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COMMERCIAL REAL ESTATE MARKET UPDATE

GENERAL
市場概括

Secure Preapprovals to Win Commercial Real Estate Deals
確保預先批准來贏得商業房地產的交易

The 2017 Commercial Real Estate Lending Trends Survey by the National Association of Realtors confirmed that only 30% of all commercial real estate transactions are all-cash.

View from the Top: 4 Roof Maintenance Tips for Property Managers
從頂部查看：物業經理的 4 個屋頂維護技巧

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Important Commercial Real Estate Terms You Should Known
您應該要知道的商業房地產重要術語

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RETAIL
購物商場

Family Entertainment Centers Pull Out the Stops to Draw in Mall Traffic
家庭取向的娛樂中心進駐增加購物中心的人潮

Ocean 5 a 57K SF entertainment center is a destination within a destination. The complex is part of the next wave of experiential retail pulling people into malls.

Toys R Us Stores Closed on Friday, Leaving Behind Nostalgia, Anger and Maybe a Chance of Revival
周五正式宣告倒閉。留下懷舊、憤怒、和可能復興的機會

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INDUSTRIAL
工業倉庫

What Industrial Tenants Want
工業租戶需要什麼？

According to Blaine Kelley, senior vice president of the global supply chain with CBRE, tenants will trade off all other physical features for proximity to customers, labor and suppliers.

MULTIFAMILY
公寓樓

Multifamily Investors Needs to Get More Strategic About Value-Add Plays
複合式住房的投資者需要獲得更多增加價值的策略

A good sub-market for a value –add play should show a difference of several

hundred dollars between the cost of renting a new, luxury apartment and the cost of renting an older unit.

FINANCING
貸款與資金

Wall Street Resurrects another Financing Tool Killed by Crisis
華爾街重建另一項原本因 2008 經濟危機而消失的融資工具

Investors are breathing life back into a once-dead financing tool. The market for bundled loans used to fund riskier real estate projects is on pace for a post-crisis record after all but disappearing during the 2008 crash.

Tax Reform Gives to New Business Strategies
稅制改革給予新的商業策略

Recently enacted restrictions on business deductibility are leading more firms to pursue sale-leaseback agreements to unlock property value and grow operations, according to Marcus & Millichap's Dean Giannakopoulos.

Bright Skies Ahead for CRE Financing
商業不動產融資前景璀璨

Metrogroup Realty Finance Founder & President Patrick Ward takes a closer look at the risks and opportunities in the mortgage lending market today and explains his optimism about the sector's future.

Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)
消費者市場利率：房貸、基本利率、等等

Secure Preapprovals to Win Commercial Real Estate Deals
確保預先批准來贏得商業房地產的交易
By: Igor Zhizhin, Forbes

The 2017 Commercial Real Estate Lending Trends Survey by the National Association of Realtors® confirmed that only 30% of all commercial real estate transactions are all-cash. That is why for the vast majority of transactions, the prospective seller and their agent will always defer to the buyer with proven financing in place versus the offer that only has empty promises as proof they will get the money to close the deal.

By following these simple four steps to secure financing, commercial real estate investors can now compete with the most established buyers and win bids for desirable properties.

Approval of the Person

With any loan, a potential buyer needs to understand all the eligibility requirements of the most competitive potential lenders. While it is possible to do this directly, this process is substantially more cumbersome and complex in the commercial mortgage industry. For example, there is a sizable number of the most competitive lenders that will never communicate directly with prospective borrowers and only do so through their correspondents or conduits. Finding a reputable mortgage broker with national resources specific to the targeted property type is critical. They will quickly create an extensive list of requirements, pricing and terms.

Identify the Buyer

In all loan instances, the ability to qualify for competitive financing is based on the strength and weakness of the applicants. In commercial lending, any individual who will be a manager, general partner or own at least 20% of the borrowing entity, will be reviewed by a prospective lender. Typically such items as net worth, liquidity, personal income and ownership history are reviewed based on the collective and personal credit is based on an average.

The credit decision always focuses on the weakest characteristics of the borrowers. One individual with a bankruptcy, criminal record or history of mortgage default can cause the entire group to be disqualified — or force the group to remove that individual as a potential owner. Since the requirements have already been provided it will be easy to identify if a prospective buyer can proceed alone or identify investors with a lender's required financial profile. This allows for a buying group of individuals likely to meet the requirements for receiving financing to be quickly created.

Personal Preapproval

Like a residential mortgage, having a verifiable preapproval by an established mortgage broker allows a seller's agent to gain confidence that a buyer will close. The same mortgage broker who provided the market research will provide the short list of documents necessary from all the partners to receive a preapproval letter. Typically the only requirements are a recent personal credit report, a personal financial statement and two years of personal tax returns. The turnaround for a preapproval once these documents are delivered should not exceed

48 hours. A reputable mortgage broker will require exclusivity for this engagement, but should never charge a nonrefundable fee for providing this service.

The preapproval will not be property specific but will state that the individual or group can qualify to acquire a property for up to a set price and a set loan to value. The buyer's agent can now comfortably present this document to any seller's agent to receive the critical information necessary to evaluate the eligibility of a property to secure a loan.

