

# MarketView Buffalo Industrial

Overall vacancy increased in the past year from 9.5% to 12.8%. This equates to an additional 2,084,452 SF being placed on the market during the past year. While the 3.3% annual increase in overall vacancy is larger than the 2.9% experienced nationally during the same period, the overall vacancy rate of 12.8% remains slightly lower than the national U.S. rate of 12.9%. Nationally, Canadian vacancy rates experienced a 2.2% annual increase but remain well below U.S. national rates at 7.9% versus 12.9% U.S. As a major border city the continued stability of the Canadian markets is also critical to the Buffalo region.

Regionally, the Buffalo market continues to have a higher overall vacancy rate than nearby cities: Pittsburgh 7.75%<sup>1</sup>, Toronto 7.8%<sup>1</sup>, Cleveland 8.2%<sup>1</sup>, and Syracuse 9.6%<sup>2</sup>. Similar to national trends, the increased vacancy in local markets is largely attributable to the lack of market velocity as companies continue to cut manufacturing and overhead costs. This economic slowdown had a clear impact on the traditionally strong manufacturing sector in the North Submarket and the warehouse sector in the East and South Submarkets.

Overall vacancy rose 4.6% to 25.4% in the City Submarket during 2009. Manufacturing increased 278,999 SF and is now experiencing a vacancy rate of 31.5%, most of which continues to be concentrated in the 1.2 million SF former American Axle Plant. An additional 276,000 SF of warehouse square footage was added, causing the vacancy rate in this sector to almost double from 7.9% in 2008 to 14.9% in 2009.

In the East Submarket the warehouse sector experienced a reversal of fortune in 2009 versus 2008. In 2009 the warehouse sector added approximately 400,000 SF of vacant space versus 2008 in which it absorbed 478,000 SF of vacant warehouse space. This increase in available warehouse space was the largest contributing factor in causing the overall vacancy in this submarket to rise from 10.6% (2008) to 13.1% this year. A bright spot in the East was manufacturing which experienced a reduction in vacancy from 9.5% in 2008 to 8.5% in 2009.

Historically the manufacturing sector in the North Submarket has maintained the lowest vacancy rate in our entire market study. In 2008 the vacancy in North manufacturing was a meager 1.2%. In 2009, manufacturing vacancy rose to 6.3%, which remains very respectable, but it does equate to 527,544 SF being added to this market sector. Overall vacancy increased from 3.5 to 6.6%, due almost entirely to the increase of vacancy space in manufacturing vacancy.

The South Submarket experienced an increase in both manufacturing and warehouse vacancy during 2009. Manufacturing vacancy rose 2.6% from 4.0% (2008) to 6.6%, while warehouse vacancy rose 14.6% from 4.6% to 19.2%. The resulting increase in both the manufacturing and warehouse sectors resulted in the overall vacancy rate of this submarket to more than double from 4.1% to 8.6%.

## Quick Stats

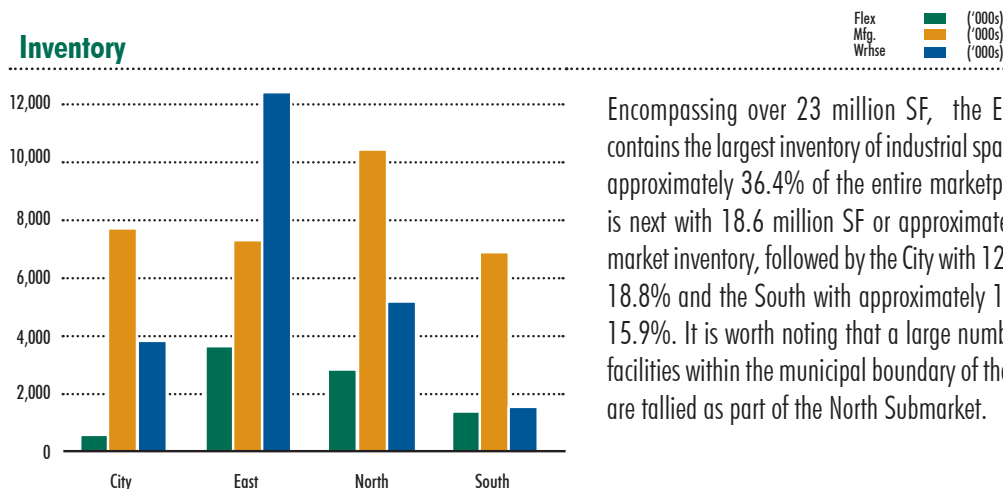
	Current	Change from last Yr.
Vacancy	12.8%	↑
Net Absorption*	(2,084,452 SF)	↓
Construction	75,000 SF	↓

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

## Hot Topics

- CBRE represented the sale of the 80,600 SF office/warehouse at 55 Amherst Villa Rd., Cheektowaga, NY @ \$45.60 PSF.
- CBRE represented TM Montante Development in the long term lease of 58,000 SF at 600 Riverwalk Parkway in Riverview Business Park, Tonawanda, NY.
- CBRE represented Cardinal Health in the renewal of their 150,026 SF regional distribution warehouse in Depew, NY.
- CBRE represented AT&T in the long term lease extension of their 23,000 SF communications center.
- 2010 will see the introduction of the new 2-tiered Erie County 'PILOT' program and Empire Zone regulations.

