

Commercial real estate good for buyers, but not for sellers

BY MARILYN BOWDEN

Conflicting signs in the local commercial real estate market cast a cloud of ambiguity over the sector's probable performance during the coming year.

"I see positive and negative trends," said Edward J. Redlich, vice president of ComReal Miami.

"It's going to be a mixed bag," said Steve Nostrand, managing director of Colliers International South Florida.

The good news – at least for buyers – includes lower pricing, Mr. Redlich said. "Prices are down easily 20%-30%, and will probably stay that way over the next year. That's good for companies expanding or coming into the market."

The downward trend in pricing is likely to continue, Mr. Nostrand said, as banks and other lenders bring more and more distressed assets to market – a process he says could continue for two or three years. Land prices, he said, have already dropped 50% since the peak of the boom.

There's no lack of potential buyers. "I talk to people every week who want to buy things," said William Hardin, director of the Jerome Bain Real Estate Institute at FIU's College of Business Administration. "The question is, at what price?"

He said there's unlikely to be a return of the bargains seen following the savings and loan



Photo by Maxine Usdan

Steve Nostrand: prices will keep falling as distressed assets go on sale.

crisis of the 1980s, when assets with a consistent cash flow were selling at discount.

"People have learned that to sell in a distressed market is foolish unless you're forced to," he said.

Another positive difference this time around, Dr. Hardin said, is the sale of notes rather than the assets themselves.

"The note market changes the work-out," he said. "A lot of people who are willing to do that are real-estate people who will either work out a modification or simply take the property back."

Unlike a lender, he said, these note buyers have the ability to manage a distressed property and get it stabilized.

That, combined with the continued difficulty in getting funding, means "we will not have

the fire sale we had in the past," Dr. Hardin said. "But there's risk in that small commercial banks are where a lot of the distressed properties are hidden these days, and they will take a while to filter through the system."

Leasing activity has picked up, particularly in the office sector.

"This year, if we close only 50% of the leasing business we have on the books," Mr. Nostrand said, "it will be one of the best years we've ever had. Tenants coming off long-term leases are looking for bargains and are able to lower their occupancy costs because of market depressions."

With so much space on the market due to the opening of two new office buildings downtown, Mr. Redlich said, "ten-



Photo by Marlene Quaroni

Ed Redlich: prices are down 20%-30% and will remain there for a year.

ants will not commit unless it is very good property and absolutely fits their needs."

With most tenants coming from within the market, Dr. Hardin said, "bringing on 10 years of net new absorption in 18 months is not good. We will see some of the newer buildings get leased up, but at the expense of rental rates and older buildings."

In contrast, "the differential is a little farther ahead with industrial than with office," Dr. Hardin said.

"Industrial, out of all commercial products, is probably doing best," Mr. Redlich said. "It's not over-developed, and it's only 9.6% vacant. Vacancy has decreased in the last two quarters and will go down next quarter, too, so it could be coming out of the

recession."

Mr. Nostrand said though retail rates have been decreasing over the past year or so, "there's been some lessening of the decreasing, which is a good sign. But consumers aren't spending. Until there is a reason for businesses to hire and for consumers to get more confident, we will be in this malaise for a while."

Two factors that will have a strong effect on the ability of the commercial markets to recover, Mr. Redlich said, are the issue of property taxes and the question of whether the federal government will execute pending free trade agreements with Panama, Colombia and South Korea.

"If signed," he said, "they would really benefit the export business."