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COMMERCIAL REAL ESTATE MARKET UPDATE

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科技新生代的消費體驗

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Development's Return in Los Angeles

營造開發商的投資回報一覽

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How to Improve Retail Financing Prospects

如何改善零售融資機會

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Is Cold Storage Heating Up?

冷藏室需求升溫了嗎？

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Industrial Continues to Sizzle in 2018

工業房地產將在 2018 年延續上漲聲勢

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公寓樓

Multifamily Mortgages End 2017 Strong

公寓樓的抵押貸款在 2017 年的強勢

The market tailwinds of strong fundamentals, increasing property values and ready access to mortgage and other credit all put downward pressure on delinquency rates, according to an MBA analysis.

A Closer Look at Tax Credit Investments

細看稅減免投資

Capital One's Laura Bailey and Hudson Housing Capital's Joseph Macari reflect on Low-Income Housing Tax Credit investment opportunities and the bank-tax creditor relationship.

FINANCING
貸款與資金

A Guide to Commercial Real Estate Crowdfunding

商業房地產集資指南

Charles Clinton delves into the risks and benefits of this new source of capital that is drawing in more and more institutional real estate companies, as well as targeted individual investors.

Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)
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The Retail Experience of Digital Natives

科技新生代的消費體驗

By: Evelyn Jozsa, Commercial Property Executive

The fate of traditional shopping centers is at a crossroads. Retail is undoubtedly undergoing a transformation and the question is how will this change impact the industry. Michael Brown, partner in A.T. Kearney's consumer products and retail practice & author The Future of Shopping Centers report, discussed with Commercial Property Executive the new retail formats, what drives the change in the industry and how retail operators can embrace it.

In the report, you describe the shopping malls of the future as consumer engagement spaces. What are the key characteristics of these retail centers?

Michael Brown: Our idea is that Consumer Experience Spaces (CESs) will come in a variety of formats. That's really the first big idea given that, historically, the retail real estate business has taken a fairly cookie-cutter approach to commercial development. Of course, there were variations on the theme—not all strip malls looked alike, but most were similar. Also, not all malls looked alike, but, with the exception of properties such as The Mall of America, most were similar. The real breakthrough has been incremental: the development of outlet malls, vertical malls and open-air malls as alternatives to enclosed shopping centers.

Could you describe some of the different formats these new centers may take?

Brown: As described in our report, the major formats will include, but are not limited to: innovation centers (defined as "smart" spaces where pooled tenant data is used to create targeted offerings), destination centers (featuring large spaces centered around a large attraction, usually arranged around entertainment), values centers (spaces that draw their identity and tenants on the basis of appealing to a set of shared values) and "retaildential" spaces (mixed-use "lifestyle centers" that target specific demographics and combine housing with commercial and lifestyle/life stage offerings).

What are the main factors that drive this change in retail?

Brown: This is a very complex question. The full answer could fill volumes, so we'll focus on some. First, America is, and has been, chronically over-stored and over-malled. Second, the competition for online retailers. Third, social media and networks, but also the fact that the consumer has moved to the center of the value chain. Then there's the aging of traditional Baby Boomer customers and the rise of generations such as the Millennials and Gen Z. It's a "perfect storm."

What are the main challenges that retail operators will face during this adaptation period?

Brown: Historically, retail real estate survived or failed on the basis of several predictable factors: site selection, financing, regulation, the ability to attract the right anchor tenant and surrounding it with other tenants, having sufficient parking etc. All pretty cut and dry. Get the basics right, stay ahead of population movement trends and one could be fairly successful. However, demographic, cultural and technological change has made breaking even—let alone enjoying sustainable growth—far more difficult.

Again, we could fill a book with these challenges, but we'll highlight just a few. To begin with, there is an increasing pressure on all sides from digital retailers and service providers. Another challenge includes the consumer-controlled technologies that allow shoppers to disintermediate physical retailers altogether. Also, there are changes in the mechanics of shopping, such as voice activation and smart AI agents (Siri, Alexa etc.), "dash" buttons, bots, subscription services, interactivity, social networks, instant peer-to-peer review (Amazon.com's Echo Look) and big data analytics.

Retail operators must also "unlearn" the lessons of the past that led to success and learn new models built around the demands of an engaged and radically changing consumer base. Finally, it is important to find ways to connect, understand and cater to new lifestyles.

How are demographic and behavioral shifts impacting the future of retail?

Brown: We've already hinted at this a bit above. The main changes will be the emergence of Gen Z and the waning in importance of Baby Boomers. Let's look at Boomers first. They are the generation that in many ways enabled the growth of the modern American mall. They shared largely—but not exclusively—common values or at least enough of them to make mass marketing through more or less cookie-cutter approaches to retail. These were not just viable, but immensely profitable over time.

The problem is, they were never really a mass market. They just tended to function like one in the absence of more customized alternatives. They purchased things they never needed such as home furnishing, appliances, consumer electronics and even clothing. Now, they are downsizing, so not only have they stopped what had been lifetimes of near continuous, conspicuous consumption of material goods, but they are also getting rid of the things they have with one salient exception, their savings.

What about the new generation of consumers?

Brown: Boomers are being replaced by Gen Z and late Millennials in terms of being drivers of the consumer market. These new shoppers are significantly different from preceding consumer cohorts in several respects. They are diverse—ethnically, racially, in terms of gender orientation etc.—and proud of it. They are more technologically sophisticated than Boomers, X-ers or early Millennials and often more sophisticated than retailers and mall operators. They are more likely to comfortably relate to the world through a screen rather than in person.

