

Real Estate Round Up



EDCO assembled a trio of experts on commercial real estate, asking them what's going on in their sector of the market. Amid front page headlines of falling residential real estate activity, we can say the commercial sector in Central Oregon is alive and well, thank you. Here's what Darren Powderly, broker with Compass Commercial, Brian Fratzke, broker with Fratzke Commercial Group, and Darrell Deglow, owner of Cascade

Commercial Appraisal Services have to say.

Questions:

What properties are selling in commercial real estate?

Powderly: **Reasonably priced assets** continue to sell. Compass is selling numerous office and industrial buildings to **owner-users**, companies that are going to occupy a building once they purchase it. No one is overpaying for commercial real estate anymore. If a seller wants to make a deal in 2008, they have to realistically price their property and work hard to find a buyer.

Fratzke: **Land sales** within the Commercial General, Commercial Limited, and Industrial Sector of Bend are selling well as long as the land is **priced at today's market rates**. **Industrial buildings to be occupied by owner/users in Bend** are selling well as it is difficult and time consuming to build a new industrial building in Bend while SDCs and permits are increasing. Larger net leased investments (\$10.0M +) at a true 6% CAP or higher are always in demand although there are few of these properties available in Central Oregon.

Deglow: The **commercial market is still active for fully leased investment grade property**. **Apartments are very strong** at this time; however, this may be temporary as the vacancy rates may climb when the single family housing market improves in the next 12 to 18 months. Cap rates and discount rates have remained steady for this type of property in Central Oregon and on a national level.

Conversely, what is NOT selling?

Powderly: **Bare land is seeing the sharpest drop deal volume and price**. Many investors do not want to hold onto non-income producing property during a real estate recession because servicing the debt can become a cash flow problem. Those who purchased bare land at overvalued prices in recent years now face the harsh reality that their investments are not worth what they paid for them.

Fratzke: **Vacant buildings that are overpriced**. By overpriced, we mean properties that will not provide the investor with an acceptable return on investment if the building were 100% leased at market rates. We also mean a property that is priced higher than it would cost to replace the property.

Deglow: The residential market continues its correction process.... **commercial development land has also experienced a slowing cycle** as opposed to the hyper activity of 2004 - 2005.

Where is inventory supply not adequate?

Powderly: **Industrial land.** It's true that industrial demand has cooled as a result of the residential building slowdown. However, due to restrictions in supply, Fortune 1000 companies cannot find enough land at a reasonable price to meet their facility needs. It's terribly disappointing to see Juniper Ridge delayed because Central Oregon has an immediate need for large, affordable tracks of industrial land.

Fratzke: **Small office buildings in Bend between 1,500 to 3,500 SF priced below \$275/SF.** I have five clients all of whom lease office space in Bend. Each of these clients would like to own their own building. A majority of the small office options on the market today were developed using numbers from 2005 and 2006 when the market made no sense. Now the buildings are on the market in some cases for \$400+/SF.

Deglow: **Apartments and good quality, well priced, investment grade leased commercial property** are in short supply. I think owners of those property types know they have a desirable investment property and are holding on to them.

How is the Central Oregon market different than the rest of the state?

Powderly: I am very optimistic about the economic future of the tri-county area. However, **I we cannot rely on the region's "quality of living" to drive population and economic growth.** Our community leaders have to figure out a way to provide more diverse, higher paying jobs. The Juniper Ridge strategy is the clearest path to deliver those quality jobs to the area.

Fratzke: Central Oregon is still a high demand market for those conducting business. Remember that Bend and the surrounding communities around Bend have experienced explosive growth. While the residential sector is experiencing a correction, **restaurant, fast food franchises, retail clothing stores, and small offices users still want to be in Bend.**

Deglow: The driving economic force in the Central Oregon market is in its strong population growth rate, which still outpaces the rest of the state in regards to percentage increases. Quality of life aspects and the environment are also pivotal factors in the unique Central Oregon markets, but **we should not be complacent and maintain a posture that Central Oregon is immune to normal cyclical economic events** in the residential and commercial markets.

What is the #1 misperception about the market today?

Powderly: **Buyers think they have to wait longer in order to find a good deal.** There are a few select opportunities to make a purchase today at "bottom of the market" prices. Buyers should make offers where they believe the value is. Eventually, sellers will accept reality, deal volume will increase and a true market bottom will be established. The sooner this happens, the better.

Fratzke: **All real estate is the same -- this is not the case.** The commercial sector is a separate entity differentiated by cash flow. The commercial sector, while directly impacted by the residential sector, is still experiencing great returns as we have a limited supply of commercially zoned land in Central Oregon and demand remains high.

Deglow: In regards to commercial real estate, there is **too much emphasis placed on "cap rates" as a purchase decision tool.** A cap rate is a simple valuation tool that provides a rate of return at a given specific point in time, usually at time of purchase or appraisal. Cap rates do not tell the investor anything about the performance of the investment over a typical holding period.

What would you like the press to know that has gone unreported?

Powderly: I suggest a **"Deals of the Week"** section of **The Bulletin** that highlights the best residential and commercial real estate bargains on the market for sale. An independent panel of real estate agents can work with The Bulletin to validate the selected properties. This advertising campaign will sell newspapers and increase real estate deal volume.

Fratzke: **Sales within the commercial sector are occurring everyday.** When the press runs a story about the negative components within the residential sector, and how valuations are down, I wish they also ran a story about the positives in the commercial sector.

Deglow: I feel the local newspaper and business papers provide adequate general coverage of the basic economics and real estate conditions. However, I would like to see **more in-depth coverage and analysis of data rather than the typical stories about median sale price of a house in Bend or the number of building permits issued.** For example, if a particular segment of the commercial market is being over-built, how is that going to impact rental rates, values, and rates of return on existing property in the same competing market?