Property Preapproval

With the confidence that the potential buyers are eligible for financing, the seller's agent will typically release the property-specific information to secure a lender's property approval. While the financial strength and experience of the borrowers are very important, the specifics of the property still represent the most important factors in receiving high-leverage, competitive financing. Typically this information is provided in an offering memorandum. If it is an off-market opportunity or working directly with a buyer, the minimum information required by a lender is the property address, property type, copy of a current rent roll, the most recent 12-month property income statement and five to seven images of the interior and exterior of the property.

This information, combined with the broker's underwriting and the personal financial documents provided previously, should then be packaged by the mortgage broker and presented to at least three different lenders. This will include a request for a specific loan amount, loan term, structure and maximum acceptable costs based on the requirements of the buyers. The loan packaging process typically takes two to three days. An established mortgage broker will generally receive a written preapproval or loan offer within three to four business days of submitting it. Just like the personal preapproval, the loan offer should not require any fee to the lender to receive it. These documents represent an opportunity for the mortgage broker and lender to help a property go under contact and, if successful, they can expect to earn their fee once the sale closes.

Receiving a loan proposal from a lender means that the borrowers, property type, property location, property condition and requested terms have all been extensively reviewed and approved by that lender. Outside of an on-site property inspection for value and condition, typically the only reason a deal will be declined after that point is if the seller or buyer provided false information. That is why once a loan offer is provided, a buyer's agent will normally present a purchase contract right away. Assuming the price and terms are agreeable, the lender approval convinces the seller and their agent that there should no longer be any concerns about the ability of the buyer to close on the financing or the purchase.

Conclusion

In the current competitive environment for buying commercial real estate, the No. 1 factor for a seller is the assurance of closing by a potential buyer. By taking advantage of readily available resources at no cost to provide personal and property preapprovals, prospective investors can eliminate all other competitive bids that lack proof of execution for sourcing the money to buy the property.

View from the Top: 4 Roof Maintenance Tips for Property Managers
從頂部查看：物業經理的 4 個屋頂維護技巧
By: Bill Lomel, Commercial Property Executive

The roof can be one of the largest financial investments in a commercial property; however, it can also become one of the most neglected parts of any building. A well-maintained roof is the first line of defense against extreme weather or structural damage. Regular monitoring and maintenance by property managers is essential.

Roofing problems, if not addressed early, will cause major headaches for property managers who oversee the day-to-day operations of a building. Ignoring the warning signs of roof wear and tear can also lead to the need for a full roof replacement—a costly and stressful undertaking.

As property managers, it is your responsibility to maintain and secure a property, creating the best possible experience for tenants. Roof upkeep is an important, but often neglected, part of building maintenance. These four tips can help you detect roof problems before damage becomes serious or, better yet, prevent damage from occurring in the first place.

1. Make sure your roof is draining properly

Many properties are surrounded by trees or other greenery. Debris can easily build up and block the roof's drainage system, causing strain on the structure of the roof. While roofs are designed as a protective shield against water and other elements, a blockage met with heavy rain or snow can transform your roof into an ad hoc swimming pool—and, that's not the type of "rooftop amenity" residents or tenants will enjoy. Regularly clean gutters and drains, in addition to valleys, pipes and skylights, to prevent damage.

2. Be aware of who's on your roof at all times and inspect it after mechanical repairs.

The roof is usually home to a lot of mechanical equipment, including HVAC technology, that often needs repairs or service. At the time of service, the roof is typically treated with the same harshness as a concrete floor. Dropped tools or the sheer weight of repair equipment can cause roof damage, and this damage can lead to immediate leaks or punctures. In fact, 40 percent of all roof problems occur because of human error. Detect these problems immediately, and you'll avoid more serious issues later.

3. Understand how resident turnover can affect your roof.

Particularly in retail spaces, property managers deal with some degree of turnover in tenants and use of space. Many times, tenants make additions or upgrades to building equipment, adding different levels of penetration to the roof in the process. Make sure all seams and joints are secure and that sealants and flashings are intact. Encourage tenants to bring damage or leaks to your attention immediately, no matter where or why these problems occur. If a property is not controlled and finished work is not adequately sealed, this can cause severe structural damage. It's better to know now than later.

4. Finally, consider your location and climate.

Wear and tear concerns vary according to climate, and property managers should revise their maintenance plans accordingly. For example, in the South, thunderstorms can roll in and create temperature drops of 30 degrees in a matter of minutes. Heavy rain and humidity creates a breeding ground for mold. Sun damage can shorten the life of sealants and other roof products. Wind, rain and snow can cause leaks or other structural damage. Finally, local wildlife from squirrels and raccoons to termites and birds can use entry holes and take up residence in your building. Every new season brings unique challenges, so make sure you have a specialized maintenance plan in place every day of the year.

In general, knowing the age and condition of a roof can help you measure the urgency of roof maintenance and gauge imminent problems. But, arming yourself with these four roof upkeep tips can help you extend the life of a commercial roof and prevent minor problems from becoming major headaches for both you and your tenants.

