JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

F. Miscellaneous Professional Associations

6. Luncheon Speech for the Chicago Leasing Brokers Association, Talking about asset management, tenant retention and leasing in general, No title or date given

LUNCHEON SPEECH

FOR

CHICAGO LEASING BROKERS ASSOCIATION

I. Introduction

A. Perils of Forecasting the '87 Market

1. Guru
2. Prudential Story
3. Requires imagination, thriftiness and knowledge of government regulations

B. Economy will be deflationary and flat; oversupply will control office space market for at least five years.

C. Asset enhancement and stabilization are the bi-words for building owners and investors

1. Stabilization requires extension of leasing termination dates and greater participation in operating expenses.
2. Asset enhancement requires recapture of lease-hold values or reduction in leasing controls on project manager options.

II. The re-leasing campaign begins with property management to please the the tenant and a pro-active response by the leasing executive. For example, consider:

A. A case of stabilization: a growing health maintenance organization occupied 50 percent of the building to be sold under eight leases maturing over one to five years. Some of the offices are scattered on several floors. Another tenant moved out; sales agents for the building pointed out it would not sell at market with 50 percent of the space possibly uncertain within five years. A new ten-year lease was developed which consolidated floor space into cohesive areas. Rents were relatively flat but loaded to amortize redevelopment of first floor lobby. Cap rates for resale pricing did not have to reflect risk of re-leasing so values were increased.

B. Asset enhancement: when a shopping center tenant as a third local department store filed for bankruptcy in Chapter 11, the leasing agent bought the stock of the bankrupt store and sold their other two leases back to the shopping center management in other centers. Merchandise liquidation proceeds were applied to reduce the cost of the lease in their specific center to almost nothing. Space was reallocated and redecorated to more aggressive retailers to reposition the center. NOI increased on department store space plus re-leasing of mall space greatly improved.

C. Request of a department store on its own pad to expand the size of the pad for a better loading dock at the rear of the center was renegotiated to reduce the required parking ratio in their ground lease, 7.0 to 6.5, in order to build another 10,000 square feet of

C. (cont.) retail space in the center for a net value increase of nearly a half-million dollars. NOI increased in good center where cap rate was already low and vacancy zero, so that upside was not apparant.

D. In short, the leasing agent is expected to increase value not only by raising rents but by reducing risk of rollover or variance in operating expense to reduce discount rate risk loadings.

III. Leasing costs will be reported more directly than before because of the need to compromise between accrual accounting and cash available for distribution.

EXECUTING CURRENT CONTRACTS (Accrual Accounting)

Revenues

Base Rent Revenues	$XXX,XXX	
Index Rents	XXX,XXX	
Collections on Pass Throughs	XXX,XXX	
CAM	XXX,XXX	
Interest on Reserves	XXX,XXX	
Amortization of Tenant Loans	XXX,XXX	
TOTAL REVENUES		$XXX,XXX

Expenses

Operating Costs Exclusively the Owners	$XXX,XXX	
Shared Operating Costs	XXX,XXX	
Pass Throughs to Tenants	XXX,XXX	
Amortized Tenant Acquisitions Costs	XXX,XXX	
TOTAL OPERATING EXPENSES		$XXX,XXX
TOTAL OPERATING REVENUE		$XXX,XXX

BUYING FUTURE CONTRACTS (Cash Accounting)

Less Tenant Improvements, Leasing Commissions, and Property Improvements	$XXX,XXX	
Less reserves for planned refurbishment financed from earnings	XXX,XXX	
Plus release from escrows, draws on construction loans, and collection of partner committments	XXX,XXX	
Distributable Cash Available Debt Service and Dividends		$XXX,XXX

FINANCING CONTRACTS (Capital Accounting)

Interest Payments	$XXX,XXX
Principal Payments	XXX,XXX
Cash Dividends	XXX,XXX