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COMMERCIAL REAL ESTATE MARKET UPDATE

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Commercial Real Estate Conundrum: Investors Want Old Buildings but New Tech
商業房地產難題：投資者想要舊的建築但需要新的科技
By: Joe Anuta, New York Business

Investors are looking for unique and authentic offices in older buildings with architectural character, some of the city's biggest developers said today. And that presents challenges when tenants also seek state-of-the-art tech and amenities that also must be incorporated into the aging structures.

The heads of RXR Realty, Silverstein Properties and L&L MAG, a new firm co-founded by former Forest City Ratner Chief Executive MaryAnne Gilmartin, discussed the changing nature of core assets—properties that tend to be targeted by big investors such as pension funds—at a Real Estate Board of New York event. Out of all the buildings owned by RXR, for example, investors gravitate to the Starrett-Lehigh building on Manhattan's West Side, a behemoth designed in the International Style and completed in 1931. RXR chief Scott Rechler said that developing the property into a modern office building required restraint. He held off on making too many changes that would have caused tenants to smell inauthenticity.

"If you try too hard, it gets rejected," he said. "It's much more of an art than a science."

Yet at the same time, expectations run high when a beautiful old building has the potential to be outfitted with modern technology, which could potentially include smartphone security access, facial recognition and monitoring for the parts of a property that are underused. During the summer, L&L Holding Co. (a separate entity from L&L MAG) and Normandy Real Estate Partners spent $900 million on a 19th-century Chelsea warehouse where Gilmartin said the process of mixing old product with new tech will begin once the deal closes.

"Modern interventions in an unbelievable structure like that will produce pure magic," she said.

However, more than three-quarters of New York City's buildings were built more than 50 years ago. And most haven't translated into stellar office properties.

"I don't think we've necessarily unlocked the puzzle of mid-century-modern buildings," said CBRE's Mary Ann Tighe, who moderated the discussion.

In fact, newly developed boutique office buildings have netted some of the highest per-square-foot rents in the city. And not only have large glass-and-steel towers landed major anchor tenants in Hudson Yards and elsewhere, but they also have attracted startups and media companies that had originally preferred loft buildings. Silverstein, for example, has lured companies such as Spotify to the World Trade Center, in part because employees are no longer faced with waiting in line for elevators and bathrooms, which can happen in older buildings originally created for much smaller workforces.

Silverstein Chief Executive Marty Burger believes startups eventually will conclude the negatives of retrofitted old offices outweigh the positives. "[These companies] will come to a glass-and-steel office building that was taboo five years ago," he said.

What to know if you're Real Estate Ready to Start Investing in Commercial Real Estate
您準備好開始投資商業房地產了嗎？
By: John Larson, Forbes

It's safe to say the thought of investing in commercial real estate (CRE) has crossed your mind since you're here. If you've already dipped into the residential real estate pool and like what you see, it may be the right time to discover the special perks commercial properties have to offer.

Why Go Commercial?

Commercial properties equate to business. Businesses that require overhead range from retail to warehouse to factory to storage to medical and more. They properties are divided into classes: A being new and easily accessed, B requiring minor upgrades and pose potential, C needing major capital investments and difficult to fill. Any commercial building can have multiple units, meaning multiple tenants and more than one stream of income. Commercial leases are longer than residential, so companies can become established. These longer leases also lower the vacancy rate.

The fact that commercial property owners deal with businesses instead of residential tenants makes matters very cut and dried. Because commercial property investments are rarely short-term, there's real potential for growth, and that's where the magic happens.

Buying Options

There a few different ways to land a commercial property:

• **Co-investing**: Buying a share of a property is a brilliant way to begin. Each buyer is responsible for his or her share, and that's it. If the property returns $100,000 in one year, and there are four co-investors, then each investor sees $25,000 in the bottom line. Each investor is responsible for a quarter of the building's needs and tenant lease agreements.

• **A real estate investment trust (REIT):** This is essentially a ticket to the show. When you purchase a REIT, you pick up a small portion of the property, like a share. The property is owned and managed by a specialized company, and whenever profit is made, you get your chunk. It's a very hands-off investment that doesn't give the shareholder's control one way or another. You're really just along for the ride.

