

SOUTHEAST REAL ESTATE BUSINESS®

The Southeast's Real Estate Source

CONSTRUCTION DEMAND NEARLY AT FEVER PITCH

But the industry's labor shortage is jeopardizing the ability of general contractors to shoulder the increased workload.

By John Nelson

If you live or work in the major metros of the Southeast, chances are that when you look up you see cranes dotting the horizon. Ballparks and football stadiums are underway in Atlanta, spec office buildings are breaking ground in Charlotte and Nashville, apartment towers and hotels have commenced in Miami and Orlando and industrial projects are coming soon to major metros across the region.

"There has been exceptionally strong growth in manufacturing, lodging and apartment construction all year," said Ken Simonson, chief economist of the Associated General Contractors of America (AGC), in his monthly report on construction activity in the U.S.

"More recently, office, healthcare, highway and educational structures have rebounded as well."

Since the recession, the hottest property sector for new construction has been apartments. General contractors across the board agree that that's been the bell cow for the industry.

"Across every region the most in-demand sector is apartments. Apartments are going up everywhere: Charlotte, Raleigh and Nashville. That's the hot sector right now," says Millard Choate, president and founder of Choate Construction, which is currently underway on two apartment projects in Atlanta

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Choate Construction recently redeveloped 11 stories of trophy office space in Atlanta for Carter's, a children's clothing manufacturer whose brands include OshKosh B'gosh.



Amazon has leased 222,600 square feet recently at Concord Airport Business Park, a new industrial facility in metro Charlotte, a central market in the I-85 corridor.

ROAD TRIP THROUGH THE SOUTHEAST

Metros dotting the I-85 corridor are experiencing growth as developers, tenants and investors seek to take advantage of the region's infrastructure.

By John Nelson

Logistics firms, automotive plants and everyday industrial tenants are expanding in the Southeast, especially in metros with strong transportation infrastructure like the markets dotting the I-85 corridor. Starting in Montgomery, Ala., and ending a few miles south of Richmond, Va., I-85 travels through Atlanta, Greenville-Spartanburg, Charlotte and Raleigh-Durham, giving the Southeast a central thoroughfare that helps tie the region together.

"The whole I-85 corridor is doing well with population growth, it feeds on itself. That's where the rooftops are being built, and that's where businesses pop up and then you have to

get their products to them, so it all follows suit," says Chris Skibinski, principal of Avison Young's Charlotte office. "I-85 is how we get to Atlanta and Richmond, and there are so many interstates coming off of I-85 that help branch off into the other service sectors. It's where all the action is."

Montgomery Revs Engine

Montgomery's location at the intersection of I-65 and I-85 and up the Alabama River from the Port of Mobile gives the city an enviable transportation infrastructure. The automotive industry has a strong presence in Montgomery because of the city's port

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ROAD TRIP THROUGH THE SOUTHEAST

I-85 CORRIDOR from page 1



Left: Trammell Crow Co. and Allstate are teaming up to develop an 840,000-square-foot industrial park in McDonough, Ga., a southern suburb of Atlanta.

Right: Aerial view of Rite Aid Corp.'s new 900,000-square-foot distribution center in Spartanburg, S.C.

access, interstate system and available labor force.

"The automobile industry makes up a large majority of the industrial activity in Montgomery, and that's been the case ever since Hyundai landed in Montgomery 10 years ago," says Carter Burwell, vice president of JLL's Birmingham office.

"Almost everything is automotive related. Hyundai makes up about 20 percent of Montgomery's local economy, so most of the activity is supplier related," adds Burwell.

Hyundai recently invested \$40.6 mil-

lion to retool its existing plant in Montgomery, and Burwell says the South Korean car manufacturer is rumored to announce a second plant at the site.

According to CoStar, Montgomery's industrial market has experienced \$2 million in investment sales in the past 12 months, which is half of the market's historical average. Burwell says the low investment sales total is a result of limited new supply, as CoStar reports zero deliveries in the past 12 months.

"There really hasn't been any significant investment sales recently," says Burwell. "Most sales have been empty

buildings sold to occupiers."

New development and most industrial activity is on Montgomery's east side because suppliers want to position themselves between the Hyundai plant and the Kia plant in West Point, Ga., which is roughly 80 miles up I-85 from Montgomery. DAS Corp., a car seat manufacturer, has invested \$36 million to expand its existing Montgomery facility, which was built in 2013. DENSO, a global automotive supplier that makes air conditioning units for Hyundai, recently leased 103,000 square feet in east Montgomery as well.

Industrial Partners announced last month its intention to build a 167,400-square-foot spec facility in Montgomery Industrial Park. Burwell says the project is a good omen for the city's industrial market.

"Industrial Partners is a savvy local industrial landlord so if they are building a spec building that tells me there is confidence in the industrial market in Montgomery," says Burwell.

