WINTER 2023

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Podcast Pro

Atlanta's Michael Bull loves to talk commercial real estate.

NAR

Contents

On the Web

Early Innovation Hub Gains New Life

On page 22, we spotlight Bell Works, the reincarnation of the storied Bell Labs building in Holmdel, N.J. Online, see more photos and learn more about how the developer, Inspired by Somerset Development, brought a neglected behemoth back to life, then traveled to the Windy City to do it again.

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CREATE

Create, powered by REALTOR® Magazine, advances best practices in commercial real estate and brings expert insights on business trends, strategies and purchases.

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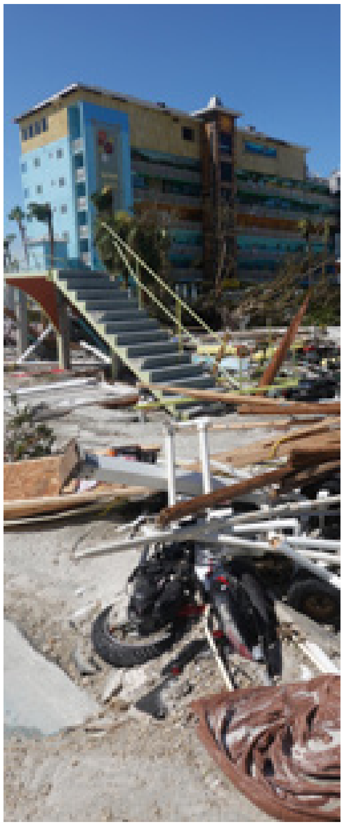

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Insurance

Quick Takes on Hurricane Ian's Impact

Hurricane Ian caused an estimated $22 billion–$32 billion in damage to residential and commercial property. Storm surges destroyed another $6 billion–$15 billion in real estate assets, according to CoreLogic. Representatives from three insurance organizations recently weighed in on the implications for commercial property owners.

1. **Gallagher—**Insurers won't be turning a blind eye to incomplete underwriting or underreported values anymore. Understanding the risks that pertain to their assets—flood elevations, age of roofs, general conditions of the asset—is the first step in controlling the premiums. Insurers may look for increased minimum deductibles for larger Tier 1 exposed portfolios, and they will certainly focus more positively on the better protected assets.

2. **Hub International—**In general, insureds need to show underwriters why their assets are best in class with evidence such as hurricane and water mitigation programs and checklists. Well-written business continuity plans will help demonstrate proactive risk management to the insurance marketplace. Any loss history presented with the underwriting submission should include a narrative discussing the loss, mitigating strategies, and any post-loss corrective action.

3. **Insurance Information Institute—**Potential insurance premium increases will depend on businesses' physical structures and contents. Retail and restaurants are probably the most vulnerable but may not be the most expensive. A business that has manufacturing equipment could be much more expensive to replace.

Adapted from "Hurricane Ian's Impact on CRE Insurance Rates," written by Jordana Rothberg and published in the Oct. 4, 2022, edition of Commercial Property Executive.

Hospitality Comeback Prompts Big Changes

Hotels adapt to guest preferences to make stays more efficient and pleasant.

With hospitality recovering across all property types and markets, hotels are adapting to shifting consumer needs and wants. Professional services company Colliers International shares insights into the changes and their expected longevity.

The apps have it. Downloading an app to check in, using your phone as a room key, and ordering services through a hotel brand's app all improve customer experience. Such improvements accelerated in the aftermath of COVID-19 and are here to stay.

Travel patterns evolve. People are combining work and leisure travel to a greater extent than in the past. People who travel for work are asking, "Why don't I just stay here for the weekend?" Most used to travel on a Friday or Saturday and leave on a Sunday. They now are more likely to check in on a Thursday and stay into the next week, changes that are likely permanent.

Communal spaces gain ground. Travelers want gathering spots: Business guests working remotely want public areas that are accommodating and spacious. Leisure travelers want clean, cozy spaces where they can chat with friends or family.

Business destinations still recovering. Leisure travel areas are outperforming those that depend on convention and corporate business. Savannah, Ga., for example, had higher occupancy in 2021 than it did in pre-pandemic years. But for some primary business markets, recovery to 2019 levels isn't expected until 2026 or 2027.

Adapted from "Southern Hospitality," an interview with Helen Zaver published in the CCIM Institute's CIRE *magazine, Summer 2022. Zaver is a senior vice president at Colliers International and a member of its National Hospitality Group.*

Construction costs, up **25% to 35%,** have reduced the supply of new hotel properties. Some projects were supposed to start but never did, in part because of costs and in part because of a pullback in the availability of financing.

Booming

Supply Chain Silver Lining: Industrial Windfall

Demand for warehouse and distribution space in 2022 was unprecedented.

Problems in the logistics ecosystem have been compounded by the shift from a just-in-time inventory model to a just-in-case strategy, which aims to cut the odds that a product will sell out of stock. One benefit has been an unprecedented demand for warehouse and distribution space. More than 400 million square feet of industrial space was expected to be absorbed in 2022, according to the NAIOP Research Foundation.

That has created an enormous windfall for investors and owners of warehouse and distribution facilities—and for the commercial real estate industry. Average rents nationally for industrial properties soared to $8.82 per square foot in 2021's fourth quarter and were expected to keep rising, according to Newmark research.

SHORTAGES FEED CONSTRUCTION BOOM

With increased demand and vacancy hovering around 4% nationally—half that in many markets—construction of industrial assets was at record levels across the U.S., Newmark reported. Evidence of the boom:

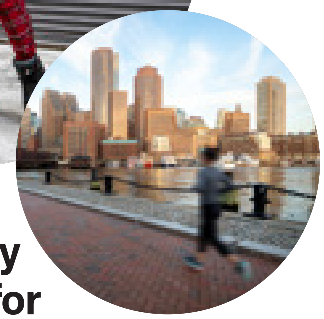
- Shipping container traffic is being rerouted from the West Coast to the East Coast, where warehouse construction in port cities like Savannah, Ga., and Charleston, S.C., is exploding.
- Inland markets like Las Vegas are seeing construction surges. In Southern Nevada, development is underway for 6 million square feet of new industrial space, mostly warehouse.
- Overwhelmed port terminals are ramping up collection of charges related to failure to load or discharge ships in the time agreed upon. Companies are redirecting the freight to other ports, hiring third-party logistics, putting freight in containers, or leaving it in trailer yards in rural areas.

