ARVO Realty Advisors Expands with Onpoint Real Estate Services

ARVO services Pacific Northwest through new affiliation with Onpoint Real Estate Services

ARVO Realty Advisors ("ARVO"), a certified minority-owned commercial real estate brokerage firm headquartered in Houston, Texas, announces the addition of Onpoint Real Estate Services, LLC of Seattle, Washington, as an affiliate to expand its national service delivery platform to the Pacific Northwest. Jaebadiah S. Gardner, owner and managing partner, and Damon McGruder, owner and designated broker of Onpoint, will lead the Seattle operations.

ARVO provides complete commercial real estate services, including brokerage, consulting, research, and valuation to corporations, government entities, small businesses, and investors. ARVO assists with office, industrial, retail, multi-family, build-to-suit, and land transactions, and has earned a reputation as one of the nation's most successful minority-owned commercial real estate firms.

"We are thrilled to welcome a company known for its local market knowledge, exceptional service and community involvement. It's a relationship of shared values and strengths," says Ed Ryland, ARVO president and CEO. "With the combined benefits of ARVO and Onpoint, we will have even more resources available to provide the best in class service for which we are known."

"The Onpoint team is excited and pleased to be collaborating with ARVO Realty Advisors. We recognize the tremendous opportunity to bring the added value of ARVO's commercial experience, history and portfolio. This relationship will allow for a deeper pool of resources that will be accessible to our existing and future clients here in the great Pacific Northwest," said Jaebadiah Gardner, managing partner of Onpoint Real Estate Services. "As a certified minority-owned company, we are gearing up to break new ground in the commercial industry."

Crowdfunding

Crowdfunding may point to new sources of capital

Many people associate crowdfunding with campaigns to raise money for projects such as independent films, musical endeavors and start-up businesses, but the grassroots fundraising method is gaining steam in the financial world by bringing the advantages of new investment opportunities.

What does this mean for commercial real estate? Using the technology platform to reach a broader audience could bring project sponsors and investors together in a new and exciting way. Experts are relying heavily on crowdfunding to add an element of transparency to real estate deals that traditional investment groups, such as venture capitalists and angel investors, find attractive.

Darren Powderly shines light on the expansion of crowdfunding and how it may mean a paradigm shift for one of the business world's oldest development models.

TECHNOLOGY SOLUTIONS

Crowdfunding

by Darren Powderly, CCIM

Real estate ownership is one of the oldest — and most inefficient — businesses. Real estate companies or "sponsors" looking for equity for new development, project repositioning, or acquisitions still rely heavily on old-school networks such as their black book of investors and handshake deals at the local country club.

Crowdfunding has the potential to change the financing landscape for both investors and sponsors by bringing greater efficiencies to the process. By using a technology platform that makes real estate deals more transparent and easily accessible, crowdfunding allows investors to shop for the latest real estate investment opportunities on their computers or mobile devices.

That shift certainly streamlines the fund-raising process for project sponsors looking to fill equity or debt requirements. The question is whether or not the real estate industry is ready to embrace that change.

A New Paradigm

The original premise behind crowdfunding was to use small amounts of capital from a large number of individuals to finance new business ventures. New startups relied on social media sites such as Facebook and Twitter to reach out to friends, family, and colleagues to raise capital for their dreams and businesses. It was grass roots and folksy — and it worked. Entrepreneurs found success in funding new creative projects and small businesses from indie films and art to restaurants and retail shops.

That idea has morphed into a vehicle that has piqued the interest of a growing pool of investors including venture capitalists, angel investors, high-net-worth individuals, and family trusts. The crowdfunding model is now emerging as a legitimate source of capital to finance a variety of startups ranging from biotech to green energy.

It also has emerged as a viable source of real estate funding. The catalyst that has made that shift possible is the Jumpstart Our Business Startups, or JOBS Act. Essentially, the JOBS Act loosened some restrictions related to who can invest in private offerings and how those offerings could be advertised. The JOBS Act was signed into law in April 2012 by President Obama and advertising of certain private offerings is now permitted.

