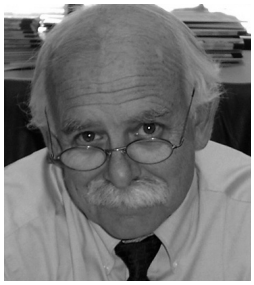
Editor's Note

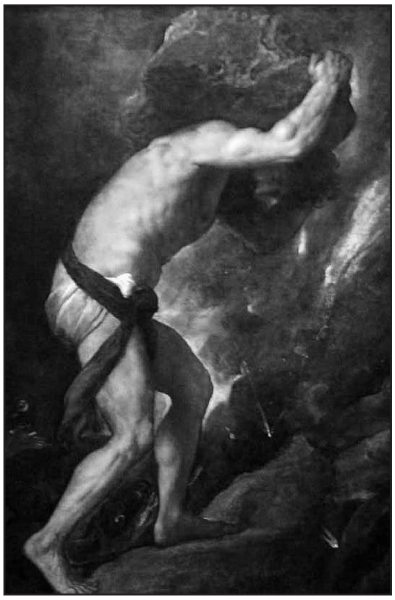
BY PETER C. BURLEY, CRE



"Ah, summer, what power you have to make us suffer and like it"

—Hal Borland

Heat takes its toll. We slow our pace, enervated and exhausted. We suffer dehydration. It's hard to sleep at night. Anxiety levels increase. People get cranky, sullen, unmotivated. I will personally admit to all of those things. This past summer was the hottest on record. In fact, new records were set almost daily. The hottest days, the longest stretches of hottest days, the hottest stretches of longest days, the driest drought. July was the hottest July on record, according to the National Weather Service. We endured a record four consecutive days over 100-degrees in July. We are on pace to set a record for the number of 90-degree days as well. In fact, an article published in *The Washington Post* on August 8 reported, "In 118 years of U.S. records, July 2012 [was] hotter than ***any month previously observed***," with an "average temperature across the continental U.S. … 3.3 degrees Fahrenheit warmer than the 20th century average and 0.2 degrees hotter than the previous record set in July 1936."[1] All of it came in the middle of my move from Washington and Colorado to Chicago, and the experience did, at times, take on a Sisyphean quality.



Sisyphus, you will recall from Greek mythology, was King of Corinth and a bit of a despot who angered Zeus with deception and greed. As punishment for his behavior, Zeus saw to it that Sisyphus was forced to roll a huge boulder up a steep hill in Hades, and before he could finally push the boulder to the top, he would lose his grip, causing the stone to roll back down, obliging him to begin the process all over again. For eternity.

Perhaps Sisyphus (along with our languid summer demeanor, our short temper and our aching joints) serves as apt metaphor for the latest reports on the U.S. economy and efforts to reinvigorate the recovery. We seem to have lost our motivation, we have turned more than a bit cranky, and every time we seem to be getting to the top of the hill, we lose our grip and things start to slide back again. An Associated Press report on August 15 says that the current economic recovery has been the weakest since World War II. We knew it was going to be a tough, long haul to climb out of the crater caused by the Great Recession; the catastrophic financial crisis and housing crash made that eminently clear. But, compared to other post-recession periods, this one has been unbearably weak and slow. Growth in GDP over the past three years has been less than half that reported in other recoveries; employment gains are stubbornly slow; unemployment—especially long-term unemployment—is stubbornly high; income gains when adjusted for inflation are nonexistent. Add still-high household debt levels and limited access to credit, and there is little wonder why consumers are hesitant. Other drivers of economic growth, namely housing and government spending, have been little help in juicing a cranky, sullen, enervated economy. Policymakers cannot seem to agree on the best way to push the economic boulder up the hill either. And, the on-again-off-again fiscal crises in Euroland have added intermittent fits of gravitational resistance to the mix. Uncertainty prevails.

Still, there has been some mildly positive news of late that speaks, to me at least, of better times. Analysts around the country are close to a consensus view that the housing market has reached a bottom and is beginning to pick up, with sales and prices both showing positive gains in recent months. Home builders are expressing more confidence. And, surging corporate profits have helped to lift stocks higher with the Dow Jones Industrial Average rising 54 percent between June 2009 and now. Both housing and stocks could portend a resurgent recovery in coming months and quarters—just don't exhale until after the elections this fall—provided there are no surprises coming out of Washington or Europe or elsewhere.

Despite the heat and the humidity, we were busy over the summer. Some of us never even really took a vacation. Counselors spread out across the country—and the globe—to learn, to practice, to research and to teach. And, many took time to write of their experiences, to inform others of newly acquired knowledge and expertise, and to advance the mission of The Counselors of Real Estate®. Among the many submissions we have received since our last issue, we have compiled a collection of articles certain to draw your attention.

Olga Kaganova, **CRE**, brings her particular expertise once again to *Real Estate Issues* with her latest article, "Valuation and Pricing of Government Land and Property: A Tip of a Growing Iceberg." "Valuation and pricing of government property," Kaganova asserts, "are among the most challenging conceptual and practical issues of contemporary asset management." As governments at all levels contend with financial management issues, and particularly in the climate of fiscal pressure, the "introduction of good policies on government property valuation becomes an urgent necessity." But, the complexities in valuing government assets are many, and with considerations of economic and social values, there is a need to develop and test practical methodologies for establishing value. Kaganova offers a brief review of the some of the approaches that have been applied and are being applied in this area.

