

It never ceases to amaze me how quickly people forget. Five years ago the worst recession of our lives was in full swing and today the party line is that it is over. For the last 20 years we have lived through one bubble and crash after another. The dot.com bubble followed by the Lehman Brothers/Housing bubble, and now we are once again at the point where the stock market is hitting new highs, people are snapping up homes, and all of this with just a small improvement in unemployment and a mere glimmer of economic recovery.

Many investors have forgotten the agonizing losses that wiped out 50% of their equity just a few short years ago. With all of this memory loss it is a good time to reflect upon the past and to give consideration to the future as the next bubble is surely in the making. The next bubble will be likely called the Federal Reserve or Credit Bubble and will likely be the biggest bubble and far more serious than the others we have experienced. A few short years ago we were constantly reminded of too big to fail and the term (Moral Hazard) was frequently used. These words are no longer in common use by our news media and yet the Federal Reserve Bank has now, through its quantitative easing, set the stage for what might be the biggest bubble, by flooding the country with cash through the bond purchasing program which is adding \$85 billion to \$100 billion per month to the Federal Reserve's balance sheet; causing interest rates to remain artificially low. The net effect is printing money and ultimately asset inflation. Yes there are always the deflation scenarios that are possible too, but as long as we remain tied to some type of wartime economy so we can continue blowing up money, time, and materials so as to remove that part of the economic production out of the economy, the likelihood will be inflation. I don't see much chance of peace between Iran, North Korea, the Middle East and all of our right here at home terrorism.

Quantitative easing was designed to re-inflate the assets that have caused the bank's balance sheets to be under water and it has been a success. The problem is that the Fed itself will now have an underwater balance sheet, as soon as interest rates increase and the bonds that they have purchased lose their value. Since the mean rate of return on the 10 year Treasury Bond since 1880 has been 4.65% it is pretty clear that the current rate of about 1.8% is artificially low and that at some point we are going back to the averages.

In 2005 German economist, Kurt Richebächer wrote: "there is always one cause of [asset inflation] and that is credit creation in excess of current savings leading to demand growth in excess of output". We are right there again.

The rising Dow is more a matter of inflation than any real gain. In fact, in inflation adjusted dollars the current 14,000 Dow equates to approximately 8,500 Dow in 1994 dollars.

The effect of all of this asset inflation and no rate of return available to the small investor is precipitating once again making investments with no consideration to the ultimate risk. The 10 year Treasury is at 1.8% and junk bonds at 6% while per government statistics, inflation

is more than 2% officially, but in reality it is probably much higher. This leaves us all with negative rates of return. As rates of return once again normalize, all assets will be readjusted and re-priced, in effect popping the next bubble, and we will all pay the price because the government will step in to save the Federal Reserve Bank; even though the Fed is ultimately controlled by its member banks, and therefore the banks will benefit once again while main street pays the tab.

The top 1% will win again because they are trading on the way up and on the way down, while the bottom 99% are just getting further squeezed. Inflated costs of living, including health care, groceries and gasoline are taking money from their pockets, not to mention the tax increase brought about by all the recent government shenanigans. The average American worker whose payroll tax goes up from 4.2% to 6.2%, making his increase in taxes just under 50%; while the richest people in America have their tax base increase from 35% to 39%, just over 10%. Meanwhile, if the minimum wage had been adjusted throughout the years it would currently be at \$16.50 per hour, therefore the minimum wage worker has had a decline of 99% in their income, along with a 80+% increase in their taxes.

Since the problem has grown to a worldwide phenomenon there appears to be no safe havens. The saying has always been that when the United States catches a cold, the rest of the world gets Pneumonia. There doesn't appear to be uniformity to this truth, at least in the Euro Zone, but it's easy to spot the various levels of sickness upon moving from country to country.

