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Kahr Real Estate Group

Kahr Notes

In Kahr Notes:

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1. A Note From the Principal

As many of you have noticed, Kahr Notes has gone through three major changes. To start with, we have a new format. We finally chucked the old "plain text" format and made the newsletter pretty. The other major change, which probably matters more, is that we've bulked it up and will be delivering a wider range of information. Best of all, we're finally sending out a full issue every month. We hope you enjoy it.

In any event, in keeping with the tradition of adding in a note from the Principal, here's my brief opinion on the global meltdown:

1. Since October, I've visited a bunch of non-New York destinations including Hong Kong, Singapore, Calgary, Miami, Phoenix, Denver, and Washington, DC. In every single one of those markets, the locals will give you their reasons why their market won't be as affected as much by the global credit meltdown as everyone else's will be. Unfortunately, they can't all be right. Research has shown that everyone thinks that they are a better than average driver.

2. It's apparent that the global credit meltdown is real, but only in everyone else's market. This tells me that we're only at the beginning of the meltdown. Generally, downturns only end when greed trumps fear. Until everyone admits that their local market is not immune, the pain is going to continue.

3. Real estate is not equities; corrections are long and slow. If you don't believe me, take a look at this data set (plus some manipulation by me) from millersamuel.com of condominium prices in Manhattan on a $/SF basis.

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Class Schedule

We continue to offer Argus and Excel for Real Estat Analysis classes in:

New York City

Boston

Chicago

Washington DC

Dallas

Miami

Los Angeles

All classes are offered on the weekend.

Argus

- **New York City:** January 31 & February 1, 2009

Excel for Real Estate Analysis

- **Washington, DC:** December 5 & 6, 2008
- **Chicago:** December 13 & 14, 2 008
- **New York City:** January 17 & 18, 2009
- **Boston:** January 17 & 18, 2009

See page 3 for more Excel classes.

Condo Prices in Manhattan

	$/SF	% Change from Previous Year
2007	1,225	7.3%
2006	1,142	5.2%
2005	1,086	24.4%
2004	873	14.1%
2003	765	3.2%
2002	741	7.2%
2001	691	12.7%
2000	613	27.7%
1999	480	-1.4%
1998	487	21.8%
1997	400	6.4%
1996	376	-17.5%
1995	456	16.3%
1994	392	21.4%
1993	323	-10.5%
1992	361	-2.4%
1991	370	-6.1%
1990	394	-3.7%
1989	409	n/a

Source: millersamuel.com

What I find most fascinating about this data set is that the market's last top in New York (which is my home market) was in 1989. It wasn't until 1993 that it hit bottom and it took another 4 years to get back to its previous level. The next time someone tells you the correction will be quick and efficient, remind them that it took us 8 years (or more) last time in many markets. There's a reason the Japanese call the 90's the "lost decade". Downturns can on on for much longer than anyone would reasonably expect.

Happy holidays.

- Josh Kahr

Cont. Excel Classes

- **Dallas:** January 24 &25, 2009
- **Chicago:** February 7 & 8, 2009
- **Miami:** February 7 & 8, 2009

Real Estate Negotiations

Call or email for availabilties.

Group Classes

If you want to arrange a class in a different city, and have a group, call us or email.

To register, please visit our website: **www.kahrrealestate.com**

2. The Green Meme - Changing Shades

Recessions are a fertile landscape for introducing new shades of green. The few cash crops in existence are tracked with sharp eyes in search for new ways to weed out expenses. Here are the need-to-knows on sustainability initiatives in real estate.

LEED

Leadership in Energy and Environmental Design ("LEED") is pivotal in advancing sustainable initiatives within real estate through templates and accreditation. LEED's marketability initially attracted developers to the concept, and more recently because energy and utility savings can be significantly reduced. At this time, many developers are incorporating LEED , or some variation of it. Some lenders have even earmarked capital to use in LEED projects. Despite today's lack of capital investment in real estate, LEED principles of sustainability will continue to become important and dominate the next cycle.

Corporate Consciousness

According to a recent study from CoreNet Global "Sustainability Perceptions and Trends in the Corporate Real Estate Industry," I, sustainability is an issue on the minds of corporations. High upfront costs are no longer a deterrent. The issue has finally hit corporations at a visceral level, where 'doing good'- and being profitable are no longer mutually exclusive. Acknowledged challenges include the cost of the buildings (approximately +5%), the weak supply chain for green products, and an inconsistency between green building options and desired target markets.

