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Long Island real estate - The waiting game is taking its toll on investors and brokers

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Chiropractors must be crying - homeowners are no longer straining their necks staring at the super bubble in the grayer economic sky. Triggered by the kryptonite of 1 trillion dollars of adjustable rate loans that reset in 2007 combined with shoddy underwriting, the housing bubble of unrealistic and unsustainable prices finally burst.

Specializing in the brokerage of income producing properties with my partner, Dale Staudigel, we are often asked by dorsal finned buyers with a keen sense of smell - "where are the foreclosures and fire sales?" "Surprisingly, the helium in the commercial bubble has actually gained altitude in upper tiered assets," said Ron Kleinberg. "Buyers appear to be in denial. They just don't believe that regardless of the turmoil in the residential market, (foreclosure filings were up 20% in N.Y), owners of commercial blue chip assets continue to trade at historic high multiples (15-16 times the net operating income for irreplaceable properties).

While buyers circle far and few between fiscally and physically distressed properties, would-be sellers of class B and C non-core assets are suffering intellectual gridlock, unsure if they would still be riding the tail wind of unprecedented higher multiples or selling into the headwind of re-trading and re-pricing uncertainty.

This waiting game is not only taking its toll on investors but on brokers. Fueled in part by stubborn owners that have encoded in their DNA never to sell. Brokers are stepping up their efforts to convince reluctant sellers that while there might be a slight uptick in buyer yield expectations, cap rates flirt with 7% for office and unanchored retail in tertiary locations.

The reality is this overstated rate of return exists only on paper. Incestuous owners and brokers persist in exercising selective amnesia neglecting to include fundamental expenses (i.e., management, vacancy, reserves, etc.) on pro formas in an attempt to inflate the bottom line by distorting fiscal reality.

Transactional velocity slows on off-market transactions and for-sale inventory as constraints on capital (debt more than equity) reduces the volume and speed of sales.

Committed for-sale owners display less conviction in their voices and swagger in their steps as they head for the exit doors trying to unload this year's assets at last year's prices. Owner/users and endorphin high 1031 buyers with cross-over capital are the usual suspects that continue to elevate pricing valuations. Luxury rental apartment buildings, due to their durability, as well as single tenant triple net properties are two asset classes that the risk adverse investors continue to pay up for, based on their predictable rate of return. While demand continues to exceed a critical under-supply of product in all asset classes, in a volatile market, triple net leases with lease durations of 20 years or more have the ability to bridge economic cycles. Nationwide Walgreens are the most popular asset in this property sector with the medium price rising 10% over the past year to $393 per s/f.

"Right now the commercial market reminds me of a game of chess between a buyer and a seller that could end in stalemate," said Kleinberg. Visualize two players staring at a board and after a lengthy period of time looking up simultaneously and exclaiming - "it's your move." The purchaser has the material advantage of liquidity (buying power), while the seller has the positional advantage. The clock is ticking but only time will tell if it was better to be a speculator or a spectator in the real estate end game of 2007.

Ron Kleinberg and Dale Staudigel are the co-presidents of Tri-State Properties LLC, Dix Hills, N.Y.