

New York Regional Industrial & Flex Topics and Trends – Q3 2020

Since June 2011, following the Great Recession, the US Industrial market displayed steadily rising prices through August 2020. As exhibited below, the RCA CPPI index has been increasing for nearly 9 years with no current signs of slowing down. 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 region is a mature and densely populated area. The industrial and flex market plays a pivotal role in the regional economy. Within the region, there are 46,830 buildings with a total of 1.62 billion square feet of space. This is a fundamentally sound and strong market, and one that 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.

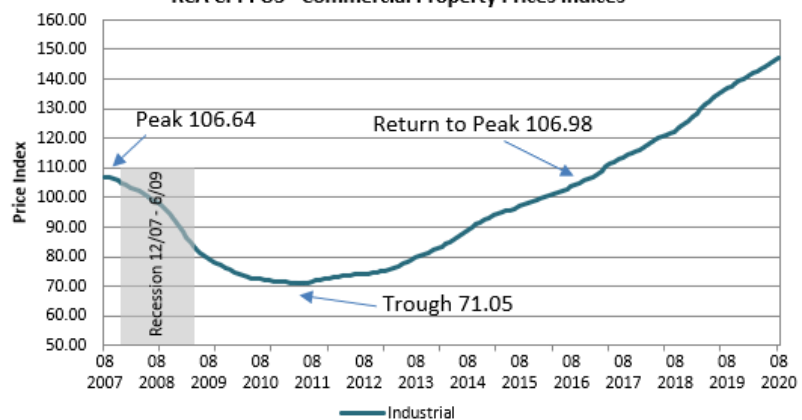
FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the New York region to a halt, but as of Q3 2020, the industrial and flex market has seen a significant bounce back in activity. 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.

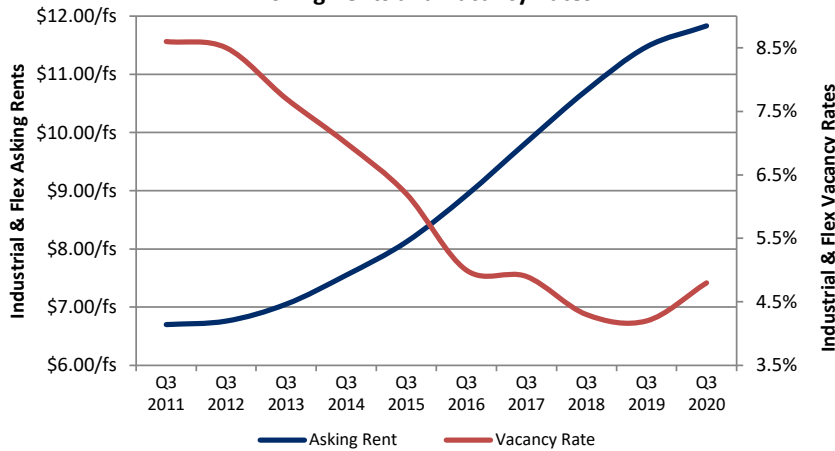
Regional Map



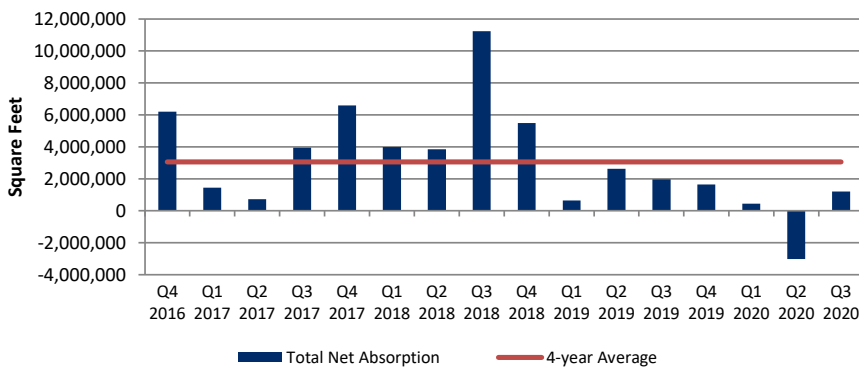
RCA CPPI US - Commercial Property Prices Indices



