

In “Kahr Notes” this month:

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**1. A Note From the Principal
Solving the World’s Problems in 90 Minutes or Less**

In a couple of months, I’m going to deliver a 90 minute webinar for the Urban Land Institute (“ULI”) on real estate crises and workouts. Basically, it will be a presentation on where we are, how we got here, how other real estate crises unfolded, and what specific techniques and skills you can bring to bear on your projects. There will also be an additional 30-minute Q & A period, which should be enlightening.

Based on my experience, these seminars really work well when they have good case studies. While I have a few, I’d like to take a moment to reach out to the readership of Kahr Notes to ask for more. If you have some experiences that you’d like to share- either from this crisis or previous crises- let me know. Don’t worry about confidentiality; case studies will not use your name or your firm’s name unless you want them used. I’m just looking for your experiences.

The date for the seminar has not been set. When it is, I’ll announce it both in the newsletter and online, and expect ULI to do the same.

As always, I may be reached at josh@kahrrealestate.com.

Thanks,

Josh Kahr

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Class Schedule

We continue to offer Argus and Excel for Real Estate

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

- **New York City:**

January 17 & 18, 2009

- **Boston:**

January 17 & 18, 2009

- **Chicago:**

February 7 & 8, 2009

2. Renting in a Retail Wonderland

“Angels who are on up high / Tell us to go and buy” - Tom Lehrer

If any real estate asset best typifies the United States, it's retail. Consumerism is the measure of our confidence, the spine of our economy, and a pillar of our culture. The holidays have always been warmly welcomed... or at least they were until the money ran out.

Until 2008, retail was on a trend of continual expansion. For years, this growth was driven by ample credit opportunities for both development projects and 'confident' consumers. Even while macro influences brewed off the radar, the industry's myopia continued to roll out new stores, gaming for additional market share. According to the International Council of Shopping Centers, 148,000 retail locations are projected to close this year. Keep in mind that all this is happening before the crucial holiday season.

In short, it will be another year before anyone has a reason to shop again, birthdays notwithstanding. No wonder box stores have issues: unlike "general stores" like Wal-Mart and Costco, the hippopotamus-sized specialty stores (such as Linens and Things and Circuit City) are all going to the Great Mall in the Sky. What will happen to the empty shells? Short of reuse by competitors -who in most cases are already in a shopping center across the highway- we may be looking at a national revival of mega-churches. Perhaps we'll even bring back manufacturing.

Even luxury-brand retailers that have typically escaped previous downturns unscathed are finding themselves in a market where they stand to lose. Apparently, ten years of selling down-market in a quest for market share may have exposed them to overall market trends. Oops.

All in all, it looks like it's going to hurt.

This is not to say that our friends across the pond are in a good situation either; Europe is not exempt from these trends. Last year a record 45,000,000 square feet were added. Poland opened the most physical space; Bulgaria and Russia had the highest percentage increase of retail space (150%). How Europe will be affected has not been determined, but it will likely be less severe than the U.S. thanks to a much smaller ratio of retail space-to-population. European countries generally have around 10 square feet per person, while the U.S. contains 41.6 square feet per person.

This is all a prelude to what is the truly terrifying question for the industry: Could the retail industry's problem be that we simply have too much retail? The chart below shows the growth and recent stunning drop in the total leasable retail space per capita in the U.S.:

