Commercial Real Estate Development FALL 2018

# Development®

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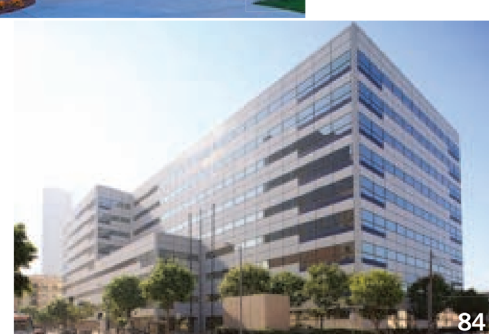


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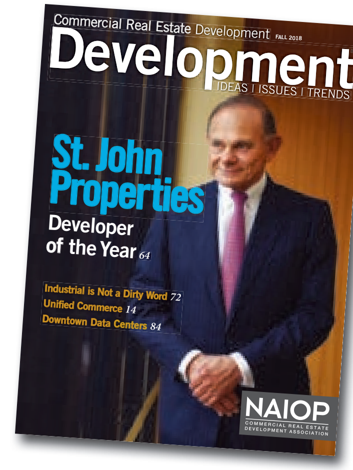


**2018 Developer of the Year St. John Properties founder Edward St. John.**
*Image courtesy of St. John Properties*


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# A Note From the Editor

## Uninterrupted Momentum

ONE OF THE advantages of this nearly unprecedented nine-year economic expansion is that real estate products have been able to evolve uninterrupted throughout this cycle. With shorter five- to seven-year cycles, risk-takers experimenting with new concepts and approaches were often forced to put the brakes on ideas or scrap them altogether as demand dried up.

In this issue, read about some of the concepts which for better or worse are gaining momentum.

Stay informed,
**Margarita Foster**
Editor-in-Chief


Margarita Foster

**NAIOP's 2018 Developer of the Year** is St. John Properties, a Maryland-based developer and operator of office, industrial, retail and residential projects with assets valued at $2.9 billion (page 64).

**Municipal leaders are warming** to the idea of building last-mile facilities, but outdated zoning is a hindrance (page 72).

### Future NAIOP Events

- **FlexOffice 2018**, a collaboration between NAIOP and the Global Workspace Association, Sept. 12-14, Austin, Texas
- **CRE.Converge 2018**, Oct. 15-17, Washington, D.C.
- **National Forums Symposium 2019**, April 9-11, Vancouver, British Columbia, Canada

**Data centers need not be relegated** to the exurbs; there are benefits to data centers located in urban settings such as increased latency for downtown businesses (page 84).

**The hardest positions to fill** at CRE companies include those related to practice/division leadership, talent management and research, while healthcare benefits for part-time employees are becoming more prevalent (page 24).

**To stay hip and retain** their Class A brand, many landlords are being forced to make capital expenditures earlier than previously budgeted (page 12).

**Unified commerce moves beyond** omnichannel retail, centralizing elements of the consumer's personal transactions in one place, providing current locations and costs of desired items, and more (page 14).

**Will video games be the next** great urban entertainment anchor? Esports is a broad category that includes multiplayer video games played by professionals in front of spectators in seated arenas of 15,000 to 30,000 square feet (page 20).

**Property disputes can be resolved** with a partition action, which requests that the court order a sale or division of a property when fellow owners disagree (page 32).

### Most Popular From Summer 2018

**1) "Retrofitting Tysons: From Edge City to Walkable Urban Place"** (www.naiop.org/18tysons, page 56).

**2) "Setting Up a Private Equity Real Estate Fund, Part 2"** (www.naiop.org/18equityfund2, page 36).

**3) "Coworking Spaces With Child Care Services"** (www.naiop.org/18coworkingchildcare, page 12).

**4) "Construction Costs Outlook"** (www.naiop.org/18constructioncosts, page 10).

**5) "The Distillery North: Passive House Apartments in South Boston"** (www.naiop.org/18distillerynorth, page 76).

**The Experience Index** quantifies that the right design can result in great experiences. By focusing on five modes (task, social, discovery, entertainment and aspiration), the Index helps understand the intent and expectations behind a person's visit, leading to design that satisfies the user (page 34).

**Networked electric vehicle** charging stations for landlords capture continuous data that can later be analyzed about who, when, where and how much energy is being used, and set limits on use to avoid "demand charges" levied by utility companies during peak-use hours (page 56).

**Under the Superfund law,** purchasers of properties on which hazardous substances have been released can avoid liability for those releases through inquiry before purchase (page 48). ■

# Real Estate Demand From Cybersecurity Firms

## A growing industry creates a major capital opportunity.

By Kevin Imboden, John Redeker and Elisa Konik, Cushman & Wakefield

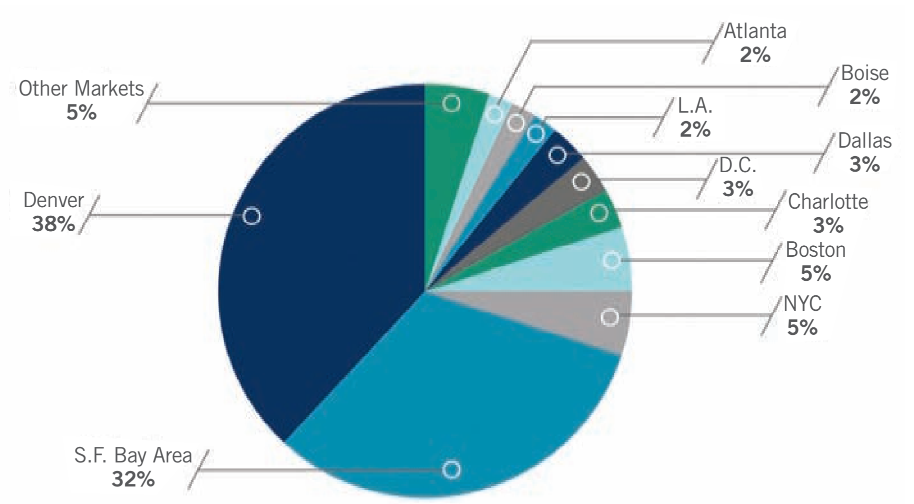
EACH DAY, THE world creates 2.5 quintillion bytes of data, with 90 percent of all existing data created over the past two years alone, according to IBM. With more of the world population's business and personal lives being stored and logged online, the need for cybersecurity has never been more urgent.

As of 2017, just under 750,000 people in the U.S. were working in the cybersecurity industry, with more than 286,000 unfilled positions in technically and financially driven states such as California, Texas, Florida, Virginia and New York, according to CyberSeek. These locations match the major cybersecurity employers and investment targets in the San Francisco Bay Area, Washington, D.C., New York City and Dallas markets. Much of this demand centers around two areas: network maintenance and administration, and the design and development of cybersecurity systems. A recent study by DataTribe cofounders **Robert Ackerman** and **Mike Janke** reported that the number of cybersecurity engineers and analysts in the Washington, D.C., area is 3.5 times bigger than the rest of the U.S. combined.

The year 2017 saw a major increase in leasing to cybersecurity companies across the country, with 1.4 million square feet signed for over the past year, 1.2 million of which involved new leases. This was a big increase over 2016, in which the sector secured just under 800,000 square feet. In 2017 it represented 2 percent of the more than 49 million square feet of space leased nationally.

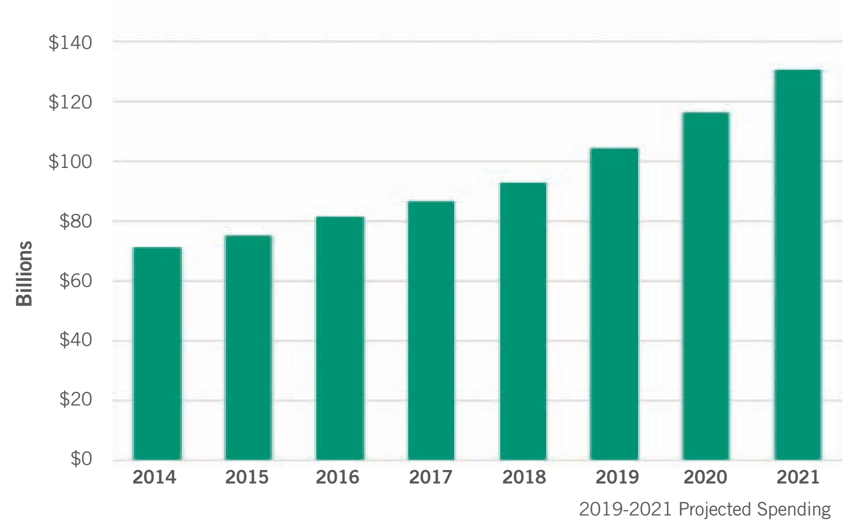
Of the 1.2 million square feet of new space taken nationally, more than 800,000 square feet was throughout the San Francisco Bay Area, in neighborhoods such as the Financial District and SoMa in San Francisco, Santa Clara, Redwood City, and both the downtown and near-airport neighborhoods in San Jose. The Washington, D.C., area was a distant second, with more than 132,000 square feet

### 2017 Cyberscecurity Venture Capital Funding by Location




*Source: Cybersecurity Ventures, Cushman & Wakefield Research*

### Total Spending on Cyberscecurity Products and Services




*Source: Gartner, Cybersecurity Ventures* leased in 2017, followed by Detroit, Dallas and New York City.

The six largest individual leases were for office space in the Bay Area, where Okta signed for more than 207,000 square feet at the Norges Bank- and Kilroy-owned 100 First Plaza in San Francisco. It was the year's largest lease for the cybersecurity sector, following up on the company's IPO earlier in the year. Okta planned to move into the new space in July 2018 and occupy it for 10 years. Gigamon renewed and added onto its space in Santa Clara for a total of more than 151,000 square feet, while Sonicwall took nearly 75,000 square feet in Milpitas.

Cybersecurity companies in these markets are prioritizing lease flexibility and scalability as they occupy more space to accommodate their growth. As a result, developing and employing an effective real estate strategy has become vital to the success of new leases across different markets.

The continued and future importance of cybersecurity remains an attractive opportunity for both investors in the sector and those who lease space to the industry. ■

By **Kevin Imboden** (kevin.imboden@cushwake.com), director, data center advisory group; **John Redeker** (john.redeker@cushwake.com), senior associate and lead, cybersecurity advisory; and **Elisa Konik** (elisa.konik@cushwake.com), chair, emerging technology advisory, Cushman & Wakefield

Note: This column is adapted from "Cybersecurity: A Major Capital Opportunity," Cushman & Wakefield Research, April 2018.

# Tenants Ponder: Should I Stay or Should I Go?

**To keep buildings hip, landlords are making capital expenditures earlier than budgeted.**

By Spencer Levy, CBRE

THE CEO OF a large national office landlord recently revealed that tenant renewal rates at the company's properties dropped to 35 percent from a historic norm of approximately 75 percent. Are renewal rates declining more broadly across the CRE industry? Having confirmed this trend with many landlords and tenant representatives on the ground in major markets, CBRE is contemplating why this is happening and what should be done about it.

## Why the Change?

The overarching reason for this change is that companies today view real estate as more of a strategic asset than simply a place with four walls to keep out the rain. Employers see modern workplace design as a competitive advantage to attract hard-to-find highly skilled workers. Despite rising rents, taxes and other occupancy expenses, the cost of real estate relative to the overall cost of labor is very low. Even in the most expensive markets like New York and San Francisco, real estate represents about 9 percent of a business' total operating costs.

With a current overall national unemployment rate below 4 percent and a rate that is near or below 2 percent for highly skilled workers, tenants are open to doing whatever it takes to attract and retain talent. This push among employers to be in the best locations and offer the best office experience has caused many Class A buildings to lose their luster more quickly than expected, with landlords making capital expenditures in tenant and common areas years earlier than previously budgeted. It is also calling into question the definition of "Class A" altogether, as areas such as the Arts District in Los Angeles, Fulton Market in Chicago and the Third Ward in Milwaukee are taking old industrial properties and creating new "Class A" buildings and neighborhoods that attract the most sought-after tenants.

To be clear, not all companies are moving upon lease expiration to the newest and trendiest places in their markets. There is a clear split between old-school industries like law, accounting, finance and government (which are responding slowly to the office evolution movement) versus new-school industries like media, information and technology (which were early adopters) in terms of the degree to which they are adopting these changes. Cities like Washington, D.C., that have a heavy concentration of old-school industries will likely see more short-term disruption to the stability of office tenancies as they play

Spencer Levy

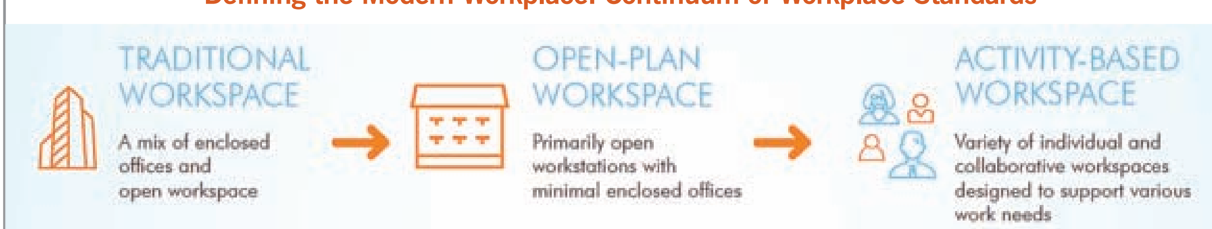
catch-up versus cities with a preponderance of new-school industries that have already changed.

## Considerations for Landlords and Tenants

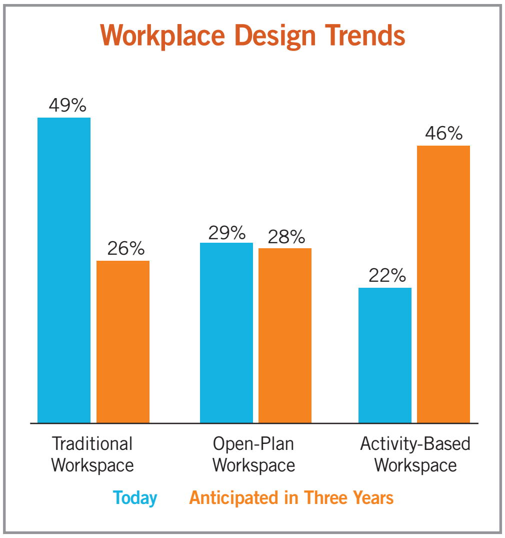
What can landlords do about the decline in property loyalty? The simple answer is to focus on the basics of property management. According to CBRE's 2018 Global Tenant Survey, 78 percent of tenants say that timely responses by property managers have a strong or very strong impact on their decision to renew a lease.

For employers, creating an "agile" workplace is very important for retaining employees. In theory, "agile" means work environments that enable individuals to be productive as well as recharge their batteries in a variety of locations, both in the tenant suite and throughout the building. The

**Defining the Modern Workplace: Continuum of Workplace Standards**




*Source: Americas Occupier Survey Report 2018*




*Source: Americas Occupier Survey Report 2018*

good news is that while some of these buildouts are permanent and capital-intensive, many offerings, such as hospitality and "wellness," are not. Wellness amenities particularly get lots of bang for the buck. According to CBRE's 2018 Americas Occupier Survey, the availability of wellness amenities such as fresh food and thermal comfort jumped in importance among 49 percent of tenants in 2018, up from 34 percent in 2017. The key to making the most of these agile workplace solutions is to focus on "change management," the process of going from the old workspace-based design to the new activity-based design.

The final and $10-trillion question (the total value of the CRE industry in the U.S.) is that while these changes are proving to attract and retain the best talent, will they make employees more productive? To answer this question, one must look from the groundbreaking workplace studies conducted by Max Weber almost 100 years ago to the current studies carried out today by CBRE and others. But for now, let's go with the agile, activity-based workplaces as the environments that will increase the attraction and retention of tenants and employees. ■

By **Spencer Levy**, Head of Research, Americas, Senior Economic Advisor, CBRE

# New & Noteworthy

## 3.1 million sq. ft.

The master development team of **Hines, Urban Atlantic** and **Triden Development Group,** in partnership with the **District of Columbia,** is redeveloping the former Walter Reed Army Medical Center as **The Parks at Walter Reed,** a 66-acre community that will include 3.1 million square feet of **mixed-use development,** with 190,000 square feet of retail space, 325,000 square feet of office and medical space, 20,000 square feet of creative and cultural uses, and a hotel/conference center, in both renovated historic buildings and new construction, plus more than 20 acres of open space. The first two new buildings, The Brooks and The Vale, will include approximately 390 for-sale and rental residential units plus 18,000 square feet of retail space. Construction on the first two redevelopment projects, which will provide affordable housing for veterans and seniors, began in June 2018, as did an on-site event series.

## 2.7 million sq. ft.

**DHL Supply Chain** has broken ground on a new **logistics park** in **Fort Worth.** Designed to serve future e-commerce customers, **Elizabeth Creek Gateway Industrial Park** will contain three buildings totaling more than 2.7 million square feet. Phase I will include two buildings, both of which will offer 36-foot clear height ceilings, LED lighting and freeport tax exemption. These include a 706,000-square-foot building with 100 dock doors and 194 trailer stalls, plus a 494,000-square-foot building with 70 dock doors and 126 trailer stalls. Both are expected to be complete by the end of 2018. The completion date for the third 1.5 million-square-foot building has not yet been determined.

## 1.35 million sq. ft.

**Lincoln Property Company** and **Harvard Investments** have been chosen by the Mesa City Council to develop 28.2 acres of city-owned land in **Mesa, Arizona,** as **Union,** a four-building, 1.35 million-square-foot **office complex.** The L-shaped buildings will range in height from four to eight stories and from 225,000 to 450,000 square feet. Interiors will feature large open floor plates and high ceilings. An on-site garage will offer a five-spaces-per-1,000-square-foot parking ratio. The buildings will surround a pedestrian plaza with multiple water features and shaded gathering spaces, which will connect to Riverview Lake directly to the south. Construction of the first building is expected to begin in 2019.

## Unified Commerce: The Future of Retail?

**Big data and integrated cloud-based retail platforms enable retailers to provide customers with seamless, secure, personalized shopping experiences, both in stores and via computers and mobile devices.**

By Julie D. Stern

SOON AFTER THE slow but steady rise of e-commerce began, "omnichannel retailing" appeared on the scene. The omnichannel strategy involves retailers maintaining both brick-and-mortar and online presences and enables shoppers to purchase or return goods in a store, online or by phone. Many retailers embraced this cross-channel strategy in the early part of the 21st century: online-only retailers began adding physical storefronts or kiosks where shoppers could order goods to be delivered directly to them, whereas traditional big box retailers like Walmart and Home Depot added online presences that enabled shoppers to order goods for delivery or in-store pickup.

A new term, "unified commerce," goes beyond omnichannel strategies. As shoppers increasingly expect a seamless cross-platform experience, unified commerce platforms are emerging that enable retailers to improve the customer experience and facilitate purchases and returns from anywhere and everywhere. The concept is simple: all shoppers, whether they chose to purchase or return an item in person or online, should have a seamless, secure, personalized purchasing experience.

Cloud-based unified commerce platforms like Microsoft Dynamics 365, PredictSpring and Amazon Web Services – which use a network of remote servers connected through the internet to store, manage and process data – enable retailers to deliver these customized consumer experiences. These platforms can, for example, enable customers to see current prices and inventory availability at all times from their smartphones, laptops or other devices. Customers can also access records of their past purchases, returns and exchanges, whether they conducted those transactions online or in a store.

Unified commerce platforms can also help retailers increase sales by presenting a customer who has searched for a particular item with examples of similar or related items, as well as promotional items. This capability can also be adapted to the in-store shopping experience: a sales associate can view a customer's "wish list" or past purchases on a tablet or other mobile point-of-sale device and guide the customer to those items and related products in the store. In this way, the unified commerce platform can connect a customer's online and in-store shopping experience.

Finally, unified commerce platforms can provide real-time sales and inventory data that retailers can use to make decisions about pricing, staffing and stocking stores and fulfillment centers as well as about real estate needs, including which stores and fulfillment centers to expand, downsize or close. Although some large retailers have been collecting and analyzing this data on their own for years, the cost savings provided by cloud-based data platforms now enable many more retailers to do so.

According to Boston Retail Partners' "2018 POS/Customer Engagement Survey," "The new customer engagement model centers [on] a personalized, holistic experience that is channel-agnostic – in other words, unified commerce. According to the firm's survey of 500 top North American retailers, 28 percent of respondents have already implemented unified commerce strategies, and 81 percent expect to do so by the end of 2020." ■

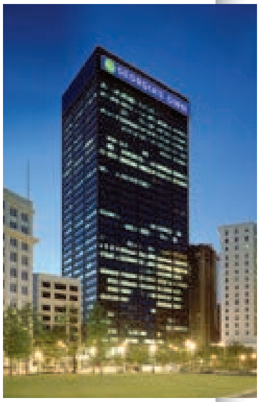
By **Julie D. Stern,** freelance real estate writer and former managing editor, Development

# New & Noteworthy

## 1 million sq. ft.

**Waterstone Properties Group Inc.** has broken ground on **Rock Row,** a 1 million-square-foot **mixed-use development** being built on the site of the former Pike Industries Quarry near **Portland, Maine.** Designed by Wakefield Beasley & Associates, the 100-acre project will, at full buildout, include 400,000 square feet of office space, including a 100,000-square-foot medical and wellness campus; 450,000 square feet of retail space, including shops, restaurants, a movie theater and concert venue, and a 25,000-square-foot indoor/outdoor food hall; and 750 apartments. A network of walking, biking and running trails will connect Rock Row with the quarry and additional trail networks in the surrounding community. The first tenant, Market Basket Supermarket, is expected to open in summer 2019.

## 620,000 sq. ft.



**Zeller Realty Group** is transforming **100 Peachtree,** an iconic **office building** in downtown **Atlanta,** with upgraded amenities, the city's first digital building-top signage, enhanced connectivity and new community programming. The 620,000-square-foot building's lobby will feature new outdoor gathering spaces, soft seating, an interactive screen and public art installations, while an amenity hub on the 18th floor will contain a conference center, tenant lounge and upgraded fitness center. A 174-foot-long digital sign will display tenant Georgia's Own Credit Union's logo, as well as community-oriented messages, beginning in early 2019.

## 540,000 sq. ft.

**Biomed Realty** is developing **Dexter Yard,** a new 540,000-square-foot **mixed-use building** in **Seattle**'s South Lake Union neighborhood. Designed by SKB Architecture and Design and scheduled to open in late 2020, the 15-story building will consist of a pair of 175-foot-high towers and will include 515,000 square feet of lab and office space above approximately 25,000 square feet of ground-floor retail space and below-ground parking. A pedestrian through-block passage will offer access to the retail spaces, elevator lobbies and an open gathering space while also serving as a pathway to the South Lake Union neighborhood and Lake Union. The project is being marketed to tech, biotech and life sciences companies.

