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U.S. Deficit Dialogue Highlights CRE Annual Convention ▶ story on page 5



Ron Insana, CNBC senior analyst and Jeff DeBoer, president and CEO of The Real Estate Roundtable examined the U.S. deficit with Ken Riggs, president of Real Estate Research Corporation, at the CRE 2011 Annual Convention.



2012 CRE Board Chair Kenneth P. Riggs, Jr. addresses the CRE board at the Washington, DC Annual Convention in November.

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**LOOK FOR FULL CONVENTION
COVERAGE IN THE JANUARY
ISSUE OF THE COUNSELOR**

EDITOR'S MESSAGE

Robert J. Nahigian, CRE

So the third quarter is now over. Wow! What a summer of uncertainty. I had many questions in June regarding investments for the second half of 2011. So what did I learn as we move into the fourth quarter?

I had some concern about the ending of QE2 on June 30 and the potential rise in interest rates. There was much talk about QE3. Conclusion: nothing happened. There was no massive impact from the ending of QE2 and there was no massive rise in interest rates. The Fed announced two more years of low interest rates, but these rates aren't sparking the economy either. It has not helped spur investments.

I had concerns about high inflation for the second half of 2011. Conclusion: there is no mass hysteria regarding inflation and no increase, for now, of interest rates. Maybe Dr. Shilling was right about this deleveraging phenomenon. I only observe consumers, companies and governments working hard to pay off old bills. These old bills were tied into old consumption. Old consumption does not spur new consumption expansion. It will take a few years to pay off these bills. I have more concern moving forward about the U.S. becoming stuck in a rut of deflation as did Japan.

Government spending would be a catalyst for inflation but it seems to be having fiscal issues. I don't see the government as a source of economic consumption. In fact many municipalities and states could be going into default, affecting municipal bond values.

I was concerned in June about the transformation of our accounting system from GAAP to IFRS and the impact on real estate leases. After speaking with more than 60 public companies this summer, no one seems to be too concerned or focused on the transformation.

My big global concern was Greece and the ability of other countries to pay back their debt. I was never convinced that if you spend more than you make that you can quickly pay back debt if at all. It seems to be a continuing problem and spreads like a disease to other countries.

I also was concerned about commercial loan defaults and the housing market. The reality is that it will take four to seven years to clean up this mess. Banks need to move forward and flush these properties off their balance sheets and take the financial "hit" and the Fed needs to back off of regulation issues.

Yes, we need more jobs. But it is not "right around the corner." It is probably another four to six years away, if at all. We need a revolutionary invention or industry discovery or demand that will drive a massive employment burst. I see nothing revolutionary on the horizon. But I do see U.S. industries expanding globally, including medical consumer staples and food/beverages.

Finally, my last idea, which is the craziest thought I have had all summer. This thought is so ludicrous that many of you will chuckle, but give it a thought. If we want to fix this global finance issue and move on to a stronger economy, I believe that the debt hole is perhaps too deep. It could take generations to clean it up. I think the problem of debt is massive and I see countries, states and small governments on the brink of collapse.

So, here we go...have these governments file for bankruptcy, wipe out the debt, then remove the leaders from office, replaced by real leaders and be forced to start over with a balanced budget and new rules. People have been disgruntled with government this past summer and with the federal debt ceiling issue as well. If GM can file for bankruptcy, then why can't the government? GM is stronger than ever in a short period of time of recovery. Maybe stagger the bankruptcy filings. Are they too big to fail? I understand the pain would be enormous, it would probably collapse the entire world short term, global investors would be wiped out and probably never buy government bonds again. But think how easy it would be to solve the problem. Wipe out debt, start fresh with a balanced budget, reduce government and spending and start fresh on the way to recovery. But it is just a thought. ■



ROBERT J. NAHIGIAN, CRE
2011 EDITOR IN CHIEF

A handwritten signature in cursive script that reads "Robert J. Nahigian".

2011 Editor in Chief

CHAIR OF THE BOARD MESSAGE

John Leary, CRE

Behind the Scenes

In my first two messages, I addressed my travels and participation in external events on our behalf. The only event I did not cover was a dinner meeting on September 20th with members of the Northern California Chapter organized by Chapter Chair Jim Gavin and staff liaison to chapters Paul Coady while I was in San Francisco on a teaching assignment. As this year in the life of The Counselors winds down, I find myself reflecting on the behind-the-scenes-role of the Chair and wanted to share some of that role with you.

