sp brokerage spotlight

Long Island retail forecast: "Everything is for sale at the right price"

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I am certain all brokers wish they had a nickel every time they heard the mantra, "everything is for sale at the right price" but on closer examination when I look back on all the transactions I have completed, I'm surprised by my results after hearing that innocuous phrase.

Establishing the right price in an appreciating market is the tip of the iceberg when an owner has made the decision to take his bricks off the table and sell, but to propose the proverbial Gordian knot, what is there to buy at the right price?

Specializing in the sale of income producing properties my partner, Dale Staudigel and I, are in the same boat as our customers as this rising tide of retail demand raises all boats and sets new price points. Expensive is being continually redefined on Long Island. Cap rate compression in the sub 6% range persists in the Nassau-Suffolk region ignited by irrational capital attracted to investment grade centers. Even keeled appraisers and lenders traditionally not swayed by the hysteria of a seller's market, have been challenged to raise evaluations as surplus capital from 1031 exchanges continue to flow from the boroughs to the shores of Long Island.

While Suffolk County sellers are still in the catbird seat, it's not all smooth sailing in Nassau where tax certiorari lawyers are working overtime. Tethered to tax bills that are double what similar property owners in Suffolk are paying, landlords in Nassau who once swore to me their holding period was forever are exploring exit strategies to monetize long term profits.

The number one strategy for principles that believe you never sell investment real estate: you trade it, is to complete a "like kind" exchange in the purchase of commercial properties. The use of section 1031 of the internal revenue code has become a popular tool in strategic divesting. The code states investors can defer taxes on capital gains on the sale of one property if the owner reinvests the equity in acquiring another property, or up to a total of three properties, within 180 days of closing. This is one of the best advantages in owning real estate over stocks and bonds because there is no comparable code section for financial assets. The catch 22 is exchange buyers would be treading water if they identify replacement assets within the same pool of overpriced properties.

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An alternative financial instrument gaining wider acceptance on the east coast is to complete a 1031 tax exchange by purchasing a tenant in common or TIC investment. Typically, this would necessitate investors redeploying their "trapped equity" into a fractional interest of a larger institutional quality property.

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Less of a tax bite definitely plays a part in luring buyers to expand their portfolios to once seasonal east end destinations as the population of Suffolk County continues to grow. "While populations increased by 15.5% in Suffolk County during the past 25 years, the amount of shopping center space has increased by 87%," said the Suffolk County Department of Planning. Irrespective of Suffolk County's population growing more modestly than in recent decades (Suffolk's population between 2000 and 2005 increased only 4.5%), there is still more than 4.3 million square feet of new shopping centers proposed in Suffolk County.

Ron Kleinberg and Dale Staudigel are co-presidents at Tri State Properties, LLC, Dix Hills, N.Y.