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COMMERCIAL CONNECTIONS

A PUBLICATION BY THE NATIONAL ASSOCIATION OF REALTORS®

TAX CUTS HELP BUILDING OWNERS FIND SAVINGS

PAGE 12

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NATIONAL ASSOCIATION OF REALTORS®

CORRECTION: Charles "Bob" Ridgway, CCIM, of C.R. Ridgway IV Realty, was omitted from the list of 2019 National Commercial Award winners published in the last edition of *Commercial Connections*. Ridgway was Commercial REALTOR® of the Year for Mississippi. We regret the error.

COMMERCIAL CONNECTIONS

www.nar.realtor/commercial

QUESTIONS & COMMENTS NARcommercial@realtors.org

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NATIONAL ASSOCIATION OF REALTORS® OFFICIAL PUBLICATION

OUR INTRINSIC CONNECTION

AS WE CONFRONT THIS PUBLIC HEALTH CRISIS, COMMERCIAL AND RESIDENTIAL REAL ESTATE PROFESSIONALS ARE STRONGER TOGETHER.

VINCE MALTA, 2020 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

With the COVID-19 pandemic, health suddenly became the world's number one concern: the health of our families, our finances, our workplaces, our businesses, and our communities. In all of these areas, the National Association of REALTORS® has been working on your behalf—from advocating to include commercial and residential real estate in federal guidance on essential services to advocating for investors, small businesses, and independent contractors as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequent relief packages.

For investors, NAR successfully advocated for the extension of statutory deadlines for 1031 like-kind exchanges and opportunity zone investments. For you and your family, we negotiated a new low rate for REALTORS® who enroll in Members TeleHealth, enabling you to seek affordable medical attention from home. And we quickly launched Right Tools, Right Now (*nar.realtor/rtrn*), giving NAR members access to free and reduced-cost programs and services, including four free courses available through a partnership between the CCIM Institute and the Center for REALTOR® Development.

GRATEFUL FOR OUR COLLABORATION

One of NAR's strategic priorities this year has been to collaborate more closely with other organizations, including our commercial affiliates. When we set those priorities, COVID-19 wasn't on our radar. But without those partnerships, we wouldn't have been nearly as effective in responding to this public health crisis. As we cautiously emerge from state and local stay-at-home orders, our partnerships will continue to be important as we work together to play a vital role in our nation's economic recovery.

Another of our strategic priorities is driving community development. Besides physical health, what could be more central at this moment? Whatever sector of real estate we work in, we share a vital common interest in the economic well-being of our communities. Healthy communities are the intrinsic connection between housing and commercial real estate. A housing market with affordable purchase and lease options benefits job creators, which in turn benefits investors, retailers, and other businesses our commercial practitioners serve.

SERVING CONSUMERS—AND MEMBERS

While the COVID-19 situation has changed a lot of things, it hasn't derailed our national advertising campaign, which explains why consumers should "look for the R" when they need a real estate professional. This year's campaign spotlights the role of commercial practitioners—look for the red! You have the opportunity to use assets from the campaign in your own marketing and spotlight the REALTOR® difference on social media. From your mobile phone, download our customized app at *photofy.com/nar*—or download assets from our website, *ThatsWhoWeR.realtor*.

While you're working to show the REALTOR® difference to your clients, we're working to bring more value to you. That starts with getting a better handle on your professional interests, which is why, starting last year, REALTORS® were required to indicate their primary field of business in the National REALTOR® Data System. You can choose up to three secondary categories to offer a fuller picture of your business interests and expertise. The system lists 35 commercial specialties, from asset management to tenant representation.

UPDATING YOUR PROFILE

Completing your NRDS profile will ensure you receive the commercial news and benefits tailored to your professional needs from NAR and REALTORS Property Resource (RPR®). More-robust profiles will also help when you're looking to refer business or find a specialist through the Find a REALTOR® feature at nar.realtor. To review and update your profile, sign in to *nar.realtor*. Click on My Account and then Manage Account. Scroll down and click on "Change your member data profile (NRDS)."

TEAMWORK FOCUSES ON BUILDING HOUSING SUPPLY

CRE CONSULTING CORPS JOINS FORCES WITH TUCSON ASSOCIATION OF REALTORS® TO ASSESS DOWNTOWN TUCSON.

By Lynn Ettinger

The Tucson Association of REALTORS® engaged The Counselors of Real Estate® (CRE) Consulting Corps to analyze for-sale housing demand in downtown Tucson, Ariz., identify development barriers and recommend steps to increase the supply of owner-occupied properties in the downtown area.

As one of the CRE's giving-back initiatives, the CRE Consulting Corps provides real estate analysis and action plans to not-for-profit organizations, government entities, educational institutions, and other nonprofit owners of real property. The Consulting Corps leverages counselor expertise at well-below-market rates to address economic development, disaster response, affordable housing, and other public service issues.

A study conducted in 2013 by the Urban Land Institute found relatively robust demand for market-rate, multifamily housing in downtown Tucson, but not for owner-occupied units. A year later, a streetcar transit system began operations, generating an estimated $2.4 billion in economic impact and serving as a catalyst for several commercial and high-density transit-oriented housing projects that are primarily rental.

© CRE

THE COUNSELORS OF REAL ESTATE CONSULTING CORPS ANALYZED HOW TO INCREASE OWNER-OCCUPIED PROPERTIES IN DOWNTOWN TUCSON, ARIZ.

Stakeholders told the Consulting Corps team about numerous examples of households seeking to buy homes downtown, but comprehensive data collection and analyses were needed to confirm and forecast potential buyer demand. Data on the supply side was also needed. The team found the market had recovered steadily since the 2007–09 recession, although with few condo or townhome sales in the central business district. However, the sample analysis identified attached home sales among older duplex product in nearby neighborhoods.

To understand the market dynamics driving new residential development, the team drafted a sample market feasibility study for a midrise building. Comparing development costs of a building offering condos for sale or apartments for rent, the analysis showed how financing and other expense factors had been driving decisions to build rental buildings rather than condominiums. The team anticipates continued housing development in central Tucson and suggested modest efforts that could help downtown capture more of the region's for-sale residential inventory. Facilitating increased housing supply may also improve affordability.

