Commercial Real Estate Development SUMMER 2023

Development®

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NAIOP

COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

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2022 INDUSTRIAL INVESTMENT SALE HIGHLIGHTS

AMAZON-LEASED INDUSTRIAL PORTFOLIO
Utah and California
1,160,000 SF
Sold on behalf of:
A Family Office

RSF PORTFOLIO
Multicity, MA
295,602 SF
Sold on behalf of:
Seyon & Wheelock Street

1710 AUTOMATION
San Jose, CA
196,647 SF
Sold on behalf of:
EQT

INTERCHANGE INDUSTRIAL CENTER
North Las Vegas, NV
683,431 SF
Sold on behalf of:
CapRock Partners & Carlyle

AHF PRODUCTS PORTFOLIO SALE LEASEBACK
Multi-state
969,030 SF
Sold on behalf of:
AHF Products LLC

KEARNY MESA LOGISTICS CENTER
San Diego, CA
299,381 SF
Sold on behalf of:
Crow Holdings & Lincoln Property Company

44 LOWELL JUNCTION ROAD
Andover, MA
135,077 SF
Sold on behalf of:
Griffith Properties

300 TOLAND
San Francisco, CA
22,674 SF
Sold on behalf of:
HNWI

3900 INDIAN AVENUE
Perris, CA
579,708 SF
Sold on behalf of:
Clarion Partners

11404 COMMANDO ROAD
Everett, WA
246,640 SF
Sold on behalf of:
Capstone

100 RUSTCRAFT
Dedham, MA
422,117 SF
Sold on behalf of:
RJ Kelly & Independencia Asset Management

PACIFIC GATEWAY INDUSTRIAL PARK
Kent, WA
823,600 SF

KLOSTERMAN BAKERY PORTFOLIO SALE LEASEBACK
Multi-state
526,492 SF
Sold on behalf of:
Klosterman Bakery Company

BRISTOL LOGISTICS CENTER
Bristol, CT
1,138,144 SF
Sold on behalf of:
BLDG Management

NORFLEET DISTRIBUTION CENTER
Kansas City, MO
702,000 SF
Sold on behalf of:
LaSalle Investment Management

2620 DECKER LAKE
Salt Lake City, UT
423,881 SF
Sold on behalf of:
Dakota Pacific

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Development® Summer 2023

COLUMNS

The Sky Lounge at 405 Colorado in Austin, Texas, stands 14 stories above the street. It mixes functional workspaces with breakout areas.

Photo by Andrea Calo, courtesy of Brandywine Realty Trust

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STARBUCKS COFFEE
HOTEL DROVER
4
4

A Note From the Editor

Uncertainty Looms Over CRE Markets

"Stay alive until 2025" is becoming a familiar refrain as interest rates climb and credit markets tighten. Many in the industry see turbulence ahead, especially for office and retail properties.

Jennifer LeFurgy

Despite the strength of the industrial and multifamily markets, they have not proven immune. We hope to have a clearer picture of CRE fundamentals by September.

In this issue, we look at some lessons learned from previous economic downturns and see how office amenities have changed post-pandemic.

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

Future NAIOP Events

- **I.CON Cold Storage**, September 12-13, Atlanta
- **CRE.Converge**, October 18-20, Seattle

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

Most Popular From Spring 2023

1. **"Mexico: Nearshoring, Foreign Investment Create Industrial Opportunities"** (naiop.org/23mexico), page 56
2. **"Novus Innovation Corridor: A Model for Modern Cities"** (naiop.org/23novus), page 64
3. **"Buffalo, New York: A New Take on Grit"** (naiop.org/23buffalo), page 70
4. **"A Seamless Blend of Retail and Recreation"** (naiop.org/23blend), page 10
5. **"Talent Development and the Future of the CRE Workforce"** (naiop.org/23CREworkforce), page 100

In Brief

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

INDUSTRY OUTLOOK

13.8% The total percentage of commercial real estate debt held by the 135 U.S. regional banks with between $10 billion and $160 billion in assets, according to a Moody's report published in April. According to the Commercial Observer, that figure is important because it is "far less than 65% to 80% numbers some experts have asserted." The Moody's report notes that "CRE loans have less leverage, asset pricing has more cushion, and borrowers have a more diverse set of debt sources, which puts the CRE debt market in a relatively better position given a 2008-style bank liquidity crunch."

8% The percentage increase in the number of commercial mortgage-backed securities (CMBS) loans managed by special servicers during the first quarter of 2023, according to research by Trepp. Those loans have a total value of $34.27 billion. A significant portion of this increase was driven by the office sector, where loans in special servicing now amount to $8.07 billion. That's up 24% since the start of the year.

OFFICE

12.9% The U.S. office vacancy rate in the first quarter of 2023, which exceeds the peak rate seen during the 2008 Global Financial Crisis. According to an April report in the Wall Street Journal, "that figure marked the highest vacancy rate since data firm CoStar Group Inc. began tracking it in 2000."

54.5% The percentage of workers in the Washington, D.C., area who are working from home at least one day a week, according to an April article in the Washington Post based on data from the U.S. Census Bureau's Household Pulse survey. That is the highest percentage in the nation, and it's largely fueled by the number of federal employees who telework, according to the article.

INDUSTRIAL

30% The total increase in demand for industrial space in 2022, according to JLL's 10th annual U.S. Industrial Demand Study, published in late January. According to the report, the logistics and parcel delivery industry ranked No. 1 with demand for more than 194 million square feet in 2022. Additionally, demand in the automotive industry has risen by more than 156%, while demand from construction, machinery and materials companies grew by more than 41%.

RETAIL

5.6% The national retail vacancy rate in the first quarter of 2023, according to research from Cushman & Wakefield. It's the best reading since 2007, according to the report, and it marked the eighth straight quarter of positive net absorption. Segments such as value retail, consumer services and ultra-luxury have performed especially well, the report notes. New York, Houston and Phoenix saw particularly strong demand.

MULTIFAMILY

74% The percentage decline in sales of rental apartment buildings in the first quarter of 2023 compared to the same period in 2022. According to an April article in the Wall Street Journal, that represents "the fastest rate since the subprime-mortgage crisis, a sign that higher interest rates, regional banking turmoil and slowing rent growth are undercutting demand for these buildings." According to the article, only $14 billion in sales were recorded in the first quarter, the lowest figure since 2012.

TRANSPORTATION

3.7 Trillion Total vehicle miles traveled (VMT) in the U.S. in 2022, according to preliminary estimates from the U.S. Federal Highway Administration. While that is a 1% increase from 2021 and 9% higher than at the height of the pandemic in 2020, it's 3% lower than VMT in 2019, according to a March analysis by the State Smart Transportation Initiative at the University of Wisconsin-Madison. ■

Costs Cool Down, but Not for All Construction Items

Products such as concrete and flat glass are seeing record-setting price increases.

By Ken Simonson, AGC

Headline figures for consumer and producer prices have been reassuring compared to the numbers from a year ago. However, the data provides cold comfort to developers still experiencing heated construction costs.

By March, the year-over-year change in the consumer price index (CPI) had chilled to 5.0% from a torrid 9.1% in June 2022, the Bureau of Labor Services (BLS) reported in April. BLS's producer price index (PPI) for inputs to new nonresidential construction — a weighted average of the cost of all materials and selected services such as design and trucking services — moderated even more. That index fell 1.1% from March 2022, a huge turnaround from increases of 20% for 12 straight months in 2021 and the first half of 2022.

But averages and aggregates can mask a lot of variation. In this case, the recent decline has been driven by plunging prices compared to a year earlier for lumber, fuels and metals, while numerous other input prices continued to increase steeply.

For instance, from March 2022 to March 2023, the PPI for cement jumped 17.0%, the largest increase since 1975. Cement price increases are typically passed along with a short lag by ready-mix concrete suppliers. That suggests that the PPI for ready-mix concrete, which climbed 13.2% over the same period, may soon post even larger increases.

Developers can't expect to get any price relief on paving by switching from concrete to asphalt. The PPI for asphalt paving mixtures and blocks rose 14.1% for the year ending in March. The index for construction sand, gravel and crushed stone — which go into both ready-mix and asphalt — rose 11.3% over 12 months.

When it comes to the building itself, there have been price increases

By March, the year-over-year change in the consumer price index (CPI) had chilled to 5.0% from a torrid 9.1% in June 2022, the Bureau of Labor Services (BLS) reported in April. BLS's producer price index (PPI) for inputs to new nonresidential construction — a weighted average of the cost of all materials and selected services such as design and trucking services — moderated even more.

Not All Construction Costs are Cooling

Producer price indexes, one- and 12-month change (not seasonally adjusted)

	March 2023 change from: February 2023 (1 month)	March 2022 (12 months)
Cement	0.3%	17.0%
Asphalt paving mixtures and blocks	0.2%	11.8%
Gypsum building products	-0.1%	11.8%
Subcontractor price indexes, nonresidential work		
Roofing contractors	0.2%	19.5%
Plumbing contractors	0.8%	12.5%
Electrical contractors	0.1%	18.8%
Concrete contractors	0.1%	8.0%

Source: Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi aplenty. The price index for flat glass recently posted its largest increase in 40 years and rose 10.6% from March 2022 to March 2023. The index for insulation materials climbed by a similar 10.5%. Gypsum building materials such as wallboard increased 11.8% in price during the same timeframe. And the index for architectural coatings such as paint jumped 14.5%.

When it comes to the building itself, there have been price increases aplenty. The price index for flat glass recently posted its largest increase in 40 years and rose 10.6% from March 2022 to March 2023. The index for insulation materials climbed by a similar 10.5%. Gypsum building materials such as wallboard increased 11.8% in price during the same timeframe. And the index for architectural coatings such as paint jumped 14.5%.

Not surprisingly, subcontractors are raising their bid prices to reflect their higher materials, labor and financing costs. PPIs for new, repair and maintenance work by nonresidential subcontractors jumped 19.5% through March for roofing contractors, 18.8% for electrical contractors, 12.5% for plumbing contractors and 8.0% for concrete contractors.

Input costs overall have moderated because of a limited number of recent, sharp price declines. From March 2022 to March 2023, PPIs tumbled 38.5% for lumber and plywood, 19.4% for diesel fuel, 15.1% for steel mill products, and 13.0% for aluminum mill shapes.

Given the volatility of prices in the past three years, it is no wonder that contractors' bid prices have remained high. BLS compiles a "net output index" for new nonresidential building construction by asking a fixed group of contractors what they would charge to put up a set of buildings. BLS combines this information with data from cost-estimating firms. The resulting index rose 16.5% from March 2022 to March 2023.

Input costs overall have moderated because of a limited number of recent, sharp price declines. From March 2022 to March 2023, PPIs tumbled 38.5% for lumber and plywood, 19.4% for diesel fuel, 15.1% for steel mill products, and 13.0% for aluminum mill shapes.

In short, developers should not assume that moderation in broad indexes, such as the CPI, or the cost of a few inputs, such as fuel or lumber, means that nonresidential construction costs will decline anytime soon. There are too many other moving parts — many of which are moving in different directions. ■

Ken Simonson is the chief economist with the Associated General Contractors of America. He can be reached at ken.simonson@agc.org.

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What's the Future of Cities in the Aftermath of COVID-19?

Urbanist Richard Florida sees downtowns evolving from destinations for work into "better neighborhoods."

By Trey Barrineau

The COVID-19 pandemic had significant impacts on cities around the world. Many suffered economically and socially, with downtown areas hit particularly hard. Despite that, urbanist **Richard Florida** says the crisis also created opportunities for municipalities to reimagine their central business districts as more than places for work.

"We are entering a new era," Florida said during a recent webinar hosted by The Business Journals. "It took us a long way to get here, but it's finally dawning on people — city leaders, chambers of commerce, advocacy groups, landlords, real estate owners, banks — that we're going to have to change the way we create our downtowns. We've done this a lot over the past century, and I think we can do it again."

However, cities face many challenges as they enter the post-pandemic phase. The current economic uncertainty, driven by inflation and higher interest rates, is colliding with a profound transformation in how most white-collar businesses run their day-to-day operations. This has significant implications for office markets and the vitality of central business districts.

"Our downtowns are uniquely troubled," Florida said. "People aren't going back to the office. Offices have high vacancy rates."

Evoking "Downtown is for People," the seminal 1958 essay written by his mentor, the urbanist and journalist **Jane Jacobs**, Florida said that cities should focus on turning central business districts into areas that offer a range of amenities. This will make them more attractive places to live, work and play.

Urbanist Richard Florida says it is critical for cities to transform their central business districts into places that offer a wide range of amenities.

"She (Jacobs) basically says monocultural downtowns filled with these giant office towers were not what they should be," he said. "They should be better neighborhoods."

Remote Work is Here to Stay

Florida believes that the remote-work trend, which only applied to about 6% of the workforce before its widespread adoption during the pandemic, will continue in some form. People don't want to give up the flexibility and freedom it provides.

"What happened is that we became untethered," he said. "Up until recently, you needed a phone with a cable and a desk. I don't work at a desk anymore. As we came untethered, people could spread out. That was happening before the pandemic, and then the pandemic came along and supercharged that."

> "It took us a long way to get here, but it's finally dawning on people — city leaders, chambers of commerce, advocacy groups, landlords, real estate owners, banks — that we're going to have to change the way we create our downtowns."
>
> — *Richard Florida, urbanist*

Florida says it's not about the personal preferences of workers, though. He believes the traditional office model has been outdated for a long time.

"The office we have is a 150-year-old artifact," he said. "There are fluorescent lights, there are cubicle farms. There isn't a lot of privacy. It's not a great place to work."

According to Florida, real estate developers should focus on creating offices with comfortable seating, natural light and open spaces. This will require significant investments, but it will be worth it to attract workers back to the office.

"The trend now is to make the office look more like your living room or house, to look more like a really nice hotel lobby," Florida said. "When I wrote 'Rise of the Creative Class' 20 years ago, I heard this statement: 'I want to work on great projects, with great people and peers, in great

> **"The trend now is to make the office look more like your living room or house, to look more like a really nice hotel lobby."**
>
> — *Richard Florida, urbanist*

spaces and great places.' You see it dawning on real estate developers and landlords. I think that people are going to have to up their game, in terms of what they provide, to bring workers back to the office, and they have to accept that they're not going to come in every day."

A Period of Flux

Florida also predicts that the geography of work will change, with people no longer tied to a single location.

"Work ... will expand in areas outside the central business district," he says. "You're also going to have tremendous opportunities for workspaces in suburban areas, in outlying areas. People don't just want to work from home. They want to go somewhere to work, and they want to meet with people."

Florida says many buildings in central business districts, particularly class B and C buildings, will be demolished.

"Some buildings... will have to come down," he said, noting that certain office buildings are not suitable for conversions to other uses. Other buildings will go back to the banks. "The people who own those buildings will get hurt, but new actors will buy up some of those buildings, only highly discounted."

It won't just be real estate developers and investors who will lose money, though.

"Cities will take a revenue shortfall," Florida said. "It's going to be hard to

New & Noteworthy

2 million sq. ft.

MCB Real Estate LLC, along with **Invesco Real Estate, Curated Development Group** and **Birchwood Capital Partners**, is building **Currwood Logistics Park** in **Hagerstown, Maryland**. Set for completion in late 2023, the park will offer approximately 2 million square feet of industrial, warehouse and logistics space in two buildings, potentially creating up to 1,500 jobs. The larger building will have an alternate-energy-ready roof for a solar array, while both buildings will provide ample parking and truck court space.

1.2 million sq. ft.

Building 1 of the **Central Florida Integrated Logistics Park** in **Winter Haven, Florida**, a 1,217,534-square-foot Class A cross-dock **industrial spec development**, will be delivered in the third quarter of 2023. The 87-acre property, owned by **Tratt Properties**, features 40-foot clear heights, ESFR sprinklers, 193 dock doors, four drive-in doors, 543 trailer parking spaces and 376 parking spaces. The park boasts 930 acres of developable land, accommodating more than eight million square feet of development.

945,000 sq. ft.

Hoar Construction has completed Phase I of **Fenton**, a 945,000-square-foot mixed-use development in **Cary, North Carolina** on behalf of the developer, **Hines**. The 69-acre project, near the intersection of I-40 and Cary Towne Boulevard, includes 200,000 square feet of Class-A office buildings, 345,000 square feet of retail, restaurant and entertainment space, and a two-level, 254,000-square-foot parking deck with 811 spaces.

make up the revenue. There's going to be struggles. The people who will be hardest hit are going to be the people who work in those service businesses and the retail shops and the coffee shops and the lunch places and the restaurants who have to go out and find another job in hard times. Ultimately, this will happen. We've seen it happen before."

Florida noted that while this evolution will be difficult, it won't be nearly as damaging as the one experienced by many of the same urban areas decades ago.

"The greatest challenge that ever hit our cities in our time was deindustrialization," he said. "That was an existential crisis. Our cities, which were once filled with factories, all of those factories were boarded up within a very short period of time. They moved out, leaving massive holes, massive unemployment, massive fiscal shortfalls. Cities went bankrupt. No one thought cities could bounce back, but they did."

"Cities will take a revenue shortfall. It's going to be hard to make up the revenue. There's going to be struggles. The people who will be hardest hit are going to be the people who work in those service businesses and the retail shops and the coffee shops and the lunch places and the restaurants who have to go out and find another job in hard times."

— Richard Florida, urbanist

Much like in the past, the way forward through the current crisis will require significant investment and innovation. Florida believes that building more affordable housing will be crucial to the success of cities in the future, especially multifamily units that are suitable for families. This means overcoming the NIMBY (Not In My Backyard) attitude that often blocks affordable residential development.

Other Considerations

Florida says nearly every city today is facing challenges around safety and crime, both in reality and perception.

While crime rates are nowhere near the levels seen from the early 1970s to the early 1990s, they have gone up, and there is a widespread sense that they are getting worse. Cities need to ensure that essential functions such as police and social services are funded.

Another challenge facing cities is the need to rethink transit systems. Many were built decades ago around a 9-to-5 model, which no longer applies in the aftermath of the pandemic. According to Florida, people now use transit for many functions, including leisure, and this means that the systems must be more flexible. Governments will have to make hard choices about how to maintain existing transit infrastructure, and he suggested that many municipalities should consider holding off on big investments for now.

Florida believes that the key to success for cities is to focus on innovation.

"The roaring 2020s are here, and people want to have fun," he said.

This means cities need to be more creative in how they use space. Florida suggested that this innovation will come in the form of new construction methods, new mobility options and green technologies.

Finally, Florida said that the biggest key to success for cities is to focus on the people who live there. In addition to creating affordable housing and investing in education and training, it also means providing opportunities for everyone, regardless of their background or socioeconomic status. Florida believes that diversity, equity and inclusion (DEI) initiatives are not just ethical imperatives but also economic ones.

"You cannot afford to waste any person's talent," he says. ■

Trey Barrineau is the managing editor of publications for NAIOP.

New & Noteworthy

917,374 Sq. ft.

Jackson-Shaw is developing **Chisholm 20**, a Class A, 917,374-square-foot **business park** on 69 acres in **Benbrook, Texas**, with completion expected in the third quarter of 2023. The four-building park near Interstate 20 and Winscott Road will offer flexibility for multiple tenants. It will feature 60-foot speed bays, 32- to 36-foot clear heights and significant trailer storage.

500,000 sq. ft.

Trammell Crow Company and **CBRE Investment Management** are building the **Cochrane Technology Center**, a 500,000-square-foot Class A **business park** in **Morgan Hill, California**. As the largest speculative industrial development currently under construction in Silicon Valley, the project will feature five industrial buildings on a 30-acre site, with completion expected in early 2024. The development will accommodate various tenant sizes and cater to the operational needs of Silicon Valley companies, with buildings ranging from 73,000 to 138,000 square feet.

424,404 sq. ft.

Jackson-Shaw is developing **Northeast Crossing**, a 27.45-acre **urban industrial park** in **Houston**'s northeast submarket. Scheduled for completion in the second quarter of 2023, the park will feature a 424,404-square-foot building with cross-dock configuration and ample trailer parking. Amid strong demand for industrial space in Houston, Northeast Crossing is expected to attract e-commerce and supply chain companies.

Seven Questions for an Architecture Firm's Construction Administrator

Facility managers and owners need to ensure that they're working with a strong liaison on a project.

By Penny Mashtare, Assoc. AIA, McMillan Pazdan Smith Architecture

Preparation, strong partnerships and excellent communication are necessary to complete capital construction projects on time and within budget. A lesser-known factor is a skilled construction administrator (CA). Although architecture firms rely heavily on their technical expertise, CAs are often underutilized by owners and facilities managers.

The CA functions as a liaison and advocate between the owner, architect, engineering consultants and contractor. CAs report deficiencies through site observation reports, review the percentage of work completed for approval of application for payment, review change orders, provide submittal reviews for construction document compliance, and respond to requests for Information (RFIs). The CA communicates regularly with key stakeholders to ensure that the project is completed on time and within budget, and meets the intent of the construction documents.

A seasoned construction administrator can be an asset to any owner. Conversely, an inexperienced one can be a detriment.

Here are seven questions facility managers and owners should ask an architecture firm's construction administrator.

A construction administrator acts as intermediary between owners, architects, engineering consultants and contractors on development projects.

1. How do you communicate?

When miscommunications can cost thousands or even millions of dollars, finding design and construction partners who communicate openly and effectively is crucial. Asking a construction administrator to elaborate on their communication style and preferred methods of communication indicates how responsive they will be on a project.

Although owners can schedule owner, architect and contractor (OAC) meetings on a weekly or bi-weekly basis to review a project's progress, construction administrators play a key role in documenting discrepancies, coordinating changes and communicating with the team in between these meetings. They must be trusted to voice concerns before disputes or claims arise. However, not every quality-control or quality-assurance procedure must be presented to owners at once, as it can be difficult to focus on the task at hand when a CA is overcommunicating. It's critical to strike a balance between imparting crucial information and filtering out the fluff.

2. What's your documentation process?

Documenting the difference between the architectural plans and the constructor's execution is one of the

CAs report deficiencies through site observation reports, review the percentage of work completed for approval of application for payment, review change orders, provide submittal reviews for construction document compliance, and respond to requests for Information (RFIs). The CA communicates regularly with key stakeholders to ensure that the project is completed on time and within budget, and meets the intent of the construction documents.

most important ways CAs add value to a project. Meticulous written and photographic documentation is vital to quality control. It helps CAs provide owners with comprehensive field observation reports, which are essential throughout construction. This communication record is invaluable during issue resolution and can be beneficial for customers who are unable to walk through a site with this eye for detail. The information-management system the CA uses is also an important aspect of this documentation process.

