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## **Where many see obstacles, the smart investor sees opportunities**

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The popular opinion on the state of commercial real estate is that increased unemployment leads to lowered consumer confidence which causes sluggish retail sales around the world, leading to fewer retailers which has already translated to fewer new retail developments, increased vacancy, and ultimately, troubled asset sales.

Three years in a row, in late December, we have read reports of lackluster holiday sales from many retailers. Forty-five days later, in February of '07 and '08, when the gift card revenues hit the bottom line, it was realized that the rumored death of many U.S. retailers had been grossly exaggerated. The first quarter of 2009, however, will show us very different results. This year, we are sure to learn of several national and international chain store closings.

The tightened credit markets will leave the highly-leveraged shopping center owners with new found vacancies and without tenants waiting in the wings to fill the voids, no choice but to liquidate underperforming centers.

So, who are the sellers of commercial real estate? They are cash-strapped Real Estate Investment Trusts; cash-poor owners and investors; highly-leveraged owners now saddled with high vacancy rates and/or failing tenants; retirees looking to stabilize cash flow; owners of office and industrial properties leased to downsizing financial institutions, insurance companies, automotive industry suppliers, and others hit hard by the softened economy.

So, who are the buyers, and why are they hiding? Several would be investors of the past have become vultures today. They are hoping for even tighter credit markets where their sidelined cash will bring them greater buying power.

Many have speculated over the past couple of years about a commercial real estate "bubble burst" on a national level. The bubble prognosticators are those who have been cashed-out for the past several years. They could benefit now from a significant correction. The reality is, however, that our federal government has propped up the credit markets, and the Federal Reserve has reduced interest rates to unprecedented levels, giving local lending institutions great opportunities to portfolio good commercial loans with healthy spreads.

For these reasons and others, this latest economic crisis has no significant parallels to that of the early 1990s when we were suffering the effects of out of control inflation coupled with a more widespread credit crunch. In contrast to 1991, deflationary events such as plummeting gas and oil prices will have positive economic effects as early as Q1 2009. We hear from local commercial lenders that it is "business as usual", unlike the early 1990s when bankers' hands were so tied by federal regulators that they just could not place new, or even renew, performing commercial real estate loans. Today, local banks are lending the same as they did over the last several years: to support projects by borrowers who can afford to pay them back.

In New London and Middlesex counties we see clear signs of improvement. On Monday, December 22, 2008 the United States Navy awarded the largest submarine purchase contract in U.S. history, \$14 billion, to Electric Boat in Groton. This is great news for the economy of southeastern Connecticut and the defense of the United States of America. Also, Mohegan Sun Resort and Casino has tens of millions of dollars in construction work predicted to commence in 2009. In addition, over 400,000 s/f of retail is under construction in Lisbon and approvals are in place for significant mixed-use developments in East Lyme and Pawcatuck.

We have in front of us, 2009, a year of opportunity that has rarely been seen before. Real estate owners are worried about their stability while real estate investors are scared to make the plunge while they think the credit markets may have more drying-up to do. Consequently, the reasonable investor can conclude that greater supply, less competitive demand, and the continued availability of funding for credit-worthy buyers of good performing assets begs the question: Does it get any better than this?

The savvy real estate investor will realize and analyze four points: liquidity, the level of available credit which is good for transactions south of \$10 million; interest rates, now providing a very reasonable cost of funds; the underlying economics of the prospective real estate asset; and, of course, location.

The smart investor sees opportunity. The smart investor is buying real estate.

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