# How to Future-Proof the Workplace

**Interior design driven by how employees use their space, rather than by general workplace trends, will produce more effective, productive workplaces.**

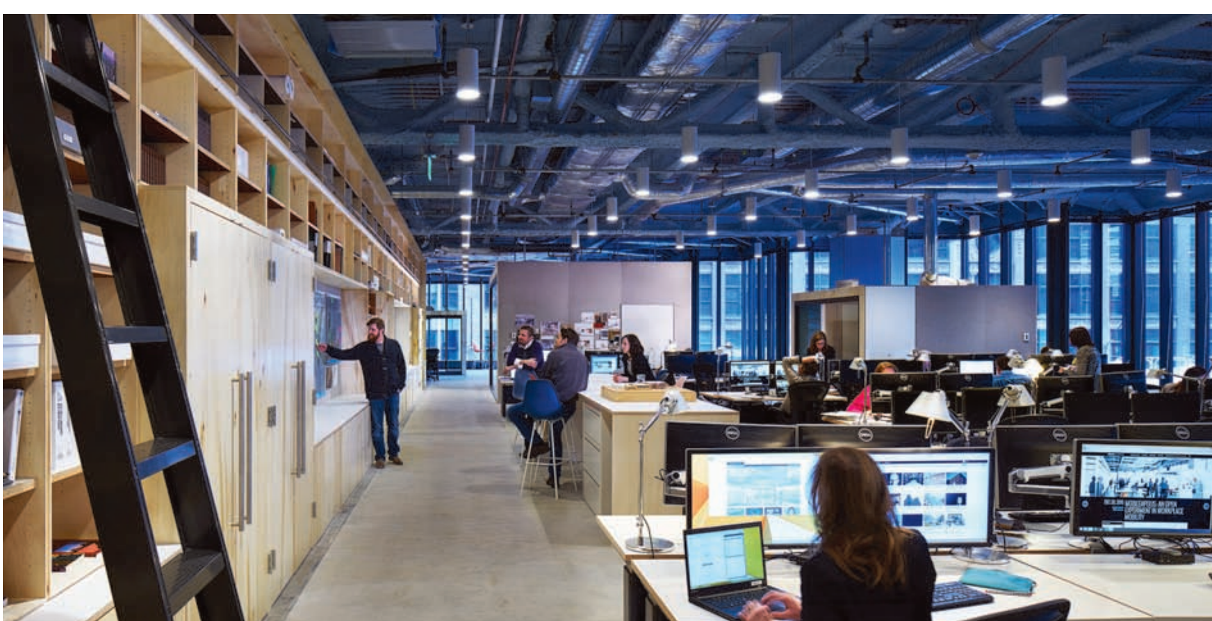
By Janine Grossmann, Fellow ARIDO, LEED AP ID+C, Perkins+Will

ARCHITECTS AND interior designers who focus on workplace design are constantly asked what the next big trends will be. This question is challenging because the term "trends" implies that the big thought of today will expire and quickly be replaced by the next thought of tomorrow. Recent workplace trends have included hot-desking, hoteling, dedicated or nondedicated workstations and agile delivery or free address. All of these strategies have their merits, but no silver bullet exists for every company. Companies therefore should not proceed like lemmings to follow the latest trend or idea. Design should be driven by data, not trends. A one-size-fits-all approach to design should not override the specific needs of a business.

To help guide clients' decisions about their future workplaces, Perkins+Will's Corporate Interiors team developed Indicator, a benchmarking tool that captures and displays salient metrics from more than 200 workplace projects across all industries. When visualized, Indicator data – which range from average density, to the ratio of private office seats to workstation seats, to the balance of "me" versus "we" spaces – offer a snapshot of current workplace design trends. Given ongoing bottom-line pressure to design effective and efficient workplaces, Indicator helps designers guide clients with quantitative data about what their peers are doing.

Janine Grossmann

In the midst of the Information Age in the early 2000s, Perkins+Will used program information and stakeholder interviews to inform design decisions. This information often contained biases and may have been limited because it came, for example, from a project steering committee made up of only executives.



**StudioIDS, the new home of Perkins+Will's Minneapolis office, combines functional and playful elements to meet employees' changing needs and ideas. The office uses fewer walls, less fixed furniture, simpler materials and no assigned seating, offering employees more opportunity for choice, creativity and collaboration.**

*Photos courtesy of Perkins+Will*

To ensure data integrity and more balanced representation, multiple evaluation methods are now used – including employee surveys (pre- and postoccupancy), in situ analysis, interviews, visioning sessions and all-staff workshops – amounting to thousands of data points for further analysis. This information helps Perkins+Will's Workplace Strategy team dig deeper into how people interact with the built environment.

For example, in 2017, the company partnered with Leesman, a London-based workplace research firm, to study Perkins+Will's New York, Minneapolis, Chicago and Seattle offices. Faced with expiring leases, in 2016 Perkins+Will moved its studios in Chicago, Minneapolis, and Seattle, while the New York office underwent a renovation. Designing these four spaces challenged Perkins+Will to take bold steps to improve its workplace effectiveness. While each project had its own unique set of drivers, collectively, all those involved with the redesigns strove to design each location to facilitate collaboration, enable choice, promote health and well-being, and optimize sustainability

To establish a link between the design and business performance, a workplace-effectiveness survey was issued to employees in the four offices. Those responses were measured against the database of more than 400,000 global respondents from a variety of industries, allowing Perkins+Will to understand how its employees felt about their environment.

As a result of this process, not only did employee satisfaction levels increase after they settled into

# New & Noteworthy

## 250,000 sq. ft.

**Federal Realty Investment Trust, Grass River Property** and the **Comras Company** have begun redeveloping **CocoWalk,** the iconic retail center in **Miami**'s Coconut Grove district, as a **mixed-use complex.** Their plans include a new 85,000-square-foot office building and 20,000 square feet of ground floor retail space on the eastern side of the complex. Demolition began in May 2018; the completed 250,000-square-foot project, which also includes a major remodel of the property's west side, is expected to deliver in the fourth quarter of 2019. At its center will be an open-air courtyard with cafe seating, water features and native foliage.

## 190,000 sq. ft.

**Ridge,** the industrial arm of **Transwestern Development Co.,** and **Principal Real Estate Investors** are building **Capital Distribution Center,** a 190,000-square-foot **distribution center,** on the 11-acre site of the former printing facility for the Army Times in **Springfield, Virginia.** Located near the intersections of Interstates 95, 395 and 495, the facility will provide convenient access to the entire Washington, D.C., region. The rear-loaded building will have a 32-foot clear height ceiling, 64 dock doors, 50- by 43-foot column spacing, ESFR fire suppression, and parking for 22 trailers and 196 cars. It is slated for delivery in the first quarter of 2019.

## 62,000 sq. ft.

**Rendina Healthcare Real Estate** and **Bristol Hospital** broke ground in May 2018 on **The Bristol Hospital Ambulatory Care Center,** a 62,000-square-foot **health care facility** in downtown **Bristol, Connecticut.** The facility, which will be owned and managed by Rendina, will be occupied by the hospital's multi-specialty group, which provides cardiology, endocrinology and diabetes, neurology, orthopedics, rheumatology and urology services. The building's design blends medical and retail architectural elements, including a two-story atrium with a cafe. The project is expected to open in late 2019.

**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.**

# A Look Ahead

At its New York office, Perkins+Will's open plan functions as a living space for innovative workplace features, such as this treadmill desk, that the firm promotes for its clients.

## Using the Leesman Index

**Leesman measures employee experience** with the Leesman Index, a global business intelligence tool that captures feedback on how employees feel about their work environment. Through surveys, they are asked to rank the importance of activities such as conducting individual focused work at a desk or having adequate space to spread out paper and materials. Then they are asked to indicate how well the workplace supports each activity, ranging from "not at all supported" to "very well supported." If high-priority activities are very well supported, the company scores high on the Leesman Index. Each company's responses are compared to the responses of other leading organizations across all industries.

### Methods

Perkins+Will convened experts in design, strategy and research to conduct pre- and post-occupancy evaluations for its New York, Chicago, Seattle and Minneapolis offices using the following tools:

- The Leesman Index, a confidential, standard workplace effectiveness survey that measures how offices support their employees and compares results to a database of close to 400,000 global respondents
- Custom surveys, interviews and observation studies
- Key business metrics such as operating costs and client engagement to assess office performance

### Sample Post-Occupancy Results From the Leesman Survey

**Employee Satisfaction, Performance and Productivity.** Satisfaction of Perkins+Will employees was rated at more than 90 percent for activities ranked most important, such as the ability to meet both formally and informally and to collaborate on creative work. Interviews confirmed an appreciation for the variety of workspaces and the ease with which new technologies supported performance and productivity. Says one New York employee, "The ability to draw directly on a screen that can be viewed in and out of the room has allowed us to communicate more seamlessly with our clients. They can see us drawing, which [creates a] more meaningful conversation."

**Planning and Design Outcomes.** In Perkins+Will's new Chicago and Minneapolis offices, square footage per person decreased 17 percent. Despite this reduction, the number of unassigned seats within a range of settings increased. Operating costs decreased 11 percent overall from the previous year. The Minneapolis office saved $100,000 by reusing 65 percent of its existing furniture, including file cabinets, desks and chairs.

**Other.** Collectively, Perkins+Will scored 15 to 20 points higher than the Leesman Index in technology satisfaction, including in-office connectivity, audiovisual equipment, guest and visitor network access, and remote access to files and network. Post-occupancy evaluation responses confirm the effect of design on employees. For example, the Minneapolis office reported a 61 percent increase in a "sense of community" and a 62 percent increase in "energy/buzz." ■

the new workspace, but employee performance, productivity and overall business performance also increased. In addition, each office ended up looking completely different from the others, because the process produced design outcomes tailored to the specific needs of each studio.

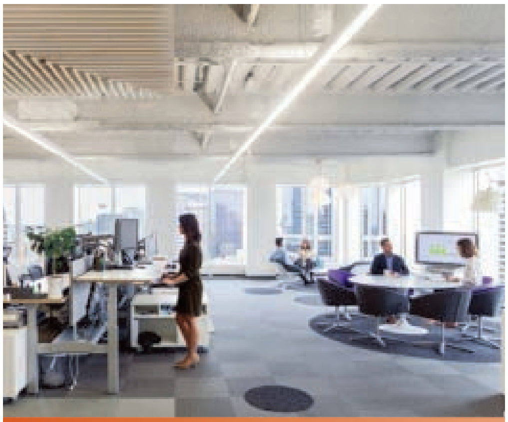
The Toronto office of Perkins+Will is also using the data-driven design process as it reimagines the design of its new office in downtown Toronto. The Workplace Strategy team began by surveying employees about real estate decisions, such as whether the office should be relocated. Employees also provided feedback on how design could authentically represent and showcase culture, and they voiced opinions on office features that would allow teams to work more efficiently.

Findings from these information-gathering exercises yielded significant evidence for future investments. For example, because data revealed that the office was unoccupied 40 percent of the time, the team concluded that the office could decrease its real estate footprint, thus affecting the bottom line over time.

On the basis of employee feedback, the Toronto office will implement a free address strategy, which will offer employees the freedom to choose their work setting every day. The office's 80 staff members will have the option to choose from 175 different places to work within the office, each with its own levels of technology, privacy and collaboration.

The Toronto team is currently piloting the free address program in its existing office suite. Data from the pilot will provide additional information about productivity that will be used to inform the office redesign. The program will also help with the change- management process by enabling employees to get comfortable with this new way of working before they occupy the new space.

In short, companies don't just want beautiful boardrooms to impress clients. They are looking to develop



**Perkins+Will's Seattle office showcases the firm's dedication to creating healthy and sustainable environments. The open floor plan allows staff members to work at automated standing desks with expansive views from every workstation.**

interior spaces that can transform their business performance, improve productivity, increase employee satisfaction and, ultimately, create a healthier and happier workplace. ■

By **Janine Grossmann,** Fellow ARIDO, LEED AP ID+C, corporate interiors principal, Perkins+Will

# New & Noteworthy

## 324 acres

**Bright Realty** has broken ground on **The Realm at Castle Hills,** a 324-acre **mixed-use development** in **Lewisville, Texas,** just 15 minutes from Dallas/Fort Worth International Airport. Phase I, Offices at The Realm, a nine-story building with 235,000 square feet of office space above 15,000 square feet of ground-floor retail space, is scheduled to deliver in mid-2019, along with Crescent Park, which will feature shaded seating, event space, a water feature and more. Groundwork has also begun for Phase 2, a 260-unit multifamily complex above an additional 35,000 square feet of retail space, which is expected to deliver in mid- to late-2020. Situated on the site of the former Bright family ranch, the project will also feature an extensive trail system.

## 171 units

**Berkeley Investments** is nearing completion of **The Graphic,** the largest modular construction project in the Boston area. Designed by Icon Architecture, the **transit-oriented development** will include 171 apartments in two buildings, approximately 4,000 square feet of retail/restaurant space and 113 parking spaces. The development, which is located across the street from an MBTA station in **Charlestown, Massachusetts,** includes the adaptive reuse of the Graphic Arts Finishers building as well as a new four-story podium being constructed with 129 modular boxes, each of which is 60 to 65 feet long, weighs between 30,000 and 35,000 pounds, and takes only about 20 minutes to be lifted into position. Residents are expected to begin moving in in October 2018.

## 37 units

**Paramount Assets** is transforming the former United Women's Garment Workers' Union headquarters in **Newark, New Jersey,** into **William Flats,** a four-story, 37-unit luxury **apartment building** with 12,000 square feet of ground-floor retail space. The adaptive reuse project's eco-friendly design is focused on bringing "green" elements into an urban setting, including an open-air courtyard with a two-story vertical garden. When completed in October 2018, the studio, one- and two-bedroom apartments will feature 12-foot ceilings, hardwood floors, high-efficiency heating and cooling, and integrated video surveillance intercoms. Amenities will include a secure package room, recreation room and gym. ■

# Esports Arenas Have Entered the Game

## Will professional video gaming be the next great urban entertainment real estate anchor?

By Adam Ducker, RCLCO

ELECTRONIC SPORTS, or "esports," is a popular global pastime that has experienced massive increases in consumer interest in recent years. Revenue from esports has expanded at a compound annual growth rate of 36 percent since 2014 and is forecast to continue posting double-digit growth through 2021, when it is expected to exceed $1 billion, according to Statista. Viewership has also demonstrated rapid growth, expanding at a 13 percent compound annual growth rate since 2014, with forecasts for more than 500 million esports viewers by 2020.

To date, only a few dedicated esports arenas exist. Most are repurposed 15,000- to 30,000-square-foot buildings. As the market continues to expand, additional demand for esports arenas is likely, presenting global development and adaptive reuse opportunities – particularly for arenas anchoring existing and new large mixed-use entertainment districts featuring complementary retail, hospitality and multifamily housing uses.


**The Los Angeles Gladiators compete against the Shanghai Dragons at Blizzard Arena in Los Angeles in February 2018.**
*Photos courtesy of RCLCO*

### What Is Esports?

Esports is a broad category covering competitive multiplayer video games played by professional video game players, for spectators' enjoyment, during regular season and tournament league games. Teams are generally organized by game title and geographic region. They practice regularly, have one or more coaches and are supported by sponsorship, prize money, traditional sports team owners and other revenue streams.

Live esports games, moderated by professional commentators and overseen by referees, are frequently broadcast simultaneously via multiple channels, including game-publisher websites and live video streaming platforms such as Twitch and YouTube. They also offer in-person viewing experiences at various large and small venues.

In 2017, fans watched billions of hours of esports games and additional content online, with nearly 1 billion hours of gameplay viewed across the five most popular games alone. Esports is a profitable endeavor, with 2017 revenues exceeding $500 million across the industry. Like viewership, revenue is increasing yearly at a double-digit pace, and the industry is forecast to exceed $1 billion in revenue by 2020. Revenue originates from a variety of sources but is primarily driven by sponsorship, with additional revenue streams from advertising, media rights, publisher fees and merchandise and tickets.

### A Driver for Adaptive Reuse

In the near term, esports presents a strong opportunity to drive adaptive reuse because many types of real estate can be repurposed into esports venues. To date, most dedicated esports arenas have been converted into gaming venues from a wide range of real estate product types, including casinos (Esports Arena Las Vegas), sound stages (Blizzard Arena in Burbank, California) and office buildings (NA LCS Battle Arena in West Los Angeles).

Other real estate product types, such as cinemas or warehouses, can easily be converted into esports venues given these facilities' straightforward

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requirements. These primarily consist of a fast, reliable, wired internet connection for the players, Wi-Fi service for guests, ceilings high enough to install multiple large video screens for the audience, seating space, dedicated areas for concessions and merchandise, and additional space for training and practice, pregame warm-ups, one-on-one sessions with coaches, team storage and other team uses.

Given the global popularity, current low fan density and fragmented fan base among dozens of game platforms and tournaments, most regular season games attract a live audience numbering only in the hundreds or low thousands of attendees. Thus, smaller venues with a capacity from 500 to 5,000 and ranging in size from 15,000 to 30,000 square feet are ideal in the near term to host regular season games. These allow operators to maximize arena use and revenue-generation opportunities while minimizing periods when the venue is idle. Regular season games at some venues sell out regularly, even with dozens of games a week.

The decline of traditional retail creates the potential for esports to repurpose vacant mall and other retail sites into dedicated esports arenas.

## New Development Opportunities

A handful of ground-up development projects have either been completed or are under construction globally as dedicated esports arenas. These projects tend to be larger in scale, from 60,000 to more than 100,000 square feet, with a capacity for tens of thousands of attendees. The Chongqing Zhongxian E-Sports Stadium in Zhongxian, China, which seats 20,000, opened in late 2017. Because current esports games require minimal playing space for the team, they do not need a large court area.

Future esports stadiums will feature significantly more video displays to broadcast current games and replays. They'll be dispersed throughout the arena, including in hallways, concession and merchandise areas, and restrooms, along with displays embedded in the exterior glass curtain walls of the venue.

New ground-up esports arena development may also include space dedicated to postproduction activities. A single esports match generates a significant amount of video and advertising material. Dedicated space for a postproduction team of editors and commentators, as well as a marketing team, will be a natural extension of arena development. Given the minimal size and operational requirements for video postproduction, it is logical for new arena development to consider dedicated space for postproduction teams, in addition to space carved out for more traditional complementary uses, such as media boxes for journalists.

## Real Estate Entertainment Hubs

Some esports games involve shorter matches running only a couple of hours, with certain sports, such as Overwatch League, offering multiple back-to-back games in an arena in a single day. Other game formats can run six or eight hours, or even longer. Either format results in a fan base that lingers for extended periods of time at the arena, and fans commonly leave their seats and meander throughout the venue.

From a real estate perspective, the long engagement period at esports events creates exciting opportunities for consumer engagement. Similar to a traditional sports venue, an esports arena can act as the anchor of a broader mixed-use district, serving as a catalyst for significant additional real estate development nearby.

Potential complementary uses surrounding an esports arena include retail, primarily restaurants; hotels for visiting teams and fans; and multifamily housing for fans who wish to live near an arena. Other complementary uses include live music venues with local or national bands playing before, during or after an esports game, as well as movie theaters that could offer another entertainment option for fans waiting for their team to play. A movie theater could also present esports highlights, replays or even entire games from previous tournaments and playoffs, maintaining fan engagement and providing additional food, beverage and merchandise opportunities. Esports venues can even program space for casual (nonprofessional) players within the broader arena or entertainment district.


**Overwatch League fans watch the Los Angeles Valiant compete against the San Francisco Shock at Blizzard Arena in Los Angeles in February 2018.**

## The Future of Esports

To date, most esports competitions consist of players seated in a row in front of computers, playing a multiplayer video game. As technology improves, the line between traditional and electronic sports will continue to blur. Regardless of the game format, esports is a popular and growing entertainment option, and arenas hosting esports events will provide real estate development and adaptive reuse opportunities for years to come. ■

By **Adam Ducker**, managing director, RCLCO, aducker@rclco.com

This article is condensed and adapted from an RCLCO report, "E-Sports Arenas: Are Video Games the Next Great Urban Entertainment Anchor in Real Estate?"

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# Competition for Talent Heats Up

## Commercial real estate companies face big challenges in attracting and retaining exceptional professionals.

By Christopher Lee, CEL & Associates, Inc.

THE COMPETITION AMONG real estate companies for talent heated up dramatically in 2017. The "2017 NAIOP/CEL Commercial Real Estate Compensation and Benefits Report" reveals that demand for transformative leaders, next generation stars who could "lead" a division, department or practice over the next 10 to 20 years, has created a bidding war for exceptional talent.

### Three Executive Positions Hardest to Fill

The three positions garnering the most attention were focused around leadership, knowledge and talent: Division/Department/Practice leader, Talent Management leader and Director of Research.

The number of firms working to identify and hire Division/Department/Practice leaders was acute. Real estate firms recognize that visionary leaders who create aligned aspirations and inspire great performance from others are very hard to find. Tenure and longevity alone do not automatically create a true leader.

The second position in high demand was Talent Management leader. The cornerstone for success in every real estate firm is the quality of its talent. The number of firms elevating the leader of talent management, formerly called the human resources director, to a C-suite position accelerated over the past 12 to 24 months. However, finding individuals who can create a highly productive workplace environment is proving to be a challenge heading into the second half of 2018.

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### 2017 Benefits Trends

Listed below are some of the trends revealed by the "2017 NAIOP/CEL Commercial Real Estate Compensation and Benefits Survey."

**Medical, Dental and Vision Coverage**

The number of companies offering health insurance for part-time employees rose 5 to 7 percentage points.

The number of companies offering medical savings plans/health savings accounts (HSAs) increased 6 to 7 percentage points.

The number of smaller companies (those with 50 or fewer employees) offering vision plans increased by 8 percentage points.

**Other Insurance Coverage**

Overall, the number of firms offering supplemental long-term disability insurance rose by over 4 percentage points.

The percent of the premium covered by the company, however, declined by 2 to 4 percentage points.

**401(k) Plans**

The number of smaller companies offering "immediate" vesting increased by 8 percentage points.

**Other Benefits**

The number of smaller companies offering a formal full-time "business casual" dress code policy rose 8 percentage points.

The number of public companies offering tuition reimbursement benefits increased by 7 percentage points.

The number of firms offering an off-site fitness subsidy rose 4 to 5 percentage points.

The number of smaller companies offering on-site workout facilities increased by nearly 5 percentage points.

The number of companies offering subsidized training/professional development increased 7 to 10 percentage points.

The number of firms offering paid or subsidized membership in a professional organization rose 6 to 9 percentage points.

**Measures Used to Reduce Medical Coverage Costs**

The number of companies that increased their deductible declined over 4 percentage points overall; for public companies, it declined by nearly 15 percentage points.

The number of firms that increased their out-of-pocket maximum declined 5 percentage points overall; for public companies, it declined by nearly 13 percentage points.

**Overall Medical Insurance Costs**

(Annual Combined Medical and Dental)

**Employer Cost**

Full-time Employee: Rose by nearly 2%.

Employee + 1 Adult: Rose 5%.

Employee + Family: Rose nearly 5%.

**Employee Cost**

Full-time Employee: Rose 14%.

Employee + 1 Adult: No Change.

Employee + Family: Declined nearly 2%.

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The third position in high demand is Director of Research. Real estate companies increasingly require a robust research function that enables one's firm to differentiate its brand and create a competitive advantage. Real estate research is no longer just about collecting data; it is all about interpretive research and predictive analytics that can create the most value.

## The Biggest Challenges

One of the biggest challenges facing real estate firms in 2018 is how to deal with a multigenerational workforce. The ability to navigate between and among generations (from the silent generation and baby boomers to Generation X, the Millennials and the emerging Generation Z) can be very difficult. Each generation has different perceptions, opinions, and expectations of title, compensation, work, communications, benefits, work/life balance, transparency, technology and policies. Juggling the diverse needs and expectations of four to five generations in the workplace is a requirement now.

From training to business practices, to internal communications to empowerment, expectations and needs vary widely between generations. Clearly, one policy or procedure "for everyone" does not work. Flexibility, adaptability and accommodation are key strategies to successfully navigate and manage a multigenerational workforce.

A second major challenge, which began in 2014/2015 and accelerated in 2017, involves the inclusion of more associates/team members in long-term incentive programs. Formerly reserved for a few top executives and the "deal team," long-term incentives are becoming more commonplace for the second and third levels below the C-suite. From enterprise stock programs, phantom promotes, B-shares, share appreciation and performance units to profit sharing, real estate firms are increasingly recognizing the value of locking in the next generation stars and aligning the interests and motivations of the entire leadership team.

The perfect storm of growing demand for exceptional talent, rising compensation expectations, a multi-generational workforce, and an accelerating number of "boomer" retirements makes competition for talent one of the top priorities for real estate firms. Retaining and motivating next generation leaders and stars is critical to achieving a strategic and competitive advantage. ■

By **Christopher Lee,** president and CEO, CEL & Associates, Inc.

