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The industrial divide

With warehouse space at a premium, developers are adding inventory while carving out smaller spaces for startup businesses

By [C. J. Hughes](#) | June 11, 2018 01:00PM



Two of the nine planned buildings at the Hampton Business District. A third is set to open in 2019.

The East End tends to obsess over posh mansions behind privet hedges, trying to hide the more matter-of-fact buildings on dusty lots where landscape companies keep trucks, say, or technicians service air conditioners.

But the Hamptons industrial market is increasingly indispensable to the smooth functioning of a second-home economy, making it red hot. The space just isn't available in that sector, and as more people trickle in to the East End every year and new houses are constructed to greet them, demand is spiking for limited warehouse space, pushing prices up.

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“We are having a bit of a problem, in that there’s not enough supply,” said David Pennetta, the executive director of the Long Island office of the commercial firm Cushman and Wakefield. “And not only is there of lack of new supply, but we are removing old supply as well.”

With demand strong from East Hampton to Westhampton, rents are, naturally, elevated.

South Fork industrial sites are fetching \$23 to \$28 per square foot annually, said Roger Blaugh, an associate broker with the Corcoran Group. And those prices are leaps and bounds above many industrial rents in Suffolk County as a whole.

Peeping the pipeline

The potential upside of the sector was a main reason Mitchell Rechler, a co-managing partner of Rechler Equity Partners, created his Hampton Business District, an industrial park by the runways at Francis S. Gabreski Airport just outside of Westhampton Beach.

The 55-acre site will eventually offer nine buildings — two of which are already operational — on land leased from Suffolk County in Southampton. The first building, a 58,000-square-foot offering that opened in 2015 at 220 Roger’s Way, has tenants like Tate’s Bake Shop, with 40,000 square feet, plus AC Lighting & Electrical Supplies of Smithtown and Carrier Enterprise, an HVAC distributor.

Joining them in May was Westhampton Beach Brewing Company, which has taken 4,800 square feet for 10 years. Users of much water, breweries typically require connections to sewer systems, which are lacking at many Hamptons industrial properties, Rechler said.

This year, a second building opened in the industrial park, a lofty 68,000-square-foot structure at 200 Roger’s Way. Tate’s took an additional 15,000 square feet there. The company continues to prepare its desserts at its original home in Center Moriches, a Suffolk County hamlet outside of the Hamptons, but it has distribution centers farther east. It wanted facilities closer to the “end users,” Rechler said, aka people and stores in the Hamptons that buy its cookies.

The two buildings, with asking rents of \$18 to \$21 per square foot, are 99 percent leased, Rechler said. A third building, 215 Roger’s Way, with 66,000 square feet, is on schedule to open in 2019.

As it stands, there isn’t much industrial space in the East End, Rechler affirmed. “And we saw industrial buildings that were metal and low-quality renting for prices that were three and four times higher than similar buildings in western Suffolk County,” he continued. “We saw a void that could be filled.”

What isn’t really driving the market so far, according to landlords, is e-commerce, including Amazon. Brokers and landlords say they expect struggling offline retailers to eventually abandon their brick-and-mortar stores and instead run their businesses out of warehouses. But in the Hamptons, examples are still few and far between, they said.

Still, Rechler is preparing for that kind of future. “We are having discussions with companies about that,” he said. “It’s definitely hovering out there.”

While Rechler is creating an industrial district from scratch, other owners are squeezing in new buildings where they can.

Enter John Rosko, the founder and president of Eastender Associates, a commercial property owner. Hailing from a family of potato farmers, Rosko inherited a century-old building in Southampton where potatoes were once packed and loaded onto trains.

As the local potato industry declined, he found new uses for the old buildings on his property on Powell Avenue and built new structures, too. Today, there are a dozen tenants at the site, including auto mechanics, cabinet makers and flooring wholesalers, he said.

Currently, Rosko is at work on a new 22,000-square-foot, metal-sided building on nearby Leecon Court, which will ask annual rents of \$28 per square foot, he said. The project is on spec, he added. "But I know the demand is there. Like with the residential market, there are just more people coming out here."

Demand in the Hamptons is spreading ripples farther afield. A beneficiary may be the adjacent town of Riverhead, said Neil Crawford, an agent with Coldwell Banker Commercial Island Corporate Services.

Crawford is currently marketing an 11-acre, two-building property on Elton Street, on the outskirts of Riverhead's village, for about \$5 million, or close to \$70 a square foot. Originally a duck-processing plant, the property will likely carve up its cavernous spaces into smaller 10,000-square-foot berths, Crawford said.

That size would be ideal for so-called maker-type businesses specializing in things like wine storage, specialty baking and woodworking. These companies often serve the North and South Forks but can't find affordable space there, according to Crawford.

"This property is bigger than for most of the needs I see," he said, adding that industrial space in Riverhead can be leased for about \$15 a square foot, substantially less than what Southampton offers.

Similarly, Brian Phelps, the founder of brokerage and management company Phelps & Associates, sees compact industrial spaces as the wave of the future. One example: the 4-acre site in Riverhead that he has a hand in marketing.



Mitchell Rechler
Rechler Equity



David Pennetta
Cushman & Wakefield



Hal Zwick
Town & Country



A sand and gravel pit in Southampton that recently gave way to the Bishops Pond condo complex.

The site, across from the Tanger Outlets Riverhead mall, was listed at \$1.8 million and sold for \$1.4 million, Phelps said.

The site currently has two buildings, but redevelopment plans discussed during the marketing process suggest that the lot will give way to small, modern structures catering to startup e-commerce businesses, Phelps said.

