RCA Report
REALTORS® Commercial Alliance
REALTORS® Commercial Alliance
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IN THIS ISSUE

The dollar's decline hasn't yet produced the buyer boom some have anticipated, but the opportunities are there for foreign investors and U.S. service providers.

The declining dollar: Warning or opportunity?

If you've been on vacation in Europe, or even Canada, lately, there's probably no doubt in your mind that the dollar's ongoing slump is bad news. The financial press has been filled with a debate over the pros and cons of the weaker dollar for the economy, but what does the dollar's decline mean for commercial real estate? A mixed bag, say many industry experts.

Cheap dollars should make U.S. commercial real estate more appealing to foreign buyers with stronger currencies. A weaker greenback also makes U.S. exports—including commercial real estate development, brokerage, and management services as well as manufactured goods—more attractive in the global market. According to the U.S. Bureau of Economic Analysis, exports grew by 18.9 percent in third-quarter 2007 while imports grew only 4.4 percent, so a lower trade deficit may already be taking hold.

On the reverse side, the weaker dollar may gradually push up interest rates, making an already tough lending climate even tougher. (No one we talked to expected anything like the doomsday rate increases predicted by some if the Chinese switch reserves to the euro.)

Not sure where you stand on the falling greenback? Read on.

How we got here

The dollar's slide is hardly new; it's been slowly losing ground against most other currencies since 2003. The biggest culprit, all experts agree, is the huge U.S. trade deficit. This was hovering at 6.5 percent of gross domestic product in 2006, before improving world economies triggered a partial reversal in 2007.

Another contributor was the failure of other central banks to follow suit when the Federal Reserve began to cut rates last fall, says Adolfo Laurenti, senior economist at Mesirow Financial. "This disparity narrowed the differential in interest rates and made the dollar less attractive," he says. Continued Fed cuts could exacerbate the situation, he believes.

Compounding the slide in recent months is everyone's favorite whipping boy, residential subprime credit problems.

"The subprime crisis has caused a lack of confidence in the U.S. It used to be seen as a safe haven," says John Wickes, senior vice president of research for Jones Lang

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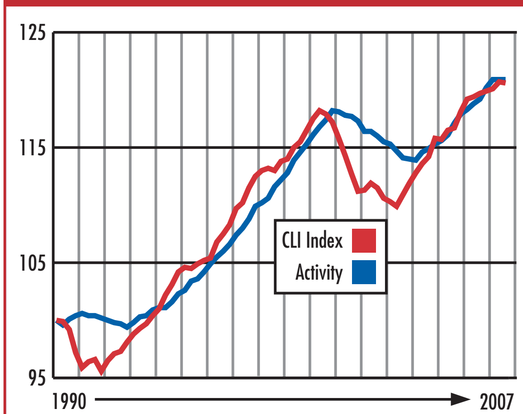
COMMERCIAL LEADING INDICATOR



The CLI, in red, is a leading indicator. The Activity line, in blue, represents actual commercial activity. Decreases in the CLI Index imply upcoming decreases in commercial net absorption and commercial construction.

CLI takes first dip

The value of NAR's Commercial Leading Indicator decreased 0.1 percent in the third quarter of 2007, its first decline after ninth consecutive quarterly increases. Even with the drop, CLI is 0.7 percent higher than in the same period last year. The decline in the NAREIT Price Index and a weaker rate of return on investment as measured by NCREIF were the major factors pulling down CLI.

The 0.1 percent decline implies that commercial activity, as measured by net absorption and the completion of new commercial buildings, will likely contract moderately or stay even over the next six to nine months. The trend is consistent with anticipated slower overall U.S. economic expansion in upcoming quarters. Commercial practitioners should anticipate no measurable change in office or industrial absorption in first quarter 2008, however.

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CHAIRReport

Patricia Nooney,
CCIM, CPM®, SIOR
2008 RCA Chair

Ms. Nooney is a managing director with the St. Louis office of CB Richard Ellis, where she is responsible for global outsourcing activities. She was 2003 president of the Institute of Real Estate Management.