So what does crowdfunding mean for the future of real estate investing? Think of the change that has occurred in the stock market in the past 15 years. Technology has brought accessibility and transparency to that sector. Investors no longer have to rely on stockbrokers to complete transactions when they want to buy or sell securities. They can log on to their own brokerage accounts to access a variety of investment tools from real-time pricing to a detailed analysis of their portfolios.

That same level of direct access to information and transparency is starting to occur in the real estate markets, and crowdfunding has the potential to be a key driver behind that change. Fortunately, for those CCIMs that accept this change, the technology will lead to a more capital-efficient marketplace that will increase deal flow. Furthermore, real estate is, after all, a people business, so innovative CCIMs will always have an important seat at the table.

Crowdfunding is creating a marketplace where investors sit down at their computers, access current offerings, and quickly filter through multiple deals to find the right fit. Investors will have the tools and resources to build a portfolio that meets their specific needs. For example, an investor can opt to have a percentage of their real estate dollars allocated to growth opportunities for a child's college savings plan or income-producing property for retirement savings.

Traditionally, investors who wanted to participate in direct real estate investments had to participate in a private syndication or limited liability partnership where the minimum buy-in was sizable — often upward of $250,000. Crowdfunding deals can be accessible for as little as a few thousand dollars. That lower dollar amount allows investors to split up that investment into smaller allocations to create more portfolio diversification — instead of investing $800,000 into one deal, they can spread that out into five, 10, or even 20 different investments across different property types and different geographic markets.

On the equity side, crowdfunding allows sponsors to outsource their capital-raising efforts and the management of investor relationships over time. There are fees associated with crowdfunding, and crowdfunding forces operators with different financial models. Sponsors must scrutinize those fees carefully to make sure the crowd's return on investment is not devoured by the charges. But the efficiency that crowdfunding brings to the process in terms of vetting investors, delivering information, responding to questions, and meeting reporting requirements replaces the time and money sponsors were already spending on those efforts.

Ultimately, crowdfunding allows sponsors to tap into a large pool of middle-market investors who have a desire to put capital into real estate. One of the crucial steps for this emerging niche to evolve is for crowdfunding firms to prove that they can truly reach that pool of high-net-worth investors, but also bring them to the table for sponsors. If crowdfunding can deliver on that promise, then this is a sector that will continue to carve out a bigger place for itself in the real estate arena.

Darren Powderly, CCIM, is co-founder of CrowdStreet and a principal with Compass Commercial Real Estate Services in Portland, Ore. Contact him at Darren@crowdstreet.com.

Currently, crowdfunding real estate opportunities are only available to accredited investors while the Securities and Exchange Commission determines final rules for governing crowdfunding activities. For more information, contact www.sec.gov.

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View original article at: http://www.ccim.com/cire-magazine/articles/323057/2014/07/crowdfunding

Lease Buyout Decisions

How visualizing risk can help in lease decision-making

In commercial real estate, making decisions about risk can sometimes feel more like a shot at the blackjack table than making a strategic move. With so many factors to consider, how can you really know you've followed the best course of action?

When it comes to figuring out whether to accept a lease buyout option or sublet office space, the decision isn't so black and white. There are underlying risk factors that could spell disaster if not properly considered, but by quantifying the risks and putting them into visual form, you could walk away with the best deal possible.

LEASE BUYOUT DECISIONS

This case study shows how to quantify and visualize risk.

by Robert Hand, CCIM

Making decisions in commercial real estate often involves more than just calculating a capitalization rate or net present value, because there is always a component of unknown risk. In the office leasing sector, risk is created by local market factors, such as supply and demand for space, asking and effective rents, and absorption rate. Other factors contributing to risk are the specifics of the situation. Learning how to quantify and illustrate such risks to clients is a challenge, especially in small or mid-size markets where office demand can still be somewhat stagnant.

This article discusses how to quantify the risk of a real-life decision: Should an office tenant write a check for $1.5 million to accept a lease buyout offer, or continue to market a sublease for 56,542 square feet of class A downtown office tower space in New Orleans?

