

Industrial and Warehouse Analysis

Brookhaven, New York

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Prepared for:
Town of Brookhaven IDA
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1. Introduction

Project Background

The Town of Brookhaven Industrial Development Agency (IDA) has witnessed significant growth in the number of applications for speculative construction of industrial and warehousing space. The IDA sought a study that would examine the market feasibility for these projects and whether the market area might reach a saturation point if all or most of these proposed buildings were to be completed, resulting in adverse impacts including excessive vacancy rates. This analysis is intended to provide the IDA and IDA Board of Directors with information related to the industrial and warehousing sector in the Town and County for future decision making.

Five specific projects requesting assistance from the Town of Brookhaven IDA, totaling over 2 million square feet, are listed below.

Proposed Properties Provided by Brookhaven IDA

Proposed Project	Station Rd Logistics Center	Medford Logistics	WF Industrial XII	WF Industrial XIII	Segme Brookhaven
Location	Bellport	Medford	Yaphank	Medford	Yaphank
Structures	Three Warehousing/Distribution Buildings	Warehouse	Three single story Warehouses	One Warehouse/Distribution Building	3 Warehouse Buildings
Total Footprint	523,111 sf	390,000 sf	550,000 sf	129,000 sf	561,000 sf
Estimated Cost	\$121M	\$121.5M	\$156M	\$34M	\$123.5M

Source: Brookhaven IDA

Methodology

The methodology employed for this analysis included an economic and demographic profile and trend assessment to better understand the key characteristics of the Town of Brookhaven and Suffolk County that may impact the market for industrial and warehousing space. This data was collected from a variety of sources, including Esri, Lightcast (formerly Emsi), and the U.S. Census Bureau.

Following the profile assessment, a supply and pipeline assessment was conducted to establish a base for the existing inventory of industrial and warehouse space in the market as well as those under construction and proposed. The inventory and pipeline information was compared to the local and regional industrial and warehouse market vacancy and occupancy trends, lease rates, deliveries, and net absorption. The primary data for this analysis is CoStar, a leading provider of commercial and industrial real estate data, along with information gained from the IDA regarding applicants for assistance related to warehousing and industrial projects.

In addition to the data analysis, interviews were conducted with individuals in the region with knowledge of the industrial and warehouse market, including economic development professionals, brokers, and developers.

Finally, an analysis was conducted on a variety of supply and demand scenarios to estimate the impact on the region's vacancy rate and whether additional space is likely to saturate the market.

Key Findings

Overall, this analysis finds that caution is warranted regarding Brookhaven's warehousing and distribution sector. Evidence suggests that the recent demand surge may not be sustained into the future and that there is a probable risk of the local and regional market being overbuilt should speculative construction continue. Specific key findings include:

- **Demand throughout the region has, on balance, proven exceptional over the past two to three years.** The pandemic saw a surge in demand from on-line retailers while brick and mortar retailers also ramped up their on-line presence and same-day delivery systems. This all helped fuel a rapid increase in demand for industrial space overall.
- **The market has responded in kind such that the warehouse and distribution pipeline stands at unprecedented levels.** There is over 9 million square feet of warehouse and distribution center projects in the pipeline for Suffolk County alone.
- **Vacancy rates are currently extremely low suggesting near-term potential to capture additional demand.** A surge in demand in 2021 caused vacancies to drop sharply, falling to well below 3.0% for warehouses and a remarkable 0% for distribution centers. The balance between supply and demand is likely at a turning point, however, where the delivery of additional space leads to increasing vacancies and possibly declines in rental rate.
- **While near-term potential exists, interviews with industrial real estate brokers found concerns that the market will become over saturated.** The suggestion is that an ongoing surge in development will result in the region being overbuilt, leaving smaller/less modern facilities vacant.
- **Supply and demand projections suggest that, under probable scenarios, vacancies will rise over the coming five years.** Considering different absorption and production rates, the total market is likely to see vacancy rates increase to a range of 6% to 9%.
- **Under less favorable, but not improbable future market conditions, vacancy rates would exceed 9%.** This scenario envisions a more subdued absorption rates pattern combined with a higher proportion of all projects in the pipeline being completed.
- **Substantial vertical capacity increases for projects in the pipeline suggest that the data may be underestimating the potential adverse impacts of these proposed developments on the market.** While square footage estimates focus on floor space, facilities with higher ceilings will provide greater capacity, further suppressing the need for additional facilities.
- **Risks around market saturation may be limited for new, large-scale projects delivered to market but would likely fall disproportionately on existing facilities.** The Town of Brookhaven has a similar proportion of these smaller/less modern facilities as the overall county, and would see the impacts of rising vacancy rates on par with the broader market.
- **Unstable economic conditions impacting consumer spending will negatively impact the industrial and warehousing sector.** Near term, possible recessionary conditions would reduce demand for goods storage and distribution.

2. Demographic & Economic Profile

Demographic Setting

A demographic profile can provide insights into the community's trends that may impact the demand for various types of residential use types. The following is a summary of the findings:

- Brookhaven, which represents around one third of county wide residents, saw a slight decline in population over the 2010 to 2022 timeframe in contrast to Suffolk County as a whole which witnessed a modest 1.4% increase.
- Projections suggest continued modest declines over the coming five years at both the town and county level – not nearly at the rate seen at the state level, however.
- With declining family sizes, the number households actually rose by over 2% for both the town and county from 2010 to 2022. Levels will then hold essentially unchanged through 2027.
- Median household incomes in the area register well above \$100,000 – more than a third higher than the statewide level which has supported strong retail demand throughout the region.