New plans, new faces

As 2008 gets underway, commercial real estate practitioners are facing a changing horizon. It is at times like these that I believe the benefits and services offered by the REALTORS® Commercial Alliance demonstrate their true value. Two recent examples of what NAR and RCA offer their commercial members: NAR's lobbying power has helped protect real estate's fair share in tenant-in-common transactions by working with the federal Securities and Exchange Commission to get a review of compensation rules. NAR's Research Department's innovative Commercial Leading Indicator has provided a critical tool for predicting future commercial market trends.

As the 2008 Chair of the RCA, I am pleased to say that these achievements are only the beginning. During the next year, RCA plans to roll out a new productivity suite of tools that will consolidate and enhance the research and educational resources available to members. Current initiatives, such as the online educational offerings through CommercialSource.com and special podcasts on timely issues, will be expanded. A major long-term initiative, the Commercial Information Exchange, will reach fruition.

I am also pleased to report that RCA is again fully staffed and ready to make these goals realities. Jan Hope, a veteran of several NAR commercial groups including most recently the REALTORS® Land Institute, has assumed the role of vice president of the Commercial Real Estate Division. Jan has been with NAR since 1982 and was one of the brand-new Commercial Division's first hires in 1990. Jan's ability to make things happen was amply demonstrated at RLI, where she almost doubled membership and increased annual revenues by 47 percent on average since 2003. She has also worked in the auction, appraisal, and resort and second-home areas, giving her a broad-based understanding of member issues.

Joining Jan at RCA are other well-known NAR faces. International's Jeff Hornberger will direct RCA's membership development group, and Chere LaRose-Senne, who served as the legislative liaison for the CCIM Institute before joining NAR's Business Specialties group, will head up RCA's member services area. Since RCA's former vice president, James Marrelli, remains with NAR as vice president of strategic investments with NAR's technology company, Second Century Ventures, he will be on hand to provide the historic perspective needed for a smooth transition. RCA is fortunate to have these experienced leaders as it expands and enhances the services it provides commercial members.

With so many valuable tools and programs in the pipeline, this is the perfect time for commercial practitioners to take another look at RCA. You will see an association dedicated to representing commercial interests in Washington and discovering and sharing new ideas on market trends and business practices. I like what I see, and I think you will, too.

Patricia A. Nooney

CCIM Institute (CCIM)
312/321-4460;
www.ccim.com

Society of Industrial and Office REALTORS® (SIOR)
202/449-8200;
www.sior.com

REALTORS® Land Institute (ALC) 312/329-8440;
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Counselors of Real Estate (CRE)
312/329-8427; *www.cre.org*

Institute of Real Estate Management (CPM)
312/329-6000;
www.irem.org

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To contact NAR Commercial Real Estate staff: 888/648-8321. To find an online version of this newsletter go to *REALTOR.org/RCA*. For a complete listing of NAR legislative and regulatory initiatives, go to *REALTOR.org*.

NAR President
Richard F. Gaylord, CRS®, CRB, CIPS

NAR Commercial Liaison
Cindy Chandler, CCIM, CRE
The Chandler Group

RCA Committee Chair
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Who's Who at RCA

Have a question or comment? Here's who to call at the REALTORS® Commercial Alliance.

Jan Hope
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312/329-5971

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Communications Manager
312/329-8464

Emily Line
Business Development Manager
312/329-8212

Jean Maday
Marketing Manager
312/329-8812

Rebecca A. Vesconte
Member Development Manager
312/329-8611

Accreditation will enhance services

During the recent NAR meetings in Las Vegas, the RCA Committee approved an ambitious initiative that will both recognize the achievements of existing commercial groups and provide them with additional tools to enhance member services. This new RCA Commercial Structure Accreditation program is a free, voluntary plan under which existing commercial structures and overlay boards that meet basic criteria in governance, staffing, and programming can apply for RCA accreditation. Once accredited, commercial groups will receive additional value-added tools.