## "Worth Repeating"

### Sound Bites from NAIOP's I.CON: Industrial Conference, June 7-8, 2018, in Jersey City, New Jersey:

"I see enormous potential for the reuse of shopping malls. The current trends include transforming malls into warehouses, data centers and inventive, experiential retail uses." **Stuart Lichter**, *president and founder, IRG*

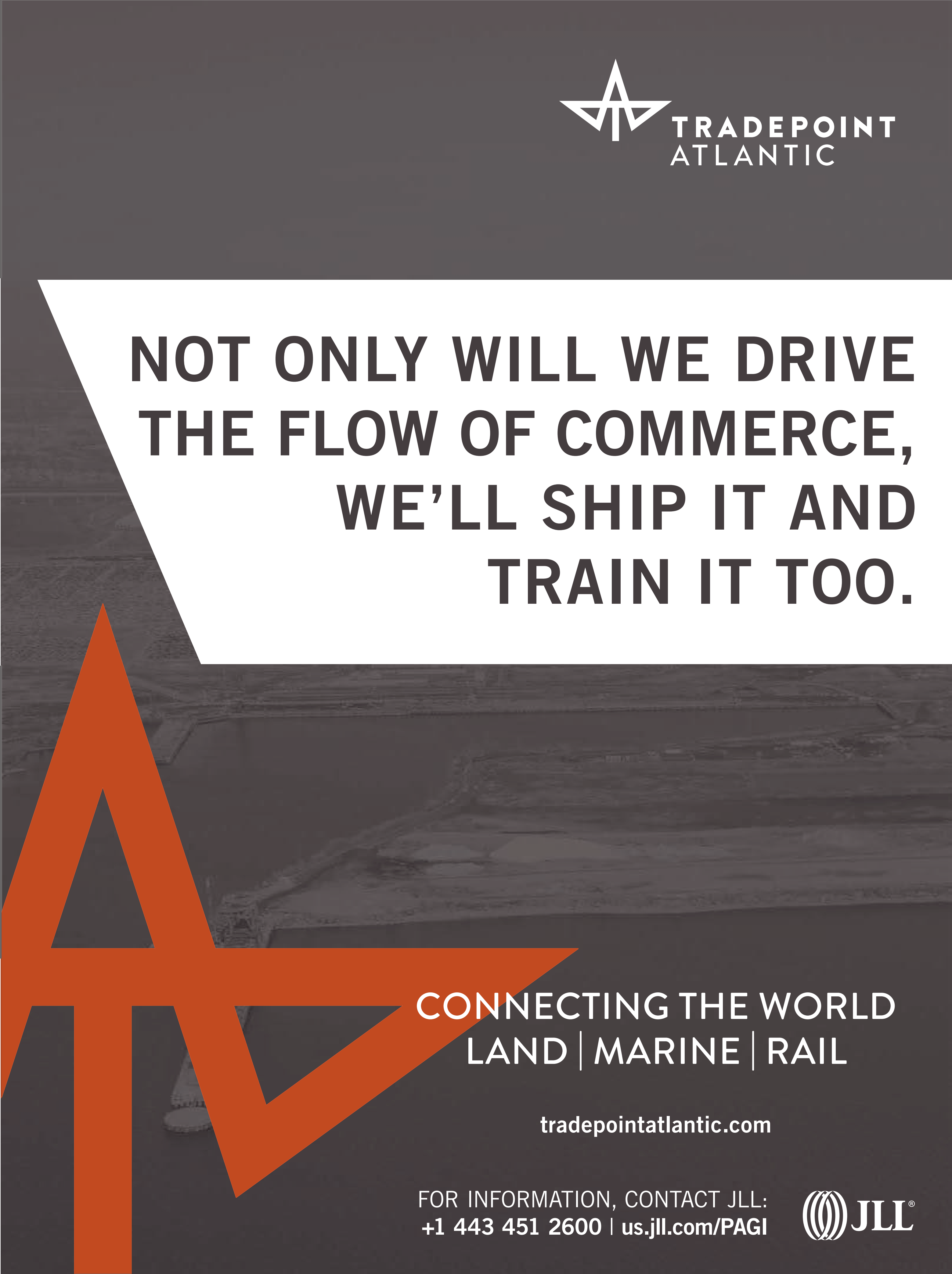
"Industrial tenants are increasingly considering their surrounding area's labor supply. The labor skill-sets required for current industrial uses are diverse and no longer cookie cutter. What makes one site a home run for one type of tenant could be disastrous for another. Landlords need to understand the tenant's labor needs as well as the labor supply." **Laura Sidney**, *senior director, client strategy and labor analytics, CBRE, Inc.*

"Rent growth for urban infill warehouses will continue, as there is a battle for speed to market. In other words, how quickly can I get a product in the final customer's hands? If a company moves closer in to an urban area and thereby reduces transportation costs, they can pay more for warehouse rent." **Gary Anderson**, *CEO Europe and Asia, Prologis*

### Sound Bites from NAIOP's National Forums Symposium, May 1-3, 2018, New York City:

"What it [coworking] does for my portfolio is it gives me the flexibility to ramp up quickly when I need it and to get in and out of space quickly when I need it. That's not something that traditionally the real estate business allowed." **Frank Cuevas**, *vice president, global real estate strategy and operations, IBM*

"Bird is the hot new startup [in terms of electric scooter sharing]. They raised $100 million in a series B round [of financing], and that was twice the size, at twice the speed, of what Uber raised. It's really interesting, because scooters have basically the same effect [as Uber]. They allow you to basically traverse the city much faster." **Greg Lindsay**, *senior fellow, connected mobility initiative, NewCities* ■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# CEO on Leadership:
## Daniel J. Moore, President and CEO, Rockefeller Group

**The president of this New York City-headquartered real estate firm applies lessons learned in the military, business school and two decades in the industry.**

By Ron Derven


Daniel J. Moore

ALTHOUGH THE NAME Rockefeller Group is immediately associated with New York City, where the firm is headquartered, its national footprint encompasses 300 professionals in eight U.S. offices. In the past 10 years, it has developed more than 11 million square feet across multiple markets and product types. Today, it has the largest development pipeline in its history, totaling 17 million square feet of office, residential and industrial projects planned or underway. It also is one of the biggest office landlords in Manhattan, where it has ownership interests in 6 million square feet of Class A property.

**"As a young lieutenant, you learn early on the precept that 'officers eat last.' Literally, this means you make sure all your troops have gotten their meal before you get in line for yours. Philosophically, it's a mindset of taking care of your people, making sure they have the resources to do their job and prioritizing their needs above your own."**

*Daniel J. Moore*

**Daniel J. Moore** is president and CEO of Rockefeller Group. He leads the company's strategy and business initiatives and oversees the strategic direction and growth of the company's office, residential and mixed-use development portfolio throughout the United States. He joined the company in 2016 as executive vice president and head of urban development.

Before joining Rockefeller Group, Moore spent 16 years with Houston-based Hines in various positions of increasing authority in New York, Connecticut and Washington, D.C. During his tenure at Hines, his responsibilities included office and residential development, capital markets and investment management, as well as marketing and leasing.

***Development:*** *What is your primary role as CEO?*

**Moore:** My first job is to create an environment and culture where our teams are motivated and empowered to bring their best effort every day, one where people are able to apply their unique talents and contribute to our long-term growth. From a practical perspective, that means communicating a vision and strategy for where we want to go as an organization, taking the best of our nearly 90-year history and bringing it forward to grow our business across geographies and asset classes.

***Development:*** *What leadership qualities do you bring to the job from your time serving in the U.S. Air Force?*

**Moore:** As a young lieutenant, you learn early on the precept that "officers eat last." Literally, this means

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**“Two of the most important qualities I look for are critical thinking ability and cultural fit. Of course, a person has to have the business acumen and technical skills, but those are more common among a group of highly qualified candidates.”**

*Daniel J. Moore*

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you make sure all your troops have gotten their meal before you get in line for yours. Philosophically, it's a mindset of taking care of your people, making sure they have the resources to do their job and prioritizing their needs above your own.

***Development:*** *What are some of the things you have discovered that you're not very good at?*

**Moore:** Earlier in my career, as a development project manager, I figured out that interior design – selecting colors and fabrics – is not my greatest value add. I know what I like, but I also know that my personal preferences don't really matter. What matters is what the market wants and values. So I learned to rely on the research and thinking of our in-house design and development teams and the outstanding designers and consultants we work with.

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

**Moore:** Two of the most important qualities I look for are critical thinking ability and cultural fit. Of course, a person has to have the business acumen and technical skills, but those are more common among a group of highly qualified candidates. People who can determine the right issues to focus on and are high-quality thinkers, intelligent risk takers, are much more rare. At Rockefeller Group, the right cultural fit means we want professionals of the highest integrity who are passionate about real estate and not just creating financial value, but improving communities and people's lives through their work.

***Development:*** *What was one of the biggest mistakes your company made?*

**Moore:** Like a lot of companies, we invested too much capital at the top of the last cycle. While time, effort and creativity helped many of those projects eventually succeed, we're still working on a few of those 2007 vintage projects. In an effort to not repeat the same mistakes, we make sure that we're keeping an eye on the broader economy, labor market and real estate capital markets – not just the local rent, vacancy and supply-and-demand trends. Our investment committee spends a lot of time discussing downside scenarios, risks and potential mitigation strategies.

***Development:*** *Looking out three to five years, what do you see on the horizon that will affect the industry? What is Rockefeller Group doing today to prepare for those challenges?*

**Moore:** It's longer than three to five years, but the aging of the construction labor force is a structural problem for the real estate development industry. We're not attracting enough young workers to replace the skilled tradespeople as they retire. We've got to better communicate to the next generation the opportunities for a financially successful and personally rewarding career in construction industry trades of all types.

***Development:*** *What is the best advice you have received over the course of your career in real estate?*

**Moore:** In any negotiation, try to avoid simply saying "no." Whether it's a tenant, a joint venture partner or anyone you're negotiating with, work to identify an alternate solution or dig deeper to find out the motivation behind someone's request. Ask lots of questions and listen more than you talk. Many times, if you get to the root of what the other party needs, you can bridge the divide. But if you have to say "no," say it for a legitimate reason, not just because saying "yes" would be difficult or inconvenient.

***Development:*** *What advice would you give someone entering the commercial real estate industry today?*

**Moore:** This goes back to cultural fit. If you can, find an organization that aligns with your personal values. Working at a place that doesn't fit with your personality or values is a recipe for being miserable. Even if you love what you do, work can be a grind sometimes, and you want to be surrounded by people who will grind it out with you.

***Development:*** *Did you have a mentor early in your career? If so, what did your mentor teach you?*

**Moore:** I've been lucky to have had a handful of senior people give me great advice at crucial times over my career. Most of the time, I was smart enough to listen. More broadly speaking, one lesson I've learned in my career is that you can be tough on issues but still be good to people.

***Development:*** *How do you de-stress?*

**Moore:** My best outlets are spending time with my family (my wife and I have three sons) and exercising. I recently put a Peloton bike in our basement, and now I'm addicted to it. It's a great way to start the morning and get your head right before the day takes off on you. ■

By **Ron Derven,** contributing editor, Development

# Agree to Disagree: Resolving Property Disputes with a Partition Action

**A written agreement in place from the outset can avoid most potential problems.**

By John Vukmanovic, Esq.

TWO BROTHERS, Bill and Tom, inherited an apartment building from their parents. The older brother, Bill, took the reins and oversaw management and accounting – except accounting wasn't his forte. Bill's idea of accounting was using a pencil and paper, and over time he stopped sending statements to Tom. Eventually, Tom got fed up with the lack of communication but didn't know what to do.

It's common for family members or business partners to co-own residential and commercial property. Unfortunately, it's also common for them to have a dispute over the property because of disagreements about long-term objectives, accounting, maintenance costs, renovations, mismanagement and much more. Such a dispute might be over the use or management of the property, or it might be an unrelated personal dispute in which co-owners want to go their separate ways. Whatever the cause, parties often reach a stalemate when trying to reach a resolution on their own.

## Types of Partition Actions

Owners should be aware that they have a right to file a partition action, which requests that the court order the sale or division of the property. The courts employ two types of sales options: partitions in kind and partitions by sale. The judge has discretion regarding which to proceed with, but generally speaking, a sale is the more popular route. If one is dividing up land, such as farmland or a multiacre lot, a partition in kind may be ordered. But a partition by sale is typically the outcome because physically splitting up an apartment building, for example, is impossible. In a sale, the entire asset is sold, and then the proceeds are divided according to what the court has ruled each party should receive.

This process sounds fairly straightforward except that myriad factors come into play when determining how to divide proceeds from the sale. In the opening example, the court will need to determine if Bill adequately managed the property and appropriately accounted for dozens of items, including the following:

- **Rent.** Did Bill account for all incoming rent? Was the property rented out at market value, or did he rent it at "mom-and-pop" rates?
- **Mortgage and property taxes.** What was paid out?
- **Maintenance and renovations.** Were updates made and how were they paid for? Did Bill pay out of his personal funds or the property funds? Have the renovations increased the property's market value? If so, by how much?
- **Cash collections.** For example, did the property have a coin-operated laundry room? How much was Bill collecting, and was Tom's portion distributed?

Because there is no statute of limitations for a partition (assuming one hasn't waived it), the court will do what's fair and assess records and information as far back as needed. Often, a designated expert such as an appraiser or forensic accountant will get involved to review records and determine values.

John Vukmanovic

## The Process

Here's how a partition proceeds, step by step:

One party files a complaint – yes, a partition is considered a lawsuit. If a co-owner is uncooperative or nonresponsive, the complaint tends to get that co-owner's attention.

Once the complaint is filed with the court, a *lis pendens* is recorded with the county recorder's office and serves as notice of the litigation, placing a cloud on the title. Essentially, potential buyers, lenders and so on are notified of the dispute. A *lis pendens* also may prevent the defendant co-owner from selling or encumbering the property.

The lawsuit is served, and the other side typically has 30 days to respond.

The lawsuit may settle quickly, with the party being sued saying, "Happy to buy out the other side; let me arrange financing." But the party suing can also say, "No thanks," because that party wants to see what the other side has been up to.

If the suing party does turn down the buyout offer, the lawsuit moves into discovery, where an assessment is conducted to determine the status of the financials, including accounting records, receipts, invoices, property tax bills, leases, checks deposited and so on.

At some point, there may be a deposition if either party thinks it is necessary to gain further information or identify misconduct.

If a deeper dive is required, this is when accounting experts step in and conduct their own analysis. Depositions of those experts typically take place in the days or weeks approaching the trial.

Finally, the case goes to trial. Most California courts strive to get cases to trial within one year of the complaint's filing. That being said, partition actions rarely go to trial because the costs associated with attorneys, court-appointed referees and other items do not justify it, especially when it's already been determined who owes what to whom. If emotions take over, especially in heated family disputes, the process can of course drag out.

## Avoiding Disputes

The key to avoiding a property dispute is communication. If one party generally oversees the property, that person needs to communicate with the other parties regularly.

The quality of the communication is also important. Being transparent by providing complete monthly statements, invoices, receipts, cancelled checks and so on goes a long way to reassure the other co-owners.

A written agreement in place from the outset can avoid most potential problems; unfortunately, written agreements in family settings are almost nonexistent. In all co-owned properties, parties should have an agreement that spells out objectives for the property and respective responsibilities. ■

By **John Vukmanovic**, co-founder and partner, Delman Vukmanovic LLP, john@delvuklaw.com.

# Designing Spaces to Create Great Experiences

**A Gensler study quantifies that the right design can result in great experiences, which in turn are great for business.**

By Andy Cohen

TODAY, THE GOAL of every project that forward-thinking architects design is to give people positive experiences. Clients in every sector, including commercial real estate, are struggling to keep up with the dramatic evolution of how people work, live and shop today – and those who aren't are sacrificing business performance. To better understand – and to quantify – the link between design and delivery of a great experience, Gensler developed the Gensler Experience Index, a first-of-its-kind mixed-methods research approach to create a holistic Experience Framework for understanding experience and quantifying the effect of design on that experience.

The Gensler Experience Index is the result of a rigorous investigation that combined qualitative ethnographic research with quantitative research to identify the design factors that are most important in creating exceptionally great spaces and places. After several years, five roundtables, 60+ hours of one-on-one ethnographic observations and a survey of more than 4,000 consumers, the Gensler Experience Index quantifies and brings greater depth to what many in the design industry already knew instinctively – that great design is an important component of great experiences.

## Five Modes of Experience

How should commercial real estate developers and property owners focus on experience, and how can design help? The first step is understanding human intentions. A key finding of Gensler's research is that the reason people visit a space frames the type of experience they expect.

Are they there to pick something up and leave? Are they there to browse and be inspired or to grab dinner with a friend? Whether it's for a customer, an employee or a guest, design can be the differentiator between a good, bad or great experience.

Gensler organizes these intentions into five "modes" of experience: 1) task, 2) social, 3) discovery, 4) entertainment and 5) aspiration. These modes serve to help one better understand human behavior and expectations. This knowledge enables developers and designers to create better spaces, resulting in better experiences.

Whereas the five modes represent distinct user intentions and mindsets, that doesn't mean people stay in one mode during a given experience. The ability to switch modes easily is a key aspect of a great experience.

## Doing Everything, Everywhere

The lines between work, play and life have blurred, and these are no longer distinct activities. Places designed to accommodate multiple actions – from working to socializing to exercising and everything in between – are far more likely to offer great experiences.

Higher employee engagement has been shown to increase company innovation and business success, creating a strong business case for investing in workplace design. It's not

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## The Experience Modes

**TASK**

Task mode is when a user has something specific they are trying to accomplish. Users are typically very focused and direct.

**SOCIAL**

In social mode, people's main intention is engaging with other people. Social mode is frequently combined with other modes.

**DISCOVERY**

In discovery mode, people do not have a concrete plan. They are often killing time between other activities, and are likely to wander.

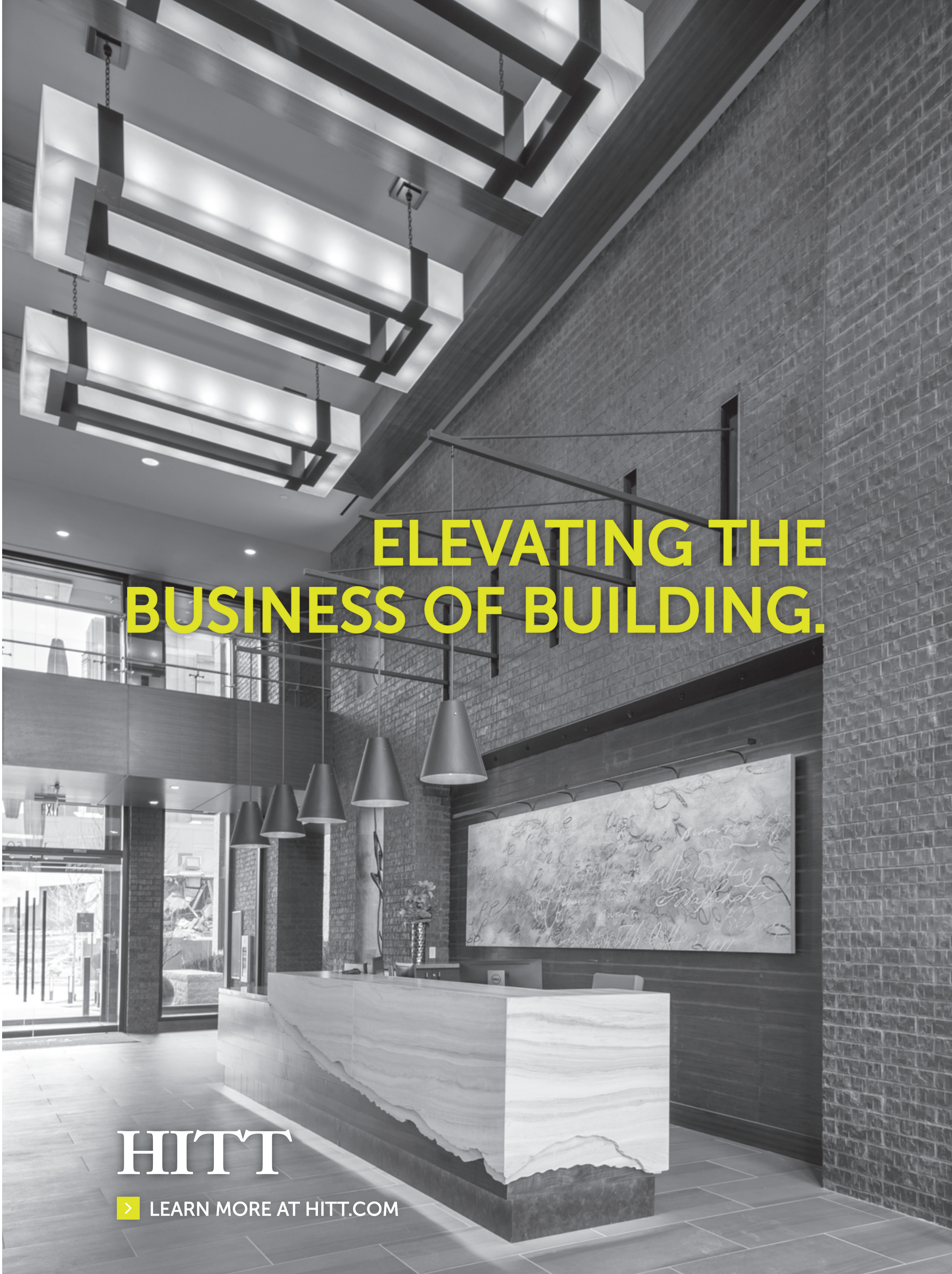
**ENTERTAINMENT**

Entertainment mode, describes the moments when people are looking to be enterained and brought away from "everyday life."

**ASPIRATION**

Aspiration mode describes the experiences through which users seek to grow, expand, or be connected to a larger purpose.

*Source: Experience Index, Gensler Research Institute*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### Activities in Each Type of Space

| RETAIL | | PUBLIC SPACE | | WORKPLACE | |
|---|---|---|---|---|---|
| Have Fun | 56% | Have Fun | 88% | Have Fun | 77% |
| Socialize | 65% | Socialize | 85% | Socialize | 65% |
| Seek Inspiration | 46% | Seek Inspiration | 68% | Seek Inspiration | 73% |
| Do Something Exciting | 44% | Do Something Exciting | 73% | Do Something Exciting | 62% |
| Take Time To Unplug | 44% | Take Time To Unplug | 73% | Take Time To Unplug | 65% |
| Take a Class | 14% | Take a Class | 25% | Take a Class | 55% |
| Try Something New | 49% | Try Something New | 74% | Try Something New | 72% |

*Source: Experience Index, Gensler Research Institute*

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enough to design a workplace for just work activities. A positive employee experience depends on well-designed spaces where employees can connect, unplug and be inspired. That means allowing and accommodating the "blur" of non-work activities that occur during the workday. Nearly all employees do non-work activities at work, and they report a better workplace experience as a result.

## Ignore Social Space At Your Peril

As people spend more time online, they increasingly seek places to connect in real life – and for good reason. Loneliness and social isolation have become recognized as health epidemics, spurred by a growth in social media and a concurrent lack of depth in social connection and communication. Gensler's data underscore both the prevalence and the importance of the social aspects of experience. People crave community, connection and belonging, and are seeking out places to connect.

This heightened need for interpersonal connection may mean allocating greater space specifically for that purpose and creating places that build community and interaction. Some of the biggest opportunities to improve may be at work.  While social spaces have been proven to boost both employee engagement and performance, companies and workers consistently undervalue the benefits of socialization to their overall work productivity.

## Six Design Factors

The relationship between a great experience and business performance is well documented – multiple studies have connected the overall quality of customer or employee experience to a company's long-term stock performance and growth. The measurable effect of design and physical space is, however, frequently left out of the equation, and most companies have no systematic approach to creating a differentiated strategy for creating customer, visitor or employee experiences.

To get to the bottom of this connection, Gensler explored the effect of specific design factors on experience. From among the 75+ design factors studied in the survey, six emerged as having the most significant bearing on experience: 1) beauty, 2) novelty, 3) authenticity, 4) clarity, 5) inspiration and 6) a sense of welcome. Importantly, these go beyond just functional factors; they are more experiential and speak to the overall impression a space makes on a visitor.

The potential effect is huge. For example, places with unique design features are dramatically more likely to be shared on social media and recommended to friends and family. Stores with unique features are shared 10 times more often, workplaces six times and public spaces three times.

The Gensler Experience Index also illuminated how careful design can directly and positively support people's unstructured time or "discovery" time. Nearly three-quarters of shoppers who visit a retail store without the intent to purchase end up buying something if the store's design is appealing. Additionally, employees who take time for breaks or to reflect are more engaged and have better workplace experiences. Businesses that don't invest in design are overlooking an opportunity to improve sales, to build consumer loyalty and to engage employees.

