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NAR

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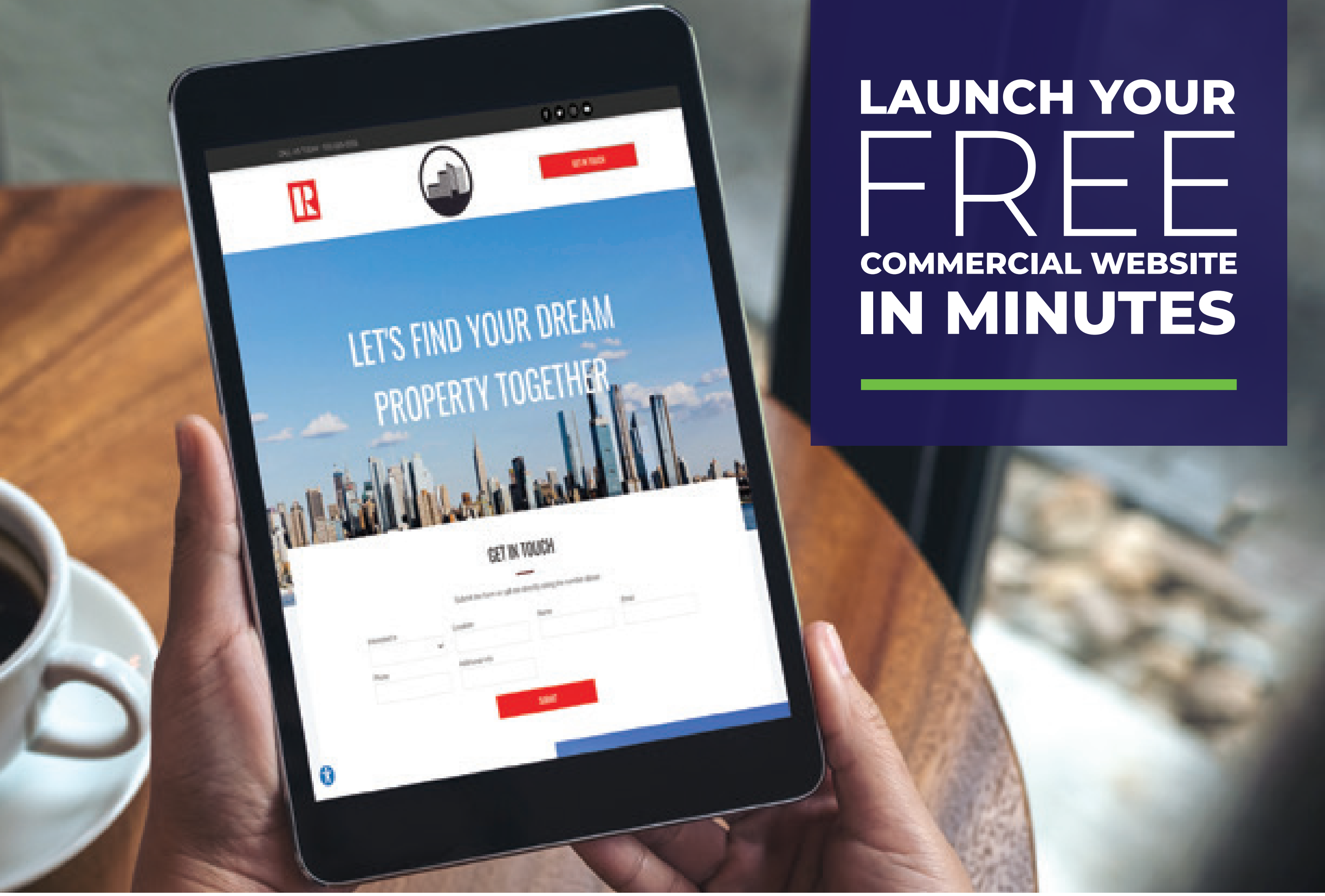

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Leasing

Food Halls Offer Taste of Success

Landlords see faster turnarounds after closure compared with stand-alone restaurants.

145

Number of food halls in development in the U.S., a 45% increase in the coming years. Cushman & Wakefield's Phil Colicchio and Trip Schneck say communal settings and varied cuisines are key to their success.

Food halls—eating destinations that include several small, locally developed restaurants and typically a bar—emerged from the pandemic in relatively good shape. Of the 82 food halls opened since March 2020, only 15 were shuttered, a closure rate of 18%, according to Cushman & Wakefield data compiled for Bisnow. Contrast that with the 20% to 22% closure rate for independent restaurants in their first year, Phil Colicchio, food, beverage, and entertainment expert at Cushman & Wakefield, told Bisnow in January.

The number of food halls now nets at 321 operating across the country, with another 145 under development. Part of the success stems from the business model. Even if food hall vendors close at a similar rate to independent restaurants, the food hall is likely to survive, experts say.

Good deal for landlords

"If you're a landlord and you've just leased 3.5 thousand square feet to a restaurant that doesn't make it, you're two years in the hole. But with a food hall, if a stall doesn't make it, you're able to transition very, very quickly," Colicchio told Bisnow writer Maddy McCarty. With the typical licensing system, the downtime can be counted in hours or days.

In addition, revenue is coming from corporate sources, as businesses book the halls for events at relatively inexpensive prices.

In a typical food hall, vendors rotate periodically, according to Bisnow. But some concepts have stuck. A South American food vendor at ChefScape Kitchen, in Leesburg, Va., has been there four years.

In Minneapolis, a food hall called Eat Street Crossing is scheduled to open with a different take this spring, Bisnow reports. The partners are chefs opening options they intend to be permanent.

Adapted from "Downtime Counted 'In Hours': Food Halls Emerge as the Safe Bet for Restaurant Industry Development," by Maddy McCarty, published by Bisnow (bisnow.com), Jan. 9, 2023.

Challenges Crop Up in Booming Self-Storage Sector

Property managers contend with risk management and other issues.

More than 250 million square feet of storage space has been built in the past five years, according to Yardi's StorageCafe. Demand is still strong because of factors such as the housing shortage, a volatile single-family home market, and businesses needing space for inventory. Despite the positive outlook, self-storage property managers are facing challenges in these four areas:

1 Heat island effect: As governments pass laws related to climate change, they often seek to reduce the heat island effect, a condition where the area around a property becomes hotter than the general atmosphere. Heat islands can increase energy consumption and create environment impact and health problems. But efforts to regulate them create a risk management issue for property managers.

