

Research Revolutionizing Commercial Real Estate



The E-grocery Onslaught?

It's no secret that the rise of the millennial consumer has been a driving force in the acceleration of e-commerce growth. This is the first generation raised completely in the digital age. They're tech savvy, they embrace e-commerce, and they use their smartphones to shop. And, according to the Pew Research Center, millennials surpassed baby boomers as the largest living generation of consumers earlier this year – and they haven't yet reached their peak. The same recent Pew analysis projected that they will peak in 2036 at 81.1 million consumers.

As powerful as those numbers are, online or "e-grocery" sales only account for a tiny share of the total grocery marketplace. With Amazon having built its distribution chain out by over 40 million square feet, and now easily capable of delivering next-day, if not same-day delivery to nearly everywhere in the continental U.S., is this the next big opportunity for growth?

Amazon is betting on it. In June, the company expanded its Amazon Fresh grocery delivery service to 69 postal codes in London, marking the international debut of an e-grocery concept that is already available in Baltimore, Boston, New York, northern and southern California, northern New Jersey, Philadelphia and Seattle.



So are we on the eve of a radical shift in how people buy their groceries, one fueled by demographics and technology that over the next decade will rival what we have seen for traditional retail hard goods over the past decade?

Not so fast. While experts anticipate continued aggressive growth ahead for online sales when it comes to hard goods of all types, is it reasonable to expect similar rates of growth to emerge for many of the categories where e-commerce has yet to be a major disruptor like furniture, personal needs retail, or even groceries? Likewise, is it reasonable to expect consumers to abandon the physical act of shopping in the future? Dozens of surveys have consistently found that consumers (including that ever-elusive millennial consumer) still prefer physical shopping

to purchasing items online. Of course, groceries may be the big swing vote here.

According to a February 2016 survey conducted by Walker Sands Communications, 68 percent of

consumers now prefer to purchase books online as opposed to in store. Likewise, the majority of respondents also preferred to purchase both consumer electronics and office supplies online. Yet the majority of those polled still preferred the in-store experience over shopping online for all



Upcoming Research

Look forward to these reports and white papers published by the NAIOP Research Foundation.

- **Repositioning Suburban Office Parks** (Q4 2016)
Examines low-density suburban office parks that have been modified to increase their value by adding density, mixing uses, increasing amenities, etc.
- **The NAIOP Office Space Demand Forecast** (Q4 2016)
Forecasts net absorption of office space eight quarters out, at the national level.
- **NAIOP Structure of the CRE Industry Model** (Q2 2017)
Outlines the capital flows to and through the commercial real estate industry focusing on sectors and subsectors, equity and debt structures, as well as trends in institutional and global allocations to real estate.
- **The NAIOP Industrial Space Demand Forecast** (Q1 2017)
Forecasts net absorption of industrial space eight quarters out, at the national level.
- **Economic Impacts of Commercial Real Estate Development**, 2017 Edition, (Q1 2017)
Study focuses on development expenditures and their impacts on jobs, GDP, and salaries/wages, at the national and state levels. ■

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The NAIOP Research Foundation fosters building better communities through practical research and education that advances the quality, and makes evident the benefits, of commercial real estate ownership and development. The Foundation's work empowers developers, owners and investors to make sound decisions informed by cutting-edge data and analysis.



Governors

Governors support the Foundation's program of work through pledging significant financial support and by giving their time and sharing their expertise.

Industry Trends Task Force

NAIOP leaders and Research Foundation Governors meet annually to identify trends that will impact the industry in the intermediate and long term, often leading to future research.

Distinguished Fellows Program

Engages the nation's foremost commercial real estate, economic and public policy experts and serves as a bridge between the practicing commercial real estate sector and the academic community. The program is supported by the Research Foundation, and Fellows conduct and utilize the Foundation's reports.

National Research Directors

Thought-leadership from industry meetings with national research directors from major commercial real estate brokerage and data firms is applied to future research topics. ■



Dear Industry Leader,

It's been an amazing year that, in many ways, has been fraught with the unexpected. The NAIOP Research Foundation has continued to bring you the insights necessary to navigate these dynamic times.

Both the Industrial Space Demand Forecast and the new Office Space Demand Forecast provide insight into how space demand will expand or contract. We continue to see the growth and opportunity in the industrial market and the explosion in e-commerce will only fuel that further. Additionally, our new report on innovation districts helps developers assess opportunities for this unique approach to urban redevelopment.

On the unexpected side, we saw the market shift when the U.K. voted in favor of Brexit, though the economic impact was much less than anticipated. Additionally, the wild ride leading to the U.S. presidential election and outcome on November 8 will likely create some uncertainty.

Equally unexpected this year was the loss of our fellow industry leader, Frank Wuest. I pay tribute to Frank who was passionate about the industry, NAIOP and this community of leaders. We honor his memory by keeping alive his commitment to bring the very best to our work.

