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Real estate outlook 2010

Predicting the future is tricky. At best it's two parts knowledge and one part luck. Yet, only by looking farther ahead than next quarter's earnings can commercial real estate companies plan strategically and ensure success. *RCA Report* looks at some new—and a few old—ideas that may shape markets and companies into the next decade.

Market 2010

If there's one prediction everyone wants, it's what markets will be doing in the future. The good news is that relatively stable cap rates and strong capital flows should keep prices up, at least for the next couple of years, according to Dr. Peter Linneman, Albert Sussman Professor of Real Estate at the University of Pennsylvania's Wharton School. "For the first time in a long time, real estate is priced right relative to interest rates," says Linneman. So whatever interest rates do, cap rates shouldn't be more than 100 to 150 basis points higher than the prevailing interest rates, he says.

By 2010, however, the picture could be a little shakier. "I worry about the development pipeline and a major hiccup in supply in three or

FACTS FOR THE FUTURE

- **162.1 million:** U.S. civilian labor force by 2014
- **164.5 million:** Total U.S. employment by 2014
- **98 million:** Barrels of oil used worldwide per day, up 22% from 2003
- **80%:** Web access that will occur through Web-enabled phones by 2010

Sources: U.S. Census Bureau, Bureau of Labor Statistics, Energy Information Administration, The Futurist.

four years," says Linneman.

Interviewees in a special "Outlook through 2010" section of *2006 Emerging Trends in Real Estate* (published by the Urban Land Institute and PriceWaterhouseCoopers) see the most trouble ahead for Big Boxes, which may find themselves losing the battle to lifestyle centers or mixed use within urban town center unless they start reinventing their concepts.

Another longer term opportunity might be the resurrection of manufacturing in such space-heavy markets as Detroit. Skilled assembly labor might be able to compete for jobs if the real estate is "significantly repriced," says Don Guarino, vice president and chief appraiser for the Aegon USA Realty Group. R&D, on the other hand, is probably headed overseas, where clean space can be constructed for much less, he adds.

Oversupply might well coincide

with an economic slowdown to produce negative office absorption in three to four years, predicts Robert Bach, senior vice president for research and client services at Grubb & Ellis Company. While Bach is "enough of an optimist" to believe that there's only a 40 percent likelihood of a recession by 2010, he says that real estate returns "will revert to what they've always been, 2/3 income and 1/3 appreciation."

Capital will also become more global, predicts Steve Blank, ULI senior research fellow for real estate finance and one of the authors of *Emerging Trends*. "Over the next five years, companies will deploy capital without borders and become indifferent to whether the right strategic investment opportunity is in Hunan, China, or San Paolo, Brazil," he says.

Demographics and changing technologies will also contribute to

See **Real estate** on back page

DATAPoints

\$2 trillion

Estimated value of brownfield sites in the United States.

6-8%

returns from commercial property for the remainder of 2006.

\$682.7 billion

Outstanding volume of CMBS market at the end of 2005.

40%

of commercial property made up of small-scale, scattered development in 13 major metros.

Credits: Brownfields Capital; Patrick Halter, Principal Financial Group, speaking at the spring GRE conference; Survey by the National Association of Real Estate Investment Trusts and the Commercial Mortgage Securities Association; "Beyond Edgeless Cities: Office Geography in the New Metropolis," Robert E. Lang, Thomas Sanchez, and Jennifer Lefurgy.



James Marrelli
NAR Vice President
Commercial Real Estate

Beyond service to thought leadership

At the REALTORS® Commercial Alliance, we are committed to exceeding our members' expectations. Thanks to the new *2006 NATIONAL ASSOCIATION OF REALTORS® Commercial Member Profile*, we've been able to drill down and gain a deeper understanding of who those members are and how RCA can help them excel in their businesses. We found 74 percent of our members look to RCA for market trends information so we created the first-ever Commercial Leading Indicator to anticipate market directions. Members were also eager for comparable sales (73 percent) and lease data (69 percent) so RCA is working on establishing these resources and has renewed its efforts to create a truly national commercial listing database (see page 3 for details). The RCA has also responded to its members' call for more continuing education with publications such as the Hot Topics series and the Technology & Intelligence Briefing CDs. These tools provide timely, practical ways for members to stay on the cutting edge of industry issues.

