Creative deals finding favor in real estate

Commercial property owners orchestrate sales with alternative financing methods

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With an unprecedented financial crisis rewriting the rules for business, Northeast Ohio commercial real estate owners, brokers and lawyers are looking for ways to sell or develop properties as real estate loans remain scarce or terms are too tough to consummate property sales.

Recently, Michael Barron, an aggressive associate vice president at the Marcus & Millichap brokerage in Independence, touted a prized listing to sell the landmark Commerce Park I, II and III office complex in Beachwood for $12.9 million. He noted the offering included seller financing for three years.

"That's how we'll get it done," Mr. Barron said of completing a sale amid the global credit crunch. Techniques such as full or partial seller financing for sales are at the top of most lists for ways to move properties when loans are scarce.

John "Jack" Waldeck Jr., a real estate lawyer at Walter & Haverfield LLP in Cleveland, said sellers providing notes to finance transactions is likely to be the most widespread way of coping with the credit crunch. Theoretically, the buyer will be able to finance the property when liquidity returns to the marketplace, which Mr. Waldeck and others don't

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see occurring for at least a year.

During the period of double-digit interest rates of the late 1970s and early 1980s, such seller financing was common, but it essentially disappeared the last few years because loans were so available, Mr. Waldeck said. The mentality was, "Why wait when the money could be had immediately?" he said. However, waiting for financing is part of today's real estate game.

Michael Petrigan, a vice president at Grubb & Ellis Co.'s Cleveland industrial unit, said he had a company that was prepared to buy a Lorain County building last year but was unable to get a loan to finance the transaction.

"We went back to the seller to see if he would provide a mortgage for the property, and they agreed to," Mr. Petrigan said. However, when he went back to the prospective buyer, the company scuttled the expansion because of the souring economy. Mr. Petrigan refused to identify the would-be seller or buyer.

Walter & Haverfield's Mr. Waldeck expects to see some other little-used financing techniques regain currency. One he's suggesting is for owners to sell their buildings but retain ownership of the land underneath them through ground leases. That tactic would reduce the purchase price for a property, he said, and with it the size of the loan needed to swing a deal.

During the last few years, ground leases were typical only for restaurants or fast-food eateries on the outskirts of shopping centers because developers wanted to retain control of the ground surrounding their malls. However, in the late 19th and early 20th centuries, such ground leases were common.

Another technique will be to sell a property through a land contract, Mr. Waldeck said. That technique allows the buyer to gain control of the property in exchange for payments directly to the seller, who retains title until the debts are satisfied or the buyer finds other financing.

While land contracts have been widely discussed for years as a way to move property in the downtrodden residential market, such deals remain rare. For instance, Cuyahoga County records show just 15 land contracts from Dec. 1 to Dec. 30 in Cuyahoga County, even though 1,926 properties changed hands during that period.

Warren Morris, CEO of brokerage firm Ostendorf-Morris Colliers International in Cleveland, said the search for ways to get deals done is just beginning.

"I think people will be forced to be creative," Mr. Morris said. "It's scary how few people want to lend money and how little credit is available."

As time goes by, property and business owners increasingly will need to dispose of properties, such as for estate planning purposes. Other owners may sell the businesses in their properties or decide they want to put their money somewhere else, said David Browning, managing director of CB Richard Ellis' Cleveland office.

"Not everyone holds on for the peak of the market," Mr. Browning said. ■