



**AVISON  
YOUNG**

# Avison Young National Food Services Group

## *2019 Market Outlook*

First Quarter 2019

**Todd Heine**, Principal,  
Private Equity Group | Food Services Group  
[todd.heine@avisonyoung.com](mailto:todd.heine@avisonyoung.com)  
847.849.1921





# Avison Young National Food Services Group *2019 Market Outlook*



## Overview

The national food industry landscape is changing significantly, as companies that manufacture and distribute foods adapt to supply chain realignments and expansion in fresh food, organic options and online delivery. These trends are generating considerable demand for industrial real estate throughout the country, from cold storage facilities to last-mile warehouses and regional and national distribution facilities.

One key example is Chicago, which has long been known as a top manufacturing and supply hub for the global food industry. Its central Midwest location, strong labor force and ties to generations of food manufacturing and ingredients producers makes it a natural choice for food supply chain companies looking to locate or expand their businesses.

As the second largest food processing cluster in the U.S., Illinois generates \$180 billion in processed food sales annually. This market segment is part of the strong manufacturing industry in Illinois, which accounts for 12.7 percent of the total output in the state and employs 9.5 percent of the workforce.

Among the manufacturing sectors in the U.S., food and beverage is the third largest category. And, Illinois ranks number four among the U.S. food manufacturing powerhouses, with \$100.39 billion in annual output, following closely behind Ohio, with \$106 billion. The top two are California (\$288.98 billion) and Texas (\$225.78 billion).

## Food Industry is Top Driver of Industrial Sector

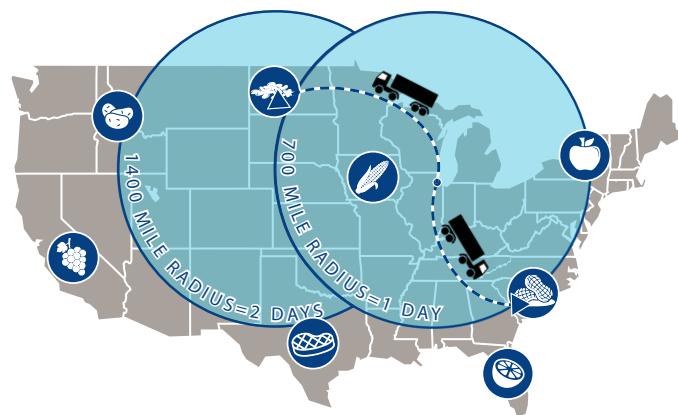
This important market sector is also a significant driver of industrial activity in the Chicago market, throughout the Midwest and on a national basis. Of the 888.6 msf of industrial space added nationally in the U.S. since 2016, an estimated 4 to 8 percent supports the food industry with warehouse, distribution, fulfillment and related uses.

Food industry tenants often have unique space requirements that might include USDA certified facilities, cold storage, and the need for access to extensive water and utility capacity. These facilities are often considered “mission critical” as they are tied to the companies’ overall financial and operational objectives.

The food manufacturing and distribution sector is also experiencing significant change as it adapts to shifts in consumer shopping and meal preparation, including the growth in fresh and organic foods, and last mile delivery. The purchase of Whole Foods by Amazon.com has changed the game for many food companies as they look to the future of this sector -- and work to capitalize on the evolving food business.

## Chicago and The Midwest: All the Right Ingredients

The Chicago region has been the center for food production, warehousing, and distribution since the 1800s. The region serves as the central location to process and distribute the Midwest’s output of grains, dairy, meats and related products. It also is the central hub for many of the ingredients used in food production. The Chicago area food and beverage industry has grown to become the second largest in the U.S., generating more than \$30 billion in sales and employing more than 130,000 people.



## Top Food Industry Trends for 2019



### **Online Grocery**

Continue growth in food processing and distribution



### **Cold Storage**

Increased demand, but limited supply, development challenges persist



### **Last Mile**

Online grocery and fresh food expansion, competition for space near large population bases



### **Expanding Use of Automation**

Drive for efficiency, labor shortage pushing reliance on automation



### **Food Safety is Bigger Focus**

Firms look at where food is sourced, facility design and enhanced safety measures



Ryan Companies' Pullman Crossings industrial development offers up to 1.2 MSF of infill build-to-suit opportunity.

**PULLMAN  
CROSSINGS**

## Growing Food Clusters: A Look at Pullman Crossings

Given its central Midwest location, strong transportation and logistics network and diverse labor force, Chicago is a natural draw for food manufacturing and services businesses. One notable expansion of the city's food services capabilities is Pullman Crossings, a 62-acre, build-to-suit development designed to meet the needs of the region's growing food services companies. Tucked into the up-and-coming Pullman neighborhood on Chicago's South Side, Pullman Crossings is currently the largest infill development in the City of Chicago.

This is the first modern, rail-served business park that offers accessibility to a strong workforce within 20 minutes of the city. This development can accommodate up to 1.2 million square feet of industrial space. Ideally positioned in an existing food manufacturing area along a Class I Rail Line with direct access to the interstate system, Pullman Crossings is ideally suited for food processing and distribution companies.

