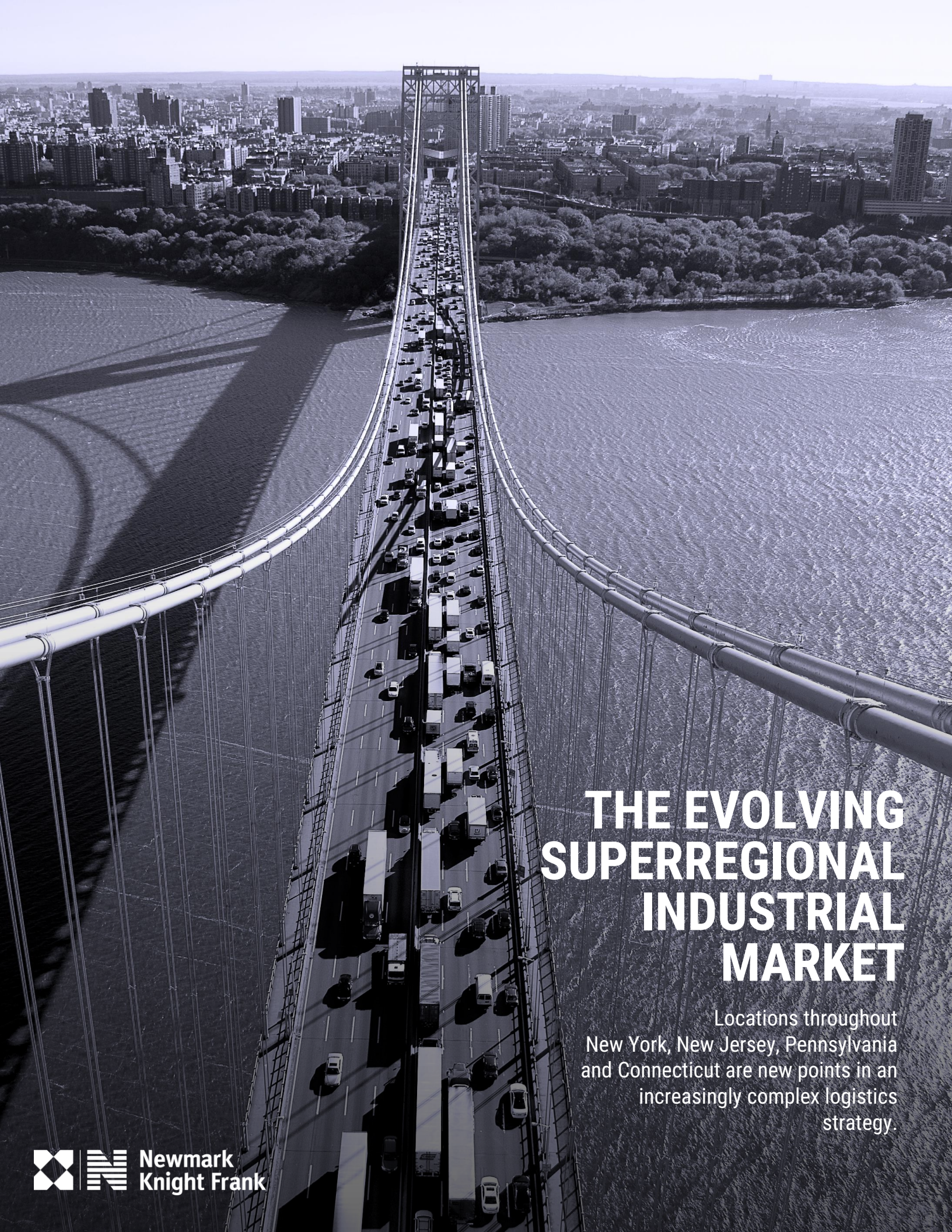
