Becker's Anthony J. Vizzoni interviews Richard Marchisio of LEE & Associates discussing the Current State of Real Estate Affairs in the Logistics Marketplace

Vizzoni: Can you give us a sense of what you are currently seeing in the warehouse logistics market? Specifically, the availability of warehouse space for lease and for sale, and geographically in which parts of New Jersey are you experiencing the greatest demand for such space?

Marchisio: New Jersey is experiencing one of the longest "up" cycles in the industrial warehousing/logistics space in the history of the State. Vacancy rates are at all-time lows, and pricing at all-time highs. The average availability rate in Northern New Jersey is 4.4%, with certain NJ Turnpike markets like Elizabeth and Newark showing availability of less than 2%. This dynamic has caused companies looking for logistics space to broaden their geographic search parameters well beyond the parameters they would have considered just five years ago. Case in point, Piscataway, once considered secondary to the New Jersey Turnpike Exit 10 Edison market, has become a submarket boasting new Class A construction, demanding mid 9 dollar triple net rental rates. Rockefeller Group, Black Creek Group and Adler Development are just three of a number of developers who have built Class A developments there. New construction coming out of the ground in this market is quoting double digit triple net rental rates. Consider LG Electronics build-to-suit transaction in Somerset, another market once considered secondary. Another "once outlier" is Bridge Development's massive project in Phillipsburg, New Jersey.

Absorption of warehouse space across Northern New Jersey has been approximately 2 million square feet per year for the last several years, and rents have increased over 6% annually for the last 5 years. Keep in mind, rental rates compound annually from year one, so 6% compounded over five years is close to a 34% increase. Companies that consummated leases 5 years ago are faced with the prospect of renewing, or relocating at roughly a 34% increase or better. This makes the typical annual increase of 3% in most of today's lease agreements seem like a great deal.

As far as the sale market is concerned, the market is still hot, and both users and investors are actively seeking property. Nine months into the Covid-19 pandemic, cash is king. If you don't need to finance, or have at least 40% equity to put into the deal, you have a shot at purchasing a building. Short of that, financing is difficult, and taking more time than it did 12 months ago. Pricing for older, second generation buildings range from $125 per square foot, to as high as $200 per square foot or more in Northern New Jersey.

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Vizzoni: How does the current market compare to where we were last year this time pre-COVID?

Marchisio: For the first month or so after Covid-19 hit, the market was void of new activity. Most of the deals we had in progress closed, or continued on, and a few folded. By mid to late April activity began to pick up, and by summer the market was quite active. As we sit here in early October, I would label the industrial market as robust, especially for 100,000 square foot requirements and larger. We recently completed a lease transaction of over 300,000 square foot with the assistance of Becker as legal counsel, and our client, Comptree was one of three tenants vying for the building.

Vizzoni: Are you seeing greater incentives on the part of landlords to get deals done or is the warehousing logistics market so hot that landlords are still calling the shots and getting all their asks in terms of rent and other demands?

Marchisio: As stated previously, for the first month or so after Covid-19 hit, landlords were busy helping out existing tenants, offering rent deferrals in exchange for extended lease terms, or repayment of free rent by year's end. For new deals, we didn't see much change in incentives. Before the pandemic, a tenant might have gotten one month of free rent for a five year lease, two free months for a seven year lease, and up to three or four free months for a ten year lease. Currently, nine months into the pandemic, this market convention is pretty much the same as it was pre-pandemic. Clearly landlords are still in a strong position.

Vizzoni: It's been a tough year for brick-and-mortar retail, especially due to the COVID pandemic. During the course of this year we have seen such companies as Stein Mart, Lord & Taylor, JC Penney, Pier 1 Imports, Neiman Marcus, and other notable companies file for bankruptcy protection. What do you see as the effects of these filings on the warehousing logistics industry?