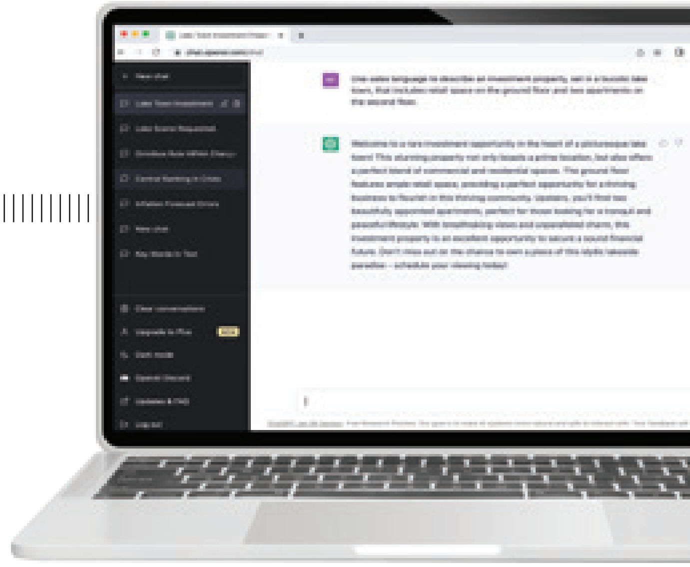
2 Inflation: The costs of electricians, plumbers, roofing, concrete and asphalt have all increased, says Leslie Amaro, a property manager with Pacific Coast Commercial. "We've also seen rising prices on metal roll-up doors, and facilities are facing longer wait times to obtain replacements," she says.

3 Staffing: "We are all experiencing difficulty hiring and retaining quality staff," Amaro says. "We're offering upward of 22% more in employee pay than we did two years ago, which has significantly impacted net profits, and we still struggle to hire."

4 Security: The primary goal of a self-storage property is to keep customers' belongings safe and secure. This is an ongoing concern for self-storage property managers, who are routinely dealing with break-ins. Amaro says her property has experienced some sophisticated break-ins, along with ones resulting from people simply following a customer inside. "Your staff needs to be extremely alert to the activities and people on their properties," she advises.

Adapted from "Space Launch," published in the Institute of Real Estate Management's Journal of Property Management, January/February issue.

"There are now over **50,000** self-storage properties in the U.S.—more than all the Subway, Dollar General and CVS locations combined."



Tech Watch

Unpacking the Promise and Risks of ChatGPT

BY DAVID CONROY

Commercial real estate is buzzing about ChatGPT, an AI-powered chatbot that generates human-sounding responses to text prompts. Here are a few examples of the tool's promise and risks.

THE PROMISE

1. **Efficiency.** ChatGPT can start a draft document you might need as part of a transaction, generate property descriptions and help with customer service aspects of the job.
2. **Low learning curve.** Log in and start typing as if you're texting a person.
3. **Image creation.** Open AI, which built ChatGPT, can create images. That could mean generating renovation previews, listing photo modifications (be sure to disclose), and stock photos.
4. **The right tone.** You can ask ChatGPT to describe something in a certain tone—for example, the voice of a commercial broker or social media influencer—and it will do just that.

THE RISKS

1. **Inaccuracy.** The results of ChatGPT-created text are 80% to 90% accurate; the danger is, it sounds confident even on the inaccurate parts.
2. **Copyright issues.** Cases are in the courts about whether work generated by AI can be copyrighted. If so, who owns that copyright—the person who used the tool or the designer of the tool?
3. **Lowers the bar for quality.** Bots like ChatGPT make it easy to turn out fake, computer-generated content.
4. **More spam.** Spammers will probably use the bot as widely as they do cell phones.

Bottom line: ChatGPT is a cool tool and may jump-start creativity. But your expertise will be needed to verify accuracy.

David Conroy is director of emerging technology for the National Association of REALTORS®.

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"Iowa is a bellwether for small towns attracting industrial development, especially if they have a network available through transportation."

David Wilson, CCIM, vice president of real estate development, Ryan Companies, Cedar Rapids, Iowa

Winning Strategy

Boom Towns

Smaller cities and towns are seeing strong industrial growth.

Many people know Iowa for its cornfields and quadrennial visits by presidential hopefuls. But a $107 million industrial property deal in Cedar Rapids, Iowa, signals that corporations are giving smaller cities a serious look. The facility is a 278,000-square-foot build-to-suit that opened in November 2022 and is home to BAE Systems' Navigation and Sensor Systems business.

"We're seeing a lot of industrial," says David Wilson, CCIM, vice president of real estate development at Ryan Companies, in Cedar Rapids. And Iowa is a bellwether for small towns attracting industrial development, he says, "especially if they have a network available through transportation."

He points to two towns in Iowa that "have just exploded with industrial growth." One is Dyersville, a town of 4,000 people, where "Field of Dreams" was filmed. The other is Peosta, which has 1,900 people. "Both are on Highway 20, and that transportation network, which extends to Chicago and Sioux City, has been critical. Plus, the two towns have invested in industrial parks and created great incentives for tenants to locate there," he adds.

Wilson, a key player in the project, attributes his company's winning the project to several factors, including:

- **Company strength and location:** The company has experience with projects of this size and nature and offices in both Cedar Rapids and Des Moines.
- **Labor pool:** "Iowa has the highest concentration of agricultural engineers of any state," Wilson says. It's also home to three state colleges and many trade schools.
- **Export and transport capabilities:** "Our exporting is very strong because of our advanced manufacturing and ability to ship by water, rail, air and highway," he says.

Adapted from the Commercial Investment Real Estate podcast episode "The Potential for Big Deals in Smaller Markets."

Awards

Miami Honors NAR Staff

Johnny Noon, NAR director of engagement, commercial, and Emily Line, vice president of member experience for Realtors Property Resource®, were among the honorees at the Miami REALTORS® 2023 Inaugural & Awards celebration in February. From left are James Kohnstamm, EVP of economic development, Miami-Dade Beacon Council; Michael Hinton, Miami REALTORS® 2022 commercial president; Noon; David Coddington, SVP of business development, Greater Fort Lauderdale Alliance; Jennifer Forbes, Miami REALTORS® 2023 commercial president; and Line.

COVID'S IMPRINT ON WOMEN

The pandemic created problems for women in all walks of life, including commercial real estate—yet it also presented opportunities for flexibility and culture change. Female members of the Society of Industrial and Office REALTORS® recently shared their take on the pandemic's impact:

Laurie Tylenda, SIOR, associate broker with CBRE in Albany, N.Y.: *"The workplace in general became that much more flexible. The increased flexibility will continue to be a plus for every woman. As men do more caregiving or assisting with the home, they have asked for more flexibility in the workplace—which trickles across to all [industry professionals] and accrues benefits to women."*

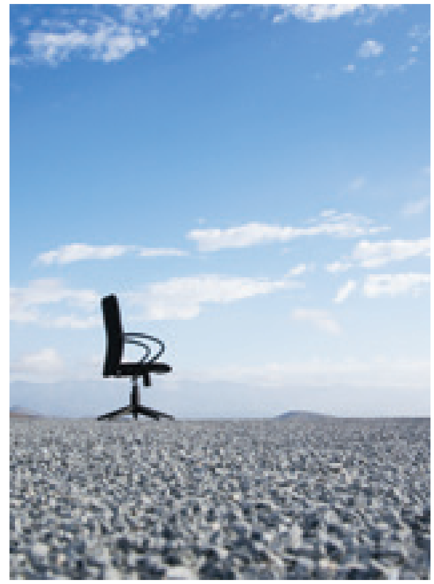
Kristi Svec Simmons, SIOR, first vice president at CBRE in Austin, Texas: *"While I love being in the CBRE office, I welcome the opportunity to take a few hours during the week at home to really focus on a lease/presentation."*

Casey Flannery, SIOR member associate, senior associate with Foundry Commercial in Nashville, Tenn.: *"People have been able to reevaluate how they work and who they work with, and what their future work looks like. I'm moving from the office sector in Memphis to industrial in Nashville."*

These professionals were responding to a survey about COVID-19's impact on women in commercial real estate conducted in 2021 by Commercial Real Estate Women Network. Among the findings:

- **54%** said they missed out on deals in 2020.
- **23%** said their compensation decreased.
- **38%** believe the pandemic stalled progress for women.
- **50%** said their career priorities had changed.
- **74%** said their personal priorities had changed.

