



Despite today's tough market, Sperry Van Ness is getting deals done through creativity and hard work

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Founded in 1983, Sperry Van Ness is one of America's largest commercial real estate investment brokerage firms with over 1,000 brokers nationwide in over 84 sub-markets, representing clients in the sales, acquisitions, leasing and management of retail, office, industrial, multi-family, and hospitality properties.

Sperry Van Ness' retail effort is led by its national director of retail, Joseph French, Jr., CCIM, who has over 20 years experience in all aspects of retail property investments and was named a Broker All-Star in 2008 by GlobeSt.com. French leads the firm's efforts in servicing institutional clients as well as major private investment firms—a challenge he fully welcomes in today's difficult market.

According to French, "Today we face a market which presents many challenges especially for owners with debt coming due. However, this same market presents great opportunities for investors. Many of the best opportunities will be found at lending institutions and special servicers who are disposing of troubled assets - either foreclosed properties (Real Estate Owned or REO's) or mortgages on distressed properties."

In order to assist lenders with troubled assets in finding the right investor for their REO properties or mortgages, Sperry Van Ness has recently formed the SVN Asset Recovery Team (www.svnart.com) to serve financial institutions as a "single full service source" for the effective disposition of any real estate related asset including loans, portfolios, and individual properties.

French adds that, "The solution for the real estate industry going forward is to enable lenders as efficiently as possible to enhance the value of their troubled assets and then maximize value on final disposition while at the same time finding the right investor who sees the greatest potential to add further value to these assets."

Retail Market Trends

The retail investment market has continued its downward trend which began over a year ago with the collapse of the CMBS mortgage market and is now being battered with store closings and/or reduced demand for space as retailer's cutback in response to the dramatic fall in consumer spending and fears of a worsening recession.

Since January 2009, cap rates have increased 50 to 60 basis points on top of previous cap rate increases of 100 to 150 basis points in 2008. The severity of the decline depends on the quality, type and size of the property. As expected, class A properties and locations are weathering the storm better than tertiary properties in more rural locations which are generally selling at distressed prices.

Enclosed malls and power centers tenanted by non-necessity retailers have been particularly hard hit as the consolidation and/or liquidation of big box anchor retailers has shrunk the pool of potential tenants. Even when anchor tenants don't fail, many of them are approaching landlords with requests

for rent reductions. Most smaller in-line tenants are also cutting back on their expansion plans, closing existing stores or simply going out of business. The International Council of Shopping Centers recently forecasted approximately 150,000 store closings in 2009. Partially offsetting this will be 105,000 to 110,000 new store openings in 2009. This leaves us with a very significant negative absorption. Even these negative numbers may prove optimistic as more retailers, such as Circuit City, file for bankruptcy.

The moderately positive segment of the market is necessity retail, such as grocery anchored community shopping centers. Even as consumers cut back dramatically on non-essential luxury items and even essential but not immediately needed items, there are certain products that must be bought. As the saying goes, "everyone's gotta eat." In fact, some discount grocers are actually reporting increases in sales as consumers switch from eating at restaurants and shopping at high-end grocers such as Whole Foods to buying less expensive items at retailers such as Wal-Mart and Sav-A-Lot.

The capital markets, or lack thereof, continue to put a damper on the market. The good news is that there is debt available. The bad news is that it is at lower LTV's and almost always subject to recourse. Typically, we're seeing financing available at 6.25% to 7.25% at LTV's of 60% to 70% with 25 year amortization and subject to recourse.

Not surprisingly, the liquidity crunch has most harshly impacted the sale of larger properties. According to Real Capital Analytics, only two retail properties and one portfolio traded above \$50 million in January 2009, well below typical monthly levels for the past several years.

Few investors expect these negative trends to reverse or even stabilize anytime soon. Though there are massive amounts of opportunistic capital just waiting for the right time to invest, most investors are still fearful that the economy is going to further deteriorate with even more stress placed on retailers and cap rates.

Despite these challenges, deals are still getting done, albeit at higher cap rates and longer marketing and closing periods. Our team recently closed the sale of Voice Road Plaza, a 131,850 s/f community center in one of Long Island's (NY) premium retail regions for \$36 million. It was a difficult sale and took our team approximately 10 months to close this deal, even though we had over 15 offers.

Deals getting done in today's market are at deeply discounted prices and/or have assumable financing. We are seeing the pricing gap close between buyers and sellers as more sellers want to get ahead of worsening conditions. A number of sellers are telling us that they are willing to sell today at lower prices in order to raise cash now and buy later at even lower prices. Some sellers are also exploring offering seller financing as a way to improve the marketability of their properties.

In today's market "cash is king." Those who have or can get the cash will be able to find some very attractive deals, particularly as the banks and special servicers begin to roll out the sales of their REO properties.

For strong buyers, this is likely to be the best buyer's market since the days of the RTC (Resolution Trust Corp.) back in the 1990s.