

Rich Ideas

Commercial and Investment Real Estate



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What are the differences in Property Classifications?

When considering an apartment building, buyers will find that they are generally classified as being either a Class A, B, or a Class C building. The difference between each of these classifications varies by market and class B and C buildings are generally classified relative to Class A buildings. Building classifications are used to differentiate buildings and help the reporting of market data in a manner that differentiates between building types. That said, there is no definitive formula for classifying a building, but in the general characteristics of each are as follows:

- **Class A.** These buildings represent the highest quality buildings in their market. They are generally the best looking buildings with the best construction, and possess high quality building infrastructure. Class A buildings also are well-located, have good access, and are professionally managed. As a result of this, they attract the highest quality tenants and also command the highest rents.
- **Class B.** This is the next notch down. Class B buildings are generally a little older, but still have good quality management and tenants. Often times, value-added investors target these buildings as investments since well-located Class B buildings can be returned to their Class A glory through renovation such as facade and common area improvements. Class B buildings should generally not be functionally obsolete and should be well maintained.
- **Class C.** The lowest classification of office building and space is Class C. These are older buildings, and are located in less desirable areas and are in need of extensive renovation. Architecturally, these buildings are the least desirable and building infrastructure and technology is out-dated. As a result, Class C buildings have the lowest rental rates, could possibly take the longest time to lease, and are often targeted as re-development opportunities.

The above is just a general guideline of building classifications. No formal standard exists for classifying a building, but one of the most important things to consider about building classifications is that buildings should be viewed in context and relative to other buildings within the sub-market; a Class A building in one market may not be a Class A building in another.

Obviously price per unit and cap rates will tend to decrease from an "A" building to a "B" and to a "C". Highest caps can generally be found with C type properties. For Rochester, that should be 11 and higher and in some cases as high as 15 to 20. For "A" buildings, you will be looking at 7 cap to 9 cap ranges. To find a 15 cap "A" building is just not possible even though THAT is what everyone is looking for.

As for rents, "A" properties tend to be as high as \$2000 for a two bedroom but perhaps a median is closer to \$1200. For "C" properties, that may reduce down to \$650.

Investors NOT familiar with our market and the areas, inquire on C properties mainly because the cap is so high. But then to find out later that the investor is not a "C" property investor and only wants "A" or "B", WITH "C" cap rates, an exercise that will drive you crazy because those properties simply do not exist in Rochester

As always, it is suggested you work with someone that knows the market you are investing in. And for Rochester, that is us!



GOING SHOPPING?

As the Holiday season and all that shopping is now behind us, wouldn't it be great if we could get our investment real estate at the mall?

You could go to the "Highest Cash Flow Only" store to pick up properties that generate the most cash. "The Dollar Store" for those distressed properties. Perhaps "Nordstrom's" for the Class A properties with the best locations and the best tenants. "Home Depot" for the "Renovation projects".

But sadly, it is not that easy. Even so, where would YOU shop? And why? Or do you want to browse all the stores and walk through the mall, window shopping just to see what is available?

After the holidays is when most stores discount many of their items if they still have anything left after the season. It does not always work that way with property, but perhaps it CAN help outline your specifications of what you want?

Do you want just cash flow and the highest available? You probably will not find that at "Nordstrom's". But they are available at other stores. And if you are going to "Home Depot", probably do not expect a property that is turn key, as it will most likely be in need of a LOT of work.

Venture into "Nordstrom's" and the first thing you notice is the prices are much higher!. Yes they are! That is why it is Nordstrom's, but the "quality, and the comfort" are unmatched.... something you will NOT find at "The Dollar Store"

Of course many shoppers go to the "Dollar Store" looking for "Nordstrom" properties, and unfortunately, they just do not exist. But FORTUNATLEY, there are many stores with many product specifications for you to fulfill your shopping list and of course we can help!

Rich Ideas.

Rich Results.



This may be a tough sale!

Of the listings we accepted in 2011, 70% of the properties we offered went to contract. Of those, the contract price was 87% of asking price. Larger properties (over 300k) went to contract at 94% of asking price! We get our listings sold for our clients! And we price them right! If you wish to sell, please call us.

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