Adapted from "CRE and Women in the Workplace," by Steve Lewis and published in the winter 2022 issue of SIOR Report. Lewis is president of Wordman Inc. SIOR supports CREW Network's advancement of women in the industry.



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The Office

An NAR analysis of CoStar data shows nearly two thirds of the top 200 metro areas by population have seen office vacancy rates increase since 2019. But smaller markets continue to outperform the country. The best-performing markets in 2022 were Tuscaloosa, Ala., Laredo, Texas, and Huntington, W. Va., all with office vacancy rates below 2%.

nar.realtor/economists-outlook

3%

Percentage point increase in U.S. office vacancies since 2019 due to the effects of the pandemic, remote and hybrid work, layoffs, and higher interest rates.

Home Bou

Reshoring manufacturing jobs brings new opportunities, but also challenges, for industrial specialists.

Carol Weinrich Helsel

More than half of American CEOs (55%) whose companies rely on manufacturing to produce and deliver their products recently reported plans to reshore some operations. Of those, 95% said they would do so in 2023, according to the survey conducted by Xometry, Zogby and *Forbes* in late December.

While not all those CEOs are looking to move operations to the United States, interest in bringing manufacturing closer to home has been growing, driving demand (and prices) for industrial space and creating new opportunities for commercial real estate brokers.

Identifying available land to build on or facilities suitable for retrofitting is just one challenge faced by manufacturers. This article explores reshoring trends and barriers, and offers insights from commercial real estate practitioners taking advantage of the growing business opportunity.

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Reshoring drivers

Pandemic-driven supply chain disruptions put U.S. reshoring in the headlines, but it's a trend that had been building for quite some time. Rising labor rates in China and elsewhere have negated the primary benefit of offshoring. Beginning in 2017, Trump administration policies that resulted in tariffs on Chinese imports, the renegotiation of NAFTA, and a reduction in the corporate tax rate prompted many U.S. manufacturers to consider bringing back some or all of their offshored operations. E-commerce remains strong, keeping pressure on global supply chains. Add to this rising geopolitical tensions, and it's clear U.S. manufacturers have plenty of reasons to move manufacturing closer to their customers.


Rosemary Coates

Still, reshoring is a long-term decision. Rosemary Coates, executive director of the Reshoring Institute, reports that industries across the board are rethinking their manufacturing strategies. "The decision-making process around location has changed," says Coates. "It used to be all about where it was cheapest to operate. Now, it's more strategic. Many want at least some part of their operation in the U.S. or closer to home." *(See "Nearshoring to Mexico," page 11.)*

Evolving market niche


Peter Billmeyer

"We're still in the early stages of reshoring," says Peter Billmeyer, SIOR, co-founder and CEO of Bespoke Commercial Real Estate in Chicago. "It's going to be six to eight quarters before we'll see where this is going." Most experts anticipate that reshoring will continue slowly over the next decade, given that production and supply chain systems do not change overnight.


Conrad Madsen III

In the Dallas–Fort Worth market, Conrad Madsen III, SIOR, co-founder and partner of Paladin Partners, reports a dramatic shift over the last several years. Over more than 20 years in the business, he has observed that most of the largest deals in the market were distribution in nature. "Today, eight out of 10 of the largest deals are manufacturing in nature," says Madsen. "Moving back manufacturing to the states is happening on a massive scale."

There is no universal set of norms for reshoring. "It's all across the board," says Madsen. "What is mostly coming back to the states are the more expensive goods. Much of the inexpensive manufacturing heads to Mexico, where the labor costs are significantly lower than in the U.S."


William Holly

William Holly, president of Patton Real Estate in Miami, agrees. "Higher tech and higher skill reshoring represent more value," says Holly. "It's a cost-benefit analysis, but there are groups that value timing over cost. Given the backlog in the supply chain, time is more valuable, and clients will pay more to have it faster."

A Range of Critical Factors

Commercial brokers need to understand the complexity of reshoring to position themselves effectively as a resource. "There are many more attributes to be analyzed," says Madsen. "Many brokers focus exclusively on lease rates, but water and electricity costs could be three or four times the rent amount." Madsen notes that while domestic clients look at these factors, the reshoring client also considers moving costs and the investment timeline to break even. "It's a much more complex analysis," he says.

Labor is another critical factor in the analysis. "You have to know intimately what the client envisions as the profile of their workforce—e.g., high school or a higher degree—and look for a location that can deliver that labor pool," advises Billmeyer.

Madsen moved a client's 600,000-square-foot manufacturing facility from one Dallas–Fort Worth location to another to be closer to a better-skilled labor source. "While moving was expensive, they signed a 10-year lease and took advantage of incentives from the local township," Madsen says.

Engage with economic development boards

Economic incentives are frequently at the center of reshoring decisions. "Some companies that contact us for reshoring assistance have already decided on a location, while others are open to anywhere in the country," says Coates. "We identify potential locations based on requirements and then visit the top two or three to meet with economic development boards. We ask for recommendations for commercial real estate developers and brokers, who are key to the selection process."

Local communities are latching onto reshoring opportunities, and brokers are directly involved. "EDBs love manufacturing because it means a significant number of jobs and will offer incentives—including, if possible, deals on electrical and water, which can be a huge factor," says Madsen. "There are so many levers they can pull, and we will leverage multiple communities to compete against one another to create the most advantageous deal for our clients."


Laura DiBella

"There are no blanket incentives," says Laura DiBella, deputy secretary of commerce for Enterprise Florida, a public-private partnership of state business and government leaders. The value of each opportunity is based on targeted industries, wages, the company's current location, and other

metrics. DiBella advises commercial brokers interested in reshoring to keep abreast of shifts in the trade lanes to capitalize on newly created opportunities. The Reshoring Institute is one source of market information, as are some global logistics consultants.

Holly maintains close ties to Enterprise Florida. "Sometimes, a reshoring company will already have a broker relationship. Don't expect a trade group just to hand you a deal," Holly says. "You need to establish a relationship and provide value. Find how you can be a resource to them, and be prepared to take the long view—especially with global transactions."

