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Kay Constructs Out-of-the-Box Deals

By Alyson Grala

OCEAN TWP., NJ-Getting good talent into your organization is challenging even in the best of times, but industry veteran and locally based Kay Realty principal Bill Klein has been bucking the trend toward downsizing by bringing on new hires and relocating to a new Monmouth County office building. "Within the next two months, we expect to move into our new offices, at which point we will be even more poised to bring on additional people as the job requires," Klein says.

He adds that the firm is also looking into new avenues of business, including more consulting, advisory and third party management work. "We're also seeing a lot of the fruits of our labor over the past two or three years finally come to fruition," Klein tells GlobeSt.com. "Deals that were stalled for court reasons or permitting situations have now started to turn loose, and those projects are going to accelerate."

Part of Klein's success can be attributed to his optimism. "If we all got up in the morning and looked at the clouds in the sky, we probably wouldn't get out of bed," he relates. "I'm a subscriber to the idea that we are going forward, not backwards."

As far as where the world is going, "there is a lot to be determined over the next few months," Klein says. "But we are starting to see opportunities crop up because people are more positive." Though he admits that we are likely to face more stress ahead, "most of the banks and insurance companies are trying their best to work out deals. If everybody agreed to stand still at this point in time, we'd come out of this downturn much faster."

As regions go, New Jersey has some major strengths, such as a capable port with solid infrastructure, a vast road network, a major airport and a well-educated population. "New Jersey is a vital distribution and warehousing hub, and it can still be a great manufacturing region, particularly if you look at the southern part of the state, which is relatively untouched and houses good labor and roads as well as access to Philadelphia's airport and port and Camden's port," Klein tells GlobeSt.com. "From the standpoint of heavy manufacturing or heavy distribution, the state still has that accessibility."

Unfortunately, the state also boasts some of the highest property taxes and a lengthy permit approval process. "We've gotten the reputation of being very unfriendly to new business," says Klein. "Industrial developers can go to Indianapolis and get a one million-square-foot building constructed in eight or nine months, while that same building in New Jersey might take three years. That's a big problem."

However, Klein notes that those involved in Gov. Chris Christie's new administration are well versed in the problems facing the state. "They should be able to lead us in the right direction."

In order to get deals done in today's environment, Klein says it takes a good deal of creativity. "Transaction volume is down around 80% to 90%, and the only deals that are getting done are the really good ones; meaning, for 25 cents on the dollar, the return is north of 24% or 25% on an internal rate of return," he remarks. That being said, "you really need to think outside the box to create those deals."

To that end, Kay recently created a supermarket in a shopping center where one was lacking; the second time the company has developed a grocery store specifically for a center. "It takes a lot of money, the right people and the right place, but it's a good example of the deals we've had to do to separate ourselves from the competition," Klein says.

Aside from additional out of the box thinking, Klein predicts we will see a lot of distressed land sales. "The opportunities are endless, with banks holding 50% loans on land that may or may not be approved," he says.

In fact, Kay Realty is currently shopping around for its own investment opportunities. "There are a number of note sales, but it's difficult to find ones that are of interest to us," Klein relates. "Most of the sales that are listed on the Internet are for below grade assets, such as a five-unit apartment in the Lower Bronx or a 10-unit building in Newark. Needless to say, they are not the greatest."

But many broker-suggested sales have also proven disappointing. "Many brokers have brought me large deals, but oftentimes I will find out that I'm not dealing with the bank, but rather with the owner who wants to take my bid to the bank and show them how low it is."

As a result, the bulk of investments Klein is exploring are those that are below the radar screen. "We use our networks in the state to find the best deals that the big brokerage houses have not yet listed," he tells GlobeSt.com.

Always the optimist, Klein says the firm will focus much of its 2010 effort on opportunities for its advisory services division. "We have found that many smaller supermarket companies in the state are spending a lot of money of their back office operations, so we developed a specialized group of supermarket gurus who can act as an advisor to these supermarkets. "It would free them up and help them to develop new markets," Klein notes. "Obviously, we can also develop new markets for ourselves and for our Kay-owned supermarkets." He adds that the firm is also focusing its attention on rolling out some small, old-fashioned grocery store concepts in certain shore towns.



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