Real Estate

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A Modern Day Ice Age: L.I Commercial Bleak Estate

Remember when dinosaurs roamed the earth 18 months ago; buyers were a dime a dozen, too much capital was chasing real estate, and asking prices were selling prices. Click your wingtips, we're not in Kansas anymore. Like it or not we are living in a modern day ice age, where priced to negotiate assets, not priced to sell assets trade hands at glacier pace as discretionary sellers retrench and country club equity dwindles. It's not that owners aren't at the negotiating table; they are, just not with potential buyers. Instead, landlords are facing off with their tenants; trying to blend and extend leases (rent concessions in exchange for renewing longer leases), preoccupied with shoring up balance sheets and keeping lenders at bay has thawed transactional activity. Refusing to sell into a headwind of re-pricing and re-trading uncertainty, would be sellers hunker down for the winter.

How long sellers can hibernate is anyone's guess but opportunistic buyers, like Vornado Realty Trust, [which has amassed a war chest of $1.8 billion in cash] are banking that the inventory drought will be over in 2010 and that a flotilla of undercapitalized properties will flood the market. Fair weather investors have been keeping their powder dry as well, recalibrating their calculators, unclear what assets are dart worthy, as re-letting risk (short term leases and above market rents) can turn today's cash flow into tomorrow's projections.

Everyone knows the three most important factors in purchasing real estate are the three L's. But in this increasingly predatorial business jungle where only the most profitable survive, it's not so much about chasing yield but chasing the three D's (death, divorce, debt). Today's entrepreneurial buyer is less enamored with purchasing a predictable rate of return, which might be an oxymoron, instead focused on taking advantage of distressed sellers handcuffed by troubled assets.

It's hardly surprising that with constraints on capital in 2009 (debt & equity) investment sales on Long Island decreased 75% from 08, the traction on the buy side radiating from office users, all cash purchasers, and the occasional lucky strike from a tax free buyer.

With the potential for earnings from future rent growth often the reason behind purchasers accepting lower cap rates in the rearview mirror, mercurial sellers will have to dial down expectations, as rent collections and tenant reimbursements continue their erosion into Q1 2010. No longer can sellers expect the financial firepower of crossover capital to bridge the delta between the bid and ask. Pessimism must be priced into pro formas. Nevertheless, irrespective of whether their buildings are half full or half empty, landlords remain optimistic that leasing activity is just a few phone calls away. However, leasing specialists paint a different picture and it's a little grayer. With approximately 44 million square feet of class A and B office space island wide and vacancies in the double digits, [steady growth of the net continues to weaken the demand for bricks and mortar terra firma] landlords are aggressively working with tenants to keep them in place even if it means lowering rents 20% – 30%.

Real estate professionals agree that businesses aren't expanding or borrowing money. Companies elect to cut costs and hoard cash, as they envision higher costs from taxes and healthcare. Banks are doing the same even if the economy grows. Charles Gasparino from CNBC, states "Why risk expanding operations and hiring workers amid a boom in government that will lead to massive tax hikes when you can make money simply by doing nothing or laying people off? All of which translates into a jobless recovery- the economy appearing to grow while unemployment remains unnaturally high." [Nationwide unemployment figures are over 10% while Suffolk is currently 7.1% and Nassau is 6.6%] .

There are no easy answers in rebuilding job growth on Long Island just question marks. Repairing Nassau's antiquated tax system, instituting economic incentives for companies to stay here and addressing the lack of affordable housing, which is driving our young population away, might be good places to start.

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