Build-to-suit versus retrofitting


John Steinbauer

As industries compete for industrial space, the high cost and lack of ready-to-build land make older existing facilities more attractive. John Steinbauer, SIOR, president of Steinbauer Associates in Miami, reports that "older facilities are being occupied very rapidly, with prices doubling over the past five years." Madsen sees a future where big-box retail and shopping malls are retrofitted for manufacturing. "It's all about location and access to labor, which some vacant big-box sites offer. The key is getting the city to rezone these sites for industrial users," says Madsen.

"It always comes down to math," Billmeyer says. "Retrofitting is expensive, but some out-of-the-box solutions are presenting themselves. For example, an old Sears with existing mechanicals might win in a cost-benefit analysis over building new, which is even more expensive." Billmeyer notes, however, that manufacturing may require a different footprint or have unique needs associated with loading docks.

Signs of industrial market moderation

While industrial vacancy rates remain low in most areas, there are signs the market is moderating. Cushman & Wakefield reports the under-construction industrial pipeline fell below 700 million square feet in the fourth quarter of 2022, and the average industrial asking rental rate climbed only 1% from the third quarter, a fraction of the 18.6% year-over-year increase. Similarly, asking rents for warehouse and distribution facilities rose 21.6% annually but only 0.6% in the fourth quarter.

Steinbauer sees the moderation in the South Florida market. "Although the industrial market is very good, there is some subleasing where companies are downsizing due to economic uncertainty," says Steinbauer. "There's a feeling of instability, and companies looking to reshore overseas operations are hitting pause to see what happens with interest rates."

Nearshoring to Mexico

Many U.S. companies looking to reshore ultimately opt to *nearshore*, often to Mexico, or to *friendshore*, limiting supply chain networks to friendly countries with like trade policies. Madsen has seen a 300% increase in interest in Mexico's industrial facilities year over year. "There is a less than 1% vacancy along the border region, and they can't build fast enough," he says. "U.S. commercial brokers in border regions typically work on both sides, but brokers anywhere in the country can benefit from existing brokerage relationships and identify someone locally or regionally to help you with market data."

Coates confirms the nearshoring trend, especially among companies pursuing a segmented strategy—bringing part of their operation back into the U.S. while nearshoring other parts in Mexico. Land use regulations in the U.S. cause some companies to nearshore. "Available land for build-to-suit often requires significant improvements due to regulations," says DiBella, who previously worked as a commercial broker. She encourages commercial brokers to advocate eliminating unnecessary red tape that deters companies from coming back into the country.

"The next best thing to reshoring is to be nearby or in a country that has a strong trade relationship with the U.S.," says Holly. "Brokers who want to provide full support to reshoring clients need to be informed about nearshoring and friendshoring."

Still, projections for reshoring remain strong as the government works to increase U.S.-based production of essential manufacturing components such as semiconductors. Also, as automation becomes less expensive, it offsets labor costs and puts the U.S. on a more level playing field with competing markets.

Commercial brokers who understand the complexities of reshoring and can cultivate relationships with others in the reshoring ecosystem stand to benefit. In addition to economic development agencies, explore opportunities to connect with the global market through foreign consulates, trade offices, world trade centers, and international property shows. "You don't have to travel abroad to leverage these opportunities," says DiBella, "but you need to be versed in what is coming next." Holly can attest to that. "Everyone understands global supply chain issues. It's a complete change from a decade ago, and the reshoring and nearshoring trend is just getting started."

Carol Weinrich Helsel is a freelance writer and owner of Pastiche Communications.

Forging New Paths

BY DAVID A. GOLDBERG

Removal of defunct highway stretches reconnects communities and creates redevelopment opportunities. A federal pilot program is helping communities take the first steps.

Beginning in the late 1950s and throughout the 1960s, a generously funded federal highway program carved large swaths through countless neighborhoods and cities across the country. In Rochester, N.Y., an extension of the national highway system known as the Inner Loop displaced hundreds of homes and businesses as it encircled the city's downtown. In New Orleans, an oak-lined boulevard gave way to the Claiborne Expressway, an elevated freeway offshoot of I-10. In Seattle, one freeway cleaved the city in two as an elevated companion along Elliot Bay cut off the city's downtown from its stunning waterfront.

Similar stories played out in Dallas, Atlanta, Baltimore and dozens of other American cities as states fulfilled the mandate of the Interstate Highway Act of 1956. While the freeways connected core cities to emerging suburbs and to other cities, their urban manifestation split neighborhoods while displacing over a million residents and businesses—largely, but not always, in low-income areas—and left depressed property values and underproductive land in their wake.

In 2021—65 years after the Interstate act—the federal government created a program with the intention of helping cities, their residents, and business communities repair some of the damage from divisive infrastructure. Included in the 2021 Infrastructure Investment and Jobs Act, the Reconnecting Communities program provides $1 billion over five years for communities to explore whether and how to remove or restructure underused, outdated or decaying highway segments and thereby allow for surrounding neighborhoods to revive and redevelop. The U.S. Department of Transportation website calls it "the first-ever Federal program dedicated to reconnecting communities that were previously cut off from economic opportunities by transportation infrastructure." Grants under the program can go to local governments and community- or business-led organizations for planning and design work, or to transportation agencies for capital improvements. Plans that become ripe for action down the road could be eligible for construction funding from several other pots of federal transportation dollars.

When USDOT began accepting applications in September 2021, "it was as though the flood gates opened," says Ben Crowther, advocacy manager at America Walks, a national nonprofit that is tracking response to the program. "I attended one DOT informational webinar that had about 5,000 participants."

Applying cities are as diverse as they are far-flung. A sampling: In Dallas, a business-led coalition is looking to replace a decaying 1.4-mile stretch of elevated freeway with boulevards, "transforming the surrounding 245 acres [of] empty parking lots and undeveloped land into a mixed-income, mixed-use neighborhood that will generate jobs, create affordable housing, and improve the quality of life." The city of Buffalo, N.Y., put in for a planning grant to fill the trench created by the Kensington Expressway and restore a historic parkway designed by Frederick Law Olmsted. Baltimore is seeking to remove an uncompleted, 1.4-mile segment known as the "Highway to Nowhere" and redevelop areas of West Baltimore. Similar moves are afoot in Tulsa, Okla.; Minneapolis; Detroit; and Portland, Ore.

