RCA Report

REALTORS® Commercial Alliance

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IN THIS ISSUE

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

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.

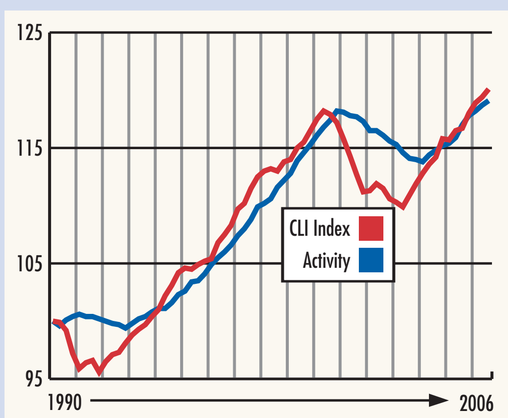
The roof-lifting process transfers the existing roof load to specially designed hydraulic equipment placed underneath the structural beams. The entire roof is then separated from the perimeter walls and the structural columns are severed, says RoofLifters CEO Marty Shiff. The technology can be used on 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 procees, according to Logarakis. There's also a significant environmental benefit since the original building is

See **Value** *on back page*

COMMERCIAL LEADING INDICATOR



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.

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.

NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate®

Cindy S. Chandler, CCIM, CRE
2007 RCA Chair

Why RCA pays

Just a couple of weeks ago, I was having lunch with Bill, another commercial broker in Charlotte. As usual, Bill was complaining about the high costs of doing business and how he needed to save some money.

"I don't think I'm going to renew my membership to the NAR this year," he said. "NAR's just for residential agents. What do I get out of belonging?"

Bill's remark made me realize that a lot of commercial brokers and property managers aren't really aware of all that NAR does to benefit those of us in the commercial side of the business. Here's what I told Bill. Maybe it's news to you as well.

Thanks to the power of its 1.3 million members, NAR is a powerful lobbying force in Washington—on both residential and commercial issues. In fact, more than half of all the legislative and regulatory work NAR does is directly related to commercial concerns. Whether it's making it easier to build on brownfields, to expense the cost of office leasehold improvements, or to receive our rightful fee for advising an investor in a TIC transaction, RCA and NAR are up on the Hill every day, carrying the water for commercial members.

RCA membership also gives you access to a powerhouse of training and business management tools. From the ins and outs of 1031 exchanges to tips on using blogs and other online options to market yourself and your properties, NAR's library of Field Guides is just one of the ways you can keep yourself and your street brokers educated. The quarterly T& I Briefing CDs—also available as podcasts—are a quick way to get inside the heads of some of the industry's top minds and learn the latest.

Since I had a meeting in 20 minutes, I just ran through a few of the many things RCA did for Bill—and our 66,000 other commercial members—last year.

- CommercialSource online convention: all the vendors and ed sessions of a trade show as close as your computer. More than 14,000 attendees registered in 2006.
- Commercial Day at the NAR Conference in New Orleans: A full slate of education sessions now makes the convention valuable to commercial members.
- The Fundamentals of Commercial Real Estate course: A ready-made training tool for new recruits.
- The Alien Land Ownership Guide: This update on state laws restricting the sale of farmland to foreign owners makes it easy for land brokers to keep transactions legal.

"Without RCA and the dues of commercial members like you, none of this would have happened, Bill," I said.

Bill held up his hand. "Enough, you sold me. And you're right, for the little I'm paying each year, I sure get a lot."

And I'm proud to say that this year, the services RCA offers its members will be even better. In 2007, we expect to launch our national commercial listing site, to further expand our current membership using tactics developed by our Commercial Membership Recruitment Work Group, and to hold our first course for commercial association executives. You sure don't want to miss out on that, do you?

To contact NAR Commercial Real Estate staff: 888/648-8321. To find an online version of this newsletter go to *REALTOR.org/RCA*. For a complete listing of NAR legislative and regulatory initiatives, go to *REALTOR.org*.