Adapted from "Supply Chain Challenges Help Spur Industrial Construction Boom," by Michael Hoban, published in the Summer 2022 issue of SIOR Report. *Hoban is founder of Boston-based Hoban Communications.*

blog.sior.com/supply-chain-challenges

"We've never had a vacancy rate this low, and we've never built so much."

16-year veteran Amy Ogden, SIOR, executive vice president, Logic Commercial Real Estate, Las Vegas



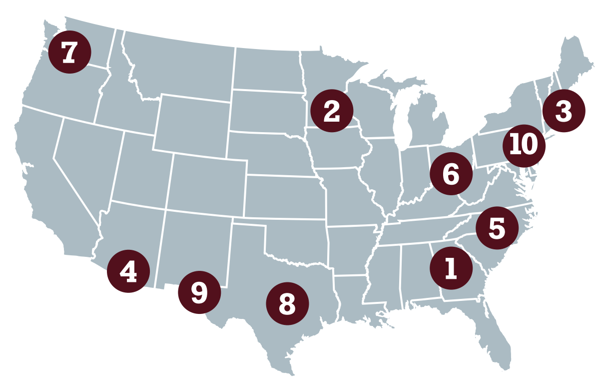
Relocation

Cities Most Likely to Be Hot Spots for Graduating Gen Zers

Top locations are concentrated in the Northwest, Midwest and Southeast.

Generation Zers—those born after 1996, according to Pew Research—are graduating and starting their careers. Commercial real estate information services provider CommercialCafe ranked cities with the most potential to attract Generation Z job seekers. CommercialCafe included the 45 biggest U.S. cities in its ranking, which are based on eight indicators: cost of living index, percentage of Gen Zers, school enrollment, unemployment rate, internet speed, recreational establishments, green commuting, and parks per 10,000 residents.

Youth Magnets



1. Atlanta
2. Minneapolis
3. Boston
4. Tucson, Ariz.
5. Raleigh, N.C.
6. Columbus, Ohio
7. Seattle
8. Austin, Texas
9. El Paso, Texas
10. New York

San Jose and Fresno, Calif., and Mesa, Ariz., were excluded because the composite cost of living index for these locations was unavailable. Indianapolis was excluded because park data was unavailable.

TAKE THIS

COMMERCIALRE NEWS, TIPS AND TRENDS

Multifamily

5 Wellness Lessons for Apartment Managers

BY BARBARA BALLINGER

At the peak of COVID-19, owners and managers of multifamily housing took steps for residents to socially distance without feeling isolated. These five lessons will help residents feel less anxious if another variant or health challenge emerges.

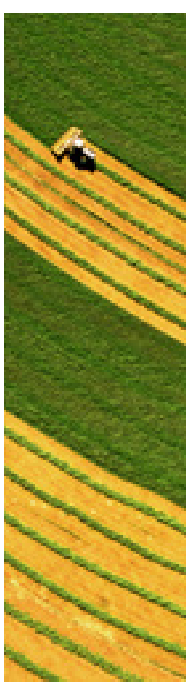
Lesson 1: Communicate protocols. Managers learned the importance of sharing details about what they were doing to ensure healthfulness. Atlanta-based developer Wood Partners relayed messages daily, then weekly, then monthly as information fatigue set in, says Managing Director Steve Hallsey. Florida-based The Klotz Group learned that information on resident portals appealed most, since signing on was voluntary versus residents being bombarded with emails, says CEO Jeff Klotz. Clifton, N.J.–based Blue Onyx Cos., which develops and manages mostly workforce housing, hopes its digital services platform will help curtail isolation and create a greater sense of community, says CEO Levi Kelman.

Lesson 2: Tailor classes. When shared amenity facilities closed, many buildings offered Zoom sessions focused on a mix of interests. Not all remote efforts were successful. Residents at Casper's warm-weather properties favored in-person outdoor classes. Wood Partners' fitness classes in California didn't do well since many preferred going to a beach, but residents were keen on mixology classes. In Portland, Ore., there was a big turnout for art classes. The Klotz Group saw demand for cooking classes. Blue Onyx found families enjoyed beginner fitness classes.

Lesson 3: Expand work-from-home options. In response to residents' needs for dedicated remote workspace, managers converted open lounges and other amenity spaces to cubicles. Sands Cos. is now offering bigger in-unit floor plans with work areas. The Klotz Group is also ramping up square footage, adding study spaces and specifying indoor and outdoor cowork stations.

Lesson 4: Make cleaning visible. At the height of the pandemic, posting signage or stocking PPE supplies wasn't enough. "Residents wanted to see staff cleaning," he says. Property management firm RKW Residential had staffers record cleaning steps taken daily. Wood Partners learned the value of hiring third-party experts, including an industrial hygienist, and that different size buildings dictated different cleaning protocols.

Lesson 5: Program outdoor living. The trend now is to program rooftops, courtyards and lawns for interaction, says Holly Casper, Sands' director of asset management. Blue Onyx constructed an urban beach with 500,000 tons of Jersey Shore sand *(pictured above)* and partners with an operator that brings in food trucks and orchestrates events.



Investing

Why Farmland Should Be Part of Asset Allocation

This asset class is resistant to inflation and historically yields positive returns.

Investors are searching for inflation-resistant asset classes to add to their portfolios. Farmland is sometimes overlooked as an investment, but it's a hard asset that has historically produced consistently positive returns with lower volatility and a strong correlation to inflation.

Investors should consider three farm types:

1 **Row crop farms**—These may provide a return over a comparatively shorter hold period—say, three to five years. They tend to generate moderate, stable cash flows from annual rents, with land appreciation playing a major role in total returns.

2 **Permanent crop farms**—These generally have a longer hold period and are more volatile than row crop farms. But generally they offer higher returns since they aren't replanted annually. This farm type offers diversification since permanent crops require different growing conditions from row crops.

3 **Timberland**—This type of investment generally has the longest hold period of the three types, but it also has some flexibility on harvest. There's a saying that timber value can be "stored on the stump," meaning less favorable market conditions can often be waited out. Historical returns for direct timber investments have been strong. The National Council of Real Estate Investment Fiduciaries claims annualized total returns of 10.74% for its Timberland Index from 1987 through the end of 2021.

Allocating assets into different crop types in different regions with diverse time horizons can further insulate an agriculture portfolio.

Adapted from "Farmland and Asset Allocation to Hedge Inflation," written by Rachel Bevill-Cottrell and published by the REALTORS® Land Institute. Bevill-Cottrell owns a small hobby farm and ranch business.

2022 National Commercial Awards

Congratulations to these real estate professionals, recognized for excellence in the past year by their commercial, local or state association of REALTORS®.