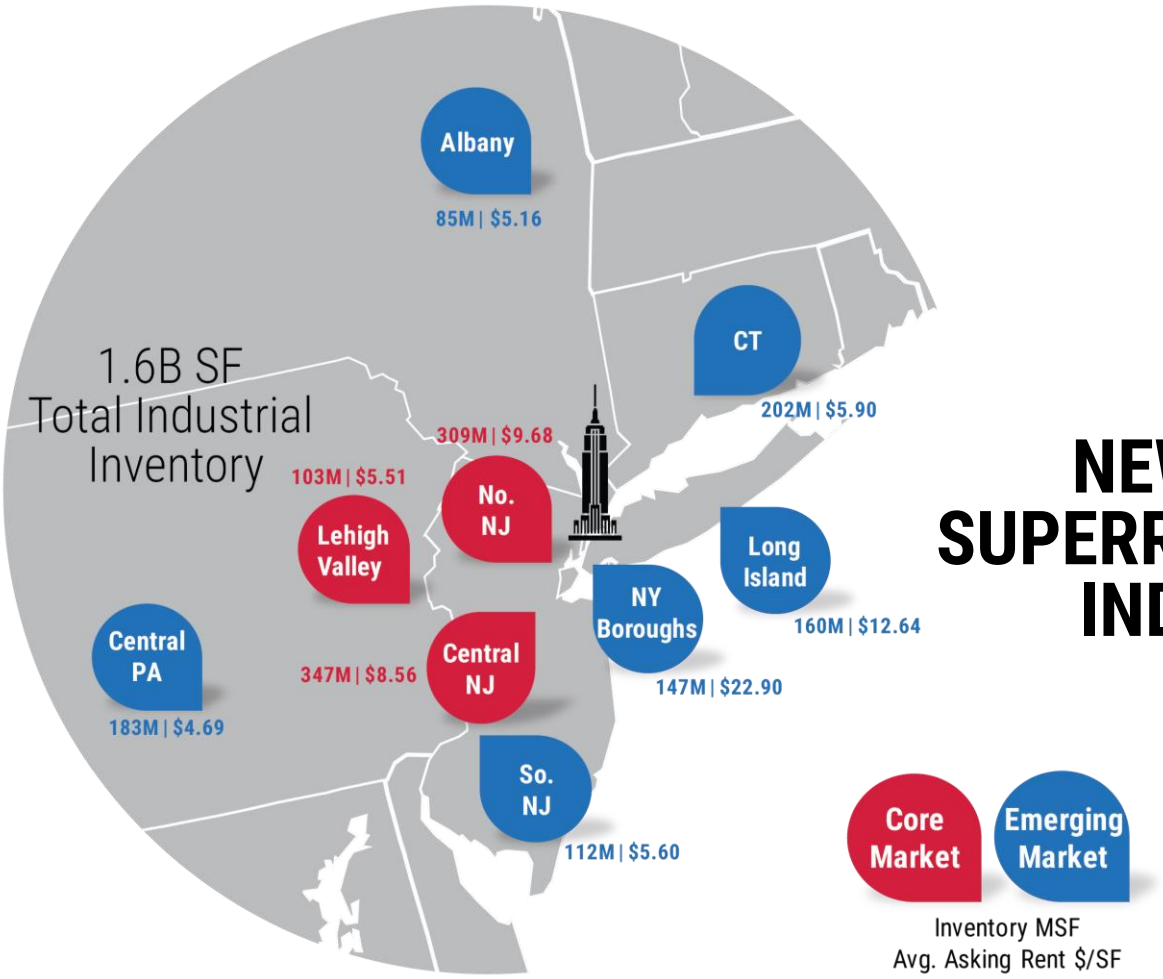


