

# Real Estate Journal

COVERING ALL OF LONG ISLAND, NEW YORK CITY AND UPSTATE NEW YORK

## No ease in "site:" Rental and sale rates in L.I.'s commercial market will both continue to creep up


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on his cash, a user may only be interested in the fact that the carry cost for owned property is roughly equivalent to the cost they would pay for rent. A user will look towards tax deductions to defray those carrying costs, while amortizing a note that will one day produce a sizable piece of equity. They can also look beyond the instability of vacancy, since they themselves control occupancy of the property.

The fact that interest rates remain low is an added bonus. In fact, while the prime rate has consistently risen since July of 2003, mortgage rates have remained level and in some cases even dropped.

Freddy Mac has recently reported a drop in both 15 and 30-year fixed mortgages. One might speculate that soaring home sale prices are in fact helping to fuel the commercial real estate market, and might be demonstrated in the increasing popularity of the Real Estate Investment Trust (REIT). An industry once constrained strictly within the bounds of profit and loss, vacancy and return has taken on airs of a beauty contest, as it becomes more and more apparent that the value of the REIT, like so many other securities, may be driven by its ability to sell shares, more than the equity value of the

product contained within the portfolio. And why should that not be the case, when the so called experts are standing on the sidelines scratching their heads about a trend they said could not continue?

Individuals have continued to see previously unknown wealth has bloomed around them, as personal residences have jumped in value. The schism created by these conditions have made an American dream for some, while pushing that same dream firmly out of reach for many others. Is it possible that the only way to grab a piece of real equity is in the form of a share in an investment trust?

As many renters continue to save for their own homes, and the price of those homes continues to escalate out of reach, why not look to place cash in shared ownership, where one can still reap the benefits of soaring real estate prices, without needing the liquidity of sole ownership? Reckson Associates is a prime example. Since undergoing internal transformation almost two years ago, Reckson has seen the value of its shares rise by almost 100%. Following this chain of events, REITs have continued to do what REITs do best. Buy more property and invest.

On Long Island, this trend has been the source of major doings.

Since the buying trend of both users and REITs have continued to drive the price of real estate up, many long term and even multi-generational firms have been enticed to sell prized trophy properties or even entire portfolios.

To further complicate the matter, costs of steel, concrete and now energy have been hovering at new highs, making it costly and difficult for developers looking to spec build. New inventory has been dwindling, which only fuels both the already hot upward cycle. The shortage of office space drives the cost of rental rates up, increasing cash flow which in turn is increasing values, further driving sale prices up. It would seem that this combination of events would continue through the 4th quarter of 2005 and well beyond. Even if costs for construction materials were to drop, opening the door for new development, it may still become increasingly difficult on an island where Nassau and Suffolk counties comprise 1,200 sq. miles, to continue to find land to develop. In summary, barring major disasters, natural or otherwise it would seem to be a safe bet that both rental and sale rates in the Long Island commercial market will continue to creep up.

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