

# COMMERCIAL CONNECTIONS

NAR.REALTOR/COMMERCIAL-CONNECTIONS



## HIGH-PERFORMANCE BUILDINGS

SUSTAINABILITY MOVES  
BEYOND 'NICE TO HAVE'

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# COMMERCIAL CONNECTIONS

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**NATIONAL  
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# THE POWER OF INDIVIDUAL ACTION

IT'S YOUR ASSOCIATION, AND YOUR VOICE CAN HELP DRIVE THE AGENDA.

I had the pleasure recently of interviewing the award-winning entrepreneur Daymond John. You probably know him from ABC's "Shark Tank" and for his lifestyle brand, FUBU. He told me that he remembers once, as a kid, watching in awe as a supersonic Concorde jet took off from John F. Kennedy International Airport. John's mother, seeing his amazement, told him, "Daymond, everything around you started with one person who took one action. Why couldn't it be you?"

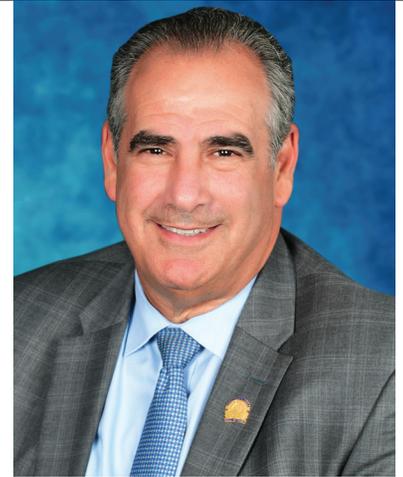
Wise words. Everything we do at the National Association of REALTORS® starts with individuals like you—pros who work in the real estate business and who are motivated to take actions that will benefit our industry.

Like you, I am a member of NAR and a real estate business owner. As the association's 2021 president, I am committed to aligning our priorities with your business needs, and the best way we have to understand your needs is to hear from you. So we're listening. Actively.

NAR's director of commercial engagement, Johnny Noon, recently conducted a Zoom listening tour of 30 state and local associations and commercial overlay boards. Loud and clear, we heard that three key services top your must-have list: advocacy, research, and education.

We're delivering on all these fronts to drive business growth.

**Advocacy.** At the state and local level, REALTOR® associations are partnering with economic development councils to spur growth and opportunity for our commercial members. In Washington, we're pulling out all the stops to educate the White House and Congress on how proposed tax policies will affect our industry. We can't be too vigilant. Recent proposals to limit the amount of deferred gain from a 1031 like-kind exchange, double the maximum long-term capital gains tax rate, and tax unrealized gains on capital assets at death are counterproductive to our nation's and our industry's



CHARLIE OPPLER, 2021 PRESIDENT  
NATIONAL ASSOCIATION OF REALTORS®

economic health.

*(For one member's perspective on the*

*many ways property owners and communities benefit from 1031s, read "The Juice Isn't Worth the Squeeze," page 14.)*

**Research.** Our economists pore over raw numbers every day to deliver monthly commercial insights ([nar.realtor/commercial-market-insights](http://nar.realtor/commercial-market-insights)), as well as a range of research reports ([nar.realtor/commercial-research](http://nar.realtor/commercial-research)). I'm happy to say they're seeing encouraging signs of life in sectors hit hard by the pandemic. The July insights report showed apartment absorption rising at the strongest pace in a decade, an industrial vacancy rate of just 4.5%, and a rebound in retail. Hotel acquisitions, though a small portion of investments, were 200% above the level from one year ago. We expect sales and commercial leasing to gain strength in 2022, though the office vacancy rate will almost certainly remain elevated for a time.

**Education.** Our monthly Commercial Digest e-newsletter and this quarterly magazine bring you news from NAR, as well as stories focused on your business success. I also encourage you to follow our new LinkedIn Commercial page ([linkedin.com/company/national-association-of-realtors-commercial](https://www.linkedin.com/company/national-association-of-realtors-commercial)) for real-time updates on and links to resources that support commercial business. And just about the time this magazine is mailed, we'll be meeting for NAR's first-ever C5 Summit, a commercial conference bringing our commercial members together with developers and other industry professionals to explore sales, development, capital, and incentive opportunities.

How can we do more? That's the question we ask ourselves every day. And, now, that's the question I'm asking you. It's your voice that led us to create a new commercial member experience group, and it's your voice that will help C5 Summit and our other commercial offerings grow and evolve in tune with your needs. Reach us directly by emailing us at [commercial@nar.realtor](mailto:commercial@nar.realtor). **Why couldn't it be you?**

# RETAIL: POSITIONED FOR RECOVERY

RETAILERS AND BUILDING OWNERS WHO'VE EMBRACED CREATIVITY AND COMMUNICATED THROUGHOUT THE PANDEMIC ARE FARING BETTER THAN OTHERS.

By Sarah Hoban

Nimble retailers have instituted COVID-19-related practices that are likely to carry through in some form during the pandemic recovery. “Retailers that were able to continue to serve their customers through options like delivery, curbside pickup, and connection via social media are likely to benefit the most as economies open up,” says Scott Crossman, CCIM, founder and CEO of Crossman & Company in Orlando, Fla.

Retailers and landlords changed in other ways that will serve them well.

- **Using creative solutions**—Both groups learned to be flexible, developing creative solutions to keep the doors open. Restaurants shifted to selling premade meal kits; specialty retailers started subscription services featuring local products; and shopping center landlords rented out their empty parking lots for drive-in movies or graduation parades. Jennifer Ott, CCIM, executive vice president of ROI Commercial Real Estate in Las Vegas, says that in one of her leasing projects, a doughnut shop got permission from the landlord to stay open late to make pizzas after the doughnut trade tapered off.
- **Partnering with local vendors**—Businesses learned the art of partnership. Ott points to one franchise owner who started working with local vendors to determine ways to save money by adjusting payment schedules and working with other franchisees to order items in bulk. “Because of the changes he made, he



thinks now he can operate with fewer employees than he did before—and he thinks he’ll be more efficient and successful because of what he learned,” she says.

- **Staying in touch with tenants**—“Retail landlords who stayed in communication with their tenants through capable property managers and knowledgeable leasing agents have fared much better at mitigating the effects of the pandemic,” Crossman says.

## RETAIL WILL ROLL OUT MORE CHANGES

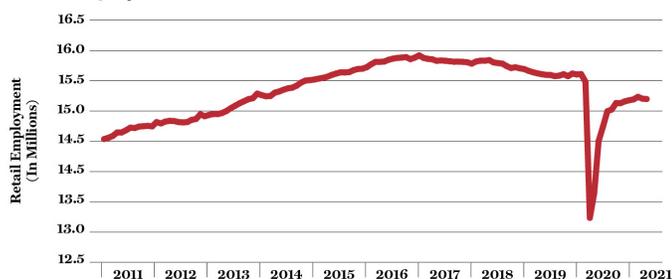
The pandemic led to changes in stores’ physical appearances and layouts. Some of those will stay in place with additional changes ahead. Colliers’ spring 2021 retail report, “Retail Moving Forward,” predicts that over the next three years, nearly 80% of brick-and-mortar stores will “add or extend their service to include an online collection and ship-from-store feature.” More than 60% say they will test or open new store configurations.

“Everybody thinks they need a drive-through,” Ott says. It’s an expensive feature, though. Drive-throughs use up space, they require additional permitting, and “from a new development standpoint, it’s challenging, because it affects the rents,” Ott says.

Another trend is likely to remain: short-term parking spaces dedicated to curbside or parking lot pickup. A recent report from Digital Commerce 360 found that by early 2021, more than 50% of top 1,000 retailers offered curbside pickup.

*Editor’s Note: This article was excerpted from “Retail’s Road to Recovery,” published in the Summer 2021 issue of Commercial Investment Real Estate magazine.*

### Retail Employment Bounces Back



Source: U.S. Bureau of Labor Statistics

# WHY INVESTORS ARE BULLISH ON THE U.S.

TERTIARY CITY TOPS AFIRE'S LIST OF CITIES CHOSEN FOR PLANNED INVESTMENT IN 2021.