Precedents offer inspiration

While Reconnecting Communities is the first formal program to revitalize areas devalued by federal highway construction, several

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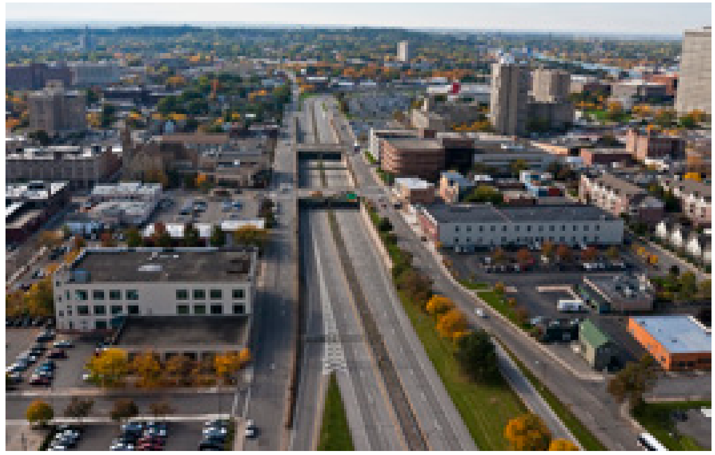
communities have made such moves on their own in recent years. Best-known, perhaps, is San Francisco's removal of the double-decker Embarcadero Freeway after it was damaged in a 1989 earthquake. It was replaced by a boulevard and streetcar line, and the more than 100 acres of waterfront land gave way to a new public plaza and promenade, as well as dense commercial development and multifamily housing. In Milwaukee, the removal of the Park East Freeway—part of an uncompleted downtown loop—in the early 2000s opened 24 acres of intown property for redevelopment. Similarly, New York City replaced the West Side Highway with a waterfront boulevard.

More recently, Seattle in 2019 saw the demolition of the double-decker state Route 99 along the downtown waterfront. Since then, millions of private and public dollars have been pouring in to create new roadways, plazas and multifamily and commercial development. Mike McGinn was the mayor of Seattle when the state began work to replace a seismically vulnerable viaduct with a tunnel, the culmination of more than a decade of contentious debate over whether to replace or simply remove the waterfront scar.

"One of the reasons the debate went on as long as it did was because there were competing business interests," says McGinn. "On one side you had port and related interests worried about highway capacity, and on the other side you had the downtown businesses and property owners, who recognized that the noise, pollution and visual blight of the highway were terrible for property values."

Coming off that downtown success, Seattle is seeking a Reconnecting Communities grant to explore the conversion of another section of Highway 99, through the South Seattle neighborhood of South Park. Removing the highway segment "would free up 40 acres of much-needed land for affordable housing, grid reconnection, green space, and small businesses," according to Seattle planning director Rico Quirindongo.



Rochester's Inner Loop, left, was built in the 1960s to encircle downtown. It divided neighborhoods and depressed property values while failing to deliver promised traffic benefits. In the last decade, the city decided to remove a portion and fill the highway trench, creating seven acres to be redeveloped and allowing new street connections for walking, biking and motoring. Building on that success, Rochester now plans to remove and redevelop an area more than twice the size.

© CITY OF ROCHESTER.

In Rochester, a second wave

Completed in 1965, Rochester's Inner Loop was built to encircle downtown Rochester in a bid to reduce the traffic concerns of the time, says Erik Frisch, the city's deputy commissioner of neighborhood and business development. "By the late 1980s, only a couple decades later, people started asking questions about whether it was needed and raising concerns about the impact it was having on surrounding neighborhoods." It took till the early 2010s, though, for the political and funding stars to align so that the first two-thirds of a mile of the freeway trench, known as Inner Loop East, could be filled and converted to a boulevard, and formerly bisected side streets could be reconnected. That project restored six acres of land to tax rolls and allowed the city to solicit proposals for what became seven block-size parcels for redevelopment.

"We were looking for income diversity," says Anne Dasilva Tella, Rochester's director of development. "Our goal was to reintegrate the divided neighborhood, increase residents, and activate the ground floor with uses that serve the residents," such as a laundry and daycare. Several multifamily projects have delivered more than 250 affordable apartments and a similar number of market-rate units. The adjoining Strong Museum of Play, a regional and national attraction, led a project to create a hotel, green space and playground as well as a parking garage. The redevelopment "is a big win for this city," says Frisch. "From a transportation standpoint, traffic is smooth, and we've seen more people walking and biking, which indicates a healthy neighborhood."

Inspired by the success of the East loop, Rochester has secured state funding to remove another 1.5 miles, freeing up 24 acres for redevelopment. "The success of the east side made it inevitable that the north would come out, too," says Suzanne Mayer, co-leader of Hinge Neighbors, a community-based organization that applied for a planning grant from Reconnecting Communities, with the city's blessing. While the East loop results are impressive, the north section has a larger transformation potential, uniting affluent and low-income sides of the freeway in a much more populated area. "One of the major concerns when we started meeting with neighbors about the north Loop was gentrification and displacement," says Shawn Dunwoody, the other leader of Hinge and a noted local artist. "They were afraid they would get a

The elevated Claiborne Expressway replaced an oak-lined avenue through New Orleans' historic Treme neighborhood, eliminating many homes and businesses. Residents today do their best to operate businesses in the shadow of the highway and continue traditions such as Mardi Gras Second Line Sunday parades. But many just want the decaying viaduct gone.

© AMY STELLY

Applying for Funding

The Reconnecting Communities pilot program is funded through 2026. Money is available for both planning grants and capital construction grants.

Applicants may include state and local governments, federally recognized tribal governments, metropolitan planning organizations, and nonprofit organizations. In the case of capital construction grants, the application must be submitted by a transportation facility owner or jointly with a facility owner—and only facility owners are eligible to receive the grants.

Funding for fiscal year 2022 grant money closed in mid-October. The application deadline for 2023 has not yet been announced.

Learn more at the Transportation Department's Reconnecting Communities website.

transportation.gov/grants/reconnecting-communities/reconnecting-communities-faqs

yoga studio and a high-end coffee shop and that would be it."

Neighbors also wanted to make sure there were opportunities for homeownership and for smaller developers to participate, as well as spaces for small, locally owned businesses, Dunwoody adds. The planning grant would allow Hinge to coordinate an effort to develop recommendations for how to achieve those goals.

In New Orleans, dueling proposals

Claiborne Avenue was the oak-lined Main Street of the largely Black Treme neighborhood when, in the 1960s, much of it was replaced by the elevated Claiborne Expressway. Today, the decaying edifice is crying out to be replaced or removed. Those options are the subject of competing applications to Reconnecting Communities. Louisiana's transportation department, which owns the highway, put in for half of a $95 million proposal to remove two to four ramps while shoring up the structure, fixing drainage issues and making aesthetic improvements.

To activist and urban designer Amy Stelly, "The elevated highway needs to come out.

"Either way, the state doesn't need Reconnecting money to do it. They can use existing transportation sources," says Stelly, executive director of the Claiborne Ave Alliance design studio. Stelly's group submitted for its own planning grant. "Our proposal is to test all the ideas, from complete removal to ramp removal, and model the traffic," she says.

"Some want to leave a section as a memorial or convert the viaduct to a park. We say, subject all [ideas] to quantifiable performance standards and see what gives us the best bang for the buck. We want a complete plan to rehabilitate the corridor.

"Our vision is that Claiborne could be restored as a boulevard, as part of our robust network of boulevards," Stelly says. "I'd love to see some infill development that is affordable, smaller footprints for small businesses, spaces that allow entrepreneurship to take hold. We have to make the place for people who want to come work in the neighborhood, and there are many."

