

A tale of two markets

The current commercial real estate market reads like the Charles Dickens' novel, "A Tale of Two Cities": "It was the best of times, it was the worst of times ..."

After three-plus years of slack demand, some New Mexico commercial real estate users and investors have apparently determined that now is the long-awaited time to act. The result of this shift is that while some properties continue to sit, other quality, non-investment real estate properties have enjoyed a sharp increase in demand. We have even seen properties receive multiple offers, and in some cases, full asking price offers before a property hits the market. Other properties with which my partner, Jim Wible, and I have been involved have gone under contract after only one showing. These circumstances are reminiscent of a by-gone era: the pre-recession years of 2004 to 2006.

What is driving this surge in activity? Whether the buyer is a user or investor, the growing sentiment appears to be, "We've seen the worst, and I'm going to survive." Certainly record low interest rates and ample U.S. Small Business Administration loans have been a factor. For some, profoundly reduced real estate prices, especially bank-owned properties and land, have propelled them from the sidelines to the playing field.

But this bifurcation in the market is not driven by economics. It is driven by opportunity. The assets described above have enjoyed demand, not because they are discounted, but because they are special. This



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GUEST OPINION

inherent value has commanded full-asking price, or even above asking price offers. Because appraisals have been so unpredictable as appraisers grapple with foreclosures that distort true market values, most of these purchases have had to be for cash. Even this has not dampened demand.

What makes these assets so special? In a word: quality! To distill it further, most often it is exceptional location or utility. Examples would be desirable zoning with a good layout or a special value-added feature, such as a free-span, high-bay building or an active rail spur with expansion room. Well-located assets in certain trade areas, such as Uptown or Paseo, always draw a level of interest, but what we are seeing now are long-held assets, some of which have not been available for decades, finding their way to the market. Whether by business closure, merger or expansion, businesses are resizing and relocating their real estate, which is creating opportunities.

Having covered the upper end of the bifurcation, what about the lower end? There is an ample supply of discounted properties available and even quality assets can be found "on sale." Like shopping for records in the discount bin, you might have to pick through several to find some winners. But they are there, and with record low interest rates and sellers who have been waiting for offers (in some cases for years), it is a "perfect storm" in a buyer's market.

The properties that continue to struggle are those stuck in the middle of this bifurcated market. Being grouped with several other properties that offer no special features is a difficult place to be.

How can you make a property special? There are only two directions you can go: move up market or create a great value.

Now is a great time to remodel or improve your property, because contractors are very hungry. The key is to add elements

that make your property desirable to the mainstream buyer, i.e., eliminate major objections or add features that are most commonly requested.

Well-located real estate is always desirable, and if you have a great location with improvements that are at the end of their useful life or functionally obsolete, consider demolishing or renovating those improvements. At a recent International Council of Shopping Centers conference I attended, the keynote speaker said "it's not that we are over-built, it's that we are under-demolished." Urban planners have been advocating that the trend is toward less sprawl and more re-urbanization. This new economy might provide the drivers that make their message actionable. If you have a tired asset in an infill area, this could be the time to reinvent it. The Bricklight apartments in the university area are a good example, as are the @ I-25 project, Copper Pointe, Albuquerque Uptown, and Albuquerque High condos, to name a few.

The method involving the least effort is to make a property special by lowering the price. It's not easy to discount your own asset, but there are always buyers with cash who are looking for value. Finding the right economic tipping point for your property might get them off of the sideline.

The buyer pool on both sides of the bifurcation is still shallow, so if you are a buyer, it remains a good time to make your move. But don't assume you are the only one out there! When a quality asset shows up, so do the astute buyers.

As a seller, you do not have to "wait until the market gets better." The market is ready now if you have the right asset to sell, or make the effort to create the right asset.

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