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Connecticut's tight industrial real estate market may limit opportunity for growth - by Mark Duclos

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Mark Duclos, Sentry Commercial

One might expect that the industrial real estate market is in rough shape in a state with a projected $1.7 billion state budget deficit, where the capital city (Hartford) has discussed bankruptcy, and where one of the most famous employers (General Electric) has moved out — not to mention the state's high taxes and high wages.

However, the industrial real estate market is one of the tightest I've seen in Connecticut in more than 31 years. Each region in the state is experiencing varied levels of success, but overall the industrial market is healthy, with dropping vacancy rates, increasing rental rates, and decreasing cap rates.

The game changer is big box distribution and third-party logistics activity throughout the region. In a market where a 75,000 s/f deal used to be major news, we have seen numerous leases and new construction deals over 200,000 s/f in the past two years. E-commerce activity includes Amazon (1.5 million s/f in Windsor), FedEx (550,000 s/f in Middletown), and UPS (239,000 s/f in Windsor).

Other significant transactions include Trader Joe's (750,000 s/f in Bloomfield), Mobis Parts America (291,000 s/f in South Windsor), Vistar NE (296,000 s/f in South Windsor), Serta Simmons (268,000 s/f in Windsor Locks), Fulfillment Works (206,000 s/f in North Haven), Thule, Inc. (201,000 s/f in Milford) and 3PL Worldwide (300,000 s/f in Bristol), just to name a few. These companies (and many like them) continue to eat up big blocks of available space and large tracts of land, creating a shortage in both categories.

Indicative of the increasing tightness of the market is the acquisition of 25 Bacon Rd. in Enfield. This 1.1 million s/f former Hallmark DC property was acquired, vacant, in June 2016 for $11 per s/f by a Boston-based investor/developer. Located four miles from I-91, the property was 75% occupied in less than 90 days from acquisition, with Vertiv Corp. and Plastipak Packaging leasing 465,000 s/f and 319,000 s/f, respectively.

The industrial investment market remains active, although overall cap rates still lag much of the country. Connecticut continues to attract more regional and national investors than it has historically. Much of this interest is due to the perceived value compared to other regions in the country. While investment activity is down overall in 2017, in line with national averages, it is still well above the historical average for Connecticut in the past 10 years.

With all the good news comes some challenges:

While overall industrial vacancy rates have dropped below 10% in the state — with the more active industrial areas having dropped to less than 7% vacancy — much of the remaining available space is challenged product. The drop in vacancy rate can be partly attributed to the lack of recent speculative development, likely due to the lack of developer confidence in the state of Connecticut. At the time of this writing, we are aware of only two significant speculative buildings under construction, both in the northern market. These include the 137,000 s/f 330 Stone Rd. in Windsor, which is already 50% leased, and the 83,000 s/f 229 Old County Rd. in Windsor Locks, which has a number of proposals under consideration.

This lack of available new product has created a shift in leverage between landlords and tenants, mostly through the I-91 corridor. Landlords are offering fewer concessions and increasing lease rates, with overall asking rents up approximately 10% in the past 18 months in most parts of the state. The strongest region continues to be the northern market, specifically north of Hartford.

There is a shortage of large (40-plus acres) developable sites in the region, although there are plenty of sites available under 30 acres. This large parcel shortage has, in part, been created by recent land acquisitions for single-tenant use.

In total, 2017 appears to be another good year for industrial real estate in Connecticut. The question is to what degree the lack of available quality product will impact market momentum, potentially stifling a region that is otherwise poised for growth.

Mark Duclos, SIOR, is president of Sentry Commercial, Hartford, Conn.