have resulted in increased user demand. Despite brutal winter weather conditions, quarterly leasing activity improved by 34% during the first three months of 2014, and was higher by 9% when compared with the same quarter in 2013. This increase comes on the heels of 2013, when 7.7 msf of industrial inventory was absorbed – the highest level in a decade. The largest block of space was absorbed in northern New Jersey when Bergen Logistics, which provides both e-commerce fulfillment and business-to-business distribution, leased a 610,000-sf building in the Meadowlands for its warehousing and logistics business. In the central part of the region, Home Depot leased 470,000 sf at Exit 11 of the New Jersey Turnpike in Woodbridge.

High-quality inventory continues to generate upward pricing momentum. Therefore, developers are building more modern, efficient product, with clear ceiling heights of approximately 36 feet. Nearly 1.1 msf of new product was delivered during the first quarter of 2014, following 1 msf of new product in 2012 and more than 2 msf in 2013. An additional 5.6 msf is currently under construction.

Moving forward, the industrial market is expected to thrive throughout 2014. Increased demand is putting pressure on rents, which finally have consistent upward movement, increasing for the second consecutive year, and are 6.4% higher year-over-year compared with the first quarter of 2013. Investors continue to buy in – even after New Jersey experienced $2.2 billion in sales volume for 2013, a record level that was more than double 2012 volume. E-commerce is expected to remain the biggest driver as retailers respond to increased demand and have the ability to quickly deliver to the country’s greatest population concentration.
Orange County Industrial Market

The economic recovery is well underway in Orange County, and growth is on track with what has come to be expected for this technology and tourism hub. In the first quarter of 2014, the industrial market exhibited solid indicators that this positive trend will continue.

Orange County remains one of the tightest industrial markets in the U.S. Construction, aerospace and distribution firms continue to drive demand, especially for buildings that are 100,000 sf and larger. The vacancy rate continued to decline in the first quarter of 2014, landing at 3.9% compared with 4.8% at the same point the previous year. The consistent year-over-year drop that commenced in 2010 brings the vacancy rate in the first quarter of 2014 to levels that were last seen in 2008. Rental rates have been slowly, but steadily, rising each quarter since the recovery started at the beginning of 2011. The first quarter of 2014 recorded an elevation in rates to $8.28 psf from $7.68 psf in the first quarter of 2013. Net absorption stayed positive for Orange County’s industrial inventory as the total absorption figures remain in a similar range year-over-year. Total net absorption for the first quarter of 2014 was nearly 594,000 sf, inching up slightly from the first-quarter 2013 total of just over 550,000 sf.

The latest completed construction projects were delivered in the fourth quarter of 2013. In the first quarter of 2014, one 145,000-sf industrial development was underway. Several proposed industrial projects, which amount to more than 2 msf, are actively being marketed for sale or lease. The low vacancy rate and rising rental rates have helped spur demand in the industrial market. An increase in new construction is anticipated during the course of 2014. Demand continues to outweigh development potential as the tenant base benefits from the economic rebound. The valuation of existing inventory is expected to rise throughout 2014.

Philadelphia Industrial Market

Philadelphia’s industrial businesses capitalize on a centralized location, advanced infrastructure, an abundant workforce and competitive operating costs to create and move their products.

The average asking rental rate was steady from the beginning of 2013 to the start of 2014. In the first quarter of 2014, the average asking rental rate of $4.17 psf essentially matched the $4.19 psf rate witnessed in first-quarter 2013. As of first-quarter 2014, there were 12 projects comprising 8.1 msf under construction versus 17 projects totaling 8.2 msf that were underway in the first quarter of 2013.

Vacancy decreased to 11.3% in the first quarter of 2014 from 13% in the same period in 2013. Several tenants, including Millard Refrigerated Services, RR Donnelley & Sons Company, York Business Center and Genco Supply Chain Solutions, moved out of large blocks of space totaling more than 2.4 msf. However, Walmart, Subaru and Harley-Davidson moved into space totaling nearly 2.2 msf and contributed to the largest lease signings in 2013. The Philadelphia Navy Yard provides opportunities for existing industrial space users, as well as 120 acres of land adjacent to the Port of Philadelphia, for future development of warehouse and distribution space. The Philadelphia Navy Yard has reached a milestone in its transition from military use into a business campus with several world-class companies selecting the Navy Yard to build their corporate offices. The City of Philadelphia has a new marketing campaign called “PHL: Here for the Making,” created to help Philadelphia focus on attracting more business, becoming a place for all types of “makers” and keeping the industrial market flourishing.

