COMMERCIAL Real Estate
NATIONAL ASSOCIATION of REALTORS®

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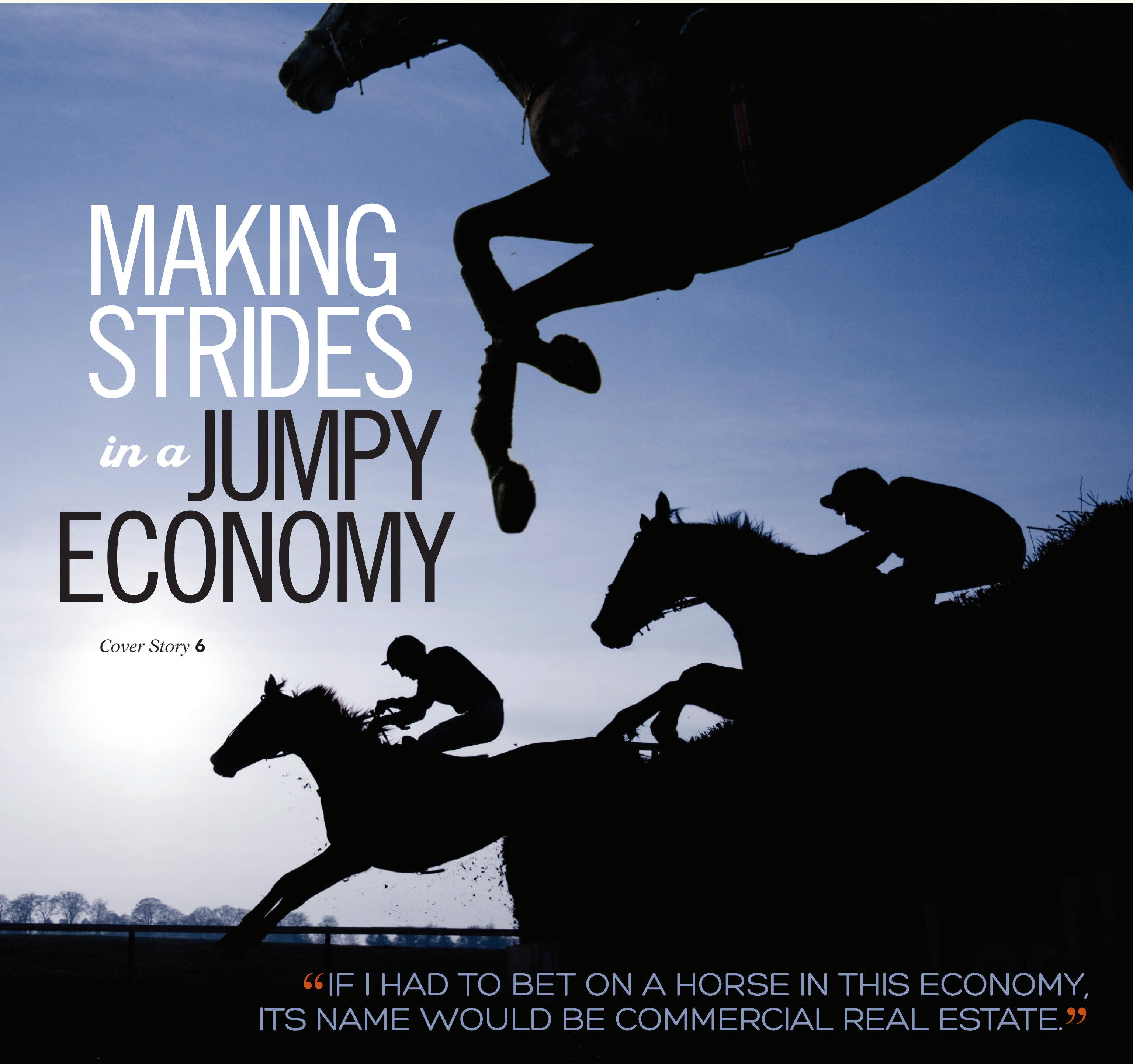
COMMERCIALCONNECTIONS

THE NATIONAL ASSOCIATION OF REALTORS® COMMERCIAL REAL ESTATE NEWSLETTER VOLUME 13 ISSUE 2 **SECOND QUARTER 2012**



MAKING STRIDES *in a* JUMPY ECONOMY

"IF I HAD TO BET ON A HORSE IN THIS ECONOMY, ITS NAME WOULD BE COMMERCIAL REAL ESTATE."

