

May 12, 2011

## **Building momentum**

Developers expect rise in construction

[Andrew Edwards, Staff Writer](#)

The Inland Empire industrial market is getting healthier and could be ripe for speculative construction, developers said Wednesday at a panel discussion in Ontario.

Rising lease rates and falling vacancies mean construction is starting to make sense again, developers said.

Developers, however, still face difficulty obtaining financing and must bet imports will continue to drive the region's logistics industry, panel members said.

Developers participating in Wednesday's conversation included Lance Ryan, vice president of Watson Land Co., which has started the region's first speculative industrial project since the recession.

That building, under construction in northwest Redlands, is designed to be a 616,000-plus square-foot distribution center. At completion, the facility will be part of the Watson Commerce Center - of which three freestanding buildings have already been built.

A project is "speculative" when a developer builds in anticipation of finding a tenant or a buyer.

Watson decided to build in Redlands, Ryan said, because of the Inland Empire's scarcity of available buildings with more than 500,000 feet of space and construction costs that are about 30 percent lower than pre-recession levels.

Watson is pursuing the project as an owner and developer, and thus has decades to achieve a return on their Redlands investment, Ryan said.

"We're going to be in that project for an eternity," he said.

Inland Empire distribution centers are links in a goods movement chain that begins at the ports of Los Angeles and Long Beach and continues along rail lines and freeways.

Shipping container activity - exports and imports - increased at both ports in 2010. The question is whether activity there will decline after 2014, when a Panama Canal expansion is expected to be completed.

Panel participant John Magness, senior vice president for Hillwood Investment Properties, is betting that importers will continue to ship goods to Los Angeles and Long Beach.

Magness said shippers who would choose to bypass California for other American ports already did so following the 2002 strike at the L.A. and Long Beach ports.

Although Magness doesn't foresee a dropoff in shipping activity, he said high fuel prices may limit the area in which building distribution centers makes business sense.

Shippers can expect to pay \$500 to \$600 per container if they are moving goods east of Redlands, he said.

Hillwood's projects include the several Alliance California cluster of distribution centers near San Bernardino International Airport.

The company is seeking permits for a 915,000-square-foot speculative building there and is not reliant upon the airport actually having commercial flights one day, given the proximity to rail and freeway.

"There are really no buildings with more than 500,000 square feet and there's still strong demand," he said after the panel discussion.