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Impact of COVID-19 on the Hartford industrial market - by Timothy Mitchell

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As a real estate appraiser who specializes in industrial properties, I frequently get questions from building owners, industrial tenants, brokers and other real estate professionals about the impact of COVID-19 on the industrial sector. Although there was a marked slowdown of both sales and leasing activity immediately following the declaration of the global pandemic in March 2020, this slowdown was mostly short term and caused by the immediate shut down of global financial markets, travel restrictions, the State and region going into “lockdown” and general uncertainty from both investors and users alike. However, it has been my observation that this slowdown was relatively short-lived for the industrial sector and by late summer-2020, the industrial market in our area was already showing signs of recovery, lenders were once again making loans for building expansion and even new construction. Brokers were reporting sales, that had previously stalled due to uncertainty caused by the virus, were now moving forward with little or no discounts to the pre-covid negotiated pricing. Industrial is widely projected to outperform other sectors in terms of magnitude of short-term negative impacts and pace of recovery.

According to trends observed by CBRE’s research team in Asia following the spread of COVID-19, the industrial sector likely will be less affected than other commercial property types, particularly hotels, retail, and office. The industrial sector is already showing to be preferred by capital markets and lenders alike, both here in CT and nationally.

Trends which support the market’s confidence in the industrial sector include a surge in E-commerce spending by consumers not wanting to go to traditional brick and mortar retail stores. This trend helped to support warehousing demand during the pandemic. Based on figures compiled by CBRE, E-commerce spending increased over 30% throughout the year, gaining a significant share in the retail sector as concerns over the pandemic pushed shoppers online.

As businesses looked to expand their online capabilities industrial availability remained near historic lows, falling to 7.4% nationally by year end 2020. Net absorption surged in Q4, reaching a 22-year

high of 109.9 million s/f during the quarter, driven by record demand for class A warehousing space. On a national basis rent growth finished the year at 3.3%, up from 2.4% in 2019. On a more local level the greater Hartford industrial market closed 2020 with 204,454 s/f of positive absorption and the overall vacancy rate fell to 8.5% overall, tracking just above national levels, and improving year-over year from Q4 2019 when the overall rate stood at 10.6%. While it's likely that E-commerce growth will not expand at a similar pace in 2021 as vaccine deployment accelerates and consumers return to brick and mortar locations, the convenience of E-commerce has been cemented in the minds of most consumers and industrial demand, particularly for the warehouse sector will continue to benefit from this trend over the long term.

The interruption of the global supply chain at the beginning of the pandemic also changed industrial manufactures views on just-in-time inventory delivery management to more demand for stockpiling key inventory which drove the need for cold storage space in the near and long term. Manufacturing users have also begun to shift key operations out of China and back to the U.S. to have more control over the supply chain process.

Nothing has encapsulated these trends in greater Hartford more than the growth of Amazon's footprint in our region. Amazon signed new leases for 403,000 s/f at 120 County Line Dr. in Cromwell and 184,875 s/f at 29 Research Parkway in Wallingford during 2020. Both of these facilities were new construction warehouse buildings. In Windsor, Amazon is set to become the town's largest employer with about 2,700 employees after it opens its 823,000 s/f five-story distribution hub near Bradley International Airport. This facility is expected to come online by the fourth quarter of 2021, and is in addition to their 1.2 million s/f distribution center on Iron Ore Rd., pushing Amazon's presence in the area to over 4 million s/f. This expansion shows the area's key location for E-commerce, with its prominent location halfway between New York and Boston serving as the primary driver to access a large consumer base within hours of a well sited distribution building.

While COVID-19 caused the market some unrest during the first two quarters of 2020, the market picked up in Q3, and continued in Q4. Corporations continue to see value in the market's talent, location and availability of large land parcels, ultimately driving the demand for space. Due to high land demand, driven by E-commerce, and a lack of inventory, new construction is starting in our area, and as the overall economy improves, the impact of COVID-19 on the Hartford industrial market will be minimal.

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