The Tucson assignment is one of more than 50 projects completed by CRE Consulting Corps teams. If you're aware of an organization or institution that would benefit from the services of the CRE Consulting Corps, contact Samantha DeKoven at *sdekoven@cre.org*.

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MANAGING CHANGE

FROM PODCASTS TO FREE COURSES, RELEVANT PANDEMIC GUIDANCE IS A CLICK AWAY.

By Lynn Ettinger

The coronavirus pandemic has made the job of real estate manager more important and more challenging. The Institute of Real Estate Management is providing up-to-date information to navigate changing conditions:

- **From the Front Lines:** Short podcast-style episodes, usually 10 to 15 minutes long, are published twice weekly and cover topics such as senior housing, small business relief, maintaining productivity, and commercial cleaning and hygiene.

- **Free on-demand courses:** A number of on-demand courses are available to the public on trending topics useful to property managers. Courses are rotated and available on a two-week basis. Recently available offerings have addressed forming a virtual team, leading a virtual team, and complying with legal issues related to multifamily marketing and leasing.

- **Pandemic Guide for Real Estate Managers:** The "Pandemic Guide for Real Estate Managers," available online at *www.irem.org/pandemic-guide*, will help property managers prepare for pandemics and protect tenants and residents. Sections cover planning, infection control, operations, legal considerations, and communications. A checklist and resource list are also included.

- **Advocacy and other resources:** Property managers can learn about advocacy actions taken in support of the industry. Also available are links to webinar recordings and info about federal COVID-19 relief initiatives.

Visit irem.org/learning/coronavirus for updates.

LISTEN TO THE EXPERTS

MONTHLY PODCAST DIGS DEEP INTO YOUR WORK.

By Lynn Ettinger

The "Commercial Investment Real Estate Podcast" is the monthly audio companion to CCIM Institute's quarterly magazine, *Commercial Investment Real Estate*. Binge on recent episodes:

- **Roxana Isaiu**, director of environmental, social, governance, and real estate at GRESB, details how environmental, social, and corporate governance initiatives differ in Europe and North America.

- **Michael Beckerman**, CEO of CREtech, discusses how the staggering effects of the coronavirus may accelerate adoption of new technologies.

- **K.C. Conway**, chief economist at CCIM Institute, discusses how commercial practitioners can weather the pandemic and how to future-proof new investments.

- **Spencer Levy**, CBRE's chairman of Americas Research, examines the impact of rent control measures.

- **Stacy Scopano**, chief technology officer at Skender, discusses the growing market for prefab construction.

- **Darrel Fullbright**, AIA, LEED GA, design director at Gensler, discusses 5G, smart homes, and autonomous vehicles.

Access at *www.cirepodcast.com*.

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Sincerely,

Ardian Zagari
CEO, Co-Founder

BREVITAS.COM/NAR

INDUSTRIAL MARKET STILL BIG WITH INVESTORS

MINNEAPOLIS SPECIALIST OFFERS TIPS FOR CLOSING INDUSTRIAL TRANSACTIONS NOW.

By Lynn Ettinger

Experienced real estate professionals know that success is all about mindset and finding the right opportunities for the current market. Sitting on the sidelines during the coronavirus pandemic isn't necessary and could be a mistake, says Mark Kolsrud, SIOR, senior vice president of Colliers, Minneapolis.

"We are getting calls daily from investors looking to buy," Kolsrud says in "Four Steps to Closing a Transaction Amid a Pandemic," published in April by the Society of Industrial and Office REALTORS®. "This is not a down market when it comes to investments. We are representing buyers looking for opportunities throughout the country."

SIOR

Transactional opportunities abound—if you know where to look.

Kolsrud can attest to that, having just closed an industrial portfolio sale composed of 59 properties and 7 million square feet that sold for nearly $650 million. While it may seem like an anomaly, this transaction indicates a few trends:

- Large investment firms are seeking to close transactions.
- Industrial property is more popular than ever because of its high liquidity and sustainable momentum.
- Bigger is better: Multibuilding portfolios are the most sought after product.

By pursuing transactions carefully, industrial real estate professionals can keep their businesses going in 2020. Read the entire article at *sior.com* for more recommendations.

In the article, Kolsrud offers four steps to follow while working on industrial transactions in 2020.

1. **Know your investor:** Some investors have dry powder and debt sources, while others have large barriers to capital.

2. **Consider your client's portfolio:** This labor-intensive step requires you to assess the situation carefully from your client's viewpoint and consider critical questions about the portfolio's salability and marketability, tenants' creditworthiness, and other factors.

3. **Use an established, expert network like SIOR:** SIOR members can help you identify potential clients who need your expertise or spacing availability.

4. **Value integrity over income every time:** When faced with a temperamental market and uncertain future, it may be tempting to place a higher premium on just getting all parties to sign on the dotted line. Instead, think about long-term relationship building.

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TAKING STOCK OF LAND MARKETS, VALUES

VIRTUAL PANEL SHARES THE IMPACT OF THE CORONAVIRUS PANDEMIC IN THEIR REGIONS.

By Lynn Ettinger

Land buyers got some serious motivation in March. "I had three properties on the market for over a year, and all of them went under contract the third week of March. Buyers were looking for places to get away," said Justin Osborn of The Wells Group Real Estate Brokerage, Durango, Colo., speaking at a virtual roundtable in April on the appeal of recreational land in the age of COVID-19.

The roundtable, conducted by the REALTORS® Land Institute's 2020 Future Leaders Committee on April 20, shed light on how the coronavirus outbreak is affecting land values and market trends. Panelists were Accredited Land Consultant (ALC) land experts representing various land markets and regions of the U.S.

Demand for high-quality, tillable farmland has been steady, said Kyle Hanson ALC, of Hertz Real Estate Services, in Nevada, Iowa, RLI 2020 national president. Hanson recently received offers for land that had been on the market for a year. "We get a lot of phone calls from buyers looking for good deals, mixed-use properties," he said.

Drew Ary, with Ary Land Co./KW Advantage Land, Coweta, Okla., said he has had seasoned listings of rural residential hobby farmland move quickly. He noted an increase in sales within 45 minutes of urban areas like Tulsa, a trend he expects to continue. "People want room to breathe—and their own garden," he explained.

