A NEW ASSET CLASS HELPS FUEL CHICAGOLAND INDUSTRIAL

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As a global pandemic arose in early 2020 it led to concern that it would end an 11-year run of industrial real estate growth. However, this concern was short-lived. The Chicagoland industrial real estate market has remained strong with record speculative big box development, corporate build-to-suit projects and historically low vacancy rates. Beyond these traditional trends is a new asset class that has taken the market by storm — one that is fueled by the rapid growth of independent transportation and logistics companies.

Independent freight companies are typically full-service operators with fleets ranging from 10 to a couple hundred tractor trailers. Satisfying the real estate needs of these users can make the job of an industrial broker, developer and lender very difficult. These users typically need heavy office, maintenance bays, a relatively small transfer warehouse area and as many trailer positions the site will accommodate (think of a highly specialized building with an abnormally large paved land site resulting in a high building price per square foot and exponentially higher lease rates than traditional market rates). If you are a Chicagoland industrial broker, five years ago you probably could not fulfill this requirement because developers basically did not build these types of properties and banks didn't finance them. This has pivoted in the last few years, and particularly in 2020, as the freight demand exploded due to e-commerce and personal protective equipment (PPE) requirements.

This type of asset class has also come into favor with institutional investors looking to own and hold these types of properties. A couple of recent examples of these trucking/freight property sales include Brookfield Asset Management's recent acquisition of a 220,000-square-foot building on 21 acres for $195 per square foot in River Grove, Ill., and Dayton Street Partners' acquisition of a 182,000-square-foot building on 42 acres for $173 per square foot in Alsip, Ill.

The issue for most users is that this type of property is virtually non-existent in any of Chicago's submarkets. When a facility becomes available it is at a hefty price and/or is gobbled up within days. As reported by CoStar, a facility with maintenance bays and trailer storage had an average listing timeframe of 60 days, compared with a six- to 12-month timeframe for traditional industrial facilities. This has led many brokers to explore new construction for their client requirements, which presents challenges.

The challenges

The number one difficulty is finding a land site within a desirable geography that will accommodate the required zoning. It is no secret that the O'Hare submarket is the hub of Midwest transportation, but many of the former large trailer lots have now become infill big box industrial developments. Combine that with the cost of parking ($400/trailer/month; up from $150-250/trailer/month five to seven years ago) and the Cook County parking tax, it is a quick sell to expand your clients' search to outlying areas. Unfortunately, most municipalities make trailer storage a special use within their zoning classifications and going through a planning and zoning board can be a costly, lengthy and risky process.

The successes

Entre has developed a full-service team to accommodate trucking-related build-to-suits for our clients, which has led to the completion of five trucking-related build-to-suit projects in 2020. By learning how to navigate the zoning process, set proper client expectations and understand the driving forces of these users, we have streamlined the process from site selection to financing to construction. The projects are similar and consist of a modest-sized warehouse facility, maintenance bays, heavy office and a trailer parking lot that is often >10x the size of the building.

The new construction prices are coming in at $175 to $250 per square foot of building — numbers that just a few years ago seemed crazy but are now in line with the market given the success of the users in these types of properties and the real estate industry's validation of this new asset class.

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