To former Seattle Mayor McGinn, who these days leads America Walks, it makes sense that today's efforts to reclaim city neighborhoods are gaining steam. Older facilities are reaching the end of their design life, and many have become obsolete or never lived up to their intended purpose. "At the end of the useful life of a piece of infrastructure, when you do the math, it usually comes out in favor of removal over replacement." Removing highways is good for cities, not only for quality of life for nearby homes and businesses, McGinn says. It also restores land to the tax rolls and allows improvements that bring still more revenue. "Go to any city and what's right next to the freeway? Usually parking lots, or other low-value land uses," he says. "As soon as people can open the windows and walk on the sidewalk, the property values go way up."

David A. Goldberg has written about transportation and urban planning for more than 20 years.

VIEW THE WHOLE PICTURE

of Commercial Real Estate Cycles

Factors like market psychology affect pricing and drive markets.

MICHAEL J. ROHM, CCIM, MAI

We often read about commercial real estate trends such as industrial price appreciation or declining office pricing. But those observations typically fail to recognize that real estate market cycles are specific to submarkets and the distinct property types within those submarkets. Demand could be increasing in a suburban submarket but decreasing in an urban submarket. And in a suburban submarket, Class A office space might be in a completely different phase of the cycle relative to Class B space.

National trends rarely perfectly reflect what's happening in a given submarket. Nor do they account for the variability of consumer behavior. That's why we need to be critical of the information we consume and apply to the markets and clients we serve.

Submarkets and property types

As commercial real estate agents, our job is primarily to advise clients and solve problems regarding buying, selling or leasing property. We can be a valued member of a company's strategic operating process when we are able to provide counsel relative to where pricing and market conditions will be in the next six to 12 months based on historical trends. This could influence the timing of relocation or expansion *of*, or departure *from*, a market. Identifying a market's position in the cycle can also inform:

- Length of time a list price may be relevant
- Absorption rate for new or currently vacant supply
- Sources of future competition
- Capitalization rate that applies to current income
- Expected yield rate in a discounted cash flow analysis
- Expected rent growth or decline during holding period

Power of the consumer mindset

Many external factors influence property value, including interest rates, overbuilding or underbuilding, tax law changes, construction cost changes, population shifts, job creation or loss in a local or regional economy, changes in effective buying power, and market participant psychology.

Market psychology arguably affects commercial pricing more than the other factors, essentially driving markets through the four phases of the cycle: recovery, expansion, hypersupply, and recession *(see page 18)*. Unlike investors in bonds and stocks, however, some commercial property owners prefer to force appreciation through their operating expertise. Therefore, an argument can be made that market psychology influences value-add investors less, because they are always in the market searching for deals.

Nevertheless, buyers' and sellers' perception of the market, whether rational or irrational, will influence their decision-making processes. Trends reported by the national media exert the most influence on that perception, even though the reports may have little or no relevance to the property type or submarket.

Physical and capital markets

Two markets influence the cycle: the physical market and the capital market.

1. The physical market analysis answers the question *How much demand is there for space among users?*
2. The capital market analysis answers the question *How much demand is there for investment properties among investors?*

Factors that affect the physical market are changes in employment, population growth and effective buying power. The physical market is defined by the interaction between users (demand for space) and developers and owners (supply of space) in an individual market. Except for residential property types, the physical market is influenced by demand among businesses. An individual business's space requirement doesn't always align with the overall market trend for that property type in that submarket. For instance, the office sector may be overbuilt in a submarket in which multiple companies are breaking ground on an office development during a recessionary or recovery period when building is not financially feasible.

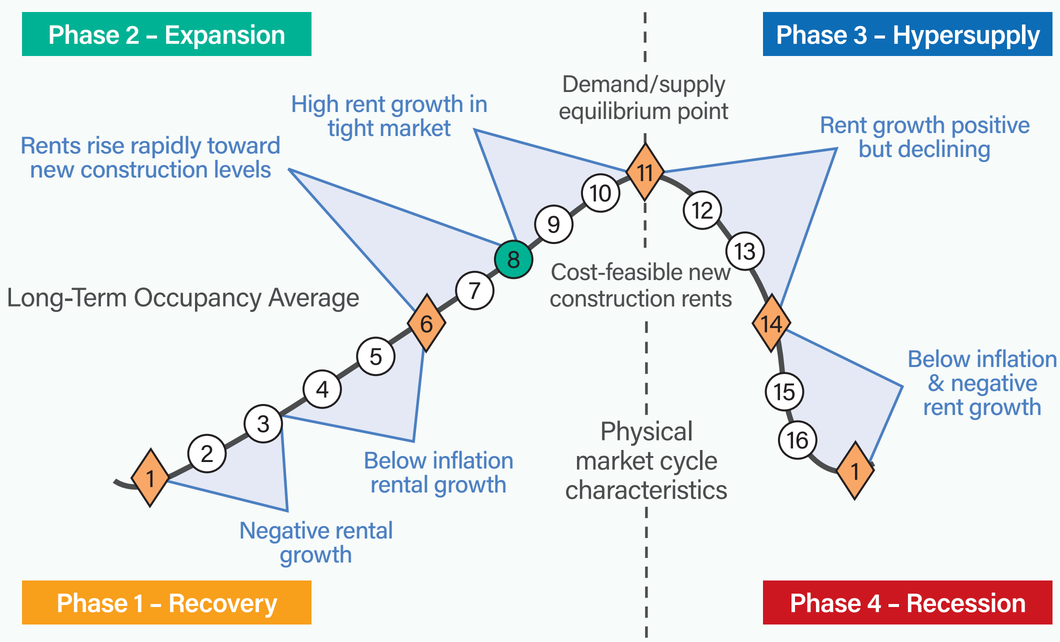
For most commercial real estate asset classes, the physical market is incredibly inefficient, as a lack of transactional data precludes the analyst from determining the state of the market cycle in real time—a condition known as *inefficient price discovery*. Simply put, with most commercial real estate property types, there are typically insufficient sales of a particular property type in a given submarket during a short period of time to substantiate how pricing for the property type is trending. Contrast that with market pricing in the residential market cycle and the stock market; both exemplify *efficient price discovery*, which is based on plentiful transactions and timely data.

Furthermore, shifts in commercial real estate pricing generally occur over a long time, because buyers and prospective tenants are accustomed to benchmark values or metrics in a given submarket. These benchmarks are reimagined over time, taking into account outlier transactions that we retroactively understand as the beginning of market shifts. Only in hindsight can we recognize that these once-outlier transactions were the start of a larger market trend.

In the capital market, vehicles such as bonds, stocks, mutual funds, venture debt and hedge funds compete with real estate investment. Real estate uniquely benefits from depreciation write-off and is uniquely diversified in that the return *of* and *on* capital can come from

4 Phases of a Real Estate Cycle

Professor Glenn Mueller of the University of Denver's Burns School of Real Estate produces a quarterly forecast that looks at real estate through the lens of cycles.



SOURCE: MUELLER, REAL ESTATE FINANCE, 1996

increasing net operating income, in the physical market or price appreciation in the capital market. For these reasons, many investors allocate a portion of their holdings to real estate.

