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# Phoenix Apartment Report

**February 2013 *News* Edition**

**Must read articles for Phoenix area apartment investors that impact your property values and assist you in your decision–making processes.**

**www.praedium-advisors.com**

## *Victor's Insider Secrets of Dealing with Your Apartment's Lender*

In today's real estate market it's not uncommon for an apartment owner to be faced with the problem of not being fully able to meet their obligations to their lender.

Perhaps your loan is coming due and, in today's real estate financing climate, there's no way to secure a new loan to replace the maturing loan. Or perhaps, no matter what you do, the income just isn't enough to make the monthly payments as they are now structured and pay all the ongoing operating expenses of your property.

Whatever your problem may be you need to be prepared to know how to get the upper hand with your lender when working out your apartment loan.

In this report I'll share with you three of my most

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Report Examines Future Role of GSEs in Multifamily Financing

clever tactics to get your lender off your back and working with you instead of against you in dealing with your apartment.

**Tactic #1 — BE PREPARED**

When faced with any adverse situation it's always a good idea to employ "***The 6 Ps***" — Proper Planning and Preparation Prevents Poor Performance. You must be PREPARED to deal with your lender.

A loan restructuring or workout can be long, tedious and often complex. It's emotionally stressful while you're fighting your creditors to also be faced with holding your property together often with little cash reserves.

Large companies often have management teams to oversee their debt restructuring while other employees are assigned the task of maintaining operations. For an apartment owner such as yourself its usually just you wearing all the hats—the buck stops with you.

This often puts you in a David & Goliath situation—you being David, the small struggling apartment owner, against Goliath, the large nameless, faceless, giant financial institution, that's preparing to crush you.

But, as we all know, in the end David can and does come out the winner. Being prepared for battle with your lender allows you to come out the winner.

But what does being prepared really mean in the context of getting your lender off your back and working with you instead of against you?

There are 4 key things you need to do in order to

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'13 Unlucky? Not for Apartments

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To Canadian Funds, U.S. Real Estate Looks Ripe

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Apartment's Automated Vending Machine Generates $2500 in Weekly Revenue

P.B. BELL TEAMING UP WITH GILBANE TO DEVELOP 389 APARTMENTS IN CHANDLER

How to Sign a Contract

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be prepared to begin this process:

(i) **Have a REALISTIC assessment of your situation**

(ii) **Have your financial records in shape**

(iii) **Make sure you have an accurate understanding and knowledge of what your property is worth in today's real estate market, and**

(iv) **Have a clear understanding of what lender liability issues might exist regarding your loan so that the lender fully understands their exposure**

## A Realistic Assessment

In order to be prepared to even begin discussions with you lender, you have to understand better than anyone else what exactly is going on with your property. You must know the ins and outs of your property. What are its strengths and weaknesses? You must know all there is to know about the property and be able to demonstrate to the lender that you are the #1 expert regarding YOUR property.

Remember, this is **NOT** the time to be delusional. This is the time to be realistic and assess your property accurately. This is the time to demonstrate that when the lender underwrote the property and approved your loan, you were the right person to put in charge and you are still the person who knows this property the best.

## Get Your Financial Records In Shape

Now is not the time to reveal that your finances are operated out of a shoebox and you have no idea of which vendors you owe money to and which tenants

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Regroup–How To Do It And Why It Works!

Commercial Real Estate Loan Fundamentals: How to Manage Lender Due Diligence

5 Multifamily Rental Revenue Growth Strategies

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$62 million luxury apartment complex in Scottsdale breaks ground

How Facebook's New Graph Search Will Change The Way Residents Find Apartments

CoStar Sounds Early Warning On Multifamily Development

TDI BEGINS CONSTRUCTION OF UPSCALE MULTIFAMILY PROJECT IN SCOTTSDALE

Selling Distressed Commercial Property Through Receivership

TDI Obtains $61M Construction Loan

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owe you money. Now's the time to demonstrate that you have an accurate and timely accounting system that looks professional and accurately communicates the financial status of your apartment complex to you and your lender.

If the lender can't understand where your property is financially and how it is operating, how can it begin to assess whether or not they can accept your restructuring or workout plan?

Lenders deal with numbers and if you can't convince them that you're on top of your numbers, know what they mean, and have the ability to accurately and timely report to them, they'll quickly lose confidence in you.

## Accurate Knowledge of What Your Property is Worth In Today's Real Estate Market

A key aspect of any restructuring or workout situation is an accurate knowledge of what your property is worth in today's real estate market.

Too often out of state lenders rely on hastily prepared BPOs (Broker Price Opinions) prepared for them by opportunistic real estate brokers looking to secure a listing from the lender should the lender take the property back. These BPOs are often inflated and don't represent the true value of your property today.

In order to "Make Your Case to Your Lender" you must have accurate facts about your property's worth backed up by actual comparable transactions for like–kind properties to yours. You must be able to demonstrate to your lender you know your market and know what the true value of your property is.

Keep Reading

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Dirty Data Can Cost Properties Thousands in Utilities Overcharges

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Utility Management Improvements Add $10 Million to Property Value [Case Study]

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Value-Add Focus for Multifamily During 2013

Agreement will limit apartments near San Tan Village mall

PPR Experts Predict More CRE Lending in More Markets,While Apts. Face Potential Hit from Home ownership

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## Lender Liability Issues

Although they say they don't, lenders do make mistakes and there are multiple ways in which lenders can have defects in their loan documents or procedures they've used in dealing with you and your loan. In many cases these errors or defects can work in your favor and convince the lender that they're better off working with you than against you.

Now don't think that these defects or errors will allow you to make the loan disappear. Often, these are errors or defects are of a technical nature that will bring the lender to the negotiating table, making them an ally rather than an adversary.

An accurate assessment of what, if any, lender liability issues exist is a powerful tool for you to have when negotiating with your lender.

## Tactic #2 — Become Part of the Solution; Don't Be the Problem

Most debt restructuring or loan workout plans center around 1 or more of these strategies:

- **Extend your loan maturity date or amortization schedule**
- **Deferring principal repayments for a period of time**
- **Reducing the interest rate on the loan**
- **Reducing the debt servicing payment**
- **Suspending debt servicing payments for a period of time**
- **Reducing principal amount of loan**

Many lender's asset managers are overworked,

5 Reasons Why People Rent Multifamily Apartments

**Famous Quotations**

Better a thousandfold abuse of free speech than denial of free speech. The abuse dies in a day, but the denial stays the life of the people, and entombs the hope of the race.
— Charles Bradlaugh

Our liberty depends on the freedom of the press, and that cannot be limited without being lost.
— Thomas Jefferson

Never Explain—your Friends do not need it and your Enemies will not believe you anyway.
— Elbert Hubbard

My interest is in the future because I am going to spend the rest of my life there.
— Charles F. Kettering

No gain is so certain as that which proceeds from the economical use of what you already have.
— Latin Proverb

To give up your seat in a car to a woman, and tread on your neighbor's foot to get even.
— Elbert Hubbard

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bogged down in paper on their desk and don't have the time to effectively analyze what is in your (and their) best interest regarding the loan on your property. Lenders tend to be conservative people, not creative, and are not inclined to stick their necks out on behalf of a client. It's often easier for them to not buck the system and not come up with creative ideas to save the loan. Often the easier path is following the documents and, if the loan is not being paid, move toward receivership and/or foreclosure.

It is up to YOU to be your own best advocate in this situation. It is up to YOU to come up with a REALISTIC workout proposal and business plan that's well documented, well thought out and, above all, achievable. You need to create a plan that maximizes your chances of success.

Successful plans are ones that consider what are the biggest objections your lender may have to your proposal and address them in the plan so their questions are answered before they're asked. Successful plans also point out what's going to be different in the future vs. what's happening now.

If your lender feels your property suffers from lack of sufficient management expertise perhaps your plan should propose bringing in a new management company with better credentials. If your lender feels your property needs a cash infusion for capital improvements in order to increase rents and improve cash flow, perhaps your plan should propose bringing in an equity partner.

Now is the time to "Check Your Ego at the Door". If your goal is to work something out on your property, now is the time to be realistic, practical and propose something that your lender can use to take back to the committee and go to bat for you. Help your lender

**Famous Quotations**

What seems to be generosity is often no more than disguised ambition, which overlooks a small interest in order to secure a great one.
— François de la Rochefoucauld

Genius does what it must, and talent does what it can.
— Edward G. Bulwer-Lytton

This is the final test of a gentleman: his respect for those who can be of no possible service to him.
— William Lyon Phelps

Some girls never know what they are going to do from one husband to another.
— Tom Masson

Our greatest glory consists not in never falling, but in rising every time we fall.
— Oliver Goldsmith

In general, mankind, since the improvement of cookery, eats twice as much as nature requires.
— Benjamin Franklin

God created man in His own image, says the Bible; philosophers reverse the process: they create God in theirs.
— G. C. Lichtenberg

Gold's father is dirt, yet it regards itself as noble.
— Yiddish Proverb

help you.

Often times your contact point is a middle management "asset manager" who has to put the package together for a committee to approve or disapprove. Provide your asset manager with the maximum amount of ammunition and thoughtful detail and analysis so his job is easier.

The best deals happen when each party negotiates in good faith and understands the other party's interests and options. Don't be a thorn in the lender's side. Be upfront and proactive: provide them with the needed data in a timely manner to make it easier for them to respond to your proposals. Don't hide and be the rabbit that they have to chase around constantly. Be on the offense as opposed to being on defense. This will help you to better control the negotiations.

## Tactic #3 — Get Professional Help: A Man Who Represents Himself Has a Fool for a Client!

There are big issues at play here and now is not the time to be the Lone Ranger. Engage competent, experienced third party advisor(s) to spearhead the negotiations and work closely with you on the analysis and preparation of your strategy. This can often make the difference between success and failure.

Ideally, professional help should include:

**An Attorney** who is experienced in dealing with lenders and lender liability issues and is able to review a situation and know when any of the following issues have occurred on the part of the lender:

- **Breach of contract**
- **Breach of duty of good faith and fair dealing**

### Famous Quotations

The only time people dislike gossip is when you gossip about them.
— Will Rogers

You can't run a government solely on a business basis … Government should be human. It should have a heart.
— Herbert Henry Lehman

Gracefulness has been defined to be the outward expression of the inward harmony of the soul.
— William Hazlitt

Gratitude is one of those things that cannot be bought. It must be born with men, or else all the obligations in the world will not create it.
— Lord Halifax

O how small a portion of earth will hold us when we are dead, who ambitiously seek after the whole world while we are living.
— Philip II

Gravity is a trick of the body devised to conceal deficiencies of the mind.
— François de La Rochefoucauld

There was never a nation great until it came to the knowledge that it had nowhere in the world to go for help.
— Charles Dudley Warner

OVER

- **Breach of duty to act reasonably**
- **Breach of fiduciary duty**
- **Fraud**
- **Interference in operations**
- **Excess or undue control issues**
- **Communications errors that can turn non-binding and preliminary discussions into promises or commitments**
- **Defamation of third parties**

**A CPA** who is experienced in apartment operations and financial management as well as putting together business plans and cash flow projections for lenders that are concise, understandable, and presented in a manner in which lenders are used to seeing.

and

**A Real Estate Professional.** Not all real estate professional are created alike. To deal with lenders, you need a real estate professional who has significant experience and in–depth knowledge of your property's local marketplace and asset class. You need to utilize someone who knows apartments, understands apartments, and knows what is happening right now in the apartment market.

**Dedicated to Multiplying Your Income**

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**Famous Quotations**

The greed of gain has no time or limit to its capaciousness. Its one object is to produce and consume. It has pity neither for beautiful nature nor for living human beings. It is ruthlessly ready without a moment's hesitation to crush beauty and life out of them, molding them into money.
— Rabindranath Tagore

While grief is fresh, every attempt to divert only irritates. You must wait till it be digested, and then amusement will dissipate the remains of it.
— Samuel Johnson

Visitors are insatiable devourers of time, and fit only for those who, if they did not visit, would do nothing.
— William Cowper

Action and care will in time wear down the strongest frame, but guilt and melancholy are poisons of quick dispatch.
— Thomas Paine

Habits are to the soul what the veins and arteries are to the blood, the courses in which it moves.
— Horace Bushnell

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PropertyManagementInsider

# Why Number 275 is Essential to Lease Renewals

Lia Smith
January 18, 2013

Within every property management company, there are people known as "Manager Makers." These individuals possess the skills to hire the right people, train them on the ins and outs of managing a community, and set them on the fast track for promotions. I was fortunate enough to work with such a person at the beginning of my property management career. This manager was constructive in her criticism and generous with her praise.

Upon my first day at the community, I noticed a frame on her desk with the number 275. That's it; nothing but the number 275. Intrigued by the symbol, but too intimidated to ask, I wracked my brain trying to figure out what that number stood for. Number of apartment homes at the community? No – we had over 500. Number of evictions year to date? Impossible. What about the number of people she had fired throughout her career? Goodness, I hope not! The more I thought about it, the more bizarre the possible solutions became.

Being the new girl on the property management team, I was apprehensive about asking anyone – for fear it would get back to this manager who controlled my entire property management fate. Surely this was something I was supposed to know. Months later, when I had been promoted to Leasing Director and felt I had earned a little more standing on the team, I mustered up the courage to finally ask. I tried, unsuccessfully, to ask in a nonchalant, "oh by the way" type of approach and got a response I wasn't quite expecting. She laughed. Laughed…and shook her head, to be exact. I was mortified!

## The Mystery Behind "275" Revealed: Lease Renewals

She went on to say that she had wondered how long I would take to ask about the 275. She also said some often ask within their first week. Now I was really feeling stupid. Reassuringly, she told me that asking, regardless of the time frame was a good sign – many come and go on her team without ever making an effort to inquire about the 275. I told her that I had wanted to ask months ago but thought I could figure it out on my own, given a little time and creativity. To this she added,

“One day, you’ll have to tell me some of the creative answers you came up with.” I found myself liking this manager more and more.

So at last, the meaning behind the number 275 was revealed: From the day a resident moves into the community, to the day we send them the 90-day renewal notice, essentially 275 days have passed. Those 275 days equal 275 opportunities to either intentionally secure or unintentionally sabotage the lease renewal. So how does one intentionally secure or unintentionally sabotage a lease renewal? Let’s look at some specifics:

**How to Secure Lease Renewals**

It’s no surprise that according to the SatisFacts Index, the Pre-Renewal Insite survey overall score is 3.98 as opposed to the Unclosed Traffic survey at 4.23 on a 5-point scale. On-site teams put their best foot forward during the initial visit, hoping to impress the prospect and acquire a lease. The dramatic decline in scores shows the need to translate that enthusiasm to every resident interaction. In other words: keeping the love going. It’s all about the details: greeting from a standing position, remembering the resident’s name, including a little small talk into the conversation, etc. Residents need to know that they are more important than a prospect. And prospects are more eager to lease when they see current residents being given the royal treatment.

**How to Avoid Sabotaging Lease Renewals**

So, how does one unintentionally sabotage a lease renewal? By not making every resident interaction better than the last. Once again, it’s all in the details, returning calls and emails, following up after a completed service request, and putting resident concerns above our convenience—just to name a few. You never know how that one phone conversation or meeting with a resident will factor into their renewal decision.

Doug Miller, President of SatisFacts, gives this great example: Imagine the resident you just encountered, walked out of your office, went home, and found their renewal offer posted to their door. How will they react? Will it be positive or negative, based on their most recent interaction?