BRANSON

Commercial real estate professionals are gathering in New York City this month for the C5 Summit, Sept. 27–29. The event, hosted by the National Association of REALTORS®, features sessions conducted by real estate leaders and decision makers, including Gunnar Branson, CEO of the Association of Foreign Investors in Real Estate.

Here, Branson discusses his organization's March 2021 survey of 100 leading investors and institutions and why they're optimistic about investing in U.S. real estate markets.

## WHAT INVESTORS WANT

"The No. 1 most significant finding was the overwhelming support for environmental, social, and governance criteria," Branson says. Thirty-one percent of respondents said new investments had to explicitly meet certain ESG requirements, and 62% indicated ESG requirements are important, although not required for new investments.

"Much of ESG revolves around environmental issues, which is where people in real estate have spent the most time," Branson continues. ESG is not only responsive to investors' priorities, but it also supports sustainable buildings, which make more money. "Tenants are willing to pay more to be in a healthier place." (*For more on the growing importance of ESG, see "Green by Necessity," page 10.*)

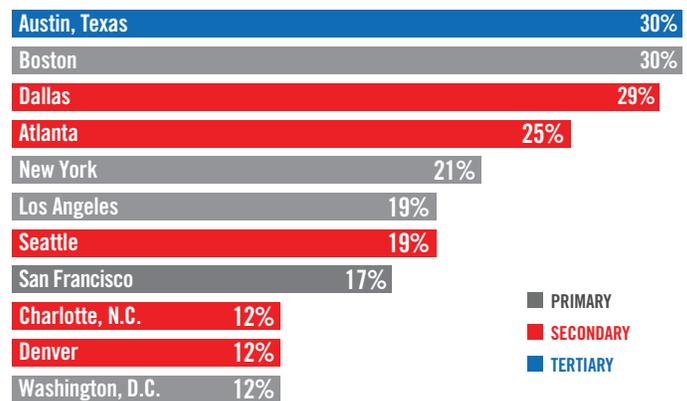
Another key optimistic finding is the "incredible appetite for investing in U.S. real estate, which is greater than it was in 2019," Branson says. Three in four respondents report intentions for a net inflow of capital for U.S. real estate—a trend that's set to continue over the next five to 10 years.

## CITIES AND PROPERTY TYPES IN DEMAND

Austin, Boston, and Dallas—tertiary, primary, and secondary cities, respectively—are the top three U.S. cities for planned investment in 2021. "With Austin, you've got growth, young people, and technology companies," Branson explains. "That suggests growth that will take place over an extended period of time." In fact, those—espe-

## WHERE INVESTORS ARE FLOCKING

2021 marks the first time in 30 years of surveying international institutional investors that a tertiary city headed AFIRE's list of top U.S. cities for planned investment. Nearly a third of survey respondents said Austin was a target city.



SOURCE: AFIRE. PRIMARY CITIES ARE LARGE, DENSE, AND LONG-ESTABLISHED (POP. 5+ MILLION); SECONDARY CITIES ARE SLIGHTLY LESS DENSE (POP. 1–5 MILLION); TERTIARY CITIES ARE SMALLER (POP. 1 MILLION) BUT WITH STEADY JOB GROWTH POWERED BY TRADITIONAL AND ALTERNATIVE ECONOMIC DRIVERS.

cially medical technology in Boston and Dallas—prevail in all three top cities, he adds.

Institutional investors "are overwhelmingly interested in multifamily housing," Branson says. "They are seeing the same housing shortage we see, and they are more interested in real estate that's affordable and less interested in the top of the luxury category, as it has been overbuilt in certain areas."

Other cities could follow in the footsteps of Austin, Boston, and Dallas if they start changing zoning restrictions, he says. Some municipalities still have restrictions from the 1950s intended to keep multistory buildings from being built, and concerns about density linger. "But if you want to have a thriving tech community, you want everything close," Branson says. "That means you've got to be able to allow people to build close."

# ONSHORING AND RESHORING OFFER NEW LINKS IN SUPPLY CHAIN

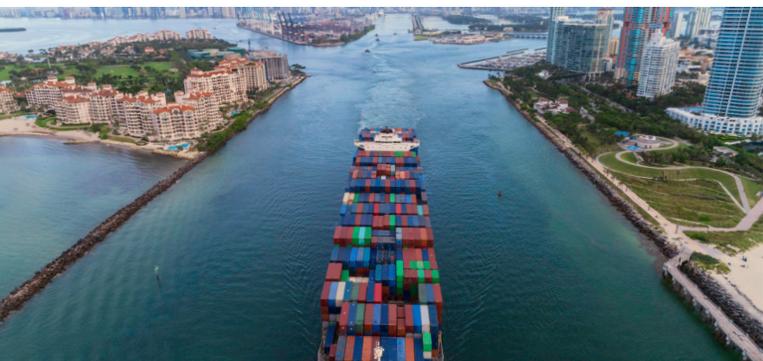
REGIONAL MANUFACTURING CENTERS OFFER BENEFITS, INCLUDING 'MADE IN USA.'

“The pandemic exposed supply chain risk that was previously unrecognized or dismissed,” says Paul Danks, president of the Society of Industrial and Office REALTORS® European Regional Chapter and director of global corporate solutions for DeVono Cresa in London. For example, over 50% of all freight is transported in the belly of passenger jets. When commercial flying virtually stopped because of COVID-19 fears, that immediately disrupted the supply chain of certain items.

One suggestion has been a “China-plus-one” strategy, which means reducing risk while still taking advantage of lower labor costs in Asia. Plus-one can mean regional manufacturing centers across the U.S. or nearshoring in Mexico. These solutions offer a shorter distance to marketplaces, lower transportation costs, corporate technology dispersed through the U.S., and the marketing advantage of having a product “made in America.”

Three U.S. cities that might not seem to be prospects for onshoring benefits have learned otherwise.

**Miami**—Raw materials and products that come from Latin America generally go through the port of Miami, “which is busier than ever,” says John Steinbauer, SIOR, president of Steinbauer Associates Inc. in Miami. “From an international standpoint, we are getting materials and product, mostly from Latin American suppliers, and because of that, we have gotten along fine during the pandemic,” says



PORT OF MIAMI

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Steinbauer. All that product and material sometimes has to be warehoused, which is an added benefit.

**Oglesby, Ill.**—In 2019, the North Central Illinois Economic Development Corporation, based in Oglesby, Ill., commissioned a study on value-added production in two important economic sectors: agricultural processing and metals fabrication. The Biden administration has mentioned both sectors as being critical to corporate supply chains and needing to be reshored.

“We did a deep dive on costs, looking at our area versus competing locations in the Midwest,” says Mike Kirchoff, SIOR affiliate member and CEO and president of the development agency. “Just in the agriculture and food processing sector, a company that chooses to locate here can save up to \$2 million in its first year of operation. That’s before incentives are applied and based on a hypothetical facility with estimated usage in all categories, including work force, real estate, construction, and taxation.”

**Dallas**—“We are extremely busy here,” says Conrad Madsen, SIOR, CEO and co-founder and partner of Paladin Partners. “The Dallas Regional Economic Development Chamber is getting flooded with inquiries as companies are pulling manufacturing out of China and moving their operations back to the U.S. Due to our ease of doing business, cost of living, central location, and labor pool, Texas is the catcher’s mitt for many of these relocations.”

*Editor’s Note: This article was excerpted from “Staying Closer to Home,” published in the Summer 2021 issue of SIOR Report.*

# BRINGING HIGH-SPEED INTERNET TO RURAL AREAS

**EFFORTS TO EXPAND RURAL BROADBAND HAVE SO FAR PROVED INADEQUATE. COULD 5G OR SATELLITE INTERNET CHANGE THE GAME FOR PEOPLE SEEKING REMOTE WORK OPTIONS?**

Read a vacation rental listing for a rural area and you'll sometimes see "no internet access" promoted as a plus. Such marketing chutzpah may work for a weekend break, but for people looking for a permanent home, the lack of rural internet access in the form of fast and reliable broadband is a deal breaker.

