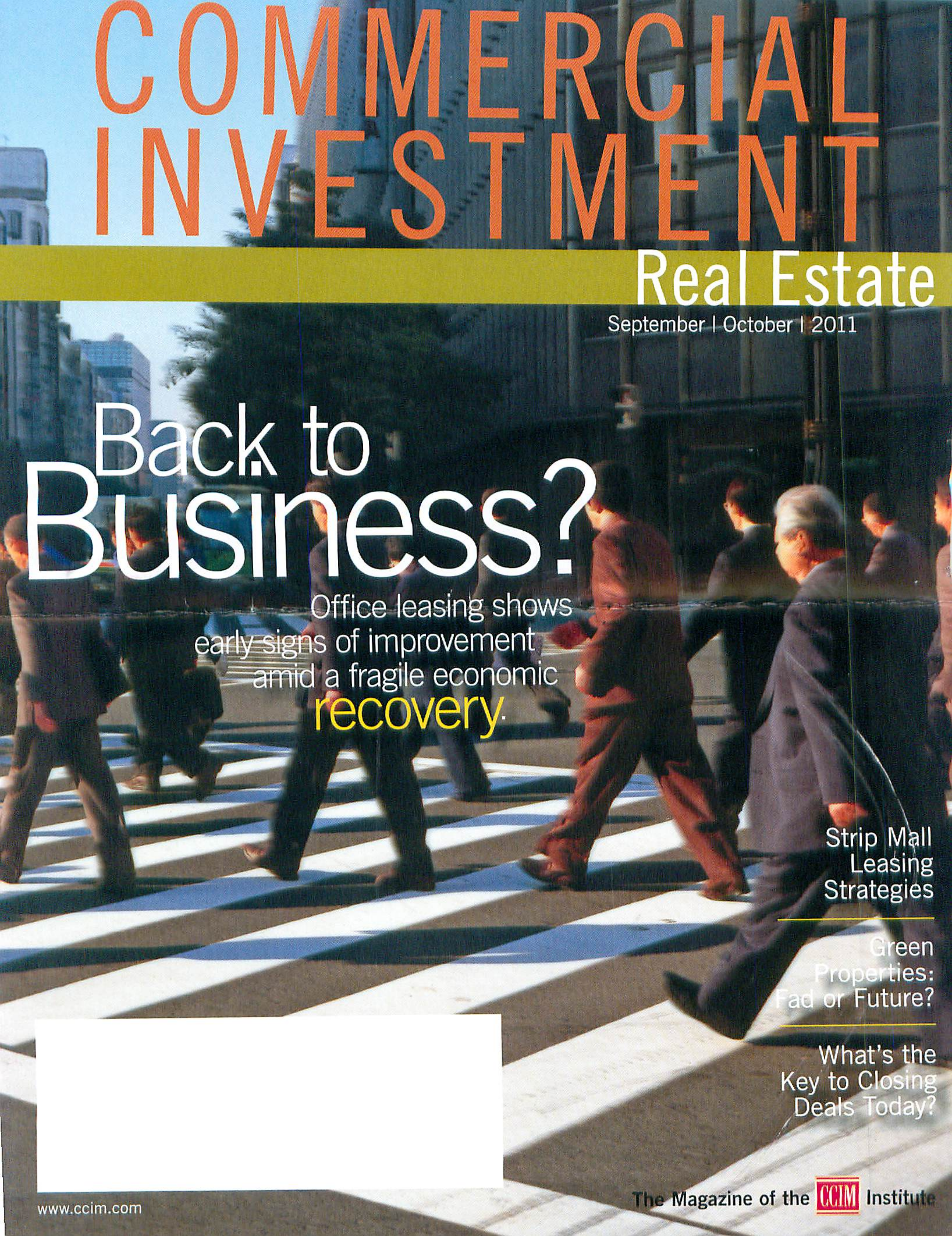
COMMERCIAL INVESTMENT Real Estate

September | October | 2011



Back to Business?

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

Strip Mall Leasing Strategies

Green Properties: Fad or Future?

What's the Key to Closing Deals Today?

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.

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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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Commercial Investment Real Estate (ISSN 1524-3249) is published bimonthly by the CCIM Institute of the National Association of Realtors, 430 N. Michigan Avenue, Chicago, IL 60611-4092. Periodicals postage paid at Chicago, Ill., and additional mailing offices.

Postmaster: Send address changes to *Commercial Investment Real Estate*, 430 N. Michigan Avenue, Chicago, IL 60611-4092.

Subscriptions: $45 for nonmembers in U.S.; $55 for nonmembers in Canada and Mexico. Call (800) 532-8633. For reprints, call (312) 321-4460.

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The CCIM Institute, an affiliate of the National Association of Realtors, confers the Certified Commercial Investment Member designation to commercial real estate professionals who have extensive training and industry experience and complete a rigorous study program.

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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

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."

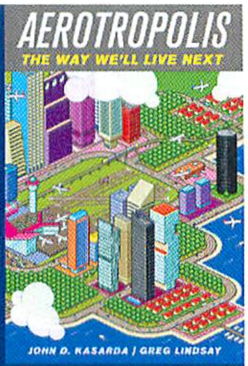
The deal: 24,000-square-foot retail strip center in Boston
Price: $10.4 million
Timeline: Roughly five months from start to close
The lesson: Retail assets with high-credit tenants have continued to sell through the downturn.

"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.

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.

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.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