Commercial Real Estate Development FALL 2024

Development

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Crescent Communities

Developer of the Year 64

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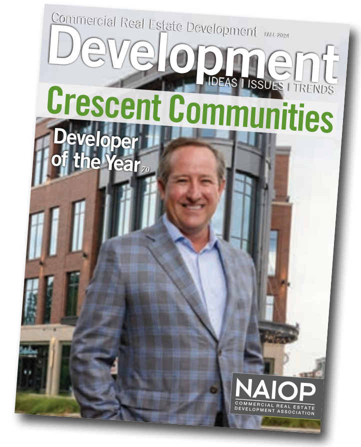

Crescent Communities Chairman and CEO Brian Natwick in front of the company's Elizabeth on Seventh mixed-use community in Charlotte, North Carolina.
Courtesy of Crescent Communities

COLUMNS

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HOTEL DROVER

A Note From the Editor

Unique Trends in CRE: Trophy Industrial to Spaceports

This issue features a story on REI's newest distribution center and its focus on designing for employee wellness, a trend the NAIOP Research Foundation studied last year in a report by KSS. Similarly, longtime NAIOP member **Clark Machemer** says developers should drop the cookie cutter and go for "trophy" status when designing certain industrial buildings.

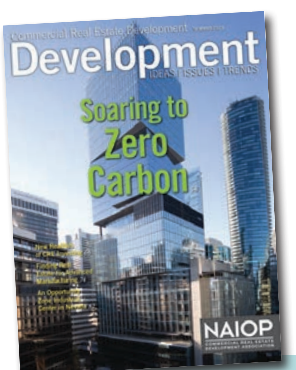
Jennifer LeFurgy

In another feature story, freelance writer and former broker **Will McDonald** looks at the boom in spaceport development in Houston and coastal Florida.

Also, congratulations to Crescent Communities for being named the 2024 Developer of the Year! They have consistently demonstrated the ability to produce remarkable communities with a strong brand.

I hope to see you at CRE.Converge in Las Vegas!

Stay informed,
Jennifer LeFurgy, Ph.D.
Editor-in-Chief



Most Popular From Summer 2024

1. **"The New Realities of CRE Investing"** (naiop.org/24investing), page 66
2. **"Victory Logistics District: Transforming Northern Nevada's Desert Into a Thriving Industrial Center"** (naiop.org/24victory), page 82
3. **"Soaring to Zero Carbon"** (naiop.org/24soaring), page 58
4. **"Advanced Manufacturing's Rapid Growth: Finding the Right Real Estate"** (naiop.org/24advanced), page 74
5. **"The Future of Sustainability Includes the Past"** (naiop.org/24sustainability), page 22

In Brief

Notable facts and figures on the state of the commercial real estate industry, culled from media reports and other sources.

INDUSTRY OUTLOOK

80% The portion of U.S. respondents to Altus Group's Q2 2024 CRE Industry Conditions & Sentiments Survey who expressed their intention to transact (buy, sell or both) over the next six months; 65% of Canadian respondents likewise indicated plans to enter transactions. Altus Group said the quarter's transaction appetite was "driven more by larger firms with CRE exposure greater than US $5 billion."

INDUSTRIAL

$142 The average national sale price per square foot of U.S. industrial properties, according to the CommercialEdge May 2024 market report. This represents a year-over-year increase of 15.4% and is 71.2% higher than in 2019. "With office assets trading at $165 per square foot in 2024, industrial prices are closer to office on a per-square-foot basis than ever before."

OFFICE

830 The total number of office buildings CBRE designated as "prime" in an analysis identifying the highest-quality buildings across 57 U.S. cities. The properties comprise only 8% of the U.S. office market by square footage and 2% by building count (compared with 60% for Class A properties). "Average vacancy in the prime buildings in this year's first quarter (14.8%) was 4.5 percentage points lower than the rest of the market ...

Future NAIOP Events

- **I.CON Cold Storage**, Oct. 7, Las Vegas
- **CRE.Converge**, Oct. 8-10, Las Vegas
- **Chapter Leadership and Legislative Retreat**, Feb. 3-5, 2025, Washington, D.C.
- **I.CON West**, March 26-27, 2025, Los Angeles

For the most current information on upcoming NAIOP events, both virtual and in-person, visit naiop.org/Events-and-Sponsorship/

and attracted an average rent premium of 84% more than the rest of the market."

265,897 Square feet of new office building construction started in the first quarter of 2024. The quarter marked an all-time low for office building groundbreakings, according to JLL and reported by Fast Company. For comparison, the first quarter of 2020 saw 10,562,590 square feet of new office building construction.

MULTIFAMILY

30% The percentage decline in permits to build apartments in the United States since the COVID-19 pandemic, according to a Redfin analysis of U.S. Census Bureau data. "Builders obtained permits to construct 13 multifamily housing units for every 10,000 people in the U.S. so far this year, down from an average of 18 during the same periods in 2021-2023."

DATA CENTERS

$100 Billion The amount that Amazon, the world's largest data center user, plans to spend on new data centers over the next decade. As reported by The Wall Street Journal, the Seattle-based tech giant intends to add at least 216 data center buildings in the next several years as it dedicates more investment money to its cloud computing and artificial intelligence infrastructure.

RETAIL

8.5 Months The average time it takes to secure a tenant once available shopping center space hits the market. According to CoStar, that is the fastest pace recorded in more than two decades, due in part to minimal shopping center development over the past 10-plus years, which has available space hovering at historic lows.

PROPTECH

14.3% The amount that venture capital investments in proptech and proptech-adjacent companies declined in the first half of 2024, per the Center for Real Estate Technology & Innovation. Total funding reached $4.37 billion, compared with $5.10 billion in the first half of 2023 and $13.13 billion in the first half of 2022.

ENVIRONMENT

876 The number of Energy Star-certified commercial buildings in Los Angeles, outpacing all other U.S. cities. Washington, D.C. (631), New York City (390), Atlanta (373) and San Francisco (368) rounded out the Environmental Protection Agency's annual "top cities" list. Energy Star-certified buildings use an average of 35% less energy and are responsible for 35% less carbon dioxide emissions than typical buildings. ■

Diving Deeper Into Construction Spending

Divergent trends emerge when users get below the surface of topline figures for different project types.

By Ken Simonson, AGC

Even data-savvy real estate investors and developers can be misled by not digging deep enough into trends for construction spending by project type. There are series tucked into the monthly government reports that provide more insight than the topline figures do.

For example, on the first of each month the U.S. Census Bureau releases an estimate of "value put in place"—spending on projects underway. The bureau's press release lists 16 types of nonresidential projects and further breaks them out between private and public owners. That might seem like a lot of detail, but one category in particular can hide more than it reveals: private office spending, which includes spending on data centers.

Spending Categories

Following years of requests from the Associated General Contractors of America and other interested parties, on July 1 the agency began posting separate estimates for data centers at www.census.gov/constructionspending. To find the figures, it's necessary to go to "Historical Value Put in Place" under the data tab and choose the files for private construction. Even then, some digging is required to find the non-data center piece of private office construction by subtracting data centers from the total, which includes "general" and "financial" offices separately.

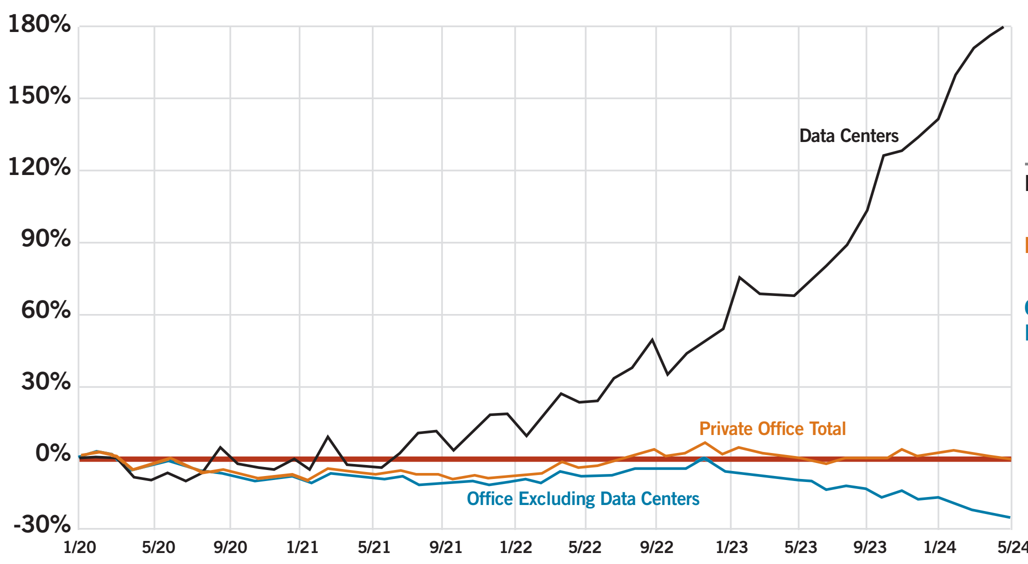
Data center spending increased for 12 months in a row and constituted a record 33% of the private office total in May 2024 ($27 billion out of $82 billion at a seasonally adjusted annual rate).

The numbers are striking. Total private office spending declined by a modest

continued on page 10

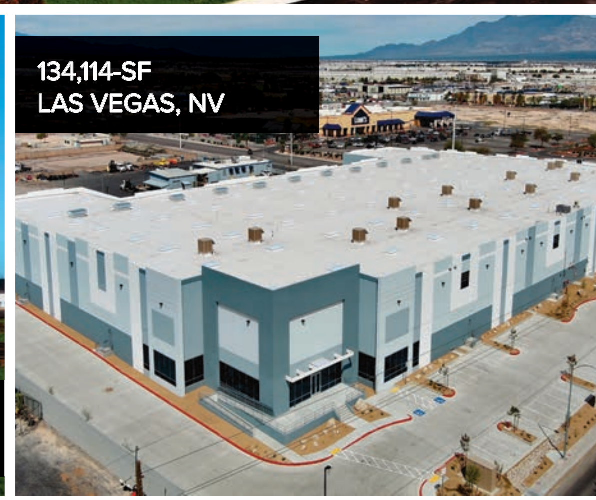
Private Office & Data Center Construction

Cumulative change, January 2020 - May 2024, seasonally adjusted annual rate



% change	Jan. 2020-May 2024	May 2023-May 2024
Data Centers	181%	69%
Private Office Total	-2%	-1.7%
Office Excluding Data Centers	-26%	-18%

Source: U.S. Census, Construction Spending



Properties that Perform

Rockefeller Group is dedicated to excellence in the built environment.

Over the past five years, our development team and capital partners have completed more than 10 million square feet of industrial and logistics property throughout the country with more than 12 million square feet planned or under construction.

View our U.S. development pipeline at **rockefellergroup.com/industrial**.

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continued from page 8

1.7% from May 2023 to May 2024, but while spending on general and financial offices fell by a combined 18%, the data center portion soared 69%. Data center spending increased for 12 months in a row and constituted a record 33% of the private office total in May 2024 ($27 billion out of $82 billion at a seasonally adjusted annual rate).

What the Census Bureau labels "commercial" is another spending category that hides divergent trends. The historical data tables list this segment as "Commercial (inc. Farm)" and break out five subsegments, plus numerous sub-subsegments. While the overall private commercial category slumped 13% from May 2023 to May 2024, the automotive subsegment rose 11%, food/beverage declined 6%, multi-retail fell 14%, "other commercial" slid 18%, and warehouse decreased 20%.

Some subsegments also have wide differences and more hidden data. For instance, the 14% year-over-year decline in multi-retail spending includes a 13% increase in outlays on shopping centers, a 57% plunge in malls and a 69% drop in general merchandise stores. Even those subsegments don't account for the full multi-retail total. Subtracting each from the total leaves $822 million of undisclosed spending as of May 2024, 36% less than in May 2023. The "definitions" page reveals that in addition to shopping centers, shopping malls and general merchandise stores, multi-retail "also includes warehouse-type retail stores."

Definitions and Limitations

Careful reading of the definitions is important not just for finding unexplained project types but also for understanding what is included or excluded from the calculations of construction activity and value put in place. Notably, nonresidential and multifamily spending includes "additions, alterations, conversions, expansions, reconstruction, renovations, rehabilitations, and major replacements (such as the complete replacement of a roof or heating system)." In contrast, for owner-occupied residential properties, these types of expenditures are counted as a separate "residential improvements" segment — but are not shown in the monthly tables. More subtraction shows that the 7% year-over-year increase in private residential construction breaks down to a 14% jump in new single-family spending, a 5% drop in multifamily and a 3% rise in improvements.

Census estimates begin with a list of project starts supplied by Dodge Construction Network. For most private projects, the bureau asks the general contractor to complete a monthly report confirming that the project is active. When reports are missing or late, the bureau applies a formula based on the spend-out rate for similar projects. These estimates are later replaced with actual figures when reports come in, sometimes leading to substantial revisions. In addition, each July the bureau posts recalculated seasonal adjustment factors for the past five years of monthly data.

The various peculiarities and adjustments make it tricky to rely on the data. Nevertheless, they are the most comprehensive spending figures available. Users just need to keep the data's limitations in mind. ■

Ken Simonson is the chief economist with the Associated General Contractors of America. Contact him at ken.simonson@agc.org.


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Trophy Industrial: A Call to Inspire Creativity, Legacy and Community

In New Jersey, a modern warehouse pays homage to the site's history and surroundings.

By Clark Machemer, Crow Holdings Development

"Trophy" is not a word typically associated with industrial buildings. Nor does it fit with the presumed aesthetic of a concrete box with some clerestory glass, a professional office facade in one or two corners, endless rows of loading docks, and fields of parking lots and truck courts. The standard design solution is to simply hide these buildings from view with heavy landscaping and berms.

However, when circumstances are right — which involves an alignment of market strength, site location, economics and community impact — there is a growing call for change. Within this shifting landscape, it is incumbent on developers to rethink the way industrial projects are designed and built.

Erik Rank, courtesy of Crow Holdings

25 Market Street's brick exterior, arch-topped windows and translucent glass accent light boxes help to distinguish it from other industrial properties.

Welcome to Elmwood Park

Crow Holdings Development knew it was buying something unique when it purchased a 12-acre site at 25 Market St. in Elmwood Park, New Jersey, in 2022. The property, visibly located alongside a busy stretch of Interstate 80 just 10 miles west of Manhattan, served as home to the Marcal Paper warehouse and its iconic neon sign for nine decades. A fire destroyed the structure in January 2019, taking a local landmark and hundreds of jobs with it.

At the time of the purchase, full site approvals were in place for a traditional industrial tilt-up building. The borough's only extra requirement was installation of a marquee "Welcome to Elmwood Park" sign on one corner of the parcel. But Crow Holdings Development felt the property and its community deserved more and, partnering with M+H Architects and Alston Construction, set out to design a building that reflected the history of the site and respected the surrounding context.

Flash forward to completion of the 207,000-square-foot, single-story Class A commercial asset in early 2024. The enhanced architecture features an attractive brick exterior and arch-topped black windows inspired by the historic warehouses and manufacturing facilities built in and around nearby Paterson Great Falls, which was once a powerful economic engine. Among the building's most distinctive features are large, translucent glass accent light boxes that marry classic elements with modern design and pay homage to the lost "Marcal" sign that was so well known to travelers along I-80.

> **"Crow Holdings Development has built a state-of-the-art building in Elmwood Park that looks more like a convention center than a warehouse."**
>
> *— Robert Colletti, mayor, Elmwood Park, New Jersey*

The property's transformation has introduced a commercial-use opportunity befitting its distinctive location and appealing to a range of potential users — even beyond traditional industrial. The outcome exceeded the borough of Elmwood Park's expectations, and the response from residents and the regional real estate community has been rewarding.

"Crow Holdings Development has built a state-of-the-art building in Elmwood Park that looks more like a convention center than a warehouse," said **Mayor Robert Colletti**. "Throughout the planning stages with the town, it became increasingly apparent that the owners were committed to beautifying the property. True to their word, the comprehensive plan that was agreed to by all parties came to fruition."

Let Go of the Cookie Cutter

The trend toward smaller, infill redevelopment projects like 25 Market Street provides an opportunity to take a step back, embrace a site's distinctive context and add a generous dose of creativity.

"Unlike huge speculative facilities constructed in fields along highways, there is nothing cookie-cutter about designing this type of industrial building," said **Larry Valenza**, principal of M+H Architects. "It's easy to just repeat what we've done in the past. But when a client gives you free rein to come up with ideas that are not the same old, same old, everyone gets excited."

