

## The scope for the wily user-investor



The user investor market is beginning to raise its voice in the US; will SA follow suit?

When you come across the term "distressed building" you might be forgiven for picturing a panicky cat in the middle of busy motorway. It's actually more serious than that, depending on how you value cats of course.

Putting aside for the moment the common 'to lease or buy' conundrum: What about marketing distressed office buildings to corporate space occupiers, not just to the residential market or conventional investors? To successfully sell to these hybrid user-investors, it is critical to appreciate how a space occupier's motivation to buy, differs from a traditional investor. The hybrid user-investor is a wily creature, not to be underestimated: User-investors will, for example, consider locations that may not appeal to conventional investors, in part because a user is less concerned with the need to attract and retain tenants.

Despite the recent economic downturn, there is clearly a user-investor trend reflecting corporate profits at sufficiently high levels in some sectors. Many US companies have generated these profits by becoming more efficient, learning to utilize technology, reducing the number of employees, or transferring jobs to lower-cost regions (not something to rush out and tell unions about!)

While many corporations in the US are now in a unique position to take advantage of the depressed office building values and vacancy rates they helped to create, South African business real estate -- whether leased or owned - is one of a company's most important assets and should be addressed as such. The opportunity for corporate users to reduce occupancy costs by buying a space makes a persuasive case. On the other side of the coin, considering the lease or buy argument, in order for one to remain competitive in the current tight economy, companies need to maximize their asset utilization through consciously analysing their leased and owned portfolios and then making the most of what they have.

In the light of this one may recommend that those companies with substantial growth projections secure appropriate advice from an independent consultant.

For the flexible and well-capitalized users able to close a purchase, the opportunity to acquire a building for a little more than a year's rent, is very compelling. One may conclude with little 'distress' that whilst the current market in the US and elsewhere is challenging for suburban real estate owners and their lenders, compelling opportunities await the perceptive, capitalized corporate user-investor. By and large the same logic applies to SA corporates.