CHANGING

Today's industrial landscape is a dynamic mix of new, high-tech spaces coming on the market to answer the call for backup corporate facilities and more traditional tenants buying and selling properties. In fact, some real estate executives are vehement about the need for new biotechnology facilities, which would attract such companies to New York, promote a new economic engine of growth and provide numerous job opportunities. The question that many executives are asking is, can New York make enough room—at the right price—to make everyone happy?

Despite a decline in the telecommunications industry and a decrease in demand for sophisticated tech space, a new force is propelling the high-tech market. As opposed to telecom users, companies that have disaster recovery and data center facility requirements are picking up the slack, taking action with the recovery plans they have spent the past year preparing.

For corporate users, the magic word is redundancy, as disaster recovery plans and backup data facilities become a top priority. Firms desire spaces with large electrical capacity, close proximity to fiber and a significant cooling capability. Redundancy of communication systems and power sources are also a must.

"Somebody who can create a bunker-within-a-bunker mentality, that's what they are looking for," explains Jim Quinn, an executive director at Cushman & Wakefield. "There has been a significant urgency to have data center and disaster recovery plans in place."

Quinn has seen increasing demand for properties located 25 to 50 miles outside of Manhattan. "If a company is located in Manhattan, the old school thinking was 'We'll have redundancy if we go to Jersey City,'" relates Quinn. "With the unfortunate discussion of dirty bombs, Jersey City doesn't offer as much of a comfort level, so Westchester, Long Island and Connecticut will experience additional growth."

Long Island's i.park campus, located at 1111 Marcus Ave. in Lake Success, is one location that tenants are considering for backup facilities. Apollo Real Estate Advisors and National Resources recently purchased the 1.4 million-sf facility for $21 million. As an example, the New York Mercantile Exchange has leased 40,000 sf at i.park for a disaster recovery facility and additional redundancy, but its HQ is at the World Financial Center in Manhattan.

Jim Quinn says rents begin at $23 a sf in the facitlity. Tenants may install their own generators and fuel tanks, among other systems at the newly repositioned property.

On the Far West Side of Manhattan, Quinn is marketing 112,000 sf of data center-ready space at 85 10th Ave. The 560,000-sf property is owned by Level 3 Communications, which occupies 224,000 sf. Lehman Brothers has inked a 56,000-sf lease for a 15-year term to use as a backup data center.

"In terms of what's happened with the telecom meltdown, financial companies like Lehman Brothers, the New York Mercantile Exchange and major financial institutions are going to be the primary drivers in this market," Quinn confides.

The industrial property sector is on the verge of changing significantly, observes John Maltz, managing director of Greiner-Maltz. Industrial uses have been changing for the past three decades, from printing and garment manufacturers that constitute the bedrock of New York's industrial market to smaller industries that demand more sophisticated tech spaces, with air conditioning, T1 fiber, heavy power and communications capabilities.

Maltz also notes that because of consolidation in the apparel industry, garment manufacturers are leaving the West 20s, 30s and 40s. In turn, these areas of Manhattan are being converted into office and residential properties, leaving less industrial space available and pushing up asking rents. "That trend will not subside because companies continue to get bought out," he says.

Nonetheless, there is a tremendous

SPACES

By Stacey Eckstein
Assistant Editor

Can the region accommodate biotech companies and still keep its traditional industrial users from disappearing?

demand for industrial space in the boroughs. "Rents have reached a high rate and there is a healthy demand for industrial land because the economics make sense right now to buy land and develop a building," Maltz explains.

Distributors and contractors are still actively seeking industrial space, especially in the boroughs where rents are lower, commutes are shorter and the labor pool is larger (and less expensive). Maltz notes that air-conditioned space is renting for $12 to $14 per sf, while "good, solid" manufacturing space ranges from $8 to $10 per sf.

Although availabilities in the industrial market have increased over the past six months, deals are still being signed. Maltz represented a New York Times distribution subsidiary, operating under the name City and Suburban Inc., in a 160,000-sf lease at i.park.

Additionally, Maltz is seeking a specialty user for a state-of-the-art baking and distribution facility at 5-33 54th Ave. in Long Island City. The 200,000-sf property was home to New York Baking, which filed for bankruptcy in August.

"We're letting the market determine what it is worth," confides Maltz, who is the exclusive leasing agent, along with Gary Blum and Decio Baio.

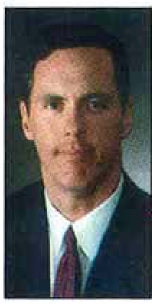
On the subject of investment sales, Maltz insists that "the market is stronger than the rental market because current financing rates and tax laws favor purchasing over renting." He adds that some high-end properties are trading for $100 a sf.