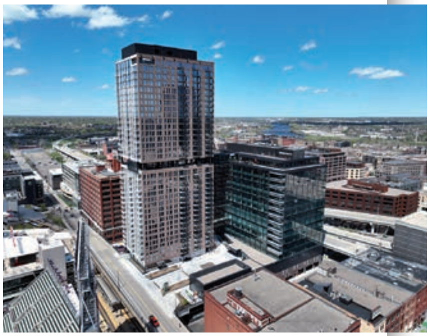
The call for originality can positively inform and improve the design. "Projects with a history are the most fun, and the story behind this site

New & Noteworthy

3.4 million sq. ft.

Wilks Development and **Frisco Economic Development Corporation** broke ground on phase one of construction for **Firefly Park**, a 242-acre **mixed-use, master-planned development** in **Frisco, Texas**, near the PGA of America Headquarters and Omni PGA Frisco Resort. The development will ultimately feature 3 million square feet of Class A office space; 400,000 square feet of upscale retail, dining and entertainment; 1,200 hotel rooms; 230 townhomes; and 1,970 midrise and high-rise residential units. The heart of the development will be a 45-acre park and open space featuring a chain of lakes, an illuminated and immersive outdoor art walk, and miles of trails.

1 million sq. ft.



Kraus-Anderson completed construction on **North Loop Green**, a **mixed-use development** located next to Target Field in downtown **Minneapolis**. Developed by **Hines** and designed by **ESG Architects**, the 1-million-gross-square-foot development consists of a 34-story, 449-unit residential tower; a 14-story, 365,000-square-foot office building; and a 471-stall, 225,439-square-foot parking garage with EV car-charging stations. The project is pursuing a LEED Silver designation. The 442,787-square-foot residential tower features a 1-acre park known as The Green, along with Sky Lounge views overlooking the Minneapolis skyline, Target Field and the Mississippi River.

909,553 sq. ft.

Martens Development broke ground on **Brickyards on Ellsworth**, a **Class A industrial development** totaling 909,553 square feet in **Mesa, Arizona**. Building sizes for the eight-building project will range from 250,000 square feet down to 35,000 square feet. **FCL Builders** is serving as the general contractor. The project is in the Pecos Advanced Manufacturing Zone and near the SRP 69kV transmission line, ensuring ample power availability. The 60-acre development is also in a city of Mesa Foreign Trade Zone, which reduces or defers tariffs and duties on products produced there and can reduce property taxes for qualified users.

is compelling," Valenza said. "The original warehouse's place and time established a vision and gave us a chance to incorporate familiar materials like brick, steel and glass in new ways. We designed a building that still functions as a modern warehouse but looks completely different."

"We want to do projects that are aspirational, but the worst thing is putting in the effort and having no one notice," he continued. "The response to this outcome has been truly rewarding."

Justify Better-looking Buildings

Considering today's land values and market rents, Crow Holdings Development believes industrial tenants, their employees and communities deserve better-looking buildings — with the same type of extra touches that add value in other real estate asset classes.

For 25 Market Street, the cost of the brick cladding, translucent glass light

"The original warehouse's place and time established a vision and gave us a chance to incorporate familiar materials like brick, steel and glass in new ways. We designed a building that still functions as a modern warehouse but looks completely different."

— Larry Valenza, principal, M+H Architects

Matt McFarland, courtesy of Crow Holdings

The interior of the 207,000-square-foot 25 Market Street building, completed earlier this year.

Entitlements and Industrial's Image Issue

The challenges of securing entitlements and countering NIMBY sentiment are well documented nationwide. Could trophy properties help build support and credibility for the industrial development community?

Thomas Dalfo, senior vice president, real estate services for PIDC, Philadelphia's public-private economic development corporation, has witnessed firsthand the difference in how projects are received. "As we create plans for sites, we engage with community organizations and policymakers to make sure that the developments are, if not necessarily loved, not aggressively opposed," he said.

Proposed developments that offer a benefit to the community are easier pills to swallow. "It's important that the perimeter edge interface between nonindustrial and industrial be respectful, and design is an important piece of that," Dalfo said. "Understanding the context for the site and the area around it, and responding with something suitable, is really just smart development, even if it requires flexibility and investment. Those who recognize that will get through the process with less opposition."

For anyone selling an unentitled property, consider this food for thought: A slightly lower land price enables the buyer to invest that cost savings in design enhancements that will help propel the project through approvals. And while selling a property that ultimately will bring top-dollar rents for less may seem counterintuitive, it may be more beneficial than sitting on a negative-income asset indefinitely.

“Over past market cycles, the vast majority of buildings were built with nearly all the same facade and frontage features, which some consider drab and undifferentiated. Trophy buildings allow users to elevate their brand and curb appeal to a much greater level than everyone else.”

— Rob Kossar, vice chairman, JLL

boxes and other enhancements added about $1 million ($5 per square foot) to the project cost. While this number is not insignificant, it can be reasoned that in New Jersey and other major industrial hubs, higher rents mean that developers can afford to spend more. However, feasibility remains an important factor; it is a matter of what makes sense for a specific market and site. The logic is clear that high-end retail on Rodeo Drive looks different than a suburban strip shopping center. Industrial design has rarely been considered in this way, but perhaps it is time that it should be.

“Trophy industrial buildings like 25 Market Street bring users a much-needed elevated product,” said **Rob Kossar**, vice chairman of JLL. “Over past market cycles, the vast majority of buildings were built with nearly

New & Noteworthy

862,000 sq. ft.

Fluff Studios

Ware Malcomb announced the completion of **Castings Commerce Park**, a three-building **speculative industrial park** on the site of the former Columbus Castings steel foundry in **Columbus, Ohio**. Ware Malcomb provided architecture and interior design services for the buildings, encompassing 599,040, 148,720 and 114,400 square feet, respectively, and with capacity for 171 loading positions. Once the largest steel foundry in North America, the 71-acre site was redeveloped by its new owner, **Stonemont Financial**, a private real estate investment firm. The park is designed for various uses, from logistics to manufacturing, and includes speculative office space. **Alston Construction** provided general contracting services.

600,000 sq. ft.

Developer **NAI Michael Companies** recently broke ground on **South Lake Marketplace** in **Bowie, Maryland**. The project is envisioned as a **regional retail hub** and centerpiece for South Lake, one of the largest mixed-use developments currently under construction in the Baltimore-Washington corridor. South Lake Marketplace will encompass 600,000 square feet of retail, dining, sports entertainment and hospitality components that can accommodate South Lake residents as well as the athletes and families attending events at the adjacent Liberty Sports Park facility. Giant Food has been signed as the anchor tenant.

430,000 sq. ft.

David O

The Bromley Companies and joint-venture partner **Highwoods Properties, Inc.** celebrated the topping out of **Midtown East**, the anchor building in the 23-acre mixed-use development in **Tampa, Florida**. The 18-story tower is a 430,000-square-foot **Class A office space** featuring column-free floor plates, 360-degree views and sustainable amenities. It was designed by global architecture firm **Rule Joy Trammell + Rubio**. Upon completion in 2025, Bromley and Highwoods will jointly own 143,000 square feet, consisting of five floors of office and ground-level retail. The rest of Midtown East will serve as the future headquarters of Tampa Electric and Peoples Gas.

Courtesy of Crow Holdings

The property previously served as home to the Marcal Paper warehouse and its iconic neon sign.

all the same facade and frontage features, which some consider drab and undifferentiated. Trophy buildings allow users to elevate their brand and curb appeal to a much greater level than everyone else. Think corporate headquarters or locations where clients come visit."

Kossar added that this visual enhancement goes hand in hand with tenants gaining an advantage when it comes to attracting and retaining talent, noting that labor remains a top driver for site selection. "And given the rapid rise in rents over the past five years, the additional cost/rent for a user to lease a trophy building is now fairly small on a percentage basis," he said.

Embrace Change and Inspire

Looking beyond the concrete box is a surefire way to distinguish properties and their developers. But earning a reputation for building the best buildings requires a willingness to stretch capabilities. Developers can start by asking themselves, "What can we be doing differently?" While it must make economic sense, it is vitally important to strive toward disrupting the status quo rather than simply letting an underwriting model and standard assumptions drive a project.

Trophy assets have the potential to inspire: the designer's creativity, the tenant's legacy and the community's pride. The realization of that potential begins with the real estate community challenging itself to approach the next generation of infill redevelopment with a new set of standards founded in quality and focused on the future. ■

Clark Machemer is senior managing director at Crow Holdings Development.

Beware the Silver Tsunami: Preparing Your Company to Survive the Boomer Bust

A lack of clear succession planning could mean the end of the line for some private real estate firms.

■ By Ellen Klasson and Charles Hewlett, RCLCO

According to AARP, 10,000 baby boomers are reaching retirement age every day, a trend expected to continue into the 2030s. This reality represents an existential challenge and an opportunity for real estate companies that are founded, led or managed by baby boomers.

Research conducted by the Family Business Alliance indicates more than 30% of family-owned businesses make the transition into the second generation, but only 12% are viable by the third generation and only 3% by the fourth generation and beyond. Furthermore, the average life span of S&P 500 companies decreased from 67 years in the 1920s to only 21 years in 2020.

Many factors contribute to these statistics regarding company longevity, but one major reason that certain real estate companies do not stand the test of time is a lack of clear and effective succession planning.

At many real estate companies formed over the past 50 years, family-owned or otherwise, baby boomer owners and leaders are facing retirement. As they retire, significant gaps in talent, knowledge and skills will result.

Research conducted by the Family Business Alliance indicates more than 30% of family-owned businesses make the transition into the second generation, but only 12% are viable by the third generation and only 3% by the fourth generation and beyond.

Most public REITs maintain formal/proactive succession plans dictated by the public markets and the fiduciary responsibility (and liability) of their boards to company shareholders and investors. However, many private real estate companies are ill-prepared for the threat that this silver tsunami of retirement poses to their continued survival.

Succession Planning

Succession planning is a strategy for passing each key leadership role within a company to someone else in such a way that the company continues to operate smoothly after the incumbent leader is no longer in control. Simply put, the process involves establishing a purposeful plan to grow, groom or get the next generation of leaders or owners, and to ensure the continuity of the business in the event of either anticipated turnover (such as an executive's retirement) or unexpected turnover (such as the sudden death of an executive or their departure to another firm).

Companies that maintain continuity in their leadership and consistency in their culture are generally able to execute their strategies consistently, while those that are constantly churn-

New & Noteworthy

255 units

Brinkmann Constructors, in partnership with **Lodging Hospitality Management, Balke Brown Transwestern** and **2B Residential**, recently celebrated the topping out of a 385,000-square-foot **multifamily community** in **Maryland Heights, Missouri**. The **Porter Apartments**, located at Westport Plaza, a 42-acre entertainment district, will include five stories of wood-framed residential apartments with 255 units and two levels of garage parking. Featuring one and two-bedroom layouts, the luxury development will feature a variety of upscale amenities, including a club room, fitness and yoga center, and private courtyard with a pool and spa.

300,000 sq. ft.

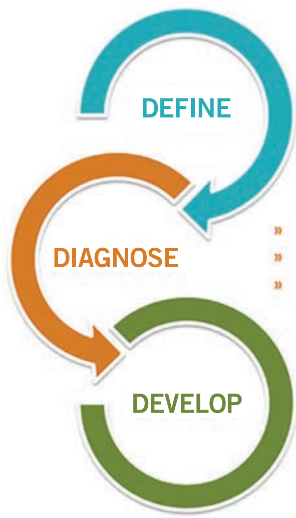
The RMR Group recently completed **Unison Elliott Bay**, a three-building mixed-use campus in **Seattle** that includes 300,000 square feet of **life science lab, research and development, and Class A office space**. The site features 200,000 square feet of 14-foot floor-to-floor heights in two dedicated lab buildings and provides tenants with above-standard power and cooling capacity, designed to accommodate lab and technological needs. The campus is near the new Climate Pledge Arena and along 15 acres of winding trails, beaches and open space. It offers an on-site chef-driven cafe, spacious fitness facilities and landscaped courtyard.

250 units

CCI Real Estate started vertical construction on **Nova River District**, a 6.4-acre **mixed-use development** in **Rome, Georgia**, that will provide much-needed housing to the small city of 38,000. The first phase is expected to be completed in fall 2025 and will offer 250 newly constructed residences, including 178 one-bedroom and 64 two-bedroom apartments. The development will also feature nearly 14,000 square feet of ground-floor retail, street-level dining, wellness-driven amenities and 1 acre of programmed green space. Two of the original buildings on the property will be redeveloped into an additional 4,000 square feet of adaptive reuse retail space.

Envisioning the Future

Many companies struggle to take succession planning much beyond developing a static list of names slotted for a few top spots. Instead, real estate companies are advised to gain "3D" vision around their succession plans, including:



- Identify critical roles/needs
- Develop leadership profiles
- Determine future skills necessary for success

- Assess current skills inventory
- Understand talent readiness & pipeline potential
- Identify gaps in people & roles

- Create talent mobility, development & skills enhancement goals
- Incorporate succession into compensation plan
- Track and measure progress against goals

Source: RCLCO

ing through managers have a much tougher time executing their strategies.

There are two different kinds of succession plans, and every company should have both.

Emergency/contingency succession plans are designed to:

- Deal with unanticipated vacancies
- Handle the legal transfer of ownership/assets
- Potentially initiate an orderly liquidation or rationalization of company businesses or real estate assets
- Install temporary leadership and governance

Proactive succession plans are designed to:

- Ensure confidence and continuity of leadership
- Highlight individuals/positions at risk
- Identify potential successors
- Generate purposeful mid- and long-term plans to fill gaps

At a minimum, emergency/contingency plans should deal with legal transfer of ownership. In some cases, these plans prescribe an orderly liquidation of the company's assets or a divestment of high-risk activities and business lines in the absence of a knowledgeable steward of these industry roles. Effective emergency plans should specify how the company is going to operate in a period of transition. Who is empowered to make what decisions and under what circumstances as a fiduciary to the nonactive company stakeholders? Should the board step in and appoint a temporary CEO while initiating a search for a replacement, whether that's an internal candidate or an external hire?

Many companies talk about long-term/proactive succession planning, but the key is to make it operational. This type of plan is not a one-and-done activity but rather an ongoing process that needs to be kept current. The most effective way to minimize the impacts of lost leadership is to develop a program to identify and foster the next generation of leaders through mentoring and training so they are ready to take the helm at the appropriate time.

Succession plans should be updated annually (at minimum) or as changes dictate. RCLCO has found that most companies have 25% to 50% of their workforce ready to assume the role for which they are being groomed.

Successful Examples

Two of the most challenging succession planning issues are the replacement of a CEO and the introduction of family successors into a real estate organization.

Horning, a family-owned, Washington, D.C.-based residential and commercial real estate company, was led for over 40 years by its co-founder, **Joseph F. Horning Jr.** In 2002, he ushered a successful leadership transition to a nonfamily member CEO who had served previously as the company's chief financial officer. In 2023, when this CEO announced he was ready to move on, the company once again looked outside of the family for its next leader because no one in the second generation of the Horning family had an interest in a real estate career.

With a full year to plan the succession, the outgoing CEO made all of the necessary preparations, both with the internal team and external stakeholders, to allow for a smooth transition. The family-run board was intentional with its search process, ensuring that its executive search partner was invited inside the company to understand its culture, goals, portfolio performance and dynamics. As a result, there was clarity in identifying candidates who would fit from both a culture and skills perspective. The family selected **Jamison Weinbaum**, who has gained

Many companies talk about long-term/ proactive succession planning, but the key is to make it operational. This type of plan is not a one-and-done activity but rather an ongoing process that needs to be kept current.

the team's trust during his year as CEO, and the company continues its successful operations.

Transition of family ownership/ leadership from one generation to the next can also be a challenge for many real estate organizations. The involvement of family members can be a touchy subject in the context of strategic planning. The Bozzuto Group, a fully integrated multifamily development, construction and property management and homebuilding company operating in the Mid-Atlantic and Northeast, offers an example of how to navigate this challenge successfully.

Toby Bozzuto succeeded his father, **Tom**, one of the company's co-founders, in September 2015, but the plan had been in the works for years. Tom encouraged Toby to first pursue a successful career elsewhere and to get the requisite education, including a master's in real estate from New York University. Once Toby joined the family company, Tom made it clear that he intended for his son to take over his ownership stake in the business and assume leadership of the firm one day.

New & Noteworthy

120,584 sq. ft.

Creation and joint-venture partner **J.P. Morgan Asset Management** began construction on **McClellan One**, a **Class A industrial development** located on a rare infill site in **Newark, New Jersey**. The 120,584-square-foot logistics building with 87 trailer stalls and excellent freeway frontage is on a 10-acre site directly adjacent to Newark Liberty International Airport. The location also offers close proximity to the Port of New York and New Jersey, the New Jersey Turnpike and New York City. Creation preleased the entire building to Barsan Global Logistics, an integrated logistics service company. The site previously operated as a long-term parking facility.