Commercial members who do not currently have a commercial group in their area will also benefit from the new program. As the RCA accreditation team meets with existing boards, it will compile a list of board best practices. These findings will provide guidance for residential boards that want to offer commercial programs but do not yet have the resources to launch a full commercial program within their association.

By developing standards that lead to RCA Accreditation, the Commercial Division achieves three goals. It helps ensure that current members receive the high level of service they want and deserve. It helps existing boards expand and develop their member services. It provides start-up commercial groups with a way to strengthen and grow their organizations. By recognizing the achievements of its commercial groups, RCA is both honoring the hard work of the past and laying a foundation for still-stronger future. The program is scheduled to launch in late Jan. 2008. To learn more or to arrange an onsite consultation for accreditation, contact the RCA staff at *rca@REALTORS.org*.

It's not too late for CommercialSource

The second Annual CommercialSource online convention and tradeshow was a huge success. During the three live days of the show (Dec. 4 through 6), nearly 4,000 attendees downloaded presentations from such top commercial names as Sam Zell and Dr. Peter Linneman. Commercial real estate practitioners also browsed through the 39 exhibits, making more than 50,000 visits to companies such as Google, CoStar, LoopNet, and SIMA. The virtual lounge was equally busy as attendees made connections.

Sounds great, doesn't it? Well, it was—and it still is. If you act before March 6, you can still access all the great programs and products at this year's CommercialSource. All you have to do is complete a free registration form at *www.commercialsource.com*, and you'll receive a password that lets you log on to all the resources for networking and information RCA has created for you. If you've already registered, there's still time to go back for a second look. If you have any questions, contact us at *commercialsource@REALTORS.org*.

AFFILIATE SPOTLIGHT

Invaluable advice to shape a better future

Glen Rose, Texas, nicknamed the "Gateway to Hill Country," had all the pieces in place to make it a great place to live and work: a strong economic base, solid demographics, a rich history, excellent schools and services, and motivated civic leaders. What it didn't have was a professional and objective roadmap to manage its future development. Now, with the help of The Counselors of Real Estate (CRE) Consulting Corps, the town's leadership is prepared to embrace the prospect of growth.

Five CREs, all of whom volunteered their services on behalf of the Corps, took on the assignment of helping Glen Rose prepare for its future. Before arriving for the five-day site visit, the panel members reviewed extensive research about Glen Rose's growth patterns and related information. While on site, the panel interviewed more than 40 individuals, including elected officials and government employees, local merchants, prominent citizens, and community activists.

"We looked under every rock in formulating our analysis, and we achieved a complete understanding of how the overall community operates," said panel chair Robert McKenzie-Smith, CRE, of Robert H. McKenzie-Smith & Associates, Fort Worth.

As a result of the recommendations proposed by the CRE Consulting Corps, Glen Rose has already formed a Strategic Steering Team to begin its comprehensive master plan and begun the selection process to hire a city manager.

"Since completing the assignment, I have been in continuous contact with the community leaders who are seeking to implement our recommendations, and I have a high degree of confidence that the community will materially benefit from our efforts," said McKenzie-Smith.

The Counselors of Real Estate Consulting Corps provides real estate analysis and action plans for nonprofits and government institutions that need strategic real estate advice. The Corps has conducted engagements for both small and large organizations, from Mississippi's Tougaloo College to the federal government's General Services Administration. Members of The Counselors of Real Estate share their expertise on a pro bono basis. Clients pay for the panel's travel and related expenses, plus an administration fee.

Would your community or one of its agencies or nonprofit institutions benefit from the services of the CRE Consulting Corps? To learn more, go to *www.cre.org*, or contact The Counselors by e-mail at *info@cre.org* or by phone at 312/329-8427.

