

MANSFIELD COMMERCIAL REAL ESTATE

Overview of the Commercial Real Estate Market in Orange County, NY at Year-End 2017

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The Industrial Market in 2017

Orange County, NY's total inventory of prime industrial space increased to 22.5 million square feet as of year-end 2017. The amount of space that was added to inventory in 2017 exceeded 1.3 million square feet, the most for the County in at least two decades. And with absorption of industrial space during the year at an exceptionally high level, the vacancy rate continued to plummet to a new low. In short, the industrial market continues to be active, expanding, and increasingly tight.

Seven buildings were constructed and two other buildings underwent expansions in 2017. Over 80% of this construction was built-to-suit. The largest building to come on-line was the 565,000 square foot distribution facility at Matrix Business Park in Newburgh, located along the NY State Thruway. Approximately 317,000 square feet was built-to-suit for pharmaceutical provider AmerisourceBergen. The balance of the building, 248,000 square feet - commenced on spec - was promptly leased to Amscan, a global distributor and producer of party goods. With this lease, Amscan has consolidated and expanded their manufacturing operations, bringing their presence in Orange County to over 1.3 million square feet. Next, McKesson, the largest distributor of pharmaceuticals and medical devices in the country, completed its 340,000 square foot facility in the Town of Hamptonburgh. FedEx Ground moved into its new 250,000 square foot distribution facility on Neelytown Road in the Town of Montgomery. Steris Isomedix, providing contract sterilization services for medical and scientific devices, now occupies a second building in Chester Industrial Park with its new 83,000 square foot facility. Restaurant Depot completed its 62,000 square foot wholesale restaurant supply facility in the Town of Newburgh. The Union of Operating Engineers constructed its new 7,400 square foot training facility in the Town of Wawayanda, and Pro Foam Insulation built 7,200 square feet in the Town of Goshen. Regarding expansions, Auro Chemicals added 4,400 square feet to its Washingtonville facility, and Angry Orchard added 1,600 square feet to its craft cider research and development complex in the Town of Montgomery.

Over 2.3 million square feet of industrial space was absorbed in 2017, an historical high for Orange County. This activity was not only driven by the delivery and occupancy of the above construction, but by increased demand, much of it attributable to e-commerce. Nearly 90% of the space absorbed was in prime industrial buildings, and this was split pretty evenly between lease and purchase transactions. The largest deal was the lease of 180,000 square feet on Enterprise

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Drive in the Town of Newburgh to Gekay Sales and Service, a Massachusetts-based provider of service and repair to the vending and soft drink industries. In the Town of Wallkill, Preferred Mart, an on-line distributor of household items, purchased a 73,000 former manufacturing facility on Smith Road. The Polich Tallix Fine Art Foundry, known for fabricating the Oscar statuettes for the Academy Awards each year, purchased the 58,000 square foot facility on Edmunds Lane in Walden that was formerly occupied by Big Apple Circus. In the Town of Newburgh, Mastertex Inc., a designer and manufacturer of bedding, purchased a 54,000 square foot building on Jeanne Drive, recently vacated by Amscan. In Chester Industrial Park, Witz Industries, a wholesale distributor of health and beauty brands, purchased a 50,000 square foot building, and across the street, Trinity Solar leased 25,000 square feet. In the Town of Crawford, online distributor Better Linens and Bath purchased a 26,000 square foot building on Stone Schoolhouse Road; and in the Town of Chester, Your Home Goods, an online distributor of kitchen hardware, purchased a 22,000 square foot facility on Elkay Drive.

With demand outpacing supply, the vacancy rate for prime industrial space declined to 1.8%, and this has finally spurred more developers to commence spec construction. In the Town of Goshen along the Route 17M corridor, a 60,000 square foot flex building, divisible to 5,000 square feet, is under construction and will be ready in May 2018. Another 54,000 square feet of speculative flex space on Turner Drive in the Town of Wallkill was nearing completion as of year-end. And in the Town of Newburgh, a 12,000 square foot spec building was also under construction. Two other developers were seeking approvals for spec buildings: a 70,000 square foot building to be erected in the Town of Goshen, near the Village of Florida; and another 8,200 square feet to be constructed in New Windsor. These deliveries in 2018 will help, but not fully alleviate the problem. The largest spec building currently in the planning stages is a 312,500 square foot distribution building to be constructed on Neelytown Road in Montgomery by National Realty Development, with delivery expected third quarter of 2019. It is expected that most of this spec space will be pre-leased or absorbed quickly.