Wireless services are increasingly looking like an answer. That could be good news for landowners and investors.

## **BARRIERS TO RURAL INTERNET ACCESS**

Federal government programs to expand rural internet access through wired broadband are proving big on ambition and slow in reality. In 2020, the Federal Communications Commission launched the \$20.4 billion Rural Digital Opportunity Fund program to bring broadband to areas currently without access. However, a controversial decision means none of that money will go to areas that have already received funding from a similar program by the Department of Agriculture or from state programs, even if that funding proves inadequate. Development land in those areas that do get funding will likely become far more attractive.

Some had placed their hopes on Google's program combining fiber services and localized Wi-Fi. That's proved a disappointment for rural internet access, however. Rather than reach places with little existing infrastructure, Google has concentrated on targeting more densely populated areas where the problem is a lack of competition rather than availability.

## **THE MOBILE BROADBAND DIFFERENCE**

Mobile broadband could really make a difference outside of the cities and suburbs. 5G cell networks are the big topic of debate for rural provision.

The good news is that the Federal Communications Commission has made moves to increase the likelihood of 5G reaching underserved areas. The first is cutting the bureaucracy involved in upgrading a 4G tower to the new technology. The second is the removal of government fees



## **The Federal Communications Commission has made moves to increase the likelihood of 5G reaching underserved areas.**

imposed on carriers building 5G networks in major cities. In theory, this money could instead go toward expanding service to less populated areas.

## **SATELLITE INTERNET: THE NEXT BIG THING?**

Satellite internet is the other big hope for rural internet access. Previously it's been a service that sounds great in theory but hasn't lived up to the hype. Not only has it been prohibitively expensive, but upload speeds have been crippling slow, with lag also a major problem. Lag is a measure not of how quickly data transfers, but how quickly devices can respond to a request and begin the transfer. Too much lag and increasingly popular services such as video conferencing become frustratingly ineffective.

Which of these mobile technologies prove viable in the long run remains to be seen, but it's worth exploring current and future availability in a location when assessing land value. A rural setting with city-like communications could be the dream scenario for potential residents, making location more important than ever.

*Editor's Note: This article is adapted from The Voice of Land blog published by the REALTORS® Land Institute.*

# TURNING AROUND DISTRESSED PROPERTIES

**AFTER THE SHAKEOUT OF COVID-19, QUALIFIED PROPERTY MANAGERS WILL FIND OPPORTUNITY IN THEIR ABILITY TO BRING PROFITABILITY TO UNDERPERFORMING ASSETS.**

By Regina Mullins, CPM, CCIM

Professional real estate managers looking for a challenge and rewarding work would do well to consider adding or expanding their involvement with distressed properties. Opportunities for this work will grow during the long-term recovery from COVID-19. “The next few years will be huge,” says John Hatton, CPM.

No one-size-fits-all solution exists, so the manager role never becomes stale. Each asset is unique, and every aspect of that asset’s operations—including marketing, leasing, staffing, and financing—needs to be reviewed, analyzed, and coordinated with the owner.

All distressed properties share one need, though: a planning process to outline a turnaround. The process includes developing a comprehensive management plan that will address all the challenges in transforming the property into a viable investment for its owners and a valued asset to the community.

## The planning process begins with defining the problem or chain of problems.

### DEVELOPING A TEAM, PLAN, AND PROCESS

First, the real estate manager needs to build a multidisciplinary team to address issues related to the property’s construction, operation, marketing, and overall market conditions. This group will also help define actions to achieve the owner’s goals. The team could include architects, contractors, consultants, leasing brokers, and mortgage brokers.

The planning process for the distressed property begins with the manager defining the problem or chain of problems. For example, inadequate cash flow might result from low occupancy. Upon further investigation, the manager might find the low occupancy was due to deferred maintenance, which resulted in poor curb appeal or poor visibility of the property.



During the planning process, the manager will consider questions such as:

- Are the challenges related to physical issues? Are these issues structural, design, or environmental such as asbestos or mold?
- Is a poor tenant mix creating problems?
- How are the amenities and parking at the property?
- Are operational policies and procedures in place and being followed?
- Is the staffing adequate—too many or too few?
- Does the property have a leasing plan?

The next step is tackling owner and financial issues such as lack of operating capital or diversion of cash flow. Then the manager is ready to prioritize issues that will most affect financial stability and meet the owner’s goals. Managers may need to address financial issues by negotiating with the lender for mortgage forbearance or a temporary loan adjustment. This could allow more time to fill vacancies or increase property cash flow so that the property can meet debt service coverage or other lender requirements.

Of course, the economic circumstances accompanying distressed properties are unfortunate. But real estate managers who excel at communicating, working with a diversified team, analyzing problems, and developing game plans can help to improve a property’s performance.

*Editor’s Note: This article was adapted from the article “From Struggling to Prospering,” published in the July/August 2021 issue of the Journal of Property Management.*

# REPOSITIONING SUBURBIA

COUNSELORS ANTICIPATE CRITICAL ISSUES, INCLUDING WHAT TO DO WITH ALL THAT SUBURBAN SPACE.

Adaptive reuse and infrastructure represent two of the 10 issues expected to have the most impact on real estate during the 2021–2022 cycle, according to The Counselors of Real Estate’s latest list of current and emerging trends.

## APPROACH TO PROPERTY USE MUST EVOLVE

Adaptive Reuse 2.0, what CRE calls “the neighborhood approach,” involves responding to the challenge of what to do with hundreds of defunct suburban malls and thousands of empty big-box retail stores surrounded by housing.

Housing affordability pressures and remote work models will accelerate the trend of movement away from preserving and enhancing single, mostly historic assets in urban areas toward a broader neighborhood approach. The initial 2020 census data and annual U-Haul Migration report show that the U.S. population and workforce are moving inland and to suburbia to find affordability and quality of life.

The neighborhood approach involves reexamining and repositioning our suburban communities for transformation before the opportunity passes them over, or worse, creates blight that will need to be addressed later at a much higher cost. Some communities are ahead of the curve. They’re moving toward an infrastructure that’s more walkable and driverless-car friendly and that uses less land for parking.

## INFRASTRUCTURE INVESTMENT BECOMES AN IMPERATIVE

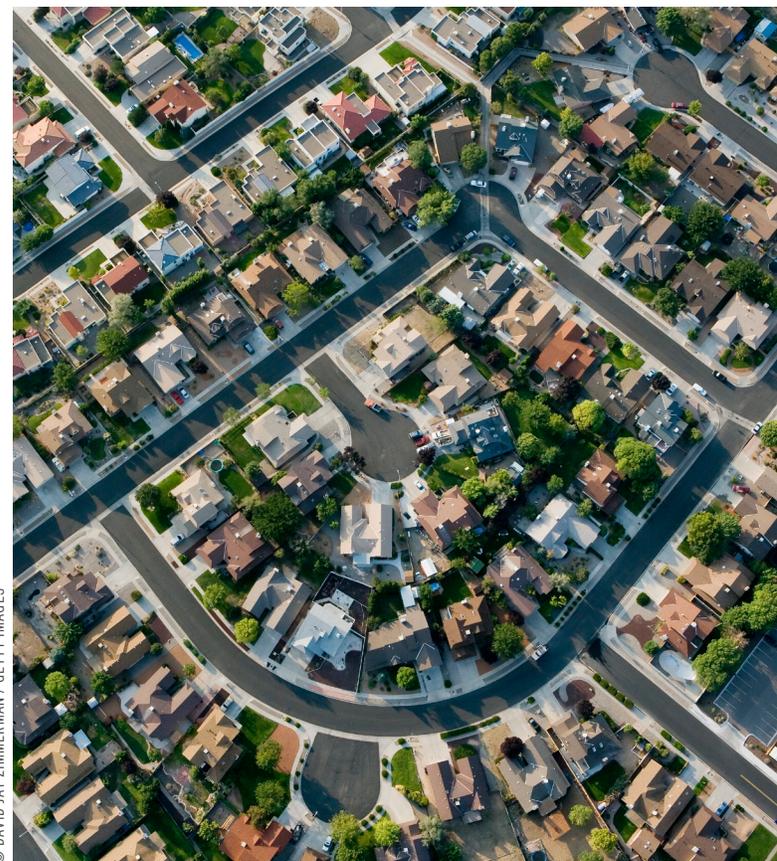
To maintain the U.S.’s strong economic competitive position, observers agree all areas of infrastructure need more investment. The American Society of Civil Engineers classifies U.S. infrastructure as “poor” and “at risk,” while the World Economic Forum’s Global Competitiveness Report ranks the U.S. 13th in the world.