• **Private money lending**: This is a way of investing in commercial real estate where you act as the bank. (Full disclosure: My company is a private money lending firm.) Your funds provide the means for developers to build projects of all sizes, just like a bank lender might do. Private money lending is a truly passive way of investing.

Other Types Of Commercial Buildings To Consider

As mentioned before, there are so many ways to slice commercial properties. The opportunities are vast and also so niche. Here are a few other building types to think about:

• **Coin-operated buildings**: Car washes and laundromats are viable investments for those with strong connections to mechanical companies or a mechanical background.

• **Storage unit buildings**: These carry minimal operating and maintenance costs and are available in a wide range of sizes. This type of investment is ideal for modern, turnkey storage units.

• **Flex warehouse buildings**: A large, open space can be easily altered from tenant to tenant. Tenants may include businesses such as gyms, technology startups, microbreweries, gaming centers and so forth.

Commercial Real Estate Investment Success

Not only are commercial investment sales up going into 2018, according to the NAR, but commercial property leases are easily fulfilled. Employment growth in key markets, like Dallas-Fort Worth, Houston, St. Louis and Kansas City, adds to the demand for commercial space.

Commercial real estate is big --— bigger than residential property investments in that it can tolerate market fluctuations more easily. The sum of higher rents from multiple tenants creates a comfortable cushion that softens the blow when the market takes a hard turn. Commercial real estate is a tangible, physical property that acts as collateral and provides stability.

Passive investments in real estate also come with a sense of ownership. You can act as the landlord or be truly passive and hand it off to a management company. Either way, you can still have a say in how you want your investment to grow. As with all investments, due diligence is necessary to ensure that you get into commercial real estate investing in a way that suits your financial goals and lifestyle.

Trick or Treat: What Happens to Vacant Big-Box Stores During Halloween Season? Many turn Into Pop-Up Stores

萬聖節搗蛋：萬聖節期間空置的大型商店會發生什麼？ 許多人變成了短租商店

By: Joseph Pimentel, Bisnow Los Angeles

Freddy Krueger, Michael Myers, Chucky and Geoffrey The Giraffe. Inside this vacant Toys R Us in Seal Beach, California, the horror stars are taking residency inside Geoffrey's old 47K SF retail home.

With pictures of cartoon kids and the Toys R Us mascot still on the walls after the toy company shuttered its stores just a few months ago, a Spirit Halloween has taken over.

Though the hedge fund that owns Toys R Us has flirted with the idea of bringing back the toy company, for now the retail spaces that the toy chain once occupied have been vacated.

Pumpkins with scary faces, life-sized dolls of scarecrows and horror villains, giant stuffed spiders and corn stalks decorate the store. Hundreds of costumes and scary masks line aisles.

There is even a small makeshift haunted house with screams echoing from a speaker that reverberates throughout the former Toys R Us when an unsuspecting customer steps inside. This is no longer America's toy store.

Every year — from September to the first week of November — seasonal Halloween stores set up at retail strips nationwide, often taking over vacant big-box stores.

This is a profitable business model for Halloween companies that operate for a couple of months, for the landlords struggling to fill vacant spaces left behind by Sears, Toys R Us and Kmart, for the retail strip trying to attract crowds and for the city looking for a sales tax generator, said Dan Bacani, Lee & Associates founding principal of the Pasadena office.

"Seasonal tenants have been part of the retail landscape for many years," Bacani said. "It's become more prevalent nowadays since the big-box properties are struggling to find their place in the commercial landscape … more and more of these pop-ups are occupying vacant properties and are extremely vital to the landlord's cash flow.

"It is also important from a city perspective," Bacani said. "It brings folks to shopping centers that normally wouldn't go. ... The nearby businesses feed off of it. It generates sales. It becomes the anchor for that season."

Though seasonal, Halloween pop-ups are part of a multibillion-dollar Halloween industry.