Build-to-suit projects on the horizon as of year-end, that are approved and expected to commence construction in 2018, include the 369,000 square foot manufacturing plant for Amy's Kitchen in the Town of Goshen; they have cleared the site with a targeted completion in 2019; U.S. Crane & Rigging has approvals for its 66,000 square foot structural steel fabrication plant to be constructed on Route 17K in the Town of Newburgh; Master Deals USA, a local general merchandise retailer, purchased a shovel ready lot on Bracken Road and will construct a 90,000 square foot warehouse; Greek Mountain will be adding 54,000 square feet to its yogurt manufacturing plant in the Village of Goshen; and in Washingtonville, Auro Chemicals is constructing another 25,000 square feet for its growing flavor and fragrance ingredients business. Finally, two other projects in the Town of Wallkill were still under construction as of year-end: the 40,000 square foot addition to Monroe Cable, and the 16,700 square foot addition at Revere Smelting & Refining.

The total industrial inventory, including non-prime space, stood at 29.1 million square feet at year-end 2017, with a vacancy rate of 3.3%. With such limited available properties, some companies

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are able to repurpose older buildings, but this is generally only an option for smaller, younger companies.

Merlin Entertainments, the world's second largest visitor attraction operator, has acquired over 500 acres in the Town of Goshen and has commenced land-clearing, with plans to construct their third North American LEGO-themed resort and hotel to be operational by 2020. This has already generated interest in nearby hotel sites, and it may even spur additional industrial activity from suppliers to the theme park. This large-scale development will require significant traffic improvements that will also extend east on Route 17 to exit 131. These improvements, along with the recent opening of the Gov. Mario M. Cuomo Bridge (replacing the aging Tappan Zee) will also help to streamline traffic for the many distribution companies operating in the region.

The Industrial Development Agency continues to take a pro-active approach to economic development, expanding its Accelerator program with plans to open five new incubators around the County, each with its own theme. This program assists local entrepreneurs to launch and nurture their fledgling businesses, with focus extending from artisanal / craft ventures, to food production, to fashion, to healthcare. The IDA's first new Accelerator will be in the City of Middletown, slated to open in February 2018. As the home of Touro College of Osteopathic Medicine, Middletown is an ideal location to become a hub for health-oriented businesses.

Orange County's proximity to the NY metro area and other major population centers will continue to drive demand for industrial product. It is likely that build-to-suit development will continue to be strong, but the number of industrial sites in the County is dwindling. Recognizing the importance of economic development, some municipalities are considering rezoning suitable parcels for industrial purposes. With this kind of forward thinking, and a steadier stream of spec industrial deliveries, the County will be better able to meet that demand.

The Office Market in 2017

Construction of build-to-suit medical facilities continues to be the primary development activity in the Orange County, NY office market, but the volume of new deliveries in 2017 was considerably lower than four of the last five years. Just one office building was under construction at year-end, and on the horizon, there appear to be no planned starts for another few years.

Only two small office buildings, totaling 14,000 square feet, were constructed in Orange County in 2017, leaving the inventory of Class A office space unchanged at 4.7 million square feet. Both of these buildings were medical-related. At 30 Hatfield Lane in the Village of Goshen, an 8,000 square foot facility was constructed for American Renal Associates d/b/a Premier Dialysis Center. Originally designed to accommodate two buildings, this is the second building to be constructed on the site; a 36,000 square foot medical office building was erected in 2003. On High Street in the Village of Warwick, Dr. Mark Stamm constructed a 6,000 square foot medical office building.

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Approximately half the building is occupied by his ophthalmology practice, Eye Physicians of Orange County, and one other medical practitioner; the remaining space is available for lease. Constructing buildings for specific users, with small amounts of excess space, is the only practical way to deliver spec office space in this struggling market.

The vacancy rate for Class A office space rose slightly to 9.8%. Two buildings on Crystal Run Road in the Town of Wallkill account for one-third of the available space. Approximately half of the available space is currently finished as medical and surgical suites (vacated by Orange Regional Medical Center in late 2016 when it relocated to its new medical office building on the hospital campus) and the other half is back-office (which came on the market in early 2017 when Empire BlueCross BlueShield downsized). Orange County has traditionally been a market where the average size office lease is well under 5,000 square feet. In the recent past, large office leases were not able to be accommodated with existing inventory, but the vacancy in these two buildings should change that.

