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A downturn in the real estate market is not history or the '80s repeating itself

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In all appearance, the real estate market is poised to come full circle in the cycle. It has taken 20 years to happen, but despite a downturn in the market, conditions are very different from what they were at that time. In the late '80s, there was a tremendous building boom of commercial and industrial properties. There was a host of speculative construction, putting a glut of space on the market. But perhaps the most damaging impact on the Long Island economy was that it had one major industry feeding a host of related manufacturers, and trickling down to each and every resident on Long Island.

While this has probably occurred as far back as there is recorded history, one of the clearest examples may have occurred in California in 1848, when gold was discovered and a mining boom spurred towns to spring out of the desert. Entire towns flourished with the explosion of one major industry.

This same scenario was played out on Long Island, where a booming aircraft industry went back as far as 1917. Mitchell Field had a booming aeronautics industry that birthed Grumman in 1930 and continued to employ Long Islanders and feed the economy through World War II, Korea, Viet Nam and the Cold War. But as the Cold War waned, so did the military aeronautics industry. Grumman lost numerous contracts as demand became severely curtailed, until in 1994, they were purchased by competitor Northrop, and the gold ran out.

With the end of military contracts and aircraft manufacturing on Long Island, an entire industry collapsed. Dozens of companies that made everything from ball bearings to high tech radar, depended on Grumman for its life blood. The loss of Grumman was a catalyst that caused widespread cascade failure of business on Long Island, and as had happened in the west, when the gold ran out, so Long Island became a ghost town as well.

Today, in 2007, while we are currently in a credit crunch and the market appears to be softening, the conditions on Long Island are much more stable than they were at the end of the '80s and early '90s. Over the last 20 years, the economy has diversified. Much of the manufacturing businesses have left, and been replaced with various service industries, and during the most recent upswing, developers were mindful of what happened in the last cycle, and were extremely conservative with new development this time around. So despite a downturn in the mortgage industry, leading to failure of a number of finance companies, The Island is stronger today than it was at the end of the last cycle. We do not have the same glut of space on the market, and we do not have a severely depressed employment market.

As a suburb of New York City, we are hitched to one of the strongest economies in the world. Barring a catastrophic event impacting the national economy, our local economy should experience gentler fluctuations as the dynamics of a diverse market ebb and flow to accommodate changes in the environment. Business should continue to go on, and where one industry weakens, as is occurring with the mortgage industry now, the entrepreneurial spirit will find new ways to bloom in the down times as much as it does in the up times.

There will be an effect on commercial real estate, but of Long Island's forty plus million s/f of office space, most of it is leased space. Those staggered leases will continue to expire and renew, regardless of what happens in the sale market. Expansions may be down and absorption levels not as aggressive as they have been, but the impact should be slow enough for other factors to stabilize it, and on the whole, the market should bounce back as strong as ever.

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