Demographic Profiles

	Town of Brookhaven	Suffolk County	New York
Population			
2010	485,962	1,493,641	19,378,102
2022	482,354	1,513,891	20,154,573
2027	480,510	1,506,725	19,778,809
Growth			
2010 to 2022	-0.7%	1.4%	4.0%
2022 to 2027	-0.4%	-0.5%	-1.9%
Households			
2010	162,861	500,025	7,317,755
2022	166,530	513,639	7,717,376
2027	166,386	512,589	7,623,810
Growth			
2010 to 2022	2.3%	2.7%	5.5%
2022 to 2027	-0.1%	-0.2%	-1.2%
Median Household Income			
2022	\$108,673	\$113,026	\$79,320
2027	\$121,811	\$129,344	\$95,104
Growth			
2022 to 2027	12.1%	14.4%	19.9%
Retail Spending (\$M)			
2022	\$5,901	\$19,409	\$229,448
2027	\$6,781	\$22,271	\$266,066
Growth			
2022 to 2027	14.9%	14.7%	16.0%

Source: Esri

Commuting Patterns

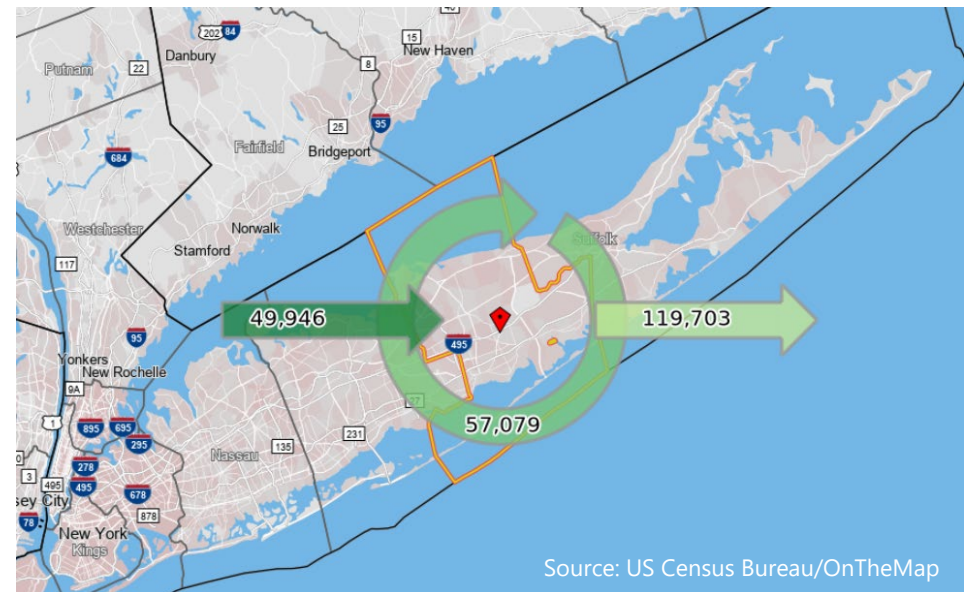
The table and figures to the right highlight the commuting patterns in the Town of Brookhaven.

- Brookhaven is a net exporter of workers, with nearly 120,000 residents leaving each day for work.
- Islip, NY accounts for the largest percent of residents and workers. With 14.5% of Brookhaven residents traveling to Islip for work and 12% of workers in Brookhaven coming from Islip.
- Just over 57,000 people live in and work in Brookhaven each day.

Resident and Worker Commute Origins and Destinations, 2019

Origin/ Destination	Live in Brookhaven-Work in:		Work in Brookhaven -Live in:	
	Number	Share	Number	Share
Brookhaven	57,079	32.3%	57,079	53.3%
Islip	25,689	14.5%	12,894	12.0%
Smithtown	12,114	6.9%	3,987	3.7%
Babylon	6,902	3.9%	2,848	2.7%
Huntington	7,360	4.2%	2,505	2.3%
Queens	5,658	3.2%	3,473	3.2%
Hempstead	6,400	3.6%	2,935	2.7%
All Other				
Locations	55,580	31.4%	21,304	19.9%
Total	176,782	100.0%	107,025	100.0%

Source: US Census Bureau/OnTheMap



Economic Setting

The economic setting provides an overview of the current economic climate in the Town of Brookhaven, including what industries are driving employment and wages.

- The public sector is a major driver of employment in Brookhaven, accounting for three of the top five largest industries and the largest average earnings.
- The top employment sectors are not typical industrial or warehouse utilizing industries.

- Restaurants and Other Eating Places is the second largest industry, accounting for over 13,000 jobs in Brookhaven and the fastest growth in the Town.
- Top growth industries that may need industrial or warehousing space include: Building Equipment Contractors, Pharmaceutical/Medicine Manufacturing, Building Material and Supplies Dealers, Couriers and Express Delivery Services, and Foundation, Structure, and Building Exterior Contractors.