ASCE estimates the U.S. infrastructure funding gap in 2021 to be \$2.6 trillion, up 24% from 2017. Public safety is at risk from failed water systems, roads, dams, and other shortfalls. In addition, the McKinsey Global Institute estimates that fully closing the physical infrastructure gap could translate into 1.2%, or 1.5 million, more jobs across the economy. The U.S. spends only 2.3% of GDP on infrastructure, while European countries spend 5% on average, and China spends about 8%.



As electrification and renewables increase, the electric grid needs significant new infrastructure investment. Additionally, buildings, which consume about 40% of total energy use, and water systems, which can represent 30%–40% of a municipality’s energy bill, need to be more energy efficient (*see “Green by Necessity,” page 10*). As tenants and their employees move to electric transit, the cities and neighborhoods that work to encourage electromobility will be prime investment locations.

*Editor’s Note: This content was adapted from CRE’s annual “Top Ten Issues Affecting Real Estate” for 2021.*



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JEFF BOSSHARD, CPM, LEFT, AND SCOTT PRITCHETT, CPM, OF WOODMONT REAL ESTATE SERVICES AT THE 158-UNIT WATER'S EDGE APARTMENT COMMUNITY, THE FOSTER CITY, CALIF., PROPERTY WAS BUILT IN 1972, SUBSTANTIALLY REMODELED IN 2016, AND AWARDED THE IREM CERTIFIED SUSTAINABLE PROPERTY CERTIFICATION IN 2017.

© SANDY HUFFAKER

# GREEN BY NECESSITY

**HIGH-PERFORMANCE BUILDINGS ARE IN DEMAND, AS COMMERCIAL CLIENTS AND REGULATORS DRIVE THE INDUSTRY TOWARD A REDUCED CARBON FOOTPRINT.**

By Paula Hess

Commercial real estate owners and managers are feeling increasing urgency to boost the energy efficiency of existing and new buildings. Residents, investors, municipalities, and even the Securities and Exchange Commission are exerting pressure. In the face of severe weather events and changing climate patterns, energy-efficient and sustainable building practices have moved from amenities to necessities.

## **CERTIFIED ENERGY PERFORMERS**

Green building certifications that benchmark and document energy and sustainability upgrades have been in use for several decades. Each certification has its own scoring

system, depending on building type and age; some certifications focus strictly on energy and green-building materials; others also encompass sustainability and health and wellness measures. Lenders look favorably on green certifications, and some offer green financing options for certified properties. (See “*Building Certifications*,” page 12.)

What’s new is that the SEC is preparing to mandate that public companies disclose information related to climate risks and other environmental, social, and governance criteria. ESG criteria are standards that socially conscious investors use to screen potential investments. This decision

will impact REITs and create a tailwind for the organizations providing certifications.

The Green Building Initiative's Green Globes certification has been in the market since 2004. An alternative to the popular LEED certification from the U.S. Green Building Council, the rating system goes through a collaborative, consensus-based process guided by the American National Standards Institute. Vicki Worden, GBI president and CEO, observes, "From our perspective, the investors are driving a lot of green building certification interest, because of the focus on ESG and ESG integration. We are seeing an increased interest in certification for existing buildings by investors, building owners, and REITs due to the desire to have a way to demonstrate their integration of environmental, social, and governance focus throughout their portfolio. Certification provides that third-party validation of performance improvement efforts on the ground."

The U.S. Environmental Protection Agency's Energy Star certification measures energy efficiency using a 100-point scale. Well known as a rating system for appliances, Energy Star has had a commercial building certification in place since 1999. Properties earning 75 verified points are eligible for the designation; the designation must be recertified annually.

Digital Realty, a global company with a portfolio of 31 data centers, tracks and assesses the energy performance of all its data centers. Most meet Energy Star requirements.

"A facility that doesn't have a rating could be 25%–50% less efficient than one that does. You can see a pretty significant difference," says Aaron Binkley, director of

## BLAZING THE TRAIL

The National Association of REALTORS® has a long commitment to sustainability. NAR received LEED Silver certification for its Washington, D.C., building in 2004, making it the first privately owned building in the district to achieve LEED status. The building later became Gold certified, and in 2011, the Chicago headquarters building earned LEED Gold for existing building operations and maintenance. "LEED Gold certification identifies [NAR] as a showcase example of sustainability and demonstrates our leadership in transforming the building industry," says Terry Gorski of Goby Inc., an environmental strategy company that NAR engaged to assess its LEED status.

NAR hosted its first sustainability summit in 2014 and formally launched a sustainability program in 2017. In 2019, NAR's Leadership Team approved a comprehensive Sustainability and Resilience Plan for the next decade and will work with members of the Sustainability Advisory Group to implement priority elements of the four pillars (environmental, social, governance, and resilience) over the coming years.

## FACT

**Buildings are responsible for more than 40% of global energy used, and as much as one-third of global greenhouse gas emissions.**

*Source: International Standards Organization*

sustainability at Digital Realty. The company, named Energy Star Partner of the Year in 2020 and 2021, also was the first data center REIT to issue a green bond, one that supports projects with features that are beneficial to the environment. Since 2017, Digital Realty's standard lease forms have contained green criteria detailing how owners and tenants share the cost of energy-efficiency upgrades, such as switching from fluorescent lights to LEDs, which has a two-year payback.

Binkley notes that customers who signed a lease before 2017 are "proactively coming back at the time of renewal asking, 'Are there things that we can do to be more green? How can we get more renewables to reduce our carbon footprint in our data center?'"

Data centers have a Goliath-sized carbon footprint due to electricity draws and water for cooling, which can cause friction with local municipalities, especially where water is a precious resource. Consequently, Digital Realty looks at water consumption across the portfolio and uses systems that don't require water for cooling in many of its buildings. "Globally, 43% of the water we consume comes

from non-potable sources, so we are not relying on the local water supply system. We are using a municipality's reclaimed water supply or another non-potable supply for our cooling systems."

Although 50% of Digital Realty's global portfolio is powered by renewable sources, Binkley observes a sea change in expectations. "Our customers are setting their own global carbon-neutral and carbon-reduction targets in a way they weren't 12 to 18 months ago." Conversation have gone from "tell me what you've got" to "in every RFP going forward we are going to put these 10 things that are sustainability-related."

### **BOULDER LANDSCAPING AND SMARTER BUILDINGS**

Woodmont Real Estate Services, a boutique third-party property management company based in Northern California, embraced the Institute of Real Estate Management's Certified Sustainable Property designation for its portfolio of multifamily properties. Obtaining LEED certification is harder for circa 1980s and 1990s buildings, and the CSP's six-month credentialing process and categories of management, energy, water, purchasing, recycling, and health "fit the bill," says Jeff Bosshard, CPM, president of multifamily operations.

