

## **BUSINESS OPPORTUNITIES IN A RECESSION**

San Benito County has been hit hard with this economic downturn. Housing prices have dropped substantially and sales of almost all goods and services are significantly down. Most consumers and businesses are simply trying to maintain the status quo and not trying to expand or seek out new business opportunities. However, there are business opportunities out there since the price of practically all goods and services are quite low.

San Benito County had an over-inflated housing market and has suffered from large price decreases. This has led to many foreclosures and created real opportunities for real estate investors. As the old expression goes, "Cash is king." Buyers absolutely control the market right now. A cash buyer can practically name their terms with respect to buying real estate. This is true whether it is residential, commercial or vacant land. If you are uncertain if you want to buy, then you can negotiate a lease-option for real estate. Many individuals purchased real estate with the expectation of retiring off the proceeds from selling the real estate in the future. With the huge drop in prices, these investors will not see the returns that they had hoped for. With credit being tight, they may be more inclined to lease-option the property in order to get some cash from the property.

Properties are really appraising at artificially low prices right now. Appraisers are being overly-conservative which results in properties appraising below their true fair market value. Also, all of the foreclosures and short sales are effectively reducing property values below the true market values because they are being picked up as comparable sales. This provides an opportunity to investors to purchase real estate at below market prices.

Some investors are purchasing REO properties (meaning bank-owned properties) directly from banks at extremely low prices. These investors contact banks directly and ask for a list of the REO properties and what the banks want for the properties. The investors then go in and bid below the bank's asking price for the property. Depending on the bank's situation, some banks are selling the REO properties at 10%-20% below what the bank was asking for the property. This has led to some investors buying properties directly from banks and then flipping the properties for a decent return. Of course, these are all cash transactions and the investor has to have the cash to do these deals.

There are also opportunities for equipment and services. Practically all businesses are suffering from the recession. This has led to businesses lowering their prices on almost all goods and services. This applies not only to locally-owned businesses but also to many large national retailers. If you have put off replacing old or obsolete equipment, this is a great time to replace that equipment with new or used equipment at lower prices than what you would have paid 6 months or 1 year ago.

The recession has also led to a drop in the price of certain services. Many service-type businesses (from plumbers to financial advisors) are now slow and have dropped their prices in order to stimulate business.

We all know that the recession has led to many job layoffs. This has resulted in people being more flexible in their requirements for gainful employment. In other words, people may be willing to work for lower wages simply to have a job or to keep their current job. In addition, certain employers have initiated overall salary reductions for all employees so that the employers do not have to lay off employees. This would not work in all business but it may be appropriate in certain business.

There is also an opportunity to acquire other businesses at low prices. This recession has affected all businesses, including those of your competitors. Now would be a good time to consider working out some type of deal with your competitors. This could take the form of buying out your competitor or forming a joint venture with them. You could pool your resources in providing services to your clients. For example, you may want to each contribute certain assets or manpower to a joint venture in order to take advantage of the resulting economies of scale. Purchasing your competitor or doing a joint venture may allow you to get rid of certain equipment or eliminate staffing positions that are duplicated in both organizations. This type of arrangement may convert two marginally profitable businesses into one significantly profitable business.

Finally, now is a good time to look at renegotiating some of your contracts. Most companies have long term contracts of one form or another. It may be a lease for your business premises or certain equipment, a bank loan, a vendor contract, an agricultural lease or a supply contract for raw materials or finished products. It is likely that the person on the other side of the contract is suffering from the recession as much as you are. This means that the person on the other side may be more likely to renegotiate and lower the price of the contract as opposed to losing the business entirely if you cannot continue making the payments or if you simply want to lower the payments. You can approach the person to renegotiate the payment terms, the length of the contract or the type or quantity of products being delivered. Or you may want to renegotiate to add renewal rights or a purchase option that the other side was not willing to originally give you. Either way, it is worthwhile to review your contracts and see if there is room to renegotiate them to a more beneficial position for your business.

This is a challenging time for most individuals and businesses. But if you know where to look, you may be able to find real opportunities to modernize, streamline or expand your business. You simply need to be creative in identifying the opportunities in the current marketplace.

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