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MULTIFAMILY
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Nine resolutions
to help you survive
the next 12 months.

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FOR SUCCESS
'09



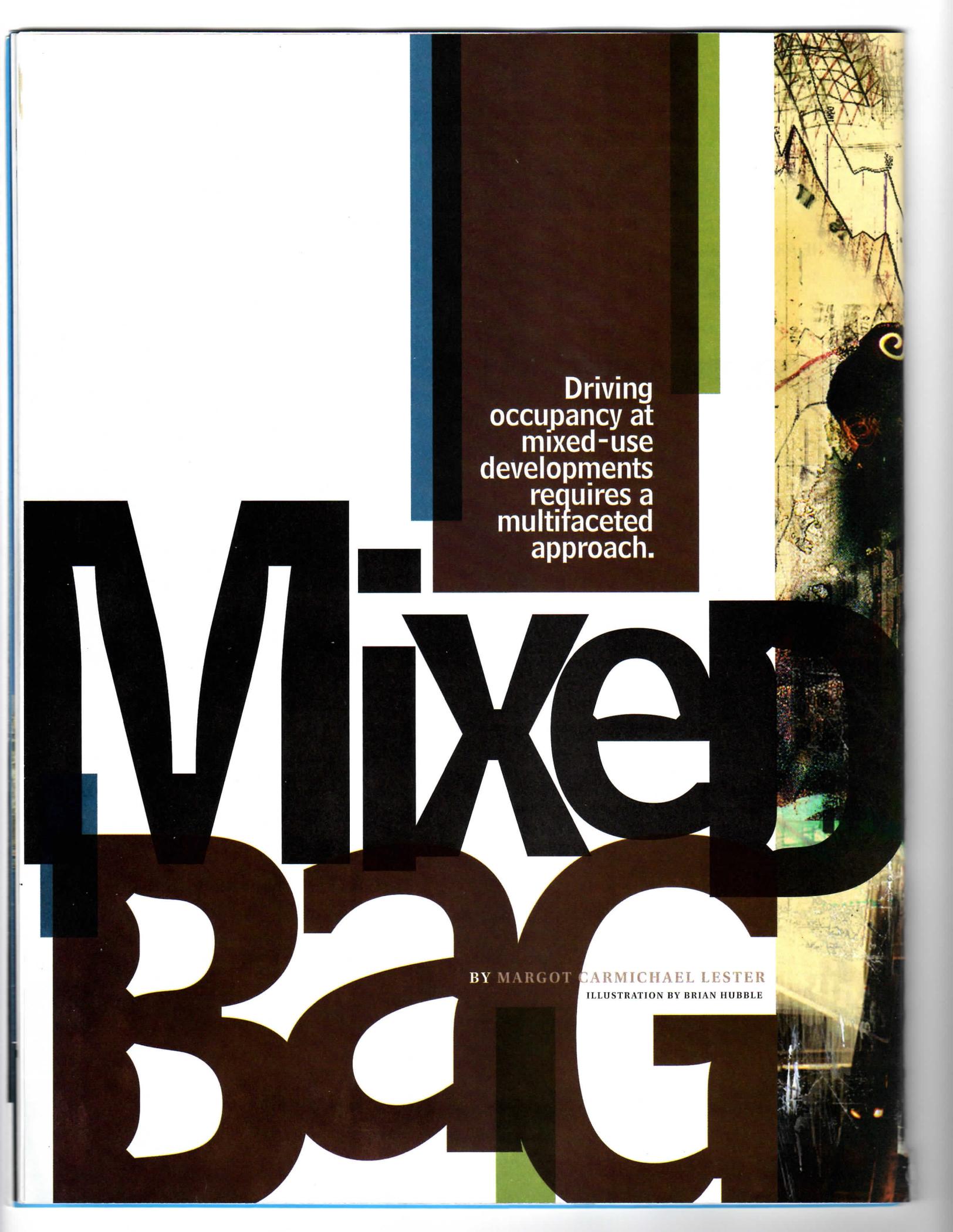
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5 Mixed-Use Lease-Up
Strategies