NAR Commercial Affiliates **CCIM Institute (CCIM),** 312/321-4460; *www.ccim.com;* **Counselors of Real Estate (CRE®),** 312/329-8427; *www.cre.org;* **Institute of Real Estate Management (ARM®, CPM®, ACM),** 312/329-6000; *www.irem.org;* **REALTORS® Land Institute (ALC),** 312/329-8440; *www.rliland.com;* **Society of Industrial and Office REALTORS® (SIOR),** 202/449-8200; *www.sior.com*

LEGISLATIVE Update

INSURANCE

Terrorism backstop extended seven years

Just days before it was set to expire, President Bush signed a bill reauthorizing a federal backstop program that helps ensure that terrorism insurance will be available and affordable for commercial real estate owners. The Terrorism Risk Insurance Revision Extension Act of 2007 (H.R. 2761), which extends the federal backstop program for seven years, covers both foreign and domestic acts of terrorism. It retains the $100 million trigger point for losses before federal assistance is available. The law also calls for the formation of a presidential blue-ribbon commission to make recommendations on a long-term private market solution to affordable terrorism insurance. The law did not include backstop coverage for nuclear, biological, chemical, or radiological attacks.

NAR believes that any private market solution should allow all businesses to purchase coverage for the most catastrophic terrorist risks, should provide adequate insurance for all major commercial property types, and should provide meaningful insurance for all type of terrorism risks.

The extension is a major victory for commercial real estate owners because it helps ensure that they will be able to obtain affordable insurance against both foreign and domestic terrorist attacks.

COMMUNICATIONS

FCC bans exclusive building cable contracts

A recent ruling by the Federal Communications Commission prohibited the common practice of exclusive contracts between a video/cable provider and the owner of a multiunit community (including apartments, condominiums, and homeowners' associations). As a result of the ruling, owners and managers will no longer be able to limit the access of cable providers to their properties nor negotiate more favorable telecommunication agreements on behalf of their tenants.

Consumer advocates supported the new ruling as a way to lower rising cable rates. However, NAR, the Institute of Real Estate Management, and other members of Real Access Alliance have long opposed the change because it will allow cable providers unregulated access to private property. In addition, says NAR, the high costs of installing wiring favors large providers and may eventually force smaller companies out of business, actually reducing competition. The National Multi Housing Council and the National Apartment Association sued the FCC over the issue.

The Commission also adopted a Further Notice of Proposed Rulemaking that seeks comments on whether or not it should regulate exclusive marketing agreements or bulk billing agreements in apartments. NAR, IREM, and other members of the Real Access Alliance will provide commentary to the FCC supporting the continuation of exclusive marketing agreements.

ENVIRONMENT

Commercial buildings face energy reduction goals

The Energy Independence and Security Act of 2007, which became law on December 19, 2007, includes an ambitious federal initiatives program to encourage commercial building owners to significantly reduce their overall energy consumption in the next decades.

The law creates a position of director of commercial high-performance green buildings in the Department of Energy and charges that individual with establishing the "Zero-Net-Energy Commercial Building Initiative." The goal of the initiative is to develop and disseminate technologies, practices, and policies for the development and establishment of zero-net-energy commercial buildings. Specifically the zero-net-energy goal would apply to:

- Any commercial building newly constructed in the U.S. by 2030
- 50 percent of the commercial building stock of the U.S. by 2040
- All commercial buildings in the U.S. by 2050.

The law does not contain any tax incentives for commercial building owners and managers trying to achieve these goals. However, at this point, the goals are voluntary.

LEGAL

Prohibition on fees to out-of-state licensees unconstitutional

Commercial real estate professionals scored a victory in Kentucky when a U.S. District Court struck down a state regulation that prohibited Kentucky real estate licensees from working with ("aid, abet, or otherwise assist") brokers from other states on a sale or lease transaction and prohibited in-state licensees from paying a portion of their commission to those out-of-state brokers. Kentucky licensees may pay referral fees to out-of-state real estate professionals, however.