Additionally, they demand the right to co-design and customize retail offering whenever and however possible. This new generation is hyperconscious of perceived slights or disrespect. They also care more about the values associated with offerings than the traditional (item/price) value they may or may not represent, place a higher value in utility than ownership and much, much more.

In the report, it is estimated that by 2030, 40 percent of the consumers will be digital natives. What will be the role of technology in the retail experience of the future?

Brown: Again, we've touched on this several times, but we think it is safe to say that where previous generations were a bit in awe of technology, seeing it as something almost alien or foreign to real life. For digital natives, technology is real life or at least the most important part of much of their lives. What earlier generations saw as almost magical breakthroughs, digital natives will see as utilities and "wallpaper"—the installed fabric of the world. Screen and voice interfaces, for example, will be as natural to them as telephones and magazines were to Boomers.

That's from the consumer side. There will be dozens of connective technologies bridging the shopper and the retailer. These will include bots and AI, virtual and augmented reality devices, haptics and other smart, wearable or implanted technologies, some variation of what we currently think of as the Internet of Things and a raft of communication platforms.

What about the retailer's side?

Brown: Finally, on the retailer, mall operator or manufacturer's side, there will be a whole set of additional technologies. Some of these will be devoted to making the "functions" of shopping—ordering, processing, inventory management, delivery, billing, returns etc.—more and more seamless and efficient. A second set will be directed against consumers themselves. These will involve Big Data collection and analytics, the development of creative algorithms, non-intrusive, multi-sourcing behavioral monitoring, social media analytics customization and personalization, and connectivity.

Combined, these technologies will represent a significant break from past retail analytics, where, traditionally, retailers practiced forecasting by looking at historical shopping data and then projecting it forward in time. These new systems will be designed to anticipate consumer needs that, in many cases, may never have been manifested before. This move from historical forecasting to what, in many cases may be, asymmetric anticipatory systems will represent the most profound change in retailing witnessed over the past two millennia.

Development's Return in Los Angeles

營造開發商的投資回報一覽

By: Razvan Cimpean, Commercial Property Executive

Los Angeles' office market is booming, thanks in part to developers targeting submarkets that can accommodate new inventory and ensure steady absorption rates throughout 2017. As average asking prices keep increasing in well-established submarkets, we expect tenants to look for alternatives in those with lower rental rates and similar office stock, such as Burbank and Culver City. Los Angeles is also the only West Coast city shortlisted for Amazon's second headquarters.

Completions reached a cycle high of 2.3 million square feet in 2017, a 53.7 percent increase from the previous year. Development has picked up in less-established urban submarkets, such as Jefferson Corridor and Long Beach–Downtown. North Hollywood emerged as the most active suburban submarket when factoring in existing inventory. With the completion of Merlone Geier Partners' giant NoHo West mixed-use project, the submarket is set to increase its office inventory by more than 15 percent by mid-2018.

Some 37,000 jobs were added year-over-year through November, and the metro's office-using job growth continues to outpace the national average. Office jobs gained 2.2 percent from the previous year and now account for 24.0 percent of Los Angeles' total employment pool of 4.5 million jobs. Significant gains in education and health services (26,300 new jobs) and construction (8,200 new jobs) have been offset by losses in other sectors, such as government and manufacturing. As the metro's minimum wage is poised to reach $15 per hour by 2020, Los Angeles is likely to see an uptick in its overall modest job growth.

How to Improve Retail Financing Prospects

如何改善零售融資機會

By: Larry Jordan, Commercial Property Executive

Market forces in 2018 seem intent upon thwarting retail real estate financing, whether for acquisition, construction or the replacement of maturing debt.

Many retailers are struggling to right-size, attempting to strike a balance between online and brick-and-mortar sales that enables them to remain profitable and competitive. News coverage that focuses on store closings, while largely ignoring retailer expansions, has made lenders and investors increasingly wary of the sector. And nearly 10 years into an economic growth cycle, fears of an eventual correction raise the bar for borrowers extolling their projects' loan-performance capacity.

Look to leasing

In many cases, the most important prerequisite for financing or refinancing is to create value with healthy occupancy by well-performing tenants. In the case of new construction, commitments from good-credit users with a solid financial sponsorship can fulfill the occupancy requirement.

Landlords may be tempted to let a struggling big-box tenant give back all or a portion of its space, with the expectation of finding new and more stable tenants to backfill the opening. Unless the landlord has a replacement user in tow, however, it is usually better to retain the tenant, even if that requires a rent reduction. This is especially true before applying for refinancing.

The immediate risk of a dark store is lost revenue and the resulting decline in property value. In addition, remaining tenants may experience reduced foot traffic and customer engagement. Lower sales per square foot, coupled with lost rental income on the vacant space, detract from the asset's value.

Vacancies can snowball, too, due to co-tenancy clauses. If a big-box store vacates, the landlord typically has a year to bring in a replacement. If the space remains empty beyond that period, the other large tenants, in most cases, can either terminate their lease and leave, or stay at a reduced rent—usually 50 percent of their original rate. This eats away at property value and borrower equity.

Stay above water

CMBS loans due in 2018 may have been issued near peak property values in 2007 or 2008. Many of these loans included interest-only periods, which means the balance due hasn't been paid down as much in comparison with fully amortized loans. Here again, occupancy may be a deciding factor in the borrower's refinancing prospects.