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Southeastern Land Group
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Jeramy Stephens, ALC
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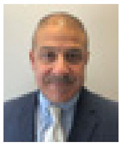

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New Haven Middlesex Association of REALTORS®

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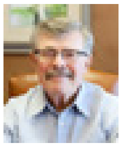

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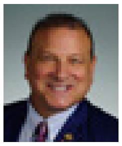

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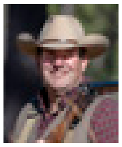

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Stephen R. Rigl, PA
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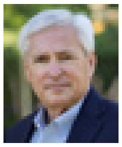

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Trevor Williams
Land Specialist
Maury Carter & Associates
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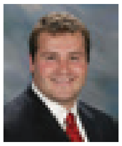

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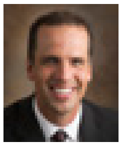

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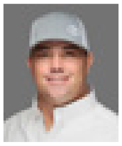

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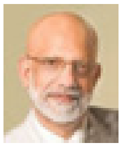

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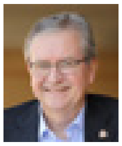

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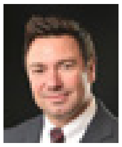

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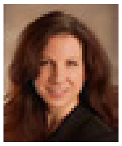

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Peter Harrington
Associate Broker
Malone Commercial Brokers
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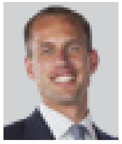

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Partner, Industrial Specialist
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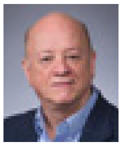

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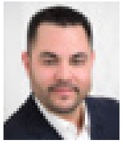

Clay Azar, CCIM
Broker
KW Commercial
Commercial Association of REALTORS® New Mexico

New York

Richard Ferro, CCIM*
Broker
Berkshire Hathaway Blake
New York State Commercial Association of REALTORS®

*Condolences to the family and colleagues of Richard Ferro, who passed away in February 2022, the same month he was named 2021 REALTOR® of the Year by the New York State Commercial Association of REALTORS®.

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President
Vision One Real Estate Advisors
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Oklahoma

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Co-Founder and Team Leader
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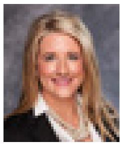

Andrea Frymire, CCIM, C2EX
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Elyse Welch, CCIM
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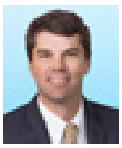

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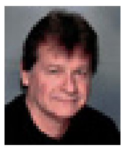

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RE/MAX Associates
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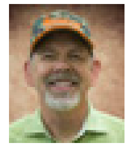

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Rusty Lowe, ALC
Sales Associate
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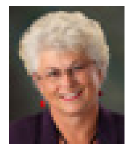
Washington



Flo Sayre, ABR, ALC
Managing Broker
Land and Wildlife LLC
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Accreditation

For Serving Commercial Members, They're Tops

Twenty-four associations are recognized with new accreditation.

The National Association of REALTORS® has unveiled a new Commercial Services Accreditation, replacing a system pioneered in 2008, to acknowledge local and state REALTOR® associations for their commitment to providing commercial services and engaging commercial members.

Associations are rated annually based on meeting benchmarks in commercial representation within their governance; commercial communication, education, advocacy, and technology; and involvement in national and state association initiatives. Congratulations to these associations, which received Diamond, Platinum, or Gold Commercial Services Accreditation in 2022.

DIAMOND LEVEL

Texas Association of REALTORS®, Bay East Association of REALTORS®, Broward, Palm Beaches & St. Lucie REALTORS®, Central Oregon Association of REALTORS®, Charleston Trident Association of REALTORS®, Commercial Alliance of REALTORS®, Commercial Association of REALTORS® Wisconsin, Greater Baton Rouge Association of REALTORS®, Greater San Diego Association of REALTORS®, Miami Association of REALTORS®, Orlando REALTORS®, St. Louis Association of REALTORS®

PLATINUM LEVEL

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GOLD LEVEL

Charlotte Region Commercial Board of REALTORS®, Memphis Area Association of REALTORS®, MetroTex Association of REALTORS®, North San Diego County Association of REALTORS®, South Shore REALTORS®, Southland Regional Association of REALTORS®, Winston-Salem Association of REALTORS®

Michael Bull has been recording and sharing his conversations with commercial real estate thought leaders for more than a decade.

©JAY THOMAS

Straight Talk on Sales Success

Who's the best person to speak on a given topic? That's who Atlanta broker Michael Bull goes after for his long-running podcast, which both serves his business and helps other brokers and agents improve theirs.

BY CATHERINE MESICK

"If you think about business development—there's sales, which is listening and speaking with the intent to convince. Most brokers are pretty good at that," said Ken Ashley, executive director at Cushman & Wakefield on a recent episode of the podcast "America's Commercial Real Estate Show." "Then there's marketing. And that's what they think about you before you walk in the room. And, you know, if you get business at your country club, that's terrific. More power to you. But for a lot of folks in a post-pandemic world, in a Zoom culture, we're going to have to market ourselves differently."

Michael Bull, CCIM, left, in his studio with guest Brian Bailey, CCIM, CRE, a senior financial policy analyst with the Federal Reserve Bank of Atlanta.

Perspectives

On creativity: "Everybody thinks when it's time for creativity, we need to invent something new. We need to just take advantage of things that are already out there. I think that's what this market calls for: People who will take risks, do things differently. If you're willing to do something differently, you're probably going to get a better outcome."

–Mitch Roschelle, founding partner of Macro Trends Advisors, a real estate investment firm based in Delray Beach, Fla., from the Nov. 22 episode

On opportunity: "I'm bullish on the secondary markets in the suburbs. The secondary markets are on fire, and if you look at Toyota, Mazda, VinFast—all the automobile manufacturers—they're going to secondary markets. They need the workforce, and it's affordable. I think this is as much a watershed event as when the GIs came home from World War II."

–KC Conway, CCIM, CRE, co-founder of Red Shoe Economics and chief economist at CCIM Institute, from the Nov. 16 episode

Ashley and host Michael Bull, CCIM, CEO of Bull Realty in Atlanta, were discussing the importance of an online presence for commercial agents and brokers. Bull agreed, dubbing commercial real estate "half marketing, half consulting."

"An analogy could be preparing food," continued Ashley. "I may think I'm a pretty good cook, but if I compare myself to a chef, I got nothing. Just because you get the chicken cooked, doesn't mean it's the best chicken in the world. The way we are talking and the way we are reaching each other is changing. The tools are changing. The apps are changing. That keeps it exciting."