## The Future Is About Experience

The human experience must be the force behind the meaningful design of every space so that interactions, expectation and intentions – the elements that make up the Gensler Experience Framework – can come together to generate a meaningful encounter for each individual. ■

By **Andy Cohen**, Co-CEO, Gensler


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# Retail Leasing: Minimizing Time, Cost and Risk

**In lease negotiations, urgency trumps precision, and the need to accommodate the other side trumps the desire to get it all.**

By Ellen Sinreich, The Sinreich Group

THE VALUE OF RETAIL real estate is inextricably linked to the legal process of retail leasing. Without a lease and the resulting income, retail real estate doesn't have much value. Unfortunately, for many retail landlords (and tenants), the leasing process is a black box of unknowns. Opening up that box, so the process can be more effectively and efficiently managed, is essential to unlocking the full underlying value of each retail real estate asset.

Here are recommendations for retail landlords who want to manage the often-murky maneuverings that take place in the black box so they can maximize their certainty of success and minimize the time, cost and risk of achieving it.

## Speed and Accommodation

At its most basic level, the legal leasing process can be understood by imagining two intersecting axes of conflict that need to be traversed as the lease moves toward completion. The first axis represents the conflicts faced by both landlord and tenant between precision and urgency. The


Ellen Sinreich

need for precision can be likened to the need both parties have for adequate insurance. The conflicting tension comes from the urgency to get the lease signed, stemming from the reality that time kills deals.

The second axis represents the conflict between the desire of both parties to get it all and the need to accommodate the other side and pursue win-win solutions.

At a certain point in every transaction, the landlord and tenant must recognize that urgency trumps precision, and the need to accommodate the other side trumps the desire to get it all. When the transaction gets to this point, insisting on crossing those last two "t's" could jeopardize the deal.

## Use the Best Ingredients

Landlords have a lot of control over the ingredients that go into the lease negotiation. Using the best ones will expedite the leasing process. Scrimping and cutting corners will invariably slow things down.

The foundational ingredient is the tenant. Landlords are well advised to take the time – before starting lease negotiations – to make sure the

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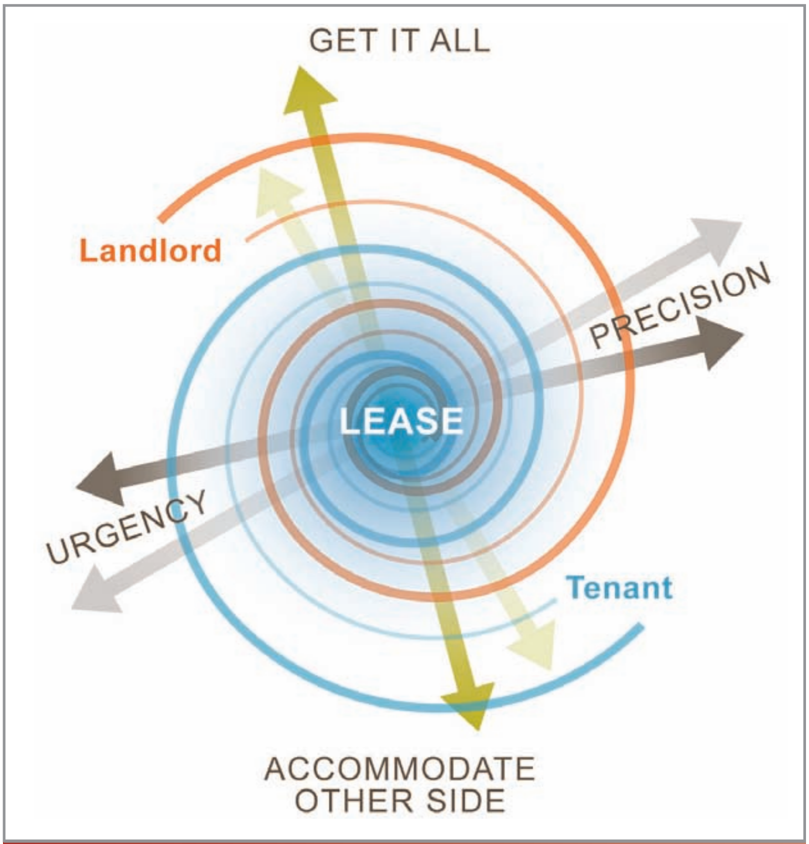
prospective tenant has the financial and operational wherewithal to be a successful tenant.

Second is the landlord team: experienced professionals, such as brokers and attorneys who can adapt quickly to changing circumstances and know how to get a deal over the finish line, are essential.

The next critical ingredient is the letter of intent. If that letter doesn't accurately reflect the key business terms or if the tenant doesn't really understand what they're agreeing to, negotiations will get bogged down, sometimes to the breaking point.

To avoid more pitfalls and delays, landlords should not start with a "dinosaur" lease, a cumbersome document that addresses every unfortunate landlord-tenant issue the landlord has ever dealt with.




The legal leasing process involves balancing many competing interests.

## Keep Negotiations in the Sphere of Reasonableness

Negotiating outside the sphere of what is reasonable wastes time and money. The boundaries will differ from lease to lease and in each case will depend on the relative bargaining power of the parties. The size of the sphere of reasonableness can vary from a pinhole (one of the parties can insist on getting it all) to an ocean (both parties need to compromise significantly to accommodate the other side).

For example, in negotiating a lease with a 100,000-square-foot anchor tenant, a landlord's insistence on complete control of the entire parking lot would be negotiating outside the sphere. But in the case of a 2,000-square-foot tenant in the same center, a similar demand would be an example of negotiating within the sphere.

## Vigilance in the Red Zone

When negotiations reach that critical inflection point where urgency trumps precision and accommodation reigns supreme, the landlord is working in the red zone. Just like a football team that has the ball near the other team's end zone, the deal can be so close, yet still so far from a touchdown – or a signed lease. When the negotiation is in the red zone, complacency and poor management can have radical implications, including a dead deal.

Examples of what can derail a lease in the red zone range from the franchisee tenant who "remembers" that its franchisor requires leasehold rights that are inconsistent with the almost-final lease to the promulgation of local regulations that impose serious restrictions on the tenant's permitted use.

Rather than shying away at this crucial point in the process, the landlord's team must embrace the negotiation (because they're close to finalizing the lease) and use it to their advantage. Armed with the knowledge that the tenant is now more likely to compromise, the landlord's use of teamwork, communication and speed will get the lease over the goal line. ■

By **Ellen Sinreich** (ellen@sinreichlaw.com), principal, The Sinreich Group

# Multistory Distribution: A New Asset Class

By Michael Bennett, LEED AP | Principal | Ware Malcomb

## From the Drawing Table to Reality

Over the past three years commercial real estate professionals have scrambled to address the disruptive changes of last touch, on-demand logistics. E-commerce and consumer demand for same day/door step fulfillment is driving this paradigm shift. The effect e-commerce is having is not a trend in commercial real estate, but rather an ongoing evolution of a cultural phenomenon. This shift is fueling the demand for close in, rentable square footage for decades to come.

In 2015, Ware Malcomb was challenged with designing a multistory distribution center in the Los Angeles Metro region. Momentum was building, and the challenge of identifying available land and maximizing rentable area was top of mind for commercial real estate professionals coast to coast. Ware Malcomb embarked on the wholistic design of a multistory prototype that would be consistent with a Class A, institutional grade industrial distribution center. Over the last three years, we continually refined the design with advice from developers, brokers, engineers, general contractors and capital markets. The prototype came into focus and is now a reality.

## A New Definition

The functional attributes of state-of-the-art, Class A, industrial grade buildings are well defined by commercial real estate professionals and end users, with only minor regional variables due to climactic differences and local construction practices. A multistory distribution building poses a new set of design, engineering, and construction challenges. Every design decision made during the evolution of this building type has been to meet Class A, institutional grade building features and functional attributes, while being mindful of costs and standard construction practices and limitations.

## Site Selection and Feasibility

Site selection is critical to the success of multistory facilities. We initially determined an 8-acre site was optimal, but real-world market conditions have proven that available land in highly urbanized, port related locations, with as-of-right zoning is challenging to find. While accommodating full size tractor trailers is preferred, facilitating sprinter vans and box trucks is what last touch facilitators require since the outbound and multiple turn capability is equally important as inbound. As a result, the building blocks of our prototype have been reconfigured, so a multistory building can be implemented on sites in the 4-acre size range. Sites smaller than 4 acres can accommodate multistory, but will rely on service by smaller vehicles, automation, and high-speed freight elevators for vertical circulation of goods.

Three-story, speculative multistory distribution center

## Functionality and the Future

For tenants to universally accept this new building configuration we cannot compromise functionality.  Market demand has changed several of our initial assumptions and design strategies. Among several design refinements, we have increased elevated floor loading requirements up into the 500-600 PSF range, optimized bay spacing, and increased ramp widths to accommodate truck queuing and bypass lanes. Maximizing rentable floor area is critical to support development costs. Since projects necessitate building to the minimum zoning setback dimensions, this triggers higher levels of fire resistive walls, structure, mechanical ventilation, and in many cases the high-rise requirements of the building code. This process of evolution and discovery has led to higher construction costs for these buildings to meet building codes to become reality.

The function of raised truck courts has evolved to integrate trailer storage, fleet vehicle parking, contract driver pick-up zones, and sprinter van and box truck loading. We are implementing creative uses of the roof area for green roofs, vehicular and trailer parking, as well as identifying future uses such as accommodating drones and flying delivery vehicles to future proof this new hybrid building type

Ware Malcomb is in full production on five multistory distribution buildings in multiple cities across North America, all in the 4-acre size range and scheduled for completion in the next 12-16 months. Leveraging our 22-office platform, Ware Malcomb's industrial leaders are constantly refining the multistory distribution prototype to increase the feasibility, functionality and long term real estate value of this new asset class.

**Michael Bennett, LEED AP**
Principal
mbennett@waremalcomb.com

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# How to Attract Institutional Capital Through the Development of Operating Guidelines

**Incorporating best practices for policies, strategies and procedures can make smaller developer-operators appealing to institutional investors.**

By John Mackel, ASA, CCIM, Moss Adams LLP

EMERGING INVESTMENT managers, such as smaller developer-operators building institutional capital sources – also known as "sharpshooters" – have been on a years-long surge in the U.S. growth economy. To help ensure continued success in attracting investment capital, now is the time for these firms to solidify their operating and reporting systems within a set of operating guidelines. (See "How to Attract Institutional Capital," Development, summer 2017.)

An article published by Prequin in January 2018 reported that real estate firms raised $109 billion in 2017. Even though this represents a decrease from 2016 fundraising levels, it still made 2017 the fifth consecutive year in which fundraising topped $100 billion.

**"Companies that are using or planning to use institutional capital can benefit from reviewing their internal systems for best practices and planning for 'what-if' property or market changes and downturns."**

*John Mackel*

If they do not take the time to draft and implement high-quality reporting and operating guidelines, many sharpshooters that have built institutional relationships during this economic upswing will likely be adversely affected when a downturn hits or new executives take over at their institutional investors. Companies with solid systems already in place will fare significantly better.

Companies that are using or planning to use institutional capital can benefit from reviewing their internal systems for best practices and planning for "what-if" property or market changes and downturns. For many firms, this involves implementing clear operating guidelines.

## Operating Guidelines

Operating guidelines aren't only for a CEO or CFO's benefit during strategy meetings and client reporting. They also serve a firm's marketing team, which understands that using these guidelines can be a selling point for gaining new capital sources.

Institutional investors also generally want their partners to use institutional-grade operating and reporting systems. While some investors will overlook weaknesses in this area if an investment manager has a long track record of superior performance, evaluating systems and instituting best practices can improve an already good relationship. It can also help investment managers avoid future problems.

Accordingly, the majority of successful real estate investment firms employ


John Mackel

a consistent behind-the-scenes tool: operating guidelines. These are a set of working documents comprising a firm's policies, practices and procedures, and incorporating operational and investment strategies.

Operating guidelines serve as a basic building block of success for any real estate operating firm, especially for an early-stage firm aiming to become a major investor-partner or a registered investment adviser. While some companies succeed without them, those companies are taking a risk, because potential partners and investment sources rely heavily on operating guidelines to assess a firm and move forward with capital decisions.

For companies already using operating guidelines, it may be time to revise and update these documents because of reporting changes as well as other institutional investment, finance and accounting changes.

## What to Include

Once a company chooses which reporting standards and approaches it wants to use, it's important to codify

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them in its operating guidelines. These can include the following:

1) A statement of objectives or an overview of process points and timing that specifies how each process is handled, providing checks and balances as well as a system that can be referred to in the event of staff changes, office integrations or other disruptions.

2) Quarterly or mid-year forecasting.

3) Asset management reporting practices.

4) Valuation processes for properties and investments, especially if a company is operating under net asset value reporting.

5) Development of a valuation committee with assigned roles and responsibilities.

6) Disposition or acquisition processes, including steps for solicited and unsolicited transactions.

Timing is essential when assessing what steps need to be taken to meet financial reporting deadlines. Listed below are some steps that may be overlooked or under-emphasized. A firm needs to carefully map out this process, which must include the following:

- External information gathering.
- Vendor setup and work flow.
- Internal review and feedback.

This process could include internal and external reporting that involves specific actions, such as model conversions, valuations, appraisals, asset repositioning and disposition planning.

## Accounting and Reporting Trends

Transparency, consistency and accuracy are essential when creating, revisiting or updating a company's operating guidelines. As companies strive to create stronger operating and reporting guidelines, certain trends emerge. More investment companies are adopting fair value reporting, as investment partners and their investors are pressed to report values that are more transparent. Many companies are increasing the frequency of their internal and/or external valuation from an annual basis to a quarterly one. Most larger companies are also alternating the external appraisal firm they use for annual valuations every three years.

**"More investment companies are adopting fair value reporting, as investment partners and their investors are pressed to report values that are more transparent."**

*John Mackel*

## Examples

The following examples illustrate various ways sharpshooters have used operating guidelines.

**A Residential Real Estate Development Firm With Private Equity Partners.** This real estate firm specializes in master-planned community and land development, including for-rent and for-sale single-family housing as well as multifamily projects and condo conversions.

Although the firm had successfully launched two funds already, it wanted to create a more diversified fund with the potential to attract pension-fund partners for the first time. Its effort to create operating guidelines focused on supporting institutional fundraising and establishing timelines driven by financial reporting deadlines for the following reasons:

- Engaging third-party appraisers.
- Reviewing appraisals.
- Finalizing reports.

**A Commercial Real Estate Firm Using Private Equity.** This owner of industrial, flex and office properties had successfully created two private funds. Prior to launching a third fund, the owner realized she needed to boost processes because of inefficiencies around financial reporting, including internal valuation processes and appraisal reviews.

New operating guidelines incorporated commonly accepted best practices for a fair value reporting framework as well as documentation of internal valuations.

**A Medical Office Private Equity Firm.** This company, which invests in and develops medical office properties, was launching its first fund – in acquisitions and redevelopment – and realized it needed to update and expand its internal systems. The effort to develop operating guidelines focused on several objectives, including the need to hire additional staff and provide them with the tools to assist with fundraising. The company also implemented new employee training and hired new staff for acquisition and asset management functions, which incorporated fair value exercises such as appraisal reviews.

Whichever road a company takes in adopting and implementing operating guidelines, doing so can produce valuable insights into improving current operations, establishing a strategy for growth and attracting new capital. ■

By **John Mackel,** ASA, CCIM, director and real estate valuation consulting group leader, Moss Adams LLP, john.mackel@mossadams.com

# Creditworthy Tenants Yield Financing Alternatives

**Nonrecourse credit tenant financing can be used to fund build-to-suit projects involving properly structured long-term net leases with investment-grade tenants.**

By Turkia Mullin, CBRE Capital Markets

REAL ESTATE CAPITAL markets are presently flush with cash, ready to underwrite build-to-suit (BTS) projects for creditworthy investment-grade tenants in long-term (preferably 20+ years) single-tenant net leases. If structured properly, a BTS transaction may enable a developer to leverage its position to attract eager capital, potentially funding the total project costs and maximizing proceeds in the subsequent sale of the project.

Often, developers compete to secure BTS opportunities for a fee, as a percentage of total BTS project costs. The total project cost includes all hard and soft costs associated with acquiring, developing and financing the construction of the project. The tenant improvement allowance may also be included in the total project costs.

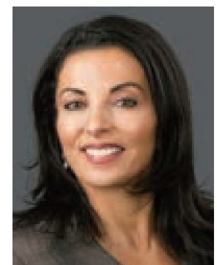
**"Depending on the situation, it is not uncommon for a developer to secure proceeds in excess of the total BTS development costs, based on the annual net rent."**

*Turkia Mullin*

The following example illustrates one scenario through which the developer accessed funding for the total project costs and sold the BTS development upon completion for a premium. In the sale, the premium the developer received was the difference between the lease constant applied to the total project costs and the cap rate at which the developer was able to sell the completed facility.

A developer proposed a 350,000-square-foot build-to-suit warehouse for Company A, an investment-grade company. Company A agreed to the developer's BTS proposal and entered into a 20-year triple-net lease. The company hired the developer to develop the facility at a predetermined lease constant of 8 percent of the total BTS project cost. In other words, Company A and the developer agreed on a factor (8 percent lease constant) multiplied by the total BTS project cost to determine the year-one annual rent under the lease. The developer's total cost to complete the BTS facility was $25 million. Therefore, Company A's year-one net rent was $2 million ($25 million x 8 percent lease constant).

Upon lease execution, the developer secured a purchaser who funded the construction and purchased the completed BTS facility for a premium. The developer sold the completed BTS facility, subject to the long-term lease, for $28.5 million ($2 million/7 percent cap rate = $28.5 million), 100 basis points less than the 8 percent lease constant off cost, resulting in a $3.5 million windfall to the developer.



Turkia Mullin

If the developer had already secured construction funding, it might have wanted to consider mitigating interest-rate risk during the construction term by obtaining a precommitment to sell the completed BTS development in the capital markets at a predetermined cap rate applied to the year-one net rent paid by Company A.

Some developers may prefer to hold the completed BTS project rather than sell it. Multiple capital financing alternatives may exist to leverage the long-term lease with an investment-grade tenant to potentially reduce the developer's equity requirements and enhance profits while enabling the developer to retain ownership of the completed BTS development. A nonrecourse credit tenant lease (CTL) loan could be used to fund a BTS project involving a properly structured long-term net lease with an investment-grade tenant.

A CTL loan could fund up to 100 percent of the total BTS project costs, at competitive long-term fixed rates, potentially enabling developers to maximize profits. Depending on the situation, it is not uncommon for a developer to secure proceeds in excess of the total BTS development

**“Buyers in the zero-cash-flow market are looking to recharacterize their taxable income into debt by acquiring highly leveraged assets subject to long-term leases with investment-grade tenants. ”**

*Turkia Mullin*

costs, based on the annual net rent. In this case, the developer would profit from the difference between the CTL financing proceeds and the “all-in” BTS project costs.

If using a CTL loan structure to finance the project, the developer should also explore the impact of a subsequent sale of the BTS leased property in the zero-cash-flow market to a zero buyer in the net-lease sector to generate an additional 10 to 15 percent in proceeds above the debt as part of the overall economics. Buyers in the zero-cash-flow market are looking to recharacterize their taxable income into debt by acquiring highly leveraged assets subject to long-term leases with investment-grade tenants. Rather than pay the taxes at the higher rate, zero buyers may pay a 10 to 15 percent premium over and above the debt on the asset they acquire.

In real estate, every deal is unique, and constituents are motivated by a diverse set of considerations. Developers who recognize the opportunities that may exist and can navigate BTS project financing scenarios will likely realize the best outcomes and maximize profits. ■

By **Turkia Mullin**, first vice president, CBRE Capital Markets, tmullin@cbre.com

# Cookie Cutter Environmental Diligence Doesn't Cut It Anymore

## It must be customized for each property.

By Tom Mounteer, Paul Hastings LLP

ATTORNEYS WHO provide environmental support for commercial real estate law practices often work with a wide range of buyers, sellers and lenders. Each of these clients has its own appetite for – and way of grappling with – the environmental liability risk that its deal presents.

Present-day environmental diligence is shaped chiefly by the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the federal statute commonly known as the Superfund law. Under that law, purchasers of properties on which hazardous substances have been released can avoid liability for those releases if they make "all appropriate inquiry" before their purchase and exercise "appropriate care" afterward. Federal rules define both concepts.

**"Present-day environmental diligence is shaped chiefly by the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the federal statute commonly known as the Superfund law."**

*Tom Mounteer*

Within this legal framework, however, how environmental diligence is carried out depends on the specific facts of the affected property and the parties' risk tolerance. A few examples illustrate how environmental diligence really has to be "tailor made" for each deal.

Tom Mounteer

### Industrial Site Redevelopment

One client's 2017 project illustrates exactly the type of redevelopment the exemption from Superfund liability was intended to encourage. The client planned to invest with a developer that intended to demolish about a dozen buildings formerly operated by a bankrupt stainless steel rolling mill and replace them with a very large (more than 250,000-square-foot) distribution center.

This type of redevelopment is a fairly typical beneficial reuse for sites with contaminated soils. Essentially slab-on-grade buildings cap and cover the soil, eliminating exposure and preventing precipitation from leaching soil contaminants into groundwater.

At the time the client was being asked to make its investment, the site's cleanup hadn't been completed. The last operator of the stainless steel mill had committed a lump sum toward the cleanup. The money ran out before the cleanup was completed, and the mill stopped operating. The attorneys' job was to determine what additional remediation the client's development partner would have to undertake, at what cost, so that the site could be safely used as a distribution center. After investigation, the client made the investment, and its development partner acquired the property.

### Different Tolerances for Risk

Another client asked for assistance in a less typical site reuse: the redevelopment of an actual Superfund site – one that had been placed on the federal National Priorities List of 1,300 sites in need of federal attention – for residences.

Beginning in the early 1970s, the site had been used for semiconductor fabrication. The prior operator stored chlorinated solvents used for cleaning and degreasing in more than 20 underground storage tanks, which had leaked into the ground over the years.

In this instance, the seller had addressed the site's environmental condition under the supervision of government regulators, who had ap-

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proved the site's reuse for residential purposes, subject to a number of environmental land use restrictions. The attorneys' job, then, was to help the client understand those restrictions and how to abide by them.

As long as it could get comfortable with the costs of complying with the environmental land use restrictions, this client was willing to accept the risk. Another client, who was buying a hotel property, was more tentative.

**"...how environmental diligence is carried out depends on the specific facts of the affected property and the parties' risk tolerance."**

*Tom Mounteer*

Preliminary diligence indicated that a service station, with underground fuel storage tanks, operated on the northwest corner of the hotel property. The best guess was that the fuel storage tanks had been removed sometime between the late 1960s, when the service station closed, and the mid-1970s, when the hotel was developed. Unfortunately, no reports were available documenting the tanks' removal. Even with the passage of decades, the client found the risk too great to be ignored.

One preferred approach would have been to escrow a portion of the purchase price to allow an investigation – and remediation, if one were deemed

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**"As long as it could get comfortable with the costs of complying with the environmental land use restrictions, this client was willing to accept the risk. Another client, who was buying a hotel property, was more tentative."**

*Tom Mounteer*

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necessary – to unfold systematically after closing. The parties didn't want to wait for that.

Instead, the client engaged a consultant to collect soil and groundwater samples. The client's obligation to close was conditioned on the results not triggering an obligation to report a spill to a government agency. Attorneys feared that the type of very limited detection sampling that could be carried out in short order would provide the parties with too little information to help them resolve the matter. They therefore proposed an escrow that would allow a more systematic investigation after the closing.

Fortunately, very low-level petroleum residuals were detected. The parties agreed to accept regulators' fairly informal determination that, given the concentrations of contaminants detected, there was no need for further investigation. The land sale closed.

## Shifting Perspectives

One final example shows how a client might have to shift its perspective over time.

