COMMERCIAL INVESTMENT Real Estate

September | October | 2011

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COMMERCIAL INVESTMENT Real Estate

September.October.2011 Vol. XXX No. 5

FEATURES

COLUMNS

DEPARTMENTS

Cover: Photographer's Choice/Getty Images

Stay Relevant

As we move into fall 2011, the economy remains volatile, but there is good news: At the end of 2Q2011, commercial transactions were up 157 percent compared with 2Q10 and up 82 percent when compared with 1Q11, according to Jones Lang LaSalle. And CCIMs are having their share of success, as reported in this issue's Deal Makers column.

To stay viable in this market, you probably have increased your range of services. The same is true of CCIM Institute. To stay relevant, we are looking for ways to deliver education to potential CCIMs. For example, our newest workshop is aimed at residential agents and brokers who may be adding investment transactions to their services. Are there other brokerage niches that could use a specialized education approach? Let me know: CCIM's in-depth education program can be adapted to a number of purposes.

It's also time to reflect on how your CCIM membership has helped you stay relevant this year. Consider the ROI you may have received: A contact at a chapter meeting that led to a deal; an idea from another CCIM that helped you lease a challenging space; a Mailbridge lead that resulted in the right investment property for your client. You may have joined CCIM for the education, but the real value is the cumulative networking connections that you collect over the years.

On top of your CCIM connections is a host of tangible benefits you receive as part of your membership: Access to technology tools STDB and CCIMREDEX; a *CIRE* subscription; free Webinars on current topics such as determining value in today's market and working with receiverships; valuable economic analysis and market data in *RERC/CCIM Investment Trends Quarterly*; designation promotion; discounts on education and conference programs; and the online Find a Professional directory, which helps you maximize your exposure in the CCIM network.

Do yourself a favor this year and renew early.

Frank N. Simpson, CCIM
President, CCIM Institute
fsimpson@ccim.net

Only @ 2011 President Frank Simpson, CCIM, and 2012 President Leil Koch, CCIM, discuss the qualities of leadership at CCIM Live! Rebound in Phoenix, Oct. 12–14. Register today at http://live.ccim.com.

IN THIS ISSUE

All over the country, CCIMs are stepping up to the challenges of leasing retail and office space in a rocky economy. Senior Editor Jennifer Norbut offers a wealth of sensible advice from CCIMs leasing neighborhood and community retail centers on p.22. And, despite the fact that the U.S. unemployment rate still hovers close to double digits, reporter Beth Mattson-Teig found that companies are exuding more confidence in the future, signing longer-term leases for more office space, and preparing, we hope, to take on new employees. Read about it on p.26. Finally, how have green properties fared during the market downturn? Better than you think, says Associate Editor Rich Rosfelder on p.30.

> "Companies are making real commitments to new space." p.26

FEATURED WRITERS

Mattson-Teig

Beth Mattson-Teig, a well-respected business reporter whose work appears regularly in *National Real Estate Investor*, looks at both the office leasing and investment markets on p.26. Daniel Duggan, who reports on real estate for *Crain's Detroit Business,* writes about deals getting done in smaller markets today on p.35. Todd D. Clarke, CCIM, CEO of NM Apartment Advisors, considers the future of commercial real estate in his review of *Aerotropolis: The Way We'll Live Tomorrow,* by Greg Lindsay and John D. Kasarda. In an accompanying interview, Lindsay, who will speak at CCIM Live! Rebound in Phoenix, Oct. 12–14, discusses opportunities he sees for CCIMs in the near future.

Duggan

Clarke

podcast

Only @ **www.ccim.com/podcasts**

Karen Mankowski, CCIM, LEED-AP, senior associate with Grubb & Ellis in Charlotte, N.C., discusses the ROI on her green expertise.

COMMERCIAL INVESTMENT Real Estate

Commercial Investment Real Estate, the member publication of the CCIM Institute, reports on market trends and analysis, current developments in the field, and successful business strategies.

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Tomorrow's Office

Very soon, the days of expecting employees to commute to simply sit at computers will seem archaic, according to *Collaboration 2020, a* research study of 1,700 office workers by Johnson Controls Global WorkPlace Innovation.

A fundamental shift is happening in the way that offices are used. Technologies such as broadband and mobile Internet mean that most employees can perform many of their daily tasks at home or elsewhere. The future purpose of the office will be to provide an environment that allows employees to collaborate. This drive toward mass collaboration will change the way companies think about the real estate that they occupy.

In the next decade, office workers expect to spend more time

- working in team spaces that have built-in collaborative technologies;
- communicating with colleagues and others through video conferencing; and
- using dedicated collaboration rooms.

They expect to spend far *less* time at their desks on the phone or in traditional meeting rooms.

In most offices, the demand for collaboration space already exceeds supply. Companies tend to allocate a cubicle or office for each employee, but most studies show that the majority of workstations are unoccupied for large parts of the day. This underutilization will need to be addressed in conjunction with providing more collaborative spaces, if companies are going to derive value from their real estate portfolios.

In the future it's likely that many companies will occupy less floor space, but, significantly, a higher proportion of that space will be designed specifically to support collaboration. There may well be a menu of standard components for companies to select from; although, like today, many organizations probably will customize their space to support their business model and culture.

The universal use of video conferencing also will have a significant impact on office design and equipment. Not only will there be dedicated, networked rooms for conferencing, but webcams will become standard on every computer.

Respondents to *Collaboration 2020* also emphasized that collaboration is a key area where the office can add significant value. Enlightened organizations increasingly define objectives and allow their employees to choose the most effective way to deliver them, rather than count the number of hours they spend at a desk. Collaboration between knowledge workers is a principal driver of creativity, innovation, and, therefore, business advantage.

—by **Marie Puybaraud**, Ph.D., director, Global WorkPlace Innovation, Johnson Controls, and **Kjetil Kristensen**, Ph.D., collaboration strategist, Kristensen Consulting. Contact them at marie.c.puybaraud@jci.com and kc@kristensenconsulting.com.

What collaboration technologies do companies already use? Read the Collaboration 2020 *study at http://media.jcivideo.com/gwshome-banner/7245_collaboration_2020/downloads/Johnson_Controls-Collaboration_2020.pdf.*

Leungchopan/Veer

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CRE Investment Booms

Investment-grade transactions in the 10 largest markets fell to 38.7 percent of the market in May, below the two-year average of 45.8 percent, indicating that institutional investors are moving out of major markets in search of higher returns.

	AVERAGE DEAL SIZE	
Type	**May 2011**	**April 2011**
Investment grade	$33.2 million	$16.9 million
General property	$1.7 million	$1.65 million

Source: CoStar Group

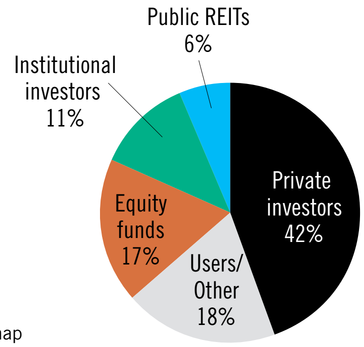
Net-Lease Cap Rates

Don't let these rising cap rates fool you: rates continue to compress for high-quality assets. Owners of lower-quality assets came on market hoping to cash in on increased transaction volume, raising overall sector averages. Cap rates for assets such as McDonald's, Walgreens, and CVS range from 5.94 percent to 6.90 percent.

SECTOR	2Q11 (%)	1Q11 (%)
Retail	8.00	7.83
Office	8.39	8.00
Industrial	8.70	8.42

Source: The Boulder Group

Industrial Buyer Profile



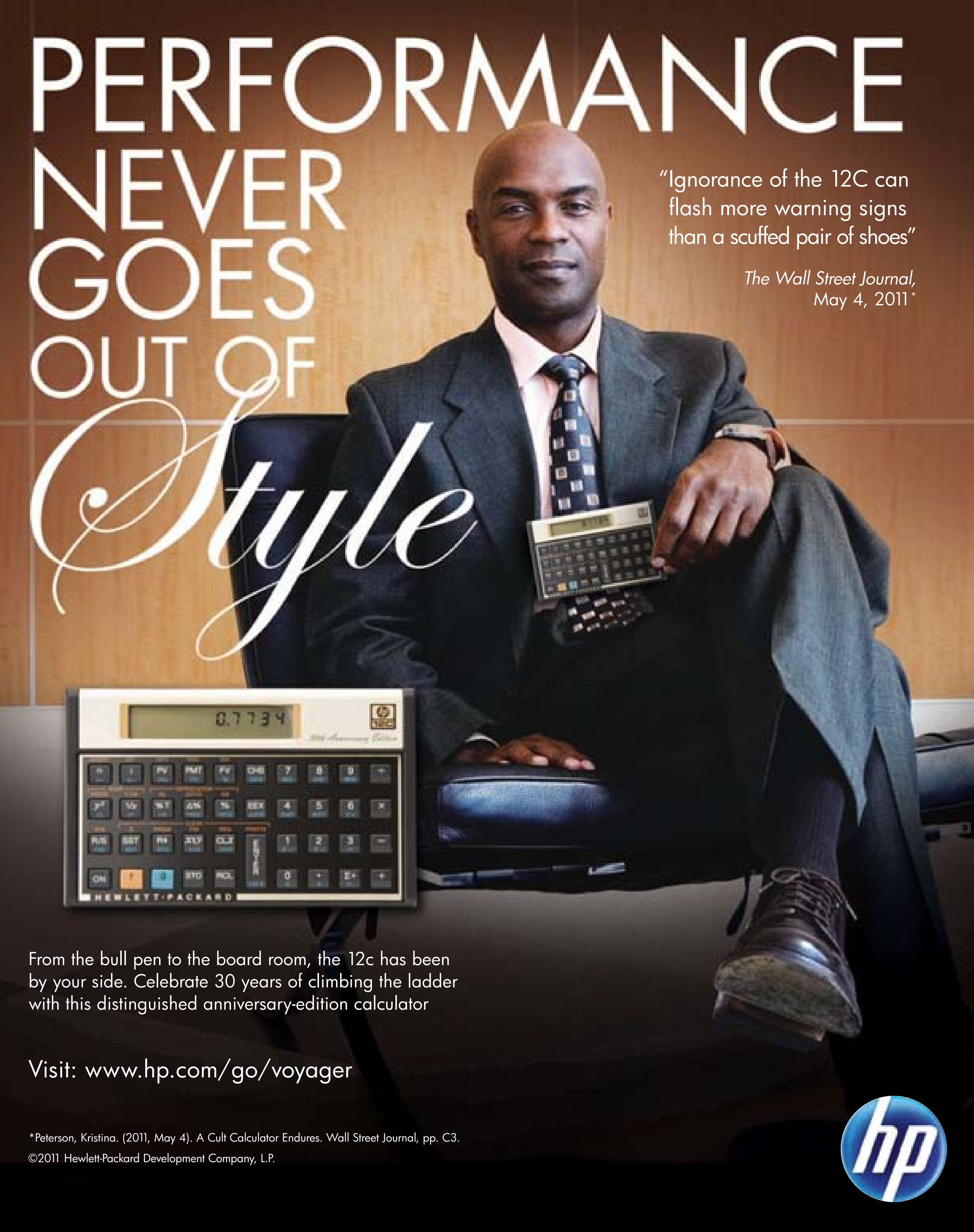
Source: Marcus & Millichap

Multifamily: Start Your Bulldozers

Apartment REIT AvalonBay has a $2.6 billion construction pipeline humming along, reports *Multifamily Executive,* and other developers are expected to soon follow suit as construction financing loosens up. "Over time, the financing challenge will be overcome because the yields will be so attractive. 2013 could be a watershed year in terms of supply hitting the market," says Ron Johnsey, president and CEO of industry data consultancy Axiometrics, reported in *ME*.

"Hotel capitalization rates are the lowest we have seen in a long time and are due to low mortgage interest rates, the large amount of equity capital chasing very few acquisition opportunities, and the fact that there is a huge upside potential in future NOI."

—Stephen Rushmore, president and founder of HVS, a global hospitality consulting firm


PERFORMANCE
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GOES
OUT OF
Style
"Ignorance of the 12C can
flash more warning signs
than a scuffed pair of shoes"
The Wall Street Journal,
May 4, 2011*
From the bull pen to the board room, the 12c has been
by your side. Celebrate 30 years of climbing the ladder
with this distinguished anniversary-edition calculator
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*Peterson, Kristina. (2011, May 4). A Cult Calculator Endures. Wall Street Journal, pp. C3.
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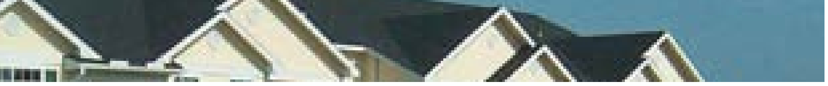
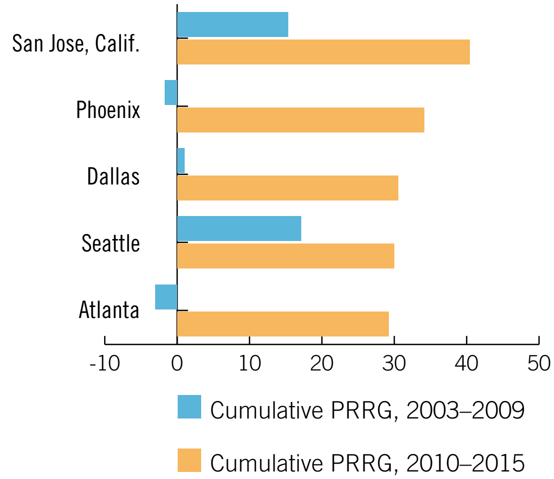


Apartment Markets to Watch

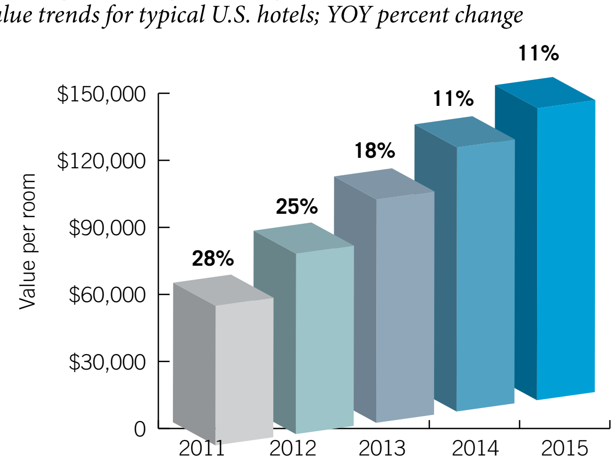
Potential Rental Revenue Growth: combined change in effective rental and occupancy rates



Source: Axiometrics, *Multifamily Executive*

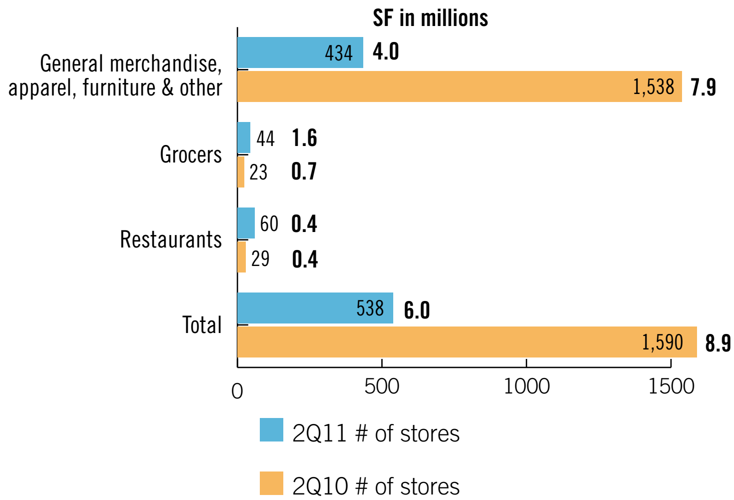
Hospitality Projections

Value trends for typical U.S. hotels; YOY percent change



Source: HVS

Retail Store Closings



Source: ICSC

Briefly Noted

Industrial — Space demand will broaden beyond warehouses: As credit loosens, small businesses will expand into multitenant business parks and flex properties, according to Marcus & Millichap's *Midyear 2011 Industrial Report*. Approximately 78 million sf will be absorbed by year-end with only 30 million sf of new product coming online.

