

# **MANSFIELD COMMERCIAL REAL ESTATE**

## **Overview of the Commercial Real Estate Market in Orange County, NY at Year-End 2008**

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### **The Industrial Market in 2008**

For much of the last decade, the industrial market in Orange County, NY has been one where demand has outweighed supply, prompting several developers to plan and/or commence speculative projects to meet the growing need. Not surprisingly, the year's economic turmoil – the most challenging in a generation – has reversed that course. Many companies actively searching for space during the year have retreated to carefully consider how the downturn in consumer spending and the tightening of the credit markets will affect their business and, correspondingly, their need for manufacturing and/or distribution space.

The inventory of prime industrial real estate in the County, as of year-end 2008, was 18.8 million square feet, representing an increase of about 265,000 square feet when compared to a year ago. Understandably, all of these additions to inventory (a total of five) were built-to-suit. The largest new building constructed was the 93,000 square foot headquarters for Orange County Choppers in the Town of Newburgh. In the Town of Wallkill, the Frassetto Companies constructed the 86,000 square foot manufacturing facility for United Technologies, and in the City of Newburgh, Unitex constructed its 60,000 square foot commercial laundry facility. The remaining two projects were the 16,000 square foot addition to the Grainger building and the 10,000 square foot building constructed by Armistead Mechanical, both in the Town of Newburgh.

Some of the buildings planned by major developers who entered the market over the last few years are moving ahead. Panattoni Development is finishing construction on a 500,000 square foot build-to-suit warehouse in Wawayanda for Medline Industries, a manufacturer and distributor of medical supplies. When that facility is completed in late 2009, Medline will then vacate the 200,000 square feet it presently occupies at Panattoni Business Center (the former Wakefern distribution center) in the Town of Wallkill. Panattoni also has approvals for another 240,000 square foot building in Wawayanda, but will not commence construction on that until a user is identified. A new developer has taken over the approved project for 1.2 million square feet on the Montgomery / Hamptonburgh border that was formerly planned by Opus East. The new owner of the project, known as Hudson Valley Crossings, has commenced site work. Panattoni is in its fourth year seeking approvals for its 500,000 square foot facility in Montgomery, and

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Matrix Development is also in the approval process for its similarly large projects in the Towns of Newburgh and Montgomery. It is interesting to note that Panattoni initially sought approvals for the Medline facility on its Town of Montgomery site, but when the process became stalled, the focus was shifted to Wawayanda where final approvals were granted in 12 months. Clearly, expediting the approval process increases a municipality's chance of generating tax ratables, thereby benefiting their communities.

Over 900,000 square feet of industrial space was absorbed in Orange County in 2008. About three-quarters of that activity was in existing buildings, and of this, leasing transactions accounted for a little more than half. Over a third of this space leased was at Vails Gate Business Center – a former manufacturing facility that was subdivided to accommodate smaller tenants. With the redevelopment beginning in 2006, this 245,000 square foot complex is now over 90% occupied. On the sale side, notable transactions include the purchase of the 62,000 square foot former Sorrento Cheese facility in the Village of Goshen by Epsilon Industries; the sale of the 64,000 square foot former Finnegan's Moving & Storage building in Newburgh to Blue Clean Water; the sale of the 50,000 square foot former Accelerated Sales building in Middletown to Marangi Waste; and the sale of the 48,000 square foot building at 110 Industrial Road in New Windsor to Fee Realty / CTA Digital.

As of year-end 2008, the vacancy rate for prime industrial space stood at 11.4%. Although higher than it has been in recent years, more than 2/3 of this vacancy was in a mere six buildings. With lower retail sales and many chain stores closing, it is likely that there will continue to be less overall demand for large distribution facilities. But in a relatively small market such as Orange County, a single large building can dramatically impact the vacancy rate. If adjusted for the vacant space at one of these large properties - for example, the former Wakefern facility - the rate comes down to 8.8%, which is more in line with the national average. The total inventory of all industrial space in Orange County, including the older, less functional buildings, was 24.9 million square feet with a vacancy rate of 13.5%.

The bulk of the 2.1 million square feet of space available at year-end 2008 was for lease, as has been the trend for much of the last decade. Of the properties listed for sale before the beginning of the year, many were either sold or are now in contract. Some that were listed later in the year, while seeing fairly good activity, have remained on the market as the uncertain economic environment worsened in the last quarter.

For those companies leasing space, it is likely many will be seeking concessions from their landlords in an effort to weather the poor economy. For those that wish to own their facilities, there may be a silver lining with the current economic environment: these users are no longer competing with investors for properties since financing for investment projects is no longer available. Furthermore, as some companies downsize or

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consolidate, this may add more space to inventory. Regarding new construction, costs are reportedly coming down. And currently with fewer projects in the pipeline, the planning board activity in most municipalities has been substantially decreased, which should lessen the time required for approvals.

## **The Office Market in 2008**

As of year-end 2008, the inventory of Class A office space remained at 3.9 million square feet, unchanged from last year. Only 42,000 square feet of new office space was added to inventory in 2008, the lowest amount this decade. Approximately 80% of this space was constructed on spec. Four new buildings were constructed, the largest of which was the 16,000 square foot building on Schutt Road in the Town of Wallkill (about 6,000 square feet was built-to-suit for the owner's company, and the balance was speculative). Of the remaining three additions to inventory, two were upgrades / renovations of existing office buildings, and one was an addition to an existing medical building.

There was about 115,000 square feet of office space absorbed in the County in 2008, and approximately 80% of this activity was in existing buildings. Nearly 90% of the space taken was through lease transactions. As is the norm for Orange County, the majority of these deals were relatively small in size.

At year-end 2008, there was approximately 365,000 square feet of space available for sale or lease, bringing the vacancy rate up to 9.5%, representing the highest rate for the County in the last decade. The total inventory of office space, including non-Class A space, at year-end 2008 was 5.4 million square feet with a vacancy rate of 10.6%.

Rents for Class A office space in existing buildings continue to be 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, with some developers requiring tenants to contribute a portion of the leasehold improvements and/or write leases with longer terms. Rents for medical space have been higher, but with the upcoming anticipated adjustment to the medical office market, some landlords will need to offer concessions to attract and/or keep tenants.

Prior to 2000, there were few medical office buildings in the County, other than those on the campuses of the hospitals. Since then, medical office space has been the most active segment of the office market in Orange County, accounting for nearly half of all new construction over the last eight years. That trend will continue in 2009 with the completion of the 127,000 square foot Crystal Run Healthcare medical center / office building on Crystal Run Road in the Town of Wallkill. This will likely result in

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consolidation of a portion of that medical group's office space out of other office buildings in the County.

The Town of Wallkill has the most Class A office space in the County, with nearly twice that of the next largest municipality, Goshen. And with completion in 2011 of the new hospital for Orange Regional Medical Center, the Town of Wallkill, and specifically the Crystal Run corridor, will continue to be the most active office location.

In addition to Crystal Run Healthcare's building, there are also several other office buildings currently under construction in Orange County. About 80% of this development is built-to-suit, and in total it will add another 250,000 square feet to inventory in 2009. This is a significant amount of space to come on-line – more than has been added in any given year of the last decade.

Although there are some tenants seeking to negotiate early termination of their leases, the County has not seen large-scale layoffs of office workers thus far. Perhaps the County is more insulated because its office market is diversified among its many smaller users. Or perhaps it remains to be seen how the ripple effect of this economic downturn will fully affect the Orange County market.

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