LONG ISLAND BUSINESS NEWS
LIBN
LIBN.COM
VOLUME 67 NUMBER 33 LIBN.COM
Part of the BRIDGETOWER MEDIA network
AUGUST 21 27, 2021 $2.00

BOUNCING BACK

Despite pandemic, most commercial real estate sectors remain resilient

» Page 4

REAL ESTATE

AMAZON TO OPEN DISTRIBUTION CENTER IN SHIRLEY

››15

LAW & GOVERNMENT

DECOMMISSIONED MAIL SORTERS HURT LI BUSINESSES

››8

FOCUS // LAW

TENANTS, LANDLORDS NEED TO WORK TOWARD COMPROMISE

››13

COVERSTORY

BOUNCING BACK

Despite pandemic, most commercial real estate sectors remain resilient

By DAVID WINZELBERG

While the coronavirus pandemic and its state-mandated lockdowns had a chilling effect on many Long Island businesses, much of the commercial real estate industry appears to be holding its own.

That's the consensus from a panel of veteran real estate brokers assembled for an LIBN/NOW webcast last week, as they expressed optimism that the office, industrial and multifamily sectors here will come out of the health crisis relatively unscathed.

However the jury is still out regarding the fate of the hard hit retail sector, which had suffered the most in the last several months and had already been struggling amid the rise of e-commerce over the last few years.

One of the big questions coming out of the pandemic was how the increasing trend towards working remotely, which only accelerated during the quarantine, would impact office real estate.

David Pennetta, executive managing director for Cushman & Wakefield on Long Island, says the shrinking office space footprint will be offset by the need for increased social distancing between employees and companies from the city looking to decentralize their urban locations.

"Before this pandemic, 5 percent to 7 percent of employees were working from home," Pennetta said. "Some job functions are able to work from home where you don't need to have collaboration with other people in your office, but that's not the situation for most job functions. So even if we go to 10 or 15 percent and double the number of people working remotely, that's not going to be that impactful."

Pennetta pointed out that while office space per employee had already been decreasing, the need to have more space for social distancing will balance that out.

"In the past five years we went from an average of 235 square feet per employee to 185 square feet per employee," he said. "So while you have more people working from home, social distancing dictates that you now need more square footage to accommodate office employees, so I think we're going to reverse that and go back up."

Pennetta also acknowledged that companies from the city are looking at suburban options for satellite offices.

"They're sort of feeling their way to see if they are going to vacate the city and locate an office out here or in Jersey, Connecticut or Westchester, where their employees are coming from," Pennetta said. "But there hasn't been any large leases signed yet."

There was 353,000 square feet of Long Island office space leased in the second quarter, which was 28 percent below the first quarter, 27 percent lower than a year ago and 26 percent below the five-year quarterly average, according to a report from CBRE.

Availability of Class A office space dropped to 9.7 percent in Q2 2020, down from 10.9 percent in Q2 2019, but availability of Class B space increased from 10.9 percent in Q2 2019 to 11.3 percent in Q2 2020.

One of the strongest sectors before the pandemic was industrial real estate, and while leasing and sales activity slowed this spring, the industrial market remains healthy.

"I can tell you as of very recently, the demand for industrial real estate does not seem to have been adversely impacted as a result of COVID-19," said Jeffrey Schwartzberg, co-founder and managing partner of Premier Commercial Real Estate. "Although the market was extremely quiet for the three-month period between the middle of March and the middle of June, we've seen the activity level come back very, very strong."

Schwartzberg says many companies held

DAVID PENNETTA: 'While you have more people working from home, social distancing dictates that you now need more square footage to accommodate office employees.'

off from making real estate commitments this spring, but demand for industrial space is still strong, with businesses from Queens and Brooklyn continuing to seek more affordable properties.

"There actually seems to be some pent-up demand and momentum, perhaps even surpassing the demand that we had prior to the pandemic," Schwartzberg said. "There certainly are some adjustments as a result of the virus. Some companies are shrinking and some companies have grown, but so far we've seen more growing than shrinking."

The driving force behind the industrial real estate market remains the increasing demand for last-mile warehousing and distribution facilities from e-commerce businesses and fulfillment centers.

"We've seen very high demand, particularly in the last two months, from e-commerce businesses that are expanding," Schwartzberg said. "Many of them have expanded as a result of the virus. And it seems to be a sentiment amongst a number of these companies that there's going to be another wave, which is going to cause even more need for increased facilities."

The overall vacancy rate for Long Island industrial properties in the second quarter was 5.2 percent, according to a report from Cushman & Wakefield. That's up slightly from a year ago, but still historically low for the area.

