FALL 2022

CREATE

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Getting Creative

Brokers find new life for underused spaces.

Matt Ritchie of Alexandria, La.

FALL 2022

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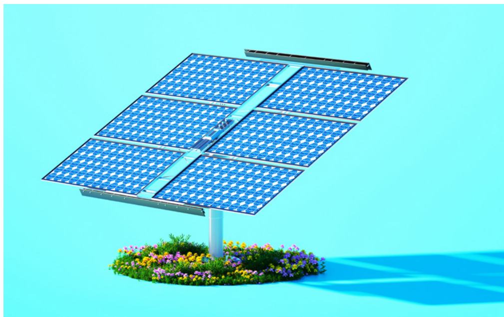
Bring your market savvy to adaptive reuse projects.



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On page 22, we spotlight Colony Square in Atlanta's Midtown neighborhood. Online, learn more about how North American Properties transformed the space from a tired mixed-use development into "Midtown's Living and Dining Room."

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COMMERCIALRE NEWS, TIPS AND TRENDS

Welcome to CREATE

Formerly Commercial Connections, Create is a quarterly magazine for the National Association of REALTORS®' 90,000-plus commercial real estate members. The new design brings the magazine into the REALTOR® Magazine family while retaining its 100% focus on issues of importance to commercial practitioners. The title Create not only subtly suggests "commercial real estate" but also acknowledges the ingenuity commercial pros bring to their work. The Create team welcomes your feedback and story ideas. Reach us at narpubs@nar.realtor.

Employee Retention

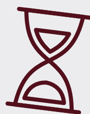
Why Property Management Professionals Want to Leave Their Jobs

Lack of a career path and job drudgery are key factors.

One in four property management employees say they're thinking about leaving their company or the industry, according to a survey conducted by AppFolio, a cloud business management solutions provider for the real estate industry, and the Institute of Real Estate Management. The 2021 quit rate in property management—25%—slightly exceeds the 23% rate for the full real estate, rental and leasing sector, the U.S. Bureau of Labor Statistics found. Why the dissatisfaction? Here are three of the top reasons:

1. **Desire for higher compensation.** The top reason employees are considering switching industries or companies is to find a better-paying position. Salary increases were the top driver of improved job satisfaction.
2. **Lack of career growth opportunities.** Property management employees are discontented with their opportunities for career growth. Only 59% indicated they were satisfied with advancement opportunities.
3. **Too much busywork.** When asked, "What changes has your employer made in the last 12 months that have improved your overall job satisfaction?" 25% of respondents answered, "Improved processes and workflows." Fourteen hours per week are spent on tasks that could be automated or streamlined.

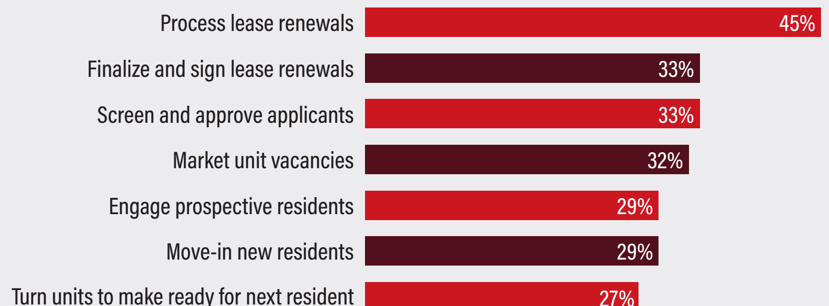
Bottom line: The ability to excite younger generations about a career in property management may depend on the ability to offer career growth and speed smart technology adoption.

40% 

Percentage of time property management professionals say they spend on busywork that could be automated or streamlined.

Tech These

Which marketing and leasing processes would property management pros most like to see automated or streamlined?



SOURCE: APPFOLIO AND INSTITUTE OF REAL ESTATE MANAGEMENT

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Property Management

Countering Fraud in the Apartment Application Process

Four steps can help managers avoid trouble.

Apartment application fraud is on the rise, according to a survey by Snappt, an AI-enabled fraud detection platform. Eighty-five percent of apartment managers report being targeted by fraudsters, compared to 66% before the pandemic. Falsified applications leading to negative outcomes can cost thousands of dollars per door in bad debt and avoidable eviction expenses. Institutional property managers surveyed characterized falsified documentation as a "somewhat or extremely significant challenge." They said staff spend the most screening time verifying bank statements (72%) and pay stubs (67%). Property managers can fight application fraud by following these four steps:

1 If reviewing financial information, request multiple months of pay stubs or bank statements. When applicants aren't able to provide such information, consider asking for other reasonable information that will allow you to protect against potential fraud.

2 Look for inconsistencies between when an employment pay stub was issued and when the deposit reached the applicant's account. Weekends and holidays can shift deposits by one or two days, but this rarely happens in consecutive months.

3 If reviewing employment information, consider calling employers to confirm that applicants work where they claim. Use the number listed on employers' websites.

4 Incentivize your team to carefully review applications by tying future bonuses to a property's on-time rent payment score.

> **"Culture is created in the spaces between work, before and after meetings when you're asking how kids are doing, how parents are doing."**
> *Marko Stankovic, vice president, marketing, Virbela, speaking at C5 Summit*

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Hospitality

Hotels Faring Better With Growth Ahead

Luxury properties are outperforming others.

As pandemic-related cases and restrictions have dropped in 2022, the traveler recovery rate has remained near or above 85%. Both leisure and business travel have contributed to a healthy and sustained rebound in traveler numbers. However, it may be some time before business travel reaches its 2019 levels.

Hotel performance has varied tremendously by asset tier and has been subject to variant concerns. Since mid-2020, luxury properties have remained above their counterparts in terms of revenue per available room, also known as RevPAR. More interestingly, while the lower tier's RevPAR fell sharply in the second half of 2021, upper-tier assets maintained their gains in 2021, with minimal impact on RevPAR.

Occupancy tells a different story, though. While upper-tier properties typically have the highest occupancy rates, they are also the most severely affected by downturns in demand. This is likely because they don't have the margins to lower average daily rates to bolster occupancy.

Moody's Analytics CRE predicts that across all tiers, occupancy is expected to grow steadily through 2022 and into 2023 before leveling off and remaining stable after the recovery growth period. But be sure to watch jobs data. Labor is a crucial component of the conversation around performance in the hotel sector.