New & Noteworthy

340,000 sq. ft.

Law firm **Shearman & Sterling** has completed renovations at its **599 Lexington headquarters** in Manhattan. The 340,000-square-foot space, which is on track for WELL Building Standard and LEED Gold certifications, features large screens, improved acoustics, customizable lighting, sit-stand desks, eco-conscious features, artwork from diverse artists, and a destination café with fresh, nutritious options.

300,000 sq. ft.

Stiles, Hensler Development Group and **PGIM Real Estate** are building **Peabody Union** in **Nashville**, a **mixed-use development** featuring dining, retail, office space and luxury residences. Located on the banks of the Cumberland River, Peabody Union will be a walkable area anchoring the Lower Downtown District (LoDo). Set for completion in late 2024, the project will offer 50,000 square feet of retail and dining, 250,000 square feet of Class-A creative office space and a 27-story multifamily tower with 354 apartments.

181,000 sq. ft.

VanTrust Real Estate is building **VT 202**, a speculative **industrial development** in **Southwest Phoenix** that features two Class A buildings totaling 181,000 square feet. The project offers flexibility in tenant requirements, accommodating users seeking 38,000 to 181,000 square feet. Building A will be 104,687 square feet and Building B will be 76,319 square feet. Both will feature 32-foot clear heights and numerous dock-high and grade-level doors.

This allows for a traceable information flow that facilitates clear and concise communications with the project team.

3. What is your area of expertise?
Just as contractors and design firms specialize in various industries, construction administrators often work exclusively in specific verticals or projects. For example, if a firm focuses on industrial, municipal, healthcare or higher education, identify a CA for the team experienced in those project types. This ensures that the selected CA will be aware of critical requirements, and they will be more likely to identify solutions to unique challenges that may arise during construction.

Materials also vary from project to project. In addition to broader construction comprehension, CAs must have deep technical knowledge of the specific building type and its components (e.g., envelope materials, mechanicals, electricals, plumbing, fire protection). For instance, materials and components used in hospitals may vary significantly from what is used in educational facilities or civic buildings. Having a CA whose expertise matches the project type will ensure a quality finished product.

4. How do you ensure RFIs and change orders are handled accurately and efficiently?
Construction contracts typically detail the time allotted to respond to requests for information (RFIs). An ideal CA ensures that questions and information requested by the general contractor are handled in a timely manner. They also hold consultants accountable to provide critical responses

Documenting the difference between the architectural plans and the constructor's execution is one of the most important ways CAs add value to a project. Meticulous written and photographic documentation is vital to quality control.

to keep a project on schedule. Change orders (amendments to the construction contract) are vetted by the CA, architect or engineering consultants to ensure that construction add-and-deduct alternates are justified in the cost breakdown. Post-COVID supply chain issues also mean that any proposed material changes could prolong project completion. A CA's ability to carefully vet change orders can save owners time and money.

5. How many projects are you currently working on?
Not all firms employ construction administrators. Some project architects pull double duty. While this is common on smaller jobs, large-scale, complex projects benefit from having a dedicated CA, given the exacting nature of these capital investments.

Even in firms that do employ CAs, there can be significant discrepancies in their workloads. Although complexity and scope vary on each project, in-house CAs typically work on three to four projects at a time, depending on a project's complexity and schedule. Experienced, priority-driven CAs may be assigned up to six or seven projects, but if their workload is too heavy, it could detract from the time they can devote to a specific project. Fewer site visits could mean fewer opportunities to spot deficiencies before they impact construction costs and schedules.

6. Can you share some of your recent project wins?
Asking a construction administrator about their performance history — including specific examples of issues they flagged during construction and how they were resolved — will provide insight into their process and skills. Did they bring attention to something before it became an issue? If so, that shows their technical expertise. Look for evidence that a CA has a keen eye for detail. Providing a client with a finished project that meets the intent of the construction documents should be expected. Every CA's end goal should be a project that comes in within budget and on schedule.

7. How do you stay ahead of new technologies and industry trends?
Like most industries, the construction landscape is evolving. When new products come on the market, architecture firms employ specification teams to vet them before they're used in the field. CAs must then acquaint themselves with both the new product and the manufacturer's proper installation process. By asking how they stay informed about new technologies and industry trends, it's possible to determine which CAs are on the cutting edge of construction methods and other advances.

Not all firms employ construction administrators. Some project architects pull double duty. While this is common on smaller jobs, large-scale, complex projects benefit from having a dedicated CA, given the exacting nature of these capital investments.

In addition to emerging products, CAs must adapt to new design and construction software programs. Gone are the days when they'd visit sites with hard copies of design plans and specifications. Programs like PlanGrid, Blue Beam, Procore and Newforma allow them to access and review drawings and specifications while performing site visits and increase their response time when issues arise in the field.

An On-site Advocate

Ultimately, construction administrators are an owner or facility manager's on-site advocate, so it's wise to work with trustworthy CAs. Whether spotting construction issues, helping devise a plan of action or determining the dollar value of a proposed solution, CAs must always have the owner's best interest in mind. The right construction administrator can streamline the construction process, support an owner's financial goals, and greatly improve a project's outcome. ■

Penny Mashtare, Assoc. AIA, is lead construction administrator at McMillan Pazdan Smith Architecture.

New & Noteworthy

85,000 sq. ft.

Anchor Health Properties recently commenced construction for the 76-bed, 85,000-square-foot **Jefferson Regional Specialty Hospital** in **White Hall, Arkansas**. The facility, set for completion in December 2023, will provide 40 beds for adult inpatient rehabilitation services and 36 beds for adult and senior behavioral health services. Anchor is collaborating with Lifepoint Rehabilitation and Lifepoint Behavioral Health, who will operate the facility alongside Jefferson Regional.

55,129 sq. ft.

Exact Capital has partnered with **Harlem Equitable Development Corp.** to develop 52 affordable **co-op apartments** in **Central Harlem** through a public-private partnership. The project consists of a six-story building at 207-209 West 140th Street with 21,162 square feet of residential space and a 12-story building at 304 West 150th Street with 34,129 square feet of residential space, offering a mix of studio, one-, two- and three-bedroom apartments.

7,000 sq. ft.

Ware Malcomb has completed construction on **Kinnate Biopharma**'s 7,000-square-foot **office space** in **San Diego**. It focuses on collaborative areas, touchdown workspaces, meeting rooms and open office design. The interior design and branding reflect Kinnate's identity through colors and geometric shapes. Acoustic baffles and a white noise system ensure sound control. As a hybrid workplace, Kinnate encourages employees to use the office for collaboration, with various seating options and hoteling workstations provided for flexible use. ■

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.

Developing Data Centers: Overcoming Current Challenges

The massive power demands of these facilities drives site selection.

By Keith Simpson, PE, Bohler

The demand for data centers is rapidly increasing. According to an August 2022 report by Arizton Advisory and Intelligence, data center construction in the U.S. is expected to reach $25 billion by 2027, with approximately 2,825 megawatts of power capacity added over the next five years. Another report by JLL found that the U.S. data center market is expected to grow at a compound annual growth rate (CAGR) of 14.4% from 2021 to 2025.

But this rapid growth has a downside for those who want to take advantage of it. Developers are facing difficulties finding desirable properties, leading them to explore alternative locations or deal with delays related to imperfect sites. Environmental challenges, zoning hurdles and community pushback are a few of the biggest obstacles.

To streamline development and continue delivering facilities on time, developers must have an in-depth understanding of the current challenges associated with data centers and be able to creatively address them.

Understanding New Realities of the Data Center Market

As desirable locations for data centers become scarce, every potential site must undergo scrutiny. This means it's crucial to be proactive and strategic about site selection and land planning — it's the single most important factor to prevent challenges down the road.

The utility-intensive nature of data centers requires sites that support power, communications and water needs — all of which must be considered from the start. Additionally, developers must account for floodplains, resource protection areas, endangered species habitats and environmentally sensitive locations. Neglecting to examine these factors early in the process could result in a much smaller usable area than anticipated, or a much longer entitlements timeline for wetlands or other environmental concerns.

Data centers face unique challenges around power demand because of the huge amount of cooling that is required to keep the servers operating.

"Spending more time upfront in the strategy and planning phase can delay starting, but that delay can help get relevant agencies on board and receive permits faster, ultimately saving time," says Bohler Data Center Market Associate **Megan Baird**, PE.

Streamlining processes that involve the Army Corps of Engineers and other environmental permitting agencies saves time later in the project — particularly with strategic construction phasing. With a strategic approach, a developer could begin construction on portions of a site while design and permitting are finalized on environmentally impacted portions.

As desirable locations for data centers become scarce, every potential site must undergo scrutiny. This means it's crucial to be proactive and strategic about site selection and land planning — it's the single most important factor to prevent challenges down the road.

Everything related to data center development — from buildings and equipment to grading and storm-

Presenting innovative approaches that demonstrate ways of making facilities more visually appealing also builds trust in the team behind the project and consensus moving forward. Developers can work with an architect to explore how artificial windows, elevation changes and pleasing color combinations will give the data center character and help it fit harmoniously within the surrounding community.

water — can be implemented more efficiently with proactive planning and aggressive due diligence. When the construction schedule can be reduced, there's an opportunity to save costs.

Planning for Power

Power is a limiting factor for data centers. The U.S. Department of Energy reports that data centers can consume as much as 100 to 200 times more electricity than standard offices. Building size and increased computing power needs often require additional on-site substations to supply the large amount of energy needed to operate a data center.

The amount of time required to build a substation for a data center can vary depending on factors such as the size of the substation, the complexity of the project, the location of the site and any local permitting requirements. The timeline for the design, engineering, procurement of equipment and materials, construction, testing and commissioning for a substation can take anywhere from several months to over a year.

The permitting and approval process can also significantly lengthen the construction timeline, as it varies widely depending on the location and local regulations. In some cases, obtaining the necessary permits and approvals can take several months or more.

Each substation project is unique, so timelines can vary depending on the specific circumstances of the project. Like so much related to data center project success, ensuring power availability requires the knowledge and experience to pre-plan properly.

Building Community Consensus

Generally, data centers are good neighbors. They generate little traffic and, unlike other property types, don't strain community resources such as law enforcement, fire departments and schools. However, misconceptions about data centers do exist, and community concerns are increasing as facilities move closer to residential areas. Size, appearance and noise (mostly from the generators and cooling systems that run continuously to prevent servers and other equipment inside the data centers from overheating) top the list. Therefore, it's critical to address the community and key stakeholders upfront.

Developers can help shift perspectives and bring communities on board by explaining how noise will be mitigated through natural or manufactured buffers such as walls or fences around the perimeter of the data center. Landscaping with trees and shrubs can also help absorb sound waves and reduce noise levels. Data center equipment that produces noise can be placed as far away from nearby residences or other noise-sensitive locations as possible. In some cases, the data center equipment itself can be designed to produce less noise. In other cases, sound-insulated enclosures can be used for backup generators and cooling towers.

It's important for data center developers and end users to take exterior noise seriously and employ appropriate measures to mitigate it. By showing initiatives to reduce noise pollution in the surrounding area, the development team improves the overall reputation of the data center and reduces the risk of legal action or complaints from neighbors that can delay the approval process.

Presenting innovative approaches that demonstrate ways of making facilities more visually appealing also builds trust in the team behind the project and consensus moving forward. Developers can work with an architect to explore how artificial windows, elevation changes and pleasing color combinations will give the data center character and help it fit harmoniously within the surrounding community.

Power is a limiting factor for data centers. The U.S. Department of Energy reports that data centers can consume as much as 100 to 200 times more electricity than standard offices.

Finally, edge data centers also present an attractive option. These smaller facilities are built closer to users, which provides faster and more reliable data processing and delivery for applications that require low latency and high bandwidth, like video streaming or online gaming. By being closer to the user, it reduces the amount of data that needs to be transmitted over long distances, improving performance and reducing network congestion. These smaller facilities also require less power and less land. According to a February 2022 report by MarketsandMarkets, the global edge data center market is projected to hit $19.1 billion by 2026, at a CAGR of 21.4% during the forecast period. As edge data centers are increasingly needed in suburban settings, they provide opportunities for developers to get communities behind the project and, as a result, reduce the risk of objections or delays during public hearings. ■

Keith Simpson, P.E., is an associate and director of engineering for Bohler's Mid-Atlantic division.

Rockefeller Group Logistics Park
Bay Shore, NY (Long Island)

How Municipalities Can Attract Private-Sector Investment

The Commercial Triangle district in Everett, Massachusetts, provides a case study in putting a strategic vision into action.

By Gary Kerr, Greystar Development Services

Municipal leaders are continually seeking to improve their communities by bringing in private-sector investment, which catalyzes growth and opportunity. But how can a municipality attract the right kind of investment?

Welcome to Everett

Located just outside of Boston, the city of Everett witnessed the surging economic development in nearby communities such as Cambridge and Somerville. So, with the support of Mayor **Carlo DeMaria**, Everett decided to use the available tools to attract investors — and it worked.

When it's finished in May 2025, Greystar's The Maxwell will consist of 355 market-rate apartments, 29 affordable-housing units, a parking garage with 460 spaces, and roughly 5,300 square feet of retail space on the ground floor.

In the past decade, Everett underwent a master planning process for the Commercial Triangle district, a 110-acre area in the heart of the city, with the objective of spurring investment. Despite being an ideal location just minutes from downtown Boston and Logan Airport, the district lacked proper transit service and largely catered to heavy industries and manufacturing, which impacted its desirability as a residential and retail destination. The new master plan encourages large mixed-use developments (50-plus units) with engaging ground-floor retail. While the master planning process began in 2015, it didn't pass the Everett City Council until August 2018.

To further modernize the area, the new zoning allowed for uses that offered employment and/or essential services for residents (business offices, banks, financial services, research/development facilities, retail services, and indoor entertainment/recreation under 15,000 square feet). This significant overhaul is in concert with the opening of the Chelsea MBTA station in 2021, which is located about a half-mile outside of the city limits and offers access to the Silver Line and commuter rail. To encourage more transit-oriented development, the city took steps such as championing fare-free buses and installing peak-hour bus lanes at a time when other cities were worried about whether such lanes would be feasible. This has resulted in the development of thousands of units of housing, the creation of highly desirable retail, and a $2.6 billion casino and resort complex, the Encore Boston Harbor (which is in Everett despite the name).

In the past decade, Everett underwent a master planning process for the Commercial Triangle district, a 110-acre area in the heart of the city, with the objective of spurring investment. Despite being an ideal location just minutes from downtown Boston and Logan Airport, the district lacked proper transit service and largely catered to heavy industries and manufacturing, which impacted its desirability as a residential and retail destination.

Greystar realized the opportunity presented by Everett. Over the past few years, the company has invested $730 million in the city, building more than 1,900 housing units and creating new public outdoor spaces with multimodal connections, improved pedestrian walking paths and sidewalks, and public dog parks.

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Everett is an example of a municipality that established a vision for its future and used the tools it possessed to make the city attractive for private-sector investment. But that path was not as easy as it may look, and it took more than proximity to Boston to make it happen.

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Everett is an example of a municipality that established a vision for its future and used the tools it possessed to make the city attractive for private-sector investment. But that path was not as easy as it may look, and it took more than proximity to Boston to make it happen. While any community would welcome booming industries and high-paying jobs, it's hard to see the sentiment reciprocated if the environment is not fertile.

Advice for Municipalities

For municipalities interested in turning desire into dollars, here are some tips to keep in mind.

Create transparent pathways for development. Extensive or unexpected red tape can dampen private-sector interest by complicating a project's timeline and price tag. Make the development process clear and straightforward to enhance the municipality's attractiveness for investment.

Engage the community early. When municipalities undertake master-planning efforts, it can be helpful to both existing residents and prospective investors. In the case of the former, it lets the population understand and contribute to the changes coming to their community, which can serve to soften reactions to proposals in the future. Developers, meanwhile, can follow the process in real time by observing and monitoring public meetings and the release of reports stemming from planning efforts. By doing so, they can be ready to act when the plan goes into effect, if they have investors lined up and opportunities in their sights.

Avoid excessive granularity. Hyper-prescriptive planning stifles interest by requiring projects to fit specifications that might be at odds with developers' perspectives. For instance, a plan that requires certain building types at specific locations could reduce interest if the builder doesn't have the confidence (or financial backing) to successfully carry out the municipality's desires.

Keep an eye on the practical. A municipality seeking to significantly ramp up development needs sufficient staff to review and process proposals. Failing to scale up relevant staff while soliciting development proposals is a recipe for disaster because it clogs the pipeline, extending and injecting uncertainty into timetables. Being realistic about infrastructure is also critical. Traffic, public utilities and schools are typically the most affected by development. They can be pain points for residents if they are ignored until they lead to crises. In many cases, municipal investment should be considered a precursor to private-sector investment — much as Everett did by addressing its gaps in transit access.

Ready to take the first step? Start with conversations rather than consultants. Look to communities that found success with new master plans and ask how they did it and who they talked to. This will provide the best foundation for taking the next steps and understanding what might work elsewhere.

To complement that with industry perspectives, talk to a broad array of development companies. Their views might spark ideas previously not considered. Additionally, unlike those preparing feasibility studies, developers are the ones who would be pursuing and executing projects.

As anyone in a position of leadership understands, change can be difficult to maneuver. This is especially true for development, where short-term headaches and long-term fears can dominate the conversation. Leadership is crucial. It is far easier to get 10 opponents to speak up on a topic than it is to get a single supporter, so leaders must properly frame conversations and lay out a clear vision for the future. Do that, and there is a strong likelihood that the private sector will come knocking. ■

Gary Kerr is the managing director for Greystar Development Services in the Northeast region.

Relevant Research

The NAIOP Research Foundation recently published a second research brief in a series that reviews local permitting processes. "Examining Development Approvals Across North America: An Analysis of Site Plan and Building Permit Review Processes" is a follow-up to "The Development Approvals Index: A New Tool to Evaluate Local Approvals Processes," released in February 2021. The Index focuses on transparency, accountability and consistency regarding how local governments handle building plan reviews, permitting and inspections. With the assistance of several NAIOP chapters and George Mason University, the Index now includes data from 100 jurisdictions in 30 states.

To view and download the report, visit www.naiop.org/research-and-publications/research-reports/ ■

Setting a New Stage in Music City

In downtown Nashville, the revitalization of the Fifth Third Center Plaza activates a large public space.

By Trey Rudolph and Jason Kocmar, Gresham Smith

Located at the corner of Church Street and Fifth Avenue in downtown Nashville and just steps away from the iconic Ryman Auditorium and Printer's Alley, the Fifth Third Center building connects the city's historical arts and central business districts. After the 31-story asset was acquired in 2019, EQ Office set a vision for the building that included recharging the ground-level experience and activating a large outdoor public space at the entrance to create a greater sense of community.

In a workplace deeply changed by the COVID-19 pandemic, employees are seeking new experiences. This can be seen in the updated Fifth Third Center Plaza, which transforms a previously underutilized space into one that strives to offer comfort and convenience.

With a desire to tap into Nashville's energy and create a public place where employees and visitors can work, dine or simply hang out, EQ Office called on Gresham Smith to reimagine the privately owned public plaza's outdoor experience. The design aimed to adapt to hybrid workstyles.

Accessible for All

As Music City's first skyscraper designed in the postmodern style, the building, which opened in 1986, features strong precast concrete forms and a large, open plaza constructed of concrete pavers. However, the existing site posed several challenges that required creative solutions. Gresham Smith worked with Nashville's Metropolitan Development and Housing Agency (MDHA), which oversees all design concepts for the downtown core district and ensures that the design character complements the overall intent and viability of the area, to obtain approvals. The plaza refresh was supported by MDHA, building management, asset ownership, the community and existing building tenants.

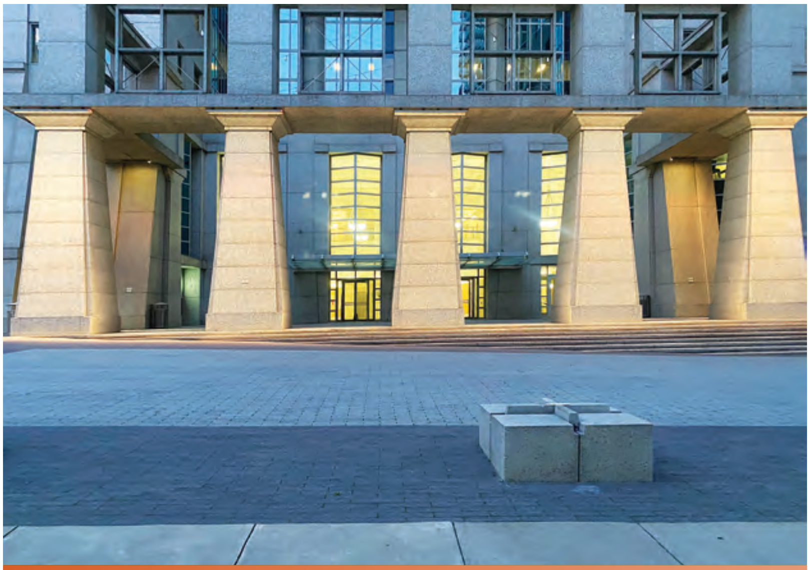

Photo courtesy of Gresham Smith

The Fifth Third Center Plaza prior to its reimagining. The space had changed very little since the building first opened in 1986.

The plaza was originally built on top of an underground parking structure, which forced the design team to work within restricted parameters. The design had to accommodate the existing air-intake grates while being mindful of the impact that the weight of the materials and features would have on the garage below. The site features a significant slope — more than four feet across — and the new deck leveled out the grade change, providing an ADA-compliant space for people to sit, relax and take in their surroundings.

Lowering the Ceiling

At nearly three stories tall, the large columns at the Fifth Third Center's ground-level entrance might seem

In a workplace deeply changed by the COVID-19 pandemic, employees are seeking new experiences. This can be seen in the updated Fifth Third Center Plaza, which transforms a previously underutilized space into one that strives to offer comfort and convenience.

Photo courtesy of Gresham Smith

The Fifth Third Center Plaza after its renovation. The design is meant to evoke a comfortable backyard space.

intimidating. Because of that, the goal was to create an inviting, comfortable space for people.

Given the South's intense seasons, a large vertical shade canopy was incorporated to help pedestrians escape both scorching sunlight or pouring rain. With the existing parking structure below grade, the obvious design choice of planting trees to add shade was not an option.