Important Commercial Real Estate Terms You Should Known
您應該要知道的商業房地產重要術語
By: Jordan Lulich, Forbes

Commercial real estate is far more complex than residential real estate. The contracts are longer, often the price tags are higher, and included in the process are many complex terms that an ordinary person does not understand. Make sure before entering into a commercial real estate deal you are aware of these terms.

1. **Capitalization Rate (CAP Rate)**

A Capitalization Rate, also known as a "CAP Rate," is a term that is used to help determine the potential real estate deal. This term is based off of an algorithm by dividing the net operating income (NOI) by the sales price of the property (the fair market value of the property). Therefore, this result gives you the return rate on your real estate interment. Many real estate investors acquire what the CAP rate is on property before purchasing a commercial real estate lot.

2. **Usable Square Footage**

The USF, or usable square footage, is the amount of space that is actually available to be used in a commercial real estate rental property. There is a tremendous amount of space that is not useable such as exit hallways, stairways, bathrooms, etc. Therefore, the USF gives you an accurate idea of how much working space you have.

3. **Rentable Square Footage**

The RSF, or rentable square footage, is the total amount of space, including any shared space. This footage will give you an accurate expectation of the amount of working space and shared space such as lobbies, bathrooms, hallways, etc. Landlords primarily use this number to determine the rental amount for the commercial property.

4. **Common Area Maintenance**

CAM, or the Common Area Maintenances, is the amount of expenses you are responsible to pay for maintaining the building. Each landlord may calculate this differently; however, you should inquire with the landlord how the CAM has been calculated.

5. **Right of First Refusal**

The Right of First Refusal, or ROFR, gives the tenant the ability to accept or decline any additional space that the landlord has available to rent. Therefore, the landlord would be required to offer to the tenant with a ROFR clause included in their lease any additional space before offering that space to the general public.

6. **Sublease Clause**

A sublease clause may or may not be included in the contract. This clause either permits or prohibits a tenant from subleasing their space to another individual or business. A sublease occurs when the tenant rents to

someone else only a partial amount of time during the remaining time of the lease. Make sure you know if you are permitted to sublease in case an emergency arises.

7. Assignment Clause

An assignment clause may prevent or prohibit the tenant from transferring the entire interest away to another person. Unlike sublease clauses which permit a tenant to reassume the space, after subleasing to someone else, the assignment clause transfers all the interest and does not allow the transferor to reassume his or her interest. In an assignment situation, the person who receives the assignment will be responsible for rent until the end of the lease term.

8. Escalation clause

An escalation clause will explain the amount the rent will escalate or increase annually. The increase may be determined based upon the property taxes, operating expenses, or even the Consumer Price Index.

Family Entertainment Centers Pull Out of the Stops to Draw in Mall Traffic
家庭取向的娛樂中心進駐增加購物中心的人潮
By: Joseph Pimentel, Bisnow Los Angeles

Ocean5, a 57K SF entertainment center, is a destination within a destination.

The complex is part of the next wave of experiential retail pulling people into malls. An anchor tenant within the Olympic Towne Center in Gig Harbor near Seattle, Ocean5 features a high-end farm-to-table restaurant, 22 bowling alleys with two VIP bowling suites, a 40-player laser tag arena, an arcade, a game room and five fireplaces where people can lounge. It also has meeting rooms to host birthday parties, corporate events and weddings.

As retail continues to decline and many landlords look to fill the void left by legacy retailers such as Sears and Kmart, these leisure and family entertainment venues are becoming popular anchor alternatives. Drawing customers into shopping centers will be part of the discussion at Bisnow's all-day Retail Series: West Coast Summit Sept. 26.

Ocean5 takes up a third of the 187K SF Olympic Towne Center, and the entertainment center is indicative of the current state of community leisure venues or family entertainment centers nationwide.

It is big, bold and makes a statement, said White Hutchison Leisure & Learning Group CEO Randy White, whose company served as the project manager of the Ocean5 development.

“The bar is very high,” said White, referring to these types of entertainment centers. “It better be exceptional — the décor, acoustic, everything. It’s all about the total experience. It has to be unique and compelling or else people will just sit at home. Nowadays, no one ever has to leave home.”

Dave & Buster's, bounce houses, trampoline parks, escape rooms and glow bowling alleys, among many other interactive concepts, have become staples in malls and retail strips, bringing young adults and families into struggling venues.

“What these entertainment concepts bring is a new energy in shopping centers,” JLL Director of National Leasing Holly Rome said. “It provides customers reason to come and drives traffic because it’s an experience. You can only get that experience there. You can’t buy it online.”

Susan Storey, a spokeswoman for the Orlando-based International Association of Amusement Parks and Attractions, said family entertainment centers are growing and changing.

The IAAPA worldwide represents 5,300 amusement-industry members. Family entertainment centers make up most of the membership, Storey said. She did not disclose how many family entertainment centers there are nationwide.