275 days equals 275 opportunities for a property management company and staff to make the most of every resident encounter and intentionally secure more lease renewals.

PropertyManagementInsider

# 4 New Year’s Resolutions for the Property Management Professional

Michael Cunningham
December 31, 2012

It’s the last day of 2012!

As the final words are written on an eventful year in the multifamily industry, our eyes turn towards 2013 with optimism and excitement.

Like most people, I’ve crafted a few New Year’s resolutions for my personal and professional growth. I also created four resolutions for you, the property management professional, to consider for 2013.

**Resolve to Be Mindful of Data Quality**

It’s easy to focus on the sexier aspects of business intelligence such as reporting, analytics, and forecasting. But how much time and effort do you spend on the quality of data itself? Put another way, the people entering the data need to care about the quality of the data. You know the saying, “Garbage in, garbage out?” Same goes for your data. Crappy data means crappy reporting and wonky forecasting.

**Resolve to Be More Social, and I Don’t Mean on Facebook**

If I’ve learned anything from the articles on Property Management Insider by Jen Piccotti and Lia Smith from SatisFacts Research, it’s that service matters when it comes to resident retention. And you can’t overlook the potential effect your on-site maintenance staff has on marketing your apartment community. Yes, social engagement on your online community is important, but don’t overlook the power of human engagement at your physical community.

**Resolve to Be a Mobile-Optimized Business**

There’s been a lot of talk lately about responsive design, also known as multi-screen functionality. Meaning, your future and current residents are using a combination of phones, tablets, computers, and TVs to consume digital content, which includes finding a place to live. So while making sure your property

websites are compatible for viewing across multiple devices**,** your online services—such as submitting and tracking service requests and paying rent**—**must be functional on mobile devices.

**Resolve "To Be" Rather "To Do"**

Did you notice a pattern in the previous resolutions? They are written as items on a To-Be list rather than a To-Do list. Last January I wrote an article about creating To-Be lists rather than To-Do lists. It included this quote from blogger Angela Maiers:

*"To-Do lists are great for keeping us organized and helping us get through our busy days, but do they really help us accomplish creating the image, person, and character needed to run our business or live our lives more successfully?"*

I have To-Do lists for both work and my private life, who doesn't? But the idea of transforming New Year's Resolutions into something I want *to be* rather than *to do* is more introspective. Put another way, it's pretty simple to create a list of goals or improvements we'd like to accomplish that are typically long on good intentions but very short on the details; creating a state of being, on the other hand, requires more thought and planning

**Here's an example from my own personal goals:**

I resolve to be more organized at work by learning and utilizing the note-taking application Evernote to its fullest extent, making it my primary means of note taking and my exclusive source for storing and organizing information.

Doesn't that sound better than writing, "I want to be more organized at work?" Using the phrase "to be" forces me to think beyond the goal and focus on the execution.

**What Are Your Resolutions?**

What kind of resolutions are you making for yourself and for your apartment communities? Do you have a To-Do list for 2013 or will you now be creating a To-Be list? Please share in the comments below.

**Concrete effort builds foundation for Colonnade Villas**

December 31, 2012

During the early morning hours of Dec. 17 and Dec. 18, nearly 70 concrete trucks brought a total of 750 yards of cement to The Colonnade Villas in Surprise, following three months of preparation work on the four-story, 36-unit condo-style project scheduled to open in July.

The big pour was to complete the first-floor slab, and set the stage for two months of wood framing and masonry work to take the building up four stories as part of phase one of a major buildout at the Sun Health Senior Living Community.

That work is under way and drivers on Grand Avenue will start to see the new building being built.

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# Property Management: Leaving Things Broken

John Wilhoit Jr.
December 31, 2012

How do you know when to leave broken things... broken? As seldom as possible, of course. Matters of public safety require immediate attention; water leaks, controlling utility costs, these are always near the top of the list.

**Dollars and Sense**
Unfortunately, dollars and sense (spelled this way on purpose) requires we perform constant triage; giving the most attention to the areas that produce revenue or control expenditures. This "methodology" means some things do not get done.

Have you ever had to walk by the same exterior wall, time after time, knowing it needs painting (just one wall- not the whole building)? How hard can it be to paint a single wall??? Well let's see. First we must assess the wall for structural soundness, do any prep work necessary, probably apply primer or some type of sealant, then paint.

**Prioritizing the Work**
But most of us know the issue is not getting the wall painted; the issue is prioritizing the work. And in terms of running day-to-day operations from make-readys to electrical problems or addressing water leaks painting an ugly wall is low on the list. We must prioritize the work and have responsibility centers. Then there is always the matter of items that jump the line. So how do we get to that 'one wall"?

Initially by making sure non-essential work stays on the list no matter how long the list is. The wall in need of paint stays on the list even if at the very bottom, for a long time. Who wants to replace gutters? Anyone? Wanting to and need to are two different things, of course. So want to or not eventually there will be gutters that require replacing... make sure this stays on the to-do list.

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**What's Broken?**

Sometimes what's "broken" is ownership. Property management cannot usually fix broken ownership, but you are there to guide their hand to the best of your ability. Maybe a re-fi is in order to free up capital expenditure dollars. Maybe there is an improved method for addressing vendor relationships that has an up front sunk costs but will pay for itself three times over. These are examples of potential owner assist that management can bring to owners.

Sometimes what's "broken" is management. Ownership must determine the factors that lead to considering a management change. Not all markets are good markets. You may have a stellar management team doing the absolute best they can considering market dynamics. What ownership should not do is "auto-default" into assuming that problematic operations are exclusively the result of management. Communication is key to ascertaining problematic areas. Once determined problem solving can begin.

We never want to leave broken things broken but at the same time we must live within our means- our budgets. Doing this requires prioritizing those tasks that maintain stabilized operations.

PropertyManagementInsider

# Three Internet Trends that Could Shift Your 2013 Apartment Marketing Plans

Michael Cunningham
January 2, 2013

In December, Mary Meeker, the highly respected Web and technology analyst and partner with venture capitalist firmKleiner Perkins Caufield & Byers, released her end of year 2012 report on Internet trends. The main takeaway is that mobile devices such as smartphones and tablets are driving new levels of connectivity.

But you knew that, right? That's what I thought but after digesting more than 80 slides of data about Internet trends, I'm still trying to wrap my mind around what the new reality of mobile computing and connectivity will look like in the very near future.

The report is a must read for anybody in the multifamily industry and I've embedded the slides at the end of the article. In the meantime, here are three trends from the report that I believe will have a major impact on your current apartment marketing plans as well as the multifamily industry as a whole.

### Sales of Mobile Devices Will Exceed Laptop/Desktop Sales

In Meeker's presentation, she talks about how the global installed base of smartphones and tablets should exceed desktops and laptops, and that the market share of iOS and Android operating systems are expected to surpass that of the Windows desktop operating system. These are not long-term projections either: **this shift from desktop to mobile is expected to happen in 2013**.

***Marketing Takeaway:*** *Imagine your world with no laptop or no desktop computer. Once you get your mind around that, start planning your apartment marketing for that reality and start now.*

### Mobile Internet Traffic Will Eclipse Desktop Traffic

Global mobile Internet traffic is growing rapidly, reaching 13% of total Internet traffic. While that figure may not seem particularly large, that's a global average. Usage in individual countries vary. In fact, **mobile Internet traffic in India**

**surpassed desktop Internet usage in May, 2012**. Meeker predicts that other countries will follow and I suspect that the United States will encounter this shift within the next year or two.

***Marketing Takeaway:*** *Mobile is not a trend, it's a reality. The harder you make it for renters to locate you, communicate with you, and conduct business with you on their mobile devices, the more likely they are to rent someplace else.*

## Generation Y and the "Asset-Light" Lifestyle

Meeker's report points to the demise of the "asset-heavy" lifestyle, especially among 20-somethings, and the rise of "asset-light" living. The cloud allows individuals to store and stream things like music and documents, freeing up physical space that might previously have been filled by CD's, books, televisions, and paper.

With Generation Y living lighter than previous generations, the demand for large apartment units with "spacious walk-in closets" will decline. The asset-light mindset ties perfectly into the micro unit trend: if the majority of a renter's possessions is digital, all he or she needs is a cozy place to sleep and a high-speed Internet connection.

***Marketing Takeaway:*** *Usable space and Internet connectivity are key "amenities" for many in Generation Y. Make sure you adapt your online apartment marketing pitches and the vocabulary of your on-site staff to appeal to the "asset-light" mindset.*

As promised, here's the full deck for your perusal. Grab a beverage and have a look. Then let me know what you think in the comments.

# Report Examines Future Role of GSEs in Multifamily Financing

January 3rd 2013

With approximately 15 million American households occupying rental housing, the availability of multifamily property financing is as integral to the U.S. economy's overall health as financing for the single-family housing market, according to the Mortgage Bankers Association.

In a December 2012 white paper, an MBA task force examines the importance of Fannie Mae and Freddie Mac for multifamily financing in the future and identifies recommendations for ensuring the sector's continued viability.

Among the recommendations are the need for stability, liquidity, and a range of capital sources for the multifamily sector, an emphasis on private capital as the major source of financing for the sector, and the utilization of a government-backed risk insurance fund similar to the Federal Deposit Insurance Corp. as a catastrophic insurer on securities in the secondary mortgage market.

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PropertyManagementInsider

# Top Ten Apartment Market Rent Growth Leaders for Third Quarter 2012

Michael Cunningham
October 4, 2012

When MPF Research releases its quarterly research numbers for the U.S. apartment market, I look forward to finding out which metro secures the top spot for rent growth. During the past few quarters, the top spot has been held by one of two metros: San Jose or San Francisco.

It's the apartment market equivalent of a great sports rivalry or the quarterly version of the USA Today College Football poll.

So who came out on top for the third quarter of 2012? Let's get to the box score:

**Rent Growth Leaders in Year-Ending 3Q 2012**

| Rank | Metro | Annual Rent Growth |
|---|---|---|
| 1 | San Jose | 8.0% |
| 2 | San Francisco | 7.5% |
| 3 | Oakland | 6.7% |
| 4 (Tie) | Charlotte | 6.3% |
| 4 (Tie) | New York | 6.3% |
| 6 (Tie) | Columbus | 6.1% |
| 6 (Tie) | Hartford | 6.1% |
| 8 | Denver-Boulder | 6.0% |
| 9 | Houston | 5.5% |
| 10 | Nashville | 5.1% |

And San Jose is back on top after ceding the top spot to San Francisco last quarter. However, even in these top-of-the-chart markets, the pace of rent growth has

cooled notably. Annual rent growth peaked in late 2011 at 13.2 percent in San Jose and at 14.6 percent in San Francisco.

Other major markets performing well but not enough to push them into the top 10 were Boston (4.9%), Portland (4.8%), Austin (4.6%), and San Antonio (4.5%).

For additional information and research about the performance of the U.S. apartment market during the third quarter of 2012, visit the following resources:

- A discussion by Jay Parsons and Greg Willett from MPF Research with further analysis about the nation's latest apartment rent growth statistics as well as other key performance indicators
- Press release with further statistical analysis

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# ’13 Unlucky? Not for Apartments

Sule Aygoren Carranza
January 4, 2013

If anyone thought the red-hot multifamily sector was cooling going into 2013, the activity of the past few weeks would certainly prove them wrong. Take, for instance, Equity Residential and AvalonBay Communities’ $16-billion buy of Archstone Inc.’s assets. The deal, which hasn’t officially closed, not only quenched long-circulated rumors and speculation of a potential Archstone IPO, but it also marks the largest deal in the sector since 2007.

If that’s not enough, take a look at some of the latest data. CoreLogic, for one, recently reported that residential rental income grew 12% year-over-year in September. What’s more, the firm says the growth “shows no signs of slowing down.”

That’s pretty much on par with what most in the industry have been saying for months. At the RealShare Apartments 2012 conference in Los Angeles in late October, concerns over slow job growth and tepid economic recovery did little to dampen optimism of the 1,700-plus multifamily professionals that attended the event.

It was in fact the focal point of a keynote presentation given by research specialist Hessam Nadji of Marcus & Millichap Real Estate Investment Services Inc. The senior vice president and managing director asked, “Can Apartments Withstand the Economic Headwinds?” and the answer was a resounding yes, no matter how strong those headwinds may be. According to Nadji, the organic strength of the economy—both corporate and consumer spending—is being held back by political uncertainty. But, he added, the foundation of the economy is in better shape. The

US added 1.8 million jobs between September 2011 and September 2012, though unfortunately the headlines were dominated by the debt and housing crises.

It’s been good news since then; the Bureau of Labor Statistics reported that the economy added 146,000 jobs and unemployment fell to 7.7% in November, the lowest since December 2008.

Demand is high and multifamily developers are ready to build, said Nadji, but equity for development is still very cautious and not readily available. “I don’t think overbuilding is going to be a problem through 2014,” he said. Home buying’s making a comeback, though he indicated it wouldn’t cause as much pressure on the rental market as it did in the last cycle. “There’s enough demand for all types of housing.”

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Bloomberg.com

# Apartment Vacancies Decline to an 11-Year Low in U.S.

Hui-yong Yu
Jan 8, 2013

U.S. apartment vacancies declined to an 11-year low in the fourth quarter as construction of multifamily complexes spurred by rising rents failed to keep up with increasing demand, Reis Inc. (REIS) said.

The national vacancy rate dropped to 4.5 percent from 4.7 percent in the third quarter and 5.2 percent a year earlier, the New York-based real estate research firm said today. It was the lowest since the third quarter of 2001, when the rate was 3.9 percent, according to Reis. New York was the tightest market, with a 2.1 percent vacancy rate, unchanged from a year earlier.

The number of occupied apartments in the U.S. has been rising since the second quarter of 2009 as millions of people forced out of their houses by foreclosure switched to renting, and stricter mortgage requirements made it harder for potential homebuyers to obtain loans.

“The dominant force is foreclosure,” Doug Poutasse, head of strategy and research at Bentall Kennedy, a Toronto-based property-investment firm that oversees $29.4 billion of assets acrossNorth America, said in a telephone interview. “Demand growth remains above supply growth in almost every market.”

Landlords had their biggest net leasing gains of the year, at 45,162 units, up from 24,951 units in the third quarter, Reis said.

Apartment construction rose for a third straight quarter as strong demand and rising rentsencouraged building, Reis said. A total of 24,614 units were completed in the fourth quarter, up from 17,378 units in the previous three months and 10,145

units a year earlier. The last time there were more completions was the second quarter of 2010, the firm said.

The average U.S. asking rent rose to $1,097 a month from $1,064 a year earlier, and effective rents -- the average rate after such concessions as a free month -- rose to $1,048 from $1,010.

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# Borgata Sails Off Into Condo Land

By Eric Jay
Jan 8th, 2013

The umbrella-topped tables and open air Italianate market scene will become a thing of the past if Scottsdale approves converting Shops at Borgata into Residences at Borgata. The iconic shopping complex, E. Rose Ln. and Scottsdale Rd., will see its stone fortress fall to the wrecking ball once the five acre minor general plan amendment goes through the city process.

AV Homes wants to build 223 Davis Experience-designed luxury residential units with site amenities. The new development will replace a retail complex and its zoning with PUD zoning and a density of 44.6 units per acre. AV Homes plans to build three separate, 4-story buildings with underground parking. Amenities to be constructed include a central common area and community square with spa, pool, bar-b-q, fire pit, and seating areas.