The canopy element aims to make the space more comfortable and humanize the environment by lowering the ceiling of the 31-story building.

The design also established a central walkway grounded by integrated raised planters to create a sense of arrival. Sloped at the bottom to align with the existing slope in the pavers, the raised planters feature a metal skin on the outside that adjusts on every corner and provides a level surface on top.

Starting when the building opened in 1986, improvements were mainly cosmetic and focused on basic maintenance. In 2016, the pavers were changed from red brick to monochromatic gray and were given a full waterproofing upgrade to eliminate water intrusion into the garage below.

Plenty of Amenities

Given its central location, the plaza sees a variety of visitors. This includes the workers and visitors to the Fifth Third Center's approximately 32 tenants, other employees in the downtown area, and many tourists. This mix of visitors meant that the design had to provide a space for community interactions.

Today, tenants have more flexibility than ever in terms of where they work, and the plaza provides compelling spaces for all workstyle preferences. Flexible and versatile seating spaces include the existing steps on the building, custom benches designed on the columns that bring the building's original geometric design "down" for people to experience, as well as custom wood tables and sofas.

By designing the outdoor space to resemble an extension of a backyard, the plaza encourages comfort and familiarity. The upgraded lighting also extends the usable window of the space. With virtually no green space before, the plaza now provides an area surrounded by vegetative planting

The plaza was originally built on top of an underground parking structure, which forced the design team to work within restricted parameters. The design had to accommodate the existing air-intake grates while being mindful of the impact that the weight of the materials and features would have on the garage below.

pallets with seasonal color interest. Approximately 800 plants were added to the plaza, with about 97% of those in the raised planters. This has helped bring pollinators back to habitats in the urban environment.

Generating Revenue

The plaza's design for community inclusion attracts visitors and enhances the city's streetscape. EQ

Photo courtesy of Gresham Smith

The design of Fifth Third Center Plaza aims to complement the existing street scene.

With virtually no green space before, the plaza now provides an area surrounded by vegetative planting pallets with seasonal color interest. Approximately 800 plants were added to the plaza, with about 97% of those in the raised planters.

Office dedicated a large portion of the plaza to a new 250-square-foot retail kiosk, which will generate revenue and activate the space during evenings and weekends. The kiosk added leasable square footage to the plaza, and it has been made available to a food vendor. Slated to open in the spring of 2023, the kiosk will allow the plaza to host events and small live music shows that evoke Nashville's energy.

As employees seek a different type of workplace experience, one that provides and supports vital collaboration and prioritizes unique tenant elements, investing in the built environment is key. The design for Fifth Third Plaza delivers a welcoming, human-scale space that creates a unique sense of place. ■

Trey Rudolph is a senior landscape architect and **Jason Kocmar** is a senior landscape designer at Gresham Smith.

Denver International Airport Applies Unique Model to Solicit Development

Rolling request-for-offers model aims for flexibility as the facility grows.

By Mike Cerbo, DEN Real Estate

Denver International Airport, which replaced the aging Stapleton International in 1995, served a record-breaking 69.3 million passengers in 2022. To support more than 100 million annual passengers expected within the next 10 years, as well as a metro population that is predicted to reach 3.6 million by 2030, the airport is open to development opportunities that will benefit the local population and the traveling public.

Denver International Airport is seeking to turn 16,000 acres of land surrounding the facility into a development opportunity.

It recently launched a program for "rolling" requests for offers (RFO) to attract developers to the airport, which is the third-busiest in the world and the second-largest by land mass.

"To provide maximum flexibility for commercial developers, investors and users, we issued the rolling RFO with no traditional deadline for submittals," said **Ken Cope**, the airport's senior vice president of real estate. "Specifically, we're seeking offers for commercial development through one or more long-term ground leases of up to 1,500 acres of the airport's non-aviation land."

How the Rolling RFO Process Works

According to Cope, the airport initially came to the marketplace in 2016 with controlled requests for proposals that had strict use constraints and a lengthy evaluation process. The new rolling RFO model allows developers to submit offers to the airport for any lease term and any size parcel at any time.

The process begins with an initial screening of a submitted offer by the airport contract administrator. It is then passed on to the airport's commercial broker, who evaluates it for market viability. If approved, the offer then moves to the airport's real estate screening committee, which is composed of three to five standing members who are familiar with real estate near the airport. The committee then either rejects or approves the offer.

If the offer is approved, the airport's real estate team meets with the prospective developer to discuss the opportunity and the terms of a letter of intent (LOI). Once the LOI is drafted, it goes to the airport's CEO for approval, which should take approximately two weeks pending the CEO's availability.

Once all the terms are agreed upon, a contract goes to the Denver City Council for final approval.

The process begins with an initial screening of a submitted offer by the airport contract administrator. It is then passed on to the airport's commercial broker, who evaluates it for market viability. If approved, the offer then moves to the airport's real estate screening committee, which is composed of three to five standing members who are familiar with real estate near the airport. The committee then either rejects or approves the offer.

An intergovernmental agreement specifies the amount of developable land (currently 1,500 acres), development areas, and limits on certain land uses on the airport's non-aviation land. Using those parameters as a guide, the airport created a strategic development plan to prioritize seven districts with land uses conceptualized based on acreage availability, airport proximity and legal parameters.

A Unique Land-use Situation

By the early 1990s, Stapleton International, Denver's former airport, was surrounded by residential development, which limited expansion and increased concern among surrounding communities about noise levels. The city and county of Denver decided to close Stapleton and build a new airport to ensure a strong future for aviation in the metro area.

The new airport is located on a 53-square-mile property more than 20 miles northeast of Stapleton that initially was surrounded by rural fields. Construction began in September 1989, and the airport opened in February 1995.

Cope said that if Denver International Airport reaches its full capacity with 12 runways, there will still be 16,000 acres of land surrounding the facility that isn't needed for immediate aviation purposes. This presents considerable development potential in the vicinity of the airport.

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Strategic Development Districts

The seven development districts will each have a unique character and relationship to their surroundings. The districts are designed to accommodate businesses that will benefit from immediate proximity to the airport.

Peña Station Next offers 34 acres of transit-oriented development for companies, hotels and retail experiences. The district is adjacent to the 61st & Peña commuter rail station.

West Approach consists of 75 acres and aims to serve the traveling public and 35,000 airport employees with a variety of hotels, services, retail and restaurants. More than 100,000 vehicles pass this location each day, and it will feature bike path connections to recreation and airport facilities.

Second Creek Campus is designed for sectors such as agribusiness, renewable energy, light industrial, logistics and technology. The 360-acre area includes quick access to Tower Road, recreation, trails and a planned transit circulator.

72nd & Himalaya is a 250-acre mixed-use development opportunity near the 1,500-room Gaylord Rockies Resort & Convention Center and a future commuter rail station that will provide visibility from Peña Boulevard and E-470. Entertainment, hospitality, office, future light industrial and smart manufacturing are anticipated.

Aero-Industrial is a 650-acre site that has access to the airfield and will be comprised of air cargo, logistics and aeronautic uses. Outside of the district, the surrounding area is becoming an industrial, warehousing and distribution hub for the Denver metro area.

40th & Airport Station provides a 50-acre transit- and hospitality-oriented development, anchored by a commuter rail station. Residential neighborhood growth to the north, hospitality services to the west and industrial development to the east make this a truly mixed-use area.

East Approach is an 80-acre site designated to be a global business hub that will accommodate hotels, conference centers and office space and has direct access to the airport.

Airports offer high visibility, accessibility and connectivity, making them attractive locations for real estate development. Denver International Airport is seeking to capitalize on these factors with what eventually could be the largest commercial land opportunity connected to any airport in the United States. ■

Mike Cerbo is the real estate development manager with DEN Real Estate.

Want to Learn More?

Interested parties can view the rolling RFO opportunity and associated process at www.thedistrictsatden.com, and general inquires can be sent to DEN.RealEstate@FlyDenver.com. ■

CEO on Leadership: Camille Renshaw

The co-founder of B+E, a net lease real estate brokerage firm credited with brokering the largest commercial real estate transaction by a digital platform, Cabela's $324 million sale-leaseback deal in 2019, talks about the challenges of growing an online brokerage business.

By Ron Derven


Camille Renshaw

"I have been around for a few market cycles now, and I made it through the Great Recession, COVID and now this downturn. These experiences have made me a vastly better leader."

— Camille Renshaw, CEO, B+E

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

Camille Renshaw: Starting my career in technology, I fell into commercial real estate by accident. I didn't know what a career in tech looked like because I had few role models, and none of those role models were women. As an entrepreneur from an early age, I launched, grew and sold a couple of start-up businesses in my 20s. My father and grandfather advised me to invest the money from those start-ups wisely because such an opportunity might never come again. I invested in my first real estate ventures, buying a portfolio of single-family homes and a portfolio of single-tenant commercial real estate.

I did not like owning single-family real estate and sold the portfolio in 2005-2006. However, I kept the commercial investments. To learn more about real estate and investing, I took a job with Colliers and had the good fortune to work closely with **Pat Duffy**, who at the time was head of retail for the firm. Much of what I know today about real estate investment I learned from Pat. As much as I admired Colliers and loved the people I worked with there, I needed to get out on my own.

Development: *What attracted you to the net lease business?*

Renshaw: The net lease business is wildly more popular today than when I first entered it. I love it because it really fits me and my lifestyle as an investor. I enjoy underwriting cash flows, underwriting the tenant and analyzing deals. I have zero interest in property management. I like the predictability of the net lease business. Some investors avoid it because they feel the equity growth is not large enough. But what I want in a real estate investment is predictable growth. Obviously, in the net lease business there are years where cap rates really compress, and there are great opportunities to exit if you wish. I do not sell much; I use such times to refinance loans at a lower rate.

Development: *What can you tell us about leadership and leading a relatively young company, given the recent pandemic?*

Renshaw: I have been around for a few market cycles now, and I made it through the Great Recession, COVID and now this downturn. These experiences have made me a vastly better leader. When COVID hit, I could see on the faces of my employees on Zoom that while they were smiling, they were in shock. They did not understand what was happening because most of them are in their 20s and 30s and had never seen a market cycle.

To help them grasp what was going on, together we read the book "Panic: The Story of Modern Financial Insanity" by **Michael Lewis**. He advises that when there are highs, do not get caught up in the euphoria; when there are lows, avoid panic. Don't play for the extremes — try to stay in the middle.

Development: *In addition to your role as CEO at B+E, you also lead the venture capital firm RenshawCo and*

"I want to be a role model for young women. Leadership to me, especially at this point in my life, means holding the door open for people behind me. There are not a lot of women in commercial real estate, especially in investment sales and the net lease business."

— Camille Renshaw, CEO, B+E

are on numerous boards of directors. Could you tell us how you manage your time?

Renshaw: People always talk about work-life balance, but I believe in work-life integration. The reason that we have such a great culture at B+E is that some of my best friends work for the company. **Scott Scurich**, who is my partner in B+E, is the person I talk with most, other than my wife. The idea of just turning off work isn't something I do. For entrepreneurs, we love what we do and derive so much energy from it that we really don't want to turn it off.

Development: *What does leadership mean to you?*

Renshaw: I want to be a role model for young women. Leadership to me, especially at this point in my life, means holding the door open for people behind me. There are not a lot of women in commercial real estate, especially in investment sales and the net lease business. I just came back from a net lease conference attended by a couple of hundred practitioners, and there were maybe six women in attendance, including me.

This is something I am trying to change. I want to mentor women. I want women to talk about money — what they are investing in, what they are worried about, what they are having success with, what are their plans. I want to encourage them to start their own companies.

I have been very public that I am gay. That is not always comfortable, but I realize that I have to hold the door open for other people. This is how I define leadership at this point in my life.

Development: *What is your primary role as CEO of B+E today?*

Renshaw: We were founded in 2017. Because we're such a young company, we all do everything — including me. I will do whatever it takes to make this company a huge success. As a leader, that is key. We are all doing what is necessary to get the company to the next level of performance.

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

Renshaw: I always ask employees what they think of a potential new hire. The thing about a start-up is that you want everyone's buy-in. We all work really hard here, and we want a new hire to

"If someone misjudged a situation, I have a lot of empathy for that. But usually, the problem is that a person didn't ask the right person in the company for help. We are a team; we don't compete internally. We want to collaborate internally and compete externally."

— Camille Renshaw, CEO, B+E

work hard as well. We hire brilliant people from all areas of commercial real estate, but often it is not brilliance that wins the day, it is hard work.

We also like a little humility. No one can say that they have seen it all in commercial real estate because we haven't. The pandemic is a prime example. The best we can do is have experience from other cycles and then try to extrapolate what we can to the new situation in front of us.

Development: *You have been named one of the "Best Bosses in CRE." Tell us about developing the trust of your employees.*

Renshaw: As mentioned, I'm friends with a lot of the folks in the company, but you can't run a company and be friends with everyone. I don't want to suggest that. However, there is a sense here that everyone is in the trenches together. Everyone knows that there is no job at the company that I haven't done myself at some point. I understand how hard some of those jobs are.

"My grandmother's advice was to be honest. She said it is OK to be afraid, because there are things in life that will genuinely frighten you. The key is to be brave. That is important for women, because we are often told that when we feel afraid, we should back away."

— Camille Renshaw, CEO, B+E

Development: *As the leader, how do you resolve internal conflict and missteps at the company?*

Renshaw: I have a reputation for being upfront and direct. I have high expectations for myself and everyone else in the company. If someone misjudged a situation, I have a lot of empathy for that. But usually, the problem is that a person didn't ask the right person in the company for help. We are a team; we don't compete internally. We want to collaborate internally and compete externally. There is no one here working on a deal who cannot go over to someone else's office and say, "I don't understand this; I don't know what to do." Teamwork is the key, and it's part of the culture we want to create.

Development: *What has been your greatest leadership challenge in starting and growing B+E?*

Renshaw: The biggest challenge was the pandemic and leading the company through it. It was a new situation for all of us, and we didn't have a playbook.

Development: *What advice would you give women coming into the real estate business today?*

Renshaw: Women need to seek out role models, men or women, and to know that they can become whatever they want to be.

Development: *What's the best advice you have received?*

Renshaw: The best life advice I have received was from my grandfather and grandmother. My grandfather's advice was that "mailbox money is great." Create consistent cashflows with low-risk profiles, and this will take care of you and your family.

My grandmother's advice was to be honest. She said it is OK to be afraid, because there are things in life that will genuinely frighten you. The key is to be brave. That is important for women, because we are often told that when we feel afraid, we should back away. Bravery does not involve recklessness, but intelligence, resources and backbone to move forward despite your fear. I think that is great advice for women as they seek higher roles within commercial real estate.

Development: *You mentioned that you believe in work-life integration. Could you give us a recent example?*

Renshaw: I love backpacking. B+E had its first corporate retreat in Harpers Ferry, West Virginia, near the Appalachian Trail. We rented a big lodge and spent each day hiking a few miles together as a team or were just outdoors together. I feel most alive when I am outdoors. ■

Ron Derven is a contributing editor to Development magazine.


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An Innovative Office Has Entered the Game

The new Electronic Arts workspace in Orlando is designed with employee engagement and creativity in mind.

By Tim Baker, Baker Barrios

In October 2019, Electronic Arts (EA), the company famous for the Madden NFL video gaming collection, announced plans to move its Central Florida office from Maitland to a newly constructed $62 million, 180,000-square-foot building in downtown Orlando's Creative Village, a 68-acre mixed-use, transit-oriented development. The company enlisted Baker Barrios Architects to design its offices.

However, the COVID-19 pandemic struck shortly after the announcement, forcing changes to EA's office-design process. When the space finally opened in March 2022, the results revealed potentially valuable insights for commercial real estate developers, who face uncertainty about the future of office space demand in the aftermath of the pandemic.

Electronic Arts (EA) recently moved into a newly built 180,000-square-foot building in downtown Orlando's Creative Village, a 68-acre mixed-use, transit-oriented development.

The Gameplan

From the beginning, Baker Barrios saw an opportunity to incorporate EA's culture of innovation and collaboration into the partnership. In the planning stages, the architects used brainstorming sessions and onsite observations to gather employee input. Designing video games is not a typical 9-to-5 job, so the architecture team had to understand the workplace energy in order to create a space that not only supported EA's work but also boosted team-focused creativity.

One of the many lessons of COVID is the importance of an adaptable environment. Business planning must account for things like expansion, hybrid work schedules and ensuring the capacity for a possible full return to the office. One way Baker Barrios did this for EA was to overlay multiple furniture options to maximize space for future growth.

Another way COVID impacted office design is an increased focus on wellness — both physical and mental. This is reflected at EA's headquarters through the use of easy-to-clean materials, advanced HVAC mechanicals for improved air quality and lighting controls that exceed code requirements. The goal was to allow workers to adjust the lighting based on existing natural light or their task at hand. Additionally, small rooms on each floor are dedicated to screen breaks and decompressing.

Creating Connection, Step by Step

Another hallmark of the post-COVID workplace is connection. After a long period of fully remote work, many people want the energy that comes from interacting with coworkers. EA found a way to inspire organic connection points right under its feet.

The company's new office has five floors of workspace, with each level dedicated to specific functions. However, it was important to EA that the teams not be isolated, as creativity flows from connectivity. Baker Barrios' interior design team found an intentional connection point — a central glass staircase with a five-story mural

The new EA headquarters in Orlando features a central glass staircase with a five-story mural.

that could encourage a shift in physical and mental energy while walking from floor to floor.

The ground-floor space is focused on the indoor/outdoor connection, with biophilic-inspired elements like large windows and neutral decor. Each subsequent level transitions from the natural to the digital, representing an incremental immersion into the video-gaming environment. The design becomes more colorful and abstract while ascending from the second through fourth floors.

The fifth floor serves as a gathering hub for the entire company. It features a common space for casual get-togethers, along with a large terrace overlooking the surrounding Creative Village neighborhood.

This central destination staircase isn't just a community connection point; it has also encouraged those in the office

Incentives Helped Seal the Deal

In October 2019, the Orlando Sentinel reported that EA Sports' new office "will be able to capture some of the tax revenue generated by the increased value of the site for 15 years" up to a maximum of $9 million. That's because the building is located in the downtown Orlando Community Redevelopment Area (CRA). First created in 1982 by the city government to help address blight, decay and disinvestment in certain neighborhoods, the CRA is funded through tax increment financing (TIF). ■

to forgo the elevator in favor of the staircase. This leads to more physical activity throughout the workday.

Creative Inspiration

As an anchor for Orlando's Creative Village, a vibrant neighborhood that blends university classrooms and student housing with affordable housing, community amenities and retail (see box below), the exterior of EA's office needed to reflect the culture of the master-planned community. The design aims to infuse energy and inspiration into the area while remaining authentic to EA's brand identity.

One of the most notable features of the exterior was the integration of art into the façade that overlooks an adjacent public plaza. The team picked local artist **Edwin Sepulveda** — who creates under the name Don Rimx — to create a large-scale mural entitled "Suenos Naranja." The result is a piece of public art that serves as a focal point for the Creative Village.

One of the most notable features of the exterior was the integration of art into the façade that overlooks an adjacent public plaza. The team picked local artist Edwin Sepulveda — who creates under the name Don Rimx — to create a large-scale mural entitled "Suenos Naranja." The result is a piece of public art that serves as a focal point for the Creative Village.

The parking garage for EA Sports' new headquarters in Orlando features an undulating façade that hides the facility and evokes the world of virtual reality.

Another key design aspect was the undulating wave-inspired façade for EA's 625-space parking structure. It evokes the world of virtual reality, while also visually disguising the garage. The façade also appears to change as the sun moves across the sky, lending a dynamic energy to the street scene.

With access to the many graduates and gamers within the community, including the creative and technical talent from the University of Central Florida and Valencia College, EA also wanted the office to serve as a destination for the public. The company included an interactive gaming café on the ground floor. The space's architectural elements aim to foster a connection with those walking past the building, with features such as floor-to-ceiling windows for maximum visibility and the large-scale mural that draws visitors toward the main entrance for easy wayfinding. This publicly accessible gaming space helps make the office feel like a cornerstone of the neighborhood.

If You Build it, Will They Come?

When any company makes a big change, communicating with its stakeholders — mostly employees — is vital. But in a post-COVID environment,

What is Creative Village?

Creative Village is the result of partnership between the City of Orlando and the master developer, Creative Village Development, LLC, which is a joint venture between a local team led by Ustler Development, Inc., and Banc of America Community Development Company, a subsidiary of Bank of America. The Creative Village is being built in phases on the site of the former Amway Arena, which was demolished in 2012. Full build-out is expected within 15 to 20 years. The first phase was completed in 2022 and represents more than $700 million in investment, according to the Creative Village Orlando website. This includes 350,000 square feet of higher-education space, 957 mixed-income apartments, and housing for 640 students. ■

talking to employees about a return to the office is especially sensitive.

One aspect of Baker Barrios' partnership with EA was helping to establish lines of communication with its team to ensure they understood what the return to the office, especially a brand-new office, would look like. EA was also tuned in to team feedback: what would people need to feel not only safe, but genuinely excited to return to in-person work?

One aspect of Baker Barrios' partnership with EA was helping to establish lines of communication with its team to ensure they understood what the return to the office, especially a brand-new office, would look like. EA was also tuned in to team feedback: what would people need to feel not only safe, but genuinely excited to return to in-person work?

Baker Barrios' Workplace Solutions team used that feedback to develop a communications plan and create a series of collateral materials and videos for EA leadership to highlight some of the elements of the new space during quarterly town halls. The visuals — including a branded "Welcome Map" — helped the team feel comfortable with the space so they would know what to expect before the start of the phased return to office, which began in late March 2022. As many as 1,000 employees could eventually work there.

A Next-Gen Workplace

Architecture critic **Sarah Williams Goldhagen**'s 2017 book, "Welcome to Your World: How the Built Environment Shapes Our Lives," argues that dull buildings are not only unappealing; they can also lead to unhappiness and even physical discomfort. Companies like EA see value in committing time and resources to creating spaces that are ultimately an investment in their teams and company growth. Forward-thinking design with corporate culture at the core that places an emphasis on the human experience will be a hallmark of the next generation of workplaces. ■

Tim Baker is the CEO of Baker Barrios, an architectural firm in Orlando, Florida.

What's the Right Property Tax Valuation Approach for Industrial Real Estate?

The wrong method could leave owners with bigger bills than they should have.