Adapted from "Room for Growth," by Ermengarde Jabir, Ph.D., published in the CCIM Institute's CIRE magazine, Spring 2022. Jabir is an economist with Moody's Analytics REIS.

TAKE THIS

COMMERCIALRE NEWS, TIPS AND TRENDS

Forecasting Risk

Measures of Resiliency

Data can help show a property's vulnerabilities to climate.

The trend toward net-zero commitments, and tenants demanding more sustainable buildings, will fuel the need for data that reveals climate-related risks, according to business consultant McKinsey & Company. In fact, some real estate companies are already conducting climate stress tests on their portfolios to gauge whether climate changes will benefit or harm a property's location, carbon footprint or tenant composition and decrease value over time.

Businesses are also watching how populations shift, as more people turn to climate risk data for guidance. Those outcomes could affect the location of properties ranging from a new retail storefront to a same-day fulfillment center to an office complex.

Environmental variables associated with climate change require commercial real estate professionals to model and analyze potential impacts. Using tools including geographic information systems, they can weigh how climate change might affect a particular location or building. In addition, they can research entire markets to learn more about broader vulnerabilities to climate-related events.

Adapted from "The How and Where of Climate Risk," by Gary Sankary, published in the CCIM Institute's CIRE magazine, Spring 2022. Sankary is a retail subject matter expert for Esri, a geographical information systems software company.

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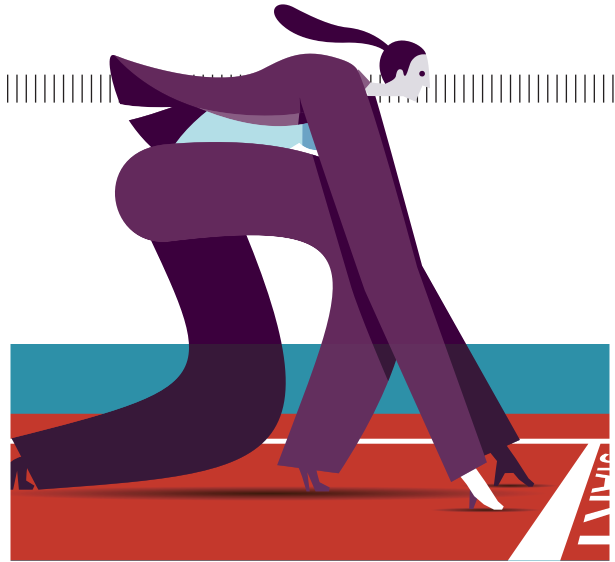

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The Next Generation

Head Start for Young Pros

Russian émigré sets out to change lives.

Commercial real estate is a difficult field to break into. That's why one North Carolina broker is offering a helping hand to young people in his state.

Nikita Zhitov *(pictured left)*, co-founder of CityPlat in Raleigh, N.C., recently announced the launch of a foundation to help high school and college students get on the path to commercial real estate success.

The Nikita Zhitov Foundation for Real Estate Education, a 501(c)(3) nonprofit organization, will award a college scholarship each year to an in-state student studying real estate. In addition, the foundation will subsidize real estate training and licensing for North Carolina high school students.

Zhitov emigrated from Russia with his parents when he was 14. He was introduced to real estate through an independent study program at the North Carolina School of Science and Mathematics and transacted his first deal when he was 18. "Growing up in Siberia, we didn't have the option to study whatever we wanted," Zhitov says. "I was given that opportunity here in America, and I want to provide young people with the opportunity to learn about an industry and a career that can be life-changing."

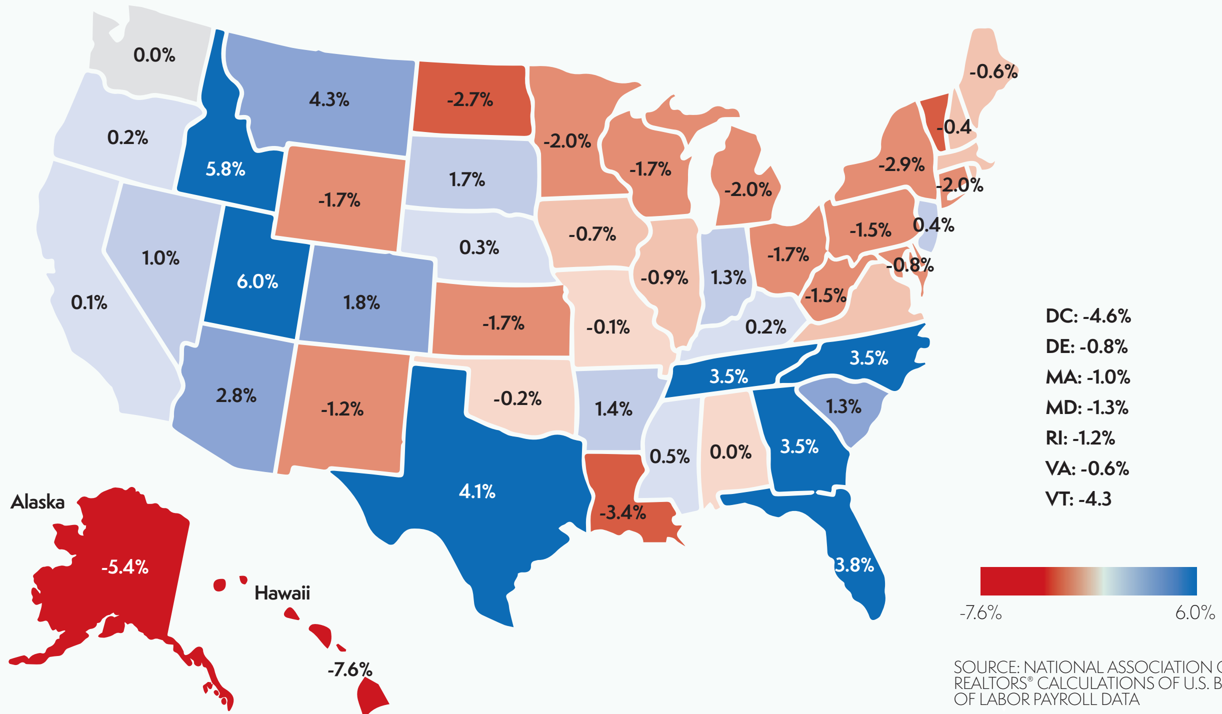
Zhitov has pledged $1 million to the foundation but said that amount may change based on the level of interest and number of applications.