The developer is encouraged by the site's proximity to residential-scale shopping with adjoining dining, a Trader Joe's market, Walgreens, and other retail shops. The Shops at Borgata struggled through the recession until acquired early in 2012 by RED Development. Although almost fully leased, RED sold the property to AV Homes (AZBEX, September 18th) for nearly $13M. The seller had acquired the then-distressed property for around $9M in April. AV Homes flipped the two front restaurants, J.Alexander's and Blanco Tacos onto separate parcels for $3.5M as part of its plan for residential conversion.

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# The Sterling at Silver Leaf Proposed as a 5-Story Mixed Use Project in Scottsdale

Eric Jay Toll
Jan 8th, 2013

A true mixed use development is proposed for DC Ranch with Sterling Collection Development Group's intent to build 214 condominium units over 11.3K SF of retail space at 10068 E. Legacy Blvd. at Canyon Village. The development is proposed in seven buildings – some as tall as five stories – with underground parking. Architect H&S International is asking design approval for a "European-style" façade for the buildings. The project sites on 5.75 acres adjoining the health club.

The proposal revises a previous approval for 29 buildings with 213 units and nearly 24K SF. Part of the 2005 project included 29 single family homes, which have been developed along with the backbone infrastructure for the larger component. The six year old approval for the mixed use project, however, expired, and the current application is a project the developer intends to construct.

Project access is developing through a reconstruction of the E. Legacy Blvd. extension to the east side of Thompson Peak Rd. Other access will come from 101st St.

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# Planning board to consider expanded apartment plan

January 2, 2013

A request to expand the Acacia Lofts condominium subdivision at 1456 E. Ninth St. by adding 243 rental apartment units is the only item before the Casa Grande Planning and Zoning Commission at its Thursday meeting.
The meeting, open to the public, is scheduled to begin at 6 p.m. in the council chambers at City Hall, 510 E. Florence Blvd.

The 243 rental apartments would be in seven three-story buildings and five two-story ones. A sales office, community center and parking areas are included in the request for site plan approval.

The four condominium buildings now on the site have 28 single-family units. The development is located behind Lowe's.

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THE WALL STREET JOURNAL.

# To Canadian Funds, U.S. Real Estate Looks Ripe

CRAIG KARMIN & ELIOT BROWN

The Canadians are coming.

Pension funds north of the border have poured about $9 billion into U.S. commercial real estate in the past three years, after largely steering clear of owning hotels, office buildings and apartments in the U.S. before then.

While there are only a handful of big funds that are active abroad, they are having a disproportionate impact on the U.S. market by funding ambitious plans that domestic investors have been afraid to touch.

Canadians funds see value in the U.S. as they expand beyond their own overheated property market. And, since the Canadian market wasn't hit as badly as the U.S. during the financial downturn, these pension funds are less gun shy about putting money to work in riskier projects.

Ivanhoe Cambridge, the real-estate investor for Caisse de depot et placement du Quebec, in May said it was investing $300 million to build a 45-story office tower in the West Loop of downtown Chicago. When completed, the 900,000-square-foot project will be the largest-size new property development in five years in that city at a time when no other major office projects are underway.

Oxford Properties, the real-estate investor for the Ontario Municipal Employees Retirement System, is joining up with New York developer Related Cos. on Hudson Yards, a massive $15 billion residential and commercial project on Manhattan's West Side.

Oxford has about $20 billion in property investments, primarily in Canada, but is ramping up quickly in the U.S. It has invested $1.5 billion in U.S. real estate and says it expects that to rise to $5 billion by 2015.

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Last month, Oxford announced that it is part of a joint venture to build a $450 million project in Washington, with 620,000 square feet of office space, plus ground-floor retail and an atrium.

"The majority of institutional investors would say the U.S. is No. 1 on their list today," says William Tresham, president of global investments for Ivanhoe Cambridge. "People are concerned where Europe is heading. Asian markets aren't well understood. Canadian assets are around an all-time high."

Canadian commercial-property prices fell during the financial crisis but not as sharply as in the U.S., says Ross Moore, head of Canadian research at CBRE Group Inc.CBG +1.25% Canadian values are now close to record levels seen in 2007. Investment volume, unlike in the U.S., also is hovering near peak levels.

That hyperventilating market has some worried about another correction. It is one reason why Canadian fund managers say they are more comfortable with the risks associated with new development abroad. "If we have to develop new projects to get returns, we're comfortable with that risk," says Neil Jacob, head of the U.S. region for Oxford

The Canadian investment spree offers a contrast to many large U.S. public pension funds, which have retreated after starting a decade ago to move further out on the risk spectrum. Many of those speculative bets blew up when the property bubble burst.

The California Public Employees' Retirement System, the largest U.S. public pension with about $250 billion in assets, saw the value of its real-estate portfolio halved for the year ending in June 2009. Since then, Calpers has favored safer property investments, such as fully leased office buildings that eliminate the risk of finding new tenants. Its returns bounced back a bit, rising to around 14.3% for the year ending in June, to bring its property assets to around $21 billion.

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Other large funds, from the Ohio Public Employees' Retirement System to New York State Common Retirement Fund, also have been turning their emphasis toward the same conservative property investments.

But during the crisis, many of the larger Canadian pension plans had most of their real-estate exposure in their own backyard, where property prices proved more stable.

The danger is that some of these new developments never get completed, or end up costing more than anticipated, cutting into income. If the U.S. economy goes into another tailspin, the Canadian funds could find themselves licking their wounds like the large U.S. pension funds did in 2008 and 2009.

"That certainly is a risk they are taking," says Christian Busken, a real-estate analyst for Cincinnati-based consulting firm, Fund Evaluation Group.

While most Canadian pension funds have scant history with direct U.S. real-estate development before the financial crisis, other Canadian property investors have had a mixed track record over the years.

Olympia & York Developments Ltd., a Toronto-based real-estate company controlled by the Reichmann family, became one of the largest property owners and developers in U.S. during the 1980s, only to lose billions of dollars when the commercial real-estate industry collapsed in the early 1990s. Forced to seek bankruptcy protection, the Canadian company eventually had to give up many of its properties, including Manhattan's World Financial Center.

But in the current risk-averse U.S. market, Canadian funds are playing a big role in getting projects going that might otherwise have stalled.

"We definitely canvassed the globe in 2010, and it was apparent that the Canadians were ready to step up and understood the risk and I think the rest of the world hadn't got there yet," says Jay Cross, an executive at Related Cos. who oversees the Hudson Yards project.

The largest Canadian funds rival their U.S. counterparts in size. The Canada Pension Plan, one of the country's largest retirement systems, has $170 billion under management, while Caisse de depot has $159 billion.

Peter Ballon, head of real estate for the Americas, including Canada, at the Canada Pension Plan Investment Board, says his staff has grown to 45 from four in 2006. His group has invested more than $5 billion in U.S. property over that period, and about $1 billion in new construction.

In San Francisco's trendy SoMa district, the Canada Pension Plan Investment Board is part of a venture building a $250 million high-end apartment complex with 463 units. The site is walking distance to a number of tech firms. "We are catering to a well-heeled customer," Mr. Ballon says.

# Multifamily and The Pace of Change

John Wilhoit Jr.
January 8, 2013

The average adult living in 1776 had less information available to them in their lifetime than what is provided to us today in a single Sunday copy of the New York Times.  In 1865, the U.S. Civil War was practically over by the time knowledge of the war reached much beyond the shores of Europe.  In the early 1900's American travelers to Africa were ask about "the great man Lincoln" as if he were still president.

Been to a construction materials conference lately?  Recognize anything? Anything at all?  Why replace a counter top when you can use a paint roller to cover the existing surface with material that has a granite-like finish?

Why carpet an entire room (ever again) when for less money you can install "carpet squares" allowing maintenance to replace only those areas of flooring that are worn or torn.

Have you seen the self-cleaning windows? Seems a bit of a stretch to me but no doubt the technology will be perfected in due time.  What about elevators with 24-hour connect to service technicians that continuously monitor for irregularities.

And Wi-Fi.  Sometimes I feel "so connected" my skin begins to crawl.  Remember when "Tang" was all the rage because it was used in "outer space"?

At Oak Ridge National Laboratory (http://www.ornl.gov/) the Department of Energy  just notified the world-at-large that their newest super computer, Titan, has the capacity to perform twenty million calculations per second.  Twenty million! Per second!

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The real estate business can seem monolithic; we change on an as necessary basis when change is forced upon us. Well, change is being forced upon us at an ever increasing rate. You think Craig's List is cool, what about property management software that creates and distributes your product across eighty websites with the click of a mouse (does anyone still have a wired mouse?).

For your own sanity it is better to adapt to change even if embracing it takes a while.  Did you know that almost 25% of adults under the age of 25 have at least one tattoo? Change.  It's here.

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PropertyManagementInsider

# Apartment’s Automated Vending Machine Generates $2500 in Weekly Revenue

Tim Blackwell
January 11, 2013

Occupancy at the Ladera Palms apartments in Fort Worth, Tex., is up, and the proof may be in the pudding – literally.

Since Post Investment Group, Inc. installed an automated vending machine, or robotic convenience store, last year that dispenses everything from food items to household goods, occupancy has improved 5 percent at the 800-unit property on the city’s southeastern side. Asset Manager Leslie Kuhlman isn’t sure if the automated store, the first installed by Ohio-based Shop24 Global at a U.S. apartment community, is the reason that occupancy reached as high as 98 percent, but she’s convinced that offering residents a convenient shopping experience without leaving the property is a benefit.

“We would like to say its Shop24,” Kuhlman said of the installation, which will mark one year in February. “Starting in September of 2011, we were seeing 90-92% occupancy. Since summertime, we’ve maintained an average of 95%.”

Post Investment Group, which has more than 12,000 apartment units in six states, has been so pleased with the vending machine’s performance that two more have been ordered for other Texas properties. Installations are planned for late 2013 or early 2014 at Broadway Square in Houston and the Residents at North Dallas.

**Apartment Property Amenity with $1 Million Revenue Potential**

The store is generating about $2,500 a week in revenue, which Post Investment Group officials anticipate will increase when an application to accept Texas’ Lone Star Supplemental Nutrition Assistance Program (SNAP) cards gets approved by the U.S. Department of Agriculture.

Ladera Palms has been trying since the automated vending machine was installed to get approval to accept the government assistance cards. Kuhlman is confident that the go-ahead will be given soon.

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For now, residents at the Class C-plus property are buying enough with cash or credit cards to make the machine's $125,000 investment worthwhile, and Kuhlman believes Ladera Palms eventually could mirror sales that recently hit $1 million at a New York university.

"We see it happening once we get approved for SNAP," she said. "We expect to triple the sales."

**Top Resident Buys: Food Staples and Household Products**

Ladera Palms will be in good position to handle the bump in revenue after shifting stocking responsibility to Shop24 Global, which initially agreed to allow the property to manage inventory once the machine was installed.

Milk, bottled water, beans and rice move the quickest, sometimes lasting only a couple of days in inventory. Household items like Clorox, furniture polish, paper towels, Windex and Pine Sol, plus toothbrushes and toothpaste, have moved well, too.

Takis, a spicy snack that sold quickly after the machine was first installed, is still a popular item. And of course, it sells pudding.

Kuhlman said Ladera Palms' staff attempted to manage inventory after the machine was first installed and quickly realized the task required more time. Average stocking, slowed by preparing some products so they would fit within the carriage and not get caught in the machine's mechanism when dispensing, was about three hours per day for three or four days per week. Ladera Palms soon restructured its agreement with Shop24 to manage the inventory.

"It was such a task," Kuhlman said. "We tried it for a few months. That's not what our staff is there for. They are there to keep our asset running."

**Automated Vending Machines Show Potential at All Apartment Property Types**

Adding a robotic convenience store, which Kuhlman calls an automated vending machine on steroids, is just one of several new amenities planned in a $7 million makeover at the Residences of North Dallas, which Post Investment Group purchased last year.

While the closest convenience store is just around the corner, the property is being redesigned to be more inclusive.

Along with installations of a theatre and state-of-the-art fitness center, the Shop24 store will be another reason to keep residents on the property, which targets middle-class residents.

Because the clientele will be much different than that at Ladera Palms, Kuhlman believes the inventory will be altered but the service will be just as important. About six months prior to installation, residents will be surveyed on preferred items. It’s unlikely that caviar will find its way into inventory, but Kuhlman says you never know.

“We’re happy with (the machine). If we weren’t happy with it, and even though it’s not making the money we’d like for it to make it at Ladera, we’re still moving on at other sites. We know what it can do.”

Would you consider adding one of these robotic convenient stores on one of your properties? It’s hard to argue with an amenity with such revenue generating potential. Share your thoughts in the comments below.

BUSINESS REAL ESTATE
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OF ARIZONA

# P.B. BELL TEAMING UP WITH GILBANE TO DEVELOP 389 APARTMENTS IN CHANDLER

Chandler - A venture formed by P.B. Bell Cos. in Scottsdale (Phil Bell, Chapin Bell, principals) and Gilbane Development Co. in Providence, R.I. (Bob Gilbane, pres.) plans to develop 389 apartments on two sites located near the northeast corner of Price and Dobson roads within the Ocotillo community in Chandler. The 21.39 acres for the multi-family units is within a 74-acre parcel that Gilbane acquired in 2005. Records show Gilbane sold the apartment land in Chandler to Bell GD Ocotillo LLC (the P.B. Bell/Gilbane venture) for $7.422 million. The deal was arranged by Dave Headstream, Jason Hyams and Mike Ratliff of CBRE in Phoenix. The planned apartment project, called Almeria at Ocotillo, is being designed by Whitneybell Perry Architecture Inc. in Phoenix. The one-, two- and three-bedroom units are expected to range from 760 sq. ft. to 1,357 sq. ft. Monthly rental rates projected to run from $945 to $1,420. Construction is expected to start in February, with opening to follow in 12 months. MT Builders in Scottsdale to serve as contractor. Development cost (land and buildings) estimated at $55 million. The P.B. Bell/Gilbane venture has a high net worth family from the Mid-West that is providing the equity capital. Construction financing is coming from BBVA Compass. The property will be managed by P.B. Bell Asset Management. The venture has not decided if it will hold or sell the project following construction and lease up. P.B. Bell has extensive experience in the multi-family sector. The company has built tens of thousands of apartment units in the Phoenix area and currently has several apartment projects on the drawing board in the Valley.P.B. Bell is looking for more multi-family development opportunities in the Phoenix area. Mike Trueman is the contact at P.B. Bell . . . (480) 951-2222. Torben Arend, v.p. at Gilbane Development, is at (401) 456-5526. Reach the CBRE agents at (602) 735-5555.

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theContractsGuy

a blog about contracts, contracting, and the business of law

# How to Sign a Contract

BRIAN ROGERS
JANUARY 8, 2013

Signing contracts correctly is important, not just as a matter of dotting *i*'s and crossing *t*'s. How a contract is signed can affect whether it's enforceable and who's on the hook. Here's a basic "how-to" on signing contracts.

**The correct legal persons should sign the contract**

Only legal persons are parties to contracts. Legal persons can be humans (which are legally known as "individuals") or corporations, limited liability companies, and other entities. As a general rule, if an entity wasn't formed by filing a document with the Secretary of State, individuals are going to be on the hook for its contracts.

If you're doing business as a sole proprietorship, that means you — as an individual — are the party to the business's contracts. That's the case even if you registered a fictitious name (or a "doing business as" name) with the Secretary of State. If I'm doing business as a sole proprietorship, I should sign contracts in my individual capacity, even if I'm doing business as, say, the Contracts Guy. So I should sign my business's contracts as "Brian Rogers, doing business as [or d/b/a] the Contracts Guy."

