

MANSFIELD COMMERCIAL REAL ESTATE

Overview of the Commercial Real Estate Market in Orange County, NY at Year-End 2018

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The Industrial Market in 2018

With the vacancy rate for prime industrial space in Orange County, NY dropping steadily since a high of 15% in 2009, developers have taken note and stepped up plans for spec construction in a significant way. In fact, speculative development in 2018 exceeded build-to-suit, and the amount of spec construction expected to be delivered in 2019 will be the highest amount in the County in more than 20 years.

Over 200,000 square feet came on-line in 2018, bringing the inventory of prime industrial space in Orange County, NY to 22.7 million square feet. Two buildings were constructed on spec: a 60,000 square foot flex building in the Town of Goshen, partially leased to three tenants as of year-end; and a 54,000 square foot flex building in the Town of Wallkill, which was fully leased to two tenants at the end of the year. Three buildings were enlarged in the Town of Wallkill: Monroe Cable completed its 40,000 square foot expansion on Commercial Avenue; Revere Smelting & Refining increased its facility on Ballard Road by 16,700 square feet; and Meier Supply Company added 6,600 square feet for its wholesale HVAC/refrigeration business on Bloomingburg Road. Three buildings were constructed to-suit: BK Tile & Stone constructed 11,400 square feet on Black Meadow Road in the Town of Chester; Hudson Valley Welding constructed 8,400 square feet on Route 17M in the Town of Goshen; and propane distributor Chili Gas

constructed its 3,600 square foot headquarters on Stone Castle Road in the Town of Montgomery.

At year-end 2018, the vacancy rate for prime industrial space in Orange County, NY stood at a critically low 1.2%. The industrial supply is expected to improve, however, with over 490,000 square feet of spec space anticipated to be delivered during 2019. Over one-third of this was already under construction as of year-end 2018, and the remainder is approved and slated to start in the spring. The largest spec building likely to be finished in 2019 is the 241,800 square foot distribution center on US Route 6 in the Town of Wawayanda; approved ten years ago, it was recently picked up by Matrix Development Group, a New Jersey-based developer that had great success in 2017 with its 565,000 square foot distribution facility at Matrix Business Park in Newburgh. There are ten more spec industrial buildings of varying sizes which should also be ready for occupancy by the end of 2019. In addition, there is another 2.7 million square feet of spec industrial space currently making its way through the planning and approval process, which could be ready in 2020 or 2021.

In 2018, spec construction exceeded build-to-suit construction for the first time since before the recession, and this trend is expected to continue for the next few years. In 2019, approximately 420,000 square feet of build-to-suit development is expected to be completed. Approximately 150,000 square feet of this was already under construction at year-end 2018, including two buildings totaling 58,500 square feet for Dana Distributors in the Village of Goshen; 40,000 square feet in the Town of Warwick for Citiva, the second medical marijuana production facility in the County; a 25,000 square foot building in Washingtonville for AuroChemicals; along with four other smaller buildings. Another 270,000 square feet – six buildings in total – will be constructed to-suit in 2019, the largest of which will be the 100,000 square foot distribution center for Mondelez on Bracken Road in the Town of Montgomery. The 369,000 square foot manufacturing facility for Amy's Kitchen in the Town of Goshen, first announced in 2013, has continued with some site work, but has not yet fully commenced construction; the plant is now expected to be operational in 2021.

Over the last several decades, transactions in newer, prime buildings have made up the bulk of the activity, but in 2018, absorption of “non-prime” industrial space exceeded that of prime industrial space. With so few choice properties available, the older buildings are getting more attention, and the vacancy rate for these properties is also dropping. As of year-end 2018, the total inventory of industrial space, including these older, less functional buildings, was 29.6 million square feet, with a vacancy rate of 2.6%.

Total absorption of industrial space in 2018 was slightly below average with 1,000,000 square feet taken, of which 450,000 square feet was prime industrial space. Supplementing the space absorbed by companies which constructed or expanded their facilities, was the acquisition by Hudson Valley Flexo Graphics of the 170,000 sq. ft. former manufacturing facility on Governor Drive in the Town of Newburgh. Leasing activity accounted for approximately 43% of absorption in prime buildings. In the Town of Wallkill, BFY Brands leased 37,500 square feet on Turner Drive; Pearl River Bakery and Monroe Supply leased up the new 54,000 square foot spec building on Turner Drive; and ETAK Systems subleased 21,000 square feet on Tower Drive.

Absorption of non-prime industrial space included the sale of the 145,000 square foot former C&D Technologies property in Huguenot to a salt wholesaler; the sale of two buildings in Wawayanda totaling 75,800 square feet for a grain warehousing operation; the acquisition of and conversion by New Century Film of a 50,000 square foot former equestrian center into a film and television production facility on Neversink Drive in Port Jervis; and the sale of a 42,500 square foot building on MacArthur Avenue in New Windsor to Jaydee Group, a safety equipment distributor from New Jersey. On the leasing side, E-Z-Go, the golf cart distributor, leased 47,000 square feet at a former railroad engine maintenance facility on Midland Avenue Extension, and Auro Sonic Ltd, leased 10,000 square feet on Sprague Avenue for a mobile recording studio, both in the City of Middletown. In the City of Newburgh, The IDA’s Accelerator opened its third incubator with its lease of 16,700 square feet on Broadway, and this one will be geared toward fashion design and production.

