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MULTIFAMILY MOMENTUM CONTINUES

The robust development pipeline has not dampened investor appetite.

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Tech Heads South

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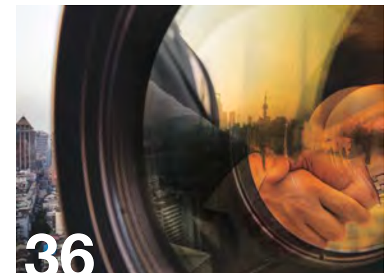

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Use video technology to promote yourself and your business.

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Raising the Bar

All who have served as president of CCIM Institute hope to make a difference. As my year comes to a close, I'm so proud of what the organization has accomplished in 2018 to keep you at the forefront of the many changes facing the commercial real estate industry.

CCIM Institute started off welcoming our new EVP/CEO Gregory J. Fine, FASAE, CAE. We've already seen his strong leadership and commitment to collaboration at work with the National Association of REALTORS® and NAR affiliates, and I'm excited for what's to come. Another welcome addition in 2018 is the Commercial Real Estate Insights series by CCIM's new Chief Economist K.C. Conway, CRE, MAI. These leading-edge reports deliver on the promise of providing you with the latest trends in the industry — from Amazon's HQ2 search, to adaptive reuse, to the future of financing.

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Thank you to all who joined us at CCIM's Global Conference this past October in Chicago. The event was an exceptional opportunity to hear from leading authorities and connect with other CCIMs for quality networking and knowledge sharing. This year's powerhouse lineup included keynote speaker Walter Robb, former co-CEO of Whole Foods; Dr. Kevin Elko, performance consultant and author; Kimberly Kay Hoang, Ph.D., associate professor of sociology and the College at the University of Chicago, who is profiled in this issue's CCIM Connections; and top executives from the likes of Kidder Matthews, Reonomy, and Ryan Companies, to name a few.

In addition, 210 new CCIM designees were pinned at the concurrent business meetings, bringing this year's total to 381.

It has been my sincere honor to serve the CCIM Institute community throughout 2018. As I pass the torch to incoming president Barbara Crane, CCIM, I do so with confidence, knowing that the organization is in good hands. As with all CCIM Institute presidents, our shared vision of raising the profile of the industry and the value of the CCIM designation will be the touchstone that guides us today and well into the future.

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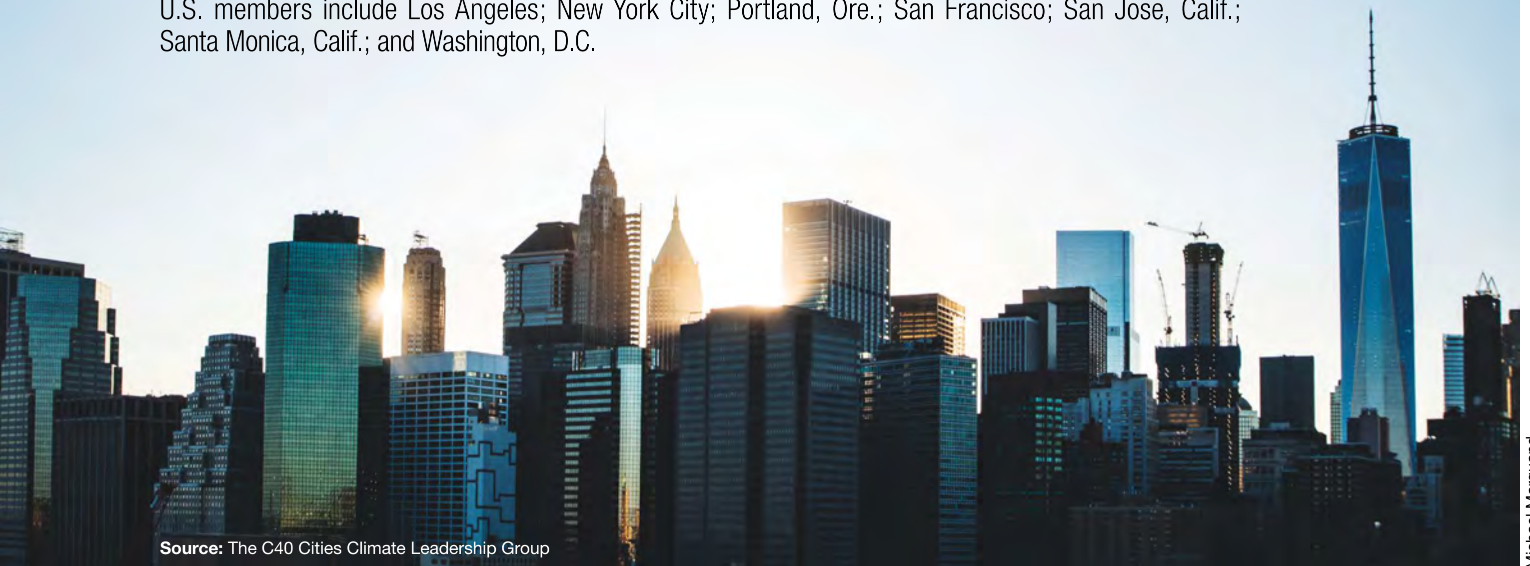
19 Cities Commit to Net-Zero Carbon Buildings

A worldwide coalition of 19 mayors recently signed the Net Zero Carbon Buildings Declaration, pledging to make all new buildings in their cities net-zero carbon by 2030 and all buildings — old and new — net-zero by 2050. Seven U.S. cities are in the coalition, which represents 130 million urban residents worldwide. U.S. members include Los Angeles; New York City; Portland, Ore.; San Francisco; San Jose, Calif.; Santa Monica, Calif.; and Washington, D.C.



Source: The C40 Cities Climate Leadership Group

Michael Marquand

MoMo Productions

Seniors Housing Occupancy Dips

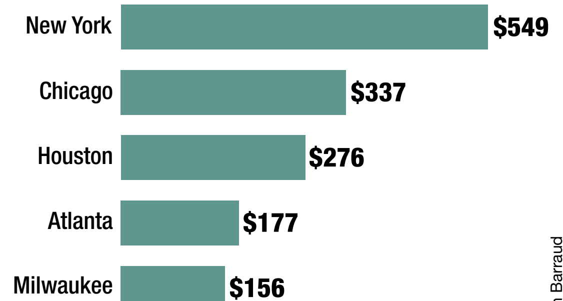
The occupancy rate for seniors housing in the U.S. in 2Q2018 was at its lowest level since 1Q2010, when it was 86.9 percent, 2.3 percentage points below its most recent high of 90.2 percent in 4Q2014.

	2Q2018	2Q2017
Occupancy Rate in U.S. Seniors Housing Properties	87.9%	88.7%
Annual Absorption Rate for Seniors Housing	2.4%	2.5%

Source: National Investment Center for Seniors Housing & Care

Medical Office Sales Market Leaders

New York, Chicago, Houston, Atlanta, and Milwaukee led the U.S. markets in medical office sales in the first half of 2018. Combined total sales for the five cities was $1.5 billion; sales across the country totaled $1.87 billion.

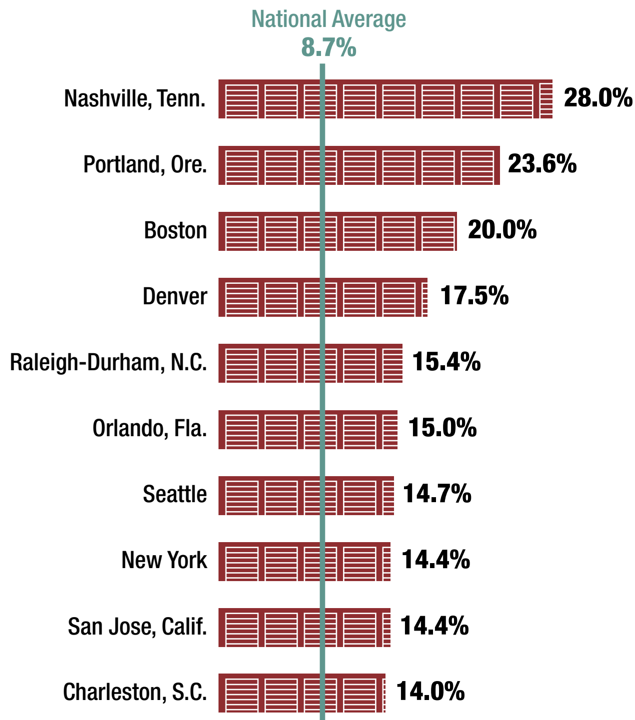


Source: Avison Young Mid-Year Medical Office Update

Martin Barraud

A Place for Everything

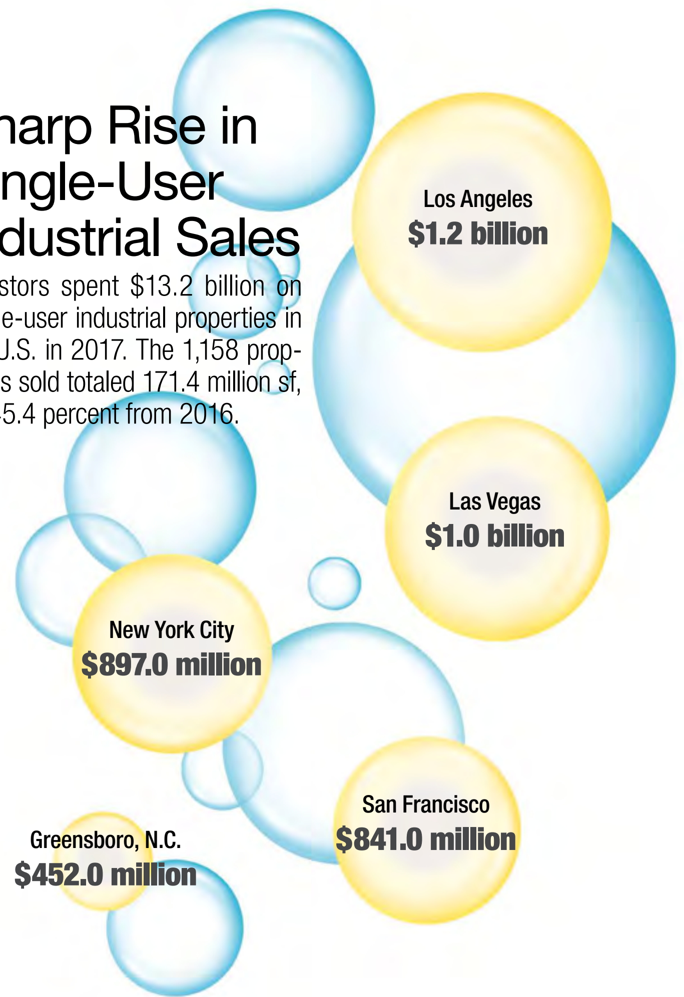
Nashville, Portland, and Boston lead the way in construction of self-storage inventory under construction.



Source: Yardi Matrix

Sharp Rise in Single-User Industrial Sales

Investors spent $13.2 billion on single-user industrial properties in the U.S. in 2017. The 1,158 properties sold totaled 171.4 million sf, up 45.4 percent from 2016.



Art-Partner-Images

Source: Avison Young

Top 10 Industrial Markets

Of 47 U.S. industrial markets surveyed, 37 posted positive absorption in 2Q2018, and 43 of the 47 posted positive absorption for the previous 12-month period.

Market	Net Absorption (in millions)
Inland Empire (California)	6.52
New Jersey	4.81
Dallas/Ft. Worth	4.59
Atlanta	2.97
Philadelphia	2.30
Long Island, N.Y.	2.22
Columbus, Ohio	2.06
Charlotte, N.C.	1.88
Cincinnati	1.74
Phoenix	1.67

Source: Transwestern

Pvicens

Top Commercial and Multifamily Construction Starts

Market	Construction Start Volume 1H2018 (in billions)	Increase Over 1H2017
New York Metro	$16.1	44%
Washington, D.C.	$5.0	23%
Miami	$4.9	34%
Boston	$3.7	56%
Seattle	$3.2	7%

Source: Dodge Data & Analytics

Javier Pardina

Briefly *Noted*

Industrial — Demand for lab space rose sharply and should continue to grow, thanks to a combination of new technology, venture capital research funding, and an aging population, according to CBRE's 2018 U.S. Life Science Report. The report notes that employment in the life sciences sector rose 13.5 percent between 2006 and 2016, compared to 6.9 percent overall U.S. employment. Life sciences companies "are converging on markets with concentrations of scientific talent, amid deep-seated growth drivers and industry disruption," and rents for lab space in premier markets like Cambridge, Mass., have increased more than 50 percent in the last three years.

Hospitality/Multifamily — Pop-up hotels are coming to a city near you. Lodging service WhyHotel opened facilities in Baltimore and planned to open another in October in Washington, D.C. WhyHotel books empty units in newly-built luxury apartment buildings during their lease-up phase; guests stay in furnished apartments of varying sizes and can use building amenities. *USA Today* reports that the first WhyHotel popup in D.C. — which was open for five months — comprised 50 units out of a 699-unit building; after 60 days, the pop-up occupancy rate jumped to 85 – 90 percent.

Office — More than 200 U.S. coworking companies are operating at least one 5,000-sf location, according to Cushman & Wakefield. In its recent Coworking and Flexible Office Space report, the company says that 50 percent of all current U.S. coworking space has opened since 2015. The largest player: WeWork, which in the first half of 2018 accounted for eight times as much newly leased space as the other nine largest companies combined. The company is now the largest tenant in Manhattan at 5.3 million sf, according to *The Wall Street Journal.* While coworking space only accounts for 1 percent of total office inventory, Cushman & Wakefield predicts that in the near future it could represent between 5 percent and 10 percent in some markets.

Retail — Looking to fill empty space, mall operators are opening retail incubators in vacated stores, reports CoStar. The incubators give startups the opportunity to test retail concepts, offer variety to mall visitors, and give operators a chance to spot new tenants with growth potential. In a related move, REIT leader Macerich has partnered with coworking company Industrious to operate coworking spaces in some Macerich properties; the first location will open in January at Scottsdale, Ariz., Fashion Square.

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Mixed-Use Trends

How is the social media generation influencing mixed-use development?

by Gregory M. Freedman

The Madison Avenue corner office is a thing of the past, living spaces have shrunk, and shopping is more convenient and entertaining than ever — all on one city block. The term mixed-use has shifted toward an integrated model of shared uses that complement and leverage each other to create a cohesive and communal ecosystem. Driving the trend is the social media generation's need for a more collaborative and communal lifestyle with live-work-play amenities.

Integrated, Not Separated

Traditionally, mixed-use developments have been the norm in urban locations, where density, intensity, and use types needed to be vertically commingled to justify land prices. For example, the developments were a mix of retail on the ground level with other uses above, such as hotel, office, or residential, all distinctly separate. What's more, the floor plans within the separated uses were sectioned further.

In suburban locations, mixed-use typically meant two or more different uses with no homogeny located within one larger property parcel — for example, an apartment building and a grocery store.

Now, the shift of developments to integrated rather than separated uses is not so much a trend as it is the new reality. The paradigm shift of the like-and-share generation's desire for community and experiences can be recognized across all commercial real estate sectors.

Social Over Everything

In today's business world, people actually *want* to be around other people. For the modern worker, coworking provides a means to produce in an innovative environment, subsuming the creative energy of those around. Prior generations were taught to conform to work in silos during the conventional 9-to-5 job, whereas recent generations have evolved to embrace the freedom and team collaboration found in open offices with access to live-and-play amenities just a few steps away.

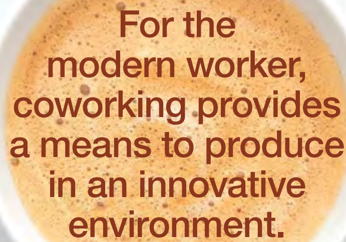
This movement is vibrant in shared workspace concepts such as Roam, WeWork, Regus, Venture X, and hundreds of others; it's a sector that is expanding exponentially. More and more, corporations also are embracing the open office layout or adopting a variety of workspace options under one roof to meet the varying needs of employees.

