“As hot as we’ve ever seen it”: Texas experts pinpoint the state’s industrial hot spots

BY BRANDI SMITH

Logistics Property Company's City Park Logistics Center, Missouri City, TX

At this time in 2020, it was hard to imagine that the industrial market could get much better. It was arguably already the strongest of the sectors when the pandemic hit. And while shutdowns had a devastating impact on other real estate markets, industrial only gained steam.

“The Dallas industrial market is as hot as we have ever seen it,” says Josh Barnes, Senior Vice President of Holt Lunsford Commercial (HLC). “Tenant demand has continued to provide +/- 20M Square Feet of net absorption, which has allowed the development pipeline to remain strong.”

The Metroplex was at or near the top of just about every nationwide industrial ranking a year ago thanks to its key position as a logistics hub.

“Companies located here can access numerous markets in the United States, not

to mention Texas itself. That's 29 million people alone," says Bill Baumgardner, Executive Vice President of VanTrust. "Dallas is the hub to all that."

The pandemic accelerated consumer buying habits, increasing e-commerce business and, in turn, the need for distribution sites.
"All these consumer product companies are now focused heavily on what their e-commerce strategy is and how they get their goods to your home as quickly as possible," Baumgardner says.

"Couple that with the sustained population growth and job growth, that's a great recipe for a solid industrial market," adds Barnes.

Another side effect of the pandemic that has benefited the industrial sector: layoffs in other areas have helped remedy a longstanding labor shortage.

"With traditional retail and hospitality taking their lumps during the pandemic, we've seen a migration of those workers into the industrial distribution sector," says Baumgardner. "Wages are good and employment is stable. The truth of the matter is if you are looking for a job, you can find a good-paying one in the industrial area."

Even though supply is coming to the Dallas market as quickly as contractors can get it up, demand is still outpacing it.

"Rates are increasing as land prices and development costs are increasing," says Canon Shoults, Managing Principal of HLC. "Existing buildings are following the same trend as the overall vacancy rates in established markets have remained low."

As investors steer their money away from other asset classes, such as retail

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and office, and focus on industrial, the industrial investment market is getting "extremely competitive," according to Rives Nolen, Senior Vice President of Investments at CenterPoint Properties.

"Investors are very interested in putting money into industrial real estate, whether it's in the form of acquisitions or development," he says. "Even with the competitive marketplace, it's a great time to be in industrial real estate."

Nolen is based in Houston, which he points out has always offered a business-friendly environment.

"We don't have zoning and it's easier to get projects permitted and built here in Houston compared to other markets," says Nolen.

As a result, infill locations are difficult to find, but not impossible. Logistics Property Company's CityPark offers more than 450,000 square feet of investment-grade rear load and cross-dock buildings and 50 acres of available land right off Beltway 8 and Hwy. 90 in Missouri City.

"We are ideally positioned for the 75,000 - 100,000 square feet tenant, a corporate campus requirement, or an e-Commerce user who needs excess auto or trailer parking," says Robert Wheless, LPC's Senior Vice President -- South Region. "We are attracting interested prospects for all three of the above use classes."

The value of infill locations, more than ever, is their proximity to the very consumers industrial tenants hope to reach, Wheless explains.

Every retail segment posted gains in January, led by the Stimulus Bill and e-Commerce sales growth. These users of space have to adapt their operating models, supply chains and distribution plan to meet the needs of the consumers under pandemic restrictions.

"The Houston MSA covers more than 9,500 square miles, larger than five New England states. The population of the MSA, at 7 million, has an appetite for consumer goods, home building and home furnishing products," he says. "Traditionally, these goods were conveyed via retail storefront; today, these goods are more likely to be conveyed from warehouse fulfillment centers. The distribution centers which store and deliver these products on the periphery of the MSA will not perform as well as the in-fill and 'close-in' locations along the traditional industrial corridors."

Even so, because of the challenge of finding affordable infill locations, Nolen says developers are beginning to focus on new and emerging micromarkets in the outlying areas, such as Katy, where they can build much larger distribution spaces.

"Whereas 10 years ago, we would have considered 150,000 square feet a really large deal for the Houston market, we are now seeing much larger deals up to 1,000,000 square feet or more and the volume of larger distribution deals in the market has also increased. The average deal size has grown significantly," says Nolen. "Developers are responding to this trend with speculative projects of all sizes including the 500,000 to 1,000,000 square feet size range that we previously haven't seen in Houston."

The experts we spoke to pointed to Austin, San Antonio and El Paso as markets they're watching, but all are primarily focused on Dallas and Houston.

As always, they're analyzing trends to help them stay on top of the market.

"We have seen predictions that e-Commerce sales will rise to levels of over 40 percent of all retail transactions over the next few years," says Wheless. "This level of sales will require freeway accessible warehouse distribution facilities that are proximate to population centers for same-day deliveries."

"With land being sold at a record pace and increased development costs, we do expect to see rents to continue to follow," says Shoults. "Compared to other parts of the country, we are still relatively affordable, so we know there is runway on rent growth."

These industrial pros say, as always, they're ready for whatever the market throws at them. But for now, they're enjoying riding this wave.

"We've seen cycles in the past that were pretty strong, but I've never seen anything quite like this in my career," says Nolen.

Summarizes Baumgardner: "It's just good to be in industrial right now."

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