The Dilemma

As a byproduct of a merger between two large oil companies, a decision was made to relocate 250 employees from New Orleans to Houston, leaving 75,000 sf — four floors of fully furnished class A office space — vacant with an obligation to pay rent at $18.25 psf for 54 more months.

The situation is compounded by two issues: The space represents the largest contiguous class A office space in New Orleans. With only 54 months left on the lease, it is not feasible for the lessor to offer any build-out allowance. This means the sublease space cannot compete with market rate space.

The lessor has presented an offer to take back 56,542 sf — three full floors — for a lump sum payment of $1,500,000 rather than the current obligation of $1,022,000 per year. The decision for the tenant is whether to pay the $1.5 million and get out of the lease or try to sublease the space and gain the difference. The dilemma is how to analyze the risk.

Market Factors

The New Orleans class A office tower market is approximately 8,000,000 sf, with 1,000,000 sf currently available for lease. Building occupancy rates range from 73 percent to 97 percent and 2013 absorption was 133,000 sf, or 13 percent of available lease space. Asking rents range from $16.50 to $21.00 psf, including build-out payments ranging from $10 to $30 psf. In competing buildings, 15,000 sf of sublease space is available at $15.00 psf and 90,000 sf was just renewed at $12.50 psf.

The Decision-Making Process

At first glance, the answer appears to be a no-brainer: Accept the offer to pay a lump sum of $1,500,000 rather than pay $1,022,000 annually for 54 months, equal to $4,599,000. However, calculating the numbers on subleasing the space at the average asking rate of $18.50 psf produces a profit of $63,609 for the remaining period. (See Table 1.)

Such numbers are compelling to clients wishing to make the most of a difficult decision. However, just because the market rate is $18.50 psf, we can't assume that we can immediately lease the entire space at that price. Instead, the analysis should focus on the risk of not paying the $1,500,000 and trying to sublease the space. At what rent do we need to sublease the space and how soon do we need to find a tenant before we are worse off than just paying the $1,500,000? How do we show a client that risk visually?

Thus, the critical data are how long will it take to sublease the space and at what price. If the current market lease rate is higher than the current obligation net of build-out allowance, the space would command a payment to the lessee rather than a $1,500,000 payment from the lessee. But, like many markets, the New Orleans market has a wide variance, with some class A office tower downtown space subleased at a low of $12.50 psf and listed space quoted up to $21.00 psf.

Table 1: Leasing Profits

	$PSF	SF	Total
Current lease	$18.25	56,542	($1,031,891.50)
Potential sublease income	$18.50	56,542	$1,046,027.00
Net per year			$14,135.50
Net for 54 months			$63,609.75

The best way to analyze the decision is to first examine the worst, average, and best outcomes, as shown in Table 2, which compares the income from a range of lease prices psf compared to various periods remaining on the lease. The three price levels are the actual low, middle, and high rates for class A office tower space in downtown New Orleans.

Each combination of time remaining and assumed sublease price should be compared to the net savings from the buyout offer of $1,500,000. The current obligation is for a lease payment for 54 remaining months at $18.25 psf on 56,542 sf, for a total of $4,643,511. The buyout offer requires a one-time payment of $1,500,000, which is a savings of $3,143,511. ($4,643,511 minus $1,500,000 paid.)

If the lessee could sublease the space for $12.50 psf, the space would have to be subleased almost immediately in order to reap more income than the proposed offer. At $15.00 psf, the space would have to be subleased within 12 months, or have 42 months remaining in which to earn enough income. At $18.25 per square foot, the space would have to be subleased within 18 months, in order to have 36 months remaining to produce the same savings.

The Boxing Decision

The information in the table can best aid the decision-making process by illustrating it in chart form, with the dotted line depicting the savings from the proposed offer to buy out the lease.

Chart 1 shows that any situation above the dotted line represents a better alternative than the proposed offer, and any situation below the dotted line represents a worse scenario.

