

Albany Industrial, H2 2019

Supply Continues To Tighten As Demand Remains Stable

▼ Vacancy
3.5%

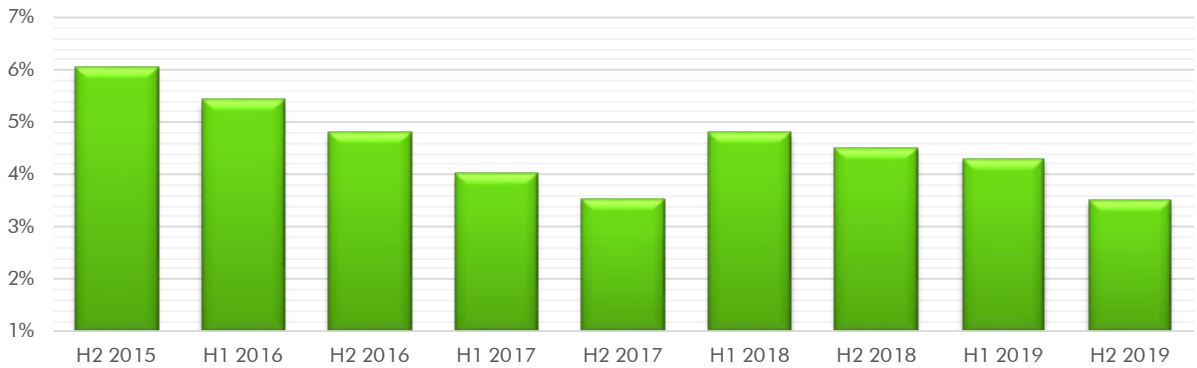
▲ Lease Rates
\$5.14

▼ Availability
2.3M

▲ Total Inventory
65M

Figure 1: Vacancy Rate %

Arrows indicate change from previous reporting period.



Source: CBRE-Albany Research, H2 2019.

NATIONAL OUTLOOK

CBRE Research Reports:

- The U.S. industrial & logistics (I&L) market finished the year with continued positive net absorption, record-high asking rent and a significant amount of new development.
- The overall vacancy rate remained unchanged from Q3 at 4.4%, with a marginal 20-basis-point increase year-over-year.
- With a pickup in new construction, net absorption rose by 20.1% quarter-over-quarter to ±55.7 million sq. ft. in Q4, the 39th consecutive quarter of positive absorption. For full-year 2019, however, absorption fell by 30.7% to ±183.3 million sq. ft., largely due to tight conditions in several markets.
- Average net asking rent rose 0.4% quarter-over-quarter to \$7.63 per sq. ft., the 33rd consecutive quarter of rent growth. Rents increased by a quarterly average of 5.1% year-over-year in 2019.

REGIONAL OUTLOOK

The overall H2 2019 Capital Region industrial vacancy rate experienced another dip from the previous reporting period as a very tight market lowered the rate to 3.5%, down from 4.3% at the H1 2019 point. This trend is a direct result from a continued demand for warehouse, light manufacturing and flex type spaces combined with limited new construction. The strongest drivers of demand for industrial space throughout 2019 were retail, e-commerce including last mile delivery, and third party logistics (3PL) occupiers.

The non-core industrial submarkets have experienced the same strong demand for space through the end of 2019. The only new construction added to inventory in this submarket was the addition of a ±750,000 sq. ft. distribution center in Montgomery County in the first half of 2019. Vacancy rates in the non-core submarkets lowered to 5.3% at H2 2019 from 7.7% at H1 2019.

As expected, the average asking lease rate in the region for existing industrial space has caught up with the tightening market conditions as the H1 2019 rate of \$4.42/sq. ft. NNN has been significantly eclipsed by the H2 2019 rate of \$5.14/sq. ft. NNN. New construction projects in the <50,000 sq. ft. category are generating lease rates in the \$7.50-8.00/sq. ft. NNN range as the cost of entitled land, construction materials and labor continue to increase. The lease rates for both existing spaces and build-to-suit projects have reached levels not previously experienced in the region.

Figure 2: Market Statistics

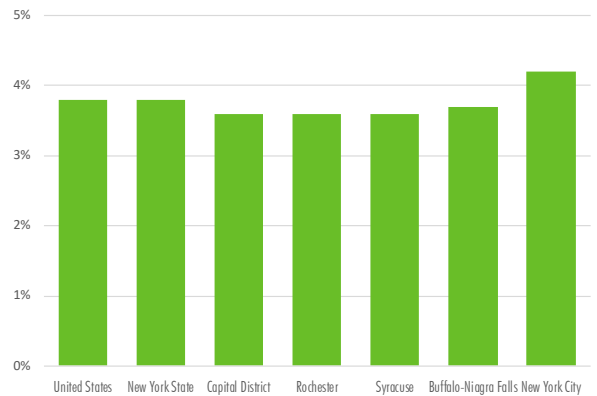
Market	Total Inventory (Square Feet)	Vacant (Square Feet)	Vacancy Rate %	Asking Lease Rates (Per Square Feet)
Albany	25,338,032	706,324	2.8%	\$6.17
Rensselaer	2,919,254	54,128	1.9%	\$3.00
Saratoga	10,675,770	343,855	3.2%	\$5.54
Schenectady	9,893,150	323,217	3.3%	\$5.19
Non-core Areas	16,185,783	857,643	5.3%	\$3.75
Total	65,011,989	2,285,167	3.5%	\$5.14

Source: CBRE—Albany Research, H2 2019.