111 units

R.D. Olson Construction completed the $42.5 million **West Carson Villas** in **Carson, California**, for **PATH Ventures**, a nonprofit affordable housing developer and service provider. PATH will be owners and operators of the 111-unit **supportive housing community** designated for residents earning between 30% and 60% of the area median income. Built on the former site of an automobile repair garage, the 150,000-square-foot development offers one-, two- and three-bedroom apartments with easy access to local public transit and the 110 Harbor Freeway. The Gold LEED certified property includes rooftop solar panels, energy-saving appliances and a hot water recirculation system.

87,000 sq. ft.

Anchor Health Properties, a full-service health care real estate development, management and investment company, recently celebrated the grand opening of the **Jefferson Regional Specialty Hospital** in **White Hall, Arkansas**. The 76-bed, 87,000-square-foot freestanding specialty hospital features 40 beds dedicated to inpatient rehabilitation and 36 beds dedicated to inpatient behavioral health services in a historically underserved market. The project represents the largest private equity investment in health care in the community and statewide in recent years. ■

Do you have a new and noteworthy project in the planning, design or construction stage that you'd like to share with fellow real estate professionals? Send a brief description and high-resolution rendering to developmentmagazine@naiop.org.

Addressing these intentions openly in the context of a strategic planning process was beneficial to the organization because no one had to guess what the plan was for succession.

Common Pitfalls

A mistake many business owners/leaders make is to bring their children into the family business and hand them titles, responsibilities or compensation that they don't deserve. Valued team members who don't share the same surname may resent the unearned station of these offspring and may leave the business, assuming there is no future for them.

In another case, a private family-owned company didn't have an emergency succession plan. When the second-generation president died unexpectedly, there were no instructions or rules of engagement left behind to guide key decisions, including stewardship of the company and its portfolio. In the wake of this tragic loss, the company had a string of "interim" nonfamily member presidents who were not aligned with the wishes of the family stakeholders. As a result, the company lost 10 years of what should have been productive growth coming out of the Great Recession.

Familial Advice

For those wrestling with inviting family members into their real estate organizations and thinking about long-term succession, here are some key lessons:

Be qualified for the job. It is important for adult children entering the business to have a few years of business experience. They need to be qualified for the position.

Transition of family ownership/leadership from one generation to the next can be a challenge for many real estate organizations. The involvement of family members can be a touchy subject in the context of strategic planning.

Do your homework. Tom and Toby Bozzuto took a course on families in business at Harvard Business School and recommend seeking out similar courses.

Step aside. Parents need to recognize there is a window of opportunity for a successful transition. Waiting too long may lead to the adult child taking a position elsewhere. This doesn't mean the senior family member must retire, but they should be ready to step aside and take another role, perhaps on the board of directors, once the heir apparent is in their 30s or early 40s.

Reward nonfamily team members. Much of succession depends on focusing not just on the CEO but also on the entirety of the organization. If not handled appropriately, the term "family business" can feel restricting to those who aren't family members.

Be transparent. Talk openly about the upcoming succession and give people an opportunity to react appropriately. There should be no doubt in anyone's mind about what is ultimately going to happen. Have a timetable, but don't be too hasty.

Be patient. Plan ahead, as a smooth succession can take awhile. ■

Ellen Klasson and **Charles Hewlett** are managing directors at RCLCO.

A Seismic Transformation: Repositioning for Resilience

The state of Oregon's new research lab and office complex is built to withstand natural disasters and function as a resilient emergency center.

By Andy Dykeman, Lease Crutcher Lewis

In communities across the Pacific Northwest, residents live with the knowledge that "The Big One," a mammoth seismic event involving the Cascadia subduction zone, could strike at any time.

The heightened awareness around this and other natural disaster scenarios has accelerated a trend evident for the past decade, especially among public owners. To maintain operational continuity in the face of fires, floods, earthquakes and other events, more light industrial assets are being hardened into resilient facilities.

This was the case in 2019 when the Oregon Department of Administrative Services (DAS) purchased a 175,000-square-foot mixed manufacturing warehouse in Wilsonville, a small city on the southern edge of the Portland metropolitan area. The vision was to reposition the existing concrete tilt-up warehouse into a space capable of supporting a modern research lab, office and resilient emergency center.

DAS selected the warehouse because of its spaciousness, convenient location and capacity to accommodate multiple state agencies, promoting efficiency and collaboration. An ad-

The building was designed to meet a seismic hazard level of BSE-1N, meaning it would be expected to withstand a once-in-a-2,475-year earthquake and remain functional for immediate occupancy afterward.

Lease Crutcher Lewis

The exterior of the North Valley Complex in Wilsonville, Oregon.

ditional benefit was the presence of usable equipment, furniture and office build-outs that could be retained in the renovated building (previously, Microsoft had used the building for manufacturing).

Since opening in mid-2023, the North Valley Complex's shared labs and lab services have been used by the state's Department of Agriculture, Occupational Safety and Health division, DAS Enterprise Asset Management division, and the state police for its long-term evidence storage needs. The labs and lab services can also accommodate other agencies in the future.

Hardening the Building

In 2021, the state hired general contractor Lease Crutcher Lewis, SERA Architects and KPFF Consulting Engineering to deliver a new vision for the property.

The SERA design team used a performance-based seismic design process to help DAS choose the best performance objectives. Ultimately, the building was designed to meet a seismic hazard level of BSE-1N, meaning it would be expected to withstand a once-in-a-2,475-year earthquake and remain functional for immediate occupancy afterward. It was also designed to a BSE-2N standard for life safety, meaning it should keep occupants safe during such an exceedingly rare seismic event.

SERA

Research and analysis labs in the new North Valley Complex.

The design also targeted the seismic performance of a Risk Category IV building, comparable to that of hospitals and fire stations, which would allow the state to continue supporting its citizens during an emergency event by maintaining business continuity.

During the coordination of mechanical, engineering and plumbing (MEP) work, 3D scanners were used to verify

In areas where the shear walls would be more prominent, like in open office areas, the team opted for a steel-braced frame to allow clearer sightlines and highlight the project's new structural features.

Lease Crutcher Lewis

One of the nine concrete shear walls, measuring approximately 30 feet tall, installed inside of the existing tilt-up warehouse.

Lease Crutcher Lewis

A steel-braced frame in the open-office area of the building. Steel was chosen over a concrete shear wall in this area to allow better sight lines and to minimize the footprint.

the existing structure was consistent with the one shown in recent construction plans. To ensure the highest level of continuity from design through construction, the project team coordinated the MEP scope plus the structural upgrades using building information modeling (BIM). Lewis also used 360-degree progress photos throughout construction to keep the entire project team on the same page.

To meet resilience goals, KPFF's structural design relied on placing steel and concrete interior shear walls throughout the building. In areas where the shear walls would be more prominent, like in open office areas, the team opted for a steel-braced frame to allow clearer sight lines and highlight the project's new structural features. Lewis analyzed the cost, constructability and aesthetics of steel, cast-in-place concrete and shotcrete shear walls to optimize the building's shear elements (see feature box, facing page).

In addition, Lewis improved the rooftop diaphragm system, including extensive collector beams, blocking and drag plates to provide added strength and shear capacity to the roof-wall intersection.

Once the concrete shear walls were in place, they were welded to 3,000 feet of steel channels added inside the roofing insulation. Thirty thousand feet of wood blocking was also installed within the roof decking to reinforce the structure, built in 1995 as a tilt-up project composed of dozens of wall panels.

At 75 joints where the concrete tilt-up panels meet, Lewis installed new foundations and wide-flange column steel strongbacks with a steel channel chord to connect the panels and establish a rigid wall system. This continuous perimeter wall was then fastened to the improved roof diaphragm, creating a fully reinforced structure equipped to serve the state during the most extreme disaster conditions.

Shaping a Vision

Apart from the structural upgrades, it was important for DAS to create people-focused workplaces and amenities. To guide these activities, the project team looked to Oregon's "One State" philosophy, wherein interagency collaboration is maximized to deliver the most value to citizens.

SERA started with a space-needs analysis to inform the programming,

Comparing Shear Elements			
	Cast-in-place Concrete Shear Walls	Shotcrete Concrete Walls	Structural Steel Brace Frames
Cost	**$85-$92 /SF**	**$75-$85 /SF**	**$90-$100 /SF**
Constructability Considerations	• Pressure pump vs. overhead access. Overhead access requires additional demolition and repair costs, while pressure pumping requires more complex formwork and placing considerations. • Coordination through existing joists and mechanical and electrical penetrations. • Structural connections (concrete often requires significant epoxy dowel; steel requires welded connections; wood often requires significant attachment blocking to transfer seismic loads).	• Existing finishes need to be protected. • Cleanup and disposal of rebound material (up to 20% of calculated volume can "rebound" and fall to the working surface). • Proximity of work to placing equipment (long distances to concrete delivery and placing equipment reduces efficiency and increases cost). • Connections to existing structure (concrete often requires significant epoxy dowels; steel requires welded connection methods; wood often requires significant blocking to transfer seismic loads).	• Steel member access to erection point (length of members required not always condusive to small spaces/ narrow hallways). • Hoisting without roof access (requires less automated/ powered hoisting equipment and more labor). • Fire watch and weld considerations for combustible structures. • Steel-to-wood structural frames often require significant blocking to transfer seismic loads.
Aesthetics	• Durable • Best for closed office/ warehouse space	• Durable • Best for closed office/ warehouse space	• Durable • Best for open office and sight lines

ultimately creating distinct "neighborhoods" for each lab tenant. The floor plan was then divided into blocks, streets and public spaces to support user needs while imparting a sense of shared purpose and unity for employees. The long corridors include amenity nodes that add interest and enhance wayfinding between the lab and warehouse spaces.

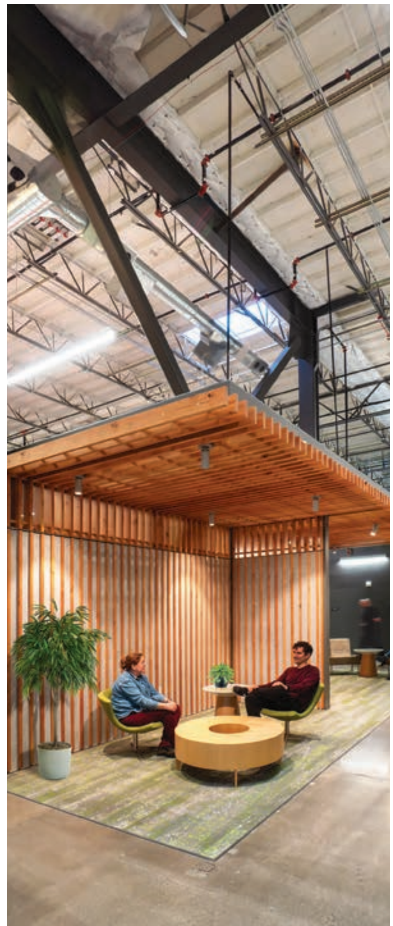
The design team also focused on imbuing the warehouse with as much natural light as possible.

Salvaged Wood: A Testament to Resilience

The project team took pride in designing the interior finishes with salvaged timber. In the summer of 2020, devastating wildfires burned 1.2 million acres across western Oregon, claiming nine lives and destroying thousands of homes and businesses. The Oregon Department of Transportation discovered some undamaged Douglas fir logs and offered them to the North Valley Complex project team.

Collectively, DAS, Lewis and SERA believed that salvaging wood from this disaster and incorporating it into a building that could serve Oregonians as an emergency center would be a beautiful and redemptive gesture — and a symbol of the state's resilience.

It also initiated a conversation about the need to embrace the wood no matter its blemishes. Much of it would ultimately be marked by knots, holes and color variations. Once the project team decided to move ahead, the logs were transported from the North Valley Complex jobsite to Epilogue, a mill located about 40 miles south of Portland in the Charbonneau area. After the wood was manufactured down into two-by-six forms, the resulting planks were kiln-dried, finished and planed.



SERA

Nodes like this one are distributed along the building's circulation paths to serve as amenity spaces and break up the expansive floor plate. These spaces feature wood planks made from timber salvaged after wildfires in 2020.

The wood salvaged from the worst wildfires in state history is now a focal point in the building's "front porch" lobby. The slats can also be found in the nodes built along the building's interior circulation paths, adding warmth to common areas surrounding the labs and helping break up the expansive floor plate.

Assessing the Value

Taking a standard industrial building and transforming it into a seismically resilient, advanced office/lab space capable of housing a robust workforce and all its cutting-edge technology is a tall order for any owner.

Taking a standard industrial building and transforming it into a seismically resilient, advanced office/lab space capable of housing a robust workforce and all its cutting-edge technology is a tall order for any owner.

However, the North Valley Complex project proved there are savings to be found in asset repositioning. Given the building's adjacency to Interstate 5, the original purchase price and the number of interior spaces that were able to be used without improvements, the asset checked numerous boxes. In addition, the project team demonstrated that upgrading the full foundation, installing shear walls, making diaphragm improvements and replacing the roof at the existing building offered significant savings for the state compared with constructing a new building with the same requirements. It is a notable example of infusing new life into a well-positioned but underutilized industrial building.

Just as importantly, the North Valley Complex assures local communities that state services will remain operational and essential government functions can continue uninterrupted, even if The Big One arrives sooner than expected. ■

Andy Dykeman is a director of operations at Lease Crutcher Lewis, overseeing the company's civic and commercial markets in Oregon.

Industrial Developers Think Outside the Big Box

Changing market conditions have warehouse sizes trending downward.

By Emily Johnson, Taylor Johnson

When it comes to what's new in warehouses, more developers and users are thinking outside the big box. After a recent building frenzy of larger industrial properties — many of them exceeding 1 million square feet — rising costs, record construction completions and shifting supply chains are driving demand for smaller footprints of 500,000 square feet or less.

Mega-leases exceeding 500,000 square feet were prominent from 2020 through 2022 but slowed in 2023, leading developers to shift focus to buildings in the 100,000- to 300,000-square-foot range, according to Cushman & Wakefield. The national brokerage firm also reported that more than 60% of the total under-construction pipeline in 2024 is concentrated in buildings under 500,000 square feet.

In this article, **Kelly Disser**, executive vice president, industrial, at NAI Hiffman; **Brian Netzky**, managing principal of Glenstar Logistics; **Susan Bergdoll**, senior vice president and partner for CRG's Midwest region; and **Robert Smietana**, president and CEO of HSA Commercial Real Estate, discuss the phenomenon of smaller footprints and other ways that industrial facilities are responding to changing market demands.

How has the design of industrial facilities evolved in response to current market conditions?

Kelly Disser: Developers have shifted to a more conservative approach. At the start of Q2 in metropolitan Chicago, only 55.3% of active industrial construction projects were being built

Courtesy of Glenstar Logistics

The four industrial buildings in Tri-County 75 park in Fort Myers, Florida, range from 76,210 to 404,050 square feet.

on a speculative basis, according to NAI Hiffman's Q1 2024 Construction Pipeline Report. With leasing velocity moderating, many developers are now waiting for a major tenant commitment before breaking ground on new projects. This is a stark contrast from two years ago, when nearly 80% of new industrial development in Chicagoland was being built on a speculative basis.

"Many developers are now waiting for a major tenant commitment before breaking ground on new projects. This is a stark contrast from two years ago, when nearly 80% of new industrial development in Chicagoland was being built on a speculative basis."

— Kelly Disser, executive vice president, industrial, NAI Hiffman

Brian Netzky: A few years ago, 1 million-square-foot boxes were being built all over the country. Tenants are now taking more time to find the optimal location, property and functionality for their business needs, and currently, that includes smaller space. In response, Glenstar Logistics is developing industrial parks with flexible space options, outdoor storage, abundant parking and room for semi-trucks to circulate.

Susan Bergdoll: Clients want next-generation industrial buildings incorporating sustainability features, access to major transportation hubs and state-of-the-art design. The demand for logistics facilities with maximum clear heights, ample dock doors, substantial power and trailer storage has increased, driven by the shift toward consumer-centric logistic strategies.

Robert Smietana: We tailor our designs to the types of tenants we expect to attract. For example, this year we completed the two-building Terminus at Hobbs Station near the Indianapolis International Airport with higher-end finishes and abundant electric power, which appeals to the manufacturing and tech industries. In southeast Wisconsin, we have built campuses with room for tenants to expand. For instance, HARIBO will be nearly tripling its warehouse space in Bristol to approximately 450,000 square feet.

What's driving the demand for smaller spaces, and what solutions do they provide?

Disser: I've seen continued demand from tenants interested in smaller infill buildings. Uses include assembly, support for service businesses, recreation such as a trampoline park, food storage, last-mile fulfillment, and repair and maintenance for various industries.

