Commercial Real Estate Development SUMMER 2024

Development®

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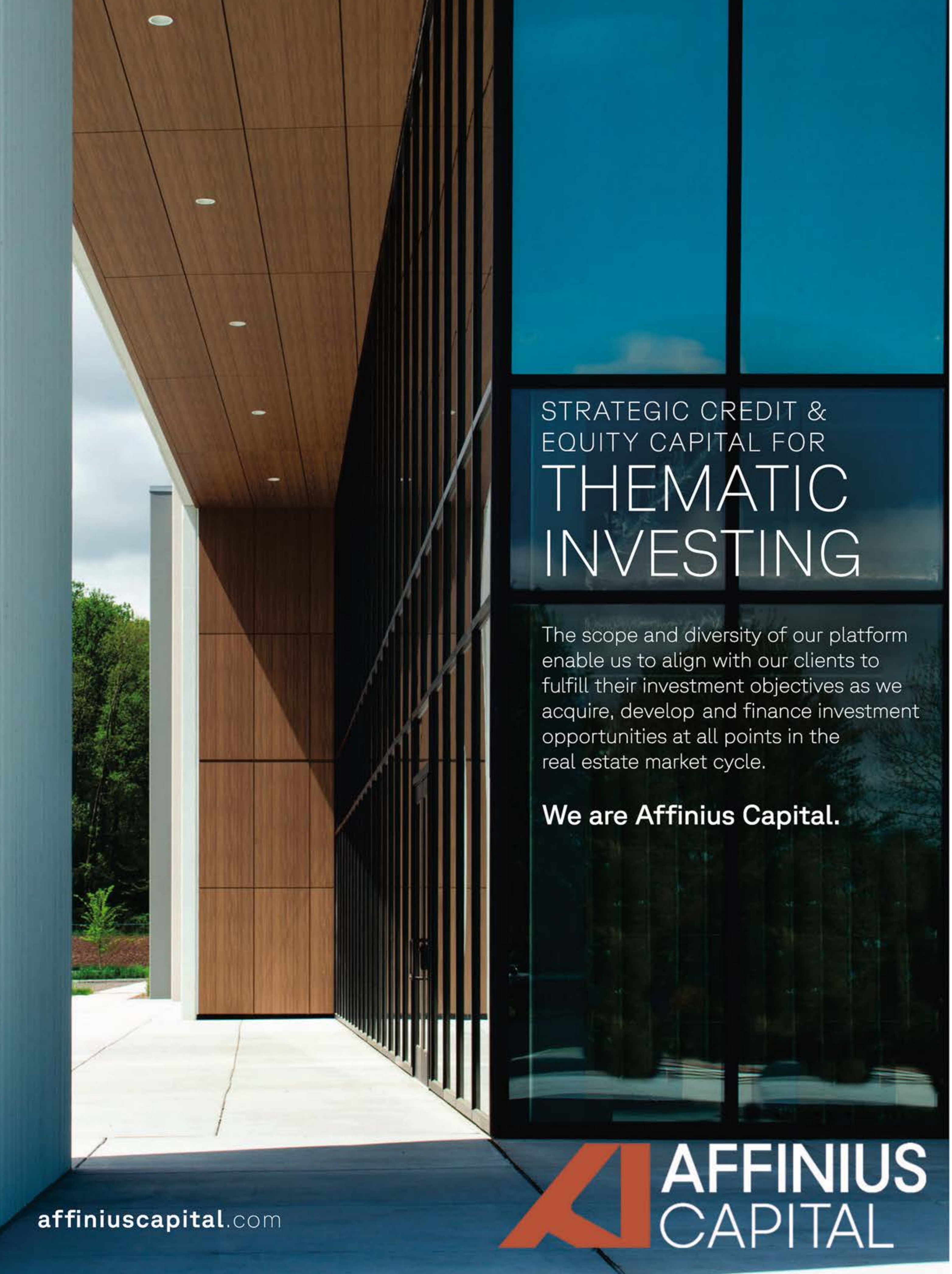
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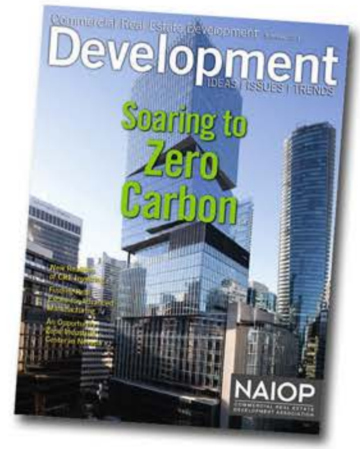

The exterior of The Stack office tower in Vancouver, British Columbia.

Ema Peter/Ema Peter Photography

COLUMNS

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A Note From the Editor

Post-pandemic Resilience

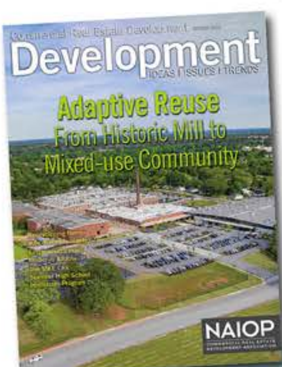
Interest rates may come down this year but until they do, a sense of uncertainty lingers in the industry, especially in the office sector. However, bright spots are on the horizon.

Jennifer LeFurgy

Possible generational buying opportunities await those who have amassed capital (see The New Realities of CRE Investing). Additionally, nearshoring and onshoring trends are bolstering the development of manufacturing facilities, but hard tech startups will need developers to provide specialized space in short order (see Advanced Manufacturing's Rapid Growth: Finding the Right Real Estate).

Canada's first commercial Zero Carbon Design Standard building — The Stack — demonstrates a market for future-forward office space in Vancouver (see Soaring to Zero Carbon). Finally, be sure to read about Mark IV Capital's unique buying opportunity that resulted in a master-planned logistics and industrial district near Reno, Nevada.

Stay informed,
Jennifer LeFurgy, Ph.D.
Editor-in-Chief



Most Popular From Spring 2024

1. **"Transforming a Textile Mill Into a Vibrant Mixed-use Community"** (naiop.org/24textile), page 54
2. **"Steering Former Auto Plants in a Different Direction"** (naiop.org/24auto), page 62
3. **"Adapting Underutilized Commercial Spaces for Residential Redevelopment"** (naiop.org/24adapting), page 22
4. **"The Future of Connection in Commercial Real Estate"** (naiop.org/24connection), page 40
5. **"Seedlings to Solutions: Single-source Mass Timber Takes Root in Atlanta"** (naiop.org/24seedlings), page 70

In Brief

Notable facts and figures on the state of the commercial real estate industry, culled from media reports and other sources.

INDUSTRY OUTLOOK

25% The percentage of respondents in the first quarter of 2024 expecting to deploy capital in the next six months, according to Altus Group's quarterly Commercial Real Estate Industry Conditions and Sentiment Survey for the U.S. Only 7% of respondents held the same expectation in Q4 2023.

542 The number of loans that were modified, with cumulative balances slightly over $20 billion, of the $162 billion in securitized commercial mortgages that matured in 2023, according to CRED iQ. That represented a 150% increase in the number of modifications that occurred the prior year.

Future NAIOP Events

- **I.CON Cold Storage**, Oct. 7, Las Vegas
- **CRE.Converge**, Oct. 8-10, Las Vegas

For the most current information on upcoming NAIOP events, both virtual and in-person, visit naiop.org/Events-and-Sponsorship/

OFFICE

23.3 Million The number of square feet of net absorption that highly amenitized office buildings in the United States have collectively gained since the onset of the pandemic, as reported by JLL. In comparison, the remainder of urban Class A product has lost more than 50 million square feet of occupancy.

71 The number of markets (out of the 120 covered by Yardi Matrix) that have experienced year-over-year declines in office-using employment. Among the top 25 markets, 16 have seen negative growth over the past year, and only Miami has experienced growth of more than 2%.

$425 Million The amount the Biden administration's 2025 budget plan proposes giving the General Services Administration to right-size the federal government's real estate footprint and sell unneeded office space, as reported by Federal News Network.

INDUSTRIAL

85% The share of trades in the first two months of 2024 that were for industrial facilities sized under 100,000 square feet, as reported in Marcus & Millichap's 2024 Industrial National Investment Forecast. "Such properties face limited pressure from new supply and generally enable buyers to allot more capital toward upgrades."

HOUSING & MULTIFAMILY

38% The amount by which the average monthly mortgage payment for a newly purchased home exceeds apartment rents in the United States, based on recent research from CBRE. "While these costs historically aligned closely, average mortgage payments, including taxes, have risen by 75% since late 2019, creating a persistent gap between mortgage payments and rental costs."

806,000 The number of additional senior housing units that will be needed by 2030 based on data from the National Investment Center for Seniors Housing & Care. The organization says that an industrywide investment of $400 billion will be necessary to complete the required new development to meet the anticipated need.

DATA CENTERS

5.3 Gigawatts The data center capacity under construction in primary and secondary markets — "enough energy to power all the households in the San Francisco metro area for one year" — as noted in JLL's H2 2023 North American Data Center Report. ■

Construction Costs Cool Down — but for How Long?

While materials costs have largely moderated, labor expenses continue to rise.

By Ken Simonson, AGC

Developers and contractors alike were able to rest a bit easier in 2023 after the nonstop cost increases of the previous three years turned into flat or falling prices for many items. Prices remained relatively tame in early 2024, but there is reason to expect the relief will not last.

The pandemic triggered abrupt and extreme changes in supply chains, labor availability and consumer preferences for living and working conditions and locations. As a result, the cost of many materials soared to new heights. Meanwhile, supply bottlenecks pushed out project completion dates, adding to labor and financing costs, while depriving owners of revenue to cover those costs.

Although households felt the sting of the steepest consumer price index (CPI) increases in decades, the cost impact was even more severe for construction. Consumer inflation topped out at a year-over-year rate of 9.1% in June 2022. In contrast, the producer price index (PPI) for inputs to new nonresidential construction posted increases of 20% or more 12 months in a row, from May 2021 through April 2022. The PPI is a weighted average of the prices at the producer or distributor level for all materials used in nonresidential construction, along with services such as design and trucking.

The picture reversed in 2023. While the CPI decelerated to a 3% annual rate, the PPI for construction inputs turned negative, with prices that fell below the year-earlier number in several months.

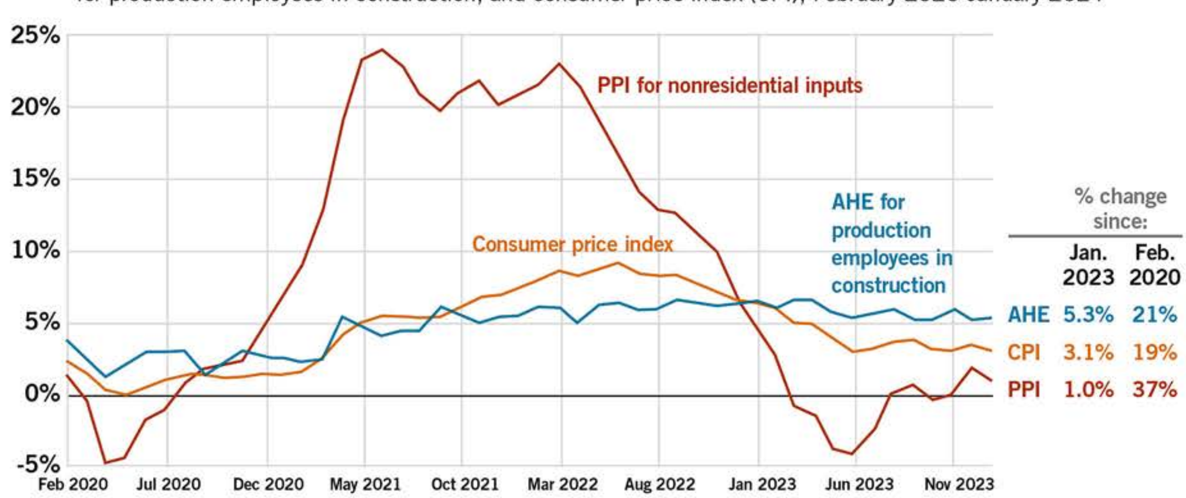
The PPI began creeping higher at the end of 2023 and rose 2% from February 2023 to February 2024. Two major classes of materials that contributed to the turnaround were concrete products, which rose 6.6% over 12 months, and steel mill products, which climbed 5%.

The PPI began creeping higher at the end of 2023 and rose 2% from February 2023 to February 2024. Two major classes of materials that contributed to

continued on page 10

Construction Materials & Labor Costs Top Consumer Inflation

Year-over-year change in producer price index (PPI) for nonresidential inputs, average hourly earnings (AHE) for production employees in construction, and consumer price index (CPI), February 2020-January 2024



Source: Bureau of Labor Statistics, PPI, www.dls.gov/ppi; Current Employment Statistics, AHE, http://www.bls.gov/ces/

The Bureau of Labor Statistics reports each month on average hourly earnings for production and nonsupervisory employees — a figure that tracks wages paid to construction craft workers and hourly office workers. This measure of wages has risen at roughly a 5% annual rate for the past three years.

continued from page 8

the turnaround were concrete products, which rose 6.6% over 12 months, and steel mill products, which climbed 5%.

While supply chains have generally functioned much better than in 2020-2022, there are exceptions. Lead times have remained extremely long for major electrical components such as switchgear and transformers. Some contractors and owners have also reported problems obtaining parts for elevators and air-handling equipment. Most recently, mineral-wool insulation manufacturers have stopped taking orders and have warned of delays or allocations in delivering materials.

One important aspect of construction costs has not slowed significantly: wages. The Bureau of Labor Statistics (BLS) reports each month on average hourly earnings for production and nonsupervisory employees — a figure that tracks wages paid to construction craft workers and hourly office workers. This measure of wages has risen at roughly a 5% annual rate for the past three years, the most since 2007.

These increases are likely to persist throughout the rest of 2024, if not longer, even though wage increases in the overall private sector have moderated in the past year or two. One reason is that construction is still experiencing severe shortages of workers. BLS reported on April 2 that there were 414,000 job openings in construction at the end of February, the highest February total in the 24-year history of the series. Additionally, union contracts negotiated in 2023 and 2024 are building in much higher annual increases over the next three years compared with the agreements that were signed in pre-pandemic days.

In summary, materials costs have moderated from the whiplash-inducing increases of a few years ago, but they are no longer descending, on balance. At the same time, labor costs are continuing to rise at a higher rate than before the pandemic. ■

Ken Simonson is the chief economist with the Associated General Contractors of America. Contact him at ken.simonson@agc.org.

Enabling Resilient Real Estate Through Microgrids and Distributed Energy

The business case for microgrids is growing stronger.

By Doug Mackenzie, Paulina Torres and Elsa Wilson, JLL

In the past 10 years, power outage incidents in the U.S. increased by 64% over the previous decade, while power pricing has become increasingly volatile. Now, property developers and investors — and their tenants — face an urgent need to protect against growing energy risks with carbon-free, cost-effective and resilient power solutions. Microgrids are one of the best options available for mitigating power supply risks, increasing asset value and even creating revenue-generation opportunities.

Between extreme weather events, the excessive strain on local grids from electrification, and other infrastructure issues, the United States experiences more power outages than any other developed country. In 2020, the latest year for which data is available, the average U.S. electricity consumer experienced 20 more minutes of power interruptions than in 2017, the year with the previous record, according to the U.S. Energy Information Administration.

Among the factors creating demand for resilient power solutions is the increased frequency and severity of extreme weather events.

My Photo Buddy via iStock/ Getty Images Plus

For U.S. property owners and occupiers, the need for a resilient power solution has never been more critical. Longer outages are an imminent threat as extreme weather events become more severe and frequent. Whether the property is a data center that relies on uninterrupted power to prevent data transmission loss or an industrial warehouse that needs to power an electric vehicle (EV) fleet, a microgrid can be tailored to fit the situation.

Defining a Microgrid

A microgrid is a localized power system comprising distributed energy resources such as solar arrays and energy storage batteries. Microgrids can be configured to draw power from renewable energy sources, reducing both carbon emissions and energy costs. As explained by Schneider Electric, microgrids "can operate … while connected to the utility grid or in disconnected 'island' mode."

Thomas Edison created the first U.S. microgrid in 1882 when he developed an electricity station that initially served 82 customers through what would later evolve into the modern electrical grid. Despite that long history, 50% of the microgrids in the United States began operation only in the past five years.

The Microgrid Advantage

Having a resilient power source provides a form of insurance against extreme weather events and failures in the central grid, mitigating the risk of outages and associated opportunity costs. In the event of a power grid disruption, a microgrid can operate independently and continue supplying power to connected facilities.

With the global shift toward electrification, microgrids can provide building owners and users with additional electric energy for EV charging and reduce peak power demand and overall reliance on the utility grid. Further-

Between extreme weather events, the excessive strain on local grids from electrification, and other infrastructure issues, the United States experiences more power outages than any other developed country.

more, microgrids may bring efficiency gains, given that they minimize energy loss during transmission by generating electricity closer to the point of use.

Another benefit is integration with on-site renewable energy sources, thus reducing reliance on expensive grid electricity, decreasing overall energy costs and mitigating price volatility. A property with a microgrid power option can contribute toward decarbonization of the built environment and help occupiers advance their sustainability goals.

When Uninterrupted Power Is Critical

Microgrids are particularly relevant to data centers, hospitals, government agencies and other operations for which uninterrupted power is critical. Data centers, for example, consume 8% of the world's electricity — and that volume is forecast to reach 3,200 terawatt hours by 2030, according to a 2021 Schneider Electric study.

The rapid expansion of the data center industry strains utilities, contributing to carbon emissions and power disruptions. Some European countries have gone so far as to severely limit data center development because of concerns about excessive energy demand. In the U.S., new data center sites have

New & Noteworthy

1,700,000 sq. ft.

DIV Industrial is developing **El Dorado Valley Logistics Center**, a new 1.7-million-square-foot **Class A industrial complex** in **Henderson, Nevada**. At completion, the facility will be LEED certified and establish a new distribution location in the Western U.S., providing an alternative and efficient connection point between key regional logistics hubs. The logistics center will feature 42-foot clear heights, super flat floors and an ESFR sprinkler system. The development will comprise two buildings ranging in size from 600,000 square feet to 1 million square feet.

1,435,000 sq. ft.

Hunt Midwest

Google announced plans to open a $1 billion **data center campus** at the **Hunt Midwest Business Center** in **Kansas City, Missouri**. As reported by Data Center Dynamics, a project plan suggests the campus will span 1,435,000 square feet and be developed over four phases. Google is expanding its skilled trade career development program in the region and will be bringing 400 megawatts of new carbon-free energy to the grid as part of its goal to run on 24/7 carbon-free energy. Company officials hope to open the data center sometime in 2025.

1 million sq. ft.

Bob Greenspan/Bob Greenspan Photography

Brinkmann Constructors completed the conversion of a 1 million-square-foot speculative warehouse into a 600,000-square-foot **industrial facility** for **Urban Outfitters Inc.** in **Raymore, Missouri**. The renovated space will accommodate dry cleaning and laundry operations and function as a distribution hub for Urban Outfitters' subscription-based clothing rental service, Nuuly. Tenant improvements included separation of the additional 400,000 square feet to allow for future operational expansion or tenant use. The conversion included the addition of a boiler room, chiller system, custom modular central plan, washers and dryers, and an automated carousel that can hold up to 2 million garments simultaneously.

become scarce in California and parts of the Northeast because of concerns about grid capacity and the demand for power.

Microgrids can help data centers become more resilient, reliable and sustainable, and open up location options without straining the traditional power grid. With the use of a demand-response program, data center operators can strategically shift power consumption away from the public utility during times of high demand and draw from the microgrid instead.

In addition, microgrids can help data center operators maximize energy efficiency. The tremendous heat generated by data center equipment can be repurposed for heating or cooling to increase overall energy efficiency.

Compared with the prior decade, power outages in the United States have increased by 64% over the past 10 years.

ehabaref via iStock/ Getty Images Plus

Industrial Development Pressures

Fleet electrification will increase electricity demand throughout power distribution systems, with significant increases projected at public transit depots, logistics sites and other industrial properties. Globally, through the EV100 initiative, companies have committed to incorporating 5.75 million EVs by 2030 to prevent over 86 million tons of carbon dioxide emissions. In the next five years, electric transportation fleets will grow eight-fold in the United States alone, according to estimates from BloombergNEF.

As fleet electrification continues, warehouse tenants will increasingly expect their properties to have the EV charging infrastructure — and a reliable energy source — required to power their fleets. Power capacity will become a critical concern, especially given that EV charging demands often exceed the electricity consumption of the actual warehouse.

With a microgrid, a warehouse property can enable electric fleet charging at scale while increasing resilience and reducing the facility's carbon footprint. As fleet size grows, the microgrid can be expanded to meet increasing energy needs.

Key Considerations for Microgrid Implementation

Microgrids are sophisticated infrastructure solutions that can require substantial investments. When making an investment decision, it's crucial to define the complete value proposition of these technologies. The following are key issues to consider.

Supporting Data Centers

Companies are actively exploring micronuclear power sources for their data centers. Although initially considered as backup power options, they have the potential to become primary power sources.

Microsoft is integrating a biofuel-powered microgrid into its data center in San Jose, California, for backup power. The project will deliver California's largest renewable natural gas microgrid, enable operational continuity for the data center, and advance Microsoft's progress toward its target of becoming carbon negative by 2030.

To develop the project, Microsoft is partnering with Enchanted Rock, a leading provider of microgrids. "We expect this project will demonstrate that large-scale, reliable and cost-effective backup generation with net-zero carbon can become the new standard," said Enchanted Rock CEO **Thomas McAndrew**.

According to Enchanted Rock, the project will reduce local emissions by up to 96% compared to alternatives. ■

Microgrids can be configured to draw power from renewable energy sources, reducing both carbon emissions and energy costs.

Energy resilience needs: Power outage risks are more acute in some areas than others. Accurately assessing the risk for a particular development requires a deep understanding of the business operational needs and the local utility's reliability, available capacity and restoration capabilities. When occupiers require uninterrupted power, it's worthwhile to invest in a property's energy autonomy and emergency response capabilities.

Potential financial benefits: A microgrid can deliver a return on investment in the form of energy cost savings through government incentives, reduced reliance on the local grid and energy management strategies. In addition, a property owner may be able to increase the return by creating new revenue streams from selling excess energy back to the grid and offering energy-as-a-service or EV charging-as-a-service to nearby properties and enterprises.

The costs to build or implement a microgrid are primarily driven by new generation (e.g., solar, energy storage) and power distribution upgrades (e.g., automated switches, new interconnection). A new 10-megawatt microgrid may cost $15 million to $40 million-plus, depending on the energy sources.

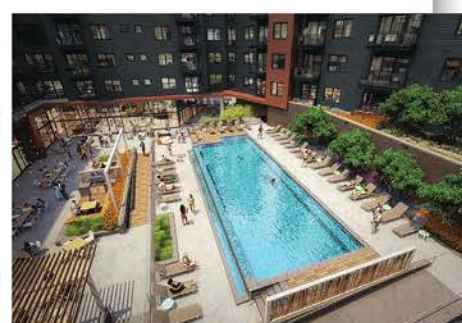
Environmental benefits: If a microgrid incorporates renewable energy or low-carbon-emissions energy sources such

New & Noteworthy

345,000 sq. ft.

Matan Companies has delivered and fully leased the first three buildings at **Northlake II** in **Ashland, Virginia**, totaling 345,000 square feet of **industrial space**. Tenants in phase one include Ferguson, Chadwell Supply, Envoy Solutions and Haskell Hardware. Construction of phase two will begin this summer, with expected completion at the end of 2025 for the final approximately 200,000-square-foot industrial building. Northlake II's location along the I-95 corridor offers easy access throughout the Richmond region and to nearby markets across the Mid-Atlantic.

689 units



Donohoe Development, in partnership with **Apartment Investment and Management Company**, announced the opening of the final phase of **Upton Place on Wisconsin**, a $300 million **adaptive reuse development** of a property Fannie Mae formerly occupied in **Washington, D.C.** The project introduces 689 multifamily residences, including 65 affordable units, approximately 100,000 square feet of retail space, and a restored 800-space below-grade parking garage. The Parc features 234 luxury residences overlooking Glover-Archbold Park, while 4K Wisconsin offers 455 modern apartment homes along Wisconsin Avenue. The LEED Silver buildings feature solar panels constructed on top of green roofs, collaboratively designed with the **city's Department of Energy & Environment**.

185,000 sq. ft.

Urban Story Ventures

Urban Story Ventures broke ground on a state-of-the-art **Class A industrial building**. The $28 million **Riverport development** in **Chattanooga, Tennessee**, is an expansion situated on 19 acres within the **Centre South Riverport Industrial Park** located in a bustling industrial corridor along Amnicola Highway and the Tennessee River. Design highlights for the new industrial/flex facility include at least 185,000 square feet of light to heavy industrial or logistics space, potential for 40,000 square feet of mezzanine space, several loading docks, ample parking and gated entry. Lead partners include general contractor **Grace Construction** and architect **Method Architecture**.

as solar and wind or emerging sources such as biofuel, it can advance the decarbonization goals of the property owner and property occupants alike. In the future, more microgrids will leverage hydrogen and even small modular reactors.

Government incentives and regulatory implications: Numerous federal, state and local incentive programs are available to support microgrid development (see feature box below), but only some will be relevant to a specific property. Incentive programs, as well as regulations, can be complex and confusing, requiring a thoughtful investigation to understand the interplay of tax credits, grants, net metering, feed-in tariffs and other mechanisms that affect the financial viability and return on investment of creating a microgrid.

Retaining Long-term Asset Value

Resilient facilities are becoming increasingly valuable to occupiers and property investors, especially as extreme weather and increased usage threaten grid reliability. However, a microgrid is not a "set it and forget it" investment. It must be continually operated and maintained with a sophisticated set of capabilities to maximize the impact of the investment. Additionally, microgrids can be updated with new technologies related to renewable energy generation and storage, energy management and smart grids.

With a microgrid, a warehouse property can enable electric fleet charging at scale while increasing resilience and reducing the facility's carbon footprint.

Microgrids are poised to become a common feature in the built environment of the future. In the long term, microgrids will increase the value of many commercial properties by contributing to energy savings, decarbonization and resiliency advances, which are valued by property investors and corporate occupiers alike. ■

Doug Mackenzie is vice president of energy resilience at JLL. **Paulina Torres** is research manager, sustainability and ESG, for JLL. **Elsa Wilson** is a senior analyst, research, at JLL.

Incentive Programs

Many established or developing incentive programs to support the development of microgrids are being offered across all levels of government in the United States. At the federal level, the landmark U.S. climate bill, the Inflation Reduction Act of 2022, offers sizable incentives in the form of tax credits and grants for microgrids that will reduce installation costs and drive overall system growth in the country.

In October 2023, the U.S. Department of Energy announced $3.5 billion in funding for grid resilience and microgrid solutions as part of the Bipartisan Infrastructure Law. With this announcement, the government will support the deployment of more than 400 separate microgrids nationwide.

Through this funding, the state of Louisiana has secured $250 million for microgrids, with total investment of nearly $500 million, to push community-driven energy strategies and resilience hubs. ■

Behind the Scenes of a Closing

How to avoid three legal speed bumps on the road to closing a deal.

■ By Jen Nichols, CRG

Legal review is often the last line of defense in development deals to identify potential issues before it's too late. In today's market, lenders are becoming increasingly selective about the deals they approve and less willing to take on risky investments they might have considered a year and a half ago. As a result, every aspect of a deal is scrutinized more closely, making it essential for legal and development teams to collaborate effectively to present the strongest case possible and ensure the deal is successfully completed.

