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CELEBRATING 55 YEARS

Wise investors with the help of professionals can take advantage of existing opportunities

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We are in the middle of one of the greatest buying opportunities we may see in our lifetimes. The competition for properties is as low as any time in recent memory. If a buyer has the capital it needs, deals can get done quickly.

The supply of available product on the market continues to increase as the number of potential buyers dwindles, and owners struggle to refinance loans that are coming due. The challenge is that commercial loan lending criteria has become much more difficult, if one can find anyone willing to lend at all. The underwriting terms a lender may have offered two years ago are clearly a thing of the past. They are requiring a buyer to have more skin in the deal and are using much stricter valuation guidelines to minimize their risk. In certain markets, the previous guidelines got the banks in the trouble that we see today.

Owners with rising vacancies are in many cases unable to cover their debt service and are forced to sell before they default on their loan obligation. According to Real Capital Analytics, Inc., loan delinquencies increased 43% in the first quarter of 2009 to over $65 billion. Real Capital lists almost 3,700 properties as being distressed as a result of increasing tenant vacancies, rent reductions for tenants that are staying, and increased expenses that can not be passed along to tenants. Unemployment rates are expected to rise throughout 2009 to between 9% and 10%, which will result in further vacancies in the office and industrial segments as companies negotiate to give space they no longer need back to landlords. There are many retail tenants who have looked to their landlords for rent concessions trying to stay afloat. There are many more that have either filed for bankruptcy or are closing under-performing units.

There is, however, a silver lining in the doom and gloom we read about daily. One survey recently conducted by Smart Brief on Leadership found that over 60% of its respondents believe that the economy is healthier than the media is portraying, and less than 20% feel it is worse than is being reported. Hopefully, the 60% will start spending to support the retailers, and start hiring and put people back to work so they can spend. One of the main keys to getting the economy turned around is creating the flow of money.

Buyers are in the driver's seat in today's market. Cap rates have risen dramatically in the past twelve months. A free-standing Walgreen's that sold then for 6.25% cap rates are trading today for close to a 7.5% cap rate. A large part of the change is the drop in the number of buyers for net lease properties. According to Boulder Net Lease Funds, the number of net lease properties sold from Q4 2007 to Q4 2008 dropped 63%. Decreased demand for a product leads to a decreased priced using basic economic theory. Therein lies the opportunity.

Buyers who have been on the sideline waiting for the market corrections have their chance to step in and buy properties for values we have not seen for ten years. There are grocery-anchored centers that can be bought today for cap rates approaching 9%. Investors who have stockpiled cash waiting for their opportunity may have found it. Opportunities in the market are available for the taking, whether it is a three-family house or a large office building. The John Hancock Tower in Boston was recently sold at auction for 51% of what it was bought for three years ago.

We can never forget that the U.S. economy has recovered from every single recession we've suffered and this one, as painful as it is now, is no exception. Wise investors with the help of professionals can take advantage of opportunities the likes of which we may not see for a long time.

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