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RCA Committee Chair
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NAR Vice President, Commercial Real Estate
James Marrelli

Real commercial content at NAR

By John K. Rutledge, CRE, president, Northern Illinois Commercial Association of REALTORS®

When I attended last fall's National Association of REALTORS® convention in New Orleans, I had not been to an NAR meeting in almost 20 years. I'd found nothing there for the commercial broker back then. My experience this time could not have been more different. Completely contrary to my expectations, I discovered a full schedule of events designed for the commercial practitioner and a number of committees that are devoted solely to advancing our commercial real estate interests.

At the meeting, I first attended the Commercial Real Estate Research Subcommittee. How boring does that sound! Wrong. This group is conducting a full agenda of research. Just one example is a project by two Chicago experts, John Burns, RPA, and John McDonald, Ph.D., on office employment in the U.S. through 2014. Those brokers at the meeting who had already seen the results raved about its value for their immediate and future work.

Next was the Commercial Legislative and Regulatory Subcommittee. I was pretty impressed with what NAR is doing to represent commercial interests in Washington. For example, we have people working with the SEC to gain approval for real estate licensees to participate in the growing number of tenant-in-common real estate transactions that are structured as securities. Currently, there's a dispute about whether real estate licensees can earn a commission for helping a client.

NAR is also actively working on the issue of insurance availability and affordability, especially in Florida and other coastal states. A recent NAR survey showed that 17 percent of commercial property owners could not find insurance after the 2005 hurricane season and another 39 percent felt their best quotes were unreasonably priced. NAR is looking for a market-based solution that will provide both necessary coverage and realistic pricing that reflects long-term loss trends, not one-time events.

Think the Basel Accords don't affect you? Wrong again. A couple of international treaties negotiated in Basel, Switzerland, a few years ago with the goal of protecting the international financial markets could very well raise the price of commercial real estate loans. The Accords as they now stand require banks to maintain higher reserves on some classes of loans, including those for commercial real estate. This means there will be less money to lend, as more must be kept in reserve. Interest rates will also become higher to compensate for these higher reserves. Implementation is set for 2008. So far, Congress seems to understand the potential impact on the residential lending business, but now they are looking at the impact on commercial lending as well, thanks to NAR.

The REALTORS® Commercial Alliance meeting was full to overflowing with members, who debated several key issues affecting those of us on the commercial side. As you may know, NAR's Designated REALTOR® dues formula rule effectively says that if one broker in an office is a member of NAR (and a state association and a local board), all licensees in that office also must join. For residential members heavily dependent on MLS, this requirement may make sense. For commercial members, it's an obstacle to building membership. For many years, commercial brokers have been railing against this rule. Now, the Commercial Membership Recruitment Work Group is considering an interesting proposal to allow the Designated REALTOR® of a 100 percent commercial office to be a member, but to make it optional for other licensees in that office to join.

Attorney Jim Hochman, described as NAR's "go-to guy" on broker lien law issues, reported on his progress on passing license portability and lien laws in states around the country. Friends, you need to know what a terrific asset this guy is in promoting our opportunities to work across state lines and in improving our odds of getting paid a commission on an out-of-state transaction. Are you tired of showing your Illinois clients north suburban industrial sites and then passing those clients off to a Wisconsin broker when you hit the state line?

NAR Vice President, Commercial James Marrelli reported to the meeting on the significant progress being made on founding a nationwide Commercial Information Exchange, effectively a commercial MLS. He hopes to have results by May or sooner.

The Economic Issues and Commercial Real Estate Business Trends Forum presented an economic outlook by NAR economist Lawrence Yun and a discussion of trends in foreign investment in U.S. real estate by James Fetgatter, CEO of the Association of Foreign Investors in Real Estate. To top off the convention, The REALTORS® Commercial Alliance hosted two social events—a cocktail reception and a networking dinner—to encourage national networking.

NAR leadership is listening and responding to commercial concerns. As commercial REALTORS® we are truly getting bang for our buck in ways that will help us make more money. After experiencing the New Orleans conference last year, I encourage each of you to participate at higher levels in NAR, and I ask you to support our legislative efforts through contributions to RPAC.

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Commercial at AEI

Don't miss these great commercial programs at the upcoming Association Executives Institute, Feb. 18 to 20 in San Diego.

Trainer Mike Lipsey, The Lipsey Group, explores what services and support commercial brokers value from their local REALTOR® association.(2/19, 10:00 a.m.)

