

More deals starting to flow into commercial real estate pipeline, Southwestern Illinois brokers say

By **KERRY L. SMITH**

Is commercial real estate activity in Southwestern Illinois picking up the pace again?

Those brokering commercial deals to cash-equipped investors say deals are being done, but they're tougher to find and take longer to cement due to increased federal restrictions on lenders.

"The good news is that cash is king," said Dave Kunkel, president/broker at Kunkel Commercial Group Inc. "Those investors with cash will see great opportunities to purchase properties that have been reduced to get them off the banks' books."

As the equity is wiped out and refinancing options are unavailable with the now tighter-than-ever commercial credit, there are a lot of properties being returned to lenders - presenting ripe bargains for investors who are ready and able to buy, Kunkel says.

"Lenders, in most cases, are willing to sell these (foreclosed) properties at a deep discount just to unload them," he added.

While the first half of 2009 brought few phone calls and lackluster interest in the Southwestern Illinois commercial market, Johnson Properties Inc. president Terry Johnson says the second half of 2009 has been markedly - and encouragingly - different.

"In the first half of this year, we were having trouble just getting people to look at properties," said Johnson. "But in the past 60-80 days, since the stock market

began to rebound, the activity level has improved noticeably. Where we had maybe 15 deals under contract in the first six months of 2009, we're now up to 31 transactions - leases or sales - in the pipeline. The market is definitely more tenant driven."

One thing Johnson and his staff thought they'd be seeing but are not are more real-estate-owned buildings, property that is in the possession of a lender due to foreclosure or forfeiture. "Normally we have five to eight REO properties that we're trying to sell for lenders, but we don't have that at this time," Johnson said.

Down payment requirements on commercial loans these days have gotten stiffer, Johnson says. "Even just a year ago, lenders were requiring between 15 to 25 percent down on these deals," he said. "Today they want 30 to 35 percent. Lenders these days want more cash down and more personal guarantees. We believe that more companies will be forced to lease because lenders won't want smaller companies to pour all their cash into owning property."

It will be at least two to three years before Southwestern Illinois sees any significant level of new construction and development return, according to Johnson. "And even at that, we won't see the magnitude we saw before...the population still hasn't caught up with retail," he said.

On the property management side, putting commercial facilities on "diets"

to retain tenants is where it's at given the current economy, according to Johnson. "There's more pressure on orchestrating very sound property management," he said. "If you've got \$40 million worth of office buildings, that's a very expensive asset portfolio to maintain."

Wayne Barber is co-principal of BARBERMurphy Group Inc. Barber says the third quarter of 2009 is proving to be more positive than the first two quarters of 2009 and the fourth quarter of 2008.

"It has not been anything significant, but there is more activity in both the office and industrial sectors," said Barber. "But there is still no interest in retail or any land development sites. We would have more activity and more transactions completed if it weren't for the financial situation as far as lending is concerned," he added.

In today's commercial real estate market, Barber says, it can take months to get

loans approved - and there's reluctance on the part of a lot of banks to really do anything as far as new loans are concerned.

"Lenders are assuredly scrutinizing the loans more," he said, "and the requirements are more stringent than they were in the past, which is understandable. It's just a different way of doing business."

There does seem to be more activity in the local market, according to Barber, as far as small businesses are concerned. "Corporate America is not doing anything, which means bulk warehousing is down," Barber said. "But smaller businesses in niche markets are still out there looking."

Probably one of the healthiest commercial real estate sectors at this time, says Barber, is distribution assembly or light manufacturing.

"Will it ever get back to the same momentum we had a year ago? Who knows," he said.

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Area leaders working to stall FEMA remapping and buy time to make levee repairs

By ALAN J. ORTBALS

The Southwest Illinois Flood Prevention District Council has signed a memorandum of understanding with the U.S. Army Corps of Engineers.

Under the MOA, the council agrees to work with the Corps while the preliminary investigation work is ongoing. Jim Pennekamp, chairman of the council, says he thinks that phase will be concluded by the end of the year.

"We believe that at this point in time, it is in our best interest to continue to work with the Corps of Engineers until we get all of that data collected," Pennekamp said. "There are some who argue that we should be doing this all independently, and some who argue that we should be

doing it all with the Corps and there's a middle ground. The memorandum of understanding basically says that we will work with the Corps to determine what ultimately needs to be done to fix these levees. Then we'll have to decide how best we proceed with the actual restoration of the levees."

