



Where do we stand in today's current market?

March 20, 2009 - Long Island

You don't have to be an economist to know we are in a very precarious marketplace. It's easy to get caught up in all the doom and gloom. However, even in this global downward economic spiral, there are components of the market that are somewhat cohesive. Focusing on them can generate both opportunities and optimism.

The Purchase vs. Lease Market

Let's start with the purchase market which is not under as much pressure as the leasing market. There is more buyer activity than leasing because tenants are in a survival mode. Most of the tenant activity is in either consolidation or retraction understandably, and landlords are extremely cautious even while dropping their leasing rates. In the near term, tenants are price motivated. As more rental space hits the market, prices will drop. Consequently, we're seeing industrial property rents at levels we haven't seen for ten years. Contrast this to the purchase market which has not declined as much, but rather "compressed" in the industrial segment which has fewer foreclosures.

During the fourth quarter of 2008, Long Island's industrial rates fell to approximately \$8.75 per s/f and Long Island's industrial vacancy rate closed at just over 4%, however it is hard to tell where the bottom is. The office market is showing signs of weakness. The last quarter saw a rise in vacancy rates; the result of a considerable amount of sub lease space entering the marketplace, but rents also fell and commercial space absorption was very weak. Typically, the Long Island office market sees an estimated 3.5 million s/f absorbed in leasing transactions per quarter. 2008's fourth quarter saw just 2.8 million s/f leased.

Now for the Unknown

Real estate investors, who went into the market and purchased buildings over the past four to five years, will continue to face challenges in the near term. This is because most of the financing arranged for these purchases was provided with the expectation of rising rents. In most cases, the financing provided for commercial and industrial building purchases was structured based on a minimum lease rate. The banks are now being forced to reposition themselves and renegotiate this financing or get ready to take back the buildings. In the long run, banks will be much better off renegotiating the financing over a three to five-year period and working with the owners. The alternative will only serve to depress the market even further. One of the goals of the federal government's involvement was to stimulate this activity. We will see a direction from this by the end of the year.

Weighing User Decisions

Tenants too have a lot to consider in today's market. Whether a company is expanding or contracting, there are opportunities to secure prime industrial real estate at rates inconceivable a year ago. For example, a prime 50,000 s/f in Suffolk's Hauppauge industrial park facility can now be leased for \$6 per s/f gross.

Elsewhere across the island, there are comparable buys. Still, supply and demand remains a factor. In Nassau, where there are fewer available industrial properties, the end of 2008 saw average rates for warehouse/distribution facilities of \$11 per s/f, in contrast to Suffolk, where there is more inventory and warehouse/distribution rental rates hovered around \$7.60 per s/f. The lowest rates were and remain in Suffolk's Riverhead Township which has the highest vacancy rate at just over 12%, and the lowest industrial rents at \$5.30 per s/f for warehouse/distribution facilities and \$5.20 per s/f for R&D/flex buildings.

The Nassau purchase market is holding up, there are few quality buildings for sale, but those buildings have price tags that buyers will sit on the sidelines until those prices "compress."

Financing

The good news is banks are now willing to finance owner occupied properties, however, unlike the previous go, go years, banks are financing owner-occupied facilities in amounts of up to 80% of the purchase price. A sound financial statement on the part of the purchaser must be in order. In addition, there are still programs available for owner-occupied purchasers to go out and still finance up to 90% of the project cost because SBA second position financing is readily available.

In contrast, investors looking to purchase non-user buildings must be ready for a substantial cash equity portion, particularly in the retail sector.

At the end of the day, these current market conditions are surely different from the past three to four recessions which I have witnessed in the last 34 years of my career. This is primarily because the recession is not geared to the United States, but we are being consumed globally, which is attacking all facets. However, Long Island has always had a unique economy. In previous downturns, the Long Island market has usually faired better than other parts of the U.S. Even though we are witnessing the same issues as other parts of the nation (i.e., unemployment, depressed housing prices, downturn on the housing market, etc.), in comparison to other regions, I believe we remain in a better position.

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