## Inventory



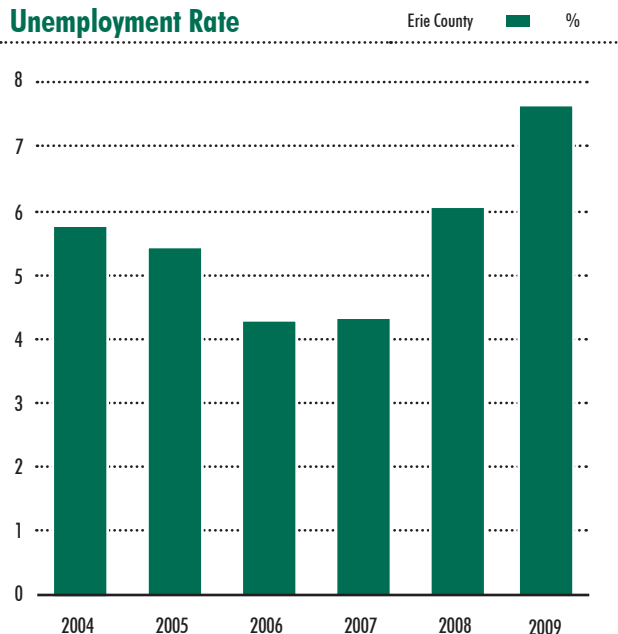
Encompassing over 23 million SF, the East Submarket contains the largest inventory of industrial space, representing approximately 36.4% of the entire marketplace. The North is next with 18.6 million SF or approximately 29% of the market inventory, followed by the City with 12 million SF with 18.8% and the South with approximately 10 million SF or 15.9%. It is worth noting that a large number of industrial facilities within the municipal boundary of the City of Buffalo are tallied as part of the North Submarket.

<sup>1</sup> North America Industrial Availability Index, 3rd Qrt. 2009

<sup>2</sup> CBRE Syracuse MarketView, 2nd Qrt. 2009

Submarket	Total Inventory SF	Change In Supply SF	Available Inventory SF	Vacancy Rate %	Change in Vacancy %	Net Absorption SF
<b>City (C)</b>						
Flex	462,818	0	62,462	13.5	0	0
Mfg.	7,655,176	0	2,413,797	31.5	3.6	(278,999)
Wrhse	3,957,046	0	588,160	14.9	7.0	(275,920)
<b>East (E)</b>						
Flex	3,713,346	0	464,529	12.5	4.6	(172,172)
Mfg.	7,368,368	0	626,994	8.5	(1.0)	71,007
Wrhse	12,330,069	75,000	1,964,581	15.9	3.8	(400,153)
<b>North (N)</b>						
Flex	2,921,149	0	403,539	13.8	1.7	(49,121)
Mfg.	10,382,915	0	653,234	6.3	5.1	(527,544)
Wrhse	5,298,411	0	171,761	3.2	(0.1)	5,726
<b>South (S)</b>						
Flex	1,672,438	0	93,425	5.6	1.2	(20,724)
Mfg.	6,785,003	0	447,646	6.6	2.6	(177,764)
Wrhse	1,776,739	0	340,788	19.2	14.6	(258,788)
<b>Totals</b>	<b>64,323,478</b>	<b>75,000</b>	<b>8,230,916</b>	<b>12.8</b>	<b>3.3</b>	<b>(2,084,452)</b>

Unemployment Rate



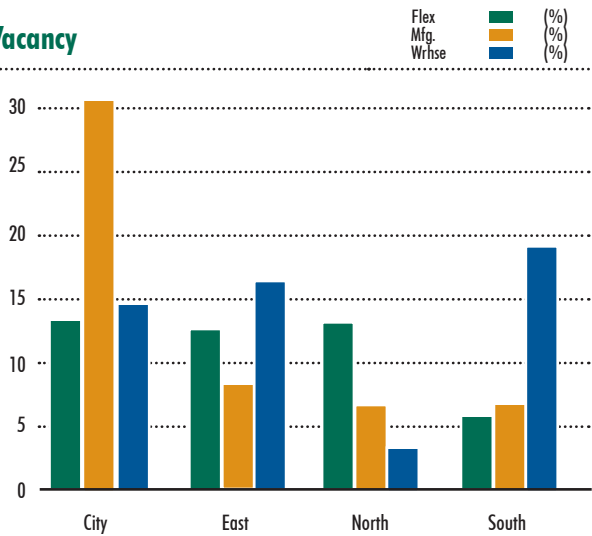
\* Not Seasonally Adjusted

In November 2008, New York State reported an unemployment rate of 6.3%; throughout the economic recession New York State unemployment rose as high as 9.0% in October 2009. As of November 2009, unemployment decreased to 8.6%, which was well below the nation's rate of 10%.