In the case, a Kentucky brokerage and a group of investors represented by a national brokerage company sued the Kentucky Real Estate Commission, charging that the prohibition on paying fees to out-of-state licensees was unconstitutional. The court found that the prohibition violated the Commerce Clause of the U.S. Constitution. This provision gives Congress, not the states, the power to regulate interstate commerce and limits the rights of states to enact laws that interfere with such commerce. Because the no-fee provision limited access to the Kentucky market by preventing state licensees from consulting with out-of-state brokers, the regulation effectively isolated the state from interstate commerce, said the court. The court discounted the Commission's claim that the rule was designed to prevent the entry of unscrupulous or incompetent brokers into the state since other requirements, such as cooperating with a Kentucky licensee, would have achieved that goal. The court's ruling reinforced the growing number of states adopting commercial license portability laws. To read the complete case, go to *www.REALTOR.org/letterlw.nsf/pages/0907/riveroaks*. To see a map of states that permit some form of license portability for commercial practitioners, go to *www.REALTOR.org/rca* and click on *License Portability*.

Section 8 vouchers part of lease

The New York Supreme Court has found that by accepting Section 8 rent vouchers from a tenant, a landlord had effectively made the acceptance a part of the lease terms. Therefore, under state law, the landlord must continue to accept the vouchers when the lease is renewed. In the case, a tenant lived in a rent-stabilized building for 30 years and, for most of that period, received Section 8 housing benefits from the New York City Housing Authority. When the landlord told the tenant that it would no longer accept vouchers, the tenant sued, arguing that under the provisions of New York's Rent Stabilization Code, the landlord cannot opt out of the Section 8 program. The rent stabilization code imposes certain limits upon a landlord's ability to alter the terms of the lease upon renewal. The landlord argued that the tenant had not received Section 8 assistance at the beginning of her lease so it had no obligation to continue the practice. The landlord also argued that federal law allows landlords to discontinue accepting Section 8 vouchers and preempts the state's rent law.

The New York high court upheld the findings of a lower court that because the Section 8 vouchers had been accepted during the lease term preceding the renewal, they must be continued. In addition, said the court, nothing in the federal laws indicates that these rules were intended to supersede tenant protections enacted by states. To read the complete case, go to *www.REALTOR.org/letterlw.nsf/pages/0807rosario*.

17.8%

Drop in the NAREIT All REIT Index for 2007

Source: National Association of Real Estate Investment Trusts.

SCORECARD

TIC EXEMPTION

Provides criteria that will permit commercial real estate professionals to receive compensation for their work in helping their buyer clients select and purchase a tenant-in-common interest in a commercial property, a type of investment often used in executing 1031 exchanges.

Last action: After lengthy negotiation, the Securities and Exchange Commission published and requested comment on the exemption proposed by NAR. The proposal would allow qualified commercial real estate practitioners who do not hold securities broker/dealer licenses to receive a real estate advisory fee from the brokerage of TIC interests if they meet certain experience and disclosure requirements.

Status: The SEC issued a ruling favorable to commercial real estate. The SEC has asked for comments and should issue a final rule this spring.

CARRIED INTEREST TAXATION

Would tax carried interest realized by general partners in real estate developments as ordinary income instead of capital gains.

Last action: The House passed the Temporary Tax Relief Act of 2007 (H.R. 3996) in early November. The bill treats carried interest as ordinary income, thereby increasing tax rates from the 15 percent on capital gains to as high as 35 percent. The bill would extend Alternative Minimum Tax relief and eliminate taxation of forgiven mortgage amounts for homeowners.

Status: The carried interest provision was added as a "pay for" provision so that the AMT level could be raised. Because the Senate was unable to muster enough votes to pass a more comprehensive AMT reform bill that included the carried interest provision, a quick-fix AMT patch, which did not require a revenue offset, was passed instead.

1031 EXCHANGES

Would disqualify like-kind exchanges of "improved real estate" with "unimproved agricultural land."

Last action: In order to "pay for" several incentives that would preserve wildlife habitats, which are supported by NAR, a Senate farm bill (H.R. 2419) would not allow the owner of an improved investment property to use a tax-deferred exchange to acquire unimproved farm land. Similarly, owners of unimproved farm land could not exchange it for improved investment property. Unimproved agricultural real property is defined as land owned by a person engaged in a farming business who receives specified commodity payments associated with the land.

