REPRINTED FROM THE

FRIDAY, JULY 13, 2004

ny NEW YORK

Real Estate Journal

COVERING ALL OF HUDSON VALLEY LONG ISLAND, NEW YORK CITY, MANHATTAN AND UPSTATE NEW YORK

Commercial development at a crossroads on Long Island

li

By Peter Curry
Farrell Fritz, P.C.

The Long Island real estate market has always been among the most idiosyncratic of all the regions of the United States. It has long since moved beyond its dependence, first, upon agriculture, and then, on the aeronautics and defense industry. It has built upon its close proximity to New York City but has never enjoyed the relocation of Fortune 500 headquarters and significant back office operations centers that mark the Westchester and New Jersey office corridors. Instead, the real estate landscape has traditionally been made up of local, mostly private and family-held, real estate developers, manufacturers, and distributors, serving not only Nassau and Suffolk Counties and the metropolitan area, but the nation and international markets.

Of course, open space has almost disappeared from Long Island, and the remaining areas are becoming subject to increasingly more stringent governmental regulation and civic pressure. The revised zoning codes enacted and proposed in the towns of Brookhaven and Riverhead are merely harbingers of the new municipal drive to limit rampant growth and prevent the exhaustion of natural resources. Thus, the focus for commercial, industrial and residential development will be shifting to creative reuse of previously developed neighborhoods to meet the changing needs of our population.

Long Island is facing a crossroads in all areas of real estate development. It remains to be seen whether those who desire to creatively reuse our existing sites for the future requirements of our population will be able to surmount the significant barriers that face all development in this area.

Unfortunately, neither current zoning codes nor economic development programs favor rehabilitation and reuse of existing development. Every public study of housing on Long Island stresses the strong and increasing demand for affordable "workforce" and senior housing. However, this demand can clearly only be met by concentrating housing units and developing multifamily housing to keep land costs down. Zoning codes revisions, to the contrary, are increasingly upzoning potential residential development parcels. Cluster or smart growth housing projects are proposed, and then vehemently opposed by current residents, school districts, and politicians. Even in downtown village centers suffering from the almost total loss of retail uses, residential projects face a dizzying array of obstacles.

Commercial rehabilitation and retrofitting projects are facing similar roadblocks to completion. The process of taking a potential project from inception through the issuance of a building permit typically takes eighteen months to two years. Zoning codes geared towards construction on virgin land do not contemplate the reuse of parcels that were developed decades ago and no longer comply with current zoning trends. On Long Island, we are not seeing the gentrification and commercial conversions that mark NYC and numerous other urban areas.

The economic development programs that are available for Long Island are also not geared to the reuse of existing sites. The Industrial Development Agencies of Long Island's counties and towns are the major sources of real estate tax abatements that keep the operating costs of manufacturers and distributors within affordable levels, but these abatements are typically only granted for new construction or major new additions to existing structures. Real estate taxes are not usually rolled back to levels that reflect only a vacant land value or even a value of the existing structure as vacant and obsolete. In the mature, fully developed areas of Nassau County and the Towns of Huntington, Babylon and Islip, there is virtually no land available for new construction. The Babylon IDA has a program that abates existing taxes on existing buildings for appropriate projects. In the remainder of these localities, however, the agencies can offer only limited real estate tax assistance. This is often not enough to encourage developers and operators to undertake the lengthy and expensive process to take outmoded properties to a new use.

Long Island is facing a crossroads in all areas of real estate development. It remains to be seen whether those who desire to creatively reuse our existing sites for the future requirements of our population will be able to surmount the significant barriers that face all development in this area.

Peter Curry is a partner with Farrell Fritz, P.C., Uniondale, NY.