The 2014 industrial market outlook looks positive. Net absorption was 353,000 sf in January alone, with modern bulk warehousing representing the largest share of the total. Demand increased for various products and, looking to the remainder of 2014, positive results for the industrial market are expected to continue.
The availability of class A industrial space remains limited in the Pittsburgh market. Overall vacancy continues to decline as a result of local manufacturing growth, incoming service-related businesses supporting the oil and gas industry and activity involving class A inventory. The vacancy rate at the end of the first quarter of 2014 was 8.3%.

Significant class A industrial transactions in the market were completed along the Route 28 Corridor. BFG Supply took occupancy of 170,000 sf at 460 Nixon Road in Cheswick, PA. Trufoods solved its space needs by committing to lease 155,000 sf at 106 Gamma Drive in the RIDC Industrial Park in O’Hara Township. Further limiting opportunities for users requiring more than 100,000 sf, the Pittsburgh Post-Gazette recently leased a 240,000-sf facility vacated by Flabeg Solar in Clinton Township.

As a result of steady demand and declining supply, leasing rates for class A space are on the cusp of $6 psf. As was the case in 2013, the absorption rate remains positive, with a two-year average of 482,000 sf per year. Active industrial tenants will find few suitable options for relocation without new industrial construction in the market.

Current market conditions mimic those at the start of 2013. While the major change for 2014 is the lack of large blocks of class A space, the need is being addressed by a substantial increase in industrial development. At the end of the first quarter of 2014, total space under construction comprised more than 750,000 sf – nearly 10 times greater than the amount under construction during the first quarter of 2013. With the vast majority of planned developments and facilities under construction preleased, the trend of sliding vacancies should remain constant in 2014. Driven by the developing shale-gas industry in the region, buyers and tenants remain highly active, continuing to put downward pressure on vacancy rates. As a result, build-to-suit projects are expected to increase through the remainder of 2014 and into 2015.

The Raleigh-Durham industrial market began 2014 in lackluster fashion with negative absorption of 126,436 sf. This lull in activity came on the heels of a robust fourth quarter of 2013, when tenants absorbed more than 700,000 sf. Overall, fundamentals continue to show signs of strengthening. Vacancy stood at 8.7% in the first quarter of 2014, down 50 bps from the same period in 2013. In Research Triangle Park (RTP), the region's largest industrial submarket, warehouse space, in particular, is in short supply, with vacancy at just 5.9%, placing upward pressure on rental rates.

The first quarter's negative absorption was driven by a handful of large-tenant departures. Ascom moved out of 109,219 sf at Airpark Business Center in RTP, and Ateb vacated 25,000 sf at 2600 Sumner Boulevard in the U.S. 1 submarket. While leasing velocity was muted in the first quarter, there were two large renewals in the RTP submarket. GlaxoSmithKline renewed its lease for 170,037 sf at Research Tri-Center South, and Catalent Pharma Solutions renewed leases totaling 79,547 sf at Southport Business Park. In contrast, housing-industry-related businesses have become increasingly active. American Furniture leased 40,125 sf at Bedford Place in RTP, Mohawk Industries leased 20,908 sf at Globe Center in RTP, Overhead Door Company leased 13,000 sf at 4900 Thornton Road in the U.S. 1 submarket, and Raleigh Roofing Group leased 12,622 sf at 1415 S. Bloodworth Street in East Raleigh.

Construction activity remains negligible with just one new building completed in the first quarter of 2014. The 30,000-sf New Hope Center II was delivered 100% leased to Peterbilt in Eastern Wake County. With the economy and housing market improving both locally and nationally, signs point to continued strengthening in the industrial sector. Prime locations are in short supply and rental rates are, at last, beginning to rise, setting the stage for increased speculative development through 2014.
Vacancy in the Northern Nevada industrial market continued to fall towards a healthy market range during the first quarter of 2014. Speculative construction was stagnant from 2008 to 2012. However, the Tahoe Reno Industrial Center welcomed a 524,800-sf facility, which was completed in the fourth quarter of 2013 and currently has a vacancy of 111,000 sf. Dermody Properties has begun a 622,000-sf class A building with 36-foot clear ceiling height located in north Reno at Logisticenter, with completion scheduled for the third quarter of 2014.

