

MANSFIELD COMMERCIAL REAL ESTATE

Overview of the Commercial Real Estate Market in Orange County, NY at Year-End 2007

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The Industrial Market in 2007

Although a record amount of industrial development is proposed - and even approved - for the Orange County, NY 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 square feet 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 square feet. 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 square feet 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 square foot former Amscan facility in Chester (as they relocated to their expanded new distribution facility – now the largest in the County); the 168,000 square foot 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 square feet remaining for lease. In fact, nearly two-thirds of the available space in the County was blocks of space measuring over 100,000 square feet. 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 square feet in Wawayanda and 500,000 square feet in Montgomery; Opus East has approvals for 1.2 million square feet on the Montgomery / Hamptonburgh border; and Matrix Development Group has announced plans to build 650,000 square feet 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.

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Of the roughly 500 existing industrial buildings in the County, 87% are less than 100,000 square feet 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 sq. ft. former manufacturing facility has been undergoing such a conversion, and is now over one-third occupied.

Approximately 1,000,000 square feet 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 square foot lease by Amazing Savings of the former King Zak facility in Goshen; Hudson Valley Granite’s lease of 60,000 square feet in Monroe; and the lease by S.P. Richards of 40,000 square feet in the Town of Wallkill. Significant sales included the following: King Zak purchased a 130,000 square foot distribution building in Goshen; Quality Carton acquired the 97,000 square foot former Gretag Macbeth complex in New Windsor; and Complete Medical Supplies acquired a 60,000 square foot warehouse on Wes Warren Drive in the Town of Wallkill.

As of year-end 2007, there was approximately 2,000,000 square feet 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 substantially 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 \$6.00 per square foot, 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 \$6.00 per square foot. Industrial rents are expected to rise.

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The Office Market in 2007

Contrary to the general perception, the office market activity in Orange County NY was relatively active in 2007. As of year-end, the inventory of Class A office space was up to 3.9 million square feet. Nine new buildings were constructed and one was expanded. These additions to the County's inventory were on par with the prior year. But what is more interesting to note is the fact that over 300,000 square feet of office space was absorbed in the County – significantly more than that which was sold or leased in any of the last ten years.

Of the new construction to come on-line in 2007, nearly three-quarters of the space was built-to-suit. Some of the more significant additions include the 44,000 square foot medical office building constructed for St. Luke's Cornwall Hospital in Cornwall (fully leased); the Orange County Chamber of Commerce's completion of its 20,000 square foot headquarters in Montgomery (a portion of which was "spec" space, most of which is now leased); the construction by Westage Development of the 12,000 square foot Hudson Valley Heart Center; and Washingtonville Pediatrics' new 11,000 square foot headquarters office building in Washingtonville. Three smaller spec buildings were also constructed in 2007; a physician group subsequently purchased one, but the other two buildings were still vacant at year-end.

Approximately 55% of 2007's record space absorbed was in existing buildings. Less than 16% of the activity was in space constructed on spec. Nearly 80% of the activity was through lease transactions. The larger lease signings included the 27,700 square foot lease at the former Fleet Bank building in Newburgh to Finkelstein Levine Gittelsohn & Partners; the 18,000 square foot lease at 90 Crystal Run Road by Time Warner NY Cable; the 12,000 square foot lease by DASNY of spec space within a medical office building in the Town of Wallkill; and the Cornerstone Environmental Group's lease of 8,400 square feet also at 90 Crystal Run Road.

In addition, 2007 saw more acquisition of existing buildings by users: Live Technology Holdings purchased a 23,000 square foot building in Sterling Forest for its corporate headquarters; and Straus News purchased a 10,000 square foot office building in Chester, a portion of which is now their corporate headquarters. Existing buildings are getting a closer look from users seeking to own, as new construction costs continue to rise, and developers seeking to lease newer buildings command higher rents and often require tenants to contribute a significant portion of the leasehold improvements.

The office vacancy rate at year-end 2007 was 8.0%, with approximately 300,000 square feet of Class A space available in the County. Although up a bit from 2006, it is still lower than the national average and below those of neighboring counties. Vacancy rates for Rockland stood at 10.7%; Dutchess at 10.9%; Westchester at 18.5%; and Fairfield

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County, CT at 11.3% (for office buildings tracked by Black's Guide). Orange County's total inventory of existing office space, including non-Class A space, was 5.3 million square feet, reflecting a vacancy rate of 10.0%.

At year-end 2007, there were several office suites on the market measuring over 8,000 square feet, although users requiring larger units - over 15,000 square feet - had few choices. In fact, to satisfy their need for 27,700 square feet, Finkelstein Levine Gittelsohn & Partners had to lease five different suites on four different floors within the building. In this market, users in this size range are accommodated by either build-to-suit or by pre-leasing space in one of the planned new buildings. As has typically been the case in the County, there were many buildings offering smaller units (1,200 to 3,000 square feet) for lease.

Rents for Class A office space in existing buildings have been in the range of \$13.00 to \$16.00 per square foot, triple net. New construction has commanded rents between \$16.00 and \$19.00 per square foot, triple net. To help offset the high cost of new construction, developers require tenants to contribute a portion of the leasehold improvements, or direct tenants to longer lease terms. Rents for medical space have been higher.

As of year-end, there were several speculative office buildings planned, and many have approvals in place to allow construction starts, but certainly developers will wait for some significant pre-leasing before commencing their projects. Build-to-suit construction will likely continue to account for much of the office space development over the next few years.

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