[**"Dubai has $8 billion worth of assets under management in the U.S., and we're looking to double that. We're also bringing investment into Dubai: 18% of foreign investment is from the U.S. and 65% of that is in hospitality."**

Shadi Bteddini, CEO, Century 21 UAE, and international trustee for the Dubai Land Department, speaking at C5 Summit]

Jobs: Now vs. Prepandemic Days (June 2022 vs. March 2020)

The number of W-2 payroll jobs today is almost the same as before COVID-19, but job growth by state varies widely.



SOURCE: NATIONAL ASSOCIATION OF REALTORS® CALCULATIONS OF U.S. BUREAU OF LABOR PAYROLL DATA

Recession Is Here—or Maybe Not?

Strong jobs data complicates narrative that U.S. economy is in a downturn. **BY LYNN ETTINGER**

It isn't every day you hear an economist refer to market conditions as "bizarre." Yet that was how Lawrence Yun, chief economist for the National Association of REALTORS®, described them at the Real Estate Forecast Summit in late July.

Data in late July indicated the country had moved into a mild recession, yet Yun said strong employment numbers were painting a different picture.

"If it is a recession—and we won't know that for 12 to 18 months—it is quite a bizarre recession because we have a labor shortage," Yun said. In addition to analyzing data, Yun likes to get a feel for markets by walking the streets and looking for Help Wanted signs and vacancies. "Help Wanted signs are pretty much everywhere," he said, noting that the ratio of job openings to people who are unemployed is almost 2:1.

COVID-19 Drop Outs

"To be unemployed, one has to be searching for a job," Yun explained. But this time around, many people who don't have jobs aren't looking for them.

"What we find is that in April 2020, essentially 6 million Americans left the labor force," Yun said. "They said, 'I don't want to catch COVID. Therefore, I'm just going to stay home and not participate in the labor force.' " And even though many of those people have gone back to work, as of July there were still 3 million additional people who weren't even looking for work.

One area experiencing a major labor shortage: construction—whether for multifamily, warehouses, or single-family homes. "You can see record-high job openings in the construction sector," Yun said.

State and Regional Variation

Right before COVID-19, slightly more than 150 million Americans had payroll jobs, meaning they received W-2 statements. Jobs declined during the initial shutdown but were added each month afterward, Yun said.

"Now we have almost the same number of W-2 payroll jobs, but we see a huge variation across the country," Yun noted. "If we compare the number of jobs in Texas in June 2022 versus March 2020, immediately before COVID, there are 4.1% more jobs today. But in New York, there are 2.9% fewer jobs. Generally, the Rocky Mountain and Southern states have turned positive, while other places across the country are struggling—almost back to normal but not there yet." ■

Louisiana broker-owner Matt Ritchie, CCIM, breathed new life into this property, which had been unused for 17 years.

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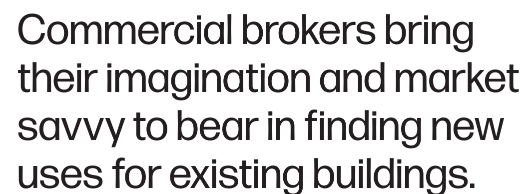
WHAT COULD YOU CREATE?



Commercial brokers bring their imagination and market savvy to bear in finding new uses for existing buildings.

BY CAROL WEINRICH HELSEL

Churches turned into art centers, factories into microbrew pubs, and shopping malls into medical facilities are just a few examples of adaptive reuse, the term used to describe the repurposing and transformation of an existing structure. While adaptive reuse is not new, changing business and social factors are driving renewed interest. These factors include a hybrid workforce, supply chain disruptions, increased interest in green construction and a lack of affordable housing. The result: more opportunities for commercial real estate brokers to think differently about the highest and best use of a property.

©MATT RITCHIE

Trends in Adaptive Reuse

Housing shortages are making conversion to residential use the most popular type of change. Rent Cafe reported that 2021 was the most successful year for apartment conversions, with more than 20,000 units coming online and an additional 52,700 units expected to become available in 2022, many created from former office buildings and hotels. However, opportunities for adaptive reuse projects aren't limited to residential. Existing commercial structures are finding new life as health care facilities, logistics warehouses and mixed-use suburban centers.

"Adaptive reuse projects have evolved to a point where they should be considered an asset class of their own," says K.C. Conway, principal of Red Shoe Economics and chief economist for the CCIM Institute. "A variety of new projects have surfaced in secondary and tertiary markets, where investors see adaptive reuse as a driver of net operating income and yield."

"ADAPTIVE REUSE PROJECTS HAVE EVOLVED TO A POINT WHERE THEY SHOULD BE CONSIDERED AN ASSET CLASS OF THEIR OWN."

Role of the Broker

Listing properties for adaptive reuse requires envisioning the possibilities and selling that vision to a prospective investor or developer. But the broker's role doesn't stop there. Brokers often determine the feasibility of adaptive reuse. For example, they may work with local government officials on zoning and infrastructure issues, secure permits, engage with an economic development group to secure funding, promote the project to the community and more. There are potential pitfalls for brokers who fail to anticipate and plan for these steps or, at the very least, fail to bring together the players responsible for each element of a successful adaptive reuse project.

Meet four commercial brokers who successfully turned underperforming assets (in one case, a gigantic white elephant) into lucrative sales that benefitted their bottom line and the local community.

From Rodeo Arena to Distribution Center

You're not alone if central Louisiana doesn't jump to mind when you think of rodeos. But in the late 1990s, a developer tried to make it happen, pouring $11 million into a 64,000-square-foot indoor rodeo arena. The arena hosted one event, in 2000, before going belly up. Afterward, the venue sat unused for 17 years through four owners until Matt Ritchie, CCIM, president of Ritchie Real Estate, walked in. "I took one look at that clear span metal building with its 45-foot-high ceilings and thought, this is perfect for industrial."