Achieving these strategic initiatives would be enough for many. But RCA aspires to even more. We're determined to earn the loyalty and repeat business of our current members and to expand our membership to all sectors of commercial real estate. To reach this goal, we must do more than just respond to current needs. We must become thought leaders. Great business thought leaders such as Peter Drucker and Tom Peters have looked beyond how companies operated and promoted ideas that foster innovation and change. They have acquired and shared with others a deep understanding of their customers and of the marketplace. They have bridged competitive issues and raised the bar for the entire business community.

In its own way, RCA is striving for a similar breakthrough. Only by becoming a true thought leader can the RCA fulfill its mission of becoming the Voice for Commercial Real Estate. Thought leadership will position the association not only to respond to the industry, but to anticipate member needs and promote innovative ideas that will address changes in positive ways. The success of RCA's recent Commercial-Source.com, the commercial real estate industry's first online conference and trade show, is just one example. More than 14,000 commercial industry professionals registered and had the opportunity to listen to over 18,000 speaker sessions. Such a response demonstrates the innovative approach to a perceived need that is a hallmark of thought leadership.

Soon RCA will move into the third year of its three-year strategic plan. As the RCA's staff and volunteer leadership rededicate themselves to achieving our goals, we also commit ourselves to attaining a true position of thought leadership in the commercial real estate industry. Thought leadership is the magnet that draws people to associations and the driver that propels an association to a new level of excellence. RCA is committed to reaching that level—and staying there.

Be prepared: Take on the future!

Attend these two exciting Commercial Workshops at the NAR Leadership Summit, sponsored by the RCA.

"The Changing Face of Leadership and Perspectives on Commercial Real Estate Trends," by Alan Parris, noted leadership speaker

"Through the Looking Glass: Perspectives on Commercial Real Estate Trends," by James Marrelli, vice president, RCA

The workshops are free to attendees and take place between 8:00 a.m. and 11:00 a.m. on Thurs., August 17.



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.

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NAR leadership commits to commercial programs

During the recent Mid-Year Legislative Meetings & Trade Expo in Washington, D.C., NAR President Tom Stevens told the RCA Committee that the leadership of the NATIONAL ASSOCIATION OF REALTORS® is committed to providing quality programs, products, and services to the growing number of NAR commercial members. As one example of this commitment, Stevens told the Committee about an agreement between NAR leadership and the leadership of the CCIM Institute to reopen discussions on a joint Commercial Information Exchange platform. A CIE would provide an online platform for sharing commercial listings. In addition, a representative of the NAR Communications Committee reassured RCA Committee representatives that at least 10 percent of the new REALTOR® Public Awareness Campaign budget will be dedicated to TV, radio, and print ads focusing on commercial real estate.

The RCA Committee also created a Commercial Membership Recruitment Work Group that will assist local boards in attracting more commercial members. The Work Group will examine all aspects of commercial member recruitment, including the DR dues formula. This NAR member

policy, which requires that the managing broker and all licensed agents in the office be REALTOR® members, is often a roadblock in getting some commercial companies to join the association, according to staff at Commercial Overlay Boards and Structures.

During the same NAR meetings, the Commercial Real Estate Research Subcommittee reviewed the new Commercial Leading Index and solicited ideas on how the CLI could best be promoted to and used by the commercial real estate and finance industries. The CLI, introduced by NAR Research staff earlier this year, uses a complex formula of economic data to predict future levels of commercial brokerage activity (see the Spring 2006 issue of the *RCA Report* for a story on the CLI). NAR's Research staff also reported that it was in the process of issuing requests for proposals to conduct research on an office use sector analysis and to compile a commercial real estate research resource guide. Research staff will also continue to investigate methods for acquiring and publishing land data to accompany the office, multifamily, industrial, retail, and hospitality sectors data it now issues quarterly.

The Commercial Legislative &

Regulatory Subcommittee voted to strengthen its policy statement on the involvement of real estate licensees in tenant-in-common transactions. The new statement reads: "Sales of tenant-in-common interests are fundamentally real estate transactions, and, as such, NAR believes that consumers are best served by having the opportunity to use and rely on the expertise of real estate professionals, REALTORS®, and the protections of state real estate laws. In some instances, the sale of tenant-in-common interests may also constitute the sale of securities. In such cases, securities professionals may

also be involved to advise consumers on the securities issues as well as to comply with state and federal securities laws."