The essential role of buyer confidence

Ultimately, three factors motivate many commercial real estate transactions:

1. Personal or collective investment criteria
2. Tax implications
3. Individual space requirements

These factors are specific to each market participant making a purchase or sale decision. Individual transactions are defined as *investment value,* a concept distinct from *market value,* which is what appraisers analyze in most circumstances. In the realm of commercial real estate, *market value* can be loosely defined as a range of potential sale prices evidenced by at least two similar transactions. These transactions are sometimes few and far between, and their buyers may be motivated by different factors. In this way, pricing is more of a reaction to consumer dependence as a result of individual space or investment needs at a specific time rather than robust data that supports a list or sale price. A more appropriate way to analyze commercial real estate markets may be to characterize patterns as "behavioral cycles" rather than "market cycles."

Whether you're analyzing the physical or the capital market, remember that pricing for most commercial real estate assets is relatively inconsistent, depending on the specific buyer's or seller's motivation. Therefore, consider the factor of consumer confidence. If enough people believe property values for a certain property type will increase or decline by 20%, the trend is likely to occur, regardless of whether the perception is rational. Real estate markets are driven by emotion and the fear of missing out. When the economy is good, optimism will influence negotiations to result in higher sale prices. In poor or volatile economic times, pessimism will influence negotiations to result in lower sale prices. If fundamental analysis reveals the anticipated pricing expectations are irrational, real estate agents can advise clients accordingly to capitalize on irrational market behavior.

Differences of opinion make the market, and perceived value is sometimes more important than the fundamental relationship between supply and demand. As real estate agents, we are trying to balance *historical* pricing trends with *current* consumer behavior, which is often unpredictable and always uniquely motivated. Nevertheless, we need to consider the whole picture to provide sound counsel—even in the face of chaotic markets. ■

Michael J. Rohm, CCIM, MAI, is owner and president of Commonwealth Commercial Appraisal Group and director of valuation advisory for Landmark Commercial Realty, both based in Camp Hill, Pa.

When Opportunity Knocks

Tech platforms deliver faster investment decisions.

BY STACEY MONCRIEFF

Real estate investors and developers often need to act fast on opportunities. They count on your experience and market knowledge to help determine if they're acting on the right opportunity and approaching an investment with the right strategy. Two tech startups, Arx and CREtelligent, aim to help brokers, investors and developers speed sound decision-making.

CREtelligent (cretelligent.com) is a platform for assessing risk at every stage of the purchase, ownership and sales cycle. Arx (arx.city) is an early-stage startup that applies sophisticated financial modeling to property data. Both companies were 2022 participants in REACH Commercial, a technology scale-up program operated by Second Century Ventures, the strategic investment arm of the National Association of REALTORS®. We talked with Anthony Romano, CEO of CREtelligent, and Tomas Garcia, co-founder and CEO of Arx, to learn more about their platforms and how real estate pros might benefit from their product offers.

Comprehensive Solution


Anthony Romano

As an executive with companies like CoreLogic and First American Financial, Anthony Romano was steeped in processes to automate residential transactions. He didn't see any parallel effort in commercial real estate, he says—not until CREtelligent. Romano joined the company as CEO in 2018, and the company launched its Radius platform in 2019. The platform facilitates site selection and lending decisions—and helps owners keep tabs on ongoing market risks.

Romano calls Radius a one-stop shop for due diligence. "We have a suite of early insight data reports around micromarket demographics, property characteristics, environmental risk, property condition risk, carbon footprint and so on that help people identify risk and opportunity, all before they sign a letter of intent."

During the transaction, users can use Radius to order all the compulsory due diligence services, including appraisals, Phase 1 environmental assessments, ALTA surveys and zoning compliance reports. "And then post transaction, you're able to manage your entire portfolio at an individual asset level," Romano says, "any asset class, any property type. We will update on a quarterly cadence the change in risk profile on that property. Any risk factor that somebody would like to monitor, we'll monitor on an ongoing basis."

CREtelligent operates in all 50 states. Users pay a monthly subscription fee—or by the service. "So it's affordable for a one-man shop, but the big firms also have a lot of folks using it," Romano says.

The company is working on a variety of enhancements, including tools to help users evaluate ROI for different property uses, and is exploring expansion outside the United States.

Paradigm Shift


Tomas Garcia

Tomas Garcia was an investment banking analyst with Goldman Sachs before leaving the company to go back to school. One day, his brother, Hernan, called with a question: "Do you want to do some development?" The answer was yes, and the brothers began to fix and flip homes. To inform their investment decisions, they created the first version of what would become Arx.

"Other developers and agents kept asking how we were finding our investment opportunities so quickly," says Garcia, who holds a JD-MBA from the University of Chicago. Hernan, an architect, has a degree from the Harvard Graduate School of Design. "That's when the lightbulb went off, and we said, 'Maybe there's more to the technology that we should be focusing on.' "

> **"What we want to do is empower folks to deliver more housing to the market."**
> *– Tomas Garcia*

Unlike tech platforms that aim to make existing processes more efficient, Arx "flips the script," Garcia says. "We take the massive amount of real estate data that's currently available and use advanced algorithms to simulate future investment and development scenarios for every residential property in a market." So instead of identifying potential development opportunities and penciling them out individually, "you are finding the best investment and development opportunities for your specific criteria," he says. At the International Builders' Show in February, the company was runner-up in the Most Innovative Start-up competition.

The platform is currently operating in only two cities, Los Angeles and Seattle, and is focused on teardown projects. Garcia plans to incorporate additional strategies, including build to rent, renovation for sale or rent, and accessory dwelling units. "We're getting a lot of questions on ADUs," Garcia says. In both Los Angeles and Seattle, ADU permits skyrocketed after legislators eliminated barriers to ADU development.

The system is built for expansion to other markets. "My brother and I are mission-driven from a social perspective," Garcia says. "This country is facing a housing crisis. There aren't enough transactions getting done. What we want to do is empower folks to deliver more housing to the market." Arx, he says, is "the democratization of access to highly advanced financial and technology tools. If you can give that to as many people as possible, that's how you bring more transactions to the market." ■

PRESIDENT'S MESSAGE

JOIN US IN THE ATL

Where will you be Sept. 28–30? We'll be in Atlanta for the C5 + CCIM Global Summit, a commercial real estate conference we're hosting in partnership with the CCIM Institute. NAR Chief Economist Lawrence Yun put Atlanta at the top of his list of metro areas likely to see continued growth in 2023. Why not spend a few days in this dynamic city while building your network and learning from the brightest in commercial real estate? To our commercial volunteer leaders, we couldn't do stellar events like this without your work and guidance. You're Riding with the Brand, and we can't thank you enough. We hope to see you as we travel the country this year for our Riding with the Brand tour. The tour includes six stops in April alone, starting in La Vista, Neb., April 3. Find the full schedule at nar.realtor/riding. —*Kenny Parcell*

Details and registration information on the C5 + CCIM Global Summit will be available in April at c5summit.realestate.