The IREM certification requires property managers to focus on the health of the residents, and that can be as simple as stocking three healthy options in vending machines. Additional measures Woodmont took: using Energy Star appliances and low-VOC paints; requiring green building materials and cleaning products; using green paper products throughout the leasing offices; setting up recycling at every site; installing recycled carpets and pads, dual-pane windows, and LED lighting; permanently removing water

## **BUILDING CERTIFICATIONS**

- Environmental Protection Agency's **Energy Star**
- U.S. Green Building Council's **Leadership in Energy and Environmental Design (LEED)**, a broader certification for environmentally friendly, or "green" buildings, which doesn't necessarily guarantee energy efficiency.
- Green Building Initiative's **Green Globes**
- **Certified Sustainability Property** from the Institute of Real Estate Management (IREM)
- **National Green Building Standard** from the National Association of Home Builders, a rating system for homes and multifamily buildings

## **FACT**

**30% of commercial building energy consumption is wasted.**

*Source: Energy Star*

features and fountains; and replacing grass with drought-tolerant ground cover and boulders. In addition, Woodmont multifamily operations has implemented smart valves on irrigation systems that monitor the climate, weather, and soil moisture and adjust irrigation at some of its properties.

The company actively markets the CSP credential and prominently displays the CSP designation in all leasing offices. Embedding the CSP credential in marketing materials initiates discussions with prospective tenants, especially in drought-stricken California. "That has become more important, especially with the younger generation," says Bosshard, who oversees Woodmont's designation. Woodmont has certified 36 properties and has 13 in progress. The CSP, a relatively new credential, initially required a minimum of 50 units for certification, but IREM has lowered that minimum to 25.

Property managers may already have some of the CSP measures in place, says Bosshard, and with additional focus, properties may qualify for the credential. "There is value in being able to market the credential," Bosshard says.

"All of the building certifications have brand identity with institutional owners, who are very cognizant of energy efficiencies and corporate stewardship," says Scott M. Pritchett, CPM, president of commercial operations for Woodmont Real Estate Services.



Currently, Woodmont has one LEED-certified office building, and pending one more lease, a second office property will meet the occupancy standard to file for the CSP certification; several other properties are under review for the CSP. Certification is becoming more important in the office tenant's checklist, says Pritchett, which he attributes to increased scrutiny of public companies. The question that's on the upper end of many checklists, he says: "Is the building LEED-certified by the Green Building Council?" Pritchett has taken existing buildings through LEED Basic and LEED Silver certification and describes the process as "definitely achievable."

In a July 2021 survey of NAR commercial members, 69% said promoting energy efficiency in listings was very or somewhat valuable. Luckily, the supply and array of green products—wallboard, carpeting, flooring—is the best it's ever been for those willing to pay the slight premium, observes Pritchett. In the California Bay Area, solar-paneled covered parking is gaining traction. This feature appeals to suburban office parks that don't have a parking garage but have a big energy draw. "You provide a nice benefit to tenants, and the owner can reduce the energy footprint of the buildings." Studies also show that buildings with green features appraise for a premium over traditional properties, so the slight premium up front on materials pays off.

In addition, "buildings are getting smarter," notes David Eldridge Jr., an associate with Grumman/Butkus Associates and a Green Globes assessor for a decade. Specifically, the pandemic has brought a surge of technologies focused on monitoring building performance and, especially air-flow, to reduce costs and provide healthier spaces.

BrainBox AI, for example, is a Montreal-based company that's developed artificial intelligence technology to boost the energy efficiency of buildings. The company's auton-

omous cloud-based AI overlays existing HVAC systems without disrupting tenants. A control box studies a building's usage for six to eight weeks to learn and establish a profile, then optimizes air flow. A building's data is visible on a dashboard and can be monitored, says Sam Ramadori, president of BrainBox, and air flow can be adjusted zone by zone for downtime, reduced occupancy, and degradation. The company launched in 2019 and has a presence in schools, offices, hotels, and retail spaces in approximately 285 properties in 17 countries. In 2021, BrainBox added an online energy savings calculator ([www.brainboxai.com/savings-calculator/](http://www.brainboxai.com/savings-calculator/)) based on square footage and building type.

According to a case study provided by BrainBox, when the application was installed in Toronto-based GWL Realty Advisors' 300,000-square-foot commercial office tower and 500,000-square-foot multiresidential building, GWL realized an energy savings on HVAC equipment of 29% and 25%, respectively, after only a few months.

"Traditional models rely on large capital outlays," says Ramadori. "We remove all the risk elements with an annual subscription fee."

## DRIVE THE CONVERSATION

There's no one-size-fits-all solution to reducing a building's carbon footprint, but the options—certifications, building products, technologies, and strategies—are robust, and the demand is real. If you're not driving the conversations around ESG and energy efficiency, your clients will.



*Paula Hess is a former editor of California Real Estate Magazine and a Los Angeles-based freelance writer.*



# THE JUICE ISN'T WORTH THE SQUEEZE

**MR. PRESIDENT, THERE ARE MANY REASONS WHY WE SHOULDN'T CAP THE 1031 LIKE-KIND EXCHANGE.**

By Daniel Wagner, senior vice president of government relations, The Inland Real Estate Group LLC

When President Joe Biden released his \$1.8 trillion American Families Plan in April, one of the ways he proposed to pay for the increased federal spending was to limit the Internal Revenue Code Section 1031 like-kind exchange deferral amount to \$500,000.

According to the president's own numbers, the proposed cap would generate \$2 billion a year for the U.S. Treasury Department. The problem is that the change would cost the government more than it would save. A recent study by Ernst and Young estimates that the current like-kind exchange provision generates almost \$5 billion per year in

direct and indirect federal taxes, along with billions of dollars in state and local taxes.

And it's not just the federal government's bottom line that would be hurt by a cap on the 1031 tax deferral. When you consider all the ways 1031s are used to benefit communities and individuals, it's clear that the juice isn't worth the squeeze.

For 100 years, the like-kind exchange has allowed real estate owners to exchange their property for other income-producing properties and defer the tax on any unrealized

gain. When the owner eventually liquidates the investment, the government collects taxes on the gain. Often, the new property grows in value beyond the original investment, thus yielding increased tax revenue for the government. While there are rules about the time frame in which an exchange must be completed, there's no cap on the amount a property owner can defer using this tax strategy.

## INVESTMENT IN UNDERSERVED COMMUNITIES

By enabling property owners to channel gains into new real estate investment, like-kind exchanges serve as a crucial component to attract development dollars and bring wealth to underserved communities.

The additional capital saved by not having to pay the tax immediately could invigorate an abandoned shopping area or an underused warehouse, allowing owners to transform outdated properties into more productive uses, such as affordable workforce housing or a job-generating e-commerce hub. A 2020 study by David Ling of the University of Florida and Milena Petrova of Syracuse University confirmed that the like-kind exchange garnered appreciably greater capital investment in properties compared with those purchased without an exchange.

“As the Black community explores avenues for growth of their financial opportunities . . . the 1031 like-kind exchange is more important now than ever,” says Norman Alexander, president of the Ridgecrest Area Association of REALTORS® in Ridgecrest, Calif., and a member of the California Association of Black Real Estate Professionals.

David Doig, president and CEO of Chicago Neighborhood Initiatives, brought a national grocery store chain, Kroger's, into a former food desert in the Bronzeville neighborhood on the city's South Side. The site, formerly the demolished Ida B. Wells public housing complex, had remained a vacant lot for more than 15 years. In its place, Doig's company developed a Mariano's supermarket, and then a New York investment group purchased the new development through a 1031 like-kind exchange. This outside capital infused jobs, housing, and commerce into the community.

“We need to keep the 1031 like-kind exchange as is because it is another tool to encourage private capital to flow into commercial real estate projects that will help revitalize our underserved communities,” says Leon Walker, president and CEO of DL3 Realty and the developer who brought Whole Foods, Starbucks, and Chipotle into Chicago's South Side Englewood community.

## INVESTMENT IN JOB CREATION, PENSION INCOME

Jobs. Jobs. Jobs. Everyone along the political spectrum agrees that a robust job market is important for creating pathways to economic growth. Research shows like-kind exchanges have a multiplier effect in a community when it comes to creating and maintaining jobs. The Ernst and Young study concludes that if Section 1031 was limited or eliminated, real estate transactions would decrease, the cost of capital would increase, and the gross domestic product would contract. The study found that, under the current law, 1031 exchanges generate \$4.4 billion in additional investment and support 568,000 jobs each year. This equates to labor income of \$27.5 billion in 2021. A majority of these jobs come from the capital improvements that are made to properties after a like-kind exchange, creating jobs for electricians, carpenters, plumbers, contractors, masons, and building material suppliers.