Ashley counseled those looking to up their social media game to learn from their more media-savvy peers. Brokers can cooperate as well as compete. "I want everyone here to be successful for their family, for their community," he said. "And there is a lot of business out there that can be had. We've just got to put our heads together and go to work."

Guest Margarita Parkerson, regional advertising sales executive at CoStar, concurred, adding that an online presence for the properties a broker represents is equally important since prospective tenants are less inclined to drive around looking at buildings these days.

"You want to provide the best customer experience for your tenants that are searching," said Parkerson. "You want to showcase your property in the best light, using some elevated options with Matterports," a platform for creating 3D models of spaces. "Really give them a clear picture of what their employees are going to experience, or what their clients are going to experience, when they come into your building."

Seamless Transition From Radio

This analysis of commercial real estate marketing appears in the Sept. 20 episode of "America's Commercial Real Estate Show," which Bull launched in 2010. Bull, who has brokered $8 billion in sales across multiple commercial sectors in his 35-year career, initially planned and operated the show as a local Saturday morning radio call-in show. It became a recorded program through a twist of fate. When the broadcasting company, Salem Media, began renovating its studios, the show couldn't be done live—it had to be recorded. Rather than simply answering callers' questions, Bull had to plan content and guests for each episode. The new format was significantly more work, but after the first recorded show on commercial loan workouts, Bull knew he had created something special: "I stood in the parking lot and thought, 'Wow, this show could be really helpful for a lot of people.' "

Bull got to work, recruiting the best and brightest in CRE for the show, along with top economists and real estate analysts. "I ask myself, 'Who is the best person in this particular area?' " says Bull. "And that's who we reach out to."

Listeners loved the show, and it was picked up by 47 stations nationwide. It was also produced as a podcast from the very beginning—a decision that seems prescient now. As the audience for radio declined, Bull transitioned the show to a podcast-exclusive format that now includes video filmed in Bull's own studio. There are new episodes every week that can be found on YouTube, Apple Podcasts, Spotify and the show's own website. Over the last year, the podcast has been downloaded over 600,000 times.

Seeing the Bigger Picture

"America's Commercial Real Estate Show" features market intel, forecasts and business strategies geared toward commercial property owners, managers, brokers and agents. There are sector-specific episodes, covering large sectors like office, retail and multifamily and smaller ones like senior housing and self-storage.

In an Aug. 8 episode on the office sector, Bull spoke with Doug Ressler, director of business intelligence at Yardi-Matrix. The two agreed there are reasons for optimism, despite the current uncertainty. More workers will return to the office once the job market slows, Bull said. Ressler added, the office sector presents a wealth of opportunities as office buildings diversify, offering retail, housing and even e-commerce options. For investors, Ressler said, "mixed-use gives a better return."

Bull credits the show with adding to his credibility as a commercial real estate professional. But an even bigger benefit, he says, is what he learns from his guests. "As an agent you know a lot," he says. "But the experts can show us the bigger picture."

Based on guests' comments and his own observations, Bull says the slowdown in transactions and sales volume that started in 2022 will carry over into 2023. However, he sees this slower pace as an opportunity. "I've been through a down market before—and I've succeeded," says Bull. "A slower market is the time to work on training, prospecting, business development, negotiating. It's the time to hone your skills."

A Gift to You

Every year around the holidays, Michael Bull records an episode he calls his "gift" to commercial agents and brokers—an episode that focuses exclusively on commercial entrepreneurs and salespeople. In his 2022 show, released last January, his number one tip for 2022 was to treat everyone fairly. "Our goal when we're working on transactions is to treat everyone the way we'd want to be treated," said Bull. "And that can help you make the right decisions."

The show isn't the only place where agents can learn from Bull's experience. At commercialagentsuccess.com, Bull provides strategies for agents to be successful in any market. For example, in his video "Closing the Bid-Ask Gap," Bull recommends never asking potential sellers what they want for their property. It's the wrong question since it's potentially not tied to value. You may be placing a chip on their shoulder you have to knock off later. Rather than asking what they want, ask if they have had a "recent analysis with comps and underwriting to see what the property might bring if properly marketed."

What will be Bull's 2023 gift? Find out by subscribing to the podcast or the show's newsletter at commercialrealestateshow.com.

"I stood in the parking lot and thought, 'Wow! This show could be helpful for a lot of people.' "

HIGH TIMES, LOW TIMES

Brokers say the THC industry could benefit from state and federal government TLC.

BY PAULA HESS

The cannabis industry seems to be riding a groundswell of support. At last count, 37 states had legalized medicinal cannabis use and 21 had legalized recreational use. However, the industry faces significant headwinds, including a lack of access to banking and an uneven and lengthy licensing and permitting process. These dynamics, veteran commercial brokers report, have resulted in the most complicated and protracted deals of their careers.

Green Rush for Properties

With state or municipal law changes can come a mad rush by prospective tenants. That's because most states require prospective cannabis operators to obtain a business address before applying for licenses and permits based on type of operation—cultivation, retail, and so on.

After Oregon voters greenlighted recreational marijuana sales in 2017, "We were inundated with hundreds of calls," says Zach Francis, executive vice president of Kidder Mathews in Portland. "Some building tours were 20 people deep. It was chaos."

One property owner went on a buying spree from 2016 to 2020 and purchased vacant warehouses near the Portland airport. "We did 15 to 20 deals and had buildings in escrow at double market rent before sales even closed," Francis says.

Stephen A. Madigan initially represented clients in the cannabis manufacturing, extraction, distribution and laboratory testing sectors. When Costa Mesa, Calif., passed an ordinance in 2021 legalizing cannabis sales and delivery, "we jumped in and began representing dispensary tenants and owners," says Madigan, senior vice president of Kidder Mathews in nearby Irvine. "There was competition for spaces and lease rates were driven up … and the cannabis tenants kept coming."

"If you're looking to acquire real estate for a dispensary, there will be bidding wars," says Jason Piazza, director of real estate with WeCann in Santa Ana, Calif. Cities generally limit the number of dispensaries they will license, and this is the most sought-after license to originate in cannabis. WeCann, a full-service cannabis consulting firm that handles entitlements and licensing, has brokered nearly 100 deals valued at $150 million in the last five-and-a-half years and recently merged with CREC, a firm that has nearly an equal number of transactions. "We got our deals [in Costa Mesa] done early and negotiated a 50% premium on leases," Piazza says. "By the time the application period opened, tenants and buyers were paying 100-plus-percent premium."

