

Commercial property prices drag along what may be bottom

We're at bottom of a U for prices, not bottom of a V

BY MARILYN BOWDEN

Commercial property values continue to fluctuate, but observers say it seems clear that they've hit bottom. However, political and economic uncertainties are beginning to take a toll.

"The old rule that a property is worth what somebody is willing to pay for it is truer than ever before now," said Matthew Zifrony, a real estate attorney with the law firm Tripp Scott.

"Some people are saying that they better jump on deals now because values are going to go up, but others express concern that they're going down. It's difficult to get a real sense of what is happening."

He said a graph of pricing for commercial properties would resemble the letter U. "Everybody was hoping that it would be a V," Mr. Zifrony said, "but we are at the bottom of the U, and we're still waiting for the upward tick."

There's been some stabilization compared with the rapid depreciations of 2008-'09, said Alex Zylbergait, director of the National Office and Industrial Properties Group at Marcus & Millichap, and "the perception that we are going to fall off a cliff is behind us. But the best way to describe it is stagnation. And the rate of growth is slowing down due to fears in the marketplace."

Those fears are derived from national and international monetary and political trends, he said, including "political



Photo by Maxine Usdan

"Value is a tough thing to get a handle on now, but we're clearly seeing movement," said Paul Kaplan.

gridlock, weakening of the US dollar, euro issues, and safety concerns in the Middle East and what that could mean in terms of oil prices. The state of the stock market doesn't help, either. So there are a lot of reasons to be concerned, and the degree of confidence is going down as a result of all this."

The multifamily sector is showing the strongest performance, Mr. Zylbergait said.

"The capital markets are relatively healthy," he said, "with low interest rates if you can get them. That is helping buyers justify paying a premium for higher-quality assets."

Multifamily assets at the low end of the spectrum are also trading, he said.

Paul Kaplan, managing director at KW Property Management & Consulting, which spe-

cializes in multifamily properties, said the perception is that the next 12 months could be the last time to take advantage of low rates.

"Lennar and others are actively pursuing distressed properties," he said, "because it's going to take two or three years to get some of them off the ground. Developers are closely watching increases in value."

"We're getting more calls every week now for budget consulting than we got in a year from 2008-'10."

Rental properties, Mr. Kaplan said, are particularly strong right now. So are hotel condos and timeshares.

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Office and retail are still strug-

gling, Mr. Zylbergait said.

On the office side, there are concerns about the job situation and space needs.

"It is getting relatively stable, especially in the medical office sector, where there has even been some cap rate recession, but that doesn't mean it's growing," he said. "We're bouncing along the bottom. It's an anemic situation. The market is not as healthy as many owner-operators would like to see."

The issue on the retail side, Mr. Zylbergait said, is waning consumer confidence, "and when you take into account the unemployment rate as well, that does not bode very well for retail sales. But we're not in for a return of 2008-'09, with major chains going out of business."

A mitigating factor for Mi-

ami-Dade, he said, is its very limited supply of retail space.

"The industrial side will be the sleeper that may surprise us," Mr. Zylbergait said, "and come out of this better than others because of limited supply, and also because of the increased traffic when the Panama Canal expansion is finished."

"Overall, it's a good time to strategically invest in commercial real estate."

However, financing continues to be a problem, Mr. Zifrony said. "Banks are still extremely cautious about what values may do in the future," he said, "so even if there is an uptick, it's almost like the seller has to really prove to them that it is there, it's real and it is lasting."

Many sellers are still not reconciled to the fact that a property that was worth \$3 million at the peak of the market may now only be worth \$2 million, Mr. Zifrony said. "They are very quick to talk about how much they've lost in terms of value, rather than focusing on what it's worth now, and what a good deal is today."

Appraisers are also cautious, he said, about raising valuations. "If you have a Grade A tenant and a building with a consistent cash flow, then it could be valued on that basis, but there will still be differences of opinion."

Also, "economic uncertainty is such that it's hard to tell what operating expenses are going to be," Mr. Zifrony said. "Real estate taxes may go up, or new regulations could force utility companies to pass along costs to the consumer. That unpredictability trickles down into the decision as to whether or not you want to acquire real estate."



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Photo by Marlene Quaroni

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