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The days are getting longer and the 2013 commercial real estate market remains steady

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The days are getting longer - always a good sign here in Northern New England with its nine months of winter and three months of crappy weather.

I was serving on an arbitration panel in Montpelier, Vt. last week. The forecast called for a "big storm" - suddenly everyone's talking about wanting to cancel Friday's session. I said, "Wait a minute! You scheduled this arbitration for the second week in February in Montpelier, and you want to cancel because of the forecast for snow?" Well, no, we're not going to do that. You should have scheduled a hearing for June or July! The "suits" from New York weren't happy but the world didn't come to an end either. The point of this story is that we appear to be getting soft. When weather is concerned, it is further dramatized by the media. It is akin to reality TV. Ugh!

But enough about the weather. The days are getting longer and people should be getting over their Seasonal Affective Disorder (which may be a genetic residual of hibernation patterns in our ancestors). The stock market (Dow) touched 14,000, the S&P - 1,500. Things are good, right? Well, Europe is sliding, or in, recession; China is wobbling a bit and here at home we still face the Sequester and ongoing party politics in Washington...

Coming out of the coffee shop this morning, I bumped into a commercial real estate lender from a local bank and he complained that every deal is "so hard." Welcome to my world! We have struggled with getting deals done - sales and re-financings - in an era of more scrutiny, tougher underwriting, lower appraisals, as well as tighter loan to value and debt coverage ratios. This will not change in 2013, and perhaps 2014 and beyond. Alas, what we are seeing is what we will continue to see for quite some time.

There are two types of buyers of commercial real estate - users and investors. Users know who will occupy the property, what they do and what their financial strength is. Investors are divided into two groups. There are income investors, looking for a projected yield on rents being paid by the tenant(s). But these types of properties, especially outside of the "A" markets like Boston, New York City, Washington, Chicago and San Francisco, are hard to find. Since the onset of the Great Recession in 2008, owners of cash flowing properties yielding 6%, 8% or 10% are simply not keen to sell because they cannot redeploy the proceeds into another investment that will provide an equivalent return. Now, there are plenty of properties with vacancies and other issues that are not cash flow positive, the income investors cited above avoid these properties like the plague. But in ride the "value investors" who seek bargains - troubled real estate they can buy cheap, fix-up, re-tenant and then finance at reasonable terms. This is much harder (read risky) then the income investors approach. We have one client who is considering a hybrid - buying and fixing up a property with a specific tenant in mind (or better yet, in their pocket!), providing an incentive by offering to sell them (the tenant) the building at a future date. This strategy is every value add investor's plan - but is much easier to conceptualize then successfully execute. You see, those pesky tenants are fickle! They tend to have Cadillac appetites and Volkswagen pocketbooks! The new start-ups are risky due to flat growth and short track records. On the other end, big (old) corporations are demanding and tend to throw their weight around. Those in the middle suffer from inertia. Moving is a big deal, time-consuming, expensive and stressful, so the easiest thing is to just renew where they are.

Recently, a large client negotiated a lease for 16,000+ s/f, worked hard on an arduous negotiation of lease terms and language, And then, oops!, the board balked at spending so much money on the move (IT, new/newer furniture, moving costs, file storage for old records, etc.). The landlord felt betrayed, but for those of us who have been in the trenches for the past 5 (15, 25) years, it is no surprise that a deal is not a deal until it is signed, sealed and delivered. This pattern will not change anytime soon. There are so many factors affecting a firm's success, it is so complex that they will remain super cautious until economic strength returns and they feel they can let out the breath some and take some chances. Thus, 2013 is steady as she goes because, as the Wall Street Journal recently reported, job growth in 2012 was steady but "excruciatingly slow."

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