Currently the Securities and Exchange Commission and the National Association of Securities Dealers, which oversee the securities TIC industry, have rules that explicitly forbid real estate professionals from being compensated in a TIC transaction unless they hold a securities broker/dealer license. NAR staff continues to work with the Securities and Exchange Commission in an effort to define a role for REALTORS® in the sale of securitized TIC transactions.

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INDUSTRY Update

Get In the Loop with the Most Trafficked Database for Commercial Real Estate Online

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1.2 million members • \$300 billion properties for sale
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Thanks to CommercialSource.com sponsors

With more than 14,000 total registrations and almost 80,400 virtual booth visits, the first-ever RCA CommercialSource.com online conference and trade show was a huge success. The REALTORS® Commercial Alliance would like to thank the following sponsors whose support helped make the event possible.

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and Office REALTORS®**

LEGISLATIVE Update



CAPITAL MARKETS

Threats to commercial lending continue

The NATIONAL ASSOCIATION OF REALTORS® is continuing its efforts to ensure that mortgage funding for commercial development and renovation remains available and affordable. Several regulatory proposals could imperil the flow of capital to the industry.

FASB: Following its June 7 meeting, the Financial Accounting Standards Board continues to contemplate the best approach to respond to accounting practice issues, including how to provide guidance on servicer discretion on loans securitized through qualified special purpose entities, that arise in the application of FAS 140. The Capital Consortium (NAR, Mortgage Bankers Association, Commercial Backed Securities Association, Real Estate Roundtable, American Securitization Forum) has been working cooperatively with the FASB to provide practical information on how the industry is operating in accordance with FASB's established accounting standards as they relate to servicing. A change in the servicer discretion interpretation could result in commercial mortgage-backed securities trusts no longer qualifying for QSPE status under FAS 140. A change would be onerous and disrupt the \$709 billion U.S. CMBS market by reducing the flow of capital provided by the CMBS market to commercial real estate and further constraining the ability of borrowers to reposition property to ensure debt service. The U.S. CMBS market is the second largest source of

commercial and multifamily real estate credit in the United States, now comprising nearly 26 percent of the \$2.7 trillion U.S. commercial real estate debt market.

Basel II Accord: The Federal Reserve recently released a draft notice of proposed rules that would begin implementing the Basel II Accord. Basel II, an international set of standards agreed to by the central banks of the 10 largest economies, governs the way the largest banks determine the amount of capital they must hold in reserve to mitigate risk, including real estate exposures such as home equity lines of credit, residential mortgages, income-producing real property, and high-volatility commercial real estate. Basel II was widely seen as providing a competitive advantage to larger banks, thus prompting the financial regulatory agencies to begin modifying Basel I, which would apply to smaller banks, to level the playing field. In both cases, the regulators maintain that the effects on the real estate markets should be minimal. However, NAR remains concerned that the two Basel Accords may not yet be properly aligned and may therefore disrupt the real estate markets by altering the flow of capital. NAR has advocated for the same treatment of real estate under both Accords. From the time the draft notice is published in the *Federal Register*, NAR will have 120 days to respond to the proposed treatment of real estate exposures.

GAO studies bio-terrorism insurance availability

In response to a request from the House Financial Services Committee, the Government Accountability Office is undertaking a study on the availability of nuclear, biological, chemical, and radiological

insurance. NAR members that have NBCR policies are encouraged to contact Tom Heinemann at 202/383-1090 or theinemann@realtors.org and provide input. The study is scheduled to be com-

pleted by this fall. Findings will likely be used in developing legislation to create a more permanent replacement for the Terrorism Risk Insurance Extension Act. The President's Working Group on

Financial Markets has until September 30 to develop recommendations for a long-term solution that increases the participation of the private sector in providing affordable terrorism insurance.

Apartment locator suit reinstated

A federal appeals court has decided that a trial court improperly dismissed a suit alleging that an apartment-locator service discriminated against a handicapped individual. In the case, a prospective tenant who was deaf used a relay service operator to attempt to contact a company that provided referrals for individuals looking for apartments. The company owner told the prospect that he did not accept calls from relay operators, who provide a service so that the deaf can make phone calls. The owner also directed profanities at the prospect.