Erie County displayed an increase in the unemployment rate from November 2008 at 6.1% to 8.1% in October of 2009. The unemployment rate as of November 2009 decreased to 7.8%.

Since November 2008 the Buffalo Niagara Falls area has seen the number of private sector jobs decrease by 12,000 or 2.6%.

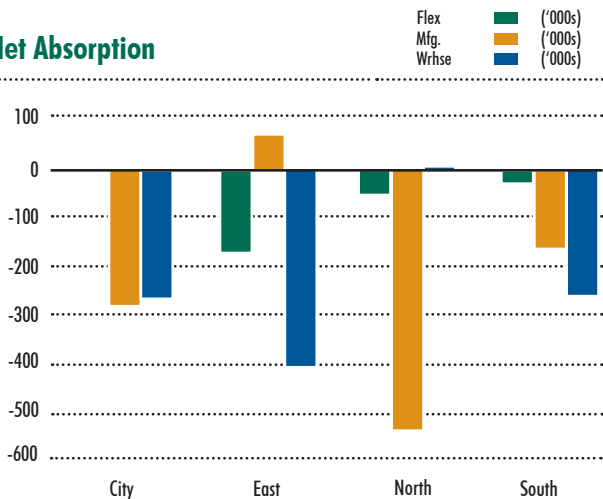
### Vacancy



Overall, Buffalo industrial vacancy is 12.8%. This represents an increase of 2,084,452 SF of available square footage being placed on the market in 2009. Interestingly, this increase in square footage occurred fairly evenly across the four submarkets, with the City experiencing a 554,919 SF increase, the East a 501,318 SF increase, the North a 570,939 SF increase and the South a 457,276 SF increase.

It is predicted that the overall vacancy rate will begin to level off with only a slight increase expected in 2010. Early forecasts are suggesting an overall increase of less than 1% for the upcoming year.

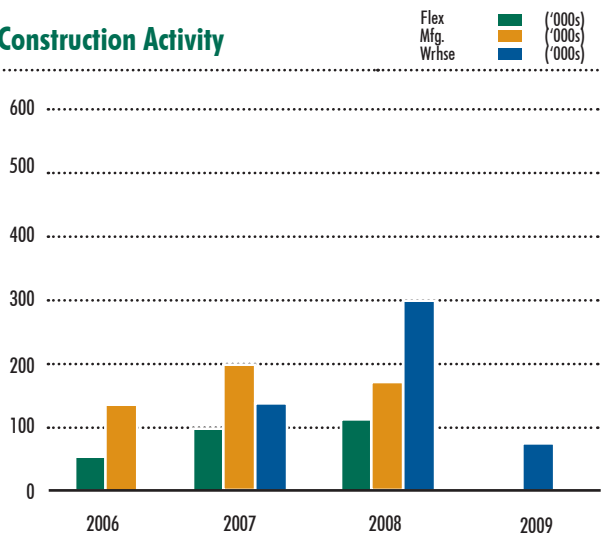
### Net Absorption



As noted above, overall net absorption was negative at 2,084,452 SF. The warehouse sector experienced the largest gain in available SF and percentage amount added to the market with 929,135 SF / 44.57%, followed by manufacturing 913,300 SF / 43.81% and flex space at 242,017 SF / 11.61%.

As the economy continues to struggle, the lack of market velocity will again result in an anticipated negative net absorption for the greater Buffalo market in 2010, but it is expected that the magnitude of this negative absorption will be much smaller than occurred in 2009.

