

# CLIFFORD COMMERCIAL MARKET BRIEF

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## EXPERIENCE AND EXPERTISE PROVE CCIMS ARE INVALUABLE

By Kent Clifford, CCIM

As a member and designee of the CCIM Institute, Clifford Commercial has access to a network of over 7,000 CCIM designees in 1,000 markets worldwide on three continents, making our network the largest in the world with over \$400 billion in annual transactions. CCIM designees are the best educated and experienced commercial brokers in the world. The CCIM Institute in Chicago confers the certified commercial investment member designation through an extensive curriculum of 200 classroom hours in addition to professional experience requirements. CCIM's are recognized experts in commercial real estate brokerage, leasing, asset management, valuation and investment analysis, and form a business network encompassing 1,000 markets throughout North America, Europe, Asia and the Caribbean. There are currently 7,000 CCIM designees, with an additional 5,500 professionals pursuing the designation. We can broadcast e-mail your property to all 7,000 by clicking on the send button. At Clifford Commercial, we have two CCIM designees and all of our agents are pursuing the designation.

In addition to our network, we receive a quarterly report from the Real Estate Research Corporation (RERC) and the CCIM Institute. Each contributes to the "Investment Trends Quarterly" report. Following is a sample of the information contained in the report:

- The U. S. economy remains strong. Although the pace of growth is slowing, gross domestic product (GDP) grew at a seasonally-adjusted annual rate of 2.5% during the second quarter. The Federal Reserve forecasts GDP to increase about 3.25% to 3.5% in 2006, and about 3.0 to 3.25% in 2007.
- Nominal corporate profits grew 11.9% over last quarter and are up 28.5% in the past year, the fastest year-over-year growth in 22 years. Some reports say corporate profits now comprise 14.4% of GDP, the biggest share of national income since 1950.
- The federal budget deficit is expected to drop to \$296 billion for 2006, much better than the \$423 billion predicted earlier this year and slightly better than 2005. This is due primarily to higher-than-expected tax revenues.
- At least 40 state budgets are in the black as well, and according to estimates made by the Wall Street Journal, states and cities will collect \$50 to \$100 million in unexpected revenues, including the nearly insolvent states of California and New York, which in 2006 will see \$6.4 and \$7.5 billion in budget surpluses, respectively. Isn't it strange that the main stream media does not tell us about the good news.

- Shifting from the previous two quarters, RERC's second quarter 2006 institutional survey respondents rated commercial real estate slightly higher than stocks as an investment alternative. In the fourth quarter of 2005 and first quarter of 2006 institutional investors chose stocks over commercial real estate for investment purposes. Current respondents continue to prefer stocks and commercial real estate over cash and bonds.
- Many RERC institutional survey respondents stated that retail was one of the poorer performing sectors, and no respondents saw retail as a strong investment. Nearly all respondents said that the problems with the sector stemmed from factors including decreased consumer spending, over building and overpricing. As one of the first sectors to see strong improvement, retail is now becoming the first to slow down.
- Many of the survey respondents saw the office sector as having the best outlook within the commercial real estate market. Some of the respondents went on to say that the suburban office market was performing the best due to lowering vacancy rates and increasing rents.

### In Summary...

Although the real estate market as a whole seems to be cooling slightly, respondents still report that investors continue to be very optimistic about commercial real estate. They continue to view the market as a very positive source of investment and say that there is no alternative form of investment that is performing better.

The era in which capitalization rate compression was spurring higher returns seems to be over. While discount rates in most sectors of the market are stabilizing, increasing discount rates in the retail sector will affect values and prices, which will be more difficult to offset through increasing rents and decreasing vacancies.

The above information comes quarterly from "Investment Trends" published by RERC and the CCIM Institute. We also subscribe to RESTREPO Consulting Group's Industrial, Retail and Office reports that detail the rent and vacancy of all three property sectors, Dennis Smith's Housing Reports, CoStar's comparable sales reports, apartment rental and vacancy rates, and Integra Realty Resources, Inc. in order to serve our clients and customers with the most relevant and up-to-date information. We can help you make those important real estate decisions. ♦

## Selling or Buying Land?

### Do the Research Before Selling or Buying Land

by Don Chism, Senior Vice President—Land/Investments

Investing in land can be very rewarding financially, but it's not for everyone and it's not without risk. Generally, investing in land should be considered a long term investment and the investor should understand that the investment can experience cyclical periods. Recent newspaper articles in the Review Journal, "Las Vegas Shows Signs of Weakening" and "An Almost Silent Auction for the BLM," are in stark contrast to the mostly positive news articles we've seen for the past few years. However, land as an investment in growing areas such as the southwest in general and specifically the southern Nevada area, are almost always a good long term investment. In spite of the BLM auctions the past several years which temporarily increase our supply of developable land, there has been a dramatic overall net decrease in our supply of developable land due to our consistent growth which will almost surely continue the increase in land values over the long term – the Law of Supply & Demand.