Pennekamp says it's theoretically possible to work independently from the Corps - working with a private engineering firm to determine what needs to be done, overseeing the construction and then having the private firm certify that the levees meet the Corps' standards for 100-year or 500-year flood protection. But that path just isn't realistic, he adds.

"Post-Katrina, we are not aware of any engineering firm that would be willing to step up and certify the levees today," said Pennekamp. "That doesn't mean that somebody will not emerge, but obviously the liabilities associated with some kind of a failure after certification are great. Right now the only entity that's willing to take on that responsibility is the Corps of Engineers."

The problem with that, Pennekamp says, is that it puts the project on the Corps' time schedule.

"One of the things that's difficult to get your head around is the fact that the Corps, along with the Federal Emergency Management Agency, came to us and announced that we had a dire emergency on our hands," said Pennekamp. "That dire emergency was going to mean that they could no longer guarantee these levees - therefore, certify the levees - and we better get on the stick and do something about this. We did, and I think that to a person within the Corps and within FEMA and within the government in general, they are quite impressed with what we have accomplished to date. And it has been remarkable. We would like to see the Corps and others work with us

to try to get this thing done as quickly as possible. But we're having trouble with that. These agencies are set up in a certain way, and frankly it's not all that timely. They know that. It takes forever," he added.

At the end of July, U.S. Rep. Jerry Costello introduced H.R. 3415, a bill to suspend flood insurance rate map updates in geographic areas in which levees are being repaired. If enacted, the bill would give the area up to seven years to rehabilitate the levees. Meanwhile, the FEMA flood maps would be unchanged and property owners would not be forced to buy flood insurance - nor would new construction be required to build up sites above flood levels.

While no co-sponsors are currently on the bill, Costello says he will be working to garner support when Congress goes back into session after Labor Day. He says other areas like Sacramento, Calif. and Dallas, Tex. are in the same position, and that he's confident he will be able to add co-sponsors to the bill.

At this point, no Senate sponsor has yet been found.

Meanwhile, area leaders are pursuing an alternative plan, according to Les Sterman, chief of construction and the works. The alternative is pursuing designation as an AR zone, meaning that the area is flood prone but work is ongoing to restore the levees to full certification. If designated an AR zone, property owners would need to buy flood insurance but it would not be as expensive as in a high-hazard area.

The application for the AR zone designation was submitted to FEMA in March 2008. It became a back-burner issue when Costello, U.S. Rep. John Shimkus and U.S. Sen. Dick Durbin negotiated a separate agreement with FEMA to delay implementation of the American Bottom maps until remapping of the Missouri side of the watershed was completed - a process that was expected to take three years. However, earlier this year the Missouri side took a giant step forward when FEMA decided to accept a private engineering firm's certification, moving up the timetable for the Illinois side. Pursuit of the AR zone designation is now a focal issue once again, although there are problems with that effort as well, according to Sterman.

"We have to identify so-called 'developed areas' and there are specific standards in the regulations that you apply," Sterman said. "The areas that are already developed get the benefit of the lower insurance rates and fewer restrictions on new building. Areas that are undeveloped don't. So it's to our advantage to have the largest area defined as developed, and our initial submittal a year or so ago shows most of Madison and St. Clair counties as developed. But FEMA has challenged that, so now we've got to go back and more carefully define those developed areas that were involved in that as well. That's our Plan B. It's not perfect," Sterman added, "but it at least will protect people from huge insurance bills."

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Costello pushing for new federal T bill, not 18-month extension, for cost and safety reasons

By **KERRY L. SMITH**

U.S. Rep. Jerry Costello says he and fellow members of the House Committee on Transportation and Infrastructure are working feverishly to finalize a bill - before September's end - advocating passage of a new six-year transportation reauthorization bill.

Costello says passage of a new bill - rather than an 18-month extension of SAFETEA-LU, as proposed by the Obama Administration - is vital in order to keep pace with costs and to maintain necessary safety standards.

The congressman was among several federal and state transportation experts who participated in the Leadership Council Southwestern Illinois' transportation roundtable event on Aug. 21.

"The Obama Administration and some of the Senate would like to do an 18-month extension and not take up a new bill this year," said Costello. "I am opposed to that. I think it's extremely important that we pass a new bill this year. Every month we delay, we add cost - in terms inflation on materials and labor - but there are also safety issues that we should be dealing with...and if we put those off,

it's also going to add to the overall cost."

Costello adds that passage of a new T bill - one that would take effect when the current six-year bill expires at the end of 2009 - is essential to stimulate economic activity now more than ever.