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PRIME SIX | VAN BUREN II | VAN BUREN I

# SUCCESSFUL DEVELOPER MOSHE SILAGI CARVES OUT REAL ESTATE NICHE

Beginning with a single retail property in Thousand Oaks, Calif., Silagi Development & Management has expanded to develop high-rise, office, resort, and industrial projects from Hawaii to the East Coast. While completing some 160 projects, Mr. Silagi has developed a knack for acquiring properties with strong potential.

**Previous SoCal - Inland Empire Development**

Mr. Silagi developments include industrial, commercial and office projects in Ontario, Redlands, Riverside totaling approximately 1.1 Mil square feet. A single tenant 10-story office building encompassed 226,000 square feet constructed in Downtown Riverside, purchased by Riverside District Attorney.

**Current SoCal - Inland Empire Development**

**MS Northgate** consists of two buildings at Marlborough Avenue and Northgate Street with a mix of office, manufacturing and warehouse space. They encompass 63,045 square feet and 100% leased upon completion.

**Rustin Business Park** a class A development at Marlborough Avenue and Rustin Avenue consists of six buildings suitable for industrial, flex, manufacturing and distribution. With buildings ranging from 9,006 to 13,850 square feet totaling 73,216 square feet, the project is breaking Inland Empire records for sale and lease prices. Four buildings were sold within thirty (30) days of building completion.

**MS Alessandro Business Park** now under construction, a Class A 13 building project ranging from 5,458 to 21,907 square feet totaling 159,404 square feet at Meridian Parkway and Alessandro Boulevard. Four (4) buildings are pre-sold. Available for sale/ lease, completion Nov. 2018.

**MS Van Buren I Business Park** now under construction, a 4 building project ranging from 11,727 to 50,000 square feet one retail building of 8,000 square feet. The total project is 176,420 square feet. Each building is divisible up to 3 units or single tenant. Available for sale/lease, completion Aug. 2019.

**MS Van Buren II Business Park** is a planned project at Van Buren and Meridian Parkway will consist of nine industrial/showroom buildings and a retail center. Buildings will range from 7,180 to 27,378 square feet. The total project is 129,413 square feet and scheduled to break ground in November 2019.

**MS 215 Building Park** is a planned project at Old 215 Frontage Road and Alessandro Boulevard consists of seven buildings ranging from 12,399 to 26,356 square feet. The total project is 111,987 square feet and scheduled to break ground in 2020.

**Meridian Office Center I** at Meridian Parkway and Economic Drive is a two-story office building on 2.75 acres with excellent freeway access, abundant parking and state-of-the-art building systems. The total project is 32,450 square feet and available based on a built-to-suit basis.

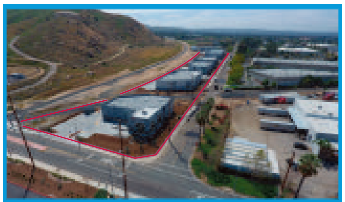
**Meridian Office Center II** is a two-story office building on 7.12 acres at Van Buren Boulevard and Economic Drive. The total project is 74,922 square feet with 6:1,000 parking available based on a built-to-suit basis.

*So Cal Representation: Lee & Associates Commercial Real Estate, Riverside, Industrial: V.P. Mario Calvillo, Office: S.V.P. Tom Pierik, S.V.P. Dave Mudge, & S.V.P. Rich Erickson, Independent: Julia Corona-Thompson.*


MS ALESSANDRO

MS 215

MS NORTHGATE



MS RUSTIN

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A few years ago, attorneys helped a client get comfortable with the environmental condition of an industrial park that had been developed on the site of a former aerospace manufacturing facility. The aerospace manufacturing operations had left a residue of solvents in the soil and groundwater. A prior owner had treated the groundwater for decades, under the supervision of a state agency, but had not yet achieved its cleanup objective.

Attorneys reviewed voluminous reports detailing the characterization of the groundwater contamination plume and the nature and status of the cleanup. A particular concern was that there be no risk of indoor air quality problems from solvents volatilizing from the groundwater into the site's buildings. Attorneys also assessed the strength of the indemnity to be assigned to their client.

A prior owner had retained the obligation to address groundwater conditions under governmental supervision. The prior owner's retention of responsibility was set out in a contract from which subsequent owners could benefit. Based on the information that was available on the groundwater remediation, and the prior owner's retention of responsibility for it, the sale went through.

**"A few of the sites were very close to areas where groundwater cleanup objectives hadn't yet been attained. The question this raised was whether what was an entirely reasonable cleanup approach on an industrial park-wide basis would be sufficient to address potential purchasers' concerns."**

*Tom Mounteer*

More recently, this client began to think about selling some of the tenanted buildings as well as some lots in the undeveloped areas of the industrial park. The client provided a sketch indicating potential development sites. A few of the sites were very close to areas where groundwater cleanup objectives hadn't yet been attained. The question this raised was whether what was an entirely reasonable cleanup approach on an industrial park-wide basis would be sufficient to address potential purchasers' concerns.

The industrial park, spanning hundreds of acres, had many groundwater monitoring wells. Any given development site, however, might have just one well, or perhaps none. The attorneys' hunch was that, when the client attempted to sell individual development sites, particularly those sites close to wells in which groundwater hadn't yet met the cleanup objective, prospective purchasers would insist on more sampling locations on the property they were considering buying.

Attorneys suggested that the client design and implement its own additional investigation of potential development sites. The client could design the investigations in accordance with good commercial practice and control the process. Then, when the owner marketed the lots, it would have effectively anticipated purchasers' likely concerns. The owner could produce data indicating either that the parcel's groundwater met regulatory cleanup standards or what additional work would be involved to achieve those standards.

The client, perhaps not surprisingly, decided to wait until it has some interested buyers before taking on that work. Because the client doesn't expect to market these development sites for several years, the results of this plan are as yet uncertain. What is clear is that the attorneys' advice has helped the client shift its perspective to the changed circumstances. ■

By **Tom Mounteer,** partner, Paul Hastings LLP, Washington, D.C., and professor, George Washington University Law School, tommounteer@paulhastings.com

### Typical Steps in Environmental Diligence

- Obtain and review existing environmental reports.
- Engage qualified environmental consultant.
- Conduct environmental site assessment.
- Review available tank and spill report data bases.
- Review title records for environmental liens or land use restrictions.
- Determine whether property has ongoing cleanup.
- Interview regulators.
- Determine if any contractual cleanup indemnities exist. ■

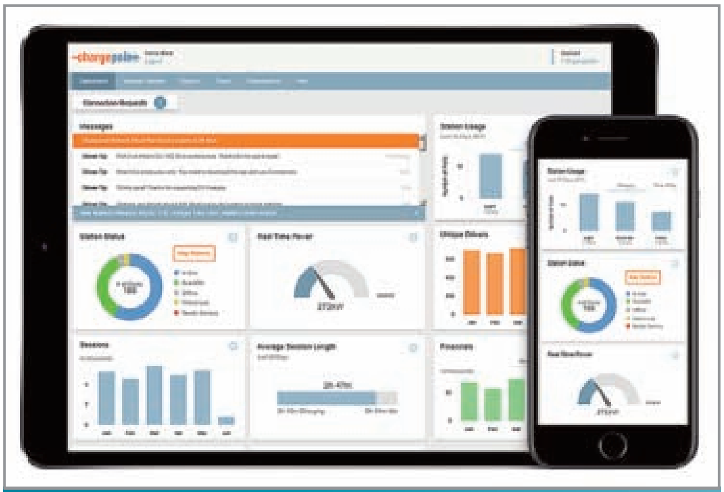
# Networked Electric Vehicle Charging Stations

**The answers to five simple questions reveal the benefits of these systems for businesses.**

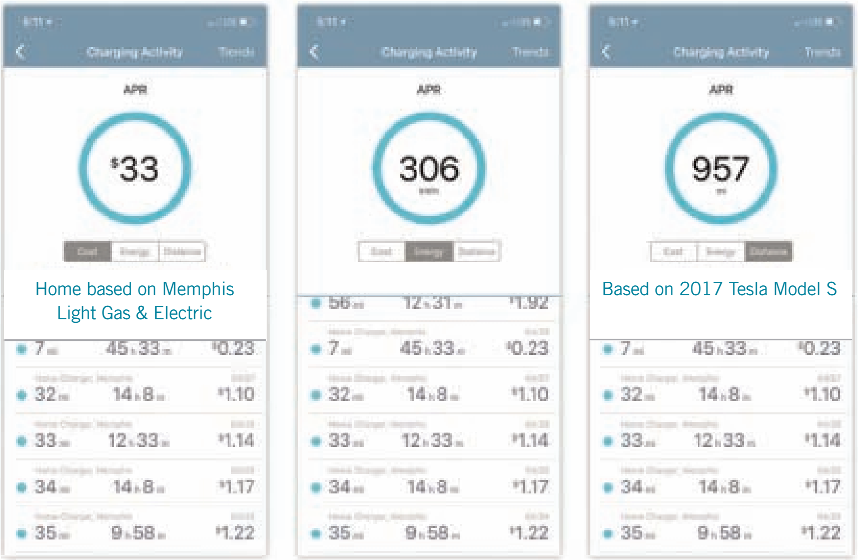
By Michael Jones, ChargePoint

NETWORKED OR "SMART" charging stations allow all types of properties, including office buildings, shopping centers and multifamily communities, to connect EV charging stations to a network. This system can benefit property owners of all types who want to install more charging spots without installing a new transformer, shopping center or store owners who want to set a fee for charging after people are done shopping, or multifamily communities that need to track residents' energy use.

Non-networked chargers can be cheaper upfront, but will cost more in the long run when they have to be replaced with upgraded systems. Here are a few key questions to ask to determine whether networked EV charging stations are the smart choice for your property.



The ChargePoint dashboard delivers real-time data for property owners.




The ChargePoint mobile app allows drivers to keep track of charging activity, energy usage and distance traveled.

**Do you want to collect fees for charging and be able to change those fee amounts over time?** Networked stations make it easy to manage how much (if anything) it costs for people to charge at stations, and they facilitate changing fee amounts over time. Free charging can help attract customers to a property, while setting a small fee can help recover electricity costs. Adding a fee after an hour or two encourages drivers to move on after they're done powering up. The right price will vary by location, property type, time of day and other factors. It can be cumbersome or impossible to set and alter charging fees at non-networked stations.

**Do you want to determine who can charge at your stations?** Networked charging makes it easy to limit access to electric chargers to certain groups of EV drivers, and it also enables different groups to power up at different times of day. One could, for example, limit access to employees during work hours and open up charging to the public after hours. With a non-networked station, a host will need to create a process to support access

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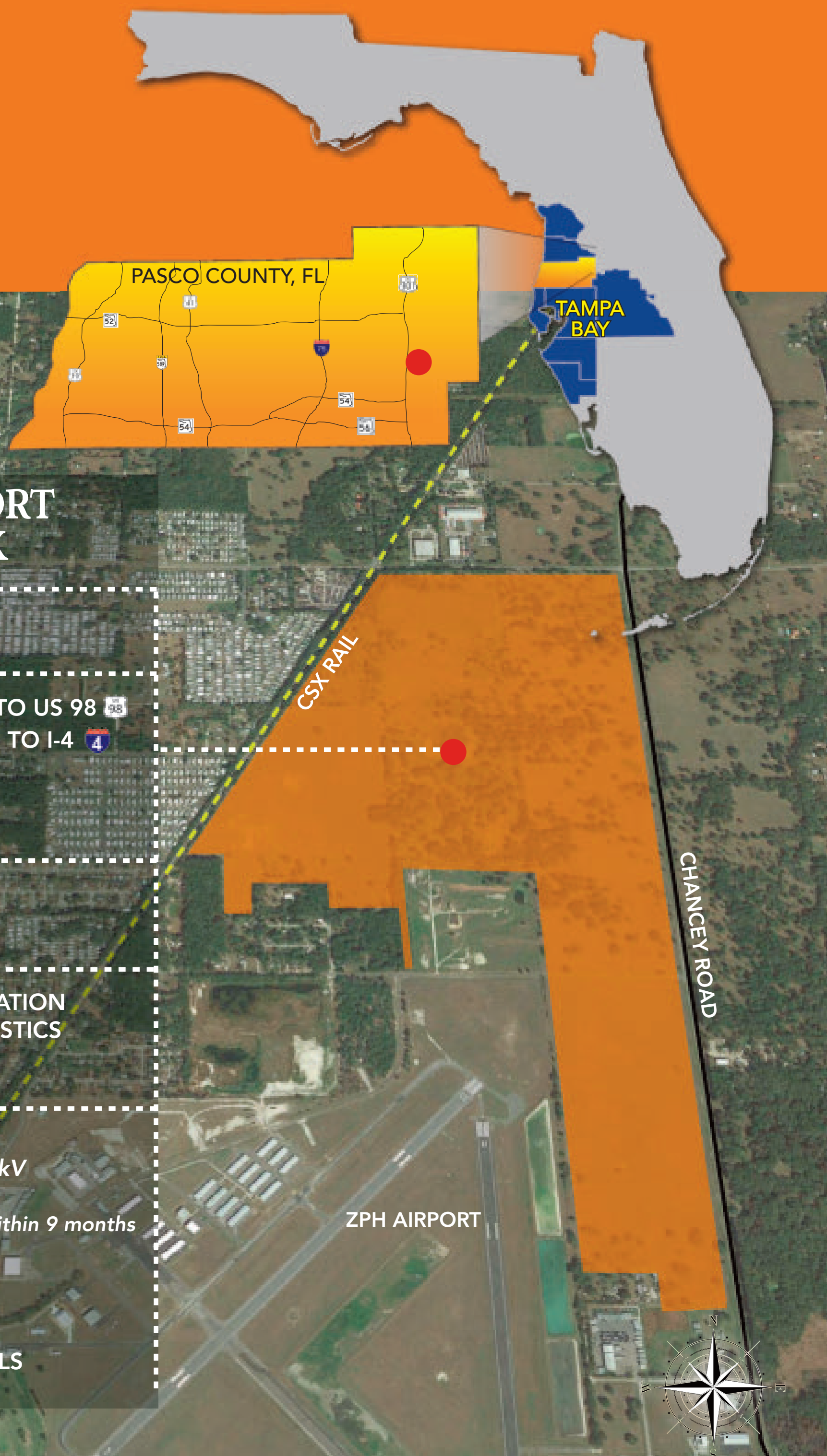


# ZEPHYRHILLS AIRPORT INDUSTRIAL PARK

**LAND INFORMATION**
469 ACRES

**TRANSPORTATION**
- ← 1 MI TO US 301
- → 7 MI TO US 98
- ← 13 MI TO I-75
- ↓ 17 MI TO I-4
- ↓ 29 MILES TO PORT TAMPA BAY
- ↓ 36 MI TO TAMPA INTL. AIRPORT

**45 MINUTE DRIVE TIME FROM PROPERTY**
POPULATION: 1,285,722
EMPLOYED POPULATION: 617,727

**TARGETED INDUSTRIES**
- MANUFACTURING
- DEFENSE CONTRACTING
- DISTRIBUTION
- AVIATION
- PLASTICS

**UTILITIES**
ELECTRIC: DUKE ENERGY
*Distribution Level Voltage: 12.47 kV*
*Capacity: 5 MW - current*
*10 MW - total available within 9 months*
GAS: TECO PEOPLES GAS
*6" line extension within 9 months*
WATER: CITY OF ZEPHYRHILLS
*12" line adjacent to property*
WASTEWATER: CITY OF ZEPHYRHILLS
*8-10" force main by 12/18*

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control, such as giving drivers a PIN code or physical key to access the station. If drivers forget the PIN or lose the key, they won't be able to charge and could associate this frustration with a particular property.

**Do you want to see how your stations are doing at a glance?** Networked charging solutions often provide a dashboard that property owners and managers can access on their digital devices or desktop computers. This platform enables one to see how many people are charging at a station at any moment. This integrated approach also enables support technicians to perform remote monitoring and troubleshooting, keeping the stations up and running as much as possible. Non-networked stations will require an expensive in-person visit to diagnose and fix issues.

### Unit and Installation Costs for Non-Residential Electric Vehicle Supply Equipment

"The cost of a single port EVSE unit ranges from $300 to $1,500 for Level 1, $400 to $6,500 for Level 2, and $10,000 to $40,000 for DC fast charging. Installation costs vary greatly from site to site with a ballpark cost range of $0 to $3,000 for Level 1, $600 to $12,700 for Level 2, and $4,000 to $51,000 for DC fast charging." ■

*Source: "Costs Associated With Non-Residential Electric Vehicle Supply Equipment," U.S. Department of Energy, 2015*


**The "tap to charge" feature allows drivers to quickly and easily charge their vehicles using a mobile app.**

**Do you want to know who's using your stations?** One of the most important advantages of networked charging is the ability to gather and analyze data. Who's using the stations and when? What types of cars do they drive? How much energy is being consumed? This information is difficult if not impossible to gather from non-networked stations, and it empowers the host to understand the return on investment and assess the need for more chargers.

**Do you want to know how much energy you're using and set limits on energy use?** Energy costs don't need to be a barrier to installing EV charging stations. With a networked EV charging system, the host can monitor real-time energy use and control costs by setting a ceiling to avoid "demand charges" or high power costs billed by utility companies. A networked solution will also provide reports on energy use, costs and emissions avoided to facilitate data sharing.

With the rapid growth of EVs, providing an easy and affordable charging solution could be the amenity that attracts customers to one property over another. ■

By **Michael Jones**, vice president, North American Strategic Sales, ChargePoint

# Autonomous Trucking's Effect on Industrial Real Estate

**The next game-changer will speed delivery times and improve use of warehouse space.**

By Jon Pharris, CapRock Partners

INNOVATIONS IN autonomous trucking are generating headlines, with technological advancements creating new and innovative ways to deliver goods to consumers. While industry observers believe that fully autonomous vehicles are at least a decade away, it is important to begin to think about the potential effects.

Tesla's Class 8 fully electric, semi-autonomous truck is expected to haul up to 80,000 pounds for 500 miles, and Nikola's hydrogen-electric technology will be able to travel between 500 and 1,200 miles before refueling. It doesn't stop there, as Waymo, Starsky Robotics, Daimler and others also have similar products in development, leaving many asking: how are these advancements going to affect industrial real estate?

**Fulfilling Customer Expectations.** Consumers now expect next-day or even next-hour delivery, and e-commerce is revolutionizing the supply chain. Infill warehouse spaces are moving closer to urban consumers, and the transformation in last-mile logistics is helping to optimize the supply chain to improve delivery times. Autonomous trucking may be the next game-changer, and it could dramatically enhance delivery times to better meet consumer expectations. Without having to account for a maximum number of hours that a driver can work during a 24-hour period, autonomous trucks will get goods in consumers' hands much more quickly.

**Improved Use of Space.** The evolution of the trucking industry to meet consumer needs will significantly improve the use of building, parking and circulation space at industrial facilities and will change how warehouses are being designed, redeveloped and valued. The absence of a driver, for example, will most likely reduce cab space. This seemingly minor adjustment allows warehouses to decrease dock door and loading dock sizes, resulting in more usable space in the facility. This change also may reduce the turning radius needed for commercial trucks, which could translate to smaller parking and circulation areas, potentially resulting in more square footage available for lease in industrial parks. Additionally, a host of slightly smaller land parcels could suddenly become viable for accommodating industrial facilities.

**Safer, Faster Deliveries.** Autonomous trucks could alter the efficiency and safety of commercial vehicles. When autonomous systems are fully functional and reliable, human fatigue and error will decline as trucks react quickly and effectively to avoid accidents. Such an advancement improves safety for everyone on the road and reduces significant delays, damages and costs caused by collisions. With the American Trucking Association's chief economist reporting a shortage of 51,000 truck drivers at the end of 2017, autonomous trucking also plays a role in solving the industry's labor scarcity. Additionally, autonomous driving could extend the number of hours that truck drivers can work and operate vehicles, mitigating forced stops throughout the day.

**Coupling Autonomous with Electronic.** As autonomous features for vehicles have advanced, so too has the electric motor. The convergence of these two technologies implies that fully autonomous vehicles will likely feature electric motors instead of internal


Jon Pharris

combustion engines. This coupling provides even more potential benefits. Whereas shipping by train has historically been the go-to choice for heavier loads, electric trucks with increased capacities of more than 80,000 pounds may give rail transportation a run for its money. Transportation fees typically account for about 30 to 40 percent of a good's cost, so lower freight costs will provide significant savings for the consumer.

**Reduced Effects on Communities and the Environment.** Technological innovations in autonomous electrification will significantly reduce carbon emissions and other negative environmental consequences that are typically associated with commercial vehicles. According to the Union of Concerned Scientists, experiments comparing electric to gasoline-powered autonomous vehicles showed that electric vehicles reduce global warming emissions by 20 to 80 percent, depending on a variety of factors and conditions. As electric and hydrogen-electric semitrailer trucks come to market, the environment and people in surrounding communities may benefit.

With the use of the electric motor also comes reduced noise. When noise is less of a concern, regulators are more likely to grant permits for new development and potentially loosen regulations relating to hours in which trucks can operate in urban environments.

> **"While industry observers believe that fully autonomous vehicles are at least a decade away, it is important to begin to think about the potential effects."**
>
> *Jon Pharris*

**Increased Returns.** Shifts from rail to trucking, longer hours for drivers and quieter engines for nighttime deliveries are likely to drive substantial revenues for the carriers, truckers, shippers and e-commerce companies that are working to improve delivery times. Additionally, the pre-development, environmental review, entitlement and delivery processes are also likely to be streamlined because of diminished environmental and noise concerns. Such changes could expedite new development and construction and result in improved return on investment for industrial developers and investors.

These innovations present an enormous opportunity for an already thriving industry, but it's important that industrial stakeholders prepare now for the industrial space of the future. The answers are not all there yet, but those who aren't agile in adapting to the rapidly evolving sector will fall behind and be overtaken by more forward-thinking competitors. ■

By **Jon Pharris,** president, CapRock Partners, jon@caprock-partners.com

# St. John Properties

## Developing with a Long View

**Listening to clients and employees has resulted in consistently high occupancy rates for this Maryland-based CRE developer.**

**Upon completion, Greenleigh at Crossroads near Baltimore will contain 1,900 single-family homes, townhomes and luxury apartments and more than 2 million square feet of Class A office space, flex/R&D buildings, retail amenities, and a 120-room SpringHill Suites hotel.**

*All images courtesy of St. John Properties*

St. John Properties was selected NAIOP's 2018 Developer of the Year due to its "**extraordinary commitment to not only develop a quality product, but also to enrich communities. This made a tremendous impression on the selection committee.** It's clear that the company values its employees, takes pride in the quality developments that form its vast portfolio and has an extraordinary commitment to the communities where it does business."

*Joan Woodard, Developer of the Year selection committee chair at NAIOP and president and CEO of Simons & Woodard Inc., Santa Rosa, California*

By Ron Derven

THE PEOPLE AT **St. John Properties** don't just talk about a commitment to excellence, they practice it every day. A founding principle that permeates the DNA of the 180-person Maryland-based company is its focus on the long term when it comes to development, tenants, investors, buildings and the communities in which it works.

Launched in 1971 as Maryland Industrial Enterprises (MIE) by its chairman, **Edward St. John**, the company started with the construction of a single industrial building. Forty-seven years later, it owns more than 19 million square feet of office, flex/R&D, retail, warehouse, gaming and residential assets valued at $2.6 billion. The company serves 2,100 tenants (referred to as clients) at 150 projects located across eight states, including Maryland, Colorado, Louisiana, Nevada, Pennsylvania, Utah, Virginia and Wisconsin. Its portfolio is expected to grow to more than 20 million square feet by the end of 2019.

The company initiated a corporate sustainability program in 2009 that has earned it the U.S. Green Building Council LEED certification on 43 buildings, representing more than 2.3 million square feet of space across the portfolio. Nearly every new building now developed is slated to earn LEED certification, with 29 buildings totaling more than 1.8 million square feet pending certification.

In addition to its commitment to the environment, St. John Properties is dedicated to supporting the communities in which it does business. Its chairman established a nonprofit foundation whose philanthropy is exceptional. To date it has gifted more than $60 million.

