

G4 | THE NEWS-PRESS, REAL ESTATE, SUNDAY, MAY 20, 2007 \*\*\*

## COMMERCIAL CONNECTION

# Advisers should put their clients' interests first

## Practice draws more business in the long run

According to the gospel of Mick Jagger, "You don't always get what you want. But if you try sometime, you get what you need." That pretty much sums up what you can expect in today's residential real estate market. But fear not, for we all know the one constant that prevails in real estate over time is change. Real estate markets always move in cycles.

At any given point, the market for your real estate investment is doing one of three things: It is either going up in value, going down in value or remaining flat for a brief stabilized period prior to going up or down again.

It is just like the weather in New England where I grew up. In Buzzards Bay, Cape Cod, where I went to college, they used to say, "If you don't like the weather just wait a while. It will change." The same holds true for real estate cycles. And we almost always know what stage of the cycle we are in at any point in time. Our problem is that we grow impa-

tient when we are in a cycle we don't like ... like now. So it seems like forever before the market changes to a cycle we like. When I was a kid, my parents made me practice the saxophone for an hour each day before I could go out and play ball. That music hour invested was the longest, dulllest, staided hour of my life each day but the hours spent playing on the ball field flew by unnoticed. Let the good times roll.

But we know with gory specificity that residential real estate prices today are going down like the Titanic. So it is not good for home sellers who need to sell right now, but real good for buyers who want to buy a home right now. Since I plan to buy a new home this summer, I am overjoyed to see this present state of residential real estate affairs.

On the other hand, the market cap rate for stabilized commercial income properties (like medical office sale/leasebacks which is my personal specialty) is stabilized right now at the top of a cycle. Cap rates (or buyer's

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returns) are still near all-time lows which means sellers are still getting near all-time high prices for their leased office properties. Will this last forever? I refer you to the weatherman on Cape Cod for the obvious answer.

Here is a recent example of medical office property valuation and how seller expectations are not always met when the property is brought to market. You see, real estate advisers like me interpret the market for our clients, but in the end, the market determines what price will sell regardless of our shared wisdom. It is nice when we are right, but there is no guarantee we will be right.

Here's a story in which I was wrong. I listed a 2-year-old cardiology building in Punta Gorda last month for \$75 million at an 8 percent cap rate with a 10-year term master leaseback by the physicians who owned the property. My company marketed the property nationally to investors and to other

brokers where we offered half of the listed 5 percent commission to any broker who brought us a contract that closed. Within the first few days, I had a full price contract with no financing contingency and I was the only broker. This is called "double ending the fee" in our trade. At this point I could have so easily kept quiet and got my seller to sign the contract and just waited for closing. How many of you would have done the same thing?

I told my physician clients to hold off signing this contract in case our national marketing brought in more contract offers so we could try and create a higher than list price value through an auction atmosphere.

Two weeks later, after many offers in our contrived auction, we went under contract at \$77,42,000 or \$242,000 higher than list price. The buyer was a broker from Naples. I continued to market the property to solicit back-up contracts. Two weeks later, the Naples buyer withdrew because they wanted to buy a different property with their 1031 exchange proceeds. It happens.

We did another week of national auction type marketing with multiple offers and signed a new contract last week at \$8,070,000 which comes to a 7.45 percent cap rate or \$570,000 above list price. This buyer No. 2 from Sarasota was the same buyer who narrowly missed getting the property before it went under contract the first time and boy were they mad at me when they missed it the first time.

Buyer No. 2 is represented by a broker from North Carolina with whom I am sharing the listed commission 50-50. Much like the doctor who puts his patients' best interests first and lets everything else fall in behind it, I encourage real estate advisers to put their clients' best interests first over their own personal best interests and just let the chips fall where they may. It will result in more business for you. Happy selling.

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