



nerrej

"Be fearful when others are greedy, and be greedy when others are fearful" - Warren Buffett

March 03, 2011 - Northern New England

The last 2 or 3 years in the commercial investment market have been difficult. Several factors have hindered deals ranging from lender strength to tenants strength, vacancy rates to lease rates, and so much more. This dip in the market has made many investors wary and very cautious, but a return to fundamentals was needed. Prior to this recession, many investors were not basing purchases on fundamentals and were not using sound investment guidelines. However, let us not swing too far the other way and fall into analysis paralysis when looking at deals in this market. When a deal is a good deal, be ready to move on it. I have seen buyers in this market analyze deals so long that they lost them.

2011 shows great promise in the commercial real estate market. Cap rates have risen over the last couple of years due to all the issues stated above. However, I believe that the economy is going to start rebounding and consumer confidence is already starting to increase. This should help commercial tenants start regaining strength, cause vacancy rates to lower, and rents to stabilize. Interest rates are still incredibly low and long term money is available. Sellers who have been struggling with the realizations of the market are coming around and deals are becoming more available. I was speaking with a client the other day and we were talking about deals in the market. He said "you couldn't have enough money to buy the deals that will be available in the next few years". This quote is coming from someone that has been investing and developing for nearly 40 years.

Cap rates on investment properties are up yet interest rates are still extremely low. I believe the risks associated with purchasing in this market are low. If sound and prudent investments are made, 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." Higher cap rates mean lower purchase prices and, over time, a greater chance of appreciation.

2011 is the start of a new decade. The deals in the market are plenty and cash is available. I am very bullish on investments in commercial real estate over the next several years. However, as always, I caution all investors to conduct a sound analysis of every deal, but try not to over analyze. When a deal is good, buy it!

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