



CELEBRATING
55 YEARS

nererj

Pearce explains the commercial RE market in Conn. shows same characteristics as the rest of the country

June 16, 2011 - Connecticut

I was asked for this column about how I ended up in commercial real estate. It's a fairly typical story, although it doesn't seem to happen to many women. I grew up in a family with a father in the real estate business, got my license over one summer in college, and went to law school and business school. I was practicing law when my father turned 65. He had no succession plan, and I had a job where I worked 90 hours a week. We participated in a study of family businesses, and found that we agreed over 90% of the time on issues, prompting the study organizers to question whether we had really done the questionnaires independently. I came back and ended up working with him for almost 30 years. I was very fortunate to spend so much time with him as an adult (as most of you who own businesses can figure out, more time than I spent with him as a child), and lucky to have raised my children in close proximity to my parents. The real estate industry has changed vastly during those years, and it's probably more useful now to have had legal training than it even was then. The demands of the current market make the stress level closer to practicing law at the level I did, but at least I am the master of my own destiny, as the poem goes.

The commercial real estate market in Connecticut has much of the characteristics of the rest of the country; there is good news and bad news. In Greater New Haven particularly, there is more good news than bad, although that hasn't been translating into sales. The hottest part of the market is multifamily housing, with New Haven having the lowest vacancy rate for apartments in the country - 4%. There are 6 colleges and universities in the region, and they seem to produce an endless supply of students, especially graduate students. In fact, the very high end housing closest to Yale has a large component of graduate students, despite luxury prices. We tend to think of students as poor, but their parents often are not, and see safety as a priority worth paying for. In addition, some think of housing for their student children as investment income for themselves. New Haven has a big supply of multifamily houses, where a student can live on one floor and rent the others out.

Retail, which has been very slow for the past couple of years, has been picking up recently. Professional offices, especially doctors and physical therapy and medically related uses, are the strongest segment. Doctors in particular are looking to own their own space. They, like others, however, seem to be dithering for unusual periods of time before deciding, if ever. Other professionals have not been expanding at the same rate. Flex space also appeals to people who have office uses, and that makes it more desirable than other types of space, due to its - surprise - flexibility. Traditional office does not have the vacancies of other locations, simply because not much new space has come online in the past decade. Therefore, rates are in the 11% range for vacancy. Rents have not gone down too much, but they also have not gone up. The same is true of industrial space, which seems to be about the same price as it was twenty years ago. The one exception is for small industrial buildings for users. There is a big demand for those, in the 5,000 to 20,000 s/f range,

and they seem to sell quickly.

The biggest fly in the ointment once a buyer locates a building is financing. Despite what we read, and despite governmental programs such as SBA, there is great difficulty in securing financing for buyers, and many more deals fall through during the sales process. If the sale is a short sale, all bets are off. It could take months or years to close, just as in residential. Delays are common, and sometimes life intervenes. The other big problem is the "jobless" recovery. Fewer jobs means a permanent need for less space, and that's reflected in rates. Finally, there are lots of users out there who are holdover tenants without leases, and they can move at any time. That means that they shop around and then renegotiate with their current landlords.

I've been explaining the cloud, but the silver lining remains: rental housing and small user building use, along with low vacancies in almost every sector. We have had a lot of lookers this year. Bring on the buyers!

Barbara Pearce is president and CEO of H. Pearce Company, New Haven, Conn.

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