Status: NAR has sent a letter to the full Senate noting that this proposal has the effect of depriving many farmers of any opportunity to use the exchange technique to reconfigure holdings.

Innocence is not enough

Avoiding environmental liability for brownfields in a post-AAI world

By Dianne Crocker

For years, potential buyers of contaminated land or commercial property could protect themselves from liability under the Comprehensive Environmental Response, Compensation, and Liability Act by performing "all appropriate inquiries" (AAI) prior to purchase and meeting other postpurchase requirements. These provisions encouraged brownfield redevelopment by providing a safe harbor for buyers who could prove that the contamination occurred prior to their purchase of the property. Even better, a Phase I environmental site assessment conducted in accordance with guidelines set forth by ASTM, an international standards-setting organization, satisfied the AAI requirement and qualified a purchaser for protection from liability under an innocent landowner defense.

More recently, however, an EPA rule has changed all. The good news is that the rule adds greater specificity to the requirements for AAI. The bad news is that the rule increases the amount of environmental investigation purchasers must conduct and significantly expands the requirement that gaps in data be documented.

Prepurchase due diligence

Under the AAI rule, there are ten actions that must be performed before purchase. Steps one through five are the responsibility of the environmental professional; steps six through eight are the responsibility of the purchaser; steps nine and ten are shared.

1. Make an inquiry into the property.
2. Conduct a visual inspection.
3. Interview current property owners and operators.
4. Review historical sources for the entire time the property had structures on it and account for missing data.
5. Review federal, state, and local government records.
6. Search for environmental cleanup liens.
7. Consider any specialized knowledge the purchaser has about the property. For example, if a purchaser is buying property he has leased for years and knows what went on there, including anything that may have lead to contamination, this factor must be taken into account when assessing the property.
8. Consider the relationship of the purchase price of the property to the fair market value of the property if not contaminated.
9. Consider "commonly known" information about the property, such as prior uses.
10. Consider the "degree of obviousness of contamination" at the site.

It's also noteworthy that for the first time, the new amendment establishes specific requirements for experience, education, and certification for environmental consultants who perform Phase I audits. (See box for experience and education requirements.)

Following the investigation, the environmental professional must prepare a written report that includes an opinion as to whether conditions indicate a hazardous substance release existed.

Postpurchase due diligence

While investigation prior to purchase has always been necessary to limit CERCLA liability, the new rule goes much farther by placing "continuing obligations" on a buyer over the course of property ownership. Obligations, which begin when the owner takes title, include:

- complying with land-use restrictions

Requirements for environmental consultants

Education	Experience
Professional engineer or geologist license/registration	3 years
Federal or state license/certification to perform environmental inquiries	3 years
BA/BS degree or higher in any science or engineering degree	5 years
No BA/BS degree	10 years

- not impeding the effectiveness or integrity of institutional controls such as zoning restrictions and excavation permits that provide information or limit land use of contaminated property
- taking reasonable steps to prevent releases of hazardous substances affecting the property
- cooperating with and assisting federal or state regulatory officials or other persons who are conducting response actions or natural resource restoration at the property
- complying with CERCLA information requests and administrative subpoenas
- providing legally required notices.

EPA has made it quite clear that property owners who fail to meet continuing obligations could forfeit liability protection.

Pay to play

With the recent House extension of the tax deductions for brownfields cleanup through 2008, properties with potential contamination often make attractive investments. However, knowing what you're getting into when you buy is more critical than ever. A Phase I can be costly, averaging $2,700 at our company, but with the increased chance of incurring liability under CERCLA, the cost of finding out the true environmental condition of a property before you buy remains a bargain.

*Dianne Crocker is senior economist and managing director of the Market Research Group at Environmental Data Resources (*www.edrnet.com*). She is a member of the Air & Waste Management Association and the ASTM E 50.02.06 Phase I Task Group and represented EDR as a resource participant on EPA's "All Appropriate Inquiries" Negotiated Rulemaking Committee. She can be reached at* dcrocker@edrnet.com.

