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## Kevin Matzke: Deal pipeline looks robust

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Kevin Matzke, managing principal of [Clarius Partners](#), recently participated in a Q&A with Chicago Industrial Properties.

### **CIP: As we enter the Fourth quarter of 2010, what do you see happening as the year closes?**

Overall, the 4<sup>th</sup> quarter is a toss-up in my opinion. On one hand, the market is tracking a significant amount of new activity in the pipeline, especially in the larger end of the spectrum. In fact, the pipeline has not really looked this robust since 2006. If a reasonable percentage of these deals are signed during the fourth quarter, then we are in for a very happy new year with respect to vacancy, indeed. The sentiment in the marketplace seems more positive, also, and this seems consistent with the sentiment in the overall economy. The underpinnings for improving fundamentals in the industrial space are, in fact, in place. Port activity, imports, trucking and rail volumes continue to show positive year-to-year growth. So there should be more product flowing through the system, and it stands to reason that this should translate into more demand. But perception is often more difficult to change than reality, and this is as true for industrial tenants as it is for anyone else. They, too, are looking into their crystal balls and anticipating their own prospects for growth in 2011. If they like what they see, then look for them to show up as absorption in the fourth quarter. If either they don't like what they see, or they at least can't see anything clearly, then look for them to show up on the prospect list again next year, and look for vacancy to go up again in the fourth quarter. Again, I think it could go either way.



### **CIP: As a manager of industrial real estate, what are some new initiatives you are practicing to help control/alleviate costs?**

To say that industrial tenants are "cost-conscious" is a massive understatement. Our perception is that most tenants view industrial real estate not just as a cost center, but as a cost cutting center. In other words, a good amount of tenant demand is driven more by their desire to cut overall costs in their operations or supply chain by consolidating smaller warehouses into larger warehouses, or combining operations, as opposed to demand being driven by other considerations, such as a growth in sales or the opening of new stores, etc. So the biggest trend we see right now is the desire that tenants have to lower their costs via consolidation, and we look for that trend to continue and even increase in 2011. Interestingly, this could result in a bunch of new activity that doesn't really result in a decrease in vacancy, since some of this activity may be build-to-suit activity as opposed to the tenanting of existing space.

### **CIP: What type of firms are active in the industrial market right now? Is there any specific industry that is doing well in the downturn?**

The downturn hit industries equally hard in my view. That being said, if you had to point to one type of user that has been the quietest over the past couple of years, it has been the

third-party logistics companies. But by the nature of their business, it is hard to tell if that is because their model is under pressure, and they are losing business to competitive models, or if the overall lack of demand is affecting them just like it is affecting everyone else. They are out looking for space again, so perhaps they are seeing growth on the horizon. This would clearly be a positive sign for the industry. Other users out looking for space again are import-related and consumer products companies. Again, both should be viewed as positive signs for the industry, especially for the regional distribution center markets such as I-55 and I-80.

**CIP: You have recently signed a lease at the Clarius Park McCook development. What were some of the components of this deal that made it a success?**

The success of Clarius Park McCook, and the McCook market in general, is primarily due to its location, access to I-55 and its ability to provide state-of-the-art functionality and modern amenities. Our sweet spot is any tenant located close-in to Chicago, especially in the southwest side, who is in a functionally obsolete facility. In the past, before McCook emerged as a true alternative, many of these types of tenants had no alternative but to move out to Bolingbrook or Romeoville, in Will County. These moves typically represented a compromise in terms of delivery times, transportation costs, and the cost, availability and quality of labor. In McCook, these tenants now have a legitimate alternative to moving so far out, and given this alternative, they tend to be staying closer in proximity to the city. This was, in fact, the case with our newest tenant at Clarius Park McCook. There were some other features of our park that have helped us out as well. We elected to design our first building with operational efficiency, flexibility, divisibility and the ability to accommodate a high level of office finish as opposed to simply trying to max out the coverage on the site. We did this by keeping the depth of the building well under 300 feet, providing ample truck court depths at over 140 feet for easy maneuverability, and by providing automobile parking on three sides of the building at a ratio well over one space for every 1000 square feet of warehouse area. I think we succeeded in designing and building not only a highly efficient and functional building, but also a very attractive building. We assumed we would be getting users that would be somewhat image-conscious. Finally, I think it also helps us when tenants get to know McCook better, since McCook is such a business friendly and neatly run village.

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