To maximize your investment you should have your property thoroughly researched before you buy or sell: Ask yourself, what are the growth trends that will likely affect the property?

How will current local politics affect potential zone changes and other entitlements? Is this the best time to sell my "infill" parcel and invest in another growth area or income producing property? Should I do a 1031 tax deferred exchange or go ahead and pay the capital gains tax (currently 15%) to avoid the risk of the taxes being increased. What's the highest and best use? What's the real market value of my property? Is the property in a flood zone? What are the soils conditions? Is the property on a fault or fissure? What about utilities? Do the nearby power and water lines have sufficient capacity? Is the nearby sewer low enough for my property to drain into? Is the nearby water line in the right pressure zone? Are there any endangered species such as the Desert Tortoise or the Bear Poppy flower on the property? Are there abandoned underground storage tanks or is there hazardous waste on my property? Is the property in an airport noise zone? Is it in a CMA, AE, RNP area, or MUD district: if so, what is a CMA, AE, RNP area, or MUD district? Once any of these issues are identified, what is the best and cheapest way to deal with them?

If you're buying or selling land or other commercial real estate, associate yourself with an **experienced** commercial real estate agent who **specializes** in the type of investment you are considering. Your real estate agent can be just as important as your financial advisor, tax consultant or attorney. Clifford Commercial Real Estate is experienced and qualified to assist you in all of your commercial real estate needs. ♦

### Special points of interest:

- EXPERIENCE AND EXPERTISE PROVES CCIM'S INVALUABLE
- SOUND ADVICE FOR SMALL INVESTOR PLANNING TO BUILD A COMMERCIAL REAL ESTATE PORTFOLIO
- WHAT TO EXPECT FROM YOUR PROPERTY MANAGER
- SELLING OR BUYING LAND?

### Inside this issue:

- SMALL INVESTOR PLANNING TO BUILD COMMERCIAL REAL ESTATE PORTFOLIO 2
- WHAT TO EXPECT FROM YOUR PROPERTY MANAGER 3
- MIXED USE PROJECTS BEGIN TO EMBRACE SENIOR HOUSING 3
- DO THE RESEARCH BEFORE SELLING OR BUYING LAND 4

## Sound Advice for Small Investor Planning to Build a Commercial Real Estate Portfolio

By Vic Adkins, CCIM

- Stocks and Bonds
- Mutual Funds
- Precious Metals
- Certificates of Deposit

Ask the “average” investor where he or she directs investment money, and more than likely the answer will include one or more of the vehicles listed above. But what other options are available to the investor who wants to truly diversify his or her portfolio?

Commercial investment real estate may be that option. For the individual willing to take on a little work and research, commercial properties offers a wide range of alternatives, from small multi-family apartment buildings to strip shopping centers to self-storage warehouses. And, with the high tech sector slowing down from the high-flying 1990s, the long-term outlook or investment properties is strong.

There’s a tremendous range of commercial properties available for the small investor to consider. Each type of property presents its own potential for returns, management responsibilities and, of course, levels of risk. However, a property that is well-managed and properly financed can yield significant returns over the long term.

Investors making a first-time foray into investment real estate should keep the following in mind before closing on a commercial property:

- **Establish realistic objectives** – Just as one would with stocks and bonds, an investor planning to purchase a commercial property should set objectives that are defined and attainable. Since returns on leased commercial properties aren’t subject to the short-term roller coaster ups and downs of Bay or Wall Street, investors should not expect dramatic short-term returns during the ownership. Smart investors, however, determine an exit strategy for disposition of the property at a prescribed time, preferably when the property has appreciated in value and market demand is strong. Identify what type of factors may trigger the sale (retirement, the purchase of a new home, relocation, etc.), and keep in mind the following: Real estate—governed in part by the economic principle of supply and demand—is not always a liquid asset.
- **Add sweat equity** – Add to the bottom line

by investing personal time in the upkeep and management of the property. General remodeling tasks, minor interior and exterior maintenance, general accounting and other related chores often can be completed by the investor. This helps reduce overhead costs while letting the investor be more of a “hands-on” property owner.