By Cynthia Fraser and Lisa Laubacher, American Property Tax Counsel

Because industrial properties vary in design and function, not all valuation methods apply to every property. When assessors choose a method that inflates taxable value, the taxpayer's best appeal strategy may be to show flaws in the approach by referencing a more appropriate appraisal methodology.

Industrial properties are typically designed for a specific owner's use in manufacturing, distribution, research and development, or heavy industrial activities. These include standalone flex buildings, multiuse industrial complexes, high-tech facilities, steel mills, timber mills and other subtypes.

The basic valuation premise for property taxation is to determine what the property would sell for on the open market in a transaction between a willing seller and willing buyer. Most buyers and sellers in the industrial market would have a thorough understanding of a property's best use before a sale, but an assessor with a limited perspective may treat all industrial real estate as having uniform valuation characteristics.

The number of loading docks is one of many factors a tax appraiser might consider when calculating property tax for an industrial facility.

Tax authorities often overlook appraisal principles that, if properly applied, would reduce the market value of industrial properties. Taxpayers should always review their assessments to determine the assessor's valuation approach and evaluate if the appropriate input data was used and if the calculations reflect the appropriate adjustments to value.

The basic valuation premise for property taxation is to determine what the property would sell for on the open market in a transaction between a willing seller and willing buyer. Most buyers and sellers in the industrial market would have a thorough understanding of a property's best use before a sale, but an assessor with a limited perspective may treat all industrial real estate as having uniform valuation characteristics.

The appraiser must consider the highest and best use of the property when selecting the appropriate valuation method, considering what is legally and physically permissible and financially feasible for the property. They will use one of three primary appraisal methods — the cost approach, the sales-comparison approach or the income-capitalization approach.

Cost Approach

The cost approach is based on the theory of substitution — would a prospective purchaser buy this property at a depreciated value or simply build a new facility? Using this approach, an appraiser determines the cost to build a new facility minus all forms of depreciation.

Why Property Tax is Important for Industrial

The Tax Foundation's "Location Matters 2021" report shows that property taxes often account for more than two-thirds of a distribution firm's total tax burden. According to the report, states such as Indiana, Kansas, Massachusetts, Michigan, Rhode Island and South Carolina impose unusually high property tax burdens on distribution facilities that are more than 10 years old, primarily because their property taxes extend beyond land and buildings to include inventory, business equipment or both. ■

The appraiser must consider the highest and best use of the property when selecting the appropriate valuation method, considering what is legally and physically permissible and financially feasible for the property. They will use one of three primary appraisal methods — the cost approach, the sales-comparison approach or the income-capitalization approach.

A willing buyer would consider not only physical depreciation, but also the property's functional operation and any external forces limiting its use. External or economic obsolescence can be defined as forces outside the property owner's control. These include government restrictions, consumer demand, or the availability of a raw product or steady labor force.

Functional obsolescence is defined as value lost due to physical or functional deficiencies, such as an outdated building design, inefficient production layout, inadequate infrastructure or outdated equipment.

Most assessor cost models stop at physical depreciation and ignore external and functional obsolescence. They simply add up the component costs of the building, land and equipment.

This typical cost model fails the "willing seller and willing buyer" test because a potential buyer is not going to evaluate a manufacturing facility by tallying the value of the property's components. A buyer will focus on output capacity, available raw product, available labor and the market for the product. In other words, how many widgets can the facility currently produce, and at what cost?

Failing to really consider the theory of substitution is an often-missed analysis in the cost approach. Would a new facility with new equipment and a better layout have higher production capacity? An appraiser should not simply reproduce the same equipment for the cost model if modern equipment offers benefits such as reduced labor, higher speed or increased output. The appraiser must know the industry and the equipment capabilities of both the older, existing equipment and the new, technically advanced equipment.

Comparing apples to apples in the cost model seldom provides a reliable value. An example would be a plywood and veneer mill built in the 1960s that an assessor values by counting costs invested in various add-ons and the rebuilding of equipment. Simply trending the values would not capture rebuilt equipment or used-equipment purchases, which would overvalue the equipment.

The appraiser should determine the cost for the widget capacity of the present facility as of the date of value and compare that to how many widgets a new facility could produce and at what cost. Next, the appraiser should consider all three forms of depreciation to arrive at the proper taxable valuation. Omitting these steps in the cost approach will overvalue the property and overtax the owner.

Sales-Comparison Approach

The sales-comparison approach compares the subject property with a similar property. Appraisers often use this approach for single-use real estate with a high degree of market transferability, such as warehouses and distribution centers. The appraiser must consider not only the comparable property's floor plate, type of construction and square footage, but also its location, market access and the number of loading docks.

The sales-comparison model is difficult to use for properties that lack a ready market or that suffer from external or functional obsolescence. Consider the research and development

Appraising industrial properties requires a thorough understanding of their unique characteristics and uses, as well as an awareness of economic and functional obsolescence. It's crucial to ensure that a property assessment is consistent with the marketplace to avoid overpaying taxes.

campuses built in the 1980s to house all of a company's processes, from research to manufacturing and distribution. When a significant percentage of manufacturing and distribution moved overseas in the 2000s, many of these campuses were abandoned.

Adapting these buildings for reuse depends on land-use restrictions, the market for alternative uses, available labor, and the functionality and cost feasibility of conversion. When searching for comparable sales, the appraiser should evaluate what is legally permissible and financially feasible and weigh external forces that impact demand and functional use. After selecting like-kind properties, the appraiser must adjust the sales to reflect the reality of the subject property, or it will be over-valued.

Income-Capitalization Approach

The income-capitalization approach estimates a property's value based on the income it generates, using a capitalization rate from comparable sales or market data. This approach is used for properties with long-term tenants or stable cash flows. The appraiser shouldn't consider what the value is to the owner, but what a willing buyer would pay for the property. This requires carefully selected market data and calculating proper adjustments to reflect market value.

Appraising industrial properties requires a thorough understanding of their unique characteristics and uses, as well as an awareness of economic and functional obsolescence. It's crucial to ensure that a property assessment is consistent with the marketplace to avoid overpaying taxes. ■

Cynthia Fraser is co-chair of Foster Garvey's Litigation Practice and the Oregon Representative of American Property Tax Counsel (APTC). **Lisa Laubacher** is a CMI and Director at Popp Hutcheson PLLC, the Texas member of APTC.

Industrial Sustainability Practices That Prioritize People Over Checklists

Developers need to think strategically to support sustainable, healthy work environments.

By David Welch, Robinson Weeks Partners

In the early 2000s, the conversation around sustainability in industrial real estate development was markedly different from the current perspective. Back then, it was a new concept, and there weren't established, holistic action plans regarding the environmental impact of industrial buildings.

Most sustainability strategies were surface-level in nature, such as providing a bike rack for those who may want to bike to work. While this looked good on paper, in reality, few employees working in warehouses rode bikes to work. Even with the widespread adoption of the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) certification, which focused on energy savings, water efficiency and improved indoor air quality, some companies seemed more intent on checking the boxes to "gain certification" rather than designing buildings with more tangible environmental benefits.

Now, with climate change a prominent concern, industrial developers are going beyond checklists and certifications. They're formalizing plans for policies and standards designed to lower overall environmental footprints.

Roofs covered in thermoplastic polyolefin (TPO) can be significantly cooler than dark roofs when the weather is hot, greatly reducing energy demand.

They're also considering the health and well-being of the people working in the buildings. By crafting a plan around improving sustainability efforts, implementing that strategy and evaluating its impact, industrial developers can be more intentional about supporting a healthier work environment and footprint.

Now, with climate change a prominent concern, industrial developers are going beyond checklists and certifications. They're formalizing plans for policies and standards designed to lower overall environmental footprints. They're also considering the health and well-being of the people working in the buildings.

Developing a Sustainability Plan

ESG (environmental, social and governance) and sustainability are often thrown around as catchy buzzwords, but developers' efforts are more impactful when done by design and for the greater common good. This means looking deeper within your company's culture, values and practices to identify key areas where achievable policies can be put into place.

One way that developers can do this is by creating sustainability criteria for all new industrial buildings. This working document outlines best practices and "basis of design" guidelines to enhance sustainability measures for facilities. It includes design features such as high-efficiency lighting

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The SQ at 717 Texas

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throughout the property, low-water landscaping and native plants, and roof systems that reduce solar heat gain and reflectance.

For example, Robinson Weeks Partners has a goal to recycle 60% or more of construction waste and divert it from landfills. Additionally, the company is using low-flow and touchless, motion-sensor plumbing fixtures in tenant build-outs to reduce water usage by 30% or more.

From a health and well-being perspective, developers can include elements such as clerestory windows, vision panels in dock doors and low-E glass to optimize daylighting into the interior of the warehouse. Low-E (low-emissivity) glass has a thin, transparent coating applied to the surface that reflects heat from the sun and prevents heat inside a building from escaping. According to the U.S. Department of Energy, windows with low-E coatings can cost about 10% to 15% more than regular windows, but they reduce energy loss by as much as 30% to 50%.

And daylighting has benefits that extend beyond energy efficiency. A study published in the Journal of Clinical Sleep Medicine in 2014 found that employees who had windows in their workplace received 173% more white light exposure during working hours and slept for 46 more minutes on average each night.

It's also important to provide an adequate number of air changes per hour (ACH) to bring in fresh air. ACH is a measurement used in the HVAC industry to quantify the amount of air that enters and exits a space in one hour, relative to the size of the space. ACH is usually expressed as a number, with values ranging from 0.5 ACH to 6 ACH, depending on the application. ASHRAE recommends between 6 and 30 air changes per hour in warehouses.

The first steps in developing a set of sustainability policies are identifying whether the organization is willing to dedicate the initial time and effort to create the plan and ensuring that the entire workforce is ready to do their part to implement it.

Finally, adding outdoor break areas to an industrial project can also boost the health and well-being of the facility's employees.

Putting the Plan into Action

The first steps in developing a set of sustainability policies are identifying whether the organization is willing to dedicate the initial time and effort to create the plan and ensuring that the entire workforce is ready to do their part to implement it.

To guide efforts, consider appointing a sustainability leader within the organization who can help create and manage the plan's execution. This person should be knowledgeable about constructing and operating sustainable buildings. They should also work with the rest of the team to evaluate methods to bring viable, environmentally friendly tactics to the existing portfolio and future developments.

It is crucial to recognize what's possible at each site. Perhaps only a handful of sustainable solutions can be carried out at a particular property, while another site can handle a more robust strategy. Whatever the case, evaluate what makes the most sense and develop criteria based on what is most impactful and achievable.

Measuring the Impact

There are several tools to measure the payoff of sustainability strategies in industrial projects. These include LEED, BREEAM (Building Research Establishment Environmental Assessment Method), Energy Star Portfolio Manager and the Living Building Challenge. Deciding which tool to use depends on the goals of the company and the sustainable initiatives that are put into practice. Financial savings, the ability to attract tenants and rent increases are all positive impacts for companies that follow sustainable policies.

For example, Robinson Weeks' Southridge Crossing development in Memphis, Tennessee, a 234,360-square-foot speculative distribution facility, uses white thermoplastic polyolefin (TPO) roofing materials. It reflects the sun and reduces solar heat gain. This single design feature, which is often called a "cool roof," can reduce a building's cooling energy demand between 10% to 43%, according to research from the U.S. Environmental Protection Agency (EPA). TPO is also less expensive than other roofing options.

Additionally, the EPA says TPO roofs can be up to 60 degrees Fahrenheit

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cooler than a standard dark roof on a hot day. That can help reduce the urban heat island effect, a phenomenon in which urban areas experience higher temperatures than surrounding rural areas due to human activities that generate heat.

While not traditionally thought of as a "green" sector, industrial developers can reap numerous benefits from introducing sustainable practices to their developments. By identifying tactics that can be replicated portfolio-wide, developers can formalize smart strategies that have a positive environmental impact, while also bolstering financial outcomes. ■

David Welch is CEO of Robinson Weeks Partners in Atlanta.

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Relevant Research

Later this year, the NAIOP Research Foundation will publish "Wellness in Industrial Real Estate" by **Edmund Klimek**. It will examine design features that can improve employee health and well-being in warehouses and distribution centers. Expanding on existing wellness standards for commercial buildings, the report offers a framework that is tailored to the needs and unique characteristics of logistics facilities.

To view and download the report, visit naiop.org/research-and-publications/research-reports/ ■

As More Cities Eliminate Parking Minimums, What Happens Next?

Creative solutions and community engagement are crucial when dealing with changes to parking policies.

By Robert Ferrin, CAPP, Kimley-Horn

Minimum parking requirements, which require building owners to provide a fixed number of parking spaces, have played a key role in American municipal policy since the 1920s. Following their widespread adoption in the 1960s, these laws significantly impacted the design of cities and strongly contributed to the growth of a car-centric culture. Today, there are an estimated two billion parking spaces in the U.S., according to a March article in the New York Times.

In 2017, Buffalo, New York, ushered in a new era when it became the first major U.S. city to abolish parking minimums. Minneapolis, Raleigh, San Jose and others followed. And at the beginning of 2023, California became the first state to abolish parking minimums for developments located near public transportation routes.

In 2017, Buffalo, New York, ushered in a new era when it became the first major U.S. city to abolish parking minimums. Minneapolis, Raleigh, San Jose and others followed. And at the beginning of 2023, California became the first state to abolish parking minimums for developments located near public transportation routes.

With fewer parking spaces, the curb becomes valuable real estate for drivers looking to park or drop off passengers, as well as for e-commerce deliveries.

Affordable housing, transit and environmental advocates celebrated these policy changes. They point to lower development costs, improved walkability and increased multimodal transportation, which reduces carbon emissions and vehicle congestion. Together, they can help municipalities meet their climate action goals.

But what does the end of parking minimums mean for urban development? What should policymakers consider as they contemplate parking reforms? And what tools can cities introduce to manage parking demand and support new policies?

Developers Gain Flexibility to Rethink Parking Needs

Every municipality has unique geographical, historical, cultural and economic factors that influence parking requirements. This is why parking is probably the most varied aspect of municipal zoning codes. Additionally, parking codes often conflict with policy goals that promote mixed-use, dense and walkable areas.

Despite that, there is strong evidence that eliminating minimum parking requirements can help reduce costs for developers. For example, **Rob McConnell**, a vice president at engineering firm WGI, told the New York Times in March that creating a single spot in a basic, stand-alone parking structure can cost up to $28,000. Getting rid of parking minimums can also help streamline the entitlement process by reducing the amount of time and resources required to secure approvals.

In addition to reducing costs, the absence of parking minimums can give developers more design flexibility and allow space to be used more efficiently. This lets developers redefine their parking needs for today and into the future.

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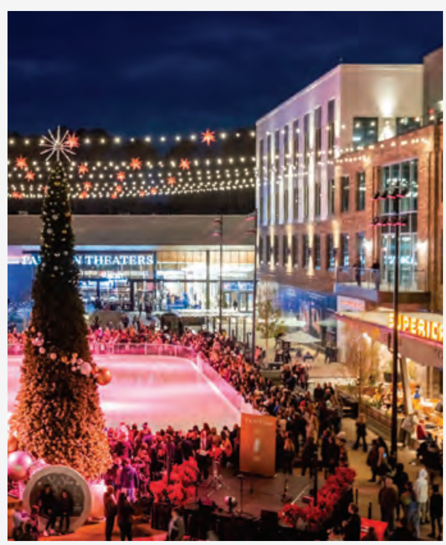

Industrial
Second Harvest Food Bank
Winston-Salem, NC

New Development
Fenton
Cary, NC

Redevelopment
Raleigh Iron Works
Raleigh, NC

The Project of the Year Awards recognizes outstanding commercial development in North Carolina. The 2023 winners were announced at the NAIOP NC Conference in Pinehurst, NC on March 2.

naiopnc.org/awards

> **However, abolishing minimum parking requirements can open opportunities to rethink vehicular and non-vehicular curb space usage. This could include prioritizing multimodal transportation or designing flexible curbs that morph from loading zones to short-term parking depending on the time of day.**

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To do so, they should:

- Understand trip generation volume, which measures the number of vehicle trips that are generated by developments such as shopping centers or offices;
- Gain insights into how people, goods and services will access a site;
- Analyze on- and off-site shared parking opportunities;
- Weigh transportation demand management tools, including shared mobility programs, infrastructure for bicycles and electric vehicle charging stations.
- Abolishing mandatory parking minimums does not remove the need for parking. Vehicle access remains critical to the success of many projects, especially in areas that aren't walkable or well served by public transportation.

Policymakers Can Leverage Parking Reform for Holistic Improvements

Consider a city manager whose neighboring town just abolished parking minimums. Within days, their phone is ringing off the hook, and developers and officials are asking when the city will also end parking minimums. How should a policymaker proceed?

First, abolishing minimum parking requirements should not be done in a vacuum. In most communities, many employment opportunities, services, retail options and homes are only accessible via parking. Additionally, eliminating parking minimums could increase congestion and traffic in many areas.

Instead, efforts to eliminate parking minimums could begin by evaluating:

- Complementary initiatives such as demand-based pricing for on-street and off-street parking, which would support abolishing minimum parking requirements;
- Investments to increase residents' mobility options;
- Current work on a strategic transportation plan to rethink mobility locally and regionally;
- Barriers to building affordable housing, as well as urban infill and mixed-use development;
- Sustainable community growth.

Second, identify internal and external stakeholders who will champion new parking policies. This will reveal how parking reforms can lead to other zoning code changes that meet broader initiatives and policy goals. Developers can play a key role in this process.

Third, consider other transportation reforms for the jurisdiction. Abolishing parking minimums is only one option. Analyze the impact of electric vehicle adoption and charging infrastructure. Solicit community feedback from developers, neighborhood associations, property managers and advocacy groups for initiatives such as transit-oriented development and improved public transportation.

The Evolution of Curb Space Usage

Consumer habits — most recently demand for e-commerce deliveries and new mobility options such as e-bikes and electric scooters — have changed curb access. Abolishing parking minimums further complicates negotiations over curb space usage. Among other things, reducing the number of parking spaces increases competition for the curb from motorists looking to park or drop off passengers and e-commerce drivers looking for places to unload their packages.

However, abolishing minimum parking requirements can open opportunities to rethink vehicular and non-vehicular curb space usage. This could include prioritizing multimodal transportation or designing flexible curbs that morph from loading zones to short-term parking depending on the time of day.

Regardless of which path is selected regarding parking minimums, developers, policymakers and municipal operators will need creativity and community engagement to best implement reforms for local needs. ■

Robert Ferrin, CAPP, is the Parking and Mobility Practice Leader with Kimley-Horn. (Note: A version of this article originally appeared on Kimley-Horn's website.)

> **Abolishing mandatory parking minimums does not remove the need for parking. Vehicle access remains critical to the success of many projects, especially in areas that aren't walkable or well served by public transportation.**

The Evolution of

Flyte is a three-building, 581,344-square-foot creative office campus adjacent to Los Angeles International Airport. The renovation by Ware Malcomb included modernizing the interior and exterior of the two buildings and creating a highly amenitized outdoor space.

Office Amenities


Ware Malcomb

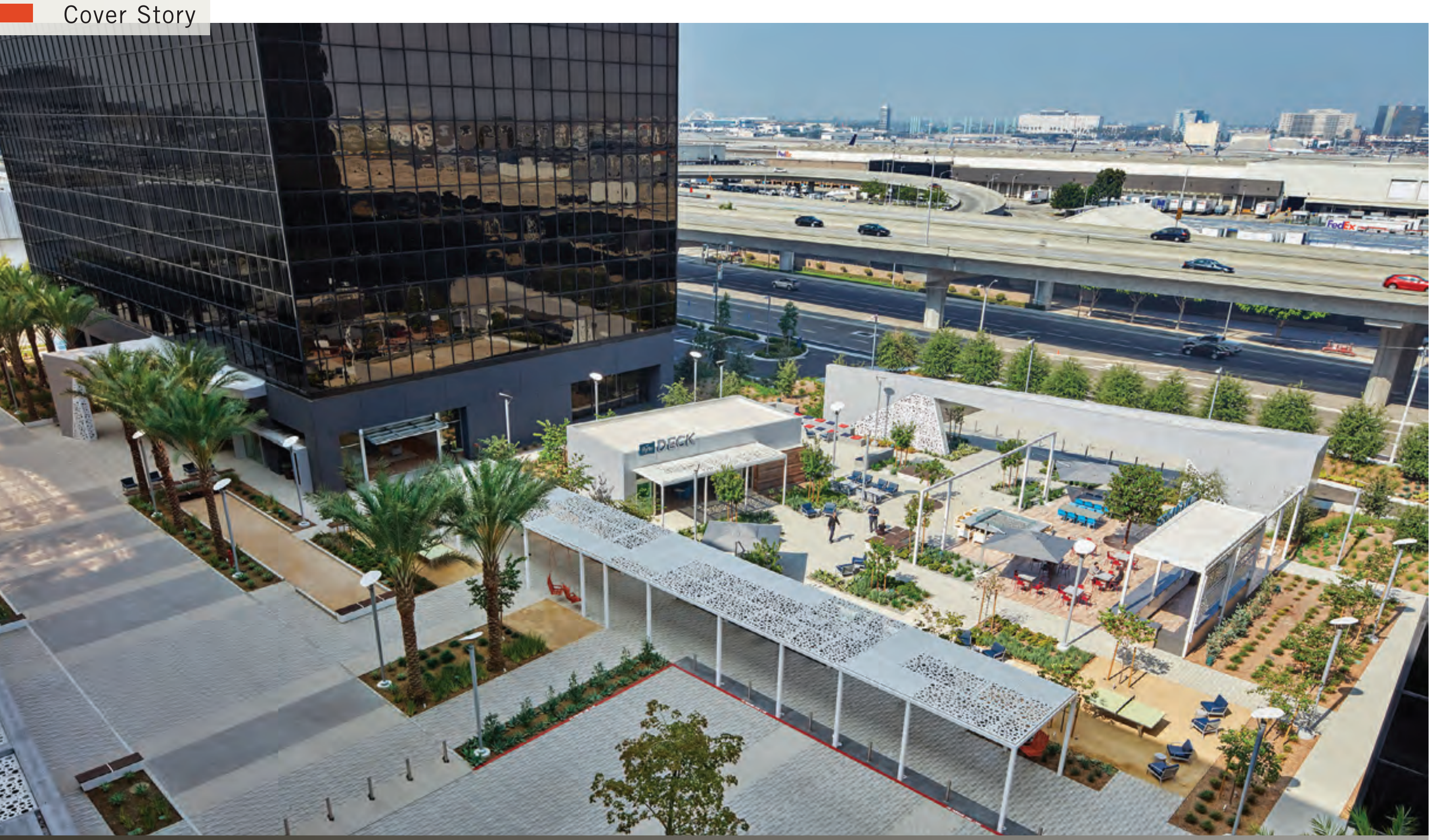
Developers must find new ways to configure workspace amid challenging times for the sector.

