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Chicago Industrial Build-to-Suits Bolster Stagnant Market Activity



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It's not just Chicago. The entire country is experiencing the continued pain of this lengthy economic recession. And, it's not just the industrial market – it's virtually every market segment including office, healthcare, retail, and hospitality that continues to endure weak performance, stagnant growth and wobbling fundamentals. One of the few

markets enjoying a positive level of activity and vibrancy is the multi-family sector, growing primarily due to the hardships within the single-family housing market.

The industrial market's growth is contingent upon increased job growth and improved consumer confidence. Goods are manufactured, transported, warehoused and delivered to consumers throughout the entire industrial supply chain. The sluggish job growth numbers, recently posted at 95,000 over the last month together with the continued uncertainty of consumer confidence, impacts the demand for industrial space. However, on a positive

note, total retail sales (excluding food) demonstrated a positive 8.2% uptick in the third quarter, rising 10 basis points faster than during the previous three-month period. The anticipation of a rise in retail spending over the upcoming holiday season could also promote favorable corporate planning and expansions for industrial users in 2012 and beyond.

The Chicago market has relied upon its large industrial base (second in the nation with an approximate inventory of 1.3 billion square feet), and its enviable and pivotal position within the central region of the country to promote itself as a successful manufacturing, distribution and transportation hub. Although activity levels are far below the peak years



The firm's new 362,500 square foot build-to-suit corporate headquarters for Edward Don & Company is located within the Union Pointe Business Park, a co-development of McShane Development Company and Gallagher and Henry in Woodridge, Illinois.

in 2006 and 2007, Third Quarter 2011 industrial activity results



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shows continued signs of improvement.

Overall Industrial Market Activity

On a national basis, net industrial absorption improved to 23.7 million square feet during the third quarter even though the market drivers did not project that increase. In fact, 34 of the 49 largest industrial markets realized positive net absorption during the last quarter. The national industrial market is close to re-absorbing all the space that was vacated during the current recession. While the economic recovery seems slow, over 132 million square feet of industrial space has been re-absorbed over the last six quarters providing a more aggressive recovery than that experienced following the 2001 recession.

Two geographical areas remain a stand-out in the new construction arena - Chicago and the Inland Empire. Although the Inland Empire at 1.8 million square feet slightly nudged Chicago (1.7 million square feet) as the top market for new construction, these two markets alone accounted for more than two-thirds of the entire 5.3 million square feet of new construction delivered in third quarter.

New Construction = Build-to-Suits

New activity within the speculative market ended abruptly in late 2008. Projects already underway were delivered to the market with

under-performing pro formas that had previously projected occupancy rates that became unattainable. New construction across the board has been marginal, comprised primarily of renovations, additions and small build-to-suit facilities. Rental rates have also fallen dramatically resulting in an unusually large premium between existing product and newly constructed facilities or build-to-suits.

However, 2011 activity in the build-to-suit sector is showing some sign of life as companies are ready to re-invest in their operations and facilities to be prepared for the slow, but steady growth in the economy. According to the Federal Reserve, cash is accounting for a historically high 7.1% of all public company assets as of the end of June. These excess cash reserves are now allowing companies to invest in capital projects and real estate.

As firms begin evaluating the existing industrial product available in the market, it becomes more challenging to locate a well-positioned, semi-custom building that coincides with the needs and operations of the client.

The Chicago market recently welcomed the announcement and delivery (or impending completion) of the following build-to-suit projects in the Chicago market including:

Bay Valley Foods - Prologis Park, Rochelle, IL
Home Depot Rapid Deployment Center -

CenterPoint Intermodal Center, Joliet, IL

Danfoss Drives - Loves Park, IL

FedEx Ground Distribution Center - Graylake, IL

Navistar Midwest Parts Distribution Center, Joliet, IL

Winpak Portion Packaging - Sauk Village, IL

Wirtz Beverage Illinois Center - Cicero, IL

Edward Don & Company - McShane Development Company, Woodridge, IL

Inching out of the dark and lengthy period of this current recession, many companies are beginning to exhibit more confidence regarding the outlook of their business and expectations for growth in the coming years. As a result, the market is experiencing an increase in the number of build-to-suit prospects and new project starts in several Chicago area submarkets. There is even talk of speculative industrial construction being contemplated in key markets such as I-55, Central DuPage, O'Hare and southeastern Wisconsin.

Edward Don & Company

The dynamics of McShane Development Company's new 362,500 square foot Edward Don & Company build-to-suit in Woodridge, Illinois represents several of the key motivating factors that are leading successful companies to initiate real estate decisions for the future.

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After calling Riverside, Illinois its home for the past 39 years, Edward Don & Company was poised to examine options to upgrade its facility and reposition its operations to gain advantages in location, operations and technological efficiency. Founded in 1921, Edward Don & Company is the world's leading distributor of foodservice equipment and supplies offering unmatched product selection, nationwide distribution centers, and integration of new technology serving all types of foodservice businesses.

After an exhaustive multi-state search, a prominent parcel at McShane Development's new 100-acre Union Pointe business park in Woodridge, Illinois was chosen. Thus began the efforts to seek support and financial assistance from the State of Illinois and the Village of Woodridge to facilitate this large corporate relocation. Agreements were reached that enabled Edward Don & Company to more appropriately

spread the costs of the relocation, new construction and increased capital expenditures across a 20-year lease commitment in Woodridge. "The financial incentives are just one component," stated Mark Zabloudil, Vice President of Operations at Edward Don. "The space, the growth and the modernization of our facility were driving factors in our decision to relocate. We have the opportunity to gain more dock space, build higher ceilings, a more modern operation, a more energy-efficient facility and other benefits of building from the ground up."

Evidence of the state's commitment to maintain businesses in Illinois, Governor Pat Quinn offered the following, "We are committed to showing businesses everything Illinois has to offer that will help their companies grow. We have a world-class workforce that is second to none, easy access to port and rail shipping, and we are continuing to invest in roads and bridges.

Companies like Edward Don are taking notice and are helping us meet our goal of putting more people to work and growing our economy."

McShane broke ground on the new Edward Don & Company build-to-suit in mid-October, 2011 with delivery of this sizable build-to-suit project scheduled for July 1, 2012. As the market continues to absorb existing property, the need of industrial users to maximize efficiency, integrate new technology, and reduce costly utility overhead, maintenance and operational costs continues to grow. This will prompt more and more build-to-suits announcements throughout the Chicago area market.

Looking Ahead

The industrial market will likely absorb additional existing vacant space necessitating the continued launch of new build-to-suits and even speculative construction. It's been advanced

that speculative construction will be the story of 2012 and Grubb & Ellis' Third Quarter Industrial Broker Sentiment Survey identified 16 markets where speculative development is already occurring or is to commence in the immediate future. About 23.3 million square feet of new construction is currently underway throughout the country and nearly 10 million square feet of that represents speculative industrial construction.

Each new day brings us closer to reaching a more balanced environment where the benefits of a growing economy can be enjoyed again by all participants in the industrial real estate market.

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