"Retail properties have a unique relationship with the businesses they house," says **Ray Cirz**, **CRE**, in his article, "Retail Sales Set Rent Levels." Cirz reminds us that, more than other property types, the physical layout and features of a retail property, along with its location, can have a significant influence on a retail establishment's sales volume. The ability to generate sales will, in turn, influence potential rent levels in a retail property. Cirz offers an example of a regional mall located in the eastern U.S. and suggests a methodology for establishing rents, given property characteristics, and tenant and merchandise mix, in a peer group analysis. He suggests the methodology can be applied to all types of retail properties to measure the relationship between retail sales and rent levels to estimate rent potential and, ultimately, market value.

What about properties under construction? As **Brent Palmer**, **CRE**, and **Richard Wincott**, **CRE**, point out, the appraisal process for "properties undergoing development can prove difficult as many of the underpinnings of traditional valuation analysis are non-existent." With mandatory regular reporting of investment funds and the entry and exit of investment fund participants, meaningful valuations are difficult for projects that are under construction. Palmer and Wincott propose a valuation approach that can quantify the "amount and timing of development or profit recognized … during a development lifecycle." The authors identify various risk factors during the development process and offer a simulated case study as an example of the methodology.

The fiscal and economic crisis in Europe has slowed global trade, but that situation will not last forever. As trade flows continue to expand, and as intermodal transport comes of age, U.S. ports need to be prepared for the next stage in the evolution of trade. Additionally, and importantly, the expansion of the Panama Canal locks, which will accommodate enormous container vessels in 2015, will require ports on all of our coasts to adjust in dramatic ways or face obsolescence and failure. In his article, "North American Port Analysis: Beyond Post-Panamax Basics to Logistics," **K.C. Conway**, **CRE**, takes us through the Post-Panamax world and discusses the strengths and weaknesses of North America's largest ports as they prepare for the next generation of vessels and facilities.

Like many in the real estate industry, **Robert Pliska**, **CRE**, admits in his article, "Social Media: Identifying the Business Opportunities," that he was slow to adjust to new technology and the Internet. Considering the Internet's pace of evolution and use, and that he might be

left out, Pliska "jumped in," creating a website, using emails to attract and transact business and learning how to use his new tools effectively. In today's ever-expanding social media environment, Pliska sees an even larger opportunity. Finding work and doing the work; identifying clients and being found by clients; establishing a social media brand and gaining recognition. Pliska discusses the reasons for using social media, covers the myths and misconceptions in the social media realm and discusses the nature and function of some of the more popular social media sites—LinkedIn, Twitter and Facebook. He offers recommendations for effective use of the media as well. A solid review with solid advice, all from the creator of The Counselors of Real Estate® LinkedIn site (of which this editor is a member).

We bring you two Resource Reviews in this issue. The first, *Real Estate Mathematics: Applied Analytics and Quantitative Methods for Private Real Estate Investment*, was reviewed by **William P.J. McCarthy**, **CRE**. This book was co-edited by **David Lynn**, **CRE**, and **Tim Wang**, **Ph.D.** Several Counselors contributed to it, including Lynn, **Hugh Kelly**, **Scott Muldavin**, **Roy Schneiderman**, and **2012 CRE Board Chair Ken Riggs**. McCarthy sums up his assessment, "Whether as a detailed introduction to the overall subject, the specific chapters, a refresher for the experienced practitioner, or as an academic text, *Real Estate Mathematics*, is both detailed enough and so very clearly written and presented as to meet all of these needs—something rare for such a comprehensive and often convoluted subject matter as real estate mathematics." I am going to suggest a copy for the research center library here on Michigan Avenue. And, gentlemen, I will be requesting autographs.

The second Resource Review, of "Skin in the Game: The Past, Present and Future of Real Estate Investments in America," by **Anwar Elgonemy**, **CRE**, is provided by **Dan Swango**, **CRE**. Swango takes us through the book, chapter by chapter, to build Elgonemy's case, beginning with the background of the U.S. economy and the real estate and capital markets and the basic tenet that "frugality is not one of our virtues." From there, he takes us through the past few decades of real estate and capital market, replete with an alphabet soup of securities, derivatives, CDOs and other inventions, and through the remainder of the book toward a conclusion that "American business and political leaders must rebuild growth and employment that's based less on excessive debt, consumption, construction, and imports…" In his review, Swango suggests that the book "invites you to read more about the drama that has been testing your knowledge, skills and thespianship." An interesting endorsement.

Our relentless heat finally gave way as July came to a close. The mood seems to have changed amid the crowded throngs strolling Michigan Avenue. And, while the tourists and consumers remain cautious, I am beginning to see people stepping out of the 'Magnificent Mile' stores with at least a few bags in hand.

Fall always comes, and we ultimately forget how damned hot it was. Soon, we might even wish for a few of the sweaty, sultry days about which we complained just weeks ago. Just this past week (I am writing this in mid-August), while I was sitting in my rain-splashed garden in Oak Park, I looked up to notice the geese have begun to fly in "V" formations and point themselves southward. As Hal Borland reminds us, "summer is a promissory note signed in June, its long days spent and gone before you know it, and due to be repaid next January." ■

ENDNOTE

1. Samenow, Jason, *The Washington Post*, Aug. 8, 2012, "U.S. has hottest month on record in July 2012, NOAA says."

The promise of spring, which is brought to fruition in summer, is snatched away by winter's cold, hard grasp (I don't know who said that – maybe it was me).

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