Using BIM Systems

Immigration Reform

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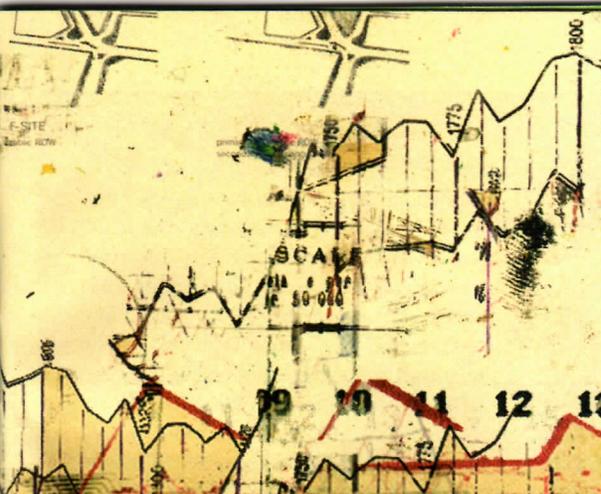


Driving
occupancy at
mixed-use
developments
requires a
multifaceted
approach.

Mixed Bag

BY MARGOT CARMICHAEL LESTER
ILLUSTRATION BY BRIAN HUBBLE

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LATTE LOVERS, BEWARE. AFTER STARBUCKS

closed 600 stores last July, mixed-use developers and owners began to eye their pro formas with uncertainty. Their conclusion? Thanks to today's flat-lining economy and shrinking commercial capital options, caffeine-addicts will have to search high and low to find their daily fix.

Indeed, commercial vacancies are on the rise—several major retail chains announced store closings in 2008 and into 2009. That's left those in the business of delivering mixed-use projects working harder than ever to recruit and retain retail and office tenants.

Coupled with plummeting home prices that have taken renters out of the market in some areas and cash crunches that might make moving less desirable in others, this mixed bag of factors presents quite the conundrum for multifamily developers and owners trying to lease up mixed-use properties. Here are five strategies MULTIFAMILY EXECUTIVE gleaned from industry leaders on how to handle mixed-use occupancy and structure leases in this challenging market.

1 FOCUS ON ADDED VALUE.

Though a competitive location will never go out of style, in today's market, what's happening on the inside is as important as what's going on outside. High-end finishes and fixtures are nice, but residents today are looking for more than just luxury. Cost-savers, including on-site gyms and amenities such as green appliances and features as well as access to public transport, are rated just as highly now.

Satori, South Florida's first eco-friendly apartment community, draws residents possessing a green mentality. But the appeal doesn't stop there. Amenities that were once marketed as "luxuries" at the Boca Raton, Fla.-based Altman Cos. 279-unit property are now billed as cost-savers, making them even more appealing to budget-conscious residents.

"We offer fully equipped fitness centers, cafés with flavored coffee, cyber cafés with free high-speed Internet access, WiFi within the clubhouse and common areas, entertainment pavilions with large, flat-screen televisions and grills, and a swimming pool and hot tubs," says Jeff Cohen, Satori's residential property manager. "These amenities eliminate the need for a fitness center membership, pool membership, and Internet access expense, and offer a cost-friendly alternative to entertaining guests. We reduce tenants' expenses and save them money."

Another example: Dallas-based Hughes Development's Mockingbird Station, the Big

D's first mixed-use project built around a rail-based, multi-modal transit station. "We're using changes and trends in consumer behavior—such as where we live, how we commute—to our advantage," says Pam Baker, Mockingbird Station's general manager.

The project attracts residential tenants who like the location and the cachet of doing the "right thing" for their wallets and the environment. And commercial tenants love the high traffic from commuters and residents.

