

Finding The Bottom vs. Finding Value

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Arriving at a decision on the best strategy for how to successfully navigate the commercial real estate market during these challenging economic times is vexing to many an investor. Do I, or don't I??? That is the conundrum facing most commercial real estate investors in today's market. Do I, or don't I liquidate my portfolio (or at least my non-performing assets)? Do I, or don't I stand on the sidelines and wait-out these turbulent times? Do I, or don't I get aggressive and take advantage of the decline in property values and the spike in acquisition cap rates? In the text that follows I'll put forth counsel based not upon the emotions of the times, but rather the forthcoming advice is based upon my years of experience in successfully advising clients in both advancing and declining commercial real estate markets.

It is often said that you can only count on two things in life: death and taxes. There is a third thing that is often overlooked...market volatility. Whether markets are moving up or down isn't really the issue. The issue is whether or not value can be added or created in the investment being considered. What tends to happen to the non-sophisticated commercial real estate investor is that they rely on upward moving markets to create value for them. If the market happens to move in your favor that is a plus, but it should not be the sole basis upon which your investment decision is made. You need to be able to add value to an asset through operational improvements, repositioning, restructuring, recapitalizing, re-tenanting, or other proactive strategic or tactical value enhancements. This is the mark of a savvy investor.

It doesn't really matter whether you're looking at the equity market, commodities market, bond market, the commercial real estate market, or any other investment market, as all investment markets have certain similarities...It is my hope that the following five points will be useful in refining your investment philosophy moving forward:

1. **Market Timing:** Let me be very blunt right from the outset...not only is it an exercise in frivolity to try and time a market bottom, but many significant investment opportunities will simply pass you by as you stand on the sidelines waiting for that almighty market bottom to occur. I know...smart investors buy low and sell high right? Sure, but there is a difference between recognizing value and opportunity that lead to superior investment returns, and trying to wait for that ethereal moment in time that represents the exact bottom of a market. Put simply, one in a million will correctly time a market

bottom, while many investors will generate significant returns by exploiting the opportunities that a declining market provides.

2. **Professional vs. Amateur Investors:** Tough times tend to separate the wheat from the chaff. The challenge facing most commercial real estate investors today is to become honest with themselves in determining whether they are in fact astute commercial real estate professionals, or whether they were among the masses just riding a wave while it lasted. You see professional investors are always in the market...during good times and bad. They understand that more "*lasting wealth*" is created in declining markets than in overheated advancing markets. You see it's the non-professional investor (stupid money) that is both late to the market, and then overstays their welcome by holding on too long. In point number 1 above I mentioned top of the market...Whenever you reach a point in the market where everyone (even your cab driver) is a "*real estate investor*" you know you've found the top of the market.
3. **Invest in Opportunities not Asset Classes:** The most successful investors are fluid in their approach...they see changes in the market as being synonymous with the creation of new opportunities. While I certainly understand the synergies that come from developing a niche focus, I don't believe they can make-up for the increase in diversification and scale that comes by exploiting opportunities across asset classes. Are you a retail investor, or a commercial real estate investor? Are you a multifamily investor or a commercial real estate investor? You see it is my belief that the core of sound commercial real estate investing is present across asset classes. The same characteristics that make an investment attractive in one asset class are ostensibly the same in others. Location, current market dynamics, tenant mix and quality, entitlement and construction risk, absorption and vacancy (supply and demand), age and construction quality, micro and macro economics, NOI and valuation drivers, etc. are relevant regardless of whether you're investing in industrial or office assets. Furthermore, it's important to be flexible in the structuring of your investment opportunities. As an example as long as the risk/reward ration falls within your investment guidelines it shouldn't matter whether you are a principal in entirety, have a limited ownership interest, where your investment falls in the capital structure or any number of other considerations. You either like the opportunity or you don't...the rest of the issues are just details to be worked out at the negotiating table.
4. **Understanding Opportunity:** Rarely will you come across a static opportunity in the sense that it will stand idle and wait for you to act...Significant opportunities are not only scarce, but they typically operate on the principal of diminishing returns. The longer you wait to seize the opportunity the smaller the return typically is. In fact, more likely is the case

that the opportunity will completely evaporate if you wait too long to seize it. Keep this thought in mind; when opportunity knocks...answer the door. I can't even begin to count the number of times I watched people miss great opportunities due to a poor sense of timing. Not too surprisingly, people who possess a poor sense of timing usually don't even understand timing is an issue. How many times have you witnessed someone holding-out for a higher price, better valuation, evolving markets, technology advances, or any number of other circumstances that either never transpires, or by the time they do, the opportunistic advantage had disappeared? I've observed the risk adverse take due diligence one step too far, the greedy negotiate too long, the impulsive jump the gun, and the plodders move too slow. As the saying goes "timing is everything." The proverbial window closes on every opportunity at some point in time. As you approach each day I would challenge you to consistently evaluate the landscape and seize the opportunities that come your way. Better to be the one who catches the fish than the one who tells the story of the big one who got away...

5. **Seeking Sound Counsel:** The smartest commercial real estate investors surround themselves with professional advisors who extend their strengths, shore up their weakness, improve their access to market knowledge, and provide more visibility and broader access to investment opportunities. What really separates the successful investor from the average investor is that the successful investor has a broader sphere of influence and a larger network helping them to be successful than the novice investor. If you ever wonder why certain investors seem to get access to the best deals, it is usually because the professional investor simply enlists more resources working on their behalf.

My advice is this...don't let the current market conditions intimidate you. Rather create an opportunistic approach to commercial real estate investment that will simply adapt your investment guidelines to the current market dynamics. There is every reason to get into the market and take advantage of once in a generation opportunities that exist now.

For more information, please view the following page to see my bio which contains my contact information.

About the Author

Brent C. Miller, CCIM, CPM serves as **Managing Director and Senior Advisor** for **Sperry Van Ness - Miller Commercial Real Estate** in **Salisbury, Maryland**. Miller specializes in the sale, lease and management of retail, office and industrial property. His primary market is the Delmarva Peninsula, Chesapeake Bay east to the Atlantic Ocean. With more than 20 years of real estate experience, Miller has closed more than 750 transactions resulting in a career brokerage volume in excess of \$150 million.

Prior to joining Sperry Van Ness, Miller gained experience as an Associate Broker for Long and Foster Commercial where he specialized in commercial sales and leasing. While at Long and Foster, Miller was recognized with the Top Producer award multiple times.

Brent Miller is a member of the Greater Salisbury Committee, Wicomico County Rotary Club and serves on the Salisbury- Ocean City Wicomico Regional Airport Commission. Miller also serves as member of the Board of Directors for Urban Salisbury and Shore Bank.

Miller holds the prestigious Certified Commercial Investment Member designation (CCIM), is a Certified Property Manager (CPM) and is also involved with the International Council of Shopping Centers (ICSC). In addition to his experience with office and industrial transactions, Miller brings special experience in medical properties, shopping centers and NNN retail property.

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