Editor's Note

BY PETER C. BURLEY, CRE

"Neither spring, nor summer beauty hath such grace, As I have seen in one autumnal face."

—John Donne

Summertime, around these parts, is a very busy season, far from the lazy, hazy days in town. Our neighbor, Kenny, who is the grandson of the man who originally laid out his homestead here, continues to tend to his horses and cattle and to mow the fields for hay. His work begins early in April and continues through the waning days of early autumn, until the first snows bring all to a halt. Kenny shows no urgency in his labors; he simply presses on in his slow, methodical pace all summer long until the valley is fully prepared for our long, relentless Colorado winter.

By mid-September, Kenny's cows are fat. The hay is in. And, the valley, having completed its job, lies back, satisfied that the bounteous green months have fully met our needs for the coming several months. The grass turns golden brown, and the cottonwoods and willows along the creek mellow into a mosaic of soft yellows.

Autumn is a time for looking back at what we have accomplished during the warm green months. And, it is a time for looking ahead toward what we would like to accomplish in the months to come.

Looking back, I wanted to paint the house over the summer. I wanted to fix a few things and make ready for the coming winter. Like Kenny, I occasionally went out to mow my fields (though I left the baling to him). And, I sometimes sat to watch the cows get fat across the road.

For the most part, though, my summer was filled with conversation. About the economy. About the industry. About specific businesses and their needs. About, maybe, securing a paying job to meet those business needs. For many of those conversations, I scurried to places like Washington and Austin, and even up to Denver a few times. Plying my trade and selling my wares. Pointing to

Kenny Mows All Summer Long

where we have been and where we might be going, suggesting direction, offering ideas. It's all what a Counselor does, after all, and it has been my appointed task to demonstrate the skills and knowledge that this Counselor has to offer.

Alas, the house remains unpainted. And, those few things that need fixing remain unfixed. And, I continue to look for a place to do my best work.

But, the hay is in and the cows are fat. And, winter will come, whether I have a job or not.

The other part of my summer has been devoted to *Real Estate Issues*. The editorial board has been deeply involved in discussions, fleshing out topics and issues, seeking thought leadership, investing huge blocks of time to ensure that this remains one of the industry's premier publications.

This issue is evidence of that effort. The articles herein reveal the breadth and depth of knowledge and expertise represented among the membership of The Counselors of Real Estate.

In his article **"After the Recession: Florida, Nevada, Arizona and the Next 5,000 days,"** Owen Beitsch, CRE, offers an in-depth examination of demographic forces and residential property markets in some of the places most deeply stricken by the recession. As Beitsch points out, "…little has been written about the actual *use* of real estate. The scrutiny of financial metrics has taken primacy over many fundamental social and demographic influences underlying the basic need for or the utility of real estate." In fact, demographic shifts that have occurred in places like Florida, which has experienced a net population loss in recent years, have resulted in changes in the need for, and use of, certain kinds of housing stock. A housing recovery in markets that have always relied on heavy in-migration will likely be slower, Beitsch asserts, as market activity is likely to fall short of the necessary volume to right current oversupply.

David Lynn, CRE, visits the measurement of supply constrained markets, and the implications of investment strategies that focus on them, in his article **"Supply Constrained Markets,"** Lynn presents the definitions and economics of supply constrained markets and provides measures for various property types within them. Lynn compares metropolitan area markets, based on the price elasticity of supply, for office, retail and industrial properties. The measures lead to the conclusion that investment in supply constrained markets should lead to stronger income and capital appreciation.

Massimo Biasin, of the University of Macerata, Italy, and Hal Smith, CRE Emeritus, present a research study/consulting project conducted in 2008–2009 in Italy entitled **"The Valuation of Mortgage Security by Italian Banks."** Prompted by the disastrous results in the mortgage and mortgage derivatives markets in the United States, the project sought to discern whether Italian banks, which hold large portions of assets in residential mortgages, faced similar risk factors. Interestingly, the study concludes that losses in residential mortgages in Italy were relatively minimal, the result of rules limiting exposure to subprime mortgages, among other factors. While there are clearly issues surrounding value estimates made by Italian appraisers, Italian banks have been judicious in their assessment of the property in the context of the immediate neighborhood and the surrounding economy.

We return to sustainability, this time in the corporate real estate arena, with CRE Colette Temmink's **"A Corporate Guide to Implementing a Sustainable Real Estate Program."** Temmink offers seven steps that can be taken by corporate real estate executives to implement a sustainable program in their respective portfolios. Temmink advises that corporate real estate executives are the "stewards their companies' assets and are positioned to provide the leadership needed to preserve and protect the environment, while still meeting the needs of their employees," and she concludes that "whether the driving motivation is cost savings or saving the environment—or both—now is the time to act."