NAR's Carol Kairis, managing director, member development, commercial real estate, offers a sneak preview of the brand new Commercial AE course. This course will help AEs learn to talk commercial and to tailor their services so they are relevant for commercial practitioners. (2/20, 7:00 a.m.).

RCA, delivering on the promise again at AEI.

LEGISLATIVE Update

New Congress supports commercial

With the shift of the House and Senate to Democratic control, NAR is in a good position to make progress on critical commercial real estate issues during the 110th Congress. The incoming chairmen and ranking members of several key committees, including the House Financial Services, Senate Banking, House Ways and Means, and Senate Finance Committees, appear ready to support key parts of NAR's commercial legislative agenda in 2007.

Terrorism insurance. Terrorism insurance can be a significant cost for many commercial properties. Because the insurance industry has not yet demonstrated the capacity to provide terrorism coverage in the absence of a federal backstop, the new Congress will likely consider legislation to create some type of federal backstop program (probably with more reliance on the private sector) when the Terrorism Risk Insurance Extension Act expires at the end of 2007. Senator Christopher Dodd (D-Conn.), the incoming chairman of the Senate Banking Committee has indicated that addressing terrorism insurance is a top priority.

Basel Accords and commercial lending. Federal officials are finalizing regulations, known as the Basel Accords, that would change the way banks determine the reserves they must hold against certain types of loans, including those for commercial real estate. As a result, the flow of capital to commercial real estate may diminish. The treatment of commercial real estate under the Basel Accords is not calibrated to meet unique performance characteristics of commercial real estate such as the cyclical nature of demand by property type and the differences in risks between speculative and preleased properties.

Regulators have also released nonbinding management guidelines for banks with significant concentrations in commercial real estate loans. The incoming House Committee on Financial Services Chairman Barney Frank (D-Mass.) and its ranking member Spencer Bacchus (R-Ala.) have expressed concerns that these initiatives could potentially hurt the commercial real estate market by dissuading banks from making sound lending decisions, a position held by NAR.

Commercial insurance/natural disaster policy. Over the past summer, the House Financial Services Committee held hearings on the growing problem of commercial insurance in the Gulf Coast region. The committee heard testimony on rapidly rising insurance premiums and the effect these increases have had on the commercial real estate market and on small businesses. Already, several members of Congress have expressed interest in drafting legislation regarding natural disaster insurance and have asked NAR for input. Financial Services Chair Frank has acknowledged that natural disaster policy is a priority for the new Congress.

With that said, it's unclear when Congress will address natural disaster policy in part because of the uncertainty connected to the reform of the National Flood Insurance Program.

Insurance regulation. Congress will also consider legislation to replace the existing state-based insurance regulatory system with federal regulations. One anticipated bill would create a uniform set of federal standards for all states. Another bill would create an optional federal insurance charter that would supersede state regulations. A federal regulatory regime would eliminate the ability of states to set property casualty underwriting standards and insurance rates. It's not clear what the impact of this proposed change would have on insurance prices and availability, but it could potentially weaken consumer protections.

Taxes. As the new Congress begins its work, a big issue in the Senate is likely to be the restoration of the so-called "Paygo" rules. Paygo, which expired in 2003, requires tax cuts and new deductions to be paid for with offsetting revenues. The revival of Paygo would mean that the Senate will be in search of large amounts of revenue as if it attempts to continue the Bush tax cuts, which now expire in 2010.

Incoming Senate Finance Committee Chairman, Max Baucus (D-Mont.) has generally been a real estate advocate and favored capital-gains benefits, like-kind exchanges, mortgage interest deductions, and depreciation-related deductions. Look for new information reporting and additional return-filing requirements for like-kind exchanges as his first priority.

Multifamily housing. Representative Frank has indicated that affordable housing will be a top issue facing his House Financial Services Committee. It is likely that Federal Housing Administration reform legislation, already passed by the House last year, will receive renewed attention in the Congress.

Economic benefits not enough for seizure

Ohio's highest court has ruled that a city cannot use its eminent domain powers to take private property when the only public purpose of the seizure is economic benefit. Faced with an erosion of its tax base because of plant closures, the city of Norwood began discussions with a developer about redeveloping a portion of the downtown with new apartments and retail. The plan was expected to generate approximately $2 million in annual revenues for the city.

