



FEATURE ARTICLE, DECEMBER 2009

2010 Broker Outlook: What's in Store for Commercial Real Estate?

Brokers across the Northeast comment on their respective markets.
 Compiled by Jaime Lackey

Representing the coastal area and beyond of Sussex County, Delaware, we are predicting that the significant downturn in the commercial market, and in particular the retail portion of it, will give us great challenges in 2010.

Our efforts are on preserving existing tenant relationships with rewrites of existing leases and even more so the effort to create new tenant relationships with landlords, a major challenge here. The national market has never been a heavy player in our geographic area, thus we work with local clients dealing with typical goods and services. Our efforts have been met with relative good success, but every deal is a hands-on affair with both sides of the transaction giving to make it work. Incentives include lower than normal entry rates and more generous TI work. There is also more mutual effort to work together in the permitting process. A more broad brush approach to credit histories and more in-depth knowledge of who and what the proposed tenant is takes more time, but this has resulted in several completed leases, that in the past might not have been accomplished.

This effort requires more time and effort on everyone's part, but the end result is the building of a solid relationship across the board, and we feel that this will help us as the market returns with strong established relationships.

— *Bill Lucks, Managing Broker, Senior Advisor, Sperry Van Ness Miller Commercial (Lewes, Delaware)*

Manhattan retail rents continued to decline in the third quarter, but at a slower rate than during the first half of 2009. Two of the 10 most popular Manhattan shopping destinations saw increases in average asking rents from the second to third quarter of this year. Downtown, the Broadway corridor from Battery Park to Chambers Street was up 10.87 percent, from \$209 per square foot to \$234 per square foot, while SoHo saw a slight increase of 0.41 percent for Broadway between Houston and Broome Street, as average asking rents rose from \$481 to \$483. In Times Square, Broadway/Seventh Avenue from 42nd St. to 49th St., also saw an increase, but the change was considered an anomaly due to a small sampling skewed by a low asking rent for only one property. Some local retail tenants and big-box discounters, like TJ Maxx and Kohl's, have re-entered the Manhattan market to seek space.

— *Alison Lewis, senior managing director, New York Tri-State Retail, CB Richard Ellis (New York City)*

Compared with other Northeast and Midwest industrial markets, the Pittsburgh industrial market survived 2009 and remains in position to survive going forward. As the national economy showed signs of improving in the third and fourth quarters of 2009, with market wide vacancy rates below 9 percent and Class A below 7 percent vacancy, any increase in manufacturing or industrial services activity should result in positive absorption in 2010. As a local developer market, foreclosures are almost non-existent and conservative speculative development met demand without over building.

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The primary issue facing Pittsburgh is that any project in excess of 150,000 square feet will most likely require a build-to-suit transaction. The good news is the market has available sites; the bad news is financing is unavailable for speculative construction and credit underwriting remains conservative for build-to-suit projects. During 2009, the Airport corridor established itself as the submarket for the future as almost 1 million square feet of new industrial projects were completed. With pad-ready sites from 5 to 100 acres available, this trend will continue for the foreseeable future.

— *Louis Oliva, Senior Vice President, Grubb & Ellis Company (Pittsburgh)*

With retail slumping and manufacturing jobs exiting the state, service sector office jobs are key to the economic future of the Vermont. Consequently, commercial office landlords have benefited most with values in that sector of commercial real estate holding steady. Though the suburbs have a few new ill-timed speculative buildings sitting empty, downtown Burlington — Vermont's largest city — has an almost historic low vacancy of only 4 percent.

Home-grown companies such as Green Mountain Coffee Roasters and Dealer.com are experiencing sustained growth and absorbing large amounts of office space. A highly effective tax law passed by the state has turned Vermont into the captive insurance capital of the U.S. Also, Burlington's perennial ranking as one of the 10 best small cities in the U.S. supports Vermont's "quality of life" motif, and helped Albany College of Pharmacy & Health Services decide to locate a new satellite campus just outside of Burlington.

Expect winter of 2010 to be tough sledding with select new commercial developments due to lack of demand. The state's politicians definitely need to start getting serious about incentivizing business development and job creation.

— *Bill Kiendl, Partner, V/T Commercial (Burlington, Vermont)*

The Fairfield County office leasing and sales market has indeed bottomed out, and a full-fledged leasing recovery will take shape during the first half of 2010. Our office leasing market has been nearly stalled since early 2008 with few investment sales transactions.

