

HOW TO MAKE THE MOST OF THIS TENANT'S MARKET
With Senior Vice President, John Nicholson

What should industrial tenants keep in mind when making space decisions?

3rd Quarter 2011

Question:

Which industrial markets will see the highest activity levels in 2011?

John Nicholson:

The good news is we should see an increase in activity and demand for space across all industrial markets this year. This is due not only to low rental rates and continuing concessions, but also the increase in traffic at containerized ports, which is up about 17 percent over last year. Tenants who are in the market for space should be looking to take advantage of the current favorable market to lock-in long-term deals.

Q: What does this increased activity tell us about the remainder of the year?

A: Demand is a tell-tale sign of a recovering market. Increased demand for space at distribution facilities signals that retailers are experiencing an uptick in sales volume. It's becoming clearer that things are starting to stabilize in this sector. According to Delta Associates, the U.S. economy may be boosted during the next six months by rising exports and easing gas prices, which would help to end the recent soft patch. However, consensus GDP projections for 2011 of approximately 3 percent, made earlier this year, may need to be tempered in light of the second quarter results which showed annualized growth of just 1.3 percent.

Q: Given these economic implications, should tenants be looking for tenant improvements or free rent?

A: Choosing between tenant improvements (TI) and free rent depends on your specific needs.

If you need to make improvements in an operation to create efficiencies, take advantage of TI and amortize the costs throughout your lease term. This also gives you the opportunity to pass the cost on to your clients.

Be cautious of negotiating free rent because you usually end up paying for it later. When a tenant takes advantage of free rent in the initial term, and the landlord wants to put it on the outside of the term, you add those months of free rent to the end. With rental increases, you are looking at a 5 -10 percent increase in costs. Try to include free rent inside the term instead of outside it.

Q: What about the big users of space? When thinking about the distribution and supply chain is it best to manage your own facility or is outsourcing a better option?

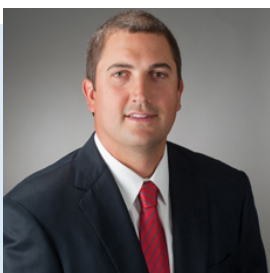
A: When evaluating your company's supply and distribution chain, you need flexibility, options and more options. Today, combination and diversification are key.

For large users, having your own distribution center in a strategic location means your business is more under your control and not dependent on third-parties. It can also assure that your product arrives on-time, at other warehouses or even directly to stores.

On the other hand, diversifying by using third-party logistics providers gives you options. Third-party providers typically specialize in integrated operations, warehousing and transportation services which can be scaled and customized to your needs based on market conditions and delivery demands. Third-party providers can offer innovative, flexible solutions that help streamline your supply chain, increase flexibility and manage costs while controlling inventory levels and ensuring on-time deliveries.

An experienced financial and market expert can help forecast warehouse inventory levels and consumer demand to assist you in making these decisions. With the economy still uncertain and trying to right itself, it helps to have short- and long-term options. Can you feed imports quickly into your distribution network from ports on both coasts? Can you afford to bypass your distribution centers and go straight to the store to move hot merchandise, if necessary? These are the types of questions you should be asking

Clearly, there are many decisions that weigh heavily on big industrial users of space. It is always best to evaluate your business needs early on and lean on your tenant advisor to help identify and evaluate your various options and decide what works best for you and your business in this recovering economy.



JOHN NICHOLSON serves as senior vice president of Transwestern's Houston-based Industrial Services Group. John and his team work with their clients to execute cost reduction strategies, multi-market transactions, site selection, disposition of surplus

property and overall portfolio management.

John Nicholson
 713.272.1227
john.nicholson@transwestern.net

www.transwestern.net
www.transwestern.net/houston

TRANSWESTERN is actively working to further the use of paperless communications. Sign up today to join our mailing list community. Click on the link below to be added to our listing of e-mail recipients.

