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REMAKING RETAIL

LI RETAIL PROPERTIES REMAIN RESILIENT; BUT E-COMMERCE IS FORCING EVOLUTION

» PAGE 4

HEALTHCARE

NYU LANGONE SERVING SNOWBIRDS IN FLORIDA CLINIC

» 39

FINANCE

CANNABIS SPAWNING ENTIRE RANGE OF NEW INDUSTRIES

» 8

REAL ESTATE

WILL ISLIP'S OK OF HEARTLAND BRING RESULTS?

» 7

COVERSTORY

APOCALYPSE NOT

LI RETAIL PROPERTIES REMAIN RESILIENT; BUT E-COMMERCE IS FORCING EVOLUTION

Photos by Judy Walker

RON KOENIGSBERG: 'Landlords are becoming highly selective in the types of tenants they allow to occupy their centers, favoring more service-oriented businesses.'

By DAVID WINZELBERG

With so many brick-and-mortar retailers on the ropes, prognosticators are predicting the end of the shopping center as we know it.

But while some retrenching might be in order, it's likely most retail properties on Long Island won't go the way of the drive-in movie, though big changes are certainly in store.

Real estate experts are now saying that as much as 25 percent of malls and shopping centers in the U.S. will close within the next decade, as department stores and other retailers fall victim to the growth of online shopping. However, it's important to note that retail performance on Long Island doesn't mirror what's going on in Kansas, Ohio, or most other places in the country.

For instance, Long Island's retail vacancy rate of 3.6 percent in the second quarter of 2017 is well below the national average retail vacancy rate of 9.6 percent.

Still, Long Island, like the rest of the country, is experiencing a major shift in retail tenants due to the increasing popularity of online shopping. Though e-commerce accounted for just 8.5 percent of the $1.25 trillion in total retail sales in Q1 2017, according to the U.S. Census Bureau, internet retail sales continue to grow and are expected to reach $523 billion in the U.S. within the next three years.

As a result, retail spaces once occupied by businesses that sold clothing, electronics and other items readily available online are being leased to fitness centers, walk-in medical clinics, restaurants and entertainment venues.

"Long Island is outperforming the national average in regards to occupancy rates and the retail sector should continue to prosper as long as it continues to adapt," says commercial real estate broker Ron Koenigsberg, a principal of Garden City-based American Investment Properties. "Strip centers here are adapting to this new phenomenon by changing their tenant mix. Landlords are becoming highly selective in the types of tenants they allow to occupy their centers, favoring more service-oriented businesses."

> 'THE PACE OF CHANGE IS FAST. IF YOU DON'T KEEP UP YOU WILL BE A DINOSAUR.'

While traditional mall anchors such as Macy's, J.C. Penney and Sears announce widespread store closings, landlords are scrambling to fill or redevelop the vacant spaces left behind. In some areas, the loss of a major anchor can spell doom for the rest of a shopping center's tenants, as foot traffic wanes.

ROOSEVELT FIELD: Mall retailers like Neiman Marcus are integrating technologies that make perusal of online inventory a part of the brick-and-mortar experience.

But demand is still strong for prime retail space here, and as long as retail property owners can re-package their bigger boxes, most of the Island's shopping centers should be able to survive.

"The internet is changing the way retailers do business. It's weeding out the weak," said Joshua Weinkranz, president of the Northeast region for New Hyde Park-based Kimco Realty. "The pace of change is fast. If you don't keep up you

SUNSET PLAZA: Prime centers like this fully occupied 187,000-square-foot property in North Babylon, which sold for $63 million in Oct. 2015, are still in high demand.

will be a dinosaur."

Though fear about the state of brick-and-mortar retail has prompted Kimco's stock to fall nearly 25 percent in the first half of 2017, Weinkranz remains confident in the future of the real estate investment trust's properties.

"I don't believe in retail Armageddon," Weinkranz said. "We have more than 3.3 million square feet in 35 properties in Nassau and Suffolk counties. Our shopping centers are not emptying out. We've signed a significant amount of leases in the Northeast in the last three months."

As a way to adapt to the changing retail landscape, Weinkranz said Kimco is exploring redevelopment of some of its retail space, including building multifamily housing at a couple of its properties.

"We have to look at ways to diversify our income base with more mixed-use product," he said. "We're looking where we can to add residential to retail sites. Flexibility is critical. Whether it's retail or office, you have to be flexible in what you do."

And while the values of retail properties here remain strong, return on investment, like in other commercial real estate sectors, continues to retreat.

"There is a lack of inventory in the Long Island market which is keeping prices high and cap rates low," Koenigsberg said. "Cap rates in 2017 are averaging about 6 percent compared to 6.38 percent in 2016. Overall, Long Island shopping center values are increasing, but they are doing so at a slower pace than in previous years."

The values and performance of Long Island's retail properties vary greatly, and are dependent on several factors. While power centers and malls here boast vacancy rates below 4 percent, neighborhood strip centers have struggled with a vacancy rate of more than 6 percent.

"There's always been a divide between the haves and the have-nots as far as location," says Mark Kaplan, a principal and COO of Jericho-based Ripco Real Estate. "Today, with the expansion of e-commerce, the gap has widened. When you talk about values on Long Island, the premier centers and shopping corridors are still strong. But the less desirable, based on location, ease of access and tenant mix, those centers are losing value because they're struggling to attract tenants."

Retail broker Jayson Siano, principal of Sabre Real Estate Group, says retailers need to pivot and utilize "omni-channel" merchandising.

"We have a lot of activity," Siano said. "Fitness, restaurants, hospitals, medical, it's an exciting time for the right tenants."

But Siano acknowledges there are fewer national retail tenants aggressively looking for space here than there have been in recent years.

"It's not a deep bench," he said.

Ironically, some of retail real estate's future tenants may actually be coming from its e-commerce nemeses.

"You're seeing it with Amazon, Warby Parker and Bonobos, which are all opening brick-and-mortar locations," Kaplan said. "They are embracing the omni-channel business model. Every retailer needs to be on the internet and every internet retailer needs to have a brick-and-mortar presence. And the smart ones are figuring out the right mix."

To enhance their instant gratification advantage over its internet rivals, Sears is partnering with a truck-sharing app called Truxx to provide customers a same-day delivery service for large-item purchases from the convenience of their smartphone or browser.

"With today's hectic lifestyles, you're selling time," said David Orwasher of Breslin Realty Development Group.

Orwasher added that expenses and costs for retailers are getting prohibitive, which opens the door for internet shopping and hastens the addition of mixed-use components to retail properties.

"The days of strictly shopping center development is going to be increasingly harder to make profitable," he said. "It's not life or death. It's evolution. It's time for a new suit of clothes."

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LONG ISLAND RETAIL SUBMARKET STATISTICS (MID-YEAR 2017)

	VACANCY RATE	YTD ABSORPTION (SF)	QUOTED RATES (PER SF)
EASTERN NASSAU	3.1%	-25,603	$28.50
CENTRAL NASSAU	6.6%	+31,134	$32.58
NORTHERN NASSAU	3.5%	-5,365	$33.41
SOUTHERN NASSAU	4.8%	+60,063	$22.78
SOUTHEAST NASSAU	4.3%	-8,562	$17.23
WESTERN NASSAU	2.4%	+27,495	$45.72
EASTERN SUFFOLK	3.5%	+13,368	$32.97
CENTRAL SUFFOLK	3.1%	-11,900	$23.92
SOUTHWESTERN SUFFOLK	6%	-135,463	$18.07
WESTERN SUFFOLK	4.5%	-187,398	$25.62

SOURCE: COSTAR

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