Going one step further to incorporate risk into the analysis produces a more-reliable decision. We might have a higher confidence level that the space

Chart 1: Lease Rate Comparisons

View original article at: http://www.ccim.com/cire-magazine/articles/323572/2014/07/lease-buyout-decisions

The Marriage of Words

What it means to indemnify, defend and hold harmless

Nearly every type of real estate contract these days has an indemnity clause - that seemingly all-inclusive wording that holds one party harmless in the event the agreement does not go as planned. With real estate being such a hefty investment, it would seem that parties on both sides of the contract are well aware of the legal ramifications of such a clause. Surprisingly, this is not the case.

This article helps provide clarity around the definition of indemnity of legalities surrounding interpretations of the clause when buying, selling or leasing property.

Law & Policy

A Marriage of Words

What it Means to Indemnify, Defend and Hold Harmless

By Michael Hamilton

To "indemnify, defend and hold harmless"—a promise that is much like "to have and to hold till death do us part." Many agree to it, few comprehend it (profoundly), and some have no intent of honoring it.

There are few agreements in real estate transactions that lack an indemnity. Indemnities appear in leases, purchase and sale agreements, construction contracts, development agreements and mortgage loan documentation. With such widespread use, one would assume there is a general understanding of these clauses' meaning and the law regarding them. Case law, replete with disputes regarding the same questions over and over, suggests otherwise.

Based on a review of case law and statutes from New York and California, which are generally representative of state law in other jurisdictions, we provide a capsule summary of the law of indemnities, with the intent to give clarity as to particular words and phrases in indemnities and to facilitate better drafting of them.

Black's Law Dictionary defines "indemnify" as: to save harmless; to secure against loss or damage; to give security for the reimbursement of a person in case of an anticipated loss falling upon him; to make good; to compensate; to make reimbursement to one of a loss already incurred by him.

On the other hand, California Civil Code Section 2772 is much more opaque—it defines an indemnity as "a contract by which one party (the indemnitor) agrees to protect another party (the indemnitee) from the legal consequences of the conduct of one of the parties, or of some other person."

The difference between these two definitions illustrates one of the common misunderstandings about indemnities. The definition from *Black's* would lead us to conclude that the simple mention of the word "indemnify" would get us everything that follows in the definition. The California Civil Code is much less generous, using words such as "legal consequences" pertaining to the particular context of each contract. The implication is that an indemnity may not be all of those things *Black's* would promise us.

The courts tend to agree with the approach in the California Civil Code.

Here are the rules:

1. ***The burden is on the indemnitee to prove the scope of the indemnity.*** An indemnitee can only recover for matters expressly covered by the indemnitee. The contract of indemnity "measures" the liability of the indemnitor. So look only to the words (and no other evidence) to understand its scope.
2. ***An indemnity against "liabilities" only protects against a legal finding of liability.*** An indemnity against "claims" is triggered upon the filing of a claim against the indemnitee (before liability is determined).
3. ***An indemnity against "damages" is effectively a reimbursement agreement,*** such that the indemnitee must pay the damages first before it gets reimbursed.
4. ***The costs and expenses of defending a claim should not be presumed.*** In some jurisdictions, including New York, the "duty to defend" is broader than "the duty to indemnify," such that a court may not be inclined to permit a claim for defense costs absent an express obligation of the indemnitor to defend. California law, however, implies a duty to defend if the document does not exclude it. Because of this potential gap, the better practice (and custom) is to specifically phrase the indemnity as "to indemnify, defend and hold harmless."
5. ***The indemnitee will not likely control defense of the claim.*** Under California law, for example, the indemnitor controls the defense, absent an agreement otherwise.
6. ***If the indemnitor does not defend the indemnitee when obligated or given the opportunity to do so, then the determination in the underlying litigation will be binding on the indemnitor.*** If, however, the indemnitor is not given notice or an opportunity to defend the claim, then the indemnitor will be given a later opportunity to rebut the determination in litigation.
7. ***If an indemnitee settles a claim without involving the indemnitor,*** such settlement may not be binding on the indemnitor.
8. ***To "indemnify" and to "hold harmless" are distinctly different obligations.*** An indemnification is construed as an affirmative right in favor of the indemnitee to be protected against some particular event. An obligation to hold harmless is generally construed as a release of the indemnitee from a particular liability and an assumption of the same by the indemnitor.
9. ***An indemnity that protects the indemnitee from the consequences of his or her own negligence is enforceable*** (but the courts are reluctant to imply coverage for one's own negligence absent language specifically addressing it in the contract).
10. ***An indemnity against more affirmative and intentional actions such as fraud, wilful misconduct or gross negligence is generally not enforceable.*** This explains why the indemnitee does not generally resist a request to expressly exclude losses caused by its own gross negligence, fraud or wilful misconduct (it is giving up very little in such negotiation).
11. ***An indemnity that protects the indemnitee from the consequences of his or her own illegal acts is not enforceable.***
12. ***An indemnity is generally construed to protect the indemnitee against losses from third-party claims.*** It is not generally considered the appropriate mechanism for allocation of responsibilities between the indemnitor and the indemnitee (so-called "first-party claims"). Breach of contract claims are better suited for first-party matters, as the limitations attendant to an indemnity, such as those described above, would not apply. However, an indemnitor is prudent to guard against the indemnity being used for first-party claims.
13. ***The intended beneficiaries of an indemnity should be stated*** (generally, through such wording as "and its successors and assigns" or specifically by name). Unspecified third parties are generally not permitted to enforce indemnities.

