

Businesses capitalize on economic downturn

By ALEXANDRA CLOUGH

Posted: 11:42 a.m. Monday, Dec. 21, 2009

One year ago, the business world was in crisis. Now, 12 months later, entrepreneurs such as Michael Cabot are finding that crisis can be great for business. Cabot's company, Mariner Asset Management Services of West Palm Beach, is scooping up foreclosed, distressed properties and renovating them to conform to new "green" standards for energy efficiency. Aging homes with poor insulation and outdated appliances are being spruced up with central air, new windows and new appliances meeting the latest energy efficiency ratings. Mariner then rents the homes as affordable workforce housing.

Rebel Cook, a real estate broker who runs a local business group, said she's seeing a thaw in decision-making by business leaders. Now that warehouse rental rates now have fallen below \$10 per square foot, companies are once again exploring rental warehouse property in Palm Beach County. Investors with cash are starting to get serious about buying properties. They'll offer distressed sellers a rock-bottom price and then, if it's not accepted, move on to the next deal, she said. "This is a new economic cycle, and what that means is that properties or assets change hands. And nobody ever said that every cycle has to be a sellers' market," said Cook, president of the Economic Forum, a 250-member group of leaders from the real estate, banking, finance and health care industries in Palm Beach County.

What a difference from December 2008, when investors and consumers were frozen with uncertainty. A stock market tumble — coupled with the collapse of investment banking firm Lehman Brothers and the near-collapse of the banking system — created a near-panic in the business world at the end of last year. Then came the Bernard Madoff scandal, which was a particular blow to residents of Palm Beach, a prime investing source for the Madoff funds.

The result: Consumers stopped spending, investors stopped buying, companies slashed payrolls and foreclosure levels soared to new heights. Businesses without adequate cash reserves failed; others merged; and the strong survived. But the downside has an upside. Companies that survived the thinning of the herd are well-placed to take advantage of opportunities. For Mariner Asset Management, the notion of upgrading older homes to the latest green standards works because Mariner can buy properties at such a tremendous discount, at times less than 25 cents on the dollar to the previous sale. "We're in a unique period, where all the values have reset," Cabot said. "We can buy these homes that nobody wants, fix them up to a green standard and elevate the property." And rather than just slap paint on a house, Cabot said he and partners are going green because they think that green construction is the future. Cabot said that in coming years, tenants will demand lower occupancy costs and will seek out green homes that are energy-efficient. He said Mariner plans to buy at least 40 and possibly "hundreds" of homes in Palm Beach County.

Cabot isn't alone in finding gold in the dust of so much financial failure. The county's chief business recruitment arm, the Business Development Board, is quietly crafting a new Web site designed to create a "one-stop shopping" site for businesses seeking to expand or relocate to the county. The goal is to highlight "shovel-ready land" and turn-key office space ready for tenants, said board president Kelly Smallridge. The site will have information on individual municipalities, as well as demographics and permitting information. The site, which will launch in February, also will feature video clips by various city leaders touting their communities. Smallridge said the board is launching this as-yet-unnamed Web site because it senses the economic landscape is turning around, at last. Home prices finally are low enough to make the county affordable again to businesses, and companies that have survived now are looking to do acquisitions or expansions. So why not lure them here? "We want to make it easy for anyone looking to move or expand to come to Palm Beach County," Smallridge said.

Experts confirm that the business of buying and selling of businesses is becoming more active. "Some people are starting to come out and look for deals," said Oren Tasini, a North Palm Beach business attorney. And Larry Crary, a Stuart attorney, said businesses with strong cash positions have been busy this past year buying up distressed companies.

"This time last year, landlords, their tenants and investors were in a state of panic, unable to make decisions," said Neil Merin, chairman of NAI/Merin Hunter Codman in West Palm Beach, who also notices some movement in the market. Now, Merin said smaller tenants are starting to make decisions about expanding, or downsizing or taking advantage of the decline of office rental rates by extending their

lease terms. But big commitments for space won't return until the job outlook improves in a robust fashion. "You're going to try to pack more people in before you take more space," Merin said. So expect the office market to continue to experience up to 25 percent vacancy rates in the near future.

To be sure, asset sales still are weak, because of the lingering credit crunch and uncertainty over whether the market truly is at the bottom, said Crary of Crary Buchanan, the oldest law firm in Stuart. Crary said one client who wanted to buy a commercial property in Port St. Lucie was turned down by four banks, even though the client was putting up 30 percent in cash and planned to occupy the property. Another client is weighing the \$400,000 purchase of a Port St. Lucie shopping plaza, which most recently traded hands for \$750,000. But the client is getting skittish: "He thinks the real price is in the \$300,000 range," Crary said. On the bright side, Crary said at least he's starting to see the volume of deals increase, "and that's a good sign a recovery is coming."

Clough writes about the economy, real estate and the law. Contact her at alexandra_clough@pbpost.com.