Hospitality — Around $11.4 billion in lodging assets sold in the first half of 2011, compared with $4.9 billion in 1H2010, according to CoStar. Single-asset sales comprised 90 percent of the deal volume, with real estate investment trusts buying in major gateway cities.

Multifamily — In 2Q11, "Tertiary markets posted better than average gains YOY," reports Real Capital Analytics. In the first half of 2011, $23 billion in assets have traded, with 2Q11 apartment transaction volume surging 132 percent YOY.

Office — The U.S. office market absorbed 12.0 million sf in 2Q11, the highest amount since 3Q07. Vacancy fell by 40 basis points, to 17.3 percent, and more space was absorbed in the suburbs than CBD, says Grubb & Ellis.

Retail — While other retail venues suffer, outlet malls are on an expansion kick, according to *Retailing Today*. Houston is attracting attention from outlet developers looking for land parcels, and Chicago has three new centers under construction. Once a destination trip for shoppers, new properties are built on sites close to major shopping hubs to attract regular customers.

Retail Returns

by Jennifer Norbut

Despite the retail market's slow trek toward recovery, Carmen R. Austin, CCIM, associate broker at Saurage Rotenberg Commercial Real Estate in Baton Rouge, La., sees a lot of opportunity in this struggling sector. Infused with energy from this year's International Council of Shopping Centers' annual meeting and participation in the 2011 Jay W. Levine Leadership Development Academy, Austin, who describes herself as having an "entrepreneurial spirit," shared some of her enthusiasm for retail's recovery with *Commercial Investment Real Estate*. For more insights on retail in small markets, see "Retail Tenanting Techniques" on page 22 of this issue.

CIRE: As a retail specialist, what kind of trends are you seeing right now?
Austin: In the Baton Rouge market, vocational colleges such as Remington College and Virginia College are taking over spaces that were once traditionally retail. I am also seeing tremendous development by Dollar General and Family Dollar as well as a steady stream of deals with major drugstore chains. Pizza places and frozen yogurt concepts are expanding in my market too.


Carmen R. Austin, CCIM

CIRE: What were some of the major takeaways from this year's ICSC event?
Austin: It is amazing how technology and social media played such a large role in the meeting and how important these tools have become in doing business. Everyone was toting iPads, smartphones, and Blackberry Playbooks to their appointments and presentations and having tweet-ups at the social media pavilion. Overall, there was a higher level of optimism and productivity as well as a sense that the market is poised to rebound and that deals are getting done.

CIRE: How do you use these technology and social media tools to network and market your business?
Austin: I use Twitter, Facebook, and LinkedIn to stay connected and network with my peers. The rapid pace in which we can receive news and exchange information is incredible. In fact, I usually hear breaking industry news first through my Twitter account. These sites have changed the way nearly everyone in commercial real estate does business.

CIRE: You've been involved in CCIM at both the local and national levels. Can you describe the value of these professional opportunities?
Austin: The best part about my experience as Louisiana CCIM chapter president in 2010 is the long-term, lasting relationships that I have built with my team members and chapter leaders. This is such a relationship-driven business and the value of making those connections is immense. I'm also very proud of our chapter's accomplishments. Even though we are much smaller than many of the CCIM chapters, we have produced two of the Institute's finest presidents: Barry Spizer, CCIM, and Richard Juge, CCIM. We have a high level of national participation and leadership, including six chapter members who have participated in CCIM's prestigious Jay W. Levine Leadership Development Academy.

CIRE: You earned an MBA prior to pursuing the CCIM designation. How have the two achievements complemented one another?
Austin: My first experience with CCIM education was incredibly eye-opening. I was introduced to a whole new concept that marries real-world experience with the theories learned in traditional university environments. The finance principles taught in CCIM's core curriculum mirror the tools I learned in graduate school. The major difference is that CCIM's courses provide students with the ability and accessibility to put these principles to practical use to help your clients and you make money.

Carmen R. Austin, CCIM, and fellow members of the 2011 Jay W. Levine Leadership Development Academy (l. to r.) Jan Wilking, CCIM, Eddie Blanton, CCIM, Randy Boughton, CCIM, and Andrew Chan, CCIM, network at the CCIM Institute's booth during the International Council of Shopping Centers annual meeting in Las Vegas.

***CIRE:* ICSC featured a panel of women who have played influential roles in the retail and commercial real estate worlds. What did you learn from these industry leaders?**

Austin: It was so inspirational to hear from influential women such as Elaine Wynn, director of Wynn Resorts Ltd., who are heavy hitters within their respective fields. To hear them share their personal experiences — accomplishments as well as setbacks — as they climbed the corporate ladder to success was incredible. Their stories were told with such grace, sincerity, and openness. It made me proud to be a woman in a male-dominated industry where women have advanced so rapidly in such a short period of time. I can relate to many of the experiences and obstacles that these very successful women have endured.

Jennifer Norbut is senior editor of *Commercial Investment Real Estate*. If you have a story worth sharing in CCIM Q&A, send it to jnorbut@ccim.com.

Loan Language

What can borrowers negotiate under today's stricter standards?

by Thomas R. Petty

Epoxydude/Getty Images

Commercial real estate finance remains in a state of flux. Lenders are re-entering the market with new policies and underwriting criteria. Many lenders have toughened the terms of their form loan documents. It is important for borrowers to understand the source of those tougher terms.

In recent loan negotiations, some lenders have claimed that the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted last year imposes new federal regulations on commercial mortgage-backed securities loan provisions or that new CRE Finance Council rules require certain limitations and representations in loan documents. (CREFC is a trade group advocating for the commercial real estate finance industry.)

In fact, Dodd-Frank does *not* have the reach that some lenders might claim, and CREFC rules may actually work in borrowers' favor.

Lenders always have spouted phrases such as "bank policy," or "rating agency requirements" as reasons for not negotiating particular terms with borrowers. Savvy negotiators can maneuver around such canards, but "federal regulation" seems more daunting. Borrowers need to understand the source of new regulations and be prepared with counterarguments.

Does Dodd-Frank Apply?

One Dodd-Frank provision catching the attention of CMBS lenders is the law's credit risk retention requirements. To compel lenders to keep some "skin in the game," Dodd-Frank requires a lender to retain at least 5 percent of the credit risk of any loan asset.

There are a few exemptions from the credit risk retention requirements, including one for qualifying commercial real estate loans. This and other exemptions were crafted intentionally to be hard to satisfy. Federal regulators have acknowledged in the proposed regulations that "many prudently underwritten … loans will not meet the underwriting standards" in the proposed exemptions.

Some of the prohibitively stringent conditions require that a borrower maintain a 1.5 to 1.7 debt service coverage ratio, that the collateral property maintain a maximum loan-to-value ratio of 60 percent to 65 percent, and that the borrower cannot obtain any other junior debt (other than equipment financing). The clear intention is to force CMBS lenders to comply with the credit risk retention requirements by making congressionally mandated exemptions as restrictive as possible.

Some lenders may use these stringent

Dodd-Frank does *not* have the reach that some lenders might claim.

exemption requirements — mistakenly, perhaps — as federally mandated loan conditions. They are not. These requirements are relevant only if a lender intends to exempt itself from the 5 percent credit risk retention requirement. If all of the exemption conditions cannot be satisfied, then none of the conditions is relevant to a loan. If told that Dodd-Frank requires a particular loan provision, the knowledgeable borrower will ask why, and whether the loan is being originated for a zero risk retention securitization. If not, then the provision in question should be open for negotiation.

CREFC Standards

In March, CREFC unveiled new, comprehensive market standards for CMBS loans, which include model representations and warranties to standardize the representations a lender must make to prospective bond investors and rating agencies concerning the CMBS mortgage loans. The representations made by a lender to its CMBS investors should be matched by the representations made by borrowers to the lender.

Generally speaking, CREFC's new standards are not materially different from those that lenders have had to make in CMBS transactions for the last decade under Standard & Poor's CMBS Legal and Structured Finance Criteria. However, a few differences tend to benefit borrowers.

For instance, CREFC's model representations expressly acknowledge the many types of permitted transfers that borrowers often negotiate and lenders agree to allow in "due-on-sale" provisions. S&P's representations do not acknowledge permitted transfers.

The model representations also refer to eight carveouts to nonrecourse liability. S&P's representations do not even address recourse obligations. To counter the trend of lenders demanding an increasingly long list of recourse obligations, borrowers can now cite the short list of recourse obligations that CREFC apparently has determined are sufficient for CMBS transactions.

Knowing what lenders have to represent to their investors can be useful for borrowers in negotiating better terms in loan documents. In addition, knowing whether new loan requirements emanate from Dodd-Frank, federally mandated rules, industry standards, or simply from a lender's internal policies can improve a borrower's position at the table.

Thomas R. Petty, a partner in the Washington, D.C., office of Anderson Kill & Olick, practices in the area of commercial real estate. Contact him at tpetty@andersonkill.com.

Cost-Segregation Savvy

Know the basics before pursuing a tax study.

by Donald A. Greenhalgh, CPA

Stephen Swintek/Getty Images

If you've been using cost-segregation studies to accelerate depreciation of your commercial property, you've likely cut your taxes considerably. But could you save even more?

Not all cost-segregation studies are created equal. So what can you do to maximize the savings from cost segregation?

First, you will need to understand what a cost-segregation study is and how it can reduce your taxes. If no cost-segregation study is conducted, the commercial building you own will be depreciated over 39 years, using the straight-line depreciation method.

When a cost-segregation study is performed, a building instead is considered as a collection of pipes, doors, wood trim, electrical switches, countertops, and hundreds — or even thousands — of other components.

Land improvements, which include landscaping, sewers, paving, and curbing, can be depreciated over 15 years. Personal property, such as finish carpentry, emergency power generators, cabinets, and even certain heating, ventilation, and air conditioning units, can be depreciated in five or seven years.

By segregating these costs, typically 10 percent to 30 percent of the purchase price of a building can be reallocated for depreciation over shorter periods. If you spend $10 million on a building, for example, it's likely that $1 million to $3 million can be reallocated. That works out to a tax savings of $50,000 to $70,000 per $1 million. And you can keep on saving every year for up to 15 years.

Maximizing Cost Savings

Because cost-segregation studies require combined expertise in construction, engineering, and accounting, it is important to work with qualified professionals. Engineering firms typically perform the study, but the Internal Revenue Service has strict guidelines for qualified cost-segregation studies. Make sure the engineering firm is working with accountants who fully understand the tax implications of the study.

Jeffrey Hiatt of MS Consultants, a cost-segregation firm, also suggests following these guidelines to get the most from your study.

Get a detailed report. Be certain that the study documents all costs in great detail, down to every light switch and every square inch of space. Many firms do not go into as much depth as they could and, as a result, do not save clients the maximum amount possible.

Ask for a cost and savings estimate. Before you sign a contract, the firm should give you an estimate of savings and costs. The cost of a study can vary depending on the size of the project, but the firm conducting the study should be able to estimate your potential savings before you incur any cost. Typically, every dollar spent on the study should net a tax deferral of at least $10, and sometimes the savings can be much higher.

Typically, every dollar spent on a cost-segregation study should net a tax deferral of at least $10.

Be wary of contingency contracts. Consider getting multiple bids, but only hire a firm that has significant experience. Do not hire a firm that offers to do the study on a contingency fee basis — unless you like the idea of being audited. The IRS frowns on arrangements that give a third party an incentive to reduce your taxes.

Break it down. The firm should provide a breakdown by tenant, floor, and unit. Any space also should be broken down by function, such as manufacturing area, clean-room area, and office space. Such breakdowns are especially valuable to owners that change tenants regularly, such as retail property owners, and those with specialized construction, such as owners of laboratory space. When the owner of retail space, for example, replaces a shoe store with a restaurant, significant changes will need to be made. The "abandonments" that are junked in a dumpster can be written off, but only if they are properly recorded.

Cost-segregation studies can save owners of commercial property a great deal of money, but they are not appropriate for every job. They should be considered whenever project costs exceed $750,000, but they should be undertaken only if they can create a reallocation of at least $5 for every $1 spent.

The more you know about cost-segregation studies, the more you are likely to save.

Donald A. Greenhalgh, CPA, is a partner in the Real Estate Practice Group at DiCicco, Gulman & Co., a business consulting firm located in Woburn, Mass. Contact him at dgreenhalgh@dgccpa.com.

Lease Logic

Property acquisitions require a comprehensive approach to existing-lease due diligence.

by Crystal Lofing

Although commercial real estate investors often look at capitalization rates and replacement costs when considering an acquisition, the primary income stream — and therefore the primary pricing mechanism — is rent and operating expense recoveries paid by tenants. Comprehensive lease due diligence relating to the income stream or net operating income of a building is critical when acquiring a commercial property. In addition, a myriad of other lease provisions may have a material economic impact on the NOI.

Chad Baker/Getty Images

Prior to undertaking lease due diligence, the buyer and its legal team should tailor the scope of the lease review to the size and type of the transaction and property. Considerations to review include financing, state-specific provisions, and buyer-specific considerations, such as risk tolerance, as well as corporate, tax, and accounting issues.

Significant Lease Provisions

In addition to identifying basic lease terms such as *fixed rent, expense stops,* and *base years*, and reviewing any specific, transaction-driven terms, such as subordination provisions in the context of a corresponding acquisition loan, there are certain lease provisions that should be identified and analyzed as part of every lease review due to their potential economic significance and ongoing property management implications. These provisions include rights to purchase or expand into other space at the property; lease term renewal, termination, and reduction rights; tenant obligations to reimburse landlord for capital expenditure costs; and state-specific issues, such as the presence of any Proposition 13 property tax protection in California leases.