Properties with too much vacancy will no longer appraise at sufficient value to meet a new lender's loan-to-value ratio, or may be worth less than the remaining loan balance. Landlords in that situation may require a new strategy, such as non-traditional tenants to fill empty spaces, perhaps trading a lower rental rate to obtain lease commitments that bring the property value to the required level.

Expect any new debt to be costlier than it was a few years ago, given the recent rise in interest rates. Lenders will require borrowers to contribute more equity— 30 to 35 percent, on average—compared with the 25 percent that was typical several years ago.

Financing is still available for retail properties. A strong leasing strategy implemented successfully is the key.

San Diego Remains a Landlord's Market

聖地亞哥仍然是房東為主的市場

By: Bogdan Odagescu, Commercial Property Executive

Demand continues to be healthy in San Diego, sustained by demographic expansion and a sluggish pipeline. Rent growth ended 2017 at 4.6 percent, nearly double the U.S. average. Although the city's housing shortage issues are ongoing, the market remains a more affordable living alternative to Los Angeles and San Francisco, especially for young, highly skilled professionals.

The metro is adding jobs across the board as its economy continues to diversify, with education and health services (4,300 jobs) leading growth. With the $2.1 billion trolley expansion slated for completion in 2021 and the $1.5 billion Seaport San Diego set to kick off the same year, other large projects are underway. Berkadia is working on closing a $650 million loan for Manchester Financial's 2.8 million-square-foot Manchester Pacific Gateway. Meanwhile, Westfield is investing $600 million in the upgrade of Westfield UTC retail center, and Hines is planning a $2 billion conversion of Riverwalk Golf Club into a mixed-use destination.

Some $1.6 billion in San Diego assets traded in 2017, continuing a three-year bull run. There were 8,700 units underway as of December, with development bound to accelerate due to continued demand. Although occupancy in stabilized properties dropped 80 basis points year-over-year to 96.5 percent as of November, the rate remains one of the highest among major U.S. metros. As demand should remain healthy, we expect rents to appreciate by 3.5 percent in 2018.

3 US Cities to Watch in 2018

在 2018 年值得關注的 3 個美國城市

By: Scott Baltic, Commercial Property Executive

As 2018 appears to be heading into positive performance for commercial real estate, the three U.S. cities to watch, according to a new report from TH Real Estate for the first quarter of this year, are Los Angeles, Chicago and New York. The reasons why, perhaps unsurprisingly, are largely similar for all three cities, forming an implicit blueprint for a world-class metro in the early 21st century. The report, "THINK US Cities: Trends and Tactics," was written by Melissa Reagen, TH Real Estate's managing director & head of research for the Americas.

Each city is, of course, very large both demographically and geographically, and each benefits from a workforce that's rich in college graduates and Millennials. The three have in common vibrant tech sectors, major universities, substantial tourism, prominent cultural attractions and strong transportation connections to the rest of the country.

It comes as no surprise that Los Angeles led the nation in CRE transactions last year, at more than $28 billion, followed by New York and Chicago, with $23 and $17 billion, respectively.

Nationwide take-home points

Nationally, CRE conditions are "tempering somewhat," the report says, but they remain solid, despite recent stock market volatility. That upheaval happened in part because of a divergence between a Fed that has been hiking rates to head off inflation, even as Congress passed a stimulus measure in the form of the tax bill.

Among trends to watch are co-working spaces and the rise of the contingent workforce, which is predicted to increase by another nearly 25 million workers and to comprise a majority of the U.S. workforce by 2027.

As to the sharing economy, the report points to surging companies such as Uber, which owns no cars; Airbnb, which owns no houses—and in particular WeWork, which doesn't own its own real estate. Office building owners are thus forced to invest more capital in their properties, pulling down returns.

In January, TH Real Estate released a report that identifies eight possible real estate trends which may guide investors this year.

The Toy Story That Ended in Chapter 11

"玩具總動員"的"Chapter 11/破產"結局

By: Jay Maddox, Commercial Property Executive

The Toys "R" Us decision to throw in the towel and liquidate its business grabbed headlines, but it wasn't entirely unexpected. However, in the world of retailer Chapter 11 bankruptcy filings, this massive failure is a bit of an anomaly.

The Toys "R" Us failure was triggered not only by competition from online retailers such as Amazon, but also bricks-and-mortar retailers such as Walmart and Target. However, its failure to keep up with the competition was not entirely due to management's missteps. Perhaps the biggest contributor was the company's enormous debt burden when it was acquired via a leveraged buyout by a group of private equity funds. The stifling debt load greatly constrained the business at the same time its competitors were aggressively ramping up.

The Bankruptcy Process

Chapter 11 bankruptcy can be an effective way to deal with overwhelming debts or liquidity issues. The bankrupt company typically continues business operations and during the early months, it has the exclusive right to submit a reorganization plan.

This plan must be confirmed through a court proceeding and typically identifies underperforming stores to be closed, while others would be retained and perhaps improved to be more relevant and competitive. In addition, the creditors will agree to modifications and, in some cases, reductions in the company's debt obligations in order to facilitate the plan. The plan is often accompanied by a new third-party capital infusion.

Major retailers like Toys "R" Us have hundreds and, in some cases, thousands of leases, and when the Chapter 11 petition is filed they have only months to determine which of those to keep. For that reason, much advance planning goes on well before the actual bankruptcy filing. Failure to do so puts the company in a defensive, reactive posture, and major opportunities to extract value from below-market leases can be lost. In a number of large retailer bankruptcies, the retailer actually worked out a detailed plan that had the support of creditors and other stakeholders prior to filing bankruptcy—a so-called "prepackaged" reorganization plan. This can often be a smooth process that enables the company to emerge from Chapter 11 in just a few months.