As the retail landscape evolves with brick-and-mortar closings, the only retailers truly succeeding and showing growth are those that offer elements of experience and a place of gathering,

Maskot

such as Whole Foods Market, Starbucks, and Apple. Stores embracing an omnichannel strategy like Walmart or the stores-within-a-store experience like Target are leading the market as well.

The social-over-everything lifestyle has even influenced residential and hospitality. Urby in New Jersey and X Miami Tower are examples of in-demand apartment projects with smaller apartment sizes and larger common areas. Additionally, global hotel brands such as Pod and Ace are veering toward micro-units with expansive shared spaces.



Classen Rafael/EyeEm

Capitalizing on Contemporary

To serve all uses within the property, mixed-use developments increasingly feature unified architecture and design, shared entrances, lobbies and common areas, driveways and ride-sharing lines, elevators, and on-site amenities (such as cafes and gyms available to office and hotel guests). The components within also strategically align, such as lifestyle retail and coworking space, to serve the property's residents, guests, and professional tenants.

While construction and operational costs of multiuse assets may cause pause for some investors, as developing and maintaining the various uses and shared common spaces carry higher costs than single-use buildings comparable in size, the return for real estate lies in the stronger together, recession-resistant formula. More investors and landlords are realizing that contemporary mixed-use projects will be the catalysts for the rise in joint ventures, development, property repurposing, capital improvements, sales, and leasing. To maximize commercial projects, the needs of shared space users often are considered foremost.

Millennials and Generation Z will only continue to dominate as real estate consumers, and shared concepts across the board are here to stay.

Gregory M. Freedman is co-founder of BH3, a real estate investment and development firm with offices in New York and Florida. Contact him greg@bh3llc.com.

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CCIM on the Hill

by Sarah Hoban

While several legislative issues important to commercial real estate professionals recently received short-term fixes in the U.S. Capitol, CCIM advocates are waiting to see if the results of November's midterm elections could aid in moving some along to more permanent solutions.

Chad Gleason, CCIM

High among those issues are the Section 179D commercial buildings energy efficiency tax deduction and the National Flood Insurance Program, says Chad Gleason, CCIM, 2018 vice chair of CCIM's Government Affairs Committee. The 179D deduction was extended to include projects completed through 2017; the NFIP received a four-month extension signed by President Trump on July 31.

Gleason, who is executive managing director of SVN in Bellevue, Wash., talked to *CIRE* about both topics as well as other pending legislative issues.

CIRE: What is the 179D deduction?

Gleason: The 179D deduction applies to buildings where energy-efficient components have been installed. Deductions are available to building owners and leasees for making eligible energy-efficient improvements to commercial buildings, including office, retail, industrial, apartments, and warehouses. The deduction is available to both new construction and retrofits. It was originally allowed for projects completed through 2016 only; last summer, Rep. Dave Reichert, from here in Seattle, worked with Oregon Rep. Earl Blumenauer to introduce legislation to make the deduction permanent.

When the budget was passed in 2018, 179D was retroactively extended for projects completed through the end of 2017. Since that's just a short-term fix, we're looking for something long term, and we're just not getting that kind of commitment from anyone.

CIRE: Where does the National Flood Insurance Program stand?

Gleason: That has been a big deal. We've been running with short-term extensions. Last November, the House passed the 21st Century Flood Reform Act, which addresses much-needed reforms and reauthorizes the program for five years. We would like to see this type of reform legislation signed into law. President Trump signed a short-term extension on July 31 — it expires Nov. 30 — but these extensions are critical so the program doesn't collapse.

CCIM Institute would like to see common-sense reforms to the program to make it more responsive to the needs of businesses in flood zones. This would include offering expanded coverage options for business interruptions and multiple structures, using

new technologies to improve the accuracy of Federal Emergency Management Agency mapping, and improving mitigations options and access to FEMA grant money for commercial and multifamily structures.

With the NFIP, they're also trying to update the flood maps so they can be more accurate and fair to some of the businesses — businesses that might be randomly mapped in a 100-year flood plain or one that only floods periodically. They may never flood, yet they have to pay the excessive insurance cost. That's just not fair to those businesses.

The program is extended through the end of November and then the discussion begins again. Even if it's short term, we're happy to see it extended. We definitely do not want it to collapse. If it did, that would cause quite a bit of grief for the commercial real estate community.

CIRE: CCIMs are advocating for net neutrality legislation. Where does that stand?

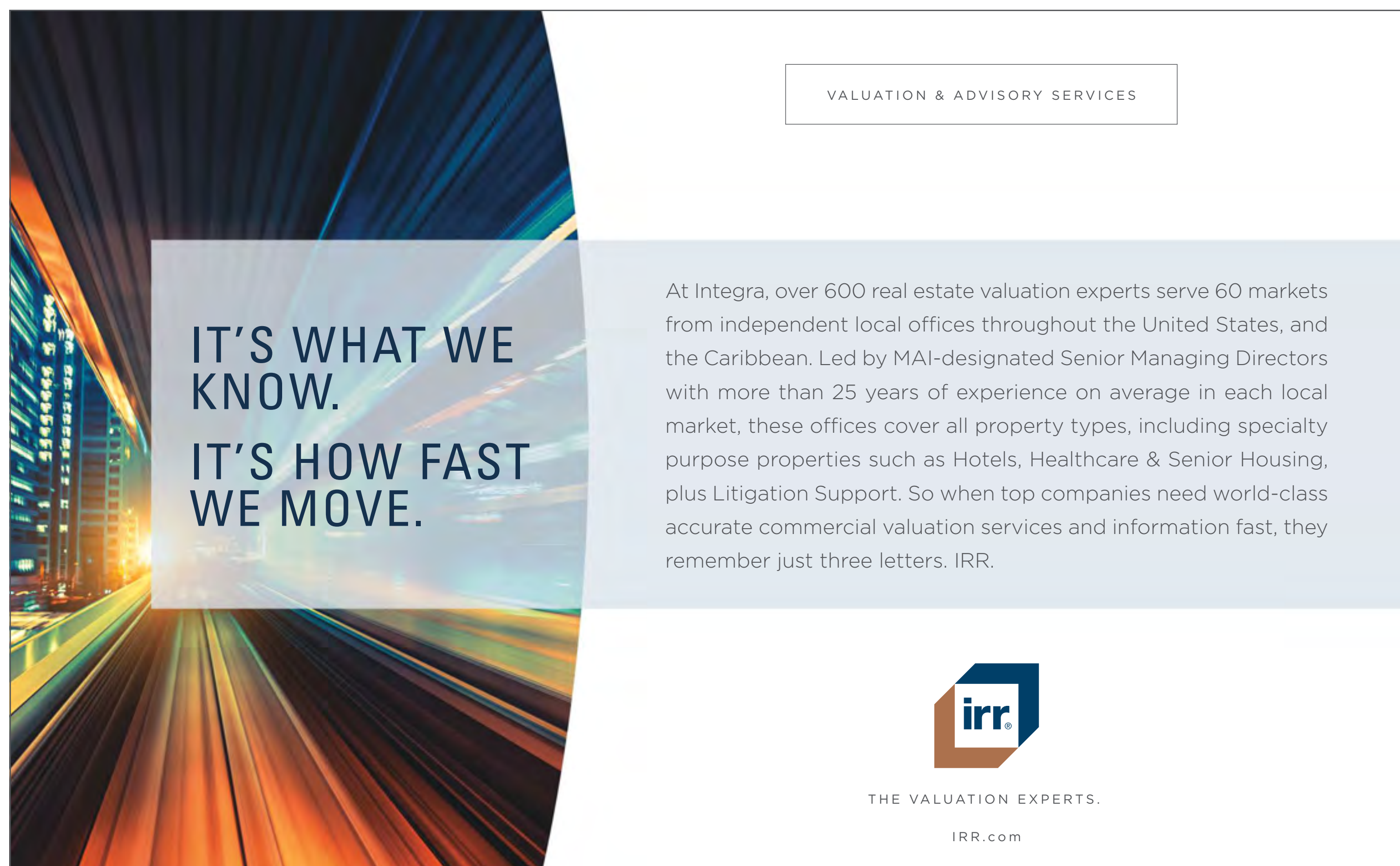
Gleason: Net neutrality rules were repealed by the Federal Communications Commission earlier this year. Net neutrality is important to small businesses that depend on open internet access to run their businesses and serve their customers. It's a fairness issue. Being able to control where you show up and having a fair shake in Google searches is critical. Otherwise, it's just a monopoly. Having net neutrality rules removed could make it very difficult for small real estate firms to compete with larger firms on the internet.

Now there's more activity at the state level. As of Oct. 1, legislators in 30 states have introduced more than 72 bills requiring internet service providers to ensure various net neutrality principles, and three states — Washington, Oregon, and Vermont — have enacted legislation. Many states are urging Congress to restate and preserve net neutrality.

CIRE: How have the November elections affected advocacy in Congress?

Gleason: We're in transition. As you can see, there are a lot of short-term pushes heading into the election. People are asking "What happens if Democrats take over the Senate? What will that mean for some of our initiatives? Or will things stay status quo?" The truth is, we don't know. As CCIMs, we are used to dealing with risk, and sometimes not knowing is more dangerous than knowing. We've been noticing a bit of a stall here in sales. People are saying, "Let's just wait."

Sarah Hoban is a freelance writer in the Chicago metro area.



Gaining Options

Evaluate if real options will add real value to an asset.

by Murray C. Grenville and Richard J. Buttimer, Jr., Ph.D.

Investors in large, non-financial assets, such as land or factories, frequently value them through a "real options" framework. But what are real options, how do they differ from financial options, and how can their use add value to an asset or company?

Most investors are familiar with financial options, such as call options on stocks, which give the holder the right, but not the obligation, to buy the stock in the future for a price specified in the option contract. Call options on stocks have been traded widely on exchanges since the early 1970s, and they are used routinely both to hedge investment risk and to speculate on future price appreciation of the stock. The famous Black-Scholes model provides a way to explicitly price these options.

Real options, in contrast, are not traded, but are provisions on how investors may respond as uncertainty is resolved. With real options, an investor has flexibility in responding to future uncertainty, and this flexibility (the option) itself has value.

Applying Real Options

Consider an investor in a factory that currently runs one shift per day, which meets current demand for a product. The investor believes that demand may increase in a year, but recognizes that it may not. If demand does increase, the investor could begin a second shift at the factory, but if demand stays flat, the operation would remain at one shift. This option to begin a second shift in the future, if conditions warrant it, is called a real option.

Now consider if the investor wants to value the factory today. In its traditional form, the most widely used investment valuation methodology — discounted cash flow analysis — doesn't consider the uncertainty in what will happen a year from now. The standard approach considers the most likely outcome only, and assumes that will happen. It fails to consider the value in the option to decide later whether to add a new shift. The traditional DCF approach would undervalue the factory.

Both academics and practitioners proposed methodologies that incorporate real options into investment valuations, as described in the textbook *Investment Under Uncertainty* by Avinash K. Dixit and Robert S. Pindyck (Princeton University Press, 1994). Although many techniques and methodologies are available, they all share a common trait: They explicitly build into the investment valuation model uncertainty about the future and value the flexibility the investor has as that uncertainty resolves.

Hero Images

A first step in determining the value of real options is simply knowing what they are. Understanding the nature of real options helps in understanding whether they are likely to have value, and whether traditional DCF is likely to underprice that value.

Real Options Illustrated

Consider two investments — one in a piece of undeveloped land and another in an existing factory.

In the case of raw land, the investor has many real options: the timing of when the land will be developed, based on how demand evolves; developing the land for residential or commercial use; developing the land all at once or in phases; and whether to develop the land or abandon the project. At the time the land was purchased, the investor was buying a bundle of real options to exercise at some point.

Similarly, the investor in a factory can decide when to increase or decrease production; expand or reduce the capacity of the factory; shut the factory down, and the conditions under which it would be restarted; and retool or even abandon the factory should demand for its product not meet expectations. The most common real option and one of the most valuable is the option-to-delay. This option affords the investor flexibility to delay making a decision up to the point when an irreversible decision is made.

With real options, an investor has flexibility in responding to future uncertainty, and this flexibility (the option) itself has value.

Option-to-delay has critical value because it gives time to collect more information about the decision, and it gives any uncertainty surrounding the decision time to resolve. In short, this and all of the other real options available to investors have real value, and should be reflected in the valuation of the entire investment.

Murray C. Grenville is CEO of Sterling Valuation Group in New York, which values alternative, non-liquid assets for hedge funds, private equity firms, banks, and other financial institutions. **Richard J. Buttimer, Jr.,** Ph.D., is director of the Childress Klein Center for Real Estate and John S. Crosland, Sr., distinguished professor in the Belk College of Business at the University of North Carolina at Charlotte. Contact Grenville at mgrenville@sterlingvaluationgroup.com and Buttimer at buttimer@uncc.edu.

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Industrial in Crisis

Despite low vacancies and higher rents, industrial construction fails to meet demand.

by Eric Rehn, CCIM

An industrial housing crisis is affecting the U.S commercial real estate markets and will have a major impact on the ability for our economy to grow.

Across the nation, industrial vacancy rates have dropped to their lowest point in decades, at approximately 4.7 percent at the end of the second quarter of 2018. Contrast that against a 10.3 percent vacancy rate for office and a 6.4 percent rate for multifamily, according to CoStar. Even more alarming is the lack of entry-level, light industrial incubator product type in the 1,500-square foot to 3,000-sf unit size range. Most vacant industrial space is found in large blocks of high-cube warehouse product produced over the last few years to support demand for companies like Amazon, rather than smaller, multitenant buildings. In 2017, CoStar reported that 87 percent of construction starts across the nation were for logistics buildings.

The news is worse for California, as the booming economy has driven industrial vacancy rates down to 3.3 percent from their five-year average of 4.4 percent, according to Kennedy Wilson and CoStar Analytics. Even more interesting is the speed of the market. The time frame to lease industrial product in California dropped more than 50 percent; it now takes three and a half months to lease, compared to the seven-to-eight-month historical average. This has driven rents up from a $0.59 average to $0.82 psf per month today. With few incubator projects pending, little relief is expected.

These factors typically would indicate accelerated construction, but 12-month construction starts in California during 2017 are only slightly above the five-year average of 35 million sf at $38 million. Very little of the construction was on light industrial, incubator projects, further skewing the available space to much larger blocks with at least 100,000 sf. Drilling down to the regional level puts the issue into sharp focus. For instance, Contra Costa County in Northern California has enjoyed a strong industrial market that historically ran at about a 7.1 percent vacancy rate. The hot economy has driven vacancy down to 3.1 percent for the first quarter of 2018. But when small industrial spaces of 2,500 sf or less are isolated, it's an incredibly tight market, at 1.7 percent vacant. That means 20 spaces across the county are left to support a historical deal velocity of 23 deals per month in this size range. Additionally, the average age of an industrial building in the area is 45 years old, so small startups have to vie for expensive, old space.

While low vacancy and rent growth should have lenders eager to invest in industrial development projects, they are taking a cautious approach to the market. Here's why. Loan-to-value ratio for construction projects remains nearly at 65 percent. Actual rents now are the focus rather than pro forma optimistic projections, as lenders are keenly aware of the potential impact of rising construction costs on the bottom line.

Contributing Factors

No single culprit, but rather a perfect storm of factors, is driving this situation.

Although rent growth is strong, the growth of construction costs is outpacing any gains. A recent light incubator industrial project in Contra Costa County utilizing concrete tilt-up construction requires rents of $1.28 psf per month just to cover the construction and soft costs, while the land cost pushes rents to $1.50 psf per month to achieve an 8 percent return.

Approvals take longer, cost more, and face "not in my backyard" (NIMBY) opposition. Hearing that although rents are skyrocketing, the value of their land has not changed due to the higher development costs, owners are not eager to part with their land.

Local non-governmental organizations extract expensive concessions to allow development in their area.