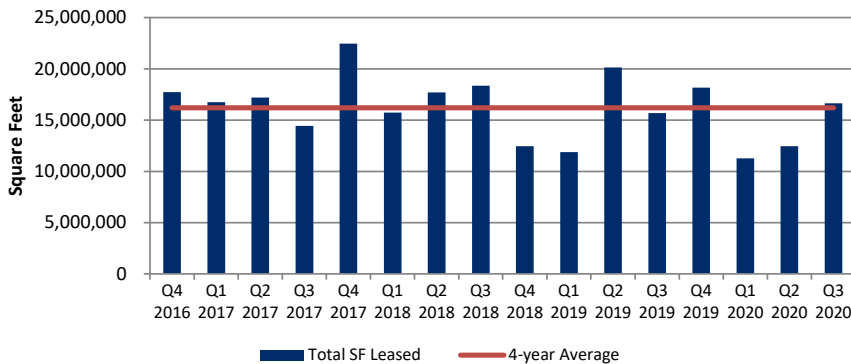
Asking Rents and Vacancy Rates



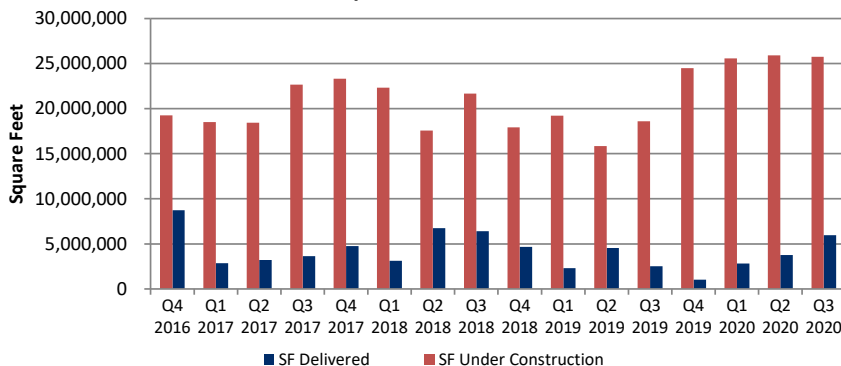
Total Net Absorption



Total SF Leased



Space Additions

**MARKET FUNDAMENTALS:****Average Asking Rents & Vacancy**

Market fundamentals were healthy prior to the pandemic. The industrial and flex market is currently performing better than most other property types but rent growth and transaction volume has been impacted slightly. Prior to Q3 2019, vacancy rates generally decreased, from 8.6% in Q3 2011 to 4.2% in Q3 2019. Over the past year, vacancy rates increased slightly, to 4.8%. Asking rents increased 77% over the last 10 years, from \$6.70 per square foot (Q3 2011) to \$11.83 per square foot (Q3 2020). It is a good sign that asking rents continued to rise through the third quarter, although growth has started to slow in conjunction with rising vacancy rates.