At a Glance

- In the aftermath of the pandemic, remote work is taking a toll on the office sector.
- Amenities have steadily evolved since the early history of the office.
- Privacy and great spaces, both indoors and outdoors, will help draw workers back to the office.

By Ron Derven

From the cavernous floors of the 1900s, to the fluorescent-lit cube farms of a later era, to the posh settings of today, office amenities have taken a dramatic turn for the better, with more innovations to come. While these expensive additions don't guarantee that a landlord will close the lease deal or that a tenant will be able to hire top talent or finally lure employees back to the office, new amenities packages are the key to competing in today's uncertain commercial office markets.



Ware Malcomb

At Flyte in Los Angeles, a metal archway at the entrance to the open courtyard gives tenants and visitors ample space for meeting, lounging and eating. The courtyard features an outdoor cafe, various interactive meeting and lounge areas, an amphitheater, large fire tables, and integrated conference spaces with a unique standalone conference room building.

In February, Cushman & Wakefield published “Obsolescence Equals Opportunity: The Next Evolution of Office and How Repositioning and Repurposing Will Shape the Future.” The report notes that by 2030, U.S. office inventory will reach 5.7 billion square feet. Sixty percent of office stock could require upgrades or repurposing to avoid obsolescence, while 25% could need to be reimagined to stay relevant.

“Office demand is slowing, lease expirations are mounting, all as tenant preferences are shifting,” the report notes. Those preferences include demands for all kinds of improved amenities, which have changed considerably since the dawn of the modern office more than 100 years ago.

The First Office Amenities

“Early in the 20th century, offices reflected a manufacturing environment,” said **Chris Congdon**, director of global research communications for Steelcase, an office furniture company. “Those offices were organized with leadership around the perimeter of the space in enclosed offices with workers in the middle assigned to desks.”

These offices had coal-fired heaters, no air conditioning, no break rooms and not much of anything else. But in its formative years, Steelcase developed a major office amenity — the metal wastebasket.

“Amenities are important not just because people like good coffee or an interesting place to work. **Amenities create social connections between workers, which is valuable for career growth and development, for building affiliation and for creating cohesion in organizations.**”

— Lenny Beaudoin, global head of workplace and design, CBRE

Why was a metal wastebasket important?

"Because building and fire codes at that time were not what they are today," said Congdon. "Everyone in these offices smoked. It was not uncommon for someone to throw a lighted cigar into a flammable wicker wastebasket filled with papers, causing the office and perhaps the building to go up in flames. Once metal wastebaskets were introduced, the resulting fire caused by the thoughtless smoker would be contained to a fireproof metal wastebasket."

Several decades later, office amenities had become much more impactful than a new trash can.

"Technology and the progression of gender, social and racial equality have driven the evolution of the office over time," said **Stacey Mosley**, director of research with Brandywine Realty Trust in Philadelphia. "Before the advent of computers, offices in the 1950s were reminiscent of factory floors to keep workers visible and to ensure productivity by managers in surrounding private suites."

The rise of individualism in the 1960s coincided with the invention of the open-office floorplan by **Robert Propst** of Herman Miller in 1968. (However, he told the New York Times in August 1997 that he lamented how his concept evolved from a way to "give knowledge workers a more flexible, fluid environment" into a cost-saving tactic that was unpopular with workers.) The ergonomic movement of the 1970s further reinforced the ideals of comfort and privacy for all employees — not just those at the top, Mosley said.

But by the 1990s, she noted, the nature of work dramatically changed, with widespread use of the internet and mobile phones. Open office spaces grew in popularity, but now with the intent of spurring collaboration because the exchange of ideas could happen at high volume and high speed.

"The internet, which facilitated the flow of information from nearly anywhere in the world, began enabling individuals to establish home offices and, with the entrepreneurial movement arising from the venture-capital-fueled dot-com era, freelancing and coworking began taking off, creating a whole new vertical in the real estate industry," Mosley said.

In the early 2000s, the tech sector led the way to greater amenities in the workplace, according to **Lenny Beaudoin**, CBRE's global head of workplace and design.

"Amenities are important not just because people like good coffee or an interesting place to work," he said. "Amenities create social connections between workers, which is valuable for career growth and development, for building affiliation and for creating cohesion in organizations."

Beaudoin said the tech sector needed to attract hard-to-recruit engineering talent and to create environments that they wanted to work in. Large tech companies have great amenities because they want their employees to come in and be connected to each other, do their work and drive the performance of the organization.

> **"A recent survey by the Partnership for New York City found that only 52% of Manhattan office workers are in the workplace on a daily basis, with just 9% of employees in the office five days a week.** So that's very telling. In another part of the survey, the partnership found that 56% will likely be the new normal for average daily office occupancy in Manhattan offices."
>
> *— Ryan Elazari, senior director, Empire Management*

The 2000s and Beyond

Sergio Valentini, regional director with international design firm Ware Malcomb, said that in the 1990s and 2000s, research was dedicated to improving office space.

Steelcase

A focus on collaboration in modern offices means the building owner should provide plenty of comfortable spaces for meetings.

"The office was no longer being designed as a flat, open plan anymore," he said. "It was more targeted to the needs of a specific company so that it could make spaces more comfortable and boost the productivity of its employees."

These trends continued through the first two decades of the 21st century, coinciding with another trend of working away from the office. With a laptop, cellphone and good internet connectivity, employees could work virtually anywhere.

The Pandemic Pause

As the pandemic hit, people left their offices in droves to work at home, with many employees continuing this arrangement to this day. A recent article in The Wall Street Journal found that most U.S. offices were half empty three years after the pandemic.

What about trends in the largest U.S. market?

"I do not see remote work ending anytime soon around New York City," said **Ryan Elazari**, senior director with Empire Management in New York City. "A recent survey by the Partnership for New York City found that only 52% of Manhattan office workers are in the workplace on a daily basis, with just 9% of employees in the office five days a week. So that's very telling. In another part of the survey, the partnership found that 56% will likely be the new normal for average daily office occupancy in Manhattan offices."

"We learned very important lessons pre-pandemic and during the pandemic. A key lesson is that most work can be done from anywhere, so hybrid is very much here to stay. **But don't confuse hybrid working with the notion that 100% remote is here to stay, because that is unsustainable.**"

— Sanjay Rishi, Americas CEO for work dynamics, JLL

Here are other statistics from that same survey, according to Elazari:

- 15% are in the office four days per week;
- 35% are in three days per week;
- 18% are in two days per week;
- 12% are in one day per week;
- 10% of Manhattan office workers are fully remote.

Hybrid Work Arrangements

Hybrid work is here to stay, agreed **Sanjay Rishi**, Americas CEO for work dynamics with JLL and co-author of "The Workplace You Need Now," published in October 2021.

"We learned very important lessons pre-pandemic and during the pandemic," he said. "A key lesson is that most work can be done from anywhere, so hybrid is very much here to stay. But don't confuse hybrid working with the notion that 100% remote is here to stay, because we know that is unsustainable. On an individual basis, people will make choices to come into the office whatever days are best for them. As they come into the workplace, organizations are making decisions on designing workspaces that are conducive to this idea of open spaces, team spaces — what we call 'me' spaces and 'we' spaces."

Post-Pandemic Amenities

In the aftermath of the pandemic, the trend toward more and improved amenities has accelerated because there are just more factors that come into play, according to Ware Malcomb's Valentini.

"We have moved from 'nice to have' to 'must have' amenities," he said. "Rather than amenities simply improving the office for the employees, they are a necessity. Employers are concerned that without the right amenities, they will not be able to draw people back to the office or hire the best talent. That has been the biggest shift, and it is affecting corporate end-users. They are a lot more aware of the type of spaces that they have and the type of space they are looking for."

Coworking Space

Another critical amenity, according to those interviewed, is coworking or flex space within the building. With fewer employees coming to work at the same time, the tenant probably does not want to dedicate space to conference and meeting rooms. But when teams are together at the office, these spaces are critical.

"Employees have opted for a hybrid working solution where they spend some time at the company's offices and other times working remotely, which has made the availability of flex or coworking space in the office building a 'must-have' amenity," according to **Jacob Bates**, head of Americas for Flex by JLL.

Flex by JLL manages flex spaces, both coworking and flex suites, on behalf of investors and asset owners across the country. According to Bates, Flex by JLL partners with owners through contract structures that allow owners to maintain control of the space experience, physical footprint and fiscal attributes.

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— Sanjay Rishi, Americas CEO for work dynamics, JLL

"The real need for flex space is reflected by the fact that people are the new amenity," said Bates. "They probably always were, but we didn't perhaps recognize them as an amenity. These spaces fill the need for community connection and engagement. The conferencing, event and amenity spaces inside of Flex and Experience Management locations are getting more use today than in the past. We're seeing the revenue that is being generated from these spaces far exceeding

Vornado

The coffee bar at Industrious' PENN 1 coworking space in Manhattan. Coworking or flex space in a building is becoming a crucial amenity.

anything we ever expected pre-pandemic. In some cases, these spaces are generating more revenue than the office space itself."

Rishi agreed with that assessment.

"People are not going to fight traffic to come into work for a good lunch, but they will come to work to interact with each other," he said. "We found from our research that over 60% of employees want to come into the office and get back to work. At the same time, they are saying, they don't want to come into the office five days a week 9 to 5, 8 to 6 or whatever…they need flexibility. They want this world of hybrid."

Here are other trends in amenities in the post-pandemic market:

Privacy is at the top of the list for the return to the office. Steelcase conducted research in 11 countries and asked people who were working at home what would bring them back to the office. Their answers surprised the company. The most important factor, according to Congdon, was a dedicated space with more privacy. That was followed by ergonomic furniture. The third-most-important factor was better technology, especially for collaboration.

"We have moved from 'nice to have' to 'must have' amenities. Rather than amenities simply improving the office for the employees, they are a necessity. **Employers are concerned that without the right amenities, they will not be able to draw people back to the office or hire the best talent. That has been the biggest shift, and it is affecting corporate end-users. They are a lot more aware of the type of spaces that they have and the type of space they are looking for.**"

— Sergio Valentini, regional director, Ware Malcomb

Must-Have Amenities

According to Gensler's U.S. Workforce Survey 2022, these 10 types of office amenities are no longer optional:

- Quiet or tech-free zones
- Alternative individual workspaces
- Focus rooms
- Libraries
- Innovation hubs
- Maker spaces
- Project/war rooms
- Rest/nap areas
- Outdoor spaces
- Meditation spaces ■

There's no replacement for in-person mentoring. While a large percentage of the work an employee does can be accomplished remotely, one function that cannot be left to virtual communication — or chance — is mentoring. It requires in-office attendance by both new employees and senior executives. "All of us have grown up learning from other people and watching other people — how they act under stress, how decisionmakers make decisions," said Rishi. "All of us are where we are today because we had someone to look up to, someone who championed our cause."

Push amenities tied to health and wellness. "Health and wellness [amenities] were being incorporated into office buildings pre-pandemic, but now more is expected," said Mosley. "In addition to well-equipped fitness centers, breast-feeding rooms, quiet rooms and outdoor lounges, more room is being made for self-care amenities."

A focus on collaboration. "Work is no longer the place you go to," said Rishi. "Work is what you do." He said companies are realizing that it is about culture, collaboration, innovation, brand affinity and a sense of belonging. "This is the purpose of the workplace," he said. "Within the workplace, the kind of work that benefits the most is when we are collaborating with other people, when we are doing creative work and thinking out loud. We feed off each other's energy and creativity, reaching levels that are difficult to achieve in the virtual world."

A hospitality state of mind is key. People want a space they feel comfortable in. They want a space where they feel safe that promotes physical and mental wellness, but at the same time promotes a hospitality feel. "People want to feel like they are in a well-appointed hotel lobby as opposed to a sterile cube farm," said Rishi.

Smart building tech wins the day. Nobody wants to come to an empty office to do heads-down work that could have been easily done at home without fighting time-wasting traffic. Workers need to have a heads-up when their teams are coming into the office. "Smart building technology that allows an employee to know when people will be at the office is critical," said CBRE's Beaudoin.

The Developer's Role in Amenities Changes

In the past, the office developer constructing a non-build-to-suit building would lease the space to a tenant who would build it out to preferred specs. Often some tenant-

> **"The real need for flex space is reflected by the fact that people are the new amenity.** They probably always were, but we didn't perhaps recognize them as an amenity. These spaces fill the need for community connection and engagement. **... We're seeing the revenue that is being generated from these spaces far exceeding anything we ever expected pre-pandemic. In some cases, these spaces are generating more revenue than the office space itself."**
>
> *— Jacob Bates, head of Americas for Flex by JLL*

Alayna MacPherson

Collaboration and team building can take many forms, including play, as shown in a gameroom in CBRE's offices in Richardson, Texas.

improvement dollars would be offered to sweeten the deal. Now, tenants want and need finished space with amenities in place.

"There is a race to be the class-A building in the market because the building has the fitness center, the conference center, the grab-and-go café, beautiful outdoor amenities — you name it," said Valentini. "While many of these amenities were done pre-pandemic, now more is demanded. Developers are putting in operable windows, terraces, golf rooms, libraries, yoga centers and wellness spaces. One recent building I saw had an indoor basketball court."

He said the pandemic accelerated a lot of social, economic and demographic trends. And a big shift has occurred among developers.

"Before the pandemic, it always took some convincing to get spec developers to include amenities in their buildings," said Valentini. "Now, after the pandemic, everybody is aware that if they do not include these amenities, they will not attract tenants. There is a race to space quality and amenities to attract companies and ultimately attract employees."

The Future of Amenities

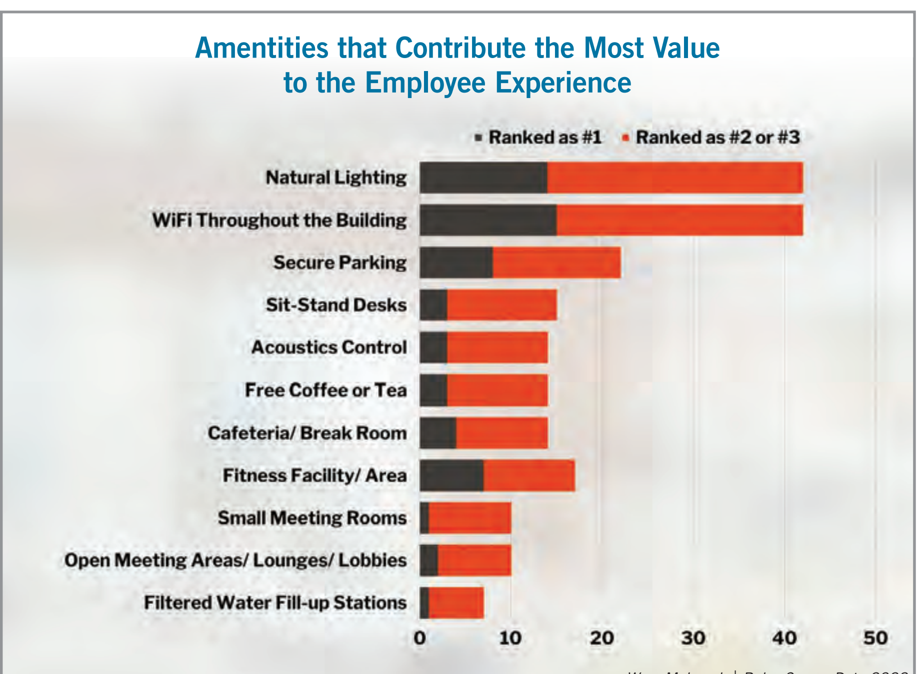
While no one knows what types of amenities will win in the market in the future, Rishi said that it is important to keep three big themes in mind going forward: sustainability, technology and physical design.

Here are other ideas from the experts on the future of amenities:

Take a neighborhood approach to planning the office. For the workplace of the future, the office needs to draw inspiration from great neighborhoods. A diversity of spaces is what gives a city neighborhood a special vibe. "There's diverse kinds of things happening in the best neighborhoods," said Congdon. "These neighborhoods have a combination of residential spaces, public spaces, plazas, libraries and schools. They also have great commercial spaces." This type of diversity should be incorporated into office spaces.

Location and time are two big drivers. Of all the amenities that can be added to an office project, two of the biggest are location and time, according to Valentini. "The most important is location — access to the community, access to a mixed-use development — retail, restaurants, shopping services, housing. As for time, people do not want to spend an hour or two in a car to get to work and then back home. Having proximity to where people live is important. Being near where

Ware Malcomb's Pulse Survey for 2022 points out the importance of the physical environment of an office.



Natural lighting and building-wide WiFi were the top office amenities in Ware Malcomb's Pulse Survey for 2022.

the talent lives, being near services, having walkable amenities near the office are all critical."

Stay agile and create space with flexibility. Bates said that the furniture and room dividers that are in use today are incredibly agile. "Consider using them rather than static construction," he said. "There are a lot of modular furniture systems out there that can be used as heads-down space today, but then become a collaborative meeting area using the same pieces and parts of the system tomorrow."

For the lobby, it's programming. With building lobbies, creating a sense of community and liveliness is increasingly a differentiator, Mosley said.

Seek out adjacent retail that's special. What types of retail services are true amenities near office buildings? Stores that enhance daily rituals for those using the office, according to Mosley. For example, highlight retail that allows people to meet someone for coffee, lunch or after work, or gives them the opportunity to purchase a bottle of wine or a special gift on the way home. "The ideal retail is that which accommodates those transitional moments at the very beginning and very end of the day," she said.

Outdoor spaces. These have always been somewhat important. Now they are critical, according to Valentini. "Even in markets like Chicago and New York, where the weather can be tough, outdoor spaces are important." ■

Ron Derven is a contributing editor to Development magazine.

Words from the Past Provide Guidance for Today

In the late 1980s, overbuilt office properties were spread across the country, but the problem was especially acute in the Southwest, where a boom-and-bust cycle in oil prices led to skyrocketing vacancies.

A "lessons learned" document from 1989 can help real estate professionals navigate the current downturn.

By Trey Barrineau

At a Glance

- Commercial real estate is currently facing one of its regular down cycles.
- Experts say these are not uncommon and require patience and perseverance.
- A document from the 1980s provides good advice for surviving these down periods.

A single word probably best describes the current climate in commercial real estate — unease.

For example, the latest NAIOP CRE Sentiment Index, published in April, predicts higher interest rates, higher cap rates, and a decrease in equity and debt supply through the rest of 2023. The office sector looks especially dire.

"The office market will face significant challenges over the next 12 months with the best-in-class properties improving and the rest of the market struggling to capture limited demand," according to one CRE Sentiment Index survey participant. "Tenants will continue to improve their offerings to their employees to attract them back into the office, but will be slow to make decisions, delaying capital expenditures as they face down a potential recession." NAIOP's office space demand forecast, published in the fall of 2022, notes that the national vacancy rate is at 17.1%, the highest level since the third quarter of 1993.

Additionally, a Morgan Stanley analysis published in April revealed that commercial real estate faces a massive "refinancing wall," with more than half of the $2.9 trillion in commercial mortgages due for refinancing in the next few years. This year alone, close to $450 billion of commercial real estate debt is set to mature, according to data from Trepp. Lending rates could rise 3.5 to 4.5 percentage points higher than existing ones — which are already at the highest level in 40 years due to the Federal Reserve's

Memorandum

To: DISTRIBUTION

From: GARY SHAFER

Date: 5/23/89

Office:

Office:

Subject: LESSONS LEARNED IN THE SOUTHWEST

I asked several of our Southwest partners to reflect upon the environment which lead to the collapse of the Southwest real estate markets including: strategy, personnel, administration/overhead, individual projects, things we did right, influences that encouraged us to make mistakes, and any universals/axioms that could be applied to our business in good times and bad.

Hopefully none of us will ever experience anything like the Southwest disaster again but perhaps what we have learned will better prepare us for whatever might befall. Feel free to distribute this as you see fit.

Thank you.

GS:jl

The 1989 Trammell Crow memorandum "Lessons Learned in the Southwest" has circulated among real estate professionals for many years.

efforts to reduce inflation by raising interest rates. Morgan Stanley further predicts a potential 40% drop in pricing for office and retail. That's similar to the declines seen during the Global Financial Crisis of 2007 to 2009.

It's Happened Before

While worries about the current downturn are creating a lot of unease, it's important to remember the cyclical nature of real estate. The industry has been through these periods many times before, and the past can provide lessons to help real estate professionals find a way through the current crisis.

Consider the steep crash in commercial real estate that began in the late 1980s and didn't fully resolve until the mid-1990s. Several factors created that down cycle. First, excessive speculation and overbuilding, fueled by a surge of cheap capital and deregulation in the financial industry, resulted in a glut of commercial properties with low occupancy rates (and also led to the savings and loan crisis).

A 1997 study by the Federal Deposit Insurance Corporation laid out the scale of the boom and bust in office construction. In terms of floor space, the annual average for completed projects in the 31 largest office markets across the country was 33.6 million square feet between 1975 and 1979. That figure nearly tripled during the next five years, reaching an annual average of 97.8 million square feet. From 1985 to 1989, the pace of completions remained roughly the same before dropping dramatically to an average of 28.1 million square feet per year between 1990 and 1994.

Next came the Tax Reform Act of 1986, which eliminated key tax incentives that previously encouraged investment in commercial real estate. That further dampened demand, causing property values to plummet and leading to widespread defaults on loans, bank failures and a prolonged recession in commercial real estate.

By 1989, it was clear that the boom was over.

While worries about the current downturn are creating a lot of unease, it's important to remember the cyclical nature of real estate. The industry has been through these periods many times before, and the past can provide lessons to help real estate professionals find a way through the current crisis.

In the spring of 1989, Gary Shafer, managing partner at Trammell Crow, sent a memo to 19 of the firm's regional partners seeking to assess what had gone wrong during the crushing downturn. The result was a remarkably frank 100-page document that provides timeless advice for real estate professionals facing an unfavorable business climate.

An article in the Spring 2018 issue of "Columns," published by AIA Dallas, notes that by the time the Southwestern real estate bust bottomed out, "there was more vacant office space in the towers of Houston (above) than there was total office space in Atlanta and Denver combined."

