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Polsinelli of Eastern Consolidated: Retail driven deals will be extremely popular

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Years with company/firm: 27 years investment sales - closing in on my 2nd year with eastern
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In the current economic climate what kinds of deals are out there and who is the typical buyer? Consumer?

I think retail driven deals will be extremely popular for investors and users in the current climate and the future also looks bright.

High street retail rents in New York City, particularly Manhattan, have been setting daily records for breaking through the stratosphere. And now, a ripple effect is happening in the retail condominium scene.

It wasn't long ago when owners valued their property by what they could achieve if they sold the building. Today, the question is not what the building is worth as a whole, but what the parts are worth if sold individually.

Buildings with ground-floor retail have been leading the charge with retail rents rising rapidly, thereby adding additional value to a property when the retail is sold separately from the rest of the building. This spills over nicely in buildings where the upper residential floors have been sold to individual owners leaving the retail as rental income. The trend until recent months has been to now sell off the retail and fill the condo or co-op's reserve fund with excess funds making the overall financial health of the co-op extremely wealthy.

In some cases, residential condominium owners have even gotten this excess cash to cover their monthly maintenance charges leaving them with a very valuable situation and, in some cases, even afford their owners an annual stipend. A recent change in a federal tax law, known as the "80-20 rule," affecting condos and co-ops has made this phenomenon more prevalent.

The rule originally required that at least 80% of the gross income in co-op buildings had to come from shareholders, and no more than 20% from other sources, like retail stores or garages. Co-ops that didn't comply lost their legal status as co-ops and the tax benefits of being a co-op. As a result, buildings charged lower rent for any retail, garage or commercial spaces or to retain their status.

When Congress relaxed the law, co-ops became free to charge more for their ground-floor stores. But it hasn't been until recently that most buildings could take advantage of the rule change, because many of them had signed 10- or even 20-year leases that are only now expiring.

In neighborhoods like SoHo and along Madison Avenue where retail rents are high, it has meant a windfall for some co-ops. According to research from Eastern Consolidated, sales of retail properties increased in the quarter from $100 million to $152 million - a far cry from the fourth quarter when it jumped to $2.5 billion, but activity remains high.

Given the benefits in the retail investment sales market and increases in pricing (as highlighted above), co-ops are in a unique position to reduce their maintenance, pay off their mortgage and perform capital improvements.