T&I BRIEFING PREVIEW

Beginning with the Winter 2008 issue, the Technology & Intelligence Briefing will be coming to you exclusively online at *www.REALTOR.org/TIBriefings*. Posting the interviews online lets you listen at your computer or download each interview as an MP3 file. Winter '08 interviews will be available to you at any time after Feb. 5. Here are some highlights from this quarter.

DR. LAWRENCE YUN is NAR's chief economist and is responsible for developing NAR's real estate market trends forecasts. He also created NAR's Commercial Leading Indicator index.

Tidbit: Pressures from subprime may push the GDP into negative territory for one quarter but won't be enough to push the U.S. economy into a recession.

JAMES FETGATTER is CEO of the Association of Foreign Investors in Real Estate, a nonprofit association of major real estate investors from 20 countries. AFIRE assists its members in becoming more knowledgeable about U.S. domestic real estate markets.

Tidbit: New York City, followed by Washington, D.C., is the most favored city for investment among foreign buyers. The most favored property type—surprisingly—is retail, which moved from last to first place in one year.

JIM GILLESPIE, Ph.D., is one of the country's premier commercial real estate coaches. With 25 years in commercial real estate, he has been manager and president of several commercial real estate groups, including the A.I.R Commercial Real Estate Association.

His work has appeared in numerous publications, including *The New York Times*, the *Los Angeles Times, Money*, the *SIOR Professional Report*, and *Commercial Investment* magazine. Since 1998, he has focused on coaching agents. More than 20,000 read his e-newsletter, which features tips and ideas for maximizing income.

Tidbit: Commercial brokers should mail at least twice a month to past clients and prospective clients, and continue to mail regularly for a year.

Declining dollar

Continued from page 1

LaSalle. The fact that quite a few European banks are taking major write-downs on failing mortgage-backed securities is helping to keep this perception alive abroad, he adds.

Economic ramifications

While the dollar's decline is more of a symptom of economic slowdown than a cause, says Wickes, a slower economy may not be such a bad thing—if it keeps prices in check. But slower growth also translates into sluggish space demand—especially for office. Businesses had already curtailed hiring in 2007 and remain reluctant to increase spending. With corporate profits taking their first dip in more than a year in third quarter 2007 (a decline of $22.1 billion, according to the Bureau of Economic Analysis), don't expect those coffers to open any time soon.

But if there's almost universal consensus that 2008 and 2009 will be years of slow growth in the U.S. at best, the fear that a large-scale Chinese sell off of U.S. bonds will plunge the country into a severe recession is a chimera, says Dr. Dwight Jaffee, Haas School of Business, University of California, Berkeley. While the Chinese may continue to increase the value of their currency and shift some of their dollar-denominated investments into other currencies, the shift will be gradual, he says. "International trade is a cooperative venture. The Chinese need to keep their currency low in order to continue to sell their manufactured goods. They can't afford to let the Chinese yuan jump against the dollar."

Instead, Jaffee expects several more years of the measured 5 percent annual increases he's seen in recent times. The oil-producing states will most likely follow the same incremental approach to investment shifts, he adds.

Property plays

While the dollar's decline would seem to make U.S. commercial real estate prices more attractive to foreign buyers, experienced real estate investors haven't been overly eager to buy, says Steve Collins, managing director of international capital markets, Jones Lang LaSalle. "In recent weeks, we've spoken to a lot of offshore investors interested in U.S. properties, and while they are still active, no one is rushing to get into the market yet." In part, this reluctance stems from a misperception about commercial property pricing, he says. In fact, he notes that while U.S. office prices may be low compared to many of those in Europe, sound fundamentals should keep prices from dropping significantly. Midwest manufactur-