WeCann was hired as the exclusive leasing agent for an old Barstow, Calif., outlet mall, with 23 buildings, 350,000 square feet, parking and a food court. Piazza describes the vibe as a ghost town or a set from the TV series "The Walking Dead." "We had a vision for our client: 'Let's create a cannabis-centric mall with cannabis dispensaries, hemp clothing retailers, head shops, a cannabis museum.' " Several letters of intent were fully executed, and WeCann was ready to do leases when a last-minute cannabis tenant leased the entire campus, says Piazza.

What If the Federal Government Legalizes Cannabis?

Kidder Mathews' Zach Francis speculates that federal legalization of cannabis would make the price plummet ("a disaster"), and current tenants who are paying premium lease rates would have few options to renegotiate. On the other hand, federal legalization would allow interstate commerce, and states like Oregon and California with a five- to 10-year jump-start would "have a leg up" on other states. Christopher Stefan at Desarollo Real Estate and Cannabis Capital Advisors says federal reforms will increase the cash flow of the businesses and improve their ability to pay rent and their cap rates, multiple value and sale value.

WeCann's Jason Piazza favors legalization but believes descheduling cannabis from a Schedule I drug to a Schedule III drug would have more immediate benefits. "That would open up banking and interstate commerce and do away with the 280E IRS tax code," which he says hamstrings the industry and squeezes operators. As written, IRS 280E states, "No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances ... ." The regulation "prevents any business involved in Schedule I and II from writing off business expenses after cost of goods sold," says Piazza. A simple carve-out of 280E for legal operators would create profitability, he says. "We also need to incentivize the gray market operators to move into the legal market, and we need to get rid of the excise taxes and let mom-and-pop operators make money on the investment they made into legal cannabis. As it stands, the states and the federal government are punishing these people who are just trying to do the right thing."

Another WeCann premier listing, PowerPlant Park in Richmond, Calif., is an 18.8-acre cannabis campus, vertically integrated from seed to sale for cultivators or retailers. The megasite is slated to open in early 2023. WeCann has signed 18 leases and sales, using tenant-investor and tenant-grower models. This hybrid indoor mixed-light greenhouse model represents the future, says Piazza, where high-quality cannabis—containing 25% to 35% THC—can be purchased through drive-thru windows, allowing growers to sell directly to the consumer and realize better margins.

Burning Through Time, Money, Patience

Still, finding a suitable property isn't easy—and earning a commission on a cannabis sale or lease can require time and patience.

The majority of property owners still won't consider a cannabis tenant, says Francis. For those that will, you must be familiar with state and local restrictions. Oregon, for instance, doesn't allow manufacturing and retail operations at the same address and limits the number of plants and canopy size at grow sites.

Costa Mesa's ordinance includes a 1,000-foot buffer zone for sensitive uses, such as day care centers, homeless shelters, playgrounds and K-12 schools. In fact, most cities want cannabis in a zone, Piazza notes, which skews valuations throughout the commercial real estate sector.

Illinois legalized medicinal marijuana in 2014 and recreational use in 2020. Some Illinois communities quickly embraced cannabis; others rejected the concept. Communities and building owners think a dispensary "is a head shop" and will invite crime, says Deena Zimmerman, vice president with SVN Chicago Commercial, who has represented the medical dispensary space since 2014. "My job is to dispel their misconceptions," she says. Neighborhoods are won over by "upscale security and aesthetics," which Zimmerman compares to that of an Apple Store.

Landlords are realizing a dispensary is a great solution to backfill a space. Former banks and restaurants align with tenants' need for 3,000 to 6,000 square feet. "This is no different than a Starbucks in terms of site selection," Zimmerman says.

Recreational sales in the state were brisk until a Michigan cannabis cultivator filed a lawsuit challenging Illinois' lottery-style licensing process, which awarded social equity licenses for groups impacted by the war on drugs. Deals stalled. Many would-be tenants hesitated to pursue properties until the lawsuit was dropped in 2021, Zimmerman says.

Even without legal challenges, getting a cannabis business off the ground takes time. Operators need the correct zoning, enough water and power for cultivation, and local permits. Indoor cannabis facilities require considerable capital outlays and power upgrades, usually at the tenant's expense. Typically, Francis says, it takes a year to become operational and another six months to start making money. Consequently, tenants are signing long-term leases.

The process can burn through a prospective operator's capital. So commercial brokers would be wise to vet potential tenants to ensure they have the financial wherewithal, says Christopher Stefan, principal at Desarollo Real Estate in Vail, Colo., and Cannabis Capital Advisors. Stefan, who negotiates the sale of cannabis business licenses and originates equities, says commercial brokers should seek qualified legal advice to ensure a tenant is both financially worthy and not engaged in illegal activity. Otherwise, "you might force [a deal] that hurts your landlord in the long run."

And then there's the matter of getting paid. Piazza reports waiting four years to receive a commission on early cannabis deals; he now negotiates commission payment terms into all deals. He lays blame at the city level—cities don't hire enough staff to process applications or evaluate manufacturing plans. "The licensing process for cannabis is a joke," he says. "They have made this process so difficult and lengthy that deals just die."

None of Zimmerman's recreational-use clients have opened a retail dispensary yet as they are still in various stages of the required process. But she hasn't let the bureaucratic hurdles get her down. Her clients include Blounts & Moore, a group of Black professional women featured in *Rolling*

Stone magazine in 2021 for their vision of being the first Black-owned cannabis business operating in multiple states. Zimmerman says she's "thrilled" to have advised and assisted the group with site selection for two years.

Excess Supply, High Tax

Despite the activity that follows cannabis legalization, brokers who specialize in this market say they've seen a marked slowdown in business as cannabis businesses struggle to make a profit.

During the pandemic, cultivator-operators were considered essential workers, says Madigan. "I thought it would jump-start the industry." Instead, he observes, there's an oversupply of product, which cannot be sold across state lines, and "the price has plummeted." Some growers have resorted to burning their harvest in the state. "Demand is there," Madigan says, but he believes "people are buying it black market," which is a market undertow in California.

"We have a massive oversupply of cannabis flower as it relates to legal shelf space," agrees Piazza, "because cities haven't embraced retail, but allow unlimited cultivation, manufacturing, distribution. ... It doesn't work."

