



## **Question of the Month: Is the real estate market moving in the right direction? How are we doing?**

October 07, 2013 - Long Island

Labor Day weekend, the unofficial end of the summer as we know it, has come and gone and now it is back to work.

In the real estate industry, this year's activity has been vibrant. The companies that made it through the past downturn are credited with our expansion and growth. This is clearly a result of, as in every recession, those companies growing their business from the competition's inability to survive.

Following, my market analysis is strictly focused for the Long Island market, however, from the information I read and hear about, it seems as though the tri-state area is witnessing the same activity, and prices are beginning to rise.

The leasing market in the office and industrial sectors has exhibited a very good rate of absorption. Sure, there was a fair amount of space on the market for a long time, however, to date, the amount of completed transactions is impressive, and I believe this will continue. Price has been a factor. Companies are still very cost conscious. We are getting feedback from mailings, returned phone calls and prospects who want to see what is available for their long term growth. In addition, there is a momentum that is filtering down to all affiliated businesses in the real estate sector - attorneys, accountants, architects, contractors, maintenance companies; the list goes on. Again, all sectors are experiencing a significant increase in their businesses.

Unfortunately, as I mentioned previously, prices are starting to rise. This is particularly true in costs for materials such as steel, oil-based products and concrete. Furthermore, with the current conflict and unknowns in the Middle East, it may be difficult to project profit margins one year to 18 months from now. Hopefully, this conflict will be placed under control and we can maintain at least minimal growth and positive perception throughout our industry.

With that being said, I believe landlords are in a very good position to survive the unexpected. Together with current high occupancy rates, owners who refinanced within the last 12 to 18 months, at record low interest rates, are surely in a good position.

In both the office and industrial markets, large blocks of space are difficult to come by, whether on a sale or a lease. In particular, in Nassau County, if an office user is in the market for 50,000 to 75,000 s/f, they do not have many options from which to choose. True, the landlords are very proactive and are exhibiting aggressive proposals. The same goes for the industrial market. Those seeking spaces of 100,000 to 200,000 s/f, either for lease or sale, will not find a great selection. Additionally, there are several deals in that size range which need to complete transactions.

Can we expect to see spec building? I would bet against it. Lessons were learned in previous years, and unless you can build on spec from "your own piggy bank," financing spec deals from lenders is not easy.

Will the build-to-suit market begin to emerge? That is a possibility. Companies that require extensive

interior build-outs, such as pharmaceutical or food processing companies, may find it less expensive to build new than to renovate existing space.

There was a time when, if you had experience in the real estate industry, you would be able to time the market, know when to cut back and get ready to grow. Not anymore. Too many obstacles have come into play from emerging markets to unsettled factions throughout the world.

For now, let's enjoy the growth. I, for one, am optimistic. I see activity continuing throughout 2014 but, for the moment, believe it or not, there is not a lot of inventory.

Stay tuned!

Ralph Perna is an executive managing director at Newmark Grubb Knight Frank, Melville, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540