COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

CHICAGO CHAPTER

“The State of the Industrial Market”

by Matt Baron, NAIOP Chicago Staff Writer

This is a summary of the March 15, 2011, meeting of the Chicago chapter of NAIOP, the Commercial Real Estate Development Association.

Its members gathered at the Riverway Auditorium in Rosemont to hear insights from moderator Mark Saturno, Managing Director*, AMB Property Corporation and panelists Steven Disse,* Principal, *Colliers International; Daniel Leahy,* Executive Vice President*, NAI Hiffman; Jim McShane,* CEO*, The McShane Companies; and Keith Stauber,* Regional Managing Director - Industrial Services*, Jones Lang LaSalle.*

Nobody likes hitting bottom, but one of its more redeeming qualities is that it leaves you with no place to go but up.

Collectively, panelists came just shy of declaring the industrial market has bottomed out, with an optimistic tone permeating their remarks. In 50 minutes of rapid-fire commentary, experts painted a promising picture of the state of Chicago’s industrial market specifically and the Midwest more broadly.

One sign of the region’s “resiliency and liquidity,” said Steven Disse, is that over the past two years professionals were able to “make a living selling investment properties in what was the worst industrial market or investment market since the 1930s.”

“In the worst of times, you had people who would still buy buildings here,” Disse said.

Daniel Leahy echoed other panelists in saying that one key ingredient for a resurgence will be banks getting more serious about loaning money again—a shift that will be marked by more competitive interest rates.

“Terms are lousy,” said Jim McShane. “…we need the banks to get a little more competitive, which I think will happen toward the end of 2011.”

Prompted by an audience member’s question, McShane elaborated on his views at the conclusion of the meeting.

“People who are running the economy in D.C. were bankers. They’re trying to make banks healthy again. Those who aren’t bankers are suffering, (but) as banks get healthy, that’ll be

good for us," he said. "Some of the bigger banks should be healthier by end of this year. Compression will happen, spreads will lower."

Another important piece of the equation is "to get middle-market players back in" on the action, Leahy said. He put those "bread and butter" transactions at the $10 million to $100 million level.

McShane said the construction business now is "very good" for his company and diversification of product type and geography "has helped us survive."

"Those who have survived are more diversified. Overall right now it's not good to be a developer, it's pretty good to be contractors and brokers," McShane continued. "Development will slowly come back in 2011 on both coasts, maybe in Houston and will work its way into Chicago in 2012."

McShane said the 222,000 jobs created nationally in February were the most for any one month since 2006, so "there is reason to be optimistic. We do need jobs to grow more in the Chicago and Midwest area."

Once the market does come back, the years 2013 to 2019 should be "good times to be in business, particularly in industrial," McShane added.

Keith Stauber said Jones Lang LaSalle has been gearing up for growth over the past 12 to 18 months, as evidenced by its hiring more than 50 brokers in the industrial segment across the country.

Another hopeful sign: the port at Los Angeles-Long Beach has seen a 20-percent increase over last year, "a huge indicator that importing is back, the consumer confidence is back," Leahy said.

Other factors could dramatically alter projections, Disse cautioned, whether it's the oil crisis emerging in the volatile Middle East or the economic aftershock of the tsunami and earthquake in Japan last week.

"There is a lot of smart money buying big portfolios who anticipate rent growth," but before that happens, the market needs to see a reduction in vacancy levels, said McShane. "It doesn't pay to build new, unless you're doing a build-to-suit."

Acquiring property is also one way to cope with the cost of money going up. Disse pointed to a recent $650 million building purchase that was a "hedge against inflation."

Of the nine properties in the 200,000- to 300,000-square-foot range that are currently on the market locally, four will get transacted in the next four months, Leahy said. And one broader positive indication of longer-term commitment is that about half of the deals include at least 20,000 square feet of office space.

When the cost of oil rises, that increases the importance of rail, and the need for companies to be close to it, Leahy said. He also discussed pending legislation from the Federal Motor Carrier Safety Administration that would cut the 11-hour daily driving limit to 10 hours.

Opponents of such a move argue it would lead disrupt supply chains, hurt retailers and result in more traffic congestion, as it would force truckers to be on the road during daylight hours. If the scenario unfolds, then that would also "push more things to rail, which is good for Chicago," Stauber said.

Fanned by low interest rates and low debt, capitalization rates have come back much more swiftly than Disse and his colleagues anticipated. In Chicago, the core market is within 5 or 10 percent of peak pricing, while on the coasts it is believed that they are at peak pricing, he added.

Chicago is emerging as a trading market, with the most active buyers in an intermediate trade situation—buying, assembling and then selling to someone else, Disse said.

"People's view of Chicago has changed. Anyone who owns here or has owned significant real estate over the past 10 years has been disappointed at how it has performed at the leasing level" but they keep buying, Disse said.

The growth here is not on the same level as that on the West Coast, Stauber noted, but one factor in the city's favor is that institutions believe that in order to be considered a national player, they need a Chicago presence.

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