

New York Regional Industrial and Flex Topics & Trends – Q4 2020

Since June 2011, following the Great Recession, the US Industrial market displayed steadily rising prices through November 2020. As exhibited below, the RCA CPPI index has been increasing for the last 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

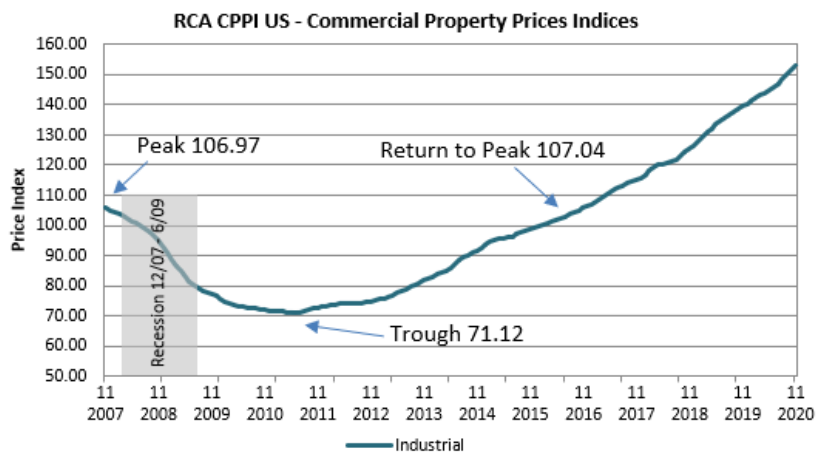
The New York region is a mature and densely populated area. The industrial and flex market plays a pivotal role in the regional economy. Within the region, there are 46,974 buildings with a total of 1.62 billion square feet of space. This is a fundamentally sound and strong market, and one that has been 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.

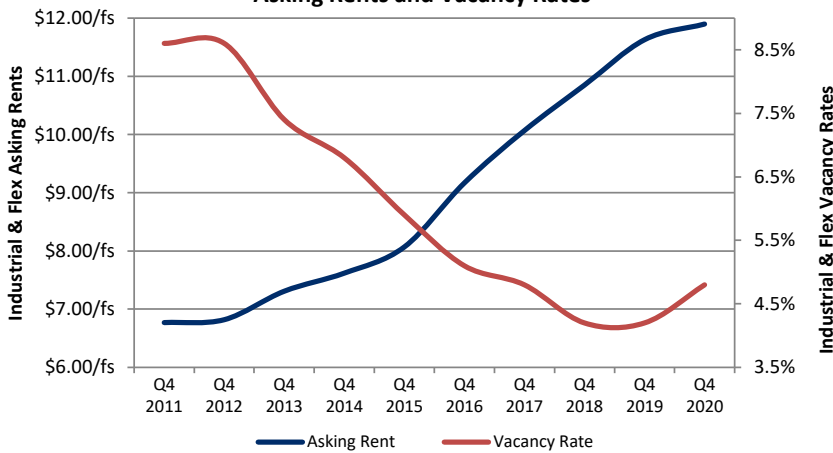
FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the New York region to a halt, but since Q3 through the end of 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 into 2021.

