



Year end review – How did we do? What we may expect for 2020 - Ralph Perna

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I am sure we can all relate, as we start the year, that before we know, it will be December 31st. It feels as though it was last week that I was writing my year-end update for 2018.

As we begin a new year, from my point of view, 2019 presented little surprises, except, one. I will dub it “The biggest real estate blunder of the decade.” In November 2018, Amazon announced their decision to locate a second east coast headquarters in Flushing, N.Y. Amazon’s facility was slated to occupy over 1 million s/f, and create 25,000 jobs – home run. Well, that excitement lasted three months. Immediately after the announcement, the politicians jumped on the naysayers’ band wagon, protesting against Amazon’s decision. Amazon ultimately abandoned its plan for the Flushing location and selected a site in Virginia. Although Amazon will be taking space in Manhattan, it in no way compares to the massive development and economic boost that would have benefitted Queens and the surrounding region. It was estimated that the Amazon deal would have generated billions of dollars in state and city tax revenue and significant economic activity for the region.

Other than that major loss, the market continued to favor landlords and sellers. At the start of the year, inventories for available buildings were at an all time low; a trend that continued throughout the year into the industrial market. As the year ensued, the selection for buildings began to dwindle.

Now, something is starting to happen that has not occurred for many years—spec construction. We have not seen spec construction since the Eighties. Today, most landlords are cautious about coming to the market on spec. Back in the Eighties, vacant land was more readily available versus today, unless you head east to Exit 66 off the Long Island Expressway, there is not much to choose from and the costs are sky high. A couple of major landlords, most of who are not headquartered here, are placing big bets. Hartz Mountain, Heartland and Lincoln Equities, for example, are moving forward with new construction. A few other landlords are purchasing existing big box warehouses. Prices started to reach the \$175 per s/f range. Landlords are paying \$160 for existing facilities. Frankly, I am not sure that, at these prices, what the returns, if any, will be.

Regarding the rental market, rents in Nassau County are in the \$15 to \$18 range per s/f gross. In Suffolk, rents range between \$12 and \$14. The big question is, will buyers and tenants step and continue to pay the piper, or we will enter a period of “wait and see?”

Every couple of years, the economy seems to create industrial sectors that expand in sync; self-storage, pharmaceutical, hotels, healthcare...All of them have expanded their footprints and created significant job growth. The latest go-go sector is e-commerce. It has never been so easy to shop online, with so many choices and with next day delivery. E-commerce companies and fulfillment centers have placed and are placing big bets to meet the demand and establish their strong positions in the tri-state area. A good example is Amazon's 850,000 s/f center in Staten Island.

This said, the wild card is the retail market. As we all know, the big box anchor tenant is becoming a thing of the past. Retail property owners are scrambling to reinvent their centers. Entertainment has replaced the Macy's and Saks of the retail world. This is the fallout from the growth of online shopping. Another aspect of the real estate industry is that world. When the economy is good and real estate is in demand, everyone wants to become a landlord. Market newbies buy at low cap rates, and when it is time to replace the tenants, they find out that matching the income is difficult.

Lucky for Long Island that we are not dependent on industries geared to consumer goods (e.g., cars, energy, etc.); other than consumer necessities. As in any market, however, there are winners and losers. The winners will be in the industrial sector. Low interest rates and expanding industries will continue to drive and maintain low vacancy levels as companies advance. The retail and office markets will be less predictable. Welcome to the "Roaring Twenties."

Stay tuned.

Ralph Perna is an 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