Another real estate sector on Long Island with low vacancy rates is the multifamily sector, which continues to thrive and attract investors. And though the area's double-digit unemployment rate has raised concerns over rent collections, most owners of multifamily rental properties report that relatively few of their tenants have been delinquent.

About 85 percent of respondents who own more than 37,000 residential rental units received June rent from 90 percent or more of their tenants, according to a monthly survey of area commercial real estate firms conducted by the Association for a Better Long Island and Long Island Builders Institute.

"We've seen collections hold up pretty well, very well, as a matter of fact," said John Thomas, principal of Select Real Equity Advisors, which specializes in investment sales of multifamily, retail and other commercial property assets. "We anticipate that will continue for the foreseeable future."

Thomas says there is plenty of equity chasing multifamily assets here.

"There's still a significant undersupply of affordable rental apartments," Thomas said. "Because of that lack of supply, our proximity to the city, our workforce and the demographics that we have, it's made multifamily a very attractive asset class. We've been working in the multifamily sector for over 30 years and it's always been a very, very strong asset class. I think what it comes down to is that people need a roof over their head."

Probably the most challenged asset class, not just on Long Island, but across the entire country, is retail, according to Mark Walsh, a principal of Select Real Equity Advisors.

More than 30 percent of retail property owners who responded to the ABLI/LIBI survey said more than half of their retail tenants failed to pay their June rents.

"The landlords themselves are faced with making mortgage payments, but they're challenged in that they're not collecting rents because they're trying to work out and keep tenants alive," Walsh said. "There needs to be a focus on the landlord's debt situation and how things are going to be handled in that mortgage market."

Retail property owners will also need to figure out what to do with vacant spaces.

"On the retail side there's been a wave of bankruptcies and store closures that are going to greatly affect the market going forward," Walsh said. "And it's going to create a repurchasing of a lot of the existing real estate. You know when someone like Simon Properties gets together and buys an anchor tenant like JC Penney or takes a look at buying Lord & Taylor that creates a new piece of real estate that has to be repurposed."

Simon Properties, which owns three Long Island malls, is reportedly considering turning some vacant big-box department store spaces into fulfillment centers for Amazon.

"They could do a Whole Foods store and then they can also do a distribution and pick-up center," Walsh says. "So it creates a whole new class of real estate within an existing retail box. So that's the repurposing that we really feel it's going to become, a very hot segment of the market."

The panelists pointed out some of the area's retail sites that are already in the midst of being reinvented, such as the Sears property in Hicksville, where a mix of rental apartments and neighborhood retail has been proposed.

"The evolution of real estate are these hubs, where there is live, work and play all together," Pennetta said. "There needs to be an education of the elected officials and education of the residents of these areas to show them the benefits of this."

The good news, Pennetta says, is that there's been plenty of progress lately in developing transit-oriented projects in several Long Island downtowns. Those developments have attracted millennials, boosted business for local merchants and positioned the area to also attract companies to relocate here in the future.

"I've been doing this for 30 years and for the first 20 we kept hearing about all the problems on Long Island," he said. "But for at least the last 10, we're actually doing something about it. So we're very, very bullish on that."

In fact, each of the panelists shared the optimism that commercial real estate here will remain a strong investment moving forward.

"I am extremely confident that Long Island will work itself through the issues that are facing us on all asset classes," Walsh said. "The quickest recovery for all asset classes will be the municipalities' ability to work with developers and change some of the prohibitive zoning and issues that we face. That's the most important thing."

Schwartzberg says he's very bullish that the industrial market will continue to be hot here.

"The only concern I have perhaps is if interest rates start to climb," Schwartzberg said. "I think that will have a fairly significant impact, particularly on the investment market on Long Island, because when interest rates and cap rates go up, prices drop. So other than that, I'm feeling very good about industrial now."

Thomas said the pandemic that has stunted business and kneecapped the economy won't last forever.

"We've got a lot of talented people on Long Island and in the New York metro area," Thomas said. "We have a need to figure this out. I don't think that there's anybody here that feels that the virus will remain with us. Businesses are adapting and we're working through our new reality. Ultimately I'm very confident that we'll be fine."

JEFFREY SCHWARTZBERG: 'Although the market was extremely quiet between the middle of March and the middle of June, we've seen the activity level come back very, very strong.'

JOHN THOMAS: 'There's still a significant undersupply of affordable rental apartments.'

MARK WALSH: Store closures will create a repurchasing of a lot of existing real estate.