Activity has picked up recently. More tenants are actively seeking space in the market, and our office has assisted a growing number of clients with asset sales. Based on this renewed interest, we expect to see more than 600,000 square feet of leasing activity in Stamford, Connecticut, during the fourth quarter of 2009 (up from 140,000 square feet in the fourth quarter of 2008).

The headlines tell us that the recession has ended, but this will likely be a jobless recovery. As business activity increases through 2010, firms must replenish and add positions in order to stay competitive. This should drive demand for additional space throughout the region.

— *Tim Rorick, Senior Managing Director, FirstService Williams Commercial Real Estate (Stamford, Connecticut)*

The current economic recession has resulted in an increase in availability rates and a drop in asking rates throughout the Northern and Central New Jersey office market. As a result, it is not likely that we will see any positive change soon. Sublease space will continue being placed on the market as companies look for ways to reduce overhead. This trend will have an impact on space that is being marketed directly. In order to compete with sublease opportunities, landlords will be required to offer more aggressive concession packages. Early renewal transactions will also continue to be prevalent, as many tenants will not want to spend the time, resources and capital required to relocate. The amount of remaining lease term, among other factors, will determine a tenant's leverage during the renewal negotiation process.

— *David A. Simon, Chief Operating Officer, Colliers Houston & Co. (Teaneck, New Jersey)*

The biggest challenge to the Portland office market is unemployment. Maine's unemployment rate is running about 8.6 percent. Couple that with a national rate of 9.6 percent and it is no surprise that the vacancy rate in Portland is increasing at a steady rate. Most of the activity in this sector has been limited to tenants seeking to

reduce their space requirements. This is due in part to the consolidation that has taken place in the financial and insurance industries and the overall reduction in personnel across the service sector. We are estimating the current vacancy rate in the greater Portland area at 12 percent. On the investment side we have seen office properties trading at 10.5 percent cap rates up from their lows in 2007 of 7.5 percent. This is due to the concerns over current occupancy trends and the lack of financing for these transactions. We are starting to see distressed properties coming to market. For those with cash, however, there could be some real opportunities.

— *Frank O'Connor, Partner, Designated Broker, NAI The Dunham Group (Portland, Maine)*

2010 will continue to bring record low transaction volumes for commercial real estate assets in New England. The lack of credit available to finance properties and shrinking NOIs (net operating income) will produce little incentive for property owners and lenders with REO on their balance sheet to consider selling. For typical real estate owners, only property trades that are "stimulated" by a bankruptcy or foreclosure will create a sale. For lenders owning real estate, disposition of REO will be stimulated by "regulator" actions (liquidity requirement), FDIC Bank takeover, or the ability of the bank to get the par value of the debt out of the asset (or close to it). Sales transaction volume will be off between 75 percent to 85 percent from the peak years of 2006 and 2007. Principal owners of real estate will look to "pretend and extend" loan term maturities and implement "work out" talks with existing lenders. Lenders who are able will acquiesce and extend term to quality operators and owners, as opposed to proceeding with foreclosure actions and balance sheet hits. Look for signs of life in fourth quarter 2010, as declining rents flatten and as general leasing activity picks up. As bank balance sheets strengthen due to the improving macroeconomic environment, they will be more aggressive in foreclosure proceedings and selling assets. Furthermore, banks will look to liquefy 2006 and 2007 vintage loans in order to make more profitable loans in late 2010 and 2011.

— *Jason Weissman, Founder & Principal, Boston Realty Advisors (Boston)*

In retail real estate sales and leasing during 2009, we saw more local business activity and landlords willing to work with smaller businesses with creative deal structures and incentives. The gap of expectations between buyers and sellers has decreased, resulting in the possibility of more deals occurring. Looking towards 2010, the new Portwalk development in downtown Portsmouth, New Hampshire, has seen a flurry of activity and interest from local, regional and national retailers. The project features the Hilton Garden Inn, Residence Inn, luxury condominiums and apartments, an event center, retail space, and restaurants on the ground level. Offices and additional retail are planned for a future phase.

Peter Billipp of The Kane Company specializes in the industrial sector. In 2009, he has sold \$8 million of industrial buildings ranging from 6,000 to 60,000 square feet. For fourth quarter 2009 and expected for 2010, he sees an abundant inventory of older industrial space with aggressive leasing rates. He does not foresee any new construction on the horizon as demand is flat with few new prospects.

— *Jody Skaff, Broker, The Kane Company (Portsmouth, New Hampshire)*

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