


Investors Find Opportunities in Distressed Commercial Assets

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When life hands you lemons, make lemonade. And that's exactly what some savvy real estate investors are doing.



Declining values, debt maturity, tight credit access, and stalled construction may continue to plague commercial real estate for the remainder of 2010, but optimistic investors are seeing opportunity in this difficult market via the purchase of distressed assets, according to [Deloitte's Perspectives on Real Estate: Uncovering Opportunity in a Distressed Market](#), released Monday.

Bob O'Brien, vice chairman and real estate services leader for Deloitte, said the Fed's

Beige Book released earlier this month indicated a nascent economic expansion, with commercial real estate lagging the overall economy as it has historically done. And with the market poised for change, smart investors with access to capital may find the time to act is drawing near, he explained.

"The flip-side of opportunity is challenge, which is especially true for borrowers and lenders who are seeking solutions to a debt problem of historical proportions," O'Brien said. "As we navigate truly uncharted territory, the point where opportunity intersects with challenge is where the answers — and winners — may be found."

According to Deloitte's report, capital is available and waiting to deploy, and the financing environment has improved somewhat. However, most commercial real estate investors have waited on the sidelines for a sense that values have reached bottom.

Whether or not real estate values have bottomed out yet remains uncertain. But if the fledgling real estate transaction volume that began to appear in late 2009 continues into early 2010, it should provide some clarity, Deloitte said.

The report said some real estate asset classes are expected to bottom out and then start to recover in 2010, but ultimately, it will likely take improvements in employment figures and consumer spending to drive demand for office, retail, industrial, multifamily and hospitality space and produce a corresponding uptick in occupancy and effective rents.

With a possible recovery on the horizon, now is the time to invest. For well-capitalized players—whether they are existing REITS or funds that have been raised to take advantage of the depressed conditions that exist today—there are significant, broad-based opportunities to make distressed asset acquisitions, Deloitte said. Thus far, surprisingly few properties have come to market. But for those that have, competition among prospective buyers has been fierce.

Fortunes were lost in the past couple of years, but many industry watchers think there could be fortunes made in the next couple and are acting accordingly, Deloitte said.