

Demand from Amazon, others are fueling plans for 18 million square feet of new warehouses on Long Island



By James T. Madore james.madore@newsday.com James T Madore September 26, 2024 5:00 am

Forty-three Nassau Veterans Memorial Coliseums or 18 million square feet.

That's how much new warehouse space is being proposed for Long Island by developers seeking to profit from low vacancy rates, high rents and retailers' plans to deliver purchases to customers' doorsteps.

Fifty-six warehouse projects have been put forward to town planning boards, about half of them in the past two years. Together, the warehouses would cost more than \$3 billion to construct, according to data compiled by Newsday from visits to the building sites and government documents.

"Since COVID-19 happened there's been a big push for these micro-warehouses to be opened up," said Jason F. Maietta, an executive vice president at the real estate firm Colliers, referring to retailers' need for more warehouse space to make "last-mile" deliveries to consumers who are increasingly shopping online and to resupply brick-and-mortar stores.

WHAT TO KNOW

- **Fifty-six warehouse** projects, totaling 18 million square feet, have been proposed for Long Island, according to data assembled by Newsday via visits to the building sites and government documents.
- **More than 16** projects have been completed, representing 20.5% of the proposed space, and more than 44% has been leased, the data show.
- **Building moratoriums have** been put in place by governments in Brookhaven and Riverhead town as officials seek to prevent of glut of vacant warehouses, both new and old.

"Everyone kind of hopped on that train ... Developers [from outside of Long Island] realized that we have a big market here and they started to invest hundreds of millions of dollars," said Maietta, who oversees the leasing and sale of warehouses and industrial properties in the region for Colliers.

New entrants to the market include Rosemont, Illinois-based Venture One Real Estate, which has four projects; Kansas City, Missouri-based NorthPoint Development, two projects, and Manhattan-based Ares, Brookfield Properties, Link Logistics, Rockefeller Group International and Wildflower, each with two or three projects.

One of the prominent building sites — 600 Grumman Rd. West in Bethpage — was purchased by San Francisco-based Prologis for a 240,000-square-foot warehouse. The property had been home to the headquarters of Grumman Aerospace Corp., which employed thousands of Long Islanders for decades.

Plans for the \$106 million warehouse were unveiled more than two years ago but work hasn't progressed beyond demolishing the Grumman office and moving an historic U.S. Navy F-14 Tomcat fighter jet to the Cradle of Aviation Museum in Uniondale.

Asked if the project had been shelved, Prologis spokesman Mattie Sorrentino said, "We plan to proceed ... [The warehouse would] create jobs, strengthen the supply chain and contribute to the local economy."

20% built so far

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Of the 18 million square feet of new warehouses proposed for Long Island, 3.7 million, or 20.5%, have been constructed so far across 17 projects. More than 1.8 million square feet have been leased, based on the Newsday site visits, plus information from developers and commercial real estate brokers.

Those signing leases and the location of their new warehouse include Amazon in Melville and Woodmere, cookie manufacturer Tate's Bake Shop in Shirley, tire distributor Max Finkelstein LLC in Hauppauge, and cosmetics sellers Nicka K New York and Absolute New York and food distributor Food Authority, all in Melville, according to the database.

Construction on most of the warehouses will be completed before the developer finds tenants.

Two notable exceptions are 125 Baylis Rd. in Melville, a 103,500-square-foot warehouse built by Creation Equity and J.P. Morgan Asset Management for soft drink distributor Keurig Dr Pepper, and the first building of the Rechler Business District in Medford, which will largely be occupied by natural gas provider KeySpan Gas East Corp./National Grid.

"Lenders today are a lot more reticent about providing construction loans for buildings that are speculative — that don't have some portion of the building preleased," said Mitchell Rechler, co-managing partner of Rechler Equity Partners. The Plainview firm is Long Island's largest owner of commercial property, with more than 6.5 million square feet in 100-plus buildings.

He said many of the big warehouses recently built by competitors of Rechler Equity are sitting vacant because "they were designed for one specific use, large scale e-commerce, and are not adaptable to smaller tenants and other uses ... Many of these buildings aren't going to pencil out [i.e. become profitable] due to limited demand for the use that they were built for."

Rechler said his company is seeing "significant demand from small tenants that may need 10,000 square feet, but not 100,000 or 75,000."

Smaller than proposed



The Rechler Business District in Medford will total 700,000 square feet over multiple buildings. Credit: Elizabeth Sagarin

The Rechler Business District project, off Horseblock Road south of the LIE in Medford, will be 745,000 square feet upon completion. That's 100,000 square feet smaller than originally proposed because KeySpan is leasing 10 acres of land for outside storage, along with renting more than 70% of the first building. The utility is expected to occupy that space in late November.

"As far as the rest of the property, we're talking to a number of [prospective] tenants who have very specific needs," said Ted Trias, director of acquisitions and leasing for Rechler Equity.