UNEMPLOYMENT

The unemployment rate within the Capital Region was 3.6% as of December 31, 2019, which was an increase from the June 30, 2019 unemployment rate of 3.2%. The overall unemployment rate within the state totaled 3.7%, which was down modestly from the December 2018 rate of 3.9%. Saratoga and Albany Counties had the lowest rates within the Capital Region at 3.5% with both Rensselaer and Schenectady Counties close behind at 3.7% and 3.8%, respectively.

Figure 3: Unemployment

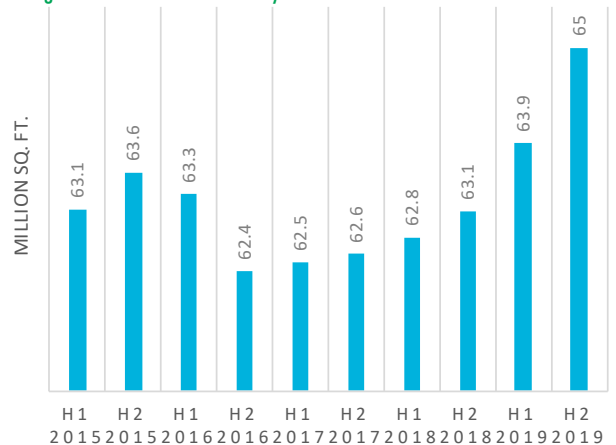


Source: NYS Labor Department December 2019

TOTAL MARKET INVENTORY

The total market inventory was 65,011,989 sq. ft. as of December 2019. The total market inventory during the course of the decade from H2 2009 through H2 2019 increased by 4.6 million sq. ft. or 8%. This is a net number after the removal of buildings classified as functionally obsolete or repurposed and the addition of new construction projects during the period.

Figure 4: Total Market Inventory



Source: CBRE—Albany Research, H2 2019.

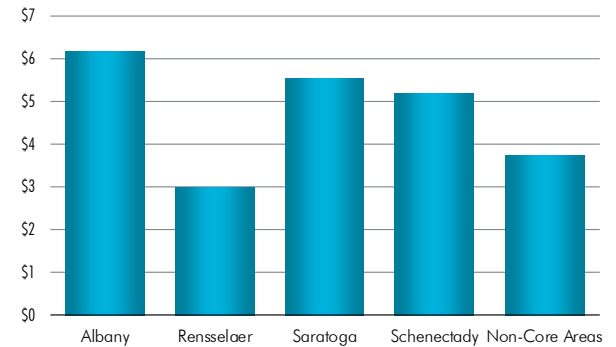
MARKET OUTLOOK

- The “Amazon effect” continues as the dominant disruptor in the retail sector but its impact on industrial real estate in every primary, secondary and tertiary market throughout the US cannot be dismissed. Here in the Capital Region, Amazon will be opening a 1 million sq. ft. distribution center in Rensselaer County during 2020 while also dipping its toes in the water several times for a “last mile” hub facility.
- New construction activity, in response to the very tight market availabilities, will likely pick up momentum during 2020. Although not historically a market prone to speculative development, there are entitled sites and parks throughout the region that have indicated a willingness to initiate construction ahead of executed leases. A proposed ±64,000 sq.ft. warehouse in Colonie was sold to Chris’ Coffee service prior to construction. ±67,000 sq. ft. of buildings in the Village of Colonie are under construction with approximately 50% pre-leased before completion. SuperPower will be locating into its new ±40,000 sq. ft. facility in Glenville in the Spring of 2020. In addition, there are approximately 1.3 million sq. ft. planned for availability in Schenectady, Saratoga and Montgomery Counties.

ASKING LEASE RATES (\$/SQ. FT.)

The overall regional average asking lease rate of \$5.14/ sq. ft. NNN was an increase from the previous H1 2019 average asking lease rate of \$4.42/ sq. ft. NNN. The tight supply of available inventory has forced continued upward pressure on rates in both Class A and B categories. With limited new construction in the pipeline and expected strong demand for space throughout 2020, the NNN lease rates should continue to rise during 2020.

Figure 5: Asking Lease Rates (\$/Sq. Ft.)

