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Newmark Knight Frank Epic finds new identity

Since becoming Newmark Knight Frank's industrial brokerage group in Chicago last September, the Company has added nine new brokers to its veteran team which includes (l to r) Justin Lerner, Managing Principal, John Coleman, Executive Managing Principal, and Denise Chaimovitz, Senior Vice President.

By Mark Thomton

One year after its shift to a national network, Newmark Knight Frank Epic has emerged from survival mode to tout a robust platform and a growing practice.

2007 was a banner year for the former Epic Realty Partners. The industrial brokerage firm had achieved the most profitable year in its 14-year history and executives wanted to expand the business. What happened next is an all-too-common story in the commercial real estate industry.

"We went from expansion plans to survival mode in three short weeks," says John Coleman, executive managing principal for what is now Rosemont-based Newmark Knight Frank Epic.

September of 2008 brought a market storm, and many firms that were thriving found themselves upside down and uncertain about their future. Epic Realty was one such firm. The hardest hit segment of the market was investment sales, which happened to be Epic Realty's largest division.

"A large part of Epic Savage's business was investment sales," says Coleman. "We learned quickly that we had to make a transition to tenant/landlord transactions."

Coleman is candid when he describes what happened shortly after the market meltdown as a "painful process."

The firm had to let several employees go and find a way to restructure its business model.

"Some brokers would not have made it in this environment," says Coleman. "The deal truck is not driving down the street anymore. We had to make some painful decisions, but we emerged from 2008 with guarded optimism."

Colman tasked himself with finding more revenue streams for the firm. The logical decision was to become a well diversified firm that was equipped to

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What's Next?

A Look Ahead at Chicago's Industrial Market

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As 2010 draws to a close, commercial real estate professionals are setting goals for future opportunities in 2011. While the market experienced a slight boost in early 2010, it was short-lived for many and did not improve the local real estate or construction industries the way some had predicted. We have just been 'officially' apprised that the Great Recession actually ended in June 2009, although signs of that milestone are fairly invisible to those in the commercial real estate markets.

Current Conditions

As the overall economy, and business in general, slowly edges forward, the recovery of the industrial market will likely follow the same measured pace. The Gross Domestic Product grew by 1.6 percent in second quarter 2010, according to the U.S. Department of Commerce, slower than the 3.7 percent increase recorded in the first quarter. It's anticipated that the GDP will likely continue its modest growth throughout 2011.

The strength of retail sales and the direction of the Consumer Price Index are also strong gauges for the return of the Chicago industrial market. As consumers demand additional goods, it simultaneously affects the need for industrial product, thereby facilitating an increase in distribution requirements. The Consumer Price Index remained flat in July 2010, but increased 1.2 percent from July 2009 to July 2010, according to the U.S. Department of Labor.

Wage pressures are hampering a more significant boost in consumer spending. As expected, necessities continued to outpace the sale of big-ticket items. Until consumers have the cash to spend, the demand to rebuild inventories will remain delayed. The local industrial market will come back slowly over the next 18 to 24 months, and a full recovery is anticipated to be at least two years out.

However, some companies are taking action due to the current stabilization of the financial system. Nationwide cap rates are falling – indicating rising prices – and the national industrial market reported a cap rate of 8.2 percent, according to Real Capital Analytics Inc. Cap rate stabilization suggests a secure market that is more attractive to investors. Due to the positive dynamics present in the Chicago

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market, the local area is likely to experience additional interest and investment activity from both national and international parties.

Financial institutions have also worked diligently to rebuild their capital positions based upon strong earnings and diminishing loan loses. Additionally, numerous companies have strengthened their capital bases, accounting for large reserves of liquidity, according to The Kiplinger Letter. Unemployment is slowly decreasing, and business spending is marginally up. The cumulative effect points to a positive uptick in the economy and within the industrial market.

Local Industrial

Perhaps the news that the recession officially ended in mid-2009 will reinstate some positive momentum in the Chicago area. Many industry professionals are hopeful that the bottoming out of the economy and of the commercial real estate market is now in the rearview mirror. However, commercial real estate typically rebounds approximately 18 months from the 'official' end of a recession. Investors and owners can now anticipate the market to return to a positive momentum beginning in early 2011.

