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Auto dealerships are becoming change of use properties

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The recent focus on auto dealership properties in the local property markets is a reminder of the broader "change of use" activity that accompanies contractions. In real estate parlance, "change of use" carries particular significance. This transitional activity in commercial real estate markets is logically higher during the economic contractions or recessions when declining demand resulting from declining economic activity causes businesses to downsize, contract and fail. The resulting increase in the supply of available properties such as auto dealership properties, however, is often offset by lack of demand for prospective transitional or other changes in use. And in this market the severe constraint of capital for business users and developers will severely impede the apparent opportunities that are available. Economic recovery, even a very gradual one, will improve the odds. Auto dealership properties will and already do certainly include some exceptional opportunities for change of use. Well located properties with large land parcels to accommodate vehicle storage and improvements that are adaptable or easily demolished are attractive for a variety of commercial development. Because of the quality of location for access and exposure to traffic, many offer assemblage value to adjacent parcels as well as intrinsic independent value. Auto dealerships was the focus of a well researched article by Casey Ross of the Globe on May 26th. Apparently, Ross' sources report Chrysler will close 12 dealerships and General Motors will close 12 of its 96 outlets in Massachusetts, and based on research by CoStar Group, Inc. 56 car lots are already on the market with an average asking price of \$1.49 million. Because the CoStar offerings have a current average market exposure of 291 days, this transitional activity is well under way and was preceded by consolidation activity. CoStar reports two sales and a pending contract already in 2009. Ross interviewed two prominent retail developers, Len Bierbrier of Bierbrier Development and Douglass Karp of New England Development, who both are actively shopping sites and admit that this is not a new activity.

Adaptive reuse and scrapes have always been an integral component of commercial real estate development and have traditionally been an alternative in the analysis of the highest and best use of any property. Because of the duration of this contraction and the forecast of the very gradual recovery, the commercial real estate community will most likely have a longer period to contemplate the change of use. Heightened awareness of smart growth and green building strategies will enhance this cycle of change. Timeliness will reward the early birds with potential transient stimulus funding opportunities. Timeliness will also favor the essential entitlement process for change of use, as local regulatory bodies suffer under funding from weakened real estate tax rolls.

The bottom line is that the bankruptcies of Chrysler and General Motors have dramatically punctuated a commercial real estate tradition. However, in this current economic cycle the impact of the recession might well have a more dramatic impact on the highway if not the skyline.

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