COMMENTARY

Gary London >> COMMENTARY

Now's the Time for a Commercial Face-Lift

Some weeks ago I was asked by an owner of a small shopping center to offer advice on what his strategic options are, with the announcement that his major anchor tenant would be closing. The tenant was closing down marginal locations throughout its West region, and this small center was targeted. The tenant occupied 45,000 square feet of the 70,000-square-foot center. It has two years remaining on the lease. That is two years to find a new tenant, or effect a change.

The problem is how many "new" tenants are out there in a declining market, particularly when the "old" tenant proved the marginality of the location?

There are three options. Either this owner makes changes to the asset; or he does nothing and loses cash flow, probably permanently; or he puts the property up for sale.

Is This Right Time?

An investor makes money when he recognizes that the time is right. This is determined by tracking the important indicators. In commercial real estate, there are two good measures:

• A break in the "bid-ask" gap: If you are tracking transactions and you see that the market is less dynamic, indicated by a slowdown in transactions, this usually means that sellers have not reduced prices sufficient to attract investors. Prices have to come down.

• When capitalization (e.g., "cap") rates begin to rise: This is the statistical indicator that prices have started to come down, and that investors are recognizing this by purchasing properties. The idea is to purchase at higher cap rates, calculated by dividing a property's selling price into the net operating income. This creates an index in which to measure comparable property transactions.

We are now starting to see some signs that the bid-ask gap is narrowing, and that cap rates are increasing. The "window" for a good investment period is opening. It will not close fast.

So the following investment advice will be good for the foreseeable future.

When that perfect moment does arrive, look no further than the existing commercial inventory in your community.

In my last column I laid out a case for the demise of the commercial markets. The foundation of my case was that while consumer spending increased, the amount of retail space that was constructed increased even more.

Even in a "good" economy, the pace of construction was unsupportable.

The problem is that consumer spending is really down, and is likely to stay down. The inevitable result is that there is too much commercial retail space for the dollars that are out there.

How do you translate these facts into good investment opportunities?

Here are some strategies:

• Look for old, or Class B and Class C shopping centers. These include centers that are under-maintained, are experiencing high vacancies or have marginal tenancies. They are typically centers that have effectively outlived their useful economic life. Unlike a house, which, through rehabilitation, can often have a 100-year useful life, a commercial property's life follows its investment horizon. This means that many shopping centers are effectively done after 20-30 years.

• Also, there is abundant strip commercial space not connected to a shopping center. This inventory is experiencing high vacancy rates, or often occupied by tenants who are increasingly marginal. The best that a landlord can do is bide time by working with the tenant.

Sometimes the commercial property requires only physical rehabilitation to accommodate contemporary tastes and tenancies.

But we are at the inflection point for much of the commercial inventory. The clock is ticking closer to disaster. It simply needs to be replaced by a higher and better use.

The key strategy is to allow your "due diligence" to reflect the permanent change in the marketplace. In much of this inventory lease rates are decreasing, vacancies are increasing and assets cannot be maintained.

The "good" tenants are going out of business, downsizing or selectively closing locations.

Then, you have two choices: either nurse the investment back to good health or change the use. The former means doing the requisite capital improvements to take a tired, old commercial center or space and make it new again, and attractive to good tenants.

I am suggesting that the latter strategy may be the better course for many investments.

Old Centers

Old shopping centers can become mixed-use projects — retail on the ground, residential above. Or take the old 25,000-square-foot supermarket that was the anchor tenant, and replace it with an apartment complex. Or, change the use completely. Commercial can become residential. We will need much more residential in the future.

But this is not an easy task to accomplish. Changing the use involves lead-time, money, expertise and political cajoling.

Most cities haven't confronted the inevitability of what we term "adaptive reuse" in the commercial inventory in their communities.

And it's unlikely that the cities will make it easy. They have zones, plans and processes. It's certain that many community residents will resist.

But whether they do or not, the evolution of a community's needs — translated into adaptive reuse — is inevitable.

Now is a good time to identify these investment opportunities and begin the process.

Whether you own the asset, or you're targeting one, by the time the existing tenants may want (or need) out, you can have made progress in sealing the new deal with the city, structuring a new venture with capital partners and co-developers, and arrive in the time of an improved economy.

This is the moment to change the course toward a bold strategy of face-lift, not just for the commercial inventory, but also for the entire community.

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Doris Roper >> COMMENTARY

Here's How to Navigate Life's Transitions

We all experience life transitions. People dealing with transitions feel anxiety, lack confidence, and fear the unknown.

They often struggle financially and lack the skill to manage their financial lives.

They get off track and stay there.

When we're riding on rough economic seas, these transitions aren't made any easier.

This is especially true for women. At least 80 percent of women will be the sole financial decision-maker at some stage in their lives.

This is due to more women forgoing marriage, the high rate of divorce and the fact that women tend to outlive men, which leaves widows having to manage their money.

When I came to the United States from South Africa and started working in financial services, I found that the majority of women I met lacked confidence, financial management skills, and courage, especially when dealing with an emotional transition.

I was sympathetic because I've been in their shoes. I've been divorced, lost a business, found myself penniless, moved to a new continent knowing no one — and I'm the better for it today.

I write about my own transition story in the book "Wake Up Your Life!"

Let me give you a few tips from my book to help you start.

• **Forget rejection. Think redirection.** Rejection gives you an opportunity for growth, to move forward in a different and positive direction. Some people say, "When one door closes, another one opens."

• **Get support, but don't be a "hanger-on."** Your family and friends care about you and want to help you. But the ultimate responsibility for your life rests on your shoulders. Don't take undue advantage of well-wishers.

• **There are no mistakes — just lessons.** Mistakes show us with great clarity what works and what doesn't work. Pay close attention to your mistakes, learn from them, and allow them to guide you. Don't beat yourself up for them and don't fear them.

• **Avoid getting buried in debt.** This is one of the single most disempowering things anyone can do. Debt itself isn't bad, and leveraging through debt is a valid financial management practice. It's when the debt spirals out of control, when there is no realistic repayment plan in place, and when your level of debt outstrips your level of income, serious difficulties arise. Debt takes away your freedom, yoking you to a bad job, a bad marriage, or a bad life.

• **Don't cling too tightly to the things of this world.** The gratification provided by material things wears off. The new car gets a dent, the new suit loses a button, and your cruise is a distant memory. When you can let go and enjoy life regardless of its contents, you will be much happier and able to deal with what comes your way.

• **Listen to the niggle.** What's "the niggle?" It's the opposite of feeling a complete sense of peace. When you feel a niggle, stop, wait, reconsider. Trust your niggles. They will point you toward authenticity.

Doris Roper is the author of "Wake Up Your Life!" Visit her at witinstitute.com.