



The state of affairs for Long Island commercial real estate - by Ron Koenigsberg

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It's no secret the commercial real estate sector on Long Island has been impacted by the COVID-19 pandemic. With month-long shutdowns, capacity restrictions, reduced workforce and other factors, each niche of the commercial market has experienced changes.

As real estate professionals it's crucial we understand how each sector was, and continues to be, affected by the pandemic. Let's take a deep dive into the details.

Office

After a year of negative absorption in 2020, office vacancy levels entered 2021 with near all-time highs. But prior to the pandemic, office signals were showing signs of weakness as vacancy levels, which were trending downward since 2014, began to rise in the second half of 2019.

Despite elevated vacancies, rent rates continue to grow in 2021. However, the forecast warns rent rates will begin to drop if vacancies continue trending upward.

Rental growth is already projected to be "moderate" due to softening demand. If the pandemic causes a prolonged spike in vacancy levels, it may dip into negative territory. Some anticipate rates can continue trending downward over the next 12 months.

Retail

Retail has arguably been the most challenged by COVID-19. Retailers are contending with large declines in foot traffic due to social distancing measures, while the unemployment rate remains stubbornly high.

Long Island has a much higher density of retail space, at 53 s/f per person, compared to the rest of the country, with only 35 s/f per person. Because of this, investors are typically drawn to the high returns in retail assets on Long Island.

But as the pandemic lingers, many investors are still hesitant to deploy their capital in these periods of economic uncertainty. Long Island will likely not see a significant bounce back in retail investment

sales anytime soon.

Looking ahead, cap rates are expected to soften over the next 12 months, and the average sales price per s/f for the market is expected to decrease in tandem.

Multifamily

The pandemic has brought multi-family fundamentals to new extremes. Rents have increased in the 2 to 4 percent range in 2019 for the seventh consecutive year and are on a similar pace this year.

However, as economic malaise prolongs, declines are expected to materialize. Over the next 12 months, Long Island's multi-family vacancy rates are expected to slowly rise.

Industrial

Although the industrial market has been better positioned than other asset classes, the negative impact of COVID-19 is still worth mentioning.

Net absorption in the past year has been at a record low of -1.9 million square feet. Though the pace of growth has slowed, there hasn't been evidence of rental declines.

Industrial owners are still experiencing growth in regard to rent rates, increasing on average by 5 percent in the past 12 months. In 2020 there were also notable large acquisitions. Amazon moved into nearly 170,000 s/f in two locations, and Pharmapacks leased 231,000 s/f in Brentwood.

Concluding Thoughts

As the COVID-19 pandemic remains, its effect on the commercial real estate market will be felt for some time. That being said, there are glimmers of hope.

We expect vaccine supply, growth of people inoculated, and the easing of CDC guidelines to change the narrative. Hopefully this allows for businesses to re-open, restaurants to hire more workers, offices to fill with more employees, and many other things.

While these changes won't happen overnight, it's one way for us to return "back to normal" and look to stronger market fundamentals in the future.

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