

CCIM CONNECTIONS

Your Professional Commercial-Investment Real Estate Source



CALENDAR

April 28:

MEMBER SOCIAL - SPORTING CLAYS

May 12:

CCIM INDUSTRY EXPERT ROUND-TABLE

August 4:

ANNUAL BRIT'S PUB LAWN BOWLING NETWORKING SOCIAL

September 22:

ANNUAL REAL ESTATE SYMPOSIUM

For more information about upcoming events, see page 8 or visit www.minnesotadakotascim.com.

2011 President's Message



Hard to believe Spring is already here. ☺

Over the past few months I have heard many positive reports on the economy and the commercial real estate industry. I look forward to the rest of 2011 with excitement and hope as the growth continues. We are regaining our footing from the recessionary state we have been faced with over the past couple of years.

It is my honor and privilege to serve as your 2011 Minnesota-Dakotas CCIM Chapter President. To be part of a team of members that contribute and support one another so that together we may rise to the top of our profession is truly a pleasure.

Being a CCIM gives us, as commercial real estate professionals, the winning edge in earning potential and industry opportunities. On average, CCIM's earn 79 percent more than non-affiliated professionals. CCIM's results-driven curriculum also helps us, as designees, attain knowledge and skills to move ahead in our industry.

Our chapter continues to provide its' members access to quality educational courses and strong

networking opportunities, including our annual Investment Real Estate Symposium. We have two more great events coming up in April & May; Sport clay shooting at the Horse & Hunt Club and a Roundtable program filled with some of the industry's best minds.

Best wishes for continued success and thank you for your participation and support of our local Chapter.

Carol Ebert, CCIM

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GUEST ARTICLE :: TODAY'S MARKET CONDITIONS



Today's Market Conditions Can Produce Some Surprising Tax Results

by Patrick T. Harrigan
President & COO
Gain 1031 Exchange Company, LLC

Our current real estate market is creating some unique tax scenarios that are not necessarily intuitive to the average property owner and were typically not a concern in the past, but need to be considered today.

Disposing of real estate can occur in a number of ways, all leading to tax consequences or a tax reportable event even if no tax is due. The usual dispositions of real estate typically included a sale, foreclosure, short sale or condemnation. Let's explore the tax due on each of those and methods to avoid those taxes. This discussion is a general overview only, not intended to be a complete analysis of these topics.

SALE

For comparison purposes, let's look at a regular sale of property. Upon selling, the seller/taxpayer pays tax on any gain derived from the sale. Gain is determined by taking the amount realized (AR) on the sale and subtracting the adjusted basis (AB) of the property. The equation looks like this: $AR - AB = GAIN$

Every piece of property has a basis. A property's basis is a complex calculation which begins with the initial basis which is usually the purchase price. Then during the life of the property, the basis changes primarily when capital improvements are added in and deductions are subtracted out to produce the final number used in the equation.

The amount realized on a sale is roughly the sale price less sale costs.

For example, if a property is purchased for \$100,000 (basis) and sold for \$150,000 (amount realized) the gain is \$50,000. That gain is taxed at the taxpayer's capital gains tax rate. In cases where the equation creates a loss, that loss may be used to offset other gains or income depending on the particular taxpayer and type of property. Unrecaptured tax rates can also apply on the portion of gain that accounts for depreciations.



FORECLOSURE

Foreclosures are where things get interesting. The calculation of gain is still the same as with a sale. The question is: What is the amount realized since no "sale" of the property occurred. The determination of the amount realized depends on whether

or not the loan is recourse or non-recourse. Recourse means that the

"Two years ago it was impossible to get through on the phone to the IRS. Now it's just hard to get through. That's progress."

- Charles Rossotti, former IRS Commissioner

owner of the property is liable on the loan and the lender can pursue legal remedies against the owner to collect the debt, as well as, foreclose on the property. If a mortgage is non-recourse the owner is not liable and the lender can only foreclosure to repossess the property as a remedy for nonpayment of the loan.

If the debt is non-recourse then the amount realized is the amount of the debt. If the loan is recourse debt, the amount realized is the LESSER of the debt amount or the fair market value of the property.

For example, if a property is foreclosed by a lender and the recourse mortgage amount is \$175,000 and the market value is \$185,000 the amount realized is \$175,000. That amount will be used to calculate the taxable gain. Whereas, if the market value is \$150,000 then that is the amount realized.