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Declining dollar

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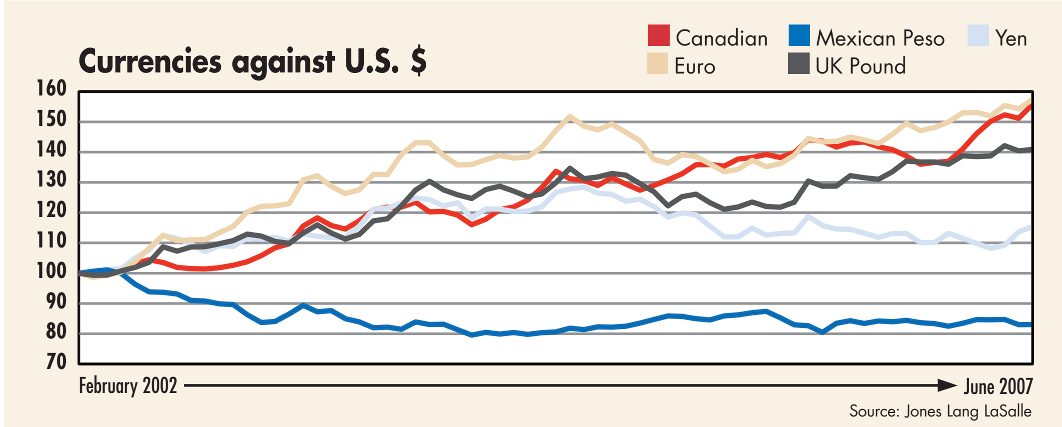
ing centers may also benefit if exports continue to strengthen, notes Laurenti.

"The floodgates [of foreign investors] haven't opened yet," although new asset allocations at the first of the year and more comfort that the subprime shake up has run its course will probably generate more transactions next year, says Robert White, president of Real Capital Analytics. White notes that U.S. real estate firms also face an education challenge since some foreign investors are confusing residential real estate's ills with commercial performance.

"We've spoken with a few new investors looking for properties in core cities like New York City with a 25 percent internal rate of return. Commercial prices may be going sideways, but those types of returns are not going to be available," says Collins.

Deals have also slowed stateside because highly leveraged buyers are being forced to the sidelines. "It's the bigger deals that need lending syndications that are not getting done," Collins says.

Some bank lenders won't even quote on deals these days, agrees Cynthia Shelton, CCIM, CRE, of Colliers Arnold, Orlando. And when they do, it's at 350 basis points over prime, with 30 percent down, she says. Like Collins, she's finding that prices have fallen somewhat in recent months on the shopping centers and office buildings she brokers, but "I don't see many international buyers yet."



Overseas investors also may not realize that they can reap a bigger profit when they buy in today's depleted dollars and then sell when the dollar readjusts to its mean equilibrium in five to ten years, as it inevitably will, suggests Serguei Chervachidze, capital market economist with Torto Wheaton Research, a subsidiary of CB Richard Ellis. (For a complete discussion of this principle, read Chervachidze's paper on the dollar at *www.twr.com*.)

Interestingly enough, despite a weaker currency, White says that more of his U.S. institutional investor clients are allocating money to foreign real estate purchases, for both diversification and return. Latin America, specifically Brazil and Buenos Aires, is generating a lot of investor interest, notes Collins.

Job expansions

If a weak dollar makes U.S. properties prices more attractive, it does the same for the highly skilled U.S. commercial real estate professional, says Jaffee. "One of the real stories is the incredible increase in the role of U.S. commercial real estate companies and REITs in the global market," he says.

Whether it's building office buildings in Shanghai, developing warehouses in Barcelona, or leasing space in Paris, you'll see U.S. companies, including some new entries such as Broadway Partners and Beacon Properties, moving "to take a position in the forefront of the real estate market," agrees White.

What's next?

But whether you see the dollar's slide as an opportunity or a hurdle, get used to the new weakness. "The dollar isn't going to recover any time soon," says Wickes. Indeed, things may get worse before they get better, as currency markets have a tendency to overshoot, notes Laurenti. Only when the trade deficit returns to the 2 to 3 percent of GDP range—which may require another 10 percent drop in the dollar—will the dollar improve significantly, Laurenti says.

But "eventually, the dollar will return to equilibrium and the trade deficit will stabilize to a lower rate, but we could be talking five to ten years, or even longer," says Jaffee.

In the meantime, think about a vacation in Florida.

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