New York Regional Industrial and Flex Topics & Trends – Q2 2021

The U.S. Industrial market has been one of the strongest performing asset classes over the last ten years. This sector has seen steady growth dating back to 2011 following a trough during the 2008-2009 financial crisis. Additionally, the RCA CPPI index continued to rise over the last year despite the hurdle of COVID-19. A major contributor of this growth is the emergence of e-commerce and proliferation of warehouses and logistics facilities.

Regional Industrial and Flex Market

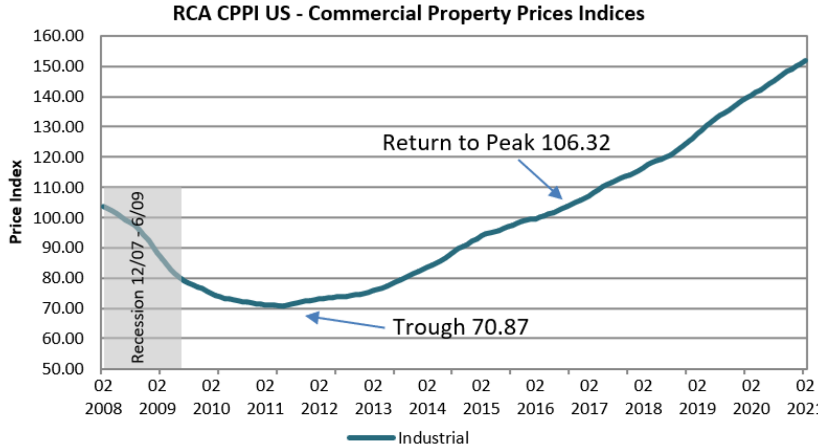
The New York region is a mature and densely populated area served by an extensive highway and transportation network. The regional infrastructure supports a burgeoning industrial and flex market. Within the region, there are approximately 47,228 buildings with a total of nearly 1.64 billion square feet of space. 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. The regional industrial and flex market did see a significant decrease in sales volume from Q1 2020 to Q1 2021, with a more modest decrease from Q2 2020 to Q2 2021. However, absorption, asking rents, and price per square foot increased, while cap rate decreased. The market has been buoyed by the rise in e-commerce and last mile distribution, which has sent industrial demand to new levels and industrial land prices to an all-time high.

Regional Map

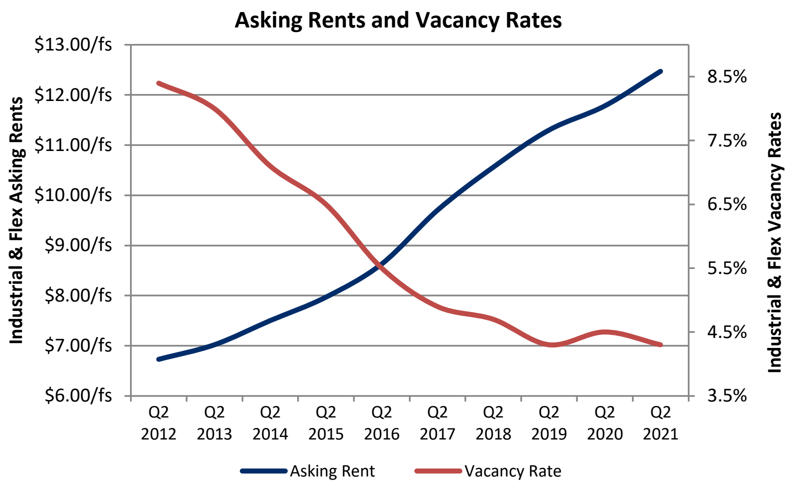
RCA CPPI US - Commercial Property Prices Indices



MARKET FUNDAMENTALS:

