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Rob Nahigian - Where's the beef? Questions about commercial real estate

July 07, 2011 - Appraisal & Consulting

During the spring, I have heard the temperament of the commercial real estate investment market from many clients nationally.

The economy isn't improving in a way that is sparking commercial real estate transactions for many of them and many have asked the following:

1. Will this recovery be different? Where are we in this recovery? Why is nothing happening?
2. Financing: The conduits do not understand the "extend and pretend." How are we going to get deals done?
3. Selling prices and offers still are wide apart. How and when is that spread going to narrow?
4. How is the next election cycle going to impact our industry?
5. Are we going to have to wait until 2012 to survive? There is already too little activity and its survival time.
6. Do I need to shift my real estate model or is this market coming back?
7. Clients are facing refinancing issues and banks aren't willing to refinance or there is a short-fall in appraised value and the client does not have the cash to make up the difference.
8. Finding tenants to lease office or industrial as been tough. When does the employment situation change?
9. Is there liquidity out there for commercial real estate?

We have major concerns during this summer that could dramatically change the game rules. These changes could help or hinder our industry but the reality is that there is no easy answer.

1. The market's reaction after the end of QE 2 on June 30th. The M2 Money Supply is already starting to shrink. Will interest rates increase dramatically, slowly or nominally?
2. FASB 13, the elimination of GAAP for IFRS. How will public companies react to a capital lease vs. an operating lease?
3. The proposed Risk Retention Rules would require that CMBS issuers hold at least 5% of the credit risk of any loan as part of the pool. Lenders could balk and curtail financing.
4. Trillions of dollars of CMBS financing is coming due and KC Conway, CRE has already stated that the CMBS debt will break the dam during the year to an "on-slaught" of defaults (and foreclosures?)
5. The Federal Debt Ceiling: will the Feds vote to increase it?
6. Is there a treasury bond bubble? Interest rates keep dropping below 3% indicating confidence on behalf of investors that they believe that the Feds can pay their bills.
7. Greece and its debt and the impact on the German bondholders. Can Greece really pay off these loans?

Bob Rodriguez, the successful fund manager of FPA Capital Stock was interviewed in the June, 2011 Money Magazine article. In early 2007 he felt that the housing debt would be a crisis and he had worried then about the federal debt. He took a sabbatical in 2010 and came back this year and observed "I would say a lot of nothing has changed. Investors are still chasing after high yields and loading up on risky investments. Very little has been learned. At best, we're facing a substandard recovery." Interesting comments from a man who got out in time but have the rest of us learned as well?

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