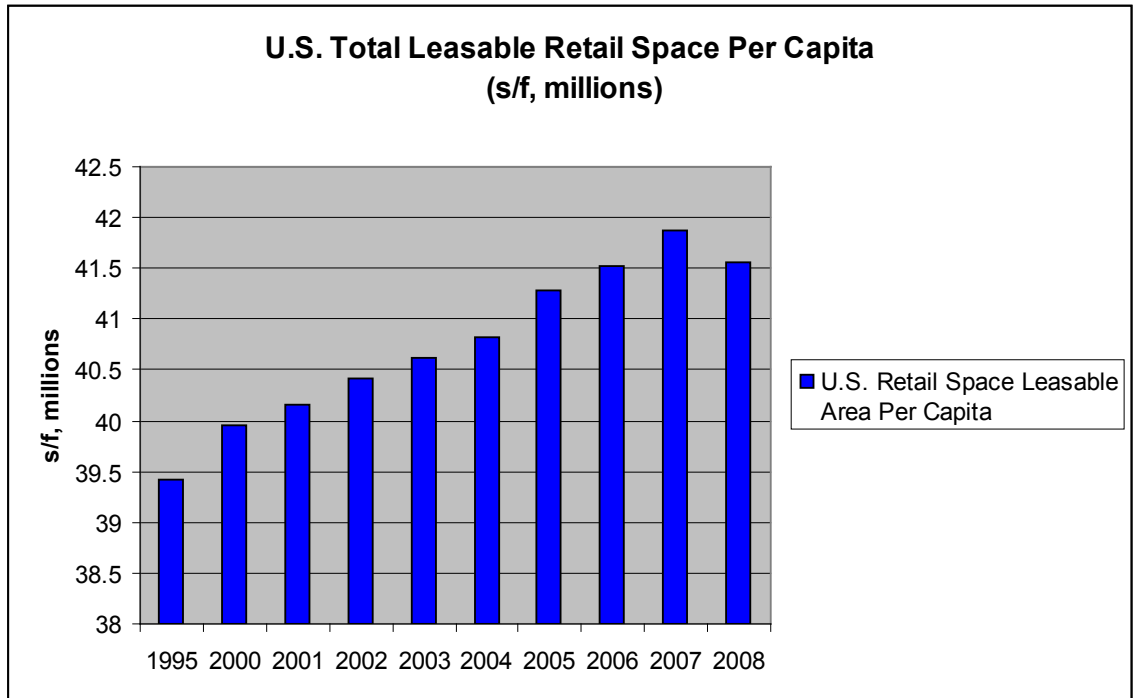
Real Estate

Negotiations

Call or email for availability.

Group Classes

For custom training solutions, or to arrange group enrollment, please contact us directly.



Source: ICSC Research, U.S. Census Bureau

2008 (year end projected)

Given the advent -and subsequent popularity- of online shopping, the expansion until now seems remarkable. If anything, shouldn't the expansion have slowed down? The latest data indicates that the trend has reversed.

We will see what happens after the holiday season, but this could be the year that the tide sets a high water mark; the water may stain the storefronts for years to come.

Sources:

<http://www.costar.com/News/Article.aspx?id=298E12902AEB6E1876E37732153F4D8D>

<http://www.cushwake.com/cwglobal/jsp/newsDetail.jsp?Country=US&Language=EN&repld=c8100008p&extraParams=null&pageType=null&lhslmgAltKey=null&lhslmg=null>

To register, please visit our website:
www.kahrreestate.com

3. Governor's Island - The Island of Nuts

Governor's Island is a small garnish of land 800 yards off of Manhattan's southern tip. Its 172 acres is packed with high density history. Three identities, 'best' uses, various national agendas, and a man-made terrain make for a pawn's story on a North American chessboard.

It was all nuts from the beginning. Chestnut, hickory, and oak trees originally grew on Governor's Island. When visiting the island in the summer months, Native Americans dubbed the tiny land "The Island of Nuts."

When the Dutch West India Company started colonizing New York ("New Amsterdam" at the time) in 1637, the Director General fancied the serene parcel for his own use, and bought it for "two ax heads, some beads, and nails." Not long afterward, the Dutch lost confidence in their Director (possibly due to his egomaniacal tendencies), and seized his little island. Thereafter, the "Island of Nuts" became known as "Nutter's Island," and a new residential development (colony) for the religiously tolerant. However, there was no peace as the Dutch and British continued to duke it out elsewhere for fertile land and trade routes; unfortunately, this island was no exception. It flip-flopped ownership four times in 61 years between the competing colonialists. In the end, the British designated its use for "the Majesty's Governors" and henceforth it became known as "Governor's Island".



Source: http://www.college.columbia.edu/cct_archive/sep04/images/features2_govisland.jpg

By the onset of the Revolutionary war, the Island had blossomed into more than a fine piece of property; it was a human resources hub and a prized strategic location for warfare. The isolation and park-like terrain provided a natural space for power players to plan and reinforce positions. From 1794 to 1966, it was in continual military use, and served a variety of uses, including a command headquarters and military post for the United States Army. In 1912, Governor's Island grew. The Army Corps of Engineers dumped the excavated dirt from the construction of New York City's Lexington Avenue Subway around Governor's Island, more than doubling its size from 69 acres to 172 acres.

Eventually, technology would eliminate the need for New York City harbor defense. In 1996, the U.S. Coast Guard shuttered its operations on the Island and eventually sold it to the state of New York for \$1.

At this point in the story, the practical realities of this real estate purchase dawned on the new owners. What do you do with 172 acres just off Manhattan and over 200 years of non-commercial use? There are no commercially viable structures, access by ferry only, and aging historic structures that need to be maintained.

Over the years, a range of concepts have been explored by the Governors Island Preservation and Education Committee ("GIPEC"); here are some of the more interesting ones:

- Legalize gambling only on the island and establish casinos
- New York University campus
- Public high school
- 40 acre park
- Non-profit office space
- Artists' studios
- Installing gondolas for transport
- Seasonal performance theatre (in temporary tent space)
- Food court

Notably absent from this list: market rate housing or commercial development. When one considers the 2.2 mile long promenade and acres of historic space that can be used for parks, it would seem that the most obvious use would be simple market rate development.

After evaluating five separate proposals over three years, the full vision still isn't clear. In any event, one thing most people agree on is that New York City needs more green space. Acknowledging this, Governor's Island was closed in October 2008 to demolish military buildings. In the spring of 2009, eight acres of picnic area will be completed, the first of many nebulous proposals that may actually come to fruition 13 years after the property was transferred out of military control.

Nuts.

4. 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