

REAL ESTATE

6 random commercial real estate thoughts

Today, I thought it would be fun to dissect my current workload and discuss a few random thoughts on commercial real estate that have dominated my psyche for the past few days. Maybe, in the process of reading this, you, my faithful readers, may learn something and alter your direction to avoid a costly mistake.

Lease rates continue to astonish

Historically, an increase in lease rates trails the increase in sales prices during a market recovery. Our plunge from the peak of 2007 was swift and deep. We lost 40 percent to 50 percent of our values in a period of six months to a year.

Many of us wondered if the commer-



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cial real estate market would EVER recover. We started to see a real pop in selling prices after the tax law changes of 2012. The next three years (2013-2015) were monster years for selling price appreciation.

We all knew lease rates would soon follow. But, WOW! If you told me Class A industrial lease rates would approach \$1 per square foot by 2017, I would have questioned your sanity.

Surprise. We have not lost our marbles. We are there!

Will these sale prices plateau?

After the dramatic selling price increases in 2013-2015, many in our industry predicted a leveling in 2016. However, selling prices have pushed past 2007 highs and now are eclipsing 2016. When will the end come? My guess is once money becomes less affordable or we experience a dramatic global black swan event, selling prices will plateau and even soften. Exacerbating the problem, however, is a frighteningly low vacancy of available buildings for sale or lease.

Can you ask too much?

I used to believe so. Not anymore. Recently, we performed a broker opinion of value for a 50-year-old manufacturing

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building whose best days were during the Nixon administration. Our estimate was X. The seller insisted upon X plus 50 percent. We settled on X plus 40 percent. As we drove away with the signed engagement, I wondered how on earth we would justify the asking price. Twenty inquiries, three tours in three hours, two full-price all cash offers with exceptionally quick closes later, I'm a believer. You cannot ask too much.

Demand for old, obsolete buildings

Old, obsolete industrial buildings once were shunned in favor of their newer more glamorous contemporaries. With the shortage of available buildings, these ugly ducklings are becoming white swans. Demand is back and historic prices are being achieved.

Good housekeeping is a must

Make sure your paperwork is in order. Your leases should be up-to-date. All entity tax returns and filing fees should be paid. Sprinkler certifications, and main-

tenance of the roof and air conditioning needs to be accomplished. If you have added square footage to your building or new offices, make sure your building permits are easily accessible. Please don't wait until you're under contract to sell your building to discover something crucial is missing.

A burning question

How will cities and counties in California handle the execution of Proposition 64 which legalized recreational cannabis? Cities and counties have until January 2018 to decide, and we must wait and see, but many operators are ignoring the illegality of the growing and sale of recreational cannabis. See "demand for old, obsolete buildings."

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