Entities can only act through agents because entities aren't alive and they can't actually do anything without help from humans. Although entities are legal persons for most purposes, they need human agents to act for them. Because an entity's contracts are signed by a human, it's important to be clear that the human is signing the contract on behalf of the entity and not in his or her individual capacity. So if I've formed a corporation through which to engage in my contracts business, I'll sign its contracts as "THE CONTRACTS GUY, INC., a Missouri corporation,

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by Brian Rogers" (see the examples below for a better feel for how this should look in the signature blocks). If I'm doing business as "the Contracts Guy," but the legal name of my corporation is "Brian Rogers Enterprises, Inc.," the correct party to the company's contracts is "BRIAN ROGERS ENTERPRISES, INC. d/b/a the Contracts Guy."

**The introductory paragraph and the signature blocks should match completely**

Most contracts name the parties in the introductory paragraph. For example, if my corporation is entering into a consulting agreement with a law firm, the introductory paragraph might read as follows:

This consulting agreement is dated January 9, 2013 and is between ACME LAW FIRM, P.C., a Missouri professional corporation, and THE CONTRACTS GUY, INC., a Missouri corporation.

The names in the signature blocks for the two parties should be exactly the same as the parties' names in the introductory paragraph, but note that Ken Adams's Manual of Style for Contract Drafting recommends not stating the company's jurisdiction of organization in the signature block. So if my corporation uses a fictitious name, the fictitious name should be included in both the introductory paragraph and in the signature block (the fictitious name should never be used instead of the company's legal name in the introductory paragraph or signature block). For example, the introductory paragraph might read:

This consulting agreement is dated January 9, 2013 and is between LAW FIRM, P.C., a Missouri professional corporation, and BRIAN ROGERS ENTERPRISES, INC., a Missouri corporation doing business as the Contracts Guy.

**Make sure you know the correct legal entity**

It's not always easy to determine a business's correct legal name. On one end of the spectrum, an unsophisticated business owner might not have a clear grasp of

the legal effect of a fictitious name or might not understand that his or her sole proprietorship doesn't have a separate legal existence from the business owner.

On the other end of the spectrum, large corporations often do business through hundreds or even thousands of affiliated entities. Determining the correct entity to list as the party to a contract can be a daunting task for a business person, as well as the legal department.

I always go to the records of the Secretary of State for help. A company can be found in the records of the state of its formation, its principal place of business, and often other states where it has a significant presence. The records of most states are searchable online for free or for a nominal fee (Texas nickels-and-dimes you and Delaware searches can really lighten your wallet, while Missouri and probably most states are free). At a minimum, a simple search will usually allow you to determine the exact legal name of the entity, the state of the company's organization, and the name and address of its registered agent. Sometimes you can find much more information, such as the identity of the company's officers and directors, whether the company is in good standing with the state, and even copies of its formation documents and annual reports.

**Make sure the correct people are signing the contract**

Because entities can only act through humans, it's important to make sure that the human agents actually have authority to bind the company. While concepts such as apparent authority can sometimes bail you out of an unfortunate situation, it's imprudent to rely on them. It's a better practice to do enough due diligence to ensure that the signatory has actual authority.

In a very important transaction you'll want to review the counterparty's corporate documents to make sure the signatory is authorized by the company to sign the contract, as well as have the corporate secretary provide a document that certifies that a specimen signature is authentic. But that's overkill in most commercial contexts, so basic due diligence is usually sufficient. Common sense can also help: it's more likely that a company's officers have authority to sign contracts for the

company than the mail room person, and the president is more likely to have authority than the corporate secretary.

Katie Lane, who moonlights as a lawyer to small businesses and freelancers, has an excellent video on her Work Made for Hire blog, "How to Research a Company on the Interwebs," that takes you step-by-step through basic due diligence, including searching the Secretary of State's records. If you haven't seen it, you should take a look — or at least skim the transcript.

Examples of contract signatures

Here are examples of signature blocks for different types of companies.

Sole proprietorship:

________________________________

Brian Rogers
Sole Proprietor

Sole proprietorship with a fictitious name:

________________________________

Brian Rogers
Sole Proprietor
d/b/a the Contracts Guy

General partnership:
Rogers and Rogers

By: ________________________________
Brian Rogers
General Partner

General partnership with a fictitious name:

Rogers and Rogers
d/b/a the Contracts Guy

By: ________________________________
Brian Rogers
General Partner

Corporation:
THE CONTRACTS GUY, INC.

By: ________________________________
Brian Rogers
President

Corporation with a fictitious name:
BRIAN ROGERS ENTERPRISES, INC.
d/b/a the Contracts Guy
By: ________________________________
Brian Rogers
President

Limited liability company:
THE CONTRACTS GUY, LLC

By: ________________________________
Brian Rogers
Manager

Limited liability company with a fictitious name:
BRIAN ROGERS ENTERPRISES, LLC
d/b/a the Contracts Guy

By: ________________________________

Brian Rogers
Manager

Limited partnership:
THE CONTRACTS GUY, LP

By: ________________________________

Brian Rogers
General Partner

Limited partnership with fictitious name:
BRIAN ROGERS ENTERPRISES, LP
d/b/a the Contracts Guy
By: ________________________________

Brian Rogers
General Partner

Limited partnership with a corporate general partner:
THE CONTRACTS GUY, LP

By: Brian Rogers Enterprises, Inc., its general partner

By: ________________________________

Brian Rogers
President

# Regroup-How To Do It And Why It Works!

Ernest F. Oriente
January 14, 2013

Regroup…is this a new management trend? Not a chance! Regroup is simply an opportunity to end one month's business cycle, recap the performance at each property you manage and outline a plan of success for the new upcoming month. Why does it work? Because it allows each person on your team to assess their performance from the previous month, and to make any necessary adjustments for the new month. Here's how it works.

Scheduling and preparing regroup: Regroup should be scheduled during the slowest time of each month and should start before your leasing office opens in the morning, if possible. A solid and productive regroup takes about two hours and will require about one hour of preparation by your resident manager. Be certain to have a blank chalkboard or a standing easel for taking notes and keep distractions to a minimum. Regroup is also a time to build on the creative juices from each person on your team, so make regroup a special part of each month and allow for everyone to have equal time to share their feedback. Simply stated, there are no wrong questions or topics discussed at regroup and your team will respect and respond positively to this freedom.

Tip From The Coach: As the supervisor for your properties, it is critical for you to attend regroup and actively participate in them. Your preparation for each regroup should begin by reviewing the agenda from the previous month with your resident manager, to assess if the to-do list from last regroup was accomplished. Then, review together the new regroup agenda making certain your resident manager's gameplan is consistent with your company goals and expectations.

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Running the meeting: Each month's agenda for regroup should begin by reviewing the financial information important to your company and its investors. This might include "actual" revenue and income versus budget, resident retention percentages, collection issues or expense performance versus the budget. Then, have your resident manager address any problems experienced during the past 30 days or any upcoming issues that will affect the property. Next, map a calendar of activities that will enhance the performance for this property. This might include a monthly event to thrill your residents, a new marketing plan, or a special focus on your resident referral program. This part of regroup is where the creativity of your team really starts to roll and if you listen closely, you will hear many "golden" ideas. Lastly, have your resident manager recap the team goals for the new month and be certain the meeting always closes on a positive note!

Tip From The Coach: As the supervisor for this property, take detailed notes during regroup, then send a brief memo to your resident manager recapping the day. Include in this memo a to-do list for the upcoming month, so your resident manager will clearly know what is expected. Clear communication is the cornerstone of management success.

Meeting individually with your team: At the close of each regroup, plan to spend another thirty minutes more with your resident manager to recap the day, cheer their success, and discuss the specific performance of each individual at the property. During this meeting ask your resident manager if he/she needs any additional support or training to develop their skills or the skills of their team. This is the most important part of regroup as time spent developing your team for future opportunity, will make for pro-active management which means you always have a sharp person ready to be promoted to the next position.

Tip from the Coach: In the same spirit of the individual meeting you have with your resident manager, ask him/her to have a similar meeting with each member of their leasing team. This will help to grow their skills as a leader and you will want to attend the first few meetings to be certain the agenda for the individual meetings are exactly as you expect. In fact, as a manager, always "inspect what you expect". A good rule of thumb!

Wow! Such an important topic and so much to share! Incorporate regroup into your next 30 day business cycle and see for yourself how successful the time is spent! Need help planning your agenda?

E-mail a quick note to ernest@powerhour.com and the Coach will send you a sample agenda in ten minutes. It's easy! The Coach says so! Want to hear more about this important topic or ask some additional questions? Send an E-mail to ernest@powerhour.com and The Coach will E-mail back to you a free invitation to be a participant on a PowerHour conference call.

Ernest F. Oriente, a business coach since 1995 [29,760 hours], a property management industry professional since 1988--the author of SmartMatch Alliances--and the founder of PowerHour...[ www.powerhour.com and www.powerhourseo.com and www.pirmg.com ], has a passion for coaching his clients on executive leadership, hiring and motivating property management SuperStars, traditional and Internet SEO/SEM marketing, competitive sales strategies, and high leverage alliances for property management teams and their leaders. He provides private and group coaching for property management companies around North America, executive recruiting, investment banking,national utility bill auditing national real estate and apartment building insurance, SEO/SEM web strategies, national WiFi solutions, powerful tools for hiring property management SuperStars and building dynamic teams, employee policy manuals and social media strategic solutions. Ernest worked for Motorola, Primedia and is certified in the Xerox sales methodologies. Recent interviews and articles have appeared more than 7000 times in business and trade publications and in a wide variety of leading magazines and newspapers, including Smart Money, Inc., Business 2.0, The New York Times, Fast Company, The LA Times, Fortune, Business Week, Self Employed America and The Financial Times. Since 1995, Ernest has written 200+ articles for the property management industry and created 350+ property management forms, business and marketing checklists, sales letters and presentation tools. To subscribe to his free property management newsletter go to:www.powerhour.com. PowerHour® is based in Olympic-town…Park City, Utah, at 435-615-8486, by E-mail ernest@powerhour.com or visit their website: www.powerhour.com

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Shelton Business Services, LLC

# Commercial Real Estate Loan Fundamentals: How to Manage Lender Due Diligence

Michael Shelton

Your business likely has real estate assets. One way to unlock the value of those assets is through a well-executed commercial real estate loan. What should you expect during the loan closing process? Here is a description of the primary lender due diligence items and how to successfully negotiate each loan closing requirement.

**Environmental Site Assessment (ESA):**
Your commercial lender will require an environmental survey of the property. Lenders are keenly aware of the potential financial exposure from a long list of environmental contaminants and use the ESA as a risk mitigation tool. Ask your lender to use the consulting firm that has previously surveyed your property. This may save time and money because the tedious historical research has already been completed. Be prepared to deliver your operations and maintenance plan if the property has existing environmental issues. The ESA is a long lead time item so get started early in the closing process.

**Physical Site Assessment (PSA):**
Like the ESA, the PSA is conducted by an independent engineering firm. Arrange for your property manager to accompany the engineer on the inspection to provide access to areas of the property that house critical building systems. The property manager should be available to answer questions and may be asked to complete a building questionnaire.

**Property Zoning Report (PZR):**
The zoning report is required by lenders to ensure compliance with all local, state and federal property restrictions. Governments have authority to impose restrictions on property use. For example, certain neighborhoods may restrict industrial property uses.

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The PZR will disclose any zoning violations as well as a detailed explanation of the current property zoning and stipulations. Use a third party zoning report consultant instead of trying to secure a zoning compliance letter from the local government. You will save time and get a report that will meet the lender requirement.

**Survey (ALTA):**
An accurate measurement of the land and buildings is essential to determine the exact collateral that will secure the new loan. You can save time and money by using a firm that has previously surveyed your property because an update can be made quickly. Be sure the surveyor has the list of survey requirements from the lender to avoid a closing delay.

**Preliminary Title Report (PTR):**
One of the first items to order is a preliminary title report from a title insurance company that is acceptable to the lender. Try to use the title company that has provided title insurance on this property or others in your portfolio to save time and possibly get preferred customer pricing on title services. This is a long lead time item because the chain of title must be researched by the title company. Review the PTR for exceptions to title insurance which may include recorded liens, a lease memorandum or other clouds on title. Clear as many of the exceptions as possible before closing by providing supporting documentation to the title company. Also look at the requirements from the title company such as organizational documents and get those cleared well ahead of closing.

**Appraisal:**
The appraisal firm hired for your loan closing will determine the property value which directly impacts the loan amount. Many lenders will require an internal review of the draft appraisal to ensure accurate and fair valuation assumptions were used. Review the draft appraisal for accuracy, especially financial data, which impacts the capitalized value. Look for missing income and inflated expenses that impact the net operating income calculation. Evaluate the comparison property sales and push back on the appraiser if they are not reliably comparable.

**Utility Will-Serve:**
If you are closing on a construction loan the lender will probably require letters from all the major utilities indicating they will provide service to the property upon

completion. This is a fairly easy form letter to get from your local gas, electric, water and cable provider.

**Estoppels and SNDA's:**

The borrower or borrower counsel is usually responsible for completing, distributing, tracking, collecting and returning these legal documents to the lender prior to closing. The lender typically provides a form document with placeholders to merge tenant lease data. Ask your attorney to review the documents prior to sending to your tenants. Negotiate with your lender to limit the requirement and return less than 100% of the total leases. Lenders will usually insist on getting these documents from your major leases. Get started early because these are a long lead time item.

These and other requirements stand between you and your loan closing. Get organized with a complete loan closing checklist, adequate staffing and a clear line of communication with your lender and third party providers to enjoy a successful loan closing.

## 5 Multifamily Rental Revenue Growth Strategies

Every operator wants rent growth.  Rent growth, rent growth, rent growth.  Ok, ok, ok.  I understand.  Year over year rent growth is the most important driver of revenue growth.   How do you get it?

1. Renewals. Always at the top of the list.  Nothing keeps income ticking like retaining in-place residents.  Start the renewal process early.  Recognize this as your number one tool for maintaining stabilized occupancy.

2. Resident screening.  Our customers make or break our business.  Set your standards, stick to your standards.  This 'great recession" has created the need for some changes in credit underwriting but not so much as to bend past the point of reasonableness.

3. Expand "other income".  If your other income revenue includes only application, late and pet fees there is room for expansion.  Storage, services, cable revenue sharing, RUBS (Renter Utility Billing Systems), parking (premium parking spaces).  Do some brain storming to see what works best for your assets.

4. Resident referrals. Are you offering existing customers an incentive to bring in their friends and co-workers? Resident referrals are a cost effective method to create an opportunity to have satisfied customers introduce your property to new customers.

5. Email. Do you email your customers and potential customers?  Oh no! Not another task!  Like with this blog, we try to keep in regular contact with our readers via email.  An email as often as only once a month can assist in maintaining name recognition. It's just one more place to keep your name in front of your customers.  That's why Nike pays and pays to have their "swoosh" on every moving object possible. Multifamily Insight uses, and highly recommends, the Aweber email management system.