Ritchie's vision was so clear that he and a partner purchased the Boyce, La., building and surrounding 26 acres of land to develop it for leasing as a logistics or distribution center site. "No one was biting, so I pitched other uses," says Ritchie—among them, a hurricane overflow center and a potential pandemic field hospital.

In 2021, Lowe's Home Improvement expressed interest. Ritchie negotiated a long-term lease, agreeing to develop the property for a distribution warehouse within six months. "The building contained only dirt floors and bleachers," says Ritchie. "We donated the bleachers to a local school and

brought in tons of dirt to raise the floor to accommodate truck docks. Trucks also meant upgrading the off-highway roads to heavy-haul standards."

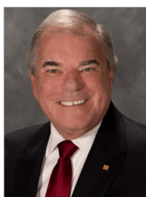
As part of an upgrade to the water supply system, a 50,000-gallon tank was added to the existing water supply, requiring a larger pump. "It came down to the wire," says Ritchie. The pump was sitting in a Georgia port awaiting transport. With just three days left before Lowe's was to take possession, Ritchie sent someone to pick it up rather than risk missing the deadline. "This project took two years off my life," says Ritchie, "but we got it done—working seven days a week for six months."

Despite strong local support for the project and extensive lobbying, Ritchie was unable to secure funding from the state's economic development agency. "We could have used that money, as the project came in about 30% higher than I'd priced it," says Ritchie. "I view it as a loss leader. Lowe's took the building and six acres. We still have land and the heavy-haul road to support other trucking operations, and I've already had one inquiry."

Reflecting on the project, Ritchie says he should have hired a broker to negotiate on his behalf. "Self-representation saves you on the front end but could cost dearly on the back end of the deal," he says. "In this instance, I believe I negotiated the best available deal, but I will never know." He recommends involving a business or real estate attorney at every step. "Many small brokers don't want that expense, but in the grand scheme, it's worth it." He also recommends including escalation clauses in the contract. "In this environment of inflation, supply chain and labor shortage issues, I would never agree to a lease rate without escalation clauses if the cost of construction increases."

Next up: In December, Ritchie expects to start leasing up an 88-unit facility that he and a partner converted from a motel to a senior residential facility. Not every hotel-to-residential conversion works, he says, but the property was in a unique location—close to a hospital and restaurants, and perfect for the 55-and-over crowd.

Workforce Housing Shortage Drives Florida Hotel Conversions



Robin Webb

And senior housing isn't the only option for hotel conversions.

Despite a thriving hotel market in Osceola County, Fla., hotel specialist Robin Webb, CCIM, CPM, sees growing interest in hotel-to-workforce housing conversion. "Hotel properties have been more affordable than comparable multifamily properties," he says, "although that may change as the hospitality market strengthens. Investors are eyeing underperforming hotels, especially in areas better suited to residential housing, to address Orlando's 18,000-unit shortage."

Tips for Brokering Adaptive Reuse Projects

While each conversion type calls for a unique strategy, keep these general tips in mind:

Assess the market. Is there a need, and can the property be used to fill that need? Keep in mind the highest and best use calculation.

Know information relevant for adaptive use. The total square footage may be less important than where that square footage lies. Physical plant details often outweigh revenue data.

Sharpen your skill set. Conversions often attract large corporate buyers, with corporate attorneys. Being prepared will give you confidence in negotiating a deal.

Expect surprises. If possible, negotiate for the unexpected, such as the cost of construction increases.

Consider public transportation. Residential conversions—especially workforce housing—benefit from nearby public transportation.

Involve the right players. Bring in others to fill expertise gaps when marketing and negotiating for different uses.

©MATT RITCHIE

A former indoor rodeo arena in Boyce, La., proved to be the right site for a Lowe's distribution center. Aside from removing bleachers, laying flooring and adding docks, little new construction was required. The exception: a new 4,000-square-foot administration office (entrance above). Page 10: Like-new truck docks were acquired from a Michigan warehouse where they had been installed but never used, solving supply chain delays and a tight timeframe.

A former Days Inn hotel will provide housing for 120 low-income workers in Osceola County, Fla. The county has a deficit of 323,219 affordable housing units, according to the University of Florida's Shimberg Center for Housing Studies.

Webb, a principal with Commercial America Properties, recently sold a 120-room Days Inn he had marketed as a hotel until multiple converters approached him. "This was an attractive conversion because the property was built originally as a Ramada, so it included a full commercial kitchen, fitness center and pool," says Webb. "Although the property was already zoned for multifamily, we took our plans to the city as a cautionary measure."

According to Webb, most hotel-to-residential conversions require little or no change to the structure or the infrastructure. "Hotels place a much higher demand on infrastructure than family housing," says Webb. The buyer plans to retain all common space and hopes to lease the commercial kitchen to a restaurateur. Under-counter kitchen units will be added to each room, backed up to the tub wall to minimize plumbing work.

Private equity money funded the sale, but Webb believes brokers with the time and interest can identify potential government funding, given the high demand for affordable housing. Such funding can lower the total cost to the developer and can lower barriers, as it might be accompanied by local political support for the development. "This will make the property more attractive," says Webb. "Another selling point is that, in some instances, these conversions are one of the few products for which you can obtain a certificate of occupancy before the project is complete, providing revenue much sooner than most conversions."

Based on the project's success, Webb plans to market one newly listed 200-room hotel property as a workforce housing conversion. While its location is best suited for workforce housing, Webb encourages brokers to consider other residential needs—for example, student housing for hotels near a university.

"HOTEL PROPERTIES HAVE BEEN MORE AFFORDABLE THAN COMPARABLE MULTIFAMILY PROPERTIES, ALTHOUGH THAT MAY CHANGE AS THE HOSPITALITY MARKET STRENGTHENS."

Adaptive Reuse Results in Two Sales

Frank Amodio

Eric Amodio

The father-and-son team of Frank Amodio Sr., CCIM, and Eric Amodio, CCIM, of Amodio & Co. Real Estate in New Britain, Conn., sold a Class A office building twice—initially to an investor for office leasing and then to a developer for conversion to residential. With the already soft office market further softened with the pandemic, the Amodios approached the first owner to propose a conversion to multifamily. "The buyer was not interested in personally doing the conversion but was happy to sell, which is how we got the listing a second time," says Frank Amodio. The response was strong, and the property sold at more than double the prior sale price three years earlier.