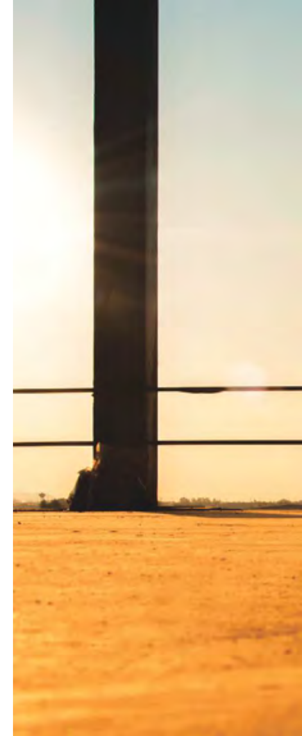
Demand from emerging markets like cannabis drive up pricing in areas with the proper zoning, virtually eliminating vacant space in that area.

Finally, the conversion of industrial to residential land further reduces the supply of land for industrial development.

Finding Resolution

Possible solutions to ease pressures include municipalities streamlining the approval process to reduce time frames, plus looking at sewer and water fixture fees. Smaller multitenant projects are vulnerable to these types of fees due to the higher number of individual units/restrooms for a given size compared to a single tenant unit. Protection of existing industrial-zoned sites from conversion to non-industrial uses is another option. For example, in 2014, Contra Costa County enacted a Northern Waterfront Economic Development Initiative to protect existing industrial-zoned land, but had limited success.

Ultimately, the industrial housing crisis across the nation is a critical factor in continuing economic growth. It's important to facilitate the development of smaller, incubator-style projects to ensure an adequate supply of space for industrial startups and help balance the need for industrial housing with the rest of our needs for real estate.



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The Fine Print

Look beyond big issues to get to a smooth closing.

by Stephanie Friese, JD

Real estate sales agreements are packed with fine print, and often the lawyers are the only people reading it. While lawyers are paid to lock down all the details of legal agreements, buyers and sellers should always ask questions. Never take anything for granted, and remember that the purchase and sale agreement sets the rules for the rest of the game.

Don't let your determination to get an agreement signed cause you to look past big issues that could spell trouble on the backside of a deal. Beware of these key sales agreement risks for sellers.

Representations and Warranties

Buyers frequently ask sellers to warranty the history of a property. No buyer wants to discover that a site that seemed perfect for luxury apartments is a brownfield that will need decontamination. A seller may have no knowledge of any environmental problems, but fears being blindsided by revelations.

From a seller's standpoint, such representations expand the seller's liability in the future and may discourage the buyer from completing full due diligence. If you must agree to representations and warranties, stand firm on capping the limits of your liability to 3 to 5 percent of the purchase price in most deals. To avoid nuisance claims, set a floor for claims of $10,000 to $25,000, depending on the purchase price.

Set Realistic Timing

Time frames must align, such as the expiration of the due diligence period, time to make title objections, and time to close. For example, a contract may say the purchaser has 10 days to make title objections or give the seller five days to respond to any objections to the title. Every real estate deal is urgent, and applying pressure to get it done is part of the negotiating process. Be realistic and don't agree to time frames without assessing if they align with your priorities and are consistent. Allow appropriate time for due diligence.

Beware of Rights to Assign

If the contract doesn't limit a party's right to assign, the default rule is that either party may assign freely. A seller may not want to allow a purchaser to assign to any entity, since the seller wants to receive full consideration for the property by avoiding flip deals and because the seller wants to know the buyer. Limitations on the right to assign typically are buried in the sales agreement miscellaneous provisions and are overlooked easily.

Follow Up on the Escrow

Ensure that earnest money is placed in escrow. Failure to do so can be the result of an oversight or it can be a risk-avoidance

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strategy of an unscrupulous buyer. Either way, establish a process for confirming that escrow deadlines are met.

Negotiate Default in Your Favor

A shrewd seller will be cautious of allowing a buyer to seek specific performance in the event of seller default because not all defaults are intentional. For example, a seller could be held in default for failing to deliver marketable title if a lien is filed and the seller was unaware of it. In this case, the seller needs to keep options open for terminating the agreement. If you have the negotiating leverage, include a provision that gives you the right to back out of the contract with the only remedy for the buyer being the return of earnest money. Most buyers will insist on more severe consequences for the seller because the buyer already may have racked up fees for lawyers, accountants, and due diligence inspections. A more realistic and fair remedy that still gives the seller flexibility is one that allows for payment — with a cap — for these buyer expenses. It's always better to build in flexibility to avoid pitfalls that can occur, even when both parties are acting in good faith. A strong default provision increases the seller's negotiating power on other issues.

Think Ahead on Estoppel Letters

Buyers frequently want estoppel letters from tenants to confirm their lease commitments. The estoppel letter doesn't change the terms of a lease, but confirms the existing rent, deposit, and other obligations of both parties. Sales agreements often are contingent on obtaining estoppel agreements from all or most tenants. A few stubborn tenants can complicate a deal, and astute sellers should limit the number of estoppels required to 80 to 90 percent of existing tenants.

Look at the Whole Picture

Brokers are the experts at getting to "yes" in a deal, while lawyers council their clients regarding potential risks — hopefully contemplating all possible outcomes. It's a good combination for clients, and well-drafted sales agreements will provide protections without unreasonable provisions that jeopardize a deal. To have a smooth closing, make sure everyone is aware of the fine print.

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Controlling the Deal

Create deal value by making yourself invaluable.

by Mark Polon, CCIM

Ever wonder why the deal falls through, despite everything being in place, the numbers working out, and the asset looking good? You might pin the blame on the other side or one of the lawyers, or the appraiser, or the lender. The fact is, the reason the deal fell through is most likely you.

Numbers don't make deals, people do. More precisely, you do. Every transaction needs a driver to maintain momentum, someone to push the deal forward using all available tools. The driver is responsible not only for his or her side of the deal, but the entire deal — everybody and everything.

Your goal in every transaction is to make yourself absolutely essential. You do this by using time-honored access to and delivery of relevant information, as well as the much overlooked psychological and advertising strategies to communicate individually with each participant in the deal. The key to your success is recognizing that every player in the deal has different motivational triggers. To reach a successful close, it is essential that you interact with each of the players based on the way *they* think, act, and feel — not the way you do. This requires research on each of the players in the deal to determine what kind of a person they are, how they treat others, and what their individual hot buttons are. The time you spend doing this research more than makes up for the potential time wasted if messages get delivered in a way that does not compel the receiver to act.

Know Who You Should Be

More work on your part is required, but it's essential to understand the psychological and emotional triggers that drive each of the participants in the transaction to act. That way, you can present the road forward to them based on their personal triggers, helping ensure their buy-in every step along the way. Does this mean that you need to be a different person depending on who you are talking to? Yes, it does.

Some might question the use of such a persuasive technique in a transaction; however, with the understanding that a successful outcome will benefit all parties, it's in everyone's best interest to employ these techniques.

Controlling the deal means that you must actively manage the transaction. That means identifying not only the hot buttons that drive each individual participant, but also understanding the inherent powers you bring to the transaction. Recognizing your strengths, coupled with the ability to adapt your communication style based on your audience, will allow you to seamlessly assume the role of transaction manager. Your ability to effectively man-

Caia Image/Martin Barraud

To reach a successful close, it is essential that you interact with each of the players based on the way *they* think, act, and feel — not the way you do.

age the deal is directly related to your ability to persuade others. Your ability to persuade others is based on your ability to convey thoughts, ideas, and action steps that are internalized easily by the person with whom you are communicating.

Strategies to Gain Control

Countless psychological strategies and marketing, advertising, and sales techniques can help to accomplish these goals. For instance, take FUD from the advertising world — fear, uncertainty, and doubt. Psychology tells us that many people are motivated by fear and are more likely to do something when they are uncomfortable than when they are comfortable. "If you don't do this right now, you will be really sorry" is an example of a FUD statement. In advertising, the assumption is that a certain percentage of people viewing an ad will be motivated by FUD; other non-FUD-based ads created for the same product or service will reach the rest of the targeted audience. When you use FUD as the transaction manager, you are using it because you have determined that the person to whom you are delivering the message is more likely to act when uncomfortable — assuming that you spent the extra time to determine this as a driving factor for that individual.

Controlling the deal and establishing yourself as the transaction manager isn't easy. It requires a huge investment of time to study each player in the deal to determine the best way to influence that player's actions. The payoff is also huge. It means your deals will run smoother and quicker, and closings will happen more often and more frequently, benefiting all parties. And isn't that worth the investment?

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Editor's Note: This article is adapted from CCIM Institute's online course, Controlling the Deal. The course shows how to use proven psychological and relational techniques to move up the value chain, build trust, and successfully manage every transaction. Visit www.ccim.com for more details.

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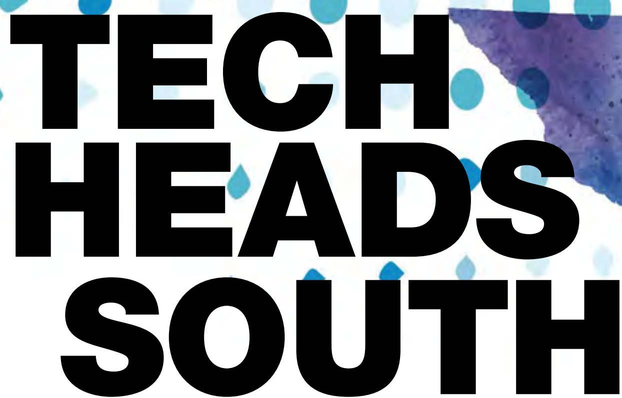


TECH HEADS SOUTH

Booming secondary markets in the South draw a tech crowd.

by Richard Sarkis

A number of overlooked influencers — including heavy technology company migration — are fueling the bullish secondary real estate markets of the southern U.S.

While residents have long grappled with extremely high living costs in primary markets, they did so due to the quality of life, jobs, and wages available to them. With recently booming economies in many secondary markets, however, they now can enjoy the same quality of living at a much more affordable cost.

For tech companies, the high quality of life in these markets creates a flow of new residents — and a pool of hungry job seekers. Established industry talents are more willing to accept roles and relocate to these areas, even if that means leaving major markets.

With a dissipating concern over a lack of talent in nonprimary markets coupled with continuously rising international outsourcing costs, tech companies are focusing more on reducing operating costs by heavily targeting secondary markets in which to start up, grow, and thrive. Secondary real estate markets in the South have had great success over the last decade, and these often-overlooked influencers seem to be playing a large part. For investors looking south, it's not a matter of if there is opportunity, but simply a matter of how much and where it lies.

Four economically booming southern U.S. markets — Atlanta, Dallas, Orlando, Fla., and Nashville, Tenn. — are leading the growth and potential growth market of multifamily and office property sales trends in that region.

Atlanta

Since the recession of 2008, investors are all-in on the city, and have been for quite some time. The number of sales reached a low point in 2010, sitting at just 875 total combined sales across multifamily and office properties.

Comparing 2017 to 2010 results, multifamily sales grew by 161 percent, and office sales grew by 238 percent, collectively increasing nearly threefold to 2,384 total sales in 2017.

Andrea Hil

More recently, Atlanta shows potential as one of the country's next tech hubs, courting the likes of Amazon to open an HQ2 in the city. Atlanta's recent success as a fintech hub, from giants like First Data and Worldpay to newer disruptors like Kabbage, Cardlytics, and Greensky, as well as forthcoming relocation of major offices from other large Seattle companies, shows that the city's growth may be far from over.

Dallas

The number of multifamily property sales continues to trend upward since 2009. This trend may be due to the lack of prices increasing within that same time period, with the exception of 2016.

In 2016, average sale price saw a steep increase, which can be traced back to two substantially large bulk mobile home park sales.

While the decade-long trend shows only a 15 percent increase in the average multifamily sale price, the market saw a 70 percent increase in the number of sales.

Office property sales, however, have remained fairly stagnant in the last decade in terms of both number of sales and sale price. If anything, given the recent investment focus on multifamily properties, there may be room to capitalize on Dallas' inventory of office buildings, although no immediate opportunity stands out.

Orlando, Fla.

Recent trends reveal a missed opportunity in multifamily properties, with the potential conversion of the city's office property inventory not yet fully realized.

Since 2014, the average sale price of multifamily properties in Orlando has risen significantly, while the number of sales has been on a gradual decline.

With existing multifamily properties tapped out and prices climbing, an opportunity in the city's office market has come to fruition.

Similar to multifamily, the number of office sales in Orlando also has been trending down since 2014. However, for office properties so is the average sale price. In 2017, the average sale price per office building reached its lowest point in four years, roughly $1.77 million.

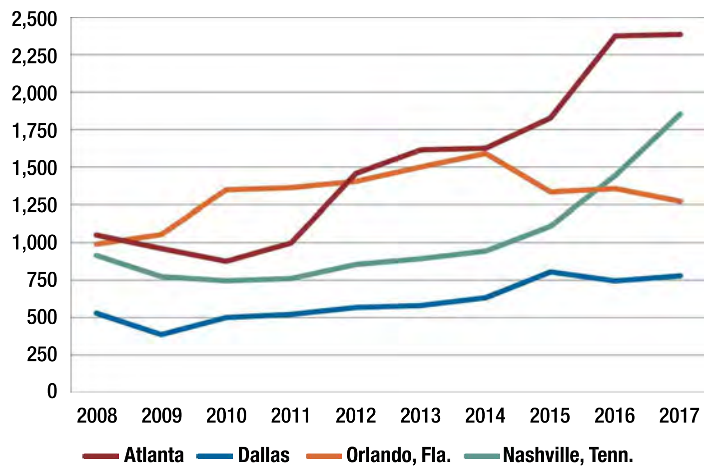
Despite that, over the course of 2016 and 2017, Orlando saw the highest rate of science, technology, engineering, and mathematics growth in the country.

Nashville, Tenn.

In terms of overall investment growth over time, Nashville looks to be the hottest market of the lot. Both multifamily and office property sales continue a steady trend upward over the last decade, as recession recovery has turned into financial prosperity.

The combined average sale price of multifamily and office properties in Nashville decreased by 18.4 percent in 2017 compared to the year prior.

Combined Number of Multifamily and Office Sales



Source: Reonomy

With Nashville's viability as a U.S. tech hub looking strong as investment trends upward, this city's growth shows no immediate signs of slowing down.

Where Opportunity Lies

The overall growth trends of these cities since the recession reveal just how much investors have been pouring capital into each market. As the snowball effect of the tech industry continues to pile up, however, these markets look to prosper further.

In 2017, multifamily and office property sales in all four markets combined came in at 6,286 total sales — a 98 percent increase over its low point in 2009 of 3,172 sales.

In 2017, Atlanta's sales were 148 percent higher than they were at its low point in 2009, marking the largest increase of the four markets. Nashville's sales were not far behind, with 2017 sales being 140 percent higher than in 2009.

Additionally, Nashville remains the cheapest market on average, with a combined average sale price of $1.4 million in 2017. Atlanta, despite rising prices, also is still a very accessible market, and Orlando shows high potential in its office investment market.

The wide-spanning success of these markets and the seemingly minute factors influencing them show that each market presents opportunities. From a growing workforce to a relatively affordable office and multifamily investment market, opportunities in these up-and-coming areas can pay out dividends. Understanding these secondary market trends may be the next step for many investors looking for strong and steady growth.

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MULTIFAMILY MOMENTUM CONTINUES

The robust development pipeline has not dampened investor appetite.

by Beth Mattson-Teig

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FOR RENT

The multifamily housing sector is defying gravity. Property fundamentals and investor appetite are holding steady under a heavy load of new deliveries.

The multifamily market already is several years into its bull run, generating strong property performance and a surge in supply. Yet renters continue to absorb much of the new inventory coming onto market, with national vacancies rising only 10 basis points in the second quarter of 2018 to a 4.7 percent average, according to Yardi Matrix.

"We see the U.S. multifamily market as being dynamic, especially over the past year," says Doug Ressler, director of business intelligence at Yardi Matrix in Santa Barbara, Calif. Approximately 875,000 new units were completed between 2014 and 2017, with another 140,000 units in the first half of 2018. Most construction occurred in the top 30 metro areas, with a high concentration of class A luxury apartments being built.

Some markets are showing softening in the high-end segment of the market, especially in the Midwest. Yardi Matrix is predicting that overall performance is going to be fairly consistent and positive in most cities, Ressler notes. In fact, high-growth metros such as Dallas; Charlotte, N.C.; Nashville, Tenn.; and Denver all saw an improvement in their occupancy rates during the first half of 2018, with vacancies in all four markets hovering at around 5 percent. "With deliveries in their third year of cycle peaks, the increase in occupancy rates demonstrates the resilience of apartment demand," he says.