Sincerely,

Ralph Heins
President, Primera Companies, Inc.
2016 Chairman, NAIOP Research Foundation



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supplies. It is not out of the realm of possibility for this to occur over the next couple of decades. But what is most telling is that this hasn't happened yet. This is despite the fact that demographic shifts driven by the rise of the millennial consumer have been so instrumental in driving the accelerated growth of e-commerce overall in recent years and for so many individual categories.

Against this backdrop of trends, landlords, investors, developers and market watchers are watching closely if the grocery industry is next to feel the full weight of disruption from Amazon.

This is part 1 of a 3-part series, "Feeding the e-Grocery Trend," on NAIOP's Market Share blog. Visit blog.naiop.org to read the next article in the series. ■

other categories. When it came to shopping for groceries, only 5 percent of all consumers preferred to purchase food online while 95 percent of respondents still preferred shopping in physical stores.

It is anticipated that these numbers will continue to shift in favor of e-commerce on all fronts.

However, with just one in 20 consumers currently preferring to buy groceries online, it would have to be a seismic swing of momentous proportions to drive demand for e-groceries to similar levels of consumer demand that exists for categories like books, consumer electronics and office



Garrick Brown is a member of a group of national research directors from major commercial real estate brokerage firms whose thought leadership is applied to NAIOP Research Foundation topics.

Viewpoint

What new technology do you think will most disrupt the industry in 2017?

"As self-driving cars go from being fantasy to next on the horizon, corporate users as well as city planners will need to reevaluate how to calculate appropriate parking ratios and how they will be defined. Are greater development densities justified by the inclusion of off-site (15 minutes away) parking areas as part of a development? Would such off-site areas save some under-parked suburban offices from functional obsolescence?"



Nino Pedrelli

Principal
State Street Realty Advisors, LLC

"The biggest game-changer that I see on the horizon is the speed of implementation and the impact of 3-D printing, which has the potential to dramatically impact where and how goods are produced."



Jack Schultz

Secretary/Treasurer, NAIOP Research Foundation
Founder and CEO, Agracel, Inc.

In Memoriam

Frank Wuest, NAIOP Research Foundation Trustee



Frank Wuest, president of Marcus Partners in Boston and a longtime NAIOP Research Foundation Governor, tragically passed away on August 13 from a medical emergency while participating in a fundraising swim in Narragansett Bay, Rhode Island.

Frank was passionate about the development of vibrant, mixed-income, mixed-use communities. His work included such well known developments as University Park at MIT and Radian in Boston's Leather District, which he completed as president of the Boston office and head of the science + technology divisions at Forest City Enterprises.

He was a committed long-distance swimmer and had competed in more than 150 races, most recently named the top male finisher for time in the 10,000M Charles River Swim. He is survived by his wife, two children and two step-children, his parents and siblings.

Frank's thoughtfulness and intelligence greatly influenced the Foundation, and he was gratified by its work. In the June 2014 edition of this newsletter, Frank's comments on the Foundation summarized his experience. "I've always said that the most successful people in our industry are the ones who are constantly looking ahead, and that's true of the Research Foundation. I'm proud to be part of an organization that's helping our industry envision the future," he said. ■



Welcome to our New NAIOP Research Foundation Governors



Dale Dekker, AIA, AICP
Principal
Dekker/Perich/Sabatini Ltd.



James Mulligan
Partner
Husch Blackwell LLP



Alan Sheppard, Jr.
Shareholder
Greenberg Traurig

To become a partner in the Foundation's work, contact Bennett Gray at gray@naiop.org or 703-904-7100.



Meet a Governor

Jean Kane

CEO, Welsh Companies and Colliers International
Minneapolis St. Paul

Q. Why did you become a NAIOP Research Foundation Governor?

A. I'm a lifelong learner and really advocate for people in my company to be curious and informed about what's next for the industry. While there are numerous sources of quality research in our industry, I am proud of our how our research stands out from the crowd with an innovative, global look at what's shaping our lives and our industry today and into the future.

Q. How have the Governors influenced you?

A. Deepening my relationships with the Governors has been among the most valuable benefits of joining the Foundation. The Governors are a multi-disciplined group involved in various aspects of the industry, so the conversations we have are so edifying and provide diverse viewpoints. I love the energy that comes from blending new Governors with longtime industry veterans who started the Foundation, whether we're debating an industry topic during a meeting or enjoying relaxed conversations at a dinner.

On a personal level, I've enjoyed getting to know the Governors, discovering what energizes and drives them, professionally and outside the office. I know that I could call each and every Governor any time and they'd take the time to talk and offer their advice, and I'd do the same for any one of them.

