



Landlords scramble for tenants in Suffolk County during housing crisis

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While the housing crisis continues to grab headlines locally and across the nation, the commercial real estate market is feeling the pinch too. The crisis in the residential industry absolutely affects the commercial industry. If you don't see the connection, talk to mortgage brokers. Residential sales have slumped so far, that the mortgage industry is in the tank. Following the mortgage industry, appraisers are also feeling the bite. Then there are the real estate attorneys, engineers, termite inspectors, etc. This ripple affect has caused a fair amount of downsizing, which has increased commercial vacancy significantly.

While some markets across the country have been crippled, New York tends to be one of the last areas hit. And as that market starts to feel the effects, business dries up like water in a pond. Manhattan being the deepest part of that pond dries up last, but in all of the suburbs of New York City, the commercial market is feeling the strain. What used to be a landlords' market has now pivoted to the tenants' side of the spectrum.

The primary Suffolk County office markets from west to east are showing signs of strain. The Melville market, being Suffolk County's biggest office market is still holding strong, with a vacancy rate of about 12-13%. That is quite respectable considering the condition of markets elsewhere. And while the rental rates have held fairly strong, (a factor of necessity based on recent sale prices), landlords are tapping their first well and starting to be more competitive with rental concessions.

One of Suffolk's next major markets, the Hauppauge market is feeling the pinch a lot more. In the Hauppauge area vacancy is running a little higher than 20%. Unlike Melville, which is considered a prestigious address, Hauppauge carries a little less pomp. The tenants that are looking in Hauppauge currently are less concerned with address, and much more focused on value. In addition, they are very uncertain about how long the slump will last, and what the next few years will hold for their businesses. As a result business owners are not only concerned about getting the best deal and lowest rental rates, they are also looking for rental concessions which can boost their bottom line by significantly cutting expenses for a couple of months, and they are much less willing to commit to long term leases, or even 3 or 5 year leases.

In times like these, many Suffolk landlords are willing to consider short term tenancies, just to keep the cash flow coming in. In the long run, a short term tenancy may make it more difficult to sell a building or to refinance one, but the sale market has also already hit that brick wall. Sale prices are coming down as buyers are no longer willing to bet on runaway appreciation, and are spending more time analyzing whether or not they will be able to carry expenses for the next few years. With this kind of vacancy, sales are grinding to a halt, making owners much more willing to do the deals that just keep their properties afloat, and hope that these short term tenants will renew when their term expires, or that the market will be stronger and vacating tenants will be easier to replace in 2 or

3 years.

There are some smaller landlords that have businesses that occupy a portion of their building and have no intention of selling anytime soon, that are undercutting the market. To them, a higher rental rate is less important, since they have no intention of selling or refinancing in the near future. With fewer tenants in the market and more going out of business other landlords are combating this trend with very substantial rental concessions. Where they cannot afford to drop price, or their lenders will not allow it, they are facing the reality that their space will be vacant for several months. That being the case, they've elected to be willing to give extra free rent to tenants willing to sign leases now, in hopes of mitigating long term loss.

In any event Suffolk is soft, and landlords are being competitive, but core business is still there and the Suffolk market still appears to be strong enough to stabilize within a relatively short period of time.

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