The big question is how metrics will hold up, especially with a significant number of projects still underway or planned. "Development remains strong in all sectors and all submarkets here in Denver," says Rick Egitto, CCIM, principal of capital markets in Avison Young's Denver office. "Vacancies have ticked up a bit to just over 5 percent, but given the large amount of product delivered, this is not significant," he says.

Yet the players have changed in terms of who is actively building. Some early groups constructing apartments in Denver in 2010 to 2013 have slowed their activity, while other national firms have stepped in to pick up the slack, Egitto says. Developers also are less active in the core of the city and now are taking a bigger step into suburban markets, such as Aurora, Parker, and Golden, to find new opportunities.

Rising Costs Create Added Pressure

Developers recognize the impact of rising construction costs and moderating rent growth. Although there has been a slight pullback in units under construction, the pipeline of prospective projects actually is climbing, Ressler notes. "We think those challenges are going to play to the larger, established industry veterans," he says.

Developers are being more selective in where they build, too. Development is continuing in gateway markets and metros that are dense enough to handle large fluctuations in supply. Conditions also remain favorable in secondary markets that are leading the nation in employment growth or where population growth is driving demand, including key markets in Florida and the Southwest, Ressler says. Areas with strong growth potential, like Austin, Texas; Charlotte, N.C.; and Miami, and strong secondary and tertiary markets with good economic drivers, such as a growing technology hub like Boise, are attracting developers as well, he says.

Decatur, Ga., is a tertiary market where rents are "going through the roof" due to new construction that is delivering at higher price points, according to Jim Brewer, CCIM, broker and owner of Decatur-based Brewer Agency LLC. "I have never seen this much new construction in this small a market in my life," he says. Decatur started working on a pedestrian-oriented community about 30 years ago that's now in full blossom, attracting young, upwardly mobile renters, he adds.

Construction costs are perhaps the most significant headwind developers are facing. In some cases, costs for materials and labor have risen nearly 30 percent in the past 18 months.

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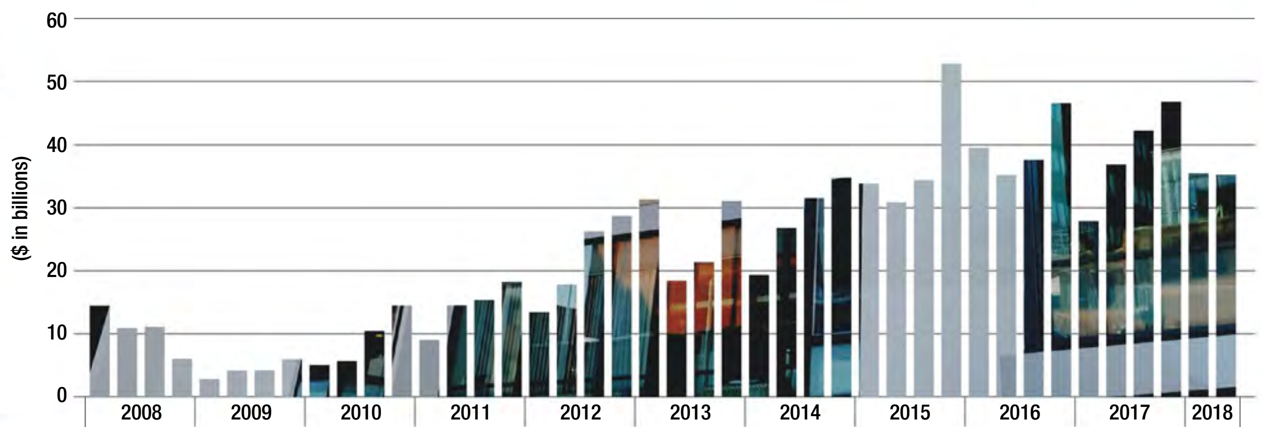
Multifamily Sales Volume



Source: Real Capital Analytics

Rising construction costs are "squeezing the juice out of the yield" on development, says William A. Shopoff, CCIM, president and CEO of Shopoff Realty Investments, an apartment developer and investor in Irvine, Calif. Construction costs have moved at a multiple of inflation over the last two years, while rent growth in many markets has been slowing. "We are seeing developers show a higher degree of caution and approaching their underwriting for future deals with a little less optimism," Shopoff says.

Rising interest rates and higher construction costs are putting more pressure on land prices and making it more difficult to make the numbers work on new projects. "Construction costs have risen significantly in Denver, and it has really caused the market to adjust to the new rents that have to be obtained," Egitto says. For example, it is not unusual to see urban rents in the $2.50 to $3 per-square-foot range, and some unique locations approach $4 psf, while suburban projects generally can work at a lower $2 psf rent, he says.

In some cases, developers have built projects in Denver with an expectation that they can collect the higher rents, and they have continued to see projects lease up quickly even with these higher rates, Egitto says. Part of the success is due to the significantly different amenities compared to the older product, even though existing price comps might not have supported that price point, he says.

Investors Vie for Value-Add Deals

Investors still have a huge appetite for value-add acquisitions, even as buying opportunities have become increasingly difficult to find. "We think the value-add market is extremely competitive," Shopoff says. Although the firm works on value-add projects nationally, it's been more than a year since the company has taken on any new projects of this type. "Markets cycle, and there will be opportunities again, and we are always looking. But right now the yields we can achieve on value-add you can find in a better arena," he says. Instead, Shopoff has redeployed its capital to focus on development projects, as well as pre-development projects where it buys and entitles land for multifamily and then sells to other developers.

With value-add deals getting picked over in the gateway markets and largest secondary markets, investors are looking at smaller secondary and even tertiary markets. "We have a tremendous amount of interest from investors nationally and internationally for value-add deals in the Louisville market," says Tyler Chesser, CCIM, vice president of commercial real estate investments at Gant Hill & Associates in Louisville. "We have gotten to a point where those deals are fewer and farther between than they were a few years ago, but opportunities do still exist," he adds.

Competition has motivated some investors to embark on value-add 2.0 projects, essentially taking a property that already has undergone some improvements and going back in for a second round of more in-depth renovation. "We have gotten to a point where most investors who are capturing opportunities are very savvy," Chesser says. Some of these veteran value-add investors can readily identify repositioning opportunities that others don't recognize. They are comfortable paying very aggressive prices because they see the potential to add more amenities or reduce the expense load on the operating side, he says.

For example, Chesser recently represented the buyer in the purchase of the 83-unit Lofts of Broadway in Louisville for $6.8 million. The Downtown Louisville warehouse was converted to loft-style apartments in 2005. In this case, the buyer sees an opportunity to further upgrade units with additions such as granite countertops and add new on-site amenities. "We believe that this is going to be an incredibly successful project because of the demand for this type of product," Chesser says.

Investors Still Favor Apartments

New supply has not put a damper on investment sales transactions. Multifamily sales volume reached $69.8 billion in the first half of the year, up 11.5 percent year-over-year compared to the $62.6 billion in properties that traded during the same period of 2017, according to Real Capital Analytics.

Many capital investors still in the market are interested in multifamily buildings, especially those who plan to hold assets for the long term. Yet investors are keeping close tabs on supply growth, decelerating rents, and interest rates in what most agree is a mature stage of a prolonged growth cycle. Many investors are being selective in what and where they are buying, and some metros are still seeing a big gap between buyer and seller expectations, which is slowing transactions.

"Caution is being exercised by most to ensure past mistakes of a previous cycle are not repeated," Chesser says. In Louisville, investors are concerned about oversupply and slowing rent growth, and the current lease up and stabilization of new communities are being monitored closely. However, the reports of outpaced performance to expectations continue to fuel demand in the Louisville market, especially among national and international buyers looking to achieve higher yields than they can find in some gateway markets and larger secondaries. "We have found that our market has really struck a chord with investors. We have yield and a diverse market with employment across many different industries, population growth, and many strong indicators that folks like," Chesser says.

Other markets have seen a notable shift. Buyer sentiment has changed radically in New Jersey's Gold Coast market over the past six months, along with higher interest rates, while seller expectations have not changed. That

CREATIVE DEVELOPERS BATTLE RISING COSTS

Developers facing the dual pressure of rising construction costs and slowing rent growth are finding creative ways to make the numbers pencil out on new projects.

Higher construction costs are putting more pressure on land prices. Developers also are exploring other alternatives to maintain yields, such as increasing density or value-engineering projects. Some developers are offsetting higher construction costs by offering micro-units that allow the developer to deliver units at a more affordable rate, while still capturing a higher rent per square foot.

In Denver, for example, a former hotel adjacent to Mile High Stadium was converted into the Turntable Studios, a micro-apartment project with 179 units that range from 330 to about 800 sf. "I also think the investor market finds those micro-units attractive. The one or two that have sold here have generated very high per door prices," says Rick Egitto, CCIM, principal of capital markets in Avison Young's Denver office. "Renters like it, and investors like it as well," he says.

A few innovation leaders are leveraging new design, engineering, and building systems and processes to reduce construction costs. "There are people who think they have a better mousetrap," says William A. Shopoff, CCIM, president and CEO of Shopoff Realty Investments, an apartment developer and investor in Irvine, Calif. "We're not quite there yet, but we do think that we're going to see some technological changes in construction that are going to drive value," he says. Some developers are using various levels of prefab with modular or factory-built units that are assembled on site.

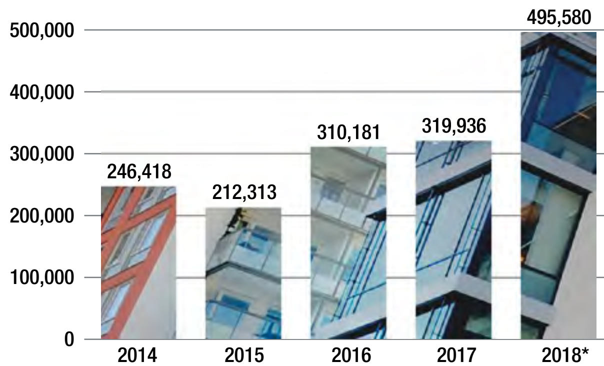
Denver-based iUnit currently is designing factory-created, prefab units that are assembled on site. The company built the 40-unit Elliot Flats in the Lower Highlands area of Denver and has a second project underway. Both projects also adhere to sustainable building practices with an aim to achieve net-zero energy efficiency.

Menlo Park, Calif.-based design and construction firm Katerra works to squeeze efficiencies across each step of the building process — from its design, technically engineered materials, supply chain, and construction. Its strategies range from more cost-effective product sourcing to off-site manufacturing that provides greater precision, higher productivity, and more quality control.

In a rising cost environment, these cost-effective building solutions could help developers and investors preserve yields and address the bigger issue of creating more affordable housing as well. If developers can build apartments cheaper, that alone is a big advantage. If they can build apartments both cheaper and faster, that's a huge advantage in a competitive marketplace. "You not only save interest expense, but you start generating revenue faster — and more importantly you know what market you're delivering into," Shopoff says.

Since most urban projects take 24 months to complete, builders end up delivering projects in a different market than they started in terms of competition, rents, and economic drivers. For developers that can build an apartment building in six to 12 months versus 24 months, and at a cost savings of 5 to 10 percent, that's a huge competitive advantage, Shopoff says. No developer wants to be on the wrong side of the curve.

Multifamily Project Completions



Source: Yardi Matrix
*Projected/projects in the pipeline

disconnect is causing stagnation in the market, says Chris Cervelli, CCIM, president of Cervelli Real Estate & Property Management in North Bergen, N.J. "Properties are starting to sit around a little bit longer," he says. Investors are not oblivious to headwinds such as rising interest rates, slowing rent growth, and a still-active development cycle. In addition, the trade wars and tariffs are making some investors nervous. "Everybody feels like the music is stopping, and no one wants to be left holding that bag when it does," he says.

The flip side is the abundant debt and equity in the market, and many investors and lenders like the risk-adjusted returns on multifamily units relative to investment alternatives.

"There is still a tremendous amount of equity — both institutional and private equity — that loves the multifamily space," Shopoff says. "If good product comes on the market, there are multiple buyers for it." Interest rates have moved higher, but rates are still relatively low. People can still buy a property at a 5 percent cap rate, put debt on it at 4.5 percent, and have positive leverage and rent growth, plus some tax shelter and inflation protection, he says. "I don't think there's any shortage of buyers today. That shine could come off at some point, but we don't see it," he adds.

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

INVESTING IN TODAY'S MULTIFAMILY MARKET

by Barry Saywitz

Investors are facing many challenges in the multifamily market. With the housing market on an upward slope, home prices rising, and interest rates ticking up, homeownership is more difficult to achieve. In addition, baby boomers are selling their homes for retirement money without purchasing new ones, and millennials prefer renting. The resulting rental market demand continues to push multifamily rents to an all-time high. This increase in rents drives values for multifamily properties, making them an extremely desirable investment vehicle.

The limited number of quality properties for sale and significant amount of available capital means that buyers are chasing every deal. The average sale time of a property has decreased dramatically, and the terms of the transaction and the time frames for the buyer to perform have increased. It's a seller's market — and the buyer assumes several risks.

Financing a property with a cap rate lower than the interest rate is difficult, unless there is significant upside in rents. Smart investors need to evaluate whether they should raise rents nominally, which would avoid pushback from existing tenants, or raise rents significantly, which means investing capital and remodeling the property.

When a buyer remodels or raises rents, it adds downtime from turnover, which must be accounted for in the overall return. While investors who acquired properties in the last few years locked in extremely low interest rates, these rates are on the rise. As a result, mortgages will increase in the coming years when these loans roll from fixed rate to adjustable or reset at the future rate. If rents do not increase at the same pace, investors will see diminished returns.

Many experts believe that we are in the ninth inning of this nine-inning real estate cycle. Those currently investing may be overpaying and in serious danger of a market adjustment or interest rate increase, both of which would negatively affect the overall return and value of the property.

Money still can be made in the multifamily market. Many properties have significant upside in rents, and there are ample opportunities for the savvy and careful investor. But those who believe they are going to buy property and sell in a few years to make a profit need to be wary of interest rates and rent growth. In addition, if the market should flatten or turn, these investors and property owners will be in significant trouble.

Investors with a sound investment strategy will be successful in both the short term and the long term.

Barry Saywitz is president of The Saywitz Co., a national commercial real estate brokerage, investment, consulting, and management company in Newport Beach, Calif. Contact him at bsaywitz@saywitz.com.

The CCIM Foundation thanks our Leadership Society

The CCIM Foundation has tracked individual donations made over the last ten years, and more than 140 members have donated a cumulative total over $877,000. The following individuals are recognized and thanked for their support of the CCIM Foundation and its mission to advance and foster commercial real estate education through scholarships, programs, and research initiatives.

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CCIMS' BIGGEST DEALS OF 2018

Andrew Cheney

Bill Adams

Top deal-makers of the year share their trade secrets.

Gregg Kafka

Cathy Jones

by Larry Guthrie

History repeated itself with another banner year for CCIM designees. While the office sector dominated deal flow yet again, multifamily, retail, industrial, and land sectors also saw strong investment. But what about the people behind these deals? *CIRE* spoke with the CCIM designees recognized with the biggest deals from our 2018 issues to discover their secrets to big deal success and what they see in their crystal balls for 2019.

CIRE: What recommendations do you have for CCIMs looking to identify, develop, and close big deals in their markets?

Dan Adamski, CCIM: In addition to the obvious answer of earning a CCIM designation to highlight your commercial real estate proficiency, develop an expertise and become known for it. Looking to the medical industry, general practitioners make $150,000 a year because they are familiar with many acuities, whereas brain surgeons make $1 million a year because they have intimate, deep knowledge of one subject, and people in need will seek that out.

Jill Rasmussen, CCIM: Cultivating long-term relationships is critical to developing and closing large transactions versus a one-off deal. Building that trust and providing enduring value for your clients is your gateway to future opportunities and referrals.