### Construction Activity

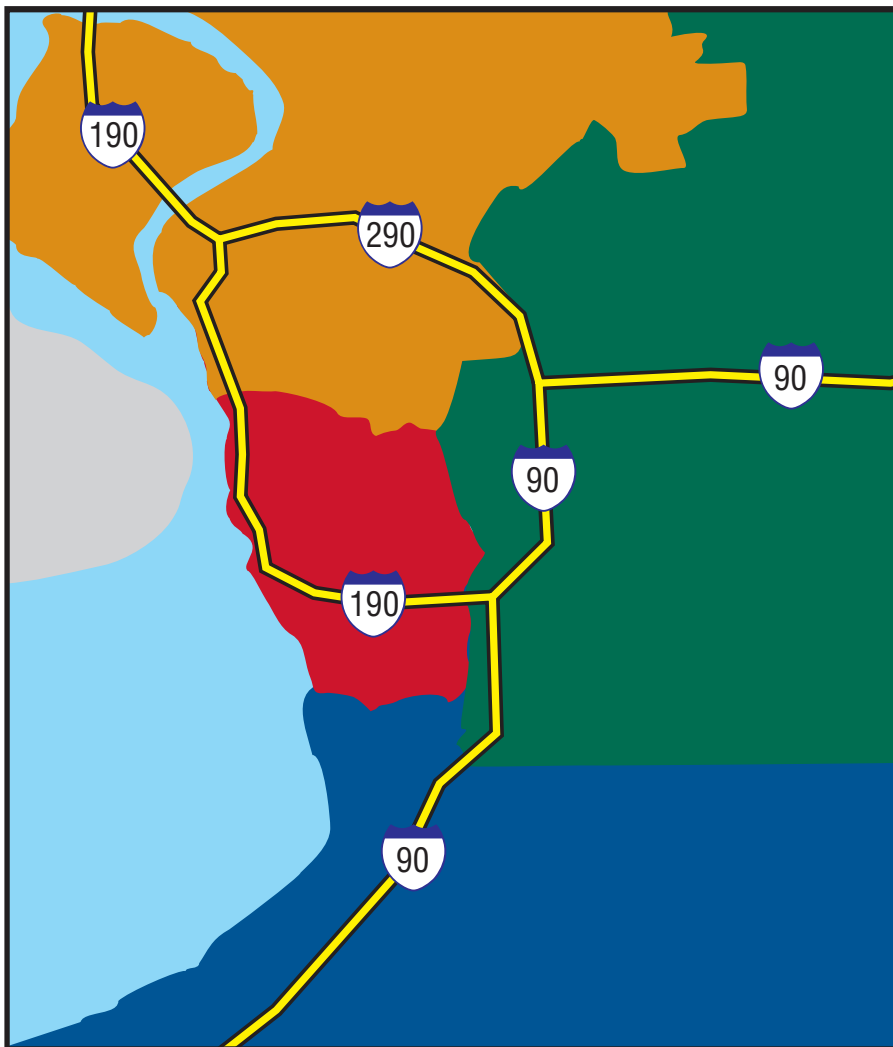


As predicted, new construction was virtually non-existent in 2009 with only 75,000 SF being added. In comparison 2008 had 580,000 SF of new construction and this was considered to be a 'modest' year.

Looking ahead, lending policies will continue to remain stringent, tenants will continue to put downward pressure on lease rates as landlords' vacancies continue to increase, resulting in a very bleak outlook for 'private sector' construction in 2010 except in the case of users who require build-to-suit "specialty" buildings such as Yahoo's planned data center in Niagara County.

## MarketView Buffalo Industrial

### Submarket Map



#### ■ City of Buffalo (C)

12.04 million square feet in Buffalo, south of the Scajaquada Expressway

#### ■ North Region (N)

18.6 million square feet in Amherst, Buffalo (north of the Scajaquada Expressway), Grand Island, Kenmore, Tonawanda, West Amherst

#### ■ East Region (E)

23.23 million square feet in Cheektowaga, Depew, East Amherst, Lancaster, West Seneca, Williamsville

#### ■ South Region (S)

10.18 million square feet in Angola, Blasdell, Boston, Concord, East Aurora, Eden, Elma, Evans, Hamburg, Lackawanna, North Collins, Orchard Park, Sardinia, Springville, Wales

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### Methodology

This survey includes all industrial buildings over 10,000 square feet and built after 1950 within Erie County. Industrial buildings include:

Warehouse (W): 18' and above clear height with availability of both dock and grade doors. Primarily used for warehouse and/or distribution or best suited for warehouse and/or distribution.

Manufacturing (M): Typically lower than 18' clear height with the majority of the space devoted to manufacturing and/or light industrial or best suited for manufacturing and/or light industrial. Includes R&D space.

Flex (F): Multi-purpose space which typically contains better quality front facade with dock high and drive-in doors. Designed to accommodate any combination of office and warehouse/light industrial space. Rates based upon 5-20% office build out.

Buildings were identified via Erie County tax records, owner surveys and property tours. Erie County tax records were adjusted when necessary if information was inaccurate as noted by property tours or surveyed property owners. Each property was site visited to verify its classification and use. Lease rates analyzed in this report are provided by owners and do not reflect specific tenant buildouts, negotiated terms or incentives. The information contained herein has been received from sources thought to be reliable. No representations or warranties are made as to the accuracy or completeness of this information.

### Acknowledgments

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