So, why do creditors agree to compromises that in some cases are huge? The alternative is often a liquidation, which can be catastrophic. In fact, under the bankruptcy code, the company must demonstrate to the creditors and the court that its plan will bring greater value than a liquidation.

Where Things Went Wrong for Toys "R" Us

Toys "R" Us filed for Chapter 11 protection last September, hoping to restructure its business and emerge as a reinvented specialty retail powerhouse. With hundreds of creditors, landlords and suppliers, a formal filing became necessary. However, the company was unable to rally support for its proposed re-organization plan, and ultimately the creditors determined they would recover more by simply liquidating the business.

The speed with which creditor negotiations deteriorated during the Toys "R" Us bankruptcy was unusual. Normally a contested proceeding will drag on for months, and in some cases, years. It is also surprising given the deep pockets of the retailer's private equity investors. Clearly they decided to cut their losses rather than fight.

This unfortunate result was most likely the consequence of not being proactive enough with creditors and other stakeholders prior to the filing; not presenting a credible, realistic reorganization plan; and debt restructuring proposals that were clearly unrealistic. Management may have fallen into a common trap—praying, and even believing, that things will magically turn around, and finding that it's too late to save the company when the company finally files for bankruptcy protection.

Is the Retail Sector at a Crossroads?

現在是零售業的十字路口嗎？

By: Gail Kalinoski, Commercial Property Executive

A new study by Deloitte, "The Great Retail Bifurcation: Why the Retail 'Apocalypse' is Really a Renaissance," disputes the popular theme that retail is facing a battle between online and brick-and-mortar. The report found that consumer economics play a bigger role in who wins and who loses in retail these days with premier and price-based retailers doing much better than those that try to appeal to shoppers in the middle. The report was written by Kasey Lobaugh, chief innovation officer, Christina Bieniek, U.S. consulting leader, Bobby Stephens, U.S. retail leader, and Preeti Pincha, senior manager.

"Brick-and-mortar retail is not on or near its deathbed. In fact, we are seeing retailers open new stores at an astounding pace, and physical retail is growing alongside digital," Lobaugh said in a prepared statement. "Rather than witnessing the demise of retail, our study shows a dramatic change in line with the impact of consumer bifurcation along economic lines. While specific retailers may see an apocalypse, others see opportunity."

The report found that much of the retail sector is strong and growing with both high-end and price-conscious retailers seeing revenues increasing 81 percent and 37 percent, respectively, over the past five years. In a sign of consumer income bifurcation, the report notes that those retailers that try a more "balanced" approach saw their revenues rise by only 2 percent. In the past year, the premium retailers had sales increases of 8 percent and price-based retailers were up 7 percent, while the balanced retailers in the middle of the shopping spectrum saw sales decline by 2 percent.

Price-based retailers remain strong

While store closings and retail bankruptcies have been in the news, the Deloitte study found there are many more stores opening than closing. What has happened is that the store closures have been taking place mainly among balanced retailers, but price-based and premium retailers have been opening more stores than closing them. That is particularly apparent in the price-based category, which saw price-based retailers gaining 2.5 stores for every balanced store that closed between 2015 and 2017. During that time, more than 4,500 price-based retailers opened stores.

The Deloitte report states that the income bifurcation also triggered differences in how and where consumers made purchases. Low-income consumers are 44 percent more likely to shop in discount stores, supermarkets, convenience stores and department stores than their higher-earning counterparts. High-income consumers tend to shop more online and to spend their money at more retailers than the lower-income shoppers. The report noted that fragmentation was even more pronounced online, with affluent consumers being 40 percent more divided in their choice of online retailers.

The study found household economic health correlated to spending behavior with 20 percent, or one in five surveyed consumers, reporting they were better off in 2017 than they were in 2007 in terms of disposable income for discretionary shopping. A majority of those surveyed, four out of five consumers, said they had fewer funds for traditional retail segments such as apparel. Some of that money may have gone to increased spending on mobile phones and data plans, items that hit the lower-earning consumers harder. Rising costs for non-

discretionary items such as health care, education, food and housing, also impacted the lower-earning consumers more, particularly because their wages had been stagnant. Meanwhile, those with higher incomes were 10 percent more likely to say they increased their spending over the last year.

“Households have diverged along economic lines and now people’s respective income levels are steering their behaviors and dictating the success of retail segments,” Stephens said in prepared remarks. “More affluent shoppers have fueled high-end retail, as their income and net worth have grown, while lower-earning consumers, faced with growing expenses and dramatically less disposable income, have turned toward price-conscious stores. Retailers that try to court all consumers will likely be challenged, as income bifurcation leaves different shoppers with differing motivations.”

The study also looked at Millennials and their shopping habits, finding that, for the most part, their spending is similar to other generations, particularly for low-income and middle-income Millennials. Deloitte found high-income Millennials, who make up less than 19 percent of the total generation and 6 percent of the total population, skew the perceptions of their generation being less likely to shop in stores. One shopper preference that cut across the Millennial income levels, though, was that they tend to shop less frequently in department stores than other age groups.

Marijuana Laws Slowly Impact Industrial CRE

工業房地產受到大麻合法化的影響

By: Barbara Murray, Commercial Property Executive

The industrial sector of the commercial real estate industry is going through a slow but inevitable change, and it has more than a little to do with the budding marijuana business, according to Integra Realty Resources' new Marijuana Real Estate report.