Sectors with Greatest Employment - 2022

Sector	Jobs	Avg. Earnings Per Job
Education and Hospitals (Local Gvt) (9036)	15,104	\$124,125
Restaurants and Other Eating Places (7225)	13,046	\$34,362
Local Government, Excl. Education and Hospitals (9039)	7,927	\$120,427
Residential Intellectual and Developmental Disability, Mental Health, and Substance Abuse Facilities (6232)	5,618	\$53,235
Services to Buildings and Dwellings (5617)	4,323	\$51,867
Federal Government, Civilian (9011)	4,149	\$123,033
Grocery Stores (4451)	4,075	\$41,199
Offices of Physicians (6211)	3,655	\$134,917
Building Equipment Contractors (2382)	3,452	\$87,551
Skilled Nursing Care Facilities (6231)	3,001	\$65,550
General Medical and Surgical Hospitals (6221)	2,991	\$93,705
Home Health Care Services (6216)	2,521	\$49,847
Pharmaceutical/Medicine Manufacturing (3254)	2,258	\$99,323
School and Employee Bus Transportation (4854)	2,205	\$48,036
Residential Building Construction (2361)	2,189	\$66,159
State Government, Excl. Education and Hospitals (9029)	2,057	\$158,448
Other Amusement/Recreation Industries (7139)	2,030	\$40,225
Personal Care Services (8121)	1,918	\$26,534
Offices of Dentists (6212)	1,907	\$71,960
Department Stores (4522)	1,832	\$35,203

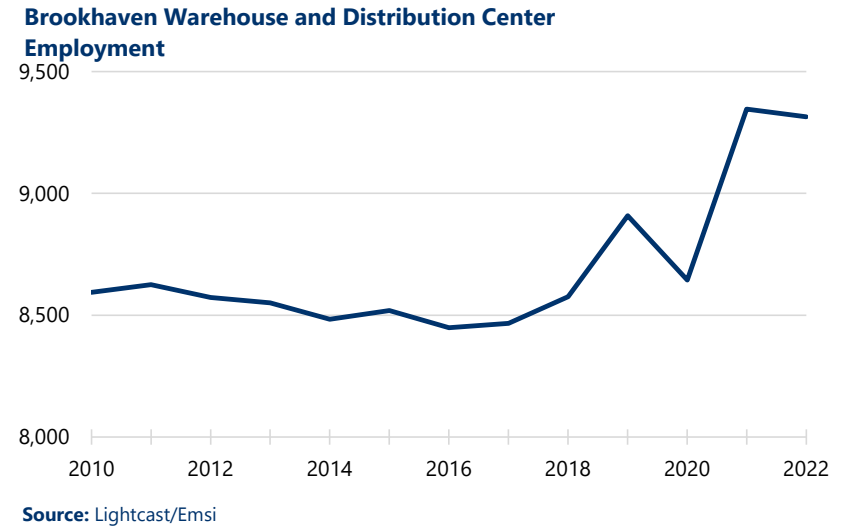
Source: Lightcast/Emsi

Fastest Growing Sectors

Sector	2010 Jobs	2022 Jobs	2010-22 Change	2010-22 Growth	Avg. Earnings Per Job
Restaurants and Other Eating Places (7225)	8,824	13,046	4,223	47.9%	\$34,362
Services to Buildings and Dwellings (5617)	3,242	4,323	1,081	33.3%	\$51,867
Residential Intellectual and Developmental Disability, Mental Health, and Substance Abuse Facilities (6232)	4,614	5,618	1,004	21.8%	\$53,235
Home Health Care Services (6216)	1,649	2,521	872	52.9%	\$49,847
Building Equipment Contractors (2382)	2,717	3,452	734	27.0%	\$87,551
Pharmaceutical/Medicine Manufacturing (3254)	1,585	2,258	673	42.5%	\$99,323
Personal Care Services (8121)	1,326	1,918	592	44.7%	\$26,534
Residential Building Construction (2361)	1,666	2,189	523	31.4%	\$66,159
Offices of Physicians (6211)	3,171	3,655	484	15.3%	\$134,917
Education and Hospitals (State Gvt) (9026)	618	1,099	480	77.7%	\$158,752
Taxi and Limousine Service (4853)	401	856	455	113.3%	\$33,344
Offices of Other Health Practitioners (6213)	981	1,409	428	43.6%	\$65,303
Rail Transportation (4821)	1,308	1,726	417	31.9%	\$106,163
Building Material and Supplies Dealers (4441)	1,259	1,656	397	31.5%	\$50,719
Individual and Family Services (6241)	1,207	1,558	351	29.0%	\$47,669
Offices of Dentists (6212)	1,566	1,907	341	21.8%	\$71,960
Couriers and Express Delivery Services (4921)	280	617	337	120.4%	\$59,465
Foundation, Structure, and Building Exterior Contractors (2381)	1,342	1,640	298	22.2%	\$80,029
Continuing Care Retirement Communities and Assisted Living Facilities for the Elderly (6233)	734	1,023	289	39.3%	\$48,741
Drugs and Druggists' Sundries Merchant Wholesalers (4242)	808	1,087	279	34.6%	\$85,524

Source: Lightcast/Emsi

- Since 2010, occupations associated with the Warehouse and Distribution Center sector have grown by nearly 8.5%, or 721 jobs added during that time. During this time, other employment only grew by 3.4%.
- The largest occupation is Stockers and Order Fillers, followed by Maintenance and Repair Workers, General, and Laborers and Freight, Stock, and Material Movers. The sector experienced a decline between 2019-2020 (possibly impacted by early months of COVID-19) but then a steep increase in 2021 followed by flattening out through 2022.



