



The new product to hit the market...again - School districts looking to close the gap on their budgets

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Some time ago, I wrote about the next new real estate sector that would gain momentum in this cycle. This time, I am going to write about the next cycle in the type of available space that will be hitting the market.

Typically, the available space cycle is determined by the downturn in a specific industry. For example, when new printing software and powerful computers became ubiquitous, many businesses began designing and printing their own brochures, stationery, business cards and marketing materials. Many traditional printers were significantly affected. They either had to make the transition into the digital age or risk losing their business. Many did and as a result, a lot of small and mid-size spaces came on the market.

In 1990, our region saw the largest amount of space placed on the market at one time. That year, our nation's defense budget was dramatically cut leaving our defense industry with a loss of contracts they were counting on. Overnight, Grumman placed in excess of 2.5 million s/f on the market. In addition, all of Grumman's local subcontractors which were dependent on Grumman for work, too had to retrench their operations and the residual effect was even more available space placed on the market. However, Long Island's resilience pulled through once again and within three years, most of the space was absorbed.

Fast forward to 2012 and what will be the type of available space to next hit our market - schools. Now absorbing this space won't be quite as straightforward as it was absorbing the commercial/industrial space made available back in the early '90s. Schools pose much more of a challenge. Built to last? For sure. Built to meet a specific need?

In the '80s, Long Island went through a decline in school enrollment. Consequently, school districts placed many of their buildings on the market, primarily for sale. Later, as Long Island's young labor force was lured by the high tech and healthcare industries to establish roots here, families started growing and enrollment increased. Then, there were classroom shortages and schools again were scrambling for classroom space.

Well, it's a case of déjà vu all over again. School districts across Long Island are looking to close the gap on their budgets. They are consolidating their schools and placing buildings on the market. Selling a school building is much easier than marketing a school for lease. Unlike a lessee, a purchaser can renovate a school building to meet its specific needs - whether for office space, manufacturing, distribution or even multifamily housing or assisted living, among other uses. A lease, however poses a greater challenge. School districts don't have the money or ability to compete with existing office space and the landlords in the surrounding areas. This, therefore, requires prospective tenants to either spend their own money to renovate the space or simply discount it if the space as is would limit its use for their intended purpose. School buildings often can

be adapted for daycare, private-sector educational programs as well as certain non-profit organizations.

An ideal application for the empty school buildings throughout the island is as high tech or bio-medical incubator facilities for the many start-up companies on Long Island particularly in emerging and Next-Gen technologies. School layouts are well-suited for the collaborative, R&D workspaces these firms require.

One way to encourage the entrepreneurs behind these start-ups to consider empty school buildings for their business operations is through an incentive program at the state or county levels. Grants to fund an incubator, common services, phones, Internet and utilities, as well as workforce development and contract procurement support would likely prove to be a strong motivator. Perhaps the formation of a committee with participation from the state, counties and township officials could spearhead this "incubator" initiative. It would not only spur economic growth, but would also be helpful in closing the funding gap affecting so many school districts.

My observations tell me that a revival in school enrollment is at least 10 years up the road. The high cost of living on Long Island continues to make it very difficult for young people to maintain the standard of living they want. One way Long Island can retain and attract Generations X, Y and the Millennials is by becoming the next Silicon Valley and presenting strong career and earning opportunities for them. Technology incubators making good use of empty school buildings can pave the way for this to happen with the backing of government. Long Island has always bounced back by finding a way to overcome challenges.

Stay tuned...

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