The basic logistics involve a weekly phone discussion of ongoing events in the life of The Counselors with our outstanding President and CEO Mary Fleischmann and a monthly conference call with the Leadership Team: First Vice Chair Ken Riggs, Second Vice Chair Howie Gelbtuch, Liaison Vice chairs Ed Dinan, Otis Hackett and Lewis Stirling, and Mary. Since his nomination and election at the Midyear Meetings in San Diego, Hugh Kelly has joined our calls as 2012 Second Vice Chair Elect. The monthly call includes reports back from each of our committees through the Liaison Vice chairs as well as a discussion of significant current and future events.

I realize now that the two most important meetings in the life of a Chair occur before he or she takes office. Two years ago, I met with 2010 Chair-Elect Art Pasquarella and Mary Fleischmann in June to begin the selection process for 2010 Committee Chairs and Vice Chairs, and last year I met as 2011 Chair-Elect with Ken Riggs and Mary to select 2011 Committee Chairs and Vice Chairs. The incredible effort by the chairs, vice chairs and members of our committees this year has resulted in smooth operations and forward-looking opportunities for our organization. I encourage each of you to log on to the "Members Only" section of our website, look at the names of those serving The Counselors on standing committees, and thank them when you are in contact. I also encourage you to volunteer for service in The Counselors in the years ahead...it is a very rewarding experience.

A significant behind-the-scenes effort this year was the management of two trademark (law) suits involving the protection of the CRE® credential. To preserve as much confidentiality as possible, we created a litigation team consisting of our appointed officer, the President and CEO and the three elected officers: Chair, First Vice Chair and Second Vice Chair. The litigation team worked with our trademark counsel Dennis Gross, Esq. and outside counsel in the two venues, and reported back to the Leadership Team, Executive Committee and Board of Directors when appropriate. I am pleased to report that both cases resulted in settlement agreements that favored The Counselors and preserved our credential. While the agreements, like most settlements, contain confidentiality provisions, we do have the right to disclose the settlements in similar efforts

undertaken to protect our credential.

At the same time, with the approval of the Board at the Midyear Meetings in San Diego, we are about to retain a firm to assist The Counselors in distinguishing our acronym from the commonplace use of the letters CRE in the current world of abbreviated references to commercial real estate, corporate real estate and the like. This re-branding effort will take place over the next year and result in an updated logo for our organization that retains and distinguishes our name and acronym.

One of the more difficult behind-the-scenes events in the past year has been dealing with email in our Invitation Process. Email is a wonderful tool that we all use regularly in our business communications. All communications in our Invitation Process are to be confidential and intended to convey an individual CRE's opinion for consideration by the Invitation Committee. I encourage each of you to be most careful when responding to a confidential inquiry by email. Review what you have written, reflect on it and then check to whom your email is being directed before you hit "send." Please utilize the "option" icon to note that your communication is "Confidential." Above all, do not use the "Reply All" or "Forward" functions.

One of the great blessings of this role is the opportunity to get to know and work with each of our dedicated staff and observe firsthand all that they do each day for each of us in the name of The Counselors. Mary Fleischmann has assembled and leads a great group of people. When you have the opportunity to interact with one of our staff people, don't forget to thank them.

I had the pleasure of visiting with many of you at our Annual Meeting in Washington, D.C. For those of you who could not join us there, know that I am grateful for the opportunity to have served as your Chair this past year. The rewards far outweigh the effort.

Peace... ■



JOHN J. LEARY, CRE
2011 CHAIR OF THE BOARD

A handwritten signature in black ink that reads "John Leary, CRE". The signature is stylized and written in a cursive-like font.

2011 Chair of the Board

Member News

Newsbriefs

ISOBE ELECTED MANAGING DIRECTOR OF JAREC

Hiroyuki Isobe, CRE, president, Japan Valuers Co., Ltd. was recently elected a managing director of the Japanese Association of Real Estate Counselors (JAREC). In his new role, he will be responsible for the association's International Committee.

HENTSCHEL NAMED TO INTERNATIONAL ADVISORY PANEL



John J. Hentschel, CRE, MAI, FRICS, CEO of Hentschel Real Estate Services, Abingdon, Maryland, recently was

named to an eight member panel of international experts from the U.S., Russia, Australia, Canada, United Kingdom and Slovenia, which has been assembled to advise and assist the *International Valuation Standards Council (IVSC)* with the development of standards and guidance to facilitate the uniform and accurate valuation of specialized properties and infrastructure assets owned by national, state and local governments for financial reporting and other purposes. The International Valuation Standards Council (IVSC) is an independent body that sets global standards for valuation, especially those that will be relied upon by investors and other third-party stakeholders.

