

# Long Island BUSINESS NEWS

Where Business Gets Down To Business

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## Strip search: Retail centers are hot again

By DAVID WINZELBERG

Demand for strip malls is off the charts on Long Island, and good luck finding one for sale.

Before mega-malls and box stores, smaller strips of stores were the definition of suburban retail. Strip malls are usually defined as averaging about 7,000 square feet, but can be as big as 15,000 square feet; most have from four to 10 retail tenants.

Sexier Class A inventory has overshadowed these smaller centers for decades, but Island commercial brokers report that strips are back and have become one of retail's hottest market segments.

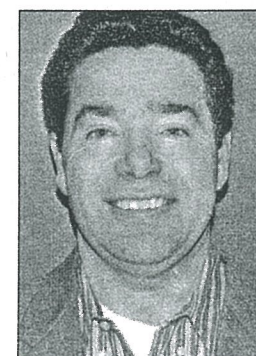
"I have lists of people ready to buy them sight-unseen," said Nicole Suozzi, director of retail services for Cushman and Wakefield in Melville.

Suozzi, who came to Cushman and Wakefield

from Oxford and Simpson a few months ago, said demand is huge, in part, because a strip mall is an investment that pays a monthly dividend – in the form of rental income – while property values usually increase.

However, while the price of real estate keeps going up, the capitalization rate (the annual percentage of return) keeps dropping.

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Ron Kleinberg

## Centers: Plenty of interest, not enough strip malls

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"If you had \$700,000 seven years ago, I could sell you a strip center and you could make 10 percent," said Ron Kleinberg, a partner in Tri-State Properties. Returns are now at 6 percent or lower.

"If I could get somebody 10 percent today, they would kiss me on the lips," he said.

Despite the lower returns, strong demand has sent the price of smaller retail centers climbing. Prices of nearly \$400 per square foot have been floated by strip mall sellers, although Suozzi said those prices are not realistic and \$300 per square foot is closer to what the Long Island market will bear, depending on the property's location and condition.

A larger investor – a REIT, for instance – might shun properties with a 5 percent cap rate, but smaller investors are lining up. Those desperately seeking strip malls are mostly small business owners, sometimes existing tenants willing to pay a premium to stay where they are and own their building.

"Some of the users in the strip centers have created a demand for them by buying the whole center when their lease comes up, like the dry cleaners, the deli owner and other longtime tenants," said Al Centrella of NAI Long Island, a commercial brokerage and management firm. "They've been buying them and they're overpaying for them. Right now, they're the go-to guys."

Today's go-to guys are largely first- and

second-generation immigrant families flush with cash and looking to invest. And sometimes they don't go through a broker to handle the deal.

"You don't even know about them," said Centrella. "They don't hit the market. The broker never hears about it because it goes right from the owner to the retailer, selling it privately."

Location is paramount when shopping for a small center. For instance, Nassau County property taxes are approximately double those in Suffolk. "If you buy 10,000 feet of strip center with 10 stores (in Nassau), you'd be paying \$70,000 in taxes," Kleinberg said. "The taxes on the same building in Suffolk would be about \$35,000."

Some investors still choose Nassau, he added, due to strong demographics and because they can command higher rents.

As hot as they may be right now, retail strips are not a sure-thing investment, according to Centrella. "It's a risk," he said, "because the investors are mostly mom-and-pops, and if the economy starts to slow they might have a problem."

Current Island-wide vacancy rates for strip centers hover between 10 and 12 percent, a big improvement from the 17 to 20 percent vacancies of a decade ago.

"There are 1,000 investors in my database that have \$500,000 in the cookie jar and there are two properties for sale," Kleinberg said. "That's sad, but it's true."