“Every time we sell an apartment complex, we use the 1031; if it were not available, we would not be able to complete that transaction,” says Bill Brown, 2017 president of the National Association of REALTORS® and owner of Springhill Real Estate Partners. Brown's company, based in the San Francisco Bay area, invests in multifamily properties in cities such as Boise, Idaho; Portland, Ore.; and Phoenix. “My company spends anywhere from \$7,000 to \$10,000 per unit on remodeling,” Brown says. “This helps provide jobs for laborers, as well as materials such as carpeting, cabinets, and many other goods.” Such upgrades not only provide employment but also improve the quality of life for those who rent and live in the apartments.

“Our local IBEW is very involved with economic development,” says Frank Furco, business manager of the Warrensville, Ill.-based International Brotherhood of Electrical Workers Local 701. “The 1031 like-kind exchange is a great tool to create jobs for our members.”

And jobs aren't the only reason unions support 1031 like-kind exchanges. Section 1031 transactions are important to real estate investment trusts and, therefore, the pensions and 401(k) plans that invest in REITs. Specifically, Section 1031 enables a REIT to effectively manage its real estate portfolio, exchanging properties to manage risk and maximize return. This benefits both working and retired Americans who own REIT stocks in their retirement savings funds—especially trade unions, like IBEW 701, that fund their own pensions. Members of unions often work and live in the very same communities that benefit from the economic expansion provided by the 1031 like-kind exchange.

## INVESTMENT IN LAND CONSERVATION

While a like-kind exchange can be a great way to generate capital for development, it can also serve a very different purpose: the preservation of open space.

A major initiative for the land conservation community is to protect 30% of the nation's lands, rivers, lakes, and wetlands by 2030. Known as the 30 by 30 Initiative in the conservation community, the initiative aims to preserve the integrity of our ecosystems.

Land conservation organizations rely on like-kind exchanges to preserve open spaces for public use or environmental protection. Land conservation transactions often involve the exchange of environmentally sensitive areas for less sensitive, privately held properties or the offer of conservation easements. A landowner electing to be paid for a permanent conservation easement can use those proceeds to acquire replacement property through a 1031 like-kind exchange.

These organizations have used the 1031 like-kind exchange to preserve and protect a wide range of environmentally sensitive lands, including the Rookery Bay National Estuarine Research Reserve in Florida, the Mississippi River Watershed, the Grassland Reserve Program in Idaho, and the South Boulder Creek Watershed in Colorado.

## A STRATEGY FOR FARMERS AND RANCHERS

The family farm has played an important role in U.S. history and remains a cornerstone of American culture. Farmers and ranchers use 1031 like-kind exchanges for a variety of reasons, including:

- Combining acreage for better production
- Acquiring higher-grade lands
- Improving the quality of their operations

## SEND A LETTER

If you agree that the Section 1031 like-kind exchange should be preserved as is, let your congressional representatives know how you feel. The Institute for Portfolio Alternatives makes it easy. At [www.ipa.com/1031s](http://www.ipa.com/1031s), click on Take Action, and then enter your information. A letter will be sent to your members of Congress.

- Reconfiguring their assets so that young or beginning farmers can join in the business

In addition, when retiring farmers have no one to take over their family farm, they can exchange their farm or ranch for other types of real estate that generate ongoing retirement income. In the process, they may be providing land needed for home development or other uses.

## THE 401(K) OF REAL ESTATE

There's a misconception that 1031 like-kind exchanges are a tool for the rich to dodge real estate taxes. This notion contorts the true, progressive goal of the tax code: to help Americans build personal savings and ensure income for the future. In many ways, 1031 like-kind exchanges are analogous to 401(k)s or traditional individual retirement accounts.

As with those tax-deferred retirement accounts, like-kind exchanges allow real estate owners to reinvest their profits from the sale of income-producing properties into other similar income-producing properties and defer, not dodge, the taxes. When the owner eventually liquidates the investment, the government collects its rightfully due taxes.

In one real-life example, a widow in Southern California was forced to sell her husband's auto service business when he passed away. The real estate portion of the business formed a large percentage of the sale. Using a like-kind exchange, she was able to acquire a replacement property that generates monthly cash flow from rental income. The subsequent property effectively has become her IRA account, providing her with a nest egg for her retirement income.

Like retirement accounts, like-kind exchanges have helped Main Street business owners establish and increase their wealth and have provided economic growth and job creation for the U.S. economy over the last 100 years.

Very little privately owned real estate is held in IRAs or 401(k) plans. Of the roughly \$30 trillion in IRA or 401(k) accounts, less than 2 percent is invested in real estate, and most of that is concentrated in publicly traded REITs. Real estate investing serves a wide range of ends—bringing capital into underserved communities, conserving open land, providing income for retirees, and much more. And one of the most important financial tools for investors is the 1031 like-kind exchange. When people argue for capping the 1031 tax deferral, remember: The juice isn't worth the squeeze.

# HOW'S THAT RETIREMENT KITTY LOOKING? We Can Help.

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# COMMERCIAL MEMBER SNAPSHOT

Ever wonder how commercial real estate fits into the National Association of REALTORS® membership? In March, NAR released a report showing commercial specialists make up about 10% of all NAR members. Commercial members typically have more than a decade of experience. Members who report a primary specialty in commercial real estate tend to work in the major cities as well as in secondary and tertiary markets, whereas members with a primary specialty in residential and a secondary in commercial tend to work in smaller U.S. markets.

**137,880**

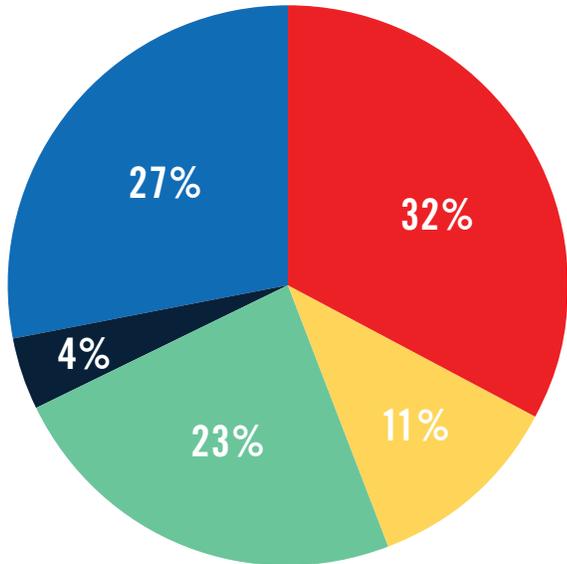
Number of NAR members who work in commercial real estate\*

\*AS OF JAN. 1, 2021. NUMBER IS DERIVED FROM THOSE WHO SELF-REPORTED COMMERCIAL REAL ESTATE AS A PRIMARY, SECONDARY, OR DUAL SPECIALTY; HOLD A COMMERCIAL DESIGNATION; OR HOLD MEMBERSHIP ON A COMMERCIAL OVERLAY BOARD.

**29%**

Of the NAR members who listed a primary specialty in residential, 29% listed a secondary specialty in commercial.

## MARKET SIZE



Primary commercial specialists work in markets with

- Population below 1 million
- Population between 1 million and 2 million
- Population between 2 million and 4 million
- Population between 4 million and 6 million
- Population between 6 million and 8 million

## EXPERIENCE

**12**

Median tenure for members with a primary specialty in commercial

**2**

Median tenure for members with a primary specialty in both commercial and residential

## INCOME

**\$87,000**

Median annual income for primary commercial specialists

**\$85,000**

Median annual income for residential specialists with a secondary specialty in commercial

## TOP LOCATIONS

Cities with the most primary commercial specialists:

- Miami
- Atlanta
- West Palm Beach, Fla.
- Dallas
- Tavares, Fla.