“Some have distinct niche markets — like Topgolf attractions — some have the traditional model of food, redemption games and arcade games like Chuck E. Cheese, Dave and Buster’s and GameTime,” Storey wrote in

an email. “And some offer new experiences, like Two Bit Circus in LA, which is an FEC (family entertainment center) geared entirely to millennials. In many case, FEC’s (family entertainment centers) are even becoming mini amusement parks, often featuring a ride or two in their mix of entertainment offerings.”

Family entertainment centers take up anywhere from 5K to 40K SF to 1 to 5 acres.

The estimated attendance at family entertainment centers is 282,857 visitors annually, according to IAAPA’s 2017 FEC Benchmark, an annual survey. On average, visitors stay a little more than 2.5 hours, spend nearly $24 a visit and visit the venue two or three times a year.

White, the Ocean5 project manager, issued a word of caution — especially for landlords looking to fill large vacant commercial space in their malls.
“There is oversaturation in some markets,” White said. He said data on these types of operations varies city by city.

His studies suggest the market is trending down because of changing consumer habits and a glut of other activities, such as local festivals. There are so many more things to do at home, too, he said.

That is why many of these new venues are evolving into something beyond the basic bounce house or miniature golf serving pizza and pretzels, he said.

“Consumers have gotten much more sophisticated,” White said. “The market has shrunk. People spend more time digitally today. You’re competing with social media and the couch. We have the big-screen TVs and now restaurant-quality type of food can be delivered to your home.”

White cited a survey conducted by YPulse that found 72% of millennials would rather stay in on the weekends than go out at night.

White said a successful venue has to be a premium experience. It would not only bring the community together through an interactive concept but also offer excellent food and beverage options and great customer service. Not just good, but excellent, he stressed.

"Mediocrity no longer works," he said in a newsletter last year. "In fact good no longer works. The experience now has to be premium, what we call high fidelity, to get the consumer to come and spend their limited free time and discretionary spending."

It is sort of like other aspects of retail, White told Bisnow.

“The great concepts will do well. A lot of others will end up closing,” he said.

JLL's Rome was a bit more bullish on the industry.

“I think it’s exciting for shopping centers to explore this,” she said. “Owners need to give new reasons for people to come in and shop in their centers.”

Toys R Us Stores Closed on Friday, Leaving behind Nostalgia, Anger and Maybe a chance of Revival
周五正式宣告倒閉。留下懷舊、憤怒、和可能復興的機會
By: Lauren Hirsch, CNBC

Toys R Us shuttered its doors in the U.S. on Friday, leaving in its wake a great deal of sadness, pockets of anger and some slim hope.
The retailer filed for bankruptcy this past September with $4.9 billion in debt, a vestige from its $6.6 billion acquisition by Kohlberg Kravis Roberts, Bain Capital Partners and real estate investment trust Vornado Realty Trust in 2005. Five months later, it announced plans to liquidate its U.S. business.

Since then, there has been an outpouring of nostalgia for childhood toys shopping. There is dread of a holiday season without the often slightly disorganized Toys R Us stores. December will also be the first without Toys R Us's founder, Charles P Lazarus, who passed away in March.

There has been anger too. Roughly 30,000 workers are out of a job and no one is getting a severance. Former employees have started groups, the Dead Giraffe Society, to share resumes and experiences.

Investigations continue into the retailer's cause of death. Among them, the Minnesota State Board of Investment is suspending its investment to KKR until it further understands KKR's role in the retailer's demise, according to media reports.

Some have refused to accept the end as final. Toys R Us former CEO, Gerald Storch, is trying to pull together a plan that could resurrect the business and save employees their jobs, sources familiar with the situation tell CNBC. The New York Post first reported the efforts.

The chances of success, though, are slim. It would take an extensive amount of capital to buy stores, distribution centers and rebuild or create anew a Toys R Us website. Then, there is the simple fact that starting any business begins as a loss-making venture.

To have products in Toys R Us stores, Storch and his investors would need to convince toy companies like Mattel and Hasbro to ship their toys to the revived company. They would also need to do so fast: retailers and toy companies are already preparing for the holiday season. Some shoppers have been taking advantage of fire sale prices at Toys R Us liquidation sales to prepare for December, which will likely eat into those later sales.

Every one of these feats needs sign off from a number of parties who were recently burnt by the Toys R Us bankruptcy and liquidation — toy companies, landlords and investors. Once bitten (hard), twice shy.

For these reasons, most other efforts to carry off similar feats have failed. When Sports Authority liquidated two years ago, rival sports chains Modell's Sporting Goods and Sports Direct were going to make a similar bid to save the company. Those plans would have cost the retailer roughly $1 million per store, according to a source familiar with the situation. They fell apart.

But even if Storch does not succeed, the Toys R Us name can live on. It is selling its intellectual property, the results of which are to be announced in early August. With that intellectual property a buyer can take the Toys R

Us name and logo and resurrect it. That won't stop Toys R Us from liquidating, and it won't give back employees their jobs, but it could ensure the next generation of children have the experience of shopping at a Toys R Us.