For commercial clients, flexibility has become really important. "Now that the economy isn't in the best shape, make sure units are flexible," says Scott Morrison, senior vice president for Irvine, Calif.-based Legacy Partners Residential. "You want to be able to subdivide space, so make sure you have enough doors. For instance, in a 10,000-square-foot retail component below an apartment building, I'll put in 10 doors for 10 1,000-square-foot bays. That way, people can still take one-and-a-half spaces. If you don't have the doors, you can't subdivide. For a lot of retailers, it's about how much rent they have to pay. If you can lower the square footage, you can lower the absolute rent."

2 BE GENEROUS WITH YOUR CONCESSIONS.

In a bad economy, dark units jangle the nerves of potential residential and retail tenants already worried about foreclosures and bankruptcies. "You don't want

space going dark, so you have to give tenants some kind of concession because of the times, even if it's just temporary," Morrison notes. Legacy is currently developing 7950 Sunset, a 183-apartment, 13,000-square-foot retail project in the heart of Hollywood, Calif. The project is already 60 percent leased.

To help commercial clients trying to keep costs in check, Legacy fixed common area maintenance (CAM) charges. "When they're not firm, tenants can't really do a budget," Morrison says. The company also works with existing tenants at properties it intends to sell. "Normally, when a project sells, that resets the taxes to a new rate and pushes up CAM charges," he explains. "We've decided not to bill tenants for taxes and insurance, or at least to put a cap on them."

These may seem like small changes, but they yield big returns. First, the efforts create goodwill with residents who believe Legacy "feels their pain." Second, the gestures provide a little bit of certainty in an increasingly uncertain environment.

Legacy also offers concessions such as additional stalls or vouchers for free parking. "We even do dedicated employee parking spaces, which really helps minimum wage employees who don't want to pay \$10 a day for parking," he notes.

Other popular concessions offered by landlords include reduced or free rent periods (usually one year or less), flexible move-in dates, and higher improvement allowances, particularly for older buildings.

"It's a resident's market, so savvy landlords will change their tactics knowing they must fill the vacancies," says Roxanne Register, managing partner/broker for ReCor Realty Advisors of Boca Raton, Fla. ReCor handles commercial leasing for the 13,000 square feet of retail space at Fort Lauderdale, Fla.'s Satori.

Because residential tenants also feel the pinch, many apartment managers offer free rent for one month or quarter on new or renewed leases. At Satori, they begin working renewals 120 days prior to expiration to ensure re-signing. They also require 60 days' notice, Cohen says, "providing ample time to pre-lease the unit prior to the vacating date."

What's more, Satori's leasing agents work closely with residents in dire straits. "Residents who experience a job loss or pay reduction are offered the opportunity to relocate to a smaller apartment," Cohen adds. Breaks such as this help keep units full and residents loyal, which also leads to referrals. And when they're back on their feet, these residents will likely move back into higher rent units.

3 TAKE CARE WHEN SELECTING PROSPECTS.

With fewer residents in the marketplace, it's tempting to accept all prospects just to fill the space. Not so fast.

"The most common mistake developers make is thinking that any tenant is a good tenant," says Patti Pearlberg, vice president of asset management for Atlanta-based Coro Realty Advisors. Among the mixed-use projects developed by the company is Buckhead Place in Atlanta, an in-progress, multi-phase development that includes 155 luxury apartments and 9,100 square feet of office and retail space. "If the [commercial] tenant doesn't fit the mix, or if the [residential] tenant doesn't want the uses and services in close proximity, then you are just asking for trouble," Pearlberg says.

For business tenants, it's important to seek "credit-worthy or one-of-a-kind tenants rather than chains that have already saturated the market," says Mockingbird Station's Baker. "You want to put someone in who can survive the long haul." And draw customers.

That said, don't overlook all big players, cautions Legacy's Morrison. "For instance, Starbucks pretty much tells you what they want to pay, and they'll hold landlords' feet to the fire. But I'd rather back off rents and keep the place full for now. That helps get residents in the building and brings nonresidents in. Those people may see the apartments and think, 'I want to live here,'" he says.

