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L.I. short on tenants as big spaces go empty

Sublets compete with landlords; rents fall; smaller businesses move in

BY VICTORIA RIVKIN

In early March, Reckson Associates Realty Corp.'s chief executive told analysts that the outlook for the largest commercial landlord on Long Island was bleak. Early lease terminations and a significant increase in large blocks of sublet space led Scott Rechler, co-chief executive of the Melville, L.I.-based real estate investment trust, to predict that the year would be "flat and challenging."

Mr. Rechler wasn't only describing the outlook for his company.

"The office market is struggling all over Long Island," says Richard Maltz, chairman of Greiner-Maltz Co., a brokerage active on the island. "Nothing is easy to rent today," he says.

The poor economy is causing companies to contract and tighten their purse strings. They are learning to make do with less space and putting their expansion plans on hold. That often means listing unwanted space on the sublet market, which further depresses the local real estate market.

Large blocks of real estate are the hardest hit, say brokers and landlords across Long Island. Reckson's own troubles stem partially from WorldCom/MCI. Last February, a court allowed the bankrupt telecom to walk away from its lease of 127,000 square feet of Reckson space.

Corridor with vacancies

"Areas that were home bases to large national companies have a lot of vacancies," says Frances Schor, president of TreeLine Cos., a Long Island-based landlord that owns 700,000 square feet of space in central Nassau County. "The Route 110 corridor is faced with large blocks of space on the market that need to be absorbed."

These empty spaces are now having to compete with large blocks of sublet space, bringing down prices. For instance, Cablevision recently put 310,000 square feet of space in Jericho on the sublet market. Mitchell Rechler, co-president of Reckson, says that the vacancy rate for Class A direct space on Long Island is 8.1%, but when sublet space and class B buildings are included, the vacancy rate jumps to 15.2%.

"The owner's own tenant is now the competition," observes Ms. Schor.

Because of a strong presence of homegrown companies, a diverse workforce and little overbuilding, Long Island will weather the storm, says Fred Trump III, Insignia/ESG Inc.'s executive director. "Long Island does not have fluctuations like New Jersey, Connecticut and Manhattan," he says.

Given the current state of the economy, Mitchell Rechler says, both Reckson and Long Island are doing OK. "Activity is not like it was before. It has slowed down," says Mr. Rechler. "But it certainly has not died."

Keeping up demand

While much of the interest in leasing large blocks of space has waned, smaller offices—between 5,000 square feet and 20,000 square feet—are still moving, says Ms. Schor. Local companies and service businesses are keeping up the demand for these smaller spaces.

"If we don't quickly have a tenant available for a large space, we break that space up in order to lease it," says Ms. Schor.

Herbert S. Agin, chief executive of Sutton & Edwards/TCN Worldwide, says that while the Long Island market has slowed from the level of the go-go years, it is still within its historical occupancy rate, of around 90%. "The market is more similar to the way it was in 1995-96," he says. ■