The city encouraged the developer to acquire the properties needed on its own, and the developer was successful in purchasing most of the holdings. However, there were a few holdouts, and the developer asked the city to use its right of eminent domain to acquire the remaining parcels. The city commissioned an urban renewal study of the area, which concluded that the area was "deteriorating," despite the fact that many of the homes were in good condition. This finding met city ordinance requirements for a taking and allowed the city to use its eminent domain powers to seize the remaining properties. The city filed suit against the owners of the remaining properties, and a trial court, and later an appellate court, concluded that the city's taking was lawful. The trial court had expressed concerns that the city's reliance on the report describing area deterioration was questionable but deferred to the city in the belief that it was in a better position to assess an appropriate public purpose than the courts, believing that was what state law required.

However, the state Supreme Court reversed the lower courts, finding that the state's constitution did not support takings based solely on asserted economic benefit. The court also declared the definition of deteriorating areas in the city's ordinances was unconstitutional, finding it vague and easily manipulated by a legislature seeking to justify its actions. To read a complete summary of the case, go to: *www.REALTOR.org/letterlw.nsf/pages/0906norwood*.

ADA could apply to the Web

A California federal court has decided that a blind person's inability to access a retailer's Web site might be grounds for a discrimination suit. In the case, the National Federation of the Blind filed a lawsuit against Target on behalf of a blind person unable to access the company's Web site. The suit alleged violations of Title III of the Americans with Disabilities Act, which prohibits discrimination against the disabled in places of public accommodation, including banks, sales establishments, restaurants, and real estate offices. Target argued that place of public accommodation must be an actual, physical place and filed for a dismissal. In the past, federal courts have been split as to whether a public Web site qualifies as a place of public accommodation under ADA. The U.S. District Court of the Northern District of California decided that the ADA required that disabled individuals have equal access to places of public accommodate so that barriers that limited this access, whether on physical premises or offsite, violated ADA. In addition, the court ruled that a lack of access to a Web site that somehow interfered with a disabled person's ability to access the physical property (such as not being able to find a location) could violate ADA. The court also decided that the company's defense that it did not need to provide auxiliary aids to prevent a denial of service because all the information on its Web site was available in other forms was not grounds for dismissing the lawsuit at this stage in the process. For all these reasons, the court ruled to let the suit proceed. To read a complete summary of the case, go to: *www.REALTOR.org/letterlw.nsf/pages/1006nfb*.

Outgoing Congress renews popular tax provisions

At the eleventh hour, the 109th Congress passed the Tax Relief and Health Care Act of 2006. President Bush signed the bill. Several provisions are of interest to commercial REALTORS®.

Leasehold improvements. Congress continues its stopgap approach to leasehold improvement taxation. The new bill continues the provision permitting a 15-year recovery period for leasehold improvements made either by or on behalf of tenants in nonresidential real estate. Congress renewed the provision, which had expired as of December 31, 2005, retroactive to January 1, 2006. The provision will remain in effect through December 31, 2007. Had this extension not been enacted, the recovery period for 2006 and 2007 would have been 39 years.

Brownfields cleanup expenditures. H.R. 6111 renews the provision, retroactive to January 1, 2006, which allows developers to take deductions for the costs of cleaning up brownfields pollutants in the year the expense is incurred. The deduction will remain in effect through December 31, 2007. Notably, the legislation also expands the categories of pollutants eligible for the deduction to include petroleum products.

Construction of energy-efficient commercial buildings. Legislation enacted in 2005, and now extended to construction placed in service through 2008, creates a tax credit of $1.80 per square foot for the development of energy-efficient commercial buildings. The credit applies if developers adhere to guidelines issued by designated standard-setting bodies.

Deduction for sales taxes. Individuals who live in states that do not have an income tax receive no tax benefit for the state-level taxes they pay. A special rule was created for 2005, however, that permits a taxpayer living in a state without an income tax to deduct either actual, documented sales taxes paid or to take a deduction based on an IRS table. An election is also provided so that individuals in other states may deduct either their state income taxes or the state sales tax. This provision was made effective for the 2006 and 2007 tax years.

