

More than just a warehouse

The diverse industrial market in Texas

BY BRANDI SMITH

Stretching across 4,000 acres in Northeast Houston, McCord Development's Generation Park is a kind of mini-reflection of the largest city in Texas. It is a mixed-use development loaded with every kind of commercial real estate opportunity - from residential to office, retail to industrial.



One of the first tenants to plant a flag in Generation Park was FMC Technologies, now TechnipFMC, which opted to locate its 173-acre, state-of-the-art corporate campus there. Already 2,000 employees strong, the company currently has a footprint of 1 million-square-foot and room to grow in its next phases.

"I think it took landing TechnipFMC to get people thinking, 'Wow. This is actually a great location,'" McCord says. "Now we're just seeing people piling on at this stage. It's very exciting."

A possible reason for excitement is reports of a possible IKEA distribution center coming to Generation Park, something about which McCord was unable to comment. He did add, however, that the property is getting "a lot of interest from large, national retailers" focused on last-mile distribution and fulfillment.

Those are far from the only companies considering or already making a move to the development. McCord says plans include some smaller-scale industrial buildings for local Houston companies, citing GHX Industrial as an example. The anchor of the new Lockwood Business Park spans 10 acres, opposite TechnipFMC's campus.

"Because of the space available here, they were able to combine their headquarters along with their regional distribution facility," he explains. "We're working on several other similar industrial uses. We find that they like the close proximity to a mixed-use environment rather than being isolated in an 'industrial area.'"

By contrast, Generation Park's proximity to hotels, multi-family housing and restaurants provides additional incentive.

"We all eat lunch every day. We like to have nice places to go, but still be able to run a really competitive business and have low operating cost," McCord says.

He adds that those small businesses may not get as many headlines as a large retailer, but landing them is just as exciting for McCord Development.

"They're the ones running Houston," he points out.

"I'm really excited about maintaining a ratio where we have a significant portion of industrial companies at Generation Park actually making things and creating value"

- Ryan McCord

A glance around Texas will show you industrial is running markets all over the state. Even as projects under construction grew to 30.6 million square feet in the first quarter of 2018, net absorption increased and the vacancy rate dropped below 6 percent.

The majority of those new projects are going in up in Dallas, where 19.3 million square feet of industrial space is under construction, according to CBRE. Houston, which can boast the second-most, has less than half the square footage being built.

Industrial appears to be at a premium in Austin, however. Though the vacancy rate hovers just over 10 percent average asking rent there is up to \$9.87 a square foot, compared to El Paso's \$4.30.

In San Antonio, delivered construction topped 2.2 million square feet in 2016 and 2017, setting the bar high for this year. It's a benchmark Payton Rion and Michael Kent of Stream Realty think the market could get close to in 2018.

"San Antonio's industrial market is strong. We are continuing to see higher rates and healthy occupancy throughout the core submarkets," says Rion, an associate at Stream. "The demand for new class A warehouse



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is at an all-time high, and with approximately 1.7 million square feet currently under construction, developers are trying to capitalize on this market trend." Rion, who joined the company's industrial and land team three years ago, and Kent, a vice president who has been with Stream since 2012, say they believe in the San Antonio industrial market.

"With our partners, we have been able to recently deliver a total of 600,000 square feet of speculative Class A warehouse space in San Antonio, says Kent, adding that in addition to that, "Stream owns and/or is marketing a total of 285 acres of industrial land available for sale, continued development and built-to-suit projects."

"I thrive on the ability to be a part of a project and see something created start to finish. That's what lured me, and I'm sure a lot of people, into the business," Rion adds. "Taking a raw piece of land or an old rundown building and creating something people can use and enjoy is pretty special."

The industrial market has offered plenty of those opportunities in the past few years, especially as e-commerce has grown.

"As people's day-to-day routines continue to change and shift to an online shopping experience, we are seeing the demand for not just more warehouse space, but more functional and efficient warehouse space," says Rion. "Distribution companies need to get their product from

A to B faster and more cost effectively than ever before to keep up with the consumer demands." That's putting an emphasis on last-mile distribution facilities, which now account for 3.8 billion square feet of the state's industrial space.

"We are seeing these requirements particularly in infill locations close to dense residential areas," Kent explains. "It's impact on industrial development is making sure that you have the right location with easy access to major highways in order to navigate and serve the city quickly and efficiently."

That mix of logistics and e-commerce, plus a growing population, is what McCord says is behind the industrial boom in Texas, specifically in Houston. The Port of Houston, he points out, is doing an "exceptional job" growing the region's container-handling capacity.

"You couple those things and all of a sudden, it makes tremendous sense for companies that may previously have not had a substantial facility in the Houston area to want to locate a facility here," explains McCord. "They can benefit from the port and serve an enormous local population."

Generation Park offers easy access to that population, just a 20-minute drive from downtown.

"We're remarkably central in that pursuit," McCord adds.

He says that, going forward Houston's unique industrial market, which has historically leaned on manufacturers or other value-add companies, will continue to draw attention for more than just warehouse space.

"These businesses are taking either raw materials or slightly modified goods and then combining them to create something with even more value," says McCord. "I think that's a big part of Houston's

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'special sauce.' While we're seeing a big surge in these larger-scale distribution centers, which I think is exciting and great for the region, I'm really excited about maintaining that ratio where we have a significant portion of industrial companies at Generation Park actually making things and creating value."

He points to future tenants that would range from pharmaceutical, to medical devices, to traditional, energy-centric fabricators and beyond.

"I think Houston's going to enter into a very exciting chapter where we capitalize on the chemistry sector of our economy, as well as the medical sector and the global connectedness of this city from a trade, transportation and transit perspective," McCord says.

Rion has similar expectations for San Antonio, which he says is flourishing.

"This cycle has been big for industrial real estate. The market is constantly changing and the needs from the tenants will continue to grow as consumer trends fluctuate," he says. "However, we believe the fundamentals of industrial will stay the same for a long time to come; people will always need a place to store stuff."

Indeed, they will, and the industrial CRE professionals all across Texas will be happy to help them find that place when needed. ■