Netzky: Whether it's a larger corporation using a hub-and-spoke strategy or a smaller company that simply likes the location and access, offering them options is important. Our new Tri-County 75 park in Fort Myers, Florida, includes four industrial buildings ranging from 76,210 to 404,050 square feet. The campus is 88% leased to a variety of tenants, from a local HVAC and roofing supplier to Fortune 500 food and beverage companies. However, we still see a need for big boxes in certain markets. At Cherokee Commerce Center 85 in Gaffney, South Carolina, we're constructing a speculative cross-dock 555,520-square-foot facility that's expandable to 1.3 million square feet, and we're talking to users seeking anywhere from 100,000 to the full 1.3 million square feet for that space.

"A few years ago, 1 million-square-foot boxes were being built all over the country. Tenants are now taking more time to find the optimal location, property and functionality for their business needs, and currently, that includes smaller space."

— Brian Netzky, managing principal, Glenstar Logistics

Bergdoll: Retailers are increasingly focused on storing products closer to high-density population centers, crucial port markets and primary logistics corridors. The influence of e-commerce giants like Amazon underscores the necessity for retailers to maintain inventories near consumers, prompting a trend toward onshoring and nearshoring of manufacturing operations. This shift has intensified the scarcity of land in core markets, making smaller infill locations more attractive.

Smietana: Our building sweet spot is now in the 300,000- to 500,000-square-foot range. It's risky to build something larger right now, as interest rates and vacancy rates have both doubled over the past few years. This medium size can still be a multitenant building to diversify the rent roll and mitigate risk. At Gateway Business Park in southwest Indianapolis, we have leased warehouse space to

Courtesy of CRG

The Cubes at ORD is a 66,552-square-foot speculative industrial project that aims to meet the needs of small and midsize users around O'Hare International Airport in Chicago.

tenants across industries ranging from pharmaceutical and biomedical to automotive and food service. Many of these companies employ highly skilled workers who desire more amenities and want to be near retail and restaurant options.

Where are these smaller facilities commonly located?

Disser: Smaller buildings with high occupancy are generally located in densely populated areas with a diverse labor base and near major transportation arteries. In most cases, it is cost-prohibitive to build new buildings that are less than 100,000 square feet, so the supply of those facilities remains constant, if not decreasing, due to redevelopments and assemblages.

Netzky: We like locations near major transportation routes but not in highly congested areas. For example, our Tri-County 75 industrial park is 15 minutes north of Southwest Florida International Airport at the four-way interchange of Interstate 75 and Luckett Road, so it has easy highway access but is also away from the densest areas.

What new challenges have you faced with such projects, and how did you address them?

Disser: For our team, leasing and sales activity in the first quarter of 2024 was a bit slower but rose significantly in the second quarter. We are hopeful this trend continues and spreads into transactions for larger blocks of space throughout the Chicagoland industrial market.

Netzky: Rising interest rates, slower demand and high construction costs have been a challenge. We have overcome this in Fort Myers thanks in part to the region's phenomenal rent growth. We foresee high demand for modern industrial space throughout the Southeast due to substantial population gains, which will command rents that offset high building and borrowing costs.

"Our building sweet spot is now in the 300,000- to 500,000-square-foot range. … This medium size can still be a multitenant building to diversify the rent roll and mitigate risk."

— Robert Smietana, president and CEO, HSA Commercial Real Estate

Smietana: We have been in a tight lending environment for the past two years, so we are relying on our relationships with capital partners to pursue lower-leveraged investments that will face less competition upon delivery due to limited construction. Small- and medium-size projects are easier to finance and can be completed on a shorter timeline, which benefits both landlord and tenant.

Please describe a current project that fits the smaller buildings trend.

Disser: We're experiencing robust leasing activity for industrial spaces less than 150,000 square feet in suburban Chicago. For instance, in the second quarter, we completed several leases ranging from 15,000 to 130,000 square feet. We also repped the sales of a 5-acre industrial site in Romeoville and two 10,000-square-foot industrial buildings in Carol Stream and Lombard.

Netzky: At Cherokee Commerce Center 85, our site is flexible to meet the needs of more tenants, and the property profile sets it apart. Located between Greenville-Spartanburg to the south and metro Charlotte to the north, the 290-acre business park is in a strategic location with easy highway access, robust power, low taxes and abundant labor. The campus plan calls for five buildings ranging from 211,640 to 1.6 million square feet.

> **"A major challenge is the limited availability of land in prime urban and suburban locations. We address this by maximizing space efficiency through flexible layouts to accommodate diverse users."**
>
> — *Susan Bergdoll, senior vice president and partner, CRG's Midwest region*

Bergdoll: The Cubes at ORD is a 66,552-square-foot speculative industrial project in one of Chicago's most supply-constrained submarkets — the area around O'Hare International Airport. Slated for completion in fourth-quarter 2024, it offers Class A space with features like ESFR sprinkler systems, high-efficiency LED lighting, numerous dock doors, and ample trailer and vehicle parking, meeting the needs of small and midsize users in a strategic location. The facility represents one end of the size spectrum across which CRG develops; we are still pursuing projects of 1 million square feet or more if the fundamentals are strong enough.

Smietana: Terminus at Hobbs Station comprises two speculative cross-dock warehouses in Plainfield, Indiana. We recently leased one of the buildings upon completion to a large manufacturer. The 497,540-square-foot development is 3 miles from Indianapolis International Airport, the country's eighth-largest freight airport and home to FedEx's second-largest U.S. distribution hub. It is also situated near Interstate 70, with quick access to the region's interstate system, putting more than 40 major metropolitan areas — or 75% of the U.S. population — within an eight-hour drive. ■

Emily Johnson is president of Taylor Johnson, a Chicago-based public relations firm representing companies in the real estate industry.

Lights, Camera, Action: The Future-forward Renovation of a Hollywood Studio

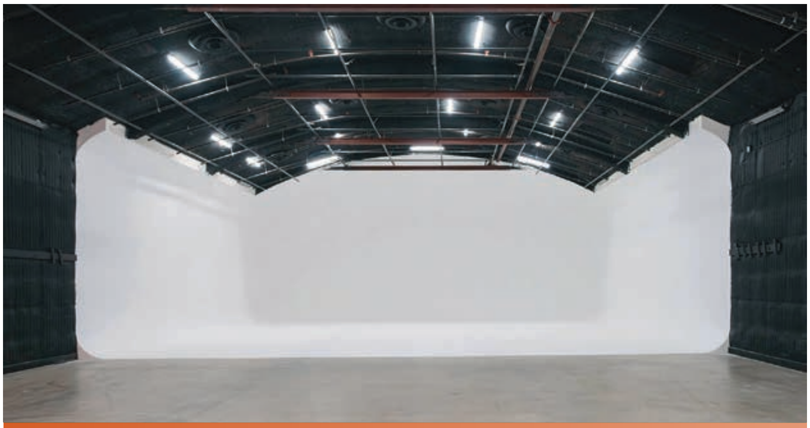
Demand for entertainment content is also driving demand to modernize production studios.

By Nikolette Huberman Jacob, BLT Enterprises

Since the golden age of cinema, Hollywood studio spaces have been providing the grounds for creative content makers. In today's world of streaming platforms, the need for new content keeps growing, which means modern studio spaces catering to content producers' unique needs are also in high demand. An analysis by Deloitte found that demand for bespoke production studios will continue to outpace supply in Los Angeles and New York City at least through 2025.

BLT Enterprises, a Los Angeles-based development and investment firm, recently decided to fully renovate the 25,000-square-foot film studio and soundstage that it owns in Hollywood. The renovations proved to be more extensive than originally planned but ultimately resulted in state-of-the-art upgrades the company believes will benefit all types of content producers, from online influencers to filmmakers and everyone in between.

> **"Studio spaces like ours go through a significant amount of foot traffic. It's a business of quick turnover, with crews coming in for a few days at a time, on repeat, year over year."**
>
> *— Christina Hirigoyen, general manager of sales, BLT Enterprises*



Courtesy of BLT Enterprises

Stage One is the largest of three soundstages at BLT Studios. Ductwork and soundproofing were painted black to ensure zero reflection from stage lighting.

Take One: Hollywood Exchange

Prior to undertaking the studio renovations, BLT Enterprises had previously acquired and renovated a 200,000-square-foot creative campus that was rebranded as The Hollywood Exchange in 2021. The historic property, previously known as Television Center and once housing the original Technicolor headquarters, had a rich and iconic Hollywood pedigree but needed modernization. BLT acquired the gated campus, with 11 buildings spanning 6.4 acres and nearly 800 parking spaces, for $64 million in 2020.

The firm wanted to maintain the property's tradition while also delivering new amenities desired by today's innovative content producers, including outdoor gathering areas, updated lighting, and a quiet, efficient air-conditioning system. Some of the more outdated spaces were converted into modern creative offices, and major renovations were performed on the lobby and the buildings' common areas. New paving and landscaping were added, while refreshed exterior painting enhanced the recognizable look of the buildings. New outdoor murals and upgrades to the rentable production spaces provided the finishing touches.

After renovations totaling $4 million were completed, BLT Enterprises was approached off-market to sell the property, and The Hollywood Exchange was sold in 2022 for $135 million.

Second Act: BLT Studios

The firm soon realized it was time to update its wholly owned and operated film studio and soundstage property, also located in Hollywood. BLT Studios includes three stages: Stage Two is 9,502 square feet and located in the

Courtesy of BLT Enterprises

Soundstage Two includes a celebrity green room with a private restroom and shower.

original building, built in the 1920s; Stage Three, the smallest at 6,472 square feet, was built in the 1940s; and Stage One, at 10,886 square feet, was built around 1980.

BLT had acquired the production studios in 2019 after noticing a yearslong undersupply of soundstages and film studios, fueled in part by the cyclical tailwinds of the convergence of the technology, media and entertainment industries. Given streaming services' consistent and high demand for content, the firm recognized there was a gap to fill. To tackle this new venture, however, BLT would need to make some major changes.

Although the property had been updated through the years, more than a decade had passed since the last large-scale upgrades. "Studio spaces like ours go through a significant amount of foot traffic," noted **Christina Hirigoyen**, general manager of sales for BLT Enterprises, who led the studio renovation team. "It's a business of quick turnover, with crews coming in for a few days at a time, on repeat, year over year." While the studio space business model has historically involved only short-term leases, it is shifting more toward long-term leases.

While routine maintenance can keep a studio space clean and functional, sweeping updates are eventually needed to satisfy the latest technology demands of content producers.

Measure Twice, Cut Once

BLT understood that undertaking extensive renovations would require closing the studios for a time. The potential existed for a significant loss in revenue, especially if renovations dragged on longer than expected.

"Our philosophy was measure twice and cut once," explained **Rob Solomon**, president of BLT Enterprises. "We estimated the renovations would take six weeks, so we planned to be closed for eight weeks. The last thing we wanted to do was to have to call a client to tell them they couldn't film on the date we had told them they could — that would be devastating for everyone. If that happens, you've lost a client for life."

Courtesy of BLT Enterprises

Soundstage Three is home to a permanent three-wall, split chroma key, green and white cyclorama.

"We estimated the renovations would take six weeks, so we planned to be closed for eight weeks. The last thing we wanted to do was to have to call a client to tell them they couldn't film on the date we had told them they could."

— Rob Solomon, president, BLT Enterprises

Made for Drama: Cycloramas

Cycloramas — or "cyc walls" as they are often called in the production industry — are blank, curved walls that serve as seamless, seemingly infinite backdrops for filming. Without corners, there are no hard edges for the cameras to catch. A cyc wall is key for many green or blue screen special effects, also known as chroma keying. In some larger productions, a high-quality background is projected onto the cyc wall during filming to help create an immersive background for the actors. Other productions add background in postproduction to simulate reality.

The word "cyclorama" is also used to describe a concave wall at the very back of a stage to create the illusion of sky in a theater. Cyclorama can also describe a painting or panoramic image on the inside of a cylindrical platform that makes the viewer feel as if they are standing in the middle of a 360-degree view. This type of image was wildly popular in the late 19th century, when cycloramas were used to tell epic stories of battles and notable events, complete with narration and music. Most major cities had at least one cyclorama, and some were transported around the country for visitors to enjoy.

Some of these historic cycloramas are still available to view throughout the world, including one that depicts the Battle of Gettysburg in Pennsylvania and one that shows the palace and gardens of Versailles, on display at the Metropolitan Museum of Art in New York.

The firm started planning for the process six months out, choosing a window of time for the renovations that would minimize impact on its clients. The team also coordinated closely with those clients who had already booked studio time while the studios would be closed to find alternative solutions.

Modern by Design

Once work began in summer 2023, the project team dove into extensive renovations. On the interior, all exposed ductwork and soundproofing were painted black to improve camera operation and ensure zero reflection from stage lighting. Additionally, the interiors of all three studios were repainted a bright white, and new furniture was added for comfort and functionality.

At Stage One, the cyclorama (see feature box) was in worse shape than anticipated. It had been patched and painted multiple times over the past

25 years, and more than 3 inches of paint had built up on the walls and floor. The team decided to strip it down completely to the original concrete and framing and then replastered the entire surface.

Exterior renovations included a new HVAC system, 13 energy-efficient air-conditioning units and a new PVC roof. Extra insulation was installed around the venting and ductwork for the HVAC system, ensuring any ambient air-conditioning noise would be minimalized, which is a crucial detail for film and sound production.

"The details matter," Hirigoyen noted. "Our goal is to provide every client with an ideal studio experience so that we can develop and nourish long-lasting relationships."

During the renovation, one longtime client couldn't put off test shots that had been planned during the studio's closure, so the team found a way to accommodate them. The new air conditioning had yet to be installed, so temporary air-conditioning units were brought in to ensure the production could continue as planned.

Thanks in large part to clear communication and consistent follow-through, BLT didn't lose a single client during the renovation and closure process.

"We opened back up for business when we said we would because we planned well," Solomon said. "We expected it could take longer and cost more than we anticipated, so we were prepared for a worst-case scenario. Even when it came to construction, we didn't choose the lowest bidder — we chose the lowest *qualified* bidder. This was technical, intricate work that needed to get done right and on time, and we chose our partners carefully."

Altogether, the BLT Studios renovation cost $1 million and was completed in eight weeks. Since its reopening in September 2023, bookings have been steady.

"We're busier than ever," Hirigoyen said. "There's no slowdown in sight, and we're thrilled to continue supporting the industry's growth, now and in the future." ■

Nikolette Huberman Jacob is a partner at BLT Enterprises.

Designing and Delivering AI for Experiential Uses

Water features incorporating the latest technology show promise for increasing visits to retail centers and capturing important data in the process.

By J. Wickham Zimmerman, Outside the Lines

As demands for high-quality customer experiences increase, brick-and-mortar retailers are investing in new technology, including artificial intelligence (AI), to differentiate themselves from online shopping and other competitors.

AI-enhanced technologies are popping up in every aspect of retail, from virtual fitting rooms and optimized self-checkouts to smart shelves that light up with suggested purchases. AI technology is helping architects and developers plan more efficient and optimized retail spaces and contributing exciting new enhancements to retail amenities.

Outside the Lines, Inc. (OTL), a design-build construction firm specializing in show fountains and realistic rock work, started to rethink water features for shopping centers and how technology could play a role. The company aimed to create an interactive and engaging amenity that, unlike a splash pad or water park, wouldn't require visitors to get wet but would provide a unique experience for every visitor, every single time.

Courtesy of Outside the Lines, Inc.

After being completed in summer 2023, Illuvia drew more than 30,000 weekly visitors to the EpicCentral entertainment district in Grand Prairie, Texas.

From Imagined to Real

The perfect opportunity for OTL to apply its concept arose in 2022 when the company was asked to design and construct a show fountain at EpicCentral, a 172-acre park site in Grand Prairie, Texas. The site was already home to five lakes, and the plan included an entertainment district with restaurants, theme parks and hotels. OTL set out to deliver a show fountain called Illuvia on the largest lake (4 acres) that would interact with the crowd without the need for additional hardware such as wands or touchpads.

As construction began, the team faced some distinct challenges. The dewatering pumps used to drain the main pond were not completely controllable, causing the lake's water levels to fluctuate during construction and requiring OTL to design a custom barge for the construction and maintenance processes. This necessitated driving piles from the barge and constructing the water feature from barges and boats. The floating barges for the pile and the pile-driving rig were flown in by crane over the active job site — a tricky exercise that required substantial safety protocols.

Large-scale video images are projected onto the spray created by the nozzles and paired with specialty lighting effects and music.