Cathy Jones, CCIM: CCIMs already have a good foundation of education and experience to effectively handle big deals in their markets. They need to implement the prospecting tools, develop the right teams around them, and present themselves and their work products in a very professional manner. The main goal is to develop long-term relationships and build on those.

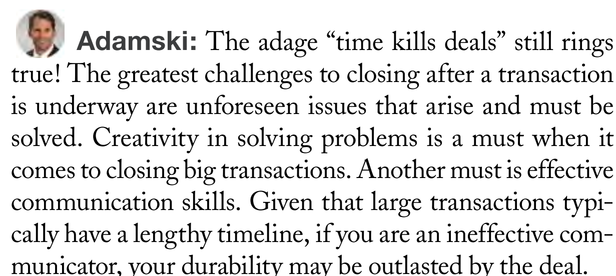
Andrew Cheney, CCIM: To identify the big deals, CCIMs need to have a vision that the average broker doesn't. It's about being able to see deals before they happen, and finding a connection or some other way into the deal before it gets traction.

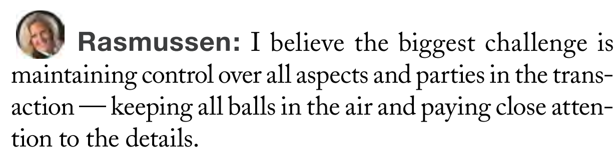
Bill Adams, CCIM: Most of my big deals have been relationship driven, and those relationships started with small transactions. Representing your client well in a successful small transaction will lead to more deals and larger deals.

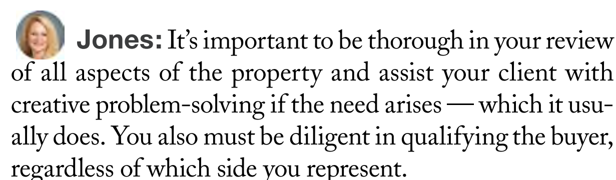
Neil Merin, CCIM: Curate a deep knowledge of your market and product type with the goal of being the most

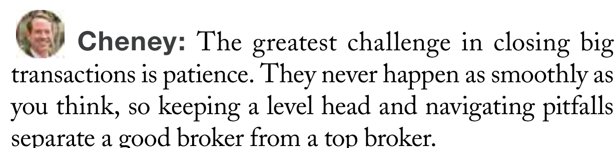
knowledgeable person on trends and value. Then actively offer advice and insights on your market. The CCIM designation brings great credibility to this effort — make use of it.

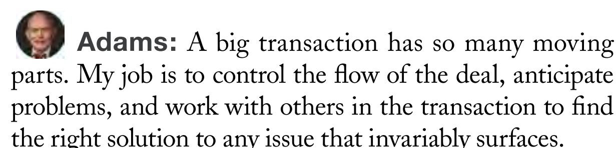
CIRE: What is the greatest challenge in closing big transactions?

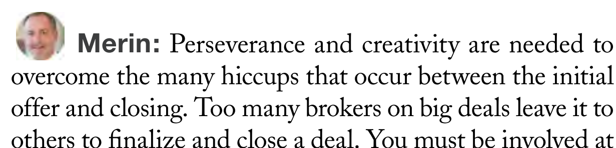

Adamski: The adage "time kills deals" still rings true! The greatest challenges to closing after a transaction is underway are unforeseen issues that arise and must be solved. Creativity in solving problems is a must when it comes to closing big transactions. Another must is effective communication skills. Given that large transactions typically have a lengthy timeline, if you are an ineffective communicator, your durability may be outlasted by the deal.


Rasmussen: I believe the biggest challenge is maintaining control over all aspects and parties in the transaction — keeping all balls in the air and paying close attention to the details.

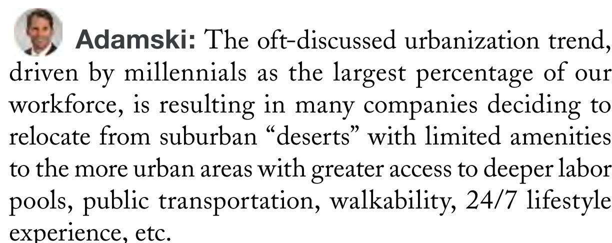

Jones: It's important to be thorough in your review of all aspects of the property and assist your client with creative problem-solving if the need arises — which it usually does. You also must be diligent in qualifying the buyer, regardless of which side you represent.

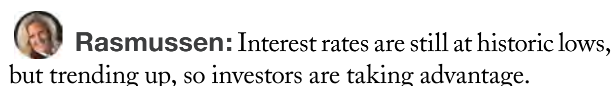

Cheney: The greatest challenge in closing big transactions is patience. They never happen as smoothly as you think, so keeping a level head and navigating pitfalls separate a good broker from a top broker.

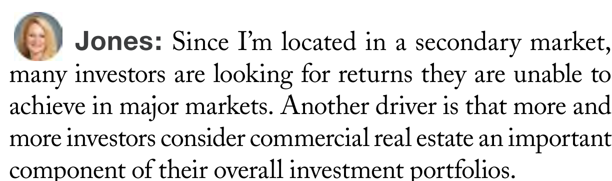

Adams: A big transaction has so many moving parts. My job is to control the flow of the deal, anticipate problems, and work with others in the transaction to find the right solution to any issue that invariably surfaces.

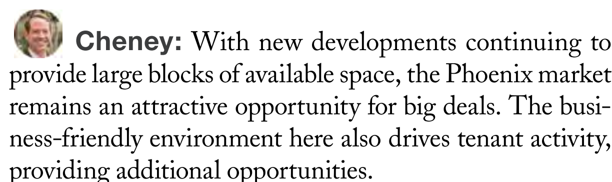

Merin: Perseverance and creativity are needed to overcome the many hiccups that occur between the initial offer and closing. Too many brokers on big deals leave it to others to finalize and close a deal. You must be involved at every step, every conversation, and every negotiation to see a large transaction to a successful conclusion.

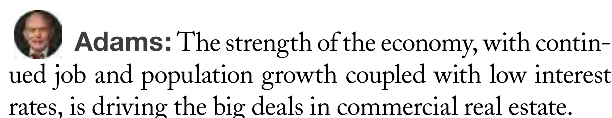
CIRE: What current market forces are creating big deal opportunities?

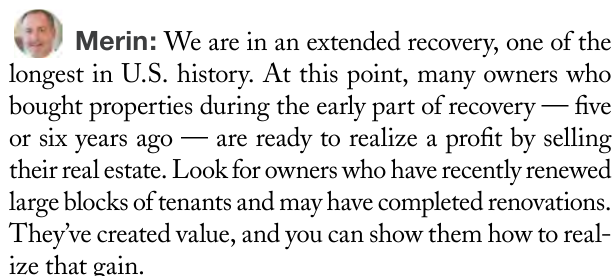

Adamski: The oft-discussed urbanization trend, driven by millennials as the largest percentage of our workforce, is resulting in many companies deciding to relocate from suburban "deserts" with limited amenities to the more urban areas with greater access to deeper labor pools, public transportation, walkability, 24/7 lifestyle experience, etc.


Rasmussen: Interest rates are still at historic lows, but trending up, so investors are taking advantage.


Jones: Since I'm located in a secondary market, many investors are looking for returns they are unable to achieve in major markets. Another driver is that more and more investors consider commercial real estate an important component of their overall investment portfolios.


Cheney: With new developments continuing to provide large blocks of available space, the Phoenix market remains an attractive opportunity for big deals. The business-friendly environment here also drives tenant activity, providing additional opportunities.


Adams: The strength of the economy, with continued job and population growth coupled with low interest rates, is driving the big deals in commercial real estate.


Merin: We are in an extended recovery, one of the longest in U.S. history. At this point, many owners who bought properties during the early part of recovery — five or six years ago — are ready to realize a profit by selling their real estate. Look for owners who have recently renewed large blocks of tenants and may have completed renovations. They've created value, and you can show them how to realize that gain.

2018's Biggest Deals

$147 million
office lease
Dan Adamski, CCIM, with two partners
JLL, Pittsburgh

$89.4 million
medical office portfolio sale
Jill Rasmussen, CCIM, with two partners
Davis Real Estate, Minneapolis

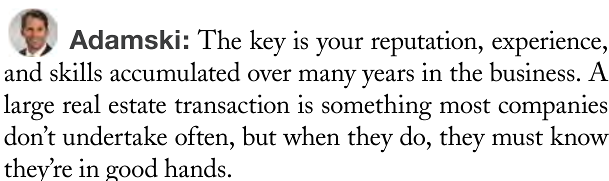
$66.5 million
office sale
Andrew Cheney, CCIM; **R. Craig Coppola,** CCIM; and **Gregg Kafka,** CCIM
Lee & Associates, Scottsdale, Ariz.

$62.3 million
office sale
Neil Merin, CCIM
NAI | Merin Hunter Codman, West Palm Beach, Fla.

$40 million
specialty property sale
Bill Adams, CCIM
Adams Commercial Real Estate, Atlanta

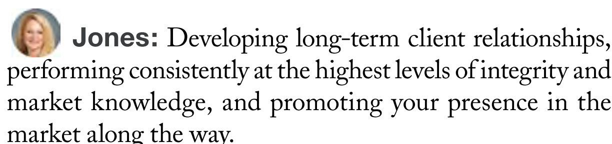
$33.2 million
office sale
Cathy Jones, CCIM, with four partners
Sun Commercial Real Estate, Las Vegas

***CIRE:* What's the key to being involved in big deals?**

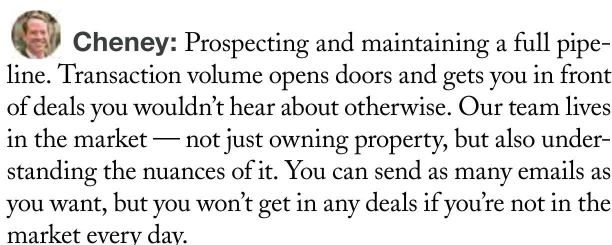


Adamski: The key is your reputation, experience, and skills accumulated over many years in the business. A large real estate transaction is something most companies don't undertake often, but when they do, they must know they're in good hands.

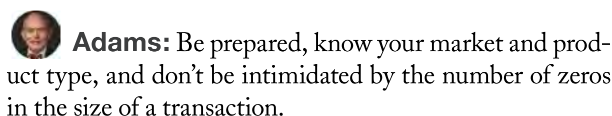
Rasmussen: Relationships, experience, trust, and hard work.



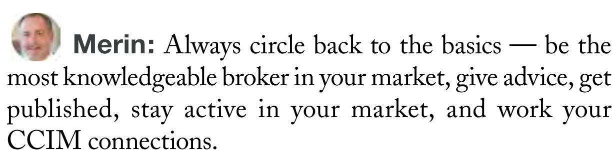
Jones: Developing long-term client relationships, performing consistently at the highest levels of integrity and market knowledge, and promoting your presence in the market along the way.



Cheney: Prospecting and maintaining a full pipeline. Transaction volume opens doors and gets you in front of deals you wouldn't hear about otherwise. Our team lives in the market — not just owning property, but also understanding the nuances of it. You can send as many emails as you want, but you won't get in any deals if you're not in the market every day.



Adams: Be prepared, know your market and product type, and don't be intimidated by the number of zeros in the size of a transaction.

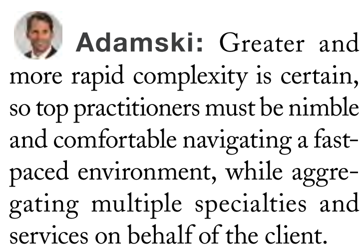


Merin: Always circle back to the basics — be the most knowledgeable broker in your market, give advice, get published, stay active in your market, and work your CCIM connections.

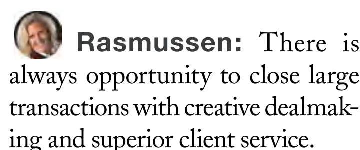
Total Deals Reported in 2018 Deal Makers

# of Deals	Type	Total
67	Office	$1.1 billion
33	Multifamily	$383.2 million
28	Retail	$304.1 million
18	Industrial	$205.2 million
23	Land	$193.2 million
9	Specialty	$138.3 million
14	Hospitality	$89.4 million
7	Financing	$76.1 million
6	Mixed-Use	$38.6 million
205	Total Deals	$2.6 billion

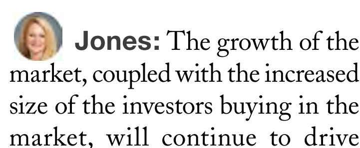
***CIRE*: What does the future hold for closing big deals?**



Adamski: Greater and more rapid complexity is certain, so top practitioners must be nimble and comfortable navigating a fast-paced environment, while aggregating multiple specialties and services on behalf of the client.

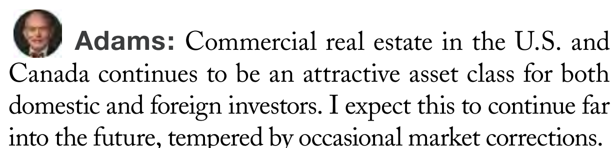


Rasmussen: There is always opportunity to close large transactions with creative dealmaking and superior client service.

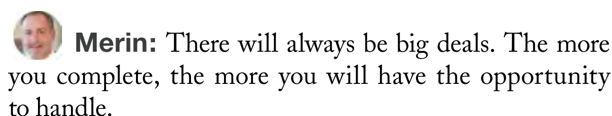


Jones: The growth of the market, coupled with the increased size of the investors buying in the market, will continue to drive bigger deals. I expect these economics to continue a similar path for another 18 to 24 months.

Cheney: Hopefully, a lot for us. Brokers with good resources and strong relationships will continue to be the ones closing big deals.

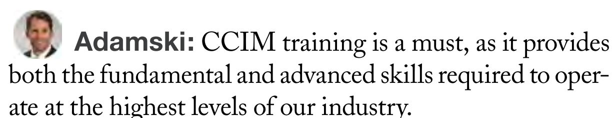


Adams: Commercial real estate in the U.S. and Canada continues to be an attractive asset class for both domestic and foreign investors. I expect this to continue far into the future, tempered by occasional market corrections.

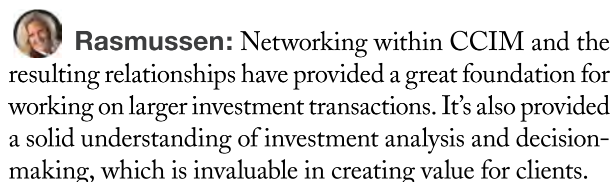


Merin: There will always be big deals. The more you complete, the more you will have the opportunity to handle.

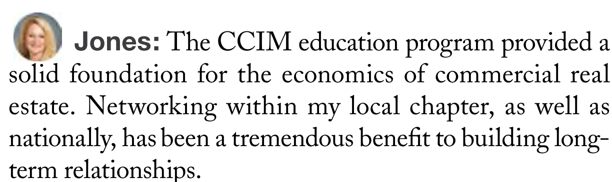
***CIRE*: How has your CCIM training prepared you for closing big deals?**



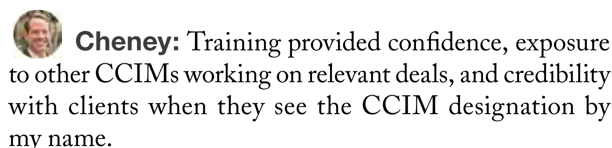
Adamski: CCIM training is a must, as it provides both the fundamental and advanced skills required to operate at the highest levels of our industry.



Rasmussen: Networking within CCIM and the resulting relationships have provided a great foundation for working on larger investment transactions. It's also provided a solid understanding of investment analysis and decision-making, which is invaluable in creating value for clients.

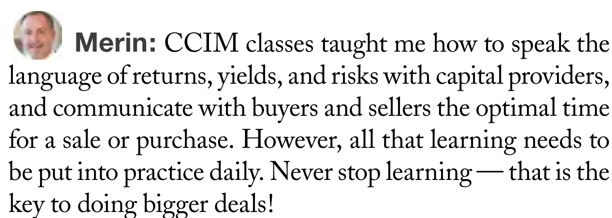


Jones: The CCIM education program provided a solid foundation for the economics of commercial real estate. Networking within my local chapter, as well as nationally, has been a tremendous benefit to building long-term relationships.



