Count on the true value of your hard assets

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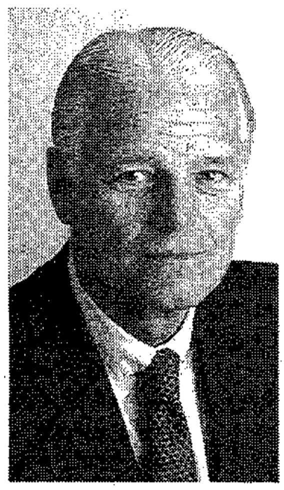
There are many causes of the present "liquidity crisis" and many situations which are imminent such as re-evaluations, de-leveraging, re-financings and eventual transfers of commercial properties in the United States.

Although the final history of this part of the cycle has not even begun to be written, I believe the overwhelming body of evidence will show that creative "financial engineering" will be the culprit when the dust settles.

While I remain dumbfounded that the system still allows the proliferation of CDOs, and other esoteric financial



instruments, I believe that leverage was the accelerant that fueled this crisis. The saying, "leverage is the fuel that makes the car go faster and it is the cause of the explosion when the car crashes" was never more accurate.

Anyone who forgot or does not understand that property markets are historically cyclical will be in for a rude awakening in the next few years. Further, the "pendulum never swings to the middle," so it is safe to say there will be a severe over correction downward in pricing in the near future.

Owners need to understand that property is an inert object that must be actively managed. Physical property is not numbers on a piece of paper, it cannot move, it cannot turn its lights on or collect revenue or pay taxes by itself. Property is a physical resource, not a commodity. Its value fluctuates not only as a function of external market forces but more importantly as a direct result of the skill, experience, and foresight of the operator/managers who tend to it on a daily basis. I like to say, "financial engineering will not keep the lights on."

What do I expect for the commercial real estate markets over the next two years? On a macro basis, higher vacancy rates as companies downsize and higher cap rates will result in lower property values. Future demand will decline, creating downward pressure on rental rates. Liquidity will become scarcer in coming years, and there will be a classic squeeze in the credit markets as companies and real estate owners fight for limited capital resources. Buyers will sit on the sidelines as prices keep falling. Why buy today when the price will be lower tomorrow? The litany of gloom and doom goes on and on.

But am I pessimistic? Emphatically, no. I firmly believe that United States commercial property is a wonderful, stable asset that will produce annual income. It is an asset that will increase in value over time as a function of inflation, and finally preserve investor capital when bought and operated properly. I am convinced that this period is very similar to that of 1974 to 1981, when President Ford said to New York, "Drop Dead." However, we not only survived, but we proposed.

After more than 35 years in the business, I am confident that we will recover from this down cycle just like we did three times before. Which would I rather own? 1) an uninsured portfolio of stocks and new age economic financial instruments or 2) real property? I chose property because it is not a "synthetic product," it's a real tangible asset.

Undoubtedly, we are in for some rough times. In the more than three decades I have been walking down Wall Street, only two properties, 60 and 75 Wall have been added to the street scape. Many of the properties have changed hands several times and values have gone up and down like a yoyo, but only two buildings have physically changed. Operators come and go, but property stands the feit of time.

My simple advice is to start thinking about commercial property on a long-term basis and not just about the short-term problems we will encounter. Make good, solid and conservative business plans and projections, and implement them. Prepare

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CDARS provides deposit peace of mind for customers

By Edward Howe III
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In the current economic environment where daily reports on the dire state of our financial markets are the norm, many consumers and businesses are unsure where to safely deposit money.

With many investing less in real estate and the stock market, finding a secure outlet for existing portfolios is a top priority for banking customers. With consumer confidence in financial institutions shaken, customers can have some peace of mind by depositing savings with banks participating in the Certificate of Deposit Account Registry Services (CDARS) Network.

The CDARS system, which provides depositors with access of up to $50 million dollars in FDIC-insurance coverage on certificates of deposits (CDs), is a safeguard for customers with funds up to this amount.

While the FDIC has raised its coverage insurance to $250,000 from $100,000, this commitment expires at the end of 2009, and may not be extended. This has led consumers looking for additional, long-term security to turn to banks enrolled in the CDARS program, which is offered free of charge to bank customers.

CDARS works by dividing big deposits into amounts less than $100,000 and spreads the money across a network of FDIC-insured banks. The program enables customers to bank with one institution, but have the benefit of accessing full-insurance coverage for all certificates of deposits.

For example, customers with NCB-based accounts consider it the "home base" and can choose betweens CD maturities ranging from four weeks to five years. A single interest rate is set by the home bank that applies to all the specific CD terms. The CDARS service provides one simple, consolidated statement avoiding the need to track multiple accounts, changing collateral values or the use of private surety bonds.

New York area customers are already taking advantage of the network's convenience and security in local participating banks. At NCB, there is strong demand for this program, especially from local cooperatives with substantial reserve funds and looking to take advantage of the financial protection the program offers.

At the New York office, cooperative customers like 336 Tenants Corporation, Park Plaza Owners Corporation and Phoenix Owners Corporation, are all readily securing reserve accounts through the CDARS network.

For these cooperatives and others, this vehicle offers a safe deposit option, while still providing flexible access to funds for expenses and capital improvement projects. Prior to locking in reserve funds, cooperatives and individual consumers are advised to determine any planned expenses or renovation projects, and then ladder the terms of the CDs.

All three of the cooperatives implemented this approach, depositing funds ranging from $620,000 to $3 million for terms between four to 52 weeks. The staggered, laddered approach allows funds to be readily available at different times when the CDs reach maturity, and without any prepayment penalties.

For individuals, cooperatives and other organizations with sizeable savings and reserve funds, the CDARS network provides the best deposit protection in today's market. Currently, more than 2,200 financial institutions across the country have joined the program.

For NCB customers, and many others, there is nothing safer than FDIC insurance in today's unpredictable market, and an excellent opportunity to ensure their future financial health. ■

Counting on value

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to protect your properties. This will be a hard job in the months to come, and we will need conviction and creativity in order to persevere, but we will all be pleasantly surprised and handsomely rewarded for the effort.

In conclusion, a few simple thoughts: If you sell a property at a discount to your purchase price or capital position, then you will suffer a loss of your capital. This is fulfilling certainty. There are other ways to deal with financial and tenant problems so investigate all the possibilities. Capital is a rare and scarce commodity so avoid capital losses at all costs.

Finally, commercial property is one of the backbones of American cities and our national economy. Since commercial property is less expensive in the United States than in other parts of the world, we are a "bargain." Therefore, we must tackle problems on a property by property basis, over long periods of time, as each asset is unique. There are no global solutions.

Worry is like a rocking chair; it gives us something to do but gets us nowhere. We have the vitality to survive and thrive, so I urge all of us to stop worrying and go back to work with the understanding that the property business has never been and will never be easy. That is why ownership of key real estate assets over time, when run and financed properly, is so profitable. ■