



Long Island's industrial real estate outshining office space - by Anthony Racanelli

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Like most sectors, Long Island's commercial/industrial real estate market was affected by the pandemic. Office space, in particular, experienced increased vacancies, while industrial real estate grabbed the spotlight as many investors gravitated toward industrial listings. That trend has continued through 2021 with some high-profile transactions leading the way.

Soft Office Market

Through the first two quarters of 2021, office space on Long Island was characterized by increased vacancies recorded at an estimated 11%. By the end of Q2, there was over 1 million s/f available inventory, up by almost 60% from the start of the pandemic. There were, however, a few sizeable transactions closed during this period including the purchase of 346,000 s/f of class A office space at 1985 Marcus Ave. in Lake Success (Nassau County) by The Birch Group. The same real estate investment firm also purchased a 291,230 s/f property at 2 Corporate Center Dr. in Melville (Suffolk County).

As for leases, it is now at a level not seen since 2018. Office inventory increased by just over 226,000 s/f. There were new leases with over 286,000 s/f in lease transactions closed during Q2 alone. Overall, however, the office vacancy rate across class A, B and C properties was at 12.8%. Despite the higher vacancies, rents grew on average by 4.2%, quarter over quarter, rising to just over \$28 per s/f from \$27 per s/f for class A space.

Prior to the more recent concern over the Delta Variant and rising COVID-19 positive rates, most of the industry was confident that the office market would become stronger. It has, but confidence has waned somewhat.

Industrial Going Strong

The most significant development in Long Island's real estate market has been the strength of the industrial sector. Where office space is soft and retail space the most wounded, industrial real estate is having one of its strongest periods. The pandemic can be credited with driving some of the high demand for the region's industrial properties. This is largely due to many New York City borough-based businesses leaving the city for the suburbs. The absorption of almost 482,000 s/f of

leased space led to a 3.5% vacancy rate at the end of Q2. Industrial spaces ranging in size from 10,000 to 40,000 s/f represented 48% of these leases and dominated the transactions. The rents were up substantially over the prior year and a half with rents for Long Island industrial growing to a high of \$12.18 per s/f. Among the largest industrial lease transactions in Q2 were a Peloton Interactive warehouse/distribution center lease for 100,000 s/f on 85 Harbor Rd. in Port Washington (Nassau County) and a J.B. Hunt Transport Services warehouse/distribution center lease for 78,487 s/f at 70 Marcus Dr. in Melville (Suffolk County).

There also were some substantial industrial real estate investments recorded in Q2. For example, The Bristol Group also purchased a 103,000 s/f industrial building on 10.75 acres located at 49 Mall Dr. in Commack within the Hauppauge Industrial Park. The \$10 million investment will be applied for the redevelopment of the property into a 178,134 s/f distribution center. The latest plans are for it to include 31 loading docks, two drive-in doors and available parking spaces to accommodate 16 tractor-trailers and 205 vehicles. Also in Hauppauge, Link Logistics Real Estate purchased a 10-acre site located at 88 Parkway Dr. South and 90 Davids Dr. It is zoned for light industrial and can accommodate a building of up to 184,107 s/f and a maximum height of 35 ft.

At the end of July, there was almost 7 million s/f of industrial space under construction or in the planning phase. Included among these projects are two speculative building projects being developed by Hartz Mountain Industries; one a 599,983 s/f building at 235 Pinelawn Rd. in Melville and the other a 246,500 s/f building at 90 Ruland Rd. in Melville.

Closing Remarks

For Long Island's office and industrial real estate markets, the pandemic ushered in new demands for industrial properties by businesses exiting more populated urban locations, e-commerce businesses seeking new last mile facilities, and investors in both the office and industrial sectors picking up properties in prime locations. For its part, Long Island's leading business organization, the Long Island Association (LIA) has continued its advocacy for the region urging our elected officials to pass legislation to support further economic growth and development such as opposing new taxes on businesses and supporting redevelopment proposals for key hubs including the Nassau Hub (i.e., creating an Innovation District with a Biotech Park with Northwell Health as the anchor tenant and a new bus transit system to the Hempstead and Mineola Long Island Rail Road stations), and the Ronkonkoma Hub adjacent to the Long Island MacArthur Airport. These and other pro-Long Island initiatives will further fuel demand in both the office and industrial sectors.

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