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COMMERCIAL Real Estate
REALTOR®

THE LATEST

NEW REALTOR BENEFITS® PARTNER XCELIGENT CHANGING THE GAME AND THE PLAYING FIELD FOR REALTORS®

NATIONAL ASSOCIATION *of* REALTORS®
REALTOR®
REALTOR Benefits® Program

XCELIGENT WILL BE DELIVERING competitive commercial real estate information services to the industry and REALTORS® are receiving preferred pricing on fully researched information as well as global marketing of listings. Turn to the Tech Savvy column in this issue to get the latest information on this exciting direction for the REALTOR Benefits® Program and REALTORS®.

For more information, go to page *8*.

5-YEAR FLOOD INSURANCE EXTENSION CHAMPIONED BY REALTOR® PARTY

ON JUNE 29, 2012, both the Senate and House passed the Biggert-Waters Flood Insurance Reform Act of 2012 as a part of H.R. 4348, the Surface Transportation Conference Report and the President signed the measure in July. This is the culmination of a successful multi-year REALTOR® campaign and a final push at NAR's Midyear Legislative Rally and Meetings in May 2012. Congress had been extending the National Flood Insurance Program a few months at a time since 2008. Twice this led to shut downs, including one that stalled thousands of real estate sales in June 2010 alone. Passage of this 5-year re-authorization will bring certainty to real estate transactions in more than 21,000 communities nationwide where flood insurance is required. The bill ensures the program will continue long-term for more than 5.6 million business and homeowners who rely on it, achieves one of NAR's top priorities for the year, and means taxpayers will spend less on federal assistance for flood disasters over the long run.

To read about the extension and NAR's efforts, go to: ***http://bit.ly/NFIPExtend5***.

REALTOR® CODE OF ETHICS COMPLIANCE DUE DECEMBER 31, 2012

REALTORS® CAN MEET THE CODE of ethics requirement by taking the online course. Once you log in to the Code of Ethics online course you can choose to take a **commercial track**. REALTORS® who complete the Code of Ethics Training Requirement between July 1 and Aug. 31 will automatically be entered to win an Apple iPad 3!

▷ To get started and complete your training, go to: ***www.realtor.org/code-of-ethics/training***.

REALTOR® ANNUAL CONFERENCE & EXPO, NOV. 9-12, 2012, ORLANDO, FLORIDA

EARLY BIRD REGISTRATION AVAILABLE UNTIL AUGUST 15TH! Full conference registration includes over 100 education sessions including two full days of commercial real estate programming including a networking reception and admission to the Commercial Block at the EXPO where REALTORS® have access to all programs and services related to commercial real estate and networking space. New flexible registration options available such as the One Session + Expo for $50! NAR Commercial represents over 72,000 REALTORS® – visit Orlando in November to connect with the largest commercial real estate association in the world. http://www.realtor.org/convention.nsf. CC

▷ For more information, go to: ***www.realtor.org/convention.nsf***.

TEMPORARY SBA 504 REFINANCING PROGRAM PROVIDES CAPITAL FOR SMALL BUSINESSES

BY: BARBARA VOHRYZEK, NATIONAL ASSOCIATION OF DEVELOPMENT COMPANIES

Recognizing the dilemma faced by small businesses as a result of the contraction in the credit markets, the Small Business Administration (SBA) has temporarily modified its 504 Program to allow the refinancing of existing debt and the use of the equity in the property for long term working capital needs.

Small businesses have historically had limited access to long-term financing at attractive interest rates. As a result, many elected to finance long-term projects or long-lived assets with short-term balloons in anticipation the lender would renew the balance at maturity on similar terms. The recent financial crisis and economic downturn caused many businesses to scramble as their commercial mortgages matured, but their renewal was not assured. Additionally, such short-term financing often creates havoc in budgeting, planning for long-term growth and effectively allocating scarce financial resources. This new SBA refinance program is designed to meet the long term financial needs of small businesses.

Refinancing A $1,100,000 Note With Cash Out For Working Capital

Current Appraised Value of Property	$1,400,000	
New Maximum Outstanding Balance of Debt	$1,260,000	90% LTV

Loan Structure

ENTITY	LOAN AMOUNT	% OF LOAN	SECURITY
New Bank First Trust Loan	$700,000	50%	1st Lien
New CDC/SBA 504 Loan	$560,000	40%	2nd Lien
Borrower contribution (equity)	$140,000	10%	
Appraised Value of Property:	**$1,400,000**		
Existing Note Payoff:	**$1,100,000**		
Cash out for Working Capital:	**$160,000**		

PROGRAM BENEFITS

This program enables small business owners to refinance existing debt with a long term loan. If property owners have more than 10% equity in their property, these individuals can also borrow against that equity for their working capital needs. SBA 504 loans are funded by the sale of ten-year and twenty-year bonds guaranteed by the SBA. Thus, this type of loan has an interest rate that is generally lower than market. Recent interest rates have been as low as 5.04% for 20-year SBA 504 refinancing loans.