Matt Davis, ALC, Cushman & Wakefield, San Diego, discussed commercial and urban infill opportunities. Because these projects tend to have near-term completion dates, they're more affected by current economic impact changes. The risk has put many developers, investors, and lenders on the sidelines. Nevertheless, some buyers are still underwriting deals, he said. Davis said his company has been advising clients to put together marketing collateral and is prepared to enter the market "as soon as there's an anchoring event that lets the market know we've bottomed out and the recovery has begun."

For more perspectives across land markets, listen to the complete virtual roundtable on RLI's YouTube channel.

THE PANEL

MODERATOR: Eric Zellers, Ary Land Co.–KW Advantage Land, Tulsa, Okla.

DEVELOPMENT AND COMMERCIAL LAND: Matt Davis, ALC, Cushman & Wakefield, San Diego, Calif.

AGRICULTURAL RANCH LAND: Clayton Pilgrim, ALC, Century 21 Harvey Properties, Paris, Texas

AGRICULTURAL TILLABLE FARMLAND: Kyle Hansen, ALC, RLI 2020 national president; Hertz Real Estate Services, Nevada, Iowa

TIMBERLAND: Chris Miller, ALC, American Forest Management, Inc., Charlotte, N.C.

RECREATIONAL LAND: Justin Osborn, ALC, 2020 Future Leaders Committee Chair; The Wells Group Real Estate Brokerage, Durango, Colo.

RURAL RESIDENTIAL HOBBY FARMLAND: Lisa Johnson, ALC, Horsepower Real Estate, Junction City, Ore.

RURAL RESIDENTIAL HOBBY FARMLAND: Drew Ary, ALC, Ary Land Co/KW Advantage Land, Coweta, Okla.

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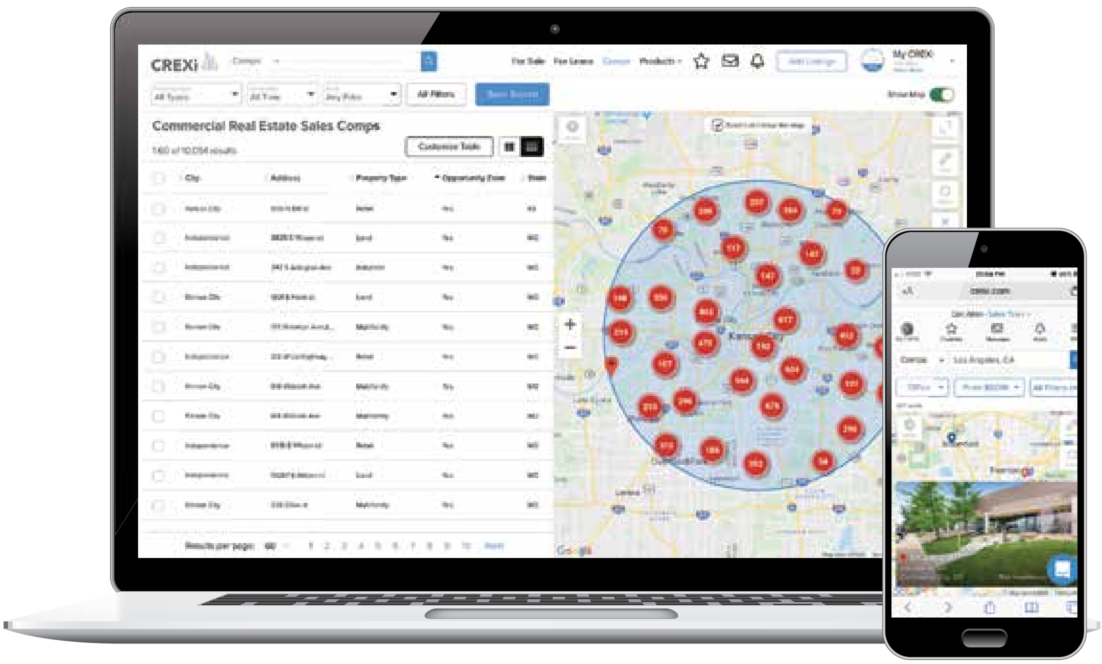

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THE CASE FOR A COST SEGREGATION STRATEGY

REAL ESTATE INVESTORS SHOULD TALK WITH THEIR CPA ABOUT WHETHER THEY'RE GETTING ALL THE DEDUCTIONS IN A POST–TAX REFORM WORLD.

By Theresa M. Samples, CPA, partner and director of real estate and construction services, Mueller Prost

If your clients haven't considered procuring a cost segregation study on their properties, they may not have claimed the appropriate amount of depreciation. That means they may have missed out on tax deductions in the form of additional depreciation expenses earlier in the life of their properties. They may not know that the studies typically apply to and benefit commercial properties of all types and sizes.

A cost segregation study is the process of identifying and separating personal property that is or has been grouped with real property. To calculate depreciation for federal income tax purposes, taxpayers must use the correct method and proper recovery period for each asset or property owned. A cost segregation study determines the appropriate asset class life for the entire tax basis of the property and allows property owners to reclassify components of and improvements to commercial buildings from real property to personal property. This essentially allows the assets to be depreciated on a five-, seven-, 10- or 15-year class life instead of the traditional 39-year class life of real property (27.5 years for residential rental property).

WEIGH THE BENEFITS AND CHALLENGES

For many commercial buildings, these assets might be special electrical, lighting, water, plumbing, mechanical, and finish elements. In my experience, 25% to 50% of a building's total costs can qualify for reclassification into shorter-life assets.

While cost-segregation studies can particularly help to improve cash flow on new construction, they can also provide tax and cash flow benefits for existing structures. In fact, virtually every taxpayer or business entity that owns, constructs, renovates, or acquires a commercial real estate structure should consider these benefits. Most properties are worthwhile prospects for a cost segregation study. In fact, commercial property owners might consider obtaining a study on a building improvement or addition even if the cost basis is as low as $250,000.

These studies can also benefit any type of commercial property. Advantages increase, however, for specialized properties in industries such as manufacturing and medical, which are typically eligible for more five-year deductions.

To understand the difference between depreciation with a study versus depreciation without one, consider this example based on studies I've completed. Assume the depreciable basis for a new commercial office building is $8 million, and 24% of the cost basis has been identified for allocation to either five- or 15-year property. The costs allocated to shorter asset class lives and eligible for bonus depreciation would be $1.92 million. The current year depreciation with a cost segregation study would be $2,075,900, while the current year depreciation without a cost segregation study would be only $205,129.

