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acquisitions

Purchasing retail real estate has become more challenging and competitive

dk Daniel Katz


**Katz
Properties LLC**

Purchasing retail real estate has become significantly more challenging and competitive in 2006. Although we have seen more properties coming to market of late, buyers with low costs of capital and longer term focus have grabbed the class A development sites and properties. These buyers have been private equity funds and institutionally funded groups.

Three prevailing factors continue to impact the northeast retail marketplace. First, the fluctuation week to week of Treasury rates has made the cost of capital tough to anticipate. Second, investors are buying properties based on future cash flow projections rather than present rents, as vacancy rates remain low and national tenants continue to pay up for space in the northeast. Lastly, the 1031 tax free exchange market has been another factor keeping capitalization rates low and keeping the price expectations of sellers above where they should be based on classical valuation models.

A statistic I found compelling—the December issue of Real Capital

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Analytics, in the Retail Capital Trends Monthly section,

shows a 17% decrease in investment sales volume for retail prop-

erties on a national level in 2006 compared to 2005. Although the northeast remains a desirable market, because of the high barriers of entry and strong demographics, there has been a sharp drop in total sales volume. This drop is not indicative of a lack of demand, but rather a significant shortfall in supply. Although sales volume has been on the decline, cap rates and asking prices for deals have not changed to suit the market.

Although I do not foresee the interest in retail real estate subsiding in 2007, we have seen a market that has become extremely segmented by price and expected rate of return. Different types of buyers have emerged and placed themselves in specific categories. In the class A category, we have seen the emergence of Private Equity funds and REITS storm the \$25 million and up market looking to place money in class A shopping centers. These properties pre-2002 were trading in the 9-10% Cap rate range and are now rarely traded over a 7% Cap rate.

As the Equity markets were somewhat of an unknown after the internet "bubble" burst, yields in alternative investments decreased, making real estate more attractive. Wall Street and institutional equity dollars needed a stable place to invest, thus the retail real estate market heated up and became a focus of many institutional investors. The class B acquisition market is made up of families and smaller private investors as well as 1031 Tax free exchange buyers, who need to invest their money in a certain timeframe. These buyers have been focused on purchasing class "B" and "C" anchored and unanchored retail properties. The Class C acquisition market, which has been the least active, is made up of money chasing opportunities. These funds which can range from a local investor to large pools of capital called opportunity funds are looking to take advantage of distressed properties and situations that are not appealing to the other market segments.

I believe that as interest rates stabilize both buyers and sellers will become more attuned to realistic pricing, easing a transition from the uncertain period we have been in the last 12 months. Rate stabilization will keep the retail market active and money chasing deals.

Daniel Katz is principal/partner at Katz Properties LLC, Boston, Mass.



KATZ PROPERTIES

Real Estate Investments

LOOKING FOR ACQUISITIONS

Retail properties between
\$2,000,000 and \$25,000,000

Investment Criteria - Convenience oriented
Retail strip, neighborhood, community and
regional shopping centers.

For Additional Information Visit our Website
www.katzproperties.com

CONTACT: DANIEL KATZ
PHONE: (617) 247-7769
FAX: (917) 591-5497

EMAIL: DKATZ@KATZPROPERTIES.COM