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Real Estate in the Real World
By Chris Peek, CCIM
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While many people correctly perceive that the condition of the national commercial real estate market is fairly dire at this point, the regional reality on the Eastern Shore market is not necessarily following that track. It is true that the market has slowed down considerably in certain sectors, most specifically in the more speculative areas of real estate where builders and investors who were building somewhat ahead of the market, anticipating that they would be positioned well when demand caught up to them, have been hard hit by the slowing market.

However, like many dynamic systems increasing torpor in some areas leads to more dynamic activity in others, and this is being borne out in by the activity seen in the current market. Users, versus investors, who have specific needs see extraordinary opportunities in the current market, and have been moving with all due speed to take advantage of falling prices, historically low interest rates, and relatively reasonable labor costs as contractors, like many other service providers, are sharpening their pencils to stay in business.

For users looking at the Eastern Shore regional market for deals there has been significant compression in both lease and sale pricing across the board. Locally and regionally adjusted dollar per square foot lease and sale pricing for existing buildings has, on average, rolled back to levels last seen in the 2005 market. Having said this there are obviously exceptions this price deflation, and for properties in very desirable locations, or with relatively recent improvements these negative pricing pressures may not apply.

The effect of this intersection of market forces for users has made for a fairly dynamic market, with financially qualified users having more opportunities for well priced and desirable deals than they have seen in several years, and many are taking advantage of those opportunities. In addition to this banks are stepping up to the plate for financially qualified users, and for those with good credit it means they are able to secure loan pricing at almost historically low rates. As one of the largest commercial-industrial brokerages in the region we have seen significant levels of activity in the industrial and commercial end user sectors over the past six to nine months as manufacturers and service providers have moved on these opportunities.

On the investment end of the market there has been more of slowdown than the user end, but activity is still percolating along. Banks have replaced magnifying glasses with microscopes in terms of looking at buyer qualifications in granting loans, but for those who pass muster regarding their credit worthiness extremely good rates are available. It is an axiom among successful, long term investors in real estate that there is considerably more money to be made in a decelerating market than in a booming market. As Bill Ahtes, a successful local investor has noted on several occasions, the key to making money in real estate is “buying it right”.

Paying a premium price for a property in the supposition that inflation or market dynamics will eventually generate an investment that makes sense in terms of yield ratios is a dangerous business, and requires more luck than market savvy. Making sure the price and income-expense fundamentals of a property are correct from the purchase forward is a far safer and more reliable road to real estate wealth. In the current market environment, enough time has passed that many sellers have come to the conclusion that the bubble is over, and are increasingly adjusting pricing to realistic market levels. This in turn has offered many buyers the ability to “buy it right” and they are taking advantage of that window of opportunity.

In sum, while it is true that on a national, and to some extent regional, macro-economic basis real estate has suffered a considerable slowdown, the flip side of this is that a number of opportunities have opened up for savvy buyers, and they are moving rapidly to secure these opportunities while the market is favorable.

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