

# For Those with Money: "You Won't Find a Better Time to Be a Buyer"

Cash Will (Again) Be King as Slower Than Expected Recovery Will Create its Own Set of Opportunities, According to Commercial Real Estate Professionals

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Although the future of commercial real estate remains murky, current operating conditions are crystal clear: There is very limited capital, extremely tighter underwriting, shrinking net operating incomes, shrinking space demand and declining property values. For companies today, that means leaner and more efficient operations and more focus on tenant retention rather than tenant attraction.



The bigger question may be how long will these current conditions remain in effect. And while they are far different than what conditions were just three years ago, the smart money is starting to act as if it expects the current operating environment will be in effect for some time and is starting to look for opportunities that match the times.

This is the assessment of a wide variety of CoStar Group customers and readers we contacted about what they expect the flip side of the current recession will look like. Last week in Part I of this news story, readers said that, despite some signs of overall economic stability, commercial real estate is still reeling from the effects of the credit crunch while trying to avoid the recession's knockout punches. At the same time, they know the cycle will eventually turn will eventually come to an end.

"We probably have already experienced the worst, but our economy is still falling, albeit at a slower pace. Several leading indicators suggest that we will likely bottom out before the end of this year," said Tim Wang, Ph.D. and senior investment strategist for ING Clarion in New York. "Nonetheless, investors should keep in mind that the economy declining at a slower rate is a lot different from actually beginning to expand. The recovery process could be less robust and take longer than expected."

"We believe that there will be more distressed assets coming to the market over the next 12 to 18 months," Wang said. "Investors with cash can cherry pick the best assets in the most desirable markets. Preferred equity, mezz debt, super senior CMBS and 'loan-to-own' are also attractive investments during this period."

Paul J. Ruff, president of Triumph Real Estate Corp. in Englewood, CO, agreed that there are very early indications that an end of the recession may be in sight -- somewhere in the next several months.

"That doesn't mean the end is next month, but it might mean a continuation of reductions in job losses through the next two or three quarters, which will offer some hope but won't put a lot of money back in consumer's hands," Ruff said. "A return to growth is another story, because inflation and rising interest rates resulting from the stimulus is a real threat, and

that will hold down spending and hiring. So the economy could very well flat-line or grow anemically for quite some time after the 'end' of the recession."

"That all being said, we will be seeking and making worthwhile real estate investments, with an emphasis on low cost basis, low or no leverage, and a lot of patience," Ruff said. "It would not be prudent to expect any quick turnarounds in value in the commercial markets, so conservative underwriting and forecasting will drive deals. We will buy office, industrial, retail or multifamily properties or whole loans backed by those types, and are anticipating the need to close quickly with cash."

"What does all of this mean going forward?" asked Joe Farr, Asset Manager for BGK Group in Santa Fe, NM; a question he then answered. "In my opinion, there will be a continuation of what everyone in the business now recognizes as the norm. First, lenders want more equity in the deals (whether it's a new loan or a refi). Second, prices have already dropped in most markets to the point where a lot of properties are under water or close to it, which will continue that downward pressure on prices because lenders will be taking back more properties and selling them at a discount to get them off their books and owners will be selling them at a discount to avoid going back to investors to raise additional capital for a ref,"

"We'll get through it, but it's going to take some time," Farr added. "I personally think it's too early to start any buying on a large scale, and you're going to need a lot of cash to make anything happen. The disconnect between what sellers want and what buyers are willing to pay is clearly pointed out by looking at sales volumes around the country-anemic compared to any "normal" year. I don't see anything that's likely to change that any time soon."

Because of the pricing disconnect between buyers and sellers, many in the industry are mining the books of lenders looking for nonperforming loans, foreclosed properties and pending loan maturities as a place to extract current opportunities.