

Booming demand for industrial development in Orange, but demand for office space lags

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Times Herald-Record

Posted Jun 10, 2017 at 5:58 PM

Updated Jun 10, 2017 at 5:58 PM

MIDDLETOWN – Miller and Bud were nearly all Ricardo Petroni had to choose from when he reached for a beer at the local bar in his native Argentina in the '90s.

Now, he's co-founder of Equilibrium Brewery. And when Petroni and his partners opened in November at the former Henry Street meatpacking plant, they became the latest entrepreneurs to repurpose an old commercial space to find room in Orange County's understocked industrial real estate market.

The state of commercial real estate is a tale of two markets, according to Mansfield Commercial Real Estate's recently released 10th annual analysis. Since bottoming out in 2009, Orange County's industrial real estate market has rebounded and is red hot, while the office space market - with the exception of medical offices - remains tepid, according to Mansfield's study.

"Right now, things have definitely picked up big time," for industrial real estate, said Elisabeth Mansfield, the Goshen broker behind the report. "We're out of product. The numbers don't lie. Going forward, there are more projects under construction than in all the years I've been doing this since 1989."

Victim of its own success

With few utility-ready, conveniently located sites left for businesses to build or occupy, Orange County has been a victim of its own success in attracting industrial development.

"We're running out of shovel-ready sites," Mansfield said. "Unless someone has 12 to 24 months to wait for a building, they're not going to come here."

The county's industrial construction market has boomed over the past decade, with inventory expanding 14 percent from 2007 to 2016. Since 2009, the vacancy rate for industrial space fell by two-thirds.

Demand is so high that developers are building Orange County's first speculative real estate projects in a decade.

New sites include a 54,000-square-foot flex/industrial building being developed by the Frassetto Companies at 54 Turner Drive in the Town of Wallkill.

"Constructing a speculative building has its inherent risks," said Chris Frassetto, a partner in the company. "But Orange County's vacancy rate for prime industrial space is at an all-time low, while business confidence and growth are at an all-time high."

More than 1.3 million square feet of industrial space was under construction at the end of 2016, the most in 15 years, according to Mansfield's analysis. Another 1 million square feet, including a plant in Goshen for the vegetarian meal maker Amy's Kitchen, is in the planning and approval stages.

Prime industrial real estate space, or the best-located sites that are closest to being ready for development, is even scarcer – with a vacancy rate falling to record low of 3.2 percent in 2016, down from a high of 15 percent during the downturn in 2009.

Last year's biggest prime industrial space projects include Old Dominion Freight Lines' 40,000-square-foot distribution center on Ballard Road in the Town of Wallkill and PharmaCann's 26,000-square-foot medical marijuana plant in Montgomery.

Since 2015, more than 30 companies have begun projects to build, expand or relocate in Orange County, generating capital investment of \$1.25 billion and creating 1,500 jobs, according to the Orange County Partnership, a nonprofit tasked with enticing development.

Their ranks include the 340,000-square-foot pharmaceutical distribution center McKesson Corp. is building in Hamptonburgh, and hard cider maker Angry Orchard's new 15,000-square-foot complex on an idyllic 60-acre property in the Town of Montgomery.

"Businesses come up here, and they have roads, mountains, a small village feel, and they're on the doorstep of the biggest business and cultural hub in the universe in New York City," said Lynn Cione, president of the Orange County Chamber of Commerce.

Reusing old spaces

A lack of sewer and water hookups in many undeveloped areas has exacerbated the shortage of property for industrial development.

“It’s a problem,” said Maureen Halahan, who leads the Orange County Partnership. “We have to be smart so we can continue to keep growing, by working toward getting sites prepared. When a company comes in and looks for a site, they can’t wait three years to put a shovel in the ground.”

Now, developers are reusing old commercial buildings. Local beer makers have been especially creative, including Newburgh Brewing Co., which opened in 2012, and a pair in Middletown – Clemson Brothers in 2015, and Equilibrium last year.

“I like seeing those breweries, because they’re examples of people taking nonprime spaces and making them work,” said Mansfield. “Not only are they helping the downtown by creating destinations, they’re providing places where people want to live.”

For Petroni, Middletown’s newest craft beer maker, brewing beat a full-time job studying how waterways transport contaminated sediments. The 46-year-old environmental engineer turned a home-brewing hobby into a new career when he teamed up with a former co-worker, Peter Oates, to co-found Equilibrium.

Petroni and Oates see their 117-year-old building at 22 Henry St. as a unique, cheap space in a tight market, and they view Middletown as a good midway point between their respective homes in Mahwah, N.J., and Rock Hill.

Local municipalities, the Orange County Partnership and the Orange County Industrial Development Agency have also sought to attract new development with financial incentives and tax breaks.

Nearly one in three of the industrial projects begun in 2015, the most recent year for which data is readily available, received tax breaks from the Orange County IDA. The Equilibrium Brewery is among the businesses that have benefited from the aggressive recruitment.

The more than \$2 million brewery was supported by a \$204,000 Empire State Development grant, a mortgage-forgiveness program facilitated by Middletown officials and investments by the Ruby Group and others.

If the brewery reaches its five-year anniversary, it’ll be off the hook for much of its mortgage.

“It was a cool building,” said Petroni, who added that local development officials drove him to think creatively.

“The impression I got walking around Middletown and seeing new things pop up was that the city is coming back, the Orange County Partnership was really helpful in our search, and we thought, ‘We can make this happen,’ because the price was right.”

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