Those kinds of tenants “don’t want to all operate out of their garages, so they put together these little fulfillment shops,” Phelps said, explaining why he is so bullish on industrial real estate on the East End.

“The warehouse market is continuing to grow, while neighborhood retail is getting hammered,” he said. “Industrial is the new retail.”

Beyond the trees

Even a cursory knowledge of the Hamptons landscape suggests industrial sites are rare. On the numbered routes snaking through the main hamlets on the North and South Forks, they seem to pop up only here and there.

Down forested streets, dense clusters of warehouses and light-manufacturing facilities do exist, even if zoning generally requires that they be tucked out of sight. But there are just a handful of those clusters, according to brokers and zoning maps.

Southampton has a long-established industrial park near the Long Island Rail Road station, where Butler buildings — prefab metal structures with high ceilings — turn up on streets like Powell Avenue and Mariner Drive. Glass companies, ice distributors and self-storage facilities call those streets home.

Another cluster is around the East Hampton Airport, in the hamlet of Wainscott, on the aptly named Industrial Road. Carpentry and construction firms can be found in another park on nearby Plank Road, a dead-end among pines.

If sites were limited to begin with, their numbers are dropping, brokers said. For instance, a sand and gravel pit and composting facility in Southampton recently gave way to Bishops Pond, a 77-unit, 15-acre

condo complex from the Beechwood Organization. The complex, whose smallest units are three-bedrooms, opened in 2014.

At zoning meetings about the project, supporters often slammed the gravel pit as being an eyesore. Mary Slattery, the associate broker at Corcoran who marketed the project, agreed with that characterization.

The rezoning “led to higher property values all around it,” Slattery said, adding that if there were any supporters of the former use of the land, they seem to have been silenced.

Similarly, a condo complex, Southampton Pointe, is taking shape at a former industrial site on Tuckahoe Lane at County Route 39, across from a boat showroom in a busy commercial area. Its 50 units, which have two or three bedrooms, are being developed by Long Island-based Fairfield Properties.

Slattery, who’s also repping that project, declined to say how many had sold since marketing began last summer. Prices range from \$795,000 to \$1.25 million.

Developments like Southampton Pointe and Bishops Pond, brokers say, are popping up in response to increased residential demand.

Race for space

Medical facilities are also claiming sites that could have accommodated industrial uses.

Last year, Southampton Hospital, which recently merged with Stony Brook Hospital, purchased a crumbling farmhouse and overgrown fields on Route 39 in a Southampton industrial zone with several car dealerships.

Under construction there now is the Phillips Family Cancer Center, a 14,000-square-foot, \$24 million facility that will give Hamptons patients a more convenient place for treatment than a comparable site in Riverhead, according to news reports.

Similarly, the Northwell Health network, which in 2016 acquired the local Peconic Bay Medical Center, is also now hunting for new commercially zoned property for satellite facilities, brokers say.

“I don’t think a breath of air goes between the vacancy of one of those spaces and the startup of a new tenant,” Corcoran’s Blaugh said.

In April, he worked on the sale of Benton Plaza, a 21,000-square-foot medical office building in Southampton, for \$9.8 million, which brokers called a hefty price. The buyer was a group headed by Robert Rankell, a Syosset-based investor, according to news reports.

Also gobbling up former industrial properties are gyms, brokers said. Mark Tuthill’s Martial Arts Center, on Three Mile Road in East Hampton next to a welding contractor, for example, is in an industrial zone. Another example is Summer Kicks Hamptons Fitness, tucked behind an Italian grocery store on Railroad Avenue in the Village of East Hampton.

The tight market has forced industrial tenants to seek space in unusual second-choice locations, brokers said. A slowdown in the retail submarket, including some restaurants, is helping dislocated industrial

tenants, said Hal Zwick, the director of commercial real estate for Town & Country Real Estate.

Since the 1920s, the low-slung brick building at 103 Montauk Highway in East Hampton has housed a series of restaurants, most recently the Beach House. Landscape Details, a design firm, bought the building for \$2.3 million in 2015, said Zwick, who worked on the deal.

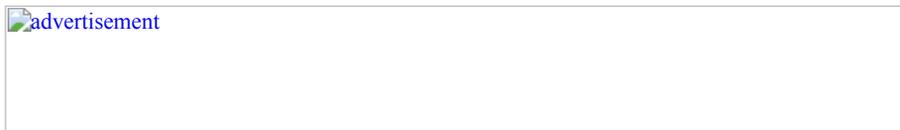
The site, about 1.5 acres, functions as an office and storage facility for the firm, which also has a fleet of green cars and trucks. Town and village codes prohibit residences from parking more than one commercial vehicle in a driveway, Zwick explained, which has led “landscapers to scramble to find spaces.” The requirement is stressing the already crowded market, brokers said.

Sometimes, industrial tenants are cannibalizing their kin. Jackson Dodds & Company, a landscaping firm, closed this winter on a \$3 million purchase of the masonry business Duryea & Wilde’s nearly 1-acre site on Bishops Lane in Southampton. The property has plenty of room for truck parking, said Zwick, who represented the seller.

Despite the slowdown, retail real estate seems to have stabilized this year, Zwick added.

Indeed, in the past 18 months, as landlords have bowed to reality and lowered asking rents by about 30 percent, or about \$150 a square foot annually for prime corner berths, long-empty storefronts are finally being filled, he said. Still, leases are not for as long as they used to be: just three years, on average, and not five, he said.

Another promising sign, according to Zwick, is that there seem to be fewer pop-up shops, which are usually placeholders for retail landlords until they score longer-term occupants.

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