



MORE INDUSTRIAL PRODUCT LANDS NEAR AIRPORTS

E-commerce growth, increased air cargo traffic boosts tenant demand around JFK, Newark and LaGuardia.

By David Cohen

The U.S. industrial market has now recorded more than 240 million square feet of net absorption for four consecutive years, the strongest run on record, with an all-time high of 284.9 million square feet in 2018, according to Cushman & Wakefield.

In New York City, the largest consumer market in the United States, the current industrial supply of approximately 170 million square feet remains heavily constrained, especially around the region's transportation hubs.

Nowhere is the demand for industrial product more apparent than in the area surrounding John F. Kennedy Airport in Queens, which handles more

than 1.3 million tons of air freight every year, according to the Port Authority of New York and New Jersey.

JFK is the second busiest air cargo airport on the East Coast behind Miami International Airport and just ahead of Newark International Airport.

"There's really not a lot of land near JFK," says David Hercman, director of asset management at Long Island-based Milvado Property Group. "So, whatever supply is there is there."

Time-sensitive industrial users like freight forwarders, which organize shipments from manufacturers or producers overseas, need to be close to the airport in order to get products to the

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In the shadow of JFK airport in Queens, Triangle Equities is developing Terminal Logistics Center, a 300,000-square-foot, multi-story industrial facility designed to serve tenants with time-sensitive air cargo.

APARTMENT AMENITY WARS

Multifamily developers are finding unique and extravagant ways to gain a competitive edge.

By David Cohen



GID Development Group's Waterline Square mega-development in Manhattan features 100,000 square feet of leisure and lifestyle amenities, including an indoor skate park.

A boom in high-end rental developments over the past few years has yielded an oversupply of new luxury rental units in some of the nation's biggest cities. In order to stand out from the crowd and attract renters, developers have opted to add unique and extravagant amenities.

New York City is no exception to this phenomenon. In 2018, developers delivered more than 20,000 multifamily units, many of them luxury rentals, with an additional 20,000 units slated for delivery this year. By comparison, developers completed 25,000 units in 2017, according to Marcus & Millichap.

"I think that there has been an oversupply in the market for a few years

now," says Matt Fotis, a multifamily specialist at Marcus & Millichap in New York City. "But in spite of this consistent heavy supply being added to the market, there continues to be a significant amount of units in the pipeline."

To win the competition for tenants, new development projects are coming to market with creative amenity packages.

Nothing is off limits. From full basketball courts, golf simulators and bowling alleys to pet spas and culinary lounges with private dining — apartment communities in New York continue to ramp up amenity offerings.

At the Moinian Group's Sky development in Hell's Kitchen, residents get access to a \$105,000 chauffeured

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WHY MORE INDUSTRIAL PRODUCT IS LANDING NEAR AIRPORTS

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end user as quickly as possible. That can be difficult near JFK, where the price for existing industrial space is steep.

Currently, there is approximately 4 million square feet of industrial product around JFK and the asking rent can be as much as \$30 per square foot triple net, according to Hercman. On the sales side, industrial properties near the airport are trading at upwards of \$250 per square foot.

Further east on Long Island, users can get a price break but still be located within a 25-mile radius of the airport.

"There are logistics companies that want that access and the rent is between \$12 and \$15 per square foot," says Hercman. "So they are saving a substantial amount of capital. The companies that want to be directly adjacent to the airport have deliveries coming in on a daily basis and they are willing to pay a premium."

There are also future demand drivers in the market, including pharmaceutical tenants, which will increasingly need to be located near airports due to the difficulty of handling temperature-sensitive cargo.

User demand among cell and gene therapy tenants, which need manufacturing and lab space adjacent to airports, is also expected to rise, according to Josh Weingarten, director of capital markets with New York City-based real estate developer Triangle Equities. Weingarten says the increased demand is due to the time-critical logistics of providing customized medicines.

"The major renovations and rehabilitation of LaGuardia and JFK airports are creating a demand for more industrial warehouse product nearby and this is creating value," says Weingarten. "In the case of cell and gene therapy tenants, these uses are also big job creators. So, it's a big win for city and local officials to activate underutilized land with uses that support the flow of goods through the economy while creating high-quality jobs."

To accommodate increased demand, industrial owners and developers are adding new multi-story product as well as converting outdated product to the preferred specifications for e-commerce companies.

Less than 25 miles from JFK airport in Hicksville, Milvado plans to raise the current 14-foot ceiling height of an industrial facility at 230 Duffy Avenue to 50 feet to ready the property for modern warehousing and distribution demands.

"The e-commerce craze is really the driver in this



Josh Weingarten
Triangle Equities



Duke Realty is currently developing 429 Delancy, the largest speculative bulk warehouse in Northern New Jersey. The planned 661,741-square-foot facility is less than two miles from Newark airport.

market and there's no downside in sight to be honest," says Hercman. "In general, e-commerce businesses that satisfy the Amazon world typically look for buildings that are between 25 to 40 feet in height so they can utilize the cubic feet for racking and stacking purposes to accommodate as much supply as possible."

Less than two miles from JFK airport in Queens, Triangle Equities will soon break ground on Terminal Logistics Center, a 300,000-square-foot, multi-story industrial facility. The facility is designed for both first- and second-floor access for tractor-trailers.

The facility was designed for tenants in the freight forwarding and air cargo business that are dependent on a quick turnaround of products brought into the facility, sorted and then immediately sent back out again on large trucks for delivery. Those users fly cargo into JFK for speed rather than transporting it via ocean cargo boats.