Despite the advantages of cost-segregation studies, challenges exist. Engineering-based studies tend to be the most reliable and preferred by the tax court. Yet the Internal Revenue Service (IRS) currently has no set standards for studies, which vary widely in methodology, format, documentation, and reporting. The lack of guidance and the complexity make it crucial to choose a provider who is well versed in the subject, combining an engineering-based approach with the tax knowledge of a certified public accountant (CPA).

WITH TAX REFORM, STUDIES HAVE GAINED VALUE

Cost segregation studies became even more valuable when the 2017 Tax Cuts and Jobs Act (TCJA) changed depreciation rules. The TCJA allowed 100% bonus depreciation on qualifying property, or assets with a class life of 20 years or less. It also created one asset class—qualified improvement property (QIP)—by combining three categories: qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. But the tax reform law omitted a recovery period. As a result, QIP, which was intended to be treated as 15-year property, fell into treatment as regular 39-year property for commer-

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cial real estate. In addition, the 100% bonus depreciation was disallowed because the property was no longer eligible for bonus depreciation and required businesses to capitalize the improvements as 39-year property.

This unintended consequence was corrected by the CARES Act, enacted in March 2020, which designated QIP as having a 15-year asset class life and therefore being eligible for bonus depreciation. The technical correction is retroactive and takes effect for qualifying property acquired and placed into service beginning Jan. 1, 2018. This could significantly affect real estate deductions on a retroactive basis. Real estate owners should consult a tax adviser about the best way to accelerate their depreciation for the 2018 and 2019 tax years.

Another change resulting from the TCJA involves Section 179, which allows businesses to deduct the full purchase price of certain property in the year of purchase. Property was expanded to include certain building systems and property improvements such as new roofs, HVAC, fire protection, and alarm and security systems.

A cost segregation study identifies all the building's systems so that the tangible property regulations, or repair regulations, can be properly implemented. The IRS released those regulations in 2013 and 2014 to guide taxpayers in determining whether to capitalize or currently deduct expenditures for acquiring, maintaining or improving tangible property.

The tangible property regulations also introduced the definition for a "unit of property," which is generally the entire building and its structural components, including the foundation, roof, walls, partitions, floors, windows, ceilings and permanent coverings, such as paneling or tiling. Before building owners can determine whether to capitalize an expenditure, they must understand the unit of property and the building systems, which include HVAC, plumbing, electrical, elevators, escalators, fire protection, security and gas distribution. The expenditure is evaluated to determine if it meets the definition of a restoration; an adaptation to a new or different use; or a betterment or improvement of the building system and unit of property. A cost segregation study will help to identify the costs related to these various building components so that building owners can apply the proper tax treatment.

CONSIDER A LOOK-BACK STUDY

It's never too late to perform a cost segregation study. If you missed taking advantage of these benefits in the year the property was initially purchased, constructed or placed in service, you can still do a look-back study as long as the building was acquired or renovated after Dec. 31, 1986. With a look-back study, you will claim all of the prior years' missed depreciation deductions in one year, and you don't need to amend your tax return. Building owners can claim these benefits on a Form 3115-Change in Accounting Method through an Internal Revenue Code Section 481(a) adjustment. The change in accounting method is an automatic change under IRS regulations and therefore doesn't require IRS approval before implementation.

Cost segregation studies can be a valuable source of potential tax deductions for your clients. They should consult a tax adviser for specific guidance on accelerating depreciation, as well as guidance on taking advantage of other tax provisions of the CARES Act.

PROTECT YOURSELF, CLIENTS FROM COVID-19 LOSSES AND LIABILITIES

HOW TO DEAL WITH TENANT INFECTIONS, REQUESTS FOR RENT RELIEF, CONTRACT ISSUES, AND MORE.

By Charlie Lee, NAR associate counsel

The National Association of REALTORS® has been fielding hundreds of COVID-19 questions each week through a dedicated hotline, 800-874-6500. We've developed general guidance to your most common questions. However, every situation is unique so be sure to consult with your broker, legal counsel, and government-provided public health information.

What should I do if someone in a building I own or manage tests positive for COVID-19? If a tenant, visitor, or employee tests presumptive positive or positive for COVID-19, issue a building alert to tenants, residents, and others who share facilities. Report the matter to the local health agencies and be sure to follow directions regarding cleaning and other appropriate actions. Because of health privacy and other legal considerations, don't reveal the identity of the individual or affected company.

Will parties be excused from performing their services or obligations in the lease due to the COVID-19 pandemic? Review the lease. Specifically, check the force majeure, casualty, and condemnation/eminent domain provisions. Depending on the language, these provisions can give the landlord or tenant certain rights to excuse, suspend, or terminate obligations or services.

A force majeure clause generally permits parties to suspend or terminate their obligations due to certain circumstances beyond their reasonable control. In the context of COVID-19, look to see if the force majeure clause enumerates circumstances such as "disease," "epidemic," "quarantine," "acts of government," or "pandemic" or for broad, general language such as "any cause whether similar or dissimilar to the foregoing."

A casualty clause usually covers fire, flood, explosions or other similar occurrences that degrade the physical or structural integrity of the building. Tenants might look to this clause on the basis that their ability to operate their business or to use their lease space has been significantly disrupted by the COVID-19 pandemic.

Tenants directly affected by government closures may view their lease spaces as having been taken over by the government. Check to see if the lease addresses condemnation or eminent domain and whether it provides any termination or rent abatement rights.

What if a tenant just decides to stop paying rent based on a theory from a lease provision or for any other reason? Landlords have the right to deliver a notice of monetary default and possibly the right to accelerate all lease payments with possible immediate recourse to guarantors and/or letters of credit. This action will require the tenant to defend its decision. As you know, some states have a moratorium on commercial (and residential) eviction proceedings. But this should not preclude starting action.

Do I have to provide rent relief or assistance to any tenant who requests it? Tenants who seek assistance should be asked to complete a rent assessment application. A sample is provided at *nar.realtor/coronavirus-guidance-commercial-real-estate* (under the Transaction Guidance tab). The form will help you determine whether relief or assistance provided is based on actual need. You shouldn't feel obligated to provide relief to any tenant who's in default, but if a tenant submits a rent assessment application, respond as soon as practical to avoid potential vacancies.