OTL had been working on a new AI-based technology system called Aquarius Interactive that mimics visitors' movements, offering a unique and distinctive experience for guests. Aquarius Interactive uses cameras to detect objects and motion, which is then run through its patented AI soft-

Planning With Technology in Mind

When it comes to water features in retail environments, OTL offers the following guidance:

1. **Create a realistic budget** and involve your builder early in the process. Sometimes architects and designers don't have the expertise to understand what a water feature will actually cost once it's designed. By involving a firm that is familiar with all aspects of water features, from design through construction and maintenance, everyone on the project team can know the real costs up-front.
2. **Consider ongoing maintenance** as part of the cost of a water feature. While maintenance costs are rarely exorbitant, even for large show fountains, they are a necessary and important investment into the amenity.
3. **Plan now for future enhancements** and potential expansions. Forward-thinking plans, especially for infrastructure such as technology enhancements, are always smart. Make sure there is room on-site for additional servers, cable or equipment so that when the time comes for upgrades, the space is available.

ware to determine what the object is, exactly where it is and what it is doing. The software then uses that information to control the nozzles, lights and water to mimic guests' movement in real time, so that the fountain is actually interacting with the guests.

When OTL first started designing Illuvia, incorporating an AI system was not part of the plan. After the first iteration of Aquarius Interactive was rolled out, the team realized that due to Illuvia's large scale, installing the technology with a single-camera system would be inadequate. The expansive curved walkway area in front of the fountain meant that an additional camera was needed and the Aquarius Interactive system had to be adjusted to allow for more inputs. OTL also decided to use internet protocol cameras due to the distance between the cameras and the equipment room. The team built a special equipment room to house the server and the control system for Illuvia, leaving space for additional future hardware as needed.

After its completion in the summer of 2023, the project drew more than 30,000 visitors each week. Wait times at the restaurants with patios facing the fountain climbed to three to four hours in those peak summer months, but visitors didn't seem to mind because they could watch Illuvia's spectacular show while they waited.

Large-scale video images are projected onto the spray created by the nozzles and paired with specialty lighting effects and music. In addition, air-fired jets and robotic nozzles propel water to heights of more than 60 feet, creating show-stopping moments that continue to draw crowds at five 15-minute shows each evening. During the daytime, guests can interact with the AI-enhanced functionality.

Looking Forward to the Future

The Aquarius Interactive technology could be used for more than just putting on a show and creating an interactive experience. Because the cameras are capturing motion, they are also capturing important data such as foot traffic volume and length of dwell time. This valuable data can eventually be provided to owners and operators to help gauge and improve traffic flow and assess space efficiency. OTL hopes to make this data available to its customers within the next one to two years.

In addition, the OTL team envisions a variety of creative uses for its patented technology, including wayfinding, maze making and other engagement installments beyond water features.

Because the cameras are capturing motion, they are also capturing important data such as foot traffic volume and length of dwell time.

The technology can be integrated into any digital multiplex-controlled system to creatively control water, light, fog and sound or be installed in existing water features for the same types of engagement available at Illuvia.

The possibilities for AI technology in retail centers are virtually endless. Costs vary widely depending on what equipment is already on-site and what needs to be constructed. But with the right idea, team and opportunity, nearly anything is possible. ■

J. Wickham Zimmerman is the CEO of Outside the Lines, Inc.

On Leadership: Rael L. Diamond

The president and CEO of Choice Properties, Canada's largest REIT, talks about creating long-term value in projects where people and the community can thrive, the outlook for commercial real estate in Canada, and the importance of bringing people back to the office.

By Ron Derven

Rael L. Diamond

"We want all our operating platforms to have scale because it allows us to develop great expertise and market knowledge. Secondly, it allows us to attract and hire phenomenal talent."

— Rael L. Diamond, president and CEO, Choice Properties

Development: *What drew you to a career in commercial real estate?*

Rael L. Diamond: I am South African. My parents moved to Canada while I was still in school, which is where I received my degree as a chartered accountant. My first job was with Deloitte and my first assignment was a funeral home. My vision was to work for a big bank, so I went to my manager and asked to be moved to the banking side of the business. Instead, I got what was considered the worst job in the office: working for a real estate company.

It was known for its unyielding long hours, but it turned out to be the best thing that could have happened to me. I got to learn and understand the business of real estate from the financial side. Because of this experience, I was offered a job with Brookfield Asset Management. I became the CFO of three of its subsidiaries and Brookfield Office Properties Canada.

After that, I took a job as CFO with the Canadian Real Estate Investment Trust (CREIT). In 2015, I was named COO. When Choice Properties acquired CREIT in 2018, I took on the leadership role of COO of Choice. In 2019, I was appointed CEO. I am grateful to have worked for an amazing group of dedicated, smart and talented people at both CREIT and Choice.

Development: *How did Choice Properties, headquartered in Toronto, become the largest REIT in Canada?*

Diamond: Loblaw, a leading Canadian food retailer, had the strategy to purchase the land associated with the food stores it opened. In 2012, Loblaw announced it would spin off most of its real estate properties into a new real estate investment trust: Choice Properties Real Estate Investment Trust. Loblaw initially transferred 425 properties, 415 of which were retail properties, worth approximately $7 billion to the new company.

In 2018, Choice Properties acquired CREIT, a diversified commercial REIT, for $3.9 billion. The CREIT acquisition allowed Choice to diversify its portfolio into industrial and other nonretail properties and made it Canada's largest REIT.

Development: *Can you discuss why the portfolio is focused on retail, industrial, and mixed-use, transit-oriented residential but not office?*

Diamond: We want all our operating platforms to have scale because it allows us to develop great expertise and market knowledge. Secondly, it allows us to attract and hire phenomenal talent.

When we looked at our portfolio, we certainly had scale in retail with about $10 billion in assets. When we acquired CREIT, it gave us $4 billion in industrial, enabling us to easily get to scale in that sector because we have a huge pipeline of projects. We also have a large potential for residential. However, for office, we did not have

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“Real estate is a long-term endeavor. When you own properties for an extended period, you develop a vested interest not only in those assets but also in the communities where they are located.”

— *Rael L. Diamond*

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the means to grow it to scale, which is why we exited office in 2022.

Development: *Do you plan to expand your activities beyond Canada in the future?*

Diamond: We will focus strictly on Canada. There is such huge development potential right here on land we already own, so we don’t feel the need to look beyond our borders.

Development: *With 700-plus properties across Canada, a net-zero emissions goal by 2050, and 5,000-plus employee volunteer hours working in communities in which you do business, Choice is certainly making an impact. Could you talk about your commitment to environmental, social and governance (ESG) sustainability?*

Diamond: Real estate is a long-term endeavor. When you own properties for an extended period, you develop a vested interest not only in those assets but also in the communities where they are located.

“Part of a great leader’s role is to encourage people to make decisions. And if the decision-making process was sound, we will deal with a potential mistake and manage any potential outcomes thoughtfully and strategically.”

— *Rael L. Diamond*

Given our size and influence, we believe that leading in ESG practices is the right thing to do. By engaging in placemaking and community partnerships, we can positively impact these communities. Our goal is for our properties to become hubs for community gatherings and celebrations, contributing to the long-term improvement of the areas where we operate.

Development: *What has been your greatest challenge leading Choice Properties?*

Diamond: When Choice acquired CREIT several years ago, we conducted a survey to determine if Choice was a great place to work. At that time, the results were around 50%. We have since worked hard to improve the workplace environment, and now, survey results are over 90% positive.

Another significant challenge was COVID-19. Tenants were reluctant to pay rent, and our colleagues could not come into the office. However, because we had established a safe, secure, collaborative and engaging culture in the years before the pandemic, we were able to transition smoothly and continue performing exceptionally well.

Development: *What does leadership mean to you? How would you define your role as leader?*

Diamond: Great leadership enables the people around you to make impactful decisions. A truly great leader cares that their employees are advancing the business and is invested in guiding them while they feel engaged and motivated to succeed.

Development: *What are your primary responsibilities as CEO?*

Diamond: My job is to foster great relationships with our major stakeholders and ensure that through those relationships, we are achieving the desired outcomes. I do not focus on one specific area. I spend time with the board, our investors, development partners and our colleagues. I also spend a great deal of time on new business initiatives.

I know that some of my peers spend significantly more time on investor relations. That is important, and we do spend an appropriate amount of time there. However, to me, it is not the single most important part of my role. My primary, relentless focus is driving our business forward to the benefit of all our stakeholders.

Development: *What qualities do you look for when hiring senior leadership?*

Diamond: The most important qualities are that they are collaborative, thoughtful and hard-driving. When I say hard-driving, I mean having a passion for getting results. I don’t want someone with sharp elbows, because we spend a lot of time building a culture in which people look out for their colleagues. I want someone who accomplishes great things and brings a team along with them, someone who is complementary to our great culture.

Development: *When internal conflicts or mistakes arise, how do you handle them?*

Diamond: We all make mistakes. I am more concerned with the process that went into the decision-making. Part of a great leader’s role is to encourage people to make decisions. And if the decision-making process was sound,

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"We believe the office is a place where collaboration happens, and we have strong attendance at our offices. Some organizations allow too much work from home, and I believe it is detrimental to their culture and long-term success."

— Rael L. Diamond

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we will deal with a potential mistake and manage any potential outcomes thoughtfully and strategically.

On the other hand, if someone did something inappropriate that could hurt our reputation, that is a very serious offense, and we would need to deal with it.

Development: *What is your outlook for commercial real estate in Canada over the next three to five years? Are there areas of the business that concern you?*

Diamond: I am bullish on the three asset classes in which we are heavily invested, but especially on retail because there has been a lack of new supply outside of the major markets. We have many neighborhood shopping centers in those markets, and I think we can drive rent growth over time. On the industrial side, there has been a pause in the market, but it is nothing we are concerned about in the long term. On residential, Canada is suffering from a lack of housing supply. If we can be part of the solution, we are very bullish on housing.

I am, however, concerned about the office sector. In our organization, we believe the office is a place where collaboration happens, and we have strong attendance at our offices. Some organizations allow too much work from home, and I believe it is detrimental to their culture and long-term success. As long as these lenient policies continue, I think the office market will be challenging. I strongly feel that one needs a work culture where more time is spent in the office.

Development: *What advice would you give to someone coming into the real estate business today?*

Diamond: Work at something you feel passionate about and work for a person who really wants you to learn and grow. The other piece of advice I would give is that you must show up. You must give your all to the job. As I look around our organization today, I see people who are exceptionally talented and smart, and they are giving their all to their job. Those people are going to do great things with us, and I am very excited about that.

Development: *Being CEO of Choice Properties is highly demanding. How do you like to spend your time away from work?*

Diamond: I am very fortunate. I have a wonderful family with three young children who are 16, 12 and 10. I also enjoy keeping active. I work out daily, and I like to play golf once a week. But being with my family is most important to me. ■

Ron Derven is a contributing editor to Development magazine.


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Considerations for Subdividing Industrial Buildings

There are opportunities and challenges alike when switching from a single user to multiple tenants.

By Marc Jennings and Andrew Akerhielm, HFA Architects + Engineers

Demand for new, single-user warehouses is still strong. But due to a confluence of trends, some owners have compelling reasons to consider subdividing their industrial assets to accommodate the needs of multiple lessees.

To begin with, fewer occupiers are leasing the largest assets — so-called megawarehouses of 1 million square feet or larger. According to research from CBRE, there were 43 industrial lease transactions of at least 1 million square feet in 2023, down from 63 such deals in 2022 and 57 in 2021. Cushman & Wakefield's first-quarter report on the U.S. industrial sector notes that "these larger deals are taking longer to transact, primarily due to cost-containment measures related to economic uncertainty and a general slowing in consumer demand for goods."

However, the availability of smaller-format industrial spaces has reached historic lows. A March 2024 report by CoStar noted that these properties "have increasingly stood out as one of the best-performing categories of commercial real estate" owing mainly to their "insulation from supply-side risk."

Why is the supply so constrained? One factor, according to CoStar, is that developers of newly completed, unleased big-box distribution centers are generally unwilling to subdivide them to tenants smaller than 25,000 or even 50,000 square feet. A new, large-format distribution center is a major investment; the developer of such an asset is likely to exercise caution before spending more money on renovations.

Feverpitched via iStock/Getty Images Plus

The availability of smaller-format industrial spaces is constrained, making it difficult for operators with more modest space needs to find the right fit.

A Logical Conclusion

For owners of older, larger assets — especially industrial buildings that are vacant or on the cusp of becoming so — finding a single replacement user could be more difficult than in the past. Meanwhile, operators with more modest space needs are clamoring to do deals.

It therefore might make sense for landlords to take the initiative to subdivide warehouses. They can create separate entrances, install partitions and adapt the layout to accommodate multiple users. This approach allows the landlord to attract a diverse range of tenants. Alternatively, a long-term tenant with excess space can sublease part of its area to other businesses. This arrangement allows the original tenant to retain its existing space while sharing the costs and benefits of the property.

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For owners of older, larger assets — especially industrial buildings that are vacant or on the cusp of becoming so — finding a single replacement user could be more difficult than in the past. Meanwhile, operators with more modest space needs are clamoring to do deals.

Roosevelt Logistics Center
I-10 And 339th Avenue
Tonopah, Arizona

- Roosevelt Logistics Center developed by Tratt Properties, LLC.
- The 198+ acre of vacant land is approximately a 45 minute drive west of downtown Phoenix.
- Currently working on design for Building A.
- Zoned Industrial - Industrial Plan of Development.
- Opportunity Zone Location.

I-10 And 339th Avenue Tonopah, Arizona

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However, shifting from a single primary user to multiple users will pose challenges. This article addresses a few key considerations.

Rethinking MEP

Industrial users have varying needs for water, electricity and HVAC. When embarking on a subdivision project, it's important to pay close attention to the allocation of mechanical, electrical and plumbing (MEP) systems. Each space must be properly submetered, with each tenant having independent controls.

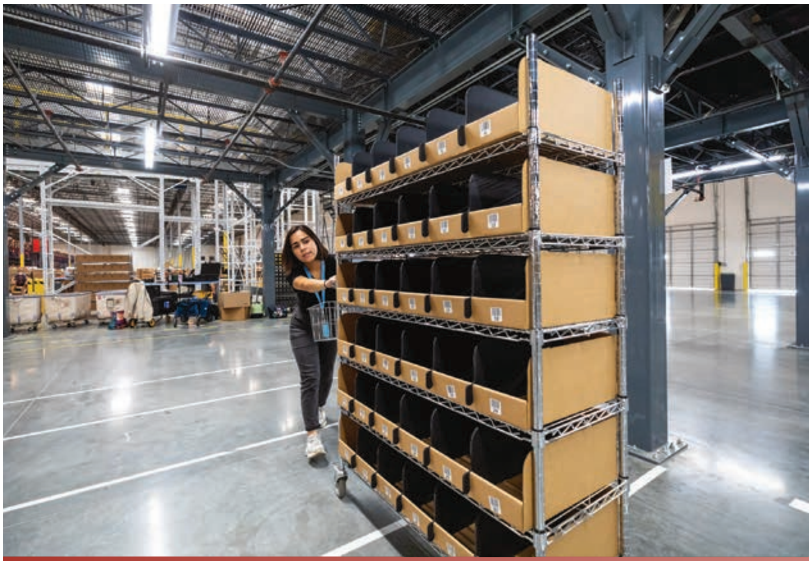
The trends toward automation and data centers make utilities particularly important. While the density of automated storage and retrieval systems (ASRS) means that some tenants will not need as large a space as in the past, their continuous use of this energy-intensive equipment could end up increasing the building's overall power requirements. Data centers are notoriously power hungry.

Lessors or sublessors need to answer the following questions well before the lease is inked and buildout begins:

- Will the building have adequate electrical service to accommodate the jump in usage that could result from ASRS or the introduction of a data center?
- If a service upgrade is needed, will the local electrical utility allow it based on existing grid constraints?
- How could co-tenants be affected if an "energy hog" ends up gobbling more electricity than planned?

Upcycling the New Spaces

In some cases, the subdivision project will involve upcycling portions of the building. Typically, that means making improvements to align with a new tenant's business model, to comply with updated codes or to enhance the competitiveness of an unleased asset.



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Upcycling portions of a building can help to attract a more diverse tenant mix.

The tech sector's voracious appetite for data is creating more potential for leasing or subleasing deals with these operators.

Additionally, rezoning can provide significant benefits by increasing property value and allowing for a more diverse, attractive tenant mix. Examples of beneficial rezoning could include:

- Eliminating or updating a planned development and its associated setbacks or other restrictions
- Moving to a medical research use
- Adding heavier manufacturing zoning permissions
- Broadening the available scope of commercial service users

This approach ensures that the building remains versatile and appealing to a broader range of potential tenants.