Many other older industrial buildings in Orange County's cities and villages are experiencing a rebirth: in the Village of Montgomery, it was announced that the 50,000 square foot former Montgomery Mills wool factory will be converted to a winery, restaurant, music venue and hotel by City Winery founder Michael Dorf. In the City of Newburgh, Thornwillow Press founder Luke Pontifell has initiated the first phase of his "maker's village" developing studios for artisans and craftspeople, along with a gallery to exhibit their work and a public café, in a 12,000 square foot former carriage house on South Lander Street; and on South William Street, a 55,000 square foot former spring factory will be repurposed into a restaurant, offices and residential apartments by a developer from Poughkeepsie. And the City of Middletown – whose ongoing revitalization has been remarkable, due in large part to its targeted economic development programs, new zoning districts, and quality of life initiatives – continues to draw patrons to the downtown area with the success of Equilibrium Brewery, Clemson Brothers Brewery, and its growing array of retail establishments. This will continue to attract developers adept at converting antiquated industrial buildings to residential apartments.

Although there is an extraordinary amount of industrial product in the planning stages, it is not likely that all of it will be constructed. The precariously low vacancy rate has prompted several developers, some new to this market, to commence the engineering and site plan review process, but it is not clear if the commitment is there to develop all of these sites. The demand for industrial product and the perception on which direction the economy is headed will be the deciding factors.

The Office Market in 2018

At year-end 2018, the inventory of Class A office space in Orange County, NY remained unchanged at 4.7 million square feet, the result of just one office building being completed. As expected, the office market continued to be somewhat stagnant, not unlike other suburban markets. Looking forward, there will likely be limited office construction since there continues to be more than ample supply.

The only building to come on-line in 2018 was the 27,000 square foot headquarters on Schutt Road Extension in the Town of Wallkill which was constructed-to-suit for CRVI, a local nonprofit providing services for people with disabilities.

Since 2010, over 660,000 square feet of Class A office and medical space has been constructed in Orange County, and over 96% of this has been built-to-suit. As of year-end, there were a couple of small build-to-suit office buildings in the planning/approval stage, but there is not a significant amount of office space expected to be constructed for the next few years.

The vacancy rate for Class A office space dropped slightly to 9.4% as of year-end 2018, down from 9.8% the year before. One-third of the available space continues to be in two buildings on Crystal Run Road in the Town of Wallkill, both with sizable blocks for lease to accommodate larger tenants, and about half of which is medical space.

Approximately 190,000 square feet of office space was absorbed in 2018, an amount that is average for the County. Over 80% of this activity was in Class A buildings, and nearly 60% of that was through leasing transactions. The largest transaction was the lease of 33,000 square feet at 30 and 40 Matthews Street in the Village of Goshen by the County of Orange. After shuttering the County building in 2011 due to storm damage and mold, courtesy of Hurricane Irene and Tropical Storm Lee, the renovated and expanded government center became fully occupied in 2018. While the County relocated many of its various departments to the new facility, it decided, as a cost savings measure, to consolidate other agencies at the buildings that it vacated on Matthews Street. Lincare leased 7,000 square feet on Turner Drive in the Town of Wallkill; Cornerstone Family Healthcare leased 6,000 square feet at Northeast Business Center in Newburgh for a call center and digitizing of medical records; Children's Rights Society leased 5,161 square feet on Coates Drive in the Village of Goshen; and the Town of Woodbury leased 4,600 square feet on Route 32 in the Village of Woodbury, relocating offices for the town supervisor, clerk and assessor. The largest of the sale transactions in 2018 was the acquisition of the 19,725 square foot former Orange County Chamber of Commerce building in the Town of Montgomery by Girl Scouts Heart of the Hudson Inc. As the largest

Girl Scout council in New York State, the purchase facilitated a consolidation of two other offices, and will function as a regional headquarters, as well as a program center for its many members. In Cornwall, Thor Performance Products purchased a 10,000 square foot building on Route 9W; and Total Body Orthopedics and Rehabilitation purchased a 7,000 square foot office building at Hudson Valley Professional Plaza in the Town of Newburgh.

Absorption of office space in non-Class A buildings was split pretty evenly between lease and sale transactions. In the Village of Chester, attorneys Cohen, LaBarbera and Landrigan purchased a 7,000 square foot office building on Brookside Avenue; and Capstone Innovative Solutions acquired the 6,800 square foot former Village Hall in Walden. On the leasing side, all of the transactions were under 5,000 square feet, the typical office transaction size for this market. The total inventory of both Class A and non-Class A office space also remained unchanged at 6.2 million square feet, and the total vacancy rate dropped to 9.7%.

On the medical front, as anticipated, Crystal Run Healthcare finalized its merger with Montefiore Health System in 2018, and St. Luke's Cornwall Hospital also joined this Bronx-based network after entering into a "passive parent" partnership arrangement with Montefiore in 2015. On the western side of the County, Bon Secours Community Hospital, part of the Bon Secours Charity Health System (in which Westchester Medical Center Health Network has a majority ownership position) announced a \$40 million "medical village" at its Port Jervis campus. This will include an expanded emergency department, upgraded diagnostic imaging, and other health and wellness facilities to benefit the tristate community. Also in 2018, Bon Secours Charity Health System announced its merger with Mercy Health of Cincinnati, creating the fifth-largest Catholic health system in the country.

Evidence of the office market's softness became apparent with one ongoing project in the Town of Goshen: the developer from Long Island who had initiated approvals in 2017 for four medical office buildings alongside hotels and restaurants, in anticipation of LEGOLAND New York Resort's 2020 opening, has scaled back the office component; conceptual plans now include only one office building. Until there is greater demand and

associated rent growth, it will be hard to justify office development without a specific end user in place.

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