What relief should be provided to tenants seeking assistance? With the landscape rapidly changing, relief should be limited to 30 to 60 days. Try offering rent deferrals instead of waivers, or consider using the tenant's security deposit in place of a month's rent and having the tenant repay the deposit over time. Be sure to check with the lender and attorney before offering any relief to confirm that it's permissible. Document all assistance provided to tenants, and be sure to have tenants agree to a confidentiality clause.

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NATIONAL ASSOCIATION OF REALTORS®

A VIEW OF COMMERCIAL SECTORS THROUGH THE CORONAVIRUS LENS

NAR RELEASES FIRST-QUARTER MEMBER SURVEY DATA AND 12-MONTH FORECAST.

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

Businesses are assessing how the coronavirus pandemic has affected their industries so far and how it may shape the near future. Commercial real estate professionals can find early answers in the National Association of REALTORS®' latest Commercial Real Estate Trends and Outlook Report, released in April. The analysis is based on NAR commercial members' responses to a survey about their transactions in Q1 2020 and a comparison of results with Q1 2019 data. In addition, the report forecasts the direction of commercial real estate sectors for the next 12 months.

Commercial real estate sales and new leasing volume declined by 1% and 2% respectively, compared with Q1 2019. However, commercial prices rose modestly on a year-over-year basis. Over the next 12 months, we expect multifamily and industrial property demand to increase, while retail and office property demand will likely decline.

RATE OF PRICE GROWTH SLOWS

While dollar sales volume fell, commercial prices rose nearly 1% in markets where NAR commercial members are active. The rate of price growth nationally peaked in 2017.

SNAPSHOT

IN THE FIRST QUARTER

56% of commercial members reported a year-over-year sales price increase (compared with 75% in the prior quarter)

19% reported no change (9% in the prior quarter)

25% reported a decline (16% in the prior quarter)

WHAT THE FUTURE MAY BRING

On average, survey respondents expect commercial market transactions to decrease in the next 12 months. Recovery in the next 12 months will depend on when the shelter-in-place directives are lifted and how many social distancing measures remain. The long-term effect on commercial markets will depend on factors such as the severity of the impact on businesses and changes businesses make to prepare financially for another health crisis.

SNAPSHOT

TRANSACTIONS

43% Percentage of REALTORS® who expect a decline in their commercial transactions

3% Average decline in sales expected in the next 12 months

PRICES

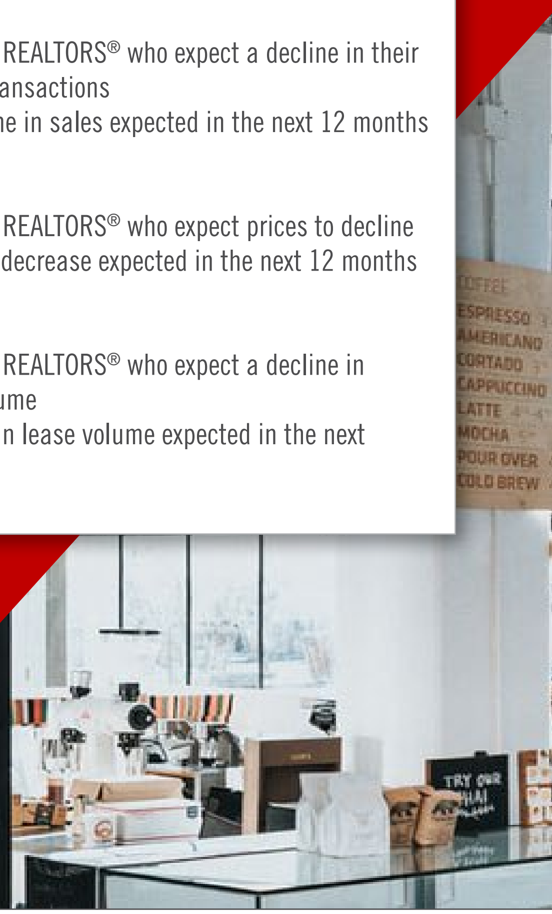
56% Percentage of REALTORS® who expect prices to decline

5% Average price decrease expected in the next 12 months

LEASE VOLUME

46% Percentage of REALTORS® who expect a decline in new lease volume

4% Average drop in lease volume expected in the next 12 months



DEMAND FOR SOME SECTORS STRONG

Two commercial real estate sectors will see strong demand and rent growth: multifamily and industrial. Certainly, the multifamily market is feeling the effects of job loss brought on by COVID-19 precautions, as laid-off workers in industries such as food service, housekeeping, and personal care are more likely to be renters than workers in other occupations.

But renters still need homes, and the large but temporary loss of jobs will slow the plans of some who are trying to put aside money for a down payment on a home. As a result of this factor and changing demographics, demand for multifamily properties, especially class B and C, will likely increase, along with rents, in the next 12 months.

SNAPSHOT

APRIL 19–20 FLASH SURVEY OF MEMBERS

67% of property managers and 37% of individual landlords said they had tenants who would have difficulty making their rent payment as a result of COVID-19. A majority said they'd be accommodating given the circumstances.

66% of respondents reported buyers were delaying a home purchase for a couple of months or had stopped looking as a result of a job loss or concern about job loss.

Source: "2020 NAR Flash Survey: Economic Pulse," a weekly tracking of the coronavirus's impact on real estate

Like multifamily, industrial property is likely to see increased demand and rents in the next 12 months. Brick-and-mortar retailers were already buffeted by rising ecommerce sales before the coronavirus outbreak. The shift toward online shopping during the stay-at-home period may change consumer buying behavior to favor ecommerce sales. Industrial warehouses that are part of the critical logistics for ecommerce will benefit from this shift.

The demand for data centers will also tend to increase given greater demand for online transactions and data security.

WANING DEMAND FOR RETAIL, OFFICE

By contrast, the market for retail and office properties is likely to soften over the next 12 months.