The 125,000-square-foot office building was built originally as a multistory industrial building. A previous adaptive reuse project converted it to office space. Thanks to its history as an industrial building, the exist-

Raw flooring and other interior design features will ensure this former Black & Decker headquarters building in New Britain, Conn., adheres to the neighborhood's moniker of "Hardware City" when the building undergoes its second conversion, this time from office to multifamily.

ing floor load capacity was well beyond any residential requirement. The post-1990s conversion to office space took care of most internal structure requirements—elevators, sprinkler systems, asbestos and lead paint abatement, and other safety concerns. However, the property needed rezoning and the state required a traffic study.

"We actively cultivate good working relationships with city planning officials and the mayor," says Eric Amodio. "The buyer engaged a land attorney to assist with approvals and an architect to prepare renderings for public meetings. While everything went through the proper channels, we believe our preparation and relationship with city officials expedited the approvals."

The Amodios' biggest takeaway from the project was that even though the property was valued significantly higher for multifamily, securing the approvals before taking it to market would have driven interest and further increased its value.

Grow Your Business Through Adaptive Reuse Strategies

Given the potential time and cost savings, savvy investors will continue to be drawn to adaptive reuse versus new construction. Governments reward the green construction aspect of adaptive reuse with tax incentives, and communities welcome opportunities to reinvigorate or transform neighborhoods by repurposing at-risk structures. Commercial real estate brokers who think creatively about adaptive reuse possibilities and help lay the groundwork for a smooth conversion will benefit from this popular building trend. ■

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REACHING CLEAN ENERGY GOALS

State incentives are spurring sustainability improvements in commercial real estate. New Jersey offers a model program.

BY DAN O'BRIEN

With technology and market conditions rapidly shifting, local and state governments are looking for new ways to meet energy goals and create incentives to spur more renewable energy deployments. California, for example, is adjusting its net metering program to increase the number of energy storage projects in the state and looking to implement a community solar program that would allow greater access to clean energy for state residents. Maryland recently passed several bills that will take the state's community solar initiative from a pilot program to an ongoing program.

As more states implement or improve programs for renewable energy, REITs and private real estate owners should pay close attention. They can reach their own sustainability goals and maximize their return on investment by understanding the new landscape for solar renewable energy incentives and preparing their facilities for solar success.

Garden State's Solar Evolution

Let's consider one state's program. New Jersey is a national leader in installed solar capacity, an accomplishment made possible by aggressive renewable energy targets and early and strong incentive programs. Last November, New Jersey Governor Phil Murphy signed into law Bill A3352, which requires all warehouses of 100,000 square feet or more built on or after July 1, 2022, to be constructed solar-ready. The law, passed as part of a state goal of installing 17 gigawatts of solar power by 2035, will make it easier to engineer, develop and build solar systems and accelerate project timelines.

The warehouse legislation came less than five months after the New Jersey Board of Public Utilities—the state governing body overseeing regulated utilities such as electricity, water and natural gas—approved Successor Solar Incentive, or SuSI, a program aiming to support the development of 3,750 megawatts of new solar generation by 2026, doubling New Jersey's solar capacity and generating approximately 10% of the state's total electricity needs.

SuSI signaled the end of the transition period following New Jersey's Solar Renewable Energy Certificate program. Under SREC, renewable energy credits were purchased on an open market by utilities, which increased values in the short term but created uncertainties around long-term value. After SREC, the state developed Transition Renewable Energy Certificates, a short-term, intermediary program for those going solar between 2020 and 2021.

SuSI takes a hybrid approach, with two subprograms designed to uplift the solar market in the long term and provide tailored incentives for a variety of project types.

The first is the Administratively Determined Incentive. ADI is a 15-year, fixed-price incentive for net-metered solar projects less than or equal to 5 MW and all community solar projects. ADI is applicable to most commercial real estate projects, with pricing that varies based on each project's type and size. As with most incentive programs, the owner of the solar system registers the project in the program's portal, where the system's kilowatt-hour generation is tracked. The project owner is then paid an incentive each month by the program's

BUILDING OWNERS CAN AVOID SHOULDERING THE BURDEN OF THESE INCREASING COSTS BY STRUCTURING LEASES TO HAVE A DIRECT POWER PURCHASE AGREEMENT, WITH A SOLAR PROJECT DEVELOPER OWNING THE ASSETS.

administrator, based on the project's energy generation. The incentive or credit value for individual investors or REITs looking at warehouses would be about $90 per megawatt-hour, which is earmarked for large, nonresidential rooftop, carport, canopy and floating solar systems that are net-metered. Unlike TREC, in which the certificates have a 15-year fixed value, SuSI incentive amounts will be reviewed and reset every three years to better regulate the market and ensure projects are being properly incentivized under the current market circumstances.

The second subprogram is known as the Competitive Solar Incentive. CSI is for grid supply projects, those supplying power directly to a utility's grid and net-metered commercial projects larger than 5 MW. Under this program, solar developers bid for incentive dollars in a kind of reverse auction with the lowest requested incentive pricing winning. The program's first competitive solicitation was expected to launch by mid-2022.

Another significant change came last October. The state made community solar a permanent program. Under the pilot program, individual projects were awarded by the public utilities board and required an intensive application. Now, community solar in New Jersey will be subject to a more relaxed stakeholder process and will offer even more opportunity to achieve impactful sustainability metrics, with an additional $20 incentive per renewable credit dedicated to projects that serve low- to moderate-income households.

New Jersey isn't the only state with an SREC program. Pennsylvania has a program, and the state is looking at adjustments that would make SRECs more attractive. Maryland has a program that's similar to New Jersey's, and Washington, D.C., has a very lucrative SREC market. Other states, such as Illinois, Massachusetts and New York, have incentive programs that provide fixed amounts in year one, as opposed to an annual incentive.

Structuring a Clean-Energy Installation for Success

Often, new industrial buildings don't have any spare rooftop capacity. It's important for building owners to get ahead of engineering and design requirements and understand how they impact a solar installation. Ensuring rooftop systems do not violate or terminate existing rooftop structure and manufacturing plan warranties is a vital detail that should not be overlooked.

