

# New York-Newark, NY-NJ-CT-PA Industrial & Flex Q1 2020 Topics and Trends

## US Industrial Market

Since June 2011, following the Great Recession, the US Industrial market displayed steadily rising prices through Q1 2020. As exhibited below, the RCA CPPI index has been increasing for nearly 9 years, reaching peak pricing in March 2020. From peak to trough, the value loss was over 33% and it took almost 4 years to recover. A big driver of this growth is the emergence of e-commerce, and proliferation of warehouses and logistics facilities.

## Regional Industrial and Flex Market

The New York-Newark, NY-NJ-CT-PA combined statistical area (CSA) is a mature and densely populated region. The industrial and flex properties market plays a pivotal role in the regional economy. Within the region, there are 46,445 buildings with a total of 1.6 billion square feet of space. This is a fundamentally sound and strong market, one which has been

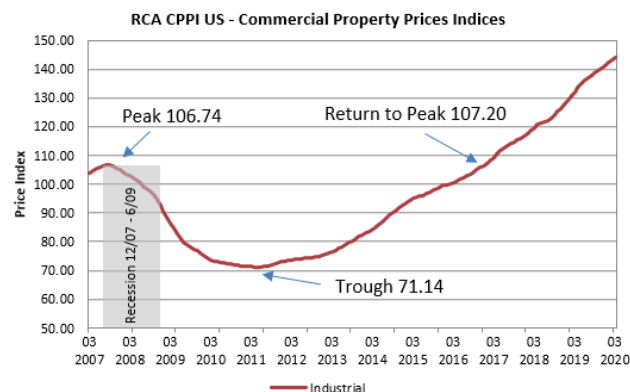
prospering since the end of the Great Recession in 2009.

This report analyzes the trends in market fundamentals and investment sales in the New York-Newark, NY-NJ-CT-PA industrial and flex market.

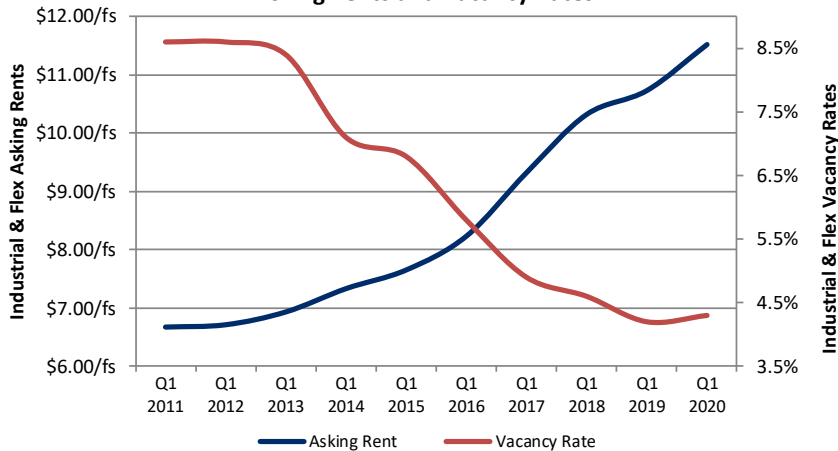
## FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the world and CSA to a halt.

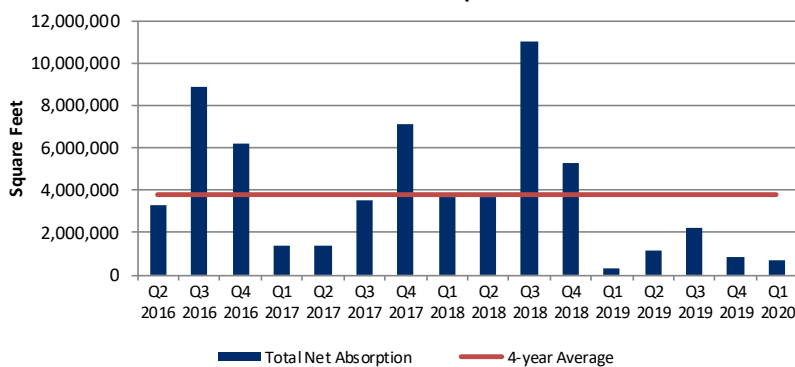
The impact on the industrial and flex market was not apparent in the statistics through March 2020, although the effects of the pandemic are expected to reveal themselves over time. For this segment of the market, there was already an increased focus on e-commerce and now with people ordering even more online to avoid going to the store, shipping and warehousing are booming. This trend is expected to continue in the near term.