THE EVOLVING SUPERREGIONAL INDUSTRIAL MARKET

Locations throughout New York, New Jersey, Pennsylvania and Connecticut are new points in an increasingly complex logistics strategy.

Newmark Knight Frank



DEFINING NEW YORK'S SUPERREGIONAL INDUSTRIAL MARKET

A vast distribution network serves the New York metropolitan area,[1] which is the largest consumer market in the United States and home to more than 23 million residents.

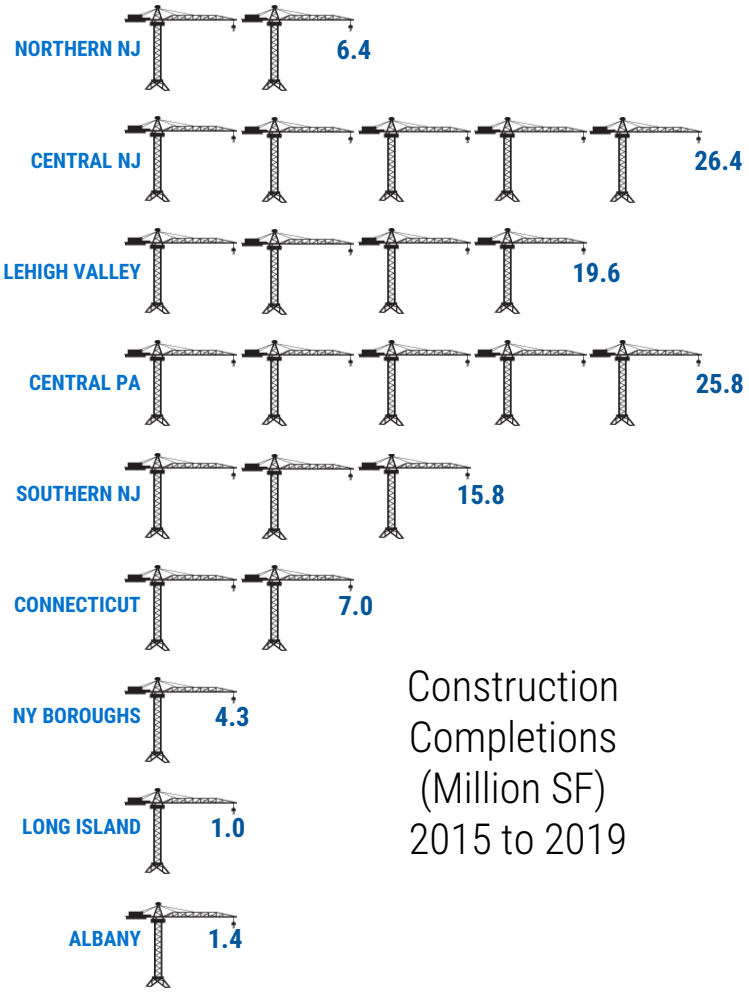
Historically, distributors trying to service the New York metropolitan area focused on a couple of key locations, including Northern and Central New Jersey as well as Pennsylvania's Lehigh Valley. The market is now expanding due to the growth of e-commerce, which is driving an unprecedented boom in demand for industrial space. Low availability and rising rents in core markets are pushing tenants into emerging industrial nodes on the periphery of the metropolitan area. Meanwhile, consumer expectations for rapid delivery are also creating demand for warehouses in urban and inner suburban areas, which until recently lacked modern industrial inventory and institutional investment. New York's outer boroughs and Long Island, Southern New Jersey, Central Pennsylvania, Connecticut and Albany are becoming strategic points in the evolving superregional industrial market.

Varying rents, labor costs and availability, and distance to destinations make each of these geographies better suited to certain links on the supply chain. Rents are highest in New York City and immediately surrounding areas in Northern New Jersey and Long Island. Occupiers that locate in these submarkets are paying more for proximity to population centers where goods are delivered to consumers and labor is most abundant. On the other extreme, larger-scale distribution and cost-sensitive operations tend to locate in the less expensive Lehigh Valley and Southern New Jersey markets. Hartford and New Haven, Connecticut, as well as Albany are up-and-coming industrial clusters that have expanded over the past couple of years. Meanwhile, Central Pennsylvania's reach extends beyond that of the New York metropolitan area, serving as a major distribution hub for the entire Eastern half of the country.

[1] The New York-Newark, NY-NJ-CT-PA Combined Statistical Area (CSA) defined by the United State Office of Management and Budget comprises 31 counties across four states.

MODERN INDUSTRIAL PRODUCT IS RISING ACROSS THE REGION

Over the past five years, developers added 108 million square feet of industrial inventory throughout the superregion. This new inventory fell short of 127 million square feet of net absorption, however, while vacancy remains historically low, averaging between 2.8% and 7.9%. Central New Jersey has accounted for the largest share of the region's new construction with 25%, closely followed by Central Pennsylvania with 24% and the Lehigh Valley with 18%. In Northern New Jersey and New York City, where dense development and high land values discourage new industrial development, construction activity is much lower and typically takes the form of redevelopment. **Looking ahead, Central New Jersey will likely remain an active area for new construction for the next couple of years, though the supply of sites is getting exhausted.**



108 MILLION
SQUARE FEET ADDED OVER THE PAST FIVE YEARS

The superregional industrial market's inventory is expanding in all directions. On the western edge of New Jersey, Bridge Point 78, a 4.0 million-square-foot development in Phillipsburg, is blurring the lines between the Central New Jersey and Lehigh Valley markets. Clothing retailer Uniqlo has already snatched up 975,000 square feet at the development. On Long Island, Hartz Mountain Industries recently acquired two development sites in Melville with plans to build 1.4 million square feet of new industrial product. Meanwhile, Amazon has been a pioneer in the burgeoning markets of Connecticut and Albany. The e-commerce giant pre-leased an 855,000-square-foot development in North Haven that delivered last year. Construction is currently underway on a 1.0-million-square-foot Amazon distribution center in Castleton-on-Hudson, eight miles south of Albany.