## Whole Foods Moves In

The new 140,000-square-foot Whole Foods Market distribution center was designed to take advantage of the Pullman neighborhood's skilled workforce, close proximity to the interstate and diverse business climate. The facility serves Whole Foods Market locations across the Midwest, including 25 currently in the Chicago area and new stores in the Chicago neighborhoods of Hyde Park and Englewood and the suburb of Evergreen Park.

The new distribution center, which relocated from Indiana in 2018, brings 100 jobs to Chicago and serves as many as 70 Whole Foods Market grocery stores in Illinois, Indiana, Michigan, Wisconsin, Minnesota, Missouri, Nebraska, and Iowa, and the Canadian province of Ontario.



## Top 5 States in Overall Manufacturing Revenue



California

**\$288.98 Billion**



Texas

**\$225.78 Billion**



Ohio

**\$106.00 Billion**



Illinois

**\$100.39 Billion**



North Carolina

**\$99.78 Billion**

ILLINOIS



**72,000** of the nation's top farms cover nearly **76% of Illinois'** land area

Illinois farms are **top producers** of corn, soybeans, livestock, dairy and poultry

**Illinois #1** in U.S. for food-related **patents**

Some of the world's **most well-known food producers** call Illinois home

### Incentives

There are many state and local incentive programs to support food industry businesses as they locate or expand. Pullman Crossings, for example, is being developed in conjunction with the Chicago Neighborhoods Initiative, which maximizes workforce opportunities and creates strong incentives, including: TIF District eligibility; Enterprise Zone eligibility; Class 6B eligibility; and Industrial Corridor System Funds and New Market Tax Credit Eligibility.

### Why Build-to-Suit?

Many food industry businesses are experiencing significant growth, along with demands to realign their supply chain to improve efficiency, add automation, and boost speed-to-market. A build-to-suit can be the ideal solution, as it allows for integrating highly specialized requirements, such as additional freezer/cooler space, and planning for long term growth. This type of decision should be made as part of an overall operational and space needs evaluation.

### Notable Transaction



Avison Young negotiated a 189,000-sf industrial sale/leaseback in 2018 for Gold Standard Baking in Chicago, assisting this long-term food manufacturer in leveraging its real estate while maintaining a critical location.

Sources: Center for Manufacturing Research, CoStar, Intersect Illinois

# Chicago Atop Cold Storage Markets

The demand for cold storage facilities has grown significantly with the expansion in fresh grocery and food delivery in many markets. According to CoStar, here are statistics for cold storage facilities in several key U.S. markets, as of January of 2019.

## CHICAGO

Available SF	747,755
Vacancy Rate	8.3%
Total Existing SF	8 MSF
Under Construction	183,000

## DALLAS

Available SF	551,256
Vacancy Rate	6.1%
Total Existing SF	8.2 MSF
Under Construction	0

## LOS ANGELES

Available SF	149,889
Vacancy Rate	0.6%
Total Existing SF	9.9 MSF
Under Construction	0

## MIAMI

Available SF	352,660
Vacancy Rate	22.7%
Total Existing SF	1.6 MSF
Under Construction	0

## NEW YORK

Available SF	287,400
Vacancy Rate	3.3%
Total Existing SF	3.6 MSF
Under Construction	0

## NEW JERSEY

Available SF	91,237
Vacancy Rate	0.3%
Total Existing SF	4.2 MSF
Under Construction	0

Source: CoStar

# Avison Young National Food Services Group

Avison Young's National Food Services Group, based in Chicago, assists clients with facility acquisition, dispositions, valuation, labor analysis, and economic incentive opportunities. The team has extensive expertise in USDA and FDA certified facilities, RTE commissaries, cold storage distribution plants, and ingredients blending facilities, and provides clients with strategic direction on the design and construction of specialized build-to-suit facilities.



## Todd Heine

Principal  
Private Equity Group  
Food Services Group  
todd.heine@avisonyoung.com  
847.849.1921

One South Wacker, Suite 3000  
Chicago, Illinois 60606

Todd Heine is a Principal and the leader of Avison Young's National Food Services Group. He provides strategic advisory services to assist food manufacturing and food distribution companies throughout North America with facility acquisition, dispositions, valuation, and economic incentive opportunities. His specialized in USDA certified facilities, RTE commissaries, cold storage distribution plants, ingredient blending, protein processing and baking plants, as well as standard industrial buildings. In the last twelve years, Todd has completed over 300 transactions with a value in excess of \$750 million.

Heine is active with many industry organizations, such as:

- ◆ The Association of Industrial Real Estate Brokers
- ◆ Association for Corporate Growth
- ◆ International Association of Refrigerated Warehouses
- ◆ Executives' Club of Chicago.

AVISON YOUNG  
NATIONAL FOOD SERVICES GROUP

2019 MARKET OUTLOOK

**AVISON  
YOUNG**

Intelligent  
Real Estate  
Solutions

[avisonyoung.com](http://avisonyoung.com)

©2019 Avison Young Chicago, Inc. All rights reserved.

E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young Chicago, Inc.

 **BEST  
MANAGED  
COMPANIES**  
Platinum member