In analyzing the above provisions, the event or date that triggers any expansion, purchase, renewal, or termination rights and the date by which such rights must be irrevocably exercised should be identified, as it assists the buyer in tracking future lease obligations and accordingly minimizes the risk of a future buyer default. It also alerts the buyer, particularly with respect to first refusal rights of tenants to expand their premises or purchase the property, and to any potential adverse side effects regarding its ability to lease or sell the property. For example, as a result of the waiting period imposed in connection with first refusal rights, a buyer, as owner, could experience a potential reduction in the pool of tenants or buyers and a corresponding reduction in the rent or purchase price that would be gained by a more competitive process.

Any potential economic impact on the rental stream should be analyzed as well. For example, an expansion, renewal, or purchase right may have an unfavorable rent or purchase price calculation.

Depending on the circumstances, the impact could result from a deficient or discounted fair market formula or a dispute resolution process that favors the tenant. An expansion or renewal right also may require the landlord to provide certain tenant concessions, such as a construction build-out period.

A termination right that does not trigger a corresponding termination fee should be identified, as well as any deficiencies in the termination fee itself. For example, the termination fee may not contain a component attributable to downtime costs. A lease review also should identify if a tenant is not obligated to reimburse the landlord for market capital expenditure costs, such as operating expense-reducing costs or those required by law.

Any property tax protection granted to the tenant also should be described, together with any landlord rights to buy back the protection or reduce the protection over the lease term. For example, in California, full Proposition 13 protection prevents the buyer from receiving reimbursement for the applicable tenant's share of property taxes equal to the difference between the property taxes based on the current owner's purchase price (plus 2 percent annual increases) and the property taxes based on the purchase price to be paid by the buyer.

Additional Provisions

Additional lease provisions often are identified and analyzed by a buyer's legal team during the lease review process. Particularly for economically significant leases, these include the following plus other out-of-the-ordinary lease provisions that may have a material economic or accounting impact on the buyer:

- unusual rent abatement or offset rights, including self-help rights;
- significant restrictions on operating expense recoveries, such as an annual cap on increases in operating expenses;
- audit rights, including a cut-off period to object to operating expenses or landlord obligation to pay for an audit;
- security deposit or letter of credit provisions, including any burn-down or restrictions on application;
- environmental representations and warranties or environmental indemnities made by the landlord;
- pro-tenant landlord default provisions, such as offsets or an express right to terminate following a default by landlord; and
- in-term lease concessions, such as a refurbishment allowance, or the ability of a tenant to convert an improvement allowance into a credit against rent.

These lease provisions are a starting point in determining the scope of the legal review of the lease component of an acquisition. They can be supplemented as appropriate by additional transaction-, state-, property-, and buyer-specific considerations.

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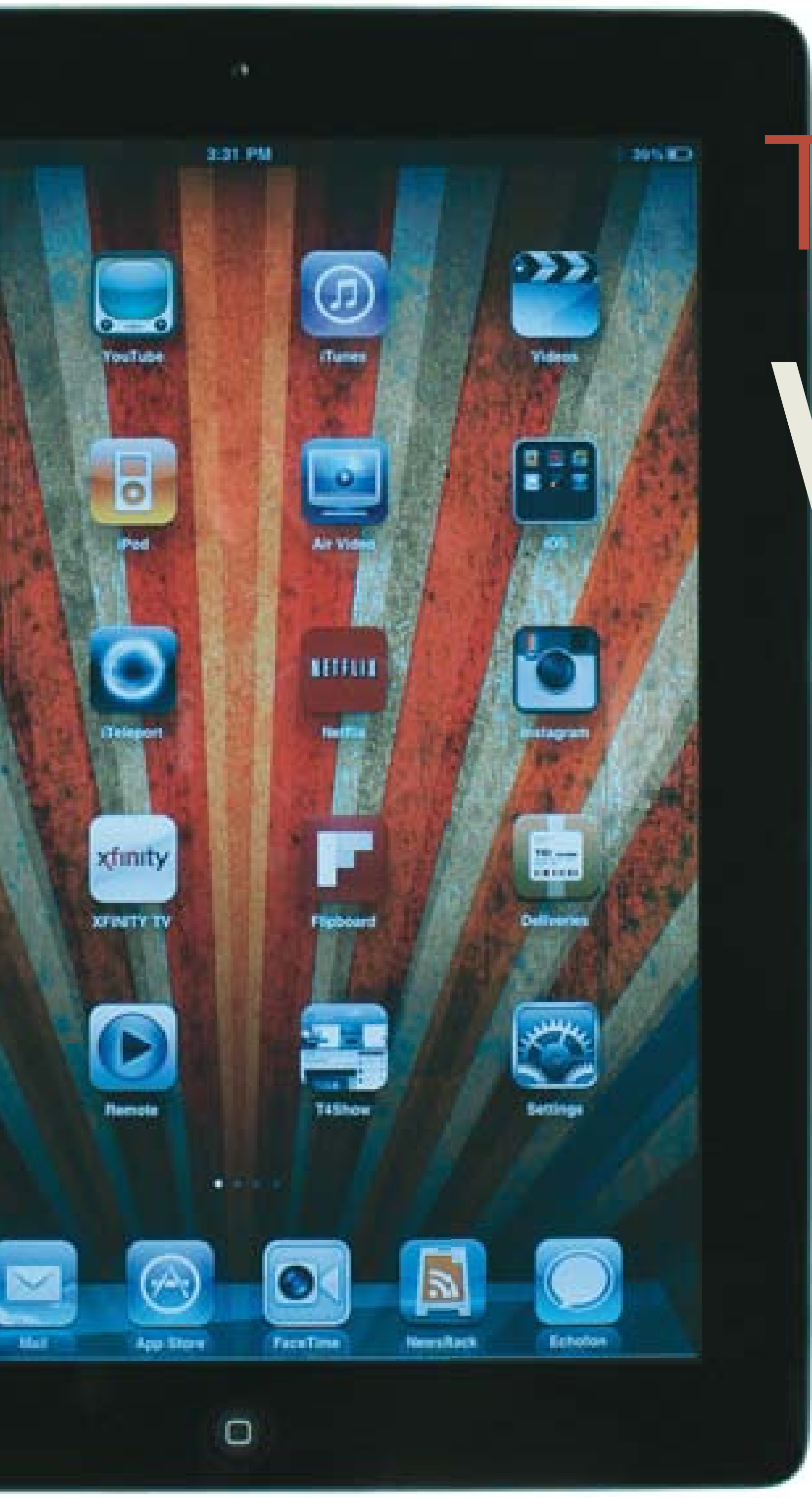


Tablets Take Charge

by Dennis LaMantia

When Apple introduced its first tablet computer last year, iPad ads featured lounging Web surfers and newspaper readers. CCIMs these were not.

In the fast-moving world of commercial real estate, tablet users can improve client service by reducing response time. With a data connection and a strong signal, CCIMs are running pro formas during property tours and showing listings that previously required stacks of paper fliers. “If used well, a tablet can make you more productive from anywhere,” says Jonathan Epstein, CCIM, of Berger-Epstein Associates in Allentown, Pa.

Efficient, Portable, Quick

“With a tablet, you don’t have to carry around as much as you used to,” says Beau Beery, CCIM, CPM, vice president of commercial real estate at AMJ in Gainesville, Fla., who used to have a briefcase full of notepads, calculators, and data reports. Beery bought an iPad, which starts at $499, after seeing a fellow retail conference attendee use it to pitch properties to prospective clients. “The retailers were all blown away,” Beery says. He is now impressing prospective clients of his own.

During a tour of an unfinished office property, Beery went online to find property tax data for a similar unit in the building, used that data to calculate the tax rate per square foot, and then calculated total rent and insurance numbers. Before he owned a tablet, Beery would have had to return to his office to run such a detailed pro forma. “Who knows?” Beery says. “By that time, he could’ve called three other people.”

In addition to consolidating paperwork, tablets allow CCIMs to quickly respond to client e-mails. With a data plan from a wireless provider, tablet users can go online and access e-mail almost anywhere. This capability always has been available on smartphones, but the small screen and keyboard discourage detailed answers and make it difficult to do additional research that a comprehensive response might require.

Joseph W. Edge, CCIM, president of Sherman and Hemstreet Real Estate in Augusta, Ga., says the ability to sync with Microsoft Outlook is the most useful tablet feature. "We use e-mail and our calendar system extensively," Edge explains. "The syncing makes a laptop almost obsolete." Edge relies on his tablet's 3G data connection, since he uses it during property showings, at airports, and in traffic jams.

iPad Alternatives

Although analysts expect Apple to dominate the tablet market for the next two years, competitors also are getting the attention of commercial real estate professionals. Robert E. Smith, CCIM, president of Smith Equities Corp. in Orlando, Fla., bought the Android-powered XOOM tablet for its compatibility with Google applications and other Android devices. "I'm not an Apple guy," Smith says. "And I do like my Droid phone."

The XOOM, also priced from $499, has two features that Smith finds especially useful and aren't available on the iPad — mobile hotspot and memory card expansion. The mobile hotspot provides a wireless Internet connection for up to five devices. Users also can double XOOM's 32 GB internal memory with the addition of a 32 GB microSD card.

Rose M. Cabezut, CCIM, adviser with NAI Maestas & Ward in Albuquerque, N.M., plans to purchase a tablet but it won't be an iPad. "I have looked on longingly as colleagues used iPads, but I don't believe I will experience the challenges [that iPad users face], particularly with Windows-based applications," Cabezut says.

Laptop Replacement?

Timothy W. Harrison, CCIM, senior adviser at Sperry Van Ness in Asheville, N.C., bought an iPad and a wireless keyboard to replace his laptop. He acknowledges that his remote connection to his desktop via the iPad is slower than the laptop connection, but it meets his needs.

Other CCIMs are more hesitant to abandon their laptops entirely. "I have not found the iPad to be a replacement for my laptop," says Tim B. Thompson, CCIM, of Deerfield Commercial Real Estate in Holyoke, Mass. "But it is a valuable addition to my business."

Dennis LaMantia is an interactive marketing manager at the CCIM Institute. Contact him at dlamantia@ccim.com.

WEB EXCLUSIVE

What are CCIMs' favorite tablet apps for business? Read "10 Tablet Apps for Commercial Real Estate" at www.ccim.com/cire.

Panoramic Images/Getty Images

Retail Tenanting Techniques

by Jennifer Norbut

These fundamental strategies can help to revitalize neighborhood centers.

Upticks in consumer spending and hints at economic improvement are fueling some long-awaited positive momentum in the retail sector. Despite the mild industry buzz, the latest data reports offer the view many property owners see when they look around their markets: Vacancy for strip centers rose to 11.0 percent nationwide in 2Q11 — just 10 basis points below the two-decade high of 11.1 percent vacancy in 1990, according to Reis.

Nowhere is the impact of vacancy felt more than in small retail centers, which rely on the health of not only their tenants, but the surrounding community. However, CCIMs say there is some good news: "All is not lost for neighborhood shopping centers," according to James J. Dunphy, CCIM, of Dunphy Properties in Tampa, Fla. "There are plenty of service-oriented users and restaurants out there requiring space. If you can provide convenience and service with the traditional attributes of a good location, you will be successful long term."

To make the best of the current market, owners and landlords of small retail centers must be flexible, focused, and creative. But the one thing landlords don't have to be is rocket scientists. In fact, CCIM retail experts around the country say that the formula for remaining viable under these conditions is rooted in fundamental marketing and tenanting techniques.

Negotiate, Negotiate, Negotiate

Similar to the sluggish and uneven nature of the commercial real estate market's recovery, leasing strategies for small retail centers vary depending on a variety of localized

factors. While tenants in one center may be motivated by free rent, another may want tenant improvement dollars, while another may seek early occupancy. Regardless of the location or center, the key to securing new leases in this environment is flexibility.

In some markets, time is on the tenant's side. "We have offered early occupancy in lieu of free rent, allowing the tenant to take possession 30 to 90 days prior to lease commencement," says William W. Hyatt, CCIM, of LanDel Realty in Fairhope, Ala. "In some cases that allows the tenant to rehab the existing space or build out new space."

Common incentives in strong markets, TI allowances can help tenants ink the lease. In the current market, Hyatt says he's offering TI allowances in the $10 per square foot to $30 psf range, depending on whether the property is being rehabbed or if it's a new build-out.

With economic uncertainties weighing heavily, cash-strapped property owners may not have the luxury of offering TI allowances. "I've found lately that landlords do not have the capacity to provide TI allowances due to market constraints or lack of financing," says Jorge A. Rodriguez, CCIM, director of retail at Colliers International in Orlando, Fla. To help move deals forward in these situations, Rodriguez has opted to secure rent abatement periods that are equal to "market" TI amounts.

For instance, in a recent transaction, "I represented a national retail chain on an 86-month lease where the landlord provided a rent abatement period of 26 months in lieu of providing the typical TI allowance." This arrangement resulted in five years of rental income to the landlord, and the tenant was pleased with the concession. The abatement period only applied to base rent, requiring the tenant to pay operational expenses at occupancy, he adds.

Offering shorter lease terms, free rent, and graduated rent structures also may help to secure tenants in small centers. In fact, "many landlords prefer to offer free rent over tenant improvement money these days," says Alaina H. McGlothlin, CCIM, sales associate at CB Richard Ellis in Oklahoma City. "Offering a period of six to 12 months of 50 percent rent is another way to meet the needs of both landlords and tenants."

Specifying and spreading out the rent-free months provides landlords with another negotiating tactic. "Offer additional free rent if tenants will take it in months 12, 24, 36, and 48 instead of during 60 days on the front end of the lease," says A. David Zoller of The Weitzman Group in Dallas.

Ultimately, before going to extreme lengths to lease up vacant spaces, landlords must conduct thorough due diligence. "The most important thing to evaluate in this market — and what the deal you offer is dependent on — is the credit and financial stability of the tenant," says Gary W. Lyons, CCIM, SIOR, vice president of Investment Sales and Corporate Services at Lincoln Harris in Raleigh, N.C. "It's important to understand the operating history and experience of who you are getting into your center."

Target Service Tenants

"Service tenants are ideal for smaller centers," Lyons says. Financial and insurance companies, dry cleaners, hair and nail salons, restaurants, convenience stores, and special medical service providers, such as dentists and chiropractors, all benefit from the easy access, parking ratios, and complementary tenant mix of neighborhood centers. And, these localized service businesses generally are looking for the same things when choosing a location: "Good visibility, strong traffic counts, and high foot traffic areas," Lyons adds.

In centers that can support larger, national tenants, "it is helpful to have an anchor that has some name or brand recognition," says Christopher Baj, CCIM, a commercial specialist with Michael Baxter & Associates Commercial Real Estate and Property Management in Stroudsburg, Pa. "The tenant can be national, regional, or even local as long as there is some name recognition," which makes the center attractive to both customers and other tenants.