Cheney: Training provided confidence, exposure to other CCIMs working on relevant deals, and credibility with clients when they see the CCIM designation by my name.

Adams: The CCIM designation gives me the ability and confidence to successfully tackle transactions of all sizes.



Merin: CCIM classes taught me how to speak the language of returns, yields, and risks with capital providers, and communicate with buyers and sellers the optimal time for a sale or purchase. However, all that learning needs to be put into practice daily. Never stop learning — that is the key to doing bigger deals!

Larry Guthrie is director of communications for CCIM Institute.

DEBT CAPITAL MARKETS REBOUND

While deals are less complex, liquidity flows from varied sources.

by Constantine Korologos, CRE, MAI, MRICS

The financial crisis that escalated in 2007 with the residential subprime collapse and later the bankruptcy of Lehman Brothers in 2008 changed our financial markets forever, particularly real estate capital markets. When you layer on the impact of technology and changes in preferences and tastes for space use, the combined effect is even more profound. The debt capital markets industry hit bottom before a recovery began, and many casualties would never recover. The public outcry was loud, and regulation was implemented to help mitigate the perceived greed and the losses in the future.

While the recession ended in June 2009, it took longer for the markets to come back. Unemployment levels now match lows that haven't been seen in 18 years and, before that, since that late 1960s. The challenge for many companies is finding and keeping the right people — how much space they occupy per person; where people live, work, and play; where and how they shop; and what they spend their money on — and that now presents challenges to capital markets participants. So how did the industry fare in 2018?

Today's Debt Markets

On the debt side, liquidity continues to flow. Options for a debt bid are broad, varying from local banks, debt funds, commercial real estate collateralized loan obligations, commercial mortgage-backed securities shops, mortgage real estate investment trusts, private lenders, insurance companies, and even developers who have started lending businesses.

Overall, the deals are less complex since CMBS 2.0 began in 2010, although many large loans are being cut into several pieces to be spread out across many CMBS deals. The amount of leverage in the system has declined significantly since the peak of the financial crisis, and while competition is growing to invest capital, several alternatives are muting any undue aggressiveness, at least for now.

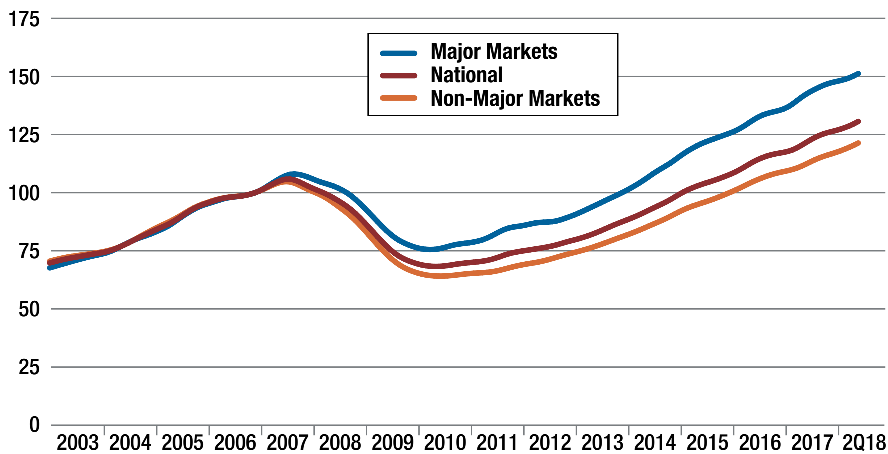
Single-asset, single-borrower deals have seen significant growth. For example, consider the 2016 loan on a single office property like 9 West 57th Street, a 1.6 million-square foot property in New York City; CMBS debt was combined with private debt in the form of privately placed B-note. Another example is a single loan to a single borrower on a cross-collateralized portfolio of assets, like a pool of hotels. During the first half of 2018, 50 percent of the new issuance CMBS were single-asset, single-borrower deals, matching the total conduit issuance.

Floating rate bridge financing has come back to the securitization market, with a strong resurgence in the commercial real estate CLO sector. Originations more than tripled from 2016 to 2017 ($1.8 billion to $7 billion), according to Morgan Stanley's commercial real estate CLO tracker, and are on track to more than

Chris Clor

National Commercial Property Price Index

2003 to 2Q18 (All Property)



Source: Real Capital Analytics

double again this year. In addition to the securitized floating rate product, bridge lenders have liquidity to provide anywhere from $3 million loans to $500 million loans. Sponsors who raised capital range from smaller debt funds to multibillion-dollar private equity funds and global asset money managers. Even traditional developers who aren't finding the yield they seek on the equity side of the balance sheet are entering the lending market.

Public REITs also have been active in the lending space. Blackstone, Starwood, KKR, ARES, and TPG all created publicly traded mortgage REITs to tap the demand for liquid high-quality mortgage investing. Some of these individual REIT loan investments exceed $500 million, illustrating the scope of the current mREIT market.

When including traditional money center banks, regional and community banks, insurance companies, and foreign banks and institutional investors — all of whom continue to lend actively — it's clear that the debt markets are not suffering from a liquidity shortage. But too much liquidity in the system isn't necessarily a good thing.

What's in Store for 2019?

As the market moves into eight years of a strengthening real estate cycle, remember that recoveries are not consistent. While both major and non-major market property categories have surpassed the prior peak, a significant spread exists between the major and non-major categories. Drilling down further, multifamily markets have shown the greatest recovery, while suburban office and retail have shown the least. On a national basis, retail is the only major category that has not returned to its pre-financial crisis level.

While the fundamentals still appear strong, at some point the band will have to take a break. The recent tax reform bill injected some energy into the system, but the effects will wear off. Transaction volume year-over-year has declined, according to Real Capital Analytics, and much of the 2018 volume has been portfolio- and entity-level deals.

Interest rates. Rates continue to move up slowly, potentially impacting the ability for assets to be financed. However, in the two and a half years leading up to the end of 2007, the 10-year Treasury averaged 4.65 percent, ranging between 4.1 percent and 5.1 percent; in 2018, the 10-year hit 3 percent, according to Real Capital Analytics. That's still a 150-basis point difference. As for the spread between cap rates over Treasuries for commercial properties (excluding multifamily), the average for that same 2007 period was 2.1 percent, while the average for the first seven months of 2018 was 4.7 percent. Looking at average cap rates for these respective periods, the prior peak is only about 30 basis points higher on average. When looking at Treasuries and real estate spreads, there is room for movement.

Another indicator of room for further rate increase is the spread of historic mortgage rates and the 10-year Treasury. During the same two-and-a-half-year period, the spread ranged from 80 basis points over the 10-year up to 230 basis points, spiking over the last five months of the year, when the capital markets started to face significant challenges in the subprime residential and collateralized debt obligation space. The average, excluding those last five months, was a little over 100 basis points. In comparison, the mortgage rate spread to Treasuries is just shy of 200 basis points during the first seven months of 2018.

In short, interest rates need to be on the radar going forward, especially when looking at refinance risk for shorter term bridge loans that assume some repositioning of an asset.

Current expected credit loss standards. Beginning in mid-December 2019, the new Financial Accounting Standards Board reporting for the accounting of credit losses for certain instruments takes effect. The new measurement is based on expected losses, commonly referred to as the CECL model. It applies to financial assets measured at amortized cost, including loans, held-to-maturity debt securities, net investment in leases, and certain off-balance sheet credit exposures, such as loan commitments. While not a regulatory change, it is a financial reporting change, and it could have significant implications to lenders — banks, funds, or anyone who has financial assets like commercial real estate loans. Firms need to reserve from the date the asset is originated using a repeatable, defendable, and supportable process, so that in the event that losses do occur in the future, a reserve has been captured based on a consistent model over time. The implications are tough to measure in terms of implementation costs, requirements, and timing. The challenge for external auditors will be to look for documentation and evidence used by management in preparing their estimates.

When a correction in the market will come is uncertain. When it does occur, it will look different than the last one. It will not be a highly levered capital markets across-the-board implosion like last time. Some major private equity funds are out raising capital, some of the largest amounts that they have ever raised — perhaps either to buy, to bet on further improvement, or in anticipation of distress. The capital will be available, along with the technology to analyze deals quickly, and the experience and wisdom gained from the last implosion.

Constantine Korologos, CRE, MAI, MRICS, is an independent real estate advisor and an adjunct professor with New York University's Schack Real Estate Institute. Contact him at tinokorologos@gmail.com.

Where Is the Supply and Demand?

by William G. Leffew, CCIM

Supply and demand for real estate capital follows two basic avenues. First, who is borrowing and what are their goals for a real estate asset? Second, who is lending and what are their observations and perceptions of both the market and a specific asset?

According to the June 2018 Federal Reserve Release of Mortgage Debt Outstanding, commercial banks account for $2.16 trillion of the $4.1 trillion of multifamily and commercial mortgages outstanding in the U.S. The remaining half is split between government-sponsored enterprises ($703 billion), commercial mortgage-backed securities ($375 billion), life companies ($394 billion), and other lenders ($474 billion).

Borrowers with short-term goals desiring prepayment flexibility typically want to stay on the short end of the yield curve. Unfortunately, with Federal Open Market Committee increases to Fed funds, prime and Libor have soared to levels not seen since April 2008 and November of 2008, respectively. In other words, it's expensive to stay short term. Borrowers with long-term goals, however, have benefited from a rather stable U.S. Treasury and reduction in loan spreads from the GSEs, life companies, and CMBS lenders. Furthermore, the desire for loan yield and liability matching (whole life and long-term care policy issuance) produced the need for longer loan durations among life company lenders. The result is non-recourse 10-year loan terms still in the mid-4 percent range compared to short-term, recourse bank debt in the 5 percent range.

Despite the rollback of some Dodd-Frank provisions, commercial banks remain stingy, with construction dollars preferring to stay at the 75 percent or less loan-to-cost level across most property types. Performance of construction loans and their underlying collateral in terms of lease-up at pro forma rents continues to be a focus of commercial bank lenders. Solid projects achieving pro forma levels are quick candidates for sale or the permanent market. Retaining these assets on the bank's balance sheet requires lenders to deviate from their short-term, recourse nature in favor of traditionally permanent market deal terms. The result often can yield loan exposure issues not just in terms of commercial real estate, but also specific property types, tenant exposures, and borrower concentration.

What's in Demand?

Favored property types continue to be multifamily (market rate and affordable), industrial, and grocery-anchored retail. Box-style retail, unanchored retail, suburban office, and hospitality are challenging asset types unless financed at a lower leverage level or with some personal recourse.

From a demographic and debt perspective, affordable multifamily projects are in demand. New class A multifamily construction at higher rent levels may be the only option to offset higher construction costs. However, it's important to note the rate discounts offered by Fannie Mae and Freddie Mac on affordable (defined as those with rents at 60 percent of area median income or lower) multifamily projects. GSEs don't have to count these financings against their annual production allocation from their regulator, the Federal Housing Finance Agency. These projects fulfill their affordable-housing mission and also are defined as uncapped business, resulting in the prevalence of interest spread discounts of 10 to 25 basis points.

On the institutional side, trophy-quality assets in top 25 momentum markets continue to be the focus. Many of these assets are at lower leverage levels and garner superior pricing and structure focused on cash flow yield to investors. At lower leverage points (less than 50 percent loan-to-value), buyers are employing interest-only structures designed to boost yield as an offset to paying aggressive cap rates at acquisition.

William G. Leffew, CCIM, is senior vice president at Bellwether Enterprise Real Estate Capital in Louisville, Ky. Contact him at bleffew@bwecap.com.

Use video technology to promote yourself and your business.

by John Zipperer

Danny Hu; Witthaya Prasongsin

Selling your expertise can be as simple as talking into a camera — and having a gimmick.

Those searching online for a commercial real estate professional might discover videos featuring a smiling Maryann Mize, CCIM. Usually in her one- to two-minute videos, she's standing in front of a building, talking about a property. But what catches your eye is that as she makes her points, she holds up cards with related words to underscore what she's saying. After she makes the point, she tosses the card away and goes on to the next point. Mize, senior vice president and senior credit officer at Charlotte State Bank & Trust in Port Charlotte, Fla., leverages that nice gimmick along with a touch of humor to position herself as a local market expert. Once you watch a video, you'll always remember the cards being tossed away.

That's one way to do it.

Promoting yourself on video can be as basic as talking into your smartphone camera, or as sophisticated as building a studio in your office and having guests on a weekly program.

Either approach can position you in the market and attract customers. With the ubiquity of broadband internet connections and the availability of cheap or even free video technology and services, now is a good time to consider this method to promote yourself and your services.

Go Big or Go Home

Michael Bull, CCIM, founder and CEO of Bull Realty in Atlanta, was already a well-known host of a radio show (now a podcast), "America's Commercial Real Estate Show," when he tiptoed into the TV realm by video recording the radio show, which took place in a small closet-like booth. He received calls complimenting him on the show, sort of. They told him, "The info in your radio show is awesome, but your video really sucks." Bull, determined not to settle for questionable quality, built a studio in his office with three cameras, professional lighting and audio recording equipment, a stage, a tricaster for live-switching the cameras, and a full-time video producer.

That's more than most people need, but he says that the videos of his show, in which he interviews industry experts, and his short "Ask Michael Bull" segments have helped define him for clients. He also adds QR codes on signs for properties he's selling so that people can scan them with their smartphones to get further information, including videos for specific properties. Even those who aren't interested in that property see that he uses technology in his business. "So even if they weren't interested in my property, they saw I was assertive in my efforts," Bull says.

Michael Bull, CCIM, built a studio for his "America's Commercial Real Estate Show."

Tactical Advantages

Using video to promote your expertise requires a different approach than making a property video. You are still selling, but indirectly. It's true regardless of the industry in which you work.

"Nobody likes being pitched to," writes Peep Laja, founder of CXL, an Austin, Texas-based marketing education service. "Your promo video has to be way more than just a sales pitch." He notes that a promo video he made early in his video career in January 2009 for a fitness product lost half of its viewers after only 20 seconds, and all but 15 percent of the viewers had fled by the 1:32 mark. The reason he says it fared so poorly is that it was a "pure sales pitch."

"Short and sweet" is the term that applies to videos you can find on YouTube starring Alec Pacella, CCIM, managing partner and senior vice president at NAI Daus in Cleveland. His video segments, dubbed "Daus You Know," are simple clips running just a couple of minutes long. In them, he shares market knowledge about a recent interesting transaction or property deal, or even explains the unique wrangling that resulted in the owners of the Chicago Cubs buying nearby rooftops. He never needs to pitch himself directly; his videos show him demonstrating his expertise.

Make Something Viewers Want to See

Have a definite plan for what you want to do in a video, but you don't necessarily need to have a script. When Bull started his TV work, he spent a lot of time scripting. Now, he pulls together his guests on a general topic — say, office space — and plans the discussion around what is most interesting to them and what they can talk about without having to do extensive research. Then the video features him speaking conversationally with them "about things that are in their strike zone," he says.

Pacella, too, has moved to a more informal setup for his short videos. In his early videos beginning in late 2016, he sat at his desk discussing a topic; he saw those videos as an extension of a blog or a newsletter. But those early videos came across as scripted, so now he writes at most some bullet points on a notecard and mostly ad-libs his presentation.