CREs...

Please remember to use your CRE credential in interviews with the media or any publication, and describe the organization's unique qualities to interviewers.

On the Move

HANSON JOINS RERC AS CEO



Richard A. Hanson, CRE, principal, Mesa Development, LLC, Chicago, has taken on a new role as CEO of Real

Estate Research Corporation (RERC), Chicago, joining 2012 CRE Chair and RERC Chairman and President **Ken Riggs, CRE**, to provide specialized consulting and advisory services to clients of both firms. "RERC is extremely fortunate to have someone with Rich's vision, experience and talent," said Riggs, "and he adds a very important leadership ingredient to the firm." Over the next several months, Hanson will be transitioning into his role as CEO. Mesa Development, a national real estate development and investment firm will continue under the day-to-day guidance of Jim Hanson. The collective firms will be able to offer unique high-level consulting services to existing and new clients.

MULDAVIN JOINS RMI



Scott R. Muldavin, CRE, has joined Rocky Mountain Institute (RMI) to bolster the institute's expertise in sustainable finance and launch "RMI's Center for Sustainable Finance" to enable capital providers to maximize their sustainable investment while limiting risk and maintaining strong profitability. RMI is an independent, entrepreneurial, nonprofit think-and-do tank whose strategic focus is to map and drive the U.S. transition from fossil fuels to efficiency and renewables by 2050. Previously, Muldavin served as founder and executive director, Green Building Finance Consortium, San Rafael, California—a group created to address the private sector's need for better valuation and underwriting tools and practices to enable accelerated green building investment.

BENE MOVES TO TAG



Andrew G. Bene, CRE, recently took a new position as managing partner, at TAG Real Estate Partners, New York City.

Bene previously held the role of executive vice president, Capital Markets, MB Real Estate, also in New York City.

Visit www.cre.org for the latest Counselor Member News

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U.S. Deficit Dialogue Highlights CRE Annual Convention



This story includes coverage of the U.S. Deficit session at the 2011 Annual Convention with additional information from interviews with Jeffrey DeBoer and Ron Insana. Watch for more convention coverage (program sessions and social events) in the next issue of The Counselor.

The U.S. economy took center stage at the 2011 CRE Annual Convention, where Counselors from around the globe gathered Nov. 2–5 in Washington, D.C. Moderated by CRE 2012 Chair **Kenneth P. Riggs, Jr.**, president of Real Estate Research Corporation, “The U.S. Deficit” program session featured popular CNBC senior analyst and commentator **Ron Insana** and **Jeffrey DeBoer**, president and CEO of The Real Estate Roundtable. Coming from two different perspectives, the pair found common ground: there are no easy answers on the horizon for the U.S. economy, U.S. deficit, or the real estate industry.

“We have a growth crisis, not a deficit crisis,” Insana said. In his view, the U.S. should be less concerned about short-term debt and focus on solving the long-term debt crisis. He pointed out that when the Social Security and Medicare programs were instituted, life expectancy was significantly lower than it is today. “They never envisioned people living into their late 70s or 80s,” he noted. “With more money expended than is replaced by workers’ contributions, it’s a ‘no-brainer’ that over time we have a debt problem,” he said.

Both he and DeBoer agreed that partisan politics has pre-empted much of the conversation within government, and is a major obstacle to solving economic challenges. DeBoer said the current partisanship, largely created by changes in Congressional districting within the past decade, which created more politically homogeneous voting districts, is partly to blame for the heated levels of rhetoric and resulting dysfunctional impasses. He also implicated the media, which he says has increased partisan TV and “talk-radio” programming, resulting in the public selecting only programs that support their predetermined viewpoint—not objective analysis.

“In the 1990s, America shared its wealth with other countries, such as Bosnia,” DeBoer said. “Now, the tone is different. We’re seeing people believe that if someone has something today, it must be at the expense of someone else, causing a chasm between the ‘haves’ and the ‘have-nots.’” “It’s ‘recession rage,’” adds Insana.