New development in Northern New Jersey and New York's outer boroughs will continue to occur through redevelopment of obsolete stock as rents for close-in modern buildings reach levels that justify investment. Three office buildings in Lyndhurst, New Jersey, which is six miles west of Midtown Manhattan, are being redeveloped for industrial uses. With financial backing from Goldman Sachs, a 336,000-square-foot multistory warehouse development broke ground last year on an existing industrial site in Brooklyn. Other existing older infill industrial buildings are getting upgraded with modern features. For example, 77 Moonachie Avenue in Moonachie, New Jersey, which was built in the 1970s, recently received additional dock doors, new lighting and sprinklers and a new façade, while the roof was raised to 28 feet. This property subsequently leased to online retailer FashionPhile.

DEMAND IS BROAD-BASED WITH A RECENT BOOST FROM E-COMMERCE

The New York metropolitan area's large population base is the primary driver of industrial demand in the superregional industrial market. Major occupiers in the market have historically included third-party logistics (3PL), retail, food/beverage and manufacturing companies. For example, Wakefern Food Corporation, which operates the Shoprite grocery stores, maintains more than 2.5 million square feet of warehouse facilities in the region. These traditional sectors remain strong, although e-commerce has emerged this cycle as a source of new organic demand growth. The rise of e-commerce has also spilled over to 3PLs, which are often used to facilitate the delivery of online orders, as well as orders from brick-and-mortar retailers with growing online sales divisions.

Amazon occupies more than 23 million square feet of warehouse space across New York's superregional industrial market. Approximately two-thirds of this space was taken in the past five years. These facilities are located in big box warehouses, typically larger than 500,000 square feet and sometimes larger than 1.0 million square feet. Smaller last-mile facilities are located closer to urban centers in Northern New Jersey and the New York boroughs. For example, Amazon leases 50,000-square-foot facilities in Hoboken and Brooklyn. These locations allow for compressed delivery time windows, such as next-day and same day-service.

E-commerce tenants were responsible for 17% of industrial leasing activity in the superregion's core markets of Northern and Central New Jersey over the past three years. Retailers and logistics and distribution/3PLs, which are buoyed by e-commerce, accounted for another 44% of recent activity. XPO Logistics, one of the largest providers of transportation and logistics services globally, has leased 1.5 million square feet in Northern and Central New Jersey since 2017, while home improvement retailer Home Depot has increased its industrial footprint by 1.8 million square feet over the same period. **E-commerce sales in the United States, which exceeded $500 billion over the previous 12 months, have nearly doubled over the past five years, and they still have plenty of room to grow, as online purchases represent only 11.2% of total retail sales.**

Industrial Leasing Activity By Sector Northern And Central New Jersey 2017 To 2019

LABOR AVAILABILITY IS A KEY CONCERN FOR OCCUPIERS

As the superregional industrial market has expanded, so has related employment. **Warehouse employment within the superregional industrial market area has grown by 23.8% over the past five years.** The ability to recruit and retain workforce is a primary consideration of occupiers deciding where to locate. Labor costs are highest in New York City and are rising because of recent changes to minimum wage laws. Certain users still need the proximity to the city, especially those facilitating last-mile deliveries, and therefore will pay more for real estate and labor. Other users are part of a steady flow of tenants from the boroughs to nearby Northern New Jersey as well as Long Island. Over the past couple of years, Modell's, DIR America Inc., Plated, Range Rover, Schuster Meat Corporation and Virginia Dare Extract Co. were among the occupiers that fled the boroughs. This trend may be slowing, however, because New Jersey recently enacted legislation to raise its minimum wage gradually to $15.00 an hour, in line with New York City, by 2024.

Tenants that require cheap labor may be drawn now to the Lehigh Valley market, where the minimum wage is $7.25 an hour. **However, there can be a trade-off between labor availability and wages, as areas with lower minimum wages tend to have lower population density and a smaller labor pool.** Additionally, Amazon and other e-commerce companies are less concerned about minimum wage laws because they pay higher wages. A greater concern is availability of labor. Many of these new warehouse jobs are not traditional hourly, pick-and-pack-type manufacturing jobs. They require training and the capacity to work with material-holding equipment and computer software programs. It can be a struggle to fill these positions in a remote area. Additionally, these types of businesses have fluctuating seasonal demand for labor. Densely populated areas are desirable for availability of labor, as are locations with higher unemployment rates.