To keep residential units full, many apartment communities are also choosing to slightly modify qualification criteria. "We do not hold foreclosures and bankruptcies against the prospect," Cohen explains. Instead, leasing agents evaluate credit history after the negative event and will tend to accept an applicant if it's been good since then.

4 SEEK PROFESSIONAL HELP.

Lower lease velocity means tenant and landlord brokers are as hungry for deals as owners are. "The most significant landlords are doing something completely contrary to a few years back and that's more direct outreach to tenant-brokers," says Neil Resnick, executive vice president of transaction services and a leading broker with Grubb & Ellis in Los Angeles. "They're chasing the most successful brokers with bonuses and enticements."

But that doesn't mean you should go with the most eager broker. "You need to align yourself with a broker who specializes in each use," Morrison notes. "I'm primarily an apartment guy, so I chose to use a broker with 22 years of experience in retail." And Morrison then "encourages" him with a worthwhile

commission. "Let's be honest, if your broker has a choice of showing your community versus someone else's, if he's making a bigger commission, he's going to come to you."

5 SELL, SELL, SELL.

While many owners are looking for the magic marketing bullet, Resnick warns, "There's no one-size-fits-all way to market a property. With so much competition trying to grab the same audience, landlords need to find a hook and enticements for the ultimate users."

Look no further than the distinct characteristics of your community and development to form a solid marketing strategy. "Study the demographics of your neighborhood or region and appeal to those groups, particularly for the retail component. Showcase what the community is lacking, and the right mix will sell itself to residential prospects and retailers who want to keep company with your early commercial tenants," Resnick recommends. "Demonstrating your ability to attract necessary foot traffic is a significant draw for commercial prospects who will need high numbers to survive the downturn."

ReCor's Register works an extensive network to keep commercial space filled. "We

work with all the national tenants and franchisors, presenting our sites on a continual basis through direct phone contact, [International Council of Shopping Centers] meetings, and e-mail blasts featuring a new property each week," she notes. "Our database also includes local and regional tenants who are contacted in the same manner, and our company has created a relationship with the retailers and their tenant representatives, which is especially important in today's economic environment."

Owners still rely on slick printed materials and strategic ad buys to promote their properties, but it's important to consider new media, too. Cohen says, "We get the word out to the masses via guide books, out-of-home and Internet advertising, and a fully optimized and multifunctional Web site, as well as non-traditional methods such as street teams and mobile text messaging."

In the end, the best strategy involves a little of all these tactics. Because managing occupancy now is the key to surviving the recession and creating a solid foundation for success in the future—one that will hopefully include your daily Caramel Macchiato. **[M]**

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Tip Sheet

Striving to drive occupancy to your mixed-use project? Don't forget these three rules: Build, build, build.

1. BUILD RELATIONSHIPS. To sustain strong occupancy, Patti Pearlberg, vice president of asset management at Atlanta-based Coro Realty Advisors, advocates building strong relationships with tenants to ensure their long-term loyalty. "There may not be a replacement if they go out," she says. "You have to really understand each tenant's commercial business and determine if they are viable, suffering from the economic downturn, or short for this world, regardless. In some respects, you may become their short-term partner, underwriting their business during these tough times with the potential to save a good tenant for the future and recoup your investment."

2. BUILD FLEXIBILITY. This is especially true for commercial clients. "You want to be able to subdivide space, so make sure you have enough doors. For instance, in a 10,000-square-foot retail component below an apartment building, I'll put in 10 doors for 10 1,000-square-foot bays. That way, people can still take one-and-a-half spaces and so on," says Scott Morrison, senior vice president for Irvine, Calif.-based Legacy Partners Residential. "If you can lower the square footage, you can lower the absolute rent."

3. BUILD SECURITY. With so much uncertainty, tenants are hungry for stability. Financially sound owners with a strong track record can be very attractive. "Residents want to feel that they have good value for the dollar—and the security of knowing that they are not going to be living in a place that's going to be foreclosed," says Jeff Cohen, property manager for Altman Management Co. in Fort Lauderdale, Fla. "We are a well-established company, and residents can be assured that we are going to be here for a long time to come."