However, for many smaller neighborhood retail centers, high-profile anchors are not a standard component of the tenant mix. A range of franchisees as well as local mom-and-pop businesses generally fill the storefronts of these properties. As a result, these centers present a prime opportunity for CCIMs to lend their expertise. "As CCIMs, we need to help the owners of these centers understand what tenants can afford to pay each month," says Charles A. "Mac" McClure, CCIM, chairman of McClure Partners in Dallas. "In this age of $24 to $30 triple-net rents, it can be impossible for a hair or nail salon to create sufficient income to pay the rent." In some cases, landlords must "reduce the rent to where a tenant can make a living" while making sure the pro forma for the income of the business moving into the space makes sense, McClure adds.

Landlords may not have to look too far to find prospective tenants. "Target in-market prospects and find out what it will take for them to move," Zoller says. Landlords who have a competitive edge should "consider buying out [a prospective tenant's] lease for a long-term deal at an above-market rate." While it may seem like a hard sell to lure a tenant across town at an above-market rate in the current climate, Zoller sees it as an opportunity. "Our goal as brokers is to show them what they can accomplish in sales by asking them, 'If you could do 14 percent more in sales, wouldn't it be worth paying 4 percent more in rent?'"

Where competition is tight, attracting in-market tenants requires landlords to pay extra attention to details, such as the signage, landscaping, parking lot upkeep, and other aesthetic aspects of the property. To sway prospects, "we have to be cleaner, brighter, cheaper, and more in touch with tenants' needs," Hyatt says. As part of the deal, some relocating tenants may be looking for extra incentives, such as rent reductions and early occupancy. If a center can offer these things, "it gives you a competitive edge against other centers."

However, tenant relocations may require an extra step in the due diligence process to ensure landlords are seeing the whole picture. "I usually contact the corporate office if they are franchised tenants to find out if they are relocating due to declining sales, problems at their current location, or corporate relocation mandates," advises Samuel S. Fung, CCIM, principal with Oregon Commercial in Medford, Ore.

FINDING FRIENDS AND FOLLOWERS

Social media outreach has become an integral part of the marketing strategy for mega retailers such as Walmart and Target, which have amassed more than 7.7 million and 5.2 million fans on Facebook alone. Landlords and owners of small retail centers can quickly and affordably adapt a similar strategy on a smaller scale to create awareness for their property as well as for their tenants.

For instance, Samuel S. Fung, CCIM, principal of Oregon Commercial in Medford, Ore., recently helped a client create a Facebook presence that includes each tenant's business. Instead of only relying on print advertising or snail mail, "if a tenant has a special promotion or discount sale, they can post it on Facebook in real time," he says. Fung also helped a restaurant tenant maximize its presence on Facebook by uploading pictures of specialty dishes as well as a video about the restaurant.

"Internet marketing tools like Facebook and LinkedIn are free," Fung notes. "Every retail center — large or small — should take advantage of these tools."

Market on a Micro Budget

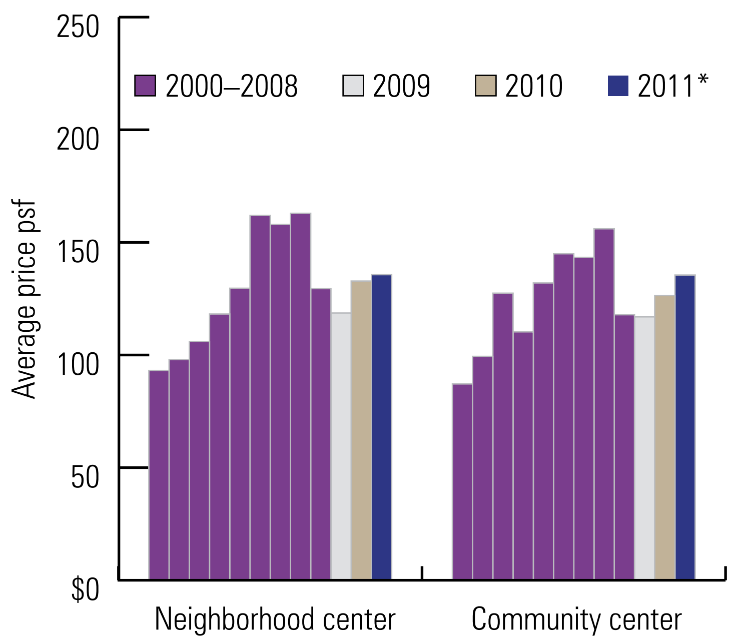
Marketing a challenged center — one that is in a poor location or has low traffic counts — requires tremendous creativity, Lyons says. "Most landlords of smaller centers are not capitalized well enough to spend large sums of money. The goal is to keep the capital outlay to a minimum but provide enough incentives to motivate the retailer to make a commitment."

Creating co-tenancy arrangements can infuse new energy into centers as well as improve the overall tenant mix, CCIMs advise. "A doughnut shop has heavy morning traffic, sub shops are heavy at lunch, fitness centers are busy after normal work hours, yogurt shops are busy between 2 p.m. and 5 p.m. and after dinner hours," Hyatt says. The revolving traffic restaurant tenants create benefits other service businesses such as medical-related services, convenience stores, and hair and nail salons.

With so much of the interest in small enters coming from local drive-by traffic, it's critical to "effectively utilize any of the property's on-site monument signage to promote awareness and availabilities," Rodriguez says. Though contrary to the high-tech online marketing capabilities available today, old-fashioned techniques still have value: Posting banners, affixing marketing brochure boxes to the property's exterior, and hanging window posters are effective ways to gain attention at very small centers, according to CCIM experts.

Tried-and-true, low-cost improvement projects, such as enhancing signage, updating landscaping, cleaning windows, and keeping the property litter-free can make an impression as well, Baj says. "And don't forget to upgrade your image with existing tenants," he adds. "Prospective new tenants frequently talk to existing tenants to see how happy they are in their location and space. Word of mouth still goes a long way today."

NATIONAL RETAIL CENTER PRICING TRENDS



* Estimated through 1H11
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Jennifer Norbut is senior editor of *Commercial Investment Real Estate.*

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Addison	TX	Sep 26 - 30
Austin	TX	Oct 17 - 21
Kent	WA	Nov 07 - 11
Conshohocken	PA	Nov 14 - 18
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Moscow +	RU	Nov 15 - 20
Yokohama+	JP	Nov 23 - 26
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Mexico City+	MX	Oct 17, 18, 20 - 22
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Addison	TX	Nov 07 - 11
Warsaw+	PL	Nov 14, 15, 17 - 19
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Back to Business?

Office leasing shows early signs of improvement amid a fragile economic recovery.

by Beth Mattson-Teig

Photographer's Choice/Getty Images

Office markets across the country continue to battle the lingering effects of the recession. But many cities are beginning to shed the high vacancies and fat concession packages that have dominated the last few years as expansion activity slowly returns.

A year ago, cost-conscious tenants were fueling the bulk of the leasing activity. Firms moved to take advantage of discounted rents or reduced expenses by downsizing or consolidating office space. Tenants negotiated "blend and extend" deals — rent reductions in exchange for longer lease terms — well in advance of lease expirations. These tactics were common in markets all across the country.

Confidence Returns

Those factors continue to drive transactions, but the notable difference is that corporate confidence appears to be returning. "I am not seeing the same level of uncertainty, downsizing, and emphasis on shorter-term leases that was more prevalent in the market a year ago," says David H. Johnson, CCIM, managing principal at Mohr Partners in Denver. Office tenants are planning for future growth and are more willing to commit to long-term deals. "A lot of companies that were looking last year had leases that were expiring in 18 to 24 months and were looking to capitalize on a very weak market. The deals that I am working on now are real deals with actual lease expirations," Johnson adds.

That being said, expansion activity is not widespread across the board. The rebound

BUYERS TARGET SECONDARY MARKETS

Dollars have been flowing to "safe haven" investments — top properties in major markets such as Washington, D.C., New York, and San Francisco. The bidding wars for those class A properties coupled with an emerging office market recovery is whetting investor appetites for office buildings in smaller secondary and tertiary markets.

Investor interest for office deals is picking up along with signs that fundamentals — namely absorption, vacancies, and rents— are stabilizing and even improving in many metros. "We are definitely seeing a great deal more demand than we were a year ago. The market is not really speeding ahead, but it is certainly getting momentum," says Camille Renshaw, CCIM, director of investment sales at Colliers International in Tampa. Stabilized properties continue to be purchased by institutional buyers, while specially formed funds and private equity are chasing distressed properties.

Top-tier markets are typically the first to recover, which is why the larger cities have been saturated with buyers. However, investors have raised considerable capital in recent years, and there is pressure to put that money to work. "Buyers are looking outside of major metros to very strong secondary markets such as a Tampa, Orlando, or Miami," Renshaw says.

"There is a lot of interest both from local investors and, increasingly, national investors," agrees Gregory T. Payne, CCIM, a broker at Pickett-Sprouse Real Estate in Durham, N.C. Although there are not a lot of quality properties on the market, prime properties with good tenants and strong occupancies are getting snapped up quickly, he adds.

In fact, two office sales over the past 18 months set record-high sale prices for the Raleigh-Durham market when they sold for more than $290 per square foot. One of the properties was the 259,000-sf regional headquarters building for Quintiles Transnational Corp., a large clinical research company. The Durham property was purchased earlier this spring by a Massachusetts-based investor.

"If deals in Washington, D.C., Boston, and San Francisco are getting picked over, then some investors may prefer to have one of the best buildings and best leases in our market, rather than to pay too high a price in one of the larger commercial markets," Payne says. In Raleigh-Durham, a very low capitalization rate for a top-tier office property is 6.5 to 7 percent, while cap rates for class A properties in cities such as New York and Washington, D.C., have dropped below 6 percent.

Net-lease office properties represent one of the most sought-after property types. For example, Rochester, N.Y.-based Broadstone Real Estate acquired five triple net-leased medical office properties earlier this year for $18.4 million or about $301 psf. The package included four radiology centers in Tampa Bay, Fla., totaling more than 50,000 sf that are leased to Tower Radiology Centers, as well as the 11,000-sf Plastic and Cosmetic Surgery Center of Texas in Plano. All five properties have 15-year leases.

Cap rates are compressing and prices are rising with each closed sale. At midyear, cap rates for office properties were hovering at about 6.7 percent for those located in central business districts and 7.8 percent for suburban properties, according to Real Capital Analytics. "We still have a shortage of good properties in the market, and so long as this continues, pricing will stay high," Renshaw says. "Hopefully, sellers will take advantage of the opportunity at hand, and more product will come to the market this fall."

LOWEST OFFICE VACANCY RATES, SECONDARY MARKETS, 2Q2011

MARKETS	2Q11 VACANCY (%)	12-MONTH CHANGE (%)
Birmingham, Ala.	12.3	0.4
Nashville, Tenn.	14.1	0.3
Buffalo, N.Y.	14.1	0.3
Little Rock, Ark.	14.2	-0.5
Louisville, Ky.	14.7	0.2
U.S.	17.5	0.1

Source: Reis

varies widely depending on the industry and geographic market. For example, information technology, healthcare, mining, and financial services are a few of the sectors that are growing in Denver, while oil and gas-related companies are leading the demand for space in Houston.

"In Texas, we are beginning to see growth and expansion that is definitely bullish," says Ron Miranda, CCIM, SIOR, a senior vice president at Thompson National Properties in Houston. "The strongest tenants are looking to lock in long-term deals."

Miranda recently completed a $160 million lease for a large law firm whose strategy was just that — secure a long-term lease and get back to business. "There is still some right-sizing as firms try to peg their future lease space requirements, which could mean growth for the future or contraction from underutilized office space," he adds.

After nearly three years of rising vacancies, the national office market turned an important corner in 2011 with improvements in key fundamentals. Positive absorption of more than 9 million square feet during the first half of the year helped to push the national office vacancy rate off its peak level of 17.6 percent, recorded in both the third and fourth quarters of 2010, according to Reis. The vacancy rate improved by 10 basis points to 17.5 percent in 1Q11 and held steady in the second quarter. Reis is predicting that vacancies will fall to 17.1 percent by year-end.

Another encouraging sign is that both asking and effective rental rates also are improving. During the first half of 2011, asking and effective rates logged their second consecutive quarter of rate increases — improving about 0.7 percent or an average of $22.25 for effective rates and $27.72 for asking rents.

"That is a fairly healthy improvement given that this is not the most spectacular economic recovery," says Ryan Severino, a Reis senior economist. Reis is forecasting that asking and effective rates will increase by a total of 1.5 percent and 1.7 percent respectively for the year. "Given how daunting the past recession was, most participants in the market are just happy that we have gotten past a stabilization point and we can actually start to talk about a bit of a recovery in this market," says Severino.

Market Disparity

The caveat to this market recovery is that it varies widely depending on the dynamics of the local economy. "On a metro level basis, it is not as if the tide is lifting all boats just yet," Severino says. "A lot of that has to do with what is happening at the micro level in these local economies, and that is going to be an incredibly varied and mixed bag at this point."

Clearly, many secondary and tertiary markets across the country are still waiting for job growth to return and spark a recovery in the office sector. Atlanta is one market that has seen its office vacancy stall at about 21 percent as it waits for job growth to return. "Right now we are just seeing a real hesitancy and anxiety about committing to growth by hiring," says Andy Sumlin, CCIM, director of project leasing at Barry Real Estate Companies in Atlanta.

Office leasing activity that is occurring in Atlanta is being fueled largely by companies looking to capitalize on favorable rental rates or "right-sizing" real estate. "There is an improvement in activity, but because of the lack of job growth, we are not making any statistical gains," Sumlin says. "We are just seeing a lot more companies across the spectrum in type and size trying to take advantage of the current market the best they can."

Silverdale, Wash., is another community still waiting for its office market recovery to begin. "We have 406 commercial spaces empty — about 300 are office space," says Merv Killoran, CCIM, manager of commercial investment at Reid Real Estate. Those vacancies represent about 20 percent of the overall market. Silverdale has been hard hit by small businesses that closed or consolidated as they struggled in the recession. "The remaining tenants are in such a strong bargaining position that they are pretty much holding their current landlords hostage," Killoran says. "They are threatening to leave unless their lease is renegotiated and rents go down."

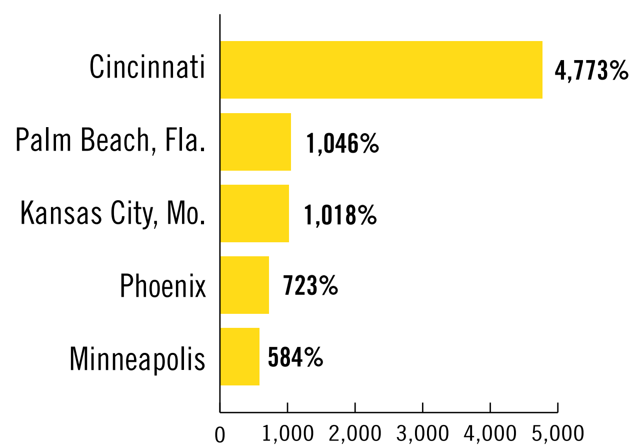
The Job Factor

It is no surprise that the office market recovery is all about jobs, jobs, jobs. "Usually, there is about a 12- to 18-month lag between when the labor market turns around and when you start to see office leasing activity pick up again and improvement in fundamentals such as vacancies and absorption," Severino says.

