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Real estate investment and financing is showing a more positive atmosphere

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Over the past few years I have attended several conferences on real estate investing, financing, development, etc. What was a recurring thing through them all has been difficulty in financing, approvals for development, surplus of existing homes for sale and so on. Since the first of this year I've attended a couple of other conferences and there has been a more upbeat, positive atmosphere not extreme still a plus with movement. I can only tell about the mid-Atlantic Northeast of the country though I will mention one or two areas in other parts of the U.S.

Starting with apartments, this is now the most positive sign of all. Developers have started building them, and in fact, developers who were strictly in office and industrial development have now joined with them and are investing their time, expertise, and money in some major projects in New Jersey and New York. As I said these are not small projects, either but what I would call very major. In fact Jersey City, Harrison, Weehawken and Hoboken could be considered the sixth borough of Manhattan. As I have alluded to building of apartments was at minimum until this year, with in the lowest amount of units built in 30 years in the past 3 years, all this building is the result of interest in apartments as a fundamental shift of how the younger generation is perceiving their lifestyle in cost of single-family homes and down payments in the past 15 or 20 years. As a participant put it, there is now a generation gap in which they would rather have good luxury-type housing (rentals near transit and work) to give an example one developer who built a 380-plus apartment building in Jersey City stated it's 96% leased at a rental rate of $43 per s/f. Other developers are building in Harrison, N.J. 286 units with another building over 400 units and in this case an office developer is involved in a 424-unit building in Jersey City. This all goes back to supply and demand, and this time demand is there and supply is minimal. I might add that most of these builders have buildings at some commercial retail in the main levels. Apparently, the major banks and insurance companies are doing the financing on these projects. One must keep in mind that these are urban areas and it is in the cities' best interest to have this type of redevelopment project going on. It is also apparent the major lenders insurance companies and banks agree as they are putting up money and not like in the past 95%, but 70 to 75% LTV, therefore, the developer has a vested interest at least putting up the balance. This also has had an effect on pricing of properties for sale which I have complained about in the past, it's still a problem. For example, the same developer of the building that is 96% leased sold another apartment building with 324 units at a 4.5 cap rate. Unbelievable as it sounds, whoever can make money at that rate. I cannot say for sure, however it had to be, an institutional buyer, a small private investor could not afford that nor in all probability get financing.

And therein lies the problem of financing for properties which are up for sale. Adding to this uncertainty going into the next 13 months then will cause further anxiety and that being due to the fact that $1.3 trillion, yes, $1.3 trillion on CmBS loans will be coming due in the next 18 months. We all know that since 2007-2008 the values of most shopping centers apartment buildings office properties have dropped anywhere from 20 to 30% since then. The lenders are either going to demand the owner ante up more money for new refinancing or restructure the existing term. I do not profess to know what they will do. We saw, however, the screwed up way they handled the residential housing by not willing to budge on terms of financing mortgages, extending term, other modifications, etc. and the foreclosures that followed. That's all we need is more foreclosures. If they are going to be sold somebody is going to have to "take a haircut" and it won't be the buyers.

Industrial properties are also on the upswing, however, in a low volume and certain areas of the county opened. For example, Dallas, Chicago, Indianapolis and the South, not so much in New Jersey or the Northeast. It also seems that the cost of living, getting approvals lower building cost and lower taxes sound good the South, however beware of what you wish for as the cost of infrastructure, schools and other services will be going up and someone has to pay for that.

I will also note here that in these discussions in the Northeast that less free rent and rent reduction is now becoming restricted as office buildings and apartments in retail are being less in supply and more in demand, the incentive of free rent, lower rents and tenant improvement is being reduced.

Again, there has to be a lot of thinking by sellers to reconsider what the value of their properties are in marketing them, and that buyers are looking at cap rates of seven-and-a-half plus for centers, apartments, etc. They must become aware of how times have changed.

With all that I still believe the market is improving especially in the sale of the smaller neighborhood centers, strip centers and apartment complexes.

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