

# Industrial vacancies decrease

BY LINDA LIPP

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High construction costs and low interest rates are beginning to put the squeeze on the market for industrial space in Allen County.

The market absorbed — sold or leased — about 704,000 square feet of vacant space in 2005, according to a survey by commercial real estate brokers Steve and Al Zacher, of the Zacher Co.

That reduced the vacancy rate for 2005 to about 9.2 percent, compared with 10.7 percent in 2004 and 11.9 percent in 2003.

"We're now showing that there's a moderate undersupply, especially in the bigger spaces," Steve Zacher said.

Karl Behrens, a partner with BND Commercial, agreed.

"Basically, there is a shortage of different property types, primarily those that are for sale. Historically, it's always more limited under 10,000 to 15,000 (square feet), and expressly on the north side of the city. It's also limited over 50,000," Behrens

said.

The reasons for the difference have more to do with the financial markets than anything else. Interest rates have risen, but are still low by historic standards. That has made it more attractive for businesses to own their facilities rather than lease them.

The uncertain stock market of the past few years also has pushed people into the real estate market as an alternative to investing in stocks, Behrens said.

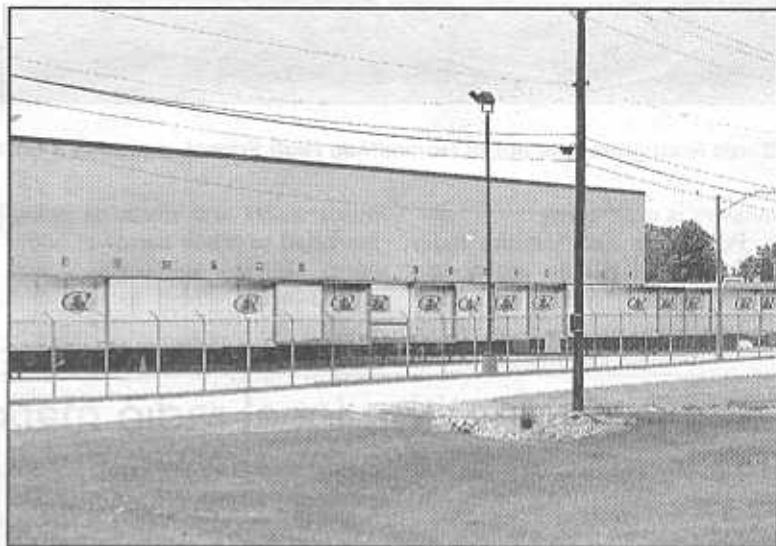
The total inventory of space in the Allen County market hasn't changed much, Zacher said. Because of its high cost, new construction was fairly weak in 2005, although there are indications that could improve in 2006.

In many ways, Allen County is "a two-tiered market," Zacher said.

Some of the older buildings available do not meet the height requirements for modern storage and distribution facilities, where items are stacked as high as possible. "You need a lot of height for warehousing," he said.

Newer buildings have the smoother floors needed for modern manufacturing and also tend to be more energy efficient in terms of both building and equipment, Zacher said.

Because of that, developers may soon begin to consider



ARIEY BARBRAND

**Corrugated Supplies Co. bought this 474,000 square-foot building in New Haven.**

putting up "spec" buildings without sales or lease agreements in place.

"I would say we're pretty close to that point," Zacher said.

In fact, Behrens and partner David Nugent have been working with an investment group that hopes to put up a building in the 50,000 to 100,000 square-foot range. The property would have room for expansion, and could be available for purchase, lease or a combination of both, Behrens said.

Industrial expansions in Allen County in 2005 included a limited amount of new construction and several significant

acquisitions and/or tenants for existing spaces.

Watkins Motor Lines built a new, 56-bay terminal on Adams Center Road to add regional service to its local pickup and delivery operation.

Lakeland, Fla.-based Watkins just announced that it plans to sell its assets to FedEx Corp. The company has not said what impact, if any, the sale might have on the New Haven facility.

Industrial expansions that absorbed existing space included Corrugated Supplies Co., which bought a 474,000 square-foot building on Summit Street in New Haven. Berne Apparel occupies the eastern

part of the building, and CSC launched its new corrugated sheet manufacturing operation in the west portion.

Regal-Beloit Corp. established a new headquarters for its GE Commercial Motors Division in an 85,000 square-foot space formerly occupied by Central Soya. And ITT's Aerospace/Communications Division continued its expansion by leasing an additional 29,000 square feet of space on Huguenard Road.

The weakness in the automotive sector, however, brought new space into the market as second- and third-tier auto suppliers shut down. The impact is apparent across the northeastern Indiana region.

"In the surrounding counties, there is a supply of space in almost every community," Behrens said.

Unfortunately for area auto suppliers, the forecast for the industry is not bright.

North American auto production will hit a five-year low in 2006, according to an analysis by Ward's AutoForecasts. And a strong showing in the first quarter is the only thing keeping the year's comparison from being even worse. Production over the last three quarters is expected to be the lowest for that period in 10 years, Ward's said.

Some former automotive manufacturing buildings have been sold, however, to local and

regional manufacturers not in the automotive sector, Zacher said.

And Behrens believes 2006 has shown improvement over the prior year.

"We're seeing activity increase in the last few months," he said. Interest is coming both from existing businesses looking to expand and new businesses considering relocating to the area.

In February, Amerimax Building Products announced it would establish a new manufacturing facility in a 100,000 square-foot space formerly occupied by Tetra Pak. The plant, which just began production, makes fiberglass panels for the RV industry.

Sweetwater Sound recently broke ground on its new, 150,000 square-foot facility on U.S. 24. The campus will include both new construction and the extensive remodeling of an existing building.

Ohio medical manufacturer Neimed is building a new facility in Fort Wayne, and Vera Bradley is building a new headquarters and distribution center on the southwest side of the city.

Fort Wayne seems destined to lag Indianapolis — badly — in the industrial real estate market, however. Indianapolis has more than 205 million square feet of industrial space, and its vacancy rate is 7.4 percent.

"They're in a totally different league from us," Zacher said.