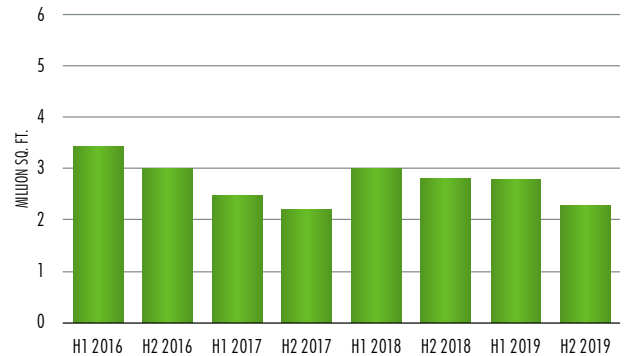


Source: CBRE–Albany Research, H2 2019.

VACANCY SQUARE FEET

Total vacant square footage within the Capital Region market totaled ±2,285,167 sq. ft., a reduction of ±471,364 sq. ft. from H1 2019. There are increased efforts to develop light industrial parks throughout the region in 2020 as demand for space remains unabated as of H2 2019.

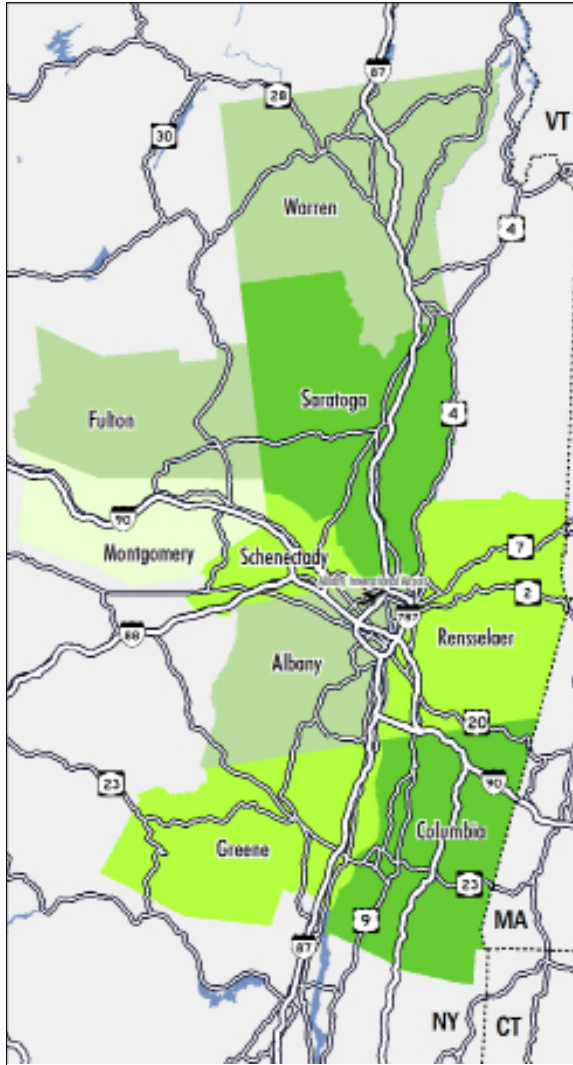
Figure 6: Vacancy Square Feet



Source: CBRE–Albany Research, H2 2019

Albany

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DEFINITIONS

Asking Lease Rate: Average of Asking Lease Rates for each property weighted by the associated Available Space. Includes Direct Available Space unless otherwise indicated **Net Leases:** Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses **Market Coverage:** Includes all existing one-story industrial space in buildings built post-World War II with a minimum of 10,000 sq. ft., vacant or occupied in Albany, Columbia, Fulton, Northern Greene, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie, and Warren Counties **Net Absorption:** The change in Occupied sq. ft. from one period to the next **Occupied Square Feet:** Rentable Building Area less Vacant Space **Under Construction:** Buildings that have begun construction as evidenced by site excavation or foundation work, and is on-going **Available Space:** Space being marketed to potential occupants, in Rentable sq. ft. (direct and sublease combined, unless otherwise indicated) **Availability Rate:** Available space as a percentage of the Base Inventory or Building sq. ft. **Vacant Space:** Available Space that is physically vacant, in Rentable sq. ft. **Vacancy Rate:** Vacant space as a percentage of the Base Inventory or Building sq. ft. **Class A Space:** Excellent location, high quality tenants & finish, well maintained, professionally managed, usually new space or space that is competitive with new buildings **Class B Space:** Good location, professionally managed, fairly high quality construction and tenancy, showing little or no functional obsolescence or deterioration **Class C Space:** Building with significant obsolescence that has not been brought up to current standards

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MARKET AREA DESCRIPTIONS

Albany, Columbia, Fulton, Montgomery, Northern Greene, Rensselaer, Saratoga, Schenectady, Schoharie and Warren counties.

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