Not all development professionals know exactly what goes on behind the scenes during legal review, but they can take certain actions upstream to help legal build an airtight case. No two deals are alike and, inevitably, surprises come up. On the flip side, many steps of legal review are routine, and the same issues turn up repeatedly. The following examples are among the most common and easiest to resolve.

Environmental Review: Not All Phase 1 Reports Are Created Equal

Given the level of unknowns, possible issues, and strict requirements from lenders, environmental reporting has the potential to hold up or even crater a deal if not everyone — on both sides of the transaction — understands the requirements.

Phase 1 environmental site assessment (ESA) reports are a perfect example. Some sellers assume that if

If the due diligence period is long and environmental reports were completed early on, they may need to be updated for the closing.

their site had a clean Phase 1 ESA in the past, that will be sufficient for the buyer. However, a buyer must conduct their own Phase 1 report (a reliance letter is not enough) to meet the "all appropriate inquiries" standard, the industry's standard process for evaluating a property's environmental condition. Although it is unusual for drastic inconsistencies to emerge between the seller's and buyer's Phase 1 reports, multiple databases and sources can be referenced for these reports. So, even if the seller has a clean Phase 1, it is possible that the buyer's report could identify an environmental issue that does not fit the deal's underwriting.

Another consideration around review is timing, since environmental reports must be dated within six months of close to be valid. That means if the due diligence period is long and environmental reports were completed early on, they may need to be updated for the closing.

Avoiding the Title and Survey Runaround

A careful early review of a property's title and survey — either by the development/diligence team or as a joint effort between development and legal — can head off numerous issues that could ultimately hold the deal up in final legal review.

First and foremost, this step confirms for the buyer that the title matches the property for purchase and ensures the seller owns the entire contiguous parcel. It's not unheard of for a seller

New & Noteworthy

163,000 sq. ft.

Kearny Real Estate Company started demolition of two office buildings at 3100 and 3130 S. Harbor Boulevard in **Santa Ana, California**, to enable the development of **Harbor Logistics Center**, a 163,000-square-foot **Class A warehouse and distribution complex**. Kearny expects to complete the project and deliver the logistics center to market by the end of the year. When completed, the state-of-the-art facility will feature 36-foot clear heights, 17 dock-high doors, ESFR sprinklers and ample truck parking, plus sustainable features including rooftop solar panels and tenant parking stalls with EV charging.

132,000 sq. ft.

BDP Holdings LLC and **JLL** revealed plans for **The Iris**, a new, ground-up 132,000-square-foot **build-to-suit office development** in **Montclair, New Jersey**. The development will meet demand from companies seeking Class A office space in a vibrant suburban downtown. Designed by **Gensler**, The Iris will feature 124,000 square feet of office space across the top three floors, 8,000 square feet of ground-floor retail, and parking for 277 vehicles. Montclair's six train stations and proximity to the Garden State Parkway and major highways offer numerous commuter options to Manhattan, Hoboken and Jersey City, while Newark International Airport is a short drive away.

348 units

AOG Living broke ground on **The Evergreen at Whisper Valley**, the first **multifamily development** within the 2,067-acre, **master-planned community** of Whisper Valley in **East Austin, Texas**. Designed by **The Sage Group**, the 348-unit, Class A multifamily community is targeted to open in spring 2025. The Evergreen will be built to adhere to the National Green Building Standards Bronze criteria and will offer one-, two- and three-bedroom floorplans with best-in-class interior features, smart living technology and designer upgrades. The community is convenient to downtown Austin and to major area employers such as the Tesla Gigafactory Campus, Samsung and Amazon.

Early review of a property's title can also uncover any outstanding liens and give the legal team a head start unsnarling those complications.

to believe they own everything within the "four corners" of a parcel, but the deed subsequently reveals gaps, such as a section of an adjacent alley or an area that belongs to an abutting property. This exercise can also identify easements that, without amendment, could interfere with site plans or hinder access for construction.

Early review of a property's title can also uncover any outstanding liens and give the legal team a head start unsnarling those complications. For example, a title shows a mortgage loan on a property, plus an older loan that should have been extinguished when the mortgage was put in place but was never released. In that case, the legal team ends up chasing down a release from the individual or lender who holds that lien. This could potentially be a bank that is no longer in business, requiring a tremendous amount of sleuthing and legwork to resolve. The earlier those issues are brought to attention, the more likely it is the legal team can successfully address them without affecting the closing timeline.

Covering Zoning From A to Z

A legal team typically gets involved with zoning only to confirm that it is what it should be, that it shows up correctly on the survey, and that it matches what's on the zoning report required by lenders.

However, from the development perspective, everything related to zoning should be carefully reviewed before an offer is put in on the property. It's important to not make assumptions. If a parcel would make an ideal industrial site, the developer needs to confirm that it is zoned as such — even if the immediate area supports the use — or make sure a pathway exists for zoning change. Teams may need to dig deeper than the obvious answer to confirm their specific planned use is permitted. For example, a site might be zoned for general manufacturing, but that could still exclude certain types of manufacturing outlined in the zoning code.

Wasan Tita via iStock/Getty Images Plus

By being proactive, development teams can minimize the likelihood of unpleasant surprises popping up during legal review.

Everything related to zoning should be carefully reviewed before an offer is put in on the property. It's important to not make assumptions.

Finally, anyone in an in-house legal department should be able to read and interpret zoning code, but if a parcel is not zoned "as of right," it can be beneficial to hire local zoning counsel. When it comes to navigating the zoning change process, local zoning attorneys have the connections and power to make it happen. This is particularly valuable for high-volume developers that are active in multiple markets. It is not practical to be familiar with the zoning process in numerous municipalities, so it is more efficient and more effective to outsource that expertise when needed.

Moving Deals Forward

Legal teams sometimes get the reputation of being deal breakers when they should be viewed as deal-makers — important partners in ensuring all the necessary details are in place so a deal can move forward. Establishing a level of trust with the legal department, knowing what its members bring to the process and making sure they are operating with all the information they need helps pave the way to smooth closings and successful deals for everyone involved. ■

Jen Nichols is executive vice president and general counsel at CRG.

Extreme Weather: Key Tactics for Future-proofing CRE Development

Developers can minimize future climate risks by incorporating resilient building strategies that position their properties for economic success.

By Joe Rozza, P.E., BCEE, Ryan Companies

Twenty-eight. That's the number of billion-dollar extreme weather-related disasters that impacted the United States from coast to coast in 2023, according to the National Oceanic and Atmospheric Administration (NOAA). When compared with the 18 weather disasters experienced in 2022, the general consensus is that the frequency of these events will continue to increase. The extreme weather events encompassed everything from droughts and wildfires to tornados, floods and hurricanes — all happening more frequently and with higher economic impacts than ever before.

Last year's extreme weather impacts are a sobering reminder of the climate risks being faced in greater numbers — and how a changing climate will alter where and how society builds in the future. Understanding and mitigating these risks is a critical priority for commercial real estate professionals.

Buildings located in regions affected by weather disasters are facing the exorbitant costs associated with repairing damaged buildings and infrastructure. NOAA's National Centers for Environmental Information reported that damages from weather- and climate-related

New & Noteworthy

100,000 sq. ft.

Magnetic Capital announced that construction has begun on **2nd & Adams**, a 100,000-square-foot **mixed-use office development** in **Denver's Cherry Creek North** neighborhood. The project will include approximately 80,000 square feet of office space and 20,000 square feet of retail. The development team is focused on providing a "hospitality-infused office operating model" with a heavy emphasis on food and beverage and retail concepts across the ground floor and the broader activation of common areas. The rooftop will feature a 5,600-square-foot bar and restaurant. **OZ Architecture** is the project architect, and **Mortenson Construction** is the general contractor.

84,000 sq. ft.

Nate Smith

Construction is complete on **20430 and 20440 Century Boulevard**, two office buildings converted to a cGMP-ready **white box facility** and state-of-the-art **lab facility** located in **Rock Creek Property Group's** four-building **Precision Labs campus** in **Germantown, Maryland**. **Ware Malcomb** provided lab planning, site design, and interior architecture and design services for the buildings, encompassing approximately 32,000 and 52,000 square feet, respectively. The buildings are within one of the largest life science clusters in the country and showcase creative repositioning of office property.

196 units

Method Co.

New City Properties and **Method Co.** announced that **FORTH Atlanta** will open this summer in **Atlanta's Old Fourth Ward** neighborhood. The $150 million, 16-floor development will include a 196-room **luxury boutique hotel** with 39 apartment-style rooms dedicated for extended stays. In addition, there will be four separate food and beverage concepts, an elevated outdoor pool and state-of-the-art fitness center, and a members-only social club. The property is located in one of the largest mixed-use developments on the Atlanta BeltLine. Designed by **Morris Adjmi Architects**, FORTH Atlanta will feature a structural diagrid exterior, adding a new landmark to the city's skyline. ■

Do you have a new and noteworthy project in the planning, design or construction stage that you'd like to share with fellow real estate professionals? Send a brief description and high-resolution rendering to developmentmagazine@naiop.org.

onurdongel via iStock/Getty Images Plus

Damages from weather- and climate-related disasters totaled nearly $93 billion in the United States in 2023.

disasters in the U.S. totaled nearly $93 billion in 2023.

Surveying the Expected Damage

Identifying and understanding potential risks is an important first step in preparing a strategy to hedge against climate change impacts. Having a plan in place will position portfolios for resilience and reduce financial harm. The impact of climate risks on development and construction can include any combination of the following:

Prolonged construction schedules and costs: Increased storm frequency and intensity can flood construction sites and damage projects that are in progress. These impacts can lead to reduced workdays, poor site conditions and the need to rebuild damaged components of the project — all of which extend construction schedules and increase costs.

Higher insurance requirements: Applying to both the construction and operational phases of an asset, insurance companies are raising premiums for insurance and reinsurance to account for mounting risks related to climate (Moody's found CRE properties have seen about a 7.6% annual growth rate since 2017). In recent years, these companies have resorted to pulling out of high-risk geographies, contributing to less competition in some markets. They are also seeking to decarbonize their portfolios, leaving some sectors with reduced access to insurance if their internal carbon footprints don't align with those of insurance providers.

Physical and operational risks to assets: Flooding, high winds and wildfires threaten direct physical damage to existing assets. These risks and other climate change impacts such as droughts and chronic water stress can also reduce the reliability of water and power supplies, which may disrupt business operations and employee housing, resulting in decreased productivity.

Decreased long-term asset value: Assets located in high-risk areas that are prone to hurricanes, rising sea levels, wildfires and coastal flooding are expected to lose value over time. This is due to higher insurance costs, higher property taxes and lower demand as threats increase and local governments raise taxes to fund necessary adaptation projects. According to a 2022 McKinsey article, a study of a diversified equity portfolio found that "absent mitigating actions, climate risks could reduce annual returns toward the end of the decade by as much as 40 percent."

Required retrofits: Properties designed and constructed without consideration for low-carbon operations will be subject in the future to energy-efficiency retrofits, electrification and clean energy implementation. These requirements may require substantial building modifications that are factored in during the sale of the asset.

Reducing CRE's Environmental Impact

As CRE professionals consider ways to lessen the industry's impact on climate change, the following tools may be helpful:

World Resources Institute Aqueduct data platform: Evaluates water-related risks in different locations or an entire portfolio through the year 2080 (wri.org/aqueduct/tools).

Moody's Climate On Demand: Provides rated exposure to a wide range of physical climate risks (climate.moodys.com/climate-on-demand).

U.S. Department of Energy Better Buildings Efficiency-Resilience Nexus: Resources to minimize vulnerabilities to climate-related impacts through resilience planning (betterbuildingssolutioncenter.energy.gov/resilience). ■

When developers are engaged in the early stages of site selection, they should be integrating climate risk assessments into their decision-making processes.

Protecting Portfolios From Risk

Companies that own, build, buy, improve or invest in real estate should be seeking partners from the commercial real estate development and construction sector that understand these risks and possess the capabilities to deliver more sustainable and resilient buildings.

A well-designed approach not only identifies and mitigates risks but also identifies opportunities to create financial business value. Key considerations for various stages of a building's life cycle include the following:

Development: When developers are engaged in the early stages of site selection, they should be integrating climate risk assessments into their decision-making processes. These risk assessments should inform climate mitigation actions to be incorporated into the final site design. The pro forma should consider a return-on-investment model that includes both financial and risk management value. This will strengthen the business case for recommending sustainable design and engineering elements that will improve the asset's resilience.

Developers with short asset hold times and asset managers in acquisition phases should evaluate potential threats to future market value due to poor building sustainability performance, substantial retrofit efforts and higher insurance premiums due to the reduced availability of insurance.

Design and construction: In assessing future climate risk, it's critical to devise a design plan that is environmentally sound for the long term, with the intent of increasing the physical and operational resilience of the asset. Design strategies can include exceeding local building code requirements for wind loading, water and energy efficiency, on-site renewable energy and irrigation, as well as acute tactics such as raising finished floor elevations and locating critical equipment on higher floors.

Construction safety plans, schedules and insurance coverage should also factor into site-specific climate risks. The safety and well-being of workers should be top of mind in the face of how extreme weather probability may affect construction processes. A few strategies to improve site safety include monitoring ambient and body temperature to ensure workers are not becoming overheated; providing hydration stations and breaks to prevent dehydration in high heat; and offering shaded work areas and shifting work hours to avoid prolonged periods of sun exposure.

In the case of insurance, engage in a top-to-bottom evaluation of every climate-related element that could affect premiums, such as increased worker compensation claims and schedule delays if weather-related disasters affect the site.

Real estate management: Existing asset portfolios should be evaluated for their current and future exposure to climate risks. For large corporations that own or operate a significant number of buildings, the assessment process could begin with a comprehensive review of their real estate portfolio to optimize the alignment between owned assets and business needs. This assessment will likely pinpoint assets that can be divested, thereby improving the long-term health and resilience of a portfolio.

Contingency plans: Having an air-tight contingency plan for existing assets offers another safeguard against extreme weather events. These plans should address occupant health and safety, business continuity and how to address physical climate risks to the asset, which can be factored into capital plans. The breadth of the contingency plan should be weighed against potential losses — the higher the degree of risk, the more robust a contingent supply should be.

By future-proofing portfolios through adapting buildings to withstand the unavoidable consequences of climate change, the real estate sector will position itself for continued growth and prosperity. Even in the eye of the storm, being prepared with an umbrella can help avoid getting drenched. ■

Screening for Risk

Ryan Companies has begun screening potential projects for physical climate risks. It implements several tools for screening, including Moody's Physical Climate Risk Scorecard, which provides rated exposure to a wide range of physical climate risks and more. These screenings consider floods, heat stress, hurricanes, sea-level rise, water stress, wildfires and earthquakes.

During one project in Minnesota, Ryan's team screened a location during the pursuit phase and highlighted elevated flooding and wildfire risks as well as the potential for heat stress risks in the near term. This resulted in extra care for workers during construction, construction schedule considerations and upgrades to the building design. Discovering this information before the request for proposal was finalized allowed the contractor and client to make the necessary accommodations for success. ■

Joe Rozza, P.E., BCEE, is the chief sustainability officer at Ryan Companies.

The Future of Sustainability Includes the Past

The Lower Hill Redevelopment project in Pittsburgh aims to rebuild connections with a historic neighborhood decimated by urban renewal in the 1950s.

By Boris Kaplan, Buccini Pollin Group

Buccini Pollin Group

A panoramic of the Lower Hill with FNB Financial Center on the right, PPG Paints Arena on the left and Pittsburgh's downtown skyline in the background.

Pittsburgh's Greater Hill District is a community actively reckoning with decisions made decades ago during the postwar urban renewal era. Stakeholders are now looking to lay a new foundation using the three pillars of sustainability: social, economic and environmental.

Socially Sustainable: Restoring Connections

The federal government's urban renewal practices began after World War II and targeted numerous historic, predominantly Black neighborhoods. Many urban renewal practices were the antithesis of sustainability, defined by racial redlining and demolition that isolated or fractured neighborhoods economically and culturally.

In Pittsburgh, that story played out in the Hill District. Once called the "Crossroads of the World" by Harlem Renaissance poet **Claude McKay**, it sits between Pittsburgh's downtown business center and the higher education hubs and medical centers of Oakland. "The Hill" was a flourishing community of jazz, art and commerce. Pulitzer-winning playwright **August Wilson** set most of his plays in the neighborhood where he was born and raised. The Lower Hill District was leveled in the 1950s to make room for Interstate 579 and the former Civic Arena. In the process, 8,000 people lost their homes and 400 businesses were shuttered.

Bomani Howze is vice president of development for Buccini Pollin Group (BPG), a privately held, integrated real estate acquisition, development and management company that is leading the Lower Hill Redevelopment project. Howze is also a lifelong Hill District resident; his parents and grandparents were among those displaced from the Lower Hill in the 1950s.

"The impact was devastating for my family and hundreds of others," Howze said. "My grandparents spent years building a home and business that were bulldozed in a matter of days. A whole community was thrown off the path to sustained economic prosperity and segregated from the rest of the city."

Modern social sustainability requires reconnection, plus the reversal of past harmful practices and the promise of economic opportunities.

Buccini Pollin Group

An aerial rendering of Block E, with FNB Financial Center positioned on the left.

"This project presents an opportunity for all stakeholders to collaborate and invest in the community's future. It is raising the standard for redevelopment in similar high-profile settings as development teams seek to integrate history and legacy with sustainability concepts."

— Chris Buccini, president, Buccini Pollin Group

In Pittsburgh, developers, consultants and community leaders spent years working together to formulate the Community Collaboration and Implementation Plan, a road map for community benefits that included guidelines on everything from site usage to workforce development.

The team behind the project unites several prominent stakeholders in the commercial real estate industry: Wilmington, Delaware-based developer BPG, minority-owned investor Clay Cove Capital, F.N.B. Corporation, design firm Gensler, and the National Hockey League's Pittsburgh Penguins, to which the city granted development rights for the site in the early 2000s during negotiations for the team's new arena. The Penguins chose BPG to lead this redevelopment due to the company's experience with urban, mixed-use and entertainment-anchored projects in other markets with similarities to Pittsburgh.

The 28-acre mixed-use site will eventually include nearly 1 million square feet of state-of-the-art office space; market-rate and affordable housing units; a live music venue; and a public safety center, in tribute to Freedom House Ambulance, the nation's first advanced life support ambulance service, founded just blocks away by Black Hill District paramedics in 1967.

Where passersby once peered out over parking lots, the 26-story Class-A FNB Financial Center now connects the Hill District and downtown's business district from its prominent location adjacent to the recently completed, $30 million Frankie Mae Pace Park above I-579. The tower, both LEED Silver certified and equipped with SMART technology, is a catalytic development for the project. Slated to open this summer, the $250 million FNB Financial Center will be Pittsburgh's first modern, multi-tenant high-rise in four decades. The next area of focus will be the groundbreaking on entertainment and infrastructure elements on Block E (see site rendering, page 25), scheduled for later this year.

"Ultimately, this project presents an opportunity for all stakeholders to collaborate and invest in the community's future," said **Chris Buccini**, president at BPG. "It is raising the standard for redevelopment in similar high-profile settings as development teams seek to integrate history and legacy with sustainability concepts."

The development partners envision the $1 billion Lower Hill District connecting the wider area through activated green spaces, pedestrian-friendly retail corridors and multi-modal, urban environments. The project includes convenient access to services and amenities within walking distance, and ample transit options encompassing bus, light rail and future bus rapid transit.

Buccini Pollin Group

From left: Amachie Ackah, co-founder, Clay Cove Capital; Chris Buccini, president, BPG; Kimberly Ellis, Ph.D., director of community, arts and culture, BPG; Bomani Howze, vice president of development, BPG.

By the numbers:

1 million square feet commercial/office

250,000 square feet entertainment/retail

1,200 residential units

400 hotel guest rooms

Timeline:

Opened in 2024:
FNB Financial Center and open space

Breaking ground in 2024:
Block E: Live music venue, small business incubator, parking garage, public safety facility and open space

Future mixed-use
Market driven; full buildout could take five years or more:
Block C: Residential over retail
Block B: Residential over retail
Additional build-to-suit office over retail ■

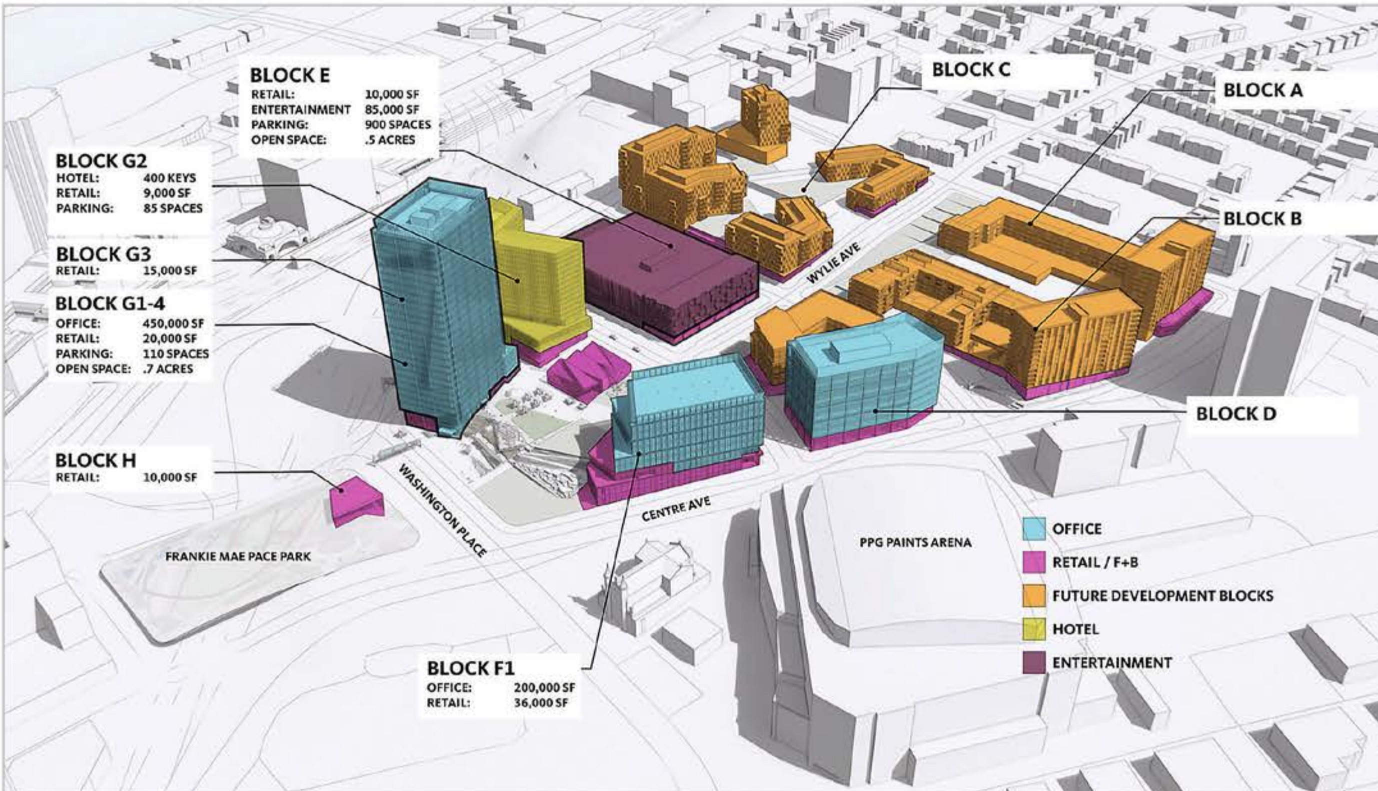
Economically Sustainable: Reinvestment

To be economically sustainable, a project must create shared prosperity and realize the potential for wealth-building. This is especially important in communities that have experienced disinvestment.

A large project can be a catalyst for inclusive contracting opportunities and workforce development. The Lower Hill project team engaged diverse contractors. Forty percent of project contracts to date (approximately $45 million) have been awarded to minority- or woman-owned business enterprises. That includes $25 million to Black-owned businesses, many sourced from the Hill District and surrounding neighborhoods. At the same time, the construction firms on the site work closely with trade schools, labor unions and local nonprofits to attract new workers through a range of workforce development and training programs.

Large-scale neighborhood development also benefits from immediate, upfront investment. The Lower Hill team developed a unique financial process that conveyed property tax abatements from the developers into a community-directed reinvestment fund. By monetizing the tax incentive upfront using a loan, the team delivered more than $7 million into the Greater Hill District Neighborhood Reinvestment Fund upon breaking ground. The fund will be used, in part, to support urgent property improvements for existing neighborhood residents and gap funding for community-led, mixed-use development across the Greater Hill District.

"A lesson of the Hill District experience is that development decisions reverberate for a long time. For my family, it's had a negative impact for



Buccini Pollin Group

A site plan for the Lower Hill Redevelopment project.

"A lesson of the Hill District experience is that development decisions reverberate for a long time. For my family, it's had a negative impact for 70 years. But the same can be true of positive opportunities."

— Bomani Howze, vice president of development, Buccini Pollin Group

70 years," Howze said. "But the same can be true of positive opportunities. When a young person starts a career in the building trades, when an entrepreneur gets their big break with a large contract, when a resident can stay in their home because they had help replacing their roof — all those things are seeds that we have planted with this project."

Environmentally Sustainable: Resource Integrity

A major aspect of environmental stewardship for the project includes a highway cap project over I-579 that physically reconnects the Hill District with downtown via a public park named for **Frankie Pace**, a longtime Hill District advocate.

"Stormwater runoff is a chronic problem in Pittsburgh. Our goal is to minimize the impact on streams and rivers," said **Craig Dunham**, senior vice president of development for the Pittsburgh Penguins. "The Frankie Pace Park project is in part a stormwater project that directs the runoff back into the ground from what once was surface parking and the highway. A similar approach is being taken with our new streets and open areas. We are redeveloping an urban site that stitches together streets and neighborhoods into a healthy mixed-use community, which is by far the most sustainable way to go about development."

The master plan earned LEED Neighborhood Development Gold designation, and the team is pursuing a buildout of the development in support of this standard.

FNB Financial Center features glass with high-insulating properties while delivering daylight and visibility to tenant areas to create a high-performance facade and more vibrant workspaces. To reduce energy consumption, the project is deploying high-efficiency HVAC systems and lighting throughout the building.

"We're trying to tell the story of what happened here and create cultural connections between the new neighborhood and the historic neighborhood," Dunham said. "It's now all about building sustainable, healthy communities." ■

Boris Kaplan is the senior vice president for development for Buccini Pollin Group.

Reinventing Hotels as Housing

Whether for dormitories or apartments, converting underperforming hotels in urban markets shows promise.

By Tallal Bhutta, BDB Construction Enterprise Inc.

In major metropolitan areas nationwide, two market trends are converging: a soaring increase in demand for new housing and a decrease in demand for extended-stay and full-service hotels. For example, while demand for affordable, market-rate and student housing is as high as it has ever been in New York, lodging loan delinquency rates there are above 15%, according to an August 2023 article from data and analytics firm Trepp.

Erik Rank, courtesy BDB Construction

An 800-key Hilton Doubletree was converted into an apartment complex in Midtown Manhattan for students at LIM College.

One possible solution is to convert underperforming hotel properties into permanent housing — for students, the workforce, younger families and other populations. Even some longtime hoteliers, who tend to be reluctant to embrace conversion, are recognizing that selling to a multifamily developer or pivoting to developing housing themselves may be the right move. At the same time, there is the owner-investor class who bought stressed hotels while the pandemic was at its height but now find that the market has not achieved the return they had imagined.