The total inventory of both Class A and non-Class A space also remained unchanged at 6.2 million square feet, and the total vacancy rate also rose slightly to 10.8%. The City of Middletown continues to make improvements in an effort to attract development and is purchasing, from NY State, several more properties at the former Middletown Psychiatric Center, annexing some of that land from the Town of Wallkill. Acquiring both buildings and vacant parcels, the City will renovate structures and conduct environmental cleanups on the 232-acre former medical complex, rebranding it into the Middletown Community Campus to accommodate educational, recreational, commercial and light industrial uses. Fei Tian, affiliated with the Falun Gong movement, currently operates a prep school / academy and a Chinese fine arts college in several of the buildings on the site, and may possibly be expanding into the additional properties acquired by the City.

Approximately 170,000 square feet of office space was absorbed in 2017, of which approximately two-thirds was through leasing transactions. This level of total activity was about 10% lower than what is average for Orange County. Over 75% of space absorbed was in Class A buildings, with the average size lease transaction being 2,750 square feet. Some of the more significant transactions include Orange Regional Medical Center's lease of 7,500 square feet on Hatfield Lane, and the lease of 5,600 square feet to the Alcohol & Drug Abuse Council of Orange County on Main Street, both in the Village of Goshen; the 5,500 square foot lease at 90 Crystal Run Road in the Town of Wallkill to Good Samaritan Home Care; the lease of 5,000 square feet by NYS Agriculture Department, and NYS Office of Children & Family Services on Executive Drive in New Windsor; the lease of 3,100 square feet at 75 Crystal Run Road in the Town of Wallkill to Sunny Days Early Childhood Developmental Services; and the lease of 3,100 square feet on Route 208 in Montgomery to Rhinebeck Bank for its asset management division. The latter transaction took place in the last spec office building to be constructed in the County; built in 2013, it is still about one-third vacant. The bulk of the activity on the acquisition side was due to one transaction: the donation of the 42,500 square foot former Devitt's Medical Arts building in

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New Windsor to Abilities First, a Poughkeepsie-based not-for-profit, which will be renovated for its expansion of educational services for students with disabilities in Orange County.

In the Village of Goshen, the County Government Center finally began to reopen after a six year closure necessitated when Hurricane Irene and Tropical Storm Lee damaged the building. At year-end, the County had commenced its relocation back to the renovated building, a welcome start to the Village businesses that depend on the increased customer traffic that comes with being the County Seat. But for the soft office market, it will also mean higher vacancy in the Matthews Street office buildings which were occupied by many County departments since autumn of 2011.

The medical community in Orange County underwent some changes in 2017. At year-end, the region's largest healthcare provider, Crystal Run Healthcare, was finalizing its joint venture with Montefiore Health System, a Bronx-based network of eleven hospitals that includes St. Luke's Cornwall Hospital in eastern Orange County. In early 2017, St. Luke's Cornwall Hospital closed the emergency room at its Cornwall campus, and in November announced it will be expanding services there in 2018 by offering open-access primary care, and by enhancing other treatments, including physical and occupational therapy with assistance of Westchester-based Burke Rehabilitation Hospital, also part of the Montefiore system.

And there were changes to the region's not-for-profit healthcare providers that serve low-income and underserved patients. Cornerstone Family Healthcare acquired the assets of Middletown Community Health Center, after financial troubles threatened MCHC's continuance. Cornerstone now employs over 600 staff members serving 40,000 patients in the area.

While there are several office buildings for which plans have been approved over the years, nearly all of these remain on the back burner. There was just one office building under construction at year-end 2017: CRVI, a local not-for-profit providing services and support for people with disabilities, commenced their new 27,000 square foot administrative / training facility on Schutt Road Extension in the Town of Wallkill. It is expected to be ready in 2018. There was also one other project actively seeking approvals in 2017 for a site in the Town of Goshen adjacent to the County Emergency Services center. The developer, from Long Island, is planning to construct four medical office buildings totaling 54,000 square feet, in addition to two hotels and a restaurant. It is unclear if these are build-to-suit or spec office buildings, but the presumption is that the developer has users in hand, perhaps from the New York metropolitan area; there are still a few major players in the healthcare field without a presence in this region. This project is expected to come on-line no sooner than 2020.

With minimal completions and few new construction starts in the immediate future, the Orange County office market will likely continue to be static for another few years.

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