

DEALS

Industrial deals rise on ecommerce winds

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Samantha Rowan 22nd July 2020, 9:21 pm

Deals for industrial real estate are leading the post-coronavirus recovery of the US property market, with transaction activity in the sector down just 5% of the long-term average in the second quarter and stable to rising pricing, according to data from **Real Capital Analytics**.

A case in point in a pair of New York-area industrial transactions being marketed by **B6 Real Estate Advisors**, which are garnering extensive interest from potential buyers on the investment management and user side, according to **Tommy Donovan**, partner and vice chairman.

The company is seeking buyers for almost 300,000 square feet of industrial assets in Queens and Brooklyn, including a 30,000 square foot warehouse in Maspeth, Queens, that the advisory firm is marketing for \$12.8m, Donovan told *REFI US*. The company has another assignment for a 66,000-square-foot property in Ridgewood, Queens, that includes office space and has another 61,000 square feet of development potential. That property, which has direct railway links, could be sold for about \$26.5m.

The sector has proven to be more resilient than other asset classes, mainly due to the increase in online shopping. New York got another shot in the arm when Amazon recently inked a lease for the largest warehouse in the city, Donovan added.

The properties that B6 is marketing are older-stock industrial assets that are well located, with access to highways and rail links. “Both properties are on the higher end of ceiling height and are durable,” Donovan said. “The properties might not have some of the advancements of newer assets but are from a generation of good warehouses.”

In addition to the ecommerce driver, there’s a significant scarcity value in Queens and Brooklyn due to a major rezoning that was completed more than a decade ago.

“That rezoning led to a large percentage of the stock being taken away and companies are now vying for the same space at a time when there are ecommerce drivers and a resurgence of alternative manufacturing,” Donovan said.

“We see demand from artisanal bakeries that make bread and cookies,” Donovan said. More whimsically, the company has also tracked demand from a designer coconut maker that will put corporate logos or other messages on the popular fruit. “The point is that there are many different uses that have been carried out for industrial space in these markets,” he added.

Many industrial assets that go up for sale are stalked by users, who want to own their space. But there’s also a strong bid from institutional capital, which likes the story behind other manufacturers. Often, these companies will have long-term government or other contracts that will require specific spaces for specific terms and investment managers like the stickiness that these agreements add to the leases, Donovan said.

“Once a property like that is stabilized, it’s a more comfortable return that’s based more on contracts that individual users,” Donovan said. “Once a contract is set and the manufacturer is moved in, it’s very expensive to move machinery and relocate. And if it’s a government contract, with the full faith and backing of the US government, that’s even better.”

B6 isn’t doing a full call for bids because the market is still gaining momentum but is coming close to striking a deal with a buyer for one of the assets. Prices have nearly tripled in New York over the past 10 years due to a lack of supply, Donovan noted.

The outlook for industrial is rosier than other sectors, with sizable acquisitions of **Liberty Property Trust** and **Industrial Property Trust** completed already this year. While the second quarter saw a 50% year-over-year decline in industrial activity, the first quarter saw a growth level of 94%, according to RCA data.

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