Cities with the most residential specialists who list commercial as a secondary specialty:

- Van Nuys, Calif.
- West Palm Beach, Fla.
- Houston
- Austin, Texas
- Colorado Springs, Colo.

SOURCE: 2021 REPORT ON COMMERCIAL SPECIALTY, MARCH 2021, BASED ON CURRENT MEMBERSHIP DATA

# PROTECT SMART BUILDINGS AGAINST OT RISKS

**THE NUMBER OF CONTRACTORS WORKING IN BUILDINGS, AND COMPETING BUDGET PRIORITIES, CAN COMPLICATE BUILDING CYBERSECURITY.**

Owners and property managers are vulnerable to cyber risk stemming from operational technology (OT) systems, according to panelists participating in a webinar presented in July called “Cybersecurity in the News: What It Means for Commercial Real Estate.” The webinar accompanied the release of a report from cybersecurity firm Kaspersky.

Although the media have widely covered ransomware attacks related to IT, smart buildings are also at risk for OT attacks. An OT system is any system that tenants touch or that functions to make them comfortable or uncomfortable, says panelist John M. Hester, owner of Hester Consulting LLC and a specialist in energy management and smart building applications. That includes “air-conditioning, mechanical systems, water supply systems, and lighting control. Even soft services related to food or cleaning systems are part of OT.” An interruption to any of these areas can create a major problem for a building owner or a property manager.

In one instance, a 30-story building had to be evacuated after a message came through a building occupant’s printer saying a bomb was in the building, says panelist Fred Gordy, who develops and implements secure control systems. “The message came through an OT system—a parking system. I pointed out to the building owner that even though [the attack] came through the parking system—a third-party contractor—the owner’s name was on the building.” That meant the owner was subject to a brand image problem.

Other OT systems include access control, metering, and security cameras, says panelist Tom Shircliff, co-founder and principal of Intelligent Buildings. “Fire suppression systems that can be activated through a cybercommand can be prematurely released and cause all kinds of property damage.”

## CONTRACTORS COMPLICATE SECURITY

These problems are complicated by the fact that so many contractors work in a commercial building, Hester adds. “You have not only the systems themselves but also the people who come and work on the building and penetrate



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those OT systems. Building owners have to manage the exposure their system has on a day-by-day basis, and the way to do that is to acknowledge the number of people coming in and make sure they’re doing the right thing.”

The government and private sector have made efforts to develop OT standards, but the standards haven’t been widely adopted and aren’t widely known, says panelist Lucian Niemeyer, chairman and CEO of Building Cyber Security, a nonprofit organization advancing physical security and safety. Internal protections “should start with the chief information officer asking, ‘What do you have on the network? What has been installed that I’m not aware of?’” The goal is to combine that information and put it in a framework “where you get the IT and OT people communicating and then collaborating on how much protection there needs to be.”

Convincing CEOs and CFOs to invest in cyber protection, including OT, can be challenging, Niemeyer says. “It’s hard to balance investments in cyber protections against investments to grow revenue or enhance the brand.” One option is to develop a viable framework and partner with insurance companies so that companies that invest in the framework could get lower rates for their cybersecurity, property, and casualty insurance.

“OT has the potential to change our life for the better,” Niemeyer says. “We want users to have protections in place to make sure those smart technologies are not in any way exploited.”

# WATERSHED MOMENT

**THE BIDEN ADMINISTRATION PROPOSES A REDEFINITION OF THE WATERS OF THE UNITED STATES, POTENTIALLY REVERSING THE MORE DEVELOPER-FRIENDLY TRUMP-ERA RULE.**

By Catherine Mesick, NAR Advocacy

In June, the Biden administration announced its intention to develop a new rule governing the definition of the “Waters of the United States” in the Clean Water Act. The change could have a profound effect on private property rights and on commercial real estate practitioners—particularly on the development side.

The new rule would replace the current Navigable Waters Protection Rule, which was proposed by the Trump administration in 2017 and enacted in April 2020. Developed by the Environmental Protection Agency and the Department of the Army, the rule expanded exemptions for waters from federal jurisdiction, creating 12 categories of exclusions. The EPA estimates that the rule resulted in a 25% reduction in waters eligible to receive protection.

The National Association of REALTORS® applauded the 2020 rule. “The current rule is a commonsense regulation that clearly defines what waters are subject to federal jurisdiction and what waters are subject to state protection,” says Russell Riggs, senior policy analyst at NAR.

According to a joint press release issued by the EPA and the Army, the agencies are now concerned that the Navigable Waters Protection Rule is significantly reducing clean water protections. The new rule will seek to address this issue.

Proponents of the rule change say it will protect the environment; opponents say it will extend government overreach. Both sides agree that any rule the administration develops will likely result in more waters being reclassified to fall under federal control.

NAR is among those watching closely.

“If the definition of WOTUS is expanded to bring more waters under jurisdiction of the federal government, NAR does have concerns,” says Riggs, “Federal control over more waters means more red tape and bureaucracy, which could hinder needed real estate development.”

More red tape could be of particular concern to the multifamily sector. Additional federal control, Riggs says, could hamper the creation of much-needed new housing supply, including multifamily units. And affordable housing for low- and moderate-income renters is already scarce.

In addition, new commercial development across all sectors could be curtailed by a rule change, stymieing growth in a time when businesses are marching toward recovery. “A new WOTUS rule that expands federal government control over more waters will hinder new commercial development by requiring additional cumbersome and expensive permitting,” says Riggs.

A new rule could also extend federal protection to thousands of small streams, wetlands, and other waterways—some of which cross farmland, commercial properties, and other private property—to adverse effect, as these water bodies are already protected by state and local regulations. Farms and small businesses could become subject to regulatory takings of land, says Riggs.

What makes increased federal control even more frustrating, he adds, is that it may do very little to protect water quality.

“The Safe Drinking Water Act protects public health by regulating the nation’s public drinking water supply. It provides for multiple barriers against pollution, including treatment, distribution system integrity, public information, and source protection,” says Riggs. “No WOTUS rule would weaken these protective requirements.”

Ultimately, an ideal rule would bring all affected parties—including developers and business interests—to the table to hammer out a regulation that would stop the pendulum swings that have occurred as administrations change hands. According to Riggs, the constant back and forth has created additional burdens for businesses and developers: “For over 20 years, uncertainty surrounding the scope of federal authority over WOTUS has resulted in litigation and regulatory uncertainty, which is bad for development and bad for water protections.”

# CROSS-BORDER CAUTION

**THEY MAY STILL BE ON THE LOOKOUT FOR U.S. REAL ESTATE, BUT GLOBAL INVESTORS ARE LOOKING FOR SAFE INVESTMENTS AS THEY WAIT OUT THE PANDEMIC.**

By Gay Cororaton, NAR senior economist and director of housing and commercial research

New research from the Association of Foreign Investors in Real Estate may show that global buyers with long-term goals still have an appetite for U.S. real estate (*see page 5*)—but hard data from Real Capital Analytics shows that investment remains depressed and investors who are buying now are seeking out pandemic-proof properties.

In the four quarters ending in 2021 Q1, acquisitions by global investors (cross-border capital) of properties or portfolios of at least \$2.5 million fell to \$152 billion, a 38% decline compared to the pre-pandemic level in the prior four quarters through 2020 Q1. Industrial properties were the only asset class to see an increase, jumping 4%. Global investors pulled back on acquisitions of office (-42%), apartment (-36%), and retail (-70%). Despite the retreat, apartments still made up the largest asset class of acquisitions by investors, reaching a four-quarter total of \$37.5 billion, still slightly ahead of total industrial acquisitions of \$35.9 billion.

The acceleration of e-commerce sales has fueled demand for industrial space among both domestic and global investors. As of the first quarter of 2021, e-commerce sales accounted for 13.6% of retail trade sales, up from 11.4% in 2020 Q1, according to U.S. Census Bureau data. The national vacancy rate for industrial commercial real estate properties stood at 6.3% as of 2021 Q1, according to CoStar data. That's compared to 8.8% for multifamily and 15.7% for office. With demand for industrial staying strong, the average rent (triple net lease) has increased to \$10.4 per square foot, up 7.6% from 2020 Q1.