In September, the National Retail Federation's annual survey conducted by Prosper Insights & Analytics, found that total spending for Halloween is expected to reach $9B this year, the second-highest in the survey's history and second only to last year's total of $9.1B.

More than 175 million Americans will celebrate the holiday, with the average person shelling out $86.79, up from last year's $86.13, according to the survey.

"The economy is good and consumer confidence is high, so families are ready to spend on Halloween this year," NRF President and CEO Matthew Shay said in a news release. "Retailers are stocking up to supply children, pets and adults with their favorite decorations, candy and costumes for the season."

From the commercial real estate angle, companies such as Spirit Halloween, Party City and mom-and-pop operators begin identifying vacant properties and contacting commercial real estate brokers as early as May, said CBRE associate Motti Farag, who specializes in retail leasing and landlord representation.

Every year, Farag said, CBRE prepares a list of different vacant properties available for lease.

"We do field a lot of calls from the different Halloween or seasonal stores ... that are scrambling to find space," said Farag, who works out of CBRE's Newport Beach office.

He said due to the demand and competition for short-term vacant spaces for Halloween, in some cases, a Halloween store will sign a one-year retail lease with a landlord just to house inventory and only open during the Halloween season.

Landlords with empty stores love the seasonal tenants because there is little overhead and the short-term tenants pay a hefty lump sum, Farag said.

Most of the companies pay anywhere from $25K to $45K for three months in a location, with the price depending on the size of the space, which could range from 7K SF to 30K SF.

"These tenants usually write one lump-sized check for the entire three months they are there," Farag said. "There is no need for any tenant improvements."

Lee & Associates' Bacani said in some cases there are lease deals that include a combination of low base rent and percentage rent or profit-sharing.

There are at least 50 Spirit Halloween stores in Los Angeles, Orange, San Bernardino and Riverside counties, according to the company's website.

Many of the locations are former Toys R Us, Babies R Us, Sears, Staples or OfficeMax stores.

Spirit Halloween spokeswoman Marisa Uzzolino said she could not speak about the company's business model but mentioned there are advantages and disadvantages to being a seasonal store.

"For example, as the economy continues to improve, retailers are beginning to expand their portfolios and vacant spaces are beginning to backfill," Uzzolino wrote in an email to Bisnow. "We do face challenges securing the best locations; however, Spirit Halloween has an excellent real estate team that works year round to scope out and lock in the best locations available."

Though getting a large lump sum or profit-sharing from a company for occupying a retail space for three months could be seen as an advantage for landlords, it is not a viable business model, Bacani said.

Customer demand for these pop-up stores is only seasonal and some seasonal stores just don't work.

"No landlord is saying to themselves, 'Oh boy, I can't wait for Halloween,'" Bacani said. "Even if they make more money in those few months than they would leasing to a regular tenant, it just doesn't do much for their debt service obligation. It makes their lenders nervous and could create negative comments from the community on why the landlord can't find a tenant.

"Landlords want a tenant to be committed for a number of years," Bacani said. "Is this something you want to bank on as a long-term solution? Absolutely not."

Retail Forecast: 2019 Looks Good, but Economists See Bumps Further Down the Road
零售預測：2019 年乍看前景良好，但接下來在經濟上將有一些阻礙
By: Phillip M. Perry, The Business of Retail

Retailers will enjoy brisk economic tail winds in 2019. A strong labor market should continue to inspire liberal spending, while a robust business climate fuels higher corporate profits. At the same time, economists are starting to see early signs of an inevitable correction.

“The coming 12 months should be a good year for retailers,” said Scott Hoyt, Senior Director of Consumer Economics for Moody’s Analytics (economy.com). “Core retail sales (which exclude the volatile auto and gasoline segments) are expected to grow a healthy 4.7 percent in 2019.”

Happy shoppers are driving the favorable retailing environment.

“Consumers seem to be euphoric right now,” added Hoyt. “The fiscal stimulus in the form of tax cuts, as well as the tight job market, mean there are very few negatives when it comes to consumer fundamentals.”