That would be a move with far more precedent. After Twinkies-owner Hostess Brands announced it was liquidating in 2012, there was an outpouring of nostalgia for the cream-filled pastries that accompanied lunch boxes for a generation. Shelves of convenience stores were emptied and the pastry began to pop up on Ebay. Investor Apollo Global Management and Metropoulos & Company bought the Twinkie brand, along with several others owned by Hostess, and resurrected them. They have since taken the new company public through a reverse IPO.

Retailers or others that buy the Toys R Us IP would have a number of options. Should Target buy the brand, for example, it can open up a store-within-a-store concept as it expands its toy business. Another investor or retailer could also create pop-up shops that appear only for the holiday season, a logical move since that's when Toys R Us does the heft of its sales anyway.

Even, Amazon could acquire the Toys R Us website, giving it a line into the nostalgia the brand evokes — and the brand with an infamously rickety website, the internet platform it always needed.

What Industrial Tenants Want
工業租戶需要什麼？
By: Patricia Kirk, National Real Estate Investor

Ask any industrial broker about the most important feature to industrial tenants looking for a new facility and they'll say "location." After that, it's probably going to be clear height, with at least 32 feet, but preferably 36 or 40 feet, especially for large users (those taking 500 to 1,000 sq. ft. or more). But according to Blaine Kelley, Atlanta-based senior vice president of the global supply chain practice with real estate services firm CBRE, tenants will trade off all other physical features for proximity to customers, labor and suppliers.

That's because the most dramatic changes in the logistics business in the past fewyears has been consumers' increasing demand for the quicker delivery of goods, says Pete Quinn, national director of industrial services, USA, with real estate services firm Colliers International.

"This is why lots of build-to-suits are going up: companies are seeking ways to create greater efficiencies based on their operations," Quinn says. "Greater efficiency and flexibility is also the reason more companies have increased their utilization of 3PLs," he adds, noting that European companies already rely heavily on this alternative.

When it comes to heights, Jack Fraker, vice chairman and managing director of global industrial and logistics with CBRE, notes that higher ceilings create the need for special forklifts and other equipment, but tenant believe the benefit in going high is worth the investment. Large space users also find it necessary to stage part of their merchandise in truck trailers, so they need a large trailer parking apron in the back of the building, as well as a high level of employee parking: 500 to 1,000 spaces, particularly during busy seasons such as Christmas.

Quinn notes that large users, who need an additional 150,000 to 200,000 sq. ft. during high volume seasons, also like facilities that provide flex space, an issue that providers like Prologis are helping their clients solve.

Another key feature for industrial tenants is site functionality: can trucks move around with ease and is there sufficient parking for both employees and extra trailers, notes Miami-based Walter Byrd, senior managing director at real estate services firm Transwestern. "This functionality, combined with the number of overhead doors and ceiling height, directly impacts the efficiency of the operation."

Other potential deal breakers, according to Fraker, include: lack of nearby transportation infrastructure, including intermodal yards or UPS/Fedex logistics hubs, and lack of food amenities for tenant employees. He notes that some very large users are bringing in two or three on-site, third-party food contractors or are providing a subsidized, on-site food service.

After that, specific design preferences vary by type of user, according to Quinn. One company may prefer a long narrow front-load design, while another may want a wider cross-dock layout. The product type, number of skus and number of turns will dictate the most efficient model. The type of material-handling equipment being utilized will also have an impact on the design preference.

Kelley adds that developers are beginning to embed technology in new industrial facilities to reduce the amount of labor required, a top priority given today's tight job market. This means more electrical power is needed in the new facilities than went into buildings constructed just a few years ago. That means energy-conservation measures, like motion-activated LED lighting, are becoming increasingly popular, Quinn points out.

Quinn notes that making buildings comfortable for employees has taken on increased significance in the current labor market. Tenants want upgraded circulation, as well as amenities including larger breakroom with games, televisions and other leisure equipment, to help them attract and retain employees. "The government is going to have to consider the current lack of qualified labor when they continue to address the immigrant issues" he says.

Kelley notes that overall, there is a lot focus on bringing tenants' real estate costs down. "There's lots of pricing pressure on tenants," he says. "That's great when the market is growing and expanding, but there needs to be more balance, as rent growth has been robust during the recovery period."

Multifamily Investors Need to Get More Strategic About Value-Add Plays
複合式住房的投資者需要獲得更多增加價值的策略

By: Bendix Anderson, National Real Estate Investor

Multifamily investors continue to be eager to purchase value-add apartment assets. The challenge is to find the right property.

"Many of the easy deals already have been done," says Greg Willett, chief economist for Richardson, Texas-based RealPage Inc., a provider of property management software and services.

For several years, value-add investment has been a hot trend for apartment building buyers. Many older apartment properties have already been bought and at least partially renovated to earn more income. Also, more investors have become interested in renovating older apartment buildings, increasing the competition to buy these properties.

However, new construction and rising rents continue to create new opportunities to upgrade older assets. "The basic fundamentals that have made value-add multifamily an attractive investment thesis are still in place," says Chuck Johanns, executive vice president in the multifamily division of JLL Capital Markets.

Attractive properties get a lot of attention

Any promising value-add property is likely to have a lot of potential buyers. "There are still value-add opportunities out there that make sense. The challenge right now is the highly competitive environment," says Johanns.