"The Developer of the Year honor is the Holy Grail for us," states Chairman St. John. "Never in my wildest dreams did I think that we would receive this award. My employees and I are so proud of the company that we have built and what we have achieved. "

## "Stop This Flying Foolishness"

St. John was exposed to commercial real estate at an early age. When he was age 16, his father died and left the family with a small manufacturing company, a small distribution business and five 10,000-square-foot industrial buildings. Two of the buildings were occupied by the family businesses and three were leased to other tenants.

St. John, however, wanted to be a test pilot. Upon graduating from high school at age 17, he was accepted into the second class of the U.S. Air Force Academy in Colorado. After further consideration, he decided to go to the University of Maryland, major in electrical engineering and join the Air Force ROTC, which would still enable him to become a test pilot.

"In my senior year in college," recalls St. John, "my mother came to me and said: 'If you don't stop this flying foolishness, I'm going to sell all the businesses.' I decided to get involved in the family businesses after graduation. I quickly learned that I didn't like manufacturing, and I didn't like distribution; but I loved the real estate part of it – talking to tenants and even taking care of the roofs."

After several years of managing the five buildings that his father had built, totaling 50,000 square feet, St. John wondered if he could build and lease industrial buildings as a business. He didn't know how to develop a building at the time, so he looked for a local builder with whom to partner. In 1966, he formed a partnership with a man named **Leroy Merritt**.

"Leroy taught me how to build," explains St. John, "and I taught him what to build. We constructed 500,000 square feet of industrial space together over five years in the 1960s." St. John says that the industrial buildings of the day were painted block with railroad tracks at the back of the structures. After five years, the men split up the partnership and divided the buildings, and each started his own company.

## Flex/R&D Development in Maryland

St. John does not take credit for inventing the flex/R&D property type, a structure that can accommodate both office and industrial uses,

**Utah Gov. Gary Herbert, middle, joined St. John Properties leaders including chairman Edward St. John, right, and president Lawrence Maykrantz at the 2017 groundbreaking ceremony for Valley Grove, a $250 million, 60-acre mixed-use destination in Pleasant Grove, Utah.**

but he does claim to have been the first to develop such a property in Maryland. "I built my first industrial building in Columbia, Maryland," he notes. "It was a typical industrial building with metal trim at the top. It was a front-loader, which meant there was an entrance door at the front with an 8-foot to 10-foot drive-in door. Trucks were parked out in front of the building with railroad tracks in the back."

He successfully leased his new building and planned his second one at the location. A tenant at the first building with whom he had become friendly told St. John that he [the tenant] spent more time at the industrial building than he did at his own home and that he would like a better-looking building in which to work. He asked St. John why he didn't install landscaping and plant a lawn in front and put the trucks in the back, among other things.

After listening intently to what the tenant wanted, St. John redesigned the typical industrial building, which became his business practice for the next 47 years. He installed a small office component, brick facade, large windows, a lawn and landscaping in front and moved the loading to the back. The market loved it, and the building leased quickly. If imitation is the highest form of flattery, then St. John was indeed flattered by other developers who started to build a similar product in the market.

At first, these flex/R&D buildings were 5 to 10 percent office and 90 to 95 percent warehouse or industrial space. As time passed, tenants wanted a different configuration: the office component grew at first to 25 percent and then from 70 percent to 80 percent, in some cases.

"It became clear to us that there was a need for one-story office [buildings]," says St. John. So he moved into developing one-story office structures in addition to flex/R&D. The buildings were actually quite similar in design to the flex/R&D, with the front and the

## Commitment to Philanthropy

Pictured are members of the Gold Star Mothers Maryland Chapter during the 2016 dedication ceremony in honor of Gold Star Mothers and Gold Star Families at Aberdeen Proving Ground (APG) in Aberdeen, Maryland.

**Many real estate companies** are good corporate citizens in the markets where they work, but by any measure St. John Properties is in a philanthropic class by itself.

In 1998, company chairman Edward St. John formed the Edward St. John Foundation. St. John Properties donates 7.5 percent of its net profits each year to the foundation, and 100 percent of the funds donated each year go back into the community that same year. To date, the foundation has gifted more than $60 million. The Baltimore Business Journal has repeatedly ranked St. John Properties as one of the Baltimore area's top corporate philanthropists. In 2017, the company was ranked eighth and placed sixth and seventh between 2014 and 2016.

**Sharon Akers**, vice president of corporate relations and executive director of the foundation, says the foundation's main focus is on education – particularly the transformative power of education to change lives and strengthen communities. The most notable contribution that St. John has made to date is to his alma matter, the University of Maryland, College Park. The university recently constructed the 187,000-square-foot Edward St. John Learning and Teaching Center. The facility encourages a new way of teaching that focuses on collaboration and problem-solving between students that is facilitated by instructors. The whole experience moves away from traditional lectures by faculty. The building has 12 classrooms and nine teaching labs, serving more than 12,000 students per day, and it acts as a national model of collaborative learning and teaching, according to Akers.

Another example of the company's extraordinary generosity took place at The GATE, an office and technology park developed on Aberdeen Proving Ground (APG) in Aberdeen, Maryland. St. John Properties learned of the tragic death in August 2014 of Maj. Gen. Harold Greene in Afghanistan. The general had served at APG before his deployment to Afghanistan and was the highest-ranking officer killed offshore in combat since the Vietnam War. Wanting to honor the general and other fallen heroes along with their families, St. John Properties commissioned local artists to create a special tribute to the general. In September 2015, the Fallen Star Memorial at APG was dedicated. In October 2016, a second sculpture was dedicated at the memorial to honor Gold Star Mothers and Gold Star Families for their immense sacrifices.

Numerous other examples highlight the company's philanthropy. Akers said the foundation has a program that matches dollar for dollar the amount that an employee gives to a charity up to a certain limit. She said that employees themselves are extraordinarily generous with the time they devote to community programs. According to Akers, this past year employees donated 7,400 hours to community work and board memberships. ■

back looking the same, but more suitable for office uses.

Although St. John Properties made its mark with the introduction and perfection of flex/R&D in Maryland, it has continually expanded into other products as the market and tenants have demanded. From flex buildings, the company moved to one- and two-story office structures and then on to multilevel office buildings and large-scale developments. Where retail space was once added to building lobbies to service existing tenants, the development of retail space became a separate division at St. John Properties as the company's highly compact and efficient business parks – containing one to five buildings – were expanded to become mixed-use, multifunctional business communities.

Following its expanded office and retail mix, St. John Properties incorporated residential uses as integral parts of its communities. For example, at its Greenleigh at Crossroads project in Middle River, Maryland, it responded to a request from the late Baltimore County Executive **Kevin Kamenetz** to include residential in what had originally been designed as predominantly office, industrial and retail space.

At its Melford Town Center in Bowie, Maryland, where it has already constructed more than 1 million square feet of office and flex/R&D space, St. John Properties has responded to requests for affordable residential products. The company rezoned the project to include up to 1,800 residential home sites, apartments and senior living units.

St. John Properties is vertically integrated and is proud that no third party gets between it and its tenants. When tenants speak to a property manager, they know they are speaking to St. John Properties. This customer-centric approach has helped the company maintain a portfolio-wide occupancy rate of 90 percent. Its founder's focus on listening to the tenant has become formalized into company policy over the years with two staff people dedicated to interviewing all of the tenants in the portfolio once a year.

The company finds the interview process so important that it has taken it a step further and also interviews all of its employees annually, using a list of about 10 questions. "We interview every one of our employees on how they are feeling about the company, about their job and about how their supervisor is treating them," says St. John. St. John said that he used to conduct the interviews himself when the firm had only 25 employees.

St. John has a passion for excellence and focuses on surrounding himself with the very best people. He explains: "Everybody who stays with our company for four to five years or longer is the best there is, or they don't stay. It's just the atmosphere around here; everybody is very good at what they do."

## Build Speculatively Every Year

Unlike most developers, St. John Properties builds speculatively every year – year in, year out – delivering roughly between 300,000 and 1 million square feet of space. Interestingly, the company generally does not offer build-to-suit development options. "Build-to-suits

## Commitment to NAIOP

**St. John Properties is a strong supporter of NAIOP**, which it views as the nation's leading commercial real estate trade association. Edward St. John is a founding member of NAIOP's Maryland Chapter, which was established in 1985 and currently has more than 400 members. St. John Properties hosts monthly chapter meetings at its headquarters in Baltimore.

St. John Properties is one of three major financial contributors to the chapter's "Penny per Square Foot" fund, which supports the NAIOP Maryland Legislative Committee and acts as a unifying voice and lobbying force for both NAIOP Maryland and its sister chapter, NAIOP DC | MD. The legislative committee tracks bills, enacts strategy on relevant legislative issues and represents the general legislative interests of commercial real estate companies in the state.

Twenty-six employees of St. John are currently members of NAIOP; three executives are members of NAIOP chapter boards.

- **Richard Williamson**, senior vice president of leasing and marketing, currently serves on the board of NAIOP Maryland.
- **Thomas Pilon**, senior vice president of development, currently serves as public affairs chair, NAIOP Maryland.
- **Matt Holbrook**, regional partner, Northern Virginia and Central Maryland, currently serves on the board of NAIOP Northern Virginia.

"You cannot do it all yourself," says St. John. "That's why we support NAIOP all the way and in any way we can. We attend every function, and we always have at least two people involved at the board level every year." ■

Tiered classrooms, which promote group interaction and problem-solving by allowing students to move seamlessly from lectures to discussions, are among the design features at the University of Maryland's Edward St. John Learning and Teaching Center.

just slow us down," explains the chairman. In 2018, the company developed and broke ground on 1.2 million square feet of speculative space from its Maryland headquarters. It has also begun to develop or construct 600,000 square feet in other markets for a total of 1.8 million square feet of multi- and single-story office, retail, flex/R&D and residential space. For 2019, St. John Properties expects to add an additional 1.3 million square feet of space.

## How Projects Are Developed

St. John Properties' development sweet spot is the 50-acre site, although the company will go down to 25 acres or up to 200 acres for the right location. Like everything else about the company, its projects' size must satisfy the company's focus on the long view: it wants projects that it can build out over seven to 10 years – not the in-and-out 5-acre, single-building project.

When St. John Properties finds a site it likes, its architectural and engineering team puts a design together, and then the company's leasing agents scrutinize it. "Our leasing people tell us what to build," says St. John, "because they are the ones who have to lease the space."

Once the concept passes muster, the land goes under contract, usually with a 90-day window to conduct due diligence. After clearing the land for purchase, St. John Properties makes a substantial payment on the contract with the stipulation that it has 18 months to obtain a building permit.

St. John Properties initially builds two speculative buildings on the property. When those buildings become 50 percent occupied, work begins on the next two buildings. If a market or economic downturn occurs, and the first two buildings are not yet 50 percent leased, the company stops building at the site until market conditions change.

## Expanding into New Markets

Responding to growth opportunities across the country, St. John Properties has created an innovative Partner-in-Training program that educates qualified individuals interested in development on every aspect of commercial real estate development. The program takes four years to complete, and trainees are mentored in every area of commercial development, including site selection, acquisition, development, design, construction, leasing, marketing and property management, according to the company. In addition to this rigorous training, trainees must obtain a Master of Business Administration or a Master of Science in Real Estate during the four-year period. On successful completion of the program, graduates are sent to a region of the country where St. John Properties sees major growth opportunities. Program participants have come from both inside and outside the company. Four individuals have completed the program, and three are currently enrolled.

## Financial Consistency and Stability

Although St. John Properties has never defaulted on a loan in its 47-year history, it has been tested time and again through numerous downturns in real estate and economic cycles. Three tough lessons the company learned in the 1980s and 1990s, however, helped it to navigate the recession of 2008 successfully and put it on its current growth path, according to St. John Properties president **Lawrence Maykrantz**.

The St. John Properties team at the 2018 Maryland State Police Polar Bear Plunge in Annapolis, Maryland. St. John Properties has participated in the annual Polar Bear Plunge since 2016, raising nearly $55,000 for the athletes of Special Olympics Maryland.

The toughest lesson the company learned in the recession of 1991 was never to use lines of credit to finance real estate. Maykrantz says that banks began issuing lines of credit to real estate companies in the early 1980s. Three banks furnished St. John Properties with lines of credit totaling $90 million. When the recession of 1991 hit, the three banks consolidated into one; that institution told St. John Properties that it did not want anyone to have a $90 million line of credit – so the company needed to pay the money back. St. John Properties paid the bank $30 million in the first year and the remainder in the second year, but vowed it would never again use a line of credit in its business.

A second important lesson was never to be "liquidity poor," especially going into a recession. After struggles in the 1980s and 1990s during recessionary periods, the company resolved to create a giant war chest for the bad times. Over the next decade, it created a $100 million stockpile at the corporate level and a $50 million reserve for capital improvements at the property level. When the recession of 2008 took hold and banks were not lending, St. John Properties had its war chest. With this cash on hand, the company was also able to make some strategic real estate acquisitions, which positioned it well for the years after the recession.

Spacing out loan maturities so that few loans come due at one time was another lesson from previous recessions. "We have 150 projects and 150 separate partnerships," says Maykrantz. "Each project has its own independent source of financing. When we put a loan on a project, we look at all loan maturities going out. Traditionally, with our type of projects, banks or life companies lend at terms of anywhere from 10 to 20 years, with 25-year amortizations. Accordingly, we methodically look at each and every loan and position its maturity."

## Looking Ahead at Commercial Real Estate

One of St. John's key tasks at the company is to continually look ahead at what may be coming in the commercial real estate industry. Currently, the company is watching two potential areas of change.

The first is the fevered pitch of data center development. St. John says that he is astounded by the number of data centers being constructed in Northern Virginia. He questions the sustainability of ever-increasing land valuations and the long-term utility of many of the purpose-built data center buildings. "Land prices have skyrocketed at a rate that I have never encountered in my life," he explains. "We don't know what technological advances are just around the corner with regard to data storage and computing. Things are evolving so quickly that storage technology could change in an instant." St. John, who takes a long view on all buildings he develops, believes that continued advances could make many data center buildings functionally obsolete in the next 10 to 20 years.

Parking ratios is the second area of focus for St. John, who cites a current movement. Although more employees work from home, many still come into the office. Those who do come in use space much more efficiently and compactly, which means buildings need more parking spaces per square foot of office space. However, St. John foresees the rapid development of driverless cars over the next few years. While he thinks that people will want to own and drive exotic or collectible cars, St. John believes most people will find it far cheaper to commute by driverless car, which will mean less demand for parking. He envisions that, once the driverless car drops the employee off, the vehicle will be sent on another assignment. At this point, however, St. John Properties has not begun to decrease the number of parking spaces it builds. ■

**Ron Derven** is a contributing editor to Development magazine.

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# The Municipal Benefits of Urban Fulfillment Centers

A proposed multi-level commercial distribution center at 2505 Bruckner Boulevard in the Bronx section of New York City could provide last-mile customer fulfillment to a potential customer base of 20 million people, according to designer KSS Architects.
*Courtesy of JLL*

## City leaders should be more proactive in crafting municipal policies that capitalize on the e-commerce changes transforming commercial real estate and their tax bases.

By Camille Galdes

ALTHOUGH IT MAY seem that brick-and-mortar stores are becoming obsolete, a more accurate way to think about this change is that these stores are no longer the only customer-facing conduit in the retail distribution chain. Fulfillment centers and sortation facilities, which enable goods to be delivered directly to consumers, are playing an increasingly important role. As **Jason Tolliver,** head of logistics and industrial research at Cushman & Wakefield, explains, "The idea that retail is dead is overplayed – rather, it is undergoing a structural change." In fact, he says, retail continues to expand, make gains in employment and launch new concepts. The retail supply chain is simply being overhauled as a consequence of the digital revolution.

Leasing data from Cushman & Wakefield's North America Industrial Forecasting Report 2018-2019 sheds light on this transformation. In 2013, the share of industrial leasing in the U.S. that was e-commerce-related stood at 5 percent; today, the share ranges between 20 and 25 percent. Research by Cushman & Wakefield shows that e-commerce leasing is surging well beyond this range in some metro areas. In 2017, 30.6 percent of industrial leasing in Los Angeles was related to e-commerce, in North and Central New Jersey it reached 31 percent and, in the Inland Empire region of California, e-commerce leasing was a whopping 50 percent of industrial leasing.

Brick-and-mortar locations are being downsized and are playing a different role in the supply chain because of advances in mobile technology. In the U.S., 10 percent of retail sales are conducted online; in Europe, the figure is twice as high, at 20 percent. "We're going in the same direction as Europe, and even today there's three times the demand for Class A industrial space than there is supply," says **Robert Kossar**, vice chairman and head of the Northeast Industrial Region for JLL. **Patrick Daniels**, CEO at CapRock Partners, adds that the way Amazon allows smaller companies to sell on its platform is also driving demand for industrial space. "Amazon has five different levels of partnerships with product-direct companies that expose them to the customer base of Amazon."

## Changing Industrial Space Needs

So, while some brick-and-mortar retail locations are struggling, surging online sales are ushering in a growing need for industrial real estate. Retailers are looking for warehouses to store inventory, as well as fulfillment centers and sortation centers from which to send orders directly to consumers. According to Daniels, "The price of storing inventory in a retail space is between $3 and $6 per square foot; retailers are realizing they can take that inventory and put it in a warehouse or last-mile facility for 30 cents to $1 per square foot and reduce costs."

New types of online businesses are also expanding the e-commerce sector. Conwell says, "There has been a significant explosion of 'digitally native vertical brands,'" a phrase coined by Bonobos founder Andy Dunn to refer to brands that began as exclusively online retail platforms and are "maniacally focused on the customer experience." At the same time, many of these brands are increasingly building a complementary physical presence. Marketing strategies like "omnichannel" and "unified" commerce, in which companies integrate the customer experience across all platforms, both online and physical, are also bolstering e-commerce. (See "Unified Commerce: The Future of Retail?" on page 14.)

Although people can now purchase items in more flexible and streamlined ways than ever before,

Tolliver says the fulfillment side of online retail has not evolved as quickly and is struggling to catch up to consumer demand. "While there is technological advancement on the fulfillment side – such as robots and drones – that adoption is occurring more slowly," he says. "Consumption is really what has experienced a sea change."

Retailers must also consider how their new supply chain will process returns. Traditional brick-and-mortar retailers can often simply put returned goods back on their shelves, but retailers with only an online presence find returns to be an expensive proposition. According to Tolliver, "It takes considerably longer for returned items to find their way back to a 'shelf,' if they ever do. Often, retailers offload returned items for pennies on the dollar through outlet stores, online auctions and salvage dealers."

## Millennials Drive The Market

Cities that do not try to satisfy the growing market of millennials will not experience growth themselves, says Kossar, who cites the millennial-rich boroughs of New York City as examples. **Larry Kosmont,** principal at Kosmont Companies, is an economic development expert who works with municipalities to help them create forward-thinking policies. To get millennials out of their homes, he says, retail spaces must offer unique experiences. "Retail isn't retail anymore, it's blended use. You need to put services, housing, etc. alongside retail; create amenities that will allow millennials to text each other; and lead with food and curated, invented products, in order to get people or sales."

Substantial shifts in what Kosmont calls "the three Cs: connectivity, consumption, and commuting" are transforming places, and municipal leaders are taking notice. However, he says city leaders are not being proactive enough in crafting policies to capitalize on these changes. Rather than getting out in front of the trends, they are lagging.

"These shifts are unavoidable and cataclysmic," Kosmont says. "They're driving design, investment, delivery modes, and they're only going to continue to do that." He makes presentations to municipal leaders about how they need to follow the market and adjust land use, zoning and entitlement processes or risk falling behind and losing population and investment to competing locations. All too often, he says, developers propose uses for retail strips with closed big box stores that get rejected because they do not fit strict, outdated definitions of zoning and land use. "No, you can't put in a dentist's office, that's not 'medical,' you can't put a university, that's not 'educational.'" As a consequence, he says, many cities are experiencing painful contraction of their tax revenues.

Although cities have largely adjusted their residential zoning and land use plans to accommodate millennials' preferences for close proximity to amenities and for walking over driving, Kosmont thinks they have not yet planned for the full range of industrial and commercial real estate patterns required by the millennial market. "Residential has led the pack—density bonuses have been given for housing and transit—but the transition to blended uses where retail can coexist with attractive, authentic millennial space has not been prioritized." Growing boroughs like Brooklyn and Queens have been largely rezoned for residential or creative office space but have neglected to zone for adequate industrial space.

Urban areas will experience a shortfall of industrial buildings in the coming years, according to JLL's Kossar. For example, he says "Over the last decade, the city of New York has actually lost 8 million square feet of industrial space. So while stock is down – nearly zero – we're actually on the precipice of significant demand."

## Meeting the Demand: CRE Strategies

"Even with technology, [goods] cannot get from New Jersey to Manhattan in two hours. There are just too many logistical challenges like traffic congestion and limited truck routes," says Kossar. Increasingly, retailers are positioning a narrow set of products closer to their customers. Called "SKU (stock keeping unit) proliferation," retailers use market research to determine the most popular items – sometimes referred to as "high-velocity inventory" – by small geographic area like ZIP code and store them in warehouses or fulfillment centers very close to consumers.

Microtargeting consumers in this way reduces a retailer's space requirements in population centers, which are usually expensive areas with limited land.

**CapRock Partners plans to construct four buildings in Norco, California, that will cater to companies that specialize in online sales and direct fulfillment.**
*Courtesy of RGA, Office of Architectural Design, Inc.*

**Benjamin Conwell**, senior managing director and new Commerce Advisory Group leader at Cushman & Wakefield, explains. "In the past, retailers served all of their stores and catalogue customers – the old direct-to-consumer shoppers – via distribution centers in, for instance, St. Louis and LA. Back then, it was OK to put an order on a truck and deliver it to someone's home five days later. Today, however, they must position inventory closer to more places with higher population densities. To do this, they need to have the right SKUs in the right places at the right times."

As retailers adjust their supply chains to accommodate more e-commerce, they are also developing new transportation and logistics strategies. Conwell says, "The demand from retailers and shippers for having some last-mile depot or handling building is very new. Even five years ago, none of the big online retailers, including Amazon, were doing small last-mile buildings because they were exclusively using FedEx, UPS and USPS to do their deliveries."

Online retailers are increasingly building their own transportation networks and urban delivery facilities rather than contracting solely with shipping companies like UPS. Conwell says Amazon has built its own sortation cross-dock buildings, where pallets are broken down and individual orders are sent out the other side. It's also supplemented parcel delivery carriers with its own fleets of private contract vehicles for local deliveries. These transportation innovations are only adding to the demand for industrial space near population centers; with the creation of private delivery networks, last-mile buildings from which delivery vehicles depart are an even more critical piece of e-commerce companies' logistics strategies.

## The Opportunity for Municipalities

There are many reasons municipalities may want to consider attracting e-commerce fulfillment centers. According to Conwell, many of the same reasons that made certain locations good for retail a generation ago now make them good locations for logistics buildings. Their access to roadway infrastructure and established supply chains, as well as their proximity to population centers, are all assets that can be leveraged for the modern era of online retail.

"There's substantial redevelopment potential for struggling or failing retail centers or big box locations," says Conwell, "and I know of such projects that are currently in the planning stage that will likely be approved in two years." One recent example is Sam's Club, owned by Walmart, which announced in January that it would close 63 stores across the U.S., citing that the future of retail lies in speedy delivery. The big box retailer also unveiled immediate plans to repurpose some locations as e-commerce fulfillment centers.

Income and property taxes generated by e-commerce-related industrial buildings can help buoy local budgets by replacing lost tax revenue from closed brick-and-mortar retail locations. In fact, fulfillment centers maintain a high rate of employment. "Investments are being made in technology and robotics, which will increase efficiency, but it's still a people-driven business that is labor-dependent," explains Tolliver. "Given the cost, complexity and continued evolution of supply chain strategies focused on electronic fulfillment, people will remain a critical component of warehouse operations for the foreseeable future."

Compared to distribution centers, fulfillment centers can employ two to three times the number of employees because much of the work is "pick and pack," whereby workers pull products off shelves and pack specific orders. "While wages for logistics-related jobs are growing quickly and have surpassed those for retail jobs, they still lag behind wages for the manufacturing jobs that were lost, on an inflation-adjusted basis, in many metros," Tolliver adds.

