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Developers Confront Less Demand for New York City Industrial Space

Spec construction of warehouses – and soundstages – ramped up during and after the pandemic. Now what?

BY [REBECCA BAIRD-REMBA](#) FEBRUARY 13, 2024 10:00 AM



2505 BRUCKNER BOULEVARD.

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Industrial leasing has started to slow in New York City as e-commerce retailers pull back from their full-court press to find more distribution spaces in the region. It may spell trouble for developers building pricey spec warehouse space in the outer boroughs. More recent arrivals in the studio space might face the same challenges.

As for industrial space, New York City suffered even more than its neighbors in the Northeast, with fourth-quarter industrial leasing in the city hitting a new low of 235,000 square feet in the final quarter of 2023, according to the latest [CBRE \(CBRE\)](#) market report. That figure was 55 percent lower than the previous quarter's leasing total and 71 percent lower than the quarterly average for the past two years. The average industrial lease also shrunk to just 7,000 square feet in the fourth quarter, a 25 percent reduction from the third quarter and 60 percent lower than the two-year average.

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CBRE's researchers blamed the slowdown on economic uncertainty and high interest rates, though the broader pullback in the tech industry is certainly related too, particularly for companies like Amazon. Pandemic-era industrial leasing across the five boroughs peaked in the fourth quarter of 2022, with more than 1.5 million square feet of deals, and began to cool in 2023.

Employment numbers in the industrial sector also dragged a bit, with warehouse and factory employers slashing about 7,500 workers last quarter, or 1.2 percent of the sector's workforce in the city. Most of that loss came from logistics and fulfillment companies, which shed about 7,100 jobs. Compared to the fourth quarter of 2022, the city has lost about 14,500 industrial jobs, contracting 2.3 percent.

All told, there's about 4.7 million square feet of industrial space under construction in the city, according to CBRE, and much of it is set to deliver in 2024.

"I think we reached the peak of pricing for the warehouses or industrial land to build warehouses in early 2022," said Stephen Preuss, an investment sales broker at Ripco Real Estate. "Now we're two years beyond that, and you have millions of square feet that will be delivered over the next few years. No one knows the depth of the tenancy marketplace either. There's only so many larger groups that can afford what people underwrote this new construction to, mainly \$30 a square foot."

The broker added that he sees "a resetting of industrial rents from 15 to 30 percent, which will be tough for people who underwrote these costs."

However, the handful of developers building ground-up industrial space in the five boroughs are feeling pretty bullish.

Ryan Nelson, a managing principal at [Turnbridge Equities](#), is developing the largest new industrial project in the city with Bronx Logistics Center, a 1.3 million-square-foot warehouse building in the Port Morris section of the South Bronx. He argued that his project, which has two warehouse floors totaling 580,000 square feet plus 730,000 square feet of parking, is unique in the five

the mid- to high \$30s per square foot, which is pricey for a city where average industrial asking rents hover around \$25 to \$28 a square foot, depending on which brokerage you ask.

The developer pointed out that the only other new warehouse nearby with available 250,000-square-foot floors is in the eastern Bronx, at 2505 Bruckner Boulevard. Amazon leased [569,000 square feet](#) at the 1.1 million-square-foot property in October 2022, but developers [Innovo Property Group](#) and [Affinius Capital](#) still have 244,000 square feet to fill.

New, Class A industrial space “almost doesn’t exist” in the city, Nelson said. “So much space in New York was built in the ’40s and ’50s. It’s 16- to 18-foot [ceiling] clearance, no loading, no parking. The tenants that are talking to us are not talking to those buildings.”

Innovo is also working on a new warehouse property on Borden Avenue in Long Island City, Queens, but the floors in the building are so small that a tenant who wants 250,000 square feet would need to occupy four floors, Nelson noted. The five-story building at 23-30 Borden Avenue will include 840,000 square feet of warehouse and studio space, with two floors of film and TV production facilities on the upper floors.

Studios are having a bit of a moment in New York City real estate right now, with Robert De Niro’s [Wildflower Studios](#) under construction in Astoria, Queens; [East End Studios underway](#) in Sunnyside, Queens; Vornado Realty Trust’s Sunset Pier 94 Studios on Manhattan’s West Side; and a few other projects that are in pre-construction. Greenpoint, Brooklyn, soundstage CineMagic also just [bought a Long Island City warehouse](#) from life sciences firm Alexandria Real Estate to use as a new film production facility.

started construction on a new [\\$650 million studio complex](#) along the waterfront in Sunset Park. He felt there wouldn't be enough demand from TV and film productions to fill all the new space, and new operators wouldn't be familiar with how the business works in New York City.