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Costs and Incentives

In general, developers engaged in upcycling industrial buildings can expect per-square-foot costs along the lines of:

- $1.84 for concrete sealing and striping
- $5.40 for roof penetrations, doors, glazing, drywall and ceilings
- $1.70 for paint
- $2.96 for plumbing
- $2.43 for HVAC
- $3.60 for electrical

The incentives can make these changes worth the effort: An older, class "C" industrial building can make the jump to "B" after a subdivision project, so long as the location is good. In the Dallas market, according to PropertyShark listings, that could yield an annual rent increase cap from $14 to $19 per square foot.


GRADALL
S-60

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Use-specific Upcycling

In other cases, tenant- or use-specific upcycling can be required as part of subdivision projects. For example, as part of a long-term lease agreement with a smaller-format industrial tenant that plans to install and use ASRS, owners of older buildings might need to make significant alterations that enable the equipment to operate efficiently.

In particular, floors must be perfectly flat. Over a given stretch of 50 to 100 feet of horizontal surface, even deviations as minute as half an inch could reduce the robots' efficiency as they zip along a predetermined path. The engineering team might need to X-ray or pull core samples from concrete floors to ensure they are adequately and uniformly thick throughout. (Thickness has a direct correlation to the bearing capacity of the slab, which needs to match the requirements of the new racking and automation components.) Lifting the roof to accommodate today's structural clear heights might be necessary as well.

Meanwhile, the tech sector's voracious appetite for data is creating more potential for leasing or subleasing deals with these operators. Granted, tech giants seeking to take large language models to the next level tend to occupy massive buildings and complexes. However, there is a whole universe of smaller data center users, and they are good candidates for subdivided spaces.

Indeed, colocation data centers are essentially subdivided industrial buildings. In downtown Dallas, one 80,000-square-foot complex run by IT solutions provider Flexential bills itself as "five data centers, one location."

Adapting a subdivided space for another high-growth use — cold storage — often requires the introduction of thermal breaks between freezer boxes and the parts of the building that surround them.

In a June 2023 report ("Why Smaller Data Centers Are Taking Off"), JLL points to demand from smaller "edge data centers." These facilities "bring computing capability geographically closer to those users situated farther away from the heart of the cloud" and "have a smaller capacity between 500 kilowatts to 2 MW."

The industrial spaces used by data centers typically must be kept within controlled temperature and humidity ranges, with precise approaches to ventilation. Many older industrial buildings were designed to maintain temperatures of 80 or 90 degrees Fahrenheit. Introducing climate controls and better ventilation could require a detailed analysis of the building envelope and reinsulation of existing panels and the roof, along with assessments of rooftop mechanical equipment and the required addition of structural supports for the heavier HVAC system.

Adapting a subdivided space for another high-growth use — cold storage — often requires the introduction of thermal breaks between freezer boxes and the parts of the building that surround them. Typically, the floor must be torn out and replaced so that freezers can be properly isolated.

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A Project in the Pipeline

In the Dallas-Fort Worth area, a 1960s-era, 75,000-square-foot warehouse is in the planning stages of a subdivision project. Due to the lack of modern amenities and being badly damaged by a 2019 tornado, it could not compete with nearby industrial assets.

The owner aims to bring the warehouse up to current standards, inside and out, and to provide all-new, independent office amenities for each newly subdivided space (four in all). The substantial project will require conforming to modern development codes and correcting ADA access concerns.

Utilities will need to be subdivided and submetered for the four new spaces. The addition of accommodations for modern, more energy-intensive users could mean that the entire building's electrical service will require an upgrade. The building envelope also will need to be addressed with the introduction of upgraded mechanical systems and environmental controls.

By making these changes, the owner stands to secure multiple tenant lease agreements, restoring value to the property. It will cost approximately $450,000 per the current pro forma. After repairs, the developer expects an annual internal rate of return of more than 500%.

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Otherwise, cold can leach out from the boxes into the concrete, causing condensation and ice. The new space might also need to be altered or expanded to provide adequate room for associated refrigeration systems.

Revisiting Fire Safety and Parking

Subdividing a warehouse also requires a careful second look at the building's entire fire safety and suppression system. The design may involve creating a raft of new walls, hallways, doors, and entrances and exits, some of which are likely to see substantial pedestrian traffic. Based on existing codes, manufacturer specs and fire-safety best practices, the engineering team will need to make sure that doors in any MFL (maximum foreseeable loss) walls can automatically drop to close off some of these spaces if the fire-suppression system is triggered.

In many cases, subdividing a warehouse and bringing in new tenants will add complexities — additional cars, trucks, containers or pedestrians — to the site's overall operation. From the standpoint of civil engineering, parts of the building or site might need to be redesigned to maximize site-flow efficiency and safety.

Changes to parking ratios and utilization of roadway infrastructure also will necessitate conversations with the municipality and, potentially, other community stakeholders.

Industrial in the Reinvestment Era

As assets age and the pace of development cools, it is natural for reinvention, reinvestment and downsizing to become a focus. Subdivision might not be the best option for every asset, but it can be worth a second look, especially if vacancy looms or has already become an issue. While massive, single-user warehouse distribution centers will continue to be prominent, demand is rising among smaller users too. Leveraging a subdivision strategy to meet these operators' needs could be a smart way to achieve full occupancy and higher ROI. ■

Marc Jennings, NCARB, is vice president of industrial and logistics at HFA Architects + Engineers. **Andrew Akerhielm**, AIA, NCARB, LEED AP BD+C, is a senior HFA architect and client lead.

Distressed or Value-impaired?

Understanding the difference informs successful investment strategies.

By David Camins, Xroads Real Estate Advisors

Since the early days of the COVID-19 pandemic, investors have been waiting on the sidelines to take advantage of distressed properties, hopeful the event would trigger something akin to the steep discounts available during the Global Financial Crisis (GFC). Funds, high-net-worth investors and family offices have been "stockpiling cash," according to a February 2024 Wall Street Journal article. This strategy will allow them to move quickly on discounted properties. However, banks have learned lessons from the GFC and, this time around, have been more cautious about unloading their book of CRE loans. As a result, this current economic cycle has featured fewer distressed opportunities.

To date, strong operating fundamentals have allowed some owners to avoid significant price reductions that many have been anticipating. However, the tide may be starting to turn, as investors are finally starting to see emerging opportunities. The problem is the blurry line that exists between an asset that is value impaired and one that is truly distressed. It is critically important for investors to understand the difference between the two.

Distressed assets are underperforming the market. A distressed asset is one where the ownership is unable to meet its debt obligation because of below-market occupancy. This condition worsens as tenants exit leases near expiration or exercise their right to terminate the lease. From a lender's perspective, a distressed asset is in technical default, which requires the bank to maintain a greater capital reserve to offset the potential loss.

Austin Meurer via iStock/Getty Images Plus

The line between an asset that is value impaired and one that is truly distressed is often blurry.

Value-impaired assets are an effect of high interest rates. Alternatively, a value-impaired property is performing at or above market standards but receives a lower valuation due to market conditions. These properties have relatively stable occupancy, active leasing activity and rents that meet the market. Despite healthy property-level performance, the higher cost of capital has suppressed the asset's value and poses a refinancing risk based on today's interest rates and valuations. Many of the value-impaired properties in March 2022, just prior to the start of rising interest rates, had valuations that were at least 1.5 to 2 times greater than their values today.

Value-impaired properties typically have a current and performing loan, although the bank may have placed the loan on a watch list, particularly if the property is nearing a debt maturity or is inside its debt-service coverage ratio (DSCR) or minimum occupancy requirements. A value-impaired property may need a capital infusion to meet a tenant lease requirement or pass the DSCR test.

A value-impaired property is performing at or above market standards but receives a lower valuation due to market conditions.

Choosing the Right Strategy

An acquisition strategy will be different for a distressed property versus a value-impaired property. When pursuing a

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Granite

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distressed property, investors should prepare for an up-front capital improvement plan and a longer recovery timeline. There will be a larger spread to recovering the cash flow to a justifiable return on investment, thus a lower starting basis relative to the anticipated exit valuation — which is difficult to assess in today's office market. A distressed property may alternatively require repurposing the asset's use or demolishing it for redevelopment into a higher and better use. Investors with the right capital profile will find distressed properties trading for pennies on the dollar.

For a value-impaired acquisition, the investor will also benefit from a reduced basis but will have to wait out what feels like an indefinite period for market valuations to restabilize and institutional funds to return with core capital-priced money. When that occurs, the investor can sell or refinance at more favorable terms. Meanwhile, the investor will need to have capital on hand — either stockpiled from cash flow after debt service, frontloaded or available via a capital call — for a variety of operational needs, like amenity improvements, security upgrades, lease rollover, renewals, downtime and tenant-improvement packages.

Chicago Seeing Deep Discounts, But Capital Starting to Drip

Between 2022 and 2024, Chicago's central business district has had 16 office properties in and out of the market. Four have sold (see table), four have been taken off the market, and eight remain in play. Most have existing debt, to which lenders are either directing a cooperated loan-to-title sale or a straight note sale.

There is a perception that pricing levels are identified, but the gap between perceived value from the two parties at the table may still be too wide, so the can may end up being kicked even further down the road.

Summary of Completed Sales in Chicago's Central Business District, 2023-2024

	Year Sold	Sale Price / PSF	Discount to Prior Sale	Discount on Debt	Type
230 W. Monroe	2023	$45MM $64	63% (2014)	44%	Cash
150 N. Michigan	2024	$60MM $90	50% (2014)	31%	Stapled financing
333 W. Wacker	2024	$125MM $145	61% (2015)	24%	Stapled financing
One North LaSalle	2024	$15MM* $30	87% (2018)	80%	Note sale
WEIGHTED RESULT		$90 PSF	64%	40%	

*Reported pricing

A case in point is 161 North Clark, a 50-story tower in Chicago's North Loop. The press reported a sale to a buyer, but the contract expired when the two parties were not able to agree on reset terms. The lenders — now the owners of the property via a consent foreclosure process — have the advantage of a reset basis and loan structure and are flush with cash from having deferred debt payment during the negotiated loan amendment to foreclosure. The new ownership can now transact, stabilize the asset and eliminate the "distressed" perception the property carried during the prior ownership and through the sale and foreclosure process.

This story is playing out around the country. San Francisco and Washington, D.C., have seen some early trades out of the gate, while New York has been in more of a wait-and-see holding pattern. Chicago is strongly positioned given the commitment of local officials to support the Google headquarters relocation, retain Chase in its long-time headquarters, and support the conversion of select office buildings to residential use.

Many of the value-impaired properties in March 2022, just prior to the start of rising interest rates, had valuations that were at least 1.5 to 2 times greater than their values today.

Ultimately, office supply within all these markets will rightsize to accommodate the overall reduced demand. It may take seven to 10 years to play out, but once it does, market stabilizations will have occurred and a pent-up demand for new construction with advanced technological space will become reality. Investors in distressed or value-impaired properties will be forced to become even more creative with repositioning and applying capital than in past cycles, which had more favorable interest rates and recovery paths. Each market downturn has been unique, but this time is turning out to be the most challenging for major-market, institutional-grade office properties. ■

David Camins is a principal of Xroads Real Estate Advisors. An earlier version of this article appeared on the Market Share blog (blog.naiop.org).

Realizing the Potential of Brownfields

Incentives hope to spur reuse of underutilized and abandoned properties.

By Louise Dyble, Sheppard Mullin

The term "brownfield" emerged in the mid-20th century when urban decentralization and deindustrialization left behind large numbers of underused or abandoned properties. These properties included former industrial sites and areas near potential sources of contamination. Even if a brownfield property did not need remediation because there was little or no actual contamination, the associated risk deterred investment.

When Congress passed the 1980 Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and created the Superfund program to clean up severely contaminated sites, it unintentionally exacerbated underinvestment in brownfields. CERCLA established strict, retroactive liability for all owners or operators of contaminated property, regardless of when or how contamination had occurred. This heightened the risk and cost of acquiring an interest in potentially contaminated properties. The need to investigate to rule out contamination, and the prospect of identifying unknown impacts in the future, shifted investment away from previously used properties and toward the certainty of greenfields with no contamination risk.

Many states created incentives to restore the balance and support investment in underutilized or abandoned properties in the 1990s, and the Environmental Protection Agency (EPA) established a pilot program providing grant funding to selected projects in 1993. In 1997, Congress adopted a brownfield tax incentive that encouraged cleanup and redevelopment of certain sites by allowing taxpayers to reduce their taxable income by the cost of eligible cleanup expenses in the year the expenses were incurred.

Philip Openshaw via iStock

Brownfields are at a disadvantage when it comes to competing with greenfields for investment.

The 2002 Small Business Liability Relief and Brownfields Revitalization Act marked a major turning point by codifying and formalizing existing EPA brownfields programs. It also established new protections for owners, operators and investors acquiring an interest in a brownfield who documented that they had conducted reasonable diligence and taken measures to ensure they did not contribute to or exacerbate any preexisting contamination.

The 2002 act established the "all appropriate inquiries" standard that is implemented through now-familiar Phase I environmental site assessments (ESAs). The protection a valid ESA provides remains a critical benefit that significantly reduces the risk of brownfields investments.

The 2002 act also expanded the definition of brownfields. Earlier EPA programs limited eligibility for funding to "abandoned, idled or under-used industrial and commercial facilities." Congress extended eligibility to former residential and agricultural properties. The act defined brownfield sites to include "real property, the expansion, redevelopment, or reuse of which *may be complicated by* the presence or potential presence of a hazardous substance, pollutant, or contaminant."

Importantly, the definition adopted in 2002 excluded properties that were subject to remediation requirements under state or federal law. Brownfields are, by definition, ready for redevelopment without requiring significant cleanup. What distinguishes them from greenfields is the need to take reason-

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able steps to check for contamination and confirm that the intended use is appropriate. This definition qualified an estimated 450,000 to 1 million properties nationwide for federal brownfields incentives.

Brownfields Investment Incentives

Current federal brownfields programs fall into two general categories: competitive programs that provide grant opportunities and technical support to a limited number of projects, and tax incentives that support redevelopment based on the nature of the proposed project or use.

EPA-administered Competitive Brownfields Grants

EPA reports that it has awarded funding for more than 5,000 revitalization projects since the brownfields grants program was established. In 2023, funding from the Infrastructure Investment and Jobs Act of 2021 (IIJA) supported 267 grant awards to 262 communities. Selection criteria prioritize projects in communities that meet environmental justice standards, and an intensive application process requires the backing of local governments or community organizations.

Brownfields are, by definition, ready for redevelopment without requiring significant cleanup. What distinguishes them from greenfields is the need to take reasonable steps to check for contamination and confirm that the intended use is appropriate.

These programs target properties that require remediation (as opposed to those with potential contamination that still qualify as brownfields). The IIJA allotted $1.5 billion to EPA-administered competitive grant programs for brownfields through fiscal year 2026. The majority of this funding is dedicated for use by local, regional, state and tribal governments, and for government-led coalitions of public and private entities.

EPA programs supporting brownfields redevelopment include assessment, cleanup and multipurpose grants. Assessment grants of up to $2 million, with spending for individual sites capped at $200,000 per grant, are available to eligible communities for identifying, evaluating and planning potential brownfields projects. Cleanup grants of up to $5 million are available for properties owned by government or nonprofit entities, with the potential for a single site to receive multiple grants. Multipurpose grants of up to $1 million support investigation, cleanup or revitalization activities. The IIJA also funded a revolving loan program administered by EPA that supplements funded projects with loans up to $1 million, to be repaid over a period of up to five years.

In addition to these funding programs, EPA administers technical assistance and job training to support brownfields redevelopment.

Tax Incentives and Credits

Because competitive grant programs are necessarily limited by appropriations, they are generally awarded to projects requiring cleanup. Tax incentives and credits help offset the lower — but still significant — costs of investigating brownfields with little or no contamination. These sites are still at a disadvantage in competing with greenfields for investment.

If efforts to reinstate the deduction succeed, the incentive could support redevelopment at thousands of sites nationwide, including those near former dry cleaners, gas stations and properties with underground storage tanks.

Early on, the tax incentive under Section 198 of the Internal Revenue Code had the potential to support brownfields redevelopment on a much larger scale. In 2004, Congress expanded the remediation costs eligible for deduction to all sites with a release or threat of release of a hazardous substance (including petroleum products) as certified by state environmental agencies. Congress reauthorized the incentive every year through 2011 but hasn't reinstated it since that time.

A national coalition of public and private entities organized by Smart Growth America, the Center for Creative Land Recycling and the National Brownfields Coalition has formed to promote the Brownfields Redevelopment Tax Incentive Reauthorization Act, which continues to be introduced annually. In 2023, the bill attracted 12 co-sponsors and bipartisan support but stalled in the House Ways and Means Committee. If efforts to reinstate the deduction succeed, the incentive could support redevelopment at thousands of sites nationwide, including those near former dry cleaners, gas stations and properties with underground storage tanks.