Atlanta Goes Spec

Roughly 160 miles up I-85 from Montgomery, Atlanta's industrial market is in a golden age for new construction. According to Sim Doughtie, president of Atlanta-based King Industrial Realty/CORFAC International, there were 26 build-to-suit industrial facilities delivered in the last four quarters. These projects include:

- 1.13 million-square-foot development for Google
 - 1.03 million-square-foot facility for Smucker's
 - 1 million-square-foot facility for Procter & Gamble
 - 1.2 million-square-foot project for Walmart
- Kroger is also underway on a 1.3

million-square-foot distribution center in Gillem Logistics Center south of the city. In addition to these significant build-to-suit projects, Atlanta has a fair amount of spec construction in the pipeline.

"Atlanta has set a record for new construction with 21.6 million square feet of new construction," says Doughtie. "The big story here is that 61 percent of the pipeline is spec construction. Almost every major developer is working on a spec project in Atlanta."

The new spec projects include:

- Panattoni Development Co. is developing a 750,000-square-foot project in McDonough, expandable to 1.5 million square feet
- Majestic Realty is building a 1 million-square-foot building next to Walmart's property
- Trammell Crow Co. and Allstate are developing an 840,000-square-foot project in McDonough
- Rooker is building a 987,000-square-foot project at the former Shannon Mall development site

The rise in construction levels is supported by strong fundamentals in Atlanta's industrial market. According to CoStar, more than 12 million square feet of industrial product has been absorbed in the past 12 months and vacancy has dipped below 10 percent at 8.9 percent as of June 30. Rental rates also increased nearly 8 percent year-over-year in that same time frame. Atlanta's long road to recovery from the downturn has aided both absorption and new construction of industrial space in the Atlanta metro area.

"Once the capital markets melted down back in 2008, there was little to no new construction in Atlanta. So we went seven or eight years without any new construction," says Doughtie.

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"This led to a lack of supply, which has now led to a ton of demand."

Doughtie attributes the rise in spec construction, in part, to available debt.

"Developers now can get non-recourse money to build a spec project," says Doughtie. "They are getting 65 percent non-recourse to build spec."

Things Looking Up in Upstate

Crossing into South Carolina from Georgia, the Upstate — a market comprising Greenville, Spartanburg and Anderson — is in full swing with a strong presence of heavy manufacturing facilities, distribution centers and automotive plants. The Upstate is just shy of 200 million square feet of existing inventory, and there is plenty of new construction underway.

"The industrial experts across the country are starting to respect the size of our market," says Garrett Scott, a brokerage associate of Colliers International's Greenville office.

Like Montgomery, the automotive industry has a heavy presence in the Upstate market. BMW has roughly 6 million square feet of space in the market and is in the process of adding an office at the front of its Spartanburg plant.

"BMW is having a profound impact on our marketplace with all of their suppliers, and it is in the process of letting a whole new series of contracts," says Givens Stewart, principal of Colliers' Greenville office.

The recent announcements for large-scale distribution centers are grabbing the headlines for the Upstate. The recent deals include a 1.5 million-square-foot facility in Gaffney for Dollar Tree that is expandable up to 2 million square feet and a 900,000-square-foot project for Rite Aid. Additionally, Techtronic Industries, a product supplier to The Home Depot, has a new assembly and distribution project underway in Anderson totaling 1.3 million square feet. These projects and others have aided in the market's strong industrial activity this year.

"In 2015, we've had \$658 million worth of investment, 3,200 brand new jobs, 1.2 million square feet of speculative construction and almost 5 million square feet of build-to-suit announcements, and most of that is new to the market," says Brockton Hall, brokerage associate with Colliers' Greenville office. The market also has a 7.5 percent vacancy rate that is expected to dip even further, according to Hall.

One of the most significant announcements for the region's industrial space is that Toray Carbon Fibers America will operate from a 650,000-square-foot facility in Moore that is expandable up to 2.4 million square feet. The manufacturer will provide carbon fiber to the automotive and aerospace industries, including local giants BMW, Volvo, GE and Boeing.

"The Toray plant represents a \$1 billion investment," says Scott. "It's going to be a game changer."

Charlotte: Logistics Hub

Charlotte has a well-diversified industrial market that benefits from its central location along the I-85 corridor. According to CoStar, the market has a "burgeoning role as a regional commodity and retail distribution hub" for the Southeast.

"The way companies look at their supply chains now, they can't just have one facility in Atlanta. We see tenants that look around in Atlanta and need something in Charlotte to reduce fuel costs or enhance customer service requirements," says Christopher Skibinski, a principal in Avison Young's Charlotte office. "From Charlotte, you can get to Greenville/Spartanburg, the Triad and Columbia around an hour and then to Raleigh in about three hours, so you're centrally located."

Amazon recently leased 222,600 square feet of space at Concord Airport Business Park, an industrial park that The Silverman Group is developing north of Charlotte in Concord. The Amazon lease has catapulted leasing activity at the park.

