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New England SIOR Chapter holds Featured Landlord breakfast

June 09, 2010 - Spotlights

The New England Chapter held its April breakfast event at the Newton Marriott on Wednesday, April 28. The Landlord Featured breakfast event introduced Joe Zink, president and CEO of Atlantic Management. Approximately 36 SIORs and guests attended this private invitation only event. Greg Klemmer, Chapter president first thanked Jim Boudrot and Don Mancini for organizing the event. He then announced that he had just returned from the SIOR National Convention in Orlando and that the New England Chapter was awarded the Best Recruiting Program of any chapter on a national basis. He thanked Mike Zieja and Mike McCarthy for their contributions as Candidates with recruitment events at Atlantic Beer Garden and King's Bowling. Klemmer then announced the upcoming October 7 Scholarship Night that offers \$2,000 to a Candidate with at least two years of commercial real estate experience. The scholarship is applicable to an SIOR course and the fall convention travel expenses. Klemmer also welcomed our newest member, George Paskalis, SIOR of MG Commercial. The Chapter also has two more applications for membership.

On May 13, the Chapter teamed up with Big Brothers/Big Sisters at Porters to meet with the staff on ways that SIOR Chapter members can contribute to the BB/BS program.

Joe Zink was then introduced by Klemmer. Zink is the president and CEO of Atlantic Management and oversees all the federal, state and local permitting for the company. Atlantic Management is a 38 year old company with 62 properties and approximately four million s/f of space including industrial, medical, life sciences, residential and other commercial buildings. They manage their own properties and do not engage in third party management. Prior to working at Atlantic, Zink worked at the Flatley Co. He is a graduate of Babson College and involved with charities on health care and children's education.

Here is a summary of Zink's presentation

- * On Dec. 15, 2009, Atlantic sold Math Works in Natick and as part of a 1031, purchased 750,000 s/f of properties in eight buildings located in Billerica, Avon, Stoughton, Brockton, etc. The properties were a mix of medical, office, R&D, etc.

- * In this environment, investors need to be creative and get in front of deals before they hit the open market. Zink is trying to tie up properties within days of being introduced to the opportunities.

- * Zink is finding more available financing and lenders. He feels that this coming fall and winter, 2011, the market will experience more lenders trying to sell off troubled assets. He feels that the banks in 2009 and early 2010 have been able to strengthen their balance sheets and can now afford to take the loss on troubled assets. The banks will be quick to expedite the sales of these properties. It will not be long, drawn out procedures.

- * Financing is tough to obtain as compared to the early 1990s. Back then, financing was readily available and now underwriting criteria is stricter.

* Zink has seen positive activities in the last 60 days with tenants as well. He feels that the market has stabilized and tenants are ready to move up to nicer and less expensive space, or expand and he sees more landlord TI money for tenants. He also believes that we will continue to experience rent compressions. Some properties will result in foreclosures and lenders will probably sell well below replacement costs. Zink was able to buy below \$20 per s/f. The low basis for sales will be the future.

* Zink has a 15 year average cash-on-cash return of 27% due to low basis costs. If an investor has a high basis, then the basis can never change but the rents can decrease and occupancy costs can increase. The investor is doomed. But with low cost basis, the investor has flexibility with rent reduction and rent concessions. An investor cannot pay \$200 per s/f for suburban office building which he has observed and expect to survive.

* Lending: Zink feels that the smaller banks in 2009 had ample money for financing but they now expect equity contributions and a borrower with solid real estate experience. He sees no problems obtaining financing from small bank sources. The larger banks have the asset problems and are not good sources. The small banks have clean balance sheets. He recently closed on non-recourse financing at 6.25%, 10 year term with 35% equity financing. During Labor Day of 2008, he closed on financing with GE Capital and then GE Capital offered no more financing. Now, a year and half later, GE Capital is active in the market. It is a healthier situation.

* Zink also has equity partners. He could have one partner or a few partners. He has only one institutional partner.

* Operating commercial buildings however has become more expensive. He sees real estate taxes are a problem as it is increasing. Zink has experienced 30-35% increases with taxes or \$5 per s/f. Add the \$7 per s/f operating expenses and office buildings are now experiencing \$12-13 per s/f costs. It is becoming more difficult to be competitive and the margins are slimmer.

* Rent delinquencies have seemed to stabilize. In 2009, Zink stated that rents were way behind and it was a bad situation. Now tenants are catching up with past rents. Tenants are also feeling better about the economy and starting to grow.

* Cap Rate Environment: Off-market deals - Zink is observing deals at or above 10% but with higher base building capital issues. So the 10% cap rate can be deceiving as money is needed for base building improvements.

* When shopping for investments, Zink likes to focus less on the building condition and more about the future value of his location to tenants when turnover occurs. If he likes the location and sees future benefits for a tenant then he will investigate the asset in more depth. They can make quick decisions.

Zink concluded that they are very active seeking investment opportunities. He feels that the bottom has been reached and that the next few months will serve to be a great opportunity.