The labor market began to generate consistent job growth in 2010. During the 16-month period between March 2010 and June 2011, the U.S. economy added nearly 1.8 million

OFFICE SALES ACTIVITY BROADENS

Markets with the largest YOY increase in sales



Source: Real Capital Analytics

jobs. However, the monthly job gains varied widely from a loss of 192,000 jobs in June 2010 to a gain of 458,000 jobs in May 2010, according to the Bureau of Labor Statistics.

An improving economy and job growth is the No. 1 factor behind an increase in office leasing activity in Raleigh-Durham. Job growth began returning in 1Q10, particularly in sectors such as healthcare, technology, and financial services. "We also have a pretty good entrepreneurial community these days, and that shows particularly in the downtowns of both Raleigh and Durham," says Gregory T. Payne, CCIM, a broker at Pickett-Sprouse Real Estate in Durham, N.C. The region has seen a proliferation of startups, particularly in technology and gaming, moving into older warehouse and loft spaces that have helped to keep vacancies down. Part of that activity is due to a concentrated effort to encourage entrepreneurial growth.

For example, the Durham Chamber of Commerce launched a new program earlier this year aimed specifically at fostering new business growth. The Bull City Start Up Stampede provided two months of free office space with added perks such as furniture, Wi-Fi, and parking to help new businesses "get out of the basement" and get started. "That emphasis on courting entrepreneurs is something that we didn't see in this market 10 years ago," Payne says.

1H2011: OFFICE SALES VOLUME

REGION	VOLUME ($MILLIONS)	NO. OF PROPERTIES SOLD	CAPITALIZATION RATE (%)
Mid-Atlantic			
Total	4,449.1	106	7.4
Tertiary markets	83.1	12	n/a
Midwest			
Total	1,848.8	114	7.9
Tertiary markets	195.4	18	8.2
Northeast			
Total	6,769.1	129	6.5
Tertiary markets	35.1	10	n/a
Southeast			
Total	2,566.1	146	8.3
Tertiary markets	352.7	39	8.6
Southwest			
Total	3,239.3	139	7.8
Tertiary markets	92.5	14	8.7
West			
Total	5,586.9	260	7.5
Tertiary markets	192.0	28	8.0
U.S. total	24.5 billion	894	7.4

Source: Real Capital Analytics

Long-Term Lock-in

Class A properties continue to be a hot bed of activity as tenants upgrade from class B or A- buildings to class A or A+ properties. Although statistics show that both asking and effective rents are improving, rent discounts and concessions are still widely available across many secondary and tertiary markets. The norm in markets such as Denver is one free month for each year of the lease term, while concessions in Atlanta are running as high as 1.75 months of free rent for every year of the lease term.

"That flight to quality governs more transactions than anything else right now, particularly if a tenant is coming out of a lease that they have been in for some time," Sumlin says. Those tenants are paying about the same rate in an existing lease at a class B+ building as they can get in a class A building today. "So they are able to upgrade their product without really impacting their cash flow," he adds.

Concessions are another factor motivating tenants to lock in long-term leases. To secure the best deals, tenants need to commit to long-term deals. Companies also recognize that those deals may soon start to disappear as the economic recovery gains traction. What is more promising is that those long-term commitments show that companies are ready to move forward: Either they are more confident in their business outlook, or they have adapted to the new business climate.

Two years ago, the prevalent strategy among corporate and small-business tenants alike was to adopt "wait and see strategies" and shorter-term leases. Smaller, more entrepreneurial companies are still exhibiting a desire for more flexibility and shorter terms. "Yet there has been a shift where we are now seeing longer-term commitments on the corporate side as they establish the new normal. They can understand their revenue and are willing now to commit to seven and 10-year leases," Sumlin says.

"Some of my clients are definitely expanding, not only in Denver, but nationally," agrees Johnson. For example, Johnson recently represented two financial companies in separate deals — both of which agreed to six- and seven-year leases to secure more favorable rent discounts and higher tenant improvement packages as they moved from class B to class A space.

Johnson interprets these deals as a strong indication that companies are ready to stop second-guessing the economic signals and get back to work. "These companies are making real commitments to new space," he says. "That will give them the ability to retain and recruit employees as they prepare for the next business cycle."

Beth Mattson-Teig is a business writer based in Minneapolis, Minn.

by Rich Rosfelder

Sustainable Momentum

What's driving the shift toward greener properties?

Have green properties been more resilient through the downturn? Yes, according to a 2010 CB Richard Ellis study: 79 percent of owners surveyed believed that sustainable properties attract and retain tenants. The study, which defined green and sustainable buildings as those with a Leadership in Energy and Environmental Design certification or Energy Star label, also found that owners of sustainably managed buildings anticipated a 4 percent higher return on investment than did owners of traditionally managed buildings.

But the answer isn't that simple.

"Because the majority of green buildings on the market are newer class A properties that also are typically less expensive to operate, these properties by default have been the big winners through the recession," says Rick R. DeKam, CCIM, principal with Midwest Realty Group in Portage, Mich.

However, other factors have contributed to the continued success of green properties in many markets. The downturn marked a shift in tenant sentiment, increased government support for green buildings, and the widespread availability of energy-usage data. As the market finds its footing, CCIMs anticipate that these factors will not only play a role in the recovery but also, perhaps, shape the future of the commercial real estate market.

Tenants Take Notice

On a global scale, corporate tenants are driving the shift toward sustainable properties. According to CoreNet Global and Jones Lang LaSalle's fourth annual corporate real estate Sustainability Survey, which was conducted in 4Q10, 92 percent of respondents consider sustainability criteria in their site-selection decisions. And, more to the point: The number of respondents willing to pay more for green leased space climbed from 37 percent in 2009 to 50 percent in 2010.

However, in a 2010 global sustainability survey conducted by GE Real Estate, only 40 percent of U.S. tenants rated energy certifications as valuable.

"I've had some tenants insist on having green buildings to choose from when planning their next office lease," says Beth Young, CCIM, LEED-AP, vice president with Grubb & Ellis in Houston. "Typically, those tenants — engineers, architects, or other service companies — have a special interest in locating in a green building." In these cases, the property becomes a part of their brand.

In many instances, tenant sentiment toward green buildings also divides along generational lines. "I handled a 65,000-sf green lease for a major law firm," says William Hugron, CCIM, SIOR, senior vice president with Ashwill Associates in Newport Beach, Calif. "All of the attorneys 35 and under were asking questions about LEED, while the senior partners could care less. They said they won't be around long enough for it to make a difference for them."

DeKam also is seeing more interest from the next generation of decision-makers. "Company employees are involved in site tours, asking specific questions about energy savings, groundwater irrigation, heating, ventilation, and air conditioning set-back controls, auto-lighting sensors, and other features," he explains. "We never would have heard these types of questions three to five years ago."

For most companies, however, sustainability still takes a back seat to tried-and-true fundamentals. Young recently represented a tenant that leased space in a green building based mostly on the competitive rental rate — not the property's energy efficiency and other sustainable features. "The green building owner was much more aggressive [than the tenant's former landlord]," Young notes. However, other green buildings that were considered were too expensive to make the short list.

Government Greens Up

As the private sector dialed back its emphasis on sustainability during the downturn, the federal government ramped up its efforts. Last October, the U.S. General Services Administration announced that it would require a LEED Gold certification for all new federal building construction and substantial renovation projects. In addition, all new federal agency leases must be located in Energy Star-labeled buildings.

Government lease requirements, combined with the lack of new construction coming online, spell opportunity for owners of older properties and brokers who assist them, according to Hugron. "The government typically leases class B buildings," he explains. "Existing inventory that can be retrofitted will see more demand."

Groups that offer green certifications also see opportunity in the GSA's continued expansion. In March, U.S. Green Building Initiative President Ward Hubbell asked the GSA to reconsider its LEED-only policy, explaining that competition among certification programs will lead to progress and innovation. Government agencies such as the State Department and Veterans Affairs have used GBI's Green Globes rating system to assess and certify numerous buildings, Hubbell noted. To date, however, the GSA has not modified its policy.

While the federal government pursues a sustainability agenda as a tenant, it's also helping to fill the void left by traditional lenders that are apprehensive about funding green projects (or any projects, for that matter). The 1603 Grant program, which is part of the American Recovery and Reinvestment Act, covers up to 30 percent of property that is part of a qualified facility, fuel cell program, solar property, or small wind property. The Renewable Electricity Production Tax Credit and Business Energy Investment Tax Credit also can help offset green retrofit expenses.

Even federal incentive programs not specifically geared toward green projects are starting to focus on sustainability. Community Development Entities in five states were awarded New Markets Tax Credit allocations specifically for renewable energy projects in 2010, notes J.R. Chantengco, CCIM, president and managing director of the Triwest Group in San Diego. Triwest Group, one of those five CDEs, "is working on a $7.5 million sub-allocation for several renewable small wind projects in San Diego," Chantengco says. He expects the NMTC allocation to generate $50 million from tax investors during the next few years to fund commercial property leasing programs throughout California.

"The message for our industry is that these incentives have provided additional negotiating leverage for our landlord clients," says Karen Mankowski, CCIM, LEED-AP, senior associate with Grubb & Ellis in Charlotte, N.C. But timing is a major factor when seeking government funds. "Many of these incentives exist for a limited time only, either because they are part of a finite pool of money or because they are bundled with other initiatives that are subject to legislative approval on annual basis," Mankowski notes. And given the federal government's recent credit woes and the economy's ongoing fragility, sustainability-driven incentives could wind up on the chopping block at any moment. (For more on federal, state, and local initiatives, see sidebar "Legislative Update: Energy Efficiency.")

Skip Nall/Getty Images

GOING GREEN 101

Recently, Dustin C. Gellman, CCIM, chief executive officer of GreenPoint Partners in Chicago, and former CCIM Institute President Richard E. Juge, CCIM, SIOR, co-founder of GreenPoint Partners and president of Re/Max Commercial Brokers in Metairie, La., discussed some of the practical concerns of working with sustainable properties.

What exactly is a green building?

Juge: "Greening" a commercial building may include a broad range of initiatives designed to reduce resource consumption and increase cash flow — including efficiency retrofits, solar installations, and water or waste reduction. When appropriate, Leadership in Energy and Environmental Design and Energy Star certification may follow to provide third-party verification that such measures were enacted.

What buildings offer the best opportunities for "going green?"

Gellman: The strongest candidates typically fit some of the following criteria:

- Located in metro areas with high energy costs and favorable incentives;
- Size is 20,000-plus square feet with a $40,000-plus annual utility budget;
- Best use types are office, industrial, hospitality, healthcare, and specific use; retail and multifamily sometimes work;
- Owner-occupied, tenants with gross leases, or single-tenant net-lease;
- Owners or tenants with healthy credit and no financial distress;
- Built prior to 2005 for energy-efficiency retrofits;
- Flat, unobstructed rooftops for solar installations; and
- class A or B properties for LEED certification.

Other factors may include the owner's position in the asset life cycle (buy, hold, sell), local attitudes toward sustainability, current or pending legislation, eco-conscious tenants, and the decision maker's access to capital.

What role can CCIM members play in the process?

Juge: Clients need solutions — energy costs are rising, time-sensitive incentives are available, tenants are demanding green space, and governments are introducing new legislation. CCIM members have an opportunity to increase client services and add value by helping clients navigate sustainability initiatives. Green building initiatives are best evaluated on a T-bar and articulated by a trusted adviser, and CCIM members are well-positioned to help clients understand that.

Further, sustainability is complex. Technology, incentives, and laws change quickly. Solutions require multidisciplinary expertise, and clients often don't have the internal resources to pursue green buildings. CCIM members can offer energy and sustainability services as a means to differentiate from peers, win new business, and ultimately do more transactions.

To read the full Q&A, visit www.ccim.com/cire. For more information on GreenPoint Partners, visit www.greenpointpartners.com/ccim.

Driven by Data

For owners and developers that can't secure funding via government grants and other incentives, options are still limited. Sustainability is not a consideration for small, regional lenders, and that probably won't change anytime soon. "To quote a commercial loan officer and fellow CCIM, 'Cash flow is king,'" Mankowski says.

But some national and global lending institutions are financing green projects. In May, Bank of America unveiled a $55 million program to encourage energy efficiency improvements to older buildings. The program will provide low-cost loans and grants to Community Development Financial Institutions specializing in financing for green projects.

Bank of America also will work with the CDFIs to collect pre- and post-retrofit data to measure impacts on energy and water usage and corresponding financial savings.

Rick Hardy, an adviser with Sperry Van Ness - Promus Commercial in San Diego and leader of the company's sustainable buildings team, which also includes Charles Copelan, CCIM, and Lauri L. Greenblatt Hines, CCIM, CPM, expects that these types of data eventually will be evaluated by all transaction participants — not just lenders. "When people begin to consistently see an energy use rating or some kind of sustainability measure for properties considered for lease or purchase, that's when the real sea change will happen," Hardy says.

California's Assembly Bill 1103, which goes into effect on January 1, may signal the beginning of this transformation. It is the first law to require the disclosure of energy-use information when a building sold, leased, or refinanced. "When the end users have access to this data, it will impact their choices about which building they want to buy or lease," Hardy explains. "There will be winners and losers, and the information will drive the market to make changes."

The increasing use of building certifications suggests that some of these changes already may be in the offing. As of July 18, 1.45 billion square feet of commercial property was LEED certified and more than 6 billion sf was registered for certification.

In addition to more common certifications such as LEED, Energy Star, and Green

Imagesource/Glow Images

LEGISLATIVE UPDATE: ENERGY EFFICIENCY

During the State of the Union address, President Obama talked about the Better Buildings Initiative, which includes several energy-saving goals, such as achieving a 20 percent improvement in energy efficiency in commercial buildings by 2020. It also creates financing opportunities for commercial retrofits through the Department of Energy (www.dsireusa.org).

But if commercial real estate professionals are expected to fully embrace the future of sustainable buildings, lawmakers need to understand how green initiatives affect the industry. An integrative approach to making a significant change includes tax credits for energy-efficient building codes.

During the 2011 CCIM Institute Capitol Hill Visit in April, CCIMs talked with their U.S. representatives and senators about incentive-based programs versus mandated requirements for energy-efficient buildings. Participants told Congress that tax credits must be realistic, supplementing the discrepancy between the payback period and initial cost investment paid by property owners. CCIMs can contact their state and local officials to express the need for sensible tax incentives for energy-efficient building investments that contribute to a shared vision of a sustainable community.

— by Adriann Gerardi, legislative liaison for the CCIM Institute. Contact her at agerardi@ccim.com. For information on state and local initiatives, read the full Legislative Update at www.ccim.com/cire.