"Since Amazon has come in, we've leased the other 152,000-square-foot building and we're close to leasing the remainder of the 400,000-square-foot building that Amazon leased," says Skibinski. "The Silverman Group picked up another 150 acres to build another 1.5 million square feet. All told, the company is developing 2 million square feet in Concord, whereas four years ago that type of space didn't exist in that area. Concord is now considered a new submarket of Charlotte because of the recent activity there."

In addition to Amazon, other recent distribution activity in Charlotte includes a new 1 million-square-foot facility for Alevio's battery production.

The Charlotte market is tighter than most at 7.3 percent as of June 30, according to CoStar. In the past 12 months, Charlotte delivered roughly 2 million square feet of industrial and absorbed even more, 2.3 million square feet. Construction is beginning to tick up in the market but the projects are smaller than those in the pipeline for Atlanta and Greenville-Spartanburg-Anderson, which has helped keep the industrial market's fundamentals in check.

"We're seeing a modest trickling of spec development," says Skibinski. "It's not a full-on wave, it seems to have a steady pace to it where developers aren't getting too far ahead of themselves."

Developers that have projects underway in Charlotte include Silverman, Beacon Partners, Crescent Communities, Prologis, Liberty Property Trust and Exeter.

Rent Growth in Raleigh

Like Charlotte, the Raleigh-Durham industrial market has a sub-8 vacancy rate due to limited construction and leasing momentum from companies wanting to locate in the market. As



Becknell Industrial is developing a 216,000-square-foot distribution center in Richmond's Northeast industrial submarket near Richmond International Airport.

of June 30, there was roughly 787,000 square feet of positive absorption in the past 12 months with zero deliveries, according to CoStar. The total exceeds the market's historical average of 340,000 square feet.

The tightness in the market, which has a sub-5 percent vacancy rate for Class A supply, has helped the market achieve historic rent growth. According to CoStar, rent growth in Raleigh is up 13.1 percent year-over-year and 7.7 percent in Durham. The second-quarter rent growth in Raleigh is the highest year-over-year rent growth the market has ever seen.

"There's an upward pressure on market rents demanded by the landlords. In Class A space, it's at \$5 per square foot. Generally speaking, the rental rate is much higher in Raleigh than in Charlotte, Greensboro and Atlanta," says Ann-Stewart Patterson, vice president of CBRE | Raleigh. "That shocks national tenants that are in multiple markets. There's been a flight to quality. Concessions have gone away and we're seeing demands for longer lease terms. Class B owners are pushing their rents too."

Although CoStar tracked no new deliveries as of June 30, developers are underway on several projects in the Raleigh-Durham market. These include:

- Liberty Property Trust under construction on the 457,000-square-foot Liberty Ridge project in the RTP/I-40 submarket
 - PBC Industrial has a project planned that could span anywhere from 40,000 to 155,000 square feet. Building 1 is slated to break ground soon
 - In the Eastworth County submarket, the 120,000-square-foot Hinton Oaks Business Park has broken ground, with more available pad sites
- "We're getting a lot of attention from larger, national developers," says Patterson. "We're land constrained, too."

Richmond is for Sellers

I-85's northern terminus ends just south of Richmond in the Petersburg/Tri-Cities Area. The Richmond area's industrial market, like several other metros on the I-85 corridor, has recently experienced more absorption than deliveries. CoStar reports that the market

absorbed nearly 2.2 million square feet in the past 12 months and delivered roughly 1.8 million square feet in the same time frame. The high absorption has led to the metro area's low vacancy rate of 9 percent in the second quarter, more than 200 basis points below its historical average of 11.1 percent.

In addition to the increased absorption, Richmond has experienced a massive uptick in investment sales in the past 18 months.

"There were a lot of industrial investment sales in Richmond with cap rates into the mid 7s. There was record sales activity last year," says Dick Porter, executive vice president of Porter Realty Co. Inc./CORFAC International. "The heightened velocity shows that the big institutional money continues to view metro Richmond with a positive outlook."

The most high-profile sales include MDH Partners purchasing a 1.4 million-square-foot industrial portfolio near the Richmond International Airport, Baker Properties acquiring a 19-building portfolio from First Potomac and Exeter Property Group purchasing two Class A industrial facilities spanning more than 500,000 square feet from DRA Advisors. In addition to these transactions, Porter expects the amount of new inventory to pick up as developers are hoping to leverage the market's solid fundamentals into more construction. Richmond's recent industrial pipeline includes:

- Becknell Industrial will build a 216,000-square-foot high-bay spec distribution center in the Northeast submarket near Richmond International Airport, expandable to 400,000 square feet, with delivery estimated for second-quarter 2016.
- Liberty Property Trust is developing a 200,000-square-foot build-to-suit project for Associated Distributors
- \$2 billion plant for Tranlin Paper Co. in Chesterfield County
- 1 million-square-foot project for Philip Morris USA in Chesterfield County

"There will be more multi-tenant spec construction commencing in 2015 with delivery planned for the third quarter of 2016" says Porter. "National developers continue to view secondary markets like Richmond for development opportunities." ■