The Trammell Crow Company, at the time the biggest real estate firm in the country, was hit especially hard by the downturn. According to a 1992 Bloomberg article, the value of Trammell Crow developments plummeted from $2.2 billion in 1985 to less than $100 million in 1991. Office vacancy rates in Dallas and Phoenix, two key areas for Crow, rose to almost 30% in the early 1990s. The company was also forced to shed staff rapidly.

Business was particularly tough for the company in the Southwest, where office properties were overbuilt during a boom in oil prices that eventually collapsed dramatically.

"West Texas Intermediate crude, which had been as high as $100 a barrel in 1980, plunged from $68 to $26 a barrel within a month: April 1986," according to an article entitled "Dallas' Two Hard Lessons on Vacancy" in the Spring 2018 issue of "Columns," published by AIA Dallas. The article notes that by the time the bust bottomed out, "there was more vacant office space in the towers of Houston than there was total office space in Atlanta and Denver combined."

An Honest Assessment

In the spring of 1989, **Gary Shafer**, managing partner at Trammell Crow, sent a memo to 19 of the firm's regional partners seeking to assess

Comparing Down Cycles

In the summer of 2017, Development magazine published a retrospective article marking the association's 50th anniversary that included brief summaries of two financial crises that deeply affected the commercial real estate industry:

1980s to 1990s: "The Economic Recovery Tax Act of 1981 (ERTA) heavily benefits CRE by lowering ordinary income and capital gains tax rates and introducing the accelerated cost recovery system, improving the rate of return on CRE investment. Syndicators begin to package and sell off real estate losses as tax shelters. The savings and loan industry makes riskier CRE loans to achieve higher returns, moving real estate ownership from individuals to the books of institutions. The Tax Reform Act of 1986 repeals the ERTA rules; less favorable accounting treatments are applied to properties that are significantly overvalued. It takes until the mid-1990s for commercial real estate values to recover."

2007-2009: "The U.S. housing bubble bursts and residential mortgage defaults skyrocket. Banks lose tremendous amounts of money; many eventually lack the reserves required to meet liquidity requirements. The Dow loses $1.2 trillion on September 29, 2008, on news that Congress did not pass a bill to bail out banks from their liquidity shortages. Lehman Brothers collapses, triggering a global financial crisis exposing the depth and breadth of the subprime mortgage contagion affecting securitized mortgage assets; credit default swaps; institutional investors; and commercial, investment and central banks worldwide. More than three million jobs are lost and vacancies rise into the double digits across most real estate asset classes."

what had gone wrong during the crushing downturn. The result was a remarkably frank 100-page document that provides timeless advice for real estate professionals facing an unfavorable business climate.

"It was a summary of the lessons all the partners learned from that large down cycle and what they would do differently next time around," said **John Drachman**, co-founder and head of capital markets for Waterford, a real estate investment and development company in Newport Beach, California, and a former NAIOP Research Foundation Visionary.

He said the Trammell Crow document is essential reading for everyone in the industry.

"I think every real estate professional should read that document, probably multiple times," Drachman said. "Knowing and studying previous cycles means you can learn from other's mistakes, which is always easier and less costly than learning from your own. You will, of course, make mistakes, but history has a funny way of repeating itself."

Drachman said he first encountered the document in graduate school at the University of Southern California from 2007 to 2009, at the height of the Global Financial Crisis (GFC).

"My classmates and I were amazed at how similar the cycle during the GFC was to the cycle in the early 1990s," he said. "It was the first

"I think every real estate professional should read that document, probably multiple times. Knowing and studying previous cycles means you can learn from other's mistakes, which is always easier and less costly than learning from your own. You will, of course, make mistakes, but history has a funny way of repeating itself."

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Consider the steep crash in commercial real estate that began in the late 1980s and didn't fully resolve until the mid-1990s. **Several factors created that down cycle.** First, excessive speculation and overbuilding, fueled by a surge of cheap capital and deregulation in the financial industry, resulted in a glut of commercial properties with low occupancy rates (and also led to the savings and loan crisis).

In the early 1990s, office vacancy rates in Dallas, Trammell Crow's hometown, rose to almost 30%.

cycle for all of us, so we had no idea what to expect. Reading that document and seeing so many similarities made us realize that these cycles were normal in real estate. It was a wealth of honest information about what people would have done differently leading up to that cycle."

As the commercial real estate industry makes its way through what appears to be an uncertain year, with office loan defaults taking off and layoffs starting at some firms, Drachman says this 35-year-old document is as relevant now as it was back then.

"To me, it's extremely relevant in terms of how cycles have similar patterns," he said, adding that the current cycle is different for several reasons, ranging from the impact of remote work in the post-pandemic world, to the many ways that e-commerce has disrupted retail and industrial. However, Drachman emphasized that cycles can be similar in terms of overdevelopment and a slowing economy leading to poor asset performance and a range of negative outcomes.

"It shows how these cycles are an expected part of the business," he said. "Not a fun part of the business, but something normal. When you are in a cycle, it can be depressing and feel like it will never end. Having stories of previous cycles helps overcome that fear as you learn to accept them for what they are — normal."

Drachman said he had four key takeaways from the Trammell Crow document — the value of always having cash on hand, the importance of considering downside risks and underwriting downside scenarios, the prudence of avoiding debt in land acquisition because land has no cash flow to it and is the first thing to lose value in a downturn, and perhaps most importantly, the wisdom of restraint when faced with aggressive or risky deals.

"This was an important recurring theme," he said. "Many of the partners talked about the deals they wish they did not do. Many of them said that they did deals because

Evergreen Advice from 1989

A few bullet points from the 100-page Trammell Crow memorandum from 1989 titled **"Lessons Learned in the Southwest"**

- "Pride kept us from cutting projects, debt, rents and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss — 'press the bet on the last hole' — 'hidden odds for the house in Vegas' — etc.)."
- "Certainly, a good market tends to hide ones' mistakes while a bad market overly dramatizes them."
- "Don't do marginal deals because the money is available."
- "Keep a conservative strategy as to bad times. Generally, we did not know we were in a bad market until it was very bad. Remember, it doesn't pay to say 'it can't get worse or last much longer.'"
- "Make every deal at the best rate you can. The deals we made in the early months of the downturn now look like great deals in retrospect. At the time we did not feel good about most of them, but today they are our best deals."
- "Lease, lease, lease — keep your building leased. Occupancy helps cover taxes, insurance and other costs that we pay during vacancy."
- "Don't believe that just because rents have gone up at 5% per year for five years that they can't or won't drop 25% in one year."
- "Don't put too much faith in a single lender. Despite the myth, large banks do fail, and the new guys are not necessarily fair to you just because you are their customer."
- "Don't buy too soon when things are going down. For example, we offered a contract for $22 per square foot in 1987 that we'll probably get for $17.50 per square foot this year."
- "The first markdown is the smallest."
- "Bringing construction and architectural personnel in-house makes it difficult to 'ratchet down' staff levels as development falls off."
- "Do not lag a market decline in rental rates for signing leases. If rents are falling, address it quickly. The longer you wait, the more expensive it gets."
- "Work renewals hard and early."
- "Do not do a project just to do something — maintain careful underwriting standards."
- "Take more aggressive positions with banks and other lenders sooner as opposed to later."
- "Be willing to make the tough decisions on projects and personnel."
- "One bad project can (erase) five good ones."
- "When the office, retail and industrial absorption softens and rental rates decline, the land values decline at an even greater rate."
- "Do fewer deals and do them better."
- "One way to stay financially healthy is to 'sell too soon.' "
- "We made a bet that there is a reasonable sale market at all times in any market. We have found that just when you most need to sell, there is no market."
- "Without question, our perceived need to keep busy (working, deals, leases, etc.) caused us to spend and commit unnecessarily. We would have been far better off to have played golf on some days rather than doing a deal."

To view or download the full document, visit www.slideshare.net/wdahlstrom/memo-trammell-crow-co-1989-lessons-learned-in-a-down-market

"This was an important recurring theme. Many of the partners talked about the deals they wish they did not do. Many of them said that they did deals because money was available and they could do it, but then they regretted it. **This is such a crucial point and one of the toughest parts of the development/investment business in terms of having the confidence and discipline not to pursue aggressive or risky opportunities even when the capital is there.**"

— John Drachman, co-founder and head of capital markets, Waterford

“Ride the wave. Do not fight the cycle and take it one day at a time. It will be scary at times, and you will feel alone, but understand that everyone in real estate feels that way. **Take the time to learn as much as you can and make sure you stick with this industry and do not give up. This industry rewards the professionals who make it through cycles, because at the end of every down cycle is a strong up market.** Real estate has proven that time and time again.”

— John Drachman, co-founder and head of capital markets, Waterford

money was available and they could do it, but then they regretted it. This is such a crucial point and one of the toughest parts of the development/investment business in terms of having the confidence and discipline not to pursue aggressive or risky opportunities even when the capital is there.”

For Drachman, real estate is about playing offense and defense, but in the right proportions.

“I think the goal should be to play 65% to 70% offense and 30% to 35% defense,” he said. “You must score points to win, but to win over the course of a long career you also must limit turnovers and play smart, so to speak. I think about this when I think of my career. You want to take smart, calculated risks, which means you must play more offense than defense, but you want to make sure they are well-calculated risks where you have strong downside protection. Real estate is cyclical, which means sometimes the weather is nice and sometimes it’s snowing. You have to know how to win in both environments.”

Looking Ahead

Drachman has advice for real estate professionals who are experiencing their first down cycle.

“Ride the wave,” he said. “Do not fight the cycle and take it one day at a time. It will be scary at times, and you will feel alone, but understand that everyone in real estate feels that way. Take the time to learn as much as you can and make sure you stick with this industry and do not give up. This industry rewards the professionals who make it through cycles, because at the end of every down cycle is a strong up market. Real estate has proven that time and time again. Cycles can create tremendous opportunities, and to me, it takes the right mindset to get through it. Keep looking forward.”

Drachman also urges those who are relatively new to the industry to do whatever they can to “stay alive until 2025,” when he believes that commercial real estate will be in a strongly positive cycle.

“If you have to take a step-back job, do it,” he recently posted on LinkedIn. “If you have to move from acquisitions to asset management, do it. If you need to go back to graduate school, do it. If you need to severely cut back on what you spend money on, do it. If you have to take a job in loan workouts, do it. These periods separate the people truly committed to this industry from the ones who are not. … You gain your true self-confidence in this industry when times are hard, not when times are easy. If you ‘stay alive until 2025,’ you will get to another great market where you can create real wealth for yourself or take large leaps in your career. This business rewards people who stay fully committed to it, continually grind and never waver in the face of adversity. Myself and many in my generation who survived the GFC are proof positive of that.”

Trey Barrineau is the managing editor of publications for NAIOP.

'It's an Amazing Gift'

All photos by Ralph Oswald III

Students participating in the 2022 NAIOP-Drexel Summer Real Estate Program gather after the ropes course adventure, an ice-breaker program designed to teach teamwork and create camaraderie.

At a Glance

- The NAIOP-Drexel Summer Real Estate Program is one of several offered by NAIOP chapters.
- High school students from underrepresented backgrounds are chosen to participate.
- Many hours of volunteer work go into the program. ■

An up-close-and-personal look at the NAIOP-Drexel Summer Real Estate Program, which inspires students of color to build careers in commercial real estate.

By Robbie Tarpley Raffish

The NAIOP-Drexel Summer Real Estate Program is a 10-day immersive residential summer program for high school students of color. It introduces them to careers in commercial real estate fields including architecture, development, investment, construction, brokerage and urban planning/design.

The program, a partnership between NAIOP Greater Philadelphia and Drexel University, is a combination of classroom learning, site visits and industry events where participants learn the basics of real estate through case studies. 2023 will mark the program's fifth year.

In July 2022, freelance author **Robbie Tarpley Raffish** sat in classrooms and toured development projects with the instructors and the 30 students participating in the program, capturing their experiences in real time and in their own words.

Getting There

It began as most programs do when young people don't know each other: quietly. Lots of looking at phones and working to appear nonchalant.

They arrived from Pennsylvania, New Jersey, New York, Delaware, Virginia and Texas, their parents dropping them off at Drexel University dorm rooms and hugging them goodbye. The students, many on a college campus for the first time, lugged their belongings to their rooms and tentatively met their roommates as they unpacked, not knowing what to expect. It was "real estate camp" — how exciting could it be?

Plot twist: they weren't beginning in a classroom. Instead, they boarded a bus and headed to a ropes course where, for the next three hours, they climbed, zipped, wobbled and gripped their way across obstacles, cheering on those whose nerves were high, helping each other out and celebrating successes. The ice was broken, and the students had bonded.

Immediate team building is critical to the success of the program, according to **Sarah Maginnis**, executive director of NAIOP Greater Philadelphia, which conceived of the program in 2018.

"Ten days sounds like a long time, but it's not, especially when you consider how much ground there is to cover," she said. "Each day is packed — there is classroom work, property tours, professional panels, software training and much more.

A 2022 NAIOP-Drexel Summer Real Estate Program participant navigates the rope course.

We want them to be in a frame of mind to pull everything out of it they can."

One young man shared that not only was this the first time he'd stayed on a college campus, but it was also the first he'd visited, and it was a lot to take in.

"I'm a little worried I could get lost," he said as he walked quickly to catch up with the group.

Aubrey C. of Philadelphia, from Springside Chestnut Hill Academy, showed up knowing a little more.

"My sister came through the program before me, and I was more excited than anything else," he said. "I want to study real estate in college in any way I can — such as through internships — and I want

Tony Ewing, investment officer for EQT Exeter in Philadelphia and a NAIOP Greater Philadelphia board member, moderates a panel on sustainability and coaxes questions from the students.

to get my real estate license, so I knew this could get me one step closer."

After dinner in the dining hall, they returned to their dorm and met their program "ambassadors," a group of students from the real estate program at Drexel's LeBow College of Business who were selected to help the campers stay on course.

"Our job is to keep the students on schedule," said Arianna C. of Philadelphia, a Drexel student who served as an ambassador. "For many this is their first independent experience out of their homes, and we are here to listen, make sure they get where they need to go, and have fun."

It took some work, but most of the students were so tired from travel, nerves and the ropes course that "lights out" came more easily than one might imagine.

'A Reflection of Their Future Selves'

Jeriel C., a student from Atlantic County Institute of Technology in New Jersey, came to the program motivated. No one recommended the NAIOP-Drexel Summer Program to him; he found it by doing his own research.

Standing outside of the lecture hall, quietly speaking with another student after a panel discussion entitled "The Greening of Commercial Real Estate," he talked about his desire to "learn everything I can about real estate." When encouraged to go back in and approach the moderator, **Tony Ewing**, for a business card, his face revealed a combination of nerves and excitement.

Excitement won. He approached Ewing, an investment officer for EQT Exeter in Philadelphia and a NAIOP Greater Philadelphia board member, who had assembled the panel. As the moderator, he had deftly drawn the students into asking questions with his energetic and welcoming demeanor. He put out his hand, smiled and spoke with Jeriel for some time.

"That's what we want this program to do," Ewing said. "The connections they make here are critical, especially because many of us teaching look like them, black and brown. This is an opportunity for kids to see people working in the kinds of jobs they are interested in and learn about jobs they don't even know exist until they get here. It is encouraging when they see a reflection of their future selves."

The panel featured four CRE professionals talking about various careers related to sustainability and environmental stewardship. **Kristen DeBias**, president of Energetek, a minority- and woman-owned commercial energy brokerage and commodity trading advisor, made the difficult concept of renewable energy credits understandable to

Students asked a lot of questions, from the micro of balance sheets to the macro of climate change goals. Architect **Ian Smith**, owner of IS-DG in Philadelphia, a minority-owned firm, told the students that their futures will be addressing the issues the current generation leaves behind, but that young people can make a difference now when it comes to global warming and building design.

The students were animated, taking selfies in hard hats and vests and asking questions about the development process. **They lined up with construction workers to sign the beam before it was lifted into place, which many students captured on video with their phones.** They were excited to learn they could keep their NAIOP-MRA co-branded hard hats as souvenirs.

Students traveled to the beam signing ceremony at 1201 Normandy Place at the Philadelphia Navy Yard. They signed the beam, the last one to go into the building, with the construction crew and developers who worked on the project.

high school students. She said her company had a goal of being "net zero by 2050" and highlighted ways they were working to get there.

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One student asked how developers use design to offset global warming, to which **Lucas Hamilton**, manager of applied building science at Saint-Gobain North America, offered a green roof as an example.

"Green roofs are great for the environment but they're a heavy load, so you have to compensate in the design for that," he said. "They are also great for those who can see and touch it — it's called biophilia, the innate human instinct to connect with nature and other human beings."

Ewing added that from the spreadsheet side, "a green roof costs more per square foot, making the [development] numbers go up, which has to equate high value to higher rent," touching on a math lesson from earlier in the morning. "It results in a higher cap rate — you remember cap rate, right?" To which there was some head-bobbing and nervous giggling as students tried to connect the dots between the data.

Hard Hats All Around

Of all the program's offerings, nearly all the students agreed: site visits were their favorite.

On the first full day, the group toured a building at One UCity, a life science project being developed by Wexford/Ventas. They were met by **Pete Cramer**, a NAIOP Greater Philadelphia board member who serves as senior director of development at Wexford Science &

Technology, LLC. He walked them through the 450,000-square-foot Drexel University Health Sciences Building, a $30 million project that is 100% leased by Drexel for two schools, the College of Nursing and Health Professionals and the College of Medicine.

"Four thousand students and faculty will utilize this building this fall," he said, hinting that the students were receiving the rare opportunity to tour the facility before it opened. "It is the tallest academic building on campus," he continued, as students boarded elevators in small groups to begin tours.

"This is so cool," one young woman said to another. "I feel like we're sneaking in."

Other tours followed, including one that was not on the original schedule. A few days before **Mark Seltzer**, a NAIOP Greater Philadelphia board member and senior vice president of development for Ensemble Real Estate Investments, was supposed to teach a class about the fundamentals of CRE, he learned that the final beam would be installed on his project at 1201 Normandy Place in the Navy Yard in Philadelphia. The life science building is a joint venture with Mosaic Development Partners under the banner of Ensemble/Mosaic. The 130,000-square-foot project kicked off a 20-year, $4.8 billion initiative that includes the development of life science, office, residential, hospitality and amenities.

"What started as a scheduling conflict became a great opportunity for the students to be on-site and see a topping-off ceremony," Seltzer said. "We all saw how instructive — and fun — it might be to come onto a working site in a vest and hard hat, and we wanted to make it happen."

'It Was a Bit of a Learning Curve'

In February 2020, Joe Ritchie of NAIOP Greater Philadelphia discussed the origins of the NAIOP-Drexel Summer Real Estate Program during a panel at NAIOP's Chapter Leadership and Legislative Retreat in Washington, D.C.

Ritchie said the idea for the program began during regular meetings with Drexel University President **John Fry** regarding a development project. Those conversations helped launch the program.

Ritchie said the program has taken off because it had support from the highest levels of NAIOP Greater Philadelphia.

"Our board was 110% behind us," he said. "It was one quick conversation, and everyone jumped in."

At the start, building a curriculum geared toward teenagers was a major challenge for the chapter.

"We are real estate professionals; we're not educators," he said. "Translating what we do in the industry every day to a 16-year-old is tough. It was a bit of a learning curve. It's really key to have that kind of partnership. Drexel did a lot of lifting to make this successful."

Ritchie said the chapter puts in a lot of footwork to find students for the program.

"We ourselves go directly to the schools and go to school district events," he said. "We go to churches, too. We also reach out to social organizations, such as Jack and Jill, and fraternities and sororities. We go everywhere we can be where we might encounter a parent."

Once candidates are found, Ritchie said they go through a rigorous application process that involves transcripts, applications and teacher recommendations.

Sarah Maginnis, NAIOP Greater Philadelphia's executive director, said the chapter raises all the funds to cover the cost of this program through sponsorships from its partnering companies. For the inaugural program in 2019, NAIOP Greater Philadelphia raised $60,000 for 19 students.

Volunteers are found through the chapter's network.

Finally, Ritchie urged commercial real estate professionals who want to start a similar program to look at the one at Drexel.

"Here is a way to start," he said. "I firmly believe that talent is distributed equally, but opportunity is not. I am one of very few African American corporate real estate executives. I happened to be in the right place at the right time. We're trying to get more folks in the right place at the right time."

For more information about the program, visit naiopphila.org/home/precollegecreprogram/

Additionally, interested students and parents, as well as professionals who want to participate, can reach out to Maginnis to be added to e-mail updates at smaginnis@naiopphila.org. ■

— **Trey Barrineau**

Another goal is to provide real-world experience that students can add to their résumés. One afternoon, the schedule included a course in using Microsoft Excel and how to create and organize spreadsheets, a skill that would be critical to the participants' upcoming final project. Another afternoon focused on developing a solid LinkedIn profile.

Jayden Cartwright, a graduate of the NAIOP-Drexel Summer Program and a student at Howard University, speaks about his experiences in college at the closing-night dinner.

To allow the students to participate and for Seltzer to make his teaching time, program Chair **Phil Butler Sr.**, a NAIOP Greater Philadelphia board member and a senior vice president at MRA Group in Philadelphia, worked the phones for transportation while Seltzer obtained the safety equipment.

The students were animated, taking selfies in hard hats and vests and asking questions about the development process. They lined up with construction workers to sign the beam before it was lifted into place, which many students captured on video with their phones. They were excited to learn they could keep their NAIOP-MRA co-branded hard hats as souvenirs.

Next, they were treated to lunch at the Ensemble/Mosaic office. Seltzer led the class in a training room, which offered a break from the classroom and a low-key demonstration of what working in an office might feel like.

Aubrey C. said the site visits brought the classroom work alive.

"Putting on that hard hat made it more real," he said. "My favorite [trip] was probably watching the final beam being raised on a building at the Navy Yard because it showed me that the job was not just about sitting at a desk. You could be outside, on a site, building something."

More trips followed, including the Riverwalk Apartments, West Tower at Schuylkill Yards and Cira Green, all hosted by NAIOP members.

Abu Saccoh, from Boys Latin School in Philadelphia, said the "program has helped me understand that real estate isn't just purchasing houses … After high school and college, I would most likely [pursue a career] in real estate."