That tight labor market should constrict still further in the months ahead. Moody’s expects unemployment to drop to 3.4% by the end of 2019, down from the 3.7% recorded at the end of 2018. And it seems the tightening labor market is finally affecting wages, so shoppers have more cash to spend. Average hourly earnings are expected to grow by 3.2% in 2019, up from the 2.8% of 2018 and the 2.6% of the previous year.

Wealthier consumers will support higher price tags in the months ahead, according to Hoyt. The need to increase revenues largely by boosting prices rather than moving more merchandise accelerates a retail trend that began in 2018.

The robust consumer sentiment reflects the energies of a larger economy that is still growing.

“The business cycle has entered its boom phase,” said Sophia Koropeckyj, managing firector of industry economics at Moody’s Analytics. The gross national product (GNP), the most commonly accepted measure of economic growth, is expected to grow at a 2.7% clip in 2019.

Deceleration: Despite the generally sunny outlook, the GNP forecast represents a modest deceleration from the 3.0% growth anticipated when numbers are finally tallied for 2018. And the 2019 retail sales growth estimate is also a deceleration from the 5.0% surge of the previous year.

“There are several reasons for slower growth in 2019,” said Hoyt. “The largest is that deficit-financed tax cuts at the start of 2018 lifted growth. No such support, in terms of an additional increase in after-tax income, is expected in 2019. Job growth will also be slower because of there being fewer available workers.”

Finally, Hoyt added, interest rates will likely be higher, a factor that can have a softening effect.

And to look a bit further down the track, there are signs that the fast-moving economic carriage may be nearing the top of the roller coaster.

"The nation is experiencing robust economic growth, tightening labor and product markets, intensifying wage and price pressures, monetary tightening, and higher interest rates," explained Koropeckyj. "These characterize a business cycle nearing its end, just prior to a recession."

Mention of the R-word will ring a bell for the many people who fear the decade-long bull market is getting a bit long in the tooth. Just when is that recession expected to hit?

"We prefer not to forecast recessions, which are often caused by shocks that cannot be predicted," said Koropeckyj. "However, our forecast for 2020 includes a set of conditions that are consistent with a recession. While we do not expect the textbook definition–two quarters of GDP decline — to occur, real GDP growth is expected to slow to a crawl."

Other relevant predictions include a too-rapid increase in unemployment, the cessation of job growth, flat industrial production, and a deceleration of personal income growth.

To help draw a bead on the recession's timing — or maybe just to bring into sharper focus the changing operating environment — Hoyt suggested watching a number of important indicators in the early months of 2019.

"I would keep a close eye on the political environment," he said "What is going on with tariffs, and is there a risk of a trade war?"

The labor market also looms large, added Hoyt. "How much are wages accelerating, and is the increase fast enough to offset any deceleration of employment growth?"

Beyond that, monitor the interest rate hikes from the Federal Reserve.

"At some point those will start to bite and put a damper on growth," said Hoyt. "That will probably be an issue for later in 2019, but the faster rates go up the sooner the economy might be affected."

Industrial Sales Lead L.A. Investment Activity
工業房地產引導洛杉磯的投資走向
By: Kelsi Maree Borland

Industrial sales are leading Los Angeles investment activity for the year. Overall, investment activity has been strong this year, but industrial activity has reached record highs this year. Bernard Huberman of BLT Enterprises expects the industrial investment activity to remain strong through 2019 as vacancy rates are at record lows and the ports are recording record levels of cargo volumes. Additionally, ecommerce sales are anticipated to reach more than $700 billion by 2022, all of which are helping to fuel industrial investment in Los Angeles.

"Rapidly growing demand for Los Angeles industrial product is a result of changing consumer behavior," Huberman, founder and president of BLT Enterprises, tells GlobeSt.com. "It is no longer an option for warehouses to be located far away from urban centers, resulting in delivery times than can span up to two weeks. Consumers today expect packages to arrive within one to two days, and in many cases, the same day. This has resulted in an influx of demand for smaller industrial properties in dense urban core markets across the U.S., including Los Angeles."
Investment activity in general has been focused in surrounding submarkets, like Culver City, El Segundo and Hawthorne. "We anticipate that the outlying submarkets surrounding Los Angeles such as will continue to garner strong investment activity," says Huberman. "Hollywood has also emerged as a market that is rapidly growing as investors seek older properties to renovate into newer product."

