



Mike Schmitt, Broker

Commercial Real Estate Matters



To Survive in Today's Market, Take a Lesson from History August 2008

FROM THE LOOKS OF IT, DOOM AND GLOOM surround us at every turn. We hear and read constantly about the economic downturn. Clearly, there is much to discuss-oil prices are skyrocketing, home prices are plummeting, unemployment is rising, the financial markets are in turmoil and consumer confidence is shaky at best. Yet it's important to keep all of this in perspective.

The first rule: do not panic. Take a lesson from history. We have seen this before, and chances are we will see this again. Remember when the dollar was weak to the point where international travel was prohibitive? Remember the global stagflation of the '70s brought on by a huge rise in oil prices and exacerbated as central banks implemented simulative policies in an attempt to avoid recession and stagnation? Remember when opening the statement from your stockbroker was painful as you watched your investments whittle away?

Yes, most of us do. But those days have been blocked out of our memories by more than 20 years of incredible economic growth and prosperity, notwithstanding a few minor recessions in the early '90s and again in 2001. So take a lesson from history, tighten your belts and keep your wits about you.

Further, building owners and asset managers should take a long, hard look at how to preserve and protect their properties. Review and analyze the tenant mix, leases and obligations on the books. Is the building fully occupied? What sort of renewal and expansion options are included in the leases?

Are your tenants satisfied with the level of service provided at the building? What can you do to increase tenant satisfaction without greatly decreasing the bottom line? In this market, it is easier to keep current tenants happy than to find occupants for empty space. Savvy landlords will go the extra mile to ensure that tenants whose lease terms roll in the next year or so exercise their renewal options. On the flip side, tenants are motivated to stay put rather than having to deal with the costs of moving, tenant improvements, leasing commissions and attorneys' fees. So keep your tenants happy and in place-it's a win-win.

Once you have done a thorough analysis of your assets, use sound judgment when negotiating letters of intent to fill vacant space. Tenants are being offered unheard-of concessions these days-free rent for the first year or two or "rent claw backs," payment of 50% of the first year's rent during the first year of the lease and the remaining 50% over the course of the term. Prior to offering these sort of concessions in the hopes of filling vacant space, run the numbers to make sure that the economics warrant such extreme measures. This is the time to protect and preserve what you are holding today.

Also, if you haven't pulled out your loan documents in a while, it's time to dust them off and dig in. Examine all the covenants and obligations set forth in the loan documents to ensure that you are in full compliance. Then take the next step to ensure that there are no oversights that would result in a default under the loan documents.



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Look for opportunities on the horizon. Assess how to capitalize on distressed real estate without spending a lot of resources and time. If an opportunity fits into your overall business plan, make sure that the deals are made with prudent business judgment rather than a knee-jerk reaction to the uncertainty surrounding us.

While it may be difficult to see beyond the dismal climate in the aftermath of a long credit-driven boom, there is a light at the end of the tunnel. So in the midst of this turmoil and slow growth, have faith, don't panic and take this time to do your homework and protect and preserve your current assets, while capitalizing on opportunities that require limited due diligence and time.

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