A more targeted tax provision intended to attract investment in brownfields is the energy community adder to invest-

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ment and production tax credits for renewable energy projects established by the Inflation Reduction Act of 2022. Sites meeting the broad definition of brownfield adopted in 2002 are eligible for an additional 10% credit. IRS guidance created a "safe harbor" test that provides assurance for the subset of brownfields where contamination can be confirmed. However, it does not address how to evaluate properties with potential contamination, resulting in a much narrower practical application of the credit than is authorized by statute. As authorized, this credit has the potential to support a substantial number of renewables projects, large and small, throughout the U.S.

The Future of Brownfields

Challenges associated with brownfields redevelopment are not going away. They could escalate as evolving regulations continue adding to the list of contaminants that can trigger liability and remediation requirements. For example, the recent federal designation of certain per- and polyfluoroalkyl substances (PFAS) as hazardous substances under CERCLA (see article, p. 94) and as drinking water contaminants could increase the costs and risks of brownfields investment.

The protection provided by a Phase I ESA, the first major federal benefit for brownfields investors, is as important as ever. EPA grant programs provide resources for a limited number of selected sites, but broader incentives are still needed. Restoring the brownfields tax incentive would represent a critical step in that direction. ■

Relevant Readings

For a deeper dive, read the NAIOP Research Foundation report "Sustainable Brownfield Redevelopment" (available at naiop.org/research-and-publications) and Development magazine's Winter 2021/2022 cover story, "Brownfields Redevelopment Requires a Cautious Approach" (naiop.org/22brownfields).

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Lots of Opportunity: Optimizing Industrial Parking

A recent NAIOP study could help municipalities address the squeeze on industrial lands.

By Eric Aderneck

No business wants to have too little parking for its operational needs, but most recognize that having too much is a waste. Excess parking space could be repurposed to provide multiple benefits: additional building floor area for businesses to operate and expand, more efficient use of infrastructure and resources, increased densification and utilization, expanded capacity, and reduced demand for scarce land.

Minimum on-site parking standards are set by municipalities through zoning. Different municipalities have different requirements, which may vary further by specific use and other factors. According to a recent industrial parking study commissioned by NAIOP Vancouver, a 50% reduction in the amount of land surface devoted to parking would on average allow for a 15% increase in the amount of building site coverage. This would accommodate a commensurate increase in on-site economic and employment activity, without the need for more land.

The NAIOP Vancouver industrial parking study found that half of the employee parking stock in metro Vancouver and the Fraser Valley is not actually used, leaving sorely needed developable land underutilized. This article summarizes the findings of the study and how other municipalities can use the study to inform reviews of their parking regulations.

"Everyone wants to make the most of the limited industrial land, and reducing surface parking can provide for more space for buildings," said **Carl Funk**, director of industrial planning and development at Beedie, one of the largest industrial operators in metro Vancouver. Funk helped prepare the parking study and noted that "the findings are generally in line with the experiences and observations of industrial developers and landlords in the region."

Eric Aderneck

Based on findings of an industrial parking study commissioned by NAIOP Vancouver, the lowest parking utilization rates in the region are in outer suburban areas.

Vancouver Context

In the metro Vancouver region — with Canada's largest port, a growing population and a limited land base — industrial space is at a premium. The vacancy rate (about 2% over the past five-plus years) is amongst the lowest in North America, and given severe physical and regulatory constraints, there is no means to substantially increase the industrial land inventory.

The metro Vancouver regional planning agency developed a Regional Industrial Lands Strategy meant to address the shortage. One of the key components is advancing industrial densification and intensification. As demonstrated by some innovative new development projects, ranging from large-scale complexes to small-format buildings, this can be achieved through increased site coverage, multilevel designs and underground parking. Similarly, there are increasing calls for parking reforms and measures to address transportation demand management.

NAIOP Vancouver Parking Study

NAIOP Vancouver retained Bunt & Associates Engineering to document the supply and demand for industrial parking. The study entailed observing employee parking utilization during peak hours at 62 industrial sites across 15 municipalities in the region.

The study measured parking supply (the number of employee parking stalls provided on-site) and observed peak parking demand (the number of parked passenger vehicles on-site) to determine parking utilization rates. Typically, parking is one stall per 100 m^2 (1,076 square feet) of industrial building floor area, plus sometimes

Table 1 Parking Summary by User Type

User Type	Number of Sites (% of Total)	Average Observed Parking Supply Rate (Spaces per 100m^2)	Average Observed Peak Parking Demand Rate (Spaces per 100m^2)	Average Observed Peak Utilization %
SM	6 (10%)	1.08	0.45	42%
SS	9 (15%)	1.75	0.89	53%
LS	18 (29%)	0.73	0.33	46%
LSM	9 (15%)	1.55	0.69	41%
LM	14 (23%)	1.49	0.80	52%
LL	6 (10%)	0.96	0.48	49%

User Type: **SM:** Strata – Medium Unit Multi-User; **SS:** Strata – Small Unit Multi-User; **LS:** Lease – Single User; **LSM:** Lease – Small Unit Multi-Tenant; **LM:** Lease – Medium Unit Multi-Tenant; **LL:** Lease – Large Unit Multi-User

Source: NAIOP Vancouver

Table 2 Observed Average Parking Supply and Demand by Site Size

Site Size (Based on Building Floor Area)	Weighted Average Parking Supply Rate (Spaces per 100m^2)	Weighted Avg. Observed Peak Parking Demand Rate (Spaces per 100m^2)	Peak Parking Utilization
Small Sites	1.8	0.9	50%
Medium Sites	1.4	0.7	51%
Large Sites	0.9	0.4	46%

Source: NAIOP Vancouver

more for accessory office and retail components.

The studied sites were classified by:

- Building size (less than 30,000 square feet, between 30,000 and 100,000 square feet, over 100,000 square feet)
- Tenure (leasing, strata)
- Proximity to transit (four service classes)

Survey results varied, but one overall takeaway is that developers are obliged to provide far too much parking, resulting in a sea of unused asphalt.

Parking Utilization Rates

Peak utilization for on-site employee parking ranged between 41% and 53%. That means about twice as much parking is being provided as is being used.

Parking utilization rates were highest for strata, small-unit, multi-user industrial properties and lowest for lease, small-unit, multi-user properties. In terms of parking demand rates (per 100 m^2), strata, small-unit, multi-user industrial properties had the highest (0.89), whereas lease, single-user properties had the lowest (0.33). (See Table 1.)

The highest utilization rates were in the inner urban areas, while the lowest utilization rates were in outer suburban areas. Average parking supply and demand rates decrease significantly as site size increases.

The weighted average peak parking demand rate was 0.5 stalls per 100 m^2, which represents an average 50% utilization of the surveyed 1.0 stalls per 100 m^2 parking supply rate. The general pattern indicates that higher rates for accessory office components may disproportionately inflate on-site supply rates for industrial and warehouse facilities. (See Table 2.)

Parking demand rates were generally lower (0.3 stalls per 100 m^2) at sites with closer transit proximity levels.

Recommended Rates

Based on the normalized observed average parking demand rates, engineering judgment was applied to estimate appropriate "transit proximity adjustment factors."

From the study, the recommended parking ratios are presented on the next page in Table 3 for each category, depending on building size and transit service (relative to Frequent Transit Network, FTN).

Solutions and Actions

The study findings should spur municipalities, planners, designers and developers to further review transportation needs and parking supplies. Outdated and excessive parking regulations impose additional costs on developers and occupants, while reducing

Table 3 Recommended Parking Ratios

Site Size (Based on Building Floor Area)	Transit Proximity	Recommended Parking Supply Rate
Small Sites (<30,000 ft^2 or <2,787 m^2)	Level A	0.53 spaces per 1,000 ft^2 or 0.57 spaces per 100 m^2
	Level B, C or D	0.88 spaces per 1,000 ft^2 or 0.94 spaces per 100 m^2
Medium Sites (30,000-100,000 ft^2 or 2,787-9,290 m^2)	Level A	0.43 spaces per 1,000 ft^2 or 0.46 spaces per 100 m^2
	Level B, C or D	0.71 spaces per 1,000 ft^2 or 0.76 spaces per 100 m^2
Large Sites (>100,000 ft^2 or >9,290 m^2)	Level A	0.24 spaces per 1,000 ft^2 or 0.26 spaces per 100 m^2
	Level B, C or D	0.40 spaces per 1,000 ft^2 or 0.43 spaces per 100 m^2

Level A: Sites located within a 5-minute walk (400m) to an FTN bus stop.

Level B: Sites located within a 5-minute walk to a bus stop that serves 15-minute headways during communting peak periods.

Level C: Sites located within a 5- to 15-minute walk to a bus stop for FTN or bus services with 20-minute peak period headways.

Level D: Sites located within a 15-minute walk from a bus stop.

Source: NAIOP Vancouver

possible efficiencies and yields by limiting the full potential of sites. In markets with limited land supply, too much parking is especially costly and inefficient.

Based on the study findings, municipalities should consider downwardly adjusting minimum parking rates, albeit in a nuanced manner by building size and transit service. Given that it would be a minimum rate, developers could still construct more parking if they anticipate tenants needing such. The result would be a supply of parking that better matches demand.

At the same time, municipalities should reexamine regulations that limit industrial building sizes (such as site coverage, setbacks and heights) to maximize the potential of the lands and efficiency of developments. Such reviews should consider the impact of transit services, off-site parking, transportation demand management and adjacent land uses. ■

Eric Aderneck, RPP, MPL, BCOM, DULE, is an industrial lands planner. Contact him at eric@aderneck.ca.

Possible Parking Solutions

Numerous opportunities exist to support more efficient parking arrangements for industrial lands. These include:

- Appropriately reduce municipal minimum parking requirements for employees and visitors.
- For areas experiencing densification and intensification, provide improved transit service for the growing workforce.
- Provide bike facilities to encourage employee cycling.
- Provide infrastructure for shared vehicles and micromobility.
- Incentivize carpooling and transit.
- Charge for employee parking rather than subsidizing it or providing it for free.
- Coordinate amongst area businesses a shuttle bus service from transit stations to industrial hubs.
- For large industrial complexes with multiple tenants that may have different peak parking demands, organize shared parking arrangements. This could be through both physical and programming coordination, such as a central parking facility and unassigned parking stalls.
- Comprehensively consider municipal standards for employee vehicle parking, commercial truck parking, and truck loading and maneuvering that recognize that some spaces could be used for different purposes throughout the day or week.
- Repurpose unused parking space for other purposes, such as commercial truck parking, material or equipment storage, and infill development.
- If additional parking supply is needed, explore the feasibility of underground or rooftop parking for light vehicles.

Crescent Communities:

Building Communities That Better People's Lives

Crescent Communities

In addition to Chairman and CEO Brian Natwick (front), the Crescent Communities leadership team includes (middle row, from left) Davette Harper, Tracy Chambers, Jason LaBonte, Heather Kels, (back row, from left) Ben Collins, Jay Curran, Daniel Cooper, Kevin Lambert, Aldo Muccia, Katie Congdon and Brendan Pierce.

NAIOP's 2024 Developer of the Year has been a pioneer in the creation of high-quality communities in thriving Sun Belt markets for over 60 years.

At a Glance

- Crescent Communities is a national investor, developer and operator of multifamily, mixed-use, industrial and life science communities.
- Every five years, the company engages in a highly collaborative process to develop a new strategic plan.
- The firm was an early adopter of sustainable practices and continues to use innovative methods to reduce its environmental impact and create sustainable communities.

By Ron Derven

Since 1963, Crescent Communities has developed 85 multifamily communities and 24 million square feet of commercial space. Established as Crescent Land and Timber within Duke Energy's forestry department, the company was renamed Crescent Resources in 1989, focusing on residential master-planned communities, before assuming its current name in 2013.

Sumitomo Forestry Group, a Japanese company, acquired Crescent in 2018. Since then, it has grown into a nationally recognized, market-leading real estate investor, developer and operator of mixed-use and industrial communities. The company is active in 17 markets and has offices in Charlotte, Atlanta, Dallas, Nashville, Orlando, Phoenix and Washington, D.C.

For its outstanding performance, ability to adapt to challenging market conditions, excellent community relations, positive company culture, financial success, continuous innovation, NAIOP involvement, philanthropic endeavors, premier developments and environmental sustainability practices, Crescent Communities has been named NAIOP's 2024 Developer of the Year.

"It is NAIOP's honor to recognize the tremendous work of Crescent Communities as the 2024 Developer of the Year. Its ongoing commitment to advancing the commercial real estate industry through cutting-edge innovation and exemplary real estate development across many property sectors is impressive," said NAIOP President and CEO **Marc Selvitelli**. "Crescent Communities has demonstrated significant market resilience and adaptability, overcoming economic headwinds to consistently deliver value."

Since 1979, the NAIOP Developer of the Year award has been presented to a development company that best exemplifies leadership and innovation in the commercial real estate industry. Crescent Communities was selected from an outstanding slate of nominees and evaluated by a team of seasoned developers.

"We are honored to be named NAIOP's Developer of the Year. It serves as a testament to the

> **"We are highly invested in what we do, but every five years, we want to put it all on the table and look at the markets we are in."**
>
> *— Brian Natwick, chairman and CEO, Crescent Communities*

remarkable people at Crescent Communities and the exceptional collaboration and performance they have exhibited over the years," said **Brian Natwick**, chairman and CEO of Crescent Communities.

Natwick has been with Crescent for almost two decades, joining the firm's multifamily team in 2006 and later serving as president and COO before assuming his current role in 2021. Before joining Crescent, he held senior management and executive positions at Centex Construction Co., Skanska USA Building, and Moss & Associates, and he was responsible for over $500 million of development for notable clients such as Walt Disney Imagineering, Hilton/LXR Luxury Resorts and Blackstone Group.

Strategic Thinking

Strategic thinking is the compass that guides Crescent Communities. Every half-decade, the company collaboratively develops a new five-year strategic plan. "The primary objective is to look at where we want to focus and, just as importantly, where we do not want to focus," Natwick said.

He added that after creating a strategic plan, it is critical to stick to that plan rather than getting distracted by other opportunities that pop up, which would serve only to dilute the firm's overall effort and focus. "We are highly invested in what we do," he emphasized, "but every five years, we want to put it all on the table and look at the markets we are in."

Importantly, many leaders at the company participate in the five-year planning process. "It's not just a small group at the top that decides," Natwick noted. "It is a research-based, highly collaborative undertaking with various people involved, and it has yielded huge results for us."

Crescent Communities

Colleagues from around the country gather at Crescent Communities' Greater Purpose meetings every two years to build relationships and camaraderie across the company.

It's Community, Community, Community

Crescent is also strategic in how it visualizes and talks about its various endeavors. "We use the word 'community' intentionally. At the same time, we stay away from words like 'property,' 'project' and 'development' because those words are physical, nonliving things," Natwick explained. "Community is a much more interactive, engaging and evolving concept. It is evergreen."

Crescent looks at the long term in all its undertakings. "Sometimes I am asked why a particular community is so successful," Natwick said. "I tell them, 'With our communities, it is never one, two or even three things that we do — it is everything we put into the community.' There is a tremendous amount of intentionality at the beginning to create a unique and authentic vision for each community. We use that vision to influence the programming, design, execution, construction and marketing. We develop a story that helps us attract capital to invest into the community and also helps us attract capital when it is time to sell."

The CANVAS Process

Community relations can be an ongoing issue for developers. "I don't blame neighborhood or community groups [for opposing development] because it is always an unknown," Natwick said. "We work in 10 states and 17 markets focusing on the Sun Belt, which is our footprint. We are highly focused on the high-growth areas where organizations, people and families want to live. In many of these areas, we are developing in someone's backyard … and no one wants anything in their backyard. We completely understand this, so we engage the community at the outset because we want their input. When you approach it as a friend rather than as a foe, it is much more productive."

Many commercial real estate developers undertake good-faith efforts to listen to community stakeholders before launching a project, but Crescent Communities uses a process called CANVAS to ensure many voices are heard and responded to when a new community is being created.

According to the company, the CANVAS process occurs before a

Crescent Communities

From left, Brendan Pierce, Brian Natwick and Managing Directors Chase Kerley and Sagar Rathie in front of a mural by Jeremy Biggers honoring civil rights advocate Harry Golden at the entrance to the parking garage at Elizabeth on Seventh in Charlotte, North Carolina. Crescent Communities believes public art is part of the fabric of communities and routinely recruits local artists to transform blank walls, parking decks and garages into colorful creations that become landmarks in their respective cities.

> **"We use the word 'community' intentionally.** At the same time, we stay away from words like 'property,' 'project' and 'development' because those words are physical, nonliving things. **Community is a much more interactive, engaging and evolving concept."**
>
> *— Brian Natwick*

single shovel breaks ground. The focus goes far beyond a design charette — it is a process through which community members, neighbors, business owners and the Crescent team come together and ask one another: "How can we build a community that betters the community?"