While investment activity is healthy, there are some challenges as we head into 2019, including construction costs. "Rising construction costs and land prices are certainly a concern as we move into the year ahead," says Huberman. "These rising costs coupled with an increasing interest rate environment will force owners and operators to carefully evaluate deals to ensure they pencil." A market correction is another concern, adds Huberman. "This has been one of the longest cycles in history, and despite positive fundamentals, many are approaching deals more cautiously in anticipation of a softening in growth," he says.

While market pressures are rising, BLT Enterprises is sticking to the coastal markets in Southern California. The firm, for example, recently completed renovating a music studio in West Los Angeles into a creative office building. "We plan to remain extremely bullish in these regions, seeking opportunities for new development as well as redevelopment," explains Huberman. "In Los Angeles, in particular, where there is a lack of available land, we are focused on acquiring 'diamond in the rough' properties that are located in strong growth submarkets, but are in need of renovations or repositioning. We continue to find tremendous value in this region, and anticipate that this trend will continue into next year and beyond."

Effective Strategies for Driving Multifamily ROI Growth through Property Management
有效的物業管理策略推動公寓的 ROI 增長
By: Donna Gill, National Real Estate Investor

The great "amenity decision" is on the minds of most of today's multifamily owners. Which amenities will attract residents? Which will provide the best return on investment?

While these questions are important, it's also important to first determine a property's current and target renter demographic. This means understanding which amenities renters are expecting, which services to provide and prioritize and how to best secure ROI through them.

Western National Property Management specializes in attracting and retaining renters to boost the bottom line for multifamily owners—with 179 communities and 24,801 units, catering to new and long-time renters is a must-have quality and a fine-tuned capability. Below are strategies our firm uses to achieve strong results.

Anticipate and manage expectations

Multifamily property managers are aware all renters have expectations for their prospective living situation. Whether this includes laundry services or security systems depends heavily on the generation or community to which a renter belongs.

For example, millennial first-time renters will anticipate common areas, in-house laundry systems, easy food delivery and online rent payments. Baby boomers are more likely to expect high-tech security and smart appliances in their individual units. Generationally, millennials represent nearly half of all new renters, and apartment communities are increasingly implementing online options to meet the demands of this demographic.

Successful and efficient managers see the opportunity in installing renter-specific amenities.

Beyond demographics, additions such as small community parks for pet owners or a lobby concierge service to receive packages when busy renters are out can be helpful for renter attraction and retention. Further, geographic location should also be considered when deciding which services fit best for the community in which property managers operate. It's important to take note of renter lifestyles and plan for amenities that meet the needs of a specific property.

Above all, honest communication with potential and current renters to better understand what they expect should be step one in building loyalty and renter retention.

Use technology to give residents a voice

The #1 item on most renters' wish lists is technology focused on convenience—renters expect this more and more as ease becomes a priority in selecting an apartment community.

New young renters seek to solve problems and resist asking for help. One strategy to cater to this preference is providing chatbots and online forums or services where these renters can feel free to ask questions they would

not otherwise in person. Giving gen Z and millennial renters a way to have their questions answered without direct engagement will—somewhat ironically—ensure they feel seen and heard.

Further, utilizing technological platforms already in the lives of residents as a means to connect with the community is a vital tool for property managers. Apps like Lyft and Uber offer opportunities for property managers to partner and provide a heightened level of convenience beyond those services by themselves.

All this to say, it is easy to become distracted by the latest, high-quality tech. The aim need not be jumping to the newest technological service, but rather, picking those that will serve residents already in the property. By focusing amenities around items that matter most to specific renters, owners and managers can increase NOI and retention rates exponentially.

Paired with the on-site availability and presence of hands-on managers, these tactics boost renter trust and loyalty, thus improving returns and providing the foundation necessary to maintain resident relationships long-term.

