

How to find opportunities in post-boom market

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In today's troubled real estate market, the road to success requires a detour. Opportunities still abound, but the rules have changed. The economic and development cycle that began in the late 1970s has largely run its course, even though some major construction projects suggest otherwise.

The previous cycle, which spanned the 1960s and early 1970s, holds important lessons on how to prosper in the aftermath of a boom period. A few suggestions are offered below:

□ **Apartments:**

Excessive multifamily construction from 1983 to 1986 has led to an overbuilt apartment market, similar to what happened between 1970 and 1973. Weak occupancy and rental rates have lowered the value of some apartment projects well below replacement costs.

In very depressed markets, such as Dallas and Houston, apartment prices have fallen to levels (\$10,000 to \$15,000 per unit) not much higher than former land values. Fortunately, this plague has not swept through Atlanta, but buying opportunities do exist.

□ **Devalued land:** The speculative fervor that overtook Atlanta in the mid-1980s was triggered by exceptional job growth in those years. Even with this solid demand support, the real estate market still got overheated, particularly with respect to land prices.

As a consequence, a general devaluation trend is under way in some submarkets, especially for office land. This trend once again mirrors the late 1970s when some land could be acquired at less than half the price paid a few years earlier.

□ **Corporate real estate:** Users have replaced developers and speculators as the driving force in the real estate

market. Users have replaced developers and speculators as the driving force in the real estate market. They typically lack the time or expertise to realize its full potential. They also need help in site selection and in evaluating lease and purchase alternatives.

Land brokers who once made a fortune finding development sites should now devote their time to site selection for corporate facilities. Helping companies to understand and optimize their current real estate assets also offers great opportunities. For office brokers, tenant representation generally holds more promise than working for the landlord.

□ **Distressed properties:** The term "distressed properties" has already become tired. It seems everyone now specializes in "workouts," graciously offering their help to financial institutions burdened with troubled real estate. Unfortunately, many properties are struggling, either due to highly competitive market conditions or inherent flaws with the real estate.

The secret for investors is to find properties with good real estate attributes that are burdened with low effective rentals, too much leverage, recent loss of a major tenant or some other problem that can eventually be corrected. Good real estate will ultimately perform well in a market with Atlanta's underlying strengths.

□ **Foreign investors and pension funds:** In a time of short-term difficulties, it makes sense to do business with long-term players. This means foreign investors and pension funds. They have the capital and long-range

perspective that is necessary to take advantage of today's market.

loan institutions and syndicators are no longer a factor.

□ **Equity infusions:** Many landlords are strapped for cash because they did not anticipate the capital drain of lease renewal concessions, high vacancies and excessive marketing costs. These owners may not be bankrupt, but they could use some cash.

One particularly susceptible group is limited partnerships that acquired properties at top prices in the halcyon days. This is a way for investors to acquire a partial interest in good properties at attractive prices.

□ **Developer diversification:** Prudent developers have been quick to either scale back their operations or diversify into leasing and management. Developer diversification into leasing and management complements the firm's primary business, helps expand its client network and provides a healthy income stream to cover overhead.

□ **Consulting:** Timid real estate users and investors abound due to market uncertainties. Developers and brokers often spend a lot of time pursuing a given transaction and end up with nothing.

One way to combat the problem of indecision is to serve initially as an advisor on a fee basis. Once the client decides upon a course of action, the relationship can revert back to a contingency basis. Many property owners need advice that may not lead to development or some sort of transaction. Consulting allows you to help these groups and still get paid.

Despite its current real estate woes, Atlanta offers special promise because of a superb economic base and excellent long-term outlook. Besides, the landlord's dilemma is not a universal curse. Transactions are still occurring, problems need solving, creative financing is in demand, and property values are getting realistic again.

This is a time to adjust expectations and rethink ways of doing business. The opportunities are there. ■

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Good buys may not necessarily produce good cash flow, at least not initially. These groups are more willing to wait. Banks and insurance companies have turned decidedly cool