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A look at the current state of the Long Island commercial real estate marketplace

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Mixed opinions about the state of the real estate market are causing a deceleration in activity throughout Long Island's commercial real estate market. Many local buyers who depend on institutional financing are hesitant to invest in real estate. In this ever changing market, it is imperative to understand that change is inevitable. Being able to adapt to new market conditions is the key to success.

Economic quandary and ongoing confusion in the credit markets are beginning to play out an overleveraged commercial real estate market. The sales market for commercial real estate has been locked in somewhat of a standstill waiting for a heap of financing structures to begin sorting out. Activity is the crucial key to restoring the real estate market and bringing about a new sense of value.

While many of Long Island's lenders and buyers are choosing to take an idle approach to the market, many others are actively purchasing. Bill Mack, a well known figure in the real estate industry said, "If you talk to 100 public companies, you might find out that some companies will say 'yes, we want to buy properties because they're so cheap.'" As the price of commercial properties begins to attract idle buyers, opportunity leads the way for success.

For the past year, we have seen vacancy rates increase and rental rates fall. Overall office vacancy rates increased to 13.6% in the fourth quarter of 2008 from 12.1% at year-end 2007. During this same time period, average asking rental rates declined to $25.97 per s/f from $26.30 per s/f feet. This decline in rental rates was affected by Long Island's class A spaces. These first rate office buildings have been hit the hardest by the current conditions. Average asking rents for retail space on Long Island has also declined 4.6% to $28.41 per s/f from $29.77 per s/f.

Class A vacancies are being offset by Long Island's lower-cost class B space. Class B office buildings comprise 43% of the market. Approximately 570,000 s/f of positive net absorption accounted for the absorption. Sublease options are also helping office space maintain its value even in this changing real estate market. Sublease options accounted for 530,000 s/f.

Long Island's unique commercial real estate market has proven itself throughout the decades. Long Island has always been able to withstand economic fluctuations better than many other parts of the country. Despite vacancy rates, Long Island is once again maintaining its strength.

Record-low interest rates are enticing more buyers to get off the sidelines. Only three major markets posted sub-10% vacancy rates at year-end 2008: New York City, Long Island and the New York Outer Boroughs. Furthermore, a rapid slowdown in new supply and more attractive lease terms for potential tenants will ultimately help correct the supply and demand imbalance facing the current market. Retailers are now more inclined to rent space rather than build new stores. Retail will continue to reinvent itself.

Several important factors are adding confidence and strength to both the credit and real estate markets. Banks are making financing more available in an effort to stimulate activity. Buyers are taking advantage of the competitive pricing on commercial properties. The Wall Street Journal says that commercial property may not be hit as hard as many fear if the economy pulls out of recession more quickly, driving up rents and occupancy rates. Greater availability of financing-a key goal of the Obama administration-will also lift property values. The outlook for 2009 looks promising.

This is a time for companies to be strategic, patient, and to even have a little optimism. Commercial real estate is typically much more stable than residential real estate. Here at American Investment Properties our commercial real estate advisors are prepared to help our clients and their interests during this ambitious time. Working together, we can withstand the meltdown and not let it soak us dry.

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