'Distressed' properties glut market

■ 'There's probably no way to achieve the rentals we saw in the 1980s.'

James C. Straith

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Maybe it's in a bad location.

Maybe it's a bad mix of tenants.

Maybe it's bad advertising.

Heck, maybe it's just the wrong color of brick.

But when the economy is in the doldrums and commercial real estate vacancies are way up, property managers face the situation of trying to lease distressed properties.

Tom Garrity, president of Garrity & Associates Inc. in Livonia defined distressed properties as commercial strip centers and office buildings that have been returned to the bank in foreclosure or properties that are dangerously close to slipping into foreclosure.

"That includes a lot of property today.

"Property management of distressed properties is coming up with an ingenious ways to keep all the plates spinning," he said.

Properties become distressed for a number of reasons, Garrity said. Lack of tenants is the most obvious, he said, but sometimes that's merely a symptom of the real problem.

Building problems, location and the types of tenants can go a long way to explaining distressed properties, he said.

Garrity said turning a property around requires a hands-on approach. "All of the leasing space signs in the world aren't going to help."

Rule number one in turning a distressed property? "You have to be very cost conscious."

Building maintenance must be performed and mortgage payments made (if the property has not already been foreclosed on). "There's no room for waste."

James C. Straith, executive vice president at Schenden/Straith Group in Bloomfield Hills, said distressed properties are becoming the norm. "That (turning around distressed properties) is primarily what we're doing these days."

The huge number of distressed office and retail space is a result of the overbuilding of the 1980s, he said. "Properties built in the 1980s are all competing against each other for fewer tenants."

The problem was exacerbated by the recession, he explained. Too much space is bad enough, but with companies cutting employees there is even less demand for space.

A third factor is the way office and retail construction was financed in the 1980s. Many of these buildings were built with the understanding that future leasing would be used to pay off the building loans.

With shrinking demand and increased competition, the leases in many buildings aren't enough to cover the debt. "There's probably no way to achieve the rentals we saw in the 1980s."

Straith said what the property manager does with a particular building depends largely on the property. Property that has been foreclosed on is more appealing from the property manager's point of view because there is less threat of debt hanging over his head. "There is no debt; increasing the income becomes the goal."

A bank or lending institution also has more money available to get a property back up to snuff than a mortgage holder who has a payment to make.

Which isn't to say a foreclosed property is an easy turn-around, he said. "Very often, the property (maintenance) was neglected."

After a property is brought up to snuff, Straith said the property manager has to aggressively market the property — that often means reduced lease costs.

"Anything to get the occupancy up," he said. "If you've got a building half to three-quarters

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