New York's superregional industrial market ranks in the top three largest industrial conglomerations in the United States, containing 1.6 billion square feet of inventory between New Jersey, New York, Connecticut and Pennsylvania. Each of these geographies plays a different role in the logistics strategy of an occupier trying to serve the New York metropolitan area's massive consumer market. The superregion's industrial inventory is expanding both outwardly with the notable development in areas like Albany and Connecticut and inwardly with urban infill projects in Northern New Jersey and the New York City boroughs.

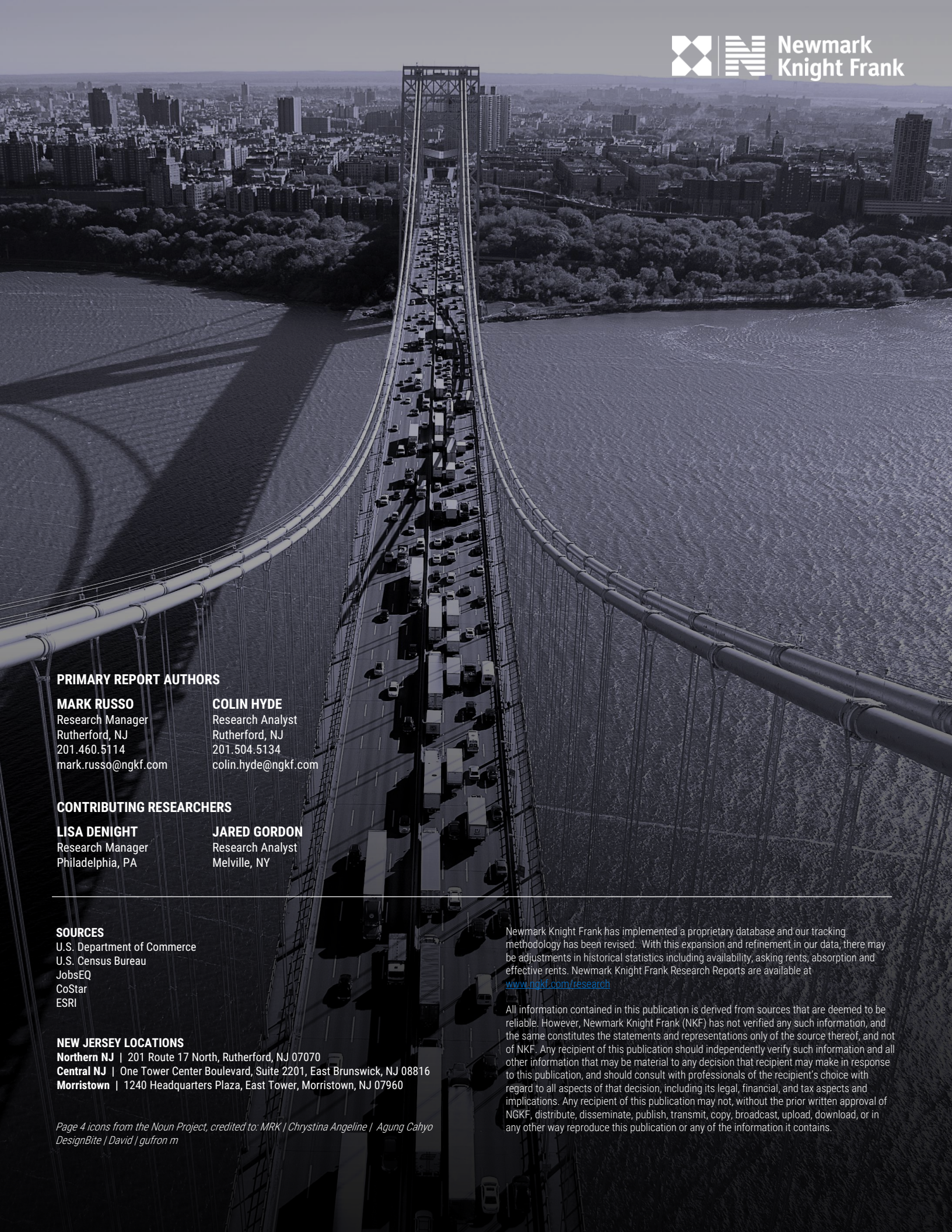
KEY TAKEAWAYS

FOR OCCUPIERS

- In response to extremely low availability, tenants will likely need to consider emerging markets to service the New York metropolitan area consumer market.
- There is typically a trade-off between labor availability and real estate occupancy costs.

FOR INVESTORS

- Prospective investors in the New York region should consider previously overlooked markets, such as Albany and Connecticut.
- Creative redevelopments and renovation projects can provide much-needed modern inventory to urban and inner suburban locations.



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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research