Warehouse and Distribution Center Employment by Occupation - Town of Brookhaven

Occupation	2010 Jobs	2022 Jobs	2010 to 2022 Change	2010 to 2022 Growth	Median Annual Earnings
Transportation, Storage, and Distribution Managers	85	110	24	28.8%	\$113,279
Production, Planning, and Expediting Clerks	236	792	556	236.0%	\$48,920
Shipping, Receiving, and Inventory Clerks	747	430	-317	-42.5%	\$37,063
Maintenance and Repair Workers, General	1,328	1,870	542	40.8%	\$44,702
First-Line Supervisors of Transportation and Material Moving Workers	376	531	154	41.0%	\$62,549
Heavy and Tractor-Trailer Truck Drivers	981	1,260	279	28.5%	\$56,479
Industrial Truck and Tractor Operators	221	192	-29	-13.0%	\$44,833
Laborers and Freight, Stock, and Material Movers	1,524	1,448	-76	-5.0%	\$34,036
Packers and Packagers, Hand	589	289	-300	-50.9%	\$32,605
Stocker and Order Fillers	2,507	2,394	-113	-4.5%	\$30,534
Total Warehouse and Distribution Jobs	8,594	9,315	721	8.4%	\$42,453

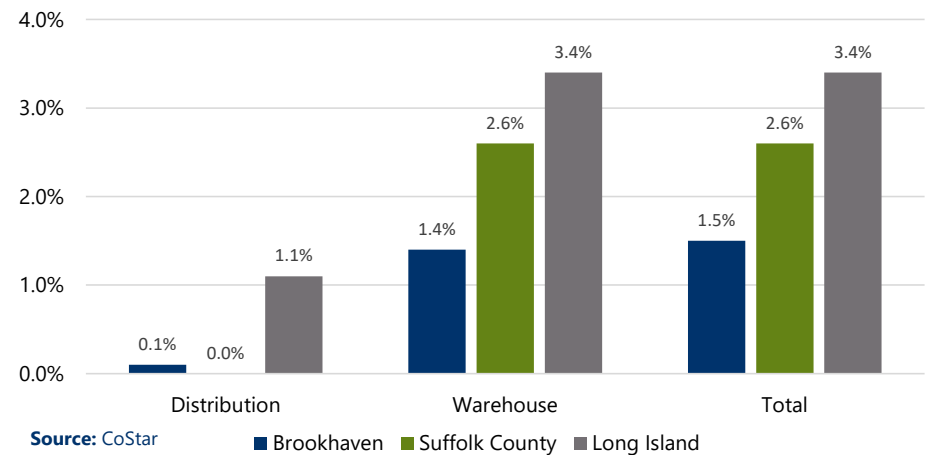
Source: Lightcast/Emsi

Industrial and Warehouse Space Market Profile

Using data from CoStar, the following details the current industrial and warehouse space in Brookhaven, Suffolk County, and Long Island.

- Warehouse and distribution facilities in Brookhaven represent just over 10% of the total inventory of Suffolk County.
- The number of distribution centers in Brookhaven register less than 10% of the number of warehouses but in terms of square footage, distribution centers account for more than 20% of the total area found in warehouses. This comes as a result of having a significantly larger average area – over 42,000 square feet for distribution centers as compared to under 20,000 square feet for warehouses.
- Demand throughout the region has, on balance, proven exceptional over the past two to three years. The pandemic saw a surge in demand from on-line retailers while brick and mortar retailers also ramped up their on-line presence. This all helped fuel a rapid increase in demand for industrial space overall.
- The growth of same-day and last mile delivery further drove the need for goods to be held nearby dense population areas.
- Although quite volatile on a year-to-year basis, healthy overall absorption along with limited new deliveries has driven vacancies down to the low single digits.

Industrial Vacancy Rates - 2021



Industrial Inventory and Occupancy - 2021

	Number of Buildings	Inventory (Area in SF)	Vacant (Area in SF)	Vacancy Rate
Town of Brookhaven				
Distribution	34	1,436,128	1,720	0.1%
Warehouse	358	6,871,802	95,191	1.4%
Other Industrial	196	4,046,921	85,130	2.1%
Total	588	12,354,851	182,041	1.5%
Suffolk County				
Distribution	133	5,075,285	1,720	0.0%
Warehouse	3,255	77,471,103	2,001,394	2.6%
Other Industrial	1,185	26,725,759	862,672	3.2%
Total	4,573	109,272,147	2,865,786	2.6%
Long Island (Suffolk and Nassau Counties)				
Distribution	180	7,368,194	78,802	1.1%
Warehouse	5,051	114,803,777	3,901,141	3.4%
Other Industrial	1,759	38,302,653	1,544,579	4.0%
Total	6,990	160,474,624	5,524,522	3.4%

Source: CoStar

- Thanks to newer building technologies, industrial building construction has seen ceiling heights rise considerably. This is especially helpful to tenants who move large volumes of goods. More than twice the amount of storage can now be provided in a facility that reaches 40 feet as compared to legacy buildings measuring 20 feet or less on the same building footprint – or development acreage.
- These very large facilities allow tenants to consolidate from multiple locations throughout their market area, smoothing logistics considerably. This can have the impact of increasing square foot vacancy while not decreasing overall industry activity.
- One of the upshots of these new higher facilities is that some tenants and brokers have begun focusing on volume of space and not square footage. Rents approaching \$20/sf may seem extraordinary compared to locations where rates run \$10 to \$13, but in part this is due to greater effective storage per square foot.
- CoStar data shows just under 400 warehouses and distribution centers but only a handful of newer facilities

include ceiling heights of 30 feet or higher. But for those projects in the pipeline, the majority plan to build to this height. The intention is to cater to those tenants needing 100,000 sf or more. Buildings with lower ceiling clearance may find it more difficult to find tenants.

- Projects are generally considered in terms of floor square footage, but higher ceilings mean more can be stored in a smaller footprint. This may result in higher vacancy rates.