The interesting tax issue with foreclosures is the potential for cancellation of indebtedness taxation. Yes, Uncle Sam wants his cut even if property is repossessed in a foreclosure. Cancelled debt is taxed at the taxpayer's ordinary income tax rate, not at the more favorable capital gains tax rate.

In the example above, when the fair market value was \$150,000, the property value was \$25,000 less than the amount owed on the mortgage. That amount is potentially taxable as cancelled debt income to the seller should the foreclosure proceeding result in cancellation of that debt. The seller will receive a 1099 tax form from the lender reflecting the cancelled debt.

SHORT SALE

A short sale is a sale of property which has no equity since the sale price is less than the amount of the current mortgage on the property. It is a sale to a third party and not a repossession by the lender. Short sales occur when the arrangement between the lender and the seller calls for the lender to waive the collection of the amount the lender is shorted on the sale. Like in foreclosures, the fact that the property does not have equity and the seller doesn't walk away from the sale with any proceeds, doesn't mean that a taxable event didn't occur.

CCIM's Hit the Slopes at Spirit Mountain February 4-6

A great time was had by all at the 3rd Annual Minnesota-Dakotas CCIM Chapter Ski Trip. The event started Friday night with a social/networking mixer at Big Bear Hotel and Casino. The next day all participants were up and on the hill ready to conquer the slopes of Spirit Mountain. The weather was fantastic with temps in the high 20's and low 30's all day long.



Highlights included chapter Vice President Brad Pfaff showing off some of his inverted aerial maneuvers in the terrain park. Not to be out done, event organizer Jodi Vucinovich led the other skiers on a fast paced race through the legendary Port Gitchi Gummi run.

All in all, everyone had fun and benefited from some valuable networking with their fellow CCIM chapter members. Be sure to sign up for next year's event to take part in the action.

INTRODUCING THE 2011 PROGRAMS COMMITTEE *By Carol Ebert, CCIM*

It is my pleasure to introduce you to the 2011 Programs Committee. Lori Pounds and Jodi Vuconovich co-chair this very active committee. Committee members include: Chris Jacobson, Chelsie Johnson, Herb Tousley, Alon Ventura and Steve Yoch.



The Programs Committee works diligently all year to provide you the best possible educational programs and social events in the Twin Cities. This committee is always thinking outside the box to find new ways to entertain and provide quality educational programs.

There are so many new and innovative program and social events planned this year that I am in awe of their creativity and diligence to their charge and to you, our valued members.

If you have an opportunity to talk to anyone on the committee, please be sure to thank them for all their hard work! I know their efforts are praised by the entire Board of Directors. GREAT JOB!

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GUEST ARTICLE :: CONTINUED FROM PAGE 2

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In a short sale, the taxable gain is calculated using the same calculation as above and the determination of the amount realized is done just like in foreclosure cases.

For example, if a property with a basis of \$100,000, like in the above example, is sold for \$150,000 and it is a recourse loan, the taxable gain is still \$50,000, even though the mortgage on the property may be \$175,000. The remaining \$25,000 is potentially taxable as cancellation of debt income.

CONDEMNATION

In a condemnation situation where property is seized by a governmental entity through eminent domain, the amount realized is usually the amount of the condemnation award. The calculation of gain equation is the same as above.

AVOIDING THESE TAXES

Any discussion of taxation begs the question: How does one avoid paying these taxes? Well, there are a few provisions in the tax code that do allow a taxpayer to avoid these tax liabilities. Qualifying for these sections is dependent on each taxpayer's particular case.

AVOIDING CAPITAL GAINS

The most often used sections to avoid capital gains tax on a disposition of real estate are sections 121, 1031 and 1033. Section 121 covers a person's primary residence and allows the vast majority of home sellers to avoid capital gains tax upon the sale of their primary residence. Section 1031 covers commercial and investment property and allows for the deferral of capital gains tax by "rolling" over the seller's investment into another property. This is known as a 1031 Exchange. Section 1033 is somewhat similar to section 1031 and allows a taxpayer to invest in a replacement property to avoid payment of capital gains tax in a condemnation situation.

