NEW YORK REAL ESTATE JOURNAL

Tuesday, April 16, 2002

COVERING THE ENTIRE STATE OF NEW YORK

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The state of the commercial real estate market in New York City's Boroughs

The first "Perfect Storm" of the 21st Century almost hit the Boroughs of New York. To complete the weather metaphor, the front arrived on September 11, but due to a high pressure system made up of historically low interest rates, a vigorous underlying regional economy, and a nation energized by the challenge of going on to a "war-time" footing, the storm failed to materialize.

While sublease activity in the industrial and commercial sectors have been increasing from Staten Island to the Bronx, the inventory of properties for sale continue to tighten. The "old saw" that when Manhattan catches a cold the Boroughs catch pneumonia, appears to no longer be the rule. A confluence of internal growth and sub-par new construction over the past 20-years has created a near crisis for some companies looking to expand. Not surprisingly, the events of September 11, did not result in the placement of hundreds of thousands of s/f of office users in the Boroughs, simply because suitable quantities of class A of office space does not exist...yet.

Rental rates currently achievable, cross-sector in all Boroughs, can support new speculative construction. In our experience, markets which have supported the strict economics of new construction seems to appear for only limited periods of time in every decade. Evidence that this window has opened is the near completion of a regional mall in Spring Creek, Brooklyn (heretofore an area never having appeared on any retail broker's map); a 400,000 s/f spec warehouse on Newtown Creek in Williamsburg, and a state-of-the art 250,000 s/f manufacturing facility in College Point, Queens.

By way of an overview, the retail sector is supporting prices of $300 p/s/f to $600 p/s/f when viable properties can be found. The industrial sector, in many size ranges is within the $100 p/s/f to $150 p/s/f price range. There is little, if any Class A office space available for sale while Class B has been selling at under a 10% cap. Commercially suitable land from 10,000 s/f to 50,000 s/f has been selling for between $15/FAR to $30/FAR.

In these property categories a continued lack of supply at current price levels indicate that sale rates will be trending higher as long as interest rates remain stable and there are no unforeseen external events.

Under the category the law of "unintended consequences", the events of September 11, appear to be resulting in the following:

1. A renewed interest in office development in the Boroughs to facilitate the dispersion of corporate headquarters.

2. New York City receiving the international "sympathy" vote and thereby garnering the 2012 Olympic Games.

3. A continuation of beneficial real estate tax reductions for all commercial property development in the Boroughs while real estate tax rates rise to meet growing New York City budgetary deficits.

While to the far-sighted, there persist storm clouds on the horizon, for those of us in the real estate business in the outer-Boroughs are still enjoying pleasant weather.

Overall the market and the system is intact, albeit fragile, so any untoward outside event could have a significant impact on present conditions.

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