Brookhaven - Number of Warehouse and Distribution Facilities by Ceiling Height

Ceiling Height	Existing Warehouse	Existing Distribution	Proposed Distribution
19' or less	296	28	0
20' to 29'	57	6	1
30' to 39'	5	0	3
40' or higher	0	0	1
Total	358	34	5

Note: CoStar identifies 6 additional proposed projects with unknown ceiling height.

Source: CoStar

Industrial and Warehouse Planning Pipeline

The following details the proposed industrial and warehouse developments that are in the planning pipeline, either proposed or under construction. The larger market area is considered in this analysis because of the nature of the industry and the larger distribution networks that impact the industrial and warehousing sector. It is important to understand that properties within the Town of Brookhaven operate in context of this broader regional market.

- Delivery of goods to locations in Brooklyn and Queens are increasingly being serviced by storage in Suffolk County. Land is scarce closer to New York City, including in neighboring Nassau County, and therefore industrial and warehousing development has become overwhelmingly centered in Suffolk County.
- The CoStar real estate information service identifies over 650,000 sf of non-manufacturing industrial development currently under construction in Long Island - all of which is found in Suffolk County.
- There are an additional 8.4 million square feet of new development that has been proposed or is in final planning – again, overwhelmingly located in Suffolk County. This is based on CoStar data combined with information provided by the Brookhaven IDA.

- While Nassau County accounts for around one-third of all existing industrial space in the Long Island market, virtually all of newly planned facilities are found in Suffolk County. Information gained from interviews suggests this is because of a shortage of available space and higher land costs closer to New York City.

Industrial Projects Planned and Under Construction - Area in SF

	Proposed/Final Planning	Under Construction	Total
Suffolk County			
Distribution	2,234,242	15,000	2,249,242
Warehouse	5,881,886	642,870	6,524,756
Total	8,116,128	657,870	8,773,998
Nassau County			
Distribution	0	0	0
Warehouse	347,880	0	347,880
Total	347,880	0	347,880
Long Island			
Distribution	2,234,242	15,000	2,249,242
Warehouse	6,229,766	642,870	6,872,636
Total	8,464,008	657,870	9,121,878

Source: CoStar/Brookhaven IDA

The following tables provide more context to the pipeline of industrial projects in Suffolk County and Nassau County.

- The number of pipeline industrial projects is significantly larger in Suffolk County compared to Nassau County. With 38 projects found in Suffolk County based on the CoStar data and augmented with information from Brookhaven IDA. Meanwhile, there are only seven in Nassau County.
- A shortage of available sites suitable for building is in large part the cause of the modest number of projects under consideration in Nassau County. Note that several of those in the works are in fact conversions from other uses.
- The five major developments under review by the Brookhaven IDA are highlighted in blue on the table to the right. The combined square footage of these five alone totals over 2.1 msf.
- Likely other projects have not yet made their way into the CoStar planning pipeline dataset or Brookhaven IDA. As such, aggregate measures of potential supply represent a conservative or minimum of the volume of new projects under consideration.

Pipeline of Industrial Project - Nassau County

Structure Type	Status	Square Footage	Rent/SF/Yr*	City	Year of Completion	Ceiling Height
Distribution	Conversion	16,600	ND	New Hyde Park	1951	
Warehouse	Conversion	46,000	ND	Long Beach	1978	18'0"
Warehouse	Conversion	9,700	ND	Hempstead	1956	14'0"
Warehouse	Proposed	101,930	ND	Garden City	2023	32'0"
Warehouse	Proposed	50,750	\$21.00	New Hyde Park		18'0"
Warehouse	Proposed	50,000	ND	New Hyde Park	2023	22'0"
Unknown	Proposed	145,200	ND	Woodbury		36'0"

*Note: ND = Not Disclosed
Source: CoStar

Pipeline of Industrial Project - Suffolk County

Suffolk County						
Structure Type	Status	Square Footage	Rent/SF/Yr*	City	Year of Completion	Ceiling Height
Warehouse	Proposed	2,500,000	ND	Yaphank		
Distribution	Proposed	650,000	ND	Calverton		
Unknown	Proposed	650,000	ND	Yaphank		
Warehouse	Proposed	561,000	ND	Yaphank		
Distribution	Proposed	549,942	\$20.00	Yaphank	2024	36'0"
Distribution	Proposed	523,111	ND	North Bellport		
Unknown	Proposed	399,696	ND	Melville	2023	40'0"
Warehouse	Proposed	390,000	ND	Medford		
Warehouse	Proposed	300,000	ND	Riverhead		
Distribution	Proposed	250,000	ND	Shirley	2023	40'0"
Unknown	Under Const	178,134	\$9.65-11.80	Commack	2023	36'0"
Warehouse	Under Const	172,622	\$8.84-10.81	Bay Shore	2023	36'0"
Unknown	Final Planning	160,000	ND	Edgewood	2023	
Distribution	Proposed	150,000	ND	Shirley	2023	36'0"
Distribution	Proposed	129,242	\$20.00	Medford	2023	36'0"
Unknown	Proposed	123,970	ND	Hauppauge		36'0"
Warehouse	Proposed	121,800	ND	Holbrook	2023	30'0"
Unknown	Proposed	121,270	ND	Bohemia	2023	36'0"
Unknown	Proposed	120,000	ND	Medford		
Unknown	Under Const	112,494	\$9.20-11.24	Bohemia	2023	
Warehouse	Under Const	100,483	16.07	Westhampton Beach	2022	22'0"
Warehouse	Proposed	100,000	\$20.00	Farmingdale	2023	
Unknown	Proposed	100,000	ND	Shirley		
Warehouse	Proposed	80,000	ND	Cutchogue		
Distribution	Proposed	78,400	ND	Shirley		
Unknown	Under Const	40,000	\$10.75-13.14	Islip	2023	
Unknown	Proposed	32,000	ND	East Setauket		
Unknown	Proposed	30,000	ND	Nesconset		
Warehouse	Under Const	22,345	\$32.00	Southampton	2023	34'0"
Unknown	Proposed	20,000	ND	Cutchogue	2024	
Warehouse	Proposed	18,000	ND	Ronkonkoma		
Unknown	Under Const	16,792	\$8.78-10.73	Holbrook	2022	
Distribution	Under Const	15,000		Yaphank		
Unknown	Proposed	13,000	ND	Bayport		16'0"
Unknown	Proposed	12,500	ND	Medford		27'0"
Unknown	Proposed	12,000	ND	Cutchogue		
Unknown	Proposed	11,450	ND	Holbrook		24'0"
Warehouse	Converted	10,000	ND	Babylon		
Unknown	Proposed	5,200	ND	Saint James		