The prospective tenant contacted the Department of Housing and Urban Development, which filed a suit for discrimination under federal fair housing laws. The trial court found for the government on one charge but dismissed six other charges. It also granted a permanent injunction against the company prohibiting certain conduct.

The U.S. Court of Appeals, Second Circuit, upheld the trial court ruling and reinstated some of the dismissed charges. For example, the trial court had determined that a section of fair housing law that makes it unlawful to “publish” any statement of preference based on race, color, religion, sex, handicap, familial status, or national origin did not apply to the company because the trial court had ruled that the law applied only to owners and their agents. The appellate court disagreed that the statute supported such a narrow reading. The high court also reinstated four allegations that were dismissed under a provision called the “Mrs. Murphy” exemption, which exempts rooms or units in buildings of four or fewer housing units if one of the units is occupied by the property owner. The trial court had ruled

that since the apartment locator service listed only owner-occupied units, it was covered by this exemption to fair housing law. However, the federal appellate court ruled that the exemption was a defense the company could raise in a trial but was not grounds for dismissing the charges. The court also overruled the trial court’s decision not to allow punitive damage claims because the defendant had “engaged in intentional discrimination and has done so with malice or reckless indifference to the federally protected rights of an aggrieved individual.” To read a complete summary of the case, go to www.REALTOR.org/letterlw.nsf/pages/0306spacehunters3.

No listing without agreement

The Iowa Supreme Court has ruled an oral agreement that a broker would seek buyers for a business was not enforceable as a listing agreement. In the case, the owner of a restaurant allegedly contacted a broker and asked the broker to look for a buyer. The owner did not want to list the business for sale because he feared that it would hurt his customer base. He offered to pay a commission based on a percentage of the sale price. The broker found a buyer for the property and had the prospect sign a nondisclosure agreement that stipulated the buyer would not negotiate directly with the seller.

After the sale closed, the seller refused to pay the broker a commission, claiming no agreement for compensation existed, and the broker sued to collect a commission. The trial court ruled for the seller, stating that the broker’s claims were barred because of a state law requiring that all listing agreements be in writing.

The Iowa Supreme Court reversed

the ruling and sent the case back to the trial court. The agreement between the owner and the broker was not a listing agreement, said the Supreme Court, so the state’s rule

did not apply. To read a complete summary of the case, go to www.REALTOR.org/letterlw.nsf/pages/0406stewart?OpenDocument&Login.

SCORECARD

JUNK FAX PROTECTION ACT

Allows commercial practitioners to fax materials to clients with whom they have an established business relationship without first obtaining written permission.

Last Action: The Federal Communications Commission issued a final rule on the Act establishing a requirement that requests for opt-outs must be met within 30 days and identifying which cost-free mechanisms can be used for opt-outs. The FCC refused to place a time limit on the duration of an opt-out.

Status: The Act goes into effect on August 1, 2006, and applies to interstate fax advertising. State laws may apply to intrastate faxes. For more detail, go to www.fcc.gov/cgb/consumerfacts/unwantedfaxes.html.

ENERGY POLICY ACT OF 2005

Enables commercial property owners to receive tax deductions for improvements that improve energy efficiency made during 2006 and 2007.

Last Action: The IRS has issued an advance notice on how commercial building owners can qualify for tax deductions of up to \$1.80 per square foot.

Status: To qualify for a full deduction, improvements must be made to the building’s interior lighting, HVAC, or envelope and save at least 50 percent in the building’s combined energy usage. Partial tax deductions of improvement costs are available if energy usage is reduced by at least 16.66 percent.

SMALL BUSINESS HEALTH PLANS

Would improve the availability and cost of health insurance to small businesses and the self-employed by allowing nonprofit organizations such as NAR to offer nationwide health insurance plans.

Last action: Senators failed to overcome a filibuster and move the bill (S. 195) to floor for a vote.

Status: Senator Mike Enzi (R, Wy.), a bill sponsor, says he hopes to resolve concerns and bring the bill up later this year.