Loehmann's 150,000-sf warehouse

The Landmark at Eastview in Tarrytown is primed for a 320,000-sf expansion that will include biotech and R&D space.

facility on Halsey Street in the Bronx was recently sold in a partial sale/leaseback arrangement. Loehmann's will continue to occupy the office component and relocate its clothing distribution operation to New Jersey. The company realized $5 million in cash as a result of the deal. Farron Roboff of Katz & Associates represented Loehmann's in the transaction.

One sector that has shown some promise as a burgeoning specialty industrial segment is the biotech sector. According to a report released by the New York City Investment Fund, an affiliate of the New York City Partnership, New York is home to 25 major academic institutions and 175 hospitals, research centers and laboratories. At least 30 biotech start-ups emerge from the top nine New York research institutions each year. However, published



"There has been a significant urgency within the corporate community to have data center and disaster recovery plans in place."

JIM QUINN
Cushman & Wakefield

sources report state that since 1999, the city has received only $1 million of the $153 million the state has invested in biotechnology.

So what's holding back New York City?

"My feeling is that there is an absence of space and an absence of appropriate space," muses Peter Gilpatrick, SVP of LCOR Inc., a Berwyn, PA-based developer.

But New York's problems run deeper than a mere lack of space. Commuting issues, high rents and the cost of living compound the problems that plague biotech development.

One group has gained notoriety by working to maintain the commercial interests of the biotech industry in the city. The New York City Partnership is striving for a hub/spoke strategy, with the city as the hub and spokes reaching out to Long Island and Westchester, where there are existing biotech communities and new projects under way.

The partnership is currently exploring the possibility of retrofitting a number of buildings in TriBeCa for biotech use. The group aims to bring on-line one million sf of biotech properties over a five-year period, utilizing new, ground up construction that

The i.park facility in Lake Success has attracted tenants looking for data recovery facilities and disaster recovery space.

could take roughly five years to complete.

"Our immediate focus is on trying to develop these facilities so the industry can stay here," says Maria Gotsch, SVP of the New York City Investment Fund, an affiliate of the New York City Partnership. "The Downtown site is an immediate solution and it can also—as companies grow out of their space—potentially be a feeder to some of the other new construction sites around the city."

Cost is another prohibitive factor when developing biotech clusters. "Normally, these biotech companies don't really turn a profit for at least seven years and the burn rate on their venture capital money is huge," explains Patricia Ardigo, managing director at Insignia/ESG. "They don't like to invest in the tenant improvement side because they want to keep funds for the development of their products."

A typical build-out can range anywhere from $200 to $450 per sf, while new build-to-suit space can cost as much as $500 per sf. On top of that, to retrofit a building for biotech use can be extremely complex when all of the technicalities are take into account, explains Ardigo.

Veronica Hackett, a principal with the Clarett Group, a developer working with the New York City Partnership to assist in the development of a biotech cluster in the area, is optimistic about the situation.

"Almost any building can be made into a lab, theoretically," says Hackett. "It's a question of cost. I think part of the problem is that this industry has not been a significant force in New York and therefore the real estate community has an impression that I think is misinformed as to how complicated it is."

There is some biotech development under way in the area, albeit not in Manhattan. In Brooklyn, SUNY Downstate broke ground early in September on an advanced biotechnology incubator adjacent to the SUNY Downstate Medical Center. The $21-million, three-story facility will be built in phases, with the first portion of 10,160 sf to be completed in early 2003. Four companies, including the Long-Island-based Redox Pharmaceutical Corp. and three companies founded by Downstate faculty members have already reserved space. When completed, the 50,000-sf facility will also have the option to develop an additional 500,000 sf.

Gilpatrick notes that biotech companies are unique because they measure their business plans in months as opposed to years like traditional corporate users do. "They can change in six months or a year very dramatically, whether they go out of business or double or triple their size."

LCOR's R&D facility, the Landmark at Eastview in Tarrytown, has the approvals in place to add as much as 320,000 sf for

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MARIA GOTSCH
New York City Investment Fund

additional biotechnology and R&D space as well as a 125,000-sf training facility for the New York Knicks, Rangers and Liberty. The development will help attract new tenants and offer existing ones the option of expansion. Recently at the Landmark, three companies expanded: Aton Pharma (51,524 sf); Regeneron Pharmaceuticals (211,813 sf); and Emisphere Technologies (114,783 sf).

LCOR is also considering the construction of a biotech research park in Queens West, close to the research institutions on the Upper East Side.

White Plains has approved a $250-million project for New York Presbyterian Hospital's biomedical research and cancer center. The six-floor, 384,000-sf complex will also provide laboratory space for neuroscience research. Construction is slated for 2002 or early 2003. ◆