Every country in the world is quantitatively easing or trying to inflate their currency by printing more money. Japan caught on in the last couple of months and it was amazing to watch the entire currency market around the world realign itself within a couple of days as they started printing money. Let's not forget that they have experience in deflation and stagflation that we are not accustomed to and the Federal Reserve is afraid of learning any more about it. That is why it appears as though all of our recovery money was spent on banks, rather than on the people by trying to improve our country through infrastructure and job growth. The Chinese saw it all differently and over the last three years have poured more concrete than the United States has poured during the last 100 years. All of this built railroads, dams, bridges, factories, buildings, including cities that are unoccupied and yet have been sold off to individual investors. At least all of that growth in infrastructure created demand, as now China sells more cars than we sell in the United States where in 2004 they only sold 10% of that number. We in turn, label the Chinese as a currency manipulator for not allowing their currency to rise, while we are pushing ours down as fast as we can with the printing press. Maybe the Chinese will turn out to be right. The shift of world power will head more in their direction. It is already expected that the Renminbi will dominate the growth in international trade and account for a third of China's international trade as soon as 2015.

Meanwhile, investors in the United States are right back at it, taking bigger risks and buying products that are invented by banks rather

than government FDIC insured certificates of deposit. All that failure to evaluate risk will surely affect Americans once again, and the hardest hit group will be the older population who is trying to figure out how to keep alive with their savings through retirement. They will not only be wiped out by their savings being dissipated through the garbage that they are investing in, but also through the government's forced plans of recasting the social security, Medicare and other benefits.

We at Commodore Realty will continue plugging along at what we are doing trying to find something that makes sense and has more possibility of reward than losing money. We are openly looking at all segments of the Real Estate market and based on our belief that the new bubble will be in debt, will also look at debt opportunities as well.

### BIRD BAY PLAZA

This extremely well located property with tremendous frontage on Road 41 has always been impacted by the older demographic profile which resides in the surrounding area. Older people just buy less stuff than young people, but we have been successful nonetheless and are leasing at this property in 2012 and have added a number of quality tenants that appeal to our demographics base. A rebirth of the Marco Polo Buffet, now the Hibachi Grill, was probably the most important tenant addition. The old buffet closed down and needed a thorough remodeling. After a \$350,000 facelift and new owners this is now the most popular buffet in the Sarasota market. We also added Tidewell Treasures which is a thrift store run by a large hospice operation and the Sun Coast Blood Bank. National tenants Leslie's Pools and Dunkin Donuts were also added to our tenant roster. We are particularly pleased at how well the Dunkin Donut business is doing. We are moving forward with site improvements which will add accessibility to the property, including tying into the new Legacy Trail which is already reportedly drawing 120,000 users a year.



BIRD BAY PLAZA – DUNKIN DUNUTS

### BRICKELL

Our 7-Eleven was completed and the project came in on time and on budget. The new store looks great and is already a tremendous success in the neighborhood. It is always rewarding for us to see successful tenants because it ultimately ensures our own success but it is also rewarding of a job well done. David A. Puyanyc and the property management department did a great job of bringing in this project as a success for everyone.



BRICKELL – 7 ELEVEN

### HARBOR PLAZA SHOPPING CENTER

The Harbor Plaza has continued its metamorphosis barely slowed by the great recession that affected all retail beginning in 2008. Harbor Plaza has recently added a strong new fashion tenant Kore Boutique to its mix, the third boutique for this local company.

### KEY BISCAYNE GATEWAY

We have signed the Lease with Walgreens and made application for approval of our site plan with the Village of Key Biscayne. The new single-story Walgreens will blend seamlessly into the Key Biscayne ambiance with a small footprint, at less than half of the allowable square footage for the site. There will be no increase in density. The lush landscaping will provide a beautiful, natural continuity at the entrance to the Village of Key Biscayne.

As expected the Village has intentionally thrown every curve ball they can at this project in an effort to drive down our property value in anticipation of an eminent domain taking. We don't think they are going to succeed with any of this and in the end result we will prevail. Walgreens is a perfect fit for this neighborhood and will be a great benefit to the community. The building and landscape architecture will lend itself to our tropical island lifestyle.

- The building will feature:
- Natural keystone facades
- Metal mansard roof
- Upgraded lighting
- Floor to ceiling windows
- Plantation shutters
- Lush landscaping

# REPORT FROM THE BRIDGE

Annual Report  
May 2013



KEY BISCAIYNE GATEWAY – WALGREENS



30 W. Mashta Drive, Suite 400  
Key Biscayne, Florida 33149  
Phone (305) 365-2600  
Fax (305) 365-0800  
[www.CommodoreRealty.com](http://www.CommodoreRealty.com)

## MARIETTA SQUARE

We are still collecting rent from our vacant Food Lion and have been working at re-tenanting some of the other vacancies that were lost due to the closure of our anchor. It has been a slow process and although we have had several bites on the Food Lion space there is no solid deal as of yet. We are pleased with our prior decision to lock in Food Lion by having them exercise an option some years ago which gives us a continuing cash flow while we work towards a solution to reinvigorate this property.

