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Commercial investment: Optimism or pessimism? Southeastern Mass. showing great promise

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Every individual stands independent with his or her views. Some are leaders of optimism and have the desire to forge forward under any circumstance; always with a smile. Others are a bit more apprehensive to accept circumstances as they appear and are often more cautious and somewhat cynical in their views. When it comes to commercial real estate investment, I believe that you need to have a bit of both; a blended clarity. This is where having a Certified Commercial Investment Member (CCIM) on your team can truly be an attribute. Because the CCIM designation is a distinguishing factor in commercial real estate. Along with a practical and rigorous education, a CCIM offers expertise and resources, allowing success in today's highly competitive commercial real estate marketplace.

Southeastern Massachusetts in Quarter 1 of 2013 is showing great promise.

Multifamily properties are trending upward in both asking prices and sales prices, with the average sales price currently around \$125,000/unit. Inventory in this sector is also on the rise, mostly due to the previous surge of distressed assets in 2012.

The office market has shown very healthy growth, with sales prices up nearly 10%, averaging \$125 per s/f. Inventory in the office market is slightly down, which will continue to drive up sales prices.

Industrial properties have seemingly remained stable, with sales prices up slightly, averaging \$70 per s/f. Somewhat of a notable change in the industrial sector is the nearly 6% decline in inventory for sale, again a driving force in forecasting increasing sales prices for 2013.

Finally, the retail sector of the market is selling at it's lowest price per s/f in three years, averaging \$125 per s/f; mostly due to high vacancy rates directly correlated to high unemployment rates.

Overall, the lack of commercial real estate inventory will drive the sales prices up for 2013, along with the availability of low interest financing. This is truly the time of affordable leveraging. With leasing trends declining, due to lack of leasable inventory, this will be a driving factor in the absorption of leasable space and ultimately a decline in vacancy. Both positive signs of economic growth.

So, are you ready to pull the trigger on a commercial real estate investment?

Here are a few fundamental tips to consider:

- * Always perform adequate due diligence of at least 30 days. It's better to find out upfront that the taxes haven't been paid or that maintenance has been neglected, putting that "great deal" in a brighter light.

- * Also, use a local expert, like a CCIM, to help determine the value of a potential asset. Determining value is both an art and a science, it's not "one size fits all." Net Present Value (NPV) is a great method for determining an assets Present Value (PV), by using the future cash flows, specifically those in a longer-term lease. Then applying a discount rate that reflects current, local market

conditions. The more risk in the market the higher the discount rate, which ultimately will reduce the NPV.

During the previously discussed due diligence period, obtain at least three years of income and expenses to base your data. Finally, apply the more commonly known capitalization rate. Depending on the quality of the asset, it's location and type, the cap rate will vary, but this is important to determine a disposition value for future sale. Using these factors, a NPV can be calculated and the investor can determine how much risk they are willing to tolerate, based on this type of financial analysis.

2013 is slated to be a good year for commercial real estate investment. Properties appear to be priced accurately, according to their prospective markets. Inventory is down across all sectors and cap rates are relatively low, which will continue to drive sales prices higher. Despite weak job growth, vacancy is still being absorbed, which will eventually lead to demand in new construction. The Associated Builders & Contractors stated that commercial construction spending is forecasted to accelerate 5.2% this year.

There is always risk and uncertainty in any investment environment, however, a higher return on investment appears to be trending in 2013. And that is truly a good indicator to stay positive about commercial real estate investments; achieving new optimism.

Tony Baldwin, CCIM, is a broker/owner of Baldwin Realty Group, Inc., Carver, Mass.

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