New Markets Tax Credit: The New Markets Tax Credit was created to facilitate business investment in community development entities. The purpose of a CDE is to provide capital for creation of businesses in low-income areas. The program can be used in both urban and designated rural areas and provides allocations through 2008.

INDUSTRY Update

Why REITs go private

For the commercial real estate industry, 2006 may go down as "The Year of REIT Privatization." Although public-to-public REIT transactions represented 43 percent of deal volume in the REIT arena last year, it was the privatization of more than 20 REITs, capped by the $360 billion purchase of the behemoth Equity Office Properties by Blackstone Group, that grabbed the headlines. But as the deals close and the dust clears, the questions remain. Why private, why now? And most importantly, what does it mean to me?

On the surface, the answer to "why" is simple. "There's just a lot of money out there, and real estate still looks attractive to many institutional investors," says Barry Vinocur, editor of Realty Stock Review and REIT Wrap *(www.reitzone.net)*. Vinocur notes that institutional investors have more than $100 billion to invest and, despite low cap rates, find commercial real estate returns more appealing than the S&P.

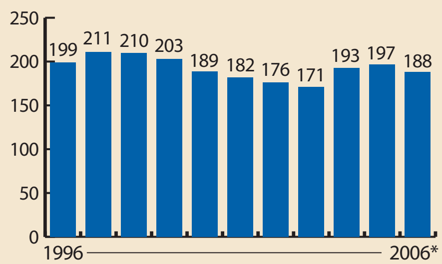
An underlying driver, most experts agree, is the long-time disconnect between REIT stock prices and the value of the underlying value of property assets. And even though REIT stock prices climbed by 32 percent between Dec. 2005 and Nov. 2006, according to the National Association of Real Estate Investment Trusts, "the sum of the parts is still worth more than the whole," says Dennis Yeskey, national director of real estate capital markets at Deloitte.

Another factor contributing to the lure of the private side is the ability of private owners to add more leverage to properties. Private deals can be leveraged 70 percent, which when compared to the 40 percent or so rating agencies find acceptable for REITs, can really boost returns, says Yeskey. A desire to get out from under the onerous reporting requirements of Sarbanes-Oxley also plays a role in the appeal of privatization.

"It's not really a major driver, but it is a headache around the edges," acknowledges Brad Case, vice president of research and industry information for NAREIT.

Acquisitions, Consolidation and Privatization

Publicly Traded U.S. REITs: 1996-2006



Source: NAREIT

Divide and gain

Still, "the secret sauce in these transactions is to chop the portfolios up and sell some of the assets," says Vinocur. This divestiture strategy will undoubtedly create some short-term opportunities for commercial brokers as well as the investment advisors who help institutions structure their real estate investments.

The positive impact for boutique firms is likely to be limited, however, says Jim Makens, president of The Makens Company in Fort Worth, Texas. Because most REIT portfolios consist of Class A properties in major markets, "the big boys will probably have most of the opportunities," predicts Makens, whose company specializes in retail tenant representation.

REIT acquisitions, as well as mega-broker mergers such as the union of CB Richard Ellis and Trammel Crow may also put more commercial real estate professionals on the street, leading them to form their own companies, suggested Tony LoPinto, CEO of search firm Equinox Partners in a GlobeSt.com article.

There's also beginning to be some concern among a few REIT analysts that mergers and privatizations are limiting investment options in the space. "It's not a big concern yet, but there is a consciousness that there are fewer names on the radar screen," says Vinocur.

Will the trend continue?

Because the impetus toward privatization depends to a great degree on the confluence of low interest rates, a flood of eager capital, and improving fundamentals in most commercial sectors, the trend is probably a short-term one, predicts Yeskey. For now, higher rents and increasing occupancies in office, industrial, and multifamily as well as flattening cap rates and limited new construction should make privatization profitable. Two or three years down the line, it may be another story.

"Some of these buildings from privatized REIT portfolios will be sold to other REITS and returned to the public market very quickly," says Vinocur. Longer term, some commercial portfolios may be "re-REITed" as IPOs when public capital becomes a better deal than private, pre-

T&I BRIEFING

The RCA Technology & Intelligence Briefing CD is drawing rave reviews from members for its timely content from leading industry experts and its easy-to-use audio format. Here's a preview of this quarter's enclosed CD. Just hit play and start learning.

