

Despite market troubles, office space deals being made

BY MARILYN BOWDEN

Troubles in the money markets have turned the office investment picture on its head, observers say, but there's still money to be had and deals being made.

"There will always be buyers when the real estate market is in a state of flux," said Neil Rollnick, partner and chair of the Real Estate Practice Group in the Miami office of Adorno & Yoss. "Many real estate investors will say they do better in a down market than at any other time."

"The issues become credit, return on investment, purchase price and where a knowledgeable investor believes the market is at the time that they would like to acquire properties."

"There's been a slowdown in investment sales activity as a result of the overall economic environment," said Alex Zylbergait, associate director for the national office and in-

dustrial properties group at Marcus & Millichap. "The office sector is primarily driven by employment, so we have to hone in on our own market and what that means going forward."

Steve Nostrand, an executive vice president at Colliers Abood Wood Fay, identified two broad classifications of activity.

"The core buyers who can close with cash are still looking around for really high quality assets," he said. "The rest of the market is totally disconnected; money is difficult, and asking prices are above what buyers are willing to risk due to decreasing fundamentals."

Would-be buyers in the market, Mr. Nostrand said, include business owners who would be more comfortable owning their space and investors looking to diversify into commercial real estate from other investments such as gold, stocks and bonds,



Alex Zylbergait, with Marcus & Millichap, says those office space properties that are rentable and attractive in terms will fare better.

as well as vultures waiting in the wings for higher cap rates and heavier discounts.

"We haven't seen any of those deals yet," he said. "The real onslaught will probably be the first quarter of next year."

High-leveraged buyers are out of the market, said John Bell, managing director of DTZ Rockwood, and low-leveraged, conservative buyers are in.

"A year ago we were looking

at loans of up to 85% leverage," he said, "but now for the same properties it's only 65%. Basically, cash buyers or the very low leveraged are the ones buying, and they expect very high returns. So there are price drops of 10%-15%."

A perception that there will be a significant increase in the capital gains rate may result in picked up activity in 2009, Mr. Bell said.

"Capital gains tax increases usually begin the following year," he said, "so a lot of private owners will want to sell before they get hit with more taxes."

An irony of the times, Mr. Bell said, is that while in the past few years properties encumbered with loans have been very difficult to sell, "now if they have financing in them they are extremely popular, because that allows the transaction to get done. If there's no financing in place it is much more difficult. That's a complete reversal."

Mr. Zylbergait said those assets that exhibit strong rent rolls, strong tenancies and attractive terms for tenants will fare better.

Assets over \$10 million are trading slower than \$10 million and under, he said, since "there is apprehension as to acquiring assets in this market when major companies left."

"The spotlight continues to be on the medical office sector," Mr. Zylbergait said, "because of the lack of volatility compared with other types of properties."

For a creditworthy buyer acquiring at a realistic price, Mr. Rollnick said, there's money available — though not as much or to the same extent as formerly.

"The Wall Street debacle has affected major entities," he said, "but smaller local banks have available funds. So do regional banks and life insurance companies."

"What you will not get is a 90% loan-to-value ratio or one based on your projection of what you will be able to do in leasing up the building, but on present reality."

"There are fewer buyers who really qualify to buy," Mr. Bell said, "but we've had very good success rates with stabilized properties. The length of marketing time may be a little longer, but sellers and buyers are more realistic now."

"The expectation is that things are likely to get worse before they get better," Mr. Zylbergait said. "The million-dollar question is, how much worse, for how long? The economy is like an aircraft carrier; you can't turn it around suddenly."

"The Greeks said it best 4,000 years ago," Mr. Rollnick said: "everything in moderation and nothing to excess. Excessive cycles always cause the opposite, and that's what we're going through now."

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