



LONG ISLAND BUSINESS NEWS

VOLUME 68 NUMBER 33 ■ LIBN.COM

Part of the BRIDGETOWER MEDIA network

AUGUST 13-19, 2021 ■ \$2.00



SPACED OUT

Brokers struggle to find properties in super-tight industrial market

» Page 4

Photo by werny43

REAL ESTATE

\$256M PHASE 2 BEGINS AT RONKONKOMA HUB

» 9

HEALTHCARE

COVID DELTA VARIANT THROWING LOOP INTO LI'S ECONOMIC RECOVERY

» 10

RE MARKET

SEE SOME OF LI'S PRICIEST HOME SALES

» 7



COVERSTORY



Photo by werny43

Brokers struggle to find properties in super-tight industrial market

By DAVID WINZELBERG

Commercial real estate brokers on Long Island are beating the bushes looking to secure industrial space for a growing list of prospective tenants and buyers, as the inventory of available buildings has shrunk to an historic low.

Much of the demand for warehousing and distribution properties have come from e-commerce firms that have flourished during the pandemic, though

brokers say companies from many sectors have also been seeking space.

"If you have a requirement for 20,000 square feet and up right now on Long Island for sale or lease there's virtually nothing available," says Jason Miller, a principal of the Jericho-based Premier Commercial Real Estate brokerage firm. "We know that from working with substantial companies with real needs."

With an overall vacancy rate of just 3.5 percent, industrial real estate has the least availability of any of the commercial real

estate sectors on Long Island. By comparison, the overall vacancy rate for Long Island industrial properties was 4.8 percent just a year ago, according to a report from Cushman & Wakefield.

Those stats are telling, though the anecdotal evidence from brokers in the trenches is even more eye opening.

"We've been running around the last couple of weeks with a requirement for 30,000 to 40,000 square feet in Nassau or western Suffolk," said Jeffrey Schwartzberg, the other principal of Premier Commercial. "When we started, there were about four or five possibilities. But a few days later, they were gone."

Brokers with decades of experience say the current lack of available properties is unprecedented.

"In every size category, I've never seen inventory lower," said veteran JLL broker Tom DiMicelli, who's been at it for 38 years. "In a 5-mile radius in Ronkonkoma, there were only one or two warehouse spaces in the 10,000-square-foot range. Normally, there would be at least eight to 10 in a regular market."

Broker Kyle Burkhardt of Cushman & Wakefield said inventory levels here are lower than ever.

"You have two or three companies bidding on the same property on every deal," Burkhardt said. "There was an owner of a 100,000-square-foot industrial building in Suffolk County preparing to list it for sale, but prior to doing so, we received four unsolicited offers all above the contemplated asking price."



Photos by Judy Walker

TOM DIMICELLI: 'In every size category, I've never seen inventory lower.'



JEFFREY SCHWARTZBERG and JASON MILLER: 'If you have a requirement for 20,000 square feet and up right now on Long Island for sale or lease there's virtually nothing available.'



KATIE O'SHEA RIVAS: 'We have a 50-company waiting list of our current tenants looking for more space.'

Industrial rents on Long Island, which hovered at around \$10 per square foot just three years ago, are now closer to \$15 per square foot and climbing, especially for newer buildings with high ceilings, multiple loading docks and plenty of parking. Sales prices for industrial properties are also at record highs. Rockefeller Group, a Manhattan-based real estate investment and development firm, is planning to build a 180,000-square-foot industrial building on a 10-acre parcel at 55 Paradise Lane in Bay Shore. The company bought the vacant property for \$3 million an acre, a record-setting high price for industrial-zoned land on Long Island.

"If you go back three to five years, Long Island was a \$100-per-square-foot kind of place and now \$200 per square foot is becoming the norm," Schwartzberg said.

In the current environment, landlords and prospective sellers of industrial properties are shying away from signing listing agreements with brokers as they would normally do, making it even tougher to find available space.

"There's really little benefit for a seller to list an industrial property, because buyers are so active and in abundance," Burkhardt said. "In the last six to 12 months, 90 percent of the sales transactions are off-market offerings. Nobody is listing properties right now."

Instead, commercial real estate brokers must rely on their contacts with properties owners in order to find buildings and put deals together.

"We call owners and educate them on what's going on and try to shake something loose," Schwartzberg said.