This provides the "why" behind the drafting of most indemnities. Caution is obviously warranted. As illustrated by the simplicity of the definition in the highly regarded *Black's Law Dictionary*, the meaning of an indemnity is commonly misunderstood and oversimplified. These guidelines should help you ensure that this marriage of words does not become a war of words instead. CPE

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Image of wedding rings by Aleysi/iStockphoto.com

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IRR Expects Rise in Real Estate Value With the Year

Growth forecast strongest among multifamily product

Integra Realty Resources (IRR), the largest independent commercial real estate valuation and consulting firm in North America, recently issued its mid-year market analysis, Viewpoint 2014. This market participant survey response report lead IRR to conclude that - while the national economic growth was at a standstill during the first half of the year, the real estate industry has seen strong growth, particularly in some of the country's largest cities. Value appreciation for office markets have mostly recovered losses experienced during the 2008 - 2010 recession, and all major real estate sectors are expected to realize an increase during the next 12 months.

2014 MID-YEAR VIEWPOINT NATIONAL OVERVIEW

National Cap Rate Snapshot

National Real Estate

While economic growth stagnated nationally in the first half of 2014, with the economy reportedly shrinking by anywhere from 1% to 2.9% depending on the reports and forecast referred reviewed, the real estate sector remains a bright spot. Not only have the nation's largest markets continued their strong recovery, but 2014 has brought tangible evidence that the strong real estate recovery has spread far and wide to the smaller markets also covered by IRR.

Some of this strength in the face of economic headwinds can surely be attributed to real estate's tendency to lag national economic trends; however, some of the positive real estate investment indicators also clearly depict that investors, both domestic and foreign, are increasingly willing to invest in secondary markets that lack some of the liquidity of the coastal and larger markets that were more in vogue over the previous few years. This trend has been aided by the fact that property fundamentals across all classes have continued to improve, while development activity has more or less remained moderate, with the notable exception that multifamily development has been brisk and far-reaching across market spectrums.