Within this highly charged arena, the so-called bipartisan “Supercommittee” is struggling to come to fiscal recommendations. Failure to compromise will trigger automatic spending cuts, mostly slated for 2013. At press time for *The Counselor*, this entity was still locked in discussion, so we asked Insana for his opinion of what the future will hold if they do—or don’t—come to an agreement on how to reduce the deficit.

If the committee is successful in finding \$1.2–1.3 trillion in cuts, Insana believes there will be no (or low) damage to the domestic markets, allowing Wall Street to focus on the international markets. He believes that scheduled defense spending decreases will largely contribute to this dollar amount.

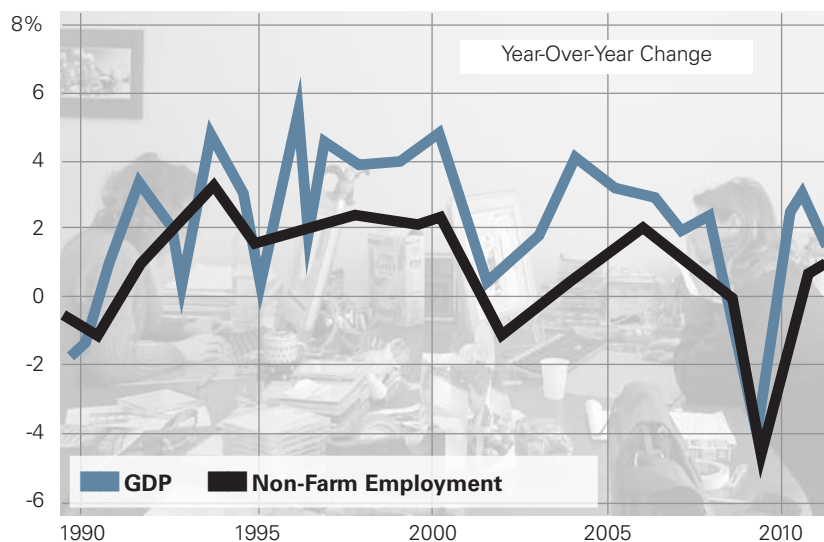
Should the committee fail to gain consensus, Insana says the U.S. could face another downgrade of U.S. debt. However, despite a short-term reaction, he sees a fairly quick bounce back and cautioned that any adverse impact will largely be in 2012–2013. “Most investors understand we have a long-term issue,” he said, “not a short-term crisis—we really do need to address Medicare, Medicaid and Social Security. We don’t have a problem now paying our debt,” he said, citing the debt crisis in countries such as Greece and Italy. “However, long term is another matter.”

Despite all the doom and gloom, both DeBoer and Insana remain optimistic that real estate is a good long-term investment, and agreed “real estate is not the next shoe to drop” as had been predicted in the early days of the recession. Insana said the shoe is “more likely state and local government.” This is still not good news for real estate, they concurred, but at least real estate itself is not to blame.

Insana pointed to upticks in foreign investment in U.S. real estate and improvement in selected markets such as Boston, Manhattan and Washington, D.C. He said no one should lose sight of the current job boom in “big sky” states in the energy field, and improved indicators in upcoming retail sales. “The U.S. is on its way to being energy self-sufficient if crude oil deposits (in a number of states) are viable—which would completely change the dialogue with the Middle East. And despite no easy solution to the residential mortgage debt crisis, DeBoer said we should not lose sight of “historic saves—such as the Internet”—which vastly changed the economic and employment landscape. While it may not be soon, he said, “We will get another.” ■

