

## NEW YORK'S CAPITAL REGION INDUSTRIAL MARKET CONTINUES TO THRIVE



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The Capital Region continues to experience low vacancy rates across the industrial sector. The region's growth over the last decade has primarily been driven by multibillion-dollar investments by GlobalFoundries, a semiconductor foundry, and State University of New York Polytechnic Institute (known as SUNY Poly).

With limited new construction and virtually no spec-built facilities, the rates on existing spaces have finally experienced some rental appreciation after remaining relatively flat over the decade from 2005 to 2015. For the most part, the region has seen existing tenants shifting to new locations within the marketplace as opposed to companies entering to the marketplace for the first time. Generally, new entrants to the market that have some technol-

ogy component to their business are locating at the SUNY Poly campus or related facilities.

One of the most notable recent transactions was the \$57 million sale of The Beltrone Portfolio to The Rosenblum Companies. The portfolio totaled 23 buildings made up of a mix of office and industrial properties. The industrial assets included 10 buildings that would be classified as Class A and B product. Historically the entire portfolio maintained a low vacancy status and at the time of sale it was approximately 5 percent vacant. This acquisition catapulted The Rosenblum Companies ahead in terms of total industrial inventory in the region, making them one of the top five largest industrial landlords.

Rates on new construction spaces in smaller size configurations generally start around \$6.50 per square foot NNN, while some spaces with large office buildouts reach upwards of \$10 per square foot NNN. Saratoga County continues to lead the market in terms highest lease and sale values. Class B spaces are trading in the \$4.50 to \$5.50 per square foot range depending on location and other at-

tributes. The older industrial buildings in strategic locations continue to maintain value for select tenants with lease rates ranging from \$2.75 to \$4 per square foot.

Over the past five years the Port of Coeymans has exploded with new tenants and operations. The port secured Barker Steel as a tenant in the spring, and a new 40,000-square-foot building will be built for their operations. Renewed activity at this port is related to the replacement of the 3.1-mile Tappan Zee Bridge across the Hudson River.

Dynarex, a medical supply distribution company, moved into a 75,000-square-foot space in the spring to expand its distribution network. Regeneron Pharmaceuticals has acquired more than 100 acres of vacant land along the I-90 corridor to expand its East Greenbush, New York, campus. This expansion will include office and lab space and approximately 200,000 square feet of warehousing space.

The Galesi Group maintains its dominance as the largest industrial landlord in the region. Galesi, in partnership with BBL Construction, re-

cently completed a spec building of 64,000 square feet located in Green Island Industrial Park. Within the park they have constructed approximately 750,000 total square feet. Prior to the completion of the new spec building, they had one vacancy of approximately 8,000 square feet.

On a larger note, there have been a handful of large regional distribution centers placed in the region recently. In March, *The Albany Business Review* revealed that Dollar General is pursuing a 750,000-square-foot building in Montgomery County. Several months ago, Ace Hardware completed a 400,000-square-foot expansion to an existing 800,000-square-foot building. In fourth quarter 2015, Ferguson Enterprises constructed a 450,000-square-foot distribution center in Greene County. Scannell Properties of Indianapolis has recently taken a large land position, proposing to build a total of approximately 1 million square feet. Vacant land for distribution centers of 300,000 square feet and larger has traded from \$20,000 to \$100,000 per acre depending on location, infrastructure, topography, and various other factors.

## ROCHESTER RENAISSANCE: CBD OFFICE SECTOR ON THE RISE



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Rochester's story is similar to those of other cities with once prominent downtowns. Starting in the 1970s, businesses and families largely fled to the suburbs as newer and nicer suburban offices were built. Larger companies, including many staple downtown dwellers such as large law and accounting firms, left the downtown in search of free parking, shorter commutes and a suburban lifestyle for their employees.

Yet Rochester was a small city with big businesses. Bausch & Lomb was founded in Rochester in 1853. Eastman Kodak started business there in 1888 and beginning in 1906, Xerox Corporation was formed.

Kodak is still based in Rochester, though it is a much smaller entity than it was before the digital era, and Xerox moved to Norwalk, Connecticut, years ago. However, the core technology culture never left Rochester. Over the past few years the University of Rochester — the area's largest employer — received more than \$1.9 billion in research money, most of it from the federal government.

Organizations like High Tech Rochester, Greater Rochester Enterprise and the Rochester Downtown Innovation Zone have played important roles in the region's comeback. In 2015, the Rochester region won a nationwide competition and was named the site for the American Institute for Manufacturing Innovation, focusing on the increasingly important field of integrated photonics that is used in telecommunications and lasers. This public-private partnership — which has been renamed the American Institute for Manufacturing Photonics, or AIM Photonics — is projected to have far reaching implications for the region.

Vibrancy, and just as importantly, new construction, are returning to the downtown.

The once showcase Midtown Plaza, a downtown mall that has been mostly vacant in recent years, is being redeveloped into a Tower280, a mixed-use property with high-end residential lofts, as well as some office and retail space.

A new community college campus will be delivered soon downtown in a repurposed former Kodak facility, which will bring an additional 5,000 students into the city during the day.

The improvement in the CBD office market is due to a combination of stronger leasing activity as well as an increasing amount of office space being converted to residential units. Galina Development Corp. is converting the former Chase Tower into a mixed-

use building, with mostly residential space. WinnDevelopment is converting a portion of The Sibley Building into residential space under a new name, Sibley Square.

### CBD Activity on the Rise

AIM Photonics recently selected Legacy Tower as its business headquarters, and some of the 400,000 square feet of offices at The Sibley Building will become home to a workforce development center. High Tech Rochester, an IT economic development incubator, has begun construction on the first floor at Sibley Square and plans to occupy 68,000 square feet when construction is completed. The incubator will house office space for high-tech startups, wet labs for biotech startups and related entrepreneurs.

Bergmann Associates has committed to becoming an anchor tenant at Tower280. Rochester developer Buckingham Properties is behind the 400,000-square-foot project, which will include ground-floor retail, nearly 80,000 square feet of office space, and 182 contemporary residential units.

Gannett Newspapers recently doubled down on its commitment to Rochester and constructed a new downtown Rochester headquarters. Centrally located between Midtown and Sibley Square, the Pike Company delivered this striking building which complements neighboring Windstream, Metropolitan and Midtown Tower areas.

Lu Engineers, which has been suburban-based since the 1980s, relocated its operation to downtown in April. The environmental and transportation civil engineering company leased approximately 5,700 square feet at the Fitch Building.

Class A CBD product leases from \$28 to \$32 per square foot and downtown Class B office options range from \$12 to \$18 NNN per foot, plus parking.

While there has been significant momentum to repopulate the downtown, challenges remain, including a shortage of parking and a reluctance by local businesses and consumers to pay for parking. Even as overall office absorption improves, tenants still have the upper hand in lease negotiations because there are many affordable suburban choices with free parking.

In addition, the Greater Rochester suburban office market has seen the delivery of new and attractively priced office buildings in recent years. Over the last decade, Buffalo-based developer North Forest Office Space has built product that rents from \$13 a foot (gross) with lease terms of 36 months.

Compounding the challenge for CBD landlords to lure tenants to their office space, companies such as LeFrois Builders and Developers have been delivering suburban flex-office space for over 20 years. Second-generation options range from the \$11 to \$13 NNN per foot with lower operating costs and taxes than office buildings within city limits.