2014 MID-YEAR VIEWPOINT NATIONAL OVERVIEW

Office Snapshot

Office Market Commentary

Office markets nationally have continued to recover. Year-to-date value appreciation in many markets combined with gains from 2012-13 have largely erased losses from the 2008-10 real estate recession in many markets. In fact, only five smaller markets nationally – **Greensboro, Hartford, Jackson, Sacramento, and Wilmington (DE)** – indicate that CBD office assets haven't at least held or appreciated in value in the previous three years, and no markets report expected material value deterioration over the coming year as well as the 3-year period. Underlying this trend and expectations, CBD cap rates remained steady or contracted in every IRR market nationally in the previous six months, with **Miami** and **Orange County** experiencing especially strong cap rate contraction over this period as investor demand has returned to these areas. Material (> 25 basis points) CBD cap rate contraction was also noted in **Charleston, Chicago, Detroit, Jackson, Louisville,** and **Nashville**, while smaller contractions of 25 basis points or less were noted in 17 of 63 other covered markets nationally. Suburban office cap rate trends were similar, with 25 of 63 markets nationally reporting contraction year to date, though only **Jackson (MS), Orange County,** and **Phoenix** reported suburban cap rate contraction of greater than 25 basis points over this period. While cap rates in the office sector have largely held steady or slightly contracted year-to-date, the overall average level of contraction has been more muted in the office sector than any of the other four major real estate asset classes, and this trend holds across all geographic regions.

2014 MID-YEAR VIEWPOINT NATIONAL OVERVIEW

Multifamily Snapshot

2014 Cap Rate Ranks

2014 Rank	Property Type	2014 Low %	2014 High %	2014 Avg %
1	Urban Multifamily	4.0	8.8	5.60
2	Suburban Multifamily	3.7	10.8	5.74
3	Regional Mall	5.0	9.5	6.82
4	Community Retail	5.3	8.8	7.19
5	CBD Office	4.5	11.0	7.21
6	Industrial	5.0	8.7	7.24
7	Neighborhood Retail	5.5	9.0	7.37
8	Suburban Office	5.3	10.0	7.53
9	Flex Industrial	4.6	10.3	7.90
10	Full Service Lodging	5.5	10.3	8.16
11	Limited Service Lodging	6.3	11.5	8.78

Multifamily Market Commentary

The multifamily market continued its strong recent trends, as 94% of markets nationally now report that the urban multifamily market is currently in the midst of an expansionary cycle, which is up materially from 81% of markets reporting as such as of year-end 2013. Despite the threat of new supply, urban multifamily capitalization rates more or less remained the same, with the exception that some secondary markets such as **Cleveland, Minneapolis,** and **Phoenix** reported material decreases in cap rates of 50 basis points or more in the past six months. Suburban capitalization rates also remained more or less unchanged nationally, with the notable exceptions that **Cleveland, Detroit, Miami, Minneapolis, Phoenix,** and **Tulsa** all experienced material contraction with respect to going in capitalization rates. No markets reported material (> 25 basis points) increases in cap rates for any kind of multifamily product, which is contrary to IRR's year-end 2013 expectations in which approximately 20% of the markets nationally expected multifamily cap rates to rise at least 50 basis points or more over the coming year. Cap rate contraction was more moderate in in the South and Midwest regions, while the overall cap rate contraction was notably more muted in the East and West regions.

2014 MID-YEAR VIEWPOINT NATIONAL OVERVIEW

Retail Snapshot

Retail Market Commentary

The retail sector has also continued its positive momentum year-to-date in 2014. IRR reports that more markets (41%, up from 29% at year-end 2013) have shifted from recovery mode into an expansionary retail cycle. This is not unexpected, as values have recovered previous losses over the past three years in every reported market except **Jackson (MS)**. Most IRR-covered markets reported that retail capitalization rates remained unchanged over the year-to-date period, though 12 markets reported contraction in the community retail sector and a largely different group of 13 markets reported cap rate contraction in the neighborhood retail sector. These trends were largely bifurcated on a regional basis, as the East region reported strong retail capitalization compression year-to-date, especially in the neighborhood retail space, while the Midwest, South, and West regions reported far more flat trends year-to-date. Markets reporting material (> 25 basis points) contraction in community retail cap rates included **Greenville, Miami,** and **Phoenix**. Material contraction in neighborhood cap rates was only slightly more widespread, with **Houston, Jackson (MS), Nashville,** and **Phoenix** reporting contractions of greater than 25 basis points. With capitalization rates largely remaining unchanged or decreasing slightly while operating fundamentals remain steady or are slightly improving in most markets, it is no surprise that IRR projects average values in the retail sector to increase in nearly every market nationally. Only **Providence (RI)** and **Jacksonville (FL)** project potential value diminution in the near-term and more moderate-term, respectively.

