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ICSC Las Vegas - Pessimism indicates "buy" signal?

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At the ICSC Las Vegas show, Gary Weber, a retail research consultant for 35 years, summed it up best "Last year, the retail developers were looking for 105% financing. This year, they are looking for equity partners!"

John Levy, a real estate investment banker who headed a panel discussion at the show, reported that in the first 4 months of 2007 CMBS lending volume was $80 billion. In 2008, the number is $9.9 billion for the same period. " ...the numbers look like they fell off a cliff. Buyers want to pay the price that the property might be worth in 9 months, and sellers want the price that it was worth 9 years ago!"

To my eye, show attendance was down 20% from last year's record of 59,000 - still a good turnout. I could actually walk thru the aisles! But some developers who rented booth space did not show up.

Still, I was happy because developers and tenants wanted to talk to brokers like me. And they made the time to do so. Any buyers with cash will be welcomed to the table.

Tenants Rule!

Tenants in retail, like the home buyers on the residential side, are now driving the market. National credit tenants supply the rents that make the project work, and they know it. "The tenant side is very challenging to developers. Anchor tenants are picky, and expect developer incentives. Without a strong anchor, the co-tenants of a center that fill it in will not commit." This told to me by a prominent New England developer. "The retailer wants sales almost immediately - their management demands faster returns. They can't wait 3 years for permits from unwilling localities to come out of the ground." It's pressure from the corporate levels of retail America. I heard similar comments echoed at many of my developer meetings. Inquiries for joint ventures were also prevalent. It seems that the property owners may have to become partners with developers, sharing the risk as well as the reward, if they want to see their properties developed at all. Unfortunately, most land owners are looking in the 2005-2006 rear view mirror, where comp sales peaked and money flowed freely.

Show Me the Money!

Many lenders were absent from the show traffic, with only a few of the more prominent capital specialists with storefronts. Consensus opinion holds that tighter credit demands from the lenders - more equity, better guarantees - will slow the market. The big question looms: Is this a brief respite from the torrid pace of recent dealmaking, or the beginning of a more serious cyclical decline? Will the credit virus which was spawned by the irresponsible lending practices in residential real estate contaminate the reasonable controls that commercial lending has practiced in the recent past? My take is that it's time to be realistic on pricing. Sellers and their brokers have to prove the value of the investment in real returns. Adding in the future appreciation component will no longer fly with the lender. When realistic sellers and buyers come together, deals will still get done.

Tom Duffy is the 2008 president of the N.H. CIBOR and the manager of the commercial division of Prudential Verani, Londonderry, N.H.