As of January 2018, 29 states and the District of Columbia have legalized marijuana for medicinal use and 10 have legalized recreational marijuana, with Vermont becoming the first to give the green-light through legislature. As the Marijuana Industry grows, so does the need for cultivation/grow facilities—which usually take the form of specially-converted warehouses or distribution centers—thereby impacting the industrial sector of commercial real estate.

"The demand for MI-related real estate in the years ahead will be substantial and likely to exceed what most real estate industry veterans projected even a few short years ago," according to the report. The proof is in the numbers. IRR points to figures provided by commercial real estate services firm CBRE, noting that the effective per square-foot lease rate for grow facilities in Denver (Colorado and Washington were the first states to legalize cannabis for recreational use) climbed to $14.19 in 2017, marking a figure 2 to 3 times higher than the average warehouse lease rates.

No bandwagon effect—yet

While demand for grow facilities continues to rise as state-legalization spreads, the commercial real estate investment community has yet to fully embrace this subsector of industrial properties; corporate players have not established a presence in this nascent market. And the obstacle doesn't necessarily pertain to any lingering stigma.

"In short, there is just too much financial and legal risk at this point," Charles Jack IV, a senior managing director with Integra Realty Resources, told Commercial Property Executive. There's a lengthy list of financial challenges, including the inability to bank in terms of customer payment processing via debit/credit card transactions; checking; credit lines; and mortgages, etcetera. And then there's the legal side of it all. "The regulatory risks are many, but the biggest one boils down to the fact that marijuana is still illegal at the federal level," Jack added. "[However,] once the banking hurdles disappear and the legal questions are answered, it will be 'off to the races' with regards to larger publicly traded companies getting involved in the U.S. marijuana industry."

The Mavericks

There are U.S. investment companies that have looked beyond the legal and financial challenges associated with MI-related real estate. Innovative Industrial Properties Inc., a provider of creative real estate capital solutions to the medical-use cannabis industry, closed its initial public offering in December 2016 and has been snapping up facilities tenanted by licensed growers ever since. Most recently, the REIT completed the $15 million acquisition of a 350,000-square-foot greenhouse and industrial property in Willcox, Ariz., in a sale-leaseback transaction

with The Pharm, a wholesaler of medical-grade cannabis. But Innovative Industrial isn't the norm in the market—not that there is a norm.

"Due to a lack of regulation at the federal level, the market remains fragmented and localized," Jack noted. "It's not necessarily mom-and-pops in this sector, but rather relatively successful local business professionals with a higher net worth in the multi-millionaire net range."

However, things can change fast and California, where recreational use of marijuana became legal on January 1, 2018, may very well play a starring role in sparking a turning point. Per the IRR report, "Given that California is the most populous state in the nation, its 2018 entrance into the recreational marijuana market is certain to have a major and immediate impact on demand for marijuana-related real estate."

Is Cold Storage Heating Up?

冷藏室需求升溫了嗎？

By: Keith Loria, Commercial Property Executive

A new report by CBRE, entitled, "Cold Storage: About to heat up?" said an increase in online grocery sales will likely result in an increased demand of as much as 35 million square feet of U.S. cold-storage space shifting from retail stores to warehouses and distribution centers within the next seven years, according to a new report from CBRE.

The rise of e-commerce will be the biggest disruptor in the segment, impacting where food is stored and how it gets to people's homes.

"The U.S. market for warehouses and distribution centers has been on a multiyear run, but there still are segments in the relatively early stages of their growth, like cold storage," David Egan, CBRE's global head of industrial & logistics research, said in a prepared release. "As e-commerce expands further into the grocery business, the resulting growth of the food supply chain and demand for new, climate-controlled warehouse space could very well be the new opportunity that investors and developers have been seeking."

Currently, the U.S. has a capacity of about 3.6 billion cubic feet of food-commodity cold storage, which is situated in 180 million square feet of industrial space, and 2 billion cubic feet of similar capacity covering 300 million square feet of retail space.

Food producers, population centers boost demand

The USDA noted that states flush with the largest food-commodity industrial cold-storage space—such as California, Washington and Florida— are most likely near major food producers and population centers.

Analysis by CBRE confirmed this, as it found greater concentrations of food-grade, cold-storage facilities occur in states with substantial agricultural production, large populations or both. CBRE estimated California as having the most industrial cold-storage space (nearly 400 million), followed by Washington state (271 million), Florida (260 million), Texas (231 million) and Wisconsin (228 million).

FMI/Nielsen revealed that while online grocery sales represented just $19 billion in 2017, accounting for 3 percent of total grocery sales for the year, projections are the category will rise to $100 billion by 2024, which would represent 13 percent.

The CBRE cold-storage report concluded that depending on the property type used to fulfill online grocery sales, up to 35 million square feet of cold storage for food distribution could be shifted from retail to industrial properties.

Industrial Continues to Sizzle in 2018

工業房地產將在 2018 年延續上漲聲勢

By: Barbara Murray, Commercial Property Executive

It was a good year for commercial real estate's industrial sector in 2017, and 2018 is expected to bring more of the same, according to Integra Realty Resources' new 2018 Viewpoint Industrial Report.