Private equity fund managers have become particularly interested. More than 40 percent of all real estate investment dollars raised in 2017 by private equity funds were raised for value-add investments, according to JLL. That's a tremendous amount of capital targeting what had once been a niche investment strategy.

Meanwhile, the apartment buildings don't even need to be that old to fit into the value add bucket now, according to Willett. "There's actually a pretty big difference in projects from the early 2010s and today's completions," he says. "The product delivered in this cycle is growing more and more upscale very quickly."

Older properties can also benefit simply by becoming more efficient. "Adjustments to property management can drive some of the quickest improvements in net operating income," says Johanns.

A good sub-market for a value-add play will have a growing base of renters who are paying less than 30 percent of their incomes for rent. That means they could probably pay more to live in renovated apartments without having to give up other necessities.

The market should also show a difference of several hundred dollars between the cost of renting a new, luxury apartment and the cost of renting an older unit. Once the units are renovated, the owner should be able to

charge a few hundred dollars more each month than the older apartments nearby, and still offer a bargain by saving the tenants more than $100 a month in rent compared to the cost of new construction.

Investors should not take rising rents for granted when they make their projections. Apartment rents are not growing as quickly as they have been in prior years, and rent growth is never guaranteed. “Future lift from market rent growth is likely to be modest during the next few years,” says Willett. “The deal basically needs to work at the rents achievable in the market right now.”

In fact, apartment rents could even slip lower from today’s levels. “If the upgrade is significant enough that the property will need a complete turnover of the resident base, there’s some possibility that the leasing efforts could be pushed into a recessionary environment,” says Willett.

Partial renovations can provide a safer investment

Many older apartment buildings have already undergone partial renovations during this cycle.

This can create an opportunity for a new investor to do a less intensive renovation, cutting down on uncertainty.

“The operating track record for the already improved units should reduce the perceived risk for the next investor,” notes Johanns.

The yield will also be lower for the buyer of a building that has already been partially renovated. “It may move an investment from the ‘value-add’ bucket into the ‘core plus’ bucket, depending on the scope and scale of work already completed,” Johanns adds.

Investors are also still finding a few opportunities to renovate and improve apartment buildings in some less expensive neighborhoods. “It took a while for value-add activity to move into workforce housing sub-markets,” says Willett.

In these sub-markets, the rents are generally below the average for the metropolitan area. “There are some well-located, older communities in those areas where moderate upgrades make sense, although the improvements can’t take rents to a level well above what’s affordable for the general populace that lives in these zones.”

Wall Street Resurrects another Financing Tool Killed by Crisis
華爾街重建另一項原本因 2008 經濟危機而消失的融資工具
By: Adam Tempkin, Bloomberg

Investors are breathing life back into a once-dead financing tool. The market for bundled loans used to fund riskier real-estate projects is on pace for a post-crisis record after all but disappearing during the 2008 crash.

Sales of commercial real estate collateralized loan obligations are expected to double from last year to as high as $20 billion this year, which would be the highest since 2007, according to industry analysts.

The renaissance of the so-called CRE CLOs -- which are used to fund properties that don't qualify for traditional financing, such as suburban office complexes, multi-family housing and malls that are in transition -- is being hotly debated. Some investors like the better returns and protection from rising interest rates from the floating-rate securities, while others warn of the higher risk of defaults and looser underwriting standards.

"Right now there's still decent discipline in the market -- although there may be some outliers on certain deals -- but there is always risk for any commercial real estate business plan," said David Eyzenberg, president of the New York City-based commercial real estate investment banking firm Eyzenberg & Co. "With CRE CLOs, the cash flow that's there today is almost irrelevant to what happens later."
A smattering of CRE CLO deals started a comebackstarting in late 2011, mostly with safer mortgages and a stable pool of assets. But this is the first year that the market has returned with relatively strong issuance. The revival joins other financing products that were popular before the crisis: synthetic collateralized debt obligations in Europe, collateralized fund obligations and private-label residential mortgage-backed securities.

The intense demand for the CLOs has cut costs for issuers, making them a cheaper source of financing compared with lines of credit from banks or more traditional lending. This has encouraged non-bank lenders and real-estate investment trusts to lend for the first time to troubled or developing properties.

A fiercely competitive commercial real estate lending market has also helped fuel growth, specifically the need for bridge loans to projects that may have lost tenants or need upgrades. There is now more money chasing fewer commercial real estate deals, creating increased competition between non-bank bridge lenders, traditional banks and CMBS conduits to offer cheaper financing.

"There's a vacuum for properties that are more transitional, and this fills it," said Edward Shugrue, chief executive officer of Talmage LLC, which invests in commercial real estate debt. "It's not necessarily worse quality, but the cash flows are not as mature."

Smaller REITs and debt funds such as LoanCore Capitaland Money360, as well as industry behemoths such as Blackstone, which priced its first and the largest CLO since the crash in December, have rushed into the market. A good example of that rush happened earlier this month. Investors snapped up a AAA rated piece of a CRE CLO with one of the tightest spreads over Libor seen in months, despite it being the most highly leveraged CRE CLO that Kroll Bond Rating Agency rated in the last year, according to the firm.

