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Guest Commentary

Commercial real estate can be good investment in bad market

Tony Ruggeri

Commercial real estate is alive and well. I know that is not a popular position amid the dire reports of Wall Street bailouts and financial meltdowns.

The fact is that good commercial real estate continues to perform well in today's environment. I am talking about real estate that is in well-positioned, population-dense areas — real estate that is well-built with a good mix of stable tenants.

There is no question that the financial capital market woes have affected the commercial world. There have been dramatic effects in the short term.

The greatest impact is on new development projects and the buying and selling of commercial properties. The halcyon days of high leverage, rapid lease-up and readily available purchasers are gone. The free-wheeling, "build it and they will come" approach is gone.

What we in commercial real estate are now faced with is a requirement of more fundamentally sound and more carefully planned projects. The fundamentals of commercial real estate remain, as always, based in the long-term building of hard assets.

There will be a premium placed on finding real estate that is strategically located to fit the needs of the user.

Recently, growth among retailers, corporations and distribution systems was running at a fever pitch. The demand for new space in each of the retail, office and industrial real estate markets seemed never-ending. With the softening economy, this growth has slowed considerably.

Fortunately, Nashville's diverse economic makeup has mitigated the degree of this slowdown. Since each of the commercial real estate segments move independently based on various factors, each must be addressed independently.

Our expertise is in retail and mixed-use developments like our One Hundred Oaks project. So I will focus on the retail segment of commercial real estate.

Until recently, retail has experienced rapid and tremendous growth. National retail chains,

fueled by record consumer spending, were opening new stores as quickly as the locations could be found.

The results were the many new projects we have all seen "pop up" out of the fields of Nashville overnight. Retailers put stores closer together to make consumer access easier and quicker.

Competing retail concepts sprang up next to each other to avoid suffering a competitive disadvantage. With growing sales and profits, the national retail chains could not afford to slow down.

But consumer spending has been tighter and retailer sales have slowed. Unbridled store growth has morphed into strategic store location selection. This tightening of growth did not truly affect new projects until the beginnings of the credit crisis late last year.

Many projects already had leases, financing and equity commitments that could not be unwound. The projects had to be built. Many retail projects now being built today were finalized mid to late last year.

The commercial environment now is one of cautious and strategic growth. Retailers have scaled back, or eliminated, expansion plans. There have been a large number of publicized reorganizations, bankruptcies and store closings.

These, along with the slowdown in our economy, have left many new developments on the architect's table. Likewise, the economy of selling commercial projects to a large, receptive buyer pool has slowed.

I now come back to my original statement that commercial real estate is alive and well. There is still plenty of debt, equity and money available for the good real estate projects. Major retailers are still expanding, but with more caution.

We hear more terms like "population density," "disposable/spendable income," and "infill locations." Retailers are adapting to the changing living patterns, discretionary purchasing power and shopping habits of the consumer.

The resulting real estate developments are put together better. The shopping environment, co-tenancy of retailers, access to population bases and demographic analysis are necessarily more stringent.

We see more redevelopment of existing properties rather than the building of new ones. We will continue to experience a smarter use of infill locations with mixed-use projects.

The pressure is on the commercial real estate sector to get better and more creative. We have seen these needs in the past and each time responded with another level of performance. Now familiar projects like lifestyle centers, town centers, mixed-use projects involving retail, office, medical and apartments all resulted from similar times in the past.

Commercial real estate continues to be a safe long-term investment. We are facing a short-term problem in the market.

The option of investing in hard assets with long life is far more attractive to professional money

managers than other vehicles like stocks, bonds and securities.

The underlying commercial real estate market remains one of the few places to have something to show for your investment.

Anthony Ruggeri is founder of ATR & Associates in Dallas. He is a partner in the redevelopment of 100 Oaks Plaza.