PROGRAM ELIGIBILITY

A small business must have been in existence at least two years before the loan application is received by the SBA. It must be for-profit and have a tangible net worth of less than $15 million and an after tax profit of less than $5 million for the previous two years. The small business must currently occupy at least 51% of the existing commercial real estate to be refinanced, and the property must have been acquired at least 2 years ago with debt. In addition, borrowers must demonstrate that the loan is current and that they have not made any payments more than 30 days after the due date under original or modified bank terms for the past twelve months. Such modifications of terms must have been entered into prior to October 12, 2011.

PROGRAM FEATURES

Loans under this temporary 504 refinance program are structured like traditional 504 loans. With a traditional 504 loan, a bank provides up to 50% of the project cost and holds the first lien position. A Certified Development Company (CDC) provides up to 40% of

"THIS PROGRAM ENABLES SMALL BUSINESS OWNERS TO REFINANCE EXISTING DEBT WITH A LONG TERM LOAN"

“Visit the NADCO website for a list of member CDCs at *www.nadco.org*”

the project cost and takes a secondary position to the bank loan. The small business borrower must provide equity of as little as 10%. The amount of the bank loan must be at least as much as the 504 loan.

While there is no limit on project size, the 504 loan is limited to $5 million maximum for the majority of refinance projects just as with the regular 504 program. The upper loan limit increases to $5.5 million for eligible manufacturing projects and projects that incorporate energy saving technologies.

The project structure is based on the current appraised value of the collateral, and up to 90% of this value may be refinanced.

A huge benefit of the SBA 504 refinance loan is that small business owners are able to refinance their existing debt and use excess equity to obtain long term working capital for payment of eligible business expenses. These expenses can include items such as rent, utilities, inventory and other business obligations.

For more information on this new debt refinancing program, contact a Certified Development Company in your area. Visit the NADCO website at www.nadco.org for a list of member CDCs that serve every State, as well as Puerto Rico and U. S. territories in the South Pacific. They will be pleased to meet with you to explain the unique advantages of the program. Act fast; the program expires September 27, 2012, unless Congress acts to extend it.

UPCOMING COMMERCIAL & AFFILIATE MEETINGS

NATIONAL ASSOCIATION *of* REALTORS®

Meet the NAR Team!
Florida REALTORS® 2012 Convention & Trade Expo
August 8 – 12, 2012
Orlando, FL
http://convention.floridarealtors.org

CCIM INSTITUTE
Annual Meetings & Conference
October 12 – 16, 2012
Las Vegas, NV
http://live2012.ccim.com

CRE

COUNSELORS OF REAL ESTATE® (CRE®)
2012 Annual Convention
October 14 – 17, 2012
Miami, FL
www.cre.org

IREM

INSTITUTE OF REAL ESTATE MANAGEMENT (IREM)
Fall Leadership Conference
October 16 – 20, 2012
New Orleans, LA
www.irem.org/iflc/

SIOR

SOCIETY OF INDUSTRIAL AND OFFICE REALTORS® (SIOR)
Fall World Conference
October 25 – 27, 2012
Los Angeles, CA
www.sior.com/events

ALC ACCREDITED LAND CONSULTANTS

REALTORS® LAND INSTITUTE (RLI)
RLI Day @ REALTORS Conference & Expo
November 8, 2012
Orlando, FL
www.rliland.com/nar-annual-conference

NATIONAL ASSOCIATION *of* REALTORS®

REALTORS® Conference & Expo
November 9 – 12, 2012
Orlando, FL
www.realtor.org/convention.nsf

