CELEBRATING 55 YEARS
nerej

Now is the time to begin scouring the comm'l. RE market

March 18, 2009 - Connecticut

A well known Jerome Kern contribution to the great American Songbook instructs that we should "Look for the Silver Lining." The careers of successful real estate entrepreneurs reveal that this is exactly what many of them have done. Indeed, the America's greatest fortunes based on real estate were created during times of collapsing markets. So, rather than stuffing your cash under the mattress, now is the time to begin scouring the commercial real estate market for once-in-lifetime bargains.

A major factor influencing all commercial investment properties is the fact that interest rates are likely to remain at modest levels for the foreseeable future. With the certain knowledge that an economic recovery - whenever it begins - will bring with it inflation, the Federal Reserve Board will have little choice but to keep the cost of money as low as possible. Doing otherwise will only contribute to the inevitable inflation that will occur. Now is the time to get a lock on reasonable long-term financing.

Residential rental units are experiencing unusually high occupancy levels. Deciphering the reasons for this is not rocket science. In the run-up to the present decline in the markets, anyone who could possibly have afforded to buy a home was able to purchase one. As is painfully clear, even a great many people who could not afford to buy a home purchased one. As the latter are losing ownership, and as more and more people enter the rolls of the unemployed, the demand for residential rental units has sky rocketed. These factors make residential rental properties extremely desirable as income and investment vehicles.

Ironically, while the office market has been the weakest sector in most commercial investment portfolios, the present economic decline is having a positive effect on the office rental market. In the face of a limping economy, smaller companies that might have been in the market for their own buildings are, instead, seeking the safe haven of rental occupancies.

Finally, as was the case in the last recession, anticipated defaults and foreclosures in commercial investment properties will result in both owners and financial institutions bringing properties to market at highly discounted values. Such conditions typically mean that all forms of investment property will come to the market at prices substantially below their replacement cost value. The good news is that these properties need not be fully tenanted to make them cost-effective for prospective purchasers.

So, from our viewpoint, the present "quiet" in the market is likely to be the "quiet" before a very welcome storm. The second half of 2009 should produce a very active market in the commercial real estate field precisely because of the buying opportunities that will emerge.

Victoria Clark is a broker and CEO and William Newman is a broker, certified appraiser and CFO at Connecticut Commercial Realty & Selected Homes, New London, Conn.