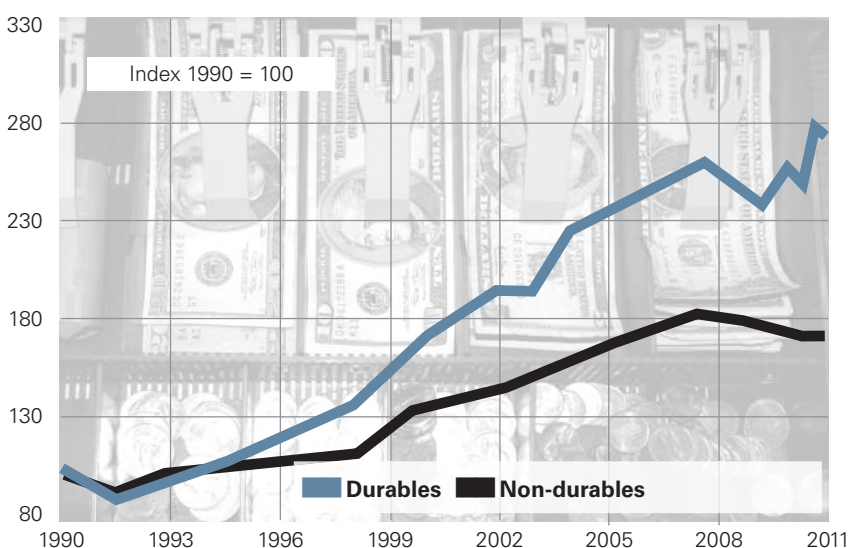
NON-FARM EMPLOYMENT AND REAL GDP

THE FIRST HALF OF 2011 was terrible, both in terms of total output and in terms of jobs. There is reason to expect that the second-half numbers will be better, if only because several of the drags on the economy were event-related: the Japanese tsunami, the Arab Spring and the onset of the Greek sovereign default crisis. Still, even optimists are hard-pressed to forecast GDP growth consistently exceeding 3 percent in the coming year, and the nation needs 4 percent plus, coupled with 2.5 percent job growth to make an impact on the debilitating 9 percent unemployment rate. It is not pretty.



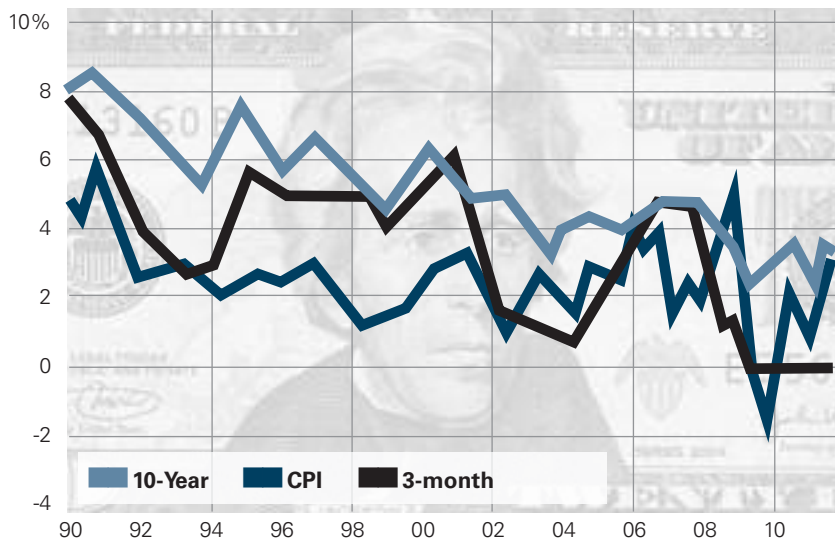
PERSONAL CONSUMPTION EXPENDITURES

WE ARE NOT OUT OF THE WOODS on the consumption front, by any means. Although purchases of big-ticket items from automobiles to household appliances has picked up recently, the bellweather merchandise for shopping centers—the non-durable goods that dominate GAFO (general, apparel, furniture and other goods) remain on a downward trend. Retailers have indicated, however, that they are expecting solid growth in same-store sales this holiday season, and are planning seasonal staff increases accordingly. That should help the jobs numbers toward the end of 2011—even after the statisticians apply their “seasonal adjustment factors.” Ordinarily, we should be seeing “pent-up demand” by this point after an economic trough. But too many households are living from unemployment check to unemployment check for demand to strengthen appreciably.



INTEREST RATES AND INFLATION

NEGATIVE REAL INTEREST RATES are the most dramatic evidence of the Fed’s determination to provide liquidity in the ongoing economic crisis. There has been much alarmist concern about inflation, but with unemployment above 9 percent, and GDP growth in the 2 percent range, the Fed’s willingness to tolerate some upward price pressure in 2011 is both understandable and justified. Even with the recent rise in the CPI, consumer prices (inclusive of energy and food) are well within the bounds of historical performance of the past 25 years. The announcement that the central bank will maintain an accommodative monetary policy through mid-2013 should provide the markets with some of the certainty needed to plan for growth over the next two years. Whether that is enough to overcome the gridlock on the fiscal policy front remains to be seen.



