Summer/Fall 2007 Newsletter

By Bob Canter, President/Founder

Attention Commercial Real Estate Professionals… Are you ready for the upcoming Market Correction?

If you think the current mess in the credit markets won't affect you, think again!

The current crisis in the credit markets, which began with the sub-prime mortgage fiasco, will spill over into other areas in the commercial markets. There has already been a significant adjustment in the mortgage market especially in the CMBS financing sector.

Properties are being withdrawn from the market due to low offers. There are fewer investors in the market because of the stricter lending requirements. Most commercial brokers involved in investment sales are in a state of denial. There is a major disconnect between sellers and buyers especially as it relates to the financing of real estate. The brokers handling these sales are acting as if nothing has changed and have not "educated" their sellers as to the current state of affairs in the lending market. In other words the train has left the station.

Smart investment brokers would have talked to their mortgage finance contacts and related that information back to their clients before bringing the property to market. The cash component of any deal now has significantly increased. The leveraged investor can no longer count on an "interest only" loan and a high LTV ratio. All this puts downward pressure on sale prices. ***It's no secret that as real estate financing goes so goes the real estate market.*** Case in point is the housing market as well as the historically high prices investment real estate has commanded in the last few years.

Commercial real estate traditionally does not react overnight to changes in the credit markets; however that is about to change. In today's mortgage market so many mortgages are securitized, meaning sold to Wall St. investors as part of a pool of mortgages and then sold as bonds. Commercial real estate will be affected much faster than in times past because Wall St. trades these bonds on a daily basis.

I personally know of mortgage brokers that went to closings just a couple of months ago and the lenders at the closing renegotiated the terms of the mortgage based upon the new "underwriting" criteria.

What does this mean to you?

What this means to you is the volume of deals you will be working on will diminish! You will have to work harder and longer to find leads. You will have to be on top of your game as you can not afford to lose any potential qualified deals since leads will be few and far between.

The days of easy money are over and the faster you plan to make the necessary adjustments to this approaching situation, the better your chance of survival in the commercial real estate business.

What are the adjustments you need to make from an agent's perspective?

The first thing you need to do is look in the mirror and ask yourself if your skills are good enough to get you through the upcoming storm. Perhaps you were never properly trained on the basic ***fundamentals of the business.*** Your broker threw you out into the field from the get go and since business was SO GOOD, it wasn't necessary to have any training.

- ? ***You have to ask yourself do you have a new game plan or business plan. Have you sat down with your broker to discuss potential strategies on navigating in a slower much less robust market?***

- ? ***You have to ask yourself, is the broker you are working for being proactive and being out in front by initiating meetings to discuss strategies and arranging training programs that are focused on the changing business climate.***

- ? ***You have to ask yourself do you really like the business enough that you will endure no matter what happens in the coming months, meaning did you get into the commercial business for the fast buck.***

What are the actions you need to take as the Broker/Manager?

As a broker/manager you have to take a look at your sales personnel and ask yourself; who will survive? And who will not? Have you given your agents enough training and provided them with your insight and experience to handle a declining or slowing market? Do your agents have updated ***prospecting skills?*** Do they even know how to prospect for new business? Have they slacked off prospecting due to being "too busy"?

Have your agents, who have been mentored, really ready to go it alone as independent sales people? Have your mentors within your organization really been mentoring the newer agents? Or have those agents been used merely as lead generators and have only carried their mentor's brief cases? Internal deal sharing will not be in the more experienced agents' best interest when there are fewer deals to work on.

There are a number things, you as the broker/manager, can begin to implement. For example:

- ***Make sure your agents are staying in constant contact with their sellers or landlords.***
- ***Make sure your agents are providing their clients with timely information on changes in the mortgage markets.***
- ***Your agents should be providing recent comparable sales to their sellers and possible buyers.***
- ***Your agents should be providing their landlords with updated information on local leasing activity and rental rate changes and their marketing efforts.***

Most agents will run and hide if they are not getting showings or producing offers for their exclusives. Now is not the time to stop communicating with your clients. Your clients read the newspapers and are bombarded by all the media outlets about how bad things are getting and what is going on with the stock market etc. Your clients will start to get a very uneasy feeling if they are not hearing from their agents. Communication is the key to being successful in a declining market.

Using "Best Practices"…

As the broker directing your agents you must use the best industry practices and be on the lookout for those agents that are behaving as if they are desparate for a deal. That can lead to unethical behavior or put your brokerage company in a bad light. Either way that can harm your company's reputation and credibility.

Part of using best practices is to encourage your agents to have asking prices on their properties. Not having an asking price for either properties for sale or lease only signals to the market that...

A. You don't know the market.

B. You are afraid of being accountable to your client if the offers don't come in as you predicted.

C. Your client is not serious about selling or leasing their property.

Most commercial deals involve a "tenant rep" or "buyer rep" broker. Therefore the prospective tenant/buyer knows the market. So by not having asking prices you are slowing down the process or having potential buyers/tenants focus on other properties. Either way it's not in anyone's best interest.

Keys to Success…

One of the keys to success in a down or declining market is to create a sense of urgency with your client. This is especially true when representing properties. Gone are the days of multiple offers, the mentality of ***"if I don't take this deal they'll be another around the corner"***

You create this sense of urgency by constantly communicating with your client and providing them with a host of market information. ***If the market is changing for the worst, you better let them know and why***. No one wants to be the messenger of bad news; however, you need to turn the bad news into an opportunity. Of course if the market has turned for the better they need to know that as well.

If you are interested in learning more on how to navigate through uncertain times or as a Broker/Manager you want your agents to be primed and ready for anything the market might throw your way...give us a call or email us. We can provide you with the road map to success.

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