Obtaining a saleable retail listing on Long Island from a motivated seller is like pulling teeth

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I was on my way to the dentist yesterday with a terrible toothache, when I started to realize the commonality dentists share with real estate brokers. We both do extractions; the dentist teeth, the broker listing extractions. The analogy I am trying to draw is obtaining a saleable retail listing on Long Island from a motivated seller is like pulling teeth.

How do I know we're still in a seller's market? Because my partner, Dale Staudigel and I have been real estate brokers for the past 20 years and we still suffer from call reluctance. Cold calling is an art form that gets very frustrating when every time we speak to owners about selling, they reply, "You're the third broker to call me this week! What's happening with this market?" Donald Trump skirted that exact question when someone congratulated him on a trophy property he purchased and he answered, "Call me in five years."

One piece of evidence is irrefutable, earlier this year, prices of prime retail in Nassau and Suffolk Counties peaked, stoked by 1031 money, and low borrowing cost that saw capitalization rates compress into the mid 5% range.

Our company, Tri-State Properties, is a niche brokerage firm specializing in the sale of income-producing properties and is detecting a slight seismic shift today in market sentiment as interest rates climb. Buyers are becoming increasingly selective in their investment choices as more strip centers come to market. These retail centers tend to be in secondary markets, i.e. non-core main street and mid block locations, oftentimes with inadequate parking and functional obsolescence. While investors in this interest rate sensitive environment are seeing more B & C properties for sale on their buying radar screens, brokerage firms island-wide had anticipated pricing corrections to follow. The reality is sellers are still looking for top dollar although the conviction in their voices is starting to waiver.

Not surprisingly, prime shopping centers on L.I. rarely hit the open market. These well-located safe properties usually anchored by supermarkets or national drugstores continue to retain their value and be sought by institutions less reliant on debt. For the conservative REIT or pension fund advisor, there is a tremendous amount of institutional capital in pursuit of investment-grade retail properties. This surplus of equity seeking placement is spilling over to all asset categories. Unfortunately for the conservative buyer that was once married to Long Island for its reliable cash-on-cash yields, supply and demand dynamics compel the cautious investor to look elsewhere.

While this competitive barrier-to-entry market (scarcity of product, strong demographics, and high disposable income) is not for the faint of heart; entrepreneurial and contrarian buyers refuse to sit on the sidelines. Investors today, have to be more opportunistic in looking at ways to enhance a property's potential, possibly through adaptive reuse or repositioning tenancies.

The existing rate of return has always been the primary factor in determining value. In the face of thinning profit margins, investors in this gambler's market must be more risk-averse in the first years of ownership, while taking measured risks over a longer time horizon in order to penetrate the L.I. marketplace.

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