"Industrial, without a doubt, stands head-and-shoulders above the other commercial property types as we enter 2018," according to Hugh Kelly, the economist who partnered with Integra Realty Resources on the report. "A multi-year pattern of double-digit total returns, coupled with absorption rates exceeding the pace of new development, have bolstered occupancy levels and rent growth in the majority of U.S. markets."

The numbers paint quite a positive picture. An increase of 2.64 percent in market rents is anticipated for the warehouse/manufacturing facilities in 2018, and the flex properties are expected to see an increase of 2.25 percent. Looking at individual cities, Cleveland, Hartford, Naples and Seattle are on track to experience a 5 percent—or more—rent growth this year.

Demand will remain on the upswing as well. The call for industrial facilities of all sizes will continue to drive leasing activity; even older urban warehouses will fare well, serving as fulfillment centers for the accommodation of consumers' increasingly loud cry for next-day and same-day deliveries.

Overall, industrial conditions across much of the country are more than a little encouraging. Of the 62 markets IRR surveyed, 52 markets, or 83.8 percent, are categorized as being in the expansion phase of the cycle, and the remaining 10 markets are in recovery.

Flavor of the year—again

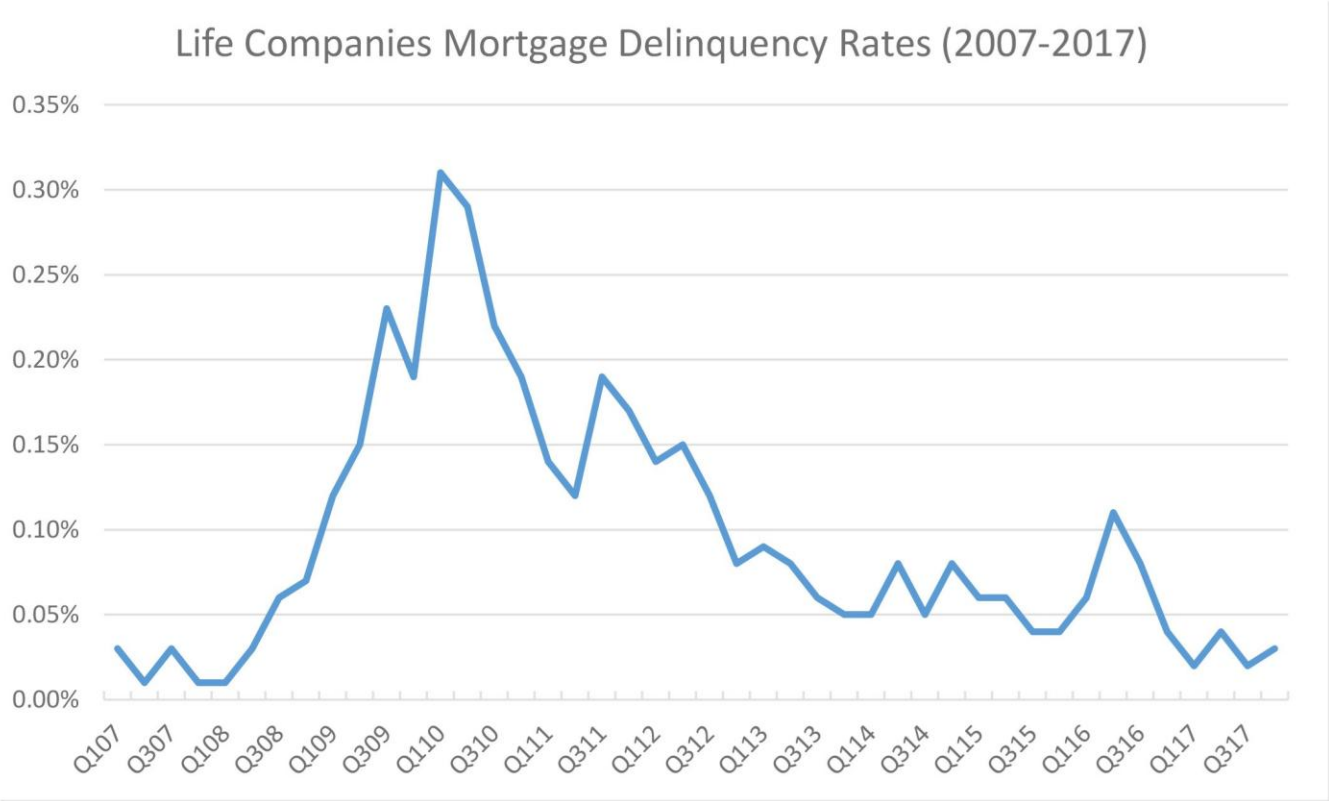
The industrial sector was the investor favorite in 2017, with transaction volume having jumped 23 percent over 2016 in dollars, and 18 percent in deal count by the third quarter. The future appears just as bright for 2018. A full 92 percent of core industrial markets are predicted to experience an increase in value this year, with 62 percent expected to record a rise in value exceeding 2 percent.

In the report, IRR contends that the industrial sector's robust cyclical momentum is likely to endure not just through 2018, but beyond this year as well. "As a sector, this property type seems to be more in a mid-cycle than a late-cycle stage. This, perhaps, helps explain why industrials are running contrary to the trend of diminishing investment volume afflicting the other major property types," Kelly noted. "Everyone, it seems, loves a winner."