Humor Is a Double-Edged Sword

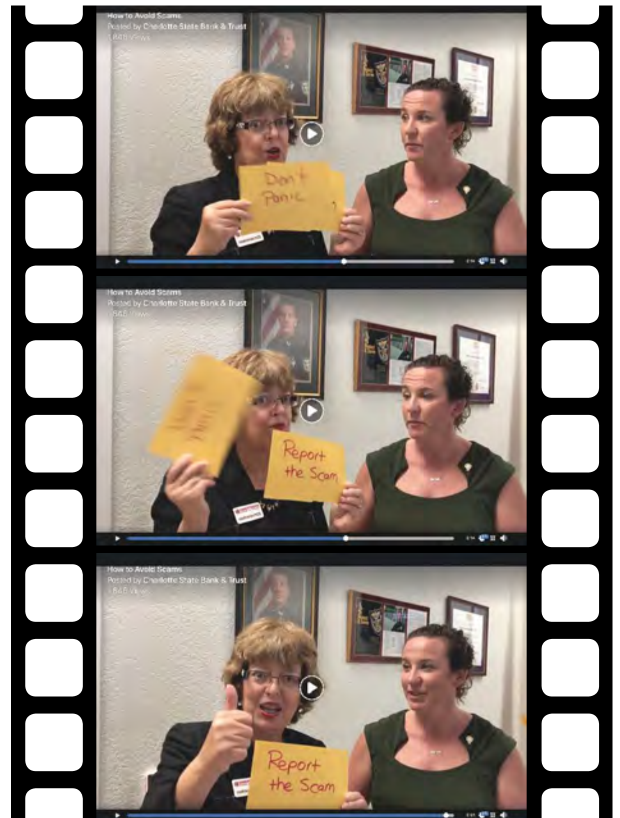
Humor can be a great way to engage your audience. Laja highlights a commercial video from Dollar Shave Club in which the company's founder walks through his offices and warehouse, poking fun at his competitors and giving a hip and snarky explanation for how and why the shaving products service does things the way it does.

But not everyone has the same sense of humor. Dollar Shave Club's video is fun to watch, and indeed millions of people have viewed the video, which effectively communicates the product's qualities. However, some people are put off by the swearing and its irreverent tone, unmoved even by the man in a bear costume who can't catch a box thrown at him.

Spread the Word

Finally, spread the word about your videos. Bull and Pacella make use of social media such as Twitter, LinkedIn, and Facebook to promote their videos; you also can post them to your company website and include them in email newsletters.

Social media makes it easy for others to market for you. Share the video on your social media accounts, and encourage any guests on the program to do so as well.



Maryann Mize, CCIM, positions herself as a local market expert.

Whether your videos are informal or formal, or take place on the street or in a studio, these guidelines will make them better.

Visuals

Many people don't think about something as simple as their clothing. It's more than looking nice and professional or relaxed and approachable. A common mistake is clothing that creates a moiré pattern — which comes across in video as shimmering, wavy, and distracting. "To avoid a moiré pattern, don't wear any crazy patterns like herringbone, flannel, or checks — including stripes. They dance around the screen and are distracting," says Valerie R. Castro, a filmmaker whose work includes videos of hundreds of live events as well as experience in the film industry.

But solids have limitations, too. "Don't wear black, because it is too harsh and sucks up the light," she says. White tends to glow on camera and can become too noticeable on the screen. She considers blue the safest color to wear on TV, followed closely by pastels.

Finally, if you are shooting outdoors, the best lighting is natural sunlight. "Shoot with the sun behind you," Castro says, to make sure your subject will be lit evenly. Cloudy days are more challenging, but not impossible.

Sound

A video with people speaking is useless if the sound is bad. When filming outdoors, use a shotgun wind protection screen on the microphone to prevent background noise — such as wind and traffic — from interfering with the sound. Avoid wearing dangly jewelry, because it also is distracting and can hit your microphone, causing pops on the soundtrack.

Finally, don't speak too fast on camera. "You want your viewers to understand what you are saying," Castro says. "Speak like you are having a conversation with a friend."

Hardware and Software

The simplest way to get started is to use your smartphone to film. It won't give you Hollywood quality, but it works. But for a bit more, the Canon VIXIA HF R800 at less that $300 is a "user-friendly compact HD camera," Castro says. "Just point and shoot." For $700 to $850, there's the Sony FDR-AX33 Handycam, she says. A 4K ultra HD camcorder, which is higher resolution than normal HD, is easy to use. You'll capture some great visuals with its ultra-high definition, but "you must have a fast and powerful computer to import these large image files."

Once you've shot the video, use a video editing software program to cut, finesse, and tweak the video, including adding text overlays and titles. Good video programs for non-experts include iMovie for Mac, Vegas Movie Studio, or Adobe Premiere Elements, Castro says.

Need Help?

Video professionals can charge from $200 to $500 an hour. To save money, Castro suggests hiring local film students, who charge less and are always looking for projects for their resumes.

When uploading videos to YouTube, Vimeo, or other video platforms, add tags to help search engines classify the file correctly. Use both general tags, such as "CCIM," "commercial real estate," or "real estate expert," and tags specific to that particular video, such as "Forest Valley Mall," "cap rates," or "77 West Washington."

Don't try to work the system by adding tags or titles that might attract attention, but don't accurately reflect the content. "It's important not to stuff random keywords into your video title for the sake of appearing in lots of searches," writes Amy Liu, a senior manager of content marketing, on the Vimeo blog. "If your video title and description do not accurately reflect the content of your video, search engines may penalize you."

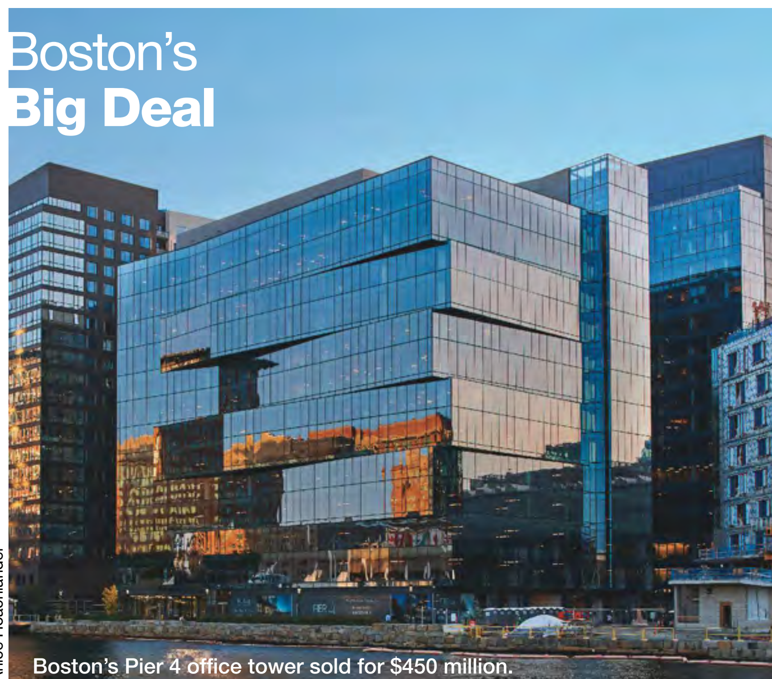
Whether you are going after hundreds, thousands, or tens of thousands of viewers, video marketing can define you as a commercial real estate expert. It also can help you contact potential customers you're not reaching via your other marketing and networking. Finally, it can be a fun and creative way to share your market knowledge with the world.

John Zipperer is vice president of media and editorial at The Commonwealth Club of California in San Francisco. Contact him at jzipperer@gmail.com.

{EAST}

CommonWealth Partners' August purchase of Boston's new Pier 4 office tower for $1,208 psf is the highest ever achieved for a Boston office property, according to the seller, New York-based Tishman Speyer. The sale price was $450 million for the 13-story, 372,372-sf waterfront building in the city's Seaport District. Completed in May, the LEED Gold-certified building features a rooftop terrace, fitness center, and parking and will be anchored by Boston Consulting Group.

Boston's Big Deal



Anice Hoachlander

Boston's Pier 4 office tower sold for $450 million.

{NATIONAL}

Ezra Bailey

Industrial Vacancy Rates

The U.S. industrial vacancy rate for 2Q2018 was 5 percent. Thirty markets recorded vacancy levels at or below the national average.

10 Lowest Vacancy Rates

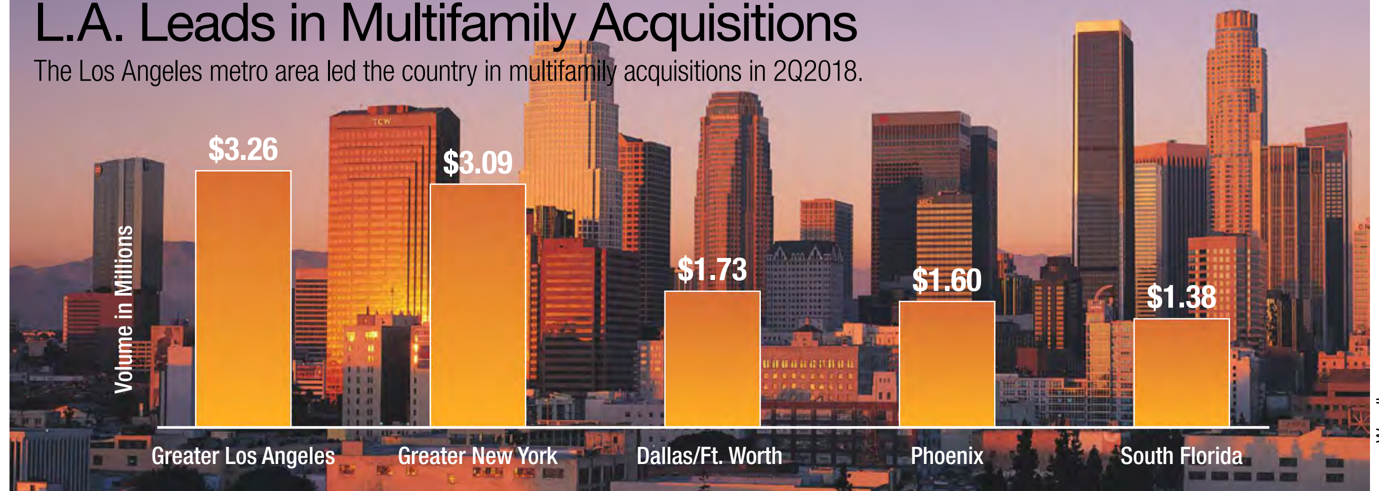
City/Area	Overall Vacancy Rate (%)
Orange County, Calif.	1.4
Los Angeles	1.4
San Jose/Silicon Valley, Calif.	2.4
Cincinnati	2.8
Detroit	2.9
Long Island, N.Y.	3.0
Minneapolis	3.0
Inland Empire, Calif.	3.3
Seattle	3.5
Nashville, Tenn.	3.8

Source: Transwestern

{NATIONAL}

L.A. Leads in Multifamily Acquisitions

The Los Angeles metro area led the country in multifamily acquisitions in 2Q2018.



Jeremy Woodhouse

Source: CBRE

{WEST}

Oregon Approves Timber High-Rises

Edmund Lowe Photography

Oregon is the first U.S. state to allow timber structures to rise higher than six stories without having to receive special permission. In August, the state approved an addendum to its building code that allows three new timber building classifications: up to 18 stories and 270 feet high; up to 12 stories and 189 feet high; and up to nine stories and 85 feet high.

{MIDWEST}

Chicago Condo Reconversions Rising

Higher rents, a shortage of land for new development, and high construction costs spurred condo deconversions in Chicago. In the 24 months ending July 15, 20 deconversions occurred in the city, with buildings ranging from 10 to 300 units. Most are buildings constructed from 1960 through the 1980s. Demand for apartments has increased as well; since 2006, 72,000 units have been added to the area.

Source: Avison Young

Lawrence Manning

{SOUTHEAST}

Miami Retail Grows

	2012	2018
General Retail Asking Rates	$28 psf	$35 psf
Mall Space Asking Rates	$45 psf	$60 psf
Shopping Center Sale Price	$250 psf	$450 psf
Mall Cap Rates	5.9%	4.9%

Source: MMG Equity Partners

Gale Zucker

{MID-ATLANTIC}

I-81 Corridor Heats Up

The Shenandoah Valley/I-81 corridor industrial market is emerging as a solid player in the region at the end of 2Q2018.

Overall Vacancy Rate: 5.5%
Down from 6.4 percent in 2017 and 12.1 percent in 2009.

New Development: 2.4 million sf
Includes six buildings under construction at the end of 2Q2018.

Overall Net Absorption: 2.1 million sf
Market's growth rate of 2.3 percent midyear was the fifth highest in the U.S.

Asking Rents: $4.26 psf
Decade high level, up from $4.12 psf in 2017.

CGIBackgrounds.com

Source: Colliers International

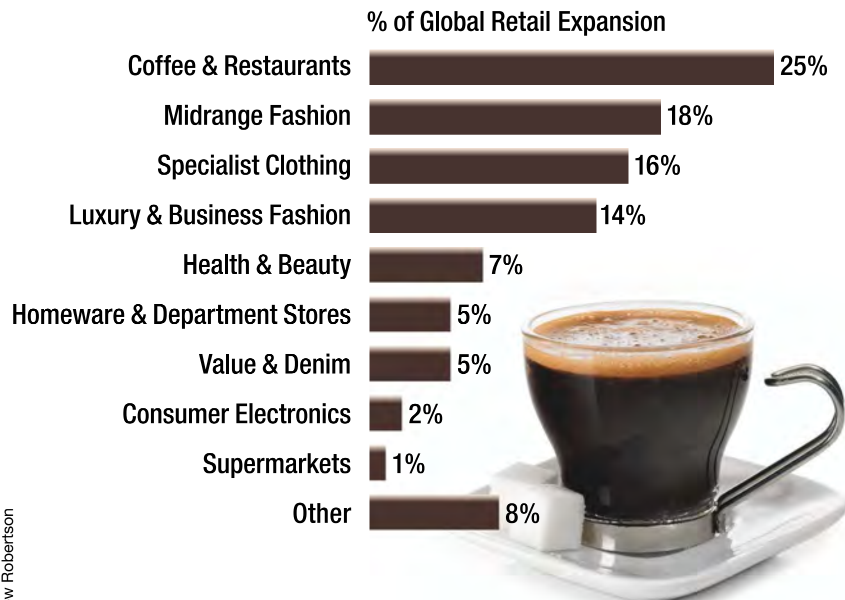
Europe's Big Deal

Danish pension fund PFA has acquired the multiproperty Century portfolio for a gross investment volume of more than 1 billion euros from Frankfurt-based Industria Wohnen. PFA's partner and asset manager is Munich-based Domicil Real Estate Group. The portfolio includes one commercial building and 33 residential properties with a total of more than 3,700 residential units, spread over 15 locations in Germany. About two-thirds of the apartments are in metropolitan areas such as Berlin, Munich, Hamburg, the Rhineland, and the Rhine-Neckar region.

Sven Hansche/EyeEm

First Coffee, Then Shopping

The coffee and restaurant category led global retail expansion in 2017.

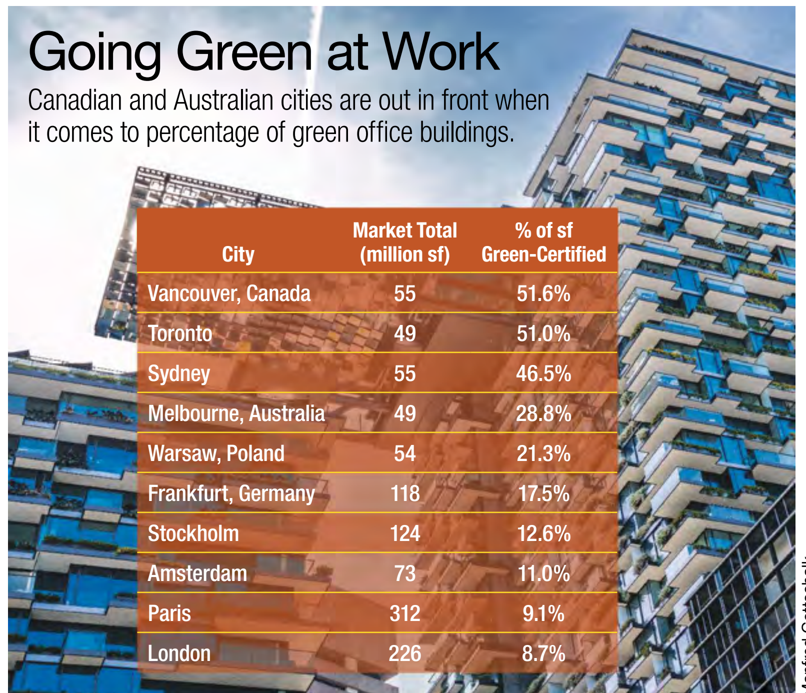


Lew Robertson

Source: CBRE: How Global Is the Business of Retail?