With vacancy dropping, rents are increasing fairly rapidly. In the third quarter of 2013, average class A asking rental rates increased to $3.84 psf from $3.42 psf in early 2013 – just shy of a 10% increase.

In all of 2013, gross absorption achieved a higher total (3.2 msf) than in any of the previous five years, while vacancy dropped to a five-year low. In other words, the Northern Nevada industrial market has come a long way in its recovery. Net absorption has fluctuated, but made positive gains for the past eight quarters. Local business expansions are being accompanied by interest from Midwest, East Coast and California-based companies that are looking to relocate to Nevada to benefit from a range of advantages. Incentives include proximity to 11 Western U.S. states offering one- to two-day delivery times, no corporate or personal income taxes, competitive power costs, a positive business climate, access to transportation infrastructure, and an excellent quality of life. National and regional manufacturers, delivery services, third-party logistics, pharmaceuticals, gaming, energy, Internet retailers and technology tenants continue to make Reno home. All of these factors have combined to make Northern Nevada’s industrial market a great place to do business in 2014 as the continued growth opportunities are expected to fall into place.

The San Diego economy is steadily improving – fueled by an established, albeit modest, industrial base which supports the military, biotechnology, telecommunication and tourism sectors. Local economic success, along with the national economic growth rate, helped guide San Diego’s industrial market recovery during the first quarter of 2014.

Vacancy continued to decrease in the first quarter of 2014, slipping to 7.7% from 9% one year earlier. This downward trend, which commenced in 2010, brought the vacancy rate for the first quarter in 2014 closer to levels that the market had experienced throughout the previous decade. Industrial rental rates have been trending upward relative to the decrease in vacancy. Rents have been rising gradually each quarter since recovery started in the first quarter of 2011. Rental rates rose to $10.32 psf in the first quarter of 2014 from $9.96 psf in the first quarter of 2013. Total net absorption remained positive for the fourth consecutive quarter with nearly 969,000 sf in the first quarter of 2014, up from approximately negative 2,000 sf in the first quarter of 2013.

A total of 227,000 sf of new industrial space was introduced to the market during the first quarter of 2014 by way of two separate manufacturing buildings. Only one project was still under construction at the end of the quarter: the 115,000-sf industrial warehouse currently underway in Poway as part of the Ridgeview Business Park. The building has been fully preleased to General Atomics. The slowly tightening vacancy rate and increasing rental rates are encouraging new development. The local market drivers for the San Diego industrial sector indicate a promising outlook for an uptick in property values throughout the coming year and beyond.
San Francisco Industrial Market

San Francisco’s industrial market has witnessed occupancy gains in each of the past four quarters. In the first quarter of 2014, the vacancy rate decreased 130 bps to 3.1% from 4.4% in the first quarter of 2013.

The Potrero East submarket ended the first quarter of 2014 with a vacancy rate of 2.7%. This submarket has experienced almost 200,000 sf of occupancy growth since the first quarter of 2013, and was the main contributor to the city’s overall positive growth during the past year. However, asking rental rates are down 12% in Potrero East due to the lack of quality space currently available, ending the first quarter with an asking rate of $11.28 psf. India Basin, San Francisco’s smallest industrial submarket, has recorded 0% vacancy in the last two quarters.

Manufacturing jobs in San Francisco have almost doubled over the past three years, as more than 500 companies currently call San Francisco home. Companies’ desire to operate in the city is being driven by branding and the desire to have “Made in San Francisco” on their products. Clothing firms, as well as food and beverage companies, are willing to pay a premium to be within San Francisco city limits, but many simply cannot produce on a large enough scale to stay. Anchor Steam Brewery, which is developing its new 212,000-sf Pier 48 facility as part of the San Francisco Giants’ Mission Rock mixed-use development (to go along with the original Potrero West facility), is an exception. Otherwise, industrial development opportunities are few and far between due to high land costs.

