



CELEBRATING
55 YEARS

nerej

Current market can offer above market returns for new properties by applying extra creative effort

January 27, 2011 - Spotlights

2010 was by all accounts a challenging year. What's ahead in 2011?

Overall, some markets are rebounding while others are experiencing rapid growth. Still others are remaining stagnant given the unpredictable economic situation in Mass. Let's take a look at a few examples:

Strong development opportunities exist in renovations and building reuse - especially those that incorporate "green" elements such as solar panels, retrofitting mechanical systems and reuse of previously manufactured or leftover materials. Given that there are hundreds of millions of square feet of commercial space inventory currently on the market or occupied and that these leases will eventually need to be negotiated based on current market conditions, what can be done to stay competitive? Tenants who are renegotiating leases in 2011 will be demanding the reduced operating costs of a green building - even if negotiating a lease on a property that is not performing at that level. Landlords and owners will be left picking up the tab for a portion of the tenant's operating costs or losing the potential income to a more competitive site. The balance between the need for long-term competitiveness and the financial feasibility of immediate building upgrades is one that each owner or portfolio manager needs to consider on a building by building and market by market basis. More than ever before, in 2011 environmental factors will play a part in the selection of business location and will elicit responses from building owners due to the economic this brings to the negotiating table.

The corporate world is going green - so projects that support this direction are more feasible than many of those that do not. Tax credits and market perception are fundamental supporting structures for these developments that will continue throughout 2011 and into the future.

Container buildings, another "green" concept, are being erected locally and throughout New England. These projects reuse shipping containers in creative and cost-effective ways and cut the timeline of a project dramatically. They are also interesting visually and appropriate for many uses including office space, schools and retail space for goods and services.

An example container building project in Providence is an elongated and difficult to develop commercial site with limited depth of just over 80 feet. Such limited depth would normally inhibit the construction of any building. With a creative approach, the developer used recycled shipping containers to create a three level structure with twelve distinct office areas. This productively green approach is an example of cooperative and creative application.

Another particularly creative and environmentally friendly structure is being built in Boston at One Merrimac St. This site will be Boston's first electric vehicle charging station and parking facility. A container building will be constructed on the site, providing a bank ATM, neighborhood retail and incubator office space.

In addition to the structure built from recycled materials, the project is a positive reuse of an urban brownfield and the site will employ solar-powered LED exterior lighting. This environmentally-conscious project is the first in what will become a more typical reuse of sites, in 2011 and beyond, as consumer demand and energy availability support the transition from petroleum fueled automobiles to electric powered versions.

Many retail indicators are strong, especially in the mid and lower retail sector. While many malls are struggling, retailers such as Target, Dollar General, CVS (among others) and many resellers of second hand goods are thriving. Consumers are looking for quality more than ever before - however they have changed their thinking about where it can be obtained. Many consumers are seeing used goods as an avenue to the quality they seek at a price they are able to or happy to pay. Used car sales are also rising in a similar manner - the economy has taught many to take advantage of the savings achieved through purchasing used goods while still enjoying the quality and/or luxury that is desired.

Leasing for office space is generally challenging. Owners who market their properties well and at appropriate rates and terms will find tenants but not without some negotiation and concessions. Services and specialty businesses are strong at this time and this should continue while general large office users are still attempting to cut costs and dump excess space.

As commercial real estate is a lagging macro economic indicator, the industry may continue to see challenges for the next eight or nine quarters. However, investors can still find sites with strong IRR yields through creative use of approach, materials, structures and uses. Those looking for space will find many options in the market and can negotiate attractive terms with financially stable building owners and managers. 2011 will see much improvement in the commercial real estate markets - but remain cautious and do your due diligence.

Katherine Wellington is a principal at IPS/Investment Property Specialists, Inc., Framingham, Mass.

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