Living the Learnings

"One of the most important aspects of the 10 days is the time students get to spend on a college campus, learning in a classroom, eating in the dining room and sleeping in the dorms," said **Joe Ritchie**, president of NAIOP Greater Philadelphia and managing director of business development and head of diversity and inclusion at Tishman Speyer. "Timing it as they are starting to think about colleges — and what they will study — is very important."

Another goal is to provide real-world experience that students can add to their résumés. One afternoon, the schedule included a course in using Microsoft Excel and how to create and organize spreadsheets, a skill that would be critical to the participants' upcoming final project. Another afternoon focused on developing a solid LinkedIn profile.

"The program was everything I expected — and more," said Aubrey C. "I was excited that the teachers would be college-level professors, but there were also real titans of industry, including [young people] who were making six figures right out of college. Our speaker at the final dinner was **Jayden Cartwright** (who attended the Summer Program in 2021), and he is at Howard University," where Aubrey is interested in attending. "I connected with him on LinkedIn right after I got home, and he invited me to visit Howard."

Michael J. DiSanto, a NAIOP Greater Philadelphia board member and a senior vice president with M&T Bank, has a unique perspective on the program. M&T has been a sponsor for five years, and DiSanto teaches in the classroom, seeing the impact of the bank's investment firsthand.

"Personally, I have always enjoyed working with younger people," he said. "I can remember what it was like [at that age] to be without direction or leadership to guide me, and I want to give back. On a larger level, I am astounded and humbled by the depth and breadth of the participation of the Greater Philadelphia CRE community. These are top-level folks. Young people can be very apprehensive about these kinds of interactions, and this allows us to allay some of their fears and make them more comfortable about the future."

A group of students assembles with their mentors to plan for the final Case Competition.

On his evaluation, **Jahlanie Johnson**, from Simon Gratz High School Mastery Charter, reflected on the experience.

"It was a little tough at the start to meet new people, but taking that step to let my wall down was worth it," he wrote. "I learned so much and met so many people … and I definitely want to use this opportunity for the future. I have already reached out to **Zach Kravitz**, assistant project manager at IMC Construction, about an internship."

The assignment was to take a section of the Schuylkill Yards project in development by Brandywine Realty Trust, a charter sponsor of the summer program, and create an in-depth case study of 3151 Market Street, a major new life science, residential and retail development from Brandywine (and one for which there are very real plans). Each team would then present in front of blue-ribbon judging panels composed of Drexel faculty and staff and members of the Philadelphia CRE community.

A Race to the Finish

The last step at the NAIOP-Drexel summer program involved an intense and highly competitive final project that reflects a "real world" experience — a mock RFP for a real project.

The NAIOP-Drexel participants split into teams of three and competed, bracket-style, in what was, according to at least one student, "one of the most intense and powerful experiences I've ever had."

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Each student was awarded a certificate at the closing ceremony. Here, Jaden Palmer-Waldron of Germantown Friends School (center) is flanked by members of the NAIOP-Drexel planning team and program staff (from left), Michael J. DiSanto, NAIOP Greater Philadelphia board member and senior vice president, M&T Bank; Joe Ritchie, NAIOP Greater Philadelphia president and managing director of business development and head of DEI at Tishman Speyer; Professor Patricia Robak, academic lead for the program; Brian Ellis, Drexel University; and NAIOP-Drexel Summer Program Chair Phil Butler, Sr., NAIOP Greater Philadelphia board member and a senior vice president at MRA Group.

front of blue-ribbon judging panels composed of Drexel faculty and staff and members of the Philadelphia CRE community.

"The case study was really stressful," Aubrey C. said. His team had been developing an idea that they discovered would not work on the site. "Two days before we had to present, we had to completely change the program," including creating a new design in SketchUp, a 3-D modeling software. "The financial analysis was also challenging — we were up really late" on what he later revealed was his 18th birthday.

In the end, Team NYP, comprised of **Meelan Dessejour** of Brooklyn; **Noah Jones** of Rockville, Maryland; and **Abu Saccoh** of Philadelphia, took home the win. Each team member received a $200 gift card and a certificate.

After the competition, when the last student had been picked up, Butler reflected on the 10-day period.

"I believe that every student who participates in this program goes home with far more than an understanding of commercial real estate," he said. "Each has a much better sense of themselves, where they might see themselves in college and the wider world. It's an amazing gift that this huge team of people is able to offer, and we are excited to see where each student heads in the future."

One place they may head is into NAIOP Greater Philadelphia's externship and internship programs.

"We want them to continue the journey and expand on what they have learned," said Maginnis. "The summer program, externships, internships and then Developing Leaders Program (for working professionals aged 35 and under) creates a continuous line from high school to college to career, allowing participants to build on their learnings, deepen relationships with mentors and provide a welcoming entry to a career in commercial real estate." ■

Robbie Tarpley Raffish is a writer based in Sharptown, Maryland. (Note: This article was originally published as a five-part series on NAIOP's Market Share blog: blog.naiop.org.)

Other Summer Programs

Several NAIOP chapters are currently committed to commercial real estate summer programs for high school students from historically underrepresented groups. These are produced both independently and through the Real Estate Executive Council's Real Estate Exchange (REEX) summer programs.

- NAIOP Chicago with Roosevelt University
- NAIOP Massachusetts with MIT
- NAIOP Pittsburgh with Robert Morris University
- NAIOP Wisconsin with Marquette University ■

Special Report

Evolution

– from Simple to Complex

Evolution Block in Vancouver's False Creek Flats district is a multilevel light industrial structure. It has 105,000 square feet of space over four levels on a 35,000-square-foot site that occupies an entire city block.

At a Glance

- Multilevel industrial buildings are becoming more common in urban areas due to high land prices and a shortage of developable land.
- These buildings are located in urban areas close to transit, bike routes and commercial amenities.
- The Evolution Block building in Vancouver's False Creek Flats district is an example of a successful multilevel light industrial structure.

Photos by Upper Left Photography

Profiling the tenants in an innovative industrial building in Vancouver, Canada.

By Eric Aderneck

Multilevel industrial developments have generated buzz in the commercial real estate industry for some time, but how well do these buildings accommodate tenants? As more "stacked" industrial structures advance from drawing board to finished product, the story shifts from the developer to the occupier.

Some buildings include one or two floors of light industrial on the lower levels, with the upper floors often housing offices, labs or R&D space. They generally have underground car parking and at-grade truck loading, with access between levels via a freight elevator. (See "From Horizontal to Vertical: Industrial Intensification Grows Up" in the Spring 2020 issue of Development, and "Going Big: Large-Format Multilevel Industrial Buildings" in the Spring 2022 issue of Development.)

To be attractive to a prospective tenant's workforce, these new classes of buildings are usually located on urban sites. They are typically close to transit and bike routes and near commercial and recreational amenities. Furthermore, with trends toward working from home and working from anywhere, a functional and desirable workspace with on-site amenities is necessary to attract a talented labor force.

Metro Vancouver, home to 2.8 million inhabitants and the largest port in Canada, is facing a significant shortage of industrial land. This has led to extremely low industrial vacancy rates and some of the highest rents in North America. Colliers Canada reports that the industrial vacancy rate is 0.2%, and asking rents are over $21 per square foot.

Due to the combination of high land prices and high lease rents, cities are increasingly building up instead of out to accommodate new and expanding businesses.

Multilevel industrial buildings were initially designed and marketed in response to land shortages. However, many in the CRE industry were skeptical about how functional and marketable they would be. Will the ground floor have a low ceiling height? How will goods be delivered to the upper floors? How will trucks be accommodated? Will there be enough parking?

Evolution Block in Vancouver has a floor area ratio of 3.0. A high-speed freight elevator system serves the entire building. The entrance to No 1. Collision is on Evolution Block's ground floor. The company is the largest high-end auto collision repair facility in North America. It occupies 29,000 square feet.

Now that more of these projects have been built, planners, designers, brokers, investors and tenants can see for themselves what they look like and how they function. The recently completed Evolution Block building in the False Creek Flats district in Vancouver, British Columbia, is a prime example of stacking light industrial with life sciences uses.

Vancouver's False Creek Flats Area

The 450-acre False Creek Flats district has historically been an industrial area, with warehouses, manufacturing facilities and distribution centers. However, in recent years it has seen increasing interest for other uses, including new types of businesses, academic institutions, health research and associated shifts in employment types. It's named after False Creek, a body of water that used to run through the area until it was filled in for industrial development in the early 20th century. The remaining False Creek is now a narrow inlet that separates downtown Vancouver from the rest of the city.

The area is an up-and-coming hub connected to the rest of the city by an expanding rapid transit network. It is close to the central business district, the Port of Vancouver terminals and the regional road network.

"The City of Vancouver intended False Creek Flats to be an employment-generating area, accommodating a range of different types of light industrial and innovative commercial uses, including a growing life-sciences sector," said **Brent Sawchyn**, CEO of PC Urban, which developed the Evolution Block building in partnership with Nicola Wealth Real Estate.

There are a growing number of groundbreaking developments in False Creek Flats, and the area is also starting to attract more biotech/life-science firms, which are drawn to the area by the new St. Paul's Hospital medical complex. At 1.2 million square feet, it will be the largest healthcare development in British Columbia, scheduled to be completed by 2027. Also close by is the expanding Great Northern Way Campus, which includes the Centre for Digital Media, operated by a consortium of four local academic institutions. It has attracted significant public and private funding.

Evolution Block Building

The new Evolution Block building in False Creek Flats is the latest example of an innovative multilevel light industrial structure. It has 105,000 square feet of space over four levels on a 35,000-square-foot site that occupies an entire city block, achieving a floor area ratio of 3.0. Dock and grade loading doors are served by a high-speed freight elevator system that provides access throughout the building. Floors feature 12- and 18-foot ceiling heights to ensure functionality. Efficient floorplates with a variety of divisible options provide for flexible workspaces.

Multilevel Industrial Design's Vertical Puzzle

As industrial spaces move deeper into dense urban areas, the need to build up instead of out will increase. Vertical industrial — whether used for fulfillment, maker spaces, labs or light manufacturing — requires a new approach, different requirements and a whole lot of explaining.

Russell Hazzard, AIA, president of MG2, led a panel of experienced vertical industrial developers and architects at I.CON West in Long Beach, California, that explored the advantages and challenges that accompany these types of projects.

It's important to consider three main elements of multistory industrial that differ from traditional single-story industrial before getting started, said **Ken Sun**, senior vice president, regional head of development — West region, Prologis. First is the target customer and their use.

Second is the parking requirements, including how many employees need parking, access to transportation, dock positioning and fleet management. Third is the building's function, which dictates elements such as ceiling height, ramp slopes, vertical lifts and egresses, among others.

"All of these components come together in the design of the building," Sun said. "These types of facilities typically don't want to keep inventory inside for long — they want to get it in and out. Ceiling heights can vary — a 34-foot clear height is desirable but not necessary, and that dictates the floor load capacity. You can't solve one problem without thinking about the others."

"It's the ultimate three-dimensional puzzle," added **Michael Bennett**, vice president and head of development, DH Property Holdings. "Whether it's true multiuse or just a multistory — these sites are incredibly tight."

He noted that building three floors into the air can be even tougher in dense urban neighborhoods that often have truck and traffic restrictions.

"You have to consider the vehicle type that's going to serve the building and fit all of those components into this vertical puzzle," he said.

Maribel Barba, AIA, design architect and project manager at MG2, recently completed a multistory industrial project in the Santa Fe district of Mexico City. Among her greatest challenges for the project — which includes an underground Costco, parking garage, and loading bays all located beneath a large park and garden areas, plus a soccer field and other sports courts, walking paths, a skate park for children, and a massive green roof — was where to put the HVAC and mechanical units, as well as how to manage pedestrian and vehicular traffic flows. (See "A Seamless Blend of Retail and Recreation" in the Spring 2023 issue of Development.)

Additionally, Sun said design requirements can vary by market, and that can impact how users perceive a warehouse and logistics center. He said being closer to the customer is the most important component and can outweigh the expectation for pushing clear height limits, which can have a ripple effect on elements such as floor thickness and the number of columns needed to support the structure.

Explaining the function and design of a multistory industrial facility to zoning boards and jurisdictions can bring its own set of challenges, but the panelists agreed that it comes down to engaging with cities and neighborhoods to address their concerns about infrastructure, traffic and noise.

"Once a certain height is reached, it qualifies as high-rise construction, which is a different code and review process," said Sun. "Plus it's more expensive. This is where tenant requirements and identifying the true needs for the project are important."

Financing brings its own challenges, said Bennett, as these types of projects are new enough that many financiers aren't familiar with their complexity; the cost can be 150% more than a traditional single-story project.

"It's a typical industrial park, just stacked up," he said with a laugh. "But it's hard to finance something that people can't envision." ■

— **Kathryn Hamilton**

The exterior artwork on the building, called "These Hands" (see photo), was created by local artist **Vanessa Brown**. It is comprised of two hands cut from sheet aluminum with elements incorporated into the work.

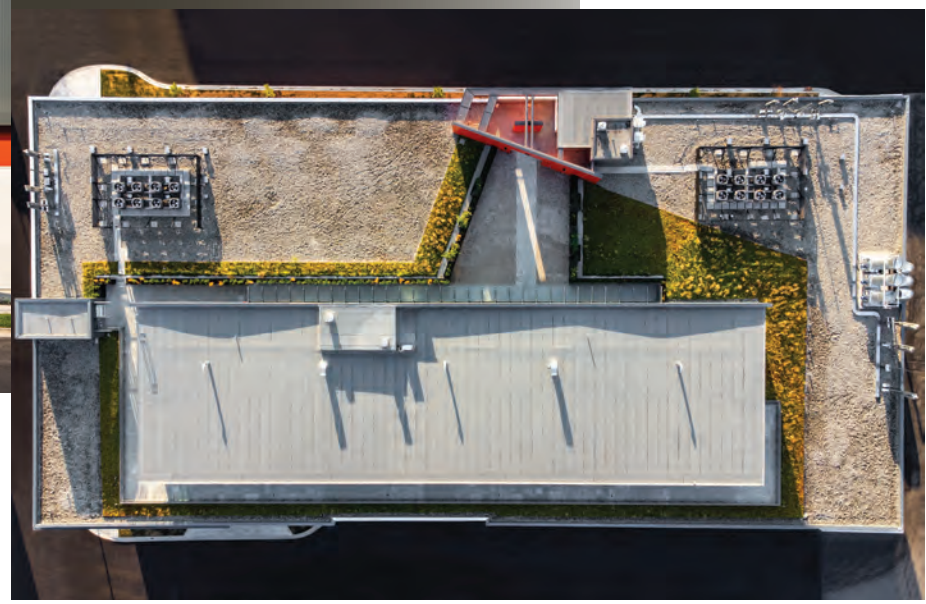
The Bauhaus architectural theme from the 1920s that emphasizes functionality reappears anew in the 2020s in Evolution Block — solid proportions, clean lines and a flat roof. Extensive glazing offers a variety of views, and the building has a common outdoor rooftop patio amenity. There are also two levels of underground parking. Designed by Christopher Bozyk Architects, it was completed in the fall of 2022.

PC Urban's vision for Evolution Block began by finding a location that was part of Vancouver's historic industrial base, yet also close to the city center. The selected site in False Creek Flats had been home to industrial uses for a century, first as a soft drink bottling and distribution facility in the 1920s, then as a sausage-making plant in the 1950s, and later as an auction house in the 1990s.

For the ultimate tenants of the building, there was virtually no customization of the space. There were a handful of items for the autobody repair facility, such as floor depressions for paint booths, that were

Evolution Block's exterior features "These Hands," which was created by local artist Vanessa Brown. It is comprised of two hands cut from sheet aluminum.

In addition to housing mechanicals and other equipment, Evolution Block's flat roof includes a patio area that is shared by all tenants.



incorporated into the project design before starting construction.

PC Urban was committed to proceeding with the project and prepared to build on spec. However, prior to commencing construction, the company was able to secure the sale of the entire main floor to No. 1 Collision (a high-end autobody repair facility), and then later during construction it leased the upper three floors to Precision NanoSystems (a biotech firm).

The development fell under Vancouver's I-2 zoning, which seeks to "permit industrial and other uses that are generally incompatible with residential land use but are beneficial in that they provide industrial and service employment opportunities or serve a useful or necessary function in the city." As stipulated in city policies, to accommodate industrial uses, the ceilings were built higher than conventional offices, providing space for the extra HVAC and electrical systems needed for a life science occupant.

Meet the Tenants

Evolution Block's first tenant recognized the site's proximity to downtown as a key feature offered by few other locations in the region. And the second tenant saw how the large space in the three upper floors could accommodate its growing biotech operations.

No 1. Collision, the largest high-end auto collision repair facility in North America, occupies the lower level. It restores luxury cars to their original factory condition. The 29,000-square-foot facility is fitted with specialized equipment for collision repair. Operated by highly skilled and trained technicians, this type of light and clean use with grade access for vehicles fits well within the diverse district.

"It's hard to find space in downtown Vancouver and for us, this area is close to the dealers we work with," said **Robert Walker**, CEO of No. 1 Collision. "And our space requirements are so big and specific, long term it makes sense to own. We are really excited about the evolution of

Changing Definition of 'Industrial'

The term "industrial" represents a wide spectrum of uses and intensities, which do not all fit into conventional definitions of "heavy" or "light' or "traditional" and "modern," and it is evolving. Industrial can include everything from large transportation, distribution and manufacturing facilities to small local-serving producers and suppliers, as well as emerging sectors like advanced technology, media/design, biotech and e-commerce. Accordingly, different types of industrial businesses need different types of spaces and buildings, and the measure of utilization should also vary accordingly. ■

the area, the quality construction and architecture of this development and our ability to customize the space. Multistory is a great idea for Vancouver and will soon be the norm."

Occupying all three upper floors of the building — totaling 75,000 square feet — is Precision NanoSystems (PNI), an expanding British Columbia-based biotech firm that requires modern lab space for medical research and development.

"The bones of the buildings fit relatively well with what the life science business wanted to do — floorplate, ceilings, elevators, loading and so forth," Sawchyn said.

PNI's new and expanded global headquarters, with a medicine bioresearch and development center, will allow the firm to advance clinical manufacturing of RNA vaccines and therapeutics. The company employs 200 highly skilled workers.

"This is a huge leap forward in our mission to accelerate the creation of transformative medicines that significantly impact human well-being," said PNI General Manager **James Taylor**.

Workforce Attraction

Top firms must attract and retain the best human resources. Part of this strategy means offering a great workspace in the right place — well-located and accessible, designed to meet operational needs with floor layouts for labs and equipment, and pleasant to work in, with sought-after employee amenities.

Vancouver has long been known for its livability and environment, and it is increasingly becoming a destination for investment and business. That includes high-value specialized companies that range from high-end auto repair to biotech. These types of multilevel industrial developments will continue to evolve according to tenants' needs and market conditions. These new buildings fill a demand for space and are in demand by tenants in rapidly growing cities, as exemplified by Evolution Block and Vancouver. ■

Eric Aderneck, RPP, MPL, BCOM, DULE, is an industrial lands planner. He can be reached at eric@aderneck.ca. His website, www.MVindustriallands.com, includes resources about industrial lands planning and development matters.

Evolution Block - Project Summary

Project Location	1055 Vernon St., Vancouver, BC, Canada
Project Name	EVOLUTION BLOCK www.pcurban.ca/project/evolution-block/
Type of Site	Urban
Development Type	Infill / Redevelopment
Transportation Modes	Car, Truck, Transit
Division of Uses	
Manufacturing	Auto repair facility (29,000 square feet)
Flex	Bio tech labs (75,000 square feet)
Amenities	Common outdoor rooftop patio amenity
Parking	Underground
Tenants	No 1. Collision Precision NanoSystems
Rental Rates	PNI - $33-$35 psf net over 10-year term
Lease Terms	10-year term with 2x5 year options at market
Site Dimensions and Density	
Total Acreage	0.80 acre (approximate)
Total Square Feet	105,000 (approximate)
Development Team	
Developer	PC Urban
Architect	Christopher Bozyk Architects
General Contractor	Wales McLelland
Leasing Broker	Cushman Wakefield - Matt McLean
Financial Partners	
Municipal Funds or Tax Incentives	none
Construction Loan	Coast Capital Savings
Timeline	
Land Acquisition	September 2016
Planning Started	September 2016
Initial Plans Submitted	August 2018
Approvals Obtained	December 2018
Major Revision to Plans	none
Construction Started (Infrastructure)	September 2019
Construction Started (Buildings)	December 2019
Construction Complete	February 2022
Development Cost Information	
Acquisition Cost	$16,706,000
Hard Costs	$31,000,000
Soft Costs	$1,800,000
Total Project Costs	**$61,383,000** ■

The U.S. Debt Limit: A Biannual Debate

Commercial real estate could face major repercussions from political battles over spending and debt.

By Eric Schmutz

There is a familiar rhythm to partisan political debates in Washington, D.C. Elections are held in even-numbered years, when candidates are busy campaigning while trying to paint their political opponents as reckless and irresponsible about governance. In odd-numbered years, policymakers in Washington are busy trying to paint the other party as reckless and irresponsible about taxes, spending and the U.S. debt limit.

Which bring us to 2023, when this divided government is having a fierce partisan debate about taxes, spending and — the U.S. debt limit. This fiscal struggle can be traced back to the system of checks and balances in the Constitution. It gives the president administrative authority over the federal government, but control over how those operations are paid for — the "power of the purse" — was given to Congress in Article 1, Section 8. Debt limit debates have been common ever since.

Congressional debates over debts and spending are nearly as old as the country itself.

The federal government normally runs a deficit, and historically it has not reached a crisis level. In fact, from the end of World War II until 2012, the national debt remained below 100% of the Gross Domestic Product (GDP) threshold, only achieving surpluses in 1999-2001 due to increased revenues from the tech bubble. Unfortunately, the terrorist attacks of September 11, the Bush tax cuts, the Great Recession and COVID-19 pandemic have increased deficit spending and required regular debt increases. The result is that the national debt is now more than 120% of GDP.

The national debt and the annual federal deficit are often confused during debt limit debates, but the difference is simple. The national debt is the total amount of money that the federal government owes, and the federal deficit is the amount of money that the federal government spends in a fiscal year in excess of the revenue it receives. The result is that the national debt increases each year the federal government runs a deficit. The federal deficit was $984 billion in 2019, and prior to the approval of the COVID-19 pandemic emergency spending, the projected deficit was $1.2 trillion in fiscal year (FY) 2024.