'ACROS Fukoka' an office building in Japan- developed on the city's last remaining green space and intended to keep its orgins intact.

Emerald Cities

Lending for green projects may increase in the future, especially if all Federal buildings are 'greened', a mission that President-elect Obama vocally supported during his campaign. A stated goal of carbon-neutral Federal buildings by 2025 will rely on a tremendous amount of energy efficiency technology, smart design, and public and private investment.

Even if oil prices decline to 'affordable' levels, sustainability has more

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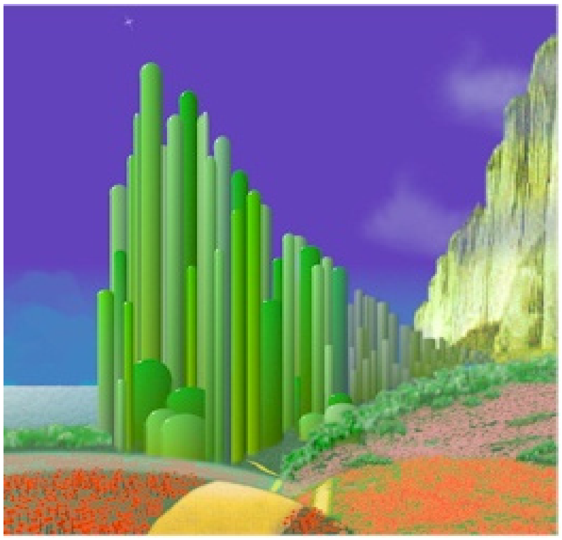
traction than Rachel Carson's (author of Silent Spring) due to the prevalence of environmental consciousness and potential impacts of climate change. Although adopted at different speeds in different countries, green thinking will no doubt continue to affect our industry.



Above: Interpretation of Wizard of Oz's Emerald City by author and probable pundit L. Frank Baum.

3. Insane Project of the Month - Canary Wharf

Caged canaries were used as warning tools for miners - if the canary stopped singing and asphyxiated, miners had just moments to abandon work and run for their lives. However post-industrial London's Canary Warf missed this lesson. It's one of our favorite 'insane projects" that depicts how private/public partnerships can be perilous.

The London Docklands were the centrifuge of commerce in the 19th century. World War II had devastated the area, and it remained blighted until 1981, when Thatcher's government sought revitalization and employment through a public/private organization. The London Docklands Development Corporation (LDDC) was formed and established the Isle of Dogs peninsula as an "Enterprise Zone."

The scheme worked and attracted manufacturing companies to the area. While on a site visit, the Chairman of Credit Suisse First Boston suggested that the Isle of Dogs could be transformed successfully into back office space, much as Boston's old harbor had been. The idea was propelled forward by another American property advisor, G. Ware Travelstead, and Canadian developer Paul Reichmann of Olympia &York. Here the canary flew the coop. Both convinced the LDDC to help them spend billions for the 86 acre project.

Rezoning the manufacturing area to office space meant several stalled years. Over time, the plan changed and the new goal was not to develop back office space but rather to develop Class A space that could compete with the best that London had to offer. Empowering the local populace was no longer on the table. The only problem was getting across the river. The existing subway line would not meet Canary's plans. A new tube line had to be built, but who would pay for it? London Transportation system rebuked the requested
capital outlay. Meanwhile, area residents rebuked development and during a ribbon cutting ceremony set loose flocks of sheep to the streets from neighboring farms.

Despite the lack of adequate access (and sheep!), Canary Wharf Group lurched ahead. The gigantic One Park Place went up just as London's property market crashed. Unable to continue to fund a ten million square-foot office project, JP Morgan and the Rubinstein's pulled out to reorganize. LDDC was fiscally and politically compromised. One Park Place tower (centered below) stood awkwardly, unoccupied, and literally stranded.

No longer influential themselves, the original developers reassembled a new company, and took it public. Enmeshed by association in this public/private partnership London Transport begrudgingly paid for the new transport line. The tube cost the government over 3.5 billion pounds.

Transport tube notwithstanding, the property market was still poor, and occupancy only slowly increased. The project was again repackaged and sold once more as a new public company, Songbird Estates. Eventually, like a giant lumbering to stand, Canary Wharf's infamous office space was leased and the shopping center opened. Long after the first visions of skyscrapers along the docklands, London's Financial Services Authority moved in. Despite its troubled gestation it does rival London's central business district for Class A tenants.

