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Commercial real estate in NH: Don't wait for 2010

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I don't think I've talked to anyone that says, "things are just fine." But I have seen a strong commitment by the professionals in the commercial real estate market to "work through" this downturn.

For those of you that are "working through", it may be helpful to recognize some of the changes that are occurring in the commercial real estate landscape.

Previously Owned Properties (POP's) - Many of these sites will have to be absorbed before we see a round of new construction.

The POP's include the obvious Circuit City and Linen 'n Things sites but also will include: car dealer sites, potentially some drug store sites, restaurant sites, and many marginal retail sites that won't survive this recession.

Who are the new "end users" that will fill these sites? It's going to take some creativity on the part of brokers and some realism on the part of sellers. Many of the aforementioned sites are: 1) not readily adaptable, 2) B or B- rated sites and... 3) overpriced!

Financing - There is a whole new world of commercial financing. Deals are being analyzed. Proformas once again mean something. Debt Service Coverage Ratios (DSCRs) once again mean something. Underwriters are doing their jobs.

Yesterday's deals are gone, and for a few years at least, loans will be made, as they should have been made, i.e. based on an ability to pay.

In plain English, the above means that the rate of growth, and the number of deals done... will be fewer. I also think that the specter of inflation will mean fewer fixed rate loans for commercial projects. Without the ability to fix a rate, for say a 10 year period, commercial development becomes a lot riskier.

The Approval Process - The process is only getting more difficult. Regulations are becoming more burdensome and that makes new development riskier and more costly. Expect to see more "redevelopment" and an increasing emphasis on "LEED" certified projects and green initiatives (which include rain gardens, low impact development, and sustainability). Developers that ignore the new realities, will find it increasingly difficult to secure permits.

Once again, it appears, that commercial development will become more difficult and carry more risk, but, developers aren't going away. There will be fewer projects and those projects will be looking for the best sites. Brokers that are selling B and B- sites will need to have a lot of patience. Those retailers that are expanding will be doing fewer sites, and the ones they do pursue, will only be B+ and A rated sites.

On the positive side, planning boards are currently showing some flexibility so don't wait until 2010, get those B+ and A sites under control and into the permitting process.

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