Q. How can the Research Foundation engage the next generation of CRE leaders?

A. Knowledge is power, and I believe the topics the Foundation is exploring today – the sharing economy, technology, innovation districts – are germane to both seasoned developers who need to know more, as well as the rising young professionals whose generation is driving much of the change. It's critical that we publish studies that our Developing Leaders view as a source of expertise while they're in the prime of building industry knowledge. I encourage my fellow CEOs and our Governors to share studies within their company and engage their organization in discussions about the Foundation's research and how it can be applied. ■

Jean Kane has been a NAIOP Research Foundation Governor since 2013 and served as NAIOP Chairman in 2014. She is CEO of Welsh & Colliers International | Minneapolis-St. Paul, where she actively oversees and influences the company's real estate services, including brokerage, construction, architecture, capital and facility services. She is an active member of NAIOP Minnesota.

Lightning in a Bottle: Building Innovation Districts



Innovation districts are being planned and developed in cities throughout the world to promote the formation and growth of knowledge-intensive businesses. When done well, these real estate projects create an environment conducive to entrepreneurial activity and the exchange of ideas among highly-skilled individuals, both of which are anticipated to influence the long-term economic competitiveness of a region.

“The report on innovation districts is a great piece of work, and the case studies are incredibly helpful. One of my projects is fast becoming an innovation district, so I sent the report to a number of stakeholders to start the conversation about the benefits of this type of development.”

PAUL F. CIMINELLI, PRESIDENT/CEO • CIMINELLI REAL ESTATE CORP. • WILLIAMSVILLE, NEW YORK

Common features of innovation districts include buildings that satisfy the space needs of technology-driven companies in different lifecycle stages; incubators and accelerators providing support services to high potential startups; and a combination of amenities and housing options designed to attract human capital. The public-private partnerships formed to execute these transactions are often comprised of government officials, business leaders and research universities all interested in commercializing intellectual property.

In an effort to better understand the variables contributing to the success or failure of innovation districts, the NAIOP Research Foundation commissioned a study of four such projects throughout the U.S. Semi-structured interviews were



conducted with a diverse group of stakeholders involved in the planning and development of Cortex in St. Louis, Missouri; SkySong in Scottsdale, Arizona; Tech Center at Oyster Point in Newport News, Virginia; and Technology Square in Atlanta. Those participating in the study were asked to discuss the economic objectives of the project in which they participated, the structure of the transaction, the tradeoffs that were made throughout

the development process, and challenges that remain unresolved. The results of these interviews offer valuable insights regarding the merits of innovation districts as real estate investment opportunities and as a means of promoting sustainable economic development.

While the research suggests successful innovation districts differ from one another in many interesting and important ways, these projects are nonetheless linked together by a series of common elements extending beyond their physical characteristics:

- **Connectivity and interaction** among the companies and individuals operating onsite typically serves as the overarching objective by which all development decisions are evaluated. Programming, tenant mix and support services are therefore given as much consideration as architectural elements, amenities and design features.
- **Governance systems and communication networks** are also frequently put in place to build trust and understanding among stakeholders with seemingly disparate interests. These activities help promote cohesion and cooperation.
- **Strong leadership** is essential in some instances to ensure public support for an innovation district remains intact, in the event that the expected economic benefits take longer to materialize than expected.

Moving forward, there are several opportunities to examine best practices in the planning and development of innovation districts that are beyond the scope of this preliminary analysis. Questions remain regarding the amount of diversity that should exist across industries and firm types within these projects to promote knowledge diffusion. Robust quantitative analysis is also needed to isolate the economic, environmental and social benefits for host cities. Finally, attention needs to be devoted to the efficacy of branding and promotional strategies of innovation districts. All of these issues require further study.

Read “Case Studies in Innovation District Planning and Development” at naiop.org/research. ■



Dustin Read, Ph.D., J.D., serves as an assistant professor of apparel, housing, and resource management at Virginia Tech in Blacksburg, Virginia. He has received the William and Mary Alice Park Junior Faculty Fellowship from the Virginia Tech Board of Visitors.

Research Foundation Governors

The NAIOP Research Foundation invites individuals who have demonstrated considerable dedication to guiding the future of the commercial real estate industry through their financial support, time, talent and expertise to accept the lifetime distinction of Governor.

Governors help shape the Foundation's research agenda by serving on committees and giving direction to research projects undertaken. They enjoy exclusive networking and invitations to special events throughout the year.

Governors take pride in knowing that their contributions are building the capacity of the Foundation to develop and disseminate best industry practices that advance the profession and make our communities better places to live and work.

To join the Governors, contact Bennett Gray at gray@naiop.org or 703-904-7100, ext. 168. ■



The NAIOP Research Foundation newsletter compiles strategic resources and analysis selected from the Foundation's work and features its Governors. It is published by the NAIOP Research Foundation.