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A combination of factors makes this an opportune time for owners/users to purchase real estate

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Now that the snow has melted, we are seeing an uptick in activity on most fronts in New Haven County. While some sectors of the commercial real estate market are still lagging, others are definitely showing signs of upward movement. In particular, owner/users are finding it can be a favorable time to purchase buildings to operate their businesses, whether it is for retail, office or industrial. A combination of factors is making this an opportune time for these prospective purchasers to go building hunting. While there has always been the benefit of owning your own property and building equity over time, rather than paying a monthly rent, other market factors are currently in place that makes it even more appealing and advantageous for business owners to pursue this avenue in 2011.

First, prices are depressed. Many buildings that have been vacant and for sale have been on the market for quite a while, some upwards of two to three years or more. In general, asking prices on these properties have come down significantly, in some instances as much as 40-50%, as many owners are finally starting to realize that their real estate is not as valuable as it was three or four years ago and that it may be a while before we see values get back to 2006-2007 levels. This is especially true for single user buildings that are not as attractive to investors as multi-tenanted properties.

Second, interest rates are still very favorable. Although not at the historic lows we saw last year, commercial money is currently available at around 6%, which is lower than rates prior to the Recovery Act, when interest rates were in the 6½ to 7% range.

Third, owner/users have access to capital, specifically through the SBA 504 program. While many financial institutions still seem reluctant to offer traditional commercial mortgages and the ones that will, have stringent requirements with regards to debt/equity ratios, credit and collateral of the borrower and business financials, the SBA has made business loans attainable and attractive to prospective purchasers. The Small Business Administration's 504 program offers qualifying purchasers the ability to put down as little as 10% of the purchase price and can also provide money for equipment and/or improvements. The third party lenders (typically local banks) partner in the process by providing 50% of the purchase price and are much more willing to participate in an acquisition when their risk is mitigated by having financed only 50% of the project, while the federal government is providing 40% of the overall cost and is in 2nd position.

While motivation to purchase commercial properties for owner/users seems to be increasing and financing options are favorable, one thing that still may not entirely be in a buyer's favor in any given geographical area is inventory. An owner looking to make a long term investment in real estate in

which to operate their business in is going to have very specific criteria for purchasing a building that they typically will not want to deviate from, unlike a tenant, who is usually not making as long a term commitment and can more easily relocate after a lease expires if a site did not work.

While a prospective owner/user may be ready, willing and able to purchase their ideal building to operate their business in, finding it is an entirely different challenge. That's why having a commercial real estate professional is essential to this process. A knowledgeable broker in the given trade area can search out available properties and potentially some options that may not actively be on the market in order to assist a buyer client.

In the Western New Haven market, a focus area for our company, we've seen several recent transactions involving buildings that have had significant time on the market and that have been purchased by local and regional users to operate their respective businesses. Some include: a 10,000 s/f former Golfers Warehouse in Orange purchased by a local window treatment showroom user, a former auto repair facility in West Haven purchased by a transmission repair operator, a former CompUSA in Orange purchased by a discount store, a former real estate office in West Haven purchased by a fraternal organization and a 35,000 s/f former frozen food manufacturing facility in West Haven purchased by another food processing company.

With the favorable conditions that currently exist and many prospects in the marketplace that are realizing the opportunities and benefits of purchasing real estate for their business, we expect to see many more owner/user purchases throughout the rest of 2011.

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