INDUSTRY Update



Your rights under designated rights

By **Nicholas A. Franke**

When a landlord learns that a tenant has filed for bankruptcy, the consequences can be more far reaching than forgone rent payments. The bankrupt lessee can assign its lease to a new tenant without the landlord's approval. In addition, by selling designation rights to a third party, the bankrupt lessee gives the third party buyer the opportunity to pick the assignee and set the terms for the lease assignment made by the debtor. In either case, the retail landlord is put in a position of losing control over a portion of the retail asset.

The passage of the Bankruptcy Abuse Prevention and Consumer Protection Act (P.L. 109-8), which generally went into effect Oct. 17, 2005, gives retail landlords new leverage to prevent a designation rights sale. However, they must be prepared and move quickly. Under the new Act, retail tenants have a 120-day period to assume or reject leases. While this period is twice as long as the time permitted under earlier laws, the Act restricts retail tenants to one 90-day extension of this period instead of the serial extensions routinely granted before the new law.

A number of clarifications under the new bankruptcy law also provide an opportunity for a lessor to successfully oppose the assignment of a lease by the debtor. To assign a lease, a debtor must

- Satisfy all monetary defaults and cure all nonmonetary defaults that are not impossible to cure. For example, the prior violation of a continuous operation provision would be impossible to cure.
- Comply with the lease's continuous operations provisions after assumption.
- Assure the percentage rent will not decline substantially.
- Determine that the assignment will not violate use, exclusivity, and similar provisions in either the subject lease or other leases in the center.
- Provide that the lease transfer will not disrupt the center's balance or tenant mix.

However, these requirements are no guarantee of protection for the landlord. For example, because a debtor can often command a higher price for a lease by having the lease restrictions removed, bankruptcy courts have eliminated restrictive covenants when they

have hindered an assignment. In the K-Mart Chapter 11 proceeding, for example, the bankruptcy court struck a lease term requiring continuous operation and permitted the location to go dark for nine months following a designation rights sale. Whether the recent amendment's enhanced enforcement of nonmonetary lease provisions would alter the decision in the K-Mart case is uncertain.

Similarly, bankruptcy courts have generally prevented lessors from receiving any of the financial benefits from a designated rights sale. In general, any proceeds received from such a sale are divided between the bankrupt tenant and the designated rights purchaser. Bankruptcy courts have held that any attempt by a landlord to share in the profits of a designated rights sale is unenforceable as antiassignment provisions. A landlord may successfully oppose a designated rights sale if the tenant/debtor receives only a nominal fee.

While a landlord may be able to save use restrictions and similar lease provisions from being invalidated, it must be prepared for a bankruptcy court to approve a designation rights sale. A stay is the

only way a sale in bankruptcy can be overturned, and this option requires a prohibitively expensive bond. Typically, the best use of a lessor's resources is to concentrate on opposing the assignment.

Lessors should also consider negotiating with the debtor for a prompt rejection of the lease before a designated rights sale occurs. The landlord might offer to waive claims or pay for a prompt rejection to avoid an assignment.

Revisions in the Bankruptcy Code that shortened the time for assumption and provide greater enforcement of restrictive lease terms have left a number of unanswered questions about the future of designation rights sales. However, the economic incentives for third parties and debtor/tenants in these transactions will probably ensure they will be an important part of retail bankruptcies going forward.

Nicholas A. Franke is a partner in the St. Louis office of Spencer Fane Britt & Broune LLP. He limits his practice to commercial bankruptcy and insolvency matters. He can be reached at nfranke@spencerfane.com or 314/863-7733.

T&I BRIEFING

In its fourth installment, the RCA Technology & Intelligence Briefing CD once again brings you business-changing ideas from some of the most innovative thinkers in commercial real estate. Just hit play and start learning.

JEFFREY DE BOER, president and CEO of the Real Estate Roundtable (www.rer.org) brings you up to date on legislative and regulatory issues.

- Along with RCA and the Institute of Real Estate Management, the Real Estate Roundtable is an active participant in the **Real Estate Information Sharing and Analysis Center**. This center, which issues alerts about potential security threats and promotes best practices for protecting assets, is a critical emergency preparedness tool.
- The Roundtable is seeking to give federal employees the option of investing a portion of their retirement savings—held in the Thrift Savings Plan—into real estate. The change will not only benefit federal workers but will provide **a new capital source for the real estate industry**.