Retail sales nearly halted during the stay-at-home period as more than 47,000 retailers across the U.S. temporarily shut their doors or reduced store hours and traffic to help slow the spread of the coronavirus. This disruption could lead to a permanent shuttering of stores more severe than in 2019, when 9,350 big retailers closed. Retail operations and foot traffic in retail stores and malls could normalize, but progress could also be sluggish as shoppers avoid crowded, enclosed spaces.

Federal government and Federal Reserve measures to contain the economic fallout and keep businesses afloat will help office properties retain current tenants. However, some businesses may shutter permanently, especially those that haven't had the resources in place to qualify for Paycheck Protection Program loans or Economic Injury Disaster Loans.

Businesses will also likely delay hiring employees because of the uncertainty of a resurgence of the coronavirus before a vaccine is developed. Leases will likely become shorter term, and businesses may opt for smaller office spaces because they don't want to carry the rent burden if another pandemic strikes.

GDP RECOVERY UNCERTAIN

NAR's Chief Economist Lawrence Yun expects second-quarter GDP growth to be the steepest decline in U.S. history—likely more than a 15% contraction on an annualized basis. The recovery in the second half of the year will be critical and will depend on the economy's response to the stimulus measures and the path of virus containment.

HUD'S NEW GUIDANCE ON ASSISTANCE ANIMALS

LATEST UPDATE FOCUSES ON 'REASONABLE ACCOMMODATION' DISTINCTION IN FAIR HOUSING ACT.

By Erin Stackley, NAR senior representative of commercial legislative policy

If you own, manage, or sell residential rental properties, you were probably paying close attention when the U.S. Department of Housing and Urban Development released its long-anticipated guidance on assistance animals—"Assessing a Person's Request to Have an Animal as a Reasonable Accommodation Under the Fair Housing Act"—on Jan. 28. It's the first update to the HUD guidance since 2013. It outlines what information a housing provider can request and consider when deciding whether to grant a tenant "reasonable accommodation" regarding assistance animals.

According to the Fair Housing Act, housing providers must offer reasonable accommodation so that individuals with disabilities can have assistance animals in spite of any pet restrictions the providers might have. Reasonable accommodations are exceptions to "rules, policies, practices or services which may be necessary to afford persons with disabilities an equal opportunity to use and enjoy a dwelling and public and common use areas."

The Fair Housing Act defines assistance animals broadly, including trained and untrained animals that do work, perform tasks, and provide aid and/or therapeutic emotional support to individuals with disabilities. In recent years, industry professionals across the country have voiced concerns about people exploiting this part of the Fair Housing Act by falsely representing their pets as assistance animals.

The new guidance requires that a licensed medical professional have personal knowledge about the individual and the disability. This will likely reduce the number of people who, for example, order a certificate online without ever having seen a doctor for diagnosis or treatment. The guidance also states that if the animal is not a "common household pet"—say, for example, the tenant has a miniature pony—the requestor carries the burden to demonstrate a disability-related therapeutic need for that specific animal or type of animal. Finally, the guidelines confirm that the assistance animal must be needed to address a disability that "substantially limits at least one major life activity or major bodily function." The new guidance cautions housing providers against reassessing accommodations that were granted before the new guidance release.

In its guidance, HUD outlines the types of documentation a housing provider may request from a person seeking an accommodation and confirms that a property owner may charge a tenant for damage caused by an assistance animal or deduct damages from the security deposit. If an animal demonstrates a direct threat to the health and safety of others or to the property, the request may be denied. HUD provides a helpful decision-making flowchart for housing providers to use when making a determination.

With this new guidance, both housing providers and individuals with disabilities should have a clear understanding of their rights and obligations under the Fair Housing Act.

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MORE

HUD media release: https://www.hud.gov/press/press_releases_media_advisories/HUD_No_20_013
HUD fact sheet: https://www.hud.gov/sites/dfiles/PA/documents/AsstAnimalsGuidFS1-24-20.pdf
General info: https://www.hud.gov/program_offices/fair_housing_equal_opp/assistance_animals

GAIN ACCESS TO MULTI-PLATFORM COMMERCIAL PROPERTY LISTINGS

VIEW MORE THAN 450,000 LISTINGS AND 55 MILLION OFF-MARKET PROPERTIES.

By Emily Line, vice president of member experience, RPR®

It has never before seemed realistic to send commercial real estate professionals to one place to view on- and off-market listings and investment analysis tools and data. Creating a national one-stop shop sounded too complicated. However, REALTORS Property Resource (RPR®), working in collaboration with strong partners, has made that scenario a reality for commercial members of the National Association of REALTORS®.

RESOLVING PAIN POINTS

In a survey conducted by RPR, commercial members identified the inability to see the majority of commercial inventory in one place as one of their biggest pain points. In 2019, commercial members evaluated commercial public listing platforms with the goal of picking one as NAR's partner. The assessment found that REALTORS® use varied public listing platforms, and many use more than one platform. The fact is, multiple providers offer value, and investor or tenant interest can come through a variety of reputable commercial real estate brands, including Brevitas, Catylist, and CREXi.

As a result of these findings, RPR committed to work with each provider to make commercial sale and lease opportunities available in one place: RPR. A website with listings from more than one platform gives REALTORS® an exclusive way to search on-market opportunities no matter which listing platforms they prefer or, in some instances, which platforms their clients prefer.

Through NAR's subsequent partnerships with Brevitas and CREXi, REALTORS® can search through RPR for more than 360,000 listings nationwide, including listings represented by REALTORS® and non-REALTORS®. In addition, more than 90,000 listings are searchable nationwide through RPR's agreements with Commercial Information Exchanges (CIEs), Commercial MLSs (CMLSs), MLSs, and *TotalCommercial.com*.

Members of local, state, and regional exchanges choose whether to share listings beyond their subscriber bases. Exchanges representing nearly 100,000 listings (including over 80% from Catylist-powered CIEs/CMLSs) have chosen to expand their market reach through RPR, and many more are considering this option.

Bottom line: As a REALTOR®, you can now tap into connections with more than 450,000 properties being marketed on multiple platforms in one place: RPR. You can also make connections through RPR with the lion's share of U.S. commercial practitioners representing for-sale properties and for-lease space.