Additionally, utilities often have limits on how much energy can be connected through each electric meter, which may restrict the size of solar systems. Installing individual tenant meters or increasing the size of the incoming electrical service line to the building can allow for building owners to enhance the potential solar value of their asset. This could provide the opportunity for a single asset to have multiple solar energy systems onsite and allow maximizing the asset's potential size if owners choose to pursue a single solar system.

Typically, solar and other clean energy suppliers enter into agreements to sell the power they generate through

DSD's 1.28 MW solar, 1.3 MWh storage installation at Bishop Ranch business park, San Ramon, Calif.

DSD's 1.3 MW solar installation for LG's New Jersey headquarters.

what's known as a purchase power agreement, commonly known as a PPA. Until now, PPAs in New Jersey have been incredibly inexpensive for energy purchasers because of the fixed nature of renewable energy credits. However, those costs will be rising due to reduced incentive values, increasing equipment and labor costs driven by inflation, and solar panel supply constraints.

In the case of triple-net leases, building owners can avoid shouldering the burden of these increasing costs by structuring leases to have a direct PPA with a solar project developer owning the assets—tenants pay the building owner directly for energy, and the owner pays the solar developer. It's ideal for the building owner to sell energy to the tenant, whether in the lease or a separate bill. This allows the building owner to provide renewable energy to tenants without having to bear the capital expense of the solar assets. At the same time, the building owner benefits from reduced operating expenses or a new revenue stream from leasing the space for the system to the solar developer.

Alternatively, should there be greater value in directly owning the system, a building owner can hire a solar developer to engineer, procure and construct a solar project. The owner can then enter into a PPA with long-term tenants so they can share the benefits.

New Jersey's Community Solar Program allows for a pure lease structure in which the solar developer rents space on the rooftop, parking lot, or available ground and pays the real estate owner annual lease payments. Both tenants and the building owner's common-area meter electrical accounts can then sign up with the community solar project and receive the electricity at a discounted rate.

Building owners and REITs must understand the nuances of the market to capitalize on the incentives. In New Jersey, for example, if developers are unable to build a project within the three-year window in which SuSi is reevaluated and the public utilities board changes the valuations of the program, owners could be left with a project that fails to earn the expected value of the incentives.

Likewise, the Federal Investment Tax Credit and equipment depreciation are critical to project economics. Extensions and adjustments to the ITC are included in the Inflation Reduction Act of 2022, signed by President Joe Biden in August. Guidance from the Treasury on the specifics of the ITC adjustments is expected sometime in 2023. Enlisting a market expert to guide you through the process can help ensure that you or your clients fully understand and utilize the incentives. ■

Dan O'Brien is vice president of commercial origination at DSD Renewables, working with clients to evaluate sites, energy needs, technology and financial solutions in order to deliver solar projects optimized for their needs.

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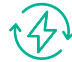
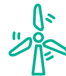
Key Terms

Community solar: large remote solar projects that supply renewable energy to business and residential customers virtually through billing credits.

Megawatts (MW): the power-generating capacity of an energy system (1 gigawatt = 1,000 megawatts; 1 megawatt = 1,000 kilowatts; 1 kilowatt = 1,000 watts).



Megawatt-hours (MWh): the amount of energy that the system produces.



Renewable energy: electricity supplied from energy sources that are continually replenished, such as wind and solar power, geothermal power, hydropower and various forms of biomass.

Renewable energy certificates (or renewable energy credits): Nontangible market-based certificates created for the solar energy generated by a solar system. Generally, 1 megawatt-hour equals one renewable energy credit. The credits can be sold or transferred to count toward sustainability goals. Some state programs have carve-outs for solar energy and thus issue solar renewable energy certificates, or SRECs.

Solar developers: entities that design and install solar systems on behalf of others.

Solar systems: solar panel installations that generate energy for residential and commercial use (not, in this context, planetary bodies revolving around a star!)

For the U.S. Environmental Protection Agency's glossary of clean energy terms, visit epa.gov/green-power-markets/glossary.

What's New in Rent Tech?

Heightened transparency, tenant loyalty and faster, fairer screening are the missions of these tech innovators.

BY STACEY MONCRIEFF

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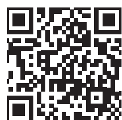
Rental rates are rising strongly just about everywhere. NAR Chief Economist Lawrence Yun in May forecast an average annual rent growth of 4.4% over the next five years. That bodes well for housing providers but presents challenges for tenants who hope to someday save for a home.

Tech startups are devising myriad ways to serve real estate professionals while helping renters navigate the market. Rent tech, a category of proptech focused on the rental housing market, can include lead qualification, listing distribution, lease management—even collecting the rental payments themselves. In July, the National Association of REALTORS® hosted a tech meetup on the topic, featuring three rent-tech founders. Here are highlights of the conversation between moderator Liz Sturrock, RCE, chief of MLS and innovation for the Miami Association of REALTORS® and Rowland Hobbs, CEO and co-founder of Stake; Ishay Grinberg, CEO and founder of Rental Beast; and Sipho Simela, CEO and founder of Matrix Rental Solutions.

Watch it

nar.realtor/renttech



Stake (stake.rent) incentivizes renters by paying them cash back when they take actions like paying their rent on time or renewing their lease. In fact, owners can provide cash back for "anything where you want to change rental behavior," Hobbs said. "We're bringing the power of loyalty into the rental market." The rewards come through the Stake app, where tenants also have access to free banking services. "Folks are feeling the squeeze on affordability. It's happening across all income brackets," Hobbs said. "Being able to give cash back is just the first step. We then surround them with banking services. Every time they swipe their Stake Visa card, they're getting more cash back. Whether they're saving for a home, saving for their next car, or just saving to fix the car, we can help them get there."

The company uses AI to determine how much incentive is needed to drive tenant behavior. "We all may guess how much money it would take to get tenants to change an air filter or replace a lightbulb. What our machine learning does is figure out exactly how much to give," Hobbs said. On average, he says, $1 of incentive gets back $2.11 in value.

Rental Beast (rentalbeast.com) is a database of rental properties. Housing providers list for free on the platform and can use the site's technology to determine pricing, screen applicants, and even determine which improvements will drive additional rental revenue. "We tend to think in terms of bedrooms and bathrooms, but sometimes an in-unit laundry or a dog-washing station will get more interest."