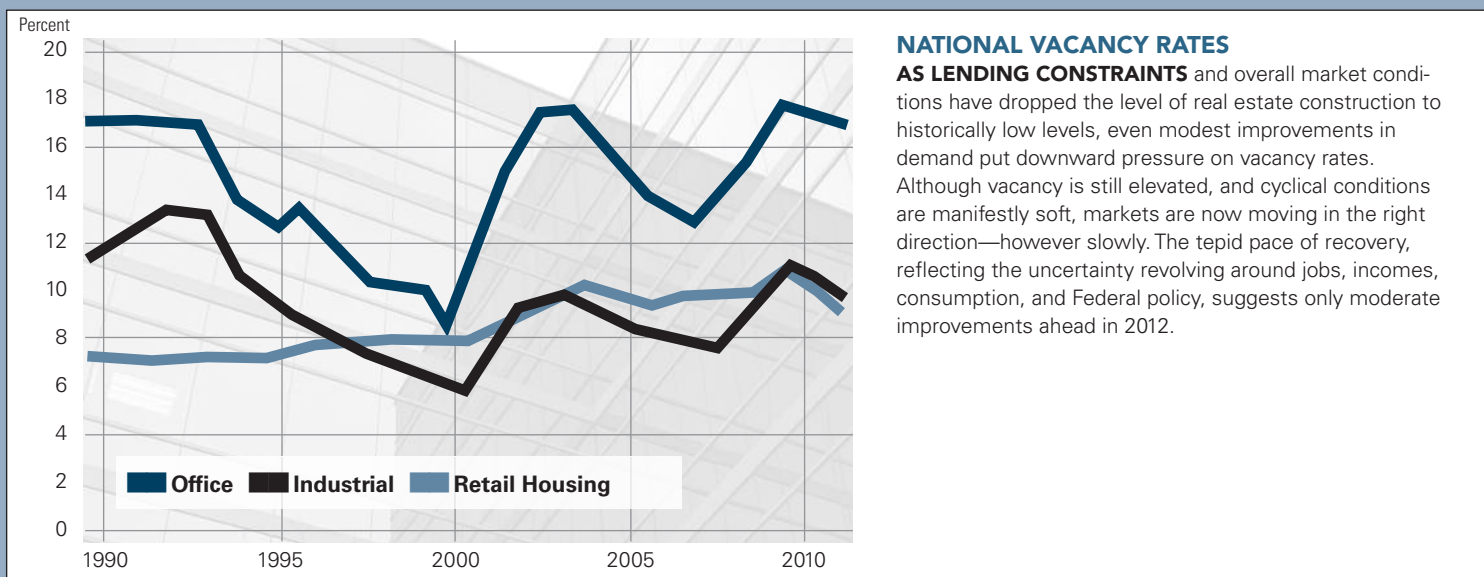
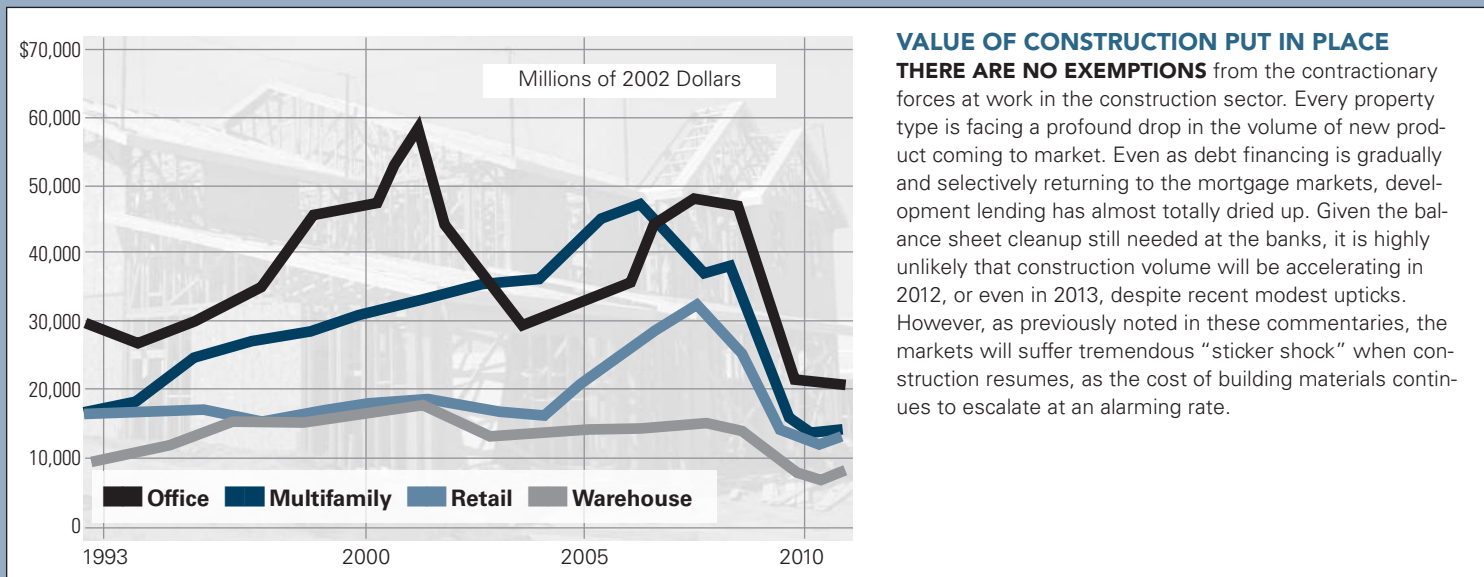
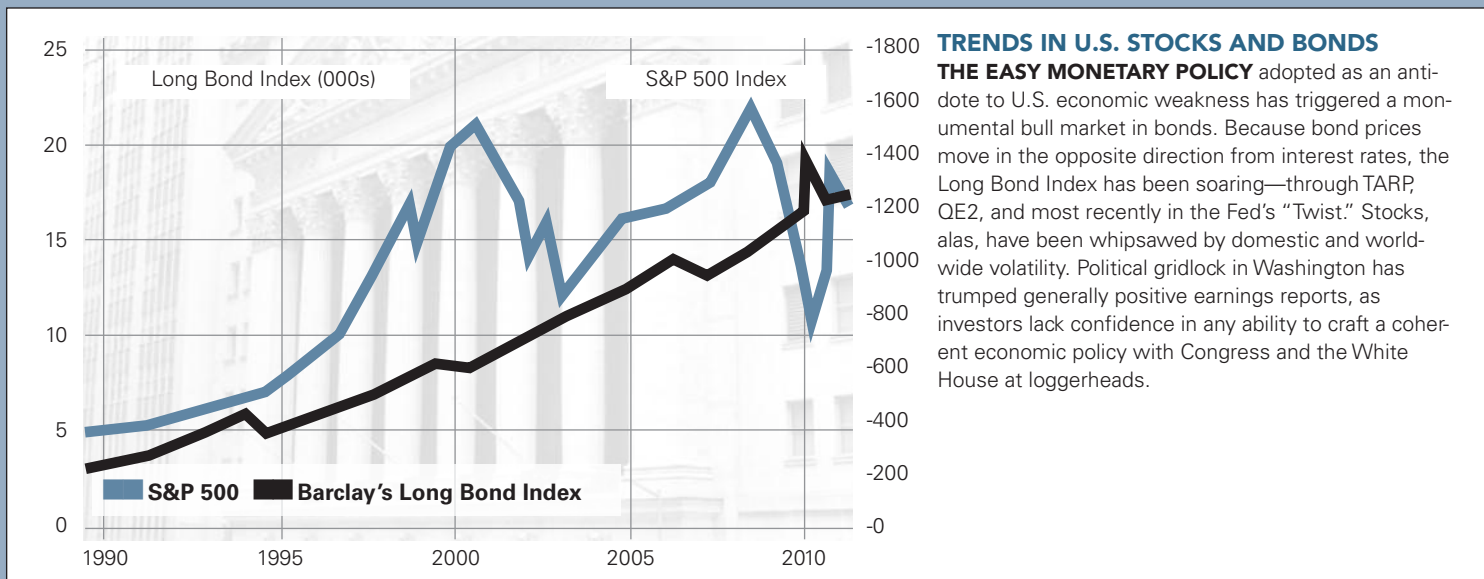
Sources: U.S. Bureau of Economic Analysis; U.S. Dept. of Labor

Sources: Department of Commerce (data); indexation by Hugh F. Kelly, CRE

Sources: U.S. Dept. of the Treasury; Bureau of Labor Statistics

Monitor

Hugh F. Kelly, CRE Real Estate Economics



Sources: Standard & Poor's; Barclays LLC

Source: U.S. Census Bureau Data; Constant Dollar conversion by Hugh F. Kelly, CRE

Sources: CB Richard Ellis (Office, Industrial); U.S. Census (Residential)

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JAY'S COUNSELOR SURVEY

Jay Marling, IV, CRE

Below are the results to five survey questions on the economy recently posed to Counselors by CRE Jay Marling, IV.