With supply limited, leasing activity slowed down during the first three months of 2014. Moving further into 2014, it is anticipated that this trend will continue and vacancy levels will hold tight.

San Mateo Industrial Market

Following the county’s strongest annual growth in nine years in 2013, San Mateo’s industrial market has experienced substantial occupancy gains since the first quarter of 2013. Vacancy decreased 130 bps in 12 months, ending the first quarter of 2014 at 4.9%.

North San Mateo County, which consists of Daly City/Brisbane, South San Francisco/San Bruno, and Burlingame/Millbrae, ended the quarter with a vacancy rate of 5.4%, down from 7.5% one year earlier. With limited availability, asking rates in North San Mateo County rose more than 6% year-over-year, ending the first quarter of 2014 at $9.84 psf. South San Mateo County, which consists of San Mateo/Foster City, Belmont/San Carlos, Redwood City and Menlo Park, ended the first quarter with a vacancy rate of 3.8% and an average asking rate of $10.68 psf. Redwood City’s average asking rate experienced a booming 25% increase compared with one year earlier, the largest increase of any submarket in the county. Redwood City ended the quarter with an $11.52 psf average asking rate.

In most markets where demand exceeds supply, developers are eager to build new product to meet demand. That is not the case, however, in the San Mateo County industrial market. Land in San Mateo County is extremely limited, and simply too expensive, to be used to build new industrial product. Most new industrial developments in the Bay Area have been taking place in the East Bay, where land costs are a fraction of what they are on the San Francisco Peninsula. The East Bay also provides more vacant land opportunities to build industrial product. Construction will continue to be a non-factor in San Mateo County.

With industrial supply limited, leasing activity slowed during the first three months of 2014. For the remainder of 2014, more of the same is expected, with vacancy levels forecasted to hold steady.
The South Florida industrial market, which comprises more than 310 msf in Miami-Dade, Broward and Palm Beach Counties, continues to remain healthy, as demonstrated by an ongoing contraction in vacancy rates, a steady stream of projects under construction and an increase in net rental rates.

The average vacancy rate within the Tri-County Area maintained its downward trajectory, decreasing to 7.5% as of the first quarter of 2014, the lowest level since the second quarter of 2008. This 7.5% rate represents a year-over-year contraction of 90 bps from the first quarter of 2013 and an impressive 410-bps decrease from a peak vacancy of 11.6% in the last quarter of 2009.

As of the first quarter of 2014, there were 15 buildings with more than 2.6 msf of industrial/flex space under construction in the South Florida metropolitan area. This total represents a 77.4% year-over-year increase, as just less than 1.5 msf of speculative space was under development in the first quarter of 2013. Some of the largest projects currently being constructed include the 650,000-sf Aldi Warehouse in Royal Palm Beach, the 385,000-sf South Florida Logistics Center’s Buildings Two and Three, and the 230,000-sf Bridge Point Development.

Owner/user sales transactions increased in the first quarter of 2014, with the deals including a couple of larger properties. Amalie Oil purchased a 126,930-sf distribution facility for $34 psf, and Brandon Ford acquired a 145,607-sf manufacturing facility on 19.7 acres for $29.73 psf. The Brandon Ford acquisition will be converted into a maintenance facility. The increase in owner/user property sales has resulted in a lack of supply of industrial buildings on the market, which will likely force users to consider buying land and building their own premises.

Average net asking rental rates also remained on an upward path, rising to $7.51 psf in the first quarter of 2014. This jump amounted to a year-over-year increase of $0.51 psf, representing an 8.2% increase from one year earlier.

Overall, the South Florida industrial market has maintained a solid recovery since the Great Recession. The market continues to show signs of strengthening on the back of population growth, an improving labor market and a continued low-interest-rate environment. With interest rates expected to remain stable through 2014 and a forecasted employment growth of 2.3% for the year, the market is expected to continue to follow its current trend of contracting vacancy rates and increasing rental rates.

The Tampa industrial market ended the first quarter of 2014 with a vacancy rate of 8.7%, down from 9.3% in the first quarter of 2013. The largest lease transaction of the first quarter of 2014 was HD Supply’s 229,309-sf lease in IDI’s Madison Industrial Lane building in south Hillsborough County. Availability of class A warehouse space greater than 100,000 sf remains very tight with only a small handful of options on the market.