Through hard work and elbow grease, Grinberg said, the company has been able to achieve "70% to 80% penetration in every market we exist in. Our goal is to bring transparency to the market. Whether you're a consumer, an agent, a landlord or an investor, it's always difficult to know what's available and for what price, so we try to consolidate all that data into one place."

Rental Beast data is integrated into some MLSs and association websites, and in July, the National Association of REALTORS® announced a partnership with the company. NAR members now have free access to Apply Now by Rental Beast, the secure Fair Credit Reporting Act–compliant online rental application and tenant screening engine.

Matrix Rental Solutions (mymatrixrent.com) is a tenant application tool focused on the ability to pay. The company's scoring model produces an inclusive tenant score, allowing housing providers and property managers to underwrite and approve tenants in less than 15 minutes. "Rather than look at traditional consumer credit scores, we look at the totality of a person's financial profile, including assets, income, and employment data," Simela said. "We connect to 16,000 banks and 130,000 employers. We make access to good clean asset, income and employment data as quick as hitting a button."

The company's universal digital rental application enables prospective tenants to fill out one application rather than applying to multiple housing providers. That can be a game changer for those who have a limited time to use housing vouchers, Simela said. For the affordable market and for those who aren't W-2 workers, he added, the Matrix scoring system offers a fair shake.

Stake and Matrix are participants in the 2022 REACH Commercial program. Rental Beast is a graduate of REACH Canada (nar-reach.com). Through REACH, tech founders are able to fine-tune and grow their innovative tools with the help of mentorship, education and market exposure. ■

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Too Big a Burden for Housing Providers

There are many actions the government can take to support affordable housing. A so-called "renter's bill of rights" shouldn't be one of them. **BY ERIN STACKLEY**

The recent pandemic presented new challenges for rental housing: lost jobs, eviction moratoriums, hastily created federal relief and aid programs. From Supreme Court arguments overturning the federal eviction moratorium, in which the National Association of REALTORS® played a critical role, to Congressional hearings on the impact of institutional investors on rental housing affordability, everyone from housing provider groups, tenants' rights groups, the U.S. Congress, and every federal agency touching housing, including the White House, has had something to say.

In May 2022 President Joe Biden announced the Housing Supply Action Plan, an ambitious agenda to resolve the U.S. housing shortage. The plan focuses on increasing the supply of housing units available for purchase—emphasizing affordable housing units—and on the impact of inflation and rising rents. Unfortunately, around the same time, the administration resurrected a concerning idea: a campaign proposal, little discussed up until now, to create a federal "renters' bill of rights."

Any rental housing provider, regardless of the size of their operation, will tell you: The industry requires compliance with a complex patchwork of laws and regulations that vary across state, and even county, lines. An additional federal layer of regulations will not increase affordable rental housing units or lower rents, but will raise costs and increase the compliance burden on housing providers, likely driving many smaller ones—who statistically charge less in rent—out of the market, achieving the opposite result of what the administration aims for.

In May, a select group of housing providers was invited by the White House to participate in a listening session and provide feedback on the concept of a federal renters' bill of rights. NAR was one of the participants and highlighted the need to balance the challenges faced by renters with the housing providers' ability to maintain safe properties and sustain their own financial obligations. Renters have multiple layers of protections in place already at the state and local levels, including rules against unreasonable evictions, judicial processes and, in some jurisdictions, rent control or rent stabilization policies that limit how much a housing provider can raise the rent. At the same time, housing providers have a long list of responsibilities toward their residents, including requirements to insure and maintain their properties and protect residents when necessary from other residents whose actions pose a threat. These rights and responsibilities are spelled out in local policies as well as in the lease, which, it should be emphasized, is a legal contract each party enters into willingly and agrees to abide by.

While the federal government entering a policy area traditionally handled by the states will not solve rental housing issues, NAR did come to the White House meeting with solutions for which it has long advocated. NAR pushed to create the Emergency Rental Assistance Program, which provided funds to renters and housing providers who were impacted by the pandemic, and worked with the Treasury Department and other federal agencies to support the program. NAR supports the bipartisan Choice in Affordable Housing Act, which would improve and expand the Section 8 Housing Choice Voucher Program by providing incentives to increase housing provider participation in it. NAR also highlighted the many tools the administration has, including housing and voucher programs, to increase the number of affordable rental units and provide assistance to those who need it. NAR has advocated for additional funding for those programs and removing barriers to participation in them.

NAR's leadership has follow-up discussions planned with the White House on both rental housing issues and developing and implementing the Housing Supply Action Plan. As the leading advocacy voice for real estate, NAR will continue to emphasize the need for long-term, workable solutions that do not impede the rights of housing providers or create unreasonable demands that force them out of the industry entirely.

Stackley is director of commercial and policy oversight for the National Association of REALTORS®.

Stay Alert
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When he helped lead the Dallas Cowboys to three Super Bowl championships, Emmitt Smith wore number 22. So at C5 Summit, the NAR president donned a 22 jersey as she talked football and real estate with the NFL Hall of Famer, now a commercial broker-owner and CCIM designee.

PRESIDENT'S MESSAGE

COMMUNITY PILLARS

In August, I attended NAR's incredible commercial conference, the C5 Summit. One of my priorities, sustainability, was a big topic of conversation. None other than Nadeem Meghji, head of real estate Americas at Blackstone, said his company was putting a huge emphasis on environmental, social and governance goals, calling it "the right thing to do for the planet." There were also great conversations about the market, technology and economic development. The event reminded me just how big NAR's commercial tent is.

As C5 speakers talked about all the ways NAR has advanced commercial real estate interests, from securing infrastructure funding to shutting down detrimental tax proposals, it became clear just how central we are to this profession. We're fighting for you at the national, state and local level, working closely with NAR's commercial affiliates and other commercial real estate organizations. In November, we'll launch a marketing campaign (see right) that highlights the essential role you play in shaping communities and revitalizing the buildings where we all live, work and play. —*Leslie Rouda Smith*

The Leads Are Here

NAR partner Crexi is an open platform for sale and lease property listings.