During the process, visions evolve in step with foundational design principles to create intention. These principles are carried throughout the development's life cycle like a North Star. Results from the CANVAS process have included:

- Expansion of greenways and parks near Crescent's communities
- Construction of affordable housing units
- Donation of land for affordable housing
- Installation of public art in communities

Company Culture

Crescent Communities, which has 194 employees, has cultivated a strong company culture that helped steer it through the pandemic and keeps it on a prosperous path, Natwick said.

He added that the company's employee retention rate is reflective of its positive culture. "Our people love what they do and love the people they are working with. We have created a team of highly entrepreneurial, collaborative and successful people. It's a lot of fun to be part of a team that wins, but we believe that winning is a result, not the objective."

Another factor that adds to Crescent's highly positive culture is its focus on diversity and inclusion. Crescent seeks to foster teams composed of people with different backgrounds, experiences, styles, genders and races. Natwick said Crescent values diverse perspectives and supports team member engagement.

The company is also intentional about developing partnerships that foster diversity and equity and seeking diverse vendor relationships in all areas of construction and business operations. While proud of what it has already accomplished in creating a more diverse and equitable workplace, Crescent also

Crescent Communities

NOVEL University Place, in the northern part of Charlotte, is an example of Crescent Communities' Class A multifamily offerings. The lakefront community includes a resident amenity building, a resort-style pool and hammock park, and nearby access to light rail and existing greenway trails.

understands this is an ongoing journey with no finish line and is actively working to find opportunities for growth in this area.

"I believe it is important to have diverse thinking in everything we do," Natwick stressed. "It can be natural to surround yourself with people who think like you, behave like you and perhaps even look like you. But cultivating diversity also encourages folks to think differently."

Financial Success

Like other commercial real estate companies, Crescent Communities has been confronted with issues such as high interest rates, rising material costs and material disruptions. But the company follows a strategy that helps it achieve financial success in good markets and bad.

"We enjoy looking for creative solutions in our approach. That could be in underwriting or planning a new community," Natwick said. "We create communities that will excel in the submarket and achieve top rents and top returns, whether it is a multifamily community or an industrial building. We achieve these returns by delivering an exceptional, superior experience."

The company invests considerable time not only on the physical aspects of a community but also on the experiential amenities. "In many cases, the amenities we add do not cost a lot of money, but they do require a lot of time and thought in planning and execution," Natwick said. Examples of these include podcasting rooms at NOVEL RiNo in Denver and a vinyl listening lounge at NOVEL Scott's Addition in Richmond, Virginia.

Philanthropy

Crescent Communities takes seriously its commitment to the communities in which it does business. It supports community initiatives that align with its three identified focus areas: education, the environment, and shelter and basic needs. Through its CARES volunteer and charitable giving program, the company cultivates a culture of passionate engagement.

Last year, Crescent Communities supported over 30 organizations through board service, volunteer activities or financial contributions. Examples include: Project Destined, Catawba Lands Conservancy, Junior Achievement of Georgia, TreesCharlotte, Catawba Riverkeeper, Sustain Charlotte, The Park People of Denver, Nashville Tree Foundation, ROC Charlotte, TreesAtlanta, Elevate Orlando, Bonton Farms of Texas, Habitat for Humanity, Foundation for the Carolinas, Boy Scouts of America, Classroom Central Charlotte, Roof Above, Entryway, North Texas Food Bank, House Proud, Community Building Initiative, Discovery Place, Second Harvest Food Bank, and Rebuilding Denver Together.

Sustainability

Crescent Communities embraces a long-term approach to development while respecting the land and the environment. The firm was an early adopter of sustainable practices, achieving its first LEED Gold certification in 2004, and has also emphasized WELL, WiredScore and Fitwel certifications in its communities.

Crescent's multifamily communities are 52% more energy efficient than average projects, and the company is incorporating solar energy to further reduce its projects' environmental impact. Crescent is also working to make its office, industrial and life science projects 30%-40% more energy efficient than similar projects in the market.

Crescent wants to move beyond certifications and is aiming at net-zero buildings in the future. Meanwhile, several examples showcase the company's efforts to create sustainable communities. Crescent has partnered with Alveole to introduce honeybees to NOVEL River Oaks, a luxury multifamily community in Houston, and One University Place, an office building in Charlotte.

Crescent Communities

RENDER Covington is the first community under Crescent's RENDER multifamily brand, aimed at those seeking a suburban lifestyle without sacrificing thoughtful design, functional space and local character.

Urban beekeeping has a positive impact on the environment and will be more widely incorporated into Crescent's future designs and operations. Additionally, The River District, a 1,400-acre mixed-use community being developed on the west side of Charlotte, is applying for a One Planet Living designation, a complex sustainability framework that only a handful of mixed-use developments in the U.S. have achieved.

Understanding the importance of the urban tree canopy, Crescent Communities practices tree conservation across its development footprint. Through volunteer efforts and financial contributions, Crescent supports organizations that work to ensure that all residents have access to the health and environmental benefits that trees provide. In 2023, team members participated in tree plantings and tree maintenance volunteer activities in Atlanta, Charlotte, Denver and the greater Richmond area.

The company is also exploring the use of mass timber in its projects because, in addition to the aesthetic quality, it has less of an environmental impact compared to steel or concrete. Currently, Crescent is in design development for the use of mass timber in the future construction of Garren, an innovative office and adaptive-use community in Alpharetta, Georgia.

Strong Branding

One result of Crescent Communities' five-year planning process was the creation of strong branding for its multifamily, industrial and life science communities. This serves to differentiate Crescent in all the markets in which it works, said **Brendan Pierce**, the company's president of commercial.

NOVEL High-end Multifamily Brand

NOVEL is Crescent's Class A multifamily offering. "It offers residents exceptional amenities and experiences," Pierce said. "Remaining true to the concept, each one of our NOVEL communities is designed to be as unique as the neighborhood in which it exists. We can lease up faster and achieve higher rents because of the amount of time and attention to detail we put into each community."

A recent example is NOVEL University Place in Charlotte's vibrant University neighborhood. The lakefront community features 308 for-rent residences, including carriage homes and studio, one-, two- and three-bedroom floor plans. A resident amenity building houses a two-story fitness center, a library and co-working spaces, and it overlooks a resort-style pool with outdoor kitchens and hammock park. A 58-kilowatt solar array provides sustainable electric power that offsets the community's energy use in the multiple amenities and gathering spaces. A light rail station and greenway are nearby.

"This community was named the best garden apartment community by the National Association of Home Builders last year and is both NGBS (National Green Building Standard) Silver and Fitwel certified, demonstrating Crescent Communities' commitment to resident wellness and sustainability," Pierce pointed out.

RENDER Multifamily Brand

"RENDER is our suburban, scalable offering, located in desirable locations with access to area amenities without the high-density urban rental rates," Pierce explained. RENDER communi-

Crescent Communities

Crescent Communities' AXIAL industrial brand completed Structural Building Solutions, a 120,000-square-foot build-to-suit development in Archdale, North Carolina, for Sumitomo Forestry Group. The facility will serve as a component manufacturing and distribution operation, producing building materials such as roof trusses, floor trusses and wall panels used in residential housing and wooden commercial and multifamily buildings.

ties offer a more affordable price point than Crescent's NOVEL brand.

The first RENDER community is in Covington, Georgia, a small city roughly 35 miles east of Atlanta and home to a Rivian Trucks 2,000-acre assembly plant that is expected to create 7,500 jobs.

RENDER Covington is a 315-unit apartment community adjacent to a mixed-use retail center and with direct access to a 2.5-mile multiuse trail. "We were pleased to bring nature right into this project," Pierce said. "In addition to an attractive price point, the community also features a spacious and dynamic fitness center, luxury clubhouse, and many outdoor and poolside amenities."

HARMON Single-family Build-to-rent Brand

"HARMON is single-family living without the headaches and cost of maintaining a house and grounds," Pierce commented.

HARMON Foxbank in Moncks Corner, just outside of Charleston, South Carolina, is the latest HARMON community. "The 109 homes in this community are designed to be highly energy and water efficient so that residents have comfort and lower utility bills. In 2023, we achieved the NGBS certification on all the new HARMON homes there."

Crescent aims to be part of the solution in resolving the housing crisis across the U.S. It formed a joint venture with Pretium in 2021, a specialized investment manager focused on real estate, and announced plans to invest in new single-family build-to-rent communities. Earlier this year, Crescent formed another strategic partnership with Heitman and a state pension fund to invest in the single-family build-to-rent platform. HARMON West Meade in Nashville will be the debut project under the new partnership, followed by three additional communities expected to break ground this year in other Sun Belt cities.

AXIAL Industrial Brand

Crescent has been active in industrial development for decades, but in 2021 it branded its industrial business line as AXIAL to further leverage brand recognition as it moved into new markets.

Crescent has completed more than $869 million in industrial projects. Its development portfolio features 63 industrial projects, with nearly 14 million square feet of completed projects and more than 3 million square feet of projects in development or operation.

One example is AXIAL Gateway 95, a rear-loaded, 505,000-square-foot building in Richmond that will be LEED certified upon completion. "We find that our end user wants that same environmental approach to industrial buildings that they have in other buildings," Pierce said.

AXIAL Gateway 95 will feature:

- A highly reflective roof surface to reduce the heat-island effect
- All-LED lighting to reduce energy demand
- Enhanced indoor air quality to promote a healthy work environment
- Reduced outdoor water use through native and location-friendly plantings
- Responsible construction management to divert a minimum of 50% of waste from the landfill

"By constructing our AXIAL developments to be LEED certified, we project a 30% to 40% energy savings over baseline buildings in that marketplace, which is important to the tenant and to us," Pierce said. "These buildings achieve higher rents and higher returns, so we get a double win. It is an economically more successful project, and it is more environmentally friendly."

THE YIELD Life Science Brand

Pierce noted there are two aspects to life science: biomanufacturing and research and development. Much of

Crescent Communities

The 109 homes in HARMON Foxbank, a single-family build-to-rent community outside of Charleston, South Carolina, achieved National Green Building Standard certification in 2023.

the research and development is done in markets such as San Francisco, San Diego and Boston. But companies involved in biomanufacturing that want to keep operations onshore tend to target markets with a highly talented workforce and lower land costs, like the Raleigh-Durham area. The market has proximity to three tier-one research universities: Duke, North Carolina at Chapel Hill and North Carolina State.

"This area has become a hotbed for life science," said Pierce, noting that Crescent Communities developed its first two branded THE YIELD projects in the Raleigh-Durham area in 2020. "We create campuslike settings for life science and advanced manufacturing companies and primarily do biomanufacturing projects."

A prime example is THE YIELD Holly Springs, which spans 230 acres. Crescent Communities is currently developing three distinct life science campuses located near industry giants such as Seqirus, Amgen and FUJIFILM Diosynth. The three projects will encompass 2 million square feet of biomanufacturing and lab space with over $1 billion of market value. Plans to expand THE YIELD to similar highly desirable markets are in the works.

Crescent Communities

Crescent Communities developed its first two life science projects, branded as THE YIELD, in the Raleigh-Durham, North Carolina, area in 2020.

Creating Legacies

"Receiving the Developer of the Year award is an honor for Crescent Communities and, above all, a testament to the hard work, dedication and strategic vision of our entire team," Natwick said. "This recognition both validates our innovative and sustainable approach to development and inspires us to keep raising the bar, continually striving to create projects that not only meet the needs of today but also anticipate and address the opportunities and challenges of tomorrow. Our goal is to create legacies, ensuring the communities under our stewardship flourish for years to come, and we're excited to continue doing so." ■

Ron Derven is a contributing editor to Development magazine.

Spaceport Real Estate **Readies for Liftoff**

Courtesy of Houston Airports

Phase I of the Houston Spaceport, encompassing approximately 153 acres and primarily focused on infrastructure development, was completed in 2019.

The privatization of the space economy and the growing popularity of rocket tourism are launching new CRE opportunities around Houston and along Florida's Space Coast.

By Will McDonald

At a Glance

- The Houston Spaceport could feature 1 million square feet of facilities by the time Phase II is complete.
- The 502-room Westin Cocoa Beach Resort & Spa is being built to capitalize on the popularity of rocket tourism in Florida.
- Office and industrial occupancy rates appear to be healthier near space-related sites in Houston's Bay Area and along Florida's Space Coast.

The global space economy is poised to become a $1.8 trillion industry by 2035, growing 9% per annum from $630 billion in 2023. A joint report released earlier this year by the World Economic Forum and McKinsey & Company said this growth will "largely be built upon space-based and/or enabled technologies such as communications; positioning, navigation and timing; and Earth observation."

SpaceX and Blue Origin are well-known names, but other industries are also benefiting from the space exploration boom, including commercial real estate. Two regions where economic activity has been ignited by the pivot away from government-driven space flight to multibillion-dollar contracts with private companies are Houston's Bay Area and Florida's Space Coast in Brevard County.

SPACE CITY

Houston is home to over 500 aviation and aerospace companies employing more than 23,000 individuals. NASA's Johnson Space Center alone employs 10,000 people.

Houston's abundance of scientific talent, combined with its status as the country's fifth-largest metropolitan area and the gradual privatization of the space economy, led the Houston Airports System (HAS) in 2018 to embark on an ambitious multiphase development plan that would position the area to be at the forefront of space travel's next chapter.

Houston Spaceport: Phase I

HAS seeks to develop 400 acres of greenfield at Ellington Airport, a city-owned airport primarily serving military and NASA operations. The Federal Aviation Administration (FAA) awarded HAS a spaceport license in 2015, making it the 10th spaceport in the United States. Phase I, encompassing approximately 153 acres, was completed in 2019 and largely focused on infrastructure development to support the creation of Houston Spaceport. The Houston City Council appropriated more than $18.8 million in public funds to assist with the construction of streets, water and wastewater, utilities, and communications infrastructure.

The spaceport also received a $5 million grant in 2022 from the Texas

Courtesy of Houston Airports

The Collins Aerospace campus at the Houston Spaceport includes a 120,000-square-foot facility and 8 acres for future expansion.

Economic Development & Tourism Spaceport Trust Fund program, which allocates funds toward the creation of jobs and infrastructure at Texas spaceports.

"When we started all this, the goal was to put the 'space' back in Space City [Houston's nickname]," said **Jim Szczesniak**, director of aviation for HAS. "The purpose of that first phase was to try and attract those initial anchor tenants [to the spaceport]."

Collins Aerospace Building

Those efforts worked and the project now has three major tenants. Collins Aerospace, one of the world's largest suppliers of aerospace and defense products, signed a 10-year lease in 2021, with three five-year renewal options, for a new 120,000-square-foot, 8-acre campus on spaceport grounds. In its press release announcing the deal, Collins said HAS would be providing up to $25.6 million in capital improvements financing. The facility also hosts Houston's "first spaceflight incubator," providing space and resources for startups and universities to collaborate and conduct research toward achieving new heights in space exploration.

The participating higher education institutions include Rice University and its Rice Space Institute, and San Jacinto College, which leads the Edge Center, the spaceport's official education training partner. Texas Southern University has also partnered with the spaceport to provide pilot training programs. And down the street at the Johnson Space Center, Texas A&M is scheduled to break ground in November on its new Space Institute facility — a massive project encompassing a 32-acre site owned by NASA.

HAS and Houston-based developer Griffin Partners, which is responsible for much of the commercial development in the surrounding Clear Lake and Nassau Bay submarkets over the past 40 years, broke ground on the Collins building in August 2021 and completed construction 12 months later. The Collins site includes additional acreage for future expansion.

Fred Griffin, chair and founder of Griffin Partners, said the total construction cost came to approximately $35 million, with the building makeup split roughly evenly between office space and lab and manufacturing space.

"The specifications of these facilities are very complicated," Griffin said regarding the interior design of the lab and manufacturing space. "They are designing high-quality spacesuits here that will actually be worn by astronauts on the moon and Mars."

Intuitive Machines Headquarters

Intuitive Machines, an American space exploration company, followed Collins' lead and built a new 105,000-square-foot headquarters across the street. The company, which completed the first successful private moon landing this past Feb-

"**When we started all this, the goal was to put the 'space' back in Space City.** The purpose of that first phase was to try and attract those initial anchor tenants [to the spaceport]."

— Jim Szczesniak, director of aviation, Houston Airports System

“The specifications of these facilities are very complicated. **They are designing high-quality spacesuits here that will actually be worn by astronauts on the moon and Mars.”**

— Fred Griffin, chair and founder, Griffin Partners

Courtesy of Houston Airports

Celebrating the ribbon cutting of the Collins Aerospace facility in August 2022.

ruary, worked with HAS, Griffin and engineering firm Burns & McDonnell to build its new Lunar