Cannabis produced indoors sells for $700 to $1,200 per pound, but costs about $700 to $800 per pound to grow. The margins are worse for outdoor-grown cannabis, says Piazza. "Farms are failing, and nobody will buy." Again, Piazza says government is the problem. "The consumer is being forced into the illegal cannabis market, because of inflation and state and local excise taxes," he says. For example, the 7% excise tax in Costa Mesa plus state sales and excise taxes amount to a 30% levy for purchasers.

Desarollo Real Estate's Stefan observes that in states without license caps—California, Colorado, Oregon and Oklahoma, to name a few—"inevitably it'll lead to oversupply and business and tenant failures." California has issued more than 12,000 cannabis licenses; facilities are issued nonconveyable licenses, and individuals then obtain a license to operate at a site, resulting in rent payments on vacant buildings. Cap rates—typically in the mid-teens but as high as 20—are indicative of the risk in the sector.

All this can spells trouble for property investors hoping to cash in on legalization. One property owner recently reached out to Madigan for advice on how to collect late fees. Another buyer of a leased investment told Madigan he hadn't received rent for three or four months. All this raises the specter of how a broker re-tenants a C1D1 laboratory built out to make edibles and extraction products, upgrades that are useless to a conventional tenant. Stefan reports seeing an increase in distressed sales of businesses or tenants walking away, and new tenants simply signing a lease with the [owner] without paying for the license or assets. "It's becoming more frequent."

Zimmerman praises what she calls "Illinois' thoughtful approach" to licensing. The state has granted fewer than 200 retail dispensary licenses and allots 25 percent of cannabis tax revenues to communities harmed by disparate enforcement of drug policy. The industry generated a $1.5 billion windfall in tax revenue from adult-use sales in fiscal year 2022.

She is confident the SAFE Banking Act will pass *(see sidebar)* and remains optimistic about the cannabis sector. Cannabis legalization, she says, "has been really good for the state." ■

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

Marijuana Terms

Cannabis (Marijuana): Dried leaves, flowers, stems and seeds from the cannabis sativa or cannabis indica plant.

Cannabidiol (CBD): Nonaddictive active ingredient in the hemp plant; does not cause a high. Available as oils, extracts, capsules, patches, vapes and topical skin preparations.

Dispensary: A store that can legally sell cannabis products—either medical, recreational or both.

Hemp: This variety of cannabis is grown for its seeds and fiber and contains minute amounts of THC.

Schedule I drug: Drugs, substances or chemicals that the federal government deems to have no currently accepted medical use and to have a high potential for abuse. Schedule I drugs include peyote, heroin, LSD, marijuana (cannabis) and ecstasy.

THC: Psychoactive compound in marijuana that causes a "high."

Sources: National Environmental Health Association and the Drug Enforcement Administration

SAFE Banking Act

At press time, Congress was considering action on the Secure and Fair Enforcement Banking Act. The bill would make it possible for cannabis businesses to work with federally insured financial institutions by prohibiting federal banking regulators from penalizing those financial institutions that serve legitimate cannabis-related business. Because current law prohibits the possession, distribution and sale of cannabis, holding monies in a federally insured institution that can be traced back to a state marijuana operation could be considered aiding and abetting a federal crime and money laundering. The National Association of REALTORS® supports passage of the SAFE Banking Act. "Denying these businesses and the businesses that provide them with goods and services, including real estate professionals and property managers with cannabis business clients, access to national banks presents significant challenges both to the businesses and the communities they are in," says Erin Stackley, NAR director of commercial and policy oversight.

Inflation, War Take Their Toll

Pressures on the market drove down third-quarter activity. **BY NADIA EVANGELOU**

After the strong economic rebound in 2021, growth in the U.S. has slowed in the face of rising inflation, the household income squeeze, and geopolitical events. In commercial real estate, third-quarter 2022 data showed slowdowns in the apartment and office sectors, while industrial and retail retained strength.

Vacancies, Rent Growth by Sector

		Q3 2021	Q3 2022
Multifamily	Vacancy rate	4.7%	5.4%
	12-mo. rent growth	10.4%	5.7%
Industrial	Vacancy rate	4.5%	4.0%
	12-mo. rent growth	8.3%	11.8%
Office	Vacancy rate	12.1%	12.4%
	12-mo. rent growth	0.2%	1.1%
Retail	Vacancy rate	4.8%	4.3%
	12-mo. rent growth	2.7%	4.4%

SOURCE: NAR ANALYSIS OF COSTAR DATA

Multifamily

Multifamily absorption and rent growth decelerated in 2022 with absorption in the 60,000–70,000-unit range. That's below pre-pandemic levels. In the meantime, rents rose year over year, but at a slower pace than a year ago. However, multifamily housing demand remains strong. Given rising mortgage rates and home prices, people may be forced to rent for longer due to decreasing affordability.

Office

As the country navigates hybrid work, the office sector continues to struggle. In Q3 2022, about 1.34 million more square feet of office space were vacant and placed on the market than was leased. Although more people returned to their offices, after four quarters with positive net absorption, demand for office space dropped. As a result, the market's net demand for office spaces decreased relative to supply, and the national vacancy rate rose to 12.4% in Q3 2022 from 12.3% in the previous quarter. The office sector has the highest vacancy rate across all sectors.

Retail

Although spending slowed this fall, it remained strong in Q3 2022, driving growth in demand for retail spaces for the seventh straight quarter. Retail sales, excluding gas, auto, and non-store retailers, advanced to $383 billion in August, a 19% increase from August 2019. As a result, net absorption increased to 23.3 million square feet in Q3 2022, a 22% increase from the second quarter. Neighborhood retail that offers in-person services continues to advance even faster. Net absorption for neighborhood centers rose by 35 percentage points compared to the year's second quarter.

Industrial

Demand for industrial property remains robust. Net absorption was nearly 425 million square feet in the 12 months ending in Q3 2022. Although demand may have tapered, the volume of industrial space absorbed continues to be double that of pre-pandemic times. As a result, this sector had the lowest vacancy rate in Q3 2022, at 4%. With such strong demand, rent growth continues at historic highs, rising 12% year over year in Q3 2022. Rents are rising even faster for logistics space, at 13.5% year over year.

Evangelou is senior economist and director of real estate research for the National Association of REALTORS®.

Why don't private and government rent data align?

Government data, as reported in the Consumer Price Index, draws from the Consumer Expenditure Survey. In that survey, renters are likely to report rental rates locked in earlier. Changes may take months to show up in government data. In contrast, the private sector publishes listed rents—current rent prices.