Incentives are feeding into conversion growth. At both the city and state levels, policymakers in Arizona, California, Missouri, New York and other regions with large metropolitan areas have been crafting legislation that streamlines the conversion process and makes the value proposition more appealing. Examples include Senate Bill S5080B, currently in committee in the New York Senate, and AB 1532, which was enacted in California in 2023.

Some legislative efforts are focused on rapidly turning vacant office buildings into below-market-rate housing, although it should be noted that office buildings tend to be more challenging for dormitory and apartment conversions because of factors such as low window-to-floor-area ratios and deeper floor plates. Hotels generally are already designed with outdoor views, exposure to daylight, and air circulation in mind.

In the case of student housing, developers in cities where higher education and research science have a large presence have been finding enthusiastic partners among institutional leadership, who regularly grapple with housing shortages for students and researchers.

Developers in cities where higher education and research science have a large presence have been finding enthusiastic partners among institutional leadership, who regularly grapple with housing shortages for students and researchers.

Identifying the Right Property

As in most investment situations, location is critical. Developers of conversion properties start with locations

The best building for the job is the one with the most pieces already in place, which should reduce both cost and schedule for construction.

that have already been selected, which adds a new onus: The project team must be certain the location is an appropriate site for the most appealing housing models. For example, in dense urban settings, savvy developers and investors evaluate a range of amenities within walking distance. Similarly, a student housing complex should be proximate to the higher education institution where the residents attend class or work.

The project team's focus then shifts to considering the economics of the existing property and proposed conversion model. The task is to identify a building that requires only a limited amount of work before achieving a certificate of occupancy. Lead times for critical materials and components should also be considered when identifying a candidate property. It's simple enough to find substitutes for finishes such as flooring, wall coverings and kitchen cabinets, but if critical infrastructure components such as electrical switchgear, mechanical units and fire alarm devices cannot be procured on time, there's a good chance the project won't succeed. The best building for the job is the one with the most pieces already in place, which should reduce both cost and schedule for construction. For planning purposes, $350-$400 per square foot is a reasonable figure to consider, although the geographic region and intended scope of work, among other factors, can cause this baseline number to vary.

If the elevators work and the existing electrical and mechanical infrastructure are healthy and robust, that's a good start. It's even better if the building's electrical capacity is high. (This happens to be the case with many full-service hotel structures, which are built to accommodate events that create a spike in demand for electricity, hot water, air conditioning and other utilities or services.) Walls and ceilings are easier to renovate or replace, as are finishes like carpeting and wallpaper, adding little to the overall construc-

Erik Rank, courtesy BDB Construction

Former shared hotel amenities such as lounges are often a good fit for the student housing model, generally requiring only modest retrofits and updates.

Hotels vs. Office Buildings

A July 2023 RentCafe study analyzing commercial real estate data from Yardi Matrix found that Los Angeles, New York, Chicago, Philadelphia and Cleveland were the top five markets for future adaptive reuse conversions. The same study reported that hotels accounted for nearly a third of conversions to housing in 2022; in the same year, only office buildings outpaced hotels for residential retrofits. ■

tion timetable. Shared hotel amenities such as fitness rooms and lounges generally translate well to the housing model, with only modest retrofits and updates needed. The ideal property will also have space and infrastructure for adding amenities such as a mail room, 24-7 security and Wi-Fi.

The Integrated Delivery Approach

With business cycles continuing to shrink and the evolution of consumer habits accelerating, speed-to-market for these conversion projects is critical. The key to staying on schedule for opening is to integrate the contractor into the project at the earliest possible stage, including site selection and "pre-design" project definition.

Consider the 2022 conversion of an 800-key Hilton Doubletree in Midtown Manhattan into a complex of student apartments. Leaders of LIM College, one of the institutions planning to lease the property, wanted the apartments to include en suite kitchens, a decision with major implications for construction scheduling and for building and life-safety code compliance. Resolving the issues related to plumbing and electrical service presented significant hurdles for timely completion and a certificate of occupancy.

Involved from the earliest phases, the contractor kept the developer's planned construction timetable on track. The integrated delivery approach allowed the team to coordinate and sequence shipments and activity, ensuring that the needed electrical and safety system upgrades would be completed on time, without affecting the owner's budget. The approach also allowed the contractor to identify shortcuts that would pass muster with inspectors, such as accessing the supplemental electrical capacity that the hotel had as part of its infrastructure.

Just seven months after closing on the Hilton Doubletree property in early 2022, a temporary certificate of occupancy was issued, and LIM College students began moving in for the fall semester. One month later, the apartment complex was nearly fully occupied.

Planning for the Unexpected

Conversions are complex. No two are exactly alike, and there will always be challenges, but with nimble and experienced project partners working closely together from project inception to integrated delivery, those challenges can be anticipated and appropriately managed. The developer will want each team member to be familiar with the conversion type, and with the local laws and codes that so often create unexpected impediments to construction.

Leaders of LIM College, one of the institutions planning to lease the property, wanted the apartments to include en suite kitchens, a decision with major implications for construction scheduling and for building and life-safety code compliance.

For example, another large-scale student housing conversion in Manhattan involved a former Marriott property in a landmark building with an iconic facade. It was simple enough to conform to historic preservation requirements, but New York City also enumerates strict requirements for building facades under Local Law 11, which aims to protect passersby from being injured by falling debris. (In 2019, the death of a person struck by a fallen facade component led to criminal charges under the 1998 statute.) Aware of these requirements from the outset, the integrated delivery team folded facade repairs into the construction planning and sequencing, ultimately completing the project and beginning the occupancy phase on the originally proposed schedule. Just seven months after close of sale in early 2023, housing provider FOUND Study Turtle Bay offered 1,355 dormitory beds serving students at New York Institute of Technology and Manhattan Marymount College.

For developers identifying an urban hotel property that is underperforming in their portfolio or that is available for purchase and who believe that it can be converted into permanent housing due to its location, structural conditions and available amenities, the most important next step is to assemble and integrate the ideal project team. This will save time and money because an integrated project construction and delivery approach streamlines the process. ■

Tallal Bhutta is founder and CEO of BDB Construction Enterprise Inc., a construction provider based on Staten Island.

Come Rain or Come Shine: Rainscreens

Rainscreen systems can be an aesthetically pleasing and environmentally friendly choice.

By Christy Gatchell, StoVentec/Sto Corp.

Dean Riggott, courtesy of Sto Corp.

The cladding solution for the Cafesjian Art Trust museum was chosen both for its performance and its aesthetics.

Choosing the optimal cladding solution for any commercial construction project begins by asking basic questions: Does the choice ensure that the building can withstand the forces of nature — wind, moisture, condensation, severe weather and more? How will the facade provide enduring protection over the life of the building?

Given their inherent performance characteristics and ability to meet ever-changing energy codes, rainscreens are one option, especially if they offer a complete exterior wall system with components like noncombustible insulation and air and water barriers (substrate, control layers and more).

An Investment for Different Weather Types

Given the name, some specifiers and designers consider using rainscreens only in moist, rainy or snowy climates. However, rainscreens are also effective for warm, dry climates that occasionally experience heavy bouts of rain.

Some rainscreen systems contain a layer of thermal insulation, making them efficient in both hot and cold climates, and allowing building owners to keep occupants comfortable regardless of the temperature and weather conditions outside. The exterior insulation incorporated into some rainscreen solutions also provides noise cancellation and sound dampening for occupants.

Of course, rainscreens are a viable option for building owners and developers in wet climates for a variety of reasons:

Moisture control: Rainscreens help control moisture by creating a protective layer that prevents precipitation from directly impacting the building envelope. This is essential in wet climates where excessive moisture can lead to mold growth, structural damage and sick building syndrome.

Given the name, some specifiers and designers consider using rainscreens only in moist, rainy or snowy climates. However, rainscreens are also effective for warm, dry climates that occasionally experience heavy bouts of rain.

Increased drying capacity: The primary function of a ventilated rainscreen wall is to enhance the drying capacity of the wall assembly and layers behind the exterior cladding. Rainscreen systems facilitate the movement of air across the face of a weather-resistive barrier, which sits behind the outward-facing rainscreen panels. Think of this air circulation as a built-in fan, expediting the evaporation of moisture.

Compared with traditional cladding that relies heavily on sealants, rainscreen cladding provides superior durability and water resistance, reducing the need for frequent upkeep.

Dean Riggott, courtesy of Sto Corp.

The design team selected a glass rainscreen system in three shades of blue from the StoVentec Glass color collection.

This prevents moisture from accumulating within walls and reduces the risk of water-related issues.

Bulk water management: Rainscreens are not designed to keep all water and moisture out. Instead, drained and back-ventilated rainscreen systems stop the bulk of water intrusion — approximately 90% — while the remaining water evaporates or drains downward by gravitational pull and out from behind the cladding.

Considerations for Use

While rainscreen systems are adaptable across various climates, because of wind load limitations, they are not recommended for use in exceptionally tall buildings or in beachfront locations with structures spanning over 40 stories. Precision measurements are paramount for a rainscreen system, particularly those incorporating a glass facade. It is best to hire a glazing contractor who specializes in various types of commercial and residential glass installation or repairs.

Considerations for a rainscreen system include the time and effort required for assembly, especially with retrofit projects where the system is integrated into an existing wall. Opting for a single-source rainscreen system can streamline the process; otherwise, it typically involves piece-by-piece installation.

A rainscreen system may involve higher initial costs, although its long-term benefits should far surpass the upfront expenses. Compared with traditional cladding that relies heavily on sealants, rainscreen cladding provides superior durability and water resistance, reducing the need for frequent upkeep. Additionally, rainscreen systems mitigate harmful water and water vapor from the walls, enhancing a structure's longevity and contributing to better indoor air quality.

Sustainability and Efficiency

Thermal efficiency is a critical factor for property owners and developers. It ensures that the buildings remain comfortable and dry for the occupants. If the buildings fail to provide a comfortable environment, it can drive away potential tenants or owners who may be hesitant to invest in a space that is prone to leaks and other issues.

Quality rainscreens increase the sustainability quotient by minimizing thermal bridging through adding insulation as part of a fully engineered system. This layer of exterior insulation helps regulate indoor temperatures, thus reducing reliance on heating and cooling systems. It also boosts the R-value of the entire wall, which is important in meeting rising energy code mandates for both hot and cold climates. In the context of construction, the R-value is a measure of how well a two-dimensional barrier, such as a layer of insulation, a window or a complete wall or ceiling, resists the conductive flow of heat. This is one reason rainscreens are applicable for all climate zones, not just wet and cold regions.

Thermal brackets, which are designed to minimize thermal bridging, are often used in rainscreen cladding systems. When combined with exterior insulation, these brackets help to significantly boost R-values. In an industry study, aluminum thermal brackets on steel-framed wall assemblies with studs at 16 inches on-center with 32-inch horizontal bracket spacing helped deliver effective R-values ranging from R-10.7 through R-31.5.

Rainscreens in Use: Cafesjian Art Trust

The family of **Gerard Cafesjian**, a Minnesota businessperson and philanthropist, established the Cafesjian Art Trust to share his collection of contemporary and modern art with the public. The building that houses the museum, which opened in 2022, needed a cladding solution that would bolster its performance, along with a design that would readily communicate Cafesjian's passion for the medium of glass.

Originally built in 1977, the building's facade required a substantial upgrade to better reflect the museum's mission. Mohagen Hansen Architecture | Interiors envisioned a brilliant, colorful building exterior, brought to life with varying shades of blue. The architect chose varied sizes and shapes of glass panels along the building's exterior not only to increase visual interest but to reflect the art inside. The unique cladding sheds light and shadows, creating a dynamic interplay that adds depth and visual interest to the building facade.

The design team selected a comprehensive glass rainscreen system that allowed the architects to deliver a customized, visually compelling building facade. The glass panels were manufactured by fusing colors directly into the glass before the toughening process to create a permanent color that will not wear, scratch, fade or incur water damage. These panels are adaptable to any desired opening shape. Their use facilitated seamless integration with adjacent materials, forming a cohesive enclosure around the I-beams.

Despite the seamless appearance, achieving precision was a challenge. In areas where the glass clamshells around the I-beams with cutouts required specific distances, panel rendering was necessary due to slight measurement inaccuracies. This meticulous process is essential for glass rainscreen systems. Although eight panels needed reordering, the project timeline remained unaffected due to concurrent tasks being completed.

As the project was a renovation of an existing building, the new facade had to be installed over the previous exterior walls, which were made of lower-performance ribbed concrete and brick. Although retrofitting a project with an irregular surface like the ribbed concrete was a challenge, the "clip and rail" system worked well for this. It offered adjustability for irregular substrates and less thermal loss compared with a z-girt type connection, saving on energy bills.

The system enabled the team to keep the exterior envelope intact to avoid concerns regarding energy loss and water intrusion and without being invasive. The project manager originally anticipated that it would take up to two months to complete the job, but instead the installation was finished in about a month.

More than Aesthetics

Rainscreen solutions offer developers and building owners an alternative when it comes to exterior cladding. Ultimately, the selection of rainscreens for a commercial facade is not merely an architectural choice. It is a commitment to enduring, efficient and sustainable building practices that benefit the owner and the developer for the life span of the property. ■

Christy Gatchell is the director of sales and business development for the StoVentec team at Sto Corp.

Market Outlook

According to Grand View Research, the U.S. rainscreen cladding market size was estimated at $31.7 million in 2022, with an expected compound annual growth rate of 6.8% from 2023 to 2030.

The market analysis report noted, "The growing demand for the renovation of office buildings and new construction is expected to positively impact the industry's growth. Increasing investments in working spaces to improve their aesthetic appeal, provide safety against harsh weather conditions, and increase energy efficiencies are expected to propel the demand for rainscreen cladding over the projected period." ■

On Leadership: Ryan Witges

The president of Agracel, Inc. shares his Illinois-based firm's successes and insights into industrial development in the Midwest, South and Southeast over the next few years.

By Ron Derven

Ryan Witges

"Depending on what is going on in the marketplace, we can quickly move into ground-up development, or in times when there is less new construction, we can focus on acquisitions."

— Ryan Witges, president, Agracel

Development: *Tell our audience about Agracel.*

Ryan Witges: We are an industrial real estate investor and ground-up industrial development company with a focus on manufacturing in rural America. Our core business is build-to-suits, expansions and acquisitions. We own properties in more than 20 markets throughout the Midwest, South and Southeast. We are active in the capital markets and constantly look for buildings that can be purchased well below replacement cost, whether vacant or leased. With inflation taking off, we find there is good value to be had in existing properties.

Because we work in all areas of industrial development, we are extremely agile. Depending on what is going on in the marketplace, we can quickly move into ground-up development, or in times when there is less new construction, we can focus on acquisitions. We are a relatively small company with fewer than 30 employees, so we can make decisions and pivot quickly. That is the key to our continuing growth and success.

Development: *The company started out working in small towns and cities. Could you talk about that?*

Witges: Agracel was established in 1986. Our headquarters is in Effingham, Illinois, population 12,221. We enjoy working in rural America, and we are a strong partner to the communities we serve. As a real estate developer, we are a resource for these communities. We want to be the first call that officials make when they need real estate expertise. At the same time, we don't shy away from bigger markets.

Development: *What drew you to a career in commercial real estate?*

Witges: When I was young, I loved to play baseball. I went to college on a baseball scholarship and played a couple of years at a community college in southern Illinois and two years at Indiana State University. I majored in business management, however, because I knew I wouldn't play major league ball. During my junior and senior years in college, I got a job working for Agracel as an intern. After graduating from college, I was fortunate to be offered a full-time position. That was 2006. Over time, I grew to love commercial real estate and Agracel. Real estate makes the world go around, and I cannot imagine doing anything else.

Development: *Agracel now has multiple offices in the Southeast, the Gulf Coast states, Nashville and the Ohio Valley region. As you add new offices and new people, how do you maintain the strong and motivated company culture you and your predecessors have built?*

Witges: It is a challenge to maintain company culture. We are in constant communication with our satellite offices. We make frequent visits and encourage them to come back to the Effingham headquarters as often as possible. While our people are incredibly busy with work, many of our employees are at that stage of life where they have young children and children in school. We encourage a healthy work-life balance at Agracel, which our employees appreciate. We want people to take off time to attend their children's events, whether school or athletic related. We stress the importance of taking a vacation because we do not want our team to get burned out.

Development: *What does leadership look like to you?*

Witges: I lead by example. I am not big on speeches or micromanagement. We hire hardworking, talented people, provide them with the resources they need to succeed, then let them go to work.

> **"Real estate makes the world go around, and I cannot imagine doing anything else."**
>
> *— Ryan Witges*

Development: *What is your primary role as president of Agracel?*

Witges: Until the end of 2023, I held the title of chief operating officer and president. We promoted **Mark Keller**, who has been with us as director of construction for almost 10 years, to COO. In my position, I am still involved in deal flow, and one of my main duties is to make sure that our projects are progressing as they should. Another part of my role is banking and investor relationships. I keep a thumb on the pulse of the company, with a focus on short- and long-term strategy.

Development: *What qualities do you look for when hiring senior staff?*

Witges: Our approach is to promote from within. That way, we know what we are getting. We want self-starters and highly motivated people. We get both by hiring from within.

Development: *Since the retirement of* ***Jack Schultz****, the former president of*

Agracel, and your assumption of that position, what has been your greatest leadership challenge?

Witges: I have been very fortunate. In addition to Jack Schultz, I worked with **Dean Bingham**, who continues as our CEO. I have Dean's ear, his advice and his leadership to help us make big decisions. COVID was a big challenge for us because no one knew what to expect. But we stayed active in the market through the pandemic and, in fact, had some of our most successful years during that period.

Other major challenges have included rising interest rates, the increasing cost of construction, longer lead times and supply chain disruptions. Fortunately, Team Agracel has risen to the challenge successfully.

Development: *When internal conflicts arise or mistakes are made, how are they handled at the company?*

Witges: For us, the best way to handle conflicts or mistakes is to meet them head-on and resolve them. Bad news travels fast, so we want to get ahead of it, have a discussion, resolve the issue and move forward.

"I lead by example. I am not big on speeches or micromanagement. We hire hardworking, talented people, provide them with the resources they need to succeed, then let them go to work."

— Ryan Witges

Development: *What is your outlook for commercial real estate over the next three to five years in your markets?*

Witges: We are very bullish. We follow several different indexes, and we feel very strongly about manufacturing in the United States, specifically in the Midwest, South and Southeast. From 2013 through 2017, we averaged about $50 million in new construction and acquisitions annually. From 2018 through 2023, we averaged about $100 million annually. Looking ahead, we want to bring our annual volume to a whole new level.

Development: *What has been the best advice you have received during your years in the commercial real estate business?*

Witges: The top people at this company, Jack and Dean, shared with me early on the importance of personally investing in industrial real estate — an opportunity I have taken whenever possible. The employees of Agracel are very fortunate because we are now an ESOP (employee stock ownership plan), thanks to Jack Schultz. Jack had the vision to make everyone in the company a millionaire, and that plan is in motion through the ESOP, which gives employees an ownership stake in the company. Twelve percent of the company is owned by the ESOP, and that will grow in the future. Jack knew what investing in industrial real estate had done for him and his family, and he wanted to share that with employees at the company. In addition, we offer additional avenues for our employees to invest in our projects. In most cases, we have 100% participation.

Development: *What advice would you offer to a new person coming into the business today?*

Witges: Make sure you listen and learn and take advantage of the resources at your disposal. Start investing in real estate as soon as possible. Relationships are key, and everyone is in a sales position.

"The top people at this company … shared with me early on the importance of personally investing in industrial real estate — an opportunity I have taken whenever possible.

— Ryan Witges

Development: *Jack Schultz and Agracel have been great friends to NAIOP over the years. Has NAIOP in return helped you advance your real estate career or helped you hone your leadership skills?*

Witges: Both Dean and I are involved in the NAIOP National Forums program. It is a diverse group of individuals from across the country. We share best practices and growing pains, and we learn from each other. NAIOP has been extremely helpful to our company, and we encourage everyone to get involved in NAIOP.

Development: *Being president of Agracel is a demanding job. How do you relax in your time away from work?*

Witges: Family is important to me. My kids are very active, and my wife and I spend a lot of time at sporting events, some of which we coach. We also love to travel, spending time outdoors at the pool, lake, beach and mountains, and generally just being active. Snow skiing and mountain biking with the entire family and riding dirt bikes with my boys are all great resets. ■

Ron Derven is a contributing editor to Development magazine.

Preparing for Conversions of Retail to Restaurants

Experiential uses can require complex infrastructure.

By Daniel Colombini and Daniel Galarza, Goldman Copeland

Heightened office vacancy rates in major U.S. cities in the wake of the COVID-19 pandemic have reduced shopping at nearby retail stores. That has led commercial property owners to explore potential conversions of vacant retail space to restaurants and other experiential venues.

The consequences of hybrid office work for retail in major urban cores are significant. The Downtown San Francisco Partnership recently analyzed 43 square blocks primarily covering San Francisco's traditional financial district and, as The New York Times reported, "counted about 150,000 square feet of vacant retail. That's a small part of the area's 32 million total square feet of real estate. But it's about a third of all the ground-floor commercial space."

Renata Tyburczy via iStock/ Getty Images Plus

The precise setting of the restaurant conversion will determine where smoke and odor need to be evacuated and where outside air is obtained.

Experiences as a Draw

In the face of this new reality, Goldman Copeland's experience shows that commercial property owners are increasingly considering converting vacant retail space into restaurants or other experiential venues. The underlying theory is that while specific products can be purchased online, certain experiences are better in person: a wonderful meal at a restaurant, the chance to socialize with friends at a local coffee shop, the opportunity to exercise at a gym or to reach the top of a climbing wall.

In this context, commercial property owners can be faced with several scenarios. In some cases, a potential tenant proposes a new use for a vacant retail space, and the property owner wants to understand the implications. In other instances, negotiations have already begun with the prospective new tenant, and the owner needs to understand the costs in detail. In another instance, an existing retail space has sat vacant for an extended period, and the owner wants to understand all of the viable options for the space.

Commercial property owners are increasingly considering converting vacant retail space into restaurants or other experiential venues. The underlying theory is that while specific products can be purchased online, certain experiences are better in person.

Options are often considerable and varied. A space can be retained at its current size or changed into new configurations. Different types of restaurants require different infrastructure. Other experiential venues have their own requirements.

The nature of a restaurant — whether it's a steakhouse, a sushi restaurant, a coffee shop or a sandwich shop — greatly affects the required infrastructure. Each case presents its own needs for kitchen facilities, electrical power, ventilation, fire safety, sanitation and other concerns. Each has its own requirements for seating space and restrooms. Even among ground-floor locations, the precise setting will impact considerations such as where smoke and odor are evacuated and where outside air is obtained.

Property owners may consider a variety of potential uses for other experiential venues. These can include repurposing a rooftop setting as an event space, creating storefront access to a basement space for a gym or spa, or hosting pop-up museums or exhibitions.

Understanding the Options

Commercial property owners should take a couple of steps to more fully comprehend their options for converting vacant retail space to restaurants or other experiential venues:

Understand the existing conditions for each current retail space, including the following: How much electrical power is available? What is the HVAC capacity? What ventilation is available? How do the facade louvers allow air in and out of the building? How much water pressure exists? What is the extent of the sanitary lines? What fire prevention infrastructure is in place?

Knowing the answers to these questions will enable the property owner to be authoritative if a prospective tenant approaches about a potential new use for the space. It also provides a baseline for considering the cost of adapting the space.

Evaluate the cost implications of various potential configurations of space and possible new uses. Changing the configuration can have significant implications for infrastructure, and the location of the infrastructure can in turn affect the potential for reconfiguration.

Similarly, various new uses, such as different types of restaurants, will substantially affect cost estimates. Will the restaurant need a full commercial kitchen? If so, what type? Will there be cooking with grease or just warming of food? How much seating will be required?

With an infrastructure baseline in hand and potential new uses considered, the most cost-effective options can be discussed.

Who will bear those costs will depend on the nature of the new use and the financial circumstances of the prospective tenant. Understanding them will enable the owner to judge the potential of a new prospect. It will also allow the owner to create a strategy for pursuing the best new options available.

The nature of a restaurant — whether it's a steakhouse, a sushi restaurant, a coffee shop or a sandwich shop — greatly affects the required infrastructure. Each case presents its own needs for kitchen facilities, electrical power, ventilation, fire safety, sanitation and other concerns.

Case Example

In one midtown Manhattan office tower, Goldman Copeland is helping the property owner convert a vacant retail space into a Japanese restaurant. This example, now on the verge of construction, highlights the considerations, challenges and opportunities for such conversions.

The 22-story office tower was built in 1924 and faces onto Broadway. The vacant retail space previously housed a bank branch and measures 4,775 square feet. It has a storefront presence and also opens onto the building's lobby.

The property owner requested technical advice regarding what would be needed to accommodate a Japanese restaurant because related discussions were unfolding with a restaurateur. Goldman Copeland conducted a study of the logistics required and associated costs.

It determined the property would need a type 1 grease-laden kitchen, which typically requires costly exhaust management. The central logistical challenge is this: If the vacant space does not connect directly with an area where kitchen exhaust can be discharged, then a connection must be built. In this storefront space, there are existing louvers above the outside entrance, but they cannot be used for two reasons. First, they were already needed for air conditioning; second, the owner would not allow the discharge of kitchen exhaust onto Broadway because that could jeopardize the building's reputation. Therefore, an alternative was needed.

Goldman Copeland found a way to repurpose an abandoned internal shaft that runs the height of the building, thereby enabling exhaust from the rooftop at the back of the building. Connecting the kitchen exhaust to the shaft, however, required running a welded-iron duct, insulated for two-hour fire protection, from the kitchen on the first floor down to the basement and then across the entire basement to the shaft, which leads to the roof.

The cost was affected further by a building code requiring that the duct be accessible for cleaning — through small access doors — every 10 to 15 feet and wherever the duct changes direction. Cleaning requirements for the vertical abandoned shaft are more straightforward: An appropriate cleaning device must simply be able to pass through it.

The overall investment in infrastructure is significant: $300,000 or more. However, it is an investment that will add long-term value to the property and can be recouped through the leasing of the space.

The cost of constructing the duct alone will run upward of $200,000, and other infrastructure needs are required for the restaurant as well. These include a grease interceptor for the drainage system to keep grease from the sewage system; additional capacity for increased water pressure, hot water and electricity; provision of a new gas service; increased plumbing for drainage and water supply; and added ventilation.

The cost of the duct is about 10 times the cost of any of the other infrastructure needs. Still, the overall investment in infrastructure is significant: $300,000 or more. However, it is an investment that will add long-term value to the property and can be recouped through the leasing of the space.

Opportunities for Renewal

Vacant retail space is both a challenge and an opportunity. The opportunity stems from the requirements of the space and the needs of the community. As the community evolves due to changing work patterns, so can the needs.

Today's vacant retail space is a sign of loss, but filling that space in novel ways can be evidence of renewed vibrancy. Commercial property owners have a key role to play in making that happen when they are equipped with the foundational knowledge essential to guiding those decisions. ■

Daniel Colombini and **Daniel Galarza** are principals at New York City-based consulting engineering firm Goldman Copeland.

How Wrap-up Insurance Can Protect a Construction Project's Bottom Line

Wrap-ups can help control costs, provide superior policy terms and conditions, and keep projects on schedule.