SCOTT R. MULDAVIN, CRE, CMC, president, The Muldavin Company, offers you an update on where capital flows are heading and provides an overview of The Green Building Finance Consortium, of which RCA is a sponsor.

- Technology and tech-driven research and analytics are attracting more individual investment into commercial real estate funds and REITS, as well as to single properties. Institutional money will also help keep **liquidity in the market**.
- With more than 6,000 buildings certified by the U.S. Green Buildings Council, **green is no longer on the fringes**. That's why the Consortium's efforts to create tools and methods for evaluating the value impact that green features have is so timely.

BOWEN H. "BUZZ" MCCOY, CRE, president, Buzz McCoy Associates Inc. and author of the new *Evolution of Real Estate Capital Markets: A Practitioner's Perspective*, highlights recent developments in commercial financing.

- There's more risk in the real estate market now than there has been for the last five years. **Securitized properties are vulnerable** if there is a market downturn since they aren't being administered by people skilled in workouts.

AFFILIATE SPOTLIGHT

CRE honors program to slash voucher overpayments

Overpayment of rent vouchers has plagued the Department of Housing and Urban Development and local housing authorities since the program began in 1974. Now two members of The Counselors of Real Estate have developed an innovative, cost-effective rental housing database that lets authorities calculate market-appropriate rental payments for vouchers.

For their work in the development of such a database, Maxine V. Mitchell, CRE, and Robert E. Miller, CRE, received the 2006 James Felt Creative Counseling Award of The Counselors of Real Estate. Mitchell is president and Miller is senior vice president of Applied Real Estate Analysis Inc. in Chicago. The award was presented to Mitchell and Miller at The Counselors of Real Estate Midyear Meetings in Charleston, S.C., in April 2006.

The Housing Choice Voucher Program (formerly known as the Section 8 program) helps eligible households pay rent on privately owned units of their choosing. In 2004, \$14.2 billion was devoted to this type of tenant-based rental housing assistance.

Each database model is designed to be unique to a local rental market. For each city, Mitchell and Miller assess the housing market conditions and develop a hedonic pricing model that calculates fair, defensible rent prices. To date, the pair have conducted work for housing authorities in Philadelphia, New Orleans, and Los Angeles.

Key features of the system include housing market conditions and trends; careful definition of submarket areas; statistically reliable analysis; substantial sample size; and versatility. (The data-

base may also be used to assess an authority's portfolio of conventional and scattered-site housing.)

Mitchell has more than 30 years of experience in real estate market analysis, economic assessment, and public policy planning. Miller is a historian and city planner who has spent the past 30 years as a real estate analyst and public policy consultant specializing in the revitalization of urban areas.

The James Felt Creative Counseling Award honors outstanding achievement and ingenuity in real estate counseling by the members of The Counselors of Real Estate. Selection is made by a peer-review committee.

Established in 1992, the award honors the memory of James "Jack" Felt, CRE, a prominent real estate pioneer and founding member of The Counselors of Real Estate. The award reflects Felt's personal and professional standards, ethics, integrity, creativity, and competencies displayed throughout his real estate career.

The Counselors of Real Estate (www.cre.org) is a professional membership organization established exclusively for those real estate advisors who provide sound, unbiased, and competent advice on the many diversified issues encountered in the broad field of real estate.

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Real Estate

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a resurgence in telecommuting and outsourcing in the years ahead, pushing down space demand, says Joyce Gioia, a consultant in workforce strategies with The Herman Group. A shortage of workers will combine with the Millennium Generation's comfort level in building communities via Instant Messaging and force more businesses to expand telecommuting options, says Gioia. So will the Millennials' greater emphasis on work/life balance. "Tomorrow's workers would rather have a life than a title," she says.

To attract these scarcer, less job-centric workers, companies are already creating what Valarie Willis, a consultant with the Tom Peters Company, calls "lifestyle center spaces," complete with gyms and

adult and child day care. Sounds like a déjà vu moment from the 1990s—the last time there was a worker shortage.

