

What an AMB/ProLogis Merger Will Mean for the Industrial Property Sector

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Earlier today, the two largest owners and operators of industrial real estate in the U.S. announced that they are entering into a “merger of equals.” Pre-crisis, this merger was quite unthinkable. ProLogis, the larger of the two, was expanding globally at an astronomical rate, monetizing its global portfolios through the public markets and raising billions of dollars for their funds. Merging with AMB would have been a distraction. Now, this merger, despite being quite unexpected and even shocking, makes perfect sense. AMB, currently the stronger company and considered the acquirer by some, will gain access to new global markets and customer base that ProLogis has been cultivating for a decade, while ProLogis will be able to help its deleveraging effort, which has tied the company down for the past two years.

Industrial Real Estate Landscape

- In the industrial REIT space, there are five sizable pure-play industrial REITs – ProLogis (NYSE: PLD), AMB Property (NYSE: AMB), DCT Industrial Trust (NYSE: DCT), First Industrial Realty Trust (NYSE: FR) and EastGroup Properties (NYSE: EGP), and two large mixed-property REITs – Duke Realty (NYSE: DRE) and Liberty Property Trust (NYSE: LRY). To put the proposed merger in perspective, AMB/PLD will have a total of just less than 600 million square feet of property versus the competition’s total of 320 million square feet. When consummated, the merged entity will be at least six times larger than their next competitor, Duke, and almost 20 times larger than the smallest member of this group, EastGroup.
- The combined company will operate in about 105 markets across the globe with almost 210 million square feet of property outside of the U.S.
- The combined company will also be better positioned to capture a customer and keep that customer loyal across the globe. A company of this size will be better able to offer flexible lease terms and space portability than any other industrial landlord. In return, it should be able to achieve higher rents.
- The industrial space will remain extremely segmented. Grubb & Ellis estimates the total U.S. market size at about 25 billion square feet. This includes space not tracked by Grubb & Ellis, or any other brokerage house. The combined company will have about a 4 to 5 percent market share of competitive space. (Of course, in some geographies and sub-property segments, their market share will be higher, even above 10 percent.)

Impact on the Market

- Market segmentation will keep AMB/ProLogis pricing power in check.
- Most other landlords will have to compete on price. Logistics space is commodity-like in that it is price elastic (sensitive). Thus, this merger could have an adverse impact on rents as smaller landlords undercut rents to attract customers who otherwise would be attracted to the one-stop-shop of industrial real estate.
- In the short run:
 - We expect an increased level of activity. The combined company will go through a period of portfolio reconfiguration, resulting in increased sales activity.
 - We also expect the merged entity to accelerate its investment activity, as proceeds come in, although some will still be used for deleveraging.
 - Increased activity is positive for the entire industrial real estate space; investors benefit by more supply entering the market; service providers, like Grubb & Ellis, benefit by helping their clients meet their investment objectives.
 - However, the overall industrial market is still in its early stages of recovery, so we do not expect the merged entity will have much pricing power, despite its relatively large market share.
- In the long run:
 - This merger will be good for the two companies, as they will be able to cut costs and better serve their customers on a global basis.
 - On the overall industrial market, the impact will not be noticeable. Industrial real estate is the one property type that attracts the most investors, as it requires the smallest amount of capital. It also attracts the greatest variety of businesses. The market is large enough to absorb this merger without creating any monopolistic pricing.

Rene Circ is vice president and national director of research, Industrial, responsible for leading the market research efforts for Grubb & Ellis ' national Industrial Group as well as its industrial-focused practice groups. A 15-year veteran of commercial real estate research and analysis, Rene has been published in a number of trade publications and conference reports, including SITE Selection , mthink.com/ASCET and SIOR Professional Report. He is the co-author of the book, Guide to Classifying Industrial Property , published by the Urban Land Institute, and guest lectures at the University of Illinois at Chicago on topics such as market research and investment underwriting and structuring. Rene holds a bachelor's degree from Beloit College and a master's degree from DePaul University.

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