And while the demand from industrial end users is greater than ever, they now have more and more competition from investors, as private equity has stepped up its efforts to cash in on the white-hot sector.

"It's not just the user pool of local firms or companies exiting the boroughs that are looking for space, but you also have institutional investors that are in the market and are more competitive than buyers who are end users," Miller said.

Just this week, LIBN reported on a partnership that's raised \$50 million to target industrial properties on Long Island. The investment fund created by Metropolitan Realty Associates and its equity partner Angelo, Gordon & Co., just made its first acquisition, paying \$14 million for a 94,500-square-foot warehouse and distribution property on 6.2 acres at 5 Inez Drive in Bay Shore.

The move represents a pivot for MRA, which a decade ago had previously bought industrial properties only to redevelop them into other uses, such as office and

retail.

"We've been very active in industrial real estate for the past four or five years," said Joe Farkas, who heads MRA. "We've bought some buildings in Long Island City and Connecticut and we've been scouting around Long Island. It seems like a great place to invest in warehouse properties, as demand increases for delivery services."

The increasing demand and shrinking supply of industrial properties has also attracted national real estate developers, who have set their sights and invested a lot of capital on creating new warehouse and distribution facilities here.

Kansas City-based NorthPoint Development is planning to build four warehouse and distribution buildings totaling about 2.5 million square feet on 115 acres in Yaphank. NorthPoint will invest about \$400 million to develop the new industrial park and improvements for offices, data infrastructure and automation could add another \$25 million to \$100 million to the development's price tag, according to NorthPoint President Chad Meyer.

"We work with a lot of the top corporate occupiers in the country and three of them said they are actually looking but not able to find space to set up operations that would bring jobs and investment to the area, and they were having a hard time finding any available space," Meyer told LIBN in May. "When the data tells us we should be looking on Long Island and then a lot of the large tenants that we work with tell us we should be looking on Long Island, it doesn't take a long time for our light bulb to flicker and figure out that we need to find a solution on Long Island."

Other new industrial developments include two projects in Melville from New Jersey-based Hartz Mountain Industries. The company is building about 900,000 square feet of logistics space at the 49-acre former Newsday headquarters, currently being marketed by CBRE, and it is also developing a 400,000-square-foot distribution complex on 33 acres on Spagnoli Road, which is being marketed by Cushman & Wakefield and KBC Advisors.

The Bristol Group, a San Francisco-based industrial real estate development firm, recently purchased a vacant 103,000-square-foot manufacturing facility on 10.75 acres in Commack, where it is redeveloping the site into a

178,134-square-foot distribution center marketed by JLL.

"Between Yaphank, Medford and further east, there's about 5 million square feet of new Class A industrial development slated for delivery in the next couple of years," Burkhardt said. "That's unprecedented."

But it will be at least a year or two before some of the new inventory is ready for occupancy, and the new facilities are geared toward big users with larger space requirements. They likely won't ease the space crunch for companies needing smaller and mid-sized spaces. Most of the recent industrial tenant demand has been for spaces under 40,000 square feet, according to C&W.

"There are several projects underway, and we are going to see more of it," DiMicelli says. "But it won't solve the problem for smaller users that need 5,000 to 20,000 square feet. Not many will divide it that small."

However, a new project in Nesconset from Ronkonkoma-based O'Shea Properties is aimed at smaller users. The company is building three 19,758-square-foot buildings on 4 acres of land. Each of the 27 industrial units will range between 1,900 and 2,700 square feet and offer a majority of warehouse space with a small portion of each set aside for an office component.

"There's clearly a pent-up demand for small and mid-sized users. We have a 50-company waiting list of our current tenants looking for more space," said Katie O'Shea Rivas, a principal of the company that has a portfolio of 1 million square feet, 80 percent of which is industrial. "We could have put up a larger building for a big user, but we opted to create a product that would cater to startups and small to medium industrial users. The backbone of Suffolk County's economy is small businesses, so these 2,000-square-foot or so spaces are critical to support them."

Meanwhile, brokers are counseling clients to move quickly if an opportunity does come their way, as available properties are so scarce.

"If you're a buyer or tenant looking for space for sale or lease and you're lucky enough to find it, do yourself a favor and jump on it," Miller says.

■ DWINZELBERG@LIBN.COM