Marchisio: Yes, it has been a tough year for the brick and mortar retailers. That said, the warehousing market has been driven by E-Commerce, and this interview would not be complete without mentioning Amazon, the E-Commerce giant that has gobbled up a third or more of the new space coming to the market. It is important to note that online sales only account for about 14% of all retail, so when stores shut down, it was scary for many of our clients who work closely with the big brick and mortar stores like Walmart and Target. The good news is, these large brick and mortar operations, also have a large online selling presence, even though Amazon accounts for almost 40% of all online sales. Walk into almost any third party logistics warehouse today, and you may likely see Amazon packages occupying rack space.

While Amazon is a behemoth, many smaller companies work with them to complete the business cycle. It's also important to note that warehousing of returned merchandise takes up an enormous amount of warehouse space too. Some warehouses are leased primarily for warehousing returned product.

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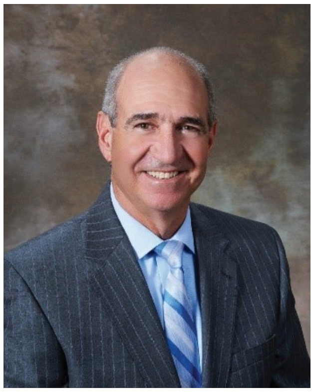
Vizzoni: We're hearing that mall operators are planning on turning unfilled department stores into e-commerce warehouses. For example, Simon Property Group announced it is in discussions with Amazon to do so on many former Sears locations. Can you tell us what you are seeing in the market place in this respect?

Marchisio: Yes, this is becoming a trend around certain parts of the country where the population base is demographically less affluent, and the vacancy rate for industrial warehouse is low. There is only one such project currently underway in New Jersey by Metrix Real Estate Services, LLC. Michael Nachamkin, Managing Partner of Metrix is repositioning the Shoppes at Hamilton on Route 130 into Hamilton 130 Commerce Center, a 170,000 square foot modern warehousing/logistics facility. For a variety of reasons the mall failed, and occupancy went down to 30% when Metrix purchased the property. The open air mall was home to retailers such as Children's Place, Loft, and Clark Shoes among others. Its proximity to Routes 195, 295 and the New Jersey Turnpike, combined with the site's industrial zoning made it an ideal candidate for repositioning.

Vizzoni: Where do you see the warehousing logistics industry being at three years from now?

Marchisio: Ten years ago I would not have predicted the incredible market we are seeing today. When I started in the business, industrial real estate was local. Now the biggest institutions in the world are all heavily invested in the sector. Add in the fact that E-Commerce is here to stay, and warehousing product for online buying and selling is part of the mega machine known as the supply chain. Surely the market will ebb and flow as it always does, but we are seeing a new normal in the way we consume, and clearly a new normal in warehousing, logistics and distribution.

About the Authors:



About Richard Marchisio:

Rick is Co-Founder, President & Principal of Lee & Associates New Jersey offices. As a New Jersey industrial real estate professional with over 29 years of experience, Rick has guided clients through all aspects of the acquisition and disposition of industrial property throughout the state. As Managing Director of Grubb & Ellis Company, Rick was responsible for all of the company's service lines including brokerage, property management, consulting, and project and construction management.

Having spent half of his career at "boutique" local firms and the later part of his career with a national full service provider has afforded Rick the opportunity to view the world of commercial real estate from varied vantage points, a trait both his customers and clients find beneficial. Rick is a Board Member of Lee & Associates Logistics Specialty Practices Group, and is a member of CSCMP and NAIOP.

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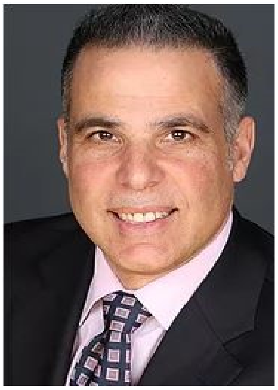

About Anthony J. Vizzoni, Esq.:

Anthony is Chair of the Firm's Business Services Group, Co-Chair of the Firm's Transportation Group, and a member of the Firm. He primarily focuses his practice on corporate transactional matters, trucking, transportation and logistics, complex financing transactions and commercial real estate. Mr. Vizzoni has over 30 years' experience in the practice of law and the area of financing.
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