

NEWS FROM *The New York Times*

Squeezing Out Space In A Tight Office Market

*By Diana Shaman
Published: February 20, 2000*

THE announcement by Cablevision Systems Corporation of Bethpage earlier this month that it had signed a long-term lease for a 310,633-square-foot building at 200 Jericho Quadrangle in Jericho has taken a major block of space away from Long Island's already tight office market.

Still, both brokers and developers say that even tenants looking for large amounts of space still have multiple options.

The 200 Jericho Quadrangle building, owned by the We're Group of Jericho, is currently occupied by Chase Manhattan Bank, which is moving some of its Long Island operations to Texas. The bank's lease expires in May, but its lease on a twin building in the same complex doesn't expire until September 2001.

"People say the market is so tight, but we are not the only space available," said Benett Rechier, one of the principals of the we're Group. "I think there's adequate supply to meet demand and people are not going to go wanting for space, although they may have to plan a little better for their needs," he said.

According to Cushman & Wakefield of Long Island, the Melville branch of the international brokerage, overall vacancies of Long Island declined to 6.5 percent for Class A buildings and to 7.7 percent for Class B buildings in the fourth quarter of 1999. Class A buildings are defined as high quality buildings in good locations with above average rents; Class B buildings as close that are older or in less desirable or visible locations but of good quality with average rents.

The Chase building in Jericho was not included in the compilation of those figures, said Joann Saul, research manager at Cushman & Wakefield of Long Island. Had the 100,000 plus square feet come on the market the vacancy rate for Class A space would have jumped to 8.8 percent, she noted. And the Eastern Nassau submarket, which includes, Jericho, the vacancy rate would have risen from 1.2 percent to 12.9 percent, she said.

"The Chase building was going to give tenants another option in an ideal location," said Gus P. Nuzzolese, senior executive director at Sutton & Edwards, a commercial brokerage in Lake Success. "But if tenants

are flexible in their locations, images and budgets, there are options including conversions and sublease space."

The spillover effect of the Cablevision deal will be that tenants will broaden their search to areas where large blocks of space are available, said Martin L. Lomazow, senior managing director at the Syosset branch of Insignia/ESG, an international commercial brokerage. For example, he said, 90,000 square feet are still available at 3HQ, a 400,000-square-foot building in Melville owned by Flatbrick, a Manhattan partnership. The space was vacated by Fleet Bank in 1998.

Some new construction - notably a 100,000-square-foot building in Woodbury being developed by the Tilles Companies of Woodbury, and another of 100,000 square feet being developed by Greenway Office Plaza Park Melville - is nearing completion. But the major new project - the first phase of the 554,162-square-foot Reckson Executive Park being developed by Reckson Associates Realty Corporation in Melville - will not be ready for occupancy until late this year.

The Cablevision deal could jump start other projects that have been announced, but have not yet begun, said Robert S. Rosenbluth, executive managing director at Real Estate Strategies, commercial brokers in Jericho. Mr. Rosenbluth, together with a colleague, David Reiner, was the broker for the Cablevision transaction.

Among the new opportunities for space, brokers say, are subleases and major conversions of industrial buildings now underway. Reckson, for example, is converting a 169,405-square-foot industrial building at 50 Marcus Drive in Melville, which had been vacant for several years, into the Melville Technology Center with a Aug. 1 occupancy target.

The two-story structure will be gutted and reclad with decorative metal panels and reflective glass, and a two-story atrium will be placed at its center.

Mitchell Rechler, co-chief operating officer at Reckson, the real estate investment trust, said the building would provide the large blocks of space now in short supply, adding that a minimum of 15,000 square feet would be leased to individual tenants. Because the building has three lobbies and three separate elevators, a company leasing at least 60,000 square feet could have its own lobby and elevator, he said.

EVEN though the Melville Technology Center will receive the interior finishes and have the appearance of a first-class office building, because it is a renovation and not in a highly-visible location annual rents of \$23 a square foot "are well below the market for an A building, and this is an A building." Mr. Rechler said.