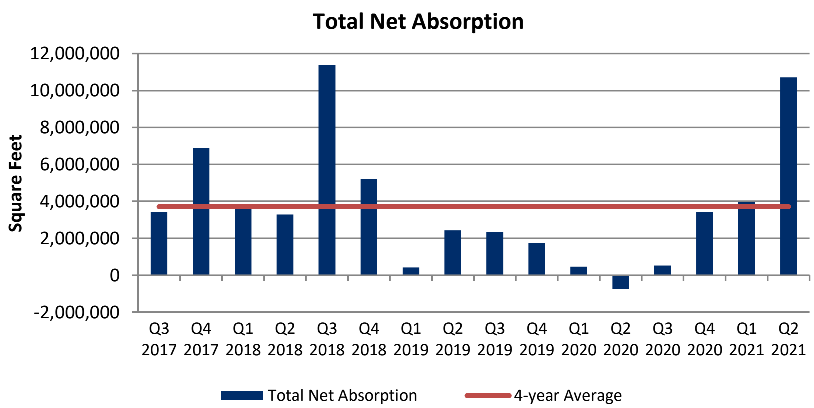
Average Asking Rents & Vacancy

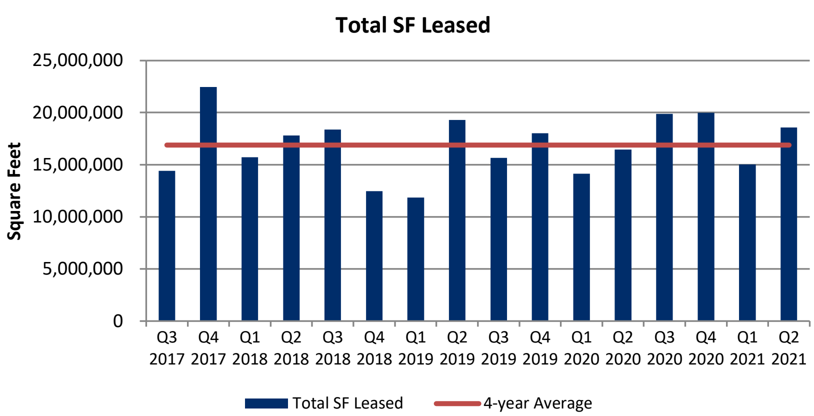
The industrial and flex market is currently outperforming most other property types. Vacancy rates decreased each year from 2012 to 2019 before increasing from 4.3% to 4.5% from 2019 to 2020. Vacancy decreased from 4.5% to 4.3% from 2020 to 2021. Vacancy has ranged from a low of 4.3% (Q2 2019 & Q2 2021) to a high of 8.4% (Q2 2012). Meanwhile, asking rents continued to increase throughout the period, undeterred by COVID-19. Rents have ranged from $6.73/sf (Q2 2012) to $12.47/sf (Q2 2021).



Net Absorption and Leasing Activity

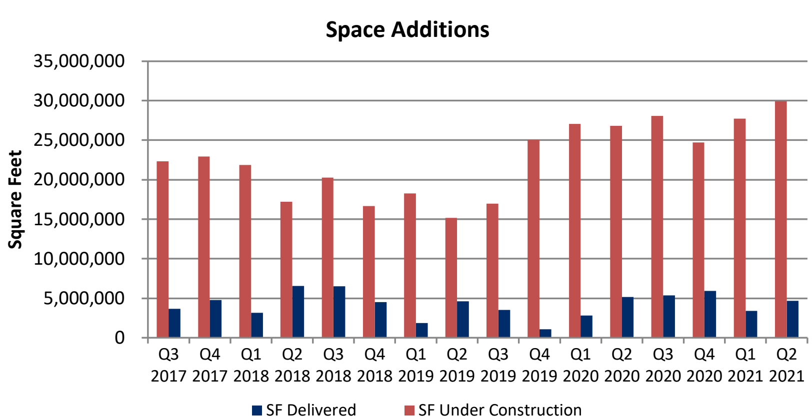
Total net absorption was atypically low throughout 2019 and fell to negative levels in Q2 2020 at the onset of the pandemic. Net absorption has increased each quarter since, approaching the quarterly average in Q4 2020, exceeding the average in Q1 2021, and reaching its second highest quarterly total over the last four years in Q2 2021. Leasing was below average in the first two quarters of 2020 before rebounding in Q3 and Q4. Leasing activity in Q2 2021 was above the quarterly average.

