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Overview of the 2007 industrial market in Orange County: Rents expected to rise

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Although a record amount of industrial development is proposed, and even approved, for the Orange County market, the actual amount of new industrial product that came on-line in 2007 was substantially below annual levels seen over the last ten years. Only six relatively small industrial or flex buildings were constructed, adding less than 50,000 s/f to an already under-supplied industrial market. About half of this new inventory was constructed on spec, and the remainder was built-to-suit. Most of the buildings expected to come on-line in 2007 either were delayed during the approval/permitting process, or plans were put on hold. The total inventory of prime industrial buildings in the county stood at 18.5 million s/f. The vacancy rate was 10.8%, representing an increase over the 2006 year-end level of 7.5%. (The total inventory of all industrial space, including the older, less functional buildings, was 24.4 million s/f with a vacancy rate of 11.7%, also higher than the 2006 rate of 8.8%.) The jump in the vacancy rate is primarily attributable to several large buildings coming on the market: the 287,000 s/f former Amscan facility in Chester (as they relocated to their expanded new distribution facility - now the largest in the county); the 168,000 s/f building in the town of Woodbury available for sublet after being vacated by AmerTac; and the completion of the renovation at Vails Gate Business Center, with about 160,000 s/f remaining for lease. In fact, nearly two-thirds of the available space in the county was blocks of space measuring over 100,000 s/f. If one were to adjust for the two largest available units, the vacancy rate would be closer to 7%, indicating a rate below the national average. Several national developers have now entered the market with plans for significant speculative construction: Panattoni Development plans over 750,000 s/f in Wawayanda and 500,000 s/f in Montgomery; Opus East has approvals for 1.2 million s/f on the Montgomery / Hamptonburgh border; and Matrix Development Group has announced plans to build 650,000 s/f in Newburgh. With these approvals in place, the county will be well poised to attract companies seeking large, state-of-the-art warehouse / distribution centers within a half-day's driving time of the most dense U.S. population centers.

Of the roughly 500 existing industrial buildings in the county, 87% are less than 100,000 s/f in size. Unlike some of our neighboring counties that have been dominated by a single employer or industry, the Orange County market is comprised of a diversified base of businesses, and as such, the bulk of the demand from existing companies has historically been for relatively smaller units of space. These "smaller" users continue to have difficulty in finding suitable space. With the escalating cost of new construction and, in some municipalities, a lengthy, onerous process to secure approvals/permits, most developers must concentrate on the larger projects. Smaller projects that cater to the majority of users in the county will continue to be overlooked, or postponed until an upward pressure on rents or a leveling-off of construction prices make them financially more feasible.

It is likely that we will see more renovation and subdivision of the large, formerly single-user industrial buildings into units that can accommodate the smaller to medium-sized users. Vails Gate Business Center, a 245,000 s/f former manufacturing facility has been undergoing such a conversion, and is now over one-third occupied.

Approximately 1 million s/f of industrial space was absorbed in Orange County in 2007, and most of that activity (96%) was in existing buildings. Leasing transactions accounted for about 40% of this activity. Notable deals were the 64,000 s/f lease by Amazing Savings of the former King Zak facility in Goshen; Hudson Valley Granite's lease of 60,000 s/f in Monroe; and the lease by S.P. Richards of 40,000 s/f in the town of Wallkill. Significant sales included the following: King Zak purchased a 130,000 s/f distribution building in Goshen; Quality Carton acquired the 97,000 s/f former Gretag Macbeth complex in New Windsor; and Complete Medical Supplies acquired a 60,000 s/f warehouse on Wes Warren Dr. in Wallkill.

As of year-end 2007, there was 2 million s/f of prime space available, most of which was offered for lease. Users seeking to purchase a building had little to choose from. Of the few sales that closed in 2007, prices for prime buildings were increasing. As purchasers consider their alternative to leasing, new construction, they are now willing to pay higher prices for existing buildings. In 2007, there was less acquisition of industrial building by investors, likely due to the turmoil in the credit markets and the lack of industrial inventory for sale. But still, rents for prime industrial space have remained stable, and are in the range of \$5.25 to \$6 per s/f, triple net, for existing buildings. Larger blocks of space in existing buildings are leasing at a slight discount from this, and new construction has commanded triple net rents over \$6 per s/f. Industrial rents are expected to rise.

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