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# TRILLIUM RESIDENTIAL ENTITY PLANNING $40 MILLION APARTMENT DEVELOPMENT IN PHOENIX

Phoenix - A company formed by Trillium Residential LLC in Tempe (Jamie Dawson, Ken Losch, principals) plans to develop a 304-unit apartment complex at the northwest corner of the 101 Loop and 7th Avenue in north Phoenix. 7th Avenue Apartments Holdings LLC (the Trillium entity) paid just under $4.299 million to buy the 9.95-acre site. The seller was The Ken Roth Family Limited Partnership in Phoenix (Ken Roth, principal)and a trust formed by Herbert Dreiseszun and Patricia Dreiseszun in Phoenix. The address of the parcel is 20202 N. 7th Avenue. The transaction was negotiated through Mark Forrester, Ric Holwayand Jim Deakyne of Hendricks Berkadia Apartment Real Estate in Phoenix. The buyer acquired the property with $3.598+ million in seller carry back financing. Trillium Residential had originally agreed to buy the parcel from Roth several years ago. Dawson says his company had the land entitled and completed design work for the apartment development and then pulled out of the deal during the recession. Construction is scheduled to start this summer, with opening to follow in 12 months and build out to require 18 months. Contractor still to be selected. The project, being called Trillium 101, is being designed by MVE & Partners in Irvine, Calif. (formerly known as McLarand Vasquez & Emsiek). The studio, one- and two-bedroom units are expected to range from 560 sq. ft. to 1,050 sq. ft. Monthly rental rates yet to be determined. Development cost (land and buildings) estimated at $40 million. Trillium Residential is looking for an equity partner to develop the multi-family community or a lender to provide construction financing. Trillium Residential will manage the complex. Dawson says the company has yet to decide if it will hold or sell Trillium 101 after the completion of construction and lease up. Trillium Residential has been an active multi-family developer in the Valley. The company is looking for more apartment development opportunities in the Phoenix area. The privately-held Trillium Residential owns four apartment properties in the Valley totaling about 1,200 units.

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Dawson says the company is getting close to finalizing a loan for the construction start on a 297-unit apartment complex that Trillium Residential is building at the northeast corner of Washington and 44th streets in Phoenix. In March 2012, Trillium Residential paid $4.2 million to acquire that nearly 6-acre parcel. Find out more from Dawson at (480) 294-6300. The Hendricks agents are at (602) 955-1122.

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The Business Journal
PHOENIX

# $62 million luxury apartment complex in Scottsdale breaks ground

Kristena Hansen

A Texas firm has started construction on the first phase of a $61.6-million upscale apartment project in North Scottsdale that will deliver 388 units by next year, according to a statement from TDI Real Estate Holdings.

The project — dubbed Jefferson at One Scottsdale — is being built by Dallas-based TDI Real Estate Holdings LLC and will be located atop a 17-acre site at the northeast corner of Thompson Peak Parkway and 74th Street, adjacent to the Grayhawk community.

That site will make up the residential component of One Scottsdale, a long-overdue 100-acre mixed-use development that Phoenix-based DMB Associates Inc. and Macerich have struggled to get off the ground since the economic downturn. DMB and Macerich initially planned to bring the office and retail components there first, but recently opted to go with the residential side first due to the slower recovery of the commercial real estate market.

TDI, which is a multifamily developer and acquisition firm that currently manages a portfolio worth about $800 million, recently began building the first of the two-phase project after it purchased the land last July for $16.6 million, which I previously reported.

Blueprints call for a total of 750 units with the completion of the second phase, plus a 10,800-square-foot clubhouse, lounge, media room, two resort-size swimming areas with spas, individual car garages, carports and even outdoor storage units.

“Jefferson at One Scottsdale will be the premier luxury multi-family project in north Scottsdale to meet a growing demand for upscale housing in this submarket,

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which is a major employment center for the region," Gus Villalba, TDI's executive vice president and an investment partner, said in the statement.

The $61.6 million in financing for the first phase was arranged by Pennsylvania-based HFF Inc. (NYSE: HF), which provides commercial real estate and capital markets services, including construction loans, HFF said in another statement this week.

HFF secured the financing through a construction loan with Texas Capital Bank and The PrivateBank in Chicago, and a mezzanine loan with Texas-based Behringer Harvard, the statement said.

Mezzanine loans are a hybrid of debt and equity financing and are similar to second mortgages, except it is secured by the company's stock that owns the property, as opposed to the real estate asset itself. According to Investopedia, mezzanine financing is usually provided quickly, with little due diligence by the lender and little or no collateral on the part of the borrower, which means lenders usually seek high returns in the range of 20 to 30 percent.

"We are pleased that this transaction represents our first investment in a multifamily community in the Phoenix area as well as our second development project with TDI," Mark T. Alfieri, chief operating officer of Behringer Harvard's multifamily platform, said in the HFF statement. "This community will address the metro's growing need for luxury apartments after several years of muted development activity."

PropertyManagementInsider

# How Facebook's New Graph Search Will Change The Way Residents Find Apartments

Michael Cunningham
January 18, 2013

This past Tuesday, Facebook announced Graph Search, its attempt at creating a more robust, natural language social search engine to help all of us "find people, places, and things and explore Facebook in a whole new way."
What does Facebook Graph Search mean for property management companies and all those Facebook pages you've set up for apartment communities?What exactly can people search for?

I, for one, believe Facebook just created a new way future residents will search for apartments.

Here's an example: Let's say that I'm thinking of moving to Boston and I happen to have many Facebook friends who are from there or live there. Rather than start my apartment search on Google or an ILS, I use the Facebook Graph Search, which allows me to use natural language search terminology like the following:

*"Apartments in Boston that my friends have liked"* or *"Apartments in Boston near my friends."*

You can't type that in Google and expect good results. Only in Facebook can you do this. So if your Boston-based apartment communities do not have their Facebook pages optimized for the new Graph Search, they may not be included in the search results.

Welcome to the Facebook way of searching for apartments.

To help you make sure that you don't miss out on this wave of social searching, here are five steps you can take today to optimize your apartment community Facebook pages for the new Graph Search.

1. Make Sure Your Facebook Page is Complete

This seems like a no brainer but it's the most important part: complete and update the information in the "About" section. Make it as complete and thorough as possible. And if you haven't claimed a custom Facebook URL, consider getting one.

2. Add Geo-Targeting Data

Graph Search has geo-targeting built in, so if the address section of your apartment's Facebook page is not complete or accurate, you're lost (literally).

3. Post Engaging Content and Get People Talking

Engagement on Facebook has always been important, thanks to EdgeRank, but it matters more than ever with Graph Search.

"Engage, because the algorithm, given two choices for a search, will pick the higher engagement one to list first. In their words, "Results are ranked by people you care the most about; the rest are sorted by mutual friends and other signals in the Facebook system." That means EdgeRank, which is composed of freshness, relevance, and closeness." (Source: Christopher S. Penn, Shift Communications)

4. Grow Your Resident Fan Base

It pains me to write this because I've never been a fan of collecting likes for the sake of collecting likes. I prefer quality over quantity. Graph Search is forcing me to rethink that mindset. According to Penn, "If you have the right, relevant audience, then when people are asking friends of friends about your industry, Graph Search will connect them." And that means getting more people, and the right people, to hit the like button.

5. Encourage Resident Brand Evangelists to Share Content

Brand evangelists are nothing new in the multifamily industry. Resident referrals are an important part of apartment marketing and many communities are harnessing the power of social media to run referral campaigns. With Facebook Graph Search, social media referrals will be more organic because people who share your posts will automatically, and unintentionally, be referral marketing on your behalf. You need to post engaging content and encourage your fans to share and share often because rest assured, Graph Search will pay close attention to all those shares.

Hands down, Facebook owns consumer engagement like no other social platform, and the new Graph Search places even higher priority on engagement and geo-targeting. Make sure your apartment community Facebook business pages are ready and fully optimized.

Once you're finished with your Facebook Graph Search optimization for your business pages, now might be a good time to update those Facebook privacy settings on your personal page. Just sayin.

(If you're interested, Facebook has a waiting list for the Graph Search beta group.)

What's your take? Did Facebook just create another way to search for apartments? What are your thoughts on Graph Search.

# CoStar Sounds Early Warning On Multifamily Development

Bendix Anderson
Jan 19, 2013

The real estate analysts at the CoStar Group worry that the growth in multifamily development may be too much of a good thing.

"Apartment construction has been on a tear in certain markets," CoStar says. "With the inventory growing at more than four or five times the national rate, vacancies will most likely increase."

CoStar has picked out the apartment markets with the highest levels of construction currently underway compared the existing inventory of apartments. Raleigh, N.C., is at the top of the list, followed by San Antonio, Texas, and Austin, Texas. In all three of those cities, the number of apartments underway is more than 5 percent of the total existing inventory.

But CoStar worries the apartments now underway are just the beginning of an overbuilding boom. "It is not this wave of supply that we are worried about—it's the next wave of supply that could swamp fundamentals," says CoStar.

CoStar found that apartments currently under construction make up 1.4 percent of the total apartment inventory in the top 54 markets. Apartment developers are now far ahead of the developers of other property types. "New office construction makes up only 0.8 percent of the total inventory," CoStar says. "New warehouse construction also makes up only 0.8 percent while new retail construction makes up only 0.6 percent."

The question is whether the number of apartments under construction is oddly high, or whether the volume of everything else under construction is oddly low.

Across the U.S., in the decade before the crash, developers finished an average of about 132,000 apartments a year, according to a tally from Reis Inc., that includes institutional investment quality properties, but not government-subsidized affordable housing or other non-investment-quality multifamily. The total inventory of apartments averaged 9.3 million over the same period.

That works out to completions that averaged 1.4 percent of the total apartment inventory every year. Since a typical apartment property takes two or more years to build, makes the current average nationwide level of construction noted by CoStar seem significantly below average.

CoStar recommends that developers avoid trouble in the future by not overbuilding in a few markets. “The impact on top-tier markets, where most supply is currently coming on line, could be mitigated, though, if developers explore secondary markets where they can still find reasonable value and income.”

The apartments markets with the highest levels of construction compared to the existing inventory of apartments are mostly smaller cities with relatively low barriers to development. Many of the metros at the top of CoStar’s list also top the charts in terms of employment figures.

- In Texas, more than 8,000 units are underway throughout four major submarkets (Dallas, Houston, Austin and San Antonio, and many more projects are in the pipeline. Vacancy rates, which have reached historical lows in the metro, will reverse trend over the next year as Austin struggles to absorb the new supply, according to CoStar.

- Raleigh is leading the way with new apartment construction, which makes up more than 6 percent of the total apartment inventory in Raleigh, and nearly double its historical average, according to CoStar.

# TDI BEGINS CONSTRUCTION OF UPSCALE MULTI-FAMILY PROJECT IN SCOTTSDALE

Peter Madrid
January 22, 2013

TDI Real Estate Holdings of Irving, Texas, has begun construction on the first phase of a project that will bring up to 750 units of luxury housing to Scottsdale. Construction on Phase One of Jefferson at One Scottsdale is presently underway on 388 units scheduled for completion in 2014.

The site is located within the One Scottsdale master-planned development located at the NEC of the 101 Freeway and Scottsdale Road in the heart of the growing north Scottsdale corporate corridor.

The 80-acre mixed-use property is planned for specialty retail, dining, Class A office and hotel uses, along with a variety of luxury residential choices. The corporate component is anchored by Dial/Henkel North American Headquarters and the retail mixed-use component is owned by DMB Associates, Inc. in partnership with national retail developer Macerich.

“We will be offering the market a superior product with unprecedented amenities and an ideal location near employment centers and adjacent to the Grayhawk luxury golf course,” said Gus Villalba, TDI Executive Vice President and Investment Partner.

“Jefferson at One Scottsdale will be the premier luxury multi-family project in north Scottsdale to meet a growing demand for upscale housing in this submarket, which is a major employment center for the region.”

The first phase will consist of 178 one-bedroom/one-bath apartments, 186 two-bedroom/two-bath apartments and 24 three-bedroom/three-bath apartment units.

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Residents will be able to enjoy a 10,800 SF clubhouse, lounge, media room, two resort size swimming areas with spa, 294 garage spaces, 182 carport spaces, 9-foot ceilings, outdoor storage units and Wi-Fi access in all common areas. The entire complex will be access controlled.

Financing was arranged by HFF (Holiday Fenoglio Fowler, L.P.) and HFFS Securities L.P. with a construction loan through Texas Capital Bank and The PrivateBank and mezzanine financing from Behringer Harvard.

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# Selling Distressed Commercial Property Through Receivership

James H. Donell

With commercial property loan defaults still a reality in today's sluggish economy, lenders are increasingly opting to sell distressed properties through a rents-and-profits receiver instead of pursuing other remedies, such as workouts, deeds in lieu, and foreclosures. By using a rents-and-profits receiver to take custody and control of the property and sell it with final court approval, lenders not only protect the property's value and income being generated, but they also save time and money and more effectively minimize potential losses and exposure to liability.

While equity receivers are generally appointed over an individual or an entity, rents-and-profits receivers are typically appointed by the court to take possession and control of one or more properties, maintain adequate insurance coverage, and handle any health and safety issues, as well as manage and maintain the property and pay all necessary operating expenses until the default is either cured or the foreclosure is completed.

**Receivership Sales**

Along with controlling and maintaining the property, a court-appointed receiver can also sell the property with final court approval and the consent of the lender, borrower, and any junior lien holders. Notwithstanding various interpretations of the law regarding the sale of real property by a rents-and-profits receiver, the courts are routinely approving these types of sales.

Opting for a receivership sale can save a considerable amount of time and expense, preserve the value of the property, and minimize or even fully eliminate potential future liability and losses for both the lender and borrower. In addition, trustee fees

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are reduced since a foreclosure sale is no longer needed. The cost savings can be significant depending on the property's value.

Borrowers and junior lien holders will generally agree to a receivership sale if there is little or no equity in the property to satisfy any junior lien holders. Also, if there are existing valid personal guaranties and the lender and borrower are able to reach a resolution regarding the guaranties, the borrower will typically not object to a sale of the property by the receiver. The power to sell the real property can be included as part of the appointing court order, subject to final approval by the court as well as notice to all parties involved — buyer, lender/owner, and all known creditors.

In negotiating a sale through receivership, careful, open, and effective communication between the receiver and all parties is essential. Ideally, all parties should agree to the property's initial listing price and the listing brokerage company. Any objections should be dealt with as soon as possible, as controversies or disagreements between the parties involving the final sale price of the property that erupt later on in the process can completely derail the sale.

For example, if the appointing order permits the receiver to sell the property, a helpful negotiation strategy is for the receiver to send out a letter ahead of time to all parties that addresses issues that could potentially cause conflict. The letter can advise the parties, including any junior lien holders, of the receiver's intent to list the property, the specifics about the listing broker, and the listing price. The letter should state that if the receiver does not hear back within 10 days after receipt of the letter then the receiver shall proceed with the stated plan and terms. This simple approach will quickly flush out any objections from the parties, which can be addressed promptly, preventing any future arguments.

**Challenges to Receivership Sales**

In addition to the benefits of receivership sales, there are some common pitfalls to avoid and precautions to take. A significant issue that could arise is when a receiver fails to provide proper notice of the motion to approve/confirm the sale to all parties with potential claims against the property, including any lien holders, any known creditors, agencies, or government or municipal bodies, or anyone else who might have a potential claim, however obscure, for any amount of money.

Oftentimes, inexperienced receivers only provide notice of the sale to those on the "Service List," -- only the parties to the action.