"By allowing for direct truck access on both floors, we have essentially created two ground floors," says Weingarten of Triangle Equities. "This creates value because the ground floor typically has higher rent. It also allows us to develop a project of scale, which wouldn't otherwise be possible staying on grade because the land sites aren't large enough."

Terminal Logistics Center is slated for completion by summer 2020 with rents expected to be consistent with similar Class A facilities in the market.

Port-driven demand

The industrial market around Newark International Airport is buoyed by the nearby Port of New York and New Jersey, which handled a record-breaking 6.7 million twenty-foot equivalent units in 2017, up 7.3 percent from the prior year's volume.

As such, the demand for modern warehouse facilities in the area is stronger than ever. Nearly 10 million square feet of new industrial product in Central and Northern New Jersey was completed in 2017 and 83 percent of that space has been leased, according to Cushman & Wakefield.

At the end of 2018, the industrial vacancy rate in Central New Jersey stood at 2.6 percent compared with 4 percent in Northern New Jersey, reports Cushman & Wakefield.

"The Newark airport is the most attractive for industrial product," says Chuck Fern, vice chairman at Cushman & Wakefield in New York City. "It's by the seaport, near major highways and it's also the center of New Jersey. So, prices are more expensive in the airport area, as much as 30 to 50 percent more than being 20 minutes further away."

Rents for new industrial product around the Newark airport can range from \$11 to \$14 per square foot triple net, according to Fern. Outside of that five-mile radius, industrial product can be leased for around \$7 per square foot triple net.

Traffic drivers in the immediate area surrounding Newark's airport include a major FedEx hub on-site, which drives almost half of Newark's air cargo traffic. In addition, United Airlines and UPS have significant freight operations based at Newark airport.

The airport currently has 290 acres devoted to cargo operations and houses nearly 1 million square feet of cargo space.

"The Newark area will continue to be a very desirable location for industrial users due to its strong labor pool and proximity to the airport, port and greater New York and New Jersey population," says Ben Rosen, vice president of leasing and development at



Ben Rosen
Duke Realty



Three miles north of Newark airport, Liberty Property Trust is developing Liberty Commerce Center, a 142,972-square-foot industrial facility that will feature 40-foot clear heights and 27 loading docks.

Duke Realty (NYSE: DRE), an industrial property real estate investment trust.

"We are bullish on the outlook for air cargo-related demand growth since air cargo is an essential element in the e-commerce supply chain. As e-commerce demand continues to grow at a fervent pace, proximity to major air cargo hubs will be a major driving factor for e-commerce-related users," adds Rosen.

In anticipation of surging demand, Duke Realty currently has the largest speculative bulk warehouse under construction in Northern New Jersey. The planned 661,741-square-foot warehouse is located at 429 Delancy Street, less than two miles north of Newark airport.

The cross-dock warehouse will include 109 dock doors and four drive-in doors. Features inside will include 40-foot clear heights, 66 foot staging bays and LED motion-controlled lighting. The facility also has the potential for rail service.

"This project offers users tremendous proximity to the airport and port as well as several major arterial highways," says Rosen. "While it is hard to say exactly what percentage of the users will be purely air-cargo driven, we anticipate the strongest demand from users that can utilize a combination of those major drivers."

Just one mile north of 429 Delancy, Liberty Property Trust (NYSE: LPT), also an industrial REIT, is developing the Liberty Commerce Center, a 142,972-square-foot industrial facility that will feature 40-foot clear heights and 27 loading docks.

As both the port and airport in Newark continue to expand capacity to accommodate the increased demand from industrial users, developers and investors are confident

the runway of opportunity there is long.

Newark airport recently broke ground on a new, \$2.7 billion terminal, which is expected to greatly boost capacity. Meanwhile, activity at the port continues to break traffic records.

"A lot of freight comes in through the air but the port is still driving the activity and need for warehousing space in New Jersey," says Fern. "At JFK and La Guardia there are distribution centers, but it is much less activity overall than Newark. The reason is that the port is driving the demand."

New hubs needed

Just over 60 miles north of Manhattan, industrial users are flocking to a growing air cargo hub in Newburgh, New York.

Stewart International Airport handled approximately 23,000 tons of air freight in 2018, up 7 percent from 2017. The an-

nual tonnage is expected to continue increasing, according to industry experts.

"Facilities outside New York are seeing more air freight," says William Waxman, executive vice president at CBRE in New York City. "It takes basically five days to turn around freight out of JFK Airport because customs is so slow and you can't get trucks in and out. So, we're seeing the development of air freight hubs in places like Hartford, Allentown and at Stewart that are taking a lot of the load off the larger airports."

"The existing airports and infra-

structure can't satisfy the amount of air cargo coming in based on where the world is going with e-commerce," adds David Hercman of Milvado. "All three major airports are being beefed up to handle more air cargo, including La Guardia airport, but we are seeing a tremendous amount of development near Stewart."

Stewart Airport is located at the intersection of I-87 and I-84, making it well suited for the distribution of air cargo to and from areas across the Northeast.

Three air cargo operators currently

operate out of Stewart, and the airport features a runway long enough to handle the largest jetliners. It is also home to the Stewart Airport Industrial Park as well as distribution centers for FedEx and the United States Postal Service, which are directly adjacent to the airport.

"More distribution centers are popping up near Stewart airport," observes Cushman & Wakefield's Fern. "There's more land to build facilities and it's cheaper there. That is an opportunity near Stewart airport." ■

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