RICHARD BOYLE, president and CEO, LoopNet® (*www.loopnet.com*), one of the commercial real estate industry's leading online listing sites for property sales and leasing.

- The increasing adoption of real-time commercial leasing and sale information online is finally accelerating—providing both lower transaction costs and shorter transaction times.
- LoopNet's Prospect List database lets commercial brokers match a listed property against the buying or leasing requirements of site visitors.
- New site features include a Recent Sales database of comps and a map search interface to overlay maps that help prospects locate online listings.

RANDY HERTZ, ALC, AFN, CFP, RECS, president of Hertz Real Estate Services and 2007 president of the REALTORS® Land Institute.

- Land prices have skyrocketed in the last few years, going up as much as 80 percent in areas near the edges of growing metropolitan areas.
- The large size of many land parcels makes online mapping—topography, aerial views, and soil maps—and geographic information systems that allow online views of rivers, roads, and buildings critical for assessing and marketing properties online. One site to try is *www.landvoyage.com*, a paid site with a free test period.
- The Natural Resources Conservation Service at the U.S. Department of Agriculture (*http://websoilsurvey.nrcs.usda.gov*) is an excellent online resource for information on agricultural land. The RLI site, *www.rliland.com*, allows free public searches of its more than 5,000 current listings. Visitors can also list their "haves and wants" at no charge.

JOHN TULL, founder and CEO, eReal Estate Integration Inc., a company that produces software for commercial property analytics.

- Most commercial practitioners face inefficiencies in assembling proposal packages for clients because data such as market trends, recent property comps, and demographics must be assembled from multiple sources. Middleware, software that integrates data to create rich analysis, will help solve that problem.
- A lack of data standards that create single definitions for real estate terms, thus permitting information from multiple sources to be merged easily, is the 800 lb. gorilla in commercial real estate today.
- The adoption of data standards will have to be driven by large consumers, who will demand to have the data sent to them in standardized ways.

AFFILIATE SPOTLIGHT

IREM launches new credential for managers of smaller properties

In December, the Institute of Real Estate Management launched its first new credential in 25 years, the Accredited Commercial Manager certification. The new certification is designed especially for the managers of small- to mid-size commercial properties. Applicants for the credential must manage a commercial portfolio of at least 20,000 square feet and have a minimum of 12 months of commercial real estate management experience.

"Earning the Accredited Commercial Manager certification will help increase awareness of the recipients' professionalism with commercial real estate owners, investors, and employers," said IREM President Robert Toothakee, CPM®. "Commercial managers whose portfolios do not yet meet the minimum size for IREM's Certified Property Manager designation (120,000 sq. ft. at one side or 8,000 at two or more sites for office or retail, 300 units at one site or 100 units at five or more sites for multifamily) can gain industry knowledge and use the new credential as a stepping stone to the CPM®."

Those who earn the new credential must complete four IREM courses on maintenance, budgeting, personnel management, and marketing; pass a certification exam; and adhere to the IREM Code of Professional Ethics. The new certification helps ensures current and prospective employers and clients that those holding the award have the professional, financial, and analytical expertise to meet the highest industry performance standards. Moreover, those who earn Accredited Commercial Manager certification become members of IREM, guaranteeing them access to the industry's leading tools, information, networking experiences and other member benefits. IREM is the only professional real estate management association serving both the multifamily and commercial real estate sectors. With 81 U.S. chapters, eight international chapters, IREM is an international organization that serves as an advocate on issues affecting the real estate management industry.

For additional information on the Accredited Commercial Manager certification and to download an application, visit the IREM Web site at *www.irem.org* and click on "Join IREM." Or call 800/837-0706.

NAR Commercial Affiliates **CCIM Institute (CCIM)**, 312/321-4460; *www.ccim.com;* **Counselors of Real Estate (CRE®)**, 312/329-8427; *www.cre.org;* **Institute of Real Estate Management (ARM®, CPM®)**, 312/329-6000; *www.irem.org;* **REALTORS® Land Institute (ALC)**, 312/329-8440; *www.rliland.com;* **Society of Industrial and Office REALTORS® (SIOR)**, 202/449-8200; *www.sior.com*

runover

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 standard 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 quotian. 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.

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

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,

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.