



Industry Leaders: Demand for Distribution Space at All-Time High

Posted: Apr 12, 2017 1:59 PM CST

Updated: Apr 13, 2017 6:37 AM CST

By Kylie Veleta, Special Projects Reporter

A real estate development executive who's been in the business for three decades says Indiana's industrial warehousing and distribution market is the hottest he's ever seen it. Indiana's status as the Crossroads of America and its high concentration of manufacturing have sustained a steady flow of demand for distribution space, but local industry leaders say, currently, "vacancy is almost nonexistent."

South Bend-based Holladay Properties, a real estate management and development company, oversees about 75 commercial properties in Indiana and the Midwest, including AmeriPlex at Indianapolis. President and Chief Executive Officer John Phair says the industrial warehousing and distribution market is currently "at the top of the food chain" in real estate.

"In other words, if you compare it to apartments, hotels or office buildings, industrial warehousing and distribution is the best investment today," says Phair. "For every building that's under construction, there's a tenant waiting to move in."

And he says distribution centers aren't just growing in number, they're growing in size. About 15 years ago, Phair says a typical operation was between 100,000 and 200,000 square feet, but an average center now pushes 600,000 square feet.

"In all the markets we're in, there's a fair amount of space that's come on the market in the last three to four years—I'm talking millions of square feet—yet vacancy is almost nonexistent," says Phair. "New buildings are being absorbed just about as fast as they're going up."

At the company's single largest holding, AmeriPlex at Indianapolis, about 1.6 million square feet of space is under construction, and "basically, all the buildings at the park are full or nearly full."

Indianapolis-based business consulting firm Ginovus LLC says, due to Indianapolis' central location and interstate system, it sees the most activity in the warehouse and distribution market, compared to other Hoosier cities.

When the company works with clients for site selection, Ginovus Managing Director Larry Gigerich says Indianapolis and Columbus, Ohio are the two most sought-after markets for distribution space. He notes both markets are "very tight," with high occupancy levels and very low vacancy rates for class A and B buildings, which have 30-foot ceilings and other required specifications for a modern distribution facility.

"Because you don't see a lot of vacant, available class A or class B space in the market today, that's driving speculative development by developers for the first time in a number of years," says Gigerich. "For the first time in almost a decade, companies construct speculative buildings knowing they don't have a tenant signed to a lease today, but because the market's so active, know they're going to find someone to utilize the space very quickly."

Due to Indiana's legacy in the distribution market, he notes one challenge for the state is the presence of 30 to 50-year-old class C warehouse buildings that don't meet modern standards and need to be repurposed or torn down.

Phair cautions the rapid growth of Indiana's distribution industry creates an ongoing challenge for the state's infrastructure to keep pace; he believes communications, road networks, interstate systems and interchanges are critical.

"If we continue to invest in those things, I think we'll be just fine. If we fall behind, and it starts to take longer to distribute, get our trucks on the roads and traveling on good systems, that'll be a problem," says Phair. "Today, we're in pretty good shape, but boy, we can't stop investing. A lot more goods can be distributed than used to be...we support that with a strong infrastructure network that we've invested in. We need to continue investing in that, and we'll continue to be a leader."