“I think a lot of people are getting into the business, there's institutional equity capital available,” he said. “They're paying huge numbers for land, they're proposing multi-story stage buildings. It's as high service as it gets for a particular industry to make its product. I think the glamour rubs off on people. The major L.A. studios are good at rallying people to build them. But they're just happy to have more to choose from and drive down prices. I think the new players are crazy and it will come back to bite them in the rear end. The glamour appeals to people who haven't been in the trenches, but I think it's an unwise pursuit for a new business to get into.”

Of course, studios aren't the only kind of industrial space where the product may be outpacing demand. The question remains, who's paying nearly \$40 a square foot for New York City warehouse space in 2024? Amazon has pulled back, and so have many of the third-party logistics companies that worked with big e-commerce operators.

Still, Nelson, of Turnbridge Equities, felt bullish on his ability to lease Bronx Logistics and a smaller project he's working on in East New York, Brooklyn, a 172,000-square-foot warehouse at 807 Bank Street. In Brooklyn, he'll be competing with at least one other multistory warehouse project, RXR and LBA Logistics' 385,000-square-foot warehouse at 728 Court Street, otherwise known as Red Hook Logistics Center. In College Point, Queens, developer Wildflower — which is also responsible for the studio project — is building a three-story, 250,000-square-foot warehouse at [28-02 Whitestone Expressway](#), formerly the site of a *New York Times* printing plant.

demand drivers in New York that you don't have in other markets, whether it's studios, food companies in Hunts Point, e-commerce companies, whether it's the City of New York, home improvement stores like Costco, Home Depot, Lowe's."

Nelson acknowledged that there had been a slowdown in leasing during 2023, but "we've seen significant activity starting in December. Our Brooklyn project we have papers out with multiple tenants." He added that no one is financing new construction warehouses right now because interest rates are high. That means there won't be any new warehouses for a few years, and not much competition for him and his fellow Class A warehouse owners.

Leslie Lanne, an industrial leasing broker at [JLL \(JLL\)](#), agreed that there was plenty of tenant demand, even for the higher-priced space.

"This is the only Class A industrial building cycle that New York City has seen in like 80 years," she said. "I'm really excited that we're delivering some new Class A space. We have over 8 million square feet of tenants in the market. The New York City market is 133 million square feet, and only 7.4 percent of that is Class A space. From a logistics market perspective, we have interchanges in New Jersey that are the same size as this market. When I put all those into the mixing pot, I'm fairly comfortable with the amount of new construction going on."

She added, "Once this stuff is delivered this year, I don't have anything in the pipeline under construction for the foreseeable future."

Other industrial brokers are taking a more nuanced view. 2023 was a pretty tough year for warehouse leasing, after a roaring two years of e-commerce expansion in New York City and most other major markets.

"If you look at data you'll see leasing was down approximately 40 percent year-over-year," said Rico Murtha, a broker at Cushman & Wakefield. "Vacancy is still

constrained in 2023. The market bottomed out at 3 percent, now it's at 4.8 percent. There's even less functional product out there. Half of that 4.8 percent is obsolete, maybe an un-transactable landlord. It would make sense that we might see a rebound [in leasing] in the next year."

He acknowledged that there are relatively few tenants that want to pay high rents and occupy more than 100,000 square feet. Many of the companies looking for space are small to midsize and more service-oriented, but need to be in the five boroughs for time and cost reasons. Think elevator repair firms, contractors, concrete mixers and food delivery companies.

"If you took your business and moved it somewhere else, would you still have a business?" asked Helen Paul, another C&W industrial broker. "Then that's the type of user that has to be near Manhattan. That's the kind of user that becomes almost rent agnostic."

Richard Warshauer, an industrial leasing broker at Colliers, felt that it would take awhile for all the new construction warehouse buildings to lease up. "I'm talking years, not months," he said. One big factor, besides cost, is that logistics tenants often don't want to be on the top floors of a multistory warehouse.

"There's a lot of resistance to the upper floors of a multifloor building," he said. "Very hard to convince people to go upstairs. They're worried that it will take them forever to get upstairs because the company on the ground floor will tie up the parking or the ingress or egress. It's a matter of time and money, but most tenants would rather not be upstairs, particularly if you're in the logistics business. In a logistics cost analysis, rent is maybe 5 percent. The most expensive items are equipment and payroll. The more time-sensitive the users are, the more resistance there will be to going upstairs in a multifloor warehouse."

KEYWORDS: [28-02 Whitestone Expressway](#), [728 Court Street](#), [807 Bank Street](#), [Brooklyn Navy Yard](#), [Doug Steiner](#), [Ryan Nelson](#), [Stephen Preuss](#), [Affinius Capital](#), [CBRE](#), [Innovo Property Group](#), [JLL](#), [Turnbridge Equities](#)

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