To properly complete a receivership sale, receivers must also carefully coordinate with the title company. It is absolutely imperative to secure a title company early on in the process that is willing to review the proposed order approving and authorizing the sale and issue a policy of title insurance based upon the recording of the receiver's deed. Without a cooperating title company, the receiver's ability to close the sale and provide a policy of title insurance to the buyer will be precluded. Further, a title company's involvement is crucial if there are disputed liens on the property because such disagreements can severely delay a sale or the distribution of the sale's net proceeds.

When faced with foreclosure on commercial property loan defaults, receivership sales offer lenders an alternative. By carefully selecting a reputable and experienced receiver, lenders can effectively protect themselves, their property, and their income, as well as ensure the best possible outcome for all parties involved.

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# TDI Obtains $61M Construction Loan

Amy Wolff Sorter

SCOTTSDALE, AZ-TDI Real Estate has secured financing totaling $61.6 million for construction of its class Amultifamily property, Jefferson at One Scottsdale. The 388-unit Jefferson at One Scottsdale is part of the One Scottsdale mixed-use development at North Scottsdale Road and East Thompson Peak Parkway.

HFF worked exclusively on behalf of TDI Real Estate to assist the sponsor in arranging a construction loan throughTexas Capital Bank and The PrivateBank, and mezzanine financing from Behringer Harvard. The HFF team representing TDI Real Estate was led by Sean Deasyand directors Mark Erland and Charles Halladay.  Due for completion in 2014, the property will offer one-,  two- and three-bedroom floor plans averaging between 935 square feet and 949 square feet. Community amenities will include a clubhouse, lounge, media room, business center, two swimming pools/spas and both direct and non-direct garages.

"Jefferson at One Scottsdale will be the premier Class A multi-housing project in North Scottsdale given the use of high quality materials, superior architecture, ample parking including garages, and proximity to high quality retail and employment," says Erland in a press release. "HFF and TDI were able to secure construction debt and mezzanine financing that recognized the quality of the sponsorship, location, project design, and improving Phoenix MSA market fundamentals highlighted by more than 40,000 new jobs over the past 12 months."

"We are pleased that this transaction represents our first investment in a multifamily community in the Phoenix area as well as our second development

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project with TDI," adds Mark T. Alfieri, chief operating officer of Behringer Harvard's multifamily platform in the same release. "This community will address

the metro's growing need for luxury apartments after several years of muted development activity."

TDI is a real estate investment firm formed to buy and build a portfolio of multifamily assets in select major U.S. markets. TDI currently manages an $800 million portfolio of assets located throughout the US.

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# TRILLIUM RESIDENTIAL ENTITY PLANNING $40 MILLION APARTMENT DEVELOPMENT IN PHOENIX

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apartment complex that Trillium Residential is building at the northeast corner of Washington and 44th streets in Phoenix. In March 2012, Trillium Residential paid $4.2 million to acquire that nearly 6-acre parcel. Find out more from Dawson at (480) 294-6300. The Hendricks agents are at (602) 955-1122.

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# Resident Retention: The Difference Between Customer Satisfaction and Customer Loyalty

Joanna Ellis
January 22, 2013

Depending on the survey source, between 60 and 85 percent of customers who chose a new product or service indicated they were satisfied or very satisfied with their former provider. How could that be? Is it possible that satisfied customers would leave after "gifting" a business with a high customer satisfaction score? *Yes.*

The reality is that satisfied customers will stay until there is a better alternative offered to them. They have no emotional investment.

The mistake we make is confusing satisfied customers with loyal customers. Research has indicated that there is very little connection between customer loyalty and customer satisfaction.

Just because a resident indicates a high level of satisfaction does not mean that they are or will be loyal to your apartment community.

**Customer Satisfaction**

Customer satisfaction is just that, a customer's sense of satisfaction. It means you are giving your customer what you said you would—the things they expected from you based on your original promise. So everybody should in theory have satisfied customers because keeping your promise is sort of basic stuff. It's a minimum expectation. Customer satisfaction has little to do with customer loyalty.

The 2011 State of Online Banking Report revealed that nearly 66 percent of financial customers reported using online bill pay in early 2011. That's a large number and I assume most have a positive experience with the process. While banks might easily achieve a 100% customer satisfaction rate (they are doing what they promised), I expect their corresponding loyalty rate is pretty low. Why? There are few opportunities to engage with the customer, resulting in no emotional connection. These customers are often 100% satisfied—0 % loyal.

Do your on-site employees engage with residents as much as possible? Do they understand the difference between satisfaction and true loyalty? If your satisfied residents place their trust only in your apartments and services, they might also feel comfortable leasing from any number of your competitors.

**Customer Loyalty**

Loyal customers are very different from satisfied customers. Consider who you are loyal to. Surely you'll answer family and friends. Why? Because of the emotional bond you have with them. Your family and friends can do things you may not like, but you stay loyal because of that connection. The same applies with customer loyalty. Loyal customers will stay with you through thick and thin—
there *is* an emotional connection.

A loyal resident has most likely benefited from such things as a leasing professional's insight, problem-solving abilities, caring attitude or willingness to go the extra mile. They walk away from each interaction with a positive attitude about the apartment or service AND about the company and the people. In order to gain loyalty, you need to engage the mind and the heart of your resident. It's all on the emotional level.

**The Lifetime Value of a Resident**

The lifetime value of a Starbucks customer is $14,009. A high-end hotel operator puts the life time sales value of a loyal guest at over $100,000. What's the lifetime value of your loyal resident, who pays their rent on time, willingly provides referrals to you, perceives you as a partner, and stays by your side even when you make mistakes? How far do you allow your employees to go to solve their problems? What is their loyalty worth?

Not only is it less expensive to retain a resident than to acquire a new one, loyal residents spend more and are more likely to refer new ones to your business. The longer a resident is loyal, the more profit you will see.

If you care about long term growth and profits, then customer loyalty should be a top priority.

How do you measure resident loyalty? I would love to hear your thoughts on this topic!

# Value Play

**Two methods are key to this investment strategy.**

Craig Haskell

Value-oriented real estate investors believe that real estate assets have an underlying intrinsic value that can be determined by analysis and evaluation. Opportunities for profitable investments arise when the asset's purchase price is below its intrinsic value.

Value investors evaluate an investment's opportunity by understanding the relationship between value and price. Thus, the essential task of a successful real estate value investor is to determine the intrinsic value to capitalize on inefficient market mispricing.

In determining the intrinsic value of real estate investment assets, value investors use two generally accepted methods: replacement cost and net present value.

**Replacement Cost Method**
While most commonly recognized by industry professionals, the replacement cost method can be quite complex to calculate. Often used for new developments, it can provide a guideline for existing projects, especially in today's market where capitalization rates on high-vacancy properties are not useful.

Determining a building's replacement cost requires gathering construction-related estimates such as:

- hard costs (site, building, parking),

- soft costs (third-party consultants, permits, and fees),

- contingency costs (unforeseen events),
- fees (developer, construction, profit),
- marketing and leasing costs, and
- financing costs.

Common practice is to measure the total cost to replace a building using a cost per square foot method. For example, it might cost $90 psf to replace a multifamily property in Tucson, Ariz., or $125 psf to replace an office building in Atlanta. It really depends on the local market and product type.

When assessing replacement cost on an investment asset, contact two or three reputable developers or contractors who are familiar with your market and product type to obtain replacement cost estimates. Make sure the cost estimates are an apples-to-apples comparison.

The rule of thumb is to be a buyer of real estate when prices fall below replacement cost, and a builder of real estate when prices rise above replacement cost. Therefore, replacement cost is the line in the sand — the base line to assessing potential value creation opportunities.

**Net Present Value Method**
The NPV method determines a real estate investment asset's intrinsic value by finding the present value of future cash flows.

Present value is properly calculated as the sum of current and future cash flows with each dollar of future cash flow appropriately discounted back to take into account the time value of money. Future cash flows are discounted to present values using an interest rate that the investor could earn in the next best alternative investment. This is known as the discount rate.

For example, an investor buys a property for $950,000 that has a value creation opportunity requiring $50,000 of capital improvements. The investor's total initial cash investment is $1 million.

As part of the value creation strategy, the investor plans to renovate the property by painting and landscaping and to upgrade the resident profile by adding some unique services and amenities. With the new look and upgraded resident profile, the investor expects to raise rents.

It will take 12 months to stabilize the property. So, in year one, there is no cash flow because of expected vacancy and down units during the repositioning process. But in year two, the property is stabilized with higher rents and occupancy; it generates a $50,000 cash flow. In year three, the property continues to remain strong with rents slowly increasing and generates a $60,000 cash flow.

In year four, the investor receives an unsolicited offer from a real estate agent to buy the property for $2 million. The investor decides to sell the property.

The net sale proceeds, after paying real estate commissions and closing cost, is $1.75 million. When the sale proceeds are combined with a $50,000 cash flow in year four, the property generates a $1.8 million cash flow in year four.

The investor finds an alternative investment of similar quality and risk yielding 7 percent, creating the discount rate for the NPV calculation.

In this simple example, the NPV is $1,465,861. That's the intrinsic value of this property assuming the investor successfully executed the value creation strategy. So, an investor can buy this property for $1 million knowing it has intrinsic value of $1,465,861.

**Key NPV Factors**
Because NPV involves future cash flow, it is critical to forecast accurate assumptions when modeling a property investment. Here are a few key factors when determining NPV.

**Investment strategy.** Modeling a stabilized property versus a high-vacancy property requires different forecasting assumptions. Use worst-case scenarios to offset potential forecasting and assumptions errors, especially on properties without a consistent operating history.

**Discount rate.** The discount rate should reflect market conditions. An increase in the discount rate in the example from 7 percent to 13 percent would reduce the NPV to $1,185,000.

**Income and expenses.** Forecasted income and expenses should be reasonable and supported by factual data. Forecast lease-up absorption on vacant properties using market standards. Also, use industry standard expense benchmarks in model assumptions.

**Future sales price.** Use a capitalization rate appropriate to the asset's location, class, and product type that conforms to trending market conditions. Forecasts for capital markets, the local economy, and real estate fundamentals should reflect a safe cap rate when modeling future sales prices.

Make sure the assumptions in your modeling are founded on sound and reasonable data when determining the intrinsic value of a real estate investment. Understanding the investment strategy, proper discount rate, accurate income and expenses, and future sales price will improve the accuracy of the intrinsic value end result. For protection, value-oriented investors insist upon a margin of safety by buying low in case the intrinsic value calculation was too optimistic.

Integrating replacement cost and NPV methods into your financial analysis and modeling will help uncover more value-oriented real estate investment opportunities. As the general real estate market improves in the coming years, such opportunities will be harder to pencil out, so take advantage of today's opportunities using intrinsic valuations as your measurement stick.

PropertyManagementInsider

# Dirty Data Can Cost Properties Thousands in Utilities Overcharges

John Lis
January 24, 2013

Something very dirty is happening within the apartment industry. It's called dirty data.

It's nothing that will prompt a high-level internal affairs investigation, but this polluted energy consumption information should be of concern to property owners who are watching the bottom line. Dirty data simply is incorrect electricity, gas or water information associated with a property's utility bill.

Dirty data comes in all sizes and shapes. For example, the read dates are extended so the billing doesn't reflect a typical 30-day read period. Or the consumption doesn't match the expense. Or rates are calculated by a multiplier of 100 instead of 10. Before you know it, what should have been a $10,000 bill passes unnoticed through a property's accounting system at double, triple or, even 10 times the rate. Maybe a month, two months, or a year later, if and when the error is found the cleanup can begin.

By then, the damage has been done.

At a time when the Environmental Protection Agency is beginning to mandate documentation of energy consumption, there is no place for dirty data. With property management teams focusing time running the communities and utilizing their expertise, the dirty secret in utilities continues. That's where a proven third-party energy management solutions system can help.

### Texas Property Overcharged $20,000 from Dirty Data

Utility providers are not perfect. They have issues with reads and bills because of system limitations and human error. Rates may be estimated and changed inadvertently or by procedure and notifications slip through the cracks. Once a rate is erroneously updated, chances are that future bills will reflect the new rate.

An apartment property's sole defense mechanism relies on the community manager or A/P clerk who may or may not catch the problem.

The data is then muddied, as well as the property's true utility consumption and expenses.

One Texas property recently experienced the ill effects of dirty data by being overcharged tax on a utility. Texas utilities are not taxable and the property had requested the exemption through a third-party energy management solutions provider. All was well for about a year, and suddenly the tax showed up on the bill again. After 90 days, the company caught the error, which had resulted in $20,000 in overcharges, much of which had been paid by the client.

The utility company provided no explanation other than it just happened.

Dirty data happens.

**Clean Up Data and Improve Energy Management**

Integrating data and analytics enable properties to avoid dirty data while establishing benchmarking at the same time. The actual aggregation of invoices and entering data into a system of automated checks and balances is essential for maintaining accurate, clean data.

Property management companies often have challenges with their A/P departments paying the bills while maintaining accurate utility consumption data. At risk is an expense that balloons out of proportion, negatively taps the bottom line, and also is the basis for incorrect reporting to government agencies, where applicable. The company becomes unable to complete a process of collecting the line item detail, putting data into a system, analyzing it, picking the outliers, and figuring out how to clean it up.

With consistent, accurate input, benchmarking becomes a snap. Companies can compare usages to previous weeks, months, and years to justify expenditures. Anomalies are easily noticeable: High electricity billings during moderate temperatures tend to stick out more.

**How Efficient Energy Management Systems Should Work**

The first steps are to get every line item detail loaded into a system, and that's no small feat. To accurately input data, some 200-300 points – such as start date,

end date, consumption start, consumption end and comparisons to previous year and amounts – must be included. Every line item for water, sewer, tax, you name it.

Once loaded into a system, the data can be compared over prior months or years and benchmarks are established. Ideally, you want a system that runs through multiple checks and balances so that inaccuracies are flagged and removed. If the data is pretty far out of bounds, phone calls and follow up are necessary.

There is no substitute for clean data.

When going unnoticed, dirty data can muddy even the most efficiently run apartment property in just a matter of months. Getting a handle on energy management can eliminate unnecessary expenditures and show the true picture of utility consumption on a property.

Is your data clean or dirty?

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# LAST 58 ACRES AT PAPAGO PARK CENTER BEING PLANNED FOR MAJOR MIXED-USE DEVELOPMENT

January 25, 2013

Tempe - The last 58.56 acres within the 350-acre Papago Park Center in Tempe could eventually hold 3 million sq. ft. of newly built office, hotel, residential and retail buildings if the owner of the land is successful in obtaining a planned area development overlay amendment for the site. Papago Park Center Inc., which is owned by Salt River Project, has filed an application in Tempe to develop the prime acreage in a development being called The Grand at Papago Park Center. According to a narrative filed in Tempe, the applicant is proposing to develop 19 buildings and 7 parking structures on the site. At build-out, the project is proposed to provide more than 2 million sq. ft. of office space, 600 hotel rooms, up to 850 multi-family units, 27,000 sq. ft. of restaurant space and 7,000 sq. ft. of retail uses. The development will be supported by about 10,000 parking spaces. As part of the planned development, the SRP entity would realign the Grand Canal, which runs along the southern edge of Papago Park Center. The 58+ acre parcel is located at the northeast corner of Priest Drive and the Loop 202 Red Mountain Freeway. Brian Marsh, association and office manager at Papago Park Center, says plans include moving the canal about 100 to 150 feet north and providing a water feature that would compliment a multi-use path that will run through the project. While the wholly-owned subsidiary of SRP is re-master-planning the area now, The Grand at Papago Park Center could take 20 years to fully develop. The individual components of the planned project would be developed through multiple request for proposals (RFPs). As is the case with the 291 acres previously developed at Papago Park Center, the SRP entity will enter long term ground leases to any successful bidders selected to develop the land. If Papago Park Center Inc. is successful in its zoning request to develop the last 58+ acres at Papago Park Center, the planned project could match the 3.2 million sq. ft. of commercial buildings that have been built so far within the business park. To date, there are roughly 10,000 people employed at Papago Park Center.