"At a time when we're trying to stimulate the economy," said Costello, "it does not make sense to fail to acknowledge the severity and urgency of the challenges facing the nation's surface transportation system at this critical time. Decades of underinvestment have taken their toll."

In support of the House committee's alternative legislation that's under way, Costello and transportation committee members are stressing that the "do nothing funding scenario" - what they say the Obama Administration is proposing with the 18-month extension - falls short of the needs. According to Costello, the current T bill's program total is \$326.1 billion; the "do nothing" extension would result in a program total of only \$235.7 billion, creating a \$90.4 billion shortfall.

"Almost 61,000 miles on the National Highway System are in poor or fair condition," the congressman said, "and more than 152,000 bridges - one in every four - are structurally deficient or functionally obsolete. And more than 32,500 public transit buses and vans nationwide have exceeded their useful life."

Costello says the House committee has been preparing for three years to write legislation to provide "clear national transportation objectives and the investments necessary to ensure

Americans have a surface transportation system to meet their needs in the 21st Century." The House committee's proposed legislation - the new T bill - will create or sustain six million family-wage jobs, he adds.

Merely extending the current funding formula for another 18 months, according to Costello, will fail the states and their own transportation programs.

"An 18-month extension of current law and temporary funding restoration of the Highway Trust Fund will leave states without the certainty and reliable funding source that they need to plan, design and construct significant multi-year highway and transit projects," Costello said.

Patrick McKeehan, executive director of Leadership Council Southwestern Illinois, says it was clear - by the 100 business executives in attendance, on relatively short notice, at the Aug. 21 roundtable - that transportation funding is of grave concern to many.

"There was a great turn-out by regional leaders and elected officials," said McKeehan. "To Illinois, the federal transportation reauthorization bill is extremely important, especially now that our state has passed a long-awaited full capital bill. There are definitely some concerns with regard to the funding flow if the current federal transportation reauthorization bill is extended."

For every \$1 billion spent, Costello says, it creates \$6 billion in economic activity and 34,000 new jobs. "We're working hard and proceeding with our (House committee) bill and hope to have it on the floor this month."

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Oates' Lutz earns structural engineering license

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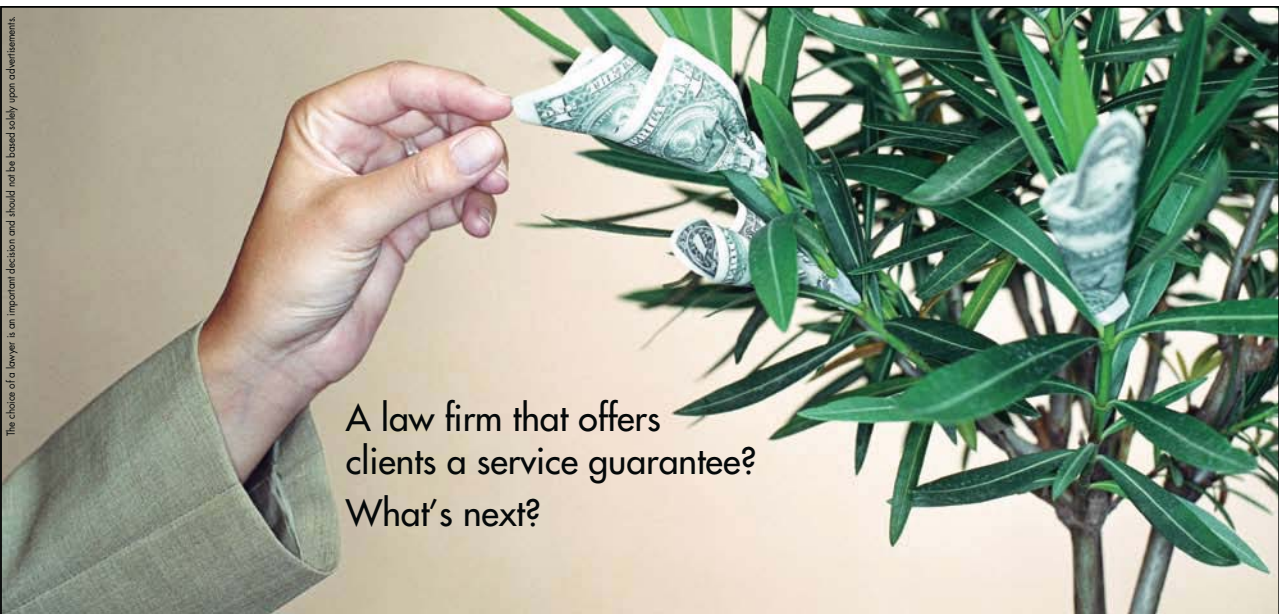
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have to be there in person to close the sale or come up with that truly innovative idea. That makes productive and affordable travel a key component of a healthy economy.