Ensure ROI with real people

A personal touch is essential to maintaining renter confidence in the service-oriented nature of a multifamily community. This begins with having real people monitoring resident needs and providing information when necessary.

Technology, when paired with real people in a trusted community, keeps residents secure in their rental choice. This boosts investment return by attracting potential renters and nurturing appreciation from those already there.

For instance, pairing an online notification service with a reception concierge offers a unique personal touch to an otherwise cold exchange. Introducing the warmth of person-to-person interaction in a property can build renter confidence in management, which can directly correlate to strong renter retention.

The bottom line

Multifamily owners and investors can achieve a strong return on investment by tailoring amenities and services to the specific needs of residents. By actively understanding the nuances of what each generation of renters is seeking, property managers can succeed in garnering strong renter loyalty and longer leases.

The time and capital it takes to invest in amenities sought by loyal renters pays itself back quickly in the form of lower turnover and steady cash flow.

How Will Stock Market Volatility Impact CRE?
股市波動將如何影響商業房地產？
By: Kelsi Maree Borland, Globe St.

In the last two weeks, volatility has returned to the stock market, dropping more than 500 points before rebounding. It is generally accepted that stock market volatility has little impact on real estate pricing, but it could have a trickle down effect, impacting business confidence that could hinder growth. At the moment, the stock market volatility hasn't had an impact on commercial real estate pricing, but more minor declines in the coming year could start to have an impact.

"We looked at studies over the last 20 years comparing stock market performance to real estate prices, and they found that there is no strong correlation," Tim Lee VP of corporate development and legal affairs at Olive Hill Group, tells GlobeSt.com. "From a high level view, there is no evidence to suggest that a stock market drop is going to impact real estate prices, particularly in commercial real estate. Part of that is because you have longer-term leases and businesses with more cash reserves that individuals. Having multi-tenant properties helps to weather the storms a bit better."
While there is no official correlation, Lee says that if stock market swings hurt business confidence, it would have an affect on commercial asset specifically. Although there is no direct evidence, we have to see that there is some connection," says Lee. "It does affect business owners' confidence in terms of deciding to expand; it affects people who want to start a business; it has affects on businesses looking to expand internal investments. That does have a trickle down impact on commercial real estate."

At the beginning of 2018, there was a significant 10% correction in the stock market that sparked forecasts of a larger correction sometime this year. Lee says the most recent drop is fueled by the geopolitical climate as well as the length of the growth cycle. "We are seeing things happen on the geopolitical stage that are causing investor nervousness, both in relation to the on-going trade dispute with China and now some of the tension with Saudi Arabia," he explains. "However, in general, there seems to be a bit of profit taking. The Dow is up significantly in the past 12 months, and eventually that will cool off. Last week, I think that factors started to align and people saw opportunities to take some profit. The encouraging sign is that the market came roaring back. So, it looks like people are buying back in after the initial fears have gone away."

While it is hard to predict, there will likely be more stock market volatility next year. "We expect to see more fluctuations," says Lee. "With the exception of the correction at the beginning of the year and the one last week, it has been a fairly mild year. We aren't seeing the turbulence that people predicted at the beginning of the year. If we continue to see swings in the next couple quarters, that could affect on business owners' confidence, and we might see that have an impact on commercial real estate."

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	2.00-2.25	2.00-2.25	2.00	1.00	1.00	2.00
Prime rate*	5.25	5.25	5.25	4.25	1.00	2.00
Money market, annual yield	0.49	0.47	0.53	0.25	0.16	0.19
Five-year CD, annual yield	1.89	1.87	1.91	1.46	0.42	0.41
30-year mortgage, fixed	4.96	4.87	4.97	3.85	1.06	1.15
15-year mortgage, fixed	4.31	4.26	4.34	3.22	1.08	1.28
Jumbo mortgages, $424,000-plus	4.99	4.96	5.16	4.21	0.71	0.55
Five-year adj mortgage (ARM)	4.74	4.54	4.89	3.44	1.29	1.12
New-car loan, 48-month	4.63	4.57	4.63	2.99	1.62	1.49
Home-equity loan, $30,000	…	…	…	…	…	…

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