Cabot Properties is leading the way with Tampa’s first speculative distribution building since 2008 – the 150,000-sf Cabot Commerce Center, which is scheduled for completion in the fourth quarter of 2014. Taurus and Eastgroup will also break ground on 150,000-sf and 120,000-sf speculative distribution buildings, respectively, in 2014. Amazon is quickly approaching completion of a pair of 1-msf warehouses in Tampa Bay.

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It is expected that industrial demand will increase moderately through the remainder of 2014, resulting in a continued drop in the vacancy rate and a slow and steady increase of rental rates. Pent-up demand and limited supply of class A space are expected to boost the average price for quality assets and, eventually, increase land transactions and build-to-suit construction projects.
The Washington industrial market comprises 182 msf of existing flex and warehouse space. As of the first quarter of 2014, the market enjoyed an overall vacancy rate of 10.4%, compared with 10.8% in the first quarter of 2013. Since the first quarter of 2010, the vacancy rate has decreased by 200 bps. The market’s central Mid-Atlantic location; robust road, rail and air infrastructure; and access to an enormous population located within a day’s drive, support strong activity and investor interest in industrial product. Counting the adjacent Baltimore market, the combined industrial inventory is 380 msf. The region was a top-rated investment location (by sales volume) in 2013 according to Real Capital Analytics, and has a major New Panamax-capable port.

One of the Washington market’s strengths is a high barrier to entry, as the limited availability of land and its high prices are keeping supply relatively constrained. A mere 1.6 msf is under development, and those projects are more than 30% preleased. Construction is following the area’s major distribution corridors and is concentrated in the Dulles Corridor, Manassas/I-66 and on the east side of the District of Columbia in Prince George’s County’s Lanham/Landover and Southern Prince George’s areas. Given the broad range of product and geography – the market spans multiple counties and the District of Columbia – rents vary greatly from location to location and averaged a strong $9.38 psf in the first quarter of 2014, up from $8.97 psf one year earlier.

Established occupiers include Giant Food, Under Armour, PepsiCo and Amazon. During the first quarter of 2014, significant deals were signed by CSVA Services in the Dulles Gateway Distribution Center near Dulles International Airport in Virginia and by Metropolitan Moving and Storage in its new facility at the Brick Yard in Laurel, MD. The overall industrial market is expected to remain strong with low vacancy rates. Significant strides have been made in the flex-space sector with its recovery well underway. Look for likely expansion in the warehouse sector for the remainder of 2014.
Turning information into intelligence

Avison Young’s multi-disciplinary group of dedicated research professionals works collectively to deliver market analysis and insights that drive value in real estate decisions. We translate data into market intelligence to help our clients strategically solve their real estate concerns and concentrate on what their businesses do best.

Avison Young regularly produces an array of local, regional and North American market research, including quarterly and special reports, and annual forecasts. Our research is quoted extensively in local, national, business and global media outlets.

Through Avison Young’s professionals, our research team engages with a wide variety of corporate, investor and institutional clients to conduct customized research, due diligence and market assessments, as well as demographic and location analysis.

Leveraging in-depth knowledge from our broad services platform with information from internal proprietary and independent third-party data-tracking systems, our clients’ real estate decisions are fully supported by best-in-class, interpreted data — true market intelligence.
Avison Young at a Glance

Avison Young is the world’s fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 1,500 real estate professionals in 57 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-family properties.

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Transaction Services
- Tenant representation, lease acquisition and disposition
- Investment acquisition and disposition for owners and occupiers
- Landlord representation—all property types—office, industrial, retail, build-to-suit, land and multi-family

Consulting & Advisory Services
- Portfolio review and analysis
- Valuation and appraisal
- Benchmarking
- Transaction management
- Asset rationalization
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- Workplace solutions
- Acquisitions and dispositions

Management Services
- Project management
- Property and operations review
- Property/facility management
- Tenant relations
- Financial reporting
- Lease administration
- Operations consulting
- Asset management
- Portfolio management

Enterprise Solutions
- Integrated services coordination
- Transaction management
- Optimization strategies
- Portfolio lease administration
- Project coordination and reporting

Investment Management