Whether she's listing a property or representing a tenant, Miami pro Jennifer Forbes, broker-owner of Commercial Teammates Inc., in Coral Gables, Fla., is grateful for the association's partnership with commercial listing platform Crexi. "I can find reliable listings that aren't in the MLS," says Forbes, C2EX, who will be Miami REALTORS® 2023 commercial president. "I no longer have to pay for expensive subscription services."

Brokers can freely add listings to Crexi and can conduct filtered searches on about 500,000 active for sale or for lease properties. The platform also conducts auctions, listing more than $1.6B in value to date. Crexi reaches users with a range of strategies: digital and social media marketing, search engine optimization, advertising, machine learning and analysis of user data.

Through NAR's partnership with Crexi, members get a discount on a pro version with added benefits, such as lead contact information, in-depth reporting and customer support.

Crexi's property database is integrated into REALTORS Property Resource® as well as the Miami REALTORS® MLS, and Crexi is working with other MLSs on integrations, says Paul Cohen, the company's managing director of auctions. "If you have all the players in place," he says, "great things can happen."

www.nar.realtor/commercial/crexi

A new campaign, rolling out in November, demonstrates NAR's deep commitment to serving commercial real estate. Watch for the messaging, "Commercial real estate—and REALTORS®—are essential."

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Institutional Investors Aren't Waiting for ESG Accountability

New survey shows they are driving it.

BY GUNNAR BRANSON

When the pandemic first hit in 2020, many of us hoped that life would soon go back to normal. Then the first year passed, and the second year, and now we're getting closer to the third year. Going back has proven impossible, and only those willing to define and embrace the new normal are finding success in a postpandemic landscape.

As key evidence of this ideological evolution in commercial real estate, look at the growing energy and interest in advancing environmental, social and governance performance and standardization—a conversation that has only grown louder over the past couple of years.

In a recent survey conducted by the Association of Foreign Investors in Real Estate, an international trade association for global institutional investors whose members represent approximately $3 trillion of assets under management, more than 80% of respondents indicated that ESG criteria will play a critical role in real estate decision-making in the next three to five years—more than doubling how respondents rank the importance of these criteria today.

Of course, the real estate industry has long been at the forefront of capturing and understanding the environmental impacts of its business over the past two decades, so this expanding interest in ESG is consistent with industry precedent. But the environmental aspects of ESG are also easier to quantify, while social and governance metrics still lag.

For example, AFIRE survey respondents still rank energy and waste management and green building certification as some of the most important current ESG criteria. Interest in governance comes next, with nearly a quarter of respondents indicating business ethics and regulatory compliance as key aspects of ESG performance.

But looking forward over the next five years, issues such as cybersecurity and overall climate change strategy will becoming increasingly important, with the latter at the front of the pack, claiming a 90% increase in importance over the next few years.

Similarly, few ESG factors are expected to decrease in importance over the next five-year period, with strategies for diversity and talent attraction and development ranking secondary on the list, after environmental factors.

As for the technical factors of ESG compliance, specifically around the planning, monitoring and reporting activities currently being implemented by investors, respondents ranked general corporate sustainability and Global ESG Benchmark for Real Assets reporting at the top of the list. Being a signatory to the Principles for Responsible Investing and planning for net-zero emissions followed, respectively.

While tenant attraction, internal corporate compliance and operational efficiencies rank as some of the top business benefits of ESG, brand reputation management remains the top business benefit of ESG leadership for respondents.

The importance of ESG leadership will continue to grow in the coming years: Almost nine in ten respondents recognize the future financial benefit of taking action now on ESG. Notably, more than half of respondents (55%) agree that they would accept a lower-than-expected rate of return if it meant realizing other social or environmental benefits. Such an opinion before COVID-19 would have amounted to corporate heterodoxy, but now—especially as the world continues to witness the overlapping tragedies of climate change, gross income inequalities and geopolitical strife—it is becoming a necessary and principled stance. ■

Branson is CEO of the Association for International Real Estate Investors, a Washington, D.C.–based organization focused on commercial property in the U.S. As a recognized thought leader in the global commercial real estate sector, Branson speaks on institutional investing, urbanism, sustainability and future trends.

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Colony Square: The Place to Be

Ahead of its time, an Atlanta icon is updated for today's urbanites. **BY JEFFREY STEELE**

Born in the 1970s, Atlanta's Colony Square blended homes, commerce and leisure but couldn't compete with suburbia's appeal. The world caught up to its trailblazing upsides, but the Square was overdue for overhaul.

The original Colony Square offered a groundbreaking mixed-use city within a city, but it was hamstrung by an inward-looking design built around a three-story indoor mall. Reimagining the space called for tearing down the formal and informal barriers that separated the development from the urban vibrancy that defines today's Atlanta, delivering a place of engagement for individuals and enterprises in the Midtown central business district. Developer North American Properties boosted density, increasing office space, unveiling new food and entertainment offerings and opening up previously unused public space. The original design was reversed, with sequestered interior spaces transformed into a lively open-air gathering place.

"At the onset of the project, we focused on filling the experience gap and generating a space where people from all walks of life would feel comfortable converging."

Tim Perry, managing partner, NAP Atlanta

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THE ORIGINAL
More than half a century ago, a young developer named Jim Cushman, center, pushed a stake into the soil at 14th and Peachtree Streets in Midtown Atlanta. "When Atlanta becomes a real city," he announced, "it will happen here."

THE DETAILS

- Covers 7.1 acres
- Completed over four years at a cost of $400 million
- Incorporates almost 1 million square feet of Class A office space, including two new office buildings
- Has 160,000 square feet of best-in-class shopping, dining and entertainment, including a new IPIC movie theater; 40,000 square feet of open-air green space; and 262 upscale residences
- Showcases Atlanta's locally trained culinary talent in a 20,000-square-foot food hall known as Politan Row at Colony Square
- Improved public realm and animated pedestrian experience inspires average dwell time of more than 3.5 hours

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The Future is Here

You can't predict the future, but you can prepare for it. We do. It's what makes us a global industry leader and a strong global partner for you. Stewart Title National Commercial Services will help you navigate the most complex multi-site, multi-state, multi-national deals. We understand your business and what it takes to be successful. As a premier single-source solution, we have the skill, scale and financial strength to deliver certainty in an uncertain world.
Count on our people, our technology and the worldwide reputation only 128 years of experience can earn. We'll be here when you need us. Today, tomorrow and beyond.

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