- **Avoid highly leveraged deals** – A highly leveraged financing package is one in which a small amount of cash is used to purchase a large or expensive property investment. These types of deals can prove extremely risky because a market fluctuation can outpace income. Leave highly leveraged deals to experienced investors, which of course, we all can become in time.
- **Start out small** – Investing in real estate may require a great deal more of a time involvement than investing in stocks. That’s why first-time commercial investors are advised to purchase smaller properties, such as duplex apartment buildings or single-tenant retail properties. These properties require less initial capital and generally a reduced time management commitment but still provide the experience of ownership and prospect of financial rewards.
- **Stay close to home** – Markets across the nation vary as greatly as the landscape of the country itself. Neophyte property investors are advised to make that initial plunge into familiar waters. An investor certainly will be more familiar with the ups and downs of his or her home market rather than one across a few time zones.
- **Get professional advice** – Commercial real estate, like any long-term investment, presents great opportunity and inherent risks. A commercial specialist experience in appraisal, brokerage, management, financing and other related areas can prove invaluable to first-time investors in helping select an appropriate property, minimize risks and chart a long-term path to success. Select a real estate professional at Clifford Commercial Real Estate who has been educated in dealing with these and other issues which may surface during the anticipated length of time the property will be held. Also, find an experienced tax advisor who can help explain liabilities and strategies involving the Capital Cost Allowance.

There’s plenty of capital available in the marketplace right now, and opportunities are available in the commercial sector for investors willing to

take some risks. Like any speculative venture, investment real estate may not always perform up to short-term expectations. Over the long haul, however, a well-managed and properly financed piece of commercial property unquestionably can prove to be a solid investment. ♦

## WHAT TO EXPECT FROM YOUR PROPERTY MANAGER

By Kimmen Olsen

Location, rent and amenities probably will be the deciding factors when it comes time to lease a space to house your business. But before you sign that lease contract and begin arranging for movers, it’s prudent to learn about the person who’ll be the conduit between you and the owner, the “go-between” source for questions, complaints and comments.

That person is the property manager.

Depending on the building, the property manager may be housed in an office on the premises, or at a remote location. In any case, the role of the property manager basically is twofold: manage the owner’s investment so it generates a profit, and fulfill contractual obligations to the tenants.

Keep in mind that the property manager works for the owner, but he or she is there to serve you – the tenant, the source of income from the real estate investment. (Within smaller real estate holdings, the owner will manage the property.) A successful property manager will have the ability to interact effectively with people, or as one commercial real estate veteran put it: “Believe that he or she has to renew each tenant lease every day.”

Experience certainly is a plus, but a professional or company new to the industry may compensate any lack of experience through aggressive management or thorough attention to detail. Some managers hold a professional designation, such as the Certified Property Manager (CPM), Real Property Administrator (RPA) or Certified Shopping Center Manager (CSM). You also should ask how much experience the manager has in the type of property you plan on leasing.

With ultimate responsibility for well-being of the building and its tenant base, the manager, in most cases, does not perform the day-to-day tasks like janitorial work, but rather supervises outside contractors.

Expect the manager for an office or retail property to take on the following responsibilities:

**Lease Negotiations** - Many managers take on the role of agent in charge of hammering out a lease agreement between the tenant and the owner, as well as any renewals. As a precaution, regardless of who is representing the owner, you should enlist a qualified attorney before signing a lease.

**Rent Collection** - The collection of rent, including a daily record of how the proceeds were deposited, is a basic function of the manager. You’ll hear from the manager if the rent is late.

**Maintenance** - You won’t see many managers pushing a broom or changing light bulbs, unless there’s an emergency. However, the manager is responsible for screening, hiring and supervising the job done by outside contractors and custodians. You should address common area maintenance or upgrade work concerns with the manager, not the workers themselves.

**Security and Safety** - Depending on the type of property, security may range from insuring that door locks are working, to uniformed guards on the premises. As with outside maintenance workers, it’s the managers job to make sure the space you rent has an adequate security program in place and meets federal, state and local safe workplace regulations. ♦

LEASE NEGOTIATIONS

RENT COLLECTIONS

MAINTENANCE

SECURITY AND

SAFETY

## MIXED-USE PROJECTS BEGIN TO EMBRACE SENIOR HOUSING

By Kent Clifford, CCIM

A small group of development companies are going a step beyond bringing residential units to their mixed-use projects—opting to build senior housing units.

continuing care retirement community to the project. While most senior facilities are located in quiet residential areas, Kane Realty is counting on seniors being willing to live in a more active environment. So far it seems they have hit on a niche that has an unfilled demand. John Kane recently stated that they have received over 100 reservations and have not broken ground yet.

In addition, Lorig Associates and Stellar Holding are developing Thornton Place, a mixed-use project in Seattle, Washington which will include a 127-unit retirement living community. The project is adjacent to the Northgate Mall which is owned by Simon Properties Group.

In the meantime, Sunrise Senior Living purchased land to build a 253,000 square foot senior living condominium project from Woodlands Development Company. The Woodland Development Company is building Woodlands Town Center, in the Seattle area, and is scheduled to open in 2009. ♦

HIGH HOUSING  
DEMAND FROM  
SENIORS WILLING  
TO LIVE IN ACTIVE  
ENVIRONMENTS

Kane Realty Corporation, in Raleigh, North Carolina, built a 90-acre “North Hills” mixed-use project including apartments, retail center, office complex and a small hotel. Now they are adding a 300-unit

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