Brand Building

Ads Reinforce Your Value

The National Association of REALTORS®' 2023 national ad campaign launched Feb. 22 with four new, cinematic television spots. Two of the ads tell the story of business owners, a furniture maker and a food-truck purveyor, who are ready to move their businesses into larger spaces—with REALTORS® helping to bring their real estate dreams to life. NAR's That's Who We R campaign encompasses TV, audio, content partnerships, and social media. The campaign notched 2.64 billion consumer impressions in 2022.

nar.realtor/ThatsWhoWeR

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Protecting Property Investment

In December, NAR and affiliates the CCIM Institute and the Institute of Real Estate Management joined a coalition urging the Biden adminstration not to impose new or expanded federal resident protection requirements on housing providers, which would drive up costs and discourage investment. To fuel supply, coalition members advocated for policies such as expansion of the Low-income Housing Tax Credit and increased funding for the Housing Choice Voucher program.

nar.realtor/washington-report/nar-engaged-on-rental-housing-issues

Peoria REALTORS® Enlist Experts to Map a Neighborhood's Future

A new vision emerges for two long-neglected sites.

BY STACEY MONCRIEFF

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Peoria's CRE Consulting Corps team, from left: Randal Dawson, CRE, executive vice president of CBRE Inc., Chicago; **Beth Beckett**, CRE, president of Real Estate Strategies Inc./RES Advisors, Paoli, Pa.; **Matt Rueff**, CRE, director of development for AP Development LLC/Anderson Partners LLC, Indianapolis; **Wendy Timm**, CRE, owner of Timm Real Estate Consultants, Dillon, Colo., and St. Louis; and **Lloyd Thomas**, CRE, owner and president, NAI Aldrich-Thomas Group, Temple, Texas

The REALTOR® Party is known for its stellar advocacy work. But this arm of the National Association of REALTORS® also uplifts communities directly, funding local REALTOR® associations' initiatives from smart growth to placemaking. Now, through a new program, Transforming Neighborhoods, NAR is partnering with The Counselors of Real Estate to give local associations access to that group's Consulting Corps.

The CRE Consulting Corps provides real estate analysis and action plans for municipalities, not-for-profit organizations, government entities, educational institutions, and other owners of real property. One recent Consulting Corps engagement, in the central Illinois city of Peoria, demonstrates how the program can strengthen ties between REALTORS® and local decision-makers and stakeholders.

The opportunity: In the 61605 ZIP code—an area where the median home value is under $44,000 and the median household income is under $20,000—the city was aiming to tear down two former school buildings that had sat vacant for decades. Could the Transforming Neighborhoods program help bring about the area's economic revitalization? The Peoria Area Association of REALTORS® pitched the idea to Mayor Rita Ali and then submitted a proposal to NAR for CRE Consulting Corps consideration. The proposal was selected in late May 2022, and work began almost immediately, culminating in an onsite visit by the Consulting Corps team in October.

Preparation: "We laid a lot of groundwork in advance of the Consulting Corps team's visit," says PAAR CEO Jennifer Hamm. "Over the years, we had cultivated relationships with elected officials and community partners. We invited their participation to make sure the project got off on the right foot and that we didn't waste a single minute that the team was with us. We had 60 stakeholder participants, including city officials and staff, representatives from the housing authority, the school district, the police department, clergy, social service organizations, REALTOR® members, and more, all fully engaged in the process."

The way forward: Wendy Timm, CRE, a native Peorian, was team leader on the engagement. During a week-long visit, Consulting Corps team members toured the sites, met with the stakeholders in small groups, asked questions and listened. They capped off the visit with initial recommendations that included capturing local pride to create a new brand identity for each site; leveraging the city's new homeownership program to spur investment and get lenders to the table; and developing rental housing, including affordable senior housing, with integrated neighborhood services. A detailed report from the team is now in the works, and demolition of the buildings was expected to begin in the first quarter of 2023.

"It's a huge community effort," says Ryan Cannon, AHWD, C2EX, managing broker of RE/MAX Traders Unlimited in Peoria and immediate past president of PAAR. "It's been a great collaboration to get all the stakeholders involved and rallied around a ZIP code that I think a lot of the city has ignored for a long time. That's who we 'R,'" adds Cannon, evoking the theme of NAR's national ad campaign. "We care about every neighborhood. We care about every ZIP code. We care about every family that lives in our city."

Become a Counselor: Are you involved in high-level problem-solving and advisory services? If so, consider applying to become a member of The Counselors. Learn how at cre.org/become-a-member.

For more information about NAR's Transforming Neighborhoods program, visit realtorparty.realtor/transforming.

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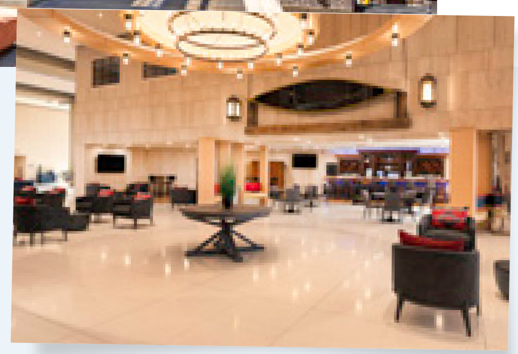
Seneca One Fits the Bill

Redevelopment of Buffalo's half-century-old skyscraper headlines renaissance. **BY JEFFREY STEELE**

Seneca One, a Nixon-era high-rise in downtown Buffalo, N.Y., was constructed for a time in which downtowns were for working, not for living or playing. When the last corporate tenant abandoned the 40-story structure, a major waterfront landmark was left standing empty. Douglas Development Corp. acquired the tower in 2016, intent on making it the live-work-play centerpiece of a downtown redevelopment. With Douglas serving as general contractor and Antunovich Associates as architect, Seneca One now combines residences, 15,000 square feet of retail and restaurant space, and building additions enabling enhanced traffic flow. The building has captured new tenants, luring new workers as well as visitors to events ranging from jazz lunches to a "Headshots & Hops" happy hour.

"Seneca One is the beacon of the Buffalo renaissance. The tenants in the building are all established or rapidly growing companies. They are mostly technology-related companies that are hiring and bringing new talent to Buffalo."

Greg Baker, Douglas Development Corp. director of development for the Buffalo/Niagara Falls area



RACE FOR PLACE

The building, originally known as the Marine Midland Center and later as HSBC Center, was constructed between 1969 and 1974 for $50 million. Today, it's the most high-profile effort in Buffalo's Race for Place initiative, introduced by Mayor Byron W. Brown and Buffalo Urban Development Corp.

THE DETAILS

- A Buffalo skyline topper at 40 stories and 529 feet
- 1.2 million square feet of space
- More than $200 million construction budget
- Private financing, construction loans among funding sources
- Residential component: 115 apartments
- Four new buildings permit new eateries and shops
- Redevelopment added more than 100,000 square feet
- NFTA Metro Rail runs under building
- 250-seat auditorium, grand hall, and state-of-the-art conference center enable a wide variety of events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