

INVESTMENT FORECAST

INDUSTRIAL

New York City Metro Area

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2019

Redevelopment Opportunities Underpin Elevated Industrial Asset Pricing in Big Apple

Demand falters amid rapidly escalating prices; industrial tenants eye greater affordability.

Fueled by consistent demand for housing, retail and office space in the outer boroughs, industrial demand is evolving in New York City. As rental rates on existing properties along the East River in Brooklyn and Queens are priced to reflect their redevelopment potential, existing industrial tenants have been prompted to relocate to more affordable locations further from the metro core. As traditional industrial tenants have migrated outward, developers have been slow to engage in additional supply growth, prompting extremely tight vacancy in key industrial hubs in eastern Queens and Brooklyn, as well as the Bronx. Construction will fall more than 50 percent this year, with the largest expected delivery located on Staten Island, where the first portions of a 1.42 million-square-foot warehouse complex will come online. Despite a slower pace of completions, vacancy will tick up as rising rental rates deter significant lease signings.

Zoning changes, planned redevelopment drive bids higher; owner-users scour outer boroughs for suitable spaces.

As the city rezones several key neighborhoods along the eastern coast of the East River, the Brooklyn industrial market has undergone significant changes. Properties typically price almost exclusively off redevelopment potential, prompting owner-users still seeking spaces to venture to more suburban locations. This phenomenon has pushed prices per square foot to the mid-\$480 range, with cap rates that will approach the low-5 percent area. However, premium locations can extend pricing much higher, particularly for sites that are near subway stops. Outer borough locations in Staten Island and the Bronx are beginning to undergo substantial price gains as industrial tenants seek refuge from the higher prices of Brooklyn and Queens.

2019 Market Forecast

- Employment**
up 1.2%

New York City employers will add 55,000 workers this year, slowing the pace of hiring from the 67,100 positions added to payrolls in 2018.
- Construction**
640,000 sq. ft.

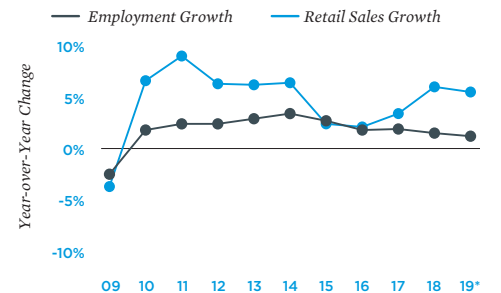
Developers trim the pace of construction by more than half as supply growth slows from 1.5 million square feet. The largest completion will be located on Staten Island.
- Vacancy**
up 30 bps

Tenant outflows keep net absorption below supply growth, pushing vacancy up to 5.2 percent. Last year, vacancy rose 70 basis points.
- Rent**
up 0.7%

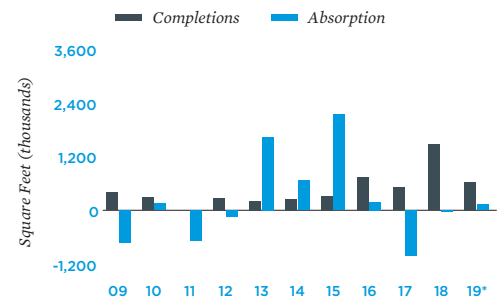
The average asking rent rises to \$21.80 per square foot, bouncing back from the 2.1 percent decline recorded in 2018.
- Investment**

Owner-users are increasingly likely to seek out properties in the northern and western portions of Queens where rents are most affordable.

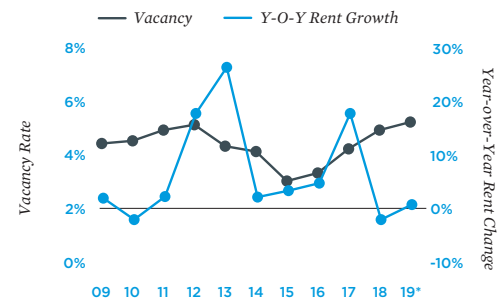
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast;

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.