

## TRENDS, CONTINUED

### Industrial

**TOM MCFADDEN,**  
principal,  
Southern Commercial  
Real Estate Advisors LLC:

**On the current market:** The overall industrial market is very sluggish with minimal velocity. Most companies are either struggling financially, or if they are doing well, they are not considering taking expansion space due to overall economic concerns.



**McFadden**

That is the bad news. The good news is that over the last 60 days, we have seen a spike in activity. Notice that I said activity and not necessarily closed deals. Time will tell if the increased activity will yield more completed deals, or if we just have some market "tire kickers."

**On sublease space:** The amount of sublease space on the industrial side is actually not that bad. At the end of the first quarter, we had approximate-

ly 800,000 square feet of sublease space available. The market vacancy rate, however, went up to 15.1 percent at the end of the first quarter. At the end of the fourth quarter, it was 12.8 percent.

**On investment:** The level of investment activity is negligible at best. There was a two-building, 253,000-square-foot portfolio sold in Crownpointe Commerce Park very early in the year. There are a number of portfolios on the market, but interest level is certainly down.

**On near-future projections:** There are a number of new industrial projects that are on hold. The only major project under construction is Lee Vista Business Center, which is being developed by McDonald Development. They currently have two buildings under construction totaling 333,300 square feet. The project at completion will contain seven buildings totaling 883,983 square feet. The buildings that are under construction will deliver in July/August of this year.

**FORREST ASKEW,**  
industrial specialist,  
Colliers Arnold Commercial  
Real Estate Services:

**On the current market:** Current market conditions are favorable for realistic tenants and buyers. From

a tenant's perspective, landlords are providing below-market rental rates, free rent and additional tenant improvement dollars in order to draw new tenants to their space while also doing whatever it takes to keep existing good credit tenants in their portfolios, essentially buying deals to keep as much space occupied as possible. From the buyer's perspective, while the buyer's market is at somewhat of a stalemate due to financing issues, economic uncertainty and unrealistic expectations, savvy buyers with cash and/or good banking relationships are able to pick up quality buildings for a reasonable price. That being said, there are a lot of "bottom fishers" looking for great deals, not realizing that just because the building is on the market doesn't mean the seller is in distress.

**On sublease space:** The amount of sublease space on the market has dramatically increased over the last few quarters due to the downturn in the economy that caused various companies to put their excess space on the market. Furthermore, sublandlords are drastically reducing



**Askew**

the asking rates in order to subsidize some of their rental payments. This is also causing landlords to sweeten the terms on any vacant space as both landlords and sublandlords are competing for the same tenants. Unfortunately for both, most tenants are deciding to stay put rather than incur additional moving costs, deal with the logistics of moving product, racking, etc. and any other inconveniences.

**On investment:** Investment sales have been lagging due to the instability of the leasing market and financial issues. As a result, cap rates have increased while net operating income has decreased, ultimately resulting in lower values for owners. Also, buyers are being more risk averse regarding any properties with vacancies due to the unknown of how long it will take to find good credit tenants.

**On near-future projections:** Until consumer confidence is restored in the economy, vacancy rates and sublease space will continue to increase while rental rates and purchase prices will continue to drop. There are few deliveries that are scheduled for 2009, but most developers are doing minimal site work so that they are pad ready to provide for build-to-suits when the market turns.