



Stability in 2009: Back to basics mentality in order to help market

January 12, 2009 - Owners Developers & Managers

As we enter 2009, commercial real estate professionals are bracing for a difficult year ahead. For the first time in many years in Manhattan, office vacancy is above 10%, rents are not rising, unemployment is up and financing is difficult. Having been through previous down cycles in real estate, I believe the positive side of this situation is an emphasis on conservative business practices and the ability to find and take advantage of new opportunities.

A driving force behind the commercial real estate market's decline has been overleveraging. When cheap credit was available, many owners overextended themselves with unrealistic debt on overvalued properties. Having learned the lesson of the past year, owners will examine deals much closer and return to more conservative deal making and less exposure to risk. Stable companies will also maintain liquidity and reserves because markets will always have ups and downs.

More so than ever, stability will involve flexibility and long-term planning. With no timeline on economic and financial market recovery, commercial real estate owners and brokers have to adjust to leaner times and position for growth when the market comes back.

For owners, it is imperative to keep existing tenants and avoid vacant space. As many companies are struggling, it is a good idea to check in with tenants regularly to stay on top of changing needs. This year presents a unique opportunity for landlords to show tenants that they are not on the opposite side of the fence, but partners. Landlords with solid tenant relationships will stay stable in 2009 and be poised for growth in better times.

With the current challenges, commercial real estate brokers will have an unprecedented learning opportunity. Deals are not going to fall from the sky. Brokers who do their due diligence - canvassing the market, maintaining relationships, making cold calls, etc. - will survive. It is essential to provide excellent service from start to finish of an office lease and to look for the best deal for clients up until the closing. Brokers who think outside of the box and apply creativity to deal making will excel. As in all down markets, the people that were just along for the upswing will move onto other industries leaving the exceptional brokers to do the deals.

In a way, all commercial real estate professionals will benefit from the market this year in knowledge. During flush times, tenants rush to sign deals to lock in rents before they climb too high. The upside to the slowdown in the market is that commercial real estate professionals and tenants alike will have more time to think deals through. Deals will be completed upon actual need and the ability of a broker and landlord to provide the best possible option for tenants.

Companies that were responsible and avoided unmanageable debts will be rewarded in coming months with opportunities. Distressed assets are revealing themselves and companies with cash will be in a position to capitalize. For the first time in many years, Adams & Co. is considering acquiring new office properties should the right deals arise.

I believe this will not just be the year of improved business practices, but we will also see a change in America's culture of spending. It is no surprise that our businesses have debt they cannot pay and a cash crisis - we live our lives on credit. Within my lifetime, I have seen the shift from "save until I can afford it" to "buy now, pay later." We definitely needed a reality check.

Perhaps the best lesson we will all learn from this crisis is to live within our means and always have some reserve put away for a rainy day. It may seem as if we are taking a step backwards, but as companies and individuals avoid debt and strengthen their financial fundamentals, I am confident we will return stronger than before. It is this "back to basics" mentality that will stabilize the market and hopefully be the lasting lesson.

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