AVOIDING CANCELLATION OF DEBT TAX

There are a number of tax code provisions that allow for a taxpayer to avoid paying tax on a cancelled debt amount. Those provisions cover the following circumstances are also dependent on the particular taxpayer:

- The debt is qualified primary residence debt
- The taxpayer is insolvent
- The taxpayer has filed bankruptcy
- The debt is qualified real property business debt
- The debt is qualified farm debt
- Possible 5 year deferral for certain business debt

CONCLUSION

These tax scenarios have become a hot topic of discussion in many tax advisor offices due to the current unique real estate market. As always, tax planning is an important aspect of any transaction.

DEALMAKERS

RECENTLY COMPLETED TRANSACTIONS

SALES

Matthew S. Klein, CCIM of KW Commercial Midwest completed the sale of a three-building medical clinic portfolio for \$3.6 million. Klein represented the buyer and **Andy Manthei** also of KW Commercial Midwest represented the seller.

Continental Property Group has purchased the three building Wayzata Executive Park for its core asset account. The closing occurred in December and leasing activity is brisk with four new leases as of February 1st. "I consider this the best value in the market - bar none" says **Traci Tomas**, CCIM, CPM, Executive Vice President. **Kai Thomsen** is the listing agent at Colliers. Continental Property Group is actively expanding its portfolio nationwide through the selective acquisition of value-add opportunities. This was its third acquisition in 2010 with two others currently pending.

FINANCING

Dave Rasmussen and **Tony Carlson** of Grandbridge Real Estate Capital recently originated and closed two first mortgage multifamily loans totaling more than \$5.6 million. The first loan for Sedona Hills, a 102-unit Class B apartment complex in Golden Valley, Minn. The second for a 36-unit apartment complex in Elk River, Minn. Both loans were financed with Fannie Mae.

LEASING

Heather Alderink of Grubb & Ellis | Northco Real Estate Services represented the landlord in the 18,500-square-foot office lease to Associated bank at 5353 Wayzata Office Center in St. Louis Park, MN. **Steve Chirhart** of TaTonka Real Estate and **Greg Polacheck** (CCIM candidate) of Associated Bank represented the tenant.

Heather Alderink of Grubb & Ellis | Northco Real Estate Services represented the sublandlord in two subleases at the 8500 Tower in Normandale Lakes Office Park in Bloomington, MN. The first, for 7,000-square-feet was teamed with **Bill Robinson** of Cushman & Wakefield, representing the subtenant. The second, for 4,500-square-feet was teamed with **Steven Strom** of CBRE, representing the subtenant.

Aaron J. Barnard, SIOR, CCIM of Cushman & Wakefield completed the following transactions: a 20,000-square-foot renewal for Briggs & Morgan at the First National Bank Building in St. Paul, MN, a 12,000-square-foot lease for Axis Reinsurance at Bremer Tower in St. Paul, a 4,000-square-foot renewal for State of MN DEED at the First National Bank Building in St. Paul, and a 3,500-square-foot renewal for Tie Commerce at Energy Park Drive in St. Paul.

Dave Berglund of Welsh represented Entropy Solutions, 6,143 SF into Carlson Business Center and the landlord, Carlson Real Estate, was represented by **Larry Olimb**, CCIM, RPA.

Dan Mossey of Kraus-Anderson Realty Company represented the landlord in a 1,729-square-foot, 3-year lease at Hayden Lake Square in Champlin, MN. **Rich Lee** of Premier Commercial Properties represented the tenant.

To submit transactions for the summer edition, please email the details to **Jacque Williams** at jwilliams@mndakotasadmin.com.

GUEST ARTICLE II :: SUSTAINABILITY



Sustainability: Are we leading with LEED?

by Bill Robinson
Senior Director
Cushman & Wakefield of Minnesota, Inc.

Today, the terms "green" and "sustainable" are used to describe everything from consumer products to workplace design. There is a growing awareness—and demand—for the green movement. Once a niche market, the green building concept has quickly emerged as a significant part of the mainstream; and as commercial real estate representatives, we need to take greater responsibility in leading our clients whether they are owners or occupiers of commercial space.

So what is the real impact of sustainability on the commercial real estate industry and what exactly is LEED? Do corporate occupiers recognize the benefits associated with LEED and are they willing to pay the price? Does going green increase the value of commercial real estate?

The U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED®) rating system, which launched at the start of the 21st century, is the predominant rating system for certifying high performance green buildings. LEED provides third-party verification that a building is using strategies aimed at improving performance in the areas of energy savings, water efficiency, CO2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.