Linking Midwestern cities with fast, frequent and dependable trains is the only way to simultaneously make travel faster, more attractive and less expensive.

Richard C. Longworth, a fellow at the Chicago Council on Global Affairs, understands why higher speeds and tighter connectivity are so important to the revival of the Midwest's economy.

In his 2008 book, *Caught in the Middle: America's Heartland in the Age of Globalism*, Longworth says the Midwest has the same mixture of brains, creativity, energy and venture capital as California's Silicon Valley or Boston's Route 128 high-tech belt. But the Midwest, he says, cannot realize the potential of those resources because we are too spread out to interact effectively.

"The Midwest has a proximity problem," Longworth writes. "Venture capitalists don't want to travel more than an hour or two to visit their investments; in San Francisco this is possible, in

Chicago it's hard."

The Midwest's economic integration problem is particularly acute because the Midwest's major land-grant universities are not in the largest cities but in smaller towns. That means some of our best scientific researchers are too far from the big banking centers - especially Chicago - to attract the capital they need to finance their ventures. They're also too far from one another.

If we want to attract the most dynamic businesses - and attract them regionwide - we will have to build stronger connections between our cities, and only fast trains can do the job.

Here is just one example: Today, the drive from Springfield to Chicago takes three to four hours, depending upon traffic. At current reimbursement rates that trip will cost a company \$150. Driving will never get faster, and will likely get more expensive. The train, however, can make dramatic improvements.

The train takes just a little longer with fares starting at \$36 round-trip. 110-mph trains will cut the Amtrak time down to two and one half hours. Faster trains cost less to operate, so the fares will remain the same. The Illinois Department of Transportation has plans to connect all of Illinois with 90-110 mph trains, drawing all of the state's resources closer together. Neighboring states have similar plans. These projects will also expand freight capacity.

And this is just the first phase. We have proposed a second phase with new, grade-separated tracks dedicated to 220-mph passenger trains linking O'Hare, Chicago, Champaign, Springfield and St. Louis.

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High-speed trains allow travelers to make a truly productive day trip and still be home for dinner, which isn't possible by commercial air. The trip time itself will be more productive with no center seats, room to open a laptop fully and the ability to use your cell phone at any time - all at fares lower than Southwest.

This newfound mobility and slashing of travel costs will make it possible to visit clients more often or work face-to-face on projects more often. That translates to more sales and more innovative products. It isn't just local trips that happen more often. The direct connection to O'Hare will make trips to the coasts or overseas more convenient and affordable.

High-speed lines throughout the world have demonstrated the stronger connections between cities. The Madrid to Seville high-speed line, which is the same distance as Chicago-St. Louis, caused a 34 percent increase in the number of trips taken in its first year. Even surveys of current Amtrak passengers show that 10 percent of those trips would not have happened if not for the train.

Here is a dramatic illustration of what high-speed trains can do. Paris and Lyon, cities with about the same respective populations as Chicago and St. Louis, are

also roughly the same distance apart. The French launched the TGV on this route in 1981.

Today, the TGV fleet carries more than 18,000 people a day between Paris and Lyon. That is three times as many daily travelers than between Chicago and St. Louis by all means of transportation combined.

Our economy is changing quickly. The risk of maintaining business as usual is very high. The high cost of driving is already impacting our ability to compete worldwide. Troubling signs regarding our oil supplies suggest that it could get a lot worse.

High-speed trains, combined with expanded transit, offer an exciting opportunity to reduce the cost of doing business. Companies would enjoy reduced transportation costs, cities would have more development options and residents would have expanded employment opportunities. We should seize the opportunity.

Richard Harnish is executive director of the Midwest High Speed Rail Association.

IBJ Business News

Korte Co. awarded design-build project for Army Corps of Engineers

The Korte Co. has received the go-ahead for the design and construction of a new Armed Forces Reserve Center Training facility in McAlester, Okla. The 83,788-square-foot project consists of a training center, vehicle maintenance shop and storage building.



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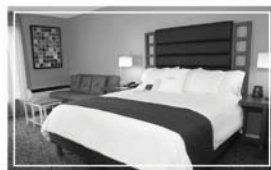


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