Across the developer's portfolio of buildings, leasing "activity seems to be in the below 50,000-square-foot requirement. The big tenants are just not out there right now, but we're still doing business. We're not waiting for the 100,000-square-foot tenant," Trias said.

Rechler Equity ended 2023 with a vacancy rate of 1.7%, or less than half the Long Island rate of 4.4%, according to the research firm CoStar Group in Washington.

If all the proposed warehouses are built, the amount of vacant space could climb to more than 11% in the next five years, based on a report from the consulting firm Camoin Associates in Richmond, Virginia, which specializes in economic development.

"The surge in demand [in 2021-22] may not persist, raising concerns about potential overbuilding in the local and regional markets if excessive speculative construction continues," Camoin said in the report for the Brookhaven Town Industrial Development Agency. "Recently-built speculative developments are taking longer to lease-up ... The oversupply risk has grown."

We don't want to end up with a bunch of empty buildings.

—Lisa M.G. Mulligan, CEO of Brookhaven Town Industrial Development Agency

The Camoin analysis, along with the increased number of big warehouse projects being proposed for Brookhaven, caused the IDA board in November 2023 to stop taking some developers' applications for tax breaks. The six-month moratorium only affected projects of 100,000 square feet or more with no tenants. In April, the moratorium was extended another six months to January 2025.

"We had three large projects that had closed with us [for tax-break deals] and we had all of these other ones in the hopper," said Lisa M.G. Mulligan, the IDA's CEO, recalling how the moratorium came to be.

"My board's thinking was: 'Let's take a breath and see if there are going to be end users of these warehouses. We don't want to end up with a bunch of empty buildings,'" she said.

In Brookhaven, developers want to build nearly 7 million square feet of warehouses, or about 40% of all that's been proposed. Riverhead Town is No. 2 with 2.4 million square feet, or 13% of the total, according to the database.

Riverhead also has a moratorium on large industrial developments in Calverton, where six warehouse projects have been proposed. The moratorium began in January and was extended until Oct. 12 by the town board to allow for zoning changes based on a newly completed master plan.

The Greater Calverton Civic Association had first called for the moratorium in 2020, citing concerns about traffic congestion and the impact on nearby farms.

"We would have liked to have had [the moratorium] earlier," association president Toqui Terchun told Riverhead officials in January. "It would have prevented a lot of [warehouse] applications now in the pipeline, and it would have prevented a traffic nightmare."

'Draconian' moratoriums



The developers' group Association for a Better Long Island called the moratoriums "draconian" and harmful to companies and homeowners.

"At a time when local government desperately needs the revenue generated by private-sector investment, these sweeping moratoriums hurt both local businesses and residents, creating a needless self-inflicted economic wound on a region that must encourage growth," said Kyle Strober, the association's executive director.

In addition, concerns about a glut of vacant new and old warehouses in the future is unfounded, according to the real estate firm Colliers.

Lars R. Remole, one of the firm's senior research analysts, said Long Island has less available warehouse space for rent than in New Jersey and New York City's outer boroughs. He said developers continue to propose projects, build them and secure tenants willing to pay record-high rents.

"What's being proposed — 18 million square feet — is a small drop in the bucket of the 150 million square feet of industrial space on Long Island," he said. "There's been such strong demand and such strong [leasing] activity that I'm not super worried about the space, both old and new, being absorbed" by tenants.

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—Kyle Strober, executive director of Association for a Better Long Island

Independent logistics companies, online retailers, food and beverage distributors and drugmakers top the list of who's looking for warehouse space, according to Remole.

Developer Paul Amoruso said he's getting inquiries from national companies about a 950,000-square-foot warehouse project that he and three investment firms have proposed for Islandia, next to Jake's 58 casino along the LIE.

"There are large tenants that are either here now or floating around, and they're all inquiring about large spaces," said Amoruso, who became a commercial real estate broker in 1984 and then a hotel developer. "We're getting people coming to us and saying, 'Can we talk to you about more than 400,000 square feet?'"

He said construction would soon begin on two of the eight warehouses that have been proposed for the site of the former Computer Associates International Inc. headquarters, where more than 3,500 people once worked. The office was demolished in January after Amoruso and his partners couldn't find tenants and decided to capitalize on the demand for warehouses.

Still, Amoruso said it was a tough decision because he had helped Computer Associates founder Charles Wang to build the headquarters more than 35 years earlier.

Amoruso recalled that in the late 1980s, the 76-acre parcel "was where people got fill [for construction projects] and motorcross races took place illegally. Then Charles Wang, [together with a real estate developer], bought the property for his company's headquarters. Now, the best use of the property is warehouses because trucks can get on the expressway directly without having to go on residential streets," Amoruso said.

He added, "I've come full circle with the Computer Associates site."