Office-heavy workforces will increasingly be replaced by what a 2004 CoreNet Global study, *Corporate Real Estate 2010*, calls "networked virtual organizations." These cross-functional teams are not location dependent, but instead use a common information technology platform such as intranet to share data and build value. Already models such as Cisco's "Building 14" project, which uses completely wireless environments suited to the task—from the quiet "library" to tables with wheels—has reduced space per worker to 120 square feet, reports real estate trend watcher Peter Pike.

Commercial real estate companies themselves will reduce their number of offices, as technology allows connectivity and remote work. "It used to be the only way a broker could get a phone message or communicate effectively with associates was to drive back to the office, so you wanted sites no more than 20 minutes apart. Not anymore," says Glen Esnard, president of Colliers International.

Yet, a Chicken Little fear that office space demand will go away is as unfounded for 2010 as it was 15 years ago, says Noah Shlaes, CRE, managing director, consulting, for Grubb & Ellis. Office versus virtual work isn't an either/or proposition. Even as virtual work expands, corporations still want places to congregate, he says.

Likewise on the retail side, everything from Web shopping to what William Mitchell's book *e-topia*, calls "dematerialization," the shift of services such as banking and even routine health care online, may reduce the number, but not the ultimate need for bricks and mortar.

Company 2010

Real estate companies are beginning to embrace the technological and cultural changes at work in Corporate America.

One big change will be an increased centralization and organizational control of property data during—not just after—the transaction, predicts Shlaes.

"Today, once a transaction starts, information falls into a black hole," agrees Esnard. Yet, clients—especially corporations who are moving toward outsourcing virtually all real estate functions—must have current portfolio information to make decisions. Consequently, says Esnard, his and other companies are adopting technologies that literally "pull information off brokers' desks, aggregate it, and then feed it back to the brokers."

Data transparency, as well as the much wider use of national commercial information exchange databases, will become possible with the industry's adoption of the OSCRE (Open Standard Consortium for Real Estate) standard, say several interviewees. These open, non-proprietary data transfer standards allow for seamless translation of data from one platform to another. OSCRE has already been tested successfully by NAR's Center for REALTOR® Technology.

Now the big challenge is adoption, which may not take place until 2008 or 2009, predicts Richard S. Kadzis, director of special projects for CoreNet Global. However, corporate client pressure will drive real estate companies to use OSCRE. Life insurance companies and other major financial sources may also be a force for standardization, says Esnard, just as the CMBS market was in the financing sector. And once OSCRE is in place, tasks such as lease abstraction and administration can be standardized, and in all probability outsourced overseas, suggests Shlaes.

Nor is it only on the hardware side that real estate companies of the future will look different. Specialized skills will also reshape the role of the real estate generalists, predicts Shlaes. He expects to see commercial brokerage activities split among teams of deal makers and transaction managers, each with separate skill sets. Another variation on specialization is a Colliers International initiative to create geographically centered teams that focus on smaller investors.

Yet, in an industry where the top five real estate companies account for less than 15 percent of all transactions and 70 percent of all commercial transactions are valued at \$1.5 million or less, there will still be plenty of room for growth at all levels in 2010.

Buildings 2010

Like the companies that sell and lease them, real properties will continue to evolve—both in form and function. A likely indicator of the next evolutionary step for commercial real estate is what Michael Joroff, senior lecturer in MIT's School of Architecture and Planning, terms "New Century Cities." These large-scale projects, several of which are already occupied, incorporate both current and cutting-edge technologies from city-wide wireless networks and digitally mediated street furniture to integrated building and traffic controls. Most also include such smart-growth ideas as on-demand mass transit, energy efficiency, and mixed-use high density. The projects, which range from Korea's Digital Media City through the Northern Ireland Science Park, have mostly been funded by governments or universities in partnership with developers. An exception is the planned Media City: UK, a 200-acre site on Salford's waterfront (near Manchester) being created by Peel Holdings, a private UK developer. The company's goal for the site is a media hub anchored by the new headquarters for the BBC and encompassing everything from a media research academy to flexible space for independent producers. Completion is planned by 2010.

While many New Century Cities are focused around particular industries as they will evolve over the next 20 years, it's a mistake to view these projects as purely economic development, says Joroff. "They're more than just real estate projects. They are intended to develop human social capital," he says. Perhaps, more than any market shift or tech advance, it is this ongoing need for aggregating economic and social activity that will provide the value proposition for commercial real estate in 2010—and beyond.