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Connecticut/Western Massachusetts 2017 year-end SIOR Market Survey

February 16, 2018 - Connecticut

Rendering of the Scannell County Line Industrial Development

Hartford, CT The Connecticut/Western Massachusetts chapter of SIOR announced the results of its semi-annual membership survey of commercial real estate market conditions. The survey is based on market activity for the period July through December, 2017 within Connecticut and western Massachusetts.

SIOR survey results point to a continuation of the overall positive outlook established earlier in 2017. The industrial sector continues to outperform the office sector and overall the results indicate a market that is generally stable to improving although there is some negative outlook for the office sector. Members noting improving market conditions were in the majority (55%) which is a slight increase from the prior survey. Members experiencing a stable market decreased to 40% and those experiencing a decline remained stable at 5%. Predictions for 2018 are slightly more positive than previously with 60% expecting improvement, 40% anticipating no change, and no responses expecting a decline.

Predictions regarding lease rates for 2018 are positive for industrial which has been consistent for multiple surveys and members forecast an increase (63%) or no change (37%). Office lease rates are largely expected to remain unchanged (60%) although there is a sizable amount of negative sentiment as 35% of the members forecast a decline and a small group expects rates to increase (5%).

Expectations for market vacancy rates for the first half of 2018 are once again more favorable for the industrial sector than the office sector. Responses for the industrial sector forecast that vacancy rates will decrease (75%) or remain unchanged (25%). Predictions for office vacancy rates forecast an increase in vacancy rates (42%) with a slim majority (53%) expecting rates to remain unchanged and a limited number of responses forecasting a decrease (5%).

220 Tradeport Drive concept rendering - Windsor, CT

The outlook for sales prices for 2018 is consistent with other survey categories with a more favorable outlook for industrial. Survey responses for industrial properties predict upward pressure on pricing (63%) or stable pricing (37%). Survey responses for office are mixed as (55%) indicate prices have stabilized but a sizable group anticipates further price declines (45%). Predictions for investment cap rates presumably reflect potential interest rate hikes with a sizable number expecting cap rates to increase (47%) which results in declining sales values for investment properties. Remaining responses for cap rates are 40% anticipating no changes or a decrease in cap rates (13%).

The majority of members do not anticipate new development (70%) in 2018 with the remainder predicting an increase (20%) in development or a decline (10%). Expectations regarding growth by users indicate no change (70%) or expansion (30%). Comments by members note the strong showing by the industrial market and anticipated continued strong demand. Office continues to be the weaker sector. Members note that business conditions have improved nationally, but express concerns that challenges at the state level will delay or reduce their positive economic impacts on the local market.

Underscoring members' comments concerning the industrial real estate market, we have outlined a few of the larger new industrial developments currently in the works. Amazon will be building 855,000 s/f (finished space to be over 1 million s/f counting a planned mezzanine area) in North Haven, on the site of the former Pratt & Whitney facility. The largest spec industrial facility in Connecticut for decades, 403,000 s/f and known as the County Line Industrial Park, is being developed by Scannell Properties just off I-91 in Cromwell.

In Bloomfield, Trader Joe's new 700,000 s/f distribution center is now under construction at Phoenix Crossing; and a few miles away Windsor town officials recently announced Griffin Industrial will be constructing a 288,000 s/f warehouse/distribution facility on behalf of Ford Motor Company at 220 Tradeport Dr.