“Higher leverage implies lower borrower equity levels, greater default probability, and higher overall loss severity should a default occur,” Kroll analysts wrote in a note.

Still, many investors see these products as much safer than before the crisis because there are more protections built in and issuers have skin in the game.

Some of the crisis-era trades were called “kitchen-sink” deals, because all kinds of collateral, including the lowest-rated pieces of other deals, were thrown in, Shugrue said. The newer deals are different as they are mostly backed by first mortgages and issuers typically “eat their own cooking” by keeping a piece of the CLO, he said.

“The newer version is bread-and-butter collateral, and represents an ideal use of the structure to fund non-traditional lenders who have meaningful skin in the game,” said Shugrue.

Tax Reform Gives Rise to New Business Strategies
稅制改革給予新的商業策略
By: Dean Giannakopoulos, Commercial Property Executive

Under the old tax rules, many companies favored owning the real estate they operated from – it offered considerable operational latitude and the interest on the loan used to buy the property was often entirely deductible, subsidizing the cost of business locations. This paradigm changed under the new tax rules for companies with gross receipts in excess of $25 million, as new restrictions on business interest deductibility were enacted. Under the new rules, a company can only deduct interest, including any loans, mortgages, etc., totaling 30 percent of earnings before taxes, depreciation and amortization can be deducted on taxes.

As a result, many companies that want to maximize their business interest deduction will opt to sell their real estate locations to investors and lease the property back with a favorable long-term lease. This eliminates the interest expense of the mortgage tied to the real estate and transforms that cost into a lease, which is generally fully deductible. Because sale-leasebacks often have extended lease terms and allow the seller-turned-tenant to maintain the property, there are few operational differences. This process also unlocks the equity of the property, providing additional capital to grow operations.

Single-Tenant Retail Properties Well-Positioned for Sale-Leaseback

Numerous retail sector companies own the locations they operate from, particularly businesses in single-tenant locations such as restaurants, pharmacies and banks. Investors like single-tenant net-leased retail locations because of their high visibility, ease of management and steady returns. Sale-leaseback transactions of single-tenant retail buildings last year were greatest in the 1,000- to 5,000-square-foot range, trading for an average price of $306 per square foot. As a result, private investors were provided with a wide span of assets for less than $5 million. Yields on assets in this segment varied greatly and were largely dependent on location, lease term and tenant creditworthiness. Cap rates for single-tenant retail sale-leaseback transactions generally ranged from 5 to 7 percent last year.

Nascent Industrial Sector Offers Range of New Opportunities

The extended growth cycle and emergence of e-commerce has spurred demand for industrial space nationwide, pressuring vacancy rates to their lowest levels on record. At the same time, industrial property values have risen substantively, offering property owners significant profit potential that can be reinvested into their businesses. Sale-leaseback transactions of industrial buildings last year were greatest in the 20,000- to 50,000-square-foot range, trading for an average price of $93 per square foot. This offers private investors a wide range of assets priced under $5 million. As with the single-tenant retail properties, yields on assets in the industrial segment varied depending on location and tenant creditworthiness. Cap rates for these assets trended higher than most other property types, ranging from the upper-6 percent to low-8 percent band.

Investor Demand Remains Elevated

Single-tenant sales activity has moderated slightly this year across all asset classes as buyers and sellers contend with a rising-interest-rate climate. Because of their bond-like investment characteristics, single-tenant asset transactions tend to have a higher sensitivity to rising interest rates. That said, private investor activity has accelerated as aging Baby Boomer investors use 1031 tax-deferred exchanges to migrate their capital out of more management-intensive real estate assets. This trend will likely continue or possibly accelerate as a wide range of beneficial new tax provisions are better understood and begin to impact investor decisions. A convergence of increased for-sale asset availability spurred in part by owners looking to enter a sale-leaseback agreement, together with an influx of capital targeting these types of properties, has the potential to boost investor activity over the next year.

Bright Skies Ahead for CRE Financing
商業不動產融資前景璀璨
By: Alexandra Pacurar, Commercial Property Executive

Analysts are carefully watching even the slightest variations in the elements that make up the commercial real estate financing environment. Despite changes in tax and trade policies, as well as hikes in interest rates, forecasts remain optimistic regarding their impact on the market. Patrick Ward, founder & president of MetroGroup Realty Finance, cites historical evidence that supports his optimistic view on the future of capital markets. Ward also discusses what it takes to get the most favorable terms for a loan today.

What are the main trends in real estate financing?

Ward: The biggest trend impacting real estate financing this year has been leverage in the CMBS space. In major metropolitan markets, cap rates have compressed as prices have continued to increase. Historically, CMBS underwriting and sizing was still able to get to maximum leverage of 75 percent loan-to-value.

Lower cap rates combined with the slight increase in rates and the premium added to spreads to get to maximum leverage has created a condition where maximum loan-to-values are in the 65 to 67 percent range. This has forced high-leverage buyers into the mezzanine market for the last 8 to 10 percent of the loan amount. These mezzanine pieces are priced in the 9 to 11 percent range and are readily available.

