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## Small Investors Gain An Edge in Properties

By **Kemba J. Dunham**  
 From [The Wall Street Journal Online](#)

For small investors who've been shut out of the commercial-property market in recent years, there's a bright side to the mortgage meltdown: It's much easier for them to compete.

When Andrew Brooks first offered \$15 million for a medical-office building in Valencia, Calif., in early August, the seller turned down the 44-year-old orthopedic surgeon.

But just three weeks later, the seller called back Dr. Brooks, who lives in Los Angeles. The two large real-estate investment trusts that had knocked the doctor out of the running with their bids were no longer interested. Dr. Brooks believes that the companies were unable -- or unwilling -- to come up with the cash.

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That left Dr. Brooks, who buys medical-office buildings (in addition to performing surgeries related to sports injuries), as the sole player. He quickly put down a "substantial" nonrefundable cash deposit to buy the property for \$800,000 less than he had originally offered, and is waiting for the deal to close. Though the marketplace for health-care-related properties has been extremely competitive over the past few years, "if you've got some cash to spend, there's a tremendous opportunity," Dr. Brooks says.

Over the past few years, more investors have wanted to add small apartment complexes, office buildings and shopping centers to their portfolio. Retirees, well-off individuals and the self-employed -- who often lack corporate pensions and retirement plans -- have traditionally used these types of investments to amass long-term wealth and fund their retirement.

But as prices soared, both individual players like Dr. Brooks and small companies that buy such properties, which are typically priced between \$1 million and \$20 million, found themselves outbid and outmaneuvered by better-capitalized firms, including investment banks and publicly traded real-estate investment trusts, or REITs.

Now, with the capital markets roiling, once-active big firms are being more prudent about making deals. That's opened a window of opportunity for smaller investors who want to buy these properties. "Right now, everyone is trying to figure out how to make these deals work, so while we're in that transition period, the institutional investors are taking a wait-and-see approach," says Mark Larson, national director of Grubb & Ellis's private-capital investment group.

### The Upper Hand

*Small investors now have an edge in bidding for certain commercial properties. Here's why:*



- They often pay with cash, while larger firms typically borrow funds.
- They are more likely to buy properties in need of renovation.
- Bigger firms have become more risk-averse because of the credit crunch.

Smaller investors -- a universe that includes individuals, partnerships, and local and regional investment companies -- can cut deals faster than bigger players, which appeals to sellers fed up with the growing number of deals that are falling through. They're also more willing to buy properties that need improvement, which can be a lucrative but are often deemed too risky for institutional investors and REITs, says Harvey Green, chief executive of Marcus & Millichap Real Estate Investment Services, based in Encino, Calif.

Another big advantage smaller investors have: Many of them pay primarily with cash. That's a plus in an environment where debt has become more difficult to get, or at least more expensive. "So many investments just don't make sense -- unless you have the cash," says Marsha Slotten, a commercial real-estate broker in Las Vegas.

Despite the Federal Reserve's move last week to cut its overnight interest rate by half a percentage point to 4.75%, many experts believe that small investors still have an advantage when it comes to buying smaller commercial properties. But that advantage could be short-lived if

### Tools For Investors

- [iiProperty.com](#) is an online property management tool for investors (registration required). Visitors to the site can use the tool to track property expenses, rents collected and cash flow. The site's basic suite of tools are free, however, other tools -- such as automatic tenant invoicing -- range in costs from \$12.99 a month to \$64.99.
- [Rentometer.com](#) gives apartment landlords (and renters) the chance to compare the rent for a particular unit against other rentals in an area with a simple-to-understand graphical meter.
- [Goodmortgage.com](#) provides a calculator to help investors forecast the possible financial outcome of purchasing and renting an investment property based on data such as purchase price and mortgage terms, monthly rental rates, expenses and expected growth in property value.
- [About.com](#) offers a downloadable spreadsheet to track the performance of a commercial real-estate investment, as well as definitions and how-tos for mathematical calculations used by real-estate investors.

--Lauren Baier Kim

institutional players wade back into the market, which could drive prices up and leave smaller players priced out of the market.

William Hutchinson owns a small Dallas company called Dunhill Partners that buys shopping centers priced between \$10 million and \$50 million, mostly in Texas, Oklahoma and Louisiana. He says his competitors for these properties until recently often included midsize to large REITs. But these days, Mr. Hutchinson is finding that these firms aren't making as many bids.

He chalks it up to the fact that the shopping centers sometimes include mom-and-pop tenants who don't always have the best credit ratings. In today's credit-sensitive environment, larger investors, particularly ones who have to answer to shareholders, aren't willing to take chances on properties that may seem too risky, he says.

H. Alan Welles, a commercial real-estate broker in West Palm Beach, Fla., acts as a "sponsor" to groups of individual investors who pool their money to buy retail, industrial or office properties, entrusting Mr. Welles with handling the entire transaction, including acquisition, leasing and management. His clients include professionals and retirees in their 50s with a lot of cash.

A few weeks ago, one of Mr. Welles's groups beat out several offers on a \$4 million medical-office and retail building in West Palm Beach because they were able to offer all cash and the ability to close with no financial contingencies.

"With us there is no red tape, but the procedures for getting stuff done are so much slower with the larger groups," says Mr. Welles, who deals with commercial properties valued at up to \$15 million. "A lot of sellers have gotten burned while trying to hold out for the top dollars, so now they're just looking for fewer headaches."

Leslie Evans, a Palm Beach-based attorney, invests in some of Mr. Welles's groups and will occasionally negotiate their contracts. Because of the opportunities for individual investors right now, he says that more professionals have been calling about investing their money in a group, and the number of these groups has been expanding.

Mr. Evans says the current commercial real-estate market is perfect for the doctors and other professionals in the group who have a high net worth and are taken aback with the stock market's recent volatility. "This is definitely the better opportunity right now for those who are looking to be able to sleep at night a little bit better," he says.

Some smaller investors are even being approached by the larger players for partnerships. John Crossman co-owns a small Orlando, Fla., company that buys area shopping centers priced at between \$3 million and \$15 million. Not only has he seen the number of bidders on properties drop from around 15 to five in recent weeks; he also says institutional investors are asking him to team up on projects because of his knowledge of the local market.

At a time when taking risks is frowned upon, these larger investors, particularly those making purchases from outside the region, don't want to buy properties without having inside information about the area's rent and job growth and about the local tenant base. "When people get concerned about things, they rely more heavily on the local markets," Mr. Crossman says. "We're seeing an unbelievable amount of people who want to be our operating partner because we have that knowledge."

Mr. Crossman says his experiences were echoed by other smaller investors at a recent conference held in New York by the International Council of Shopping Centers, an industry trade group. "I was in the elevator with a few other small guys like me, and while the speakers at the conference were talking about all these concerns, every single one of us talked about how excited we were about the market because there are opportunities for us," he says.

But the advantage that smaller investors have could be brief as their bigger brethren find solutions to the credit crunch and look to make deals again. "I don't think institutional investors and REITs are going to sit out of any major market any longer than three to maybe six months," says David Illsley, a commercial real-estate broker in Scottsdale, Ariz. "They'll figure out a way to be in the game."

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