



E-commerce could pressure already tight Westchester industrial real estate market

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E-commerce is pushing demand for warehouse space near major cities nationwide, but can an already tight Westchester County industrial market take advantage?

That's been the question asked at real estate panels throughout the county and Hudson Valley in the past year. E-commerce giants such as Amazon and Walmart, along with the latter's affiliated

Jet.com, are racing to offer consistent same-day delivery. To get there, the companies need space to store and process products for delivery near city centers.

Seth Pinsky, metro emerging markets and public affairs director of RXR Realty, was asked about growth in the warehousing and logistics facilities at a panel in Poughkeepsie in April. He said RXR had purchased warehouse space in Queens in March that it will consider for just that type of purpose.

But, he added, traditional warehousing and industrial areas within New York City like Queens and the Bronx are being rezoned for mostly residential uses.

"As a result of that, companies are having a really hard time finding locations within the city for these distribution facilities," Pinsky told the crowd at the Hudson Valley Economic Development Corp. spring real estate discussion.

"And they desperate-
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Westchester—

ly need them, as they are expanding like wildfire," he continued. "I think areas that are relatively accessible to the city – but outside the city – have a competitive advantage in that there is land available (that) is much less expensive."

But as industrial market experts in Westchester note, that land and warehouse space is not nearly as available within the county as it is further north in the Hudson Valley. It's those areas that may prove more able to take advantage of the trends Pinsky described.

For Westchester, "The market has been tight for a while, back before it was even cool to talk about industrial," said Kevin Langtry, a managing director at Newmark Knight Frank in Rye Brook.

NKF reported the county's industrial and flex space vacancy rate at 4.8 percent at the end of the first quarter, down from 6.2 percent at the end of 2016. The county's total market comprises about 13.6 million square feet by NKF's count.

"There's two asset classes that my group always get calls on – multifamily investment opportunities and industrial/logistics space," said Thomas LaPerch, director of Houlihan Lawrence Commercial Group. "Unfortunately, all

the properties that were formerly industrial sites are now being repositioned into residential in lower Westchester, or they've been gobbled up already. There's a very, very small inventory of any desirable properties left."

Naturally, prices have gone up. In his mid-year Westchester real estate review column for the Business Journal, Howard Greenberg reported that flex industrial space in the county – which typically rents for \$8 to \$10 per square foot – is now routinely approaching asking prices of \$15. "Never in my 30-plus years in the market have I seen this type of rent growth," the Howard Properties Ltd. president wrote.

Much of Westchester's building stock for industrial and warehouse space dates back to the county's 20th century manufacturing industries. The same trends that have reduced the warehouse markets in New York City's outer boroughs have similarly reduced the Westchester market.

Once industrial neighborhoods near Westchester's waterfront have been rezoned for what municipal officials refer to as higher and better uses; namely, mixed-use apartment buildings for anything near transit centers.

"In Westchester, you can

look at the Hudson River waterfront along Yonkers. Those were all warehouses before, now you see buildings and construction going up along the Hudson," said Joseph Simone, president of Bronx-based Simone Development Cos.

In April, Simone's company spent \$13.3 million to acquire a 118,500-square-foot property in Stamford featuring warehouse, research and office space. He said conditions in Stamford's warehouse and industrial market are similarly tight as a result of former warehouse space being converted for mixed-use development.

"The younger generation is looking to be as close to urban areas as possible, and I think the pent-up demand is driving municipalities to zone those areas for more density," Simone said. "And as long as that demand exists, you'll probably see them changing those zones, pushing the industrial further out."

That leaves potential tenants fighting for a limited amount of space that is often out of date. And market experts aren't expecting a rush of new industrial space to meet demand anytime soon.

"We really don't have a ton of new construction that occurs because most towns have gone the path

of rezoning industrial land and buildings to residential and retail uses," Langtry said. "Our supply has steadily shrunken over the years, and now with such demand for last-mile delivery services, it's very challenging for them to find space."

As an example of the zoning and cost obstacles of building new warehouse and industrial space, LaPerch cited the reinvention of the I-287 corridor in Harrison. Developers have spent the past half-decade knocking down and repurposing under-utilized office buildings along Westchester Avenue, but warehouses haven't gone up in their place. Instead, it's been a hotel, gym, medical offices, college classrooms, apartments and a Wegman's grocery store.

"That's the perfect location for an industrial, manufacturing or warehousing operation from a logistics standpoint," LaPerch said. "But for highest and best use, they're not doing that."

Industrial growth has instead focused further north. Across the river in Orange County, developers added 1.3 million square feet of industrial space last year to the county's roughly 22.5 million-square-foot market, according to an annual report from Goshen-based Mansfield Commercial Real Estate. The

vacancy rate for prime industrial space shrank to 1.8 percent in Orange County last year according to the report, spurring developers to build space on spec.

Elisabeth Mansfield, president of the firm, wrote that the county reached a historical high of 2.3 million square feet of industrial space absorbed in 2017. "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."

In Putnam County, CBRE Group Inc. will handle leasing for the Northeast Interstate Logistics Center, a planned development of 1.1 million square feet of high-bay warehouse space in Putnam County. The center would be built on 252 acres along I-84 in the town of Southeast.

"What we're doing is saying, 'Where can you build large, high-bay warehouse type space?'" said Budd Wiesenberg, a vice president in CBRE's Stamford office.

The plans still require municipal approvals. If built, Wiesenberg said the site could take advantage of toll-free access to I-84 to allow tenants to send products to New York City in a little over an hour, and/or to Boston and Philadelphia in about three hours.

The site would host four

modern warehouse buildings, each between 175,000 and 375,000 square feet. "I don't know of any place in Westchester you really can do that," Wiesenberg said.

But the lack of space doesn't mean e-commerce distributors are likely to surpass Westchester entirely. The county could still be desirable for companies looking for smaller, more flexible "last-mile" distribution space.

"We all feel like this is the tip of the iceberg," said Art Ross, a senior managing director of NKF in Hartford. "What these companies are focused on, it's almost like retail. They're focused on demographics, the per-capita incomes, for locations."

In that case, difficulty in finding land or modern warehouse space could spawn some creativity. Ross described a presentation he saw at a recent real estate conference that discussed mixed-use last-mile logistics facilities in urban centers.

"They're taking older, obsolete product or using vacant lots to create industrial on the first floor for a traditional warehouse, and then residential above," Ross said. "We haven't seen that yet in this market, but my sense is that we probably will. Maybe not for a while, but these are the kind of ideas that are out there."