

Long Island's industrial revolution



By: David Winzelberg // March 4, 2022

The biggest construction boom in a generation aims to add millions of square feet of warehouse and distribution facilities on Long Island.

National and regional firms are investing hundreds of millions of dollars in new ground-up development and redevelopment projects here to try and meet the skyrocketing demand for industrial space.

Industry experts estimate there could be an additional 10 million square feet of new industrial buildings coming to market in Nassau and Suffolk counties within just the next couple of years.

While the bulk of Long Island's existing stock of industrial real estate was built in the 1970s and 1980s, much of it was tailored towards light manufacturing with ceiling heights of 18 feet and lower. But the vast majority of today's industrial tenants are

looking for warehouse and distribution buildings, which require much higher ceilings to accommodate storage-rack systems that facilitate the constant in-and-out movement of products.

And though there has been a smattering of new industrial construction here over the past decade, it pales in comparison to the current building boom.

“When COVID hit, everything exploded. People didn’t go to the store, they ordered everything online,” says broker Phil Heilpern, an industrial specialist with CBRE. “On Long Island, we’ve seen unprecedented interest from national developers who have been buying land for \$1 million, \$2 million, \$3 million and more an acre. They’re even buying office buildings at the \$3 million-an-acre price to knock them down and building 100,000, 200,000, 300,000 square feet. Out east, they’re planning 700,000, 800,000, 1 million square feet of industrial buildings and parks to capture the current demand and expected future demand from e-commerce.”

Heilpern recently brokered the lease of the new 246,500-square-foot warehouse and distribution building at 90 Ruland Road in Melville to Amazon. The new building is the first of two such facilities developed by New Jersey based Hartz Mountain Industries at the 48.5-acre site formerly occupied by Newsday.

Amazon, which continues to gobble up industrial space here, will also soon be occupying a newly built 204,000- square-foot warehouse and distribution facility on the former Cerro Wire site in Syosset.

Heilpern said the second building at the Melville site, a 600,000-square-foot warehouse at 235 Pinelawn Road that’s expected to be completed shortly, has attracted a lot of interest from prospective tenants in the e-commerce and brick-and-mortar retail sectors.

The building at 90 Ruland Road has 47 loading docks and two drive-in bays, while the building at 235 Pinelawn Road has 120 loading docks and two drive-in bays. Both buildings have plenty of truck parking and feature 40-foot-high ceilings and 56-foot column spacing, two important features for modern warehouses that earn them the industry nickname “high cubes.”

Hartz Mountain's redevelopment of the former Newsday site has been spearheaded by Ronkonkoma-based Aurora Contractors, which is currently building about 2 million square feet of new warehouse and distribution facilities in the New York metropolitan area.

The company, which also builds shopping centers, life sciences laboratories, hotels, dormitories, cold storage facilities and other projects, is also in pre-construction for several new industrial developments here on Long Island that total at least 2 million square feet of additional warehouse and distribution space, all of which will break ground this year.



“No one has seen this scale of warehouse and distribution development on Long Island,” said Aurora President Anthony Vero. “Last-mile distribution projects continue to be the fastest growing market sector within the New York metro area and on Long Island, the sector will see continued growth in the next few years.”

Despite supply-chain issues and rapidly rising costs, Aurora was able to construct both of the new Melville buildings in just 12 months, as the company orchestrated the deliveries of huge slabs of pre-cast concrete, steel columns and joists and roofing materials for the job.

“An early procurement strategy helped us stick to our timeframe,” Vero said. “And buying materials early helped avoid some of the price hikes that everyone in the construction industry has experienced over the last two years.”

Michael Adler, Aurora's director of business development, said that while the disruption in the supply chain presented obstacles, that proactive approach is what allowed them to stay on schedule.

“Our success in this sector is primarily due to our experience, our people, and the relationships we've developed with our subcontractors, municipalities and design firms,” he said.

The Melville project was designed by another local firm, Amityville-based Art of Form Architects.

“We approached Hartz Mountain about the possibility of providing design services because they didn’t have the experience developing in the Long Island market,” said Art of Form principal Ray Caliendo, who started the business from the basement of his Babylon home 28 years ago. “They valued all of the experience that we bring to the table with respect to repurposing sites.”

Art of Form, which also designs medical offices, multifamily residential communities, retail stores and film studios like Gold Coast Studios in Bethpage, is currently working with Hartz Mountain on its other Melville project, a 340,000-square-foot last-mile, warehouse and distribution facility on Spagnoli Road.

