



## Strategies for Surviving the Current Real Estate Cycle

By Owen Rouse  
January 2010

Commercial real estate has always been a cyclical business and a trailing economic indicator. Generally following in the vapor trail of the health of the residential market, commercial cycles measure 10 years from trough to trough.

So what happened this time?

Unlike rampant overbuilding fueled by out-of-control savings and loans in the late '80s or the abrupt dot.com bust of the late '90s, this cycle has cut into the "muscle" of commercial real estate.

The national financial meltdown hit the white collar employee hard, as office-occupying jobs were shed. Landlords felt the double-whammy of reduced occupancies and weaker tenants remaining in their properties - and at the same time were unable to find replacement mortgages for their holdings as the older mortgages came due.

So we've got occupancy issues for landlords, finance issues for lenders and the overall recession for tenants to suffer through.

So what's the plan?

- **For owners/landlords:** At times, that sector has to face the reality that, if a tenant wants to renew early at a lower rate, they need to find a way to make the deal. Tenants operating healthy businesses (even in out-of-favor industries) are few and far between. It costs much less to keep a tenant than to find a new one. And don't think for a minute that another landlord won't be happy to have your tenant as his. The market will swing back your way in the future, but use this cycle as an opportunity to fortify your rent roll. Know that tenants (as well as landlords) have long memories. Also, given the current conditions in commercial real estate, tenants are now focused on the economic health of their owners, where in the past owners were more concerned with the economic health of their tenants.
- **For tenants:** See the market with a broker who can guide you through the static and separate true deals from false ones, while providing the insights into the real dynamics of landlords, buildings and actual deals done in the market. Like your current space? Make a deal with your landlord that you both can live with. Use this cycle to perfect language in your lease, like non-disturbance agreements designed to protect the tenant in the event of a landlord default, or obtain a favorable renewal opportunity. Trade lease term for rental rate, as landlords may be cash strapped at this juncture and may be more amendable to granting non-cash concessions. Free rent would fall into this category as well.
- **For investors:** There is a lot of talk in today's market about purchasing distressed assets (discounted mortgage notes or real property), but get a plan together. Converting the purchase of a mortgage and foreclosing out the borrower is a heavy duty real estate move and will ultimately require the services of someone to lease and manage the property. Don't make this an afterthought.
- **For lenders:** If you're a lender who is taking back a property and planning to restore its financial health before selling it, obtain a true asset management plan written by an operator that will be accountable for its performance in steering the property back on course. If the vendor doesn't know what the components of a true asset recovery plan are, it's not the right vendor.

The moral of the story: As in many situations, cheapest is not always the best. Draining a landlord to get the cheapest lease deal results in handicapping the operations of the facility and benefits no one. Investors unprepared to operate assets back to health, including funding the necessary capital improvements, may find their investment ultimately compromised.

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