2014 MID-YEAR VIEWPOINT NATIONAL OVERVIEW

Industrial Snapshot

Industrial Market Commentary

The industrial market sector experienced the strongest improved prospects of any property sector year-to-date. To this point, 97% of industrial markets nationally are now reported to be in recovery or expansionary real estate life cycles. More impressively, 51% of industrial markets are observed to be in an expansionary cycle currently, up significantly from 22% markets reporting the same as of year-end 2013. This represents far and away the largest observed change in market cycle behavior in any of the property sectors. Nationally reported capitalization rates for industrial product remained steady in 33 markets while contracting in an astounding 30 markets nationally over the previous six month. Especially strong capitalization rate contraction in the industrial sector is noted in following markets: **Boston, Cincinnati, Columbia (SC), Dallas, Fort Worth, Greenville (SC), Louisville, Memphis, Miami, New York, Orange County, Philadelphia,** and **Phoenix**. With such cap rate contraction, it isn't surprising that only **Jackson (MS)** has observed minor industrial asset value deterioration over the previous 3-year period. Additionally, all IRR-covered markets, with the minor exceptions of **Greensboro (NC)** in the short-term and **Portland (OR)** in the more moderate term, project value consistency or growth over the coming year as well as 3-year periods in the industrial sector. The strong year-to-date performance of the industrial market sector more or less confirms that IRR is so far correct in projecting at year-end 2013 that this sector had the greatest chance for value appreciation in the 2014-16 time period.

2014 MID-YEAR VIEWPOINT NATIONAL OVERVIEW

Lodging Snapshot

Lodging Market Commentary

The Lodging sector has experienced capitalization rate contraction in the first six months in 2014. IRR reports that national, full service lodging properties have experienced a cap rate contraction of 24 basis points and limited service properties have experienced a cap rate contraction of 22 basis points since January 2014. Convenience is a key concept driving property fundamentals across the lodging properties in 2014. More specifically, property location and value at lower price points are the key driving forces for limited service properties, for which the national average rate is 66.8%. On the other hand, lifestyle is the key concept among full service lodging properties in 2014. Properties which incorporate the use of technology (e.g. visual meeting kiosk bookings) are luring leisure travelers who seek a quality stay inside the room as well as a higher quality experience across the property and its environs. Such properties are experiencing occupancy rates above the national average of 68.9%. Nationally, IRR expects the Southern U.S. markets to have the highest increase in ADR annually for the next 36 months, while Central U.S. markets are expected to see only marginal increases.

Lodging Cap Rate Trends

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2014 MID-YEAR VIEWPOINT NATIONAL OVERVIEW

National Valuation Conclusion & Forecast

IRR forecasts that on average all major real estate sectors should increase in value over the coming twelve month period. Expectations for value appreciation are especially acute with respect to suburban multifamily product, while they are more muted for both CBD and suburban office product. Value appreciation expectations have changed most notably year-to-date with respect to flex industrial and neighborhood retail product, perhaps indicating that investors are broadening their reach with respect to the subtypes of assets – in search of stronger potential yields. Because the real estate sector continues to attract new investment capital while its property fundamentals remain strong in the face of macro-economic headwinds, IRR is overall very bullish in terms of near-term valuation potential.

2014 Value Increase Ranking by Property Type

2014 Rank	Property Type	Percent of U.S. Markets Projecting a Value Increase (Next 12 months)
1	Full Service Lodging	94.64%
2	Limited Service Lodging	92.86%
3	Suburban Multifamily	91.13%
4	Industrial Class A	88.89%
5	Urban Multifamily	87.70%
6	Neighborhood Retail	87.30%
7	Community Retail	85.71%
8	Flex Industrial	85.48%
9	CBD Office	78.33%
10	Suburban Office	77.42%
11	Regional Mall	60.32%

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About IRR

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