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55 YEARS

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The commercial classroom: Welcome to 2012 -The year of real estate opportunity

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No one has a crystal ball but I consider the planets, stars, whatever, in perfect alignment for a very good "brokerage" year. Why am I so optimistic?

I think the pricing bottom for commercial properties was reached in 2011. Prices are stabilized and by the end of 2012 we will see a gradual increase in values. Since 2007, throughout most of the Northeast, we have seen a decline in property values of 25% to 30%. Buildings are at their lowest prices in five years! Who can resist a bargain? Many investors have been sitting on the sidelines (with plenty of money) just waiting for these conditions.

Owners are now realistic about values; they are ready to sell. Some may have lost value in the last few years. But many bought their properties 15 or 20 years ago, and even at today's prices they are still making a considerable profit.

The capital gains taxes are currently at 15% on appreciation for most taxpayers and at 25% for the depreciation recapture tax. What is important is these rates are scheduled to expire on December 31. There is a strong possibility they will be higher in future years. (Remember to talk to all sellers about the possibility of doing a 1031 Exchange and deferring their capital gains taxes.) This may also influence some sellers to sell this year.

Buyers are ready to take advantage of "bargain" prices. Money is now available again, regional banks are lending and credit unions have become serious commercial lenders. For those buying buildings to house their own business the Small Business Administration (SBA) loan program is available with typically only 10% down required.

High CAP rates are attracting investors back to the market now. Owner occupiers, if they occupy at least 51% of their building, can lease out the rest and qualify for the SBA loans. Financing is again available to investors too!

In the recent years of difficult financing many companies renewed their leases or moved to new rental spaces. The leasing market has been strong and will continue to be so as we come out of this economic cycle. Here too landlords are now realistic about current rents and know they must be competitive to keep their building filled. Representing tenants is fun again, because they have many choices and as agents we can truly assist them in getting very good deals.

Washington, D.C. So many things pending... What is congress going to do about taxes; the "Super Committee" what actions will they take to reduce the national debt and balance the budget? The Dodd-Frank Commission, creating regulations to regulate the regulators! Where will we end up with the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) proposed lease accounting issues? Although I have concerns for all of these things that could affect our livelihood, I think when the smoke clears we will see positive steps to stabilize our economy and get our real estate industry back on track.

The good news is, it is an election year. The President and much of Congress are up for re-election. One would think the politicians would act carefully and do positive things for business and the public. Let us optimistically hope so.

Historically, real estate has cycles, values rise, then fall, and then the cycle starts all over again. We are at the start of the next cycle; 2012 will create many opportunities for those of us in real estate brokerage!

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