Unlike the commercial sector, residential energy efficiencies are measured in newly completed stock only once. In their article **"Residential Energy Efficiency: A Model Methodology for Determining Performance Outcomes,"** Pierce Jones, Ph.D., of the University of Florida, and Ujjval Vyas, Ph.D., of the Alberti Group, offer an evaluation of ENERGY STAR-rated homes, along with colleagues Nicholas Taylor and M. Jennison Kipp, of the Program for Resource Efficient Communities. Having noted a deterioration in energy performance over time, the authors have set out to determine if ENERGY STAR homes, which have been promoted (and underwritten) as superior to non-ENERGY STAR properties, maintained an advantage in energy use. As the authors point out, "If the performance of ENERGY STAR homes decayed measurably compared with non-ENERGY STAR homes within five years, any attempt to use the certification as the basis of underwriting advantages (would be) in doubt." While the ENERGY STAR homes meet the performance thresholds early on, their performance tends to decline over time, often consuming more energy in subsequent years. From a policy standpoint, the authors find that a lack of any large-scale validation of ENERGY STAR-certified home performance could lead to difficulties in decision-making and market integrity.

Patricia Wall and Lee Sarver, of Middle Tennessee State University, discuss the nature of condominium ownership as securities in **"Are Condos Securities? How to Determine When You Have a Security."** The authors provide background on the nature of securities, suggesting that there is more to what defines a security than merely what we normally understand in the realm of stocks and bonds. In fact, "Not only are stocks and bonds securities, but many other things are as well." The nature of ownership and use of cooperative and condo units could be interpreted as owning something that at least looks more like a security than a home, changing the requirements that units be registered as securities. For the real estate community, the determination of what constitutes a security is "unsettled law."

Many municipalities are keen to issue tax-exempt bonds "to encourage development of blighted areas, increase the tax base and/or promote more affordable housing in high-cost housing areas." In his article **"Valuing Tax-Exempt Real Estate Bonds,"** Devon Olson, CRE, discusses the legislative background and definitions of tax-exempt financing and the issue involved in valuing bond financed properties. "Given tax-exempt bonds' attractive characteristics," Olson points out, "evidence indicates that sophisticated investors are willing to pay a premium for bond-financed apartment properties. Whether for acquisition or ongoing reporting purposes, accurately valuing tax-exempt real estate bonds requires knowledge of how they work."

With his article, "**Reconsidering the Definition of Highest and Best Use: The Case for a Post-Disaster Highest and Best Use,"** Don Epley makes a return visit to *Real Estate Issues* to consider whether, in post-disaster situations, a new definition and procedure for determining Highest and Best Use (HBU) might be applied when conditions are such that traditional methods are inapplicable. "Problems arise immediately," Epley tells us, "that bring into question the valuation process of a normal market. Public records may be partially or totally destroyed, property lines and boundary markers may be gone or hidden, and the infrastructure may be damaged in a manner that makes usability questionable." Epley argues that the normal approach and concepts used, such as market value, may be questionable, since normal market conditions simply may not exist in a post-disaster environment. He offers and discusses in detail alternative approaches "to solve and relieve the deficiencies" he finds in typical methods to estimate value in post-disaster situations.

Recent events in our institutions and society suggest that, at times and in some places, our values and our ethics have been, well, forgotten. Buzz McCoy, CRE, points out, in **"Ethics vs. Compliance"** that "several prominent financial institutions... seem to have forgotten the distinction between being legal and being ethical." There is a very real distinction between walking a legal line and doing business ethically in an environment of trust. Ultimately, business is built on trust, on relationships, on knowing certain limits. McCoy points out that values, when operable in the workplace, will lead to higher performance. "It is important," Buzz tells us, "to be rigorous about certain core values and constraints and to provide freedom for innovation and creativity around those cores." I fully agree.

CRE Maura Cochran summarizes interviews she conducted with several participants of a high-level conference held in Kenya as part of a CRE Foundation student exchange program with the Kenya School of Monetary Studies. In her article, **"CRE Global Outreach: The Kenyan Student Exchange Program,"** Cochran interviews fellow CREs Sam Kuckley, Byron Koste and Tom Justin, who traveled to Kenya, and Kenyan exchange students Nancy Atieno Jamal, Florence Apondi Amuok and Sylvia Wanjiru Kimani, who visited New York as part of the program. The conference in Kenya brought together bankers, regulators, practitioners, researchers, academic and senior policymakers. CREs Howie Gelbtuch and Hugh Kelly helped host the students in New York City. Cochran discusses the program, its origins, its focus, and expected achievements.

As I look ahead to the coming months, I imagine I will be continuing my conversations with potential employers. I don't know where those conversations will lead. But, like the rest of the industry, I remain hopeful.

I do know that the other part of my professional life, this journal, has a great year ahead. We are planning a special issue, devoted to the banking and financial environment, for January. And, we are already reviewing articles for the spring to include even more of the best thinking and insight for which The Counselors are so well respected. Stay tuned. ■

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