Multifamily Mortgages End 2017 Strong

公寓樓的抵押貸款在 2017 年的強勢

By: The Editors, Commercial Property Executive



Commercial and multifamily mortgages ended 2017 continuing to perform extraordinarily well. The market tailwinds of strong fundamentals, increasing property values and ready access to mortgage and other credit all put downward pressure on delinquency rates. The MBA analysis looks at commercial/multifamily delinquency rates for five of the largest investor-groups: commercial banks and thrifts, commercial mortgage-backed securities (CMBS), life insurance companies, Fannie Mae, and Freddie Mac. Together these groups hold more than 80 percent of commercial/multifamily mortgage debt outstanding. Out of more than 33,000 commercial and multifamily mortgages held on the books of life insurance companies, only 17 were reported as delinquent at the end of 2017.

A Closer Look at Tax Credit Investments

細看稅減免投資

By: Alexandra Pacurar, Commercial Property Executive

Changes in tax legislation, proposed budget cuts to the U.S. Department of Housing and Urban Development (HUD) and rising interest rates are just some of the factors that could have a negative impact on tax credit ventures, particularly in the multifamily industry. While banks remain the most common lender in the affordable housing space, due partly to the prospects of stable returns, they are increasingly partnering with other lenders such as tax credit syndicators to overcome the challenges that make this investment niche tricky.

One such partnership that has flourished over the years has been between Capital One's Community Finance team, which is celebrating its 10th anniversary, and Low-Income Housing Tax Credit syndicator Hudson Housing Capital. Laura Bailey, senior vice president of Capital One Community Finance, and Joseph Macari, founding & managing member of Hudson Housing Capital, discussed the evolution of the bank-tax syndicator partnership and the current environment for this investment vehicle.

What are the current challenges disrupting the business flow between banks and tax credit syndicators?

Laura Bailey: Tax credit investing sounds complicated—and it is. Yet, the end goal is to provide capital that enables a community-centered development to move forward, something vital in importance in cities across our country and, in a sense, beautiful in its simplicity. The technical features matter and now more than ever, following changes in tax law is crucial.

Also, an inability to work in partnership can absolutely disrupt the business flow between banks and tax credit syndicators. You need to work together to tackle the many intricacies that make tax credit investing complicated and that can come to bear in different ways on a transaction.

How can banks and tax credit syndicators work together more effectively?

Joseph Macari: In order to find the most appropriate LIHTC investment opportunities for a bank, the syndicator needs to understand the bank's needs in terms of location, sponsor type, risk tolerance and economics. Furthermore, regular and open communication during initial evaluation, as well as during underwriting and closing, is crucial. When unforeseen problems or risks are identified, they should be openly discussed so that solutions can be reached on a collaborative basis.

The syndicator needs to be a strong and effective advocate for the bank throughout the process. Having worked with Capital One Bank for nearly a decade, Hudson understands the bank's needs and due diligence process intimately, and we believe that this is the key to our working together so effectively.

Some investors may be hesitant to pursue affordable housing projects because of minimized returns. What would you say to these investors, considering the high demand for low-income housing?

Bailey: The best feature of providing high-quality affordable housing is the one that might most interest investors. And that is the fact that you rarely have a problem finding residents. We have invested in properties

where there are hundreds of applicants for each available unit. But, returns in this field are limited in order to ensure that the government subsidy stretches to help as many people as it can.

So, the investors most commonly seen in affordable housing are banks motivated by making high-quality investments that fulfill their responsibilities under the Community Reinvestment Act and attracted by the prospect of stable returns over a 10- to 12-year period.

What can you tell us about the impact of current political and economic factors on tax credit investments?

Macari: The primary political issue affecting affordable housing in 2017 was tax reform. Due to uncertainty regarding the final legislation, many investors curtailed their appetite for LIHTC investments last year. With the passage of the tax reform in December and the preservation of the LIHTC program, there is now more certainty in the market and investors are returning. But the reduction in the corporate tax rate from 35 to 21 percent means that there is less after-tax benefit from tax credit investments and tax credit pricing has fallen as a result.

The president's fiscal year 2019 budget request released on Feb. 12 calls for significant cuts to the HUD budget, including programs that fund development and operation of affordable housing, such as Section 8 rental assistance and Community Development Block Grants. Of course, the president's budget request is just a starting point and Congress will have its own say, but the request will likely carry weight as it frames the upcoming debate.

What about rising interest rates?

Macari: Given the robust economy, real estate fundamentals remain strong. With upward pressure on home prices and apartment rents in most markets around the country, the need for affordable housing is greater than ever. With rising interest rates and lower tax credit prices, there is increased pressure on the financial feasibility of affordable housing projects. Higher interest rates will also likely lead to higher yield targets for investors, which could further reduce the prices they pay for tax credits. Unfortunately, these factors, along with increasing construction costs, are going to take a toll on affordable housing production nationwide.

Which type of tax credit investments are considered to be most appealing for investors at the moment? Affordable housing, rehabilitation of historic buildings or energy efficient (re)developments?

Bailey: From our point of view, each has its merits. And when you think about it, a balanced community needs each of these in order to fulfill its promise as a truly great place to live.

A Guide to Commercial Real Estate Crowdfunding

商業房地產集資指南

By: Alexandra Pacurar, Commercial Property Executive

Real estate crowdfunding is increasingly attracting investors with its strong yields, potential for outsized returns and reduced volatility, among other potential advantages. This fairly new form of online investing offers a great deal of opportunity, but it also comes with some risks. Charles Clinton, co-founder & CEO of investing platform EQUITYMULTIPLE, delves into the mechanism behind commercial real estate crowdfunding and underlines the most important factors an investor must consider for long-term success.

What opportunities does real estate crowdfunding offer investors?

