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Like the residential market, the commercial market is feeling the effects of the economic downturn. But, don't discount savvy commercial practitioners. They know the commercial market is ripe for investors and ready for a comeback.



Alan Kaye
Coldwell Banker
Commercial NRT
The Kaye Group
Boca Raton



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Ripe for Investors

The real devil in today's commercial market is negativity.

BY KEVIN FRITZ



Alan Kaye of Coldwell Banker Commercial NRT The Kaye Group in Boca Raton sees strong indicators that we're close to stabilization in the market.

If you ask Alan Kaye, the real devil in today's commercial real estate market is negativity, causing investors and consumers to second-guess even the best of deals. When consumer confidence is trodden, it's like battling a ghost.

"There is a general malaise in the market," says Kaye, a broker with Coldwell Banker Commercial NRT The Kaye Group in Boca

"Let's say, on a scale of one to 10, we went from a two to an eight [during the boom] in a short period of time," he explains. "Now a 40 percent drop in values has the market at a four or a five. We're down, but are we out? No."



R. Scott Cameron
Cameron Real Estate Services
Naples

Raton. "Investors don't know if they got a good deal or not."

Kaye believes the commercial real estate market is at the bottom, noting that he was recently besieged with inquiries about an apartment building he had listed—a great sign of life. Moreover, Boca Raton now boasts that it is the only city in Palm Beach County with buildings under construction, according to CB Richard Ellis research.

"There's tons of cash on the sidelines," says Kaye, "and there are strong indicators that we're close to stabilization in the market."

In Naples, R. Scott Cameron, CCIM, president of Cameron Real Estate Services, says even with office space rent down about 50 percent per square foot, he hasn't observed much fallout in the Southwest Florida commercial market, and he believes the negative perceptions of the market are unwarranted.

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A University of Florida report says practitioners "are still keeping the faith in the real estate market." The survey notes even where the recession is hitting the hardest investors—those who swoop in to buy distressed properties hoping for a tidy profit when things turn around—

are becoming commonplace. The survey contends these investors may possess the magic amulet that begins to fill 40,000 vacant condominiums in Miami.

Diamonds in the Rough

Even in the deepest of recessions, some industries fare quite well. While commercial real estate is certainly feeling the effects of the economy, due diligence specialists who help keep properties fit and profitable are themselves becoming fit and profitable.

Evans Howell, a principal with California-headquartered Partner Engineering and Science, delivers due diligence statewide and attributes his success to being a "middle-market player" by working with small banks almost exclusively. While he agrees that some sectors in Florida, such as the retail and office markets, are fighting vacancy rates higher than normal, he's seeing transaction growth in the multifamily sector, especially in Central and South Florida.

Greg Trotter, president of Commercial Building Consultants in Orlando, says the commercial market appears to be getting more active all the time. In fact, he garnered 25 new projects in the first quarter alone, 40 percent of them from new clients. "Contrary to what the media and the politicians say, there is activity."

Trotter, who specializes in conducting property condition and environmental site assessments, says that while there is stress in retail and office segments on Main Street, other businesses are picking

FUTURE CONCERNS

The Refinance Challenge

Commercial property owners are in a bind. Many have loans coming due and they're looking to refinance. Nationwide, approximately \$216 billion in loans are coming due through 2012.

But as vacancies increase, owners can't support the debt on their property and are forced to come up with thousands of dollars to refinance.

Broker-owner Basil Bethea, of Realty House Commercial Properties in Fort Walton Beach, says lenders are offering assistance to building owners in the Panhandle. "It's not going to do [lenders] any good by foreclosing," notes the 41-year veteran. On the other hand, he thinks foreclosures will weed out people who are just hanging on credit. "Established businesses just have to hold on to their seat belts."

Charles Owston, executive vice president and CEO of Florida Capital Bank headquartered in Jacksonville, says banks don't want to see owners go into default, but credit is tight.

"If rent is down 20 percent and the loan-to-value ratio is 100 percent, the borrower has to pay the loan down to 80 percent or pledge additional capital," he explains. Owners could also surrender some ownership in the building or bring on a partner to help pay the loan down.

Broker Alan Kaye, of Coldwell Banker NRT in Boca Raton, says his biggest concern statewide is that "a large amount of commercial paper is coming due," especially in the multifamily sector, where \$29 billion is on tap this year and another \$26 billion in 2010.

NOW YOU KNOW

Stories of landlord and tenant negotiations to create a win-win for solvency are rampant. In the Miami area, landlords are offering short-term leases and free rent, while others are fixing up offices, upgrading equipment and attending to exteriors. Rental rates are also being quoted on a gross basis, leaving the landlord responsible for building expenses. Wise landlords are locking up tenants long term at reduced rents.



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up the slack. He points to medical labs, doctors, dentists and pharmaceutical companies. "They need to expand," he notes, "and they're taking advantage of a discounted market."

Scripps Florida in Palm Beach, the Torey Pines Institute in Port St. Lucie and the Burnham Institute adjacent to the new University of Central Florida Medical School in Orlando are prime examples of the effects an expanding industry has on the commercial real estate market.

"Medical is the bastion," says **Robin Webb**, CCIM, vice president for state-wide operations at **Coldwell Banker Commercial NRT**. "Certain subsets always gain strength. You may have to look under a lot of rocks to find [them], but [they are] there."

Markets Still Flooded

Of course, there are challenges. Cameron says failures of marginal businesses in the Naples area are creating large vacancies, where rates for Class A and B office space were up to 12.6 percent in 2008, according to CB Richard Ellis. Cameron admits it will be a while before values recover. First, there has to be a recovery in vacancy rates, he says.

In Jacksonville, **Gerri Jones**, CCIM, president of **Jones Investment Properties** and vice chair of FAR's Commercial Alliance of REALTORS®, says the prime impediment is the elevation in down payments that lenders are now demand-

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What happens when Circuit City goes out of business? Read about creative options for dealing with big box vacancies.



ing. She says the previous norm of 10 to 20 percent down on a \$3 to \$4 million property is now 30 to 35 percent. "It's a staminate for sales," she says, adding that investors who have the necessary funds need liquidity, especially if they have other properties to sustain. That leads to more inventory in a market that's already swamped.

With the Circuit Citys of the country packing up, the vacant big box store has also become an issue. **Oberlin College** (Ohio) professor **Julia Christensen**, who wrote the book "Big Box Reuse," notes that some communities are trying to reclaim abandoned big boxes. In Lee County, two former Kmart stores are being converted to schools; the conversion will take only half the time required to build new ones.

Relationships Matter

Regardless of all the statistics, analysis and hope in the market, **Thomas Dixon**, president of **Dixon Commercial Real Estate** in Coral Gables, notes that real estate is still a people business.

He wrestles with heartbreaking stories like that of an elderly woman who's owned a warehouse in his area for years. She lost her tenant, and the warehouse has become a vandal's haven. They're stealing everything, from the pipes to the wiring. She needs Dixon to sell it. "It's a huge bind for her," he says. "It's sad."

Like most practitioners, though, he believes there's lemonade coming from all these lemons. "There's a positive side to all of this," he says. "Everybody's waiting to see where it will go from here." ®

Kevin Fritz is president of Fritz Communications and a freelance writer in Orlando.