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Let's kick it up a notch

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Why has the commercial real estate brokerage business become suddenly so difficult?

The single axiom that most successful brokers have prospered by, up to now, has been "run narrow, run deep". In-depth market expertise in the dynamic New York City region, defacto, requires extreme focus on either property type, type of transaction, neighborhood, and or size. The narrower the focus and the higher degree of competency, the fewer effective competitors.

This is not news. Research the real estate classified section of The New York Times back to the early 1900's, which I recently did while killing time at a college library while my son took his 20th campus tour, and it becomes evident that the successful brokers generally worked one property type in one neighborhood for an entire career.

The answer to our broker's question, "why has it suddenly become so tough to close a deal?" is not in the nature of the franchise created by such specialization, but rather, the multi-level complexity of today's transactions; a complexity which would leave the early 20th century broker in apoplectic shock.

Consider the following examples:

A lease with option to purchase transaction for a 100,000 sq. ft. industrial property in Queens was DOA because the broker did not anticipate in his negotiations that the title company would demand escrow for the RPT because "the transaction kinda looks like a sale".

The contract to purchase a 75,000 sq. ft. industrial building is crafted carefully by the seller's attorney and negotiated thoroughly over the course of 1 1/2 months. Finally, fully-executed copies of the contract are exchanged and the broker is congratulated by his peers for what seemed at many points to be an impossible deal. The autopsy on this "DOA" re-

vealed that the broker had allowed the contract to contain an environmental provision holding the seller to comply with residential New York State TAGM standards. The Phase II environmentals failed this unnecessarily tight standard, resulting in a spooked buyer and a balking lender.

After a 3-year search, the broker creatively arranges for a sale of a 150,000 sq. ft. portion of a 450,000 sq. ft. commercial property, satisfying the sudden cash flow demands of the seller while providing the buyer with a unique commercial space. The time-is-of-the-essence contract is signed, the architect is retained to file for the sub-division, and the purchaser obtains an advantageous financing commitment.

Why another DOA? This autopsy revealed the broker had not adequately anticipated in his negotiations that the tax lot separation required not 1, but 2 new certificates of occupancy.

To be obtained, the seller's retained space required being brought up to code at significant expense.

Further, the purchaser's lender required a year's tax escrow on the seller's portion because of the anticipated time required to achieve separate tax bills for the two newly created lots. The unanticipated cash burden on the seller buried the transaction.

The answer to why it's so tough to complete a transaction is that now the broker must, in addition to having a narrow and deep specialty, also have a broad-based knowledge of: zoning ordinances, real property tax law, environmental law, tax-free exchange rules, title and survey issues, as well as property insurance and construction.

A closed transaction requires a negotiation conducted by a broker who can anticipate and thereby provide for the varied exigencies of a transaction. To reach that level of expertise, brokers that are having problems closing transactions today are going to have to "kick it up a notch". . . .