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Giving Brokers A Better Experience

These founders transformed their frustrations into impactful solutions for commercial brokers and their clients. **BY STACEY MONCRIEFF**

LeaseUp founder and CEO Kurt Chisholm was working as a tenant rep at a commercial real estate advisory firm in Boston, searching for a more efficient and elegant way to share property data with clients and manage the lease process. Otso co-founder and President Marissa Limsiaco and her investment partners were unhappy with the shortcomings of the old-school security deposit system, which tied up tenants' money without giving property owners adequate protection against potential losses. Chisholm and Limsiaco thought there had to be a better way—so they invented it. Their technology solutions are now filling a gap for many commercial real estate professionals.

Data + Workflow

Kurt Chisholm

"We wanted to create something that would enable agents and brokers to turn their own data into actionable insights," says Chisholm.

Many platforms offer aggregated property data and broker reports, says Chisholm, but when brokers want to use their own data and produce custom property surveys for clients, they often use technologies such as Microsoft PowerPoint and Excel and Adobe PDFs. Those are great products, but the result is static information that needs to be updated whenever there's a change in status on a property.

Enter LeaseUp, which provides a suite of tools that allows brokers to go from survey and tour to signature with a modern product experience. The site uses a flexible data model that enables users to easily customize and reorder information based on client interest and create up-to-the-minute, branded reports in a fraction of the time.

"A big thing for us was to allow brokers to collaborate and communicate with clients and partnering brokerages," Chisholm says. Using LeaseUp's chat function and client activity tracker, brokers can avoid having to sift through email to track down communications, ultimately moving deals forward faster.

LeaseUp entered the market in November 2020 as a tool for tenant reps but has gained traction as a sales tool, too. There are free trials, and plans start at $100 per user per month, with enterprise plans available for larger organizations looking to connect their tech stack to LeaseUp.

Chisholm predicts, "2024 is going to be the year of the API. Brokers will be able to operate from a single tech stack. The market's not there yet, but it's coming."

Win-win for Tenants, Owners

Marissa Limsiaco

"We were frustrated with the exposure we felt in every deal," says Limsiaco. She and her investment partners would collect the standard one-month security deposit but were putting many times more than that into properties to get tenants to sign leases.

Their solution: a lease insurance solution for office, retail and industrial assets that frees up tenants' cash while protecting owners' investments. They saw similar products in the multifamily arena, but the underwriting process was slow, Limsiaco says. "We asked ourselves, 'How do we underwrite fast but accurately?' " They did it by connecting directly to bank accounts using Plaid, the technology behind apps like Chime and Venmo.

Otso launched in 2019, working with smaller investors, owners with one to 10 properties. During the pandemic, Limsiaco says, property owners were looking for innovative solutions and adoption took off.

In 2021, Limsiaco and co-founders Josh Feinberg and Frank Rogers got the backing of Accelerant, an AM Best Rated A– insurer. Not only did that help them sleep better, she says, but it also raised the stakes. Now, Otso is talking with institutional investors, issuing bonds for leases with a range of $1,000 to $5 million in security deposits. "Automated tenant underwriting will be a new standard in our industry in the coming years," Limsiaco predicts. "We're already getting high demand from institutional investors. The recessionary environment will put pressure on owners to make this process faster and easier."

Otso and LeaseUp were part of the REACH Commercial program, Otso in 2021 and LeaseUp in 2022. REACH is a technology accelerator launched in 2019 by Second Century Venture, the strategic investment arm of the National Association of REALTORS®.

Kenny Parcell at the 2022 C5 Summit

PRESIDENT'S MESSAGE

RIDING TOGETHER

People who think of the National Association of REALTORS® as "primarily residential" are surprised to learn that our membership includes one of the nation's largest groups of commercial real estate pros. At C5 Summit in New York City last August, I was impressed by the strong community of commercial practitioners who are "Riding with the Brand." That's our theme for 2023. It speaks to the Old West tradition of a cowboy signing on with a ranch and committing to the mission of the ranch owner. REALTORS® are riding with the brand because we are the brand; the commitment to protect it comes from us.

Our profession is stronger when we're united. Our advocacy on commercial issues, from preserving the 1031 exchange to ending the COVID-19 eviction moratorium, benefits our profession and consumers. Please join us for the next C5 Summit later this year. And come to one of our Riding with the Brand events to see just how powerful it is when we ride together with the REALTOR® brand. – *Kenny Parcell*

Riding with the Brand is touring the U.S in 2023. Learn more at nar.realtor/riding.

Sale and Lease Data

CompStak Integrated into RPR®

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For the past four years, Michael Hinton, CCIM, has been using a data platform called CompStak that combines crowdsourced commercial lease and sale transaction data and property information with AI-driven analytics.

"CompStak has been a great source for detailed leasing and sales information for commercial properties," says Hinton, Miami REALTORS® 2022 commercial president and a senior associate at Apex Capital Realty. "The service has certainly helped me win more than a few listings by allowing me to provide quality information to my new clients."

The CompStak platform handles millions of data points each week to create a comprehensive commercial real estate data set.

Now, as a member of the National Association of REALTORS®, you have access to **CompStak Exchange**, an analyst-reviewed comp data and analytics platform. In October, NAR announced the integration of CompStak Exchange into Realtors Property Resource®. NAR members also receive exclusive promotional credits that they can use to discover timely comps in their market.

"Using RPR and CompStak together will be a huge benefit—both timewise and in cost savings—for me and all NAR commercial members," Hinton says.

Jeff Young, RPR®'s COO and general manager, says the CompStak integration advances NAR's goal of being a vital business partners to REALTORS® who practice commercial real estate.

"We are thrilled to partner with CompStak to deliver a unique tool that provides valuable information for clients and helps brokers close more transactions," Young says.

"One of our goals in this collaboration is to provide NAR's commercial members with quick access to accurate and transparent data," says CompStak CEO Michael Mandel. "We are excited about CompStak's integration into RPR®, which will provide REALTORS® with a competitive edge and lead to better, faster deals for everyone."

How to redeem this benefit: At any commercial property page on RPR, scroll down to "Additional Resources." Click on CompStak to access the CompStak sign-up page. Already have a CompStak account? Email your name and email address to nar@compstak.com.