By James Pfeiffer, TSIB

Like nearly everything else, insurance keeps getting more expensive. As contractors encounter these increased costs, they are being passed on to developers as line items in construction agreements, adding to the overall cost of building projects. At the same time, this arrangement provides developers with little control over the quality of the insurance coverage.

In other words, developers are paying higher building costs in exchange for a greater potential of encountering uncovered claims that can impact the balance sheet. That's not a great trade-off.

Why does this happen? Construction agreements typically require the contractors performing the work to carry specific insurance coverages. The contractors comply with these requirements by purchasing the specified insurance or by using the coverages they already have in force to insure their overall operations.

The problem with this arrangement for the developer or owner is a lack of control over what is purchased. Policies for general liability, excess liability, workers' compensation and builder's risk are among the easily recognizable insurance types likely to be included in construction agreements. These are not "off the shelf" products. A general liability policy purchased by one contractor can differ greatly from the policy bought by another contractor. There will be differences in policy limits, the exclusions present on the policy and the deductibles. There may

With wrap-ups, the project owner purchases the construction insurance directly rather than relying on the individual contractors performing the work.

lamontak590623 via iStock/Getty Images Plus

be different carriers with separate claims adjusters and different price points. None of which the developer has input on unless they are reviewing each and every policy.

Because of this arrangement, it is also frequently unclear how much coverage a project actually has. The construction agreements in place with the builders on any project will have a list of insurance requirements, and contractors do their best to comply with them.

The same contractor policy could be providing coverage for several different projects at the same time, and claims paid on behalf of one project could leave other projects without sufficient limits should more claims arise.

Buying the insurance for the entire project as the project owner wields immense purchasing power with the carriers, opening the door to better pricing and superior policy terms and conditions.

However, the policies they carry do not provide coverage on an unlimited basis; there's a point at which an insurance policy will stop paying. The same contractor policy could be providing coverage for several different projects at the same time, and claims paid on behalf of one project could leave other projects without sufficient limits should more claims arise. That puts the owner at risk of having to finance losses themselves via their own insurance programs or their balance sheet.

Often construction claims involve more than one contractor. Once the contractors' insurance companies get involved, finger-pointing can lead to expensive litigation. Meanwhile, the project gets behind schedule, and these litigated matters remain open for several years.

Wrap-up Benefits

It is possible for developers to take control with an insurance product known as a wrap-up. Wrap-ups are controlled insurance programs for construction projects that allow the project owner to purchase the construction insurance directly rather than relying on the individual contractors performing the work. There are several advantages to doing this:

- With a wrap-up, contractors will exclude the price of their own insurances from their contract prices. This results in direct savings for the project owner.
- Contractors can only purchase coverage for themselves, so their buying power is limited. On the other hand, buying the insurance for the entire project as the project owner wields immense purchasing power with the carriers, opening the door to better pricing and superior policy terms and conditions.
- A wrap-up provides dedicated policy limits for the project or set of projects for which it was placed. Unrelated claims don't impact the policy and erode policy limits, giving peace of mind to the owner that protection for the work is always there.
- Wrap-ups are designed to accommodate the risk of the project owner and all enrolled contractors with a single carrier. Having a single carrier handling the general liability losses for all parties involved in the project puts the responsibility on the carrier to resolve claims quickly, helping to keep the project on schedule.

Potential Challenges

While wrap-ups are a sound risk management tool, they are by no means a panacea. Not all projects and clients are the best fit. It is important to work with a broker or consultant who thoroughly understands wrap-ups to avoid or minimize the following pitfalls:

Wrap-ups have a reputation for being administratively burdensome. Contractor enrollments, insurance cost verifications, certificates of insurance, payroll and other document collection necessary to the smooth operation of a wrap-up program take time and resources. The brokerage and wrap-up administrator can make the process a breeze or a nightmare depending on their expert management or mismanagement; project owners should vet administrators thoroughly for their experience.

The upfront cost of deploying a wrap-up must be considered. When placing a wrap-up, the owner must pay the premium and post any necessary collateral themselves at the start of the project. Remember, however, that the owner pays the insurance premiums when there isn't a wrap-up as well; they are just buried in the building costs brought by the individual contractors. Experienced wrap-up brokers will be able to secure various premium and financing options, allowing an owner to choose the one that best addresses their individual circumstances.

Claims handling is an important aspect of managing a wrap-up. These programs generally have large deductibles (typically between $100,000 and $500,000 per occurrence depending on project size) that the owner is responsible for funding. The cost of losses can quickly get out of control if claims are not effectively managed, thus eroding the savings hoped for by the owner. A quality wrap-up broker will have a claims team to advocate with the carriers on the owner's behalf to help achieve the best results for the owner and the injured party.

The upfront cost of deploying a wrap-up must be considered. When placing a wrap-up, the owner must pay the premium and post any necessary collateral themselves at the start of the project.

Wrap-ups in Action

Wrap-ups can return millions to the project budget while simultaneously ensuring consistent and high-quality protection, just by taking control of the insurance.

For example, one recent project in Las Vegas utilizing a wrap-up and valued at approximately $1 billion includes hotel, convention and retail space. It is on track to achieve savings of approximately 1.5% of construction costs.

Similarly, in the Northeast, a new hospital tower with an attached parking garage valued at $450 million is still under construction, but it is on track to return nearly 2% of construction costs to the project bottom line by using a wrap-up.

The savings for these two projects could be eroded by future claims of course, but if the construction, claims and wrap-up administration are managed well, the savings expectations should be met easily. ■

James Pfeiffer is director, wrap-ups for TSIB.

Steps for Placing a Wrap-up

Placing a wrap-up involves three steps:

1. Consultation: To begin, consult with an insurance broker. They can explain how wrap-ups work and perform an analysis of any projects being considered for a wrap-up. This helps determine the financial feasibility of deploying a wrap-up on construction projects. Based on TSIB's experience placing these programs since 2006, typical savings range from 1% to 4% of construction costs, depending on size/length of the project, scope of work, loss experience on the project, and other factors.

2. Quotation: Once it's determined that a wrap-up is right for the project, the broker collects data and builds a market submission to solicit quotes from insurance companies in the marketplace. This process can take anywhere from 45 to 90 days.

3. Program placement: The broker will filter through the options, review them with the project owner and make recommendations so the owner can reach a final decision. The last step is to bind the insurance and begin enrolling projects in the new wrap-up insurance program. ■

Nine Critical Issues in Solar Rooftop Leasing

By properly navigating the risks and liabilities, building owners can create additional revenue streams while helping the environment.

By Jennifer Connelly, Sherin and Lodgen LLP

The United States is undergoing a major transition to a clean, sustainable energy ecosystem that is dependent on the integration of renewable energy sources into the existing energy infrastructure. One of the most popular renewable integration strategies is installing solar photovoltaic systems on rooftops of existing commercial and industrial buildings to sell clean energy to consumers.

While this allows building owners to facilitate the generation of renewable energy — and additional income — on-site at a property, various legal, financial and operational issues must be addressed upfront to ensure the long-term viability of each rooftop solar project. This article will walk property owners through the process of solar rooftop leasing and discuss how to navigate the risks and liabilities associated with these projects. If all of these items are considered and the parties involved commit to working together, this is an excellent opportunity to create additional revenue streams, benefit the environment and maximize the usefulness of commercial property.

Courtesy of Black Bear Energy

Black Bear Energy facilitated the industrial solar roof lease for STAG Industrial in the project shown here.

Ideas to Know

The general principles of commercial leasing apply to rooftop solar leases. However, solar rooftop leasing also involves additional issues property owners should consider.

1. Typical Deal Terms

Generally, rooftop solar leases run from 15-25 years, sometimes with an option to extend. Rents can be fixed but more commonly are calculated based on a dollar amount per megawatt of installed capacity. If negotiated, some rents may contain an escalation year over year. Before starting construction of solar facilities, landlords may require tenants to provide either a cash credit or letter of credit.

The solar energy the facilities produce may either be sold to an offtaker (sometimes a public utility company) or put into a community solar program, or the landlord could enter into a power purchase agreement with the solar tenant and provide the building with discounted electricity to reduce energy costs for building occupants. A decommissioning assurance provision is often required to secure the tenant's obligation to remove the solar equipment at the end of the term, either in the form of a bond, letter of credit or cash account, typically funded in the last five years of the lease term. The solar tenant will need several easements or license areas to support equipment installation, including a ground area for a transformer pad, any necessary utility easements, and a temporary construction laydown area to stage materials.

One threshold issue for landlords to consider is whether any third-party approvals are required, including "without limitation" consents needed from lenders, building tenants or joint venture partners. It is important to start this dialogue early on, including with internal stakeholders at the landlord entity who may not be as prepared to risk trying something unfamiliar with their asset management.

2. Ownership and Control of the Roof

Property owners should be mindful of whether they have granted rights to the building's rooftop to any of the tenants. In multi-tenant buildings, the landlord usually retains exclusive ownership and control of the roof, whereas in single-tenant buildings or ground leases, the roof may be under the tenant's control, including maintenance and repair

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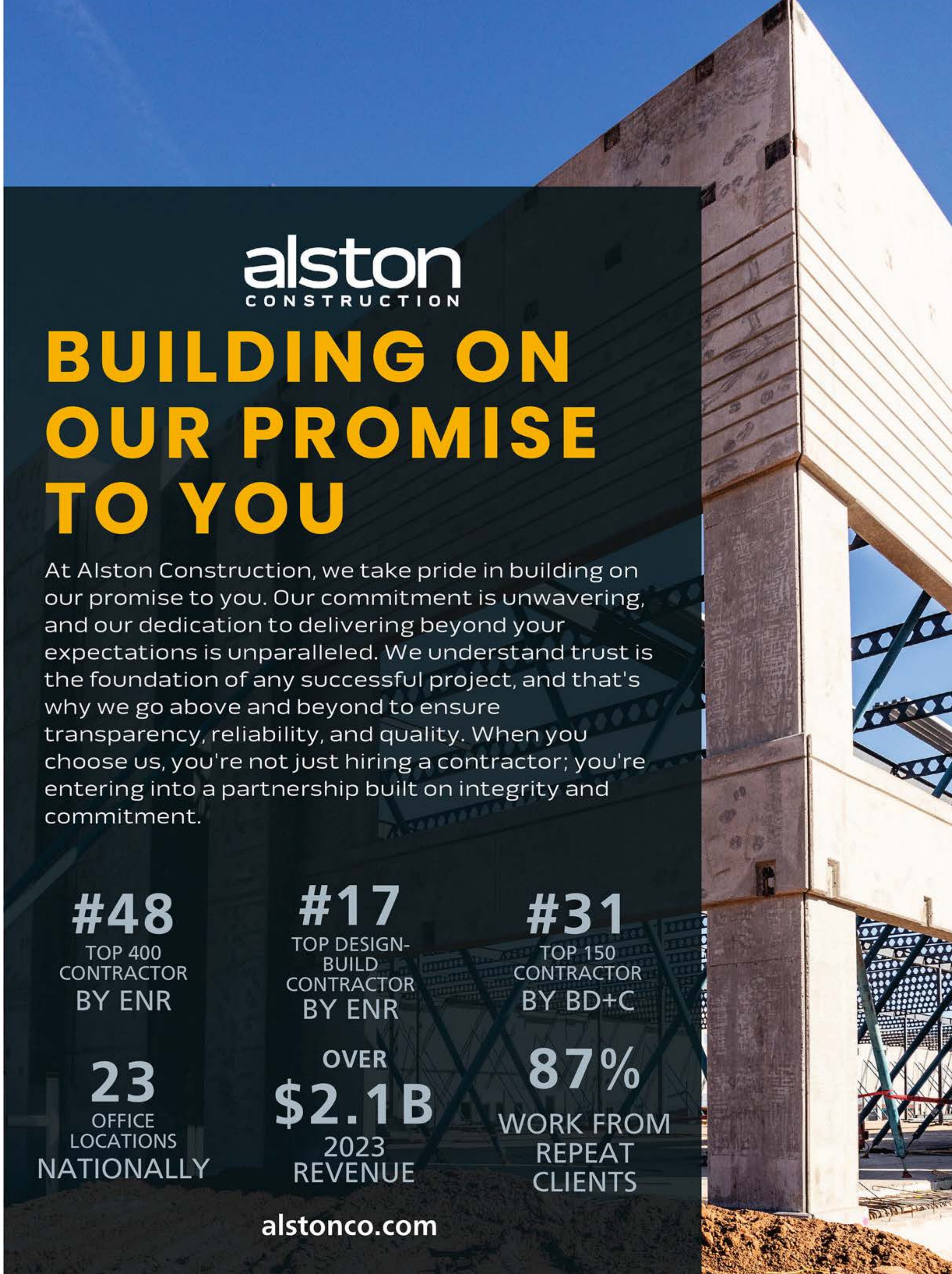
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Many solar tenants are looking for a site with a new roof at the inception of the solar lease because the term of the lease will likely be 15-25 years.

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obligations. If the tenant is responsible for the roof's maintenance under terms of the building lease, or if the tenant leases the entire property (land and building), the landlord will need to amend the building lease so that the landlord may legally lease the rooftop to the solar provider.

3. Age of the Roof

Many solar tenants are looking for a site with a new roof at the inception of the solar lease because the term of the lease will likely be 15-25 years. However, landlords will want to retain the option to replace the roof during the term of the solar lease in the case of emergency and carve out opportunities to repair the roof during the solar lease if necessary.

If the roof is not new but has 10 or 15 more years of useful life, a building can still accommodate a solar facility. However, landlords will need to negotiate with solar tenants to allocate the cost-sharing of a midterm roof replacement and the mechanical and operational logistics of removing the solar panels and then reinstalling them once the new roof is completed. Alternately, some landlords may move up roof replacements that weren't planned for a few more years to accommodate the solar facility's installation; this is also subject to negotiation. The parties typically conduct a structural assessment of the roof during the development term of the lease, and if the assessment reveals any structural problems, the parties negotiate the right to terminate the lease. Also, landlords generally include provisions regarding preservation of the roof warranty.

4. Integration With Existing and Potential Future Users of the Building

The solar tenant should accommodate any existing rooftop equipment, such as HVAC units, but landlords might want to set aside additional areas for future equipment needs before solar facility plans are set in stone. For example, landlords may envision future tenants requiring additional rooftop HVAC units during the term of the solar lease. If so, it would be prudent to designate certain solar-free "reserve areas" in advance (though sometimes this is unnecessary depending on the site specifics).

Interference is another area to consider. It is important for the rooftop solar lease to contain provisions requiring the solar tenant to remedy any interference the solar facility may cause with the operations of the building tenants; sometimes this comes in the form of parking lot disputes.

In addition, the solar lease should deal appropriately with building access. Generally, solar rooftop tenants are limited to accessing the exterior of the building only, and access to the roof is by exterior ladder. However, landlords will sometimes allow solar rooftop tenants access through the building's interior (if available). If there is a power purchase agreement, solar rooftop tenants will also need access to the building's electrical room to tie into the building's electrical system.

5. Insolation

Solar tenants require a certain degree of insolation assurance, which means they need to know that sufficient sunlight will reach their solar facilities for maximum energy production. It is common for solar leases to contain protective language saying that landlords will not do anything to impair the sunlight or cast shadows over the solar facilities. Landlords should work to carve out certain rights that would preserve their autonomy and flexibility to lease out their primary asset (the building), including the right to exclude existing rooftop installations and landscaping from the areas leased to the solar tenant. Landlords will also want the right to relocate and increase the size of rooftop HVAC units if a new building tenant demands greater HVAC capacity, while recognizing that they may need to compensate the solar tenant for decreased insolation.

Solar leases specifically delineate who owns the various environmental attributes and incentives that are allocated to or generated by a solar facility.

6. Casualty Implications

Generally, if a building is materially damaged and the landlord is not obliged to restore it under other binding agreements (such as a building lease), then the landlord should have the right to terminate the solar lease. In some instances, and as a compromise, language can be inserted stating that the parties will use best efforts to find an alternative location for the solar facilities. However, landlords generally cannot guarantee that a new location will be available.

Under scenarios in which the landlord is obligated to rebuild the building, the solar tenant typically receives a proportionate abatement of rent during the time the roof is unusable. It is important for landlords to know that they should not be forced to rebuild their primary asset (the building) just to satisfy the solar tenant.

7. Financing-friendly Provisions

Given that solar developers are making such a large-scale, long-term investment in the solar facilities to be installed, tenants generally obtain leasehold financing from traditional lenders and equity from tax credit investors. The federal investment tax credit is currently 30% of most of the costs of

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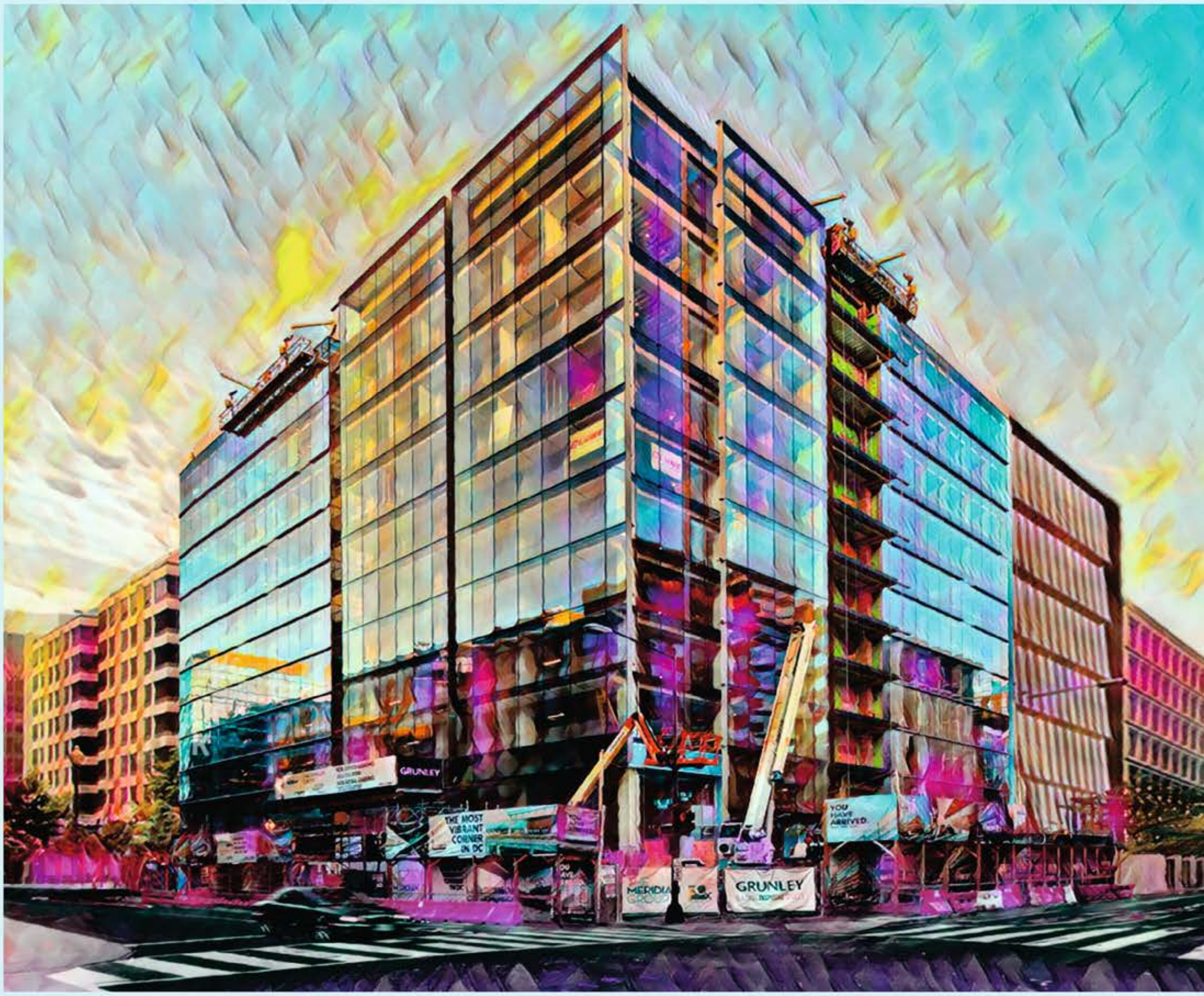
Transformation.



By Grunley.

Commercial
Institutional
Government
Builder

Grunley performed the $50.7 million transformation of 1901 L Street into a new, state-of-the-art, Class A Trophy Office Building. Using the 284,000 SF office building's eight-story concrete frame, the floor plate was expanded horizontally to create bay projections, and vertically to add three floors and a penthouse amenity space. The rooftop space was expanded to include a private office with dedicated roof deck and public amenities including a kitchen, lounge, flexible conference space, and a rooftop terrace. The building's façade was completely replaced with an all glass "mullion-less" curtainwall system. The main lobby was expanded and modernized to feature stone, wood and brass finishes. The mechanical and electrical systems were completely replaced with high efficiency systems, the elevators were upgraded, and core restrooms underwent a complete renovation. The basement now features a new fitness center and bike room. The retail space on the first level of the building remained occupied during construction.

continued from page 48

the solar facility (this can increase to up to 60% if specific requirements for "adder" credits are met, such as using certain domestic equipment or constructing solar facilities in certain low-income areas or sites where fossil fuels previously dominated). This credit is taken over the first five years of the solar facility's operation.

Solar lenders and tax equity investors require the solar lease to contain several lender-friendly provisions, including notice and cure rights, plus other terms more likely to be seen in a ground lease than a building lease, including the right to obtain a subordination, nondisturbance and attornment agreement (SNDA) from any landlord lenders. This is different from traditional commercial leases in which most tenants request, but are unsuccessful in obtaining, an SNDA from the landlord's lender.

Solar tenants typically want assurances they will be compensated for any time that the solar facilities are down due to an event caused by the landlord.

8. Ownership of the Solar Facilities
Solar leases generally contain an extremely specific delineation of who owns what. The solar facilities, though possibly considered "fixtures" under property law, are expressly and exclusively owned by the solar tenant. In addition, solar leases specifically delineate who owns (usually the solar tenant) the various environmental attributes and incentives that are allocated to or generated by a solar facility, including carbon trading credits, renewable credits, tax credits, accelerated depreciation, etc. It is important to ascertain each party's ownership of the various assets.

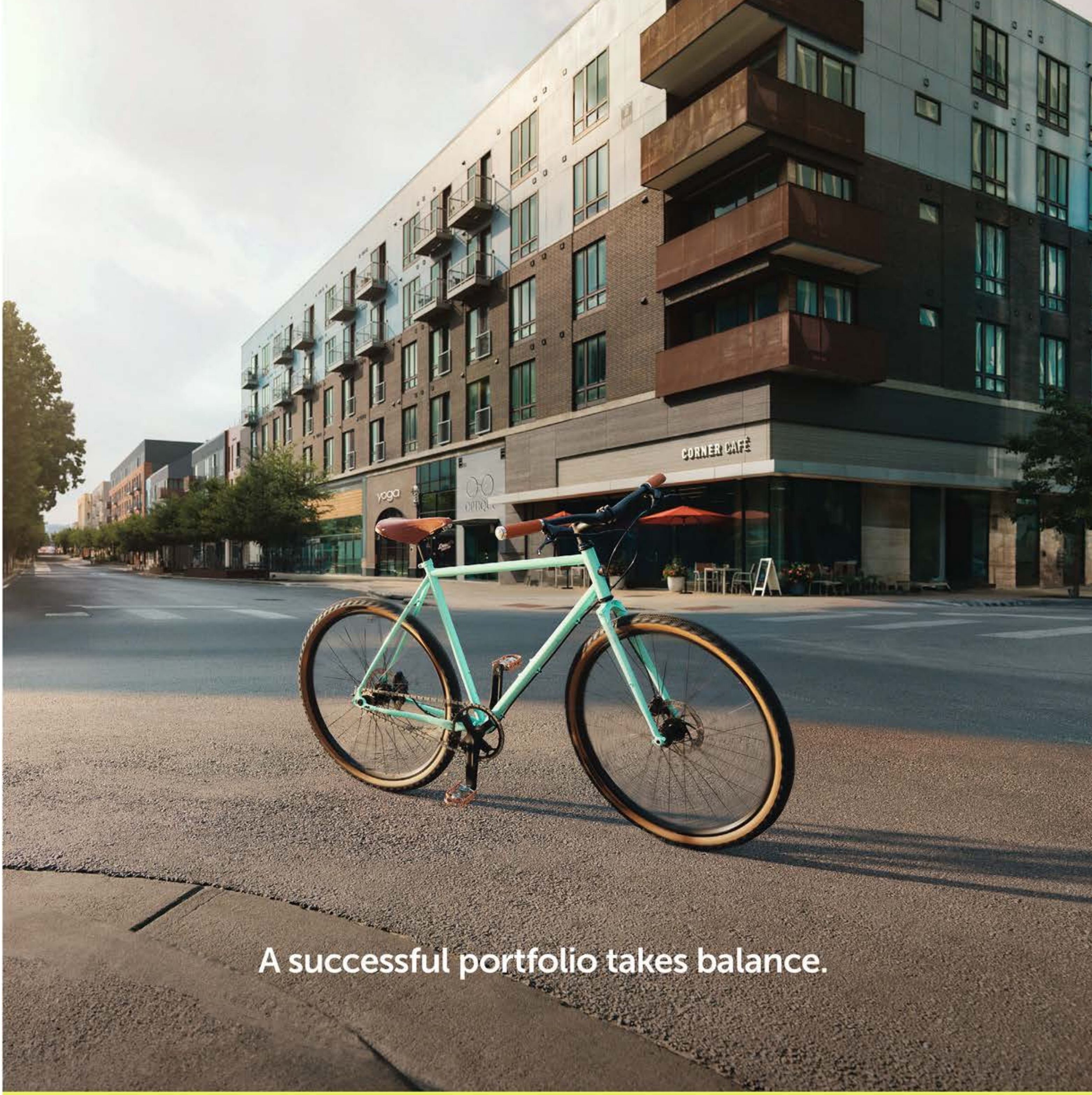
9. Interruption of Electrical Output
Solar tenants typically want assurances they will be compensated for any time that the solar facilities are down due to an event caused by the landlord. The concept of "lost energy revenue" is often seen in solar rooftop leases. This represents the sum of all revenue the solar tenant would have received from the sale of energy generated from the solar facilities, the revenue it would have received from solar incentive programs or rebates or assistance programs, and tax credits it would have received (or recapture of the tax credits).

It is not uncommon for the solar tenant to provide a fixed number of days (or kilowatt hours of production) each year for the landlord to make repairs without having to pay this lost energy revenue. This is an important concept to protect the solar tenant from downtime caused by the landlord's actions because the solar tenant has obligations to whoever is purchasing the power and to its financing parties and tax equity investors.

Approaching Solar With Confidence

The risks and rewards of solar rooftop leases are many. However, with an understanding of the market's various intricacies and with the advice of experienced counsel, industrial property owners can undertake these transactions with confidence, all while contributing to the reduction of carbon emissions and making some additional income at their properties. ■

Jennifer Connelly is a partner at Sherin and Lodgen LLP.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yoga
A successful portfolio takes balance.