## SAINT ARMANDS CIRCLE

We remain very pleased with our investment in the properties on St. Armands Circle. We have continued to upgrade the buildings and move them in a long term good direction. Our goal as always remains to upgrade our tenant base as turnover permits, thus adding better credit and stability to our properties. We did have some unwanted turnover during 2012 and lost one tenant to bankruptcy and another to change in economic circumstances. As a result our occupancy has been affected and we are working at turning that around for the coming year. We are pleased to welcome Influence Men's Boutique as one of our newest tenants.



ST. ARMANDS - INFLUENCE MEN'S BOUTIQUE

## SARASOTA COMMONS SHOPPING CENTER

This property remains well occupied and we have made some good strides over the last couple of years at enhancing our occupancy with the addition of a new children's center called Bounce Down Under in a 10,000 square foot junior anchor space. Our gym was acquired by L.A. Fitness and is now an L.A. Fitness. Although there is not a lot of vacancy in Sarasota it has remained a challenge to find new tenants entering this market. The property is well maintained.



SARASOTA COMMONS – BOUNCE DOWN UNDER

## SARASOTA CROSSINGS SHOPPING CENTER

The Sarasota Crossings gets better and better every year. We are pleased with the addition of a local party store and a new frozen yogurt shop known as Coco Bella. Renewing tenant's leases has been pretty easy at this property compared to others. We did lose East Asian Arts, we also have worked towards a sale of the Wings & Weenies restaurant which has been acquired by a new operator. The coming remodel of that space should do a lot for reinvigorating their business. The condition of the property is excellent, and the two new anchors that were added in 2009, HH Gregg and Office Depot, are both doing well.



SARASOTA CROSSINGS – COCO BELLA

## TAVERNIER TOWNE SHOPPING CENTER

This property is doing great but it has been a lot of work for a year or two between changing over from the on-site sewage treatment plant to the new city sewer system, replacing the lighting in the parking lot, taking back the Blockbuster Video store and working towards re-tenanting it, planning for a new roof installation and ultimately repainting the property. It is very time consuming when you have so much going on at a property, it is a constant whirlwind of non-stop planning, bidding of projects, contract negotiation and administration. Half of the Blockbuster store will become a Dunkin Donuts with a new drive-thru. We are presently negotiating with another national tenant to take the remaining portion of that building, bringing much prestige to the entrance of the property. All of our other major tenants: Winn Dixie, Pier One Imports and Family Dollar stores are prospering. The movie theater is a solid draw and our restaurants are ever popular.

## TRAFALGAR SQUARE

We are close to signing a deal to terminate Winn Dixie's lease and move forward with our new anchor tenant, Monterrey Supermarkets. We have a number of other tenants lined up as possible candidates for the remaining anchor space. CVS has notified us that they will exercise their option to remain at the property for an additional five years. We are developing a plan to recast the center and bring in a greater mix of Hispanic tenancy in order to mix well with our Monterrey Market. In the meantime, we have added Carvel, had a new owner take over the Coin Laundry that is completing a thorough remodel of that store, bringing it

right up to the current state of the art. We have committed to remodel the shopping center including an exterior façade remodel and upgrading the parking lot lighting. We believe 2013 and 2014 will be important transitional years for the positive new direction of Trafalgar Square.



TRAFALGAR SQUARE - CARVEL

## COMMODORE REALTY, INC.

We have had some change in our team with Maricel Marrero joining us in Property Management and in leasing Jorge Ventura and Billie Watters. We are also pleased that Yvette Lozano celebrated her 20<sup>th</sup> year anniversary with Commodore Realty this year. We are lucky to have the long term enthusiasm and commitment that makes it a pleasure to come to the office every day. David continues to be a strong leader taking on more of the responsibilities, allowing me a few more vacation days.