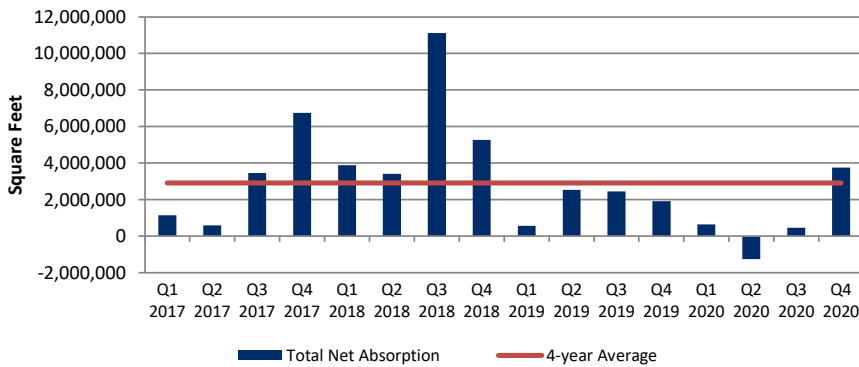
Regional Map



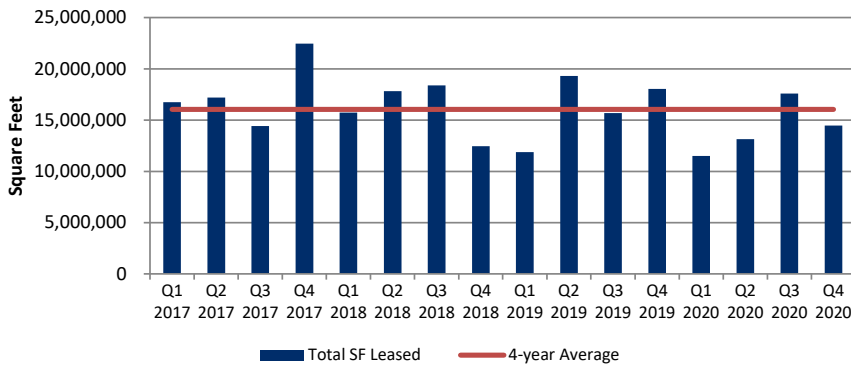
Asking Rents and Vacancy Rates



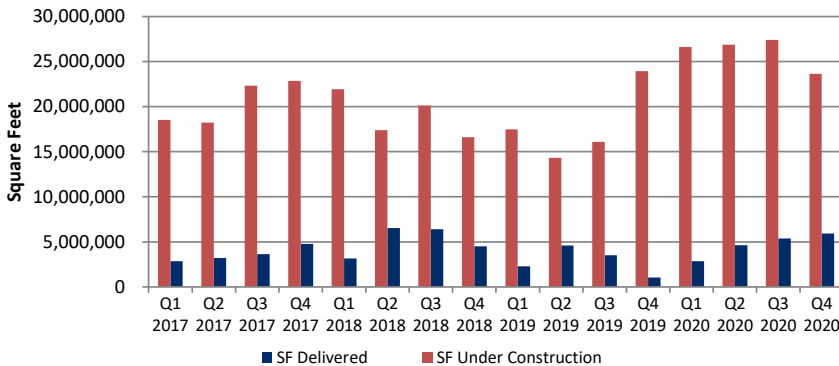
Total Net Absorption



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, despite the slight impact to vacancy rates and transaction volume. Prior to Q4 2019, vacancy rates generally decreased, from 8.6% in Q4 2011 to 4.2% in Q4 2019. Over the past year, vacancy rates increased slightly, to 4.8%. Asking rents increased 76% over the last 10 years, from \$6.77 per square foot (Q4 2011) to \$11.90 per square foot (Q4 2020). It is a good sign that asking rents continued to rise through the end of 2020, although growth has started to slow in conjunction with rising vacancy rates.

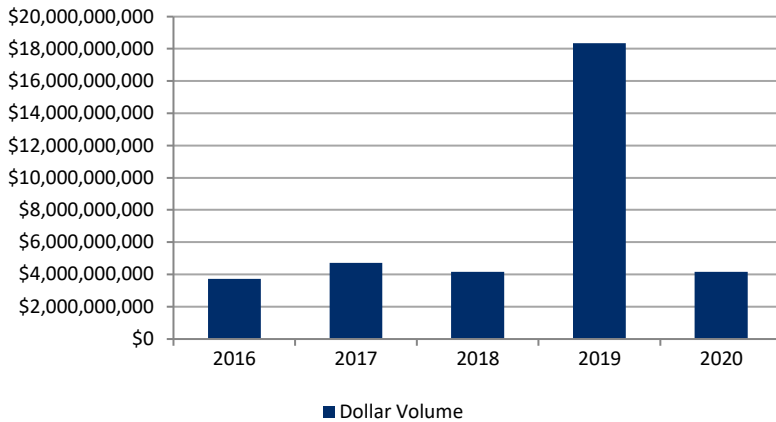
Net Absorption and Leasing Activity

Total net absorption was trending downward from Q2 2019 through Q2 2020, but the last two quarters of 2020 showed a relatively significant increase. Historically, demand has been strong in this market, but leasing activity dropped off significantly as of Q1 2020. Activity increased through Q3 2020, showing signs of returned optimism before dropping again in the most recent quarter. Leasing activity in Q4 2020 was lower than the activity seen one year prior.