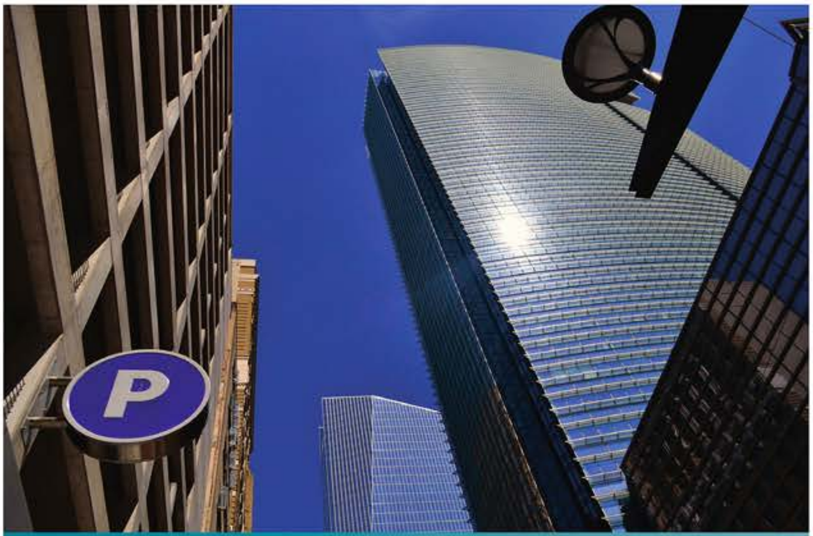
Parking and the Return to Office

The demand for parking in downtowns remains hard to predict.

By Robert T. Dunphy

The growth of working from home during the COVID pandemic era has transformed American work on a scale similar to the shift from a six-day to a five-day workweek in the first half of the 20th century. The downside is that offices have been left empty and nearby businesses that depended on the daily influx of office workers have struggled to survive. This shift has dramatically impacted every aspect of commuting and therefore made it more difficult to gauge how much parking is sufficient, especially in downtowns.

Many in the office sector hoped that once it became safe for workers to return, a recovery to normal would soon follow. That has proved to be optimistic.



Artistic Operations via iStock/ Getty Images Plus

Some parking operators have increased rates to make up for lower parking volumes in downtown business districts.

Kastle Systems, which tracks access activity data in 2,600 buildings and 41,000 businesses across 47 states, has been analyzing the data to identify trends in how workers are returning to the office. In its workplace occupancy barometer for April 22, Kastle reported a 51.9% occupancy average across 10 major metro markets, with a high of 67.4% in Austin and a low of 42% in San Jose (the Philadelphia, San Francisco, Los Angeles and Washington, D.C., metro areas also logged occupancy averages of less than 50%). There were wide swings in occupancy depending on the day; for the week of April 11-17, Tuesday showed the highest average occupancy (60.9%) and Friday the lowest (34.1%).

Before the pandemic, most downtown office markets were outperforming their suburban counterparts. This long-term trend changed dramatically between 2019 and 2022.

Transit Takes a Hit

With the decline in office workers, there are fewer commuters using transit. From 2019 to 2021, the share of workers dropped in half, fueling a catastrophic decline in transit ridership nationally. A U.S. Census Bureau survey found that about 70% of transit commuters living in metro areas lived in one of the seven "transit heavy" metros: New York, Chicago, San Francisco, Washington, Boston, Los Angeles and Philadelphia. These markets lost 3 million daily commuters between 2019 and 2021 and had regained only 1 million by 2022.

Slow Return to Work and the Toll on Downtown

Slow return to work can create excess office space and in turn, lead to declining real estate values and lower tax assessments. This is a special predicament for downtowns, whose office workers have been reluctant to return. According to an October 2023 report on downtowns published by Center City District (Philadelphia) and based on data from Placer.ai, which generates estimates from mobile phone data, San Antonio, Nashville, Midtown Manhattan and San Diego had recovered more than three-quarters of their nonresident workers in the second quarter of 2023 compared to the same quarter in 2019. The lowest worker recovery rates for the same period were

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in the Western cities of San Francisco, Portland and Denver, all hovering a little above 50%.

Before the pandemic, most downtown office markets were outperforming their suburban counterparts. This long-term trend changed dramatically between 2019 and 2022, as the average downtown office vacancy rate climbed from 10% to 16.2%. Over the same period, the average suburban office vacancy rate also increased, but from 12.1% to 15.4%.

A University of Toronto study of 67 cities across North America, also using cell phone data, found that cities with lower commute times and a lower share of jobs that could be performed remotely generally did better with worker recovery.

Impacts on Commuting and Parking

While real estate values affected by the slow return to office are a concern for owners and local governments, the associated decline in parking is a concern for office owners and parking operators alike.

> **"It will take time for things to sort out, if they ever do. Even though parking volumes are still down, parking revenues have recovered in some places because of rate increases."**
>
> *— John Dorsett, senior vice president, Walker Consultants*

The NAIOP Research Foundation report "Hybrid Work and the Future of Office" cited a 2022 CBRE survey noting that shorter commute times and the availability of parking were the two top factors that would make frequent office visits more desirable. Changes in commuting patterns helped to reduce travel times by 8% to 9% in Washington, San Francisco and Boston, according to a 2023 U.S. Census Bureau report. In addition, more commutes are now completed outside of traditional rush hours, making unexpected delays less likely.

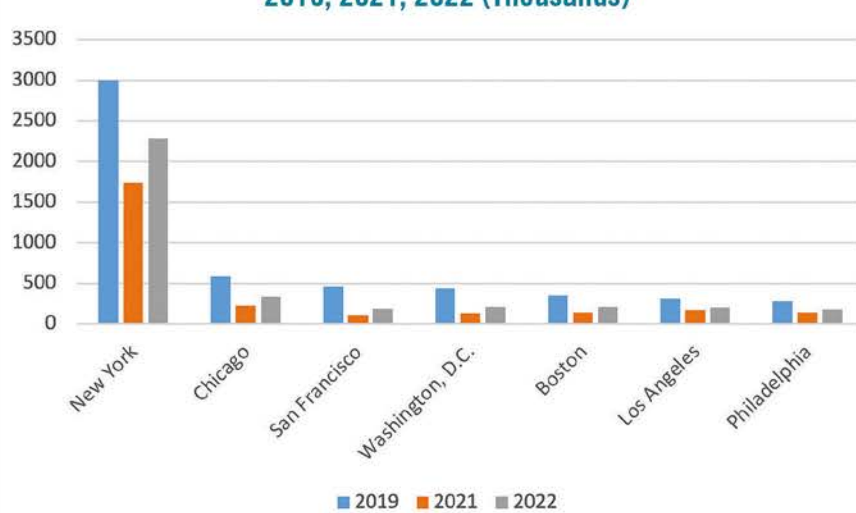
Stacey H. Mosley, director of research for Brandywine Realty Trust, observed that parking utilization in downtown Philadelphia is quite high, as people who previously commuted via regional rail/mass transit have leaned into driving. "Brandywine's parking division, BexPark, is doing quite well amidst the steady acceleration of return to the office," Mosley said. "BexPark is a complement to our transit-oriented developments, providing optionality for those visiting our properties."

John Dorsett, senior vice president for Walker Consultants, a nationwide practice with substantial experience in parking, said, "It will take time for things to sort out, if they ever do. Even though parking volumes are still down, parking revenues have recovered in some places because of rate increases. We have clients converting office to retail or housing, which supports a trend advocated by cities."

"How much parking is needed is a moving target," said **Brett Wood**, a consultant from St. Petersburg, Florida, who served as interim director of the Birmingham Parking Authority in Alabama. "In the past, a fully occupied building with maybe 15% absent could anticipate 75% to 80% parking pre-COVID versus perhaps 50% now. Mixed-use districts have better appeal to users and are suitable for shared parking, which reduces space needs."

Wood believes that excess parking in downtowns is an opportunity for adding housing and that the kind of shared parking common in mixed-use districts is better adapted to the new markets, where the different uses have different peaks, allowing the same space to serve different users.

Public Transportation Commuters in 7 Major Metropolitan Areas: 2019, 2021, 2022 (Thousands)



Robert T. Dunphy with data from Commuting in the United States: 2022, American Community Survey Briefs, U.S. Census Bureau

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Feel the Power

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The Future of Parking

The recovery of parking, especially in downtown districts, is linked to the office recovery, but dramatic changes offer opportunities to rethink outdated parking policies. There are several possibilities worth consideration.

Explore shared parking. Most parking in the United States is provided exclusively for single uses and is typically free. Shared parking makes it possible to take advantage of the different peaks for office, retail and restaurants so that combined facilities can serve more users with fewer spaces. It may be possible, for example, to reconfigure some office parking to serve downtowns where visitors have returned while workers largely have not.

The recovery of parking, especially in downtown districts, is linked to the office recovery, but dramatic changes offer opportunities to rethink outdated parking policies.

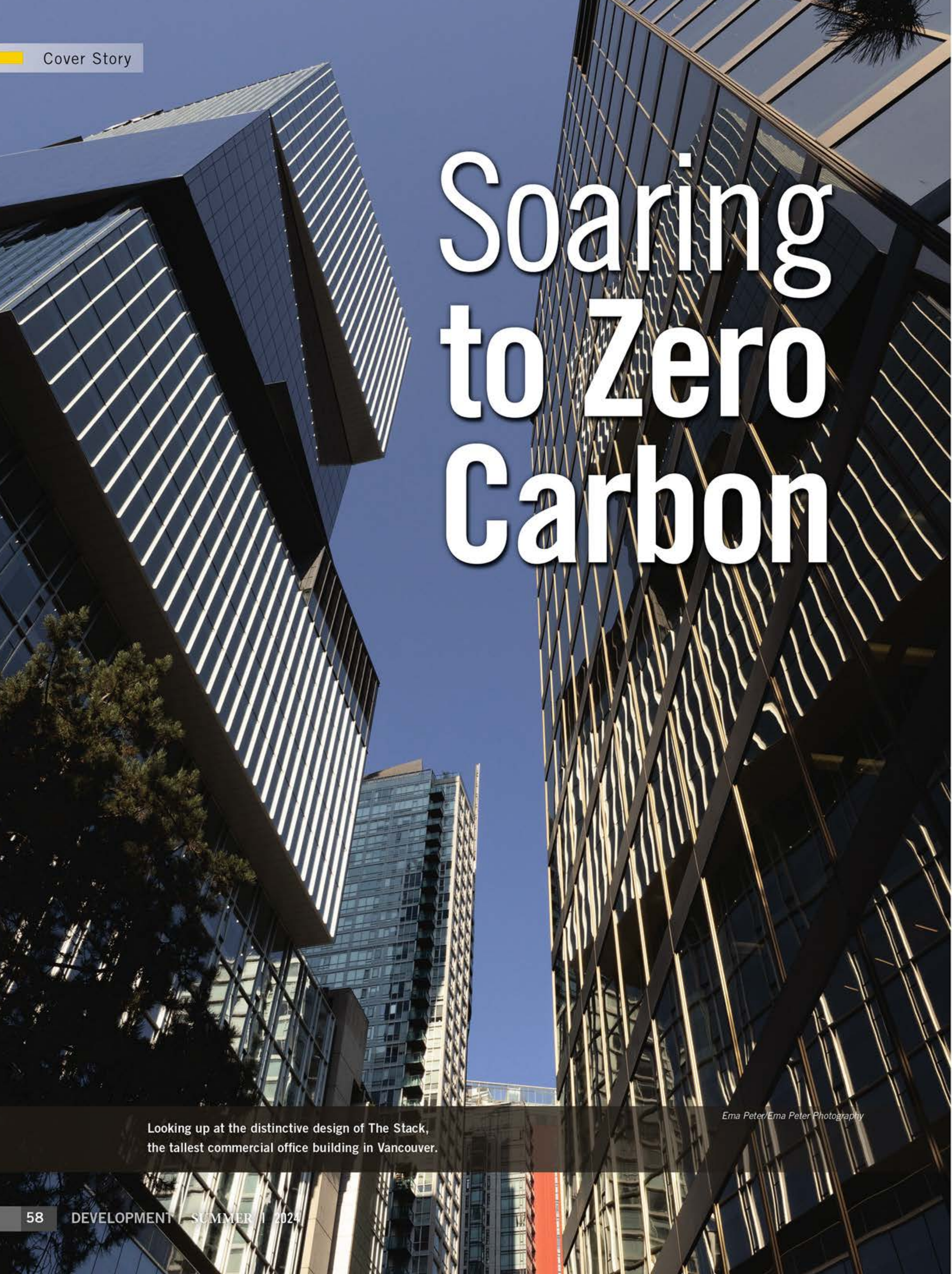
Investigate differential pricing. Differential pricing can help meet the changing office market, which has tended to be locked into monthly parking permits. Workers who are in the office only two or three days per week need a different price that makes sense — perhaps daily or maybe for multiple days each month.

Capitalize on existing parking to serve new housing. There is significant interest in building new housing in downtowns to meet demand. At the same time, building new parking is often cost-prohibitive. Because many workers have not returned to downtown offices, there is existing parking available that would cost $20,000-$40,000 per space to build new. These spaces are precious resources that could serve new uses.

There is a growing understanding in the transportation profession that too much parking is required in new developments. Reused and shared parking help to decrease the cost of development and create opportunities for new infill developments that can be financially successful. ■

Robert T. Dunphy is a transportation consultant and an Emeritus Fellow of the Transportation Research Board.

Soaring to Zero Carbon



Ema Peter/Ema Peter Photography

Looking up at the distinctive design of The Stack, the tallest commercial office building in Vancouver.

The Stack in Vancouver stands tall as the first commercial high-rise office project in Canada to earn Zero Carbon Building Design certification.

By Chris Sarpong

In September 2023, global real estate investor, developer and manager Oxford Properties Group held its grand opening for The Stack in downtown Vancouver, British Columbia. Co-owned with CPP Investments, the project was designed by acclaimed Vancouver-based architect **James Cheng** of James K.M. Cheng Architects in partnership with Adamson Associates Architects. With a focus on wellness and sustainability, The Stack comprises 555,000 square feet across its 37 stories, making it Vancouver's tallest commercial office building.

At a Glance

- The Stack is the tallest commercial building in Vancouver and the tallest building in Canada to earn Zero Carbon Building Design certification.
- It is a redevelopment of a site that previously held a 10-story building primarily serving as a parking structure.
- The 37-story AAA office building includes 20,000 square feet of retail and amenity space, seven outdoor terraces and a communal rooftop patio.

The Stack's provocative climbing, twisting, four-box design enables the building to blur the lines between indoor and out. Notably, the tower features a pocket park at grade, seven outdoor terraces and a communal rooftop patio providing unobstructed panoramic views of English Bay, Stanley Park, Burrard Inlet and the North Shore Mountains from 530 feet in the air.

Future-proofed with integrated smart technology and multimodal transportation amenities, The Stack includes a dedicated drop-off zone with a porte-cochère, allowing access to ride-share providers and, in the future, autonomous vehicles. To promote wellness among employees, more than 250 bike stalls have been incorporated at the lane level with club-quality fitness and end-of-trip facilities. Its zero-carbon framework — including low-carbon building systems, a triple-pane curtain wall, an enhanced rainwater management system and rooftop solar panels — earned The Stack certification in October 2022 as Canada's first commercial Zero Carbon Building (ZCB) Design Standard office tower by the Canada Green Building Council.

Erna Peter/Erna Peter Photography

The Stack is located in the heart of Vancouver's business district.

The tallest building to achieve zero carbon in Canada, The Stack's soaring height significantly added to the technical complexities faced in pursuing the ZCB Design Standard certification. Two of Oxford's leaders — **Andrew O'Neil**, vice president of development, and **Ted Mildon**, vice president of operations and leasing — discussed the project for Development to detail how the company overcame these challenges.

What attracted Oxford to the opportunity at The Stack?

Andrew O'Neil: We acquired the 1133 Melville site, which was home

Courtesy of Oxford Properties

The Stack had to go through a more rigorous design review to meet Vancouver's Higher Buildings Policy.

to an aging 10-story building that was primarily parking, in 2010. We saw this as an attractive opportunity to grow Oxford's office portfolio in downtown Vancouver. Our thesis was to acquire this underutilized and underimproved real estate — which was very well located in proximity to the financial core — and redevelop it as AAA office.

We knew it would take some time to entitle the land and drive forward our plans, so the ability to generate some income by operating the existing building while we went through the planning and entitlement process was also attractive to us.

Ted Mildon: Beyond givens such as value or location, we also saw an opportunity to deliver what we thought the future of office would be to downtown Vancouver, which given the shift to more flexible work accelerated by the pandemic, was serendipitous, as we were significantly ahead of that curve. We also liked that the site could accommodate a mix of floor plates, which fit with the West Coast tech influence that was emerging in the market, while possessing the scale and presence to attract a wide range of occupiers more generally.

What challenges did the project face? Were there regulatory hurdles?

O'Neil: We like to say that The Stack earned its height. The 1133 Melville site was identified under Vancouver's General Policy for Higher Buildings (see page 62). This meant the city would consider a taller building proposal for the site to help reinforce the prominence of the Central Business District. The project was also subject to review by the Urban Design Panel, which focused on achieving a high standard of architectural excellence, sustainability and community benefit.

Though we were subject to the city's most rigorous design review,

> **"We also saw an opportunity to deliver what we thought the future of office would be to downtown Vancouver,** which given the shift to more flexible work accelerated by the pandemic, was serendipitous, as we were significantly ahead of that curve."
>
> *— Ted Mildon, vice president of operations and leasing, Oxford Properties Group*

Courtesy of Oxford Properties

An overhead view of The Stack shows the office tower's rooftop photovoltaic solar array.

we came out of it with the tallest commercial building in Vancouver — testament to James Cheng's bold design and its alignment with our vision for the future of work.

We started construction in 2018, but the start of that process was the removal of the existing building. So when the pandemic hit in 2020, we were just getting back up to grade. As the entire industry can attest, this posed significant challenges. How do we keep people safe on-site? How do we navigate a once-in-a-generation level of supply chain disruption? With the project being located in Vancouver, we faced a number of regional challenges, including the Los Angeles port delays, which slowed material supply. This was compounded by several climate-related events — forest fires, flooding — that disrupted local supply chains.

Fortunately, through some phenomenal teamwork, our teams managed this brilliantly, and we were faced with fairly limited site closures. We ultimately completed the project in 2022, remarkably only nine months later than initially planned.

When did achieving zero carbon become part of the vision for the project?

Mildon: Oxford has a long-standing commitment to sustainability and decarbonization, which is most successful when integrated into our projects from the onset.

In 2017, the Canada Green Building Council (CAGBC) released its Zero Carbon standard, one of the first councils to do so globally. We quickly partnered with them for The Stack to see how we could implement the new standard as part of the pilot program.

Achieving zero carbon aligned with our larger strategy to be a responsible investor and developer. But having legitimate third-party validation with a universal framework to work toward is critical. Being an industry leader in sustainability is an ongoing priority for us.

O'Neil: The certification is the culmination of over five years of planning to pioneer the CAGBC's zero-carbon framework in a high-rise and architecturally significant office tower, all while juggling the demands of realizing an economically viable commercial project for our stakeholders.

By being the first commercial high-rise office project in Canada to achieve this certification, we've garnered significant learnings that we can apply to future projects and share with our peers to drive the real estate industry to new levels of sustainability. Firms must establish pathways to get to zero-carbon design early on; it can't be an afterthought. A feasibility survey should be done early on to establish the steps to achieving zero carbon.

An important consideration is that the approach to achieving zero carbon will differ based on the location, climate zone, and local infrastructure such as the power grid. The strategy employed to achieve zero carbon in Toronto will be distinct from the one used in Vancouver. Similarly, the approach adopted in New York will differ from that in Seattle or Los Angeles.

What features were incorporated into the building to get to zero carbon? Did the building's height make it more challenging?

O'Neil: There's certainly an increased degree of difficulty for dense, urban high-rise projects like The Stack to achieve zero carbon. The taller your build, the smaller your ratio of roof area to building area, limiting the opportunity for on-site renewables such as rooftop solar. The Stack does feature a rooftop photovoltaic solar array, but we had to look at the building much more holistically to drive toward zero carbon.

In simple terms, there are two main drivers of a building's zero-carbon strategy. Building envelope performance — that is, how can we invest in the outer shell of the building to reduce its energy demand? And building system design — for the energy that is consumed on-site, how do we ensure we're using the cleanest energy possible?

Mildon: From a building systems perspective, we've taken full advantage of British Columbia's low-carbon grid, which is one of the

Vancouver's Higher Buildings Policy

To preserve its skyline and famed mountain views, the city of Vancouver has established approved view corridors where tall buildings may be permitted. Furthermore, within these areas, the maximum heights of buildings are limited based on a variety of criteria.

To develop a building that exceeds the maximum allowable height within an approved view corridor, developers must receive approval through the city's Higher Buildings Policy. This policy requires that "higher buildings" show design significance and sustainability excellence by meeting or exceeding stringent criteria. Among these criteria:

Higher buildings must establish a significant and recognizable new benchmark for architectural creativity and excellence, while making a significant contribution to the beauty and visual power of the city's skyline.

The building should achieve community benefits such as a recipient site for density transfers; retention of important heritage components; provision of significant cultural or social facilities; or provision of low-cost housing.

The building should include activities and uses of community significance or public amenity.

The development should provide on-site open space that represents a significant contribution to the downtown network of green and plaza space.

The building should not contribute to adverse microclimate effects.

Higher buildings should demonstrate leadership and advances in sustainable design and energy efficiency. ■

"There's certainly an increased degree of difficulty for dense, urban high-rise projects like The Stack to achieve zero carbon. The taller you build, the smaller your ratio of roof area to building area, limiting the opportunity for on-site renewables."

— Andrew O'Neil, vice president of development, Oxford Properties Group

Courtesy of Oxford Properties

A rendering of the organically integrated pocket park, which helps connect The Stack to nature.

cleanest in Canada, with 98% of its electricity generated from low-carbon or renewable sources. This enables The Stack to be heated and cooled using electricity. Specifically, the heating system includes air-source heat pumps with heat recovery. We are then able to supplement this all with rooftop solar.

O'Neil: For the envelope, the goal is to reduce the building's thermal energy demand intensity (TEDI). We've done that through performance improvements including a triple-glazed curtain wall with enhanced air tightness. We also have operable glazing on the lower floors, which allows us to provide ventilation to the building occupants without using electricity to run ventilation equipment.

The results speak for themselves. For Vancouver's climate zone, the CAGBC's Zero Carbon Standard set a TEDI target score of 30 — the lower your score is, the better. The Stack's TEDI score was 21, so we improved on the target by 30%.

What has the reception been like from the market? Has demand been what you expected?

Mildon: The consistent feedback has been that we're a leader in the market. For site tours with prospective customers, you can often judge engagement by time spent. Brokers and groups typically budget 15-20 minutes to go through a building; I've been asking them to budget 45 minutes to an hour, because they'll need it.

When they see the rooftop mountain views, everyone's cameras come out. When we show them the 5,000-square-foot gym and sauna, there's inevitably a few wows. The pocket park, the hotel-like feel in the lobby — everywhere you go, the feedback is quite positive.

O'Neil: Delivering The Stack through the pandemic, a period of major uncertainty, means leasing has

Courtesy of Oxford Properties

The Stack's zero-carbon framework includes low-carbon building systems, a triple-pane curtain wall and an enhanced rainwater management system.

"We've designed The Stack to still be a great building in 100 years, and it's paying off. The Stack really reinforces the value of thinking long term, not just for tomorrow."

— *Ted Mildon*

From left, Daniel Fournier, executive chair, Oxford Properties; James K.M. Cheng, principal, James K.M. Cheng Architects; and Blake Hutcheson, president and CEO, OMERS, on the rooftop terrace at The Stack's grand opening in September 2023.

come in waves based on market conditions. We were approximately 33% preleased when we launched the project. Starting in 2020, as industry came to grips with the pandemic, Vancouver's leasing market effectively froze. That largely remained the case until 2022, when we did several deals to bring our prelease commitments to 80%. Today we stand at over 92% leased.

The Stack: Key Features

- 555,000 square feet of commercial space across 37 floors
- CAGBC Zero Carbon Building Design Standard certified
- Vancouver's tallest commercial office building
- Six private decks throughout the building and one shared rooftop terrace
- Higher ceilings
- Floor-to-ceiling windows
- Operable windows in Box 1 (the lowest level of the tower's four "boxes")
- Landscaped and curated public realm featuring public art installation
- LEED Platinum core and shell design
- Destination dining in building
- Club-quality fitness and end-of-trip cycling facilities
- Floor plates ranging from 14,000 square feet to 22,000 square feet

Courtesy of Oxford Properties

Public art at The Stack is meant to foster cultural connections.

Our team continues to make great progress securing tenants, and I anticipate that we will reach 100% occupancy very soon.

Mildon: With The Stack's mix of floor plates, we maintained a lot of flexibility in terms of what users we could attract to the building. The mix includes a strong professional services backbone with Blakes, DLA Piper, EY and Canaccord Genuity. We've brought on Plenty of Fish, which is part of Match Group's portfolio of online dating services, and Fluor in the engineering space, with some exciting additions in the tech/creative space to be announced as well. This is all supplemented by 20,000 square feet of retail and amenity space.

What is your biggest takeaway from the project?

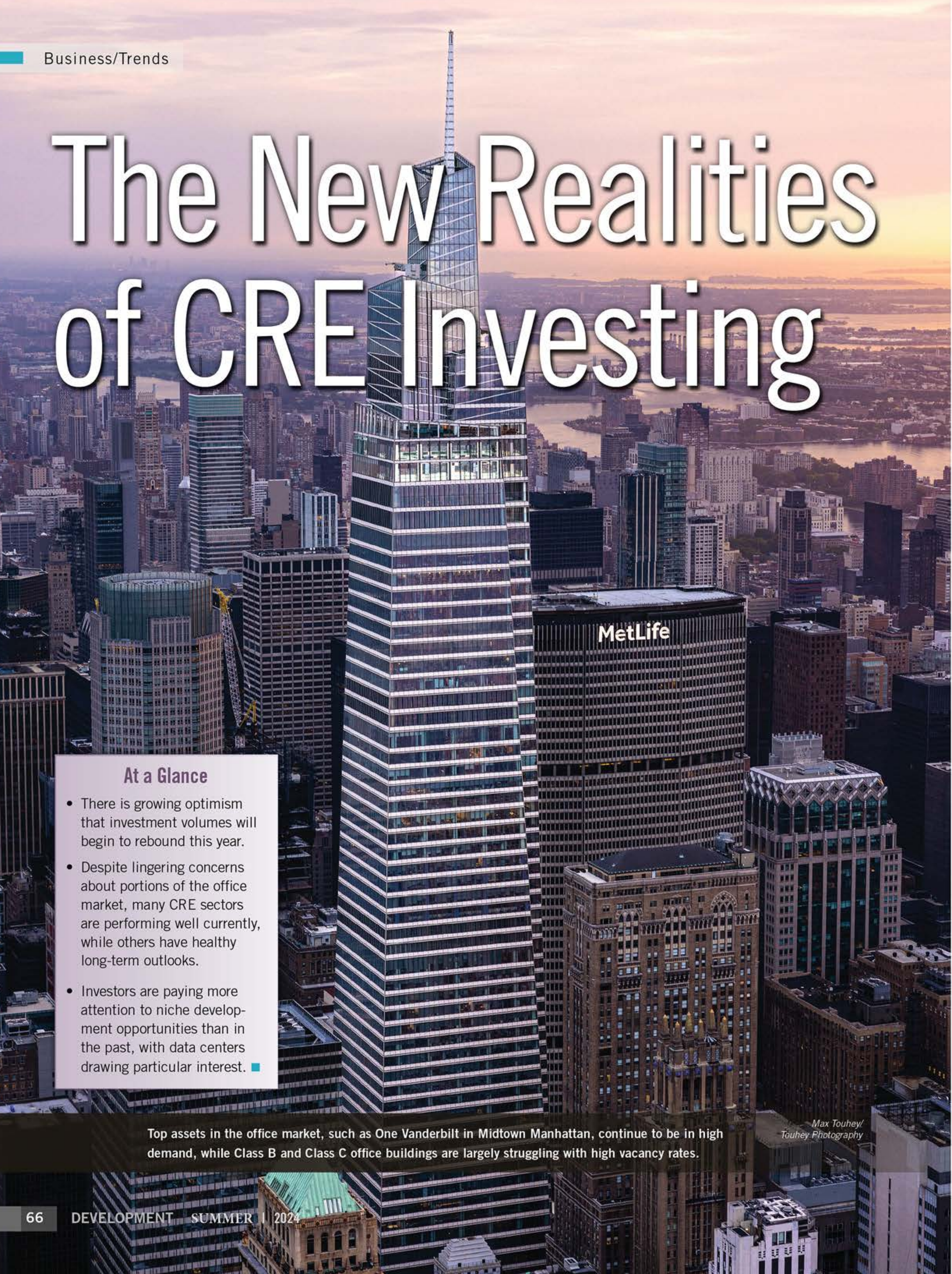
Mildon: We've designed The Stack to still be a great building in 100 years, and it's paying off. The Stack really reinforces the value of thinking long term, not just for tomorrow. One thing that stands out is just how much it's resonated with our customers. And that's really a reflection on the capabilities of countless teams across our group who brought The Stack to life and the culmination of a lot of years of global, forward-thinking development experience.