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'Extraordinary Measures'

The first salvo of this year's debt limit conflict was fired on January 13, six days after the 118th Congress was sworn in. U.S. Treasury Secretary **Janet Yellen** informed the new Congress that the federal government would exceed its borrowing authority of $31.38

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trillion (an amount authorized by Congress in December 2021) and would begin "taking extraordinary measures" on January 19.

That sounds dire, but implementing extraordinary measures has become a common practice in debt-limit skirmishes. It gives Congress and the president additional time to negotiate and reach an agreement before the government would default on its debts. The last several iterations have included the declaration of a debt issuance suspension period, suspension of reinvestment of contributions to the Government Securities Investment Fund (G Fund) of the Federal Employees Retirement System, suspension of invested balance in the Exchange Stabilization Fund, and the suspension of state and local government securities.

While the rhetoric of debt limit debates often gets heated, they are usually resolved before the extraordinary measures run out. But in 2011, this was not the case, resulting in the U.S. credit rating being reduced from AAA to AA+ and causing disruption in financial markets. Days later, the 2011 Budget Control Act, which increased the government's borrowing authority and reduced projected spending (commonly known as sequestration), became law.

In May, President **Joe Biden** and congressional leaders began a series of talks to attempt to resolve the impasse before an expected default in early June. At press time talks were continuing, amid hopeful signs of a resolution.

In these debt limit fights, a failure to reach an agreement to increase the limit always raises the risk of major damage for commercial real estate. There would be significant market disruptions that restrict access to credit and further exacerbate current global recessionary trends. In addition to placing greater economic pressure on tenants, the banking system holds an estimated $1.3 trillion in federal securities. If the Treasury were forced to default on the payments owed on its debt, it would create a major banking crisis, restricting developers' access to capital.

In these debt limit fights, a failure to reach an agreement to increase the limit always raises the risk of major damage for commercial real estate. There would be significant market disruptions that restrict access to credit and further exacerbate current global recessionary trends. In addition to placing greater economic pressure on tenants, the banking system holds an estimated $1.3 trillion in federal securities. If the Treasury were forced to default on the payments owed on its debt, it would create a major banking crisis, restricting developers' access to capital.

The Federal Debt Is Still a Problem

Raising the federal borrowing limit may avoid a broad economic crisis, but it empowers the Treasury Department immediately to sell bonds and

Updates Online

For updates to this important story, please visit www.naiop.org/magazine. ■

Raising the federal borrowing limit may avoid a broad economic crisis, but it empowers the Treasury Department immediately to sell bonds and raise money from the private sector, potentially crowding out investment credit for non-government borrowers in the near term. In addition, the reduction of deficit projections only slightly delays the future fiscal challenges that the nation will face as more seniors retire and start collecting Social Security and Medicare benefits.

raise money from the private sector, potentially crowding out investment credit for non-government borrowers in the near term. In addition, the reduction of deficit projections only slightly delays the future fiscal challenges that the nation will face as more seniors retire and start collecting Social Security and Medicare benefits. This means that without significant reforms, Medicare benefits will need to be reduced in approximately five years and Social Security will only be able to cover 80% of its obligations within the next 13 years.

Regardless of what happens in any debt-limit standoff, discussions will necessarily continue on how to mitigate the challenges presented by our ever-increasing national debt. Expect to keep hearing more proposals to increase taxes, including on commercial real estate. ■

Eric Schmutz is director of federal relations for NAIOP.

NAIOP Chapter Executives Retire After Years of Service

Local leadership made an impact on people, communities and the industry.

By Trey Barrineau

This year, NAIOP is saying farewell to some of its long-serving chapter executives. These leaders have devoted their time and energy to build up the association's network of chapters across the country.

Here are three profiles of retiring chapter executives. More will be published later this year.

Michael G. McGuinness, *NAIOP New Jersey*

Michael G. McGuinness, the CEO of NAIOP New Jersey, has served in that role since May 1997 after working as the acting director for the Office of Business Ombudsman under then-Governor **Christine Todd Whitman**. Prior to that, he served as director of environmental affairs for the New Jersey Builders Association. McGuiness holds a master's degree in environmental and forest science from Yale University and a bachelor's degree in biology from Saint Peter's College.

McGuinness said the most rewarding aspects of his time as CEO included helping members, influencing public policy decisions, and witnessing the transformative impact of commercial real estate development on communities and residents. McGuinness said he also enjoyed building relationships with business leaders, entrepreneurs, philanthropists, politicians, academic leaders, students, and other industry and conservation group leaders.

One of McGuinness' greatest memories is the founding of NAIOP New Jersey's community action committee. Over a 10-year period, the committee helped build parks and playgrounds in economically challenged areas, including Newark, Paterson, Trenton, Elizabeth, Perth Amboy and Asbury Park.

"It was a real labor of love," he said. "These projects required collaboration with many state and local public agencies that helped with our advocacy efforts by building rapport, goodwill and trust with the communities and residents. We had to raise several hundred thousand dollars, which included a $10,000 check from **Bruce Springsteen**'s foundation."

McGuinness said another proud moment was the successful lobbying effort that led to the raising of the Bayonne Bridge. This opened up the Port of New York and New Jersey to the larger post-Panamax ships and solidified its status as one of the busiest ports in the nation.

McGuinness said he'd like to extend his gratitude to the many people who have supported him throughout his career, including his wife, Sue, who has been "a steadfast rock," and their three daughters. McGuinness especially wanted to thank the many NAIOP board members and past presidents for their support and time, as well as a former colleague, **Barbara Morford**, who was "my partner in dealing with a life in politics."

As he embarks on what he calls his "sabbatical," McGuinness said he plans to spend more time in nature and exploring new opportunities to contribute his expertise to causes that he's passionate about.

Michael G. McGuinness, the CEO of NAIOP New Jersey, has served in that role since May 1997 after working as the acting director for the Office of Business Ombudsman under then-Governor Christine Todd Whitman.

Debbie Koenig, *NAIOP Georgia*

Debbie Koenig, who is retiring this year as NAIOP Georgia's chapter executive, began her career as a public-school speech therapist who also organized volunteer and philanthropic events throughout the Atlanta metro area. She assumed leadership of NAIOP Georgia in 2001.

"I'm very proud of the impact that new programming has had on our chapter, the CRE industry and our community over the years," she said. "In the 21 years that I've been with NAIOP Georgia, our young professional's program, our diversity and inclusion programs, and our philanthropic efforts have given me energy. They have all made a difference, and I'm happy to say I was a part of the change."

The diversity and inclusion programs included a two-week summer camp for

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Debbie Koenig, who is retiring this year as NAIOP Georgia's chapter executive, began her career as a public-school speech therapist who also organized volunteer and philanthropic events throughout the Atlanta metro area. She assumed leadership of NAIOP Georgia in 2001.

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high school students that's exclusively focused on the commercial real estate industry. This camp, known as CRE Experience, was hosted at Georgia State University in Atlanta.

Additionally, NAIOP Georgia currently runs a paid summer internship program that offers industry exposure along with networking and learning opportunities. The chapter seeks out students from historically black colleges and universities, as well as other local institutions, who are pursuing real estate-related majors.

One of her favorite activities is the Xtreme Room Makeover project, which is done in collaboration with the Ron Clark Academy, a middle school in Atlanta. The makeover involves teams of volunteers from NAIOP Georgia and other organizations transforming a student's room at the academy in just 48 hours

"The day of the reveal is so emotional, and I am one of the most fortunate people to be there to see the results," Koenig said. "The family gets the makeover, but I feel I'm the one getting the reward. All the love, tears and happiness make it the experience of a lifetime."

Koenig said she's thankful for the board members, presidents, committee members and volunteers who contributed their time and effort to the chapter. She also says she appreciates her fellow chapter executives in the U.S. and Canada, as well as the NAIOP Corporate team, for their partnership. She said her husband, **Chet**, and her two daughters "have given never-ending support" throughout her career, with her daughters even volunteering at events.

As for retirement plans, Koenig is looking forward to spending more time with her family, volunteering in the community and perhaps learning a new skill.

"It has been an honor to work with the organization," she said. "I've gained many close friends throughout my career here. That's something I will always cherish."

Kelly Ross may be retiring this year as executive director of NAIOP Oregon, but he has been an influential figure in the state's real estate and development community for many years.

Kelly Ross, *NAIOP Oregon*

Kelly Ross may be retiring this year as executive director of NAIOP Oregon, but he has been an influential figure in the state's real estate and development community for many years.

Ross began his career as a lobbyist for the Oregon Association of Realtors and Portland Home Builders Association before acquiring his current company, Western Advocates, which specializes in association management and government relations. In 1980, he made history by becoming the youngest county commissioner ever elected in Oregon at the age of 24. He became NAIOP Oregon's chapter executive in 2006.

In that role, Ross said the most rewarding aspect of his job was working with the exceptional chapter leaders and members, and helping them achieve their goals. He said he cherishes the professional relationships he's formed and takes pride in the accomplishments of the chapter, such as being selected as NAIOP's Chapter of the Year in 2010 and 2022.

"I've been truly blessed in being able to work on a daily basis with such professional, dynamic, funny, fun and generous people," he said.

Ross has enjoyed a fulfilling personal life alongside his professional achievements. He is married to **Tomilynn** (who is also his business partner with Western Advocates), and together they have three grown sons and two grandchildren. The couple also shares a love for their two English Mastiffs, which have a combined weight of over 400 pounds.

Ross expressed his gratitude to his wife for her unwavering support and assistance throughout his tenure, as well as to the various presidents and board members he's had the pleasure of working with over the past 17 years.

As for retirement, Ross said he's looking forward to traveling more and spending quality time with his East Coast-based grandchildren. He also said he's excited about no longer having to wake up "at 4:30 in the morning to set up a NAIOP breakfast!" ■

Trey Barrineau is the managing editor of publications for NAIOP.

Commercial Real Estate Made Record Impact on U.S. Economy in 2022

Each CRE property type experienced growing construction activity, led by manufacturing.

By Shawn Moura, Ph.D.

The NAIOP Research Foundation's annual "Economic Impacts of Commercial Real Estate" report reveals that the industry's importance to the U.S. economy continued to grow in 2022. New commercial real estate development and the operations of existing commercial buildings contributed a record $2.3 trillion to U.S. GDP and supported 15.1 million jobs.

The report, authored by **Brian Lewandowski**, **Adam Illig**, **Michael Kercheval** and **Richard Wobbekind**, Ph.D., draws from construction expenditure data provided by Dodge Construction Network, a NAIOP construction cost survey, and data published by the U.S. Census Bureau to estimate the economic contributions of new commercial building development. Per-square-foot expenditure data from the National Council of Real Estate Investment Fiduciaries (NCREIF) is compared with total size estimates provided by Newmark to estimate the contributions of existing building operations. An interactive map on the report website illustrates the contributions of new office, warehouse, industrial (manufacturing) and retail building development to the economies of the 50 states and the District of Columbia.

Although 2022 was a strong year for commercial building development, emerging headwinds may hinder growth in 2023. Slowing economic growth, inflation, workforce shortages and continued supply chain issues pose potential challenges for the industry.

Construction expenditures in 2022 grew for each of the four main commercial property types, and were up 41.6% overall. Manufacturing building construction expenditures, spurred by reshoring activity, grew 143.4% from 2021, exceeding new warehouse construction for the first time since 2019. Rising construction activity occurred against a backdrop of strong but cooling economic growth (real GDP grew 2.1% for the full year) and slowing construction cost inflation.

Although 2022 was a strong year for commercial building development, emerging headwinds may hinder growth in 2023. Slowing economic growth, inflation, workforce shortages and continued supply chain issues pose potential challenges for the industry. Office properties face diminished demand due to hybrid and remote work, resulting in more space available on the sublease market and downward pressure on lease rates. While long-term leases have shielded office building owners from downturns in office utilization over the past three years, lease expirations are gradually eroding net operating income, and buildings with maturing office loans must now refinance at higher interest rates.

Industrial buildings face more favorable fundamentals, as the supply of new space has yet to catch up with the surge in demand generated by growth in e-commerce and the retooling of supply chains following the stockouts that occurred in 2020 and 2021. Industrial space demand is now cooling as e-commerce sales growth flattens and occupiers prepare for a potential recession. Over the longer term, government incentives for domestic manufacturing of semiconductors and renewable energy products should support continued reshoring activity and boost demand for industrial space.

Get the Report

To view and download "Economic Impacts of Commercial Real Estate," visit naiop.org/research-and-publications/research-reports/

While representing a smaller share of new development, fundamentals for retail properties have been improving. New retail property development remains below highs reached in 2016, limiting the supply of new space. Meanwhile, improved retail sales, aided by innovations in omnichannel distribution, have supported a recovery in occupancy rates, which are now at pre-pandemic levels. The sector is also benefitting from greater diversification as a rising proportion of retail space is occupied by grocers, restaurants and service providers.

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

Meet the Visionaries: NAIOP Research Foundation Names the 2023-2025 Class

Eight up-and-coming CRE professionals join the program that began in 2017.

The NAIOP Research Foundation recently announced the 2023-2025 class of Visionaries, a group of eight rising commercial real estate professionals who are selected based on their career accomplishments, history of involvement with NAIOP and a demonstrated interest in the Foundation's mission.

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

"We're fortunate to welcome this group of talented, dedicated professionals to the Visionaries program this year. They bring important fresh perspectives, provoke robust and insightful discussions, and ensure that varied geographic regions, career paths and demographics are reflected in the Foundation's research."

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

The Research Foundation established the Visionaries program in 2017 to connect outstanding rising industry professionals with Research Foundation Governors, who are experienced, well-respected industry leaders. The 2023 cohort of Visionaries was inducted at NAIOP's National Forums Symposium, held May 17-19 in Boston.

"We're fortunate to welcome this group of talented, dedicated professionals to the Visionaries program this year," said **Jennifer LeFurgy,** Ph.D., executive director of the NAIOP Research Foundation. "They bring important fresh perspectives, provoke robust and insightful discussions, and ensure that varied geographic regions, career paths and demographics are reflected in the Foundation's research."

Mackenzie Ford
Prologis; Manager, Investments
Chapter: NAIOP SoCal

Mackenzie Ford is an investment manager at Prologis in Newport Beach, California. Prior to Prologis, Ford held various roles in asset management and leasing for Link Logistics and Stream Realty Partners. Ford earned her MBA from Southern Methodist University and a Bachelor's from Arizona State University, and she earned her certificate in RE Finance and Investment Analysis from the University of California, Irvine. Ford is currently involved in NAIOP SoCal YPG Selection Committee, NAIOP National Industrial Perspectives V Forum, 2019-2020 NAIOP YPG Class and the SMU Real Estate Alumni Group.

Marianna Hunnicutt
Kimley-Horn; Practice Builder
Chapter: NAIOP Southern Nevada

Marianna Hunnicutt is a licensed Civil Engineer, practice builder and development consultant in Southern Nevada. Hunnicutt graduated from the University of Portland in Oregon in 2011 with a degree in Civil and Environmental Engineering. In 2013, she obtained a Master's in Environmental Policy from Bard College. Hunnicutt is a member of CREW and the NAIOP Southern Nevada chapter. She has received recognition at both the local and national level, including 2022 ENR Southwest Top Young Professionals, 2021 NAIOP National Developing Leader of the Year, 2021 NAIOP Southern Nevada Chapter Developing Leader of the Year, and is a recipient of the 2020 NAIOP and Prologis Inclusion in CRE Scholarship for Women and Underrepresented Professionals. She is a member of the NAIOP Trends in Real Estate Development IV Forum.

Stacey Mosley
Brandywine Realty Trust; Director of Research
Chapter: NAIOP Greater Philadelphia

Stacey Mosley is the director of research at Brandywine Realty Trust. After studying Manufacturing & Design Engineering at Northwestern University, Mosley worked on the Vacant Property Strategy and Open

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Data Initiative with the city of Philadelphia before starting her own proptech company, Stepwise. Mosley is an active member of the Greater Philadelphia chapter of NAIOP, and a recurring guest speaker at Drexel, Temple and the University of Pennsylvania.

Chi Osu
Prologis; Vice President
Chapter: NAIOP New Jersey

Chiagorom (Chi) Osu is a real estate investment executive with more than 14 years of experience. Osu currently works with Prologis, and he has worked for the City of Newark, Lotus Equity Group and Loeb Partners Realty. He has been involved in transactions exceeding $2.7 billion nationwide. As a graduate student at NYU Schack Institute of Real Estate, Osu was awarded the President's Service Award. He received his bachelor's degree from Temple University and Master's in Real Estate Finance and Investments from New York University. Chi is a member of the NAIOP Industrial Acquisitions V Forum.

Daniel Quezada
Affinius Capital; Senior Associate - Industrial/Logistics Development
Chapter: NAIOP Austin

Daniel Quezada is a senior associate on the Industrial/Logistics Development team for Affinius Capital (formerly USAA Real Estate). Quezada has been directly involved with approximately 24.1 million square feet for a total project cost of $3.6 billion in new ground-up developments and land acquisition since joining the team in 2018. Quezada received his Bachelor of Business Administration in Real Estate Finance and Development from the Embrey Real Estate Finance and Development Program at the University of Texas at San Antonio. He is a member of the NAIOP Developing Leader VI Forum.

Mindy Rietz
United Properties; Vice President of Commercial Development
Chapter: NAIOP Colorado

Mindy Reitz directs the development and investment activities of commercial properties in the Mountain West region for United Properties. Prior to joining United Properties, she worked at Confluent Development in Denver. Earlier, Reitz spent two years at Prologis, where she completed transactions valued at more than $767 million. Reitz's industry achievements include the 2016 National NAIOP Developing Leader of the Year award and the 2015-2016 NAIOP MN Developing Leaders Committee Chair. She was also the 2012 CBRE MN RISE (Respect, Integrity, Service, and Excellence) Award Recipient. Reitz earned Bachelor's degrees in French and International Business from the University of Iowa.

Chelsea Tamuk
Cabot Properties; Vice President, Investments
Chapter: NAIOP Inland Empire

Chelsea Tamuk is a vice president of investments at Cabot Properties responsible for sourcing new acquisition and development opportunities on the West Coast. Before covering the West Region for Cabot, Tamuk oversaw acquisitions in the Southeastern U.S. Tamuk earned her Bachelor's in Economics-Finance from Bentley University, where she was a member of the Women's Leadership Program. She is currently a member of Cabot's ESG committee, Women of Cabot, NAIOP's Industrial Perspectives IV forum, NAIOP Inland Empire's Developing Leaders Committee and NAIOP SoCal's Diversity and Inclusion Taskforce.

Cameron Trefry
Ware Malcom; Principal
Chapter: NAIOP Chicago

Cameron Trefry is responsible for overall growth and management of the Midwest region, which includes Chicago, Oak Brook, Columbus, Ohio, and Washington, D.C. In addition, Trefry oversees the company's Industrial Cold and Food Practice. Trefry received his Bachelor's of Environmental Design from the University of Colorado at Boulder. He is a Licensed Architect, LEED Accredited Professional and a member of the Society of Industrial and Office Realtors (SIOR). He is a member of the Technology in the Built Environment Forum at NAIOP. ■

About the Foundation

The NAIOP Research Foundation was established in 2000 as a 501(c)(3) organization that accepts tax-deductible contributions. Its mission is to provide practical research and education that allows commercial real estate owners and developers to successfully capitalize on new trends and address challenges in the industry. Visit www.naiop.org/research for details on the Research Foundation and to view and download the latest research reports. ■

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

Programs and Services

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

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

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

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

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

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

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

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

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

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

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

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

People + Companies INDEX

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

2023 Industry Partners

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

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I.CON's Top Insights: What's Driving Industrial Real Estate's Success?

If you've ever attended a NAIOP industrial conference, you know it's difficult to tell where the most learning happens — inside the session rooms from leading speakers or in the hallways from unending networking and conversations. No matter where our attendees find the most value, it's clear that our industrial conferences are the sector's best events.


Kim Snyder

At the time of this issue's release, another 1,200 industrial leaders will be coming together at I.CON East in New Jersey. I thought I'd share some key takeaways and quotes from I.CON West, held in my home market in Southern California in March.

At the time of this issue's release, another 1,200 industrial leaders will be coming together at I.CON East in New Jersey. I thought I'd share some key takeaways and quotes from I.CON West, held in my home market in Southern California in March.

The COVID-19 pandemic upended the supply chain and changed the calculus involved with nearshoring. "We started having this trend of changing from a global economy with global sourcing to a regionally global economy," said **Gregg Healy**, executive vice president and head of industrial service for North America at Savills. Now, "there is a tiered approach, with a lot of product coming in from [the global South] and coming to these nearshore or 'friendshore' countries that are more friendly to the United States."

The outlook for the U.S. economy is closely tied to the labor market, which is historically tight. "GDP is a function of labor, capital and productivity," said keynote **Rebecca Rockey**, economist and global head of economic analysis and forecasting at Cushman & Wakefield. "A slowing population and workforce growth means that we need technology to help us create output at higher rates — to offset lost output from less labor growth."

Some markets offer advantages based on labor market indexes and total cost modeling, but the logistics labor market in California's Inland Empire remains hard to beat. "Real estate site selection is highly focused on labor and the future growth of labor. What makes the Inland Empire so great is that the concentration of workers, warehouse and material-handling workers, is very strong, and the amount of growth in the last five years has been 400%, which is extraordinary and unmatched," said **Ryan Shelton**, senior vice president, market officer leasing West, Link Logistics Real Estate.

Investors are interested in industrial opportunities in Southwest markets, particularly Las Vegas and Phoenix, which have seen strong population growth. "One thing not discussed as much in the headlines is the East Coast companies that don't have a West Coast hub facility," said **Sean Zaher**, senior vice president for CBRE. "Historically, they would have gone into Southern California. Now, they're stopping at the border, whether it's Las Vegas or Phoenix, and creating their West Coast hubs there."

Get buy-in early — and from all parties involved to streamline the implementation of sustainability strategies and achieve net-zero targets. "Since we're in California, it's worth pointing out that the new property building code requires solar in new industrial buildings," said **Grant Walden**, LEED AP, head of sustainable strategy, GAIA. "It's important to bring a solar developer on early or bring in a solar consultant to do the brand's design and ensure engineers are getting early looks at things that can get pushed to the end. This streamlines the implementation and usually reduces costs as well."

NAIOP captures these types of takeaways on its Market Share blog (blog.naiop.org), and I'd encourage you to read the posts and follow along with our I.CON or CRE.Converge events if you aren't able to attend. If you can attend, I look forward to seeing you in person. ■

Kim Snyder, President,
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