



## **Ralph Perna - An update on Long Island's industrial real estate: What is happening now, and what is ahead**

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With the first quarter of 2011 completed and spring upon us, it's time to look back at the market's performance in Q1. In particular, let's see how Long Island's industrial real estate market performed. This year's first quarter showed signs of increased activity, but not in all sizes of industrial buildings. Buildings that have been available in the 40,000 to 100,000 s/f range remained stagnant. There just does not seem to be enough activity to get deals closed. As always, there are exceptions and some deals have been made, but generally speaking, there have been buildings remaining on the market for 18 months to 2 years. We can attribute this to the fact that many businesses have been experiencing adjustments due to overseas competition and have lacked confidence necessary for growth and expansion.

In my daily interaction with business owners, it is interesting to see that they all have one thing in common. The companies that have managed to make it through this past recession have generated more business because of the fallout of other companies in their industry. Due to their competition going out of business, some have seen their revenues go up between 20%-30%, although with less profit. Profit margins have been eroding due to competition and pressure from customers.

### **Leasing and Sales Performance**

Across the island, there was an increase in leasing activity. Over 1.2 million s/f of space was leased in the first quarter with most of the action taking place in Central Suffolk and largely involving warehousing and distribution centers. From a price perspective, the leasing market has taken the biggest hit. I witnessed lease prices in ranges not seen in 15 to 18 years.

For the first quarter, the average net rents for Long Island industrial space was at \$6.50 per s/f, representing a 8.5% decrease from last year's rents, but a slight increase over the last quarter of 2010. In addition to the reduced price levels, landlords are offering a generous amount of set-up time, along with turnkey renovation work for occupancy. Western Nassau saw the highest rents at over \$8 per s/f while Eastern Suffolk saw the lowest rents at approximately \$5.40 per s/f. I believe that prices in the leasing market are close to bottoming out.

The first quarter's sales activity was less significant coming in a total of approximately half that of leasing; 600,000 s/f of space.

### **What's Ahead**

If confidence in our economy increases, there will be opportunities for buyers in secondary markets as well. There are several good sale properties available in the secondary markets. It seems there is not much available in the primary industrial developments, and what is available does not appear to be under any pressure to sell.

Companies that are thinking about relocating will soon be able to take advantage of, what I believe, will be the end of the cycle and now will be the time to act.

Another trend I am beginning to see is the buyout of Long Island-based companies by equity investors. During the first quarter, we saw Elk Investor purchase a 160,000 s/f building in Port Washington. What does this mean for Long Island?

Usually there is a period of time after the closing where the new owners have to understand and evaluate what they purchased, in most cases, the real estate. Then the choices become either to consolidate to areas less expensive than Long Island or to reduce one's space exposure. What we have not seen, nor do I believe we will see, is expansion of the companies purchased by equity investors expanding on Long Island.

In addition, the direction for new owners is to lease buildings rather than buy them.

What to look for next?

It is my opinion that industry adjustments for companies surviving this past cycle are at or close to the end. The remaining companies in each industry will start to gain confidence through the steady course of business. Hopefully, increased profit margins and expansion will be around the corner. Obviously, this is barring any further disasters or an additional spike in fuel prices. Fuel prices will play a big part on the bottom line and extra operating costs will be passed on. I do believe, however, that by the middle or end of the fourth quarter to sometime in the first quarter of 2012, we will all hopefully be in good spirits.

Stay tuned....

Ralph Perna is the executive managing director at Newmark Knight Frank, Melville, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540