SOCIETY OF INDUSTRIAL REALTORS
Convention Report

This issue of THE LEWIS LETTER is being devoted to information and opinions gathered and exchanged at the Society of Industrial Realtors national meetings which were held at the Omni International Hotel in Miami, Florida, in early November. The topics under discussion were the most succinct for the industry at this time and the program material the most current. In addition, the people on both sides of the lectern were those most actively involved with the shaping of this business and, at times, the conversations became quite lively. We have tried to project the thrust of those conversations in these articles.

PENSION FUND INVESTMENTS
"... Funds Not Subject to Periodic Disintermediation"

Sources for both debt and equity investment in commercial, industrial and investment real estate was on everyone’s mind at the S.I.R. meetings and entered into almost all informal conversations. As part of the formal program, a panel was presented moderated by Mr. Maynard C. Bartram, President, Treasurer and a Trustee of Connecticut General Mortgage and Realty Investments, Donald A. King, a principal in Rosenberg Real Estate Investment Funds and previously an officer of several major banks, James M. Truckess, Jr., senior Vice President of Real Estate Investment Trust CitiBank and Benjamin D. Holloway, Executive Vice President of realty operations at Equitable... a high powered panel to say the least.

All of the gentlemen were responsible for pension fund monies which have become "the largest and fastest growing source of investment funds not subject to periodic disintermediation." In addition, it was reported that 50% of such funds have been placed or are interested in being placed in real estate investments.

Mr. King reported that a recent issue ofigestion World' magazine reported that 60 advisory firms now administer some $14.5 billion of pension fund investment money. He further reported that in his experience, most real estate investment funds do not want risks. They prefer to acquire or lend on established projects with proven income production. He further said that pension advisors are not "doing developments" with fund monies but as existing projects are bought up by it appears that they may have to help create their own investments in the future.

CHANGES
Can we keep up?

Of course every industry and profession is experiencing changes of near revolutionary proportions at this time and the real estate brokerage business appears to be no exception. The expansion of multi-city real estate concerns and the growth of franchise organizations has been obvious for several years. Now acquisitions by major public corporations of complete real estate service organizations has begun too.

The leading edge of this latest phenomenon is the currently pending offer for the Coldwell Banker Company by Sears Roebuck & Co. Coldwell-Banker is the largest of the multi-city, so-called "national" real estate brokerage concerns. It was

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PENSION FUNDS . . . .

offshore pension fund investment managers prefer office buildings, industrial facilities, and shopping centers in that order.

All panel members felt that there is less pension fund investment in real estate at this time than there could be. The high interest rates available in the short term money market makes it easy for fund managers to be patient. That could change dramatically if short term interest rates fall.

CHANGES (continued from page 1)

started in San Francisco and now includes offices in most major markets and employs 10,000 people. It is a public corporation whose main offices are now in Los Angeles.

At the national convention Mr. Robert W. Drainie, Executive Vice-President of Coldwell-Banker, addressed the membership of the Society of Industrial Realtors.

Mr. Drainie explained that C-B has been studying real estate marketing trends in a systematized manner since 1974. The reasons for acceptance of the Sears proposal by the Coldwell-Banker Board of Directors came largely from that study ... The fact that Sears offered was for about twice the current trading price for C-B stock was also very important; but other reasons included:

The anticipated and observed changes in the mortgage banking industry. The trend is toward central concentrations of banking and savings and loan facilities.

The growth of other national real estate organizations.

Vertical integration of national corporations including their growth into the ownership and operation of real estate.

Anticipated continued growth of large scale developers coupled with the anticipated reduction of activities by smaller, local developers.

Coldwell-Banker is also satisfied that there will be an evolution of "non-bank" financial institutions offering combined services in insurance, securities, savings, credit and real estate. The services being offered by firms such as Merrill-Lynch and companies like Sears Roebuck itself are examples.

Mr. Drainie stated that he believed there would continue to be a place for well-run, locally managed real estate brokerage organizations but that their competition would be these emerging non-bank financial institutions rather than fellow brokers as they now exist.

MONEY $$$

It is difficult to detect any significant changes in the response of our local lending institutions to our Money Market questions between this current report and the last one at the end of August. Some of the comments are interesting although, we are reluctant to admit, not encouraging.

The good news is there does seem to be money available in Mahoning Valley banks and savings and loan institutions and that several are actively seeking commercial, industrial and investment real estate mortgage loans. Others reported that such money was available for lending if requests were made by clients.

The bad news, of course, is that the interest rates continue at levels which make such borrowing impracticable for most situations. A requirement for periodic rate adjustments or interest rates "tied to prime" is universal and it is doubtful that the procedure will change in the foreseeable future.

LEGISLATIVE UPDATE (continued from page 1)

Association of Realtors and others are trying to restore that endowment.

Probably the most controversial item under consideration concerning industrial and commercial real estate ventures is the issue of Industrial Development Bonds. In previous Lewis Letters we have described some of the arguments for and against IDB's so we will not reiterate those points. Suffice it to say that almost all parties agree that there have been "abuses" in the program which was originally intended to assist industry towards job formation and preservation.

At this point the House Ways and Means Oversight Subcommittee is considering the IDB issue and has tentatively recommended some restrictions on their use. Representative Richard DeFehrert, (D-Mo.) a member of the Ways and Means Committee, has been working on a coalition to develop his own recommendations. His ideas appear to be more restrictive than those tentatively recommended by the full Subcommittee but, in any case, Mr. Thurman does not feel that there will be serious action during this congressional session.

Two points do seem fairly certain at this time: continuing Industrial Development Bonds, however. One is that there will not be a retroactive provision in any change of the law that is eventually passed and second, there will not be full elimination of the program.

Among the more interesting comments were:

"All Savers Certificates aren't doing much for residential, not to mention ... commercial money."

"We are not 'loaned up' with commercial and industrial mortgage loans. However, demand is very low due to high interest rates, ..."

"We are almost always interested in any opportunity to turn over (loans at) old, low rates."

"In 25 years I have never seen loan demand this low, particularly real estate loans."

As for specifics, most responses as to interest rates were in the 18% range with some at 19% and others as low as 16%.

Authorization schedules of 20 to 25 are still possible for new buildings but several respondents indicated that 15 years would be the maximum repayment period. All of these schedules would be subject to recall or complete rewrite at periodic intervals.

Seventy to 75% loan-to-value ratios are still available and, as noted, more than half of our lending parties responded on the positive side when answering the question concerning their present willingness to make commercial, industrial and investment mortgage loans. Unlike during some previous years of difficult mortgage lending, there seems to be no difference between the responses from savings and loan institutions and commercial bankers.