

brokerage

Suffolk County holds strong in the sale, lease and sublease markets



By:
Michael
Stein

While many areas of the country are experiencing a sharp downturn in occupancy, the Suffolk County office leasing market has continued to hold strong. Consisting of a base of approximately ten million s/f, (the bulk of which is located in the Melville and Hauppauge submarkets) the Suffolk vacancy rate is currently running about 11%, with net absorption to date for 2004 at a whopping 212,000 s/f.

Because of the high level of activity in the market, we've noticed landlords have become increasingly conservative when offering free rent to new tenants. The pendulum has swung, and it is once again becoming a landlord's market. For the first time in history rental rates in Suffolk have topped \$30 per s/f, a rate that was previously only seen in prime areas of Garden City, or EAB plaza. One of the key indicators to the strength of the market might be in Reckson Associates ground breaking on building two at the Reckson Executive Park in Melville, 68 South Service Rd. Planned to be an additional 250,000 s/f class A building, it is the only project underway in Suffolk, based on speculation that tenants will be available to fill

the additional vacancy.

One of the most noteworthy lease transactions in Suffolk County this year was a lease of 180,000 s/f signed April by Henry Schein, a global distributor of healthcare products at 80 Baylis Rd., in Melville. Schein currently occupies 105,000 s/f at 135 Duryea Rd. in Melville, as well as a host of other smaller suites that they will be consolidating into the new location. Additionally, First Data, a Colorado based credit card processing firm, who signed a lease for approximately 270,000 s/f on Walt Whitman Rd. last year recently took occupancy in the new facility. This move left behind several large blocks of space, including 135,000 s/f at 265 Broad Hollow Rd., Melville, which will be

occupied by NorthFork Bank.

From a sale perspective, it is readily apparent that fluctuations in the stock market and low interest rates have motivated investors and users alike to actively seek new opportunities to park money in real property. This includes a new foray into Suffolk by New Jersey based Ivy Equities who purchased a 400,000 s/f portfolio in Hauppauge, from Heatherwood Properties for a grand sum of \$43 million. Users are actively scouring the market for opportunities, which have become more scarce than homes in the residential market. These same users are driving the market up to prices that regular exhibit no return on investment other than a long term accumulation of equity. With low interest

rates, users are finding that they can carry overhead on owned properties, even when purchased at inflated prices, and often at rates below what they would have otherwise paid in the rental market. This phenomenon is not something that we expect to continue indefinitely. As interest rates continue to climb, sale prices will level off as that carry cost once again begins to exceed rental rates. That alone should be enough to continue the strengthening trend we are seeing in the leasing market.

Although the definition of a "steal" may have changed recently, there are still bargains to be had in the sale, lease and sublease markets, and diligent brokers are still able to deliver for their clients. Our best recommendations to our clients, is to get into the market early enough to find those opportunities before an expiring lease forces them into a hasty and sometimes unfavorable deal.

SERVING THE REAL ESTATE NEEDS OF CORPORATE AMERICA

- Office • Industrial • Land • Investments • Sales & Leasing
- Tenant/Buyer Representation • Build to Suit • Consulting
- Financial Analysis