There could easily be another 10,000 employees and residents within The Grand at Papago Park Center if the High Density District planned area development (PAD) zoning is approved. Reach Marsh at (602) 236-3647. Ryan Levesque is a senior planner with Tempe and is handling the application on The Grand at Papago Park Center . . . call him at (480) 858-2393.

PropertyManagementInsider

# Utility Management Improvements Add $10 Million to Property Value [Case Study]

Tim Blackwell
January 25, 2013

Through a series of retrofit and design changes and utility management improvements, the Fillmore Center apartment building reduced water consumption and lowered energy costs to save the property about $500,000 annually and enhance property value by $10 million, based on today's cap rates.

Combined with enhancements to recycling and transportation accessibility, the downtown San Francisco property, managed by the Laramar Group, became the largest multifamily property on the West Coast to earn a Leadership in Energy and Environmental Design (LEED) certification.

By working with public utility companies, Laramar Group was able to get a return on the improvements in less than two years. That success has fueled other projects within the company's $1 billion portfolio of properties from replacing existing water fixtures with low-flow models to replacing appliances with those that have EnergyStar ratings. A high-rise in Chicago is currently going through similar renovations.

"It's really set the stage for us to do this again at other properties," said Senior Vice President Steve Boyack, who presented a sustainability case study on the Fillmore Center at last fall's NMHC OpTech 2012 conference in Dallas.

Today, sustainability is very much in the Laramar Group's daily vocabulary.

**Leveraging Utility Company Rebates Save $134,000**

A significant increase in water costs in San Francisco moved the Fillmore Center to take on an aggressive retrofit of its water devices. High-consumption users would bear the brunt of the increase, and Fillmore Center and its large community of residents were sure to be included.

"We started looking for opportunities for incentives that were being offered by utility providers or municipalities and were able to find programs with the

[California Public Utilities Commission (CPU)] that they had put into place to help families to address the concerns of these increases in water rates," Boyack said.

In addition to working with the PUC, Fillmore Center worked with Pacific Gas & Electric Co. to revamp its bathrooms and irrigations systems, plus overhauled its lighting system with energy efficient light bulbs.

With a little creativity, more than 5,500 water devices – including 3.5-gallon toilets with dual-flush fixtures, low-flow aerators and showerheads – were replaced with $134,000 in help from PUC rebates. Because many of the rebates initially offered were product specific, Laramar Group leveraged 1,500 toilet replacements to convince the utility commission to include dual-flush, low-flow toilets, new technology at the time.

PUC signed off and began releasing money in stages. The result was trimming a $322,000 project cost to  $188,000. On top of that, the property is saving an estimated 38 percent on its water bill for 6.3 million gallons of water per year in consumption.

"We wanted to introduce dual-flush toilet to the marketplace," Boyack said. "We actually had to get them in from Canada at the time, you couldn't get them anywhere in the United States. We actually got (PUC) to rewrite their rebate code and give us a rebate that would put us in the same expense category of somebody who is using a typical 1.6-gallon flush toilet. So that was a big win for us."

Boyack said the savings is calculated on water costs prior to the city's increase, but believes with the new rate the impact probably is double.

**Lighting Retrofit Drops Electric Bill by 50 Percent**

Built in 1992, the Fillmore Center was in need of a lighting retrofit. Because of the size of the property, a full-time union lighting technician earning a healthy income was on staff to change bulbs in the thousands of light fixtures throughout the property's common areas.

Around 2005, Fillmore Center opted for a significant lighting retrofit to include longer-life bulbs that would eventually eliminate the need for the maintenance position. By taking advantage of $181,547 in PG&E rebates, Laramar Group got 48 percent public funding for a $377,992 project with a one-year return on investment.

Replaced or retrofitted were 4,841 fixtures in units, offices, stairwells, garages and common areas. Neary 1,400 lamps were changed, as well as 338 ballasts. Occupancy sensors and dual-bulb fixtures were installed in stairwells and garages. All exit signs and landscape lighting were switched to LED lights, and elevators got three-watt LEDs.

“These amounted in significant reductions in usage,” Boyack said. “I remember the electric bill at the property was about $750,000 per year and by the time we were finished it was in the $360,000-$380,000 range. A tremendous win for us in regards to lighting.”

**Earning LEED Certification Along with Return on Investment**

With the water and lighting upgrades, the Fillmore Center was on the verge of LEED certification, although Boyack says that wasn’t a priority when the projects were conceived. But after the upgrades, company officials realized they were close to earning the ubiquitous distinction.

Fillmore Center expanded resident transit options to include 15 Zipcar vehicles, while a resident shuttle bus, later converted to biodiesel bus service, was put in place. The result was a 47% reduction in conventional commuter trips, based on one driver in one non-fuel efficient car, versus similar facilities.

Also, a multi-tiered recycling program was established to include paint, toxic materials and electronics among other traditional recyclables to reduce Fillmore Center’s annual waste to landfills by 17 percent.

In 2008, the Bay Area community was awarded the LEED Silver for Existing Buildings: Operations & Maintenance.

“An important point about this project in particular is that it really never started out to be a LEED project,” Boyack said. “As developers and managers of real estate, our goals are often driven by returns on our investment and reducing our operating costs, and that’s exactly where it started with Fillmore Center.”

# Guess Who's Driving the Demand for Rental Apartments?

Diana Olick
29 Jan 2013

The housing market is supposedly roaring back. Home prices are seeing their biggest annual gains since 2006.

Renters must be rushing back to buy, right?

Not exactly.

In fact, even as housing and the greater economy improve, a shift in demographic trends will likely favor the rental apartment market for the foreseeable future. It is all about women.

"I rent in an apartment building because it gives me a certain amount of freedom: I'm not positive that I want to stay in D.C. long term so I could leave at year's end if I wanted to," says 25-year-old Caitlin Huey-Burns, a working journalist. "My building has nice, built-in amenities, and it's in the location I want, but where I know I wouldn't be able to afford to buy."

Most of Huey-Burns' single, female friends, some in their thirties, who live in major cities, also rent in apartment buildings. Just one owns, and she lives in Canton, Ohio.

"What drives demand for single family homes is, 'Oh honey, I'm pregnant," says Buck Horne, a housing analyst at Raymond James.

But those words are being uttered less and less. Horne claims the shift in female education, marriage and fertility rates will drive rental apartment demand going forward. He points to a growing educational imbalance, that is, 3.1 million more

women enrolled in college than men and 4 million more college-educated women in the workforce than men.

"I rent in an apartment building because it gives me a certain amount of freedom"

**Caitlin Huey-Burns**
Renter

"That creates a structural imbalance in the number of suitable partners. Women leave college with good income prospects and are not finding suitable husbands and fathers," says Horne.

Consequently, the millennial generation is delaying marriage and motherhood, and birth and fertility rates are dropping. The female fertility rate is at its lowest level in recorded U.S. history, according to the Centers for Disease Control/Raymond James research. 41 percent of children are born out of wedlock. Horne's research finds single mothers prefer living closer in to cities and staying in full amenity apartment rentals. This all points to more structural, long-term demand for rental housing.

But, again, shouldn't that rebound in home prices and growing confidence in housing still push more renters to buy, despite the female argument? Investors certainly think so. While stocks of the nation's homebuilders are up over 60 percent from a year ago on the PHLX Housing Sector Index, multi-family REIT's actually under-performed and inversely correlated to home builders. Investors were concerned about the single-family home recovery stealing renters. But should they be?

No, according to a recent Raymond James report:

Renter household formation remains at the strongest level in decades. Roughly 1.32 million new renter households were formed in the past year (including owner conversions), while the number of owner-occupied households declined by 175,000. Resident turnover and move-outs to homeownership remain near historic lows for most operators. Incoming leasing traffic is more than offsetting move-outs while paying higher rates.

The home ownership rate declined yet again in the fourth quarter of 2012, according to a new report from the U.S. Census today. It now stands at 65.4 percent, down from 66 percent a year ago and from a high of 69.2 percent in 2004.

If you include the 5.3 million borrowers who are delinquent on their mortgages or in the foreclosure process, per Lender Processing Services, the real home ownership rate is even lower.

"The fact that the housing recovery is being driven principally by investor demand means that the slight decline in the homeownership rate in the fourth quarter is unlikely to be the last," notes Paul Diggle of Capital Economics.

There is also a tremendous amount of pent-up demand for the rental market, as nearly 23 million young adults, male and female, under age 35 (31 percent of the cohort) are currently classified as 'living at home' with parents, according to Raymond James' analysis. As job growth improves, they will move to rental apartments; the homeownership rate for this group is only 34 percent.

Investors are also concerned about a 49 percent jump in multi-family construction permits from a year ago, but those permits are still running well below normal levels, and every year about 150,000 units are removed from housing stock for various reasons, like age and damage.

Suffice it to say that the apartment sector and the multi-family REITs will likely see a surprise to the upside in 2013. Rents will still rise, despite housing affordability and growth in the single family market.

**Mortgages**

| | | | |
|---|---|---|---|
| **30 yr fixed** | 3.60% | | 3.26% |
| **30 yr fixed jumbo** | 4.14% | | 3.99% |
| **15 yr fixed** | 2.91% | | 2.83% |
| **15 yr fixed jumbo** | 3.45% | | 3.36% |
| **5/1 ARM** | 2.82% | | 2.59% |
| **5/1 jumbo ARM** | 2.92% | | 2.88% |

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# Value-Add Focus for Multifamily During 2013

Amy Wolff Sorter
January 28, 2013

FORT WORTH-Presenters at the 24th annual Tarrant County Commercial Real Estate Forecast on Jan. 24 offered a consistent message to the 575 participants who showed up: Fort Worth is doing fine with jobs and the economy, as is Texas. Trends and predictions did differ between sectors, however.
Drew Kile, associate director with Institutional Property Advisors, a Marcus & Millichap Co. and Cypress Equities and SRS Real Estate Partners CEO Chris Maguire discussed multifamily and retail trends, respectively. The trends shared between these two sectors included higher demand for mixed-use and urban infill assets. Another trend these sectors shared was a tightening of available units and/or space. These were the only trends these two sectors shared in common, however.
One interesting issue introduced by Kile involved actual multifamily starts. "There were more developments announced in 2012, but fewer starts due to increasing construction costs," he says. The example he cited was sobering – at the beginning of 2012, construction costs had increased approximately 5%. "As the year went on," Kile says, "we were seeing 15% increases."

This is one of the reasons why value-add has become so popular among investors coming into Fort Worth. "The interest in Bs and Cs has grown, as people see more yields there," Kile explains. Fresh from the National Multi-Housing Council that just took place in Palm Springs, CA, Kile tells the story of one of the national REITs that is taking its billions and putting into property upgrades, rather than into making new acquisitions. Nor is that one REIT an anomaly. "We kept hearing stories about how folks were targeting A-minus, B-plus properties," Kile says.

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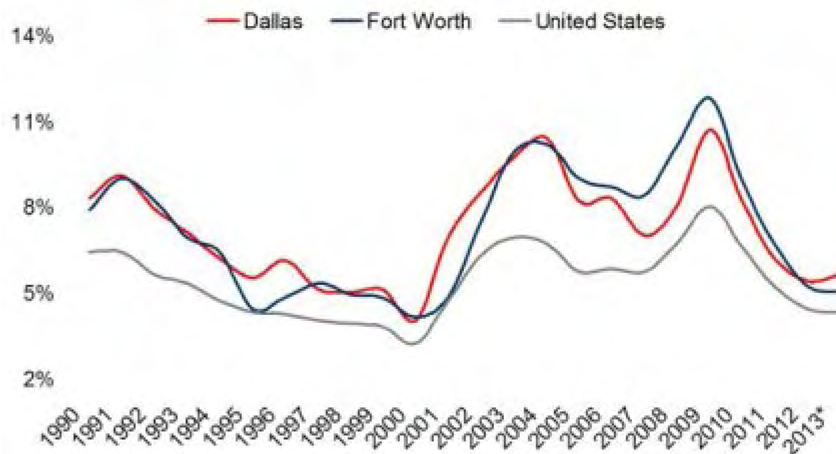
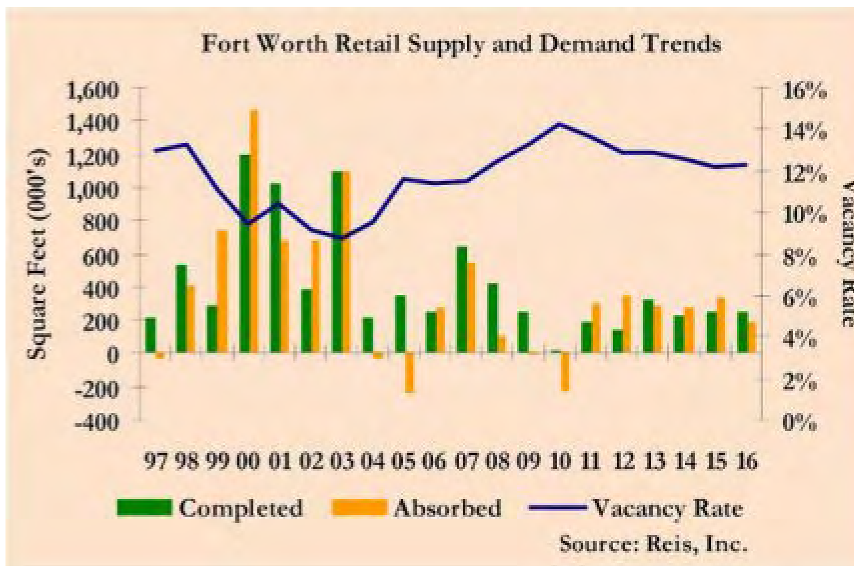
Moving on to retail, Maguire pointed out the general trend that the big boxes are definitely shifting down to smaller use space and higher customer service. Look for retailers to continue downsizing and putting more into customer service as opposed to floor space. "Retailers need to understand these days that their stores are just one stop on the path of the customer experience," he comments.




Fort Worth and US apartment vacancy trends, 2012.

Furthermore, unlike the multifamily sector, which is seeing solid construction because of agency lenders, lack of capitalization continues tight for the retail side, with properties still tied up with banks and special servicers. Nationally, approximately one-third of the retail space out there is considered obsolete, dysfunctional or poorly placed, Maguire says. Some stores are considered obsolete as well – Blockbuster will continue its downsizing activities, as will Sears, Gap, Abercrombie & Fitch, Stride Rite and Payless. Maguire explains what other experts have – some of this is due to sluggish consumer confidence, combined with growing sales on the Internet.

In addition to the continued value-add focus on the multifamily side, Kile predicts that construction costs should slow and normalize, while more equity will be invested in suburban projects. He also believes that starts in 2013 will be measured – developers aren't likely to go too crazy putting more units into play. "People want to be cautious about what's being built," he notes. "A lot of construction likely won't happen, but that's good. It could put the kibosh on overbuilding."



Fort Worth retail, absorption and vacancy trends.

