LONG ISLAND BUSINESS NEWS

Tenant demand still robust amid glut of speculative warehouse developments

This new 132,515-square-foot spec building under construction in Hauppauge just landed U.S. AutoForce as its tenant. Photo by David Winzelberg

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David Winzelberg //November 22, 2023 //

In keeping with the mantra "if we build it, they will come," Long Island has seen the development of a record number of new speculative industrial buildings over the last couple of years.

Fueled by demand from e-commerce companies, third-party logistics firms, food distributors and tenants from a variety of other industries, national and regional firms have invested hundreds of millions of dollars in new ground-up developments and redevelopment projects in Nassau and Suffolk counties representing the area's biggest construction boom in a generation.

And while much of Long Island's existing industrial real estate stock developed decades ago was built with tenants signed in advance, spec building has recently dominated the industry. Such activities include millions of additional square feet of modern warehouse and distribution facilities designed with higher ceilings and storage-rack systems facilitating the constant in-and-out movement of products.

So far, much of the newly built industrial space is finding tenants, even if some of the larger buildings are taking longer to fill than expected.

"Over the past 20 years, construction of new industrial buildings was predominantly end-user driven build-to-suits, with a limited number of speculative buildings constructed during this time," said Leo Farrell, a veteran broker and principal at Avison Young. "Post COVID there has been a proliferation of spec last-mile type, large-box industrial buildings constructed throughout Nassau and Suffolk that are taking longer than anticipated to lease. We anticipate these buildings will be leased gradually over the next 12 to 18 months."

Paul Leone, a broker with CBRE, said Long Island has experienced a steady growth of tenants coming into the marketplace. Leone and his CBRE colleague Matt Manoogian are currently representing two new spec developments from Brookfield Properties, including the 102,000-square-foot Meadowbrook Logistics Center in Garden City, and the 200,000-square-foot building on New South Road in Hicksville set for completion by next summer. Both Leone and Phil Heilpern continue to market Hartz Mountain's 600,000-square-foot building at the LIE Commerce Center on Pinelawn Road in Melville, which has about 233,000 square feet
still available.

"Long Island is not the New Jersey Turnpike. I think there's been a decent amount of development that has happened here, but it's being leased not as rapidly as everyone would have hoped,"
Leone told LIBN. "There have been new tenants that have come to the Island that have taken spaces throughout the last 18 to 24 months, and I think we'll continue to see leasing activity, just not at the record-breaking pace as had been happening."

Leone and a few of his CBRE colleagues just signed a major tenant to a new spec development that is nearing completion in Hauppauge. Leone, Nicholas Klacic, Marko Glavadanovic and Jeff Kapcheck represented U.S. AutoForce in its lease of the still-under-construction 132,515-square-foot building at 45 Oser Ave., while Newmark brokers Kyle Burkhardt, Josh Cohen and Patrick Ciancimino represented landlord Link Logistics.

The Hauppauge project just received preliminary approval for economic incentives from the Suffolk County Industrial Development Agency. The building is expected to be completed in the second quarter of next year.

Burkhardt, who along with his Newmark colleagues, also represents another of Link's three new Hauppauge spec developments, said location and size have a lot to do with the success of leasing efforts at spec buildings.

"Certain markets are spotty in the amount of demand. You can have primary markets like Hauppauge, Melville or Nassau County and anywhere you build new construction that's in our size range, which on Long Island is typically 75,000 to 155,000 square feet for Class A buildings, you're going to do very well," Burkhardt said. "I think when you go outside of that into secondary and tertiary markets, and you start putting up buildings outside our normal footprint, meaning 300,000- to 500,000-square-foot buildings, you might find yourself in a situation where there's a pipeline of new development that outpaces tenant demand."

Rechler Equity Partners, Long Island's largest owner of industrial properties with a portfolio totaling more than 6 million square feet, just broke ground on a 140,875-square-foot industrial building in Medford and has already leased 101,390 square feet of it to Keyspan Gas East Corporation, part of National Grid.

"Right before and during the pandemic, there was this movement from these outside institutional investors chasing online retailers and building these very large boxes that really aren't typical of Long Island industrial product," said Gregg Rechler, co-managing partner of Rechler Equity. "The reality is Long Island has a very diverse set of businesses and they come in all different sizes and industries. I think the problem is the newer buildings that have been built recently are just limiting in terms of flexibility."

They are also a bit pricier. Space in many of the new Class A large-box developments are receiving triple-net rents at $22 or more per square foot.

"It's mostly size and price point. A typical Long Island tenant is looking to pay in the mid-teens not the low 20s," Rechler said. "I think that's the reason you're seeing that product taking a while. I'm sure it will get leased. Our market is a very strong market."

Occupancy rates of industrial properties on Long Island reflect that strength. Rechler said his firm's portfolio is currently 98.5 percent occupied, and the overall Long Island industrial market had a healthy 96.4 percent occupancy rate in the third quarter, according to a report from Cushman & Wakefield.

Another key feature of some of the new industrial developments is ample parking and mobility for tractor trailers and other vehicles, according to C&W broker Nicholas Gallipoli. Gallipoli and his Cushman & Wakefield colleague Tom DeLuca are representing the just-completed Crossways Logistics Center, a 145,200-square-foot building on 9 acres at 1 Media Crossways in Woodbury developed by the Rockefeller Group. The property has 18 trailer parking stalls and space for commercial fleet parking.

"Developments that are well-located, offer excess parking and trailer parking will garner more interest from tenants in the market and will command premium pricing," Gallipoli said.

JLL broker Doug Omstrom and his JLL colleagues Tom DiMicelli and Max Omstrom are representing three new spec industrial facilities, including the 178,134-square-foot building at 49 Mall Drive in Commack developed by Bristol Group Inc., the 172,622-square-foot building at 55 Paradise Lane in Bay Shore from the Rockefeller Group, and the under-construction 120,000-square-foot building at 88 Parkway Drive South in Hauppauge, developed by Link Logistics.

Ideal tenants for many of the new spec properties, according to Omstrom, are likely last-mile distribution type companies, because of their high ceilings and design.

"But we're also looking at tenants who don't need the height that just want to have these new Class A industrial facilities," he said, adding that he's optimistic that leasing activity will rise. "We expect that the industrial leasing market should pick up after the New Year, because of the low vacancy that we have on Long Island, which continues to be just over 3 percent. So we see strong demand coming in right after the holidays."**DWINZELBERG@LIBN.COM**