Norco, a town of approximately 27,000 in California's Inland Empire, knows the benefits of e-commerce fulfillment facilities. E-Z Up, which manufactures pop-up tents commonly used at sporting events, maintains a 130,000-square-foot warehouse in the town, where it registers most points of sale. Although local taxes vary from place to place, Norco values the income tax benefit it receives from fulfillment centers like the one run by E-Z Up and has also managed to capture some sales tax revenue from such facilities.

In 2018, CapRock Partners plans to start construction on four buildings right off Interstate 15 in Norco. The buildings, totaling more than 400,000 square feet, are designed for companies with a large amount of online sales and direct fulfillment. "City leaders just need exposure to these buildings, to walk through them and understand them. There's a lot of that in Norco; they've been one of the most cooperative municipalities with which we've worked." According to Daniels, Norco intentionally waited for the right industrial developer to come along. "They did not let it get rezoned because they wanted to have dedicated space for job creation by other E-Z Up-type businesses," Daniels says.

According to Tolliver, the increase in demand for e-commerce fulfillment centers has put strong upward pressure on wages for their workers. "It's a simple supply-and-demand issue," says Tolliver. The wage growth is much better than we've seen in other sectors. Logistics-related employment registered its largest quarterly increase ever in the first quarter of 2018, with wages growing 3.9 percent, nearly 1.5 times that of all civilian workers, according to the Bureau of Labor Statistics Employee Cost Index."

The availability of high-quality labor is the top issue for Tolliver's clients. After answering concerns about whether a location is near a population center, clients research the warehouse labor market to determine whether the labor pool has enough depth and breadth. "They are looking for places with a sufficient [pool] of labor so that when other fulfillment centers come and compete, the metro area can pull in enough [workers] to maintain them all," Tolliver adds. He has also seen the competition for labor among e-commerce fulfillment centers lift wages across the broader industrial real estate sector by spurring a variety of associated economic activity for suppliers, couriers, messengers, warehouse workers and others along the last mile of the supply chain. By securing some of this economic activity, cities stand to gain not only increased employment for citizens but also increased income tax revenue.

Norco recognizes the economic opportunities, for both the municipality and its citizens, presented by e-commerce fulfillment facilities. To capitalize on this local industry and support its growth, Norco's community college, Norco College, has developed training programs in logistics and supply-chain technology. Daniels explains, "If cities feel the space doesn't serve the local community, they aren't going to be interested. But now they [cities] are starting to realize that [fulfillment centers] employ more and more people, use more technology, provide fairly high-skilled, higher-wage jobs, and use multiple means of transportation – not just semi-trucks."

## Adaptive Reuse

Many e-commerce fulfillment buildings are being developed through adaptive reuse, whereby old, functionally obsolete spaces are retrofitted. Rather than waiting for new retail chains to occupy empty buildings, cities can allow e-commerce business to repurpose these structures. Although a building might not be an ideal height or have quite enough loading docks, **John Warden**, national director of site selection at Colliers International, says that companies are making trade-offs to land prime locations. "More cross-dock facilities are being designed to bring product in, break it down and quickly send it back out, rather than store any inventory."

Like last-mile facilities that store only the most popular inventory, or the depots that send out delivery vans in specific neighborhoods, the latest generation of e-commerce logistics buildings need not be big. According to Tolliver, service-level depots in the urban core range from 10,000 square feet or smaller to about 40,000 square feet. A variety of locations that are currently underused can be adapted to some type of e-commerce function likely to offer high levels of employment.

Finally, experts agree that – whether the product of adaptive reuse, redevelopment or new construction – the industrial buildings housing e-commerce activity are good-looking, well-appointed, state-of-the-art facilities. They therefore pose great opportunities for municipalities looking to reposition their stock of industrial or retail space: They have the potential to increase real estate values, attract new jobs and generate additional income. ■

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# Boston Scientific's
## Global Customer Fulfillment Center


A 60,000-square-foot Boston Scientific logo on the roof is visible from planes landing at nearby Logan Airport, helping to associate the brand with the city of Boston and to promote Boston Scientific's commitment to green initiatives by showcasing the structure's rooftop solar array.

*Photos: Warren Patterson Photography*

# A global facilities master plan informs the company's real estate decisions.

By Paul Donhauser, CEM, CPMM, Boston Scientific, and
Marc Margulies, FAIA, LEED AP, Margulies Perruzzi Architects

CORPORATE REAL ESTATE planning is both a science and an art, an endeavor made more complicated by a large organization's size and scope. Boston Scientific Corp., a worldwide developer, manufacturer and marketer of medical technology, has made a commitment to adopting a master planning approach to its global real estate, facility management and sustainability initiatives. A $9 billion company headquartered in Marlborough, Massachusetts, Boston Scientific has 27,000 employees and a global real estate portfolio spanning more than 150 properties and 9 million square feet of owned and leased property.

Boston Scientific's global real estate and facilities (GREFAC) team manages all construction, design, lease renewal and relocation projects in more than 40 countries. In 2012, the company tasked this team with developing a master plan and global design guidelines to align with the vision of the new CEO and executive leadership team. The GREFAC team engaged Boston-based Margulies Perruzzi Architects (MPA) to help evaluate its real estate choices, develop global workplace guidelines and design key facilities.

## Fueling Growth

The Boston Scientific Global Facilities Master Plan is an enterprise-wide initiative that brings the company's real estate and workplace portfolio in line with its global business strategy through 2020. The plan offers sufficient flexibility to accommodate anticipated change; creates a work environment that promotes productivity, innovation and collaboration; and provides for continuous improvement in a cost-effective manner.

The strategy behind the plan is to "fund the journey to fuel the growth," namely by reducing the company's real estate footprint and by improving the use of space across its global portfolio to reduce operating expenses and to finance facility investments that attract and retain key talent. The strategy involves three phases: prune, invest, and sustain and maintain.

1) The **prune** phase focuses on eliminating poorly utilized real estate assets and reducing global energy consumption.

2) The **invest** phase uses the proceeds from the sale of excess real estate to invest in the remaining core assets that support global workplace strategy. It also provides a comprehensive set of global design guidelines for workplace design standards, branding, LEED and working remotely.

3) The **sustain and maintain** phase involves meeting annually with site, business and regional leaders at strategic global locations to understand what investments are needed to position them to support business goals in the future.

After developing the global design guidelines with Boston Scientific in 2012, MPA completed the design of a new 110,000-square-foot global headquarters on the company's existing campus in Marlborough. Boston Scientific tapped MPA again to bring its second-largest Massachusetts facility – in Quincy – up to the company's current global standard.

## From Warehouse to Fulfillment Center

Renovating and repurposing a building can involve several factors: preserving existing features, updating building infrastructure and energizing spaces for new uses. Warehouses offer their own challenges, especially "legacy" buildings that have long been obsolete. An outdated warehouse in a high-profile location in Quincy has been transformed into a new 694,000-square-foot global customer fulfillment center for Boston Scientific. Completed in September 2017, this state-of-the-art energy-efficient facility expands and modernizes the company's logistics and distribution functions and aligns with the Global Facilities Master Plan.

In 1998, Boston Scientific purchased the roughly 1.2 million-square-foot two-building warehouse complex on Quincy's Squantum Point. Located on the Neponset River and visible from Interstate 93 on approach to Boston, the buildings served from 1970 to 1997 as warehouses for department store Jordan Marsh & Co. Since 1998, Boston Scientific has occupied both buildings on the site.

The GREFAC team recognized that the Quincy site had about 450,000 square feet of excess real estate, mostly in the north building, which cost $2.1 million annually to operate and would require an additional $13 million in deferred maintenance and upgrades. As part of the Global Facilities Master Plan, the company sought to consolidate its operational and distribution functions into a new customer fulfillment facility in the south building of the complex. More than 75 percent of the total units for global products, including medical devices such as life-saving stents, will move annually through the 24-hour fulfillment facility, which employs 450 people.

The Global Real Estate team developed a plan to sell off the underutilized real estate in the north building to help finance the new fulfillment facility in the south building. The sale required the complete separation of the north and south buildings, which were two interconnected properties. The buildings were decoupled by severing all common structural and utility systems between them and by dividing the land lots, thereby creating two separate parcels, with approval by the municipality.

The design transformed an outdated warehouse building into an attractive, energy-efficient and natural light-filled office and fulfillment facility; the project was a major part of the Boston Scientific Global Facilities Master Plan.

In 2016, Boston Scientific sold the north building to Scannell Properties for $31 million, retaining ownership of the south building. As part of the transaction, Boston Scientific executed a 21-month lease in the north building, occupying it as swing space during renovation of the south building. The sale leaseback saved Boston Scientific $7.2 million in operating expenses and $13 million in deferred maintenance costs. The proceeds from the sale of the north building enabled Boston Scientific to stay cash neutral and reinvest in distribution technology and workplace strategy for the new facility in the south building that will save $2.1 million in annual operating expenses.

## Designing for New Uses

MPA inherited legacy warehouse conditions that guided the repositioning of the south building. The existing loading docks were retained, while the adjacent area's flow was reconfigured to accommodate a new employee entrance. The building's precast facade was completely replaced with an energy-efficient, metal-panel rain screen system and new high-efficiency ribbon windows. The corner of the building was removed and updated with a multistory curtain wall glass facade with blue exterior LED accent lighting to create a dramatic canopied main entry.

The 630,000-square-foot customer fulfillment center includes 2.5 miles of high-efficiency, "smart technology" conveyor systems and Boston Scientific's first installation of an enterprise warehouse management system to optimize inventory management and distribution operations. The project team designed a sophisticated logistics facility that will provide operational cost savings through increased productivity and energy efficiency. For the installed utility upgrades, Boston Scientific received one of the largest energy rebates in New England: $1.1 million. The sustainably designed building is expected to achieve LEED Gold certification for existing buildings, and the company is pursuing a WELL Building Design certification to ensure employee health and wellness in the Quincy facility.

The building's 64,000 square feet of office space were designed to meet global workplace strategy standards that Boston Scientific is deploying around the world. As part of its change management efforts, the company has shifted to smaller workstations and more open and collaborative workspaces. The open office space features a mix of workstations and glass-fronted offices supported by town squares, breakout cafes, training spaces and a variety of meeting rooms. The workplace environment was designed to attract and retain employees by providing natural light, increased collaboration space, custom artwork, and upgraded furniture and finishes. It also offers employees modern amenities such as a corporate cafe, a rooftop terrace, a full service fitness center and an impressive new entrance, which opens into a light-filled lobby.

## Overcoming Challenges

The design team's primary challenges involved space constraints, workflow and stretching the $31 million budget. The design needed to mesh 64,000 square feet of high-performance office space with 630,000 square feet of warehouse and distribution space. This connection was critical to ensure optimal flows of goods and people as well full system compliance in an FDA-regulated facility. Complet-

**MPA's design features a modern, energy-efficient and state-of-the-art distribution and logistics facility with a high-performance workplace, prompting Boston Scientific to view the building as its regional hub.**

## A Complex, Multistage Project

**The Quincy facility** was the most complex project the GREFAC team had tackled in many years. According to **Peter Doig,** the property's facility manager, "the stars had to align" to complete this project in multiple, complicated stages:

- Cut the interconnected north and south buildings and completely sever all connections between them.
- Collaborate with municipal entities such as the Quincy Planning Board, the Zoning Board of Appeals and the Quincy Conservation Commission to create two separate parcels from one land lot.
- Sell north building to generate cash to reinvest in south building.
- Build new 694,000-square-foot logistics center and office facility in south building.
- Install warehouse management system.
- Move $500 million worth of FDA-regulated medical device products into a new facility.
- Facilitate the move of 400 employees from the north building and take occupancy of the south building before lease termination.
- Decommission or recycle more than 3 million pounds of equipment from old space. ■

ing the construction on time was critical as delivery of the building needed to align with termination of Boston Scientific's 21-month leaseback in the north building. Additionally, delivery needed to correspond with a product migration schedule to ensure seamless logistical operations.

Additional construction challenges included renovating the facility on an occupied, functional campus affected by winter weather. The construction team was also required to work within the insurer's stringent environmental, health and safety regulations, which were more demanding than those required by the local building code.

The design team also addressed numerous other issues associated with a large multiuse building by doing the following: 1) examining where employees park and how they enter the building, 2) providing security for a building with dual industrial and office uses, 3) incorporating a fitness center while minimizing noise and impact vibrations and 4) safely and efficiently integrating a huge volume of truck traffic with passenger cars.

The multi-level warehouse at Boston Scientific's new headquarters in Quincy, Massachusetts, includes a high-efficiency, "smart technology" conveyor system and the company's first enterprise warehouse management system.

## Creating a Regional Hub

Converting an aging warehouse into a combined office and logistics facility is a complex undertaking. The design team studied the building's structural weight and flooring capacities, as the retrofit had to accommodate more than $4 billion of medical device products shipped through the Quincy facility each year. The space with higher slab capacity was clearly designated for fulfillment activities. Adjacency and acoustical issues were addressed to merge office functions with two levels of warehouse and logistics operations, separating office workers from forklifts that operated just 5 feet away.

Wherever possible, the design kept and incorporated elements of the existing building, such as the roof, steel and floors. The team took advantage of the existing building geometry to create a new rooftop deck with spectacular views of Boston. The design of the outside space required careful planning to ensure that the existing structure would support the weight of the deck. For the new corner entry, the design team cut out the floor slab of the existing structure to accommodate a two-story lobby. Raw warehouse space and a mezzanine were converted into new office space, and MPA was able to insert windows where there hadn't been any before.

Boston Scientific was sensitive to the building's history and sought to retain distinctive building characteristics. Rather than hiding them, the design team incorporated the existing structural cross-bracings into the design by exposing, painting and making them a feature. Although modern in design, these legacy features celebrate the building's industrial past.

The Boston Scientific Global Customer Fulfillment Center was intended to do two things well: 1) provide a modern, state-of-the-art and energy-efficient logistics and distribution center and 2) offer a high-performance workspace in line with the company's global workplace strategy standards. With its close proximity to Boston's Logan Airport, ease of commute and ample parking, as well as extensive amenities for employees and visitors, the Quincy office has become an appealing location for Boston Scientific executives. The facility, which was completed on time and on budget, has evolved – in the minds of the company's employees – into Boston Scientific's regional hub. ■

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# The Value of Downtown Data Centers

Located on the Wilshire corridor in downtown Los Angeles, the 733,000-square-foot West 7 Center, formerly known as The Garland Center, is a carrier-neutral facility with multiple carriers and telecommunications service providers and multiple separate fiber entry points.

# Buildings with direct fiber-optic internet connections will benefit from strong demand as information continues to be stored in the cloud and big data takes off.

By Marc Gittleman, Rising Realty Partners

DATA CENTERS ARE facilities that house customers' (tenants') critical telecommunications components, including computers (servers), storage devices and cables, while also providing connectivity options to the internet (carriers) as well as to other data centers and buildings. Since the dot-com bubble of the early 2000s, data centers have become a multi-billion-dollar industry offering a wide range of telecommunications services for small to large commercial clients.

With the rise of enterprise cloud computing, the ability to store and manage exponentially fast-growing volumes of data is becoming more critical to the success of every business. As a result, the data center market will likely continue to remain strong. Many cloud service providers estimate that the U.S. data center sector will need to triple its infrastructure by 2020. Across American cities like Chicago, Austin, San Antonio and Los Angeles, demand for data center services is soaring.

Successful data centers must manage a complex array of requirements, from power and climate control to physical space and cybersecurity, to ensure that customers' equipment can function through challenging events such as power outages. Without the appropriate safeguards, natural disasters and cyberattacks can wreak havoc for businesses, especially when data centers are forced into periods of prolonged power outages. Hurricane Sandy clearly demonstrated this when severe flooding forced many New York data centers offline for several days, resulting in significant recovery costs.

Underground downtown data centers feature several significant advantages relative to their above-ground suburban competitors. First, they permit year-round construction and expansion, irrespective of weather conditions. This improves the speed with which developers can bring a data center to market or expand its capacity. Secondly, subterranean data centers can be "disaster proofed" and protected from the elements at a lower cost. For example, above-ground data center developers can find themselves spending an extra $100 per square foot to fortify their facilities against tornadoes and hurricanes.

Underground data centers do face operational challenges, from both heat rejection and flooding perspectives. Although subterranean space is naturally cool, the excess heat generated by servers and other telecommunications equipment must be vented, often through holes drilled to the exterior. A developer that invests wisely in a cooling system – for example, an HVAC plant with N+1 redundancy (at least one independent backup component) – can balance out any additional costs in this area with savings in others.

Geographic location is another important element for developers and other prospective investors to consider. On one hand, suburban data centers often can be constructed and purchased at lower costs than those in congested downtown areas. The further the facility is from an urban area, however, the higher the potential cost is to bring in power and network connections.


**West 7 Center's chiller plants feature four 1,250-ton, three 1,000-ton and two 500-ton centrifugal chillers, resulting in 9,000 tons of total cooling capacity. They're served by nine cooling towers.**

For underground data centers that are quite remote, such as those in old bunkers and mines, the cost of installing fiber-optic and high-speed network connections could be high.

Downtown underground data centers do not face these challenges. After all, this class of facility is often situated near the existing information technology environments of customers and can easily run fiber connections to other network transit points in the city. This is also beneficial for disaster recovery scenarios, when travel to a data center further away can become virtually impossible.

In many major coastal U.S. cities like Miami, New York and Los Angeles, the downtown area is also home to the interface points, known as points of presence (PoPs), of many international carriers and internet providers. These PoPs are where high-speed network connections to international markets across the Atlantic and Pacific oceans are made.

The bottom line for data center developers is this: Whatever its location, a data center must also have the right balance of space, power and connectivity to attract and retain its customers.

Data centers with office space, like the one described below, can attract additional business beyond data storage. For small startups, colocation facilities are especially attractive, since they feature reliable backup power, cooling, security and disaster-proofing systems. As a startup continues to grow, it may eventually decide to keep its data at the facility while finding a new, bigger office elsewhere. By offering flexible, customizable office space, data center developers are future-proofing their own operations by attracting customers that are likely to grow within their property.

Large companies that prioritize business continuity are also likely to lease office space within data centers. Many facilities offer conference rooms and amenities like break rooms, cafeterias and showers that allow a tenant's staff to work in the building every day or during a disaster. From all aspects of business operations, data centers are an attractive investment opportunity for developers and tenants alike.

## One Example: West 7 Center

In summer 2016, Rising Realty Partners bought The Garland Center, a 733,000-square-foot building in downtown Los Angeles that includes both data center and office space, for $210 million. Built in 1983 as an office and data center for First Interstate Bank, The Garland Center presented an opportunity for Rising to make additional investments in the building's critical systems and to promote the project as a premier alternative to the other data centers in Los Angeles. As big believers in the greater downtown Los Angeles market (see "PacMutual Campus: From Aging LA Landmark to Lifestyle Office," Development, Winter 2014) and in the nationwide resurgence of demand for data centers thanks to modern-day cloud computing, the firm's principals recognized that investing in a data center property made sense.

After buying the property, Rising Realty rebranded it as West 7 Center, a nod to the building's location at 1200 West Seventh Street in downtown Los Angeles. West 7 Center's long-term lease opportunities, 16 domestic and global telecommunications carriers, and data center service providers like Evocative, which offer facility space in several cities, all have made this building more attractive to both carriers and tenants. Essentially, Rising's vision for this building was to jump-start a thriving downtown data center area and begin to shape the future of cloud computing in the city and Southern California.

The building's emergency generator plants feature five 2,250 kW, four 1,100-kW and one 1,250 diesel generators, resulting in 16.9 mW of total capacity. It is supported by three 30,000-gallon underground fuel storage tanks designed to support the building's critical infrastructure at full load for approximately 120 hours.

Specifically, Rising believes that West 7 Center serves as a gateway to the Asian telecom space, enabling Asia-Pacific carriers and service providers to establish a U.S. presence quickly. In addition to being the largest purpose-built data center in downtown Los Angeles, it is also just a few blocks from One Wilshire, which has been the primary transit center for internet traffic from the U.S. to Asia since the 1990s. By offering mission-critical infrastructure for the flow of data to and from the U.S., West 7 Center offers the redundancy and disaster-recovery systems necessary to support organizations focused on the Asia Pacific region.

For Rising Realty, West 7 Center's unique attributes spoke for themselves when the company was considering whether to invest in Los Angeles data center space. The city is already very connected from an internet standpoint. However, Los Angeles also needs to improve its infrastructure redundancy to enable safer, more reliable data management.

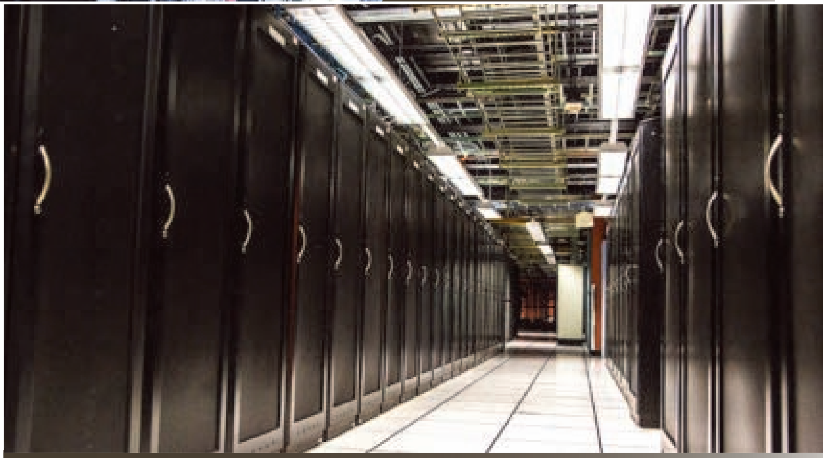
West 7 Center is the first Los Angeles building that was purpose-built as a Tier III data center. (The Uptime Institute classifies data centers as Tier I, II, III or IV based on their infrastructure capacity, system availability, redundancy and concurrent maintainability.) The Tier III classification denotes a highly reliable facility with redundant critical power and cooling components. No shutdowns are required for equipment replacement or maintenance, meaning the facility is designed to operate 24/7 without interruption.

As a secure, reliable facility with multiple options for connectivity, West 7 Center offers an ideal location for telecommunications companies, cloud providers, health care firms and other organizations that require reliable infrastructure to run their operations. With three levels (348,000 square feet) of underground data center space and nine floors (377,000 square feet) of above-ground office space, the facility meets the space requirements of organizations such as internet service providers, content providers, telecommunication providers and other enterprises to run their core data center, server farm and telecommunication operations.

West 7 Center also serves as a backup location to some of its customers' primary offices. Office tenants include a government agency that occupies 222,000 square feet on six floors, a health care company that occupies 103,000 square feet on three floors and a nutrition company that occupies 45,000 square feet on a single floor.

From a safety standpoint, underground data centers like West 7 Center offer a secure location for data storage, since there is less chance of physical breaches due to crime or weather incidents relative to their above-ground counterparts. They are automatically protected against the strong winds of hurricanes and tornadoes. While earthquakes can still pose a concern, proper structural reinforcements can make an underground data center the optimal choice, especially in a downtown environment where nearby older structures could collapse during a major earthquake. West 7 Center's structural design exceeds Southern California's seismic performance standards.

The building's battery farm provides a 3,750 kVA uninterruptible power supply (UPS) for critical functions.



West 7 Center's Tier III data center facility occupies three underground levels.

Supported by two central power plants with redundant backup power and cooling capacity, West 7 Center has enough fuel on hand at all times for its backup generators to support 120 hours of uninterrupted power at full load, in case of outages. The property also possesses one of just three commercial helicopter landing pads in the city, a definite bonus when it comes to emergency preparedness and disaster recovery for its data tenants. The helipad can provide emergency access in the event that the building is not accessible by other means.

Finally, West 7 Center features 24/7 on-site building engineering and security, along with more than 1,400 covered parking spots, ATM machines, a recently renovated 112-seat auditorium and a patio seating area.

## Data Center Real Estate Into the Future

The continued expansion of tenants and carriers at West 7 Center is just one example of the possibilities that exist within the booming data center property market. For commercial real estate professionals who are up to speed on the unique needs of the information technology industry, the return on investment can be promising.