The Canary Wharf private/public partnership succeeded in plucking feathers while sitting on the same rotting egg. This project did not live up to its initial purpose of creating jobs for area residents, and instead shifted London's employment center, while siphoning billions from the government treasury. This bit of history shows that a project needs more than government blessings and high powered people with ideas. It needs a live canary.

If you met us through a class, you may not know that we are actually a real estate consulting shop too. To clarify: - here our other specialties aside from knowledge rendering.

4. Forced Fads - Real Estate Trends of 2009

"Predicting is just a matter of observing, while staying objective."

So opened Joel Ross of Citadel Realty Advisors at November's 'Emerging Trends in Real Estate 2009' conference hosted by the Urban Land Institute and PricewaterhouseCoopers in New York City. A surprisingly calm group of real estate professionals gathered to take in the cloudy forecast of five panelists, all of whom survived the downturn in the early 1990's.

We call the combined insights of the panelists and other real estate professionals surveyed throughout the country, 2009's "Forced Fads."

- Have patience – husband your cash
- Consider buying discounted loans
- Hold core value and office assets
- Consider buying public REITs
- Recapitalize distressed loans
- Focus on global markets – go where employers want to be
- Increase the quality of asset managers and leasing professionals
- Reorient to mixed use, urban core infill, and transit-oriented development

In short, 2009 is a good time to buy distressed assets with strong fundamentals if you have enough cash. Also, investors will need to know which assets are worth buying, "and that," said one of the panelists with a sly grin, "is not something the computer-whiz-model-junkie can figure out.'

With the entire world resetting, do not expect yesterday's tools to work. Expect a continuing devaluation as the market resets to higher cap rates. Recall how all things 'impossible' have been happening, so embrace the higher cap rate and work with it.

Although forecasts were grim, confidence for the long term is strong. Our real estate industry is one affected facet within the multi-faceted economy. Perhaps the confidence at the conference stemmed from real estate's resilience, or perhaps it is just a shallow optimism, pinned to the fact that most folks at this conference still had a job. As expressed in the last Kahr Notes issue, there are plentiful opportunities for those with cash, agility, and creativity. Overall, full recovery isn't expected until 2011. Current "group think" believes it gets worse before it gets better.

5. Kahr Group Information: Consulting and Training

Financial Modeling
Regardless of deal size or type, our key objective is always to build highly functional and optimal models for our client. We can also review and analyze a client's existing financial models for inefficiencies.

Capital Advisory
We support clients in their capital raising efforts with lenders and equity providers, by delivering presentations to capital sources or making introductions. We also lend our extensive knowledge of capital markets, deal structuring, and real estate finance to help negotiate better terms on equity and debt.

Offering Memoranda
We design and write graphically appealing institutional quality offering memoranda and RFP responses for our clients. When raising capital, a high quality document will get the project in front of the right capital sources.

Market Analysis and Feasibility
Our reports take a multi-layered "hands on" approach that goes beyond identifying current market conditions; we seek to enhance the overall profitability and market acceptance of the project by identifying hidden opportunities

Excel for Real Estate, Negotiations (new) & Argus

Our **Excel for Real Estate Analysis** class draws students from across the country. It provides what many attendees say they never learned in business school; they learn how to model complex real estate transactions and use Excel to its fullest. All attendees will develop an understanding of how to use the power of Excel to analyze cash flow, leverage, partnerships and joint ventures, and construction projects.

The **Argus** course consists of lecture, case studies, and classroom discussion in a collaborative environment. By the end of the class, attendees will have a firm understanding of how to use the software and will be well prepared to analyze real estate in a high volume production environment.

The **Real Estate Negotiation** course consists of two full 8 hour days (with one hour each day for lunch) and provides a broad introduction to skills and techniques of negotiation. Some of the categories are covered include: preparation tactics, identification of goals and means, evaluation of the other party's position and goals, and possible points of dispute. Furthermore, we encourage creative solutions (where possible) that maximize value by considering factors beyond simple price or cost.

Contact Kahr Notes

Kahr Notes is evolving to keep pace with our firm. We want to increase content value for you, while providing you interesting perspectives. Tell us what you want to read and we will listen - whether we do it or not. Write your feedback to info@kahrrealestate.com