Meanwhile, with the office vacancy rate at 15.7% as of 2021 Q1 (up from 13.3% in 2020 Q1), investors are shying away from the office market, a trend that will continue as companies react to the latest COVID-19 wave with further delays in returning to the office. Office gross rent has decreased slightly to \$49.59 per square foot from \$49.80 per square foot in 2020 Q1, according to CoStar market data. Office vacancy rates have remained elevated as 50% of workers in computer and mathematical occupations

continue to work from home, up from just 12% in 2019, according to the Bureau of Labor Statistics.

## TOP GLOBAL INVESTORS OF U.S. COMMERCIAL REAL ESTATE

By region of origin, acquisitions declined across all regions:

- Europe (-48%)
- Middle East (-28%)
- Canada (-24%)
- Asia (-16%)
- Other regions (-75%)

A few countries, however, increased their investment in the past four quarters of 2021 compared to the prior four quarters, notably South Korea (+44%), with acquisitions totaling \$5 billion. Saudi Arabian investors also increased their investment to \$2.4 billion (+218%).

During the four quarters ending in 2021 Q1, Canada remained the largest investor in U.S. commercial real estate, with cross-border capital of \$11.9 billion. Canada was also No. 1 in 2019 and 2020. South Korea was the second largest investor, up from fourth place in 2019, with cross-border inflow of \$5 billion. Other countries of origin that acquired more than \$1 billion of U.S. commercial real estate in the four quarters ended 2021 Q1 were Singapore, Germany, Saudi Arabia, Switzerland, and the United Kingdom.

## TOP CROSS-BORDER MARKETS

Manhattan slid to the No. 2 destination for cross-border investment behind Seattle. Global investments of Seattle commercial real estate during the four quarters ended 2021 Q1 totaled \$2.5 billion, a tad higher than the \$2.0 billion that went into Manhattan in the same period.

The change is likely a direct result of COVID-19: Cross-border acquisitions fell 79% year over year in Manhattan compared to Seattle's 11% year-over-year decline. The other metro areas with over \$1 billion in cross-border investments were San Francisco, Chicago, Dallas, Atlanta, Los Angeles, Phoenix, Boston, and San Jose.

# FORGING AHEAD

REAL ESTATE PROS IN MULTIFAMILY, RETAIL, AND OFFICE MARKETS ARE PUSHING FORWARD WITH REOPENINGS.

Commercial real estate is likely to be a mixed bag for some time. While retail properties and warehouses have benefited from the economic reopening in America, the COVID-19 pandemic continues to depress the market for office space. We turned to three members of the National Association of REALTORS® Commercial Committee—pros who focus on multifamily, retail and hospitality, and office—to share what’s happening in their market and how they’re moving business forward, even as the coronavirus’s delta variant brings a new wave of cases to the U.S.



**Carol Horsford is a broker and the founder of Farnam Realty Group in New Haven, Conn.**

My brokerage does both multifamily sales and property management. We manage about 700 apartments. We haven’t had many tenants who’ve needed financial assistance during the pandemic. We’ve worked closely with the few who have, applying for rental assistance funds on their behalf through the state’s UniteCT program. The money from that program has slowly been trickling in. The tenant must be an active part of the program and provide detailed information, so getting assistance really is a partnership between tenant and property owner.

The bigger issue I’m seeing is the need for property managers to be more responsive to tenants’ changing lifestyles. The work-from-home trend has opened new possibilities for the way people live. Many want to live more simply with less stuff and have the option to move more frequently. Smaller, furnished units and more flexible, shorter-term leases are in high demand. Property managers and landlords are wise not to stick rigidly to traditional one- or two-year leases in order to attract more tenants.

The national eviction moratorium, which has been a bane for many property managers and owners, has highlighted

the importance of having a strong tenant screening process. Any tenant can suffer unexpected financial hardship. But if you vet rental applicants thoroughly, you can choose stable tenants with the best chance of fulfilling their lease. Don’t skip on checking an applicant’s references from previous landlords. Checking these references can tell you a lot about the type of tenant the applicant will be. We look for people that have a positive rental history, solid employment, and fair to excellent credit. We work with all subsidies, agencies, and housing programs and have strong relationships with those offices and agents. We see those agencies as our partners.



**Bob Marchewka is a broker and the founder of One Commercial Real Estate in Portsmouth, N.H.**

Face-to-face contact is vital for my business, so the reopening of the economy is helping me get back to my main sources of marketing. For example, monthly networking breakfasts for commercial brokers in my region—which draw 30 to 50 people—have always been a good source for referrals and ideas for business strategies. When these meetings transitioned to Zoom calls last year, they became less useful as far as networking goes. Now that we’ve returned to in-person gatherings, I’m able to sit down and have a real conversation with colleagues and prospects again.

I work a lot with owners of office buildings, and that market remains in flux as the country recovers from the pandemic downturn. Many of my clients’ tenants haven’t returned to their spaces full-time, and it’s a waiting game to see if they’ll renew their leases. It may take another year to fully understand what post-pandemic office trends will look like, which is causing my clients some angst. The return to physical interaction has been important for these relationships because the reassurance and hand-holding I can provide in person is valuable to them.

Office vacancies in my market have gone from under 5% before the pandemic to over 10%. Many of my clients who have had vacancies for well over a year are holding onto their properties. They don't want to sell low and miss out on a future recovery in the market. The problem is we just don't know what's going to happen or how long it's going to take. Some of my clients are beginning to get antsy and want advice on when to pull the plug and sell. I tell them to consider how flexible they're willing to be on price—some properties are going for as low as 50 cents on the dollar—and timeline. It can sometimes take a while to find a tenant whose needs the building meets.



**Dan Sight, CCIM, SIOR, is president of Sight Commercial Realty in Leawood, Kan. In 2015, he served as the National Association of REALTORS® commercial liaison to the NAR president.**

In my 38 years as a commercial real estate practitioner and investor, I've been through many a downturn in the market. Three principles have remained true through all of them:

- **Don't be overleveraged.** Equity is a good thing. Don't refinance and cash out. When the next market disruption happens, you'll be in better shape than most.
- **Nurture the relationship with your lender.** Let your lender know how you operate, and be transparent to build trust. The more your lender trusts you, the more they'll be willing to make accommodations for you the next time there's a dip in the market and you need help.
- **Look at your tenants as an asset.** Know them, communicate with them, and help them succeed. If they are successful, your property will be as well. It's always easier to work with your current tenants than to find new ones.

These rules were of the utmost importance when I opened a new property last year during the COVID-19 pandemic. I was near the end of a gut renovation of a 20,000-square-foot historic commercial building in downtown Kansas City when coronavirus restrictions went into effect in March 2020. The building was already fully leased, with an international bridal shop, a boutique hotel, and a wine bar set to debut that summer.

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**“We all know that success in real estate begins with location. I can't emphasize enough how true that is in the current environment.”**

I immediately contacted my lender and was able to extend the terms of my loan in order to deal with delays in the completion of the renovation. Luckily, the disruption was brief, and my tenants were still able to launch when they originally planned. It was rocky for a while as we navigated new norms. But now, with the retail and hospitality industries roaring back to life in the national economic reopening, my tenants are doing more business than they imagined and can hardly keep up with customer demand. The high level of foot traffic is now attracting other prospective tenants to the building.

We all know that success in real estate begins with location. I can't emphasize enough how true that is in the current environment. My building is in a neighborhood that was once underused, known to locals as Film Row, where prominent movie studios housed their distribution operations in the 1920s and '30s. Revitalization efforts in recent years have brought a lot of cachet to the area, which has become a shopping, dining, and entertainment hub. Tenants are looking for ways to mitigate their risk, and being in a visible, heavily trafficked area such as this is a good bet.

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