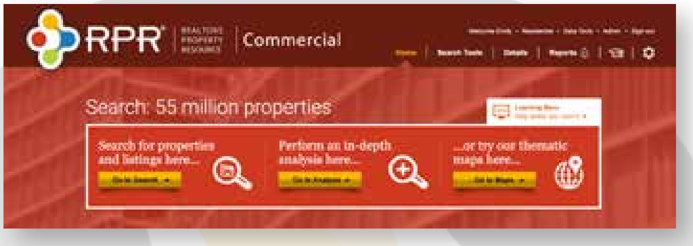
COUNTING THE BENEFITS

That's not all. RPR also gives you access to data on more than 55 million off-market properties—that's most of the commercial properties in the country. You can use that data to uncover opportunities in your market. Find out how much owners paid for their properties, and calculate expected returns based on current market trends and how long the owners have held the properties. Access to that type of information can prompt discussions about opportunities for owners and investors and spur community growth.

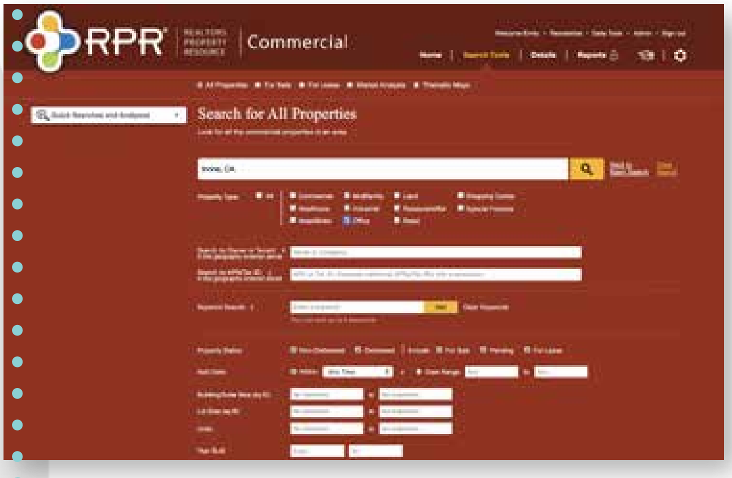
With more than 55 million commercial properties in the U.S. and a few hundred thousand of those listed publicly at any given time—all accessible through RPR—you're positioned to access significant property intelligence. Whatever your clients' commercial real estate needs, you can meet those needs through a closed network of listing brokers and property owners. And you can save significant dollars on data, because RPR is a free benefit, exclusively for REALTORS®.

Experience RPR commercial listings for yourself at *https://www.narrpr.com*.

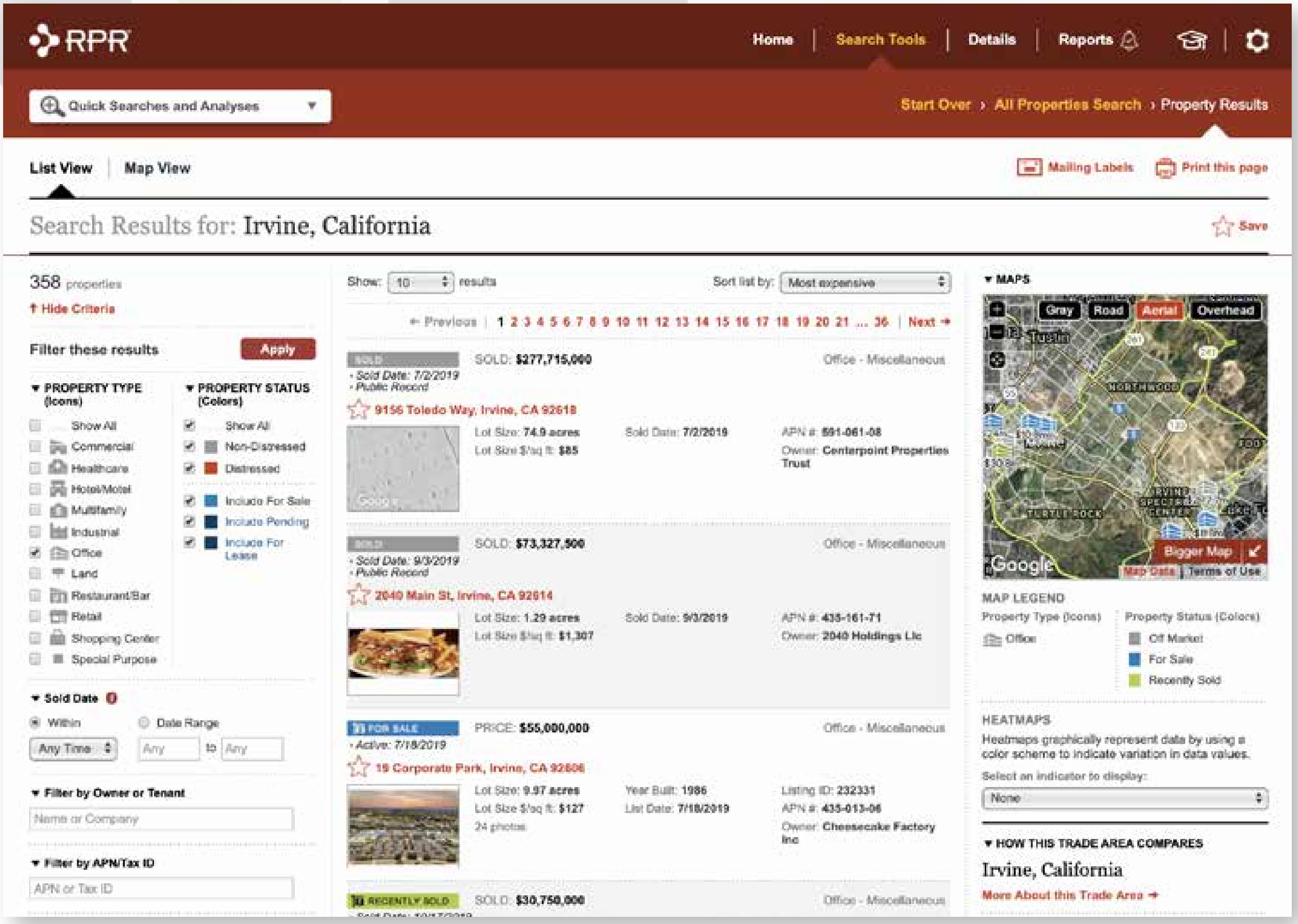
1. ENTER THE SITE



2. ENTER THE AREA AND CLIENT CRITERIA TO SEARCH



3. REVIEW THE PROPERTIES



THE LAST WORD

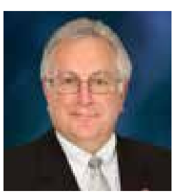
HOW COMMERCIAL PROS ARE NAVIGATING CORONAVIRUS

Commercial real estate professionals are simultaneously adjusting to extreme changes wrought by the coronavirus and guiding their clients into the future.

