

# The Hole Report

## The Commercial Corner - 2<sup>nd</sup> Quarter 2010

### The Commercial Corner

The local commercial market has still been relatively slow. MLS shows only 3 commercial closings for the first 6 months in 2010. One of these sales was a distressed property on the Town Square listed at \$5,400,000 that sold for \$4,500,000 and another was a development project on Scott & Snow King listed at \$11,700,000 which sold for \$6,187,500.

Lease rates have come down as business has slowed & tenants have renegotiated their terms. Second floor office space on or near the Town Square dropped to around \$25/sqft but seems to have stabilized.

Commercial lending is still difficult as lenders regulations are still tight for commercial loans. The result of this stricter commercial lending environment is still evident in Teton County.

Even with this few transactions, commercial activity has picked up. According to Wells Fargo Securities Economics Group, "the expiration of the homebuyers' tax credit & better labor market conditions could help fuel multifamily demand. Apartment property fundamentals have already shown signs of stabilization. Apartment net absorption rose in each of the past 3 quarters, and effective rent growth posted a mild gain in the first quarter after 5 consecutive quarters of negative rent growth."

Locally, the PMUD is weathering a moratorium. At this point, there is no telling if it will be changed, go away or be modified. There are a handful of approved development projects that have their entitlements & are waiting to be built. They seem to be stalled in development due to financing & risk losing their density approvals.

Town elected lifted a moratorium on condo conversions. Several commercial projects have started to move forward with condominiumizing their properties.

The Joint Comprehensive Plan review process completed a year and a half review and submitted recommendations to the elected officials to cap residential and commercial development in the Town & County.

What does all of this mean?

### **This is a good time for Commercial Buyers to get into the Jackson Market.**

Buyers have a great opportunity to find good deals. The supply of commercial space together with the stringent guidelines in the lending market drives commercial prices lower. Cash buyers or buyers with cash and very strong credit may be able to buy commercial property at a discount.

Buyers are looking for income producing properties that cash flow. Buyers will value commercial property today by the income they produce as well as the price per sqft of the

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asset. This can make well run properties in the Lodging Overlay more valuable since they can rent short term and produce more income. Commercial Buyers that have been sitting on the sidelines looking for opportunities are starting to do more than kick the tires on deals.

Cash is still king. Cash Buyers can make more aggressive offers and can avoid traditional bank financing.

### Don't wait too long

If you are selling your commercial property, don't wait too long. Be realistic with today's market values and price your property right. Consider getting a current appraisal or contact me for a free market assessment [MichaelPruett@JHREAssociates.com](mailto:MichaelPruett@JHREAssociates.com).

### Be Creative

Creativity in this environment can also offer new options for commercial property owners. Consider new business markets for your space. Executive Office Suites can offer renters "all-inclusive" fixed rent without having to dole out much needed capital expenditures on things like furniture, phones, equipment and sometimes utilities.

If your lease is coming due, it might be a good time to consider re-locating your office to a better location or to renegotiate your lease as lease rates have dropped.

Creativity by Sellers such as offering owner financing can also help close deals.

### Looking Forward

No one can predict the real estate market. There are some key indicators to watch for in the market as we move forward. Regulatory agencies need to loosen the regulations on banks and take some pressure off to open up available credit for the commercial sector. This has still not happened and in fact some think there is a commercial "write down" in the banking industry coming.

Cash flowing properties or properties with development rights might have more added value. Since few transactions exist to gain true measurable comparables, a cash flow or development scenarios may weigh more heavily in their analysis. One thing commercial owners can do is get an appraisal on their property. This will give you an indication of where your property values are today. You can also contact me for a free property analysis, [MichaelPruett@JHREAssociates.com](mailto:MichaelPruett@JHREAssociates.com).

### Locally

The PMUD moratorium could be a good opportunity for Buyers to get extra density on the approved yet not built projects as the rules may change going forward. Cap rates on residential and commercial development in the Town and County could have an impact on

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prices as supply may be limited. With the condo conversion moratorium lifted, some commercial properties that “condo” their properties could also see some added value.

If you have questions about the market or would like to discuss your property, please feel free to contact me directly.



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