

NO SHOCK AS COMMERCIAL FORECLOSURE RATES RISE DRAMATICALLY

Last February, the Congressional Oversight Panel issued a report stating that out of the \$1.4 trillion of commercial real estate loans due now through 2014, half of them are under water. According to the panel, the financial burden on small banks who lent money for local businesses could exceed \$300 billion.

Based on the report, foreclosure rates for commercial properties would most likely dramatically increase, topping numbers not seen for decades. To the dismay of banks and business owners, the forecast has proved to be accurate.

As of May, the U.S. Office Vacancy Report stated that vacancies in the United States rose to 17.2 percent, their highest level since 1994. The market lost about 11.6 million net square feet of occupied space during the first quarter, according to the report.

Although some areas of the U.S. have not been greatly affected, 57 major metropolitan areas have taken a massive hit, including Southern California. Many commercial real estate owners in these areas have resorted to offering free rent, broker bonuses, low leasing prices and other incentives to fill their vacancies.

"This can be risky business," said Joe Cobert, a real estate attorney in Encino, California. "Oftentimes, owners cannot lower their rent prices without the consent of their lending institution. If they do, they would be in serious violation."

Cobert said another issue that is looming for owners is that many have balloon payments due on their loans within the next 3-4 years. "The big question is whether or not they will be able to refinance. If not, we are going to see a lot more foreclosures."

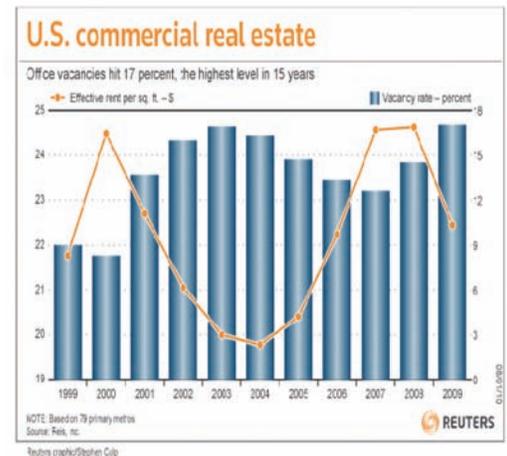
While the immediate outlook for commercial real estate may look bleak, Cobert said there are positive signs that it will turn around. For one, it is now easier for investors to get financing, so there have been more deals closing, according to Cobert.

Another indicator is that landlords and tenants seem to be working more closely to find positive solutions, which can lead to more longstanding and profitable relationships in the future.

Still, Cobert admits he cannot even begin to speculate when the market will recover. He advises both property owners and tenants to seek out expert advice if they find themselves in trouble.

"There definitely has been a great big shift and once things seem to have hit bottom, I think we're going to see a rapid recovery," Cobert said.

"People who are buying now and have reserves will lift the market back to where it once was. When that will happen is anybody's guess."



Your Two Cents

How do you see commercial lease rates performing?

1. Bottoming out.
2. Decreasing gradually.
3. Decreasing greatly.
4. Increasing slightly.
5. Increasing greatly.



Submit your answer at
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THE KEYS TO A CITY'S RAPID AND LUCRATIVE GROWTH

Under the direction of economic development consultant David McCauley, growth has seemed nearly effortless for the city of La Habra in recent years. Since taking on the role of economic development consultant in 2003, McCauley said he has been determined to bring new businesses to the city and makes sure they have plenty of reasons to stay.

Companies such as Home Depot, Sam's Club, Costco and Bed Bath and Beyond are among those who have set up shop in La Habra. McCauley said they, along with many other small businesses, are thriving.

GM Properties' Commercial Beat wanted to know the secrets to McCauley's success and he was more than happy to share.

GM: How long has La Habra been focused on economic growth?

McCauley: The city has been focused on economic growth for the last 10 years. It is a true joy seeing buses filled with shoppers being transported from neighboring cities to spend their money in La Habra to help us provide tax dollars, which are dearly needed.

GM: What business is your greatest success story?

McCauley: About six years ago, I started working with Costco to bring them to our city. It took a lot of patience and effort to move tenants from a large site on the northwest corner of La Habra and Beach boulevards. The project was challenging and found delays from neighborhood lawsuits, which took over three years to resolve. With a lot of hand holding and concern, Costco stuck around and finally came to fruition. Their current sales exceed \$150 million a year.

GM: To what do you attribute the success of the businesses that are doing the best?

McCauley: The owners of two centers at Beach and Imperial have been successful due to their tenant selection process and their long-range planning efforts to assure a solid tenant base at their sites.

Also, all of the development in La Habra continually requires internal reviews of the development process with the city's community development department. La Habra's staff worked hard with the developers in understanding what had to be done to assure a successful and timely development.

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GM: What future challenges do you face in growing your city?

McCauley: Future challenges include continuous development on Whittier and La Habra boulevards. Whittier Boulevard needs a strong anchor to fill the void created by Ralph's departure. La Habra Boulevard is pretty settled in with residential and older small businesses.

The east end of Imperial is gaining in development activity. The old Target site lease is ending in December. Several offers are in process to buy and develop the 8 1/2 acres. The city is hoping for a full retail development to provide additional sales tax dollars.

With all of its growth, McCauley believes La Habra is still a "diamond in the rough" and will continue to expand. Anyone who has interest in opening a business in La Habra may contact McCauley at: 562-458-6460 or dukemccauley@netzero.com

CARRIED INTEREST TAX HIKES LOOM OVER MARKET

While carried interest tax hikes may not be an immediate concern for venture capitalists, they soon may become a reality if the Senate gets its way. In May, the House of Representatives passed a bill that would raise taxes that venture capitalists and other investment managers pay on carried interest – their part of the profits from a lucrative start-up investment.

According to a recent article in the New York Times, a typical venture capital firm collects carried interest of 20 percent of the profits when a start-up company goes public or is acquired. Currently that is taxed at the capital gains rate of 15 percent. The new bill would require that seventy-five percent of investors' carried interest be taxed as ordinary income.

Mark Heesen, president of the National Venture Capital Association, the industry's lobbying group, expressed dismay that legislators do not seem concerned this bill could lead to dire economic consequences.

"It is both ironic and disconcerting that legislators can profess commitment to creating jobs – and then discourage the type of long-term investment which has been a proven job creator for the last century," Heesen told The Times.

Available: 391 Imperial Hwy. La Habra, CA

Size: 14,013 sq. ft.
Lot: 39,812 sq. ft.
Zoning: C2

Free-standing retail building with dock high loading.
Available for sale or lease

For additional information about this site or others, please refer to
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Results from Summer 2010 Poll:

In what year will the commercial real estate market hit rock bottom?

- 7% said 2010
- 12% said 2011
- 41% said 2012
- 39% said 2013.

**Team
GM
PROPERTIES**



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