Four professionals representing various commercial sectors shared their insights during a "Next Up: Insights for Commercial Executives" webinar conducted April 15 by the National Association of REALTORS®.

MEET THE PANELISTS

Mark Duclos, CRE, SIOR, president of Sentry Commercial, Hartford, Conn., and 2020 president of the Society of Industrial and Office REALTORS®



Mike Schoonover, ALC, principal managing broker of John L. Scott Inc. Real Estate, Federal Way, Wash., and 2020 chair of NAR's Commercial Committee

Cynthia Shelton, CCIM, CRE, managing director of investments and capital markets at LandQwest Commercial, Orlando, Fla.

Chip Watts, CCIM, CPM, president of Watts Realty Co. Inc., Birmingham, Ala., and 2020 president of the Institute of Real Estate Management

WHAT'S HAPPENING WITH LANDLORDS, TENANTS, AND LENDERS?

Cynthia Shelton: Tenants are asking to move rent to the back end of the lease or for three or four months of free rent. Many lenders are offering forbearance. They'll do interest-only or free months, but they want details. Landlords can send a form to tenants asking for additional information to present to their lender *(see "Assessing Tenant Need," page 23)*. I would advise landlords and their representatives to communicate, communicate, communicate with tenants, lenders, and attorneys sending default letters.

Chip Watts: Property managers are caught between owners who have mortgages that have to be paid and tenants who are trying to not pay rent or wanting a rent abatement or deferral. We're trying to find a good in-between spot. One of our clients owns and is a majority tenant in a medical office building that's shut down because elective surgeries can't be performed. He asked his mortgage company for forbearance, but they've said absolutely not. So we'll go to the guarantor. We also have mom-and-pops trying to stay in business. Some have paid rent because they know they're on the hook, while others have walked away. It depends on what clients have on their mortgages.

Mark Duclos: I'm on the occupier side of industrial, so we have less of a relationship with lenders. Our clients who are owners are getting relief when they need it from their lenders, and a lot depends on what type of lender you have. Most of our clients' success is coming from local or regional lenders where they have long-term relationships and where the local lender has the flexibility to give relief. Success with larger banks, life companies, CMBS loans, and so on appears to be less consistent and more complex, either because of the size of the institution and lack of relationship with decision makers or the structure of the debt.

We see significant winners and losers. For instance, an aerospace company is in a weaker position on the commercial side of the business than the military side. E-commerce projects are going forward. Certain tenants are doing great while others are truly in pain. Astute landlords know their tenants and tenant situations and work with them one-on-one.

WHAT CLIENT CONCERNS AND POTENTIAL CHANGES ARE YOU SEEING?

Mike Schoonover: Our big worries are what's going to happen to property values. Good quality agricultural land is holding value, and people are making offers on it. But what will the value be if our farmers lose their crops? Most of this land is financed, and farmers pay their mortgage or money owed annually after the harvest.

We have a lot of commercial properties that are on land leases and pay annually. A client with convenience stores on land leases is making annual payments but now isn't making as much money as before. Most of the leases come due in the fall, meaning we're looking at six months to a year from now compared to those facing the 30- to 60-day market. So, it's a longer-term unknown.

Mark Duclos: In industrial, we're working on active market studies, site studies, for clients looking at growth opportunities in food production and freezer-cooler space. There's a huge demand for freezer-cooler space: 75 million to 100 million square feet is projected in the next five years because of the change in buyer habits.

Clients are asking, "When we open our doors. What will my facility look like? Do I need to change my office space or manufacturing space? What about social distancing? How will lunchrooms and conference rooms need to change?"

Chip Watts: We have long- and short-term leases in place. Several well-known economists have said if we stay with social distancing and shelter in place through the end of May, 30% of small businesses could close. On the property management side, 70% of our deals are with mom-and-pop businesses. Because of that, we may see some shorter-term leases.

WHAT ARE CLIENTS WITH CAPITAL OR ACCESS TO LOANS LOOKING FOR?

Cynthia Shelton: Solid, long-term investments that will pay a 6% to 7% return. They're getting cash from lines of credit, banks they've dealt with for years, or family. They're putting together pools of money from family and using that as their equity piece or sometimes the whole piece and hoping to change that as the market shifts.

WHAT OTHER CHANGES DO YOU EXPECT, AND WHAT ADVICE ARE YOU GIVING?

Chip Watts: Common-area maintenance and supply line costs will increase, so we're letting landlords know to budget more for those areas and talking about whether we can pass the increase through to tenants.

Mike Schoonover: Our advice is to stay conservative. Again, land has the advantage of being longer term. We're looking at a seven- to eight-year timeline before the building is up and running, so our investors are looking at where they will be in three, five, or seven years.

Cynthia Shelton: I'd advise colleagues to use the National Association of REALTORS® and affiliates to get up to speed on adaptive reuse, particularly in the retail sector. Restaurant and ancillary business closures will continue and will be hard on retail. Restaurants will also have to revamp because of social distancing. Should food prices increase to compensate for that?

Mark Duclos: There are big questions to answer. What will employee flow look like in the manufacturing facility? Will people be separated more? Right now, if a worker at a cramped plant has coronavirus, the entire plant may have to be shut down, but in a spacious plant, only an area might need to be closed. Companies that operate in a city might decide they want to move to the suburbs. In making those decisions, construction, property management, design, and architecture will all come into play.

Stay on top of COVID-19-related developments and get timely advice from industry leaders at https://www.nar.realtor/coronavirus-guidance-commercial-real-estate.

ASSESSING TENANT NEED

When tenants approach you seeking rent relief, use a rent assessment application to gain information about their situation, including what other assistance they've applied for or received. NAR's "Coronavirus Guidance: Commercial Real Estate" includes a sample form—provided by Sterling CRE Advisors—under the Transaction Guidance tab.

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