And there is much more to come. As LIBN reported last week, Plainview-based Rechler Equity Partners purchased 73 acres in Medford where it plans to develop a new industrial park called Rechler Business District. The developer has the capacity to build 845,000 square feet at the Medford site off Horseblock Road, where it plans to develop the new park in phases. The first building being marketed is 138,770 square feet with 28-foot-high ceilings, 49-foot by 44-foot column spacing, 15 loading docks and four drive-in bays.

Kansas City-based NorthPoint Development is planning to build four warehouse and distribution buildings totaling about 2.5 million square feet on 115 acres in Yaphank. NorthPoint will invest about \$400 million to develop the new industrial park and improvements for offices, data infrastructure and automation could add another \$25 million to \$100 million to the development’s price tag, according to NorthPoint President Chad Meyer.

The Rockefeller Group, a Manhattan-based real estate investment and development firm, plans on building a 180,000-square-foot warehouse and distribution facility on a



RAY CALIENDO: A principal of Art of Form Architects, Caliendo designed the two-building, last-mile distribution complex in Melville for Hartz Mountain Industries.

vacant 10-acre parcel at 55 Paradise Lane in Bay Shore that it purchased for \$30 million last year.

In Hicksville, Brookfield Asset Management is planning to build a high-ceiling warehouse and distribution complex on 15 acres at 125 New South Road, which it bought last year for \$45 million.

The Bristol Group Inc., a San Francisco-based industrial real estate development firm, is redeveloping a vacant 103,000-square-foot manufacturing facility on 10.75 acres in Commack into a 178,134-square-foot distribution center marketed by JLL.

In another redevelopment play, Link Logistics, a subsidiary of Blackstone, just purchased a 120,000-square-foot flex building on 7.5 acres at 45 Oser Ave. in Hauppauge and a 45,000-square-foot office building on 6 acres at 60 Motor Parkway in Commack, where it is proposing to demolish both buildings and construct two new warehouse and distribution facilities.

“We believe the re-purposing of our older vintage and functionally obsolete commercial inventory will be highly beneficial to the region as it will satisfy intense demand for high-cube distribution facilities throughout the Island,” said Kyle Burkhardt of Cushman & Wakefield, who brokered both sales.

Further east, Calverton Aviation Technology, an entity led by Triple Five Worldwide Group, is buying 1,643 acres in Calverton for \$40 million, on which it expects to close in April. The 600 buildable acres of the property, located in the Enterprise Park at Calverton, can accommodate up to 9.8 million square feet of industrial space.

Numbers for existing Long Island industrial real estate show just how tight the market is. The overall vacancy rate for industrial properties here dropped to 2.7 percent in the fourth quarter of 2021, according to a report from Cushman & Wakefield. Demand continued to outpace supply, resulting in record net absorption of 2.2 million square feet last year, more than triple that of 2020.

However, leasing activity has been hampered by the shortage of available space. The 2.6 million square feet of space leased last year was 29 percent less than the space

leased in 2020. All of that has raised prices, with overall asking rents climbing to \$13.11 per square foot last quarter, the highest on record.

“Pricing for industrial land, industrial buildings and leasing rates have gone up 30 percent to 100 percent, which is incredible,” Heilpern said. “It’s maybe the most amazing rent spike in the history of industrial real estate.”

The growing demand for industrial space has attracted the attention of private equity firms, which have been teaming up with local real estate companies to invest in the market.

Last year, Port Washington-based BEB Capital formed a joint venture with Boston-based Rockpoint Group to acquire up to \$1 billion in industrial assets in the Northeast, with a primary focus on Long Island properties. BEB’s existing industrial portfolio of 1.5 million square feet is currently 100 percent occupied.

“Given the velocity of the marketplace and the number of national players in the market, the level of competition for larger existing product is at an all-time high and it’s exceptionally hard to acquire because anything over \$20 million you have a dozen national players fighting tooth and nail,” said BEB CEO Lee Brodsky.



235 PINELAWN ROAD: The massive 600,000-square-foot warehouse at the former Newsday site in Melville features 120 loading docks and two drive-in bays.

As a result, the company is considering new construction for the first time in a long time.

“We’re actively negotiating on ground-up development sites on Long Island right now,” Brodsky told LIBN. “It seems like that is the place where we’ll be able to extract value especially being a local operator.”

And while all the new industrial construction could create a glut of available space down the road, brokers remain optimistic that demand will continue to grow.

“It’s good for Long Island to have an inventory that will support the e-commerce expansion well into the future, given how much space is planned here,” Heilpern said.