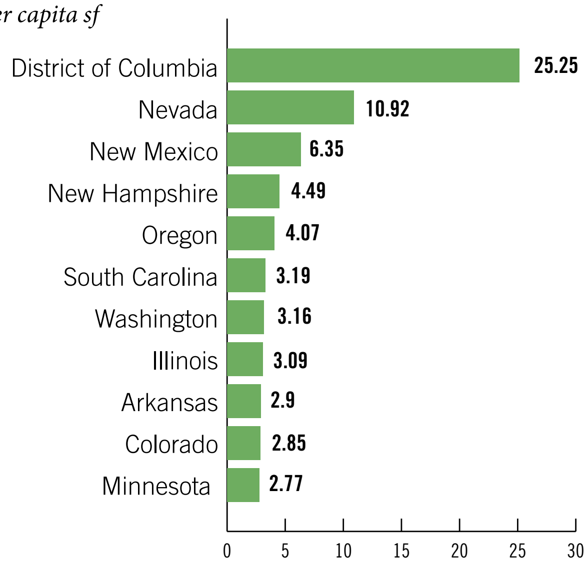
Globes, alternative labels continue to gain popularity. “Through the Society for Environmentally Responsible Facilities certification, I recently certified my first two multi-tenant office properties and successfully marketed our sustainability achievements to prospective tenants,” DeKam says. “There’s clearly a demand in the market for a more streamlined, cost-effective yet equally credible green certification alternative to LEED.”

Whatever the label, it’s still up to CCIMs to effectively communicate what the information means for transaction participants. And the conversation, like the industry’s attitude toward green properties, is certain to evolve. “In my practice, I’m talking to owners, property managers, tenants, buyers, developers — in short, everybody — about what I think is coming down the road,” Hardy says. “The demand for energy is increasing; the cost for energy is increasing; and availability of energy efficient space is limited. It’s the kind of perfect storm that makes discussion of this topic critical.”

Rich Rosfelder is associate editor of *Commercial Investment Real Estate.*

TOP LEED STATES, 2010

Per capita sf



Source: U.S. Green Building Council

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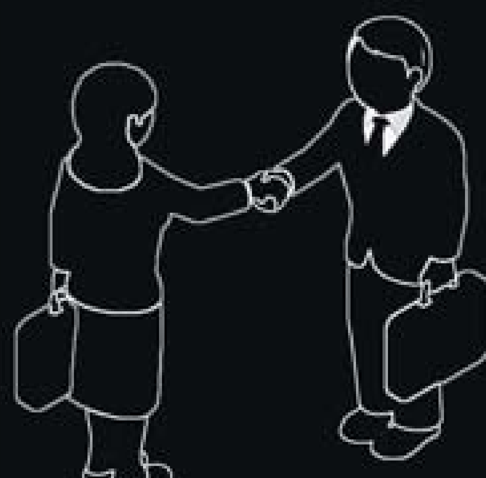

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* Course must be a core course: 101, 102, 103 or 104.

The Art of the Deal

What does it take to close a transaction in today's market?

by Daniel Duggan

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Brokers across the country have been working harder and smarter to close transactions as the national economy starts to reignite commercial investment real estate deals. While stabilized class A assets remain in demand, brokers need to prepare to sell the less desired assets in the nation's secondary and tertiary markets.

A host of strategies are being rolled out coast to coast for investment deals at the smaller end of the spectrum in the $5 million to $15 million range. Using auctions to move assets, taking advantage of national broker networks to find buyers for tough-to-sell assets, and prospecting for buyers through social media are all part of the 2011 broker toolbox.

Along with these strategies, nothing is more critical in today's economy than a broker's in-depth local-market and product-sector knowledge, flexibility, and perseverance.

Tell Your Market's Story

Especially in smaller markets, brokers need to know what strengths they have in their market and be ready to tell the story to national investors, because they might come to town, says Robert Bach, CRE, chief economist for Santa Ana, Calif.-based Grubb & Ellis Co.

"A year-and-a-half ago, somebody coined the term *yield fatigue*," he says. "Investors are tired of paying top dollar for assets in supply-constrained markets. As a result, we're now seeing the bigger investors starting to look at secondary and tertiary markets."

TODAY'S MARKET TENETS

Know the buyers in your market.

Pick the right assets to list and ignore the ones that won't sell.

Be ready to deal with the problems in the asset you're listing.

Keep everyone at the table, even when it seems like all is lost.

Brokers should know their markets' strengths and national profile. In Indianapolis, for example, it's not likely that institutional investors will be looking around for office properties.

"It's an industrial market," Bach says. "And the national players are going to be looking there."

Good stories also are going to help sell local assets to national investors, he adds. "In Pittsburgh, which was down for 30 years and has held up well in the recession, you're going to find a number of investors ready to take advantage of that market."

But for most assets in the smaller markets, especially in the $5 million to $10 million range, the key to a deal will be finding small banks to finance deals and local entrepreneurs to buy either as investors or users.

"Local entrepreneurs are going to see the things that others are not willing to see," Bach says. "Getting boards and lenders to see those same things is going to be a trick. You need someone local who cares about it."

If there is a lot of work needed in convincing buyers or lenders, local people will be more willing to put in the extra effort, he adds.

But previous buyers are definitely back, according to a recent study by New York-based Real Capital Analytics. The study found that 81 of the 100 biggest buyers from 2006 and 2007 are actively buying today, albeit at lower levels.

The message to sellers: Buyers are out there.

How Is the Capital Stacked?

A trick to getting deals going is to know the financial structure of buildings in the market, says Eric Taylor, senior investment adviser for Phoenix-based Hendricks & Partners. Having information about loans that are maturing can be an indicator of an owner who may need to sell.

"Deals financed in 2003, 2004, and 2005 might have a hard time being replaced," he says. "Something financed on an 80 percent to 20 percent loan-to-value based on an appraisal from another time period is going to have trouble. The owner might have to come out of pocket with a couple million dollars just to refinance it.

"I'm going to see that as a case where there's a motivated seller with pretty good equity in the deal," Taylor adds.

Likewise, an asset's capital stack can work against the selling broker if he doesn't know how all the layers of debt and equity work together, says Michael L. Gerard, chief learning officer for Los Angeles-based CB Richard Ellis.

"You need to educate yourself on what the capital stack means specifically for each asset," he says. "It will have a profound impact on how an asset will trade."

Buildings with elaborate levels of financing that may require investors and lenders to take losses may be much harder to sell if parties aren't ready to take their losses, for example.

In addition, listing brokers need to spend more time doing reconnaissance on buyers, Gerard says. "Qualify the buyers so that you don't have egg on your face at the time of closing," he says.

Setting strict guidelines, such as large deposits, at the time of the call for offers can filter out buyers who aren't as qualified as others. "Ensure that the buyers have the wherewithal to close," he says. "Learn about their history."

People who have done past deals with certain buyers may be able to provide information, so ask around: If you're dealing with someone who backs out of deals at the last minute, you want to know long before the close.

When to Sell

Knowing when *not* to list an asset can be a key to keeping your deal flow moving, says Robert Horvath, a senior associate and director of the national retail group for Encino, Calif.-based Marcus & Millichap Real Estate Investment Services.

His team has stayed focused on single-tenant, net-leased retail assets, a class that has not experienced much of a downturn.

"From a listing standpoint, we're just going after the deals that have a high probability of being sold," he says. "We're very selective on the deals that we bring to market."

Outside of NNN retail assets, multifamily has been a strong segment in many markets, Horvath adds.

And sometimes it's important to tell a client that now is not the time to sell, says Spencer G. Levy, executive managing director with CBRE in Baltimore, heading up capital markets for the firm.

In representing a client's best interest, a broker needs to have an eye on the value of the asset, he says. For example, there may be a material weakness in the asset, such as some roll in the leases coming in a certain period.

"In some cases, the recommendation is not to sell, because there's a greater value to be found down the road," Levy says. "Instead, list it after the capital improvements are done and the rent roll is stabilized."

That point is especially important in the current market, he says. Assets in secondary and tertiary markets that aren't stabilized can be difficult to move.

Other options being used right now include the use of auctions to sell assets, which has been a growing segment of business for CBRE.

"It gives people a greater certainty of closing," Levy says. "The value can be equal or greater to a managed bid process. There's no empirical way to know which is right or wrong."

Marketing That Counts

Marketing and the quality of the asset are the two elements that can influence whether a deal will close or not, Levy says.

"You can have the best marketing and the worst asset, or you can have the worst marketing and the best asset," he says. "And a lot of times you end up in the same place."

It's important to know whether the seller is patient or looking to sell in a hurry, as the strategies can differ. Using more targeted marketing, for example, takes more time and can maximize value. But targeted marketing of assets can be a way to move things more efficiently, especially when there's a small pool of buyers in a market.

"The fear is that by marketing a property quickly, you can hurt the value," Levy says.

Mark Popovich and his team have closed 15 of the last 25 apartment deals in Pittsburgh. A senior managing director in the Pittsburgh office of Holiday Fenoglio Fowler, he says the personal touch on a pitch can be more effective than an e-mail to 200 people.

"We have a pretty good idea of who the buyers are and what they're looking for," he says. "We don't do a cattle call; we do a targeted approach with the willing investors. It's a calmer approach and we're able to talk through the deal."

Social Media Showing Returns

But in some markets, just finding buyers is still a slow process as local economic factors sort themselves out.

In Detroit, for example, national investors have shown some interest in assets, but not much. And many of the local investors are still reeling from the downturn.

For Robert Pliska, CRE, CPA, managing director of the Sperry Van Ness office in Birmingham, Mich., that means keeping himself visible to the potential buyers and being patient for them to be engaged again.

The use of social media is part of that strategy, Pliska says.

On Twitter, for example, he has 3,000 followers. Pushing good news stories on a regular basis and reading deal transaction information from other markets helps him stay on top of things. He contributes to real estate blogs and mines Facebook and LinkedIn for leads.

"It's been an efficient way for me to stay top-of-mind with people, maybe outside of the market, who I haven't seen for a few years," he says.

"And I'm starting to get some return on all of it. When I'm out, people will mention that they appreciate something I posted, or that they saw me on Facebook and would like to meet."

He's also been more active with local nonprofit groups, mining the local landscape for people with investment capital ready to be put into real estate.

But overall, Pliska says, the best technique is educating people about the value to be found in real estate and in his market.

"I'm just telling people that this is probably going to be the best time to buy," he says. "With a 40 percent reduction in values and low interest rates, the cap rates are nothing like what investors are finding on the coasts. I tell them: It's time to buy."

Daniel Duggan writes about real estate for *Crain's Detroit Business.*

DEAL TIPS

The deal: 120-unit multifamily sale in Columbus, Ind.
Price: $4.7 million
Timeline: Closing occurred 75 days after purchase agreement was signed.
The lesson: Buyer changed lending institutions midway through the negotiations. Moving from Fannie Mae to Federal Housing Administration lending means the 50-to-90-day cycle turned into 270 to 300 days. As a result, interim bank financing was lined up while the FHA end loan continues to be processed.

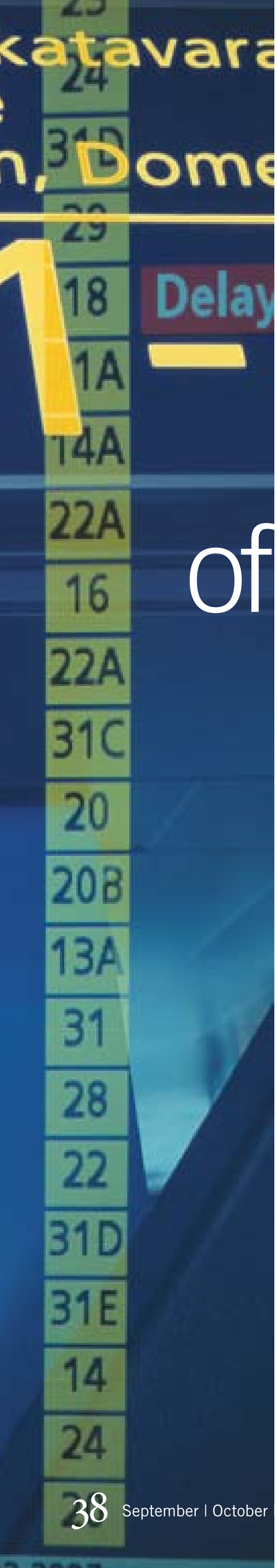
"Keep everyone at the table," says listing broker Eric Taylor, senior investment adviser for Phoenix-based Hendricks & Partners. "Keep reminding the seller why they wanted to do this in the first place and keep them patient."

The deal: 24,000-square-foot retail strip center in Boston
Price: $10.4 million
Timeline: Roughly five months from start to close
The lesson: Retail assets with high-credit tenants have continued to sell through the downturn.

"We're focused on the asset itself," says listing broker Robert Horvath, a senior associate and director of the national retail group for Encino, Calif.-based Marcus & Millichap Real Estate Investment Services. "The type of asset, the quality and the credit of tenants are what we focus on. We take on assets that have a high probability of selling."

The deal:57,000-sf retail with 117 residential units in Pittsburgh
Price: $13.2 million
Timeline: Roughly five months from start to close
The lesson:The seller had an asset that was outside of its core group of investments, making it a willing seller. But with a 25,000-sf tenant's lease rolling in 18 months, there were uncertainties to a buyer.

"Identify the players, identify the problems, and come up with a way to mitigate it," says the listing broker, Mark Popovich, senior managing director in the Pittsburgh office of Holiday Fenoglio Fowler. In this case, he adds, mitigating the risk meant making the buyer comfortable that the space can be filled in the event that the tenant leaves.



Cities of Tomorrow

Is the future already here?

by Todd D. Clarke, CCIM

In the CCIM 102 course, CCIM instructors teach that the just-in-time delivery model is a primary driver of demand for industrial space. Nothing illustrates that idea more succinctly than the theme of *Aerotropolis: The Way We'll Live Next.*

The idea behind this book is that successful cities of the future will be wrapped around successful airports, and cities that can't adapt may be passed by. Co-author and reporter Greg Lindsay expands and expounds on University of North Carolina theorist John D. Kasarda's original idea that airports are the highways of the future. A former *Fast Company* and *Wired* magazine reporter, Lindsay racks up the frequent flier miles talking with civic leaders, CEOs, and company logistics experts, interviewing them about the importance of air transit to the future of their communities, companies, and supply chains.

The book tracks the change from the 20th-century model — airports at the periphery of cities — to the 21st-century model — the aerotropolis, where the airport *is* the city, the center of business, commerce, and trade. It's already the way of life in many global cities, including Washington, D.C., and Dallas, as well as Amsterdam and Beijing.

Global shipping networks are defining the way we live, as the entire world becomes one large consumer society. In one anecdote, Lindsay follows his gift of flowers from the Aalsmeer flower auction in Amsterdam to his mother's arms in Illinois to demonstrate how these global networks affect our daily lives. Even though U.S. farmers no longer grow flowers for mass consumption, U.S. consumers now find them in every grocery store, drugstore, and garden shop. This is the result of "the cool chain," a refrigerated logistical supply chain that sources flower in Africa, trades them in Amsterdam, and ships them to the U.S., all in about 48 hours.