What are the main challenges in commercial lending?

Ward: An issue we commonly see when advising our clients as to their options is recourse versus non-recourse. There are many lenders predominantly within the life insurance company space that are, for the most part, all non-recourse lenders. There are also many lenders, typically banks and credit unions, that are recourse lenders.

Then, there is a group in the middle that are both recourse and non-recourse lenders. The option to offer non-recourse is distinguished by both pricing and loan-to-value. Lenders in the middle category may underwrite a loan request and provide both options: for example, a recourse option in the 70 percent loan-to-value range at a certain interest rate. Then, (there is) an additional non-recourse option at a 60 to 65 percent loan-to-value with a premium of 5 to 15 basis points often attached.

The art here is that the non-recourse ratios typically have some flexibility. Therefore, negotiating the highest possible loan-to-value at the best interest rate is now important. Sophisticated mortgage bankers understand that highlighting the quality of the asset and the borrower's strength and expertise is now very critical in obtaining the most favorable non-recourse terms.

What can you tell us about the impact of rising interest rates, the tax reform and changes in trade policies on capital markets?

Ward: While it is certainly true that there has been a steady uptick in interest rates, the increase has not been dramatic enough to affect the allocation or availability of capital for real estate. The current 10-year Treasury bill is just under 2.9 percent. In fact, in the past five years, the 10-year Treasury bill was only below 2 percent for a

very small duration of time, approximately 7 months. For the most part, it hovered in the 2.2 percent range. Therefore, interest rates are only up approximately 75 basis points on average.

The majority of real estate lenders set their pricing in the range of 1.8 to 2.2 percent over Treasury bills. This puts coupon rates in the 4.7 to 5.1 percent range. This is a range that is still attractive enough that it will not alter the velocity of transactions or, from the capital side, lender allocations. In addition, the majority of maturing loans today typically fall within this range.

We also do not anticipate that the recent tax reform changes will affect the availability or desirability of real estate capital. The preservation of the 1031 tax-deferred exchange program, as well as the favorable treatment of pass-through entities, have not negatively impacted the capital markets.

That said, changes or potential changes by the current administration to trade policies have slightly impacted the capital markets. The biggest impact has been the uncertainty that it has created in the market. There is a looming fear of changing trade agreements and the ongoing concern of the effect of tariffs. As a result, many investors are seeking a flight to safety by investing in U.S. Treasury bills, (placing) downward pressure on interest rates.

What role does technology play in the lending process, and how do you think this will change in the future?

Ward: Technology will continue to evolve and streamline the lending process. We see this in two major ways:

- information
- the process

Lenders have dramatically more tools today than in the past to gather and access information. This includes details such as absorption and occupancy data, demographics, comparable sales and tenant research, all of which are now easily accessible and available. Additionally, lenders are utilizing portals to more effectively track the transaction process, which makes the process available to all involved parties in the transaction and provides real-time updates.

What are your expectations regarding the real estate financing business going forward?

Ward: Our expectations are optimistic. We believe that there will be ample amounts of capital available over the next several years. Interest rates will continue to steadily increase, but not to levels that would upend the industry.

That said, since we started our company in the early 1980s, we have seen three separate and distinct events that challenged the real estate finance industry:

- substantial increase in interest rates
- erosion of values
- lack of capital

In 1981, the 10-year Treasury bill rose to 15.84 percent. The cost of capital obviously brought real estate lending to a halt. In the 1990s, we saw values eroding where lenders left the market to wait and see where values bottomed before reentering the market. In 2007, we saw what started as the subprime residential lending collapse move into an international banking crisis.

Having weathered these economic events, we know our economy and real estate in general are cyclical. However, we do not see any signs that these events could happen again but do believe that in the foreseeable future there will be a market correction. As experienced mortgage bankers, we have to be prepared to adapt and have financing solutions and options for our clients in all environments.

Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)

消費者市場利率：房貸、基本利率、等等

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	Yield/Rate (%)		52-Week		Change in PCT. PTS	
Interest Rate	Last	Wk Ago	High	Low	52-week	3-yr
Federal-Funds rate target	1.75-2.00	1.75-2.00	1.75	1.00	0.75	1.75
Prime rate*	5.00	5.00	5.00	4.25	0.75	1.75
Money market, annual yield	0.49	0.49	0.53	0.25	0.20	0.20
Five-year CD, annual yield	1.81	1.80	1.81	1.43	0.36	0.28
30-year mortgage, fixed	4.56	4.62	4.69	3.73	0.64	0.60
15-year mortgage, fixed	4.01	4.07	4.14	2.99	0.90	0.86
Jumbo mortgages, $424,000-plus	4.74	4.78	4.96	4.21	0.41	0.27
Five-year adj mortgage (ARM)	4.37	4.49	4.78	3.22	1.04	1.90
New-car loan, 48-month	3.89	3.88	4.28	2.85	1.01	0.84
Home-equity loan, $30,000	…	…	…	…	…	…

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