*Notes: ND = Not Disclosed / Projects highlighted in Blue Included in Brookhaven Application Listing
Source: CoStar/Brookhaven IDA

The table below provides additional detail on the five major projects under review by the Brookhaven IDA. This information has been collected from their applications.

- The five major proposed projects sum to well over 2 million square feet, spread over a total of 205 acres.
- Total cost of the five proposals has initially been estimated at \$556 million.
- Estimated employment for these facilities combined measures 566 full time and part time positions.

Proposed Properties Provided by Brookhaven IDA

Proposed Project	Station Rd Logistics Center	Medford Logistics	WF Industrial XII	WF Industrial XIII	Segme Brookhaven
Developer	AIREF Station Road Logistics Center LLC	Medford Logistics LLC	Wildflower Ltd	Wildflower Ltd	2020 Acquisitions
Location	Station Rd & Sunrise Hwy, Bellport	440 Express Drive South, Medford	North Service Road, Yaphank	645 National Blvd, Medford	Horseblock Road, Yaphank
Structures	Three Warehousing/ Distribution Buildings	Warehouse	Three single story Warehouses	One Warehouse/ Distribution Building	3 Warehouse Buildings
Property Area	53 acres	30 acres	71 acres	10 acres	41 acres
Total Footprint	523,111 sf	390,000 sf	550,000 sf	129,000 sf	561,000 sf
Estimated Cost	\$121M	\$121.5M	\$156M	\$34M	\$123.5M
Anticipated Employment	130 FTE	35-50 FTE	170 FT/21PT	40 FT/5 PT	100 FT/50 PT

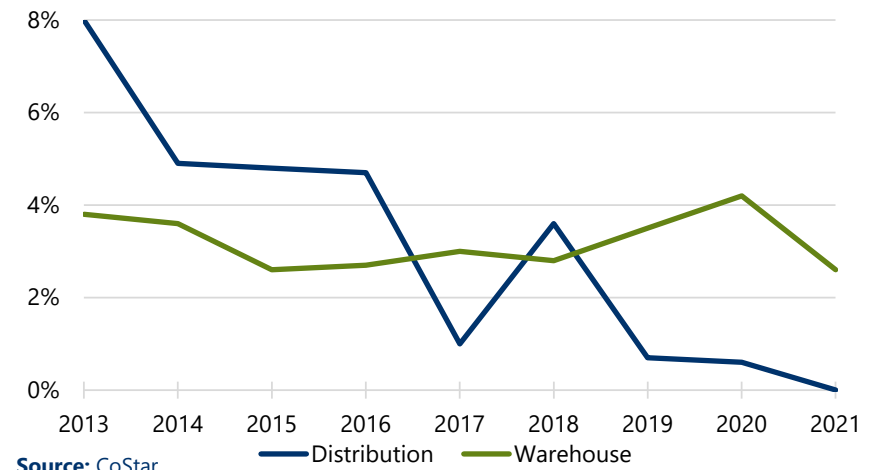
Source: Brookhaven IDA

Warehouse and Distribution Center Market Trends

The chart to the right and the table below provide trend data available from Costar for key market indicators for the warehouse and distribution center sector.

- The total inventory of warehouse and distribution space in Suffolk County measures over 82 million square feet, with the vast majority falling under warehouse. Distribution centers make up a modest 6% total space.
- Net absorption has been volatile, as 2019 saw a decline in overall demand for this type of space followed by 2020 which brought on a sharp reduction in demand with occupancy declining over 800,000 sf (negative absorption). This brought only a slight rise in vacancies, however, as rates rose to 4.0% for the overall market

Warehouse and Distribution Vacancies - Suffolk County



Warehouse and Distribution Center Market Dynamics - Suffolk County

	2016	2017	2018	2019	2020	2021
Distribution Centers						
Inventory (sf)	5,521,670	5,530,011	5,477,711	5,477,711	5,064,155	5,075,285
Vacancy Rate	4.7%	1.0%	3.6%	0.7%	0.6%	0.0%
Total Net Absorption (sf)	9,150	203,050	-194,415	161,365	-409,606	42,210
Average Rental Rate	\$9.11	\$10.50	\$10.75	\$11.44	\$9.92	\$13.50
Warehouse						
Inventory (sf)	77,194,680	77,298,765	77,300,987	77,377,840	77,504,103	77,471,103
Vacancy Rate	2.7%	3.0%	2.8%	3.5%	4.2%	2.6%
Total Net Absorption (sf)	-41,870	-153,907	442,675	-298,158	-425,958	1,208,692
Average Rental Rate	\$9.47	\$9.62	\$10.43	\$11.17	\$12.94	\$12.85
Total Warehouse & Distribution						
Inventory (sf)	82,716,350	82,828,776	82,778,698	82,855,551	82,568,258	82,546,388
Vacancy Rate	2.8%	2.9%	2.8%	3.3%	4.0%	2.4%
Total Net Absorption (sf)	-32,720	49,143	248,260	-136,793	-835,564	1,250,902
Average Rental Rate	\$9.43	\$9.68	\$10.44	\$11.18	\$12.90	\$12.85

Source: CoStar

- A surge in demand in 2021 caused vacancies to drop sharply, falling well below 3.0% for warehouses and a remarkable 0% for distribution centers.
- Tightness in the market has also driven up rents. The average rental rate for warehouse space stands 36% above its level five years ago, while distribution center rates jumped nearly 50%.