Property managers have led the way by introducing energy efficiencies and obtaining LEED certification for their managed properties. But sustainability is about more than the operational aspects of a property. In fact, green building is redefining institutional-quality real estate—particularly when it comes to long-term value. While there isn't sufficient data to make specific claims regarding increased property values associated with LEED certification, it is safe to say that buildings that are not compliant are at a distinct disadvantage.

Sustainability is driving innovation in the commercial real estate industry just as the Americans with Disabilities Act of 1990 (ADA) brought about change. The difference is that ADA was based on regulation and LEED is a fully voluntary program. However, that may soon change.

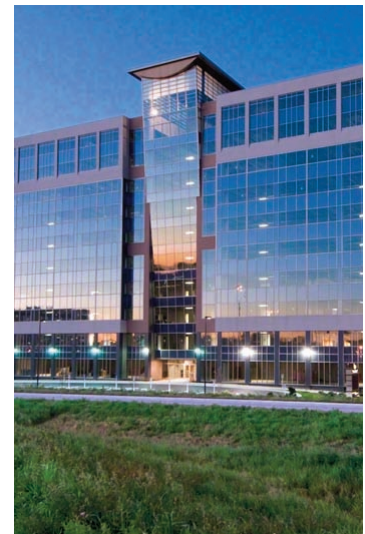
According to Theddi Wright Chappel, Cushman & Wakefield National Practice Leader, Green Building & Sustainability Practice, "Although

behind many countries around the globe in the sustainability arena, the United States is quickly picking up the pace because of corporate employee mandates, government involvement, and investor concerns." In fact, the Obama administration is unlocking significant benefits for sustainable projects. Introduced in February 2011, the Better Buildings Initiative encourages private-sector investment through a series of incentives to upgrade commercial and municipal buildings. The program calls for all commercial buildings in the U.S. to achieve a 20% improvement in energy efficiency by 2020.

The State of Minnesota made the USGBC's 2010 list of the top 10 states for LEED-certified commercial and institutional green buildings per capita, based on U.S. 2010 Census information. From Duke Realty's Norman Pointe II in Bloomington, one of the first Twin Cities structures to receive LEED "core and shell" certification, to the Wells Fargo Home Mortgage Campus in Minneapolis, which obtained LEED EB: O&M, landlords and corporations alike are embracing the green building concept in Minnesota.

For landlords, LEED certification is a competitive differentiator—a means of "future proofing" to get or stay ahead of the competition.

Improved energy efficiency translates into reduced operating costs, which is attractive to tenants, favorably impacting the long-term value of their building. On the corporate/tenant side, sustainability is "the right thing to do" in terms of social responsibility and green buildings make for a more environmentally friendly workplace for employees. More and more, companies are willing to invest in sustainability measures, recognizing the long-term benefits.



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Rick Collins, Vice President of Development, Ryan Companies US, Inc., is a true believer in the benefits gained by sustainable building practices: "Two MarketPointe in Bloomington, MN, was completed in September 2008, and because of building to LEED Gold



standards, our budgeted operating expenses and taxes for 2011 are under \$10.00 per square foot—fully assessed. I don't have to tell you what an advantage that is when we compete for tenants!" Rick is very aware of the knowledge gap that exists among commercial users today, but is confident that well educated brokers will deliver the necessary level of service. As for his expectations from brokers who work for Ryan Companies, "I don't just expect our brokers to be up to speed on sustainability; I want them to be leading us!"

It's up to us as real estate professionals to guide our clients (landlords and corporate occupiers) through the cost vs. benefit analysis as it pertains to LEED. The value we can bring to our clients is enormous if we invest the time to educate ourselves on sustainability. Education will allow us to have intelligent discussions with our clients and effectively negotiate green lease clauses and understand their implications.

In addition to consulting with property managers, architects, and other industry experts, we can take advantage of the numerous continuing education courses available on the topic of sustainability. Organizations like CoreNet (June 14th chapter program on Sustainability), BOMA, NAIOP and MNCAR, to name a few, are good sources of continuing education locally and nationally. Also, becoming a member of the USGBC's Minnesota Chapter, which is currently 560 members strong, provides a unique opportunity to network with like-minded industry professionals and take advantage of educational opportunities.

In closing, it's time to expand our market intelligence to include sustainability because it's here to stay, not to mention our clients expect it from us...and maybe because it's just the right thing to do.