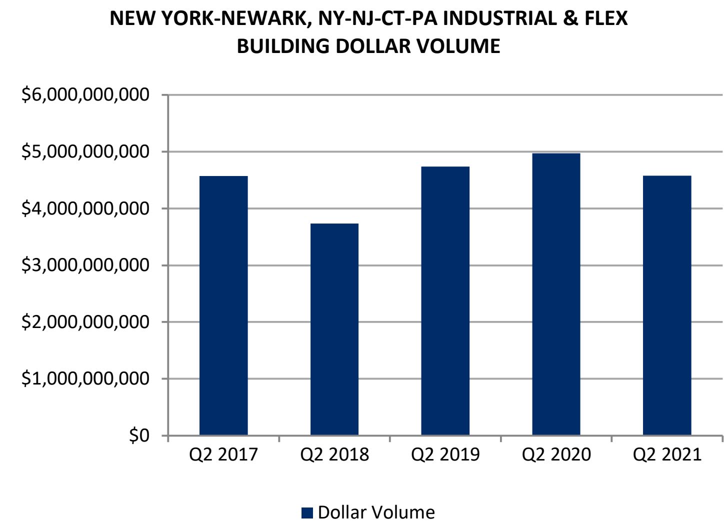


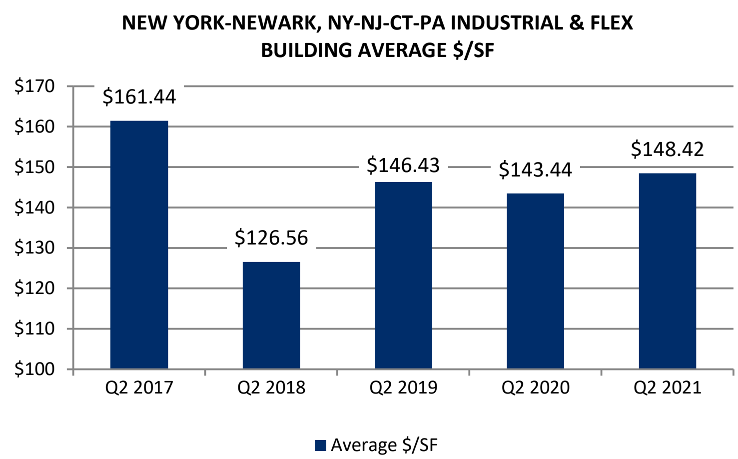


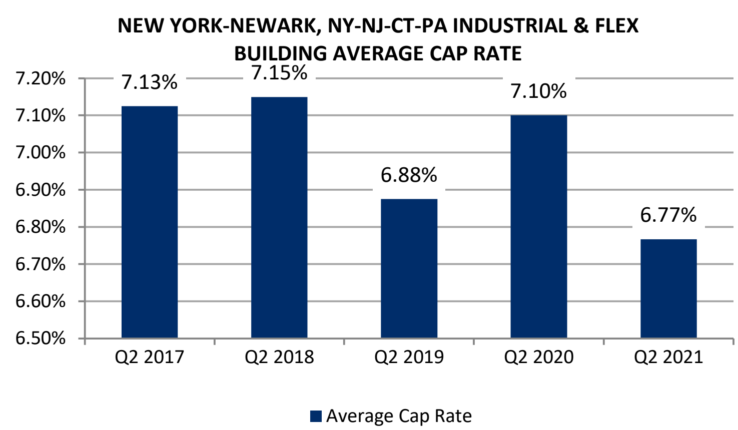
Space Addition Activity

The last several quarters show steady, high levels of space addition activity and large amounts of space that is waiting to be delivered, indicating an active construction pipeline. One driver for the increase in construction since Q3 2019 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.









SALES (5 YEAR TREND): Volume

Total dollar volume for investment sales of industrial and flex buildings in the New York region has fluctuated over the last five fiscal years. Over the period, transaction volume has ranged from $3.7 billion (Q2 2018) to just under $5.0 billion (Q2 2020). Q2 2021 registered nearly $4.6 billion in sales, which is not far off from the average of $4.5 billion over the last five years.

Average Pricing Per SF

Average pricing per square foot increased by nearly 3.5 percent from Q2 2020 to Q2 2021. Pricing in this sector dipped in Q2 2018 but has increased since. Pricing has been relatively consistent over the last three years, between $140 and $150 per square foot.

Capitalization Rates

The average cap rate for industrial and flex buildings in the New York region decreased 33 basis points from Q2 2020 to Q2 2021, following a 22-basis point increase from Q2 2019 to Q2 2020. We expect deal volume to continue to increase throughout 2021 and price discovery to become more obvious as the effects of COVID-19 continue to wear off.

Summary

Through Q2 2021, the regional Industrial and Flex market held strong fundamentals despite troubling underlying economic conditions. Evidence over the last three quarters suggests this market has been slightly impacted by COVID-19, but not to the extent seen in other asset classes.

SOURCE: CoStar, RCA, and Marshall & Stevens

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