O'Neil: Much has been said about the shift in working habits and its impact on the office market. In my view, The Stack really supports the idea that workplaces need to be commute-worthy, and that's why we're seeing a continued flight to quality in the office sector globally.

If you offer a great product that people want to be part of, it's much easier to attract them back to the office. We've seen that play out at The Stack, where we've drawn in customers who didn't have to come to us — they chose to. That's a testament to what our team, together with our partners, has delivered.

Chris Sarpong is manager, investment communications for Oxford Properties Group.

The New Realities of CRE Investing



At a Glance

- There is growing optimism that investment volumes will begin to rebound this year.
- Despite lingering concerns about portions of the office market, many CRE sectors are performing well currently, while others have healthy long-term outlooks.
- Investors are paying more attention to niche development opportunities than in the past, with data centers drawing particular interest.

Top assets in the office market, such as One Vanderbilt in Midtown Manhattan, continue to be in high demand, while Class B and Class C office buildings are largely struggling with high vacancy rates.

Max Touhey/ Touhey Photography

Savvy investors will be open to adapting their old game plans and exploring new sectors as the industry anticipates renewed activity.

By Ron Derven

A sense of hope abounds that commercial real estate activity will increase later this year or early next year as anticipated Federal Reserve rate cuts take effect. When activity does pick up, investors will likely encounter a market that is far different from either the 2014-2019 pre-pandemic period or the years immediately following the outbreak.

The commercial real estate industry has been challenged by a historic run-up in interest rates that started in March 2022. "It was the steepest rise in 30 years," said **Darin Mellott**, vice president of capital markets research at CBRE. "To add even more shock to the system, it came after a decade of ultra-low rates."

After two years of high interest rates, Mellott said, the CRE industry should begin to experience a recovery in the latter half of 2024. "Nothing gangbusters this year," he predicted, "but overall, investment volumes should increase 5% over last year. In 2025, we will see more [positive] momentum."

"When interest rates are at a 3% to 4% level, real estate works at that pricing level," said **Steig Seaward**, senior director of national research at Colliers. "The problem is, we have had such a fast run-up over the past 20 months or so — going from next to nothing up to where we are now — that it just caught a lot of people off guard."

"We are no longer able to continue to factor in rental rate increases, so now, deals are not penciling out," he continued. "There is, however, a tremendous amount of money sitting on the sidelines waiting to get deployed. We will need to see a few interest rate cuts first. Once we get those interest rate cuts, I think the markets will be off to the races and have a significant run."

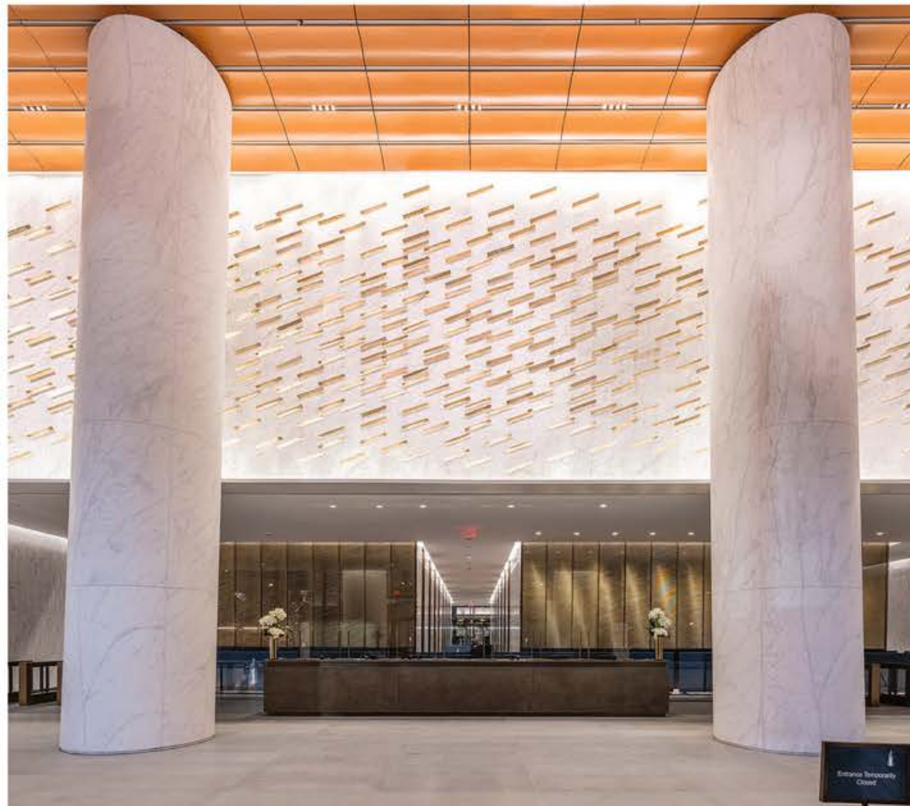
'Generational' Investment Opportunities Ahead?

Big problems in the market often create big opportunities and new realities.

"The office market is presenting a point in time where investors with a longer horizon with higher risk capital can potentially acquire generational opportunities due to the price mismatch that is in the market today," said **Aaron Jodka**, director of national capital markets research at Colliers. "[Investors] will be able to reset the price with a new acquisition that would reset the rent basis and allow the investor to compete very well with the existing inventory that is in the market today."

"There is … a tremendous amount of money sitting on the sidelines waiting to get deployed. We will need to see a few interest rate cuts first. **Once we get those interest rate cuts, I think the markets will be off to the races and have a significant run.**"

— Steig Seaward, senior director of national research, Colliers



Max Touhey/Touhey Photography

In addition to offering cutting-edge office space, One Vanderbilt is known for its lobby's bronze "art wall" installation and the building's direct connection to Grand Central Terminal.

Near-zero Money Is Off the Table

Those once-in-a-generation opportunities, however, will likely not be financed with near-zero money.

"The biggest lesson investors should have learned over the past few years is to always avoid complacency," Mellott said. "A lot of investors got complacent during the ultra-, ultra-low interest rate environment of the pandemic. Furthermore, investors must be aware that we live in a dynamic world that can impact the commercial real estate market more quickly than anyone realizes."

Adding Value

Another new reality is that investors must thoroughly understand, in advance, just how the asset will make money.

"Investors who are looking to buy properties need to focus on the specific asset they are interested in and understand the dynamics of that asset," cautioned **John Chang**, senior vice president, national director of research and advisory services at Marcus & Millichap Real Estate Investment Services. "Then they need to come up with a way to add value to the asset."

Adding value could be realized through making upgrades to the property, putting in new anchor tenants, cutting costs, adding new management or using economies of scale. Whatever the value creation might be, investors need to have a plan. "This is a slightly different approach from the way investors have been handling new assets in recent years," Chang said. "In recent years, investors were able to achieve their value creation more passively."

No Burying Management Mistakes

Jim Costello, executive director, MSCI Research, agreed that commercial real estate is not a passive investment and never has been: "Today, if you do not manage a property in the right way, if you do not engage the right leasing broker to get the tenants in there, you are sunk. There is no longer any safety net of falling interest rates to bail you out of management errors. Today is a more challenging environment, but honestly, I think it is a more exciting environment."

Costello stresses these points when he lectures at colleges. "People coming out of school today will be working in a different world than before," he said. "They will have to be real estate people, not just financial engineers trying to put a different debt structure in place. Today, it is about putting the right tenants in the building and even making sure the toilet paper is changed on time — that's what will drive success."

"**The biggest lesson investors should have learned over the past few years is to always avoid complacency.** A lot of investors got complacent during the ultra-, ultra-low interest rate environment of the pandemic."

— Darin Mellott, vice president of capital markets research, CBRE

> "There is no longer any safety net of falling interest rates to bail you out of management errors. **Today is a more challenging environment, but honestly, I think it is a more exciting environment."**
>
> *— Jim Costello, executive director, MSCI Research*

Looking at CRE Sectors Going Forward

Reading today's gloom-and-doom headlines, one would think the entire CRE industry is in trouble because it has been painted with the same broad brush of negativity. According to those interviewed for this article, however, many sectors are doing quite well, while others have strong long-term prospects but are working through a temporary oversupply of product.

The Office Market

As a result of the pandemic and changed working habits, many Class B and Class C office buildings in central business districts are in financial trouble, with prices falling dramatically and some investors devastated financially. Loan workouts are a growing problem for banks, and some cities are panicking about their tax base.

"There has been a change in the behavior of society with people working from home," Chang of Marcus & Millichap said. "There may be a whole generation of workers lost to the office. No one knows how this will eventually play out."

Currently, 12.7% of full-time employees work from home, according to Forbes, while 28.2% have a hybrid arrangement. Although this represents a steady growth in remote work, the majority of employees — 59.1% — still work in-office.

In Canada, employers are not getting workers back into the office in numbers like before. "Canadians are very polite but not necessarily cooperative," remarked **Raymond Wong**, vice president of data solutions client delivery at Altus Group. Using Toronto as an example, he said about 60% of employees have returned to the office, but on Tuesdays through Thursdays, that number is closer to 72%, whereas on Mondays and Fridays, it is around 32%.

The office market is a bifurcated sector, said Colliers' Seaward. "Not all office properties are performing poorly. The newer trophy-class assets that are highly amenitized are in high demand. These are the facilities where employers want to relocate to. These properties also check a lot of boxes as it relates to ESG compliance. Then there are the older buildings facing many challenges. Owners must decide whether to invest additional capital in those old properties to bring them up to par with some of the competing assets." (See "Office-to-Industrial Conversions: A Niche Market Worth Exploring" in the Summer 2022 issue of Development.)

MSCI's Costello said top assets like SL Green's One Vanderbilt in New York City are fully leased and get-

CRE Investment Outlook for Canada: A Pickup in H2 2024

The Canadian commercial real estate investment market slowed over the past year and a half, but there is optimism for increased activity in the latter part of 2024, according to **Raymond Wong**, vice president of data solutions client delivery at Altus Group.

"We had a strong 2018 and 2019, then we got hit with the pandemic," Wong explained. "Everything shut down in 2020 and then opened up in 2021 and 2022, with record investment activity."

Investment activity fell by 30% to 50% in 2023 due to high interest rates, the threat of a recession and high inflation. There was another issue as well: "As cap rates began to edge up, a bid-ask gap situation developed where sellers and buyers had different expectations. Sellers wanted to stick with their pricing, [while] buyers wanted a discount," he said.

According to Wong, there is property in demand and investors waiting on the sidelines for an indication that interest rates are coming down. Developers, gearing up for new construction mostly on the residential side, are keeping their permits up to date and lining up the materials and labor necessary for a quick start, he noted.

Currently, interest rates in Canada are sitting at around 5%. Wong said the latest numbers show that inflation is dropping to below 3% in Canada, the Bank of Canada's target area. (The Bank of Canada is equivalent to the Federal Reserve in the U.S.) "In Canada," he asserted, "it is not a matter of if interest rates will drop, but when." ■

ting rents of $300 per square foot. The other market is the Class B and Class C brick buildings. People talk about converting these buildings to residential, but that can be an expensive prospect.

Costello suggested that to make this type of conversion work, prices would have to be lower than they are today — effectively, the investor would have to buy the project at its land value. "The current owner of the building will refuse to let go of the project for the price of the land, hoping that the current tenants will stay in the building and that [the owner] will be able to refinance it at a lower interest rate two years from now. No owner is going to sell the asset at the price of the land, unless someone forces them to," said Costello.

A repricing on a cost basis might be necessary, warned Jodka of Colliers. "If I own an office building that is vacant, I may need to sell it at a discount," he said. If that happens, "the new owner has a different rental cost basis that they can implement. They can lure new tenants with a rental rate that I could not have competed with."

Chang offered a stark example of a challenged office building: "There was a large investor whom I spoke with who had a $100 million-plus office building in San Francisco. The building was empty and a real albatross around the investor's neck. [The investor] explored all his options to turn the building around, but he could not find what he considered a viable option. He decided to take all of his lumps at once and sell the building to a new investor for $45 million."

Despite representing a loss of more than $55 million for the original owner, in the end the deal worked for both seller and buyer. The seller was able to get out from under the project, while the new buyer potentially made what some experts consider a generational investment.

"The original owner got out from under the carrying costs of that building and deployed the remaining $45 million elsewhere," Chang said. "The new owner had a tenant ready to take the whole building. The building, however, needed expensive upgrading before the tenant would move in. Since the new owner purchased the building for $45 million, he could afford to make the expensive upgrades and still make a profit on the investment. Had he paid over $100 million for the building, he could never have made the deal work."

Industrial Development

The industrial market is solid and has a long-term positive story to tell, according to CBRE's Mellott. Short term, a substantial amount of new supply is being delivered that will take time to be absorbed, but on the positive side, new starts have trailed off. This will allow healthy demand to absorb the current space, he noted.

Calgary's Subsidy to Convert Aging Office to Residential

Calgary, Alberta, is offering $75 per square foot to help subsidize part of a big push to convert vacant offices to residential. This type of subsidy is getting some traction in other Canadian markets as well, including London, Ontario, according to **Raymond Wong** of Altus Group.

"In the city of Calgary, their office vacancy rate was about 25%," he said. "It is expected that this subsidy will eliminate close to 2 to 2.5 million square feet of vacant office space. This helps existing owners by taking this old product off the market, and it also allows this functionally obsolete product to be revitalized. Further, it will create more activity in the downtown and bring in much-needed new housing, new restaurants and other services."

"People will continue to buy online and to buy at brick-and-mortar locations," Mellott said. "That means we will need more industrial space. Industrial space will stay healthy."

"Industrial demand has been good and should remain solid over time," Chang agreed. "The challenge is, over the past couple of years, developers have added a lot of space. From 2018 to 2023, 10 metros accounted for half of all [industrial]

"There has been a change in the behavior of society with people working from home. **There may be a whole generation of workers lost to the office. No one knows how this will eventually play out."**

— John Chang, senior vice president, national director of research and advisory services, Marcus & Millichap Real Estate Investment Services

Joe Woolhead

Silverstein Properties and Metro Loft Management are converting 55 Broad Street, a 30-story office building in New York's Financial District, into 571 market-rate apartments, making it one of the largest office-to-residential conversions in the city.

construction, which includes Dallas, Chicago, Atlanta, Houston, Inland Empire, Phoenix, Philadelphia, Indianapolis, Salt Lake City and Columbus."

The NAIOP Research Foundation's Industrial Space Demand Forecast, First Quarter 2024 estimated that quarterly net absorption of industrial space would average 14 million square feet per quarter over the next two years, or 62.8 and 49.1 million square feet in 2024 and 2025, respectively.

Retail Opportunities

Retail real estate is an intriguing acquisition target today because the retailers that remain have survived a global financial crisis, a "retail apocalypse" and a pandemic, Jodka pointed out. "They have figured out how to work online with in-store pickup, etc. It could be argued that retailers are stronger today than before. I see an interesting upside potential. Many institutional investors are underweighted in retail and hospitality. These asset classes could capture more capital relative to other asset classes."

Investors have grown accustomed to the negative headlines surrounding retail, but there are plenty of positives that shouldn't be overlooked, according to Mellott. "There has not been any meaningful new supply for the past 10 years. What we are finding from a fundamental perspective is that retail is incredibly strong, and investors are beginning to take note of this. For a long time, retail had a cloud hanging over it, but investors are noting that the cloud is lifting. We see a pretty healthy retail market."

Health Care

Health care is another strong asset class for investors, according to Jodka. "We are seeing a higher share of health care or medical office as a share of office transactions in the past couple of years. This is an area where office allocations have started to pivot toward medical office because health care fundamentals are far better than they are for pure office. You have a more stable tenant base and rents have been stronger. Overall, it is a strong fundamental situation."

Hospitality

Hospitality has experienced a phenomenal run, with room rates and occupancies in many markets back to or above pre-pandemic levels, Jodka noted. He added that hospitality is a good play when viewed as an inflation hedge because the owner can reprice the room every day or every other day. "If you are facing rising costs or challenges, you can increase the room rate.

AvailableLight via iStock/Getty Images Plus

Net absorption of industrial space is expected to average 14 million square feet per quarter over the next two years.

You cannot do that with office and industrial when you have a 10-year lease in place," he noted.

The overall profitability of hotels is up, but the sector has been hit with large wage increases and massive labor shortages, according to Chang. Limited-service hotels that cater to the business traveler are doing better than the full-service hotels, he added.

Multifamily

Considerable new supply is coming online in the multifamily sector, Mellott warned, but the projects being developed are in high-growth markets.

"We see new multifamily starts slowing and expect it will take another 24 months or so to work through some of the excess supply in certain markets," he said. "From a fundamental perspective, this market does look quite positive. This view is supported by a relatively strong jobs market that supports household formation, a single-family housing shortage, and high interest rates that make owning a home much less affordable."

Multifamily investment offers good opportunities, Jodka said. He noted current pockets of development in the Southeast and Southwest — regions that have attracted strong population growth. Overall, however, there is an imbalance in supply and demand right now because supply is coming on too quickly. As a result, vacancies are rising and effective rents are falling.

This market presents possibilities for those with longer time horizons who can acquire buildings today and ride the next wave of demand because supply is shutting down, Jodka continued. "Once supply shuts

"**Many institutional investors are underweighted in retail and hospitality.** These asset classes could capture more capital relative to other asset classes."

— Aaron Jodka, director of national capital markets research, Colliers

The New Realities: 14 Takeaways

- A lower interest rate environment is likely coming this year or next, spurring CRE investment activity.
- There will be no near-zero money this time around.
- Interest rates will likely remain in the 3% to 4% range.
- Generational investment opportunities might present themselves to savvy investors as the market opens.
- CRE is not a passive investment; the buyer of a new asset must create a value-add to ensure a profit.
- Assets require hands-on management in this cycle to prosper.
- The office market is bifurcated, with opportunities to pick up Class B and Class C assets at low prices.
- The industrial sector is strong and healthy with a short-term oversupply of product.
- Retail is strong and getting stronger.
- Health care is strong.
- Hospitality has come back from the COVID shutdown in grand fashion.
- Multifamily is in an oversupply situation, but it is a strong long-term play.
- Niche development: Student housing and self-storage receive some interest from investors; data centers represent a huge business going forward.
- Activity in Canada should pick up later this year. ■

down, there's nothing behind it," he said. "Once demand normalizes, vacancies will fall and rents will start to rise. You can have a successful value-add play right there."

Niche Development

Investors today are far more aware of niche commercial real estate development opportunities than they were 10 years ago, according to Mellott, who points to data centers and self-storage as current niche bright spots.

Even so, Costello cautioned that in looking at niche markets, investors must ask what the upside potential is for these assets.

"Take student housing," he said. "There is only so much growth there. Student housing can never be as big as multifamily in general because that market is satisfying a certain slice of the 18-to-24-year-old market. Another asset class, self-storage: What is the upside?"

But Costello said data centers are a different beast because they are tied to the business cycle. "The more digitalization we get in the economy, the more we will need data centers," he said. "There is still a lot of uncertainty around this asset class, however, such as how much water access does a data center need? That is a huge issue."

"We are seeing more capital pivoting to niche assets, data centers in particular," Jodka said. "Data centers are an expensive investment. The types of spaces needed by hyperscalers, driven by AI, require more power and more capacity than we have in existing assets. More data centers are needed, but it is tricky for the typical investor: You need expertise, you need connectivity, you need to be where the fiber cables are, and you need to understand the dynamics of the market."

(See "Data Center Real Estate: Challenges and Opportunities in the Digital Age" in the Winter 2023/2024 issue of Development.)

A recent market report, North America Data Center Trends H2 2023, by CBRE detailed the growth of the dynamic data center market:

- In 2023, primary market supply grew 26% year over year to 5,174.1 megawatts (MW).
- An all-time high of 3,077.8 MW was under construction in primary markets, a 46% year-over-year increase. Construction increased most in Atlanta, growing by 211% to 732.6 MW under construction.
- The average monthly asking rate for a 250- to 500-kilowatt (kW) requirement across primary markets increased by 18.6% year over year to $163.44 per kW/month. Northern Virginia had a 42% year-over-year price increase, the largest among primary markets.
- Preleasing activity in primary markets is strengthening, with 2,553.1 MW (83%) of the 3,077.8 MW under construction preleased. Cloud providers continue to lease most available power capacity, but artificial intelligence is also driving significant demand.
- The overall vacancy rate for primary markets remains near a record low, at 3.7%. With few relocation options, most tenants are renewing existing leases rather than seeking new facilities.
- Power availability continued to influence data center operators' location decisions more than geography did. ■

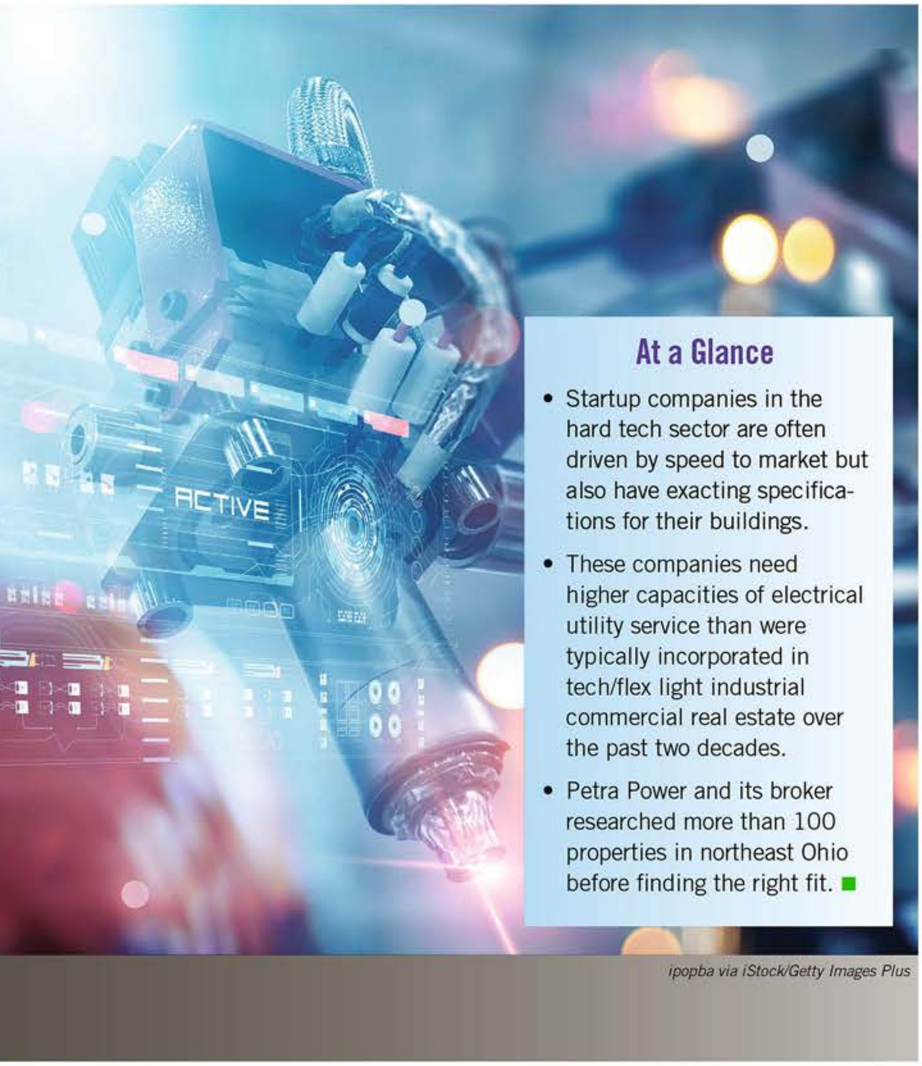
Ron Derven is a contributing editor to Development magazine.

Advanced Manufacturing's Rapid Growth:

Finding the Right Real Estate

Ohio believes advanced manufacturing will play a pivotal role in the state's overall strategy of job creation and economic growth.

How one startup in northeast Ohio overcame the lack of move-in-ready space.



At a Glance

- Startup companies in the hard tech sector are often driven by speed to market but also have exacting specifications for their buildings.
- These companies need higher capacities of electrical utility service than were typically incorporated in tech/flex light industrial commercial real estate over the past two decades.
- Petra Power and its broker researched more than 100 properties in northeast Ohio before finding the right fit.

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By Jim Ambrose

Companies are increasingly bringing manufacturing back to the United States, a trend accelerated by the supply chain disruptions experienced during the COVID pandemic. Consequently, the commercial real estate industry will need to make significant changes to accommodate the delivery of new product to support the reshoring movement.

Advanced manufacturing is likely to be one of the main catalysts of change. Both American and global enterprises are currently dedicating billions of dollars to the U.S. production of semiconductors, robotics, electric vehicle batteries, clean energy, and aerospace systems and components. This trend presents a significant opportunity for commercial real estate owners, investors and developers. A February 2024 NAIOP Research Foundation publication reported that construction is expected to expand the footprint of U.S. manufacturing space by 6% to 13% over the next decade.

Cushman & Wakefield/CRESCO Real Estate

The facility at 6565 Industrial Parkway in Solon, Ohio, featured the power requirements and loading docks that Petra Power required.

Ramping Up for Rapid Growth

Enterprise-level advanced manufacturing companies are involved in new developments nationwide. One example is the new $20 billion Intel chip plant in Licking County, outside of Columbus, Ohio. It is the single-largest private-sector investment in Ohio's history and is expected to provide 3,000 jobs at Intel's new plant and an additional 7,000 construction jobs. The project broke ground in September 2022, and the first line of production is expected to come online at the end of 2025.

The state of Ohio, including its counties and cities, has prioritized advanced manufacturing as a key driver for its economic success. Over the past decade, many not-for-profit organizations have provided ecosystems for entrepreneurs to start, incubate, prototype, commercialize, scale and mature their innovative ideas.

While larger enterprises have calculated timelines to realize their own innovations through mega commercial real estate development projects, the same cannot be said for the rapidly growing community of startup companies that are ready to occupy commercial space. This is particularly true with hard tech companies in the clean energy sector. "Hard tech" refers to technology innovations that involve deep scientific research and often result in the creation of physical products of processes. Compared with software companies, hard tech often faces longer development cycles, higher capital requirements and more complex regulatory hurdles due to the physical nature of its products and the importance of reliability and safety in its applications.