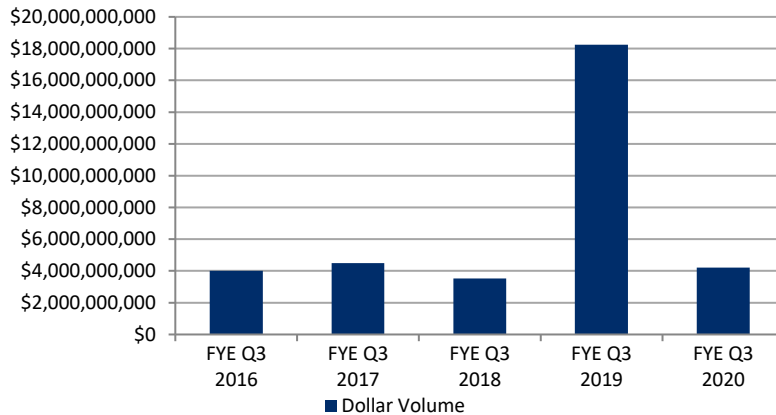
Net Absorption and Leasing Activity

Total net absorption was trending downward from Q2 2019 through Q2 2020, but the most recent quarter shows a relatively significant increase. Historically, demand has been strong in this market, but leasing activity dropped off significantly as of Q1 2020. The two most recent quarter show large increases in activity and signs of returned optimism. Leasing activity in Q3 2020 actually outpaced the activity seen one year prior.

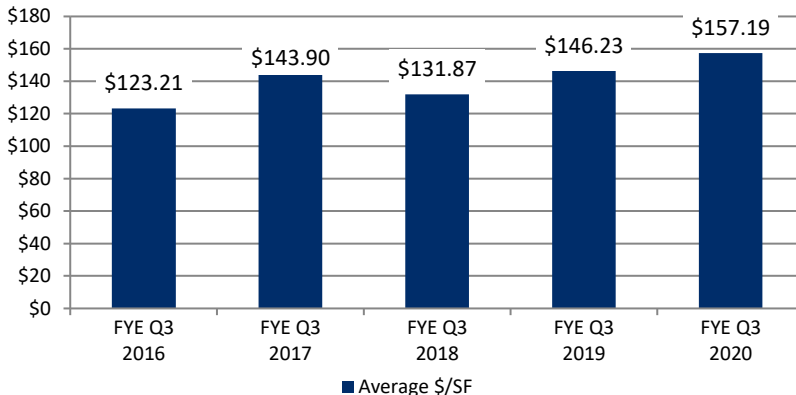
Space Addition Activity

The last several quarters show steady, high levels of square footage under construction and there is a relatively large amount of space under construction that is waiting to be delivered, indicating an active construction pipeline. 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.

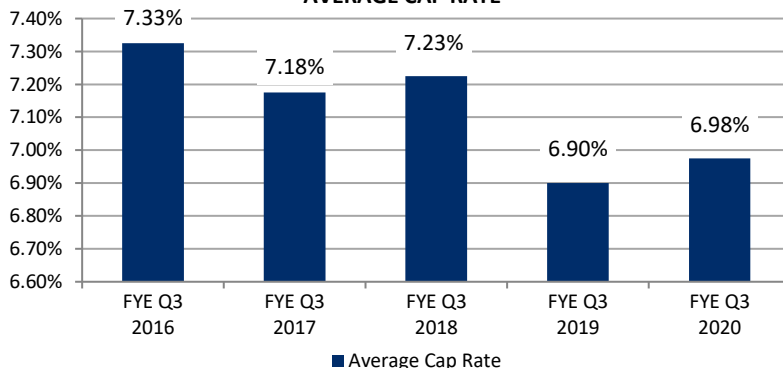
NEW YORK-NEWARK, NY-NJ-CT-PA INDUSTRIAL & FLEX BUILDING DOLLAR VOLUME



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 region has been fluctuating in the last five years, with a significant spike in 2019. Due to the pandemic, it is expected that transaction volume could be impacted, although volume in the year ending Q3 2020 is actually higher than the volume seen in 2016 and 2018. We note that this segment of the market appears to be performing better than other property segments.

Average Pricing Per SF

Average pricing per square foot has been increasing steadily since 2018. The average as of Q3 2020 was \$157.19 per square foot, which is a 7.5% increase compared to the pricing seen in 2019 and a 28% 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 region increased nominally in the last year (8 basis points), but the current rate still represents a decrease of approximately 35 basis points from 2016. Heading into Q4, we expect deal volume to continue to increase and price discovery to become more obvious.

Summary

Through Q3 2020, the regional Industrial and Flex market held strong fundamentals and investment activity increased, which is a promising sign that the market is already recovering.



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