Another conversion in Melville, scheduled for a May 1 occupancy, is the 149,000-square-foot Melville Corporate Center on Maxis Road being developed by the T. Weiss Realty Corporation of Melville. The company plans to move its headquarters into the building, which is being developed in two phases.

The 75,000-square-foot industrial building, which will get a second story, originally was a bakery, said Ted Weiss, the president of the development company. Over the years, it was occupied by the Grumman Corporation and a machine shop, among other tenants. Now, the \$18 million project will offer not only traditional office space but a 25,000-square-foot incubator as well, in which start-up technology companies can rent as little as 500 square feet to get their businesses off the ground.

The building, where rents are \$22 to \$24 a square foot plus electricity, will contain a cafe with Internet access and a health club for the exclusive use of tenants.

Yet another conversion of industrial space to offices is being undertaken by the We're Group. The developer is taking the 35,000-square-foot warehouse belonging to a 120,000-square-foot office building in Melville and is converting and expanding the warehouse to 85,000 square feet of new office space. Construction is to be completed this summer.

Tenants at the existing office building, called 8 Corporate Center Drive, are NEC America, which originally occupied the entire building and retained 35,000 square feet, and the State Insurance Fund, which has leased 85,000 square feet. "Rents are \$23 a square foot, which are 20 percent less than new construction," Bennett Rechier said.

To accommodate the growing demand for medical space, the developer is also retrofitting an older office building at 6 Ohio Drive in Lake Success as medical offices. It already completed two other conversions of offices to medical space in Lake Success over the last five years, taking a total of 180,000 square feet off the office market.

"Medical space has taken away a large chunk of existing inventory and that has helped tighten the office market," said William T. Yorio, senior managing director at Cushman & Wakefield of Long Island.

Nevertheless, industrial conversions are adding to the office inventory faster than space that is being depleted. Among other new deals is 100 Sunnyside Boulevard in Woodbury, which has been completely gutted and given a new facade and new interior by the owner, Plaza Realty of Woodbury. Rents are \$22 a square foot, and a lease signing with a tenant wanting 35,000 square feet is imminent, said Theodore A. Stratigos of Cushman & Wakefield of Long Island, who is the broker on the building.

To meet demand, developers are looking at less traditional structures as well. In Garden City, for example, Anton-Cerrone, a Syosset developer, is converting a former bus repair shop at 625 Locust Street into office and research-and-development space. Rents are \$8.95 a square foot plus taxes, utilities and insurance, said David G. Hunt, whose Syosset-based commercial brokerage is handling the leasing.

Industrial conversions have been doing well all over Long Island. In Garden City, Albanese Development of Garden City and Castagna Realty of Manhasset converted the upper two floors of the former Abraham & Straus department store building on Franklin Avenue to 40,000 square feet of offices. The space has been leased by Salomon Smith Barney, which took 35,000 square feet, and the Silverberg & Hunter law firm, which took the remainder.

At the 355,000-square-foot Long Island Technology Center in Great River, which opened for occupancy last June, 34 high-technology companies already occupy 120,000 square feet and leases for an additional 20,000 square feet are out for signing, said Arthur R. Stern, chief executive of Cogswell Realty in Manhattan, the co-venture partner in the project with Rudin Management of Manhattan. The Technology Center where rents are \$19 a square foot, accepts only tenants with technology or education-related businesses.

Some of the industrial conversions - like the Great River project, which has a cafe and will have a day-care center and a basketball court - have the same amenities as Class A buildings, but many don't.

Nevertheless, industrial conversions tend to rent briskly because rents are more competitive than those of the first-class buildings, said Jack Britvan, president of American Corporate Realty in Woodbury.

"If you have a choice of \$21 versus \$26 a square foot and you don't need gold on the walls, you can be happy as long as the building is functional." he said.