"Startup companies that have proof-of-concept technologies, prototypes and products receive multimillion-dollar private investment and contract opportunities at a very fast pace. Once funding is acquired, investors and contract holders put a definitive timeline on the companies to prove the commercialization of their unique innovation," explained **Rick Stockburger**, president of BRITE, Ohio's only clean energy incubator.

BRITE serves startup companies across the state with direct mentorship, from the ideation phase to the commercialization of their products, including gaining access to capital. Located strategically in Cincinnati, Cleveland, Columbus and Warren, BRITE has served over 600 startups, secured more than $250 million in third-party investment to scale its member companies, and created more than 2,100 jobs across Ohio.

"Companies that reach the commercialization stage of their unique innovation have a difficult time navigating the existing commercial real estate landscape," Stockburger continued. "The speed in which a company needs to scale their products versus the time that it takes to realize occupancy and start production could literally undo years' worth of invention and proving a prototype. I believe these realities will cause a radical shift in how commercial real estate product is delivered in the future, as we had to leverage all our relationships throughout our robust ecosystem to help one of our own companies, Petra Power."

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The mission of Petra Power, a precision manufacturer of solid oxide fuel cells, is to bridge the world's conversion from fossil fuels to clean fuels.

Case Study: Petra Power

Petra Power is one of BRITE's first portfolio companies to expand its operations outside of the incubator space in Warren. It is also one of the first startups born in northeast Ohio to commit its headquarters to the region instead of relocating to a different market. The company was founded in 2017 with the mission of helping to bridge the gap between fossil fuel and the clean energy economy of the future. Petra Power is developing a novel solid oxide fuel cell (SOFC) technology that will more efficiently create electricity from fossil fuels and lower entry barriers into hydrogen fuels for its customers.

In 2018, Petra Power's founders, **Phillip Clift** and **Aaron Goodman**, chose BRITE's incubator in Warren, a city in the Mahoning Valley. It celebrated the ribbon-cutting of its new headquarters on Oct. 24, 2023, after officially signing a lease with a May 1 commencement date. The event marked a major milestone not only for the company but also for Ohio's commitment to growing — and keeping — advanced manufacturing companies in the state. The area had been hard hit by the closures of several large steel operations between 1977 and 1984.

"Staying in northeast Ohio was an easy decision," said Goodman, CEO of Petra Power. "Organizations like BRITE have created an environment where development and prototyping are feasible for hard tech companies, which is unique in our experience. The state of Ohio, as well as regional organizations, have invested a lot of time and money into providing resources for companies of all sizes that have helped Petra Power reach its current stage. On top of these clear benefits, Ohio is a particularly good place to develop a SOFC company, with a robust supply chain, advanced logistics, and a wide array of partner organizations that can help expedite development."

With the help of BRITE's ecosystem, the company landed a contract from an undisclosed federal agency

> "Companies that reach the commercialization stage of their unique innovation have a difficult time navigating the existing commercial real estate landscape. **The speed in which a company needs to scale their products versus the time that it takes to realize occupancy and start production could literally undo years' worth of invention and proving a prototype.**"
>
> *— Rick Stockburger, president, BRITE*

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From left, Tipping Point President Jim Ambrose, Petra Power lab technician Jonah Rak, Petra Power founders Phillip Clift and Aaron Goodman, Solon Mayor Edward H. Kraus, Petra Power senior researcher Travis Peters, and BRITE President and CEO Rick Stockburger celebrate the opening of Petra Power's new headquarters.

in February 2023 to develop its SOFC technology. That meant finding an existing building that could accommodate Petra Power's needs specific to its production process was critical to keeping the company in the region.

Critical Components: Time and Energy

Startup companies in the hard tech sector typically are driven by speed to market, yet also have exacting specifications for their buildings, which can take years to build out. Hard tech companies like Petra Power in the advanced manufacturing sector have distinct workflows and processes. This necessitates precision throughout the planning and construction processes. Furthermore, these companies have a demand for higher capacities of electrical utility service than were typically incorporated in the previous boom of tech/flex light industrial commercial real estate product over the past 20 years.

"Our contract provided us with an extremely limited time frame to find, design, build and occupy a space to scale the production of our product," Goodman explained. "To achieve occupancy in such a short time, we understood that a new build was never going to be an option. We were going to have to find an existing light industrial space. However, we quickly learned that the existing commercial building stock lacked the power capacity that we needed to run our equipment. Unless current and future building owners invest in greater utility loads and capacities in their buildings, there could be a lot of difficulties for any region to make a transition from the older industrial economy to newer advanced manufacturing sectors."

Increasing utility service and upgrading enclosures can make existing light industrial buildings suitable for occupancy. However, the time required to find a space and complete design, engineering, permitting, construction and inspection would have consumed a significant portion of Petra Power's contract period.

Petra Power and its broker, SVN Summit Commercial Real Estate Advisors, researched more than 100 properties and toured dozens of them across several counties in northeast Ohio. Only a few locations met the minimum power, loading dock and warehouse space requirements that would support Petra Power's manufacturing process.

"We leveraged every relationship that we could throughout the brokerage community to find the exact property that met the unique needs of Petra Power," said **Aaron Davis**, senior adviser at SVN Summit. "Ample power was usually the culprit for not making a deal work, but in rare situations where we had the power, the landlord or owner wasn't properly maintaining the enclosure of their building to provide the thermal consistency needed for a clean room and other testing equipment to operate efficiently."

Finding the Right Fit

In conjunction with SVN Summit, Petra Power's next step in expanding its search was using BRITE's connections with nonprofit economic development entities whose missions involve attracting and retaining job creators in the northeast Ohio market. One of those nonprofits, Team NEO (an acronym for North East Ohio), helped the team connect directly to local munici-

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Approximately 9,000 square feet of existing office space was demolished to provide Petra Power with more open warehouse space and the flexibility to convert into laboratory space.

palities and property owners who support the advancement of Ohio's overall strategy of job creation in Industry 4.0.

One property that stood out was 6565 Industrial Parkway in Solon, located about 20 miles east of downtown Cleveland. The original 13,500-square-foot facility featured abundant office space from the 1990s, ample power requirements and convenient loading docks for Petra Power's needs. The property owner, Davis Development Group, was willing to work with Petra Power's aggressive timeline. It demolished the existing office space (approximately 9,000 square feet) to provide more open warehouse space, which offered Petra the flexibility to convert into laboratory space. The ownership team was also eager to collaborate with Petra Power's design and engineering team to understand how their equipment and utility loads could efficiently connect to the building's existing infrastructure.

"The ecosystem is what makes all this work in Ohio," Stockburger said. "We were fortunate to find a building that was right for Petra Power. As we look into the future, it's about investing in infrastructure and being able to have shovel-ready sites — not just for the megasites, but for the supply chain sites where startups can grow out of an incubator like ours and find a landing spot to get to that next step."

Working With the City to Ensure Timeliness

Petra Power wanted to work with a municipality that valued the high-quality jobs and economic benefit that its relocation would provide (20 new jobs with a projected value of $2.2 million in payroll).

When Petra Power was connected to **Angee Shaker**, director of economic development for the city of Solon, she saw a big opportunity.

"Attracting a company like Petra Power is ideal for Solon," Shaker said. "This is an innovative, cutting-edge, environmentally friendly company that is going to bring with it great jobs. This is the type of company we want to see here."

> **"Unless current and future building owners invest in greater utility loads and capacities in their buildings, there could be a lot of difficulties** for any region to make a transition from the older industrial economy to newer advanced manufacturing sectors."
>
> *— Aaron Goodman, CEO, Petra Power*

Development/Project Team	
Petra Power www.petrapower.com	Cleantech Energy Company
BRITE www.brite.org	Clean Energy Incubator
Davis Development Group www.davisdevelopmentgroup.com	Property Owner
City of Solon www.solonohio.org	Municipal Partner
Tipping Point www.tippingpointdev.com	Real Estate Adviser
Desmone www.desmone.com	Architect of Record
Tec Inc. www.tecinceng.com	MEP and Fire Protection Engineer
SVN Summit www.svnsummitcommercial.com	Real Estate Broker
JPs Contracting www.jpscontracting.com	General Contractor
Allied Modular www.alliedmodular.com	Clean Room Vendor
Xycom www.xycomgroup.com	Office Technology and Camera Vendor
CompliancyIT https://www.compliancyit.io/	Security Compliance Vendor

"We leveraged every relationship that we could throughout the brokerage community to find the exact property that met the unique needs of Petra Power."

— Aaron Davis, senior adviser, SVN Summit

Petra Power believed that including the municipality's building, engineering, planning and safety departments upfront to inform the design and engineering process would minimize surprises and delays throughout the permitting, inspection and occupancy processes.

Shaker and all of Solon's participating departments were helpful and efficient, providing guidance to ensure that not only would the space be suitable for Petra Power but would also meet municipal code standards to be ready for inspections and occupancy.

"Business tends to attract business," Shaker said. "When other innovative companies see the great space that Petra Power has created, along with the amenities that the city of Solon has to offer, and how efficiently our city team functions, we anticipate Petra Power's journey will attract more of these types of business to northeast Ohio."

Hypothetical Planning Pays Off

Traditionally, most companies that want to establish a headquarters decide to wait until they have a signed lease before design and engineering teams begin production on a set of permit and construction drawings to achieve occupancy. The time and effort required to translate Petra Power's unique manufacturing process into a set of architecture and engineering standards was a large endeavor by itself.

Petra Power decided to approach this daunting process in a unique way. Instead of waiting to find a property, the company opted to start coordinating design and engineering to integrate all of its operational requirements into a "hypothetical space" plan, which then served as the guiding principles of integrating its operation into an existing space once a lease was signed. While the broker team conducted its own property search, the Desmone and Tec Inc. architecture and engineering teams integrated themselves with Petra Power's internal engineering team to solve as many hypotheticals of clean room and equipment layouts as possible.

"It was really productive to spend the time upfront with Petra Power's engineering team and match their requirements to the standards that the mechanical, electrical and plumbing (MEP) engineers would need to integrate into whatever building we ultimately ended up

with. With our expertise, the team quickly determined which spaces would most efficiently achieve occupancy," said **Brian Gruendl**, lead architect for Desmone.

"Working in conjunction with the architect during the site selection phase had a big impact on helping us speed up the design," said **Steve Bohn**, electrical engineer and project manager for Tec Incorporated Engineering & Design.

Bohn continued, "As MEP engineers, we're kind of looked at as a necessary evil. The typical duration for a project of this complexity would be two years, with engineering taking up to six months. Since we could get into the design early and incorporate MEP standards into whichever building Petra selected, it really streamlined the process."

The various project stakeholders appreciated the upfront collaboration. By bringing the general contractor into the pre-design process, the team was able to understand the realistic lead times for crucial components of the space. Although lead times were an issue with certain pieces of electrical equipment, the architecture, engineering and construction teams were able to plan for code-compliant temporary solutions that would allow Petra Power to launch, with the understanding that once the equipment for long-term success arrived onsite, crews would return to swap it out.

"Being involved with the development team at the beginning was great," said **Jeffrey Peifer**, vice president of JPs Contracting. "We don't typically get to experience this level of organization and coordination before a construction drawing set is completed. We spent a couple of long days going to space after space throughout northeast Ohio to weigh the pros and cons of how to best integrate Petra Power's process into the existing building. We were together since day one."

In the end, Petra Power was able to achieve occupancy in six months from signing a lease, possible only because of the three months spent investigating various hypothetical situations before finding a space. Startup companies like Petra Power can quickly and decisively move forward on their projects if all of the professionals involved provide ample amounts of information for decision-making.

As of March 2024, roughly six months after occupancy, Petra Power was already delivering on its economic impact promises. It has added eight full-time jobs and more than $500,000 worth of payroll, with hopes of doubling the employee headcount in the coming months.

The Need for Speed

Petra Power is one of several hundred startup companies in the advanced manufacturing sector that are rapidly emerging throughout the United States. The speed with which the entrepreneurs behind these innovations ideate, plan and act on the implementation of their products will create growing pressure on how commercial space is delivered. Petra Power's journey through the commercial real estate process indicates that traditional delivery timelines to occupy commercial space can be accelerated.

When advanced manufacturing companies, municipalities, property owners and project execution professionals collaborate from the outset of the planning process, transformative change within the commercial real estate industry is not just possible but inevitable. ■

Jim Ambrose is the president of Tipping Point, which served as Petra Power's real estate adviser.

> Instead of waiting to find a property, **Petra Power opted to start coordinating design and engineering to integrate all of its operational requirements into a "hypothetical space" plan,** which then served as the guiding principles of integrating its operation into an existing space once a lease was signed.

Victory Logistics District: Transforming Northern Nevada's Desert Into a Thriving Industrial Center

Mark IV shares lessons from acquiring and master planning a 4,300-acre Opportunity Zone industrial project.

At a Glance

- Given the challenges of assembling larger tracts of contiguous parcels in Nevada, Mark IV viewed the land acquisition as a once-in-a-generation opportunity.
- The project is expected to generate 16,000 new direct jobs, so the firm is partnering with SkillUp Coalition to help identify, train and place employees.
- The project is located in a Qualified Opportunity Zone, which allowed Mark IV to raise investment equity for each phase of development.

Completed Building B features 169,000 square feet of Class A Industrial space.

Courtesy of Premier Design + Build

By Evan Slavik, Mark IV Capital

In Fernley, Nevada, approximately 30 miles east of Reno, lies Victory Logistics District, northern Nevada's latest master-planned industrial development. The project began in July 2019 with a 4,300-acre land acquisition by Mark IV Capital, a privately held investment firm headquartered in Southern California that focuses on commercial real estate and venture capital.

In May 2021, Mark IV launched construction on the project's first phase of development. A year later, during the height of the COVID-induced surge in demand for distribution space, Redwood Materials leased the 815,215-square-foot building to store incoming battery components that serve as feed stock for its battery recycling operation. Mark IV then broke ground on the second phase of distribution space, which included three additional buildings totaling 1 million square feet. That phase was recently completed and is being leased by CBRE.

With almost 2 million square feet of space completed, Mark IV is now focused on the master planning and infrastructure work that will be required to bring tens of millions of additional square feet of distribution, manufacturing and data center space to the project in the coming years. With that much new development, the project is expected to

Rendering of Building D-1, which will offer 500,000 square feet of Class A Industrial space for future tenants.

generate thousands of new jobs for the area, so Mark IV is also planning a residential component with ancillary services.

Mark IV has developed, owned and operated industrial projects in Las Vegas throughout half of its 50-year history. In that time, the company has become familiar with the reasons that Nevada is considered a business-friendly state, including its low taxes and affordable energy costs. Still, Victory Logistics District has presented several challenges that have resulted in important lessons for the company as it has started to deliver this breakthrough project to the region.

Underwriting the Opportunity

While Mark IV had been strategically active in key markets in Arizona, California, Colorado, Texas and Nevada, northern Nevada was new to the firm. Getting familiar with this market was the firm's first challenge.

Sonterra Development Company had acquired the land in the mid-1990s and, over the years, developed several successful buildings that were sold to users, as well as infrastructure projects that included a freeway interchange. In the 2010s, ownership decided to move on to other pursuits, and the land became available. As soon as Mark IV became aware of the opportunity to buy the land, the company quietly began directing resources toward comprehensive due diligence, which involved conferring with economic development officials, local brokers, contractors, consultants and utilities within the region to evaluate the feasibility of a 4,300-acre industrial development project. Once under contract, Mark IV built a team of internal employees, third-party consultants and attorneys to wade through the extensive due diligence materials that existed on the 35 parcels that made up the acquisition. The team focused on the acquisition for seven months, identifying and qualifying risks and seeking solutions to mitigate as many of them as possible.

Mark IV also built relationships with relevant economic development agencies, including the Economic Development Authority of Western Nevada and Northern Nevada Development Authority, both of which helped to get the firm comfortable with committing to such a sizable undertaking. They have since helped direct potential tenants toward Victory Logistics District. The firm considers these agencies to be key resources in the early stages of land acquisition and ongoing allies in the project's continued success.

Taking on Serious Acreage

In the past 20 years, global brands have established regional operations throughout the Reno-Sparks metropolitan statistical area (MSA), but the availability of land suitable for large-scale developments is scarce. Because of the growing demand for distribution, manufacturing and data center facilities, industrial land has been increasingly difficult to find in this area.

One of the reasons is that the federal government owns about 85% of Nevada's roughly 110,000 square miles, making that land essentially unavailable for private development. Furthermore, the federally owned land parcels aren't generally adjacent to one another. Rather, they are in what is known as

The Mark IV team understood that **4,300 acres of contiguous land, well suited for large-scale industrial development, was rare in Nevada** and could strategically serve the region's needs.

Rendering of Victory Logistics District in Fernley, Nevada. Courtesy of Cayetano Martos

a "checkerboard" layout, making it difficult for investors or developers to assemble substantial amounts of adjoining parcels to establish large industrial hubs. The Mark IV team understood that 4,300 acres of contiguous land, well suited for large-scale industrial development, was rare in Nevada and could strategically serve the region's needs.

Such a considerable project represented a major pivot for the 50-year-old firm, which hadn't typically engaged in large land buys. But Mark IV, which acquires, invests in, develops and manages commercial projects in markets with strong economic fundamentals and growth indicators, knew that northern Nevada's population was growing quickly and that its industrial sector was starting to show signs of rapid expansion. The firm also understood that given the challenges of assembling larger tracts of contiguous parcels in Nevada, this acquisition was a once-in-a-generation opportunity.

The company had previously undertaken development projects on a smaller scale. However, the leadership team at Mark IV had conducted thorough due diligence and decided to trust their instincts and invest in a long-term development strategy. They believed that focusing on high-quality design for both infrastructure and vertical development would result in a project that creates value over several decades.

Attracting the Workforce

In purchasing the land and master planning Victory Logistics District, Mark IV recognized that the project involved more than simply constructing industrial buildings. The firm also needed to fully understand the labor market and ensure that future tenants would have access to a skilled and educated workforce to staff their facilities. Mark IV estimates that the project will create more than 16,000 new direct jobs.

The challenge is that the Reno-Sparks MSA population is approximately 564,000, much lower than the populations of competing regions such as Phoenix, Las Vegas and Sacramento. The development's two closest cities, Fernley and Fallon, are primarily residential, with populations of roughly 24,000 and 10,000, respectively. Approxi-

Opportunity Zones So Far

The 2017 Tax Cuts and Jobs Act created the Opportunity Zones program, which aims to spur investment in undercapitalized communities. The program provides temporary deferral of taxes on previously earned capital gains placed in Opportunity Funds and permanent exclusion of taxable income on new gains. The analyses of the program have just begun, but according to a 2023 article by the Urban Institute:

- $48 billion in Opportunity Zone investments were made from tax years 2018-2020, with 2021 and 2022 likely sizable as well.
- The Joint Committee on Taxation estimates that for fiscal years 2020-2024, Opportunity Zones will cost the federal government $8.2 billion.
- As of 2020, 95% of investments were made in urban zones.
- The locations with the highest share of zones receiving investment include Washington, D.C., Oregon, Colorado, Utah and Arizona, while Kansas, New Mexico, Alabama, Iowa and Illinois had the lowest share of zones receiving investment.

Victory Logistics District's first completed building, offering 815,215 square feet of space.

Courtesy of Premier Design + Build

mately 65% of Fernley's residents commute outside of the city limits for work. Mark IV believes it can change that by providing high-quality warehouse space that allows companies to locate near the homes of the Fernley workforce.

Mark IV is also focused on supporting the local workforce by partnering with SkillUp Coalition, a nonprofit that helps workers get hired for in-demand jobs. SkillUp connects individuals with employers seeking specific skill sets and helps to facilitate training so that job seekers have the necessary skills and knowledge to qualify for open positions. For example, if a company is interested in leasing space at Victory Logistics District and needs 100 employees to service its logistics business, SkillUp, along with its educational partners such as Western Nevada College, can help identify potential employees in the local community and train them to meet that specific employer's workforce needs.

In addition, Mark IV understands that an increase in regional workers will result in increased housing demand. Therefore, the firm is planning to develop a wide range of high-quality local housing solutions to help decrease commute times and improve the quality of life for the growing labor force living in Fernley and Fallon.

Soil Conditions: Pros and Cons

Mark IV was attracted to the land in Fernley in part because the soil conditions and topography are unlike those found in other nearby industrial developments.

The Victory land is extremely flat, which reduced the need for costly and time-consuming grading. In addition, the sandy soil has excellent compaction and percolation characteristics ideal for construction. Whereas nearby industrial sites require dynamite to blast their rocky soil, Victory Logistics District's geology allowed Mark IV to begin development without this added time, effort and cost.

At the same time, once disturbed by development, sand is easily displaced by the wind. This means sand must be continually removed from the project's roads. Mark IV continues to implement mitigation solutions, such as soil stabilization and wind breaks, to contend with this challenge.

Complexity in Master Planning

As a large project, Victory Logistics District must be completed in phases; however, it is also located in an Opportunity Zone. This presents plenty of interesting advantages but also introduces an additional layer of complexity. Mark IV has needed to work with numerous local, state and federal agencies on the entitlement side, including the city of Fernley, Lyon County, state and federal transportation departments, the Federal Emergency Management Agency, the Environmental Protection Agency and the Federal Railroad Administration. This is in addition to all the utility companies that serve the property.

To navigate the agencies' unique application and approval processes, Mark IV partnered with consultants in each of these specific areas, leaning on their expertise to ensure entitlement success in the most expeditious manner possible.

Mark IV is planning to build on the site a private switching facility that will receive, break down, organize, store and deliver rail cars to those tenants that have direct rail service to their buildings.

Aerial image of Victory Logistics' first four completed buildings: A, B, C and D-2.

Courtesy of Premier Design + Build

The firm also quickly realized that with a project that will span decades, it must be flexible in its approach and willing to constantly adapt to changing market conditions and tenant needs. By incorporating both speculative development and build-to-suit options into the master plan, the project can meet the needs of most tenants looking for space. Likewise, a variety of lot and building sizes gives tenants options, both for their immediate needs and their future growth plans.

Furthermore, the project offers flexibility related to deal structure, as ownership is open to ground leases and joint ventures when users are opposed to a more typical lease structure.

Since acquiring the land, Mark IV has completed two phases of speculative development totaling more than 1.8 million square feet of distribution space across four buildings. The firm continues to actively expand Victory Logistics District through additional speculative phases and build-to-suit projects for distribution, manufacturing and data center uses on the south side of Interstate 80. In addition, it is planning development on the north side that will include housing to serve the thousands of new jobs the project will generate for the area. While these plans are based on today's needs and projections for the future, Mark IV will remain flexible in its approach and adapt as the project and the region evolve.

Industrial and Logistics Growth in Northern Nevada

Demand for industrial and logistics space in northern Nevada is rising steadily, with historically low Reno industrial vacancy rates of 4.2% and an expectation that this demand will continue. According to recent CBRE market research, average asking lease rates for bulk product increased by 10% between Q4 2022 and Q4 2023. This represents a 47% increase in asking lease rates for bulk product since the fourth quarter of 2021.

Northern Nevada Business Weekly reports that the market's strategic location between major population hubs and ports along the West Coast provides distribution and logistics companies with a competitive advantage. The strength of e-commerce and the rise of nearshoring (relocating operations closer to home) are driving this demand.

In addition, increasing automation and emerging artificial intelligence are fueling data center growth. Nevada is a prime location for data centers because of its strategic location, cost effectiveness, energy reliability, connectivity and supportive policies. Furthermore, Nevada is answering the rising call for sustainability with more solar, thermal and other green energy initiatives in constructing and operating its logistics facilities. ■

Serving Varying Transportation Needs

The Mark IV team knew the project would serve a variety of industrial tenants, each with different transportation needs. This presented the challenge of meeting all users' needs in an expedient manner.

Being sited near Reno means Victory Logistics District occupiers are within a one-day truck route to most of the major population centers in the Western U.S. In addition, northern Nevada is served by I-80 and U.S. 50, transcontinental east-west thoroughfares located adjacent to Victory Logistics District. The development will also benefit from

Courtesy of HPA, Inc.

An aerial site plan for a portion of Victory Logistics District; initial planned development calls for 30 million square feet over 2,400 acres at build-out.

the future construction of Interstate 11, which will run from Canada to Mexico. The site has dual-served rail that runs through the project, providing service by both Union Pacific and BNSF railways. This provides Victory Logistics District occupiers with another efficient method of transportation for inbound and outbound goods. Trucking service can cost up to three times as much as rail service, and having two rail providers allows the project's tenants to take advantage of competitive pricing.

Mark IV is also planning to build on the site a private switching facility that will receive, break down, organize, store and deliver rail cars to those tenants that have direct rail service to their buildings. In addition, a transload facility will offload cargo from rail cars to trucks and vice versa. This will allow tenants using trucking as their primary transportation solution to still take advantage of the efficiencies of the rail system at the development without the commitment of direct rail service.

Providing Adequate Power

Given the manufacturing uses that Mark IV planned for Victory Logistics District, as well as the recent wave of data center activity in the area, the ability to supply adequate power to the project is paramount. The firm needed to ensure that the local power utility could deliver both distribution-level and transmission-level power promptly to meet rapidly growing tenant demand. Likewise, the availability of renewable resources such as geothermal and solar power are critical to the end users.

In performing due diligence, Mark IV confirmed that NV Energy, which powers most of the state, was willing and able to make the necessary infrastructure improvements to bring large-scale transmission- and distribution-level energy to the project. The firm worked with the energy provider to commission an energy service agreement confirming the utility's ability to deliver the power necessary for the project's intended use.

Financing a Qualified Opportunity Zone Project

Victory Logistics District is positioned in a Qualified Opportunity Zone (QOZ), created as part of the Tax Cuts and Jobs Act of 2017. When Mark IV was evaluating this purchase, the program was still relatively new and just starting to generate meaningful investment. The firm discovered that the program could provide more access to development capital because it allows investors to benefit from numerous tax benefits when capital gains are used to support development in such an area. A QOZ location can also be a differentiator when marketing Victory Logistics District to future occupiers interested in using capital gains to invest in their new facilities.

Mark IV leveraged the project's status by raising OZ investment equity for each phase of development, including $10 million in the first, $20 million in the second and additional equity for the upcoming third phase.

The project began in the middle of uncertainty related to the COVID-19 pandemic. Despite the challenging lending environment, the firm developed a positive relationship with Comerica for construction loans.

Looking Ahead

Maintaining a long-term outlook on such a significant development can be challenging, but it also presents opportunities to be flexible in planning as the northern Nevada market evolves.

Consistent with management strategy in its other regions, the firm has situated the company's Nevada team in a new office located in one of its buildings at Victory Logistics District. This office will also serve as a showpiece for the construction quality the firm is committed to and will host potential tenants as they tour the project.

Victory Logistics District's build-out is anticipated to continue for many years as Mark IV carefully evolves its master plan and brings it to fruition via strategically phased construction. The firm is excited to see this project's impact on the local economy as it meets the growing demand for high-quality distribution, manufacturing and data center space in northern Nevada.

Evan Slavik is president and CEO at Mark IV Capital.