Leonard, Street and Deinard Launches Commercial Real Estate Trends Blog

To help people gain better perspective on the current state of commercial real estate, the attorneys at Leonard, Street and Deinard have launched a new blog, Commercial Real Estate Trends (www.cretrends.com), covering primarily regional but also national trends in commercial real estate.

A key element of the new blog is its interdisciplinary nature. A dozen or so attorneys will contribute to the site, including those practicing in financial services, real estate development, construction, real estate litigation and other relevant practice areas.

Shaun McElhatton, a shareholder in Leonard, Street and Deinard's real estate department, notes that anyone can sign up to receive new blog posts automatically via e-mail. "Just enter your e-mail address in the 'subscribe' box on the homepage of cretrends.com and you won't miss a thing."





MARK YOUR CALENDARS

APRIL PROGRAM - Thursday, April 28, 2011

SPRING MEMBER SOCIAL - SPORTING CLAYS

- Registration: 2:00 - 2:30 pm
- Shooting: 3:00 - 5:00 pm
- Networking Social: 5:00 pm- 6:00 pm
- Location: Minnesota Horse & Hunt Club
2920 E 220th Sreet, Prior Lake, MN

The shooting will begin promptly at 3:00 p.m. The price (\$58 member/\$68 non member) includes 50 shells and sporting clays. An appetizer social and cash bar will be hosted after the shooting event. Don't own a gun? A few shot guns will be provided! However, if you have your own, please bring it along. Join us , as we welcome Spring with a Bang!

MAY PROGRAM - Thursday, May 12, 2011

CCIM INDUSTRY EXPERT ROUNDTABLE

- Registration: 3:00 pm
- Program: 3:30 pm
- Networking Social: 5:00 pm
- Location: Metropolitan Ballroom
5418 Wayzata Boulevard, Minneapolis, MN 55416

This round table event will offer you the choice of sitting down face to face with industry experts as they shed some light on the most import topics in the Minneapolis Real Estate Market. Join us and be prepared to have the experts answer your burning real estate questions.

AUGUST PROGRAM - Thursday, August 4, 2011

BRIT'S PUB LAWN BOWLING (SOCIAL / NETWORKING)

2011 CCIM COURSE SCHEDULE - Minneapolis, MN

CI 102 - Market Analysis for Commercial Investment Real Estate

6/13/11 to 6/18/11

CI 103 - User Decision Analysis for Commercial Investment Real Estate

9/19/11 to 9/24/11

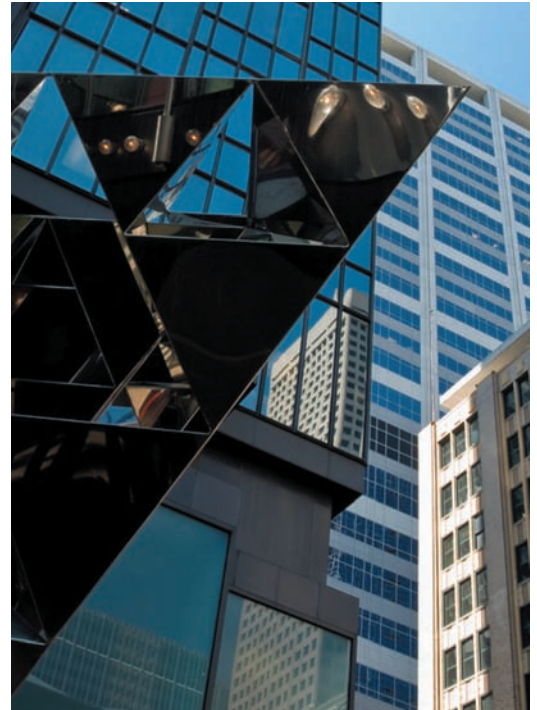
CI 104 - Investment Analysis for Commercial Investment Real Estate

10/17/11 to 10/22/11

**** Space is Limited, Classes Fill Early. Register for a class today by visiting <http://www.ccim.com/courseschedule>.**

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ABOUT THIS ISSUE

CCIM Connections is intended to keep you updated on Chapter news, programs/events, educational courses and member news. We would like to create opportunities for member-to-member information sharing, along with highlighting member transactions. If you have anything you would like to share or would be interested in serving on the Newsletter Committee, please contact:

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Deadline for the next CCIM Connections: If you would like to submit any information for the upcoming Summer issue, please submit by June 1, 2011.