Subject: 11/16 - How Does a Commercial Real Estate Investor Limit Risk in 2011?
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RECENT NEWS

AREA Property Partners Buys Two Foreclosed Multifamily Properties for $50.4 Million

AREA Property Partners has purchased two apartment properties: Manchester at Mansell in Alpharetta and Chatsworth Apartment Homes in Atlanta. RBC Capital Markets Corporation had foreclosed on the properties earlier this year and sold them for $50.4 million. Manchester at Mansell has 468 garden-style units and Chatsworth Apartment Homes has 410 garden-style units. Both properties were renovated in 2009.

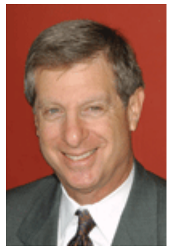
Cousins Names Adzema EVP & CFO

Cousins Properties has hired Gregg Adzema as executive vice president and chief financial officer, effective November 30. Jim Fleming, who is retiring from the position, will serve as a consultant during the transition. Adzema's previous experience includes his role as chief financial officer with Summit Properties as well as positions with Arthur Andersen, Centex Corporation and Wachovia Bank. He most recently served as chief investment officer and executive vice president for two advisory and real estate firms in Charlotte, N.C.

The Beck Group Promotes Phillips and Perpall

The Beck Group has named Brad Phillips managing director of strategic pursuits. He will focus on the company's strategic initiatives and growing the company's business in the life sciences arena. The company has also named Fred Perpall managing director of its Eastern division, which recently won a contract to develop a 213,000-square-foot facility in Chamblee for the Centers for Disease Control and Prevention. Perpall will manage design, construction and development operations for the region. Both Phillips and Perpall are based in Atlanta.

How Does a Commercial Real Estate Investor Limit Risk in 2011?



Investing in commercial real estate should improve in 2011. An increase in the number of properties for sale, attractive pricing and more readily available financing - albeit primarily for stable, core assets rather than value-add opportunities - will characterize the next 12 months. A slowly improving economy will give investors some comfort that a retreat into another recession is less likely.

While the marketplace has improved, I would suggest that it is still somewhat perilous and warrants caution. Property values remain well below 2005-07 peaks and, in many cases, below loan balances. Loan maturities continue to rise with borrowers unable to fulfill commitments. Tenants are demanding lower rents on smaller units. Small businesses are struggling or failing, damaging already weak rent rolls.

As a sponsor of commercial real estate investments, I believe 2011 will be an opportunistic buying year. To limit risk, consider the following:

Pay All Cash or Use Low Leverage. There are several advantages to this strategy. It enables you to buy very opportunistically without fear of loss if occupancy decreases and affords you the time to increase cash flow and value without lender pressure. It also increases the certainty of closing and reduces the time required to do so, positioning you as the "preferred" buyer when competitors require debt.

Be Patient. Based on loan volume at market peaks, extended loan terms, the slow pace of economic recovery and the inability of the lenders to process efficiently, good buying opportunities will exist for the next 3 to 5 years. Make sure that a deal works for you (i.e. satisfies your yield requirement, risk tolerance, capital preservation, etc.). If not, seek another deal.

Know the Sponsor. If you are buying a fractional interest, do your homework. Review the firm's track record - not just for performance success but also deal profile (i.e. risk oriented, stable cash flow, sponsor participation, etc.), and gather input from partners of previous deals.

Don't Follow the Herd. Sometimes the market for stable cash flow deals, such as single-tenant net-leased buildings, can become overheated. Although cash flow is stable, the long-term yield may be too low. A better-priced, riskier deal with less market demand may be more lucrative.

Evaluate Current Investments. Existing partnerships may offer an opportunity to invest in a preferred deal position with which you are already familiar.

Consider REITs. For small investors seeking cash flow, REITS offer excellent opportunities. They are transparent, liquid and typically focused on a specific property type or geographic area.

Commercial real estate investment requires a profound respect and an understanding of its risks and rewards. For most individuals, it should be an alternative, not a core, investment. Have a plan, know limits, assess risks and move forward with caution.

- Stan Sonenshine is president of Atlanta-based Preferred Real Estate Funds.