

## Clear Span Ahead

Long Island's Industrial Real Estate Market, like every other sector, has continued to raise the bar from both a quality and, unfortunately for some, a pricing perspective. While it is old news as to what happened to the industrial market in the early 90's, when to the chagrin of many politicians, Grumman decided to surrender the keys to The Keep (metaphorically) and move its aerospace operations off Long Island, the industrial market has none-the-less rebounded and diversified in a way that better serves the day to day needs of the local population.

Even so, the normal warehouse and distribution product that has been left behind from the days of aircraft parts, ball bearings and brake pads, is a dying breed. These older facilities suffer from narrow column spacing and low ceilings. Buildings once aptly designed for manufacturing are a poor fit for warehouse and distribution, and make inefficient use of cubic storage area. Amazingly enough, while the national average height in warehouses is between 24 and 28 feet, 96% of Long Island's roughly 120 million square feet of industrial space, is below 24' of height. In addition, most new construction of warehouse space across the country is being built with 28' ceilings, while under 2% of Long Islands inventory has a height of 28' or better. As a result, the face of industrial property is changing on Long Island. Many of the old buildings with 14' or less of height are being raised in favor of more modern construction with better racking, and picking and packing systems. Columned construction is giving way to Butler type buildings. Many of these facilities are even disappearing altogether as they are redeveloped for use as office space, R&D and yes, even residential has become a higher use than Industrial. But for those firms currently on Long Island, it becomes clear that the bulk of the industrial businesses remaining are here because of geographic anchoring.

Simply put, the majority of the product manufactured and warehoused on Long Island is intended for sale and distribution on Long Island. This bodes well for the Long Island economy. Since there has been no



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downturn in leasing or sales of industrial properties on The Island, and all this product has been made or warehoused for Long Islanders, it would seem that the Industrial Market has stabilized and can continue to operate in balance with the needs and demand of the local population. In fact, Industrial property sales and leasing prices have reached a high not seen since the end of the 1980's.

This still leaves a gaping void in the ability of distributors to effectively and economically operate under conditions where they are paying some of the highest rates ever per square foot, yet are receiving almost 40% less cubic storage space than their peers and competitors nationally. Financially, 40% more storage is a compelling reason to take a look at alternatives. For example, if you're renting a 40,000 square foot warehouse for \$8.00 per square foot and can use 40% less space, that is the equivalent of needing only a 24,000 square foot building, or 40% less rental at \$8.00 per square foot is \$4.80 per square foot, or to expound to a gross annual basis, it is the difference between paying \$320,000 a year vs. \$192,000 a year. This is all well and good if you can relocate to another part of the country. For most of the firms on Long Is-

land, this is simply not an option. What may in fact be a good solution to this unique challenge is raising the roof on an existing structure. While it may not be entirely feasible to raise a 14' ceiling to 30', it is possible to get to 20', which will in fact give you 40% more storage space. Even more interesting, is a simple analysis of the economics of such a feat. Depending on the overall size of the building, the cost to raise the roof averages somewhere in the \$10 to \$15 per square foot range. While on a 5 year lease a \$15 per square foot price tag may be a wash to recapture 40%, on a 7 or 10 year lease the rewards suddenly merit a closer inspection. In fact, when you look at this situation from an investment sale perspective the results may be even more dramatic. Looking at the same 40,000 square foot office building, there is a \$3.00 to \$4.00 per square foot difference in the lease rate between a 14' high building and a 20' high building. So you raise the roof, rent the building for \$11 per square foot instead of \$8.00 per square foot and from an investment standpoint the building you spent \$600,000 on raising the roof, is now worth \$1,200,000 more than it was. This is a pretty neat trick when you look at it, and when you consider that 95% of Long Islands' buildings have low ceilings. There would seem to be a tremendous opportunity for users, owners or investors to creatively create product where nothing comparable exists.

As industry specialists, these types of creative approaches are becoming the hallmark of how we continuously provide added value for our clients. With the cost of new construction rising, and the available inventory dwindling, we have seen this technique used a number of times with tremendous success. Coupled with better racking systems, the overall efficiency of space can even be more dramatic. Today, it is becoming more important than ever to look for solutions outside the box, or at least within the Big Box.

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