



## **2008 Industrial MarketView for Western New York: An objective and insightful regional market analysis**

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CB Richard Ellis is pleased to present the 2008 Industrial MarketView for Western New York (WNY) as an objective and insightful analysis of the market in this region. Overall vacancy increased in the past year, moving from 8.6% to 9.7%. This represents 724,870 s/f being placed on the market. The rise in vacancy in WNY corresponds with a pattern across the U.S. According to CB Richard Ellis' Third Quarter Industrial Availability Index, national vacancy has risen 10 basis points since the previous quarter, up to 9.9%. The WNY market has a higher vacancy rate than near by cities Toronto (5.5%) and Cleveland (6.5%) but compares favorably with Rochester (10.5%).

The increased vacancy in WNY is largely attributable to two factors: the announced closing of American Axle's 1.2 million s/f manufacturing facility in the city of Buffalo, and a surprising jump in warehouse vacancy in the east submarket.

American Axle's decision to idle their massive complex in the city submarket caused the overall vacancy in this submarket to swell from 7.4% to 17.6%; otherwise the city experienced a steady year, with modest fluctuations in vacancy between the flex and warehouse sectors.

The second factor was the increased warehouse vacancy in the east submarket, which rose from 13.7% to 16.2%. This equates to over 300,000 s/f of warehouse space coming on market, causing overall vacancy in the east to rise to 12.0%. Fortunately, 162,919 s/f of flex space was absorbed in the east, softening the turbulence in the warehouse sector.

The north, by far, was the best performing submarket in the past year. Overall vacancy decreased from 7.8% to 4.5%, with major gains in each sector. Most beneficially for the market, almost all of this absorption was pre-existing vacant space, as only 63,800 s/f of new inventory was built.

Vacancy also continued to decline in the south submarket, to a market-wide low of 4.3%. Almost all of the new s/f (in this, the smallest of WNY's submarkets) was built to suit, led by Goya Foods' major expansion of their manufacturing and distribution center in Angola.

### **Inventory**

The east submarket contains the largest inventory of industrial space, encompassing over 23 million s/f; this represents approximately 37% of the entire marketplace. The north is next with 18.4 million s/f, followed by the city (11.7 million s/f) and the south (10 million s/f).

It is worth noting that a large number of industrial facilities within the municipal boundary of the city of Buffalo are tallied as part of the north submarket.

Although not void of speculative construction, the WNY markets' new construction inventory remains primarily tenant-driven. Of note is the speculative construction of Benderson Development's Broadway Commerce Park, which added 130,000 s/f of class A warehouse to the east submarket. Goya Foods' 150,000 s/f expansion in Angola (south submarket) was the largest expansion of 2007, as well as expansion by high-tech manufacturers such as Moog, which added 26,000 s/f to their

campus in Elma. Riverview Commerce Park (represented by CBRE) added 56,675 s/f of class A flex warehouse space to the north submarket, and quickly signed tenants for 65% of the facility. The city submarket saw the completion of a 152,700 s/f manufacturing facility on a former Republic Steel site.

#### Economic Conditions

According to the latest data released by the New York State Department of Labor, unemployment in Erie County was measured at 4.3%. Most importantly, private sector employment in the Buffalo-Niagara Metro area increased by 0.5% (2,500 jobs) for the 12 month period ending in October 2007. While good news for the region, the numbers most specific to industrial commerce were not as positive. The sectors of manufacturing (-2,500) and trade, transportation and utilities (-1,600) suffered the highest losses over the past year. Most likely, these numbers were influenced by the evolution of the automotive manufacturing business, which still greatly influences WNY's industrial market.

The largest increases were found in the white collar sectors of professional and business services (+2,800), educational and health services (+2,400) and financial activities (+2,000).

#### Vacancy

Overall, WNY vacancy is at 9.7%. This represents a total increase of 724,870 vacant s/f to the market. Again, it is worth noting that this increase is almost entirely attributable to the closing of the 1.2 million s/f American Axle complex in the city submarket. Within the city submarket, flex and warehouse space saw a vacancy increase of 2.3% and 1% respectively. The rise of warehouse vacancy in the east further contributed to the overall increase; this may be the most interesting sector to observe in 2008. Further vacancy increases in this submarket will begin to pressure lease rates. Fortunately, vacancy decreased across the board in the north and south submarkets.

#### Net Absorption

Net absorption was negative at 275,821 s/f (again, this is skewed by the inclusion of the American Axle facility). Looking beyond this loss, the numbers are actually quite strong. The North submarket outpaced all others, with over 600,000 s/f of positive absorption. Most importantly, it was spread across all sectors of the north. The south also had a second consecutive strong year with over 265,000 s/f of positive absorption. Good news can also be found in the east, as it only sustained 26,034 s/f of negative absorption, despite the addition of more than 300,000 s/f of warehouse space to the market.

#### Construction

In the north submarket, Riverview Commerce Park has unveiled plans to begin construction on a 90,000 s/f "spec" facility scheduled for late summer completion and current negotiations may result in an additional 80,000 s/f added to this total. The city of Buffalo at Lakeside Commerce Park announced that Sonwil Distribution will begin construction of a 300,000 s/f distribution center to be completed in June 08. Based upon the success of this park, the city recently acquired the 185-acre former Republic Steel site on the south side of the city. The addition of these high-quality development sites will keep the city submarket well positioned for future opportunities. In the east submarket Benderson Development Co. will complete their final warehouse building in the Broadway Commerce Park with a 25,000 s/f structure. First presented in our '06/'07 report, 2008 may see the ground breaking of HSBC's 275,000 s/f data center in Pendleton, NY.

The effects of the tightening credit markets will greatly reduce any speculative construction and will likely result in fewer build-to-suit opportunities overall, but for those opportunities that do present

themselves, the WNY industrial market is well positioned. WNY's good supply of certified empire zone, shovel ready sites can present a very competitive package as these economic incentives take on a greater significance when credit markets tighten.

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