Differentiation by size class

The table to the right breaks up the key market indicators by building size, looking at facilities smaller than 100,000 square feet, and those greater than or equal to 100,000 square feet.

- Tenants of warehouse and distribution space have made a clear shift in preference towards larger facilities. Over the 2016 to 2021 timeframe, net demand for buildings of less than 100,000 sf has declined by nearly 100,000 sf while absorption of structures of 100,000 sf or greater has jumped by 675,000 sf.
- Smaller structures saw a slight increase in inventory along with more substantial negative absorption over the past five years, resulting in a slight uptick in vacancies from 2.2% to 2.7%. This stands in stark contrast to the experience of those structures with larger footprints, where net removals outpaced new construction, bringing an overall decline in warehouse and distribution inventory over the 2016 to 2021 timeframe. Meanwhile, demand for facilities over 100,000 sf rose sharply, driving vacancy rates for this sub-market down from 4.3% to 1.7% by the end of last year – a 2.6% reduction.

- This preference towards larger facilities was also reflected in rental pricing. While the total market saw a healthy 36.3% increase from 2016 to 2021, rents for those facilities greater than 100,000 sf climbed by impressive 43.7%.

Suffolk County Warehouse and Distribution Market Dynamics by Size Class - 2016 to 2021

	SF<100k	SF>=100k	Total Mkt
Inventory in Square Feet			
2016	59,351,833	23,364,517	82,716,350
2021	59,363,427	23,182,961	82,546,388
5 Yr Change	11,594	-181,556	-169,962
Total Absorption			
5 Year Total	-99,812	675,760	575,948
Vacancy Rate			
2016	2.2%	4.3%	2.8%
2021	2.7%	1.7%	2.4%
5 Yr Change	0.5%	-2.6%	-0.4%
Rental Rates			
2016	\$9.99	\$7.99	\$9.43
2021	\$13.39	\$11.48	\$12.85
5 Yr Change	34.0%	43.7%	36.3%

Source: CoStar

Market Development and Absorption Scenarios

Estimating future demand for the warehousing and distribution center market is challenging in the most stable of times, but recent years have highlighted how many factors are at play that impact the market. Confronted with fluctuating absorption patterns and 8.8 million square feet of warehouse and distribution center projects in the planning pipeline for Suffolk County, the Brookhaven IDA raises an important question about the future of this sector in its town and community.

To better understand risks associated with potential overbuilding, projections of supply and demand growth under multiple scenarios were constructed. These provide estimates of market vacancies looking five years out based on alternative patterns of absorption and new construction activity.

The estimates provided by Costar (for both supply and demand growth) are considered as the base case scenario for this analysis. The CoStar projections, however, appear to underestimate overall market risks when considering i) the abundance of projects identified in the planning pipeline and, ii) insights and expectations offered by brokers who maintain a close watch on local conditions. The alternative scenarios presented, we believe, represent more probable future conditions.

Demand

Two potential patterns of demand growth are considered for this analysis:

- CoStar absorption projections: Expected absorption rate are fairly strong for distribution centers and warehouses.

- Historically based absorption projections: Looks back to the six years prior to 2020 to identify average annual rates of absorption. This level is projected out through the year 2027.

Supply

Likely, not all pipeline projects will advance to completion. Should conditions becoming less favorable to newly opened properties due to slowed leasing activity or increased costs of financing, some developers may not move forward.

Three scenarios are envisioned for the outlook of new warehouse and distribution center development coming to the Suffolk County market:

- CoStar’s base line level of development: Under this set of assumptions inventory over the coming five year grows at a modest pace, not necessarily taking into account the current pipeline of projects in planning.
- 50% of the pipeline is built: Assumes that 50% of the current project pipeline is actually built, evenly distributed over the next five years.
- 80% of the pipeline is built: Assumes that 80% of the current project pipeline is actually built, evenly distributed over the next five years.

Both the CoStar and Historic Absorption patterns were combined with each of the three inventory/supply growth patterns to produce six scenarios for consideration. The implications of these different combinations are displayed below.

Vacancy Rate Projections by 2027 Under Alternative Construction and Absorption Scenarios - Suffolk County

	Inventory Pattern		
	CoStar	50% Pipeline	80% Pipeline
CoStar Absorption	3.4%	6.2%	8.9%
Historic Absorption	3.8%	6.7%	9.4%

Source: Camoin Associates

Under the more conservative scenario, where the CoStar projections for absorption come to fruition and supply growth equals to only half of the currently planned developments, vacancies would be expected to rise to 6.2% by 2027. Slightly more modest absorption and/or stronger development activity, however, show the potential for notably higher vacancy rates.

Considering the scenario of more modest, historic absorption patterns going forward, combined with a full 80% of the projects in the pipeline being built, the outlook for resulting vacancy rates register on the order of 9.4%. This stands as the most overbuilt outcome among the scenarios modeled for this analysis.