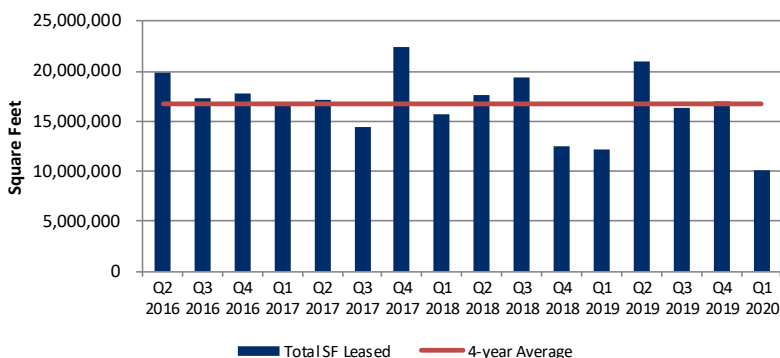
Asking Rents and Vacancy Rates



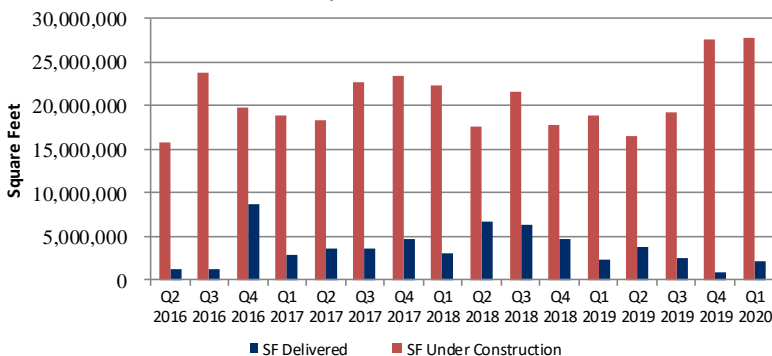
Total Net Absorption



Total SF Leased



Space Additions



## MARKET FUNDAMENTALS: Average Asking Rents & Vacancy

Market fundamentals were healthy prior to the pandemic, but it is anticipated that the pandemic will impact rent growth and transaction volume going forward. From Q1 2011 to Q1 2020, vacancy rates generally decreased, ranging between a high of 8.6% (Q1 2012) and a low of 4.2% (Q1 2019). Over the past year, vacancy rates increased nominally. Asking rents increased 73% over the last 10 years, from \$6.67 per square foot (Q1 2011) to \$11.52 per square foot (Q1 2020). Vacancy rates and asking rents from Q1 2011 to Q1 2020 demonstrate an inverse relationship with asking rents increasing as vacancy rates decrease.

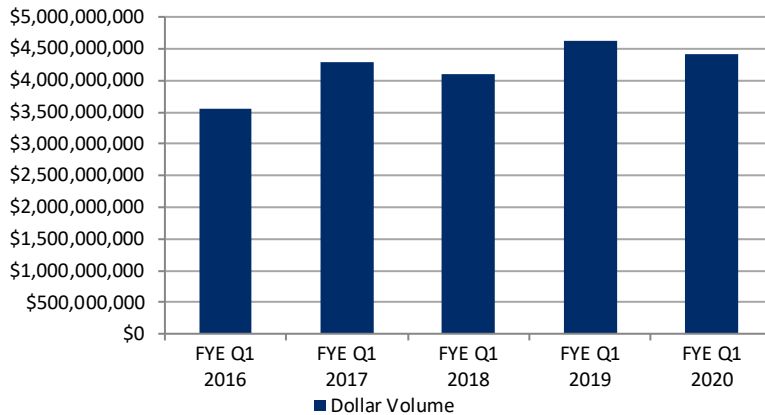
## Net Absorption and Leasing Activity

Total net absorption has generally been below the four-year average, with the three most recent quarters trending downward, indicating a potential decline in net absorption. Although demand has been strong historically, leasing activity dropped off significantly in Q1 2020. Also impacting Q1 were the US – China Trade Wars, which caused demand to slow.