"The aerotropolis is a time machine," Lindsay says. "Time is the ultimately finite commodity setting the exchange rates for all the choices we make."

China looms large in the book because it is adopting the aerotropolis model wholeheartedly, Lindsay says. But the speed at which it is happening reminded me of the breathtaking feelings I experienced in my many visits to China for CCIM's education program. "China is placing the single biggest bet on aviation of any country, ever. … The central government announced … that it would build

Cultura/Glow Images; Nikada/Getty Images

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24

a hundred new airports by 2020, at a cost of $62 billion. The first 40 were ready last year. The vast majority lie inland, hugging provincial capitals and secondary cities bigger than any in the States."

Equally overwhelming is the enormity of China's population dominance in the world:

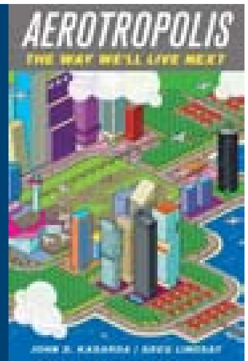
> China has anywhere between 125 and 150 cities with populations greater than a million. The United States has nine; Europe, 36. When the first phase of China's airport-building boom is complete, the number of hubs handling 30 million passengers annually — more than Boston's Logan or Washington's Dulles — will have risen from three to 13, all of which will be the host of aerotropoli. By the time they're finished in 2020, 82 percent of the population — 1.5 billion people — will live within a 90-minute drive of an airport, nearly twice the number today.

The book dovetails nicely with some of my other favorite business reads such as Marc Levinson's *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger* and Sasha Issenberg's *The Sushi Economy: Globalization and the Making of a Modern Delicacy,* both of which deal with just-in-time delivery and creating new markets.

What does this mean for those of us in the commercial real estate profession? It has been my experience that being able to take the CCIM concepts we all know and merge them with ideas such as those discussed in *Aerotropolis*, adds value to the work I do for my clients. A case in point illustrates the local relevance: I've realized that the concepts in *Aerotropolis*, combined with continually increasing gas prices, could possibly lead my hometown, Albuquerque, N.M., to reverse its long-term trend of growing to the north. Instead it may begin expanding to the south, around the airport and areas just south of it where two national railroads intersect, creating an ideal intermodal distribution opportunity for my clients.

Todd D. Clarke, CCIM, is chief executive officer of NM Apartment Advisors in Albuquerque, N.M. Contact him at tclarke@nmapartment.

THE AUTHOR SPEAKS



Greg Lindsay, co-author of *Aerotropolis,* answers a few questions relating to the new world order his book presents. You'll be able to ask him your own questions at CCIM Live! the 2011 CCIM conference, Oct. 12–14. Lindsay will speak on Friday. Go to http://live.ccim.com to register today.

What can CCIMs take away from *Aerotropolis* that applies to their businesses?

There's a huge opportunity in retrofitting the areas around American airports, which for decades have been dumping grounds for the some of the ugliest, most inappropriate industries — the number of auto plants next to airports defies any logical reason other than the fact that both are traditionally LULUs — locally undesirable land uses. Airports were seen as nuisances rather than vital connections.

America doesn't need to build cities from scratch around its airport, because we already did. The task ahead is to tear out the worst mistakes and replace them with mixed-use urbanism that reflects an economy built on ideas and the products of those ideas. A good example is "Aerotropolis Atlanta," which aims to replace a former Ford Thunderbird plant with 15 million square feet of mixed-use office and retail space, including Porsche's North American headquarters. There are still plenty of opportunities to do the same in New York, Chicago, Los Angeles, and other cities.

You focus on just-in-time delivery as the key driver behind building cities around airports. What other factors are going to convince people to live, work, and play amid the rumble and exhaust of 747s landing and taking off?

Just-in-time delivery has transformed Memphis and Louisville — the largest domestic hubs of FedEx and UPS, respectively — but the rest of us won't need to move closer to airports to reap the benefits. Those cities have effectively been transformed by the e-commerce industry and just-in-time logistics to become the logistical hearts of the American economy, providing a massive public good for the rest of us.

As for why anyone would live around an airport, it depends on where you live. In China, India, and Middle East, cities that were effectively left out of globalization are building new airports and districts from scratch to fight for links in global supply chains. They'll live around airports because those are the mechanisms enabling a city like Chongqing, China — which is so historically remote that it was the wartime capital of China after Japan invaded in the 1930s — to become one of the world's largest producers of laptops practically overnight.

In the U.S., we see how air routes and hubs subtly influence where corporations and individuals settle. Historical research demonstrates that airlines began serving the major Sun Belt cities before that demographic shift started — they were the cause, rather than the effect. Today, a growing number of knowledge workers and other valuable white-collar employees settle near major air hubs because it enables them to market themselves and work in almost any major city in the country. This is especially true in industries like consulting, software, and banking.

In *Aerotropolis*, the future looks somewhat glum for U.S. cities in comparison to China, in particular. The Chinese build 40 airports in a year while, for example, it's taking Chicago 20 years to add a few new runways to O'Hare. In terms of remaining competitive, how can U.S. markets reinvent themselves?

China's breakneck speed of development poses a threat to American markets and cities, as China appears hell-bent on "rebalancing" the global economy so that the nations of the developing world are more tightly bound to its economy than ours.

America needs to do two things: one is to develop the next great industry — cleantech, biotech, whatever — comprising a skill set no other nation's workforce can match. Worker productivity is everything — and that means greater investments in education. The second is that we need to export this new industry to emerging markets where growth is high.

If there's one thing the Great Recession should have taught us, it's that we consume too much and export too little. And exports will require investment in infrastructure: airports, passenger rail, broadband, you name it. The real problem is that China has realized the same thing.

EAST

D.C.'s Big Deal

The largest — and probably only — U.S. downtown development of this size this year, the $700 million CityCenterDC broke ground this spring, fully backed by the Qatari Diar, the real estate arm of Qatar, a tiny Arab Emirate state. The investment — Qatar's first on U.S. soil — solidifies global investment faith in the U.S. and particularly in Washington, D.C., which has seen several offshore transactions in the past year. Built on the site of the old convention center, the first phase of the Hines/Archstone development will add 185,000 sf of retail and 520,000 sf of office space, 458 rental units, and 216 condos in a 4.5 block area. Scheduled delivery is fall 2013.

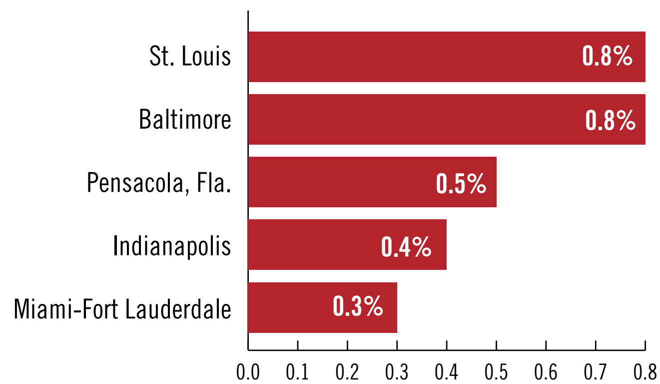
MIDWEST

St. Louis Tops Retail Closures

Retail closures hit St. Louis hard in 2Q11, as 520,000 sf of space was added to the market, the highest amount in the nation, according to International Council of Shopping Centers/PNC Real Estate research. Along with Baltimore, St. Louis also tops the list of major markets with the most closed space: 0.8 percent of its retail market's total gross leasing area is dark. About 0.04 percent of the nation's retail stock is dark, down considerably from 0.2 percent in the first quarter.

Largest Retail Closings

Percentage of total gross leasing area



Source: ICSC/PNC Real Estate

BOSTON OFFICE MARKET IMPROVES

EAST

Except for three submarkets, all of Boston's CBD and suburban office markets have equalized, with Cambridge and the Back Bay showing landlord-favorable conditions, according to Jones Lang LaSalle's 2Q11 report. Helped by the city's 6.7 percent unemployment rate, Beantown's CBD has seen a 5 percent increase in rents since 3Q10 and the Back Bay submarket has an enviable vacancy rate of 8.4 percent.

WEST

San Diego Retail Activity

Quarterly transaction volume

2Q11	$220.6 million
1Q11	$100.4 million

Who's buying?

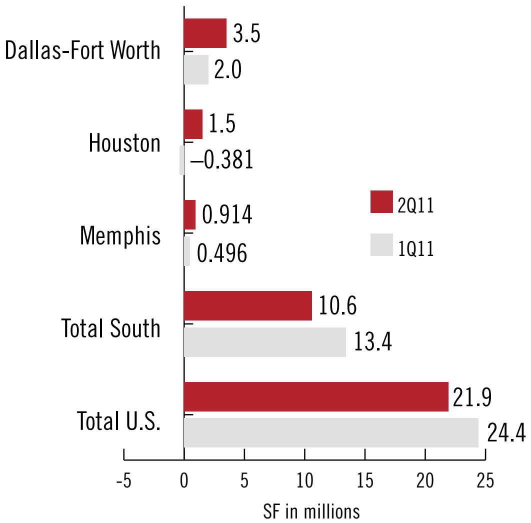
Institutional	45%
Public REITs	37%

Source: Cassidy Turley BRE Commercial

SOUTH

Top Southern Markets: Industrial Absorption, 2Q11

The South led the U.S. regions in industrial net absorption, registering at least twice as much as any other region; 21 out of 27 southern metros tracked gained absorption in 2Q11.



Source: Cassidy Turley

MIDWEST

Hotel Goes Rental

The 160-suite tower of the Sheraton Hotel at Keystone Crossing in Indianapolis is being converted into 129 studio, one-, and two-bedroom luxury apartments, according to Flaherty & Collins Properties, which is handling the conversion. The $8.2 million project should be completed by 1Q12. Renting for $800 to $1,550 a month, the apartments are the only high-rise multifamily construction in the area and are connected to the adjacent upscale Fashion Mall.

SOUTH

Florida Snapshot, 2Q11

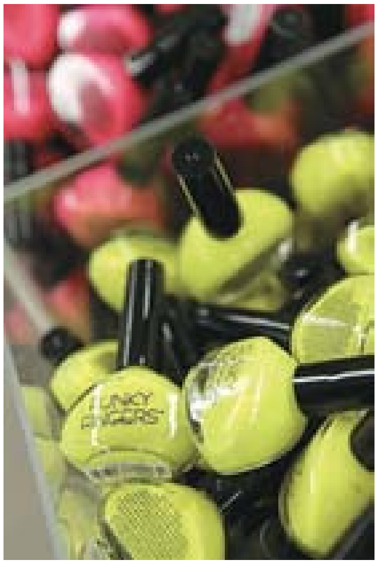
Sector	Vacancy	YTD absorption
Office	20.7%, ↓10bp YOY	0.5 million sf
Industrial	10.3%, ↓90bp YOY	2.5 million sf
Retail	8.0%, ↓20bp YOY	200,000 sf

Source: CB Richard Ellis

MIDWEST

Five Below Hits the Midwest

We're not talking temps — Five Below, the "extreme value" retailer for tweens and pre-teens, opened 10 stores in the Chicago suburbs this summer and has plans to open 10 more by year-end, eventually reaching 75 locations. It recently opened five stores in the Detroit area, with plans for as many as 25, according to Tom Vellios, co-founder and CEO of Five Below. The store also is looking for locations for five to six stores in the Indianapolis market. Five Below is taking advantage of the weak retail space market, finding locations it previously could not afford, such as the well-traveled Woodfield Mall in the Chicago suburbs, where it leased a portion of a shuttered Circuit City. The store sells DVDs, fashion accessories, toys, and games for $5 or less.



WEST

No Sway in Hawaii's Office Market

Honolulu won't see much of a recovery in its office market until 2012, according to James Brown, CCIM, SIOR, president of Hawaii Commercial Real Estate. Downsizing and right-sizing are keeping absorption negative and while tenants have multiple options for new space, they often find relocation costs too high to justify the move.

Scheduled to open this summer, Parkview Green FangCaoDi is China's first Leadership in Energy and Environmental Design platinum-certified urban mixed-use building. Located in Beijing, the four-building structure is enclosed by an environmental shield, which creates a microclimate, conserves energy, and protects against weather extremes. It contains 80,000 square meters of class A office space, a 100-room boutique hotel, and 50,000 sm of luxury retail.

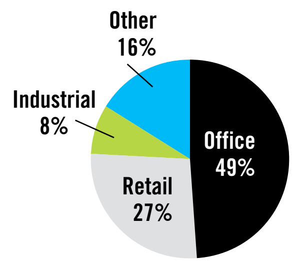
Global Direct Real Estate Investment, in U.S. $ billions

Year	Americas	EMEA	Asia-Pacific	Total
1H2011	80	70	46	196
2010	97	136	83	316

Source: Jones Lang LaSalle

Europe, 2Q11

Transaction volume by sector



Source: Jones Lang LaSalle

"New office completions in major European markets will experience a sharp contraction in the next two years and will remain subdued throughout 2013."

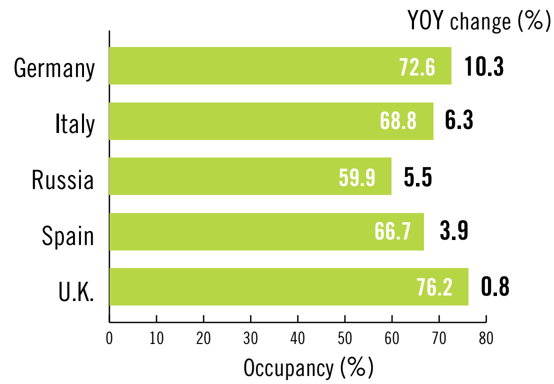
—CB Richard Ellis

Markets to Watch

➥ **Germany** saw a total commercial real estate investment volume of €11 billion in the first half of 2011, a 24 percent increase over 1H2010, according to Colliers International, which predicts a year-end total of more than €20 billion. Investors favored German retail properties, spending €5.9 billion on retail compared with €2.9 billion invested in office properties. Frankfort and Hamburg accounted for the largest gains among Germany's major cities.

➥ The lack of supply in **London**'s retail market is expected to continue through 2013, according to Knight Frank. Only about 250,000 square meters of new shopping center space will come online this year and even less is expected for 2012 and 2013. The limited supply is pushing up rents in the best locations but banks still consider retail a risky bet, limiting financing for new development.

European Hospitality Performance, May 2011



Source: STR Global

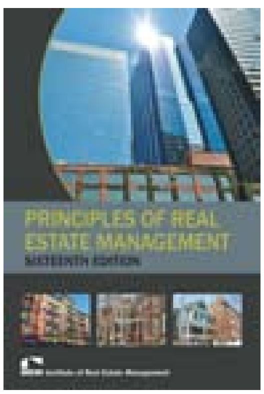
Casing the iPad 2

ClamCase functions as a Bluetooth QWERTY keyboard, hard-shell case, and stand for the iPad 2. It comes with cutouts for the iPad's speakers and camera. When the case is opened or closed, integrated magnets awaken or put the tablet to sleep. Available in both black and white, the ClamCase for iPad2 costs $149.