Going Green at Work

Canadian and Australian cities are out in front when it comes to percentage of green office buildings.



City	Market Total (million sf)	% of sf Green-Certified
Vancouver, Canada	55	51.6%
Toronto	49	51.0%
Sydney	55	46.5%
Melbourne, Australia	49	28.8%
Warsaw, Poland	54	21.3%
Frankfurt, Germany	118	17.5%
Stockholm	124	12.6%
Amsterdam	73	11.0%
Paris	312	9.1%
London	226	8.7%

Manfred Gottschalk

Source: CBRE, International Green Building Adoption Index

Global Markets to Watch

The 2020 Tokyo Olympics spurred construction of real estate projects and infrastructure improvements in Japan's capital city. Tokyo real estate guide REthink Tokyo points to five areas of the city that are undergoing extensive redevelopment projects — Toranomon-Azabudai; around Tokyo Station; Shibuya; Shinjuku; and the new Yamanote Line station.

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DEAL MAKERS

THE BIGGEST DEAL Dan Adamski, CCIM, and two partners at JLL in Pittsburgh represented Philips Electronics Realty LLC in the more than $147 million lease of the 205,461-sf Bakery Square Building A office property located in Pittsburgh from LORE PPA BKSQ3 Parcel B LLC.

Multifamily

1 BIGDEAL Thomas McConnell, CCIM, and two partners at Redwood Realty Advisors in Hasbrouck Heights, N.J., negotiated the $32.1 million sale of the 85-unit Silk Lofts multifamily property in Bayonne, N.J., from Bayonne Avenue E Urban Renewal LLC to AMS Acquisitions.

2 Gary Lyons, CCIM, and a partner at Avison Young in Greenville, N.C., represented Carter Multifamily of Tampa in the $14.8 million purchase of the 171-unit Signature Place Apartments in Greenville from Taft Family Ventures.

3 Cindy Hill, CCIM, of KW Commercial in Studio City, Calif., represented Dan Moore in the more than $12.9 million sale of a portfolio of four multifamily buildings totaling 38 units in Glendale and Burbank to four different buyers.

4 Aaron Goldmeier, CCIM, and a partner at Commonwealth Property Group in Norfolk, Va., represented Magnolia Meadows Associates LLC in the $10.3 million sale of a 240-lot multifamily property in Suffolk, Va., to Magnolia Meadows Mobile Home Park LLC.

5 Kevin Goeller, CCIM, and **6 Ryan Goeller**, CCIM, of NAI KLNB in Tysons, Va., represented Pontiac Cascades LLC in the $8 million sale of the 20-acre The Gatherings multifamily property in Sterling, Va., to Capretti Land.

Specialty

7 BIGDEAL Dunston Powell, CCIM, of Carolina Commercial LLC in Mt. Pleasant, S.C., represented Port 32 Marinas in the $21.5 million purchase of the 770-boat slip Tampa Harbour Marina from an undisclosed seller.

8 Kevin Goeller, CCIM, and **9 Ryan Goeller**, CCIM, of NAI KLNB in Tysons, Va., represented Maries Road Properties LC in the $18 million sale of the 20-acre Dulles Town Business Park in Sterling, Va., to Comi Investments LLC.

Retail

10 BIGDEAL Ted Lyerly, CCIM, and a partner at NAI Earle Furman LLC in Greenville, S.C., represented Pearl Brittain in the more than $20.8 million sale of the 245,000-sf Washington Square Shopping Center in Washington, N.C., to Victory Square LLC.

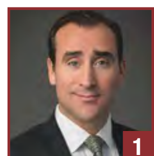
11 Cathy Jones, CCIM, and four partners at Sun Commercial Real Estate in Las Vegas represented Marker Craig LLC in the more than $8.7 million sale of a 73,455-sf retail center in Las Vegas to Golden West Foods.

12 Bobbie Mastracci, CCIM, of Phoenix West Commercial in Avondale-Phoenix negotiated the more than $7.4 million sale of the 35,382-sf Crossroads of Tempe retail property in Tempe, Ariz., from Matt Olson to Cottonwood Apartments LLC.

13 Danny Nguyen, CCIM, of DN Commercial in Houston represented an undisclosed buyer in the more than $6 million purchase of a 60,707-sf retail center in Missouri City, Texas, from an undisclosed seller represented by Eugene Wang, CCIM, of Agate Properties LLC.

14 Phillip Mazaheri, CCIM, and **15 George Williams**, CCIM, of Price Edwards & Co. in Oklahoma City negotiated the more than $5.1 million sale of the 78,127-sf Riverwalk Centre retail property in Oklahoma City from CRK Properties to Riverwalk Centre LLC.

16 David J. Stevens, CCIM, of Investment Properties Corp. in Naples, Fla., negotiated the more than $3.1 million sale of the 7,550-sf Kravet showroom retail property in Naples from 959 1st Ave. LLC to 959 1st Avenue Holdings LLC.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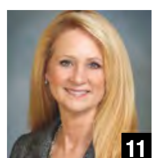
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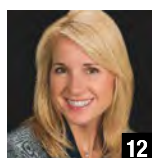
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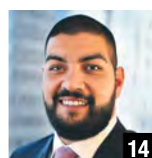
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Upcoming CCIM Courses

UPCOMING DESIGNATION CURRICULUM COURSES*

CI 101: Financial Analysis for CIRE

Date	City	State
Nov. 12–16	Los Angeles	CA
Nov. 26–29	Winnipeg	MB†
Dec. 3–6	Houston	TX
Dec. 4–7	San Francisco	CA
Jan. 8–Feb. 7	Online	—
Jan. 14–17	Phoenix	AZ
Jan. 15–18	Naples	FL

CI 102: Market Analysis for CIRE

Date	City	State
Nov. 12–15	Chicago	IL
Feb. 11–14	Tampa	FL
Feb. 20–Mar 25	Online	—
Feb. 25–28	Birmingham	AL

CI 103: User Dec.ision Analysis for CIRE

Date	City	State
Feb. 5–Mar 7	Online	—
Feb. 25–28	Orlando	FL

CI 104: Investment Analysis for CIRE

Date	City	State
Nov. 12–15	Kirkland	WA
Dec. 3–6	Chicago	IL
Jan. 21–Feb. 25	Online	—
Jan. 28–31	San Antonio	TX

†Denotes an international course
*Schedule subject to change

UPCOMING WARD CENTER COURSES*

CLASSROOM COURSES

Date	Course	City	State
Nov. 16	Splitting Profits in Commercial Real Estate	Kirkland	WA
Dec. 3	Building Winning Relationships for CRE	Chicago	IL
Dec. 10–12	Development Track Capstone	Chicago	IL

ONLINE COURSES

Date	Course
Nov. 27–29	Variations, Manipulations and Extensions of the IRR Calc.
Nov. 28–Dec. 12	Real Estate Financial Analysis Using Excel
Dec. 3	Calculating Building Size for Development
Dec. 4–6	DIY Discounted Cash Flow in Excel
Dec. 4–6	RE Development: Physical Improvements
Dec. 5	Communication Skills for Business Professionals
Dec. 5	Splitting Profits in Commercial Real Estate
Dec. 10	1031 Tax Deferred Exchange
Dec. 11–13	Commercial Loan Underwriting
Dec. 11–13	Evaluating Mixed-Use Development Projects
Dec. 13	Construction: Introduction to Building Information Modeling
Dec. 14	Financial Modeling for Real Estate Development
Dec. 17–19	Before and After Tax Discounted Cash Flow Analysis
Dec. 17–19	RE Development: Transportation/Accessibility
Jan. 8	Splitting Profits in Commercial Real Estate
Jan. 11	Essential HP 10bII Financial Calculator Skills for CRE
Jan. 14–16	Construction: Management and Project Delivery Methods

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DEAL MAKERS

17 Stephanie Folson, CCIM, of Coldwell Banker Commercial Eberhardt & Barry in Macon, Ga., negotiated the more than $3.1 million sale of Vineville Crossing shopping center in Macon from Cantor Fund Management to 4420 Forsyth LLC.

Finance

18 BIGDEAL Brad Cox, CCIM, and a partner at Thomas D. Wood & Co. in Lakewood Ranch, Fla., arranged a loan of more than $17.2 million for a 152,252-sf Storage Now industrial property in Bradenton, Fla., for Reliant Real Estate Management LLC.

19 Bryan Perrucci, CCIM, of Southeastern Management Group in Charleston, S.C., arranged a $4.5 million loan for the 19,330-sf Terrace Plaza retail property in Charleston for Terrace Theatre Plaza LLC.

Office

20 BIGDEAL Jill K. Rasmussen, CCIM, of Davis Real Estate in Minneapolis represented Woodbury Medical Building LLC in the more than $11.4 million lease of the 15,000-sf CityPlace Medical office property in Woodbury, Minn., to Associated Eye Care.

21 Andrew Cheney, CCIM, **22 R. Craig Coppola**, CCIM, and **23 Gregg Kafka**, CCIM, of Lee & Associates in Phoenix represented Oaktree Capital Management in the more than $7.9 million lease of the 24,233-sf Two Renaissance Square office property in Phoenix to Cantor Law Group. They also represented AR Camelback LLC in the more than $4.6 million lease of the 30,082-sf Camelback Commons office property to CBIZ MHM LLC.

24 Tom Skeans, CCIM, of SVN | Imperial Realty in Allentown, Pa., represented an undisclosed seller in the more than $6.1 million sale of the 72,923-sf 95 Highland Ave. office property in Bethlehem, Pa., to an undisclosed buyer.

25 Cathy Jones, CCIM, and four partners at Sun Commercial Real Estate in Las Vegas represented Walnut Grove Investments LLC in the more than $4.5 million sale of a 12,148-sf office property in Glendale, Ariz., to Steve and Elizabeth Walker.

26 Arthur Nachman, CCIM, of Long & Foster Commercial Division in Vienna, Va., represented Dulles Technology Drive LLC in the more than $2.6 million sale of a 12,801-sf office property in Herndon, Va., to North American Islamic Foundation.

27 Rob Adams, CCIM, of Lee & Associates in Santa Barbara, Calif., represented an undisclosed buyer in the more than $2.5 million purchase of a 3,528-sf office property in Santa Barbara from an undisclosed seller.

Land

28 BIGDEAL Aaron Cross, CCIM, of APC Realty LLC in Covington, La., represented Khan Kenner Center LLC in the $6.5 million sale of 7.36 acres of land in Kenner, La., to FCA Realty LLC.

29 Tim Kerrigan, CCIM, of Investors Realty in Omaha, Neb., represented an undisclosed buyer in the more than $5.4 million purchase of 273 acres of land in Elkhorn, Neb., from Grace Revocable Trust.

30 Bryan Perrucci, CCIM, of Southeastern Management Group in Charleston, S.C., represented Plaza Heights LLC in the more than $4 million purchase of 0.34 acres of land in Charleston from 2015 East Bay LLC.

31 Rob Carroll, CCIM, and **32 David J. Stevens**, CCIM, of Investments Properties Corp. in Naples, Fla., negotiated the more than $4 million sale of 4.44 acres of land in Naples from Creekside West to TBC Addie's Commercial LLC.

33 Craig D. Timmins, CCIM, of Investment Properties Corp. in Naples, Fla., represented Racetrac Petroleum in the $3 million purchase of 1.7 acres of land in Naples from Sal Palumbo.

34 Larry Edwards, CCIM, of NAI San Diego represented MJS Principals LLC in the more than $2.5 million sale of 3.56 acres of land in San Diego to Build to Suit Limited LP.

Hospitality

35 BIGDEAL Kent J. Ducote, CCIM, of Truman & Co. in Key West, Fla., and a partner negotiated the more than $5.2 million sale of the 14-unit Coco Plum Inn B&B in Key West to Coco Plum Key West LLC.

36 Cathy Jones, CCIM, of Sun Commercial Real Estate in Las Vegas represented Mt. Charleston Resort LLC in the $4.8 million sale of a 62-unit resort property in Mt. Charleston to an undisclosed buyer.

Mixed-Use

37 BIGDEAL Christine McManus, CCIM, of Investment Properties Corp. in Naples, Fla., negotiated the more than $2.3 million sale of 23,836-sf of land in Bonita Springs, Fla., from Exchange Resource Group LLC to Bear Lake Properties LLC.

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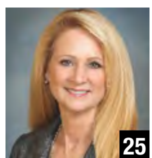
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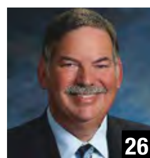
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CCIM **ROI**

Two Las Vegas designees who met at a CCIM pinning ceremony recently teamed up in closing a deal worth more than $30 million.

"Working with someone who has a really solid grasp of the economics of these investment transactions makes a huge difference," says **Cathy Jones**, CCIM, of Sun Commercial Real Estate in Las Vegas, when asked about her experience working with fellow CCIM designee **Marc Magliarditi**, CCIM, of Logic Commercial Real Estate in Las Vegas.

Magliarditi met Jones, representing the Southern Nevada Chapter, at his CCIM pinning ceremony in April 2017. "Having that familiarity, traveling, being out there for the CCIM pinning, was valuable in getting to know another CCIM in my market," he says.

Jones and Magliarditi recently negotiated the more than $30.7 million sale of the 93,650-sf Marnell Corporate Center 4 office property in Las Vegas. "Cathy's reputation and experience in the investment arena definitely played a part. We knew who we were dealing with on the other end, we knew they were bringing a real buyer to the table, and we knew that if there was a deal to be had, she was a very likely co-broker to deal with," Magliarditi says. "You have two local boutique brokerages that worked on a deal and got it closed. Being able to take on a deal of this size for our market was a great accomplishment."

Jones worked with Magliarditi and his partner in several transactions. "We're actually working with them, with this buyer, on another building now," Jones says. "It has been a huge benefit for me to have a network of qualified brokers that I know I can go to who are going to have the knowledge and expertise to help me if I need help on a transaction outside my market."

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Kimberly Kay Hoang, Ph.D.

The World Makes the Money Go Round

by Sarah Hoban

What drives the flow of investment capital across the globe? Who are the people that need to come together to make it all happen?

Kimberly Kay Hoang, Ph.D., associate professor of sociology and the College at the University of Chicago, studies emerging markets in Southeast Asia — including real estate. "Economists do a great job of telling us how much money flows in and out of countries and where it comes from, and lawyers do a great job telling us what laws enable and constrain movement of money across borders. As a sociologist, I was really interested in the people. Who is making these decisions, and what kinds of challenges and obstacles do they face making them?"

Hoang is writing a book tracing the flow of global capital from investors around the world. One of the questions that motivates this project, she says, is "how different investors navigate local markets differently when they're constrained by different local and international laws — in particular, where the assumption is that there's widespread corruption."

Hoang spent about 18 months living between Vietnam, Myanmar, Singapore, and Hong Kong, studying "the relationship between the formal and informal economy and the role the informal economy plays in shaping relationships of trust that help to move capital through the formal economy."

In Western economies, investors tend to focus more on strategic investments, but for early-stage investors in emerging Southeast Asian markets, "a lot of it has to do with the relationships that you're able to build on the ground with local political and economic elites. In frontier markets, you tend to see regional investors who go into really diverse sectors of the economy." An understanding of the local market is essential. "I write about what I call heterogeneous state-market relationships, where every investment is different; the investment laws are vague, leaving each bureaucrat to interpret the law differently."

She studied investors in various stages of investment and found that these early-stage investors typically work in the $1 million to $5 million range, with family-run businesses or small enterprises. The investors help the firms put into place processes of professionalization, Hoang says. "They put together a board of directors and they separate personal finance from business finances." As a business matures, she says, it can attract more Western and Japanese investors. "A lot of Western investors are constrained — in the U.S. context, it would be by the Foreign Corrupt Practices Act — and they really want to make sure that things are cleaned up before they come in."

Hoang, who plans to publish the book in the near future, has interviewed more than 300 people and continues to present her research not only to academic audiences, but also to industry professionals, including at the CCIM Global Conference this past October. "I'm interested in putting together a story of circuits of global capital and what kinds of people have to come together in order to make money move around the world."

Sarah Hoban is a business writer in the Chicago area.

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