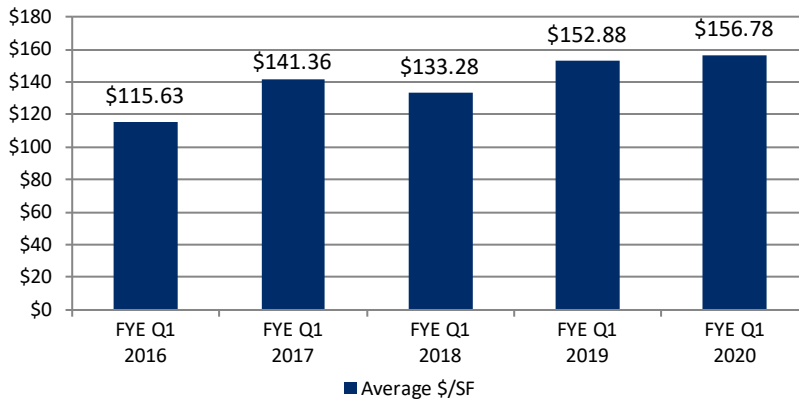
## Space Addition Activity

The last two quarters show a large spike in square footage under construction and there is a fairly large amount of space under construction that is waiting to be delivered, indicating an active construction pipeline, although construction activity is currently halted due to the pandemic, increasing the risk that construction timelines will be pushed back. One driver for the increase in construction is related to e-commerce and last mile delivery. With the dense population in this region, warehouse and logistics facilities are being developed to meet demand. Industrial development is underway in most parts of the study area.

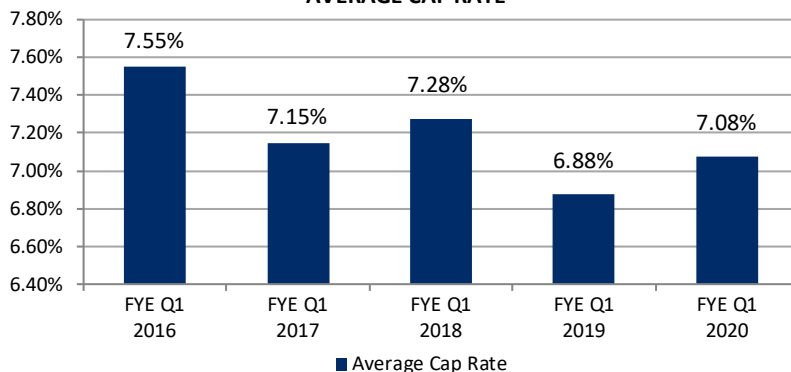
### NEW YORK-NEWARK, NY-NJ-CT-PA INDUSTRIAL & FLEX BUILDING DOLLAR VOLUME



### NEW YORK-NEWARK, NY-NJ-CT-PA INDUSTRIAL & FLEX BUILDING AVERAGE \$/SF



### NEW YORK-NEWARK, NY-NJ-CT-PA INDUSTRIAL & FLEX BUILDING AVERAGE CAP RATE



SOURCE: CoStar, RCA, and Marshall & Stevens

### SALES (5 YEAR TREND): Volume

Total dollar volume for investment sales of industrial and flex buildings in the New York-Newark, NY-NJ-CT-PA market has been increasing overall in the last five years. Since 2016 total dollar volume increased 24%, reaching \$4.4 billion in 2020 compared to \$3.6 billion in 2016. Due to the pandemic, it is expected that transaction volume will be impacted in Q2 and possibly beyond. We note that this segment of the market appears to be performing better than other property segments.

### Average Pricing Per SF

There was a slight increase in average pricing in the last year. The average as of 2020 was \$156.78 per square foot, which is a 2.6% increase compared to the pricing seen in 2019 and a 36% increase compared to 2016. Market participants will be watching this metric carefully for the remainder of 2020.

### Capitalization Rates

The average cap rate for industrial and flex buildings in the New York-Newark, NY-NJ-CT-PA market increased slightly in the last year, but the current rate still represents a decrease of approximately 50 basis points from 2016. Heading into Q2, we expect deal making to slow until the pandemic abates and the economy re-opens.

### Summary

Through Q1 2020, the regional Industrial and Flex market was fundamentally sound, which will certainly benefit its recovery.



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