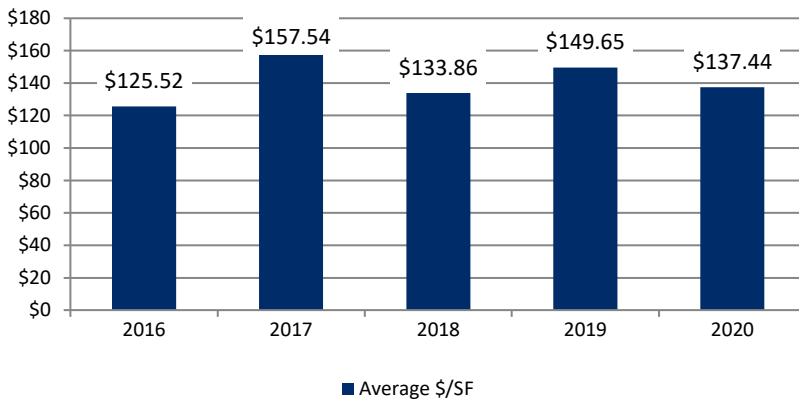
Space Addition Activity

The last several quarters show steady, high levels of space addition activity, 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 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.

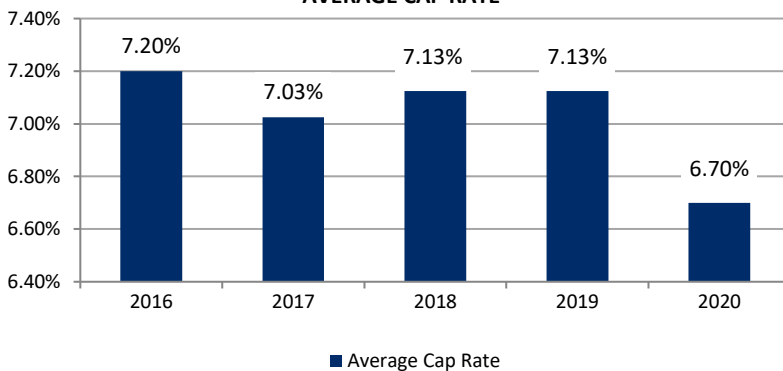
**NEW YORK-NEWARK, NY-NJ-CT-PA INDUSTRIAL & FLEX BUILDING
DOLLAR VOLUME**



**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**



SALES (5 YEAR TREND): Volume

Total dollar volume for investment sales of industrial and flex buildings in the New York region fluctuated in the last five years, with a significant spike in 2019. Transaction volume in 2020 was significantly lower compared to this peak figure, possibly impacted by the pandemic, although volume in 2020 was still 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 increased 12% from 2018 to 2019 before dropping slightly in 2020. The average in 2020 was \$137.44 per square foot, which is an 8% decrease compared to the pricing seen in 2019, but still a 9% increase compared to 2016. Market participants will be watching this metric carefully as we head into 2021.

Capitalization Rates

The average cap rate for industrial and flex buildings in the New York region decreased fairly significantly in the last year (43 basis points), following a period when rates were relatively stable from 2016 to 2019. Heading into 2021, we expect deal volume to continue to increase and price discovery to become more obvious.

Summary

Through Q4 2020, the regional Industrial and Flex market held strong fundamentals and investors continued to be active, which is a promising sign that this market is recovering.

SOURCE: CoStar, RCA, and Marshall & Stevens



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