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

I
of you live or work in the major met-
ros of the Southeast, chances are that
when you look up you see cranes
dotting the horizon. Ballparks and
football stadiums are underway in At-
lanta, spec office buildings are break-
ging ground in Charlotte and Nashville,
apartment towers and hotels have com-
menced 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 re-
port on construction activity in the U.S.

“More recently, office, healthcare, high-
way and educational structures have
rebounded as well.”

Since the recession, the hottest prop-
erty 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-de-
mand 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 Con-
struction, which is currently underway
on two apartment projects in Atlanta.
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 million 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 Procter & Gamble
- 1 million-square-foot facility for Smucker’s
- 1 million-square-foot building next to Walmart’s property

The new spec projects include:
- 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.

Statement of Ownership, Management and Circulation

1. Publication Title: Southeast Real Estate Business
2. Publication Number: ISSN 1330-6097
3. Filing Date: 10/2/15
4. Issue frequency: Monthly
5. Number of Issues Published Annually: 12
6. Annual subscription price: $89
7. Complete Mailing Address of Known Office of Publication: 3500 Piedmont Rd., Suite 415, Atlanta, Fulton, GA 30305-1503
8. Complete Mailing Address of Headquarters or General Business Office of Publisher: 3500 Piedmont Rd., Suite 415, Atlanta, GA 30305-1503
9. Full names and complete mailing addresses of Publisher, Editor and Managing Editor: Publisher: Jerrold France, France Media, Inc., 3500 Piedmont Rd., Suite 415, Atlanta, GA 30305-1503
11. Known bondholders, mortgagees, and other security holders owning 1 percent or more of total amount of bonds, mortgages, or other securities: None
12. Tax status: n/a
13. Publication Title: Southeast Real Estate Business
15. Extent and Nature of Circulation:
   A. Total number of copies: Average No. Copies Each Issue During Preceding 12 Months: 15,385; No. Copies of Single Issue Published Nearest To Filing Date: 15,160
   B. Legitimate Paid and/or requested distribution: (1) Outside county paid/requested mail subscriptions stated on PS Form 3541: Average No. Copies Each Issue During Preceding 12 Months: 11,508; (2) In-County paid/requested mail subscriptions stated on Form 3541: 0; (3) Sales through dealers and carriers, street vendors, counter sales, and other non-USPS Paid Distribution: 0; (4) Other Classes Mailed through the USPS: 0; (5) Total Paid and/or Requested distribution: Average No. Copies Each Issue During Preceding 12 Months: 15,199; No. Copies of Single Issue Published Nearest To Filing Date: 11,508
   C. Nonrequested Distribution: (1) Outside county nonrequested copies stated on PS Form 3541: Average No. Copies Each Issue During Preceding 12 Months: 3,826; No. Copies of Single Issue Published Nearest To Filing Date: 3,522; (2) In-County nonrequested copies stated on PS Form 3541: 0; (3) Nonrequested copies distributed through USPS by other classes of mail: 0; (4) Nonrequested copies distributed outside the mail: 0
   D. Nonrequested Distribution: Average No. Copies Each Issue During Preceding 12 months: 3,826; No. Copies of Single Issue Published Nearest To Filing Date: 3,522
   E. Total Nonrequested distribution: Average No. Copies Each Issue During Preceding 12 months: 3,826; No. Copies of Single Issue Published Nearest To Filing Date: 3,522
   F. Total Distribution: Average No. Copies Each Issue During Preceding 12 Months: 15,025; No. Copies of Single Issue Published Nearest To Filing Date: 15,030
   G. Copies Not Distributed: Average No. Copies Each Issue During Preceding 12 Months: 360; No. Copies of Single Issue Published Nearest To Filing Date: 130
   H. Total: Average No. Copies Each Issue During Preceding 12 Months: 15,385; No. Copies of Single Issue Published Nearest To Filing Date: 15,160
   I. Percent Paid and/or Requested Circulation: Average No. Copies Each Issue During Preceding 12 Months: 75%; No. Copies of Single Issue Published Nearest To Filing Date: 77%
   J. Electronic Copy circulation: NR
   K. Mailed copies delivered in the last four quarters: 360; No. Copies of Single Issue Published Nearest To Filing Date: 130
   L. Periodical Preceding 12 Months: 15,385; No. Copies of Single Issue Published Nearest To Filing Date: 15,160
   M. Percent Paid and/or Requested Circulation: Average No. Copies Each Issue During Preceding 12 Months: 75%; No. Copies of Single Issue Published Nearest To Filing Date: 77%
   N. Total Population of Known Circulation Area: 4,497,869
   O. Average No. Copies Each Issue During Preceding 12 Months: 15,385; No. Copies of Single Issue Published Nearest To Filing Date: 15,160

Road Trip Through the Southeast

I-85 Corridor from page 1

Aerial view of Rite Aid Corp.’s new 900,000-square-foot distribution center in Spartanburg, S.C. Right: Automotive supplier Hyundai recently invested $40.6 million 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.
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. "We're land constrained, too." 

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 Skibbins, a principal in Avcon Commercial's Charlotte office.

Scott says Skibbins. "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 Alero's battery production. The Charlotte market is tighter than most at 7.7 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 Skibbins. "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 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 supplies, 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 people, because rental rates into the mid 7s. There was record sales activity last year," says Dick Porter, executive vice president of Porter Realty Co. Inc./COREC Internation- al. "The heightened velocity shows that the big institutional money continues to view metro Raleigh 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 is developing a 216,000-square-foot distribution center in Richmond's Northeast industrial submarket near Richmond International Airport.
- Richmond Property Trust is developing a 1.4 million-square-foot build-to-suit project for Associated Distributors.
- $2 billion plant for TranLine 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."