Victory Logistics District – Project Summary

Project Location	Fernley, Nevada
Project Name	Victory Logistics District
Development Type	Ground Up/New Development
Transportation Modes	Car, Truck, Rail
Division of Uses	Four Buildings (Three recently completed) Distribution (1,837,022 SF)
Tenants	Redwood Materials (815,215 SF) Mark IV (50,189 SF)
Site Dimensions & Density	Total Acreage: 4,638 Total SF Approved (excluding parking structures): 1,837,022 Total SF Built to Date: 1,837,022 Total SF at Build-out: Approximately 30 million over 2,400 acres of initial planned development
Development Team	Developer: Mark IV Capital, Inc. Master Planner/Landscape Architect: Mark IV Capital, Lumos & Associates Architect: HPA Architects General Contractor: Alston Construction (Building A), Premier Design + Build (Buildings B, C, D-2) Leasing Broker: CBRE
Municipal Funds or Tax Incentives	All of Victory Logistics District is located within a federally designated Opportunity Zone
Timeline	Building A 815,215 SF (Phase I) Land Acquisition: June 2019 Planning Started: October 2019 Initial Plans Submitted: October 2020 Approvals Obtained: November 2020 Construction Started (Infrastructure & Buildings): March 2021 Construction Complete: June 2022 Building B (169,000 SF), Building C (217,000 SF) and Building D-2 (635,000 SF) (Phase II) Land Acquisition: June 2019 Planning Started: October 2019 Initial Plans Submitted: March 2022 (Buildings B and C), December 2022 (Building D-2) Approvals Obtained: April 2022 (Buildings B and C) February 2023 (Building D-2) Construction Started (Infrastructure and Buildings): October 2022 Construction Complete: December 2023

The Real Impact of Opportunity Zones

Bipartisan legislation has proved successful in attracting investment that transforms communities.

By U.S. Rep. Mike Kelly

Erie, Pennsylvania, near the Great Lake that shares its name, is known for its deep-rooted manufacturing industry. During the 1950s and 1960s, the city's iconic 12th Street corridor was full of bustling factories and machine shops. At its peak, GE Transportation, famous for building locomotives, employed as many as 18,000 people at its Erie plant. Erie was synonymous with blue-collar work ethic and grit.

But as the decades passed, factories either scaled back their workforce or left Erie altogether. This resulted in a declining population and a shrinking tax base. In 2018, that economic and population loss made Erie home to the poorest ZIP code in Pennsylvania, according to a Business Insider report citing data from the 2012-2016 American Community Survey.

A Springboard for Investment

Despite this grim designation, the city of nearly 100,000 residents has become a shining example of an urban turnaround in the ensuing years. The story starts just a few months before that report was released. In 2017, I co-led the Tax Cuts and Jobs Act (TCJA) with congressional Republicans and former President **Donald Trump**.

Office of Rep. Mike Kelly

Rep. Mike Kelly

TCJA included a bipartisan policy provision to create Opportunity Zones, defined as federally recognized, economically distressed communities where new investments can be eligible for preferential capital gains tax treatment. Opportunity Zones allow investors from all over the United States to invest their capital gains earnings into communities that have not seen significant private investment for some time. Ultimately, the city of Erie received eight Opportunity Zone census tracts.

The stigma of being the poorest ZIP code in Pennsylvania turned into a springboard for investment in Erie. Soon after TCJA was signed into law, a group of residents with an eye for the tax code saw how Opportunity Zones could potentially revitalize the city.

Major employers in downtown Erie such as Erie Insurance (a Fortune 500 company), local universities, and the city's top hospitals partnered to provide the initial financial backing to form the Erie Downtown Development Corporation (EDDC). The EDDC has since leveraged its initial $40 million investment to complete approximately $115 million in private investment into Opportunity Zone projects in the city's core.

The EDDC was tasked with a tall order: to shock downtown Erie back to life. With Opportunity Zone legislation as a catalyst, plus a committed community of private stakeholders, the capital of a national Opportunity Zone impact fund, and local bank financing, the EDDC has seen significant success.

Opportunity Zones allow investors from all over the United States to invest their capital gains earnings into communities that have not seen significant private investment for some time.

Over the last six years, the EDDC has:

- Built 110 new residences.
- Established space for 25 new businesses.
- Restored eight historic properties.
- Revitalized and created 100,000 square feet of new commercial space.
- Established a grocery store in a U.S. Department of Agriculture-designated "food desert."

The citizens of Erie have come to see the EDDC's work as a signal of progress and hope. Outside investors have done the same, and the flywheel is in motion. The real impact transcends statistics as we reach the cusp of the economic multiplier effect that well-crafted policy can facilitate.

Opportunity Zones are a successful, bipartisan piece of legislation that is transforming communities in real time. Currently, more than $400 million of

Sean Pavone via iStock/Getty Images Plus

Opportunity Zone legislation has been a catalyst for revitalizing the city of Erie.

Currently, more than $400 million of long-term capital investment is at work revitalizing downtown Erie and breathing new life into what was once the poorest ZIP code in Pennsylvania.

long-term capital investment is at work revitalizing downtown Erie and breathing new life into what was once the poorest ZIP code in Pennsylvania.

Erie's economy, like others across the country, continues to evolve. Erie Insurance is now Erie County's top employer, with Wabtec (which purchased GE Transportation) currently in third.

Spreading the Wealth

According to a 2023 Economic Innovation Group report, more than $48 billion has been invested in 7,800 Qualified Opportunity Zone funds nationwide.

In September 2023, I introduced the Opportunity Zones Transparency, Extension, and Improvement Act to ensure more communities benefit from this legislation in the same way as Erie. This bipartisan legislation builds upon the success of the 2017 tax law by requiring mandatory data reporting of Opportunity Zone investments to increase transparency and streamline the reporting process. The bill would also extend the investment and deferral window, providing a longer time horizon to drive more investment into high-impact projects in low-income communities.

According to a 2023 Economic Innovation Group report, more than $48 billion has been invested in 7,800 Qualified Opportunity Zone funds nationwide.

The House Ways and Means Committee, of which I serve as chair of the tax subcommittee, also continues to explore new ways to make Opportunity Zones benefit rural America. Last year, the committee passed the Small Business Jobs Act, which includes a new Rural Opportunity Zone program that will revitalize struggling communities. It is a way to ensure that cities and towns, regardless of their population, can benefit from this legislation.

Opportunity Zones can continue to support underserved communities as they develop a modern identity. Perhaps the most effective part: They can do it all without spending a single taxpayer dollar. ■

U.S. Rep. Mike Kelly is a Republican representing Pennsylvania's 16th Congressional District. He serves as chair of the House Ways and Means Subcommittee on Tax.

Chapter Merit Awards

NAIOP recognizes chapters and individuals for excellence in a variety of program areas.

Earlier this year, NAIOP honored select chapters and individuals as part of the annual Chapter Merit Awards. The awards recognize success in diversity, equity and inclusion, education, legislative affairs, membership and special events, as well as individual leader recognitions and Chapter of the Year. Recipients are chosen by a committee of their peers composed of volunteer judges.

Chapter of the Year

The Chapter of the Year Award honors chapters for overall excellence throughout the year, including involvement with NAIOP Corporate, chapter growth, community service and more. This year's winners demonstrated an unyielding dedication to providing value for NAIOP members at every level.

Medium chapter: NAIOP Inland Empire

Large chapter: NAIOP Southern Nevada

Outstanding Leadership by a Chapter President

The award for Outstanding Leadership by a Chapter President is presented to a chapter president who has demonstrated outstanding dedication to their chapter's growth and success. This year's winners worked to increase and diversify membership, elevate programming, empower volunteers and engage local leaders.

Small chapter: Kyle Rea, NAIOP Northern Nevada

Large chapter: Travis Hale, NAIOP Washington State

Chapter Volunteer of the Year

The Volunteer of the Year Award is presented to a chapter volunteer for their exceptional efforts and contributions to their chapter. This year's winners possess incredible work ethic and commitment and have proved to be integral to their chapters' success.

Small chapter: Paul Kinne, NAIOP Northern Nevada

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Regent Cabinets Distribution Center
North East, MD
Principio Business Park
North East, MD
Black Horse Warehouse
(Under Construction)
Denver, PA
WE SWEAT
THE DETAILS.
INDUSTRIAL & OFFICE PARK
CONSTRUCTION SPECIALISTS
Stewart
&Tate
A STEWART COMPANY
CONSTRUCTION
stewartandtate.com


CRE.
Converge
NAIOP Annual Conference
Oct. 8-10 | Caesars Palace Las Vegas
IT'S ALL HERE
CRE power players
High-level insights
Top-notch networking
It's all at CRE.Converge – will you be?
Register now! Rates increase Aug. 10.
Register for I.CON Cold Storage and save even more!
See conference website for details.
creconverge.org
NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

NAIOP Southern Nevada received the Chapter of the Year Award for large chapters.

continued from page 92

Medium chapter: Joe Farr, NAIOP New Mexico

Large chapter: Cassie Catania-Hsu, NAIOP Southern Nevada

Outstanding Contribution by a Chapter Executive

The Outstanding Contribution by a Chapter Executive Award is presented to chapter leaders for their valued contributions, innovation and knowledge. This year's winners developed exciting initiatives, engaged members in fresh ways and grew their chapters' membership.

Small chapter: Debra Wimpee, NAIOP Oklahoma

Large chapter: Suzanne Kinney, NAIOP Arizona

Diversity, Equity and Inclusion

The Diversity, Equity and Inclusion Award recognizes chapters that have worked to advance DEI within their chapter and in commercial real estate. This year's award winners stood out for their efforts in supporting the next generation of commercial real estate professionals and increasing diversity within the industry.

Large chapter: NAIOP Washington State, DEI programs for rising leaders

Education

The Education Award is presented to chapters that organized an exceptional program, series, event or seminar with educational content. These winning chapters hosted unique and engaging market tours, speaker series and more.

Small chapter: NAIOP New York City for PropTech Competition

Large chapter (tie): NAIOP Southern Nevada for Developing Organizational Leadership Institute

Large chapter (tie): NAIOP Arizona for "Becoming a Tier 1 City" Education Series

Legislative Affairs

The Legislative Affairs Award recognizes chapters whose government affairs activities and advocacy influenced important state and local issues. This year's winners strengthened relationships with decision-makers and elected officials, and made their voices heard on issues critical to commercial real estate.

Medium chapter: NAIOP Inland Empire for defeating tax measures and establishing a legislative task force

Large chapter: NAIOP Minnesota for public policy committee successes

Membership

The Membership Award is presented to chapters that have demonstrated success through their retention and recruitment programs, conveying NAIOP's exclusive member benefits.

Large chapter: NAIOP Washington State for high member retention, student membership growth and new member mentoring

Special Events

The Special Event Award celebrates chapters that have planned and executed exceptional and unique chapter events.

Small chapter: NAIOP Oklahoma for Women in CRE Networking Luncheon Series

Medium chapter: NAIOP Inland Empire for Broker Challenge

Large chapter: NAIOP Southern Nevada for Spotlight Awards

Outstanding Achievement in Membership Growth

NAIOP honored NAIOP Sacramento Valley for the largest percentage of member growth (31.7%) based on year-end membership data.

Highest Number of New Members

NAIOP celebrated NAIOP SoCal for achieving a record highest number of new members (135) among all 53 chapters in 2023, based on year-end membership data. ■

Improving Talent Management in CRE

Report identifies best practices in recruitment, training and retention.

By Shawn Moura, Ph.D.

Natee Meepian via iStock/Getty Images Plus

Bringing on the right talent, then training and keeping that talent are perennial concerns for companies seeking to build a durable advantage over their competitors, especially in a field like commercial real estate development, where professional skills and personal networks are critical to a firm's success. The commercial real estate industry faces a potential talent shortage as baby boomers age out of the workforce, increasing the importance of having an effective talent management strategy.

The NAIOP Research Foundation's June 2024 report, "Recruiting, Training and Retaining Talent in the Real Estate Development Industry," identifies a range of strategies development firms can pursue to attract talented associates and help them develop the skills they will need to contribute to their teams and advance in their careers. The report's authors, **Mariya Letdin**, Ph.D., **Dustin Read**, Ph.D., and **Spenser Robinson**, D.B.A., reviewed existing literature on talent management in other industries and interviewed senior executives and mid-career managers at commercial real estate development firms to identify common challenges in recruitment, training and retention, and to pinpoint ways that firms can overcome them.

The authors observed that the offices of U.S. commercial real estate development firms tend to have fewer staff than those in other industries. This is true even in larger development firms, which commonly assign developers to teams that focus on a region, property type or development strategy and are frequently located in offices across multiple states. Individual development teams are often not large enough to support staff roles dedicated to recruiting or training new hires. Some managers may prefer ad hoc approaches to talent management since the need to hire and onboard new staff is infrequent. However, firms that opt out of investing time and resources in talent management and retention may pay higher recruitment and compensation costs over the long term. They miss out on savings from hiring professionals earlier in their careers or must return to the labor market repeatedly when experienced professionals depart.

Firms that opt out of investing time and resources in talent management and retention may pay higher recruitment and compensation costs over the long term.

There is no one-size-fits-all approach to effective recruitment and training, but talent management practices should align with a firm's overall strategy. Managers can benefit from adhering to a long-term plan to hire and train professionals with skills that the firm needs to expand. This may mean hiring a candidate or training a current associate for a skill set or specialization that is not currently represented on a team. To maximize opportunities for finding strong candidates, firms can diversify recruitment channels beyond referrals, job boards and third-party recruiters. Developing relationships with universities and trade associations like NAIOP can help identify a broader pool of early and mid-career candidates. Both avenues also offer managers opportunities to familiarize themselves

Keeping associates aware of career development opportunities and ensuring they feel they have a clear path to advancement are also important, particularly for professionals who are early in their career or new to a firm.

with candidates outside the limited interactions possible in a job interview.

Likewise, training initiatives should be tailored to a firm's size, resources and culture. In some firms, this might involve greater emphasis on informal shadowing opportunities, while in others, more structured training around a specific skill set or operational role may be more appropriate. Firms can also turn to trade associations for courses that complement in-house training, and associates may benefit from the external mentorship opportunities that trade associations provide.

Effective training programs also support effective retention strategies. Most managers understand that appropriate compensation is crucial to retaining talent. However, keeping associates aware of career development opportunities and ensuring that they feel they have a clear path to advancement are also important, particularly for professionals who are early in their career or new to a firm. Training and mentorship programs demonstrate a firm's investment in associates' careers and can help them develop strong personal bonds with colleagues on their teams, making them less likely to hunt for better opportunities elsewhere. ■

Visit naiop.org/research-and-publications to read "Recruiting, Training and Retaining Talent in the Real Estate Development Industry." ■

Shawn Moura, Ph.D., is senior research director at NAIOP.

Meet the Visionaries: NAIOP Research Foundation Names the 2024-2026 Class

Eight young CRE professionals join the prestigious mentoring program that began in 2017.

The NAIOP Research Foundation recently announced the 2024-2026 class of Visionaries, a group of eight rising commercial real estate professionals who are selected based on their career accomplishments, history of involvement with NAIOP and demonstrated interest in the Foundation's mission.

Visionaries have an unparalleled opportunity to learn from and network with senior professionals through the exclusive mentorship program, which pairs a Visionary with up to three different Research Foundation Governors each year who can share their advice and valuable industry insights. Visionaries also play an important role in the Foundation's research-development process by sharing their perspectives and expertise.

The Research Foundation established the Visionaries program in 2017 to connect outstanding rising industry professionals with Research Foundation Governors, who are experienced, well-respected industry leaders. The 2024 cohort of Visionaries will attend all Foundation events at NAIOP's National Forums Symposium in Minneapolis and CRE.Converge in Las Vegas.

"I'm pleased to welcome this group of extraordinary professionals to the Visionaries program this year," said **Jennifer LeFurgy**, Ph.D., executive director of the NAIOP Research Foundation. "They bring new perspectives, catalyze important discussions and ensure that a variety of viewpoints are reflected in the Foundation's research."

Ian Carpe

Alere Property Group, Senior Vice President of Portfolio Management and Asset Management
Chapter: NAIOP Inland Empire

Ian Carpe joined the Alere Property Group team in 2019. Alere has developed or acquired more than 30 million square feet of industrial product with a market value of over $10 billion. As senior vice president of portfolio management and asset management, he is responsible for maximizing the value of Alere's portfolio and minimizing risk. His portfolio consists of more than 160 best-in-class industrial assets and over 270 tenants throughout Southern California. Carpe leverages over 20 years of experience within the real estate development and investment industry. He was instrumental in helping Alere secure 100% occupancy of its 30-million-square-foot portfolio and negotiating its largest leases by revenue since inception. Carpe previously worked at top real estate investment firms Invesco and BlackRock. He has managed portfolios of private equity office, industrial, retail, multifamily and self-storage real estate, in addition to mezzanine debt and preferred equity investments. He also worked at the White House, where he co-wrote emergency legislation authorizing $1.5 billion for levee repair, pump station replacement and wetlands restoration during the response to Hurricane Katrina in New Orleans. Carpe serves on the Board of Directors for NAIOP's Inland Empire chapter.

Andrew Chun

Langan, Senior Project Manager
Chapter: NAIOP New Jersey

Andrew Chun focuses on the acquisition, development and remediation of environmentally contaminated sites. Through these 10 years of experience, he has gained essential project management experience that has afforded him the ability to integrate cost- and time-effective solutions into all stages of the site acquisition and development process. He excels in program management, providing a streamlined project process that integrates all disciplines, keeps projects on budget and schedule, and satisfies the needs of his clients. He has successfully managed various developments ranging from residential, health care, higher education, commercial and industrial projects throughout New Jersey. Chun is a recipient of NAIOP's 2023 Developing Leaders Award, NAIOP New Jersey's 2023 Rising Star Award and NJBIZ's 2023 Leaders in Real Estate, Construction and Design Award. He is involved in the NAIOP New Jersey chapter as co-chair of the Developing Leaders Committee and leads Langan's Young Professionals@Langan Employee Resource Group.

"I'm pleased to welcome this group of extraordinary professionals to the Visionaries program this year. They bring new perspectives, catalyze important discussions and ensure that a variety of viewpoints are reflected in the Foundation's research."

—Jennifer LeFurgy, Ph.D., executive director, NAIOP Research Foundation

Felix Diaz
Dekker Perich Sabatini, Director of Advanced Technology
Chapter: NAIOP New Mexico

Felix Diaz is the director of advanced technology at Dekker Perich Sabatini. He has built his career around merging novel technologies with traditional architectural processes to push the limits of building performance, sustainability and the creative process. His approach champions data-driven design and simulations of Digital Twins to transform client visions into realities, making them active collaborators in creating spaces that exceed expectations and drive revenue. Diaz's work in commercial real estate through NAIOP involves bridging the divide between architects and developers, thereby emphasizing the need for dynamic, adaptive environments that respond to evolving market demands. His methodology reflects a future where technology and tradition coalesce to enhance the functionality and character of every project.

Zachary Hodges
Link Logistics Real Estate, Analyst
Chapter: NAIOP Georgia

Zachary Hodges, an experienced operations professional with a robust background in finance project management and operations, brings a comprehensive skill set aimed at enhancing business operations. Hodges holds a Bachelor of Arts in government from Harvard University, where he engaged in leadership and community service activities. At Blackstone/Link Logistics, he led the development of international business plans, managed a portfolio of 5 million square feet and executed deals totaling $60 million. During his tenure at CSBio as chief of staff/ director of development, he drove revenue growth from $31 million to $85 million, alongside managing the redevelopment of a state-of-the-art lab facility. With additional roles at Cabot Properties and Schernecker Property Solutions, Hodges has demonstrated exceptional project management capabilities, including overseeing award-winning major renovation projects. Co-founder of the Jentry Search Fund Accelerator, his achievements are further recognized through numerous awards for company culture and community service.

Sean McMullan

Crescent Communities, Vice President of Capital Markets
Chapter: NAIOP Charlotte

Sean McMullan is vice president of capital markets for Crescent Communities. He is responsible for leading the capital raising and investment activities of Crescent Communities' portfolio in all asset classes within the company's geographic footprint. McMullan was previously director of finance and investor relations with Crescent Communities, where he was integral to the company's financial forecasting and planning efforts. Prior to joining Crescent Communities, McMullan was an associate within the leveraged finance group at JP Morgan. He earned a Master of Business Administration from Emory University's Goizueta Business School and a Bachelor of Arts from the University of North Carolina at Chapel Hill.

Kyle Rea

Tolles, Chief Operating Officer
Chapter: NAIOP Northern Nevada

Kyle Rea is a real estate leader and developer in Reno, Nevada. As the chief operating officer of Tolles, he is broadly responsible for overseeing the execution of the company's mission, including leading lease negotiations, managing legal counsel and implementing business development initiatives. He is also the managing broker of record for the firm's property management division and manages day-to-day activities across all functions. Rea is a past president of NAIOP Northern Nevada and has worked with top real estate firms such as Dermody Properties and Commercial Partners of Nevada. A Reno native, he holds a bachelor's degree from the University of Nevada, where he studied music and business. Rea was recently recognized with an award for Outstanding Leadership by a Chapter President by NAIOP and is a member of Industrial Development 9 Forum.

Erin Shepherd

Ambrose Property Group, Vice President, Asset Management
Chapter: NAIOP Indiana

Erin Shepherd is vice president of asset management for Ambrose Property Group, headquartered in Indianapolis. The company focuses on industrial, logistics and e-commerce real estate development, with a presence in Indiana, Ohio, Florida and Colorado markets. Her duties focus on managing tenant relationships and lease management, along with oversight of third-party management teams. Shepherd serves on the senior leadership committee with other colleagues within Ambrose. Prior to her current role, Shepherd served in a variety of capacities at Strategic Capital Partners from 2019, with the most recent role being vice president of asset management. She is a graduate of the Indiana University Kelley School of Business, receiving a degree in accounting and business management. She serves as the president-elect and events chair for the NAIOP Indiana chapter, as well as participating in the Developing Leaders Forum. In addition to her NAIOP contributions, Shepherd holds a board of director position with the Indiana Building Owners and Managers Association and participates in Indy's Junior Achievement Job Spark.

Sam Sidoine

Yellow Iron Real Estate, Regional Manager, Investment and Development
Chapter: NAIOP Washington State

Sam Sidoine oversees investment and development in the Pacific Northwest for Yellow Iron Real Estate. In addition to sourcing, underwriting and executing deals in the Northwest, he oversees construction for Yellow Iron across multiple markets. Prior to his current role, Sidoine held a variety of operational roles in the construction industry, delivering more than 2.5 million square feet in the Pacific Northwest and more than 2,000 apartment units. His experience includes industrial, oil and gas, office and multifamily. Sidoine holds an undergraduate degree from Whitman College, along with a commercial real estate certificate from the University of Washington. He is an active member of the Washington state chapters of NAIOP, ULI and the Housing Development Consortium. ■

NAIOP represents commercial real estate developers, owners and investors of office, industrial, retail and mixed-use properties. It provides strong advocacy, education and business opportunities, and connects its members through a powerful North American network. **For more information, visit naiop.org.**

Programs and Services

NAIOP Membership
For membership, information or changes to your membership record, contact membership@naiop.org.

Chapter Network
NAIOP chapters provide local and regional education, networking and legislative affairs.

naiop.org
NAIOP's central resource for industry and association news, programs, advocacy efforts and connections.

National Forums
Special-interest groups that comprise senior-level NAIOP members in a non-competitive environment for exclusive networking and experience exchange.

Center for Education
The principal learning resource for the commercial real estate development professional. Offerings include online, on-demand and live courses, plus two certificate programs.

Development Magazine
Current and past issues are available online and are mobile-responsive for those who want to read Development magazine on-the-go.

NAIOP Research Foundation
Research projects and initiatives to improve the understanding of the built environment and the challenges that lie ahead for individuals and organizations engaged in real estate development, investment and operations.

Career Center
Online resource designed to help employers and job seekers find new commercial real estate job opportunities.

Business Development Industry Partners
Enhance your company's presence as an industry partner by sponsoring, exhibiting or advertising.

Government Affairs
Strong, effective support and guidance to create, protect and enhance development and property values. NAIOP's government affairs team is active on Capitol Hill, in state legislatures and in Canadian provinces.

Market Share Blog
Insights on trends, CRE-related topics and professional development tips. Subscribe to weekly posts, interviews and news at blog.naiop.org.

Mobile Apps
Take NAIOP wherever you go. Access the membership directory, find news, chapters and events, and connect on social media.■

People + Companies INDEX

For information regarding advertising opportunities, contact Christopher Ware at 800-666-6780.

** This is a listing of NAIOP members who are mentioned in this issue, as well as paid advertisers, which appear in bold.*

2024 Industry Partners

NAIOP wishes to thank our Industry Partners, whose financial support helps us to provide quality programs and communications to you throughout the year. We encourage you as a NAIOP member to include these partners, wherever possible, when you are considering services and products for your business.

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Legislative Positions on the Issues Shaping CRE

NAIOP is rooted in advocacy, having been founded more than five decades ago to address land use issues that impeded industrial real estate development. Today, our efforts on Capitol Hill, in Canadian provinces, and in statehouses and local municipalities are more important than ever because our industry's interests are at risk from significant tax increases and stringent regulations.

Brian Walker

Last year, we surveyed our members on their understanding of NAIOP's legislative priorities and how they aligned with their business and personal interests. Not surprisingly, opinions varied based on location, business type and field of work. NAIOP chapters excel at representing a market's priorities locally, and the knowledge shared among chapters is essential to helping prepare other regions for what could soon be emerging in their areas.

Earlier this year, around 300 NAIOP leaders from across the chapter network gathered in Washington, D.C., to visit elected officials on Capitol Hill. What a sight to see NAIOP members filling the hallways of Congress and conducting meetings with those making important decisions that have an everyday impact on our businesses.

During our meetings, we discussed the association's federal legislative priorities, and I wanted to share them with all of our stakeholders here.

Adaptive reuse. Increases in remote work have led to historically high vacancy rates and underutilization of commercial structures in many communities. A 2023 study by McKinsey & Company has predicted that a shift to remote working across major global cities is likely to cause a loss in commercial real estate values of $800 billion by 2030. These reductions in real estate asset values are already negatively affecting state and local budgets. A coinciding lack of affordable housing could be reduced by repurposing existing structures. NAIOP has been working with federal lawmakers to establish a 20% tax credit for the eligible costs of conversions and believes that Congress should pass legislation to incentivize the adaptive reuse of vacant and underutilized commercial buildings. This approach could increase the supply of affordable housing and help restore economic vitality to communities facing budget shortfalls resulting from fallen commercial property values.

Commercial development is a significant driver of the U.S. economy. Federal tax policy should align with the economics of real estate development and investment, promote capital formation and foster community development.

Tax policy. Commercial development is a significant driver of the U.S. economy. Federal tax policy should align with the economics of real estate development and investment, promote capital formation and foster community development. Retaining current capital gains tax rates and protecting Section 1031 like-kind exchanges recognizes the long-term, capital-intensive nature of assets and the continued investment needed to maintain vibrant markets. NAIOP believes that tax policies are critical factors in ensuring sufficient investment for long-term, productive real estate assets.

Capital and credit availability. Bank lending for commercial real estate is at historically low levels, and trillions of dollars in maturing debt is coming due in the next few years. Major causes include rapid and steep interest rate increases that have raised borrowing costs, and remote work patterns that have raised vacancy levels and reduced the value of office properties. NAIOP believes that Congress must exercise strong oversight of the Federal Reserve and other federal financial regulatory agencies to ensure that adequate credit is available for commercial real estate. Clear justification must exist for regulatory actions that increase capital requirements on banks and further limit their ability to lend.

I invite you to learn more about these priority issues and others on our agenda on the NAIOP website. More importantly, I urge you to get involved with our work by engaging with your chapter, connecting with our legislative team and lending your voice. Together, we can make a difference on the issues we are facing on Capitol Hill or in your state, province or local market. ■

Brian Walker, President, Burns Scalo Real Estate
2024 NAIOP Chair

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