



**Get our free LIBN e-alerts & breaking news notifications!**

Sign Up!



COUGHLAN: People want to have amenities near where they live and work.

## Real estate getting all mixed up

By: Bernadette Starzee    May 23, 2016    0

---

Never before have all the different real estate disciplines – multifamily, office, retail and industrial – been as intertwined as they are today, said David Pennetta, executive director of Cushman & Wakefield’s Long Island office.

Pennetta was speaking at the recent “State of the Real Estate Industry” event, co-hosted by accounting firm Berdon and LIBN at the Crest Hollow Country Club in Woodbury.

“I’m mainly an office, industrial and medical office broker, but I’m involved in championing the effort to get multifamily projects built,” Pennetta said. “If you don’t have places for young people to live, companies will have no one to hire to work in their offices.”

James Coughlan, principal and co-founder of the developer Tritec Real Estate Co., began in the business 30 years ago in the office, medical and industrial spaces and has morphed into multifamily and transit-oriented development.

“It is a time of change, and change is great for developers,” Coughlan said. “There has been a seismic shift in the way people view space – they want to live near where they work and shop. Millennials are now the largest group in the workforce, but it’s not just young people: All generations are looking for more experiential use of space, rather than the traditional office building.”

“We were the first suburb,” Coughlan continued. “We created Levittown; we created the dream where everyone from Brooklyn and Queens got a slice of the cloud. But then they pulled the ladder out because they didn’t want the ‘Queensification’ of Long Island.”

Meanwhile, other areas around the country embraced change, realizing this model – with office, residential and retail real estate in separate silos – didn’t attract people anymore.

“About 15 years ago, we started to go around the country, looking at what was attracting young people,” Coughlan said. “We looked at places like Portland [Oregon] and Hoboken [New Jersey], where young people are moving. Those places are not inexpensive; rather, people are moving there because they are cool places to live, where young people can find other young people and active-minded people. We got into transit-oriented development in the last 10 years in reaction to that.”

Long Island’s best hope for the future is to embrace change and bring all the types of real estate together – “where people can have conveniences they can walk to, like a bank or a place to go for a beer after work,” Coughlan said. “The days of the standalone suburban office park are numbered.”

As Pennetta noted, the Town of Riverhead has evolved from “Euclidian-based zoning.”

“Rather than saying this is the amount zoned for industrial, retail or office, they’re taking an aggregate approach, letting the free market determine how much space should be zoned for each discipline,” he said. “Riverhead has done that successfully, which helped the town get the largest developable industrial park in the last 10 or 15 years [Enterprise Park at Calverton] off the ground and onto the tax rolls.”

Pennetta noted that the Town of Huntington is looking to take a similar approach in Melville by creating an “employment-oriented district” with residential and retail projects to complement the 9 million square feet of office space.

Progressive zoning has helped move the Ronkonkoma Hub, a Tritec transit-oriented development, forward. Tritec will soon break ground on the first phase of the \$650 million plan, which includes six buildings and 489 rental apartments. Altogether, the project will bring a total of 1,450 residences, 360,000 square feet of commercial space and 195,000 square feet of retail space to a 50 acre parcel surrounding the Long Island Rail Road station in Ronkonkoma.

Long Island is finally starting to get multifamily developments built, adding about 1,000 to 2,000 rental apartments per year, said Matthew Whalen, senior vice president of development for AvalonBay Communities, but there’s still a long way to go to meet demand.

After a decade-long battle to build a 349-unit apartment complex in Rockville Centre, “we leased it up faster than any other of our buildings nationwide in our history,” Whalen said.

When a nearby tennis center went out of business, AvalonBay approached the village about building more apartments, and the mayor helped speed approvals along for Phase II of the project.

“We’re paying a lot of taxes, and all the vendors downtown are doing great,” Whalen said.

After all, multifamily projects help put people in restaurant seats and provide customers for many of the other service businesses that are cropping up in traditional retail spaces.

“Retail has been soft – it hasn’t been a pretty picture for many retailers,” said Jeffrey Pliskin, president and CEO of Pliskin Realty & Development, noting recent high-profile bankruptcies that have included Waldbaum’s, Fairway and Sports Authority. “It’s not going to be easy to fill those spaces. Primarily the prospects for those spaces are service-based, like urgent care centers, restaurants, gyms and salons – things you can’t get on the Internet.”

In response to the Internet, traditional retailers have needed to evolve to be successful.

"My wife was looking for something that was \$149 on Amazon, and Sears matched the price – they told her to put in her zip code, and she could pick it up at the local store," Pennetta said.

Seeing similar competition from other retailers, Amazon took 200,000 square feet of industrial space on Long Island in the former Goya building in Bethpage, to expedite delivery to customers. Pennetta provided this as an example of "retail affecting industrial space."

Just as successful retailers are evolving, real estate usage must change with the times.

With the Internet, "stores don't have to be as big as they were. Banks are also getting smaller; a lot of banks are just a drive-through and a kiosk, and they have been high-end payers in the past" for top retail spots, Pliskin said.

Office space is shrinking too.

"We're not bullish on suburban office space and haven't been for a while," Coughlan said. "The average square footage per employee is shrinking. Job growth isn't great, and more people are allowed to work from home. There is plenty of office space available."

However, "for Class A space of 50,000 square feet and above, there is not a lot to go around," Pennetta said.

And certain employers have not been able to find what they're looking for in existing stock. This engendered Dealertrack's 233,000-square-foot, \$135 million headquarters, which Tritec is currently building for the software company in North Hills.

"Dealertrack had options to buy or lease, but they figured they weren't going to find the type of space they needed to attract engineers and compete with Manhattan and Silicon Valley," Coughlan said. "Payroll is 70 percent of their expenses and the cost of space isn't anywhere near that. They figured they could improve the value of that 70 percent of expense, and spend a little more on the much smaller line item on their income statement. Companies that value the quality of their employees are going to invest in quality space."

When looking for new areas to develop, Coughlan said he looks at four factors. One is blight – "We need there to be a considerable amount of properties available to buy," he said. Parking – whether existing or developable – is another factor, as are sewers, which are particularly a challenge in Suffolk County.

"The most important factor is the political will of the area," Coughlan said. "You can't fight City Hall and hope to get something done. You have to go where they say, 'We want your investment.'"

It's essential that Long Island's municipalities act now, as millennials look to move out of Manhattan to start families.

"If we can give young people a cool place to live and have more big wins like Dealertrack, we have an opportunity to grab some of them," Whalen said.

Tagged with:

OFFICE

REAL ESTATE

RESIDENTIAL

RETAIL

---

Copyright © 2016 Long Island Business News | 2150 Smithtown Avenue, Suite 7, Ronkonkoma, NY 11779  
a mile south of the Long Island Expressway at exit 60