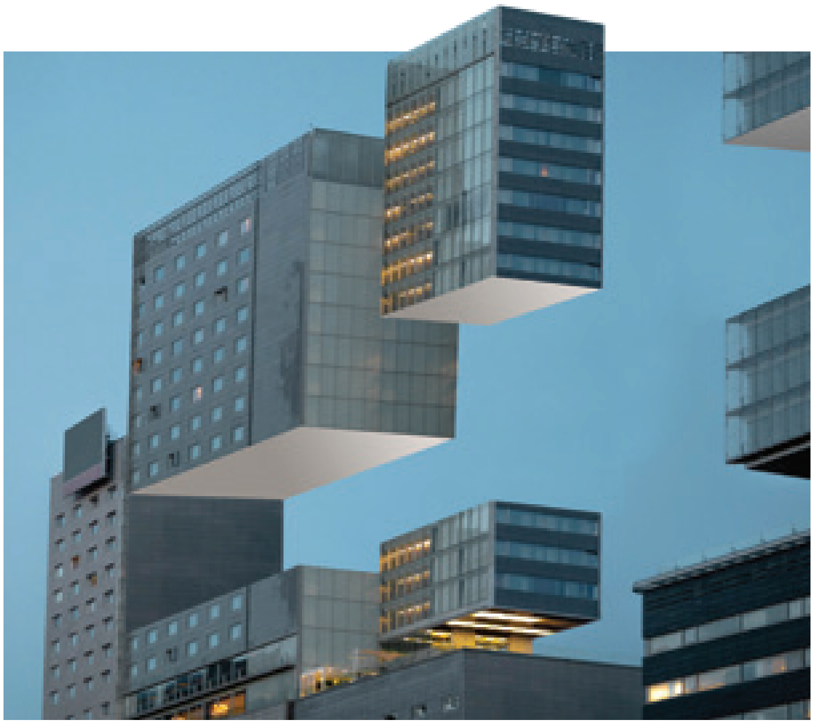
narrpr.com

Commercial is Global

NAR hosts the USA Pavilion at the MIPIM conference in Cannes, France, March 14–17. Learn more about NAR's effort to bring investment capital into the U.S at nar.realtor/mipim.

One Aid to Making Buildings Convertible

Congress can, and should, pass a tax incentive to encourage the conversion of commercial buildings to residential units. **BY EVAN LIDDIARD**



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Almost from the start of the COVID-19 pandemic, the transition of millions of office workers to remote work locations has sparked talk about commercial-to-residential adaptive reuse. Since the U.S. has a serious housing shortage, the notion of converting some of those underused office buildings into residences seems like an elegant solution. Bolstering the commercial real estate market while creating more places to live are just two potential wins. Job creation and the generation of tax revenue are two more of many additional benefits of a successful conversion.

So, why aren't commercial-to-residential conversions happening on every block of every major city and in most suburbs?

The answer is rather complex, with a combination of economic, legal and practical factors contributing to the reluctance of developers to move on these projects. Entanglements connected with permitting, toxic contamination and code conformity are some of the factors that make it much more difficult to accomplish a conversion than to start a blank-slate project on a vacant lot. Underlying these issues is the basic fact that conversions are risky and expensive.

This reality, combined with the numerous social and economic benefits of conversions, justify proactive government policies that provide owners incentives to adapt existing commercial properties to new uses. Given the obstacles standing in the way of these benefits, an additional impetus is needed to unleash the badly needed solutions that smart property conversions can provide.

One idea for providing this impetus is legislation introduced in both houses of Congress known as the **Revitalizing Downtowns Act** (H.R. 4759/S. 2511). These bills would provide a 20% tax credit for qualified property conversion expenditures. The credit is modeled on the current-law historic property rehabilitation tax credit and can be used for buildings that are at least 25 years old at the time of the conversion.

The bills didn't stand a chance of passage in 2022, but the National Association of REALTORS®, along with more than a dozen other real estate–related trade groups, sent a letter to the sponsors of these bills in October, urging them to modify and expand the legislation before it's reintroduced in 2023.

Among the changes listed in the letter are the following, which are designed to broaden the impact, effectiveness and appeal of the legislation:

- Expand the types of properties eligible for the credit to include shopping centers, industrial buildings and hotels. This could vastly enlarge the potential of the incentive.
- Extend the tax incentive to real estate investment trusts. Currently, REITs are not able to pass credits through to their shareholders, so a mechanism would be needed to make the benefit available to these entities, which own nearly 15% of all commercial real estate.
- Provide a bonus credit for properties located in low-income areas. This recognizes that conversion projects in economically distressed areas entail additional financial risks.
- Promote the conversion of properties into affordable housing by enabling states to use tax-exempt bonds to reduce financing costs.

An expanded version of the Revitalizing Downtowns Act could propel a new wave of private investment in older buildings that could lead to the creation of affordable housing and significant job growth. It could also increase the likelihood of attracting sponsors from both sides of the aisle, which is vitally needed in today's political environment.

Liddiard is director of tax policy for the National Association of REALTORS®.

INSPIRED BY SOMERSET DEVELOPMENT

Bell Works: A Ringing Success

New Jersey adaptive reuse project creates a "metroburb" outside the Big Apple. **BY JEFFREY STEELE**

Iconic Finnish American architect Eero Saarinen brought his modernist vision to the Bell Labs Holmdel, located outside of New York City. Developed by AT&T Co. as a research and development facility, the massive structure was originally bathed in glass. Over the decades, Sheetrock had replaced glass as a way of keeping R&D experiments secret. Under the leadership of Ralph Zucker, Somerset Development (now known as Inspired by Somerset Development) reimagined the building as a "metroburb," a self-contained metropolis in the suburbs. Because the building is a National Historic Landmark, it was essential to respect original uses. NPZ Studio+ revitalized the design, restoring the lobby and auditorium to their original look and transforming the lower-level cafeteria into a grand ballroom with the original flooring preserved. Prospective tenants can understand the enormity of Bell Works only by walking around inside.

"Most of our retail tenants aren't traditional retailers but destinations. People come to Bell Works for the first time, find it amazing, and say, 'We need to come back.'"

Retail leasing agent Justin Korinis, principal, Sabre Advisors, Hasbrouck Heights, N.J.

A PLACE FOR DISCOVERY

Conceived in the Eisenhower era, Bell Labs Holmdel was a wellspring of ideas leading to groundbreaking inventions. Over four decades, it served as the workplace for more than 6,000 engineers and researchers, including Nobel Prize winners.

THE DETAILS

- Historic Bell Laboratories building
- 2.2 million square feet, encompassing office, retail, dining and hospitality
- Office accounts for 1.2 million square feet
- Approximately 30 retail spaces account for about 150,000 square feet
- 95% leased, 85% on the retail side
- Welcomes 1,000–2,000 visitors a day
- Open 365 days a year
- Concept was replicated at Ameritech Center in the Chicago suburb of Hoffman Estates, now Bell Works Chicagoland

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