

IN THIS ISSUE

From wireless to green, savvy commercial real estate professionals are finding innovative ways to enhance value.

CHAIR REPORT p. 2

What have NAR and the RCA done for you lately? A lot!

RCA UPDATE p. 3

A CONVENTION FOR YOU

New research in office demand, updates on key legislative initiatives and tons of commercial-specific educational offers made the 2006 REALTORS® Conference & Expo a shouldn't miss.

LEGISLATIVE UPDATE p. 4

A favorable climate in the new Congress should create progress for several initiatives beneficial to commercial real estate.

TAXES

In a last minute move, Congress extended several key tax provisions that benefit the commercial real estate industry.

LEGAL

Without a contractual end-date, partners in a real estate transaction can dissolve at will.

INDUSTRY UPDATE p. 6

REIT privatization is making big headlines. Where do experts fall on the debate between the public vs. private markets, and what does it mean to you?

AFFILIATE SPOTLIGHT

IREM adds a new designation for managers of smaller commercial portfolios.

T&I BRIEFING CD p. 7

Get the latest on commercial online listings, business analytics, and land sales from this quarter's audio business tool.

Value outside the box

Commercial owners and managers have long spiffed up the lobby, added a few amenities, and upped the rents to increase asset value. But adding value can be more than a new lobby or even a complete change of use. Here are three creative solutions to adding value outside the box.

Take it higher

In just one month, more than \$300 billion of goods flow into or out of the United States, according to the U.S. Department of Commerce. All those goods have to be stored somewhere, which explains why NAR's Research Department predicts that vacancies in warehouse/distribution space will continue to fall in 2007.

But not all warehouse space is created equal. Older facilities, such as a Toronto warehouse owned by John Vince Foods, can't accommodate today's standard 22-foot high

racking systems. The company, which is the largest distributor of candy and snack foods in Canada, was faced with the costly prospect of constructing a new, taller warehouse next door to its facility. Instead, Vice President of Special Projects John Logarakis decided to grow in place—literally. With the help of a company called RoofLifters (www.rooflifters.com), John Vince raised the roof of 70,000 square feet in its warehouse facility. Adding the 16 additional feet it needed to accommodate its multistory conveyor system.

The roof-lifting process transfers the existing roof load to specially designed hydraulic equipment placed underneath the structural beams. The entire roof is then separated from the perimeter walls and the structural columns are severed, says RoofLifters CEO Marty Shiff. The technology can be used on roof areas of up to 150,000 square feet;

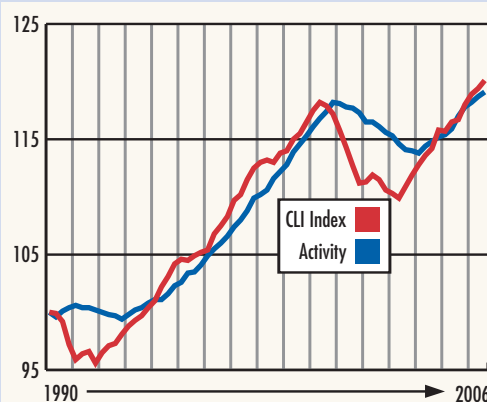
larger areas can be done in phases, says Shiff. The building can even be used during the process, although the working section must be vacated.

The biggest plus to the technology is the lower costs of adding space. Logarakis estimates that he saved approximately 40 percent in construction costs while more than doubling his useable area. Shiff says that his company's roof raising and construction process averages \$15 per square foot, compared to \$50 or more for comparable new construction.

An added benefit of the technology is the time savings when compared with more conventional demolition and reconstruction. The John Vince job took seven days for the actual lifting and only six months for the entire process, according to Logarakis. There's also a significant environmental benefit since the original building is

See **Value** on back page

COMMERCIAL LEADING INDICATOR



The CLI, in red, is a leading indicator. The Activity line, in blue, represents actual commercial activity. Decreases in the CLI Index imply upcoming decreases in commercial net absorption and commercial construction.

Expansion solid, but sluggish

The preliminary value of NAR's Commercial Leading Indicator increased 0.4 percent in the third quarter of 2006 from the prior quarter. CLI has increased for six consecutive quarters and is 2.9 percent higher than it was at the same period last year. However, the CLI has shown a measurably lower rate of expansion during the last two quarters when compared to the expansion rate in late 2005 and early 2006. Sluggish economic growth—reflected in GDP growth of 2.2 percent in the third quarter of 2006—has impacted many of the components that make up the CLI. A slower rate of expansion in the CLI implies that commercial activity, as measured by net absorption and the completion of new commercial buildings, will continue to expand over the next six to nine months, but at a modest pace.

Value

Continued from page 1

reused.

Roof lifting also has a value-added application for retail, notes Shiff, whose two-year-old company has converted a former low-clearance-height section of a mall to accommodate the height requirements for a Home Depot.

Make it greener

The decision by Unico Properties Inc. to convert an obsolete office building in Seattle's Metropolitan Track greenway to 91 luxury residential units is one being replicated all over the country. But what set the project, dubbed The Cobb, apart was the company's commitment to making the 96-year-old building green.