Recent statistics reinforce this viewpoint. In 2016, for example, the FTSE NAREIT Data Center Index provided returns of 33.17 percent over the first seven months. This figure was almost exactly that of the industrial real estate sector, which yielded returns of 33.18 percent. In 2017, data center REITs were once again among the top-performing sectors during the first half of the year, growing by 22 percent. Because so many industries – social media, banking, health care, government – generate and use vast amounts of information that resides on servers, demand for data center space remains high.

Anyone looking to purchase or invest in building and/or upgrading a data center property should consider several factors. As the West 7 Center model shows, modern enterprises seek reliable service from data centers in prime locations that offer strong security safeguards and can meet their connectivity needs now and into the future. A data center that has international reach and fast connection speeds will attract tenants looking to grow over time. The cost of potential network downtime, which Gartner estimates at $5,600 per minute, is also an important factor. Investing smartly in superior risk mitigation against natural disasters and cyberattacks is key to attracting and retaining data center tenants.

Rising selected the West 7 Center because of its potential, size and class-leading engineering, especially regarding the significant improvements that have been made to its cooling capabilities and energy efficiency. Tenant demand for the services and solutions offered by data centers will continue to accelerate across the U.S. and throughout the world. As a result, serious consideration of the benefits and costs of investing in data center properties is recommended. ■

**Marc Gittleman** is senior executive advisor, real estate technology, at Rising Realty Partners.

# NAIOP Guide to the Mid-Atlantic

Are you planning a project in the Mid-Atlantic U.S.? Whether you seek an investment partner, an interior designer, a contractor or a great location, you'll find a contact here.



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BAKER TILLY
Accountants and Advisors

### Baker Tilly

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WIPFLi LLP
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### Wipfli, LLP

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**www.wipfli.com**
10000 Innovation Drive, Suite 250
Milwaukee, WI 53226

Wipfli ranks among the top 20 CPA and business consulting firms in the nation, providing insights and solutions to over 7,300 construction and real estate companies to help them meet their goals and stay profitable. For more information, visit wipfli.com.

## Architects

HUITT-ZOLLARS

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## KSS Architects LLP

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**www.kssarchitects.com**
337 Witherspoon Street
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## Powers Brown

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Powers Brown Architecture is a professional services firm practicing architecture, interior design and urban design. The firm, with offices across the country, has built a reputation for specialized design and technical superiority, producing award-winning work and gaining recognition from local, regional and national organizations.

## Ware Malcomb

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mktg@waremalcomb.com
**www.waremalcomb.com**
10 Edelman
Irvine, CA 92618
(949) 660-9128

Ware Malcomb is an international design firm providing planning, architecture, interior design, branding and civil engineering services to commercial real estate and corporate clients. With office locations throughout the United States, Canada, Mexico and Panama, the firm specializes in the design of commercial office, corporate, industrial, science & technology, healthcare, retail, auto, public/educational facilities and renovation projects.

# Asset Manager

## Clarion Partners

Stacey Magee
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**www.clarionpartners.com**
1717 McKinney Avenue, Suite 1900
Dallas, TX 75202

A leader among U.S. industrial portfolio operators, the Clarion Partners Industrial Group is focused exclusively on the logistics sector, with particular emphasis on bulk warehouse/distribution facilities. The Group manages a 644-property portfolio (consisting of more than 126 million square feet and currently valued at more than $10.4 billion), located in 43 markets across the United States and Brazil. Besides closely monitoring the performance of existing assets with more than 1,300 diverse tenants, the Group has the expertise to develop new warehouse space on well-located land parcels held in its portfolio.

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**www.pnc.com**
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(877) 762-7775
PNC Real Estate is a leading provider of banking, financing and servicing solutions for commercial real estate clients across the country.

# Brokers

## CBRE

**www.cbre.com**

CBRE Group, Inc. (NYSE:CBG), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (in terms of 2015 revenue). CBRE offers strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting.

## Cushman & Wakefield

**www.cushwake.com**

Cushman & Wakefield is the world's largest privately-held commercial real estate services firm. Founded in 1917, it has approximately 250 offices in 60 countries, employing more than 16,000 professionals. The firm represents a diverse customer base ranging from small businesses to Fortune 500 companies. It offers a complete range of services within five primary disciplines: Transaction Services, Capital Markets, Corporate Occupier & Investor Services, Consulting Services, and Valuation & Advisory.

## HFF

**www.hfflp.com**
9 E. Greenway Plaza, Suite 700
Houston, TX 77046
(713) 852-3500

HFF operates out of 22 offices nationwide and is a leading provider of commercial real estate and capital markets services to the U.S. commercial real estate industry.

## Lee & Associates Arizona

**www.lee-associates.com/arizona**

Lee & Associates is the largest broker-owned commercial real estate firm in North America. We combine superior tools, resources and outstanding market intelligence to meet the specialized needs of our diverse client group inclusive of industrial, office, retail investment and appraisal.

### Marcus & Millichap
**www.marcusmillichap.com**

With offices throughout the US and Canada, and the largest sales force of investment specialists, Marcus & Millichap is a leading commercial real estate brokerage. We provide unparalleled services to clients, including the largest pool of private and institutional investors.

### Newmark Knight Frank
**www.ngkf.com**
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Chicago, IL 60661
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## Contractors/ Construction

### Alston Construction
Natalie Springfield
nspringfield@alstonco.com
**www.alstonco.com**
3500 Lenox Road, Suite 501
Atlanta, GA 30326
(404) 921-2036

Alston Construction offers a diverse background of general contracting, construction management and Design-Build experience of industrial, manufacturing, office, education, healthcare, retail and government projects. We are skilled at both new construction and adaptive reuse.
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Ductilcrete®'s slab systems by GCP Applied Technologies encompasses a family of concrete flatwork systems that include slabs, pavements, and toppings. Ductilcrete®'s patented system creates high performance, extended jointed slabs, with higher load bearing capacity providing the end user with more flexibility and lower maintenance costs.

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Rockville, MD 20850
(240) 399-2000

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### Tratt Companies
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(602) 468-3100

Tratt Properties, LLC, headquartered in Phoenix, Arizona, is a dedicated and experienced real estate and financial team engaged in the acquisition and development of institutional grade logistics properties in key markets throughout the United States. We are focused on delivering flexible and scalable global supply chain real estate solutions that go beyond basic transportation, warehousing and distribution.

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Transwestern is a privately held, full-service real estate firm delivering a higher level of personalized service – the Transwestern Experience. Based in Houston, Transwestern has 35 U.S. offices and reaches 180-plus offices globally in alliance with BNP Paribas Real Estate.

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**www.usrealco.com**
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USAA Real Estate, with over $21 billion in assets under management, provides co-investment, acquisition, build-to-suit and development services for corporate and institutional investors and arranges commercial mortgage loans on behalf of affiliates. The portfolio consists of office, medical office, industrial/logistics, multifamily, retail and hotel properties. USAA Real Estate is a subsidiary of USAA, a leading financial services company, serving military families since 1922. For more information, visit www.usrealco.com

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Bronze Industry Partner Real Estate is a professional real estate development and property management company owned by the Wonderful Company. We develop, manage and invest in a diversified portfolio of real estate, including Wonderful Industrial Park, a 1,625-acre, fully entitled Class A logistics park located in Shafter, California.

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**www.ballstonbid.com**

The Ballston Business Improvement District is 25-block neighborhood of commercial and residential properties. The BID specializes in creating a sense of place and community through public/private partnerships dedicated to the maintenance, development and promotion of the Ballston, Arlington neighborhood.

CRYSTALCITY

### Crystal City Business Improvement District

**www.crystalcity.org**

The Crystal City BID is committed to showcasing the area through strategic marketing initiatives, world-class events, and strategic initiatives. Together with Pentagon City and Potomac Yard-Arlington, the area's 19 million square feet of mixed-use development represents Virginia's largest walkable downtown.

FREDERICK COUNTY MARYLAND Office of Economic Development

### Frederick County Business Development & Retention

Helen Propheter
hpropheter@frederickcountymd.gov
**www.discoverfrederickmd.com**
12 East Church Street
Frederick, MD 21701
(301) 600-1058

The Frederick County Business Development & Retention (BDRD) Office serves as the primary contact for businesses who are interested in expanding and relocating to Frederick County. BDRD assists businesses with all facets of their projects including site selection, permitting, financial assistance and workforce issues.

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### Bohler Engineering

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HUITT-ZOLLARS

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### RT New Day

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RPS

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NORTHMARQ

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BNSF RAILWAY

### BNSF Railway

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## REIT

BrandywineRealtyTrust

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# Six Students Receive NAIOP Diversity Scholarships

**For the third year, NAIOP has awarded scholarships to graduate and undergraduate commercial real estate students from backgrounds traditionally underrepresented in the industry.**

By Hannah Buckles

NAIOP IS PLEASED to announce the recipients of the 2018 NAIOP Diversity Scholarships. The scholarship program was established in 2016 to support graduate and undergraduate students pursuing degrees at NAIOP university member schools that will lead to careers in the commercial real estate industry. Preference is given to students from backgrounds that have traditionally been underrepresented in the industry. In addition to a $5,000 scholarship for graduate students and a $2,500 scholarship for undergraduate students, beneficiaries also received complimentary registration to NAIOP's CRE.Converge 2018 conference in Washington, D.C.

A panel of industry experts reviewed more than 60 applications and identified the top candidates. All of the winners are active in commercial real estate, whether through NAIOP, club membership or work experience.

## Graduate Students

**Andreanita Hughes** is a licensed residential real estate broker and student in Roosevelt University's Master of Science in Real Estate program. After several years working in residential real estate, legal technology, and education, Hughes took on the challenge of graduate school. She is excited to develop industrial properties in Chicago and to help retail tenants negotiate fair leases. In addition to her studies and work as a real estate consultant with Tree of Life Realty Solutions, Hughes is the volunteer economic development commissioner of the city of Country Club Hills, Illinois.

**Vishal Mehan** is pursuing a Master of Professional Studies degree in Cornell University's Baker Program in Real Estate. Mehan emigrated from India, where he received a Bachelor of Architecture from KRVIA, School of Architecture and Environmental Studies, and worked as a designer and property developer. He has kept busy increasing his skills and portfolio through continuing-education classes in many CRE subjects, including smart cities and construction management. Additionally, with his sister, he founded a Mumbai-based charity called Saturday Art Class, which helps children express themselves through art and earn money selling their creations. Mehan would like to pursue a career in acquisitions and private equity placement for commercial and multifamily properties.

**Taylor Stack** is a student at the University of San Diego in the Master of Science in Real Estate program. Before enrolling in graduate school, she was a district manager with Aldi, where she supervised the construction of Aldi's Moreno Valley, California, location and oversaw up to six stores simultaneously. Upon her return to San Diego, where she received her undergraduate degree, Stack has climbed the ladder from intern to asset manager with the Port of San Diego. Eventually, she would like to serve the San Diego community as a CRE developer.

**Jennifer Volbeda**, a graduate student at Portland State University, is expecting to receive her Master in Real Estate Development in 2019. Volbeda started as a project assistant at R&H Construction in Portland, Oregon. After furthering her abilities through continuing education classes at Portland Community College, she earned the position of construction project engineer. In addition to working and learning, Volbeda is an active Commercial

### NAIOP and Prologis Present Inaugural Scholarship

**NAIOP and Prologis** are partnering on a unique program to help prepare women and minorities to fill CRE positions in development and operations through the NAIOP and Prologis Inclusion in CRE Scholarship. Ten recipients were selected to participate in the inaugural full-year program that includes mentoring, conference participation and engagement in NAIOP's online courses to earn a NAIOP Certificate of Advanced Study in Commercial Real Estate Development or Finance.

In June, the recipients were honored at I.CON: The Industrial Conference in Jersey City, New Jersey, during a program that included remarks by Prologis executives **Gary Anderson**, CEO of Europe and Asia; **Kim Snyder**, president of the southwest region; and **Gayle Starr**, managing director for global capital markets. ■

Inaugural scholarship winners honored at I.CON met with executives from Prologis and NAIOP. Row 1, L-R; Thomas J. Bisacquino, NAIOP; Danielle Schline, Prologis; Joanna Xu, The Wharton School at the University of Pennsylvania; Vivien Wu, CBRE; Catherine Truong, RioCan REIT; Jacqueline Iniguez, Brookfield Office Properties; Emily Cannon, Prologis; Laura Spry, Prologis; Xinyi McKinny, Cushman & Wakefield; Mackenzie Ford, Stream Realty Partners; Christie Lee, Prologis; Gary Anderson, Prologis; Row 2, L-R; Mark Shearer, Prologis; Robert Kritt, Prologis; Fritz Wyler, Prologis; Thomas Allen, Partners By Design; Bronwyn Scrivens, Cushman & Wakefield; Monika Rau, Dream; Gayle Starr, Prologis; Mary Lang, Prologis; Barb Parnarouskis, NAIOP; Kim Snyder, Prologis.

Real Estate Women (CREW) mentor to the next generation of Portland women in CRE. She is employed by Harsch Investment Properties as a tenant coordinator and project engineer.

## Undergraduate Students

**Heather Dorfler** is majoring in CRE and Finance at Marquette University. She is most interested in financial analysis and intends to become a real estate analyst upon graduation. Dorfler has gained real-world experience in her chosen field through participation in NAIOP, CREW, Marquette Business Ambassadors and the Marquette Track & Field Club, which she served as treasurer. Her goal is to use her skills in finance to build long-lasting professional relationships with other CRE specialists and to contribute to the advancement of the CRE industry by making careful and thoughtful financial decisions.

**Cristian Goodson** is a student in The Corky McMillin Center for Real Estate at San Diego State University (SDSU), where he is majoring in Real Estate. He has been an avid participant in leadership programs, including Rotary Youth Leadership, NAIOP Developing Youth Leaders, SDSU Real Estate Society and NAIOP's University Challenge. Goodson is focusing on a career in CRE investment, development and brokerage. He has honed his skills as an acquisitions and investment intern with Watters Investment and as an inside sales agent with Whissel Realty, both in San Diego.

NAIOP champions diversity through strategic initiatives aimed at incorporating professionals from traditionally underrepresented groups – including women, African-Americans, Asian-Americans and Hispanics – throughout the industry. ■

By **Hannah Buckles**, member services associate, NAIOP, buckles@naiop.org

# Invest in Opportunity: Invest in Rural America

**Qualified Opportunity Zones will capitalize on rural America's "can-do" attitude.**

By Rep. Ron Kind (D-Wisc.)

SINCE AMERICA'S founding, we have used our "can-do" attitude to grow crops that feed our communities and our country. We have used our "can-do" attitude to establish and lead during America's manufacturing revolution. And we have used our "can-do" attitude – along with our appreciation of quality education – to provide opportunity for America's future.

But in many small and rural communities, we've also faced some serious challenges. As a lifelong Wisconsinite, I know how fragile the economic foundations of many communities and small businesses are across Wisconsin. For years, many hardworking Wisconsinites in rural communities have seen a lack of investment in their hometowns and felt that the deck was stacked against them.

But that's changing. Now we're seeing a movement to invest in rural America – and invest in opportunity.

Recently, a program creating economic opportunity zones, that was part of a bipartisan bill called *Investing in Opportunity Act of 2016,* was passed into law as a provision in the new federal tax law. With colleagues in the House and Senate – Sens. Tim Scott (R-S.C.) and Cory Booker (D-N.J.), and former Rep. Pat Tiberi (R-Ohio) – we have fought for a new approach to connect struggling communities with the private investment they need to thrive. Millions of Americans live in communities facing crises such as closing businesses, lack of access to capital and limited entrepreneurship opportunities. We know we can solve these problems if we work together.

**"While the tax incentives are focused on investors, the benefits of the program also accrue to developers and entrepreneurs who are seeking financing for their projects and businesses. The tax benefits could reduce the cost of capital for these projects, making them more financially viable."**

*Ron Kind*

This bipartisan legislation helps fund a new generation of entrepreneurs and enterprises in economically distressed areas of the country. It assists in overcoming barriers to investment by providing temporary capital gains deferral in exchange for reinvestment in distressed communities. In addition, it encourages investors from across the nation to pool resources through newly created Qualified Opportunity Funds established specifically to make investments in distressed communities. The legislation also provides incentives for investors to make long-term commitments to these communities by increasing the size of the tax benefit the longer they stay.

The bottom line: creating opportunities in rural communities requires partnerships. Rural America's "can-do" attitude paired with the $2.3 trillion of untapped capital held by U.S. investors could be the beginning of the rural renaissance. Wisconsin's Third Congressional District is now home to 15 designated Qualified Opportunity Zones in nine counties across western and central Wisconsin. For the next 10 years, investors across America will have the opportunity to invest in those Qualified Opportunity Funds, buoyed by the famous Midwest work ethic we're so proud of. When discussing Qualified Opportunity Zones, it is important to remember that rural communities are not depressed or repressed communities. Many of them are simply places that could stand to be reminded that America appreciates their "can-do" attitude. Together, we can work with the people of Adams County to lower the poverty rate and increase the number of high school graduates. We need to partner with our neighbors in

## 'Opportunity Zones' in the New Federal Tax Law: What They Are and How They Work

**A provision in the new federal tax law** passed in 2017 focuses on the creation of "Opportunity Zones" to encourage investment in parts of the U.S. characterized by high poverty and economic underperformance. As is sometimes the case with new legislation, the statutory text leaves many important questions unanswered about the mechanics and the particulars of the program. However, key elements of the law are in place, and they are summarized here.

The Opportunity Zones provision offers potentially significant tax incentives for investors, including non-U.S. persons, to help attract funding for businesses in low-income areas. Those incentives focus largely on channeling capital gains into Qualified Opportunity Funds that invest in Qualified Opportunity Zone businesses in eligible communities. While the tax incentives are focused on investors, the benefits of the program also accrue to developers and entrepreneurs who are seeking financing for their projects and businesses. The tax benefits could reduce the cost of capital for these projects, making them more financially viable.

Qualified Opportunity Zone businesses can be involved in real estate, retail, manufacturing, food, energy, research, services and other activities. Individuals and businesses can delay paying federal income tax on capital gains until 2026; in addition, they can enjoy up to a 15 percent increase of their basis in those gains by investing in Qualified Opportunity Funds that in turn, invest at least 90 percent of their assets in businesses or tangible property located in low-income areas. In addition, gains on investments in the funds can be free of federal income tax if the investment is held for at least 10 years.

### Key Elements of the Opportunity Zone Program

#### The Tax Incentives

There are three types of tax incentives:

- Investors can defer paying tax on capital gains until 2026 by investing in Qualified Opportunity Funds.
- The basis in the deferred capital gains is increased by 10 percent after 5 years and an additional 5 percent after 7 years, for a total of 15 percent.
- Gains on Qualified Opportunity Fund investments held for at least 10 years can be tax free.

#### The Mechanics

To receive the incentives, the following parameters apply:

- Investors channel capital gains into Qualified Opportunity Funds.
- Qualified Opportunity Funds invest at least 90 percent of assets into Qualified Opportunity Zone property.
- Qualified Opportunity Zone property includes partnerships, corporations and tangible property operating in or being used in Opportunity Zones.
- Opportunity Zones are low-income census tracts that are either urban or rural and that were nominated by governors and designated by the secretary of the U.S. Treasury.
- Qualified Opportunity Fund developers may receive fees and carried interest for managing the funds. ■

By **Mary Burke Baker** (mary.baker@klgates.com), government affairs counselor, K&L Gates LLC

**"When discussing Qualified Opportunity Zones, it is important to remember that rural communities are not depressed or repressed communities. Many of them are simply places that could stand to be reminded that America appreciates their 'can-do' attitude."**

*Ron Kind*

the city of Nekoosa to establish the foundations for a successful business. And we need to work with families in the cities of Prairie Du Chien and Menomonie to create jobs and increase access to affordable housing.

The most sustainable way to effect these changes – in Wisconsin and the rest of the country – is by investing in communities and incentivizing job growth in areas of our country that have faced economic challenges. This newfound economic innovation will encourage new businesses to plant roots in these communities, and our towns and cities will flourish.

Businesses and investors are encouraged to step up and join us in doing everything we *can do* to help rural communities across Wisconsin and the nation. ■

By **Ron Kind**, U.S. Representative for Wisconsin's 3rd Congressional District

**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. Readers can also access an interactive digital version and download a mobile app for 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**
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**Market Share Blog**
Insights on trends, CRE-related topics and professional development tips. Subscribe to weekly posts, interviews and news. 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







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

## 2018 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 service partners and products for your business.

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# Industrial Properties Continue to Sizzle

CRE PROFESSIONALS SAY "everybody in industrial knows I.CON," and that's never been truer. This year, NAIOP's perennially successful industrial conference reached new heights when the event was officially sold out (with a waiting list), and 850 industrial leaders and 76 sponsoring companies descended upon Jersey City, New Jersey. Judging from the attendance and energetic conversations that took place, it's clear that industrial remains the hottest property type, and there seems to be no end in sight.

"The NAIOP Industrial Space Demand Forecast," published in the first quarter of 2018 by the NAIOP Research Foundation, anticipates that roughly 55 million square feet of industrial space will be absorbed each quarter over the next two years. The report creates a nexus between consumer spending and demand for industrial products due to the growth in e-commerce. As long as the economy is healthy and consumers continue to spend, e-commerce merchants will generate demand for warehouses, fulfillments centers, sortation facilities and other industrial products.


Jim Neyer

There does not appear to be a single market that is not building industrial properties, and the demand for urban fulfillment centers continues to grow. Among the biggest obstacles for urban areas is a finite number of locations for new development. In New York City, the average age of industrial buildings is 70 years, and a large number of existing buildings are old or outdated. Coupling high demand and limited supply means that when a pocket of space becomes available, companies act quickly to buy and redevelop.

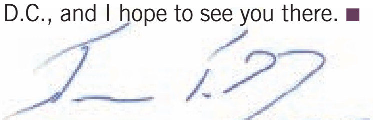
As Clark Machemer, senior managing director with Crow Holdings, said in his concluding remarks at I.CON, "Today's warehouse industry is the logistics business. It is both men and women conducting site tours in a Tesla with real-time data on their smartphones, evaluating transportation costs, labor costs, warehouse throughput, detailed performance specs of the building and supply chain platform efficiency." Machemer continued, "We are building on sites that just five years ago we would not step foot on. Today, innovative environmental remediation firms are partnering with contractors and collaborating with developers and local municipalities to 'make land.'"

From the first mile to the last mile, and from cold storage to air cargo to port logistics, I.CON thoroughly covered the trends and drivers in industrial real estate. Throughout the year, I've talked about the value of NAIOP engagement, and this conference is a shining example of the vetted knowledge that NAIOP brings to its members. In fact, 98 percent of I.CON survey respondents said they left the event knowing something they hadn't previously known or with new insight into a known issue. Beyond the education, the networking was plentiful and valuable: 97 percent said they made new business contacts or strengthened existing relationships at the event. If you couldn't attend, I encourage you to plan for two industrial conferences next year: I.CON West 2019, June 6-7, in Long Beach, California, and I.CON East 2019, in mid-September, in Jersey City, New Jersey. You can retrieve helpful session summaries, presentations and more from this year's I.CON at www.naiop.org/icon18resources.

At the start of I.CON, I had the pleasure of meeting the 10 individuals who have been selected as the inaugural recipients of the NAIOP and Prologis Inclusion in CRE Scholarship for women and underrepresented professionals (see page 98). I was impressed with this group of enthusiastic, bright individuals who are the future leaders of our industry and organization. On behalf of the NAIOP Board of Directors, I commend Prologis for driving this program that complements our own important diversity efforts.

While I am visiting chapters, I often say that members join NAIOP for the networking, learn a lot along the way from our robust education resources, and get the largest return on investment from the powerful leverage that our association delivers in the advocacy arena. Whatever brings you to NAIOP, there is more available to you if you choose to get involved in your chapter and at the corporate level through events, committees and the National Forums.

Our next gathering will be at CRE.Converge, October 15–17 in Washington, D.C., and I hope to see you there. ■



By **Jim Neyer,** executive vice president, real estate development, Al. Neyer, and 2018 NAIOP Chairman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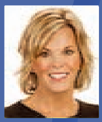

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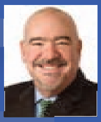

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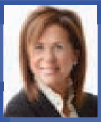

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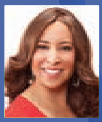

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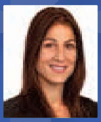

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