For the Town of Brookhaven, in the event that all five of the projects that have come before the Town of Brookhaven IDA are built, the

effects of increased vacancies would fall primarily on the owners of older properties in the Town.

Developers of the newest, most modern facilities are confident in their prospects for leasing out any recently constructed space. By extension, the market segment experiencing the greatest impact of increased vacancy rates will be those smaller, less modern Class B and C spaces. Currently, the proportion of these properties in Brookhaven roughly mirrors that of the larger Suffolk County. As such, those warehouse owners within the town would be equally likely as those beyond Brookhaven to bare the downside of any overbuilding.

Further Considerations and Conclusions

Additional factors outside of this analysis continue to be at play when considering the overall warehouse and distribution center market in and around Brookhaven.

Foremost is that the planning pipeline figures used in the projections above for the growth in supply may well represent a conservative estimate of the level of planning actually taking place. Several projects, including two currently under review by the Brookhaven IDA were, in fact, not found in the CoStar data, though the square footage of these additional projects was added to the total in estimating future inventory. Likewise, a handful of projects found in the CoStar data were new to the IDA. There always remains a chance that additional projects will be introduced and, if recent history is a guide, some of these could be of significant scale.

To the extent that the amount of newly developed industrial space significantly exceeds the levels included in this report's analysis, there exists significant downside risk to the overall market. This could be due to a greater share of those projects identified in this study coming to completion or from the development of yet unknown properties not currently found in the pipeline.

Recently, the Long Island based *Newsday* published a listing of 25 warehouse project they had identified in various stages of planning for both Nassau and Suffolk Counties totaling 10 msf – well beyond the 9.1 msf seen in the combined CoStar/Brookhaven IDA data. While the *Newsday* listings have not been vetted for use in this study, the implications of a planning pipeline that surpasses the levels projected in this report are plain. If only half of projects presented in the *Newsday*

article are developed, vacancies could easily exceed 7% - even under the more favorable absorption scenario used in this analysis. Building 80% of *Newsday*'s 10 msf could push industrial vacancies to rates upwards of 10%.

And, indeed, new projects do continue to come forward including developer September Morning's recently proposed 78,000 sf distribution center in Shirley. This is one specific example which just lately came to the attention of the Brookhaven IDA and it illustrates the point that there may be notably more developments in the offing beyond the level used in this report's vacancy projections.

Additional considerations which may affect overall market dynamics include:

- Changing consumer spending habits due to inflation and/or recession may reduce demand for goods storage and distribution (reducing demand).
- Natural demolition of buildings continues as they exceed their useful lives. Alternatively, some may also see conversion to other uses such as residential (reducing supply).
- Recent interest rate increases could change the prospects of some proposed projects sufficiently such that they are no longer financially feasible, reducing the number of projects that move from pipeline to the construction phase (reducing supply).
- Demand by consumers and businesses in New York City for delivery of goods may grow to such a level as to warrant development as far as Suffolk County to meet their needs (increasing demand).
- Continued innovations in distribution technology that shifts from a focus on floor space square footage to consideration of cubic space (higher ceilings, smaller footprint) (increasing measured supply on a volume basis).

Overall, this analysis finds that caution is warranted regarding Brookhaven's warehousing and distribution sector. Evidence suggests that the recent demand surge may not be sustained into the future and that there is a probable risk of the local and regional market being overbuilt should speculative construction continue. Specific key findings include:

- Demand throughout the region has, on balance, proven exceptional over the past two to three years. The pandemic saw a surge in demand from on-line retailers while brick-and-mortar retailers also ramped up their on-line presence and same-day delivery systems. This all helped fuel a rapid increase in demand for industrial space overall.
 - The market has responded in kind such that the warehouse and distribution pipeline stands at unprecedented levels. There is over 9 million square feet of warehouse and distribution center projects in the pipeline for Suffolk County alone.
 - Vacancy rates are currently extremely low suggesting near-term potential to capture additional demand. A surge in demand in 2021 caused vacancies to drop sharply, falling to well below 3.0% for warehouses and a remarkable 0% for distribution centers. The balance between supply and demand is likely at a turning point, however, where the delivery of additional space leads to increasing vacancies and possibly declines in rental rate.
 - While near-term potential exists, interviews with industrial real estate brokers found concerns that the market will become over saturated. The suggestion is that an ongoing surge in development will result in the region being overbuilt, leaving smaller/less modern facilities vacant.
- Supply and demand projections suggest that, under probable scenarios, vacancies will rise over the coming five years. Considering different absorption and production rates, the total market is likely to see vacancy rates increase to a range of 6% to 9% by 2027.
 - Under less favorable, but not improbable future market conditions, vacancy rates would exceed 9%. This scenario envisions a more subdued absorption rates pattern combined with a higher proportion of all projects in the pipeline being completed.
 - Substantial vertical capacity increases for projects in the pipeline suggest that the data may be underestimating the potential adverse impacts of these proposed developments on the market. While square footage estimates focus on floor space, facilities with higher ceilings will provide greater capacity, further suppressing the need for additional facilities.
 - Risks around market saturation may be limited for new, large-scale projects delivered to market but would likely fall disproportionately on existing facilities. The Town of Brookhaven has a similar proportion of these smaller/less-modern facilities as the overall county, and would see the impacts of rising vacancy rates on par with the broader market.
 - Unstable economic conditions impacting consumer spending will negatively impact the industrial and warehousing sector. Near term, possible recessionary conditions would reduce demand for goods storage and distribution.