Don't expect a lot of construction to happen in the retail sector, either, Maguire says, though redevelopment and infill projects will be on the rise. Furthermore, mixed-use concepts will continue to grow. Furthermore, other retailers, such as Whole Foods, H&M and Zara are eyeing Fort Worth for possible expansion. Maguire goes on to say that grocers and fashion concepts will continue to lead the charge.

*The 2013 Tarrant County Commercial Real Estate Forecast was hosted by the Greater Fort Worth Real Estate Council and took place Thursday, Jan. 24 at the Ridglea Country Club. Look for a story about the industrial and office sectors on Jan 25.*

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azcentral.com

# Agreement will limit apartments near SanTan Village mall

Parker Leavitt
Jan 28, 2013

More apartments are likely headed to the undeveloped commercial land around Gilbert's SanTan Village mall, though an agreement approved by the Town Council on Thursday will limit the amount of multifamily housing that can be built in the area.

Even as work nears completion on a large cluster of three-story apartment buildings across the street from the mall, the property owners are preparing to roll out a new proposal for apartments on 17 acres south of Ray Road and west of Santan Village Parkway, according to a town staff report.

The entire area around the mall is zoned for "regional commercial" development, which can include large-scale shopping centers, hotels, entertainment complexes and car dealerships.

Despite the commercial zoning, multifamily housing is allowed with the Planning Commission's approval of a use permit and as part of an "integrated mixed-use plan," according to the land development code.

Del Mar, Calif.-based LWI Advisory Group in 2011 received such a permit for the Redstone at San Tan Village apartment complex, which is under construction at Santan Village Parkway and Coronado Road, next to the DoubleTree hotel and conference center. That complex is projected at 382 units on a 19-acre site and is expected to open in March.

A special "planned-area development" zone around SanTan Village mall, called Crossroads, allows for up to 20percent of the area to develop as multifamily housing, as long as the developer is awarded the necessary permits.

So far, town planners note, there has been little multifamily development in the Crossroads area, although there are a few large complexes directly to the south, near Val Vista Drive and Pecos Road.

Proposals for new apartment complexes often generate controversy among residents and community activists who worry about corresponding increases in crime and traffic and a potential drop in property values.

As the housing market in Gilbert continues a strong post-recession recovery, the demand for multifamily housing appears to be on the rise as several developers have unveiled plans for new complexes in the past two years.

Perhaps in an attempt to subdue potential opposition, the landowners who hold most of the undeveloped property around the mall have committed to limiting the amount of remaining land that can be used for apartments.

The agreement, approved Thursday with a 7-0 vote, limits multifamily development to 17 acres at Ray and Coronado roads and a combined 25 acres on two large parcels directly north and west of the mall.

The agreement is void, however, if the town does not approve the landowners' request for a use permit to build the initial 17-acre complex, planners said. LeSueur Investments is listed as the principal landowner for the parcels affected by the agreement.

The Town Council on Thursday also approved the following:

Liquor license: After making a splash last week with his vow to oppose all liquor licenses, new Councilman Jared Taylor continued to do so this week, voting against an application from Walgreens near Cooper and Warner roads.

It appeared briefly that Taylor might change his position when Councilwoman Jenn Daniels made a motion to approve three items with one vote, including the license. But Taylor cut in and requested a separate vote on the liquor license, which was then approved with a 6-1 vote.

Budget report: Gilbert Budget Manager Dawn Irvine gave an overview of the town's year-to-date budget through November, which reflects a continued increase in sales-tax revenue as the local economy strengthens. Through November, the town had collected about $1.6million more in sales tax than originally projected, according to the report.

The budget report also showed over-budget spending in Police and Fire departments, but that can be explained by different spending patterns than in previous years, Irvine said.

The Police Department is not seeing the same number of vacancies that it did last year, and computer equipment was purchased all at once and early in the year, making the spending figure show up as a variance in the monthly report, Irvine said.

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# PPR Experts Predict More CRE Lending in More Markets, While Apts. Face Potential Hit from Homeownership

CoStar Staff
January 28, 2013

At the beginning of each year the real estate economists and analysts at Property & Portfolio Research (PPR), a CoStar company and the leading provider of CRE market forecasting and strategy consulting for the institutional investor community, gather to sift through reams of data and economic analysis and distill predictions on the CRE market for the coming year.

Not to brag, but the economists at PPR made some key calls ahead of 2012. Among their spot-on predictions: that the U.S. employment growth would be just over 1.5 million jobs, projecting that effective rent growth in the apartment sector would top 5%, and that vacancies would begin to rise in the D.C. office market, among others. Here are a selection of 'solid lead pipe locks' -- predictions on the CRE market for the year ahead that our PPR economists believe you can take to the bank:

**Lending Will Shift to Secondary/Tertiary Markets**

With yields compressing in almost all investment classes, the odds appear stacked in favor of more CRE lending dollars moving to second and third tier markets during 2013. CMBS non-agency lending has already begun to fan out, totaling over $20 billion outside of the top 6 U.S. markets during 2012.

During 2013, CMBS lending is expected to steadily increase. This should contribute to a more even distribution of capital across markets, as CMBS lenders are more risk tolerant and 'friendlier' towards smaller markets. But other lenders are following their lead. Even life insurers (typically the most conservative CRE lenders) have begun increasing the proportion of their loans going outside the top 6 U.S. markets, a sign of what is to come as equity investors look beyond New York and Washington D.C. in search of higher cap rates.

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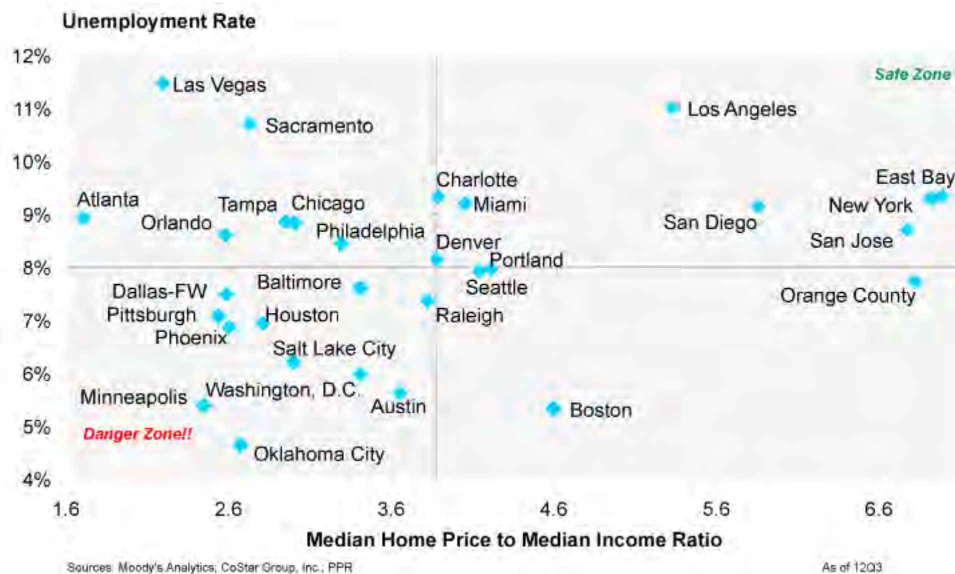
## Cheaper Home Prices Will Take A Bite Out of Apartment Demand

Distress in the U.S. housing market has played a major role in underpinning the muscular recovery of apartment markets. But while apartment rents have moved sharply up, interest rates are still at rock bottom, with prices and construction starts back on the rise in the housing sector, homeownership is beginning to look like an attractive option once again, for those who can secure a mortgage.




This will be less of an issue in markets such as New York or San Diego, where homeownership is still prohibitively expensive. However, apartment investors could see an impact in markets such as Austin, Minneapolis, or Phoenix. All of these metros have lower unemployment rates (i.e., plenty of mortgage-worthy individuals with steady employment) and extremely cheap home prices relative to incomes, two factors that may steer residents increasingly towards homeownership and away from renting.

## More Than Half of U.S. Office Submarkets Will Host Rent Growth

Office rent growth was similar to GDP growth in 2012 -- positive, but not too exciting. In fact, substantially positive office rent growth (i.e., over 3% per year) was a rare find in 2012, limited to a select group of seven major cities, including Houston and San Francisco.

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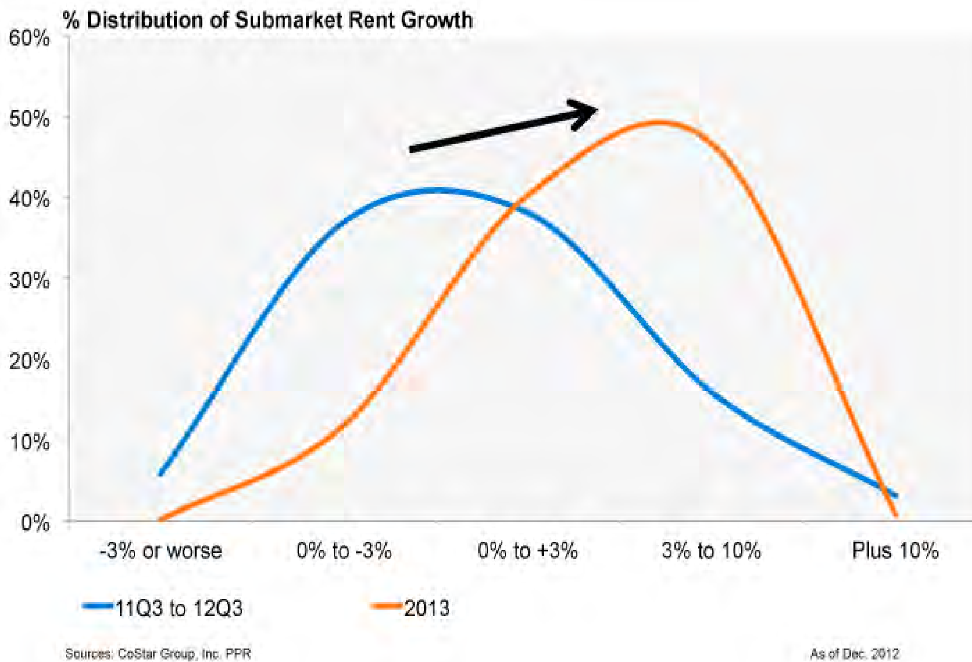
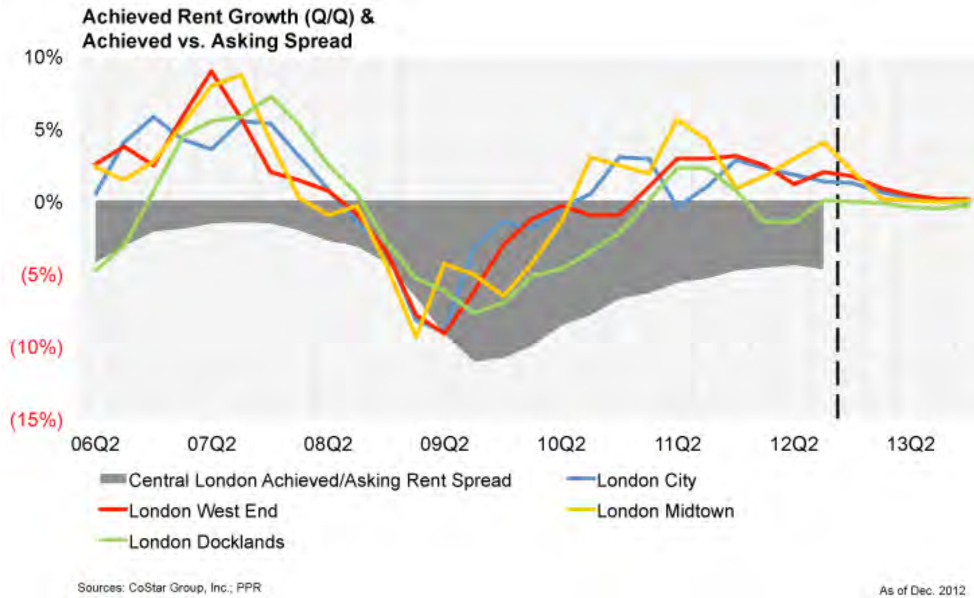



But as vacancies continue to compress, the U.S. office market has been slowly and steadily working its way towards more widespread rent growth in 2013. Not only are more than half of U.S. submarkets expected to host rent growth in 2013, PPR expects that the share of office submarkets achieving solid rent growth of 3%-10% will triple in 2013, extending to nearly half of the national RBA. This pendulum shift should make office an increasingly attractive investment option to many investors over the coming year.

## Across the Atlantic, London Office Rents Will Run Out of Steam

While office rent growth is expected to become more widespread in the U.S., the same can't be said for some major office markets across the pond. Absorption is already decelerating across the Central London submarkets as large financial tenants are sitting on their hands. With the UK's economic malaise and eurozone uncertainty expected to continue, rent growth is expected to stall out in London.




After improving for several quarters, the spread between asking vs. achieved rents also began widening in late 2012. This has typically been a leading indicator that rent growth is about to lose momentum.

# 5 Reasons Why People Rent Multifamily Apartments

John Wilhoit Jr.
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Many believe the only reason people rent multifamily apartments is because of housing affordability, meaning; people only rent because they cannot afford to be home owners. This is simply not true. There are a myriad of reasons why people rent apartments. Following are just a few of those reasons.

**Convenience**. Apartments homes can provide varying types of convenience; close to work; easy commute to the city center, proximity to parks, etc. People define convenience in many ways. Convenience can be as simple as having the ability to make only a short-term commitment (one year lease versus owning forever). Convenience can be keeping one's options open to other opportunities by being mobile.

When traveling by myself I have a preference for full service hotels. When traveling with my family I prefer extended stay hotels. Each offers a certain type of "convenience" With full service I can order in and keep working. At extended stay if the kids want popcorn with the late night movie the microwave is right there next to the frig. Each type of property offers certain conveniences depending on my needs. The same argument can apply to renting versus owning.

**Location**. What's in an address? Do you live in Laguna Niguel or Anaheim? Queens or in the City? Oakland or Palo Alto? Regardless of where we call work, many people are willing to commute to live in a place that meets their desired standard of living. Schools come in to play, crime rates, public places, sure. But in the mix is finding a place that makes them feel good about themselves, their accomplishments, where they find themselves in life and comfort.

**Lifestyle**. Your perception is your reality. And with apartment homes these perceptions create a persona that generates differentiation based on amenities, size,

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style. In luxury properties it is not uncommon to see fresh flowers in the lobby every day. Do people place fresh flowers in their home each day? Some do but most do not. Yet a lifestyle property provides this amenity as part of your rental experience. We come to expect it and note it's absence. Lifestyle.

**Price**. There can be significant differentials between the price of renting versus buying in a certain place. Yet if we were to eliminate price we would still have people that prefer to rent rather than own. Why? Some recognize the costs of ownership is a commitment beyond the purchase price. Taxes can increase. Things break. Thus, price is only one of many reasons why a family may choose to rent rather than own the roof over their head.

**Financial flexibility**. In every price range there are home owners that have a mortgage with a balance higher than the property value. And sometimes prices go down (gasp- really?). So whereas home ownership, historically, was a great inflation hedge and potentially sound financial investment most people are now firmly aware that equity is a gift and not a right (we are using the word gift very loosely).

Look at this short list without your "business brain" for just minute. Notice that three of the five reasons people rent housing rather than buy housing is non-financial. Sure, I could have skewed this to be all about the numbers (costs per square foot, rental rates per square foot, etc). Consider that individuals and family's rent for reasons other than dollars and cents and fold this thinking into your leasing/marketing plans.

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