Investors smell blood in the water

Hunting properties with debt, estate sales and partnerships gone sour

By KRISTEN D'ANDREA

Savvy investors patiently sitting on the sidelines waiting for Long Island's commercial real estate market to begin percolating are poised to return to the game – if the price is right.

Insiders agree opportunistic buyers are zeroing in on properties overlooked, undervalued or mispriced, as well as those offering incentives, in hopes of making – if not a killing – very profitable returns.

"While the crisis of complacency might be over, this gambler's market isn't for the faint of heart," said to Ron Kleinberg of Tri-State Properties in Dix Hills. "Investors today are much more predatorial."

Buyers are chasing the sick, weak and feeble, targeting properties with bad debt, estate sales and partnerships dissolving, he added.

"Those are the barracuda-type investors more prevalent in today's market," Kleinberg said.

After utilizing the last several years to rebuild and rebalance their portfolios, buyers have reloaded and are ready for a return to the commercial real estate market, Kleinberg noted. When the market was cold, transactions were down as investors regrouped, conserved cash, cleaned up their existing properties, and paid down debts.

Despite historically-low interest rates and greater access to capital, completing transactions has never been harder as lenders look for higher loan-to-value ratios, according to Dale Staudigel, Kleinberg's partner at Tri-State. Staudigel said he informs his clients "to be prepared to invest 30 to 40 percent equity, to ensure obtaining a mortgage, as sellers often refuse to sign a contract subject to financing."

Another reason "deal flow" has dried to a trickle has been the flat lining in rents, especially in the retail and office sectors. In fact, Staudigel said differences in rent among tenants of the same building is one of the biggest problems facing the industry.

In many situations, long-term tenants are paying "high rent from the old days while new tenants may be paying 30 percent to 40 percent lower rates," affecting the value of the property, Staudigel said.

According to the latest commercial real estate outlook from the National Association of Realtors, positive underlying fundamentals continue to support all the major commercial real estate sectors. Office rent is projected to increase 2 percent this year and 2.6 percent in 2013, while annual industrial rent is likely to rise 1.7 percent in 2012 and 2.4 percent next year.

Long Island is among the top three regions in the country with the lowest retail vacancy rates, tied with Orange County, Calif., at 5.3 percent. Average retail rent here is projected to rise 0.8 percent this year and 1.3 percent in 2013. And, in the multifamily market – the sector currently faring the best in the industry – average apartment rent is likely to increase 4.1 percent in 2012 and another 4.4 percent next year.

"I've never seen so many investors switching sectors," Staudigel said, noting he's seen numerous clients who traditionally bought shopping centers looking to diversify and

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DALE STAUDIGEL (left) & RON KLEINBERG: While the crisis of complacency might be over, this gambler's market isn't for the cowardly.

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switch to the hot multifamily sector or net lease properties.

Availability of retail space, particularly storefronts in many local towns, is prevalent across Long Island, said Bob Stark, licensed broker associate at Prudential Douglas Elliman Real Estate in Long Beach and chapter president of the Long Island Commercial Network, a division of the Long Island Board of Realtors.

Prospective tenants are looking for incentives such as rent concessions and lease negotiations, Stark said, noting he's seen recent deals offering tenants several months of free rent in addition to low startup rates. At many of the large anchor shopping centers, however, Staudigel said rents have been maintained since that's where most tenants want to be.

In his 30 years in office leasing, Staudigel said he can't remember a longer lasting depression than what the market is currently facing.

"The office market has been decimated at this point," he said, noting he believes there are nearly 150 office buildings on Long Island currently in foreclosure.

Ron Koenigsberg of American Investment Properties in Garden City said buyers remain cautious in their investing strategies.

"The state of the Long Island economy and potential for higher taxes, primarily in Nassau County but also in Suffolk County, have been holding some investors back from a shopping spree of investment properties," he said. "And the current political uncertainty and gridlock in Washington D.C isn't helping them feel too comfortable."

The potential expiration of the Bush tax cuts, which would increase the federal capital gain tax rate from 15 percent to 20 percent, could greatly increase the burden on tax payers selling property, Kleinberg said.

Still, despite political uncertainty, investors are ready to roll.

"If the numbers make sense, [buyers] are interested. If properties are overpriced, there's no interest," Stark said. "If people feel like they're getting something at a good value, they'll buy."