SIMON SAYS

THE WILD GOOSE CHASE

…Freedom is nothing else but a chance to be better…

The Wild Goose Chase

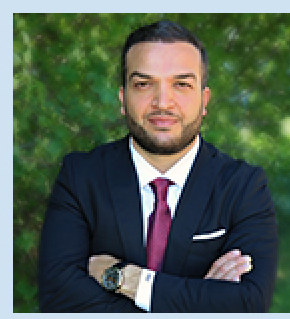
I hope 4th of July was a fantastic time spent with you and your families. Albeit activity is slower due to the seasonal summertime blues, investors are on a wild goose chase with high conviction towards commercial real estate. Property values continue to rise as core fundamentals improve. Returns for investors are favorable in contrast to other investment vehicles. Ready capital is ready to be deployed. The sector is still recovering, with room to grow in both occupancy and rent growth, as opposed to investment classes nearing the end of their improvement cycles. Yet we all know real estate is in high demand. But what is the pursuit of this wild goose chase? How hot to trot is each property type? Apartments are the industry's most darling product for the trailing 5 years and somewhat settled in recovery. Yet the majority of apartment landlords believe their holdings will continue to increase in value over the next 12 months barring healthy vacancy and effective rents sustaining upticks. The question of buying more apartments is a mixed bag considering pricing is so strong. The Industrial sector is spiking as the next best performer behind apartments. Construction for Industrial is mild yet absorption is percolating as global mobilization of goods and trade are climbing to stronger activity levels. Over 50% of investors believe now is a good time to buy more industrial brick and mortar. The uglier duckling within the recovery cycle is the Office arena thus far. Trending positivity still exists for Office space as absorption and vacancies seem to be headed in the right direction. National Office vacancy dropped 50 basis points to reach 16 percent at year end. Although regulations, tax laws, and healthcare reform changes are impacting growth, the more fervent need of job growth should eventually result in

more backfill of space. Hospitality product traditionally tracks closely to the economy, in correlation to consumer travel. Hotel occupancies have risen and ADR's have increased modestly as demand is expected to rise around 2.5% and RevPAR by 7%. Retail has made strides on many levels as household wealth is at a record high due to housing prices and stock market bull runs riding high. Store closures depicted negative headlines for users such as Staples and Radio Shack and e-commerce still continues to influence applied investment agendas. Value and convenience based retailers remain in demand. Tenant expansion plans are benefitting shopping center foot traffic and net leased assets are still a hot ticket item due to passive management at 5 to 7% competitive yields.

What This Means to You:

Needless to say, promising statistics can be vastly altered as they weigh heavily on the economy, rising interest rates, the Fed tapering program, and job growth. Construction for ground up real estate remains relatively in check as overbuilding is not taking place anywhere. Therefore the full spectrum of investment options still portrays real estate as a very viable and pliable play for years to come. Be mindful of the right size product type for you. Take into account how financing terms factor against your preferred product type. Diversify according to geography or yield, stay credit conscious, and keep deal flow regulated to quality over quantity.

Welcome to Simon Says. While being in the day to day trenches I continue to realize we all share one common thread: we seek to learn daily and evolve our practice. Simon Says will share the latest on the pulse of the market from clients, developers, property managers, and all industry participants from REITS to Underwriters to private investors. The end objective is to better understand the market and what to expect from the market moving forward. The goal of Simon Says is to share knowledge.



SIMON JONNA
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"Never depend on single income. Make investment to create a second source."

-Warren Buffet

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