



nerej

Review your business plan: How can we use this market to our advantage and try to profit from it?

September 02, 2010 - Northern New England

I have been struggling between sounding like a pessimist and trying to be a realist lately when talking about the commercial real estate market. The fact that we are in a recession is clear. Last evening, as I watched the news and they were discussing the potential for a "double dip" recession, it made me wonder about what the future will hold. At times like this, it is my opinion that what we all need to be doing is looking at our business plans and models and reviewing them to determine what this economy means to our business and how we can use this market to our advantage and try to profit from it. I am in the brokerage business. But I have friends that are attorneys, accountants, and other business professionals that are also reviewing their business models and making adjustments as the economy changes. I believe this is sound advice. I want to use this article to outline some opportunities I see in the commercial real estate market.

Cap rates on investment properties are up over the last couple of years yet interest rates are still extremely low. Theoretically, this should increase the cash return on a purchase. Now, given the market and the economy we are in, adjustments have had to be made to vacancy rates and collection factors. Now, I'm not suggesting that there may not be an increased risk with a purchase in this environment. However, if sound and prudent investments are made, over the long run, this is a great time to purchase commercial investment real estate. I have quoted this before and will do so again, as one of the world's greatest investors, Warren Buffett, said, "be fearful when others are greedy, and be greedy when others are fearful." Lower cap rates mean lower purchase prices and, over time, a greater chance of appreciation.

Commercial leasing can be very profitable in this environment as well. Vacancy rates in my area are up and rents are dropping because of it. Tenants can take advantage of the market now by securing discounts in rents over the long term. I recently completed a 10 year lease for a large regional distributor who took advantage of this market and secured a 10 year blended rate for 10,000 s/f of new construction warehouse space of less than \$5 per s/f, NNN built out to suit their needs. This tenant was aware of the market and has secured suitable space at a discount with a considerable savings over 10 years. Landlords should be consulting their local brokers to stay in tune with recent leases and lease renewals to know what is going on the market and to remain competitive. It doesn't take me to tell you that it is better to retain a tenant than to have a vacant space and the costs associated with re-leasing such as commissions, tenant improvements, etc.

If you own commercial real estate and may wish to sell in the next few years, thought definitely needs to be given to market conditions. The capital gains tax rate is still very low at 15%. Interest rates, as mentioned above, are extremely low and may go up. Prices may continue to decline with the unknown's in the economy. Overall, if you may wish to tap into equity or liquidate your holdings in the next year or two, the remaining few months of this year may be a great time to look at selling.

I wrote an article similar to this for spring of 2010. Has much changed since then? Overall, the answer as it relates to the commercial real estate market, is no. However, I have found that my clients, tenants, landlords and investors are all more aware of what this economy means to their business plan and their bottom line. I would encourage all of you to take a few moments over the next few days to contemplate what this economy means to your business and how you may take advantage of the opportunities that exist in this market. They are there and available. Don't be the one that is sitting around 5 years from now talking about "what I should have done is...."

Kevin Fletcher, CCIM, is head of Team Fletcher with Coldwell Banker Millett Realty, Auburn, ME.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540