



State of the Long Island office and retail sales market: Why nothing is for sale (examined) - by Ronald Kleinberg

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Mention you are a physician to anyone within earshot and you will be barraged with a slew of health-related questions. Mention you are a commercial real estate broker and only one question comes to mind, how is the market?

That is the question whose roots date back to the first time the Garden of Eden was sold.

The short answer is transactions are down and blood pressure is up. Peruse any newspaper (albeit, the digital version) to confront a tsunami of news and none of it positive, especially tighter credit pinning buyers to the sidelines as lenders circle the wagons. Likewise, prospective sellers are not excluded from rising interest rates and question at what price point does it make economic sense to transact?

When I first started selling commercial real estate in 1986, (I'm so old I remember when the Amazon was just a river!). I thought a successful salesman was a good talker. Now I realize a good broker is a great listener.

Today what I am hearing from market participants is the sound of silence and the occasional whisper from risk averse buyers, that there is nothing for sale. When I contact landlords and ask them to sell, they no longer reply, what would they do with the proceeds? Instead, owners seem more preoccupied with attracting and retaining tenants as the catbird seat continues to get more precarious with the evolution of bricks to clicks and hybrid work.

Nevertheless, some inventive seller's refuse to lower overly optimistic asking prices, oftentimes crowing counterintuitively "there is nothing for sale to capitalize on the inventory balance of their own making."

The stock market is behaving badly for many of us as well. While I don't have the testicular fortitude to own real estate, I do have a significant position in the Dow. Correction, I had a significant position in the Dow. I think I speak for all those that missed selling at the top when I say, "Thankfully I don't need the money, I'll just hold until the market rebounds." Unfortunately, some of us might not have the luxury of playing the waiting game if our bottom line is eroded and a sizeable mortgage matures. Certain owners of distressed real estate (either fiscally or physically) can only posture so long before they must discount their price in order to transact.

To get a more accurate picture of the investment sales market on Long Island let's look at recent closed transactions (excluding the East end). Luckily data is a genie that is hard to keep stuffed in a bottle. Sales of retail and office between 10,000 – 50,000 s/f, declined from \$72.8 million in the last five months of 2022 (16 transactions) to \$26.8 million from January – May of 2023 (six transactions) a plunge of 64%.

In my opinion, the market flatlining can be attributed to a disconnect between value-add buyers (asset agnostic) and owners delisting their properties into digital smoke until market sentiment and revenue streams improve.

Hopefully, over the next six months the macro-outlook improves, once the Fed gets its hands around inflation and interest rates. As more owners intelligently price their properties and high-intent buyers re-enter the market, the delta between the bid and ask should compress, jump starting transactions.

In conclusion, whenever I write an article trying to forecast market trends, investors often shout at me from cyberspace that no one has a crystal ball, but I do! I found it on Amazon (same day delivery).