"Not only is green the right thing to do, it's in our self-interest to create a competitive advantage," says Unico CEO Dale Sperling. Sperling believes that the college-age kids who represent tomorrow's renters "have a whole different set of standards for the locations where they live and work," and one of those standards is environmental responsibility. While the historic nature of the building precluded some green technologies such as multipane windows, a combination of Energy Star appliances, water savings from dual-flush toilets and the irrigation with run-off rainwater, and the use of some recycled materials during renovation added to the property's green quotient. Green lifestyle features include the use of nontoxic janitorial products and a walkable location that allowed Unico to construct parking for only two-thirds of the units.

Sperling estimates that green features added "a percentage point or two" to the \$35 million renovation, but with a fully leased building at rents some 20 percent higher than comparable buildings on a square-foot basis, the decision "wasn't a hard sell," he says. Sperling acknowledges that its difficult to

find empirical evidence to quantify exactly what impact the green features at The Cobb had on rents and value. Still he believes that the building's success demonstrates that green resonates with today's renter.

While The Cobb, which is applying for a LEED's Silver Certification from the U.S. Green Building Council, is an innovator,

it's no longer an anomaly, says Doug Gatlin, director. LEED for Existing Buildings, at the USGBC (www.usgbc.org). More educated customers are driven the demand for greener homes and offices, but perhaps just as important is the significant growth in the supply of building materials and service providers.

These days, says Gatlin, there is virtually no incremental costs to bring a building in compliance with LEED standards for platinum certification (it's most green). Cost-effectiveness has also helped bring green construction into the consciousness of mainstream investors and lenders, says Gatlin.

As The Cobb's success demonstrates, these days, it's the pragmatists, not just the early adopters, who are recognizing the added value green can bring.

Keep it connected

If you've even had to hang up on an important client call because you were driving into an underground garage, you already grasp the value of in-building wireless connectivity. The question for building owners and managers is how to make this desirable amenity a cost-effective addition that yields an acceptable ROI.

"In-building wireless is a platform that enables all the building stakeholders to share information and innovate, but you will not get building owners to embrace it unless you

present the value proposition of the technology in a language that's relevant to them," says Dr. Anand K. Iyer, president of the In-Building Wireless Alliance (www.i-bw.org), a cross-industry group formed to explore the value of wireless coverage in office buildings.

One way to circumvent the debate is look at the benefits building-wide wireless can provide to building operations, suggests Tommy Russo, chief technology officer for Akridge, a Washington, D.C., company that's taken the innovating value-added step of installing property-wide wireless coverage in the A+ Homer Building. The approximately \$1 per square foot cost to install wireless antennae and support equipment into the historic, 450,000 square foot, multitenant building and its underground garage will pay off in enhanced tenant security, lower tenant build-out costs, and improved productivity for building staff and tenants, says Russo. Most tenants will also get the benefits of seamless cellular connectivity, thanks to agreements Russo has negotiated with several cell phone carriers.

Tenant security and safety are enhanced when an in-building wireless distribution system is connected to the local public safety network, says Bill Holman, senior vice president of sales at InnerWireless, a provider of turnkey wireless systems for buildings. Wireless allows first-responder personnel to stay connected with outside command posts during an emergency. Some cities are already requiring new commercial buildings to guarantee adequate radio coverage. Wireless also allows for easy installation of video cameras in security trouble spots.

Tenant productivity benefits from both PCS/cell phone Wi-Fi because they can work from anywhere in the

building, as well as have a back-up in case a back hoe takes out the hardwired lines. "At a time when more and more functionality is going to handheld devices, the ability to stay connected at all times is more critical," notes Holman.

Building operations also gain value from such energy-saving devices as wireless lighting ballasts, which Russo says should be available in this year in the United States. These devices, will cost approximately 15 percent more than conventional ballasts but will offer the ability to remotely control lighting without the installation costs needed for centralized building automation system.

Because of the many benefits—tangible and intangible—wireless offers, getting a concrete handle on the technology's ROI has remained elusive. In 2005, the IBWA released the results of a study demonstrating that ubiquitous wireless coverage adds \$5 per square foot to the value of commercial office buildings. Now the IBWA has undertaken a pilot project—using The Homer Building as the model—to demonstrate those returns in real life.

Although it will be the second or third quarter of 2007 before the pilot program yields hard figures, Russo is already a believer in the future of wireless in buildings, as evidenced by the Homer's 99 percent lease up at top-market rents. "Once upon a time, air conditioning wasn't considered a necessary amenity in office buildings," notes Russo. "Developers and owners have a choice either to lead or to follow. If you want to stay ahead of the competition, you have to be there first."

Being there first, with an idea that's ahead of the curve, is what American entrepreneurship is all about. Whether you're helping an investor make a building more appealing to buyers or trying to improve NOI for a current owner,

**"tomorrow's renters
have a whole different
set of standards"**

Value runover

now's the time to start thinking outside the box to find value.

Industry runover

dicts Yeskey.

Indeed, privatization may have already run much of its course suggests Vinocur. Rising REIT stock prices are inching too close to property asset value to make yields attractive enough for buyouts, he feels. The record as the biggest merger year in the REIT industry's 46-year history may rest with 2006 for some time to come.