Few ‘significant’ industrial real estate deals on horizon

By Marilyn Bowden

Long-term brokers in Miami-Dade’s industrial market say several factors have converged to slow sales, and though inventory will probably grow they expect few large-scale transactions soon.

Setting market value is one challenge. While appraisals haven’t yet been a problem, said Ed Redlich, a vice president at ComReal, within a few months appraised values are going to drop.

“Appraisers look at pricing for a year back,” he said. “Since prices peaked about six months ago, we may see another 10%-20% drop this year.”

Even on deals under negotiation right now, he said, buyers’ expectations are changing rapidly.

“When property owners get an offer,” Mr. Redlich said, “they need to expeditiously negotiate it, because if it takes two to three weeks to get back to that proposal, the seller may well say, ‘that was our proposal three weeks ago, but it’s not our offer anymore.’”

Greg Zeifman, a senior associate in the Miami office of Marcus & Millichap, said sellers are not realistic in their pricing.

“I see listings priced more than twice what an investor would pay,” he said. “The fact is, most businesses are not doing so well today, but sellers want to believe that business owners are still out there wanting to buy assets, which is very rare.”

Some companies will be forced to sell, said Mike Silver, first vice president at CB Richard Ellis. “We expect several large properties of more than 100,000 square feet will be placed on the market soon,” he said. “But due to cost containment in major corporations, we don’t see many significant industrial transactions going forward for the first half of 2009.”

That’s partly because most of the larger industrial real estate investment trusts, or REITS, that in the past have been buyers are essentially out of the market due to financing issues, Mr. Silver said.

“Most of the institutions are pretty strong,” Mr. Zeifman said, “but they are not in the market to sell or to buy. They are in paralysis mode.

“They can’t get the funding they used to get and are not as bullish on the market, so they are in a holding pattern, operating their properties and retaining their tenants. They are pretty much on the sidelines as far as the industrial market is concerned and will be for another year.

Private equity players locally and nationally are buying distressed assets such as industrial condos, he said. “Most of these buyers are bottom feeders.”

Mr. Zeifman said he’s heard that as lenders take back distressed properties, they are calling private equity firms and doing all-cash deals, “but that is happening under the radar screen.”

But for users who can put money in, financing is available, Mr. Redlich said.

“Investors have to put larger amounts down. Investment properties have to have a cap rate of 8%-10%. It can’t be based on a projection of future property values,” he said. “Users can benefit by that more than investors. And while some users are in industries that are not doing well, some logistics and distribution, import-export, and food and beverage companies are so far doing fine.”

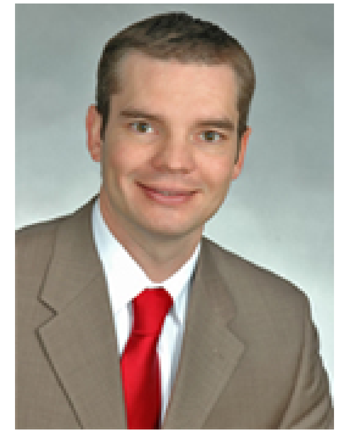
Community banks and some other lenders are financing sales, Mr. Redlich said, “but they will take a hard look at the credit, and they want your bank account as well as doing your financing.”

“If they’re going to make a loan, it will be for a main-corridor, type-A, property,” Mr. Zeifman said. “They’re not lining up to finance a multi-tenant facility with mom-and-pops on month-to-month leases. It’s very rare that a lender would want to lend on class C assets.

“Most product in Miami-Dade services small, entrepreneurial businesses on short-term leases – tenants with no credit. These are not bankable deals.”

Cash or seller financing will be the ideal ways to accomplish a sale in the coming months, Mr. Silver said.

“Though sales prices may not be what they were a years ago,” he said, “a lot of opportunities will be created due to current market situations, and there will be some deals made.”



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