The pace of local industrial real estate growth will depend on future employment conditions. The national unemployment rate checked in at 9.5 percent at the end of second quarter 2010, nearly mirroring the Chicago Metro rate of 9.4 percent, according to the U.S. Department of Labor. This marks the seventh consecutive month of steady or declining unemployment rates. In fact, Illinois has added 43,500 private-sector jobs since January 2010 and this local job growth will serve as a significant component to the recovery of Chicago's industrial market.

The Chicago area boasts the third largest industrial inventory in the nation comprised of approximately 1.2 billion square feet of space. The current industrial vacancy rate stands at about 12 percent, up one percent from this time last year, according to various local market reports. Accordingly to a recent Colliers International report, there is less than one million square feet currently under construction in the Chicago market, and new projects remain scarce. Owners and developers of industrial real estate have been focused on leasing existing properties since there are few prospects embarking on expansion, consolidation or remodeling efforts.

The local market is also experiencing downward pressure on rents, which have dropped to under $4.00 per square foot for a typical industrial environment. Leasing activity remains slow but steady, with roughly 4.2 million square feet of activity occurring in second quarter 2010, according to Jones Lang LaSalle. However, the demand for rail connected sites is anticipated to rise as fuel prices continue their inevitable ascent and companies explore more efficient distribution options.

On the bright side, leasing activity and user sales are slowly increasing throughout Chicago's industrial market, according to several reports, and this moderate growth is expected to continue through the balance of the 2010.

Market Activity

As lingering uncertainly fades, a stronger growth picture will emerge. Build-to-suit activity is still a viable option for firms that are prepared to expand and have the balance sheet to follow through. Recently, The McShane Companies broke ground on a 25,500-square-foot build-to-suit North, South and Central American headquarters facility for NSK America Corporation at the Huntington 90 business park in Hoffman Estates, Illinois, a joint development of McShane and MetLife Real Estate Investments. NSK America Corporation is a manufacturer of machine tool spindles, hand tools and dental instruments and is a subsidiary of the Japanese firm, NSK Nakanishi, Inc. This example, along with several others in the market, testify to the validity and long-term appeal offered by the Chicago area.

Unfortunately, the economic downturn has curtailed any speculative development, and it's likely that this activity will only return after significant absorption of existing vacant space occurs, which is not likely to take place for another 18 to 24 months.

Transportation Advantages

Until then, the market will continue to rely upon its fundamentals. The geographical location of Chicago will protect its importance as a distribution center and rail hub. With 50 percent of the nation's railroad freight passing through this market, Chicago remains a top choice as distributors gradually shift from road to rail distribution programs.

In addition, O'Hare International Airport has embarked on a $15 billion modernization program to add, relocate and extend runways, along with other upgrades through 2026. Improvements are partially supported by a $410 million federal grant.

Activity at the Port of Chicago is also a key driver of the commercial real estate industrial market through its direct access to the Chicago Rail Link, Elgin, Joliet, Eastern, Norfolk Southern, Chicago South Shore and South Bend Railroads as well as to Interstates 90, 94, 80 and 57.

Area road improvement projects include the 27-mile, $95 million resurfacing of I-290, in addition to improvements along Congress Parkway and Wacker Drive in Chicago. Together, these infrastructure improvements will strengthen the efficiency and conditions of the Chicago industrial market although in the short-term, they deliver additional congestion and hardship.

Moving Forward

Companies that have the ability to grow during these challenging times are vying to gain future market share and strategic positioning for the eventual return to prosperity. Prices have eased, and the weak dollar has invited foreign investors to capitalize on current conditions. Local growth will be measured, but the market is trending in a positive direction. Commercial real estate and construction companies must continue to demonstrate financial strength and creative cost saving measures for their clients to continue to weather this lingering storm.

James A. McShane is the CEO of Rosemont, Illinois-based The McShane Companies, an integrated national commercial real, construction and medical property management and acquisitions organization, providing clients with tailored solutions to meet their real estate and construction needs.