Clinton: Private commercial real estate investing has numerous benefits as a portion of an investor's overall portfolio. Despite its advantages, individuals are substantially under-allocated into real estate compared to institutional investors, primarily because real estate has lagged behind other asset classes in terms of transparency and accessibility. By moving real estate syndication online, real estate crowdfunding has begun to change that old paradigm. Individual investors can now invest in private market real estate transactions at low minimums (our investment minimum at is typically $10,000 per offering) and start allocating a portion of their portfolio into real estate without taking on the burdens of direct ownership.

Investors have full transparency into what properties they're investing in and the low minimums help facilitate diversification. The best platforms also pre-screen the real estate companies and investments that they present, easing the selection burden on investors.

What are the benefits of crowdfunding investment compared to traditional instruments?

Clinton: Strong yield—after years of near-zero interest rates, investors have been forced to look for yield in new places. Less volatility—these investments are illiquid and non-traded, as opposed to public stocks, traded REITs or cryptocurrencies (a topic on everyone's mind). While illiquidity has its drawback, it also reduces market correlation, making direct real estate investing less subject to market swings and, in aggregate, exhibit less volatility.

Potential for outsized returns—because private real estate markets are inefficient, there is potential for market-beating returns by investing in markets and submarkets that are underserved by traditional sources of capital, and in properties with untapped potential. Downside protection is also an advantage. Real estate—as an irreplaceable resource with tangible value—is also less vulnerable to recessions. The economy will expand and contract cyclically, but a growing number of humans will always need places to live and work.

Then we have tax advantages. Real estate investing platforms allow individual investors to share in the same unique tax advantages as institutional real estate investors—namely write-offs for depreciation, and a new 20 percent deduction for investments made through an LLC, courtesy of the recently-signed tax bill.

What can you tell us about the risks of real estate crowdfunding for investors?

Clinton: First, all investments carry risk, which is important for investors to remember. The risk/return profiles of investments offered through real estate crowdfunding platforms vary quite a bit. For example, we offer shorter-term senior debt and preferred equity investments, which are more secure, offer a flat rate of return and are more appropriate for risk-averse or less experienced investors. We also offer higher-upside, higher-risk equity investments, as a number of other platforms do. It's important that investors take time to understand the specific risk factors for each offering they consider. Even more so, it's important that platforms make those risk factors apparent and practice transparency in their presentation of the investment thesis and attendant risks.

Platforms should also practice conservative return modeling, stringent underwriting of both the real estate company running the deal and the deal itself, and a quality-over-quantity approach. Lastly, many platforms only offer investments to "accredited investors." This helps ensure that the individuals who invest are adequately experienced and have the requisite capital for adding a new asset class to their portfolio.

Crowdfunding hasn't been around for a long time, but it's becoming more and more popular. What do investors need to look at before putting their money into such platforms?

Clinton: Investors should consider the people and practices behind any platform they consider investing with. If the management team doesn't possess significant real estate experience, if the details of investments—and their attendant risk factors—aren't presented in a forthright, transparent way, if return projections seem too good to be true, if they are unable or unwilling to answer questions. All these things should raise red flags.

It's still relatively early in the game for the real estate crowdfunding industry. Though results so far have been good for many platforms, keep in mind that we've been riding a bull market for the entirety of the young industry's lifetime. In the long run, winning high marks from investors will be less about hitting home runs 100 percent of the time and more about reasonable expectations, sound diligence measures, transparency and great customer service.

What are your expectations regarding real estate crowdfunding in 2018?

Clinton: The concept is gaining more legitimacy, both among individual investors who fund the deals and the real estate companies looking to tap into a new source of capital. We see this in the growing demand on our platform and investment volumes on other leading platforms, and understand this anecdotally from our customers who were skeptical of the new investment class at first but have grown more comfortable with the new investing paradigm. From that standpoint, I would expect the industry to post triple-digit, year-over-year growth again in capital invested.

On the other hand, macroeconomic factors are a looming challenge. The longer the market remains strong, the more platforms will be tempted to loosen credit standards to find yield. We will eventually, of course, see a market correction (depending on who you ask, we're well overdue).

In sum, the future is bright for the industry. The U.S. economy and real estate market remains healthy overall, individual investors remain under-allocated in real estate, and real estate crowdfunding continues to win esteem among individual investors seeking yield and greater portfolio diversification. We're also increasingly seeing institutional real estate companies turn to crowdfunding as a means of financing their projects. These are

all great signs. Big picture, we're seeing the creation of a new type of real estate financial product. In that light, the billions of dollars that will flow through the industry this year are only a drop in the bucket.

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	1.50-1.75	1.50-1.75	1.50	0.75	0.75	1.50
Prime rate*	4.75	4.75	4.75	4.00	0.75	1.50
Money market, annual yield	0.35	0.35	0.36	0.25	0.03	-0.07
Five-year CD, annual yield	1.67	1.66	1.67	1.29	0.38	-0.03
30-year mortgage, fixed	4.41	4.45	4.49	3.73	0.32	0.61
15-year mortgage, fixed	3.87	3.93	3.95	2.99	0.58	0.78
Jumbo mortgages, $424,000-plus	4.69	4.73	4.96	4.21	0.04	0.42
Five-year adj mortgage (ARM)	4.16	4.25	4.50	3.20	0.85	0.63
New-car loan, 48-month	3.66	3.65	3.67	2.85	0.30	0.69
Home-equity loan, $30,000	…	…	…	…	…	…

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