Get more information at www.clamcase.com or call (800) 939-0335.

Property Management Primer

Principles of Real Estate Management is written for property management veterans and newcomers alike. Published by the Institute of Real Estate Management, the book explains the unique challenges of managing apartments, office, retail, and mixed-use developments and provides tips on how to use social media to market properties and recruit staff. The book also covers the government's role in real estate and the effects of the recent economic downturn. The 16th edition of *Principles of Real Estate Management* costs $49.95 for IREM members and $59.95 for nonmembers.



For more information, visit http://bit.ly/nsScbh or call (800) 338-4736.

Arbitration with an App

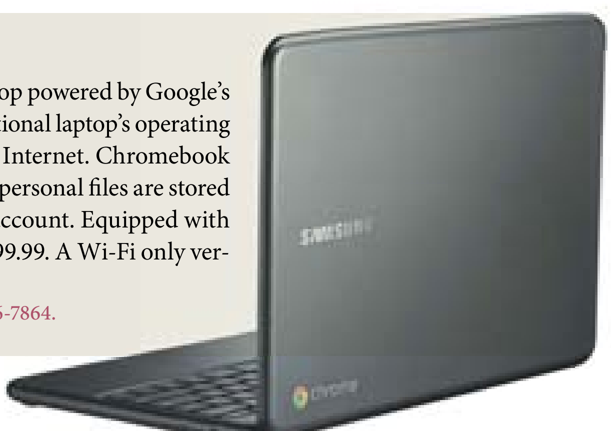
Dictate notes, upload photos, and create property reports with Rent Pro, a property management app. After creating an online account, landlords, property managers, and tenants can access the multimedia information stored on Imfuna's secured cloud. When it's time for a tenant to move out, the app generates a before-and-after report to help prevent or settle any disputes. The Rent Pro app costs $1.99. The first five reports are free, and each additional report costs $9.50.

Contact Imfuna at www.imfuna.com or (866) 306-0484.

Get onto Google's Cloud

The Samsung Chromebook Series 5 is a 3.3-pound laptop powered by Google's Chrome browser. The browser takes the place of a traditional laptop's operating system, and all files and program are accessed via the Internet. Chromebook users can choose from 5,000 Web applications, and all personal files are stored in the cloud and accessed through the user's Google account. Equipped with an internal Wi-Fi and 3G modem, the device costs $499.99. A Wi-Fi only version is available for $429.99.

Get more information at http://bit.ly/opiygG or call (800) 726-7864.



Find Your Luggage

Naftali's easy2pick Wireless Luggage Finder helps travelers locate their luggage in crowded baggage claim areas. The device includes electronic bag tags and a corresponding key chain, which beeps when the tags are within 90 feet. The device also can be used to find misplaced keys as long as the key chain already is activated. The Wireless Luggage Finder costs $39.95.

Contact Naftali at www.naftaliinc.com or call (305) 653-1335.

The Biggest Deal

←**Michael Stockton,** CCIM, of Horizon Mortgage Corp. in Sarasota, Fla., arranged the $61.5 million financing of three multifamily communities totaling 996 units in Alabama and South Carolina for Sturbridge Commons Apartments LLC, Polos at Hudson Corners LLC, and Audubon Holdings LLC.

Multifamily

BIG Deal

John W. Preiss, CCIM, of the Preiss Co. in Raleigh, N.C., represented UV 88 LLC in the $19 million purchase of a 240-unit student-housing property in Champaign, Ill., from Wells Fargo.

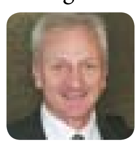
Casey Babb, CCIM, of Marcus & Millichap in Tampa, Fla., represented Willowbrooke Apartments LLC in the more than $14.1 million sale of the 300-unit Willowbrooke Apartments in Lakeland, Fla., to a private investor.

→**Michel Hibbert,** CCIM, of Charles Dunn Co. in Los Angeles represented 821 Wilcox Avenue LLC in the more than $4.4 million purchase of an 18-unit multifamily property in Los Angeles from 813 Wilcox LLC.

Retail

BIG Deal

←**P. Robert Manor,** CCIM, of Coldwell Banker Commercial AI Group in Orange City, Fla., represented Sand Dollar LLC in the $14.8 million sale of a portfolio of 8 Dollar General Stores in Florida to an undisclosed buyer.



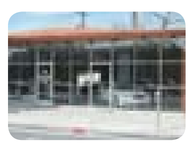
→**Jim Casale,** CCIM, of Lee & Associates in San Diego negotiated the $3.8 million sale of a 10,908-sf retail property in Sherman, Texas, from an undisclosed seller to ARC Properties Trust.

Andy R. Fishler, CCIM, of the Boerke Co. in Milwaukee represented IDS Properties in the $3.7 million sale of the 65,000-sf Sentry Grocery Store in Milwaukee to an undisclosed buyer.

→**David J. Stevens,** CCIM, of Investment Properties Corp. in Naples, Fla., represented TWC Associates Profit Sharing in the $3.5 million purchase of a 45,824-sf retail property in Naples from MSCI 2006-HQ10 Naples Retail LLC.

Christopher Prosser, CCIM, and **Steven L. Timmel,** CCIM, of Colliers International in Cincinnati represented Anchor Properties/Miller-Valentine in the more than $2.3 million sale of the → 9,835-sf Evandale Commons in Cincinnati to Yale Realty Services.

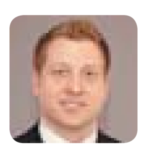
↓**Timothy C. Macker Jr.,** CCIM, of Coldwell Banker Commercial in Los Angeles and two partners negotiated the more than $2.1 million sale of a 3,800-sf retail property in Beverly Hills, Calif., from a private owner to a private investor.



Niraj Sarda, CCIM, of CB Richard Ellis in Dearborn, Mich., represented Ford Motor Credit Co. in the $2.1 million sale of a 55,736-sf retail property in Spokane, Wash., to an undisclosed buyer.

Office

BIG Deal

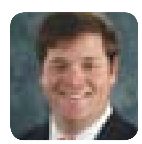


→**Reid A. Bennett,** CCIM, of Sperry Van Ness in Chicago, and two partners represented the Dakota Bank Building LP in the $9.5 million sale of the 120,000-sf Dakota Center building in Fargo, N.D., to NetReit.

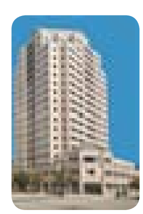
Dominic Daniel Dutra, CCIM, of Dutra-Cerro-Graden in Hayward, Calif., and a partner represented Chabot-Las Positas Community College District in the more than $8.9 million purchase of more than 65,000 sf of office space in Dublin, Calif., from Nearon Enterprises.

→**Chad G. Boddez,** CCIM, of Colliers International in Edmonton, Alberta, represented the Standard Life Assurance Co. of Canada in the 5-year, $4.1 million lease of a 58,599-sf office property in Edmonton to EBA Engineering Consultants.

Russell T. Noll, CCIM, of Transwestern in San Antonio represented Brooks Development Authority in the 5-year, $4 million lease of 77,648 sf of office space in San Antonio to the Board of Regents of Texas A&M University.



←**Joseph H. Graham,** CCIM, of CB Richard Ellis in Raleigh, N.C., represented Healthcare REIT in the more than $3.7 million sale of 30,464 sf of office space in Durham, N.C., to an undisclosed buyer.



→**Christopher Prosser,** CCIM, and **Steven L. Timmel,** CCIM, of Colliers International in Cincinnati represented

C-III in the more than $3.6 million sale of 296,253 sf of office space in Dayton, Ohio, to THMG 10 LLC.

James P. O'Connell, CCIM, and **Thomas M. Powers,** CCIM, of Cassidy Turley in Cincinnati and a partner represented Duke Realty Corp. in the $2.9 million sale of 28,700 sf of office space in Cincinnati to a private investor.

←**Michel Hibbert,** CCIM, of Charles Dunn Co. in Los Angeles represented One A LLC in the more than $2.4 million sale of a 5,550-sf office building in Beverly Hills, Calif., to GDSB&M LLC.

Industrial

BIG Deal

→**Stephen V. Jacquemin,** CCIM, of S.J. Financial Group in St. Louis represented Arlan Asset Management in the $4.2 million purchase of the 96,000-sf Lakefront Commerce Center in Earth City, Mo., from Reliance Bank.

↓**James P. Keeley,** CCIM, of Colliers International in Scottsdale, Ariz., and a partner represented Birchwood Heights Equity Corp. in the more than $2.2 million purchase of 58,437 sf of industrial condos in Phoenix from NextGen Commercial LLC.

Bruce R. Isaac, CCIM, of NAI Isaac Commercial Properties in → Lexington, Ky., and two partners represented JCI in the more than $2.1 million sale of a 97,500-sf industrial property in Georgetown, Ky., to HGI-Kentucky LLC.

Mixed-Use

BIG Deal

↓**Timothy C. Macker Jr.,** CCIM, of Coldwell Banker Commercial in Los Angeles and a partner negotiated the $10.5 million sale of a three-building mixed-use portfolio totaling 16,585 sf in Santa Monica, Calif., from an undisclosed seller to an undisclosed buyer.

John R. Gendron, CCIM, of Gendron Commercial in Portland, Maine, negotiated the $5.2 million sale of a 84,000-sf mixed-use property in Westbrook, Maine, from Russ Sternberg, Johnathan Cohen, and John Hutchins to 865 Spring Street LLC.

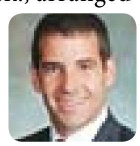
Financing

BIG Deal

→**Steven Lloyd States,** CCIM, of States Mortgage Co. in Houston arranged the more than $8.6 million refinancing of a 63,000-sf medical office property in Houston for an undisclosed borrower.

←**Farrah L. Kay,** CCIM, of National Bank of Arizona in Tucson, Ariz., arranged the $8 million financing of a 116-unit multifamily property development project in Tucson for a partnership sponsored by MC Cos.

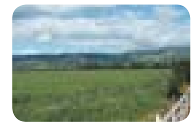
↓**Russ W. Martin Jr.,** CCIM, of First Security Bank in Little Rock, Ark., arranged the more than $4.5 million financing of a 73-room hotel in Little Rock for an undisclosed borrower.



Land

BIG Deal

↓**Dominic Daniel Dutra,** CCIM, of Dutra-Cerro-Graden in Hayward, Calif., negotiated the $2.8 million sale of 71.6 acres of agricultural land in Watsonville, Calif., from Salesian Society to Dalton Lane Watsonville LLC.



↓**William H. Rollins Jr.,** CCIM, of Land Solutions in Fort Myers, Fla., and a partner represented Colonial Homes in the $2.8 million sale of 96 residential lots in Naples, Fla., to Lennar Homes LLC.

Submit transactions to Deal Makers, *CIRE*, 430 N. Michigan Ave., Chicago, IL 60611; e-mail to dealmakers@ccim.com; or fax to (312) 373-8219. Include a high-res digital color property photo or head shot if available.

CCIM ROI

"The CCIM education gives everyone a tremendous foundation in the owner perspective," says ←**Gary W. Lyons,** CCIM, of Lincoln Harris in Raleigh, N.C., who represented Kestrel Heights Charter School in the 10-year, $2.6 million lease of a 31,000-sf industrial property in Durham, N.C. "Since I understood the landlord's target returns, I could get the tenant to appreciate that perspective, which helped close the deal." **Angus McDonald**, CCIM, of Tri Properties in Durham, N.C., represented the lessor, Harrod Properties III LLC.

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Looking for more information on a product or service? Visit our advertiser Web links on *CIRE* magazine's Web site at www.ccim.com/cire.

For advertising information contact Amanda K. Daniel at (214) 291-3657 or amanda@mohanna.com.

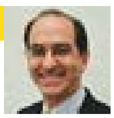
CCIM CONNECTIONS

Who uses CCIM.com's Find a Professional directory? Just about everyone from private investors to corporate space users, according to CCIM designees. "I love this feature," says **Fred Caminite, CCIM, CPM**. "But some CCIMs I've contacted are actually surprised that I found their name in the database."

Don't overlook this member benefit that connects potential clients and industry colleagues with CCIMs every day.

> "I can usually attribute seven to 10 deals a year to my CCIM affiliation."
> —Paul LeBel, CCIM

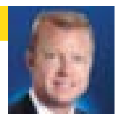
Streamline Your Search



As the person responsible for handling the disposition of real estate assets in other states, I automatically turn to Find a Professional to identify CCIMs in a particular geographic region who have the asset-type specialization we need. We've disposed of multifamily, retail, land, medical office, industrial, and even food-processing plants over the past two years with the help of CCIMs.

— Fred Caminite, CCIM, CPM

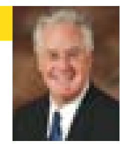
Big Companies Find Pros



On more than one occasion I have been contacted by Fortune 500 companies seeking professional assistance in central Indiana. These big companies might not have a pre-existing relationship with an expert in the area. Holding the CCIM and SIOR designations serves as a differentiator if all other factors are equal.

— Jeff Castell, CCIM, SIOR

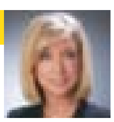
An Expert in the Area



A young couple from California contacted me to help them acquire an investment property in Columbus, Ohio. I was curious about how they had located me, and when I asked they said they had searched for CCIMs in central Ohio on the CCIM Web site. The end result? They purchased a property for $1.75 million.

— Jerry Hall, CCIM

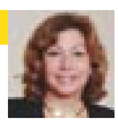
Cross-Border Contact



In 2007, at the height of the real estate market, Canadian buyers found my partner, Henry Hagendorf, CCIM, and me through the CCIM database. They said they wanted to purchase some properties in the Houston market. I returned the call and, after learning more about their goals and budget, got to work finding them some good options. Ultimately, they invited their parents to join them in the purchase of three buildings in Houston that summer.

— Beth Young, CCIM

Where CCIMs Connect



Debra Stracke Anderson, CCIM, SIOR, found me through the Find a Professional database, which we used to call The Red Book! I helped her with a lease transaction for her client. On another occasion, a CCIM involved in agricultural real estate investment trusts 3,000 miles away recommended me to an employee of a company. That was years ago, and that employee is long gone. But I'm still working as a commercial real estate adviser to that corporation.

— Debra Lee Stevens, CCIM

Brokers Need Help Too

I can usually attribute seven to 10 deals a year to my CCIM affiliation. For instance, I received a call from a Kia Motors broker looking for a location in Morristown, Tenn. The broker said they always try to find a CCIM to help with site selection, and, as the only CCIM in the area, I received the assignment. After a short search, the Kia franchisee bought an old 80,000-square-foot Lowe's building and converted it into a dealership. This location became the largest Kia dealership in the world.

— Paul LeBel, CCIM

Next Issue

What's the ROI on CCIM's Ward Center Webinars and workshops?
Send your responses to rrosfelder@ccim.com.