

SC

## suffolk county

# Where is the Long Island real estate market heading in the next six months?

rk Ron Kleinberg



Tri-State Properties

Did you ever ask your child if they'd like a piece of candy, a barber if you need a haircut, or a broker if it's a good time to invest? As it turns out chocolate is not so bad, short hair is in, and the commercial real estate market remains robust. Buy low and sell high sounds so easy but why did so many of us lose our shirts in the stock market?

Specializing in the brokerage of income producing properties for the past two decades my partner, Dale Staudigel, co-president of Tri-State Properties, and I were asked to comment on the last legs of this euphoric sellers' market that continues to party over a chorus of last calls. Pick your poison from Broadwater debates to rising rates, from brain drain to mall sprawls. To the prudent investor it's not so much if the bubble will burst but when.

ds Dale Staudigel



Tri-State Properties

Why then the disconnect between cranial capacity and capital capacity? Why would so many rational investors flush with cash continue to act irrationally and buy setting new price points when common sense dictates caveat emptor (let the buyer beware)?

Surprisingly, in the face of adverse forces that are now converging, i.e. exorbitant taxes, lack of affordable housing, higher debt payments and energy prices, investors rather than running for cover are running their numbers, too impatient to wait out this seller's market fearful of missing the boom.

"This is not to say there aren't experienced buyers sitting on the side lines with steady nerves. A lot of my value added buyers' fingers are hurting from crossing them, hoping the market heads south which would filter out some loose money," said Staudigel.

Many long term holders of family owned real estate have also taken advantage of this astonishing seller's market by rebalancing their portfolios using Uncle Sam's capital gains. Exiting non-core assets by trading into irreplaceable properties, the multi-generational investor has the ability to lower his yield expectation, and extend his buying horizon as the promise of future returns stays in the family.

Commercial brokers agree that with its high barrier to entry and under supply of priced to sell product Long Island will always be difficult for the opportunistic buyer to penetrate, bottom fishers need not apply. Long Island is a wealth driven area where huge escalations in home values and (before that) stock prices made people feel richer and caused them to buy more. This "wealth effect" should be subsiding but try to make a weekend reservation at a 4-star restaurant on the east end or test drive a Mercedes in Roslyn.

"Tremendous liquidity is still igniting the lending market creating action that might not be entirely justified by fundamentals," said Patrick Crandall, VP at

Fremont Investments. Of course, at a casino it's always easier to gamble with the house's money (OPM) and difficult to stop when you are ahead. Dedicated Long Island investors who rolled the dice and bought properties within the last five years have seen a significant gain in appreciation through rent growth (cap rates in the 2<sup>nd</sup> quarter and price per ft. figures are at their zenith). This "so called" irrational money has enabled investors to monetize profits by refinancing or a 1031 sale, affording leverage into larger investment grade assets.

Many long term holders of family owned real estate have also taken advantage of this astonishing seller's market by rebalancing their portfolio

using Uncle Sam's capital gains. Exiting non-core assets by trading into irreplaceable properties, the multi-generational investor has the ability to lower his yield expectation, and extend his buying horizon as the promise of future returns stays in the family.

This 1031 money swirling around the marketplace has made it difficult for the first-time buyer and under allocated investor to be competitive in pricing evaluations. Industry professionals as well, are swimming in uncharted waters. People often ask where is this real estate market heading in the next six months, but if the Federal Reserve board doesn't know, why would a broker?

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