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Commercial real estate practitioners must look forward and understand new trends

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Most commercial real estate practitioners are looking forward to the New Year. 2010 was far from stellar. It was better than 2009, but 2009 was the pits. So anything would have been an improvement. We have been busy with our advisory and consulting work, broker price opinions, real estate tax rebate analysis and applications; mediations, arbitrations, portfolio reviews, refinancing strategies and analyses of "trade up" opportunities for tenants. For some users, there are a limited number of opportunities.

We say limited number because A) there is still a great deal of capital sitting on the sidelines, B) there is still a big gap between sellers and buyers (bid and ask), C) buyers are cautious, D) lenders are cautious and conservative, E) appraisers are very conservative and F) the economy seems to be making headway, but.... there are too many confusing economic theories and statistics floating around. So, if your firm or organization is profitable in this challenging economy (and many firms are), then it is a good time to find a facility(s) and hammer out a good deal. However, there is hesitation out there, especially with some economists talking about commercial real estate values dropping another 10, 15 or 20%. The next 3 to 4 years have lots of commercial mortgage-backed securities (CMBS) loans rolling. We are told that commercial banks refinanced about \$10 billion in 2010 and might do \$30 billion in 2011, but there are more than \$130 billion rolling over. Clearly, some of these CMBS loans are being extended. But the suggestion is that many will not and this will further depress property values.

Our advice doesn't change much - if you have an opportunity to acquire a facility that will facilitate your operations for the foreseeable future and let you make money, at a reasonable price, with reasonable financing - then take it. Like the equities market, no one has the ability for exact market timing to pick the exact bottom. If you are staying in a facility for 10+ years, it will not matter whether you buy it at \$50, \$55 or \$60 per s/f.

So, as we look forward through 2011, we see another anemic year. If a majority of the pundits are right, we need something north of 3% GDP growth to keep unemployment level. Last week's forecasts range from 2% to 3.3%. We have gridlock in Congress and the overall sense is that short-term progress may be moderate but the next two years (until the 2012 presidential election) should be positive because:

1. The de-railing of the expanding nature of government by the Obama administration and the Democratic leadership in the Congress, and
2. The Obama Deficit Reduction Commission appears to have gained a toehold on getting all parties to give the annual \$1 trillion deficit serious consideration. Erskin Bowles, a co-chairman, stated "the

era of deficit denial in Washington is over".

3. The apparent agreement on extending the tax cuts for two years is good news (but the several billions of dollars of add-ons in the compromise bill is the bad news!)

So, if things are trending slightly positive for 2011 and 2012, where should our focus be? The National Association of Realtors fall Commercial Connections Newsletter cites six drivers in the coming years:

1. Healthcare will move from institutional to community-based. In fact, we at Norton Asset Management are working on the siting of a new Article 31 mental health clinic in the South Bronx.

2. Telework and Alternative Workplaces will continue to increase in popularity and will continue to reduce companies need for office space.

3. Green Technologies -- The Next Internet? "Green" will be an important economic driver. Sustainability is an important theme gaining support. Commercial real estate practitioners will need to be able to do the calculations and determine if and what the paybacks and return on investments will be.

4. Adult Education -- Retooling the Workforce This is not only going to be a growing user of space, it is critical to energizing our regional economy to maintain competitiveness with other areas of the country that have surpassed us in educational investments for K-16.

5. Business Investment Replacing Consumer Spending The glut of retail space will not be absorbed soon. Office space demand may not return to 2005 levels for many years.

6. The Shifting Role of Government Public and private partnerships will increase as state and local budgets struggle.

So, a primary challenge for commercial real estate practitioners is to look forward and understand new trends, while keeping busy with existing projects and lines of business. We have bid on several new projects and we have clients with ongoing projects. The first half of 2011 should be busy, but we keep looking every day for work for the second half of 2011 and into 2012. So, I hope you rested up over the year-end holidays and are ready to come out running in 2011.

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