COMMERCIAL SECTOR: MAKING STRIDES IN A JUMPY ECONOMY

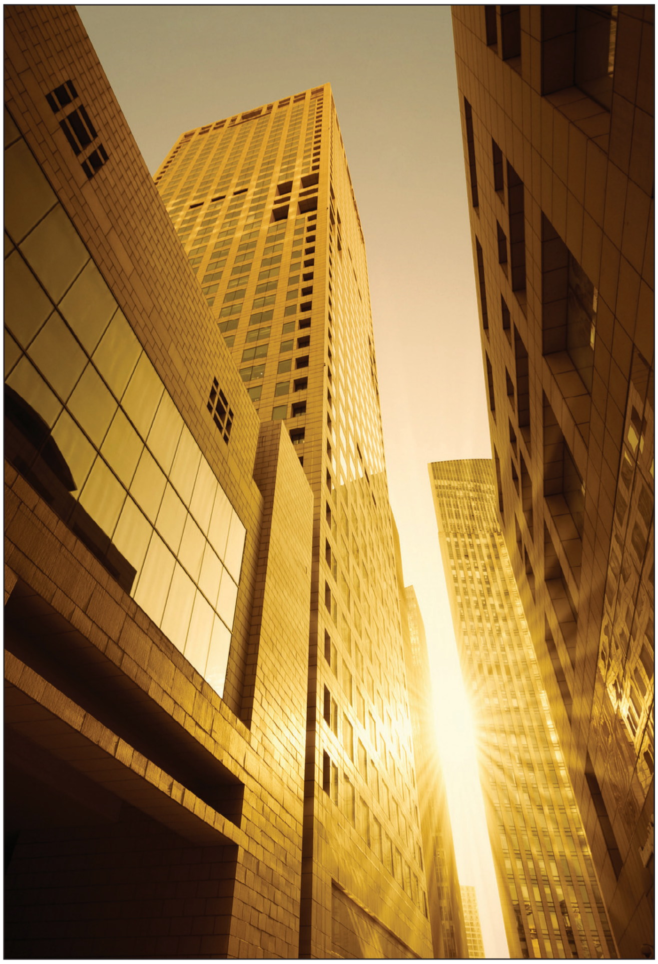
BY MARIWYN EVANS REALTOR® MAGAZINE COMMERCIAL EDITOR,

ARE THE WEAK U.S. jobs numbers and the debt headaches in Europe making your clients uneasy about commercial real estate performance? Don't worry, says Lawrence Yun, chief economist for the National Association of REALTORS®. Net absorption is rising because the economy has added nearly 4 million jobs since 2009. Combine that with very limited new construction over the same period, and "even moderate demand for commercial space will help lower vacancy rates and slowly push up rents," he says.

Pull backs in job growth may flatten demand for commercial real estate for the remainder of 2012, but economic uncertainty may actually benefit the investment, says Kenneth Riggs, CRE, chairman and president of Real Estate Research Corp. "Commercial real estate is a tangible asset with a believable income, which makes it attractive to investors, and it has not had the major swings in value we've seen in the stock market recently." European problems are also making U.S. properties more attractive as a safe haven for foreign investors, he notes.

Yun is also confident that "there is no recession over the horizon for the U.S." Like the Federal Reserve, he anticipates "moderate" economic growth of between 2 and 2.5 percent annually for 2012 and 2013. Why? Despite a recent slowing in business spending, "corporations are sitting on a massive $2 trillion cash reserve," he says. Consumer spending is also rising, and Yun expects jobs to increase by 2.5 million next year. "A lot of the commercial real estate's performance in 2013 depends on how quickly we can grow employment," says Matt Wisniewski, with the RE/MAX Commercial Group in Lansing, Mich.

Still, in all but the strongest gateway markets, uncertainty about the election, job growth, and Europe is taking its toll on landlord confidence, says Ken Ashley, CCIM, SIOR, senior director of Cushman & Wakefield's Tenant Advisory Group in Atlanta. Even though Atlanta's office vacancies are declining, especially in the CBD, landlords that were talking about raising rents a couple of months ago are now pulling back. "When you've just come through a string of rapids, you're going to be conservative about how you approach the next bend in the river," he says. "There are not many broad-based asset-class winners," agrees Riggs, "but if I had to bet on a horse in this economy, its name would be commercial real estate."



PROGRESS AT DIFFERENT PACES

Far ahead of the rest of the commercial property field is multifamily. Yun expects apartment vacancies to drop to 4.6 percent nationally by the end of 2012. Even a significant uptick in construction this year won't diminish absorption and rent growth, he adds. In

“We’re seeing a lot more interest and activity in buying and leasing industrial space.”

Southern California, “multifamily is strong at all three levels—Mom and Pop, mid-sized privately held properties, and large complexes owned by REITs or pension funds,” reports Jeffrey Peldon, operating partner for two Keller Williams Realty/ KW Commercial offices in Los Angeles. There’s also new construction, with previously entitled condominium properties now being built as rental apartments, he says.

Industrial’s recovery is certainly no match for multifamily, but it is showing signs of strengthening this year and promises even better returns in 2013, predicts Yun. ”We’re seeing a lot more interest and activity in buying and leasing industrial space,” says Wisniewski. “It’s not pretty, but it’s a lot less ugly.”

Yun expects industrial rents to rise by 2.3 percent in 2013 and vacancies to drop to 10.7 percent nationwide. “It’s still a tenant’s market, but good locations are starting to resist rent abatements,” reports Charlie Foxworth, SIOR, CCIM, president of RE/MAX Commercial in Beaumont, Texas. The Gulf Coast of Texas is benefiting from a booming world market for oil and natural gas, he explains. Nationwide growth in U.S. manufacturing, which has grown for 34 straight months through May 2012, should also strengthen warehouse demand.

In many markets, retail is still struggling to shake off the recession’s woes, but tenants’ confidence and willingness to lease more space is growing. “Most of the retail tenants I’ve talked to recently are committed to expanding or relocating to better space. And they aren’t resistant to quoted rents like they were a year ago,” says William Poteet, GRI, owner of Poteet Properties Inc., in Naples, Fla.

“Retail is always driven by employed people,” says John Orr, CCIM, with Colliers International in Charleston, S.C. Case in point: Charleston’s diversified economy, including a new Boeing plant building the Dreamliner aircraft, has helped push retail vacancies down to single digits in some submarkets and prompted six new shopping center starts. Strict zoning regulations that prevented retail overexpansion before the downturn has also kept retail strong, says Orr.

While office is improving more slowly than other property types, vacancies are falling and will probably drop below 16 percent in 2013, says Yun. “Many cities aren’t replenishing their office inventories, which is a benefit now, but may catch up with us eventually,” says Ashley. He also notes that vacancy numbers can be deceiving. Some space is functionally unsuited to the new shared and mobile office environments most companies want today.

LIMITED FUNDS KEEP BRAKES ON TRANSACTIONS

If there is one shadow over the positive outlook for commercial real estate, it is a lack of financing, especially for transactions under $2.5 million. “The private investor is being squeezed out by the lending community,” says Orr. “FDIC regulations and Dodd-Frank are holding back credit, especially among smaller community banks,” agrees Yun.

The 2012 NAR Commercial Lending Survey found that 67 percent of commercial members had a deal fail in the last year because of financing issues. “There’s not a lot of incentive to lend on smaller deals since they require almost as much paperwork as larger transactions,” notes Wisniewski.

An exception is multifamily, “which is a regional bank business,” says Peldon. Owners of existing properties are also taking advantage of lower interest rates to refinance

PLEASE TURN TO PAGE 9

“IN MANY MARKETS, RETAIL IS STILL STRUGGLING TO SHAKE OFF THE RECESSION’S WOES, BUT TENANTS’ CONFIDENCE AND WILLINGNESS TO LEASE MORE SPACE IS GROWING.”

XCELIGENT® AND NAR: CHANGING THE GAME AND THE PLAYING FIELD

BY: CHERÉ LAROSE-SENNE, MANAGING DIRECTOR, NAR COMMERCIAL

In order to provide commercial real estate information services, the National Association of REALTORS® (NAR) recently announced Xceligent as a new REALTOR Benefits® Partner. As part of Xceligent's expansion into providing a national public marketing platform for commercial real estate listings, Xceligent purchased ePropertyData from Second Century Ventures, the strategic investment arm of NAR. As part of the REALTOR Benefits® Program, Xceligent will be the exclusive provider of commercial real estate information services with preferred pricing for REALTORS®. Pricing is also guaranteed to be lower than Xceligent's competitors. The national public marketing platform will launch in early fall 2012 at *CommercialSearch.com*. We have included answers to some frequently asked questions below.

For the most up-to-date information, visit ***www.realtor.org/commercial*** or NAR Commercial's blog at ***http://blog.commercialsource.com***.

Q: How will NAR members benefit from the partnership created between Xceligent and NAR's REALTOR Benefits® Program?

ANSWER: Xceligent operates fully researched databases in more than 30 US markets and offers professionals proactively researched information on all properties, listings, tenants, lease and sales transactions, market analytics, historical trends and demographics. Xceligent is the only multi-market, fully researched competitor to CoStar in each of those cities. The Federal Trade Commission's (FTC) recent Consent Decree regarding the CoStar and LoopNet merger provided a number of specific conditions in order to create competition in this marketplace. Xceligent in partnership with NAR presented a plan to the FTC that would allow for the quick expansion required to compete with CoStar and LoopNet. This expansion plan included finding a funding partner, dmg :: information (dmgi) with a 15 year history of investing and growing real estate information companies and Xceligent acquiring ePropertyData. The objective is to create a global trading platform for commercial real estate information and REALTORS® would receive preferred pricing on those products.

> **"There will be no cost to post listings with a Basic account on *CommercialSearch.com*."**

Q: What happens to *CommercialSource.com*?

ANSWER: Commercial real estate property listings on *CommercialSource.com* along with their individual account holders will be transferred to the new national public marketing site, *CommercialSearch.com*. Individual account holders will be prompted to visit *CommercialSearch.com* when it goes live and will be able to claim their free account on *CommercialSearch.com*. If your listings are on *CommercialSource.com* today via a feed from your firm, Multiple Listing Service (MLS) or Commercial Information Exchange (CIE), those listings will also transfer to *CommercialSearch.com*. Firms, MLSs and CIEs with *CommercialSource.com* data content provider agreements are being contacted about those feed transfers.

Q: How much will it cost to post my listings on *CommercialSearch.com*?

ANSWER: There will be no cost to post listings with a Basic account on *CommercialSearch.com*. Basic listings will be searchable by brokers only. A Premium account will also be available and for REALTORS® the Premium listing exposure will be free for the first 18 months. Beginning January 1, 2014, REALTORS® will receive significantly discounted pricing on the Premium Access to *CommercialSearch.com*.

Q: How will *CommercialSearch.com* be able to compete with LoopNet?

ANSWER: The system will have over 400,000 listings in the beginning. The content will be expanded proactively by Xceligent's research teams who are consistently creating new data relationships with listing companies rather than waiting for the industry to load their own data. This will accelerate the content creation and adoption of the site.

Q: How will Xceligent compete with CoStar?

ANSWER: Xceligent's national drive team has already begun physically inspecting each commercial building in every major US market to create the matching footprint to CoStar's research system. Over the last 14 years, Xceligent has been perfecting their research process and now collect over 150 fields of information per property including an original photograph prior to that market's launch.

Q: When will Xceligent reach my market?

ANSWER: Xceligent will launch approximately 10 to 12 major US markets per year until they have completed coverage of the top 65 metro areas in the first 36 months. They will accelerate in the fourth year to complete 90 metro areas by the 48th month. The research process requires a great deal of planning (working around weather patterns, etc.) to guarantee the best data for each market. For more information on the Xceligent market launch schedule, we recommend you contact NAR Commercial at (800) 874-6500 or email NARCommercial@REALTORS.org.

Q: What if my market area isn't considered a 'major market'?

ANSWER: Markets that do not meet the threshold for a research solution in the original roll-out period with a coordinated interest in a member-loaded Commercial Information Exchange (CIE) solution should contact Xceligent to discuss their CIE options. CC

COVER STORY

COMMERCIAL SECTOR: MAKING STRIDES IN A JUMPY ECONOMY

CONTINUED FROM PAGE 7

and increase cash flow. "Even if an owner takes no cash out, income will increase because of lower loan coasts," says Peldon.

"With the weakness in investment and national banks returning, we expect to see bank lending decline at least through 2012," says Riggs. However, he notes, as one lending door closes, another opens including life companies, regional banks, and credit unions. "I've seen credit union deals as large as $7.5 million. If the loan amount is too large, several credit unions will work together," says Foxworth. (Go to By the Numbers column in the this issue for more on lending.)

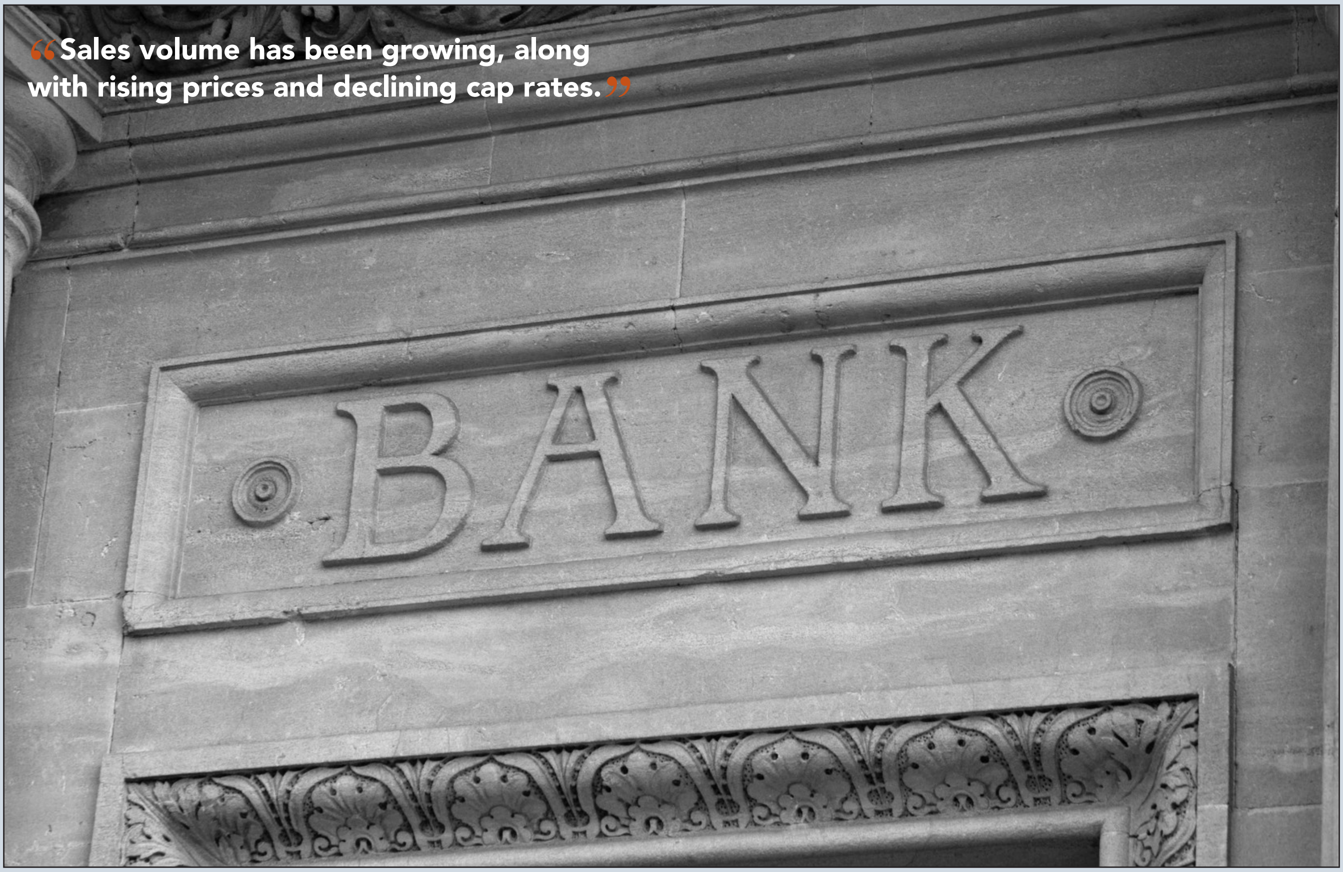
A BRIGHTER, IF NOT BRILLIANT, FUTURE

While the recovery may still be bumpy in the next 18 months, most commercial real estate practitioners expect 2013 to be a good year for business. "Once we get through the election and have a sense of direction, companies that are sitting on cash will be more willing to take additional space," predicts Foxworth.

"The industry is still operating from a position of fear, but when the pendulum swings toward hope — as I think it will later in 2013 — we'll see a more robust recovery for commercial real estate," concludes Ashley. CC

Commercial Outlook by Property Type
(as of May 2012)

		2011	2012	2013
	MULTIFAMILY			
	Vacancy	5.2%	4.4%	4.3%
	Completions *(units)*	37,678	82.492	156,643
	Rent	2.2%	4.0%	4.1%
	OFFICE			
	Vacancy	16.6%	16.2%	15.8%
	Completions *(00,000s sq. ft.)*	12.3	16.2	30.9
	Rent	1.6%	2.0%	2.5%
	INDUSTRIAL			
	Vacancy	12.0%	11.0%	10.7%
	Completions	15.7	28.7	56.8
	Rent	–0.5%	1.6%	2.4%
	RETAIL			
	Vacancy	12.5%	11.2%	10.7%
	Completions	4.9	6.0	16.9
	Rent	–0.2%	0.8%	1.3%



GROWTH IN COMMERCIAL MARKETS REMAINS HAMPERED BY LENDING

BY: GEORGE RATIU, MANAGER, NAR QUANTITATIVE & COMMERCIAL RESEARCH

Amid a backdrop of moderately positive economic growth, demand for commercial space is rising and availability is declining across all property types. A main driver of the rebound comes from low levels of new construction in recent years, which have prevented a run-up in supply. The other drivers are rising employment in office-using industries, increased international trade, and a housing market which has turned many owners into renters.

On the investment side, sales volume has been growing, along with rising prices and declining cap rates. According to Real Capital Analytics, more than 13,000 major properties valued at $2.5 million or higher traded hands in 2011. Sales volume increased 51 percent over 2010 to $205.8 billion, with the lion's share of lending funds coming from big banks.

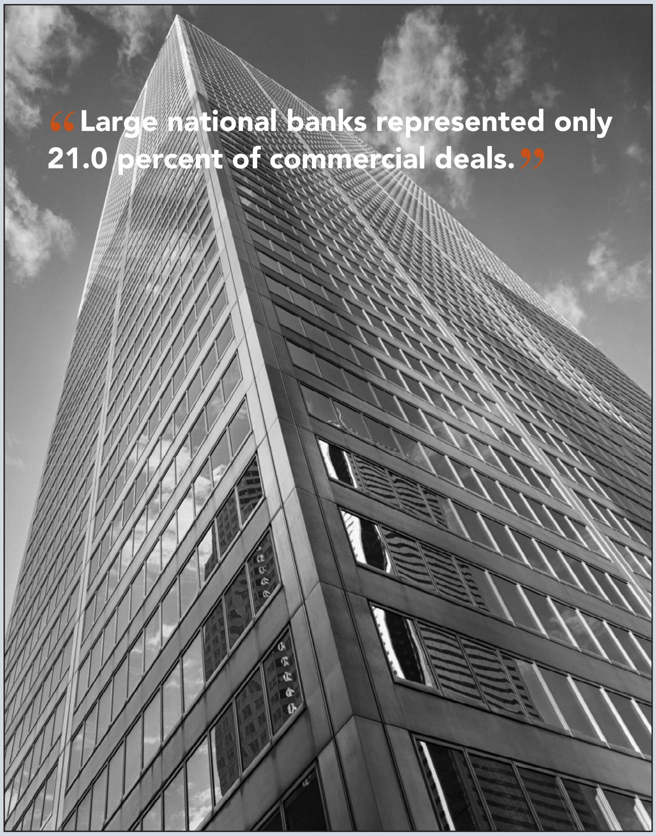
However, the investment market remains split along property values, due to the new lending environment. This is especially pertinent for small businesses and investors looking for properties in secondary and tertiary markets. In the wake of the post 2008-09 recession shakeout and new regulatory environment, large banks have been reluctant to underwrite commercial real estate investments. In addition, smaller local and community banks, whose concentration of commercial properties composed a large portion of their portfolios, have also taken steps to reduce their exposure.

According to the REALTORS® 2012 Commercial Lending Survey, almost 70.0 percent of REALTORS® in commercial reported having a deal fail due to financing issues, over the past 12 months. In addition, 75.0 percent of REALTORS® mentioned that lending standards are as tight, or more stringent than a year ago. Adding to tight underwriting, down-payment conditions also require substantial commitment — 72.0 percent of closed sales required a down-payment larger than 20% to secure financing, with 7.0 percent of loans requiring 50%-60% loan-to-value ratios. Not surprisingly, cash transactions accounted for almost 30.0 percent of sales.

The main sources of financing for small business and smaller transactions are local banks—accounting for 64.0 percent of closed sales. Private investors and regional banks were the other major sources of funding, with 45.0 percent and 44.0 percent of sales, respectively. The Small Business Administration provided funding for 29.0 percent of closed transactions. By contrast, large national banks represented only 21.0 percent of commercial deals.

Additionally, the survey revealed several issues that continue to hamper commercial properties in smaller markets. A majority of respondents indicated that the net operating income (NOI) of leased or sold properties declined between the fourth quarter of 2007 and the same period in 2011. The NOI declines ranged from 10.0 percent to over 50.0 percent. In turn, REALTORS® report that half of their clients failed to refinance a property over the past 12 months. Out of those troubled properties 48.0 percent still failed to refinance, even after owners provided a new or existing property lease with higher NOI (pre-2006 levels).

When asked about the most relevant causes for lack of sufficient bank capital for commercial lending, REALTORS® pointed to the regulatory uncertainty as the number one reason. Reduced NOI, property values and equity came in a close second, followed by new and proposed legislative and regulatory initiatives. Given that the Dodd-Frank Act continues to be the main source of many of those regulations, the restrained level of capital availability is likely to constitute the new normal going forward.



“Large national banks represented only 21.0 percent of commercial deals.”

A notable detail of the survey pointed to a significant interest in commercial properties from international investors. International investors have always been attracted to the quality and stable fundamentals of U.S. commercial properties. After the 2008-09 recession, and given the financial turmoil in the Eurozone, the percentage of cross-border investments in U.S. markets has risen from 6.0 percent in 2009 to 10.0 percent in 2011, based on data from Real Capital Analytics. In comparison, 20.0 percent of REALTORS®' sales of commercial properties were made to international clients and investors, according to the 2012 survey. An increased interest from cross-border buyers is also likely to be part of the new normal for the short to medium term. CC

For the full report of the Commercial Lending Survey, visit *www.realtor.org/reports/commercial-lending-survey*.

“IN THE WAKE OF THE POST 2008-09 RECESSION SHAKEOUT AND NEW REGULATORY ENVIRONMENT, LARGE BANKS HAVE BEEN RELUCTANT TO UNDERWRITE COMMERCIAL REAL ESTATE INVESTMENTS.”

COMMERCIAL Real Estate

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