Innovating Industrial

2018 Trends to Watch

Tony Creme

Fed Welch

BY BRANDI SMITH

When it's built out to its full potential, a 350-acre joint venture between Hillwood and T5 will offer 400 megawatts of data power.

"To put that in perspective, the entire Dallas-Fort Worth data center market is about 400 megawatts," says Hillwood's Tony Creme. "We're very excited about this and see a lot of potential in this new project."

That property is part of AllianceTexas, the company's 18,000-acre master-planned mixed-use community in North Fort Worth. Though it's far from complete, the project is already home to more than 480 companies, which provide more than 48,000 jobs, including Facebook.

"This is the gift that seems to keep on giving," Creme says of the social network's data center.

The company has already invested $1.5 billion in the 150-acre campus, where Buildings I and II are online. Construction is underway on Building III and will start soon for Buildings IV and V.

These projects offer an example of why Dallas-Fort Worth can boast the hottest industrial market in the country. Closing out 2017, the Metroplex was No. 1 in space under construction (for a fourth-consecutive year), as well as net absorption (for a second-consecutive year).

"That's a very exciting stat," says Creme.

According to CBRE, 2017 deliveries totaled 26.8 million square feet, "breaking the record set last year for annual construction completions." It's a fraction of the 96.6 million square feet delivered

“These projects offer an example of why Dallas-Fort Worth can boast the hottest industrial market in the country”.

- Tony Creme

	HOUSTON	DALLAS-FT WORTH	SAN ANTONIO	AUSTIN	EL PASO
VACANCY	5.4% ↓	6.4% ↑	9.7% ↔	9.9% ↑	7.5% ↔
COMPLETIONS	570,056 SF ↓	7,923,937 SF ↑	359,251 SF ↑	305,080 SF ↑	115,000 SF ↑
UNDER CONSTRUCTION	8,463,297 SF ↑	19,157,532 SF ↑	916,781 SF ↓	1,126,424 SF ↓	771,500 ↑
NET ABSORPTION	1,022,612 SF ↓	4,547,505 SF ↓	160,082 SF ↑	358,793 SF ↑	100,023 SF ↓

*4Q 2017 data provided by CBRE

since 2010, but Creme predicts there will be less than 10 million square feet of new starts in DFW this year.

“We’ve got 20 million square feet currently under construction. I think once that stops, developers are going to pause for just a minute to take a look at the market and see if there’s a need,” he says. “So I think you’ll see less than 10 million square feet of shovels in the ground this year.”

DFW accounted for more than half the new industrial construction in Texas, but the state overall had an above-average year. Houston’s only delivered 570,056 square feet of industrial development in 2017, but CBRE says it is “well positioned entering 2018.”

The Port of Houston and the petrochemical industry are hugely responsible for that. They’re “expected to remain strong performers,” according to CBRE, as they’ve offered major growth for the region even as the oil market slumped.

To capitalize on the expected growth in petrochemical, the Economic Alliance Houston Port Region works with 12 communities and more than 230 private industries with business along the 25-mile Houston Ship Channel.

“Many of our companies are involved in the petrochemical industry, either in manufacturing or supplier distribution,” says Fred Welch, the non-profit organization’s vice president of economic development. “The American Chemistry Council has indicated there was somewhere in the neighborhood of about $40 billion worth of growth in the downstream chemical industry between Beaumont and Corpus Christi. Of course, a great deal of that happened right here in our Houston region.”

New leases back that up. In the last quarter of 2017, four of the Top 5 deals were for Port-area properties. Those include Plastipak (274,417 SF) and Palmer Logistics (231,875 SF) moving into Pasadena’s Bayport North Industrial Park. The Bay Area Business Park, also in Pasadena, signed new tenants to 153,655 SF and 120,120 SF spaces as well.

The growth isn’t expected to slow. The American Chemistry Council estimates the industry will bank $100 million in new investments over the next four or five years. As the Gulf Coast accounts for about a third of the output in the chemical industry, Welch hopes the port region will get a “proportionate investment.”

The whole of the Houston metro area, not just the port region, benefits from that growth as most petrochemical jobs have a considerable multiplier effect.

Continued on Page 10 >

Innovating Industrial

2018 Trends to Watch

< Continued from Page 9

"Each one accounts for approximately 5.5 jobs in the region. Those are folks who may work in anything from maintenance, to supply chain, to hospitality," says Welch. "That's a very good number, so we're excited about that."

Transportation and distribution space represents a significant chunk of port-area businesses, which is representative of the state as a whole. In 2017, Texas leased 13,451,717 square feet for transportation/distribution/logistics use.

Zooming in on individual markets, it's an industry that is a driving force in El Paso. More than half of activity there in 2017 came from transportation/distribution/logistics.

On the statewide list, wholesale (8,012,736 square feet) and food and beverage manufacturing/processing (3,964,951) rounded out the Top 3 industries. No. 4: e-commerce.

Commercial real estate industry and e-commerce have a difficult relationship. While online business is partially to blame for more than 8,000 store closings last year, which hits the retail market, it's also bolstering business on the industrial side.

"Every $1 billion of ecommerce sales requires 1.2 million square feet of industrial product," says Creme. "I think this is a big reason why the industrial market has been so hot for so many years and will continue that trend going forward."

As a result, the price of industrial land in the U.S. has doubled and sometimes tripled, depending on whether you're looking at larger first-mile sites (which went from $1/SF to $3.25/SF) or urban infill last-mile sites (which went from $2.50/SF to $6.25/SF).

In Houston, companies such as Amazon, UPS and FedEx have made multi-million square-feet investments.

Another trend on the industrial side is redevelopment of obsolete space. Creme offers up what used to be the Six Flags Mall as an example.

"NorthPoint Development bought the site and demolished [the mall]. They're under construction on two buildings of 600,000 square feet each, which General Motors will lease," he says.

According to Creme, GM will sublease portions of those buildings out to their suppliers, so they can have just-in-time inventory for their assembly plant just down the road.

"It's a pretty shrewd project and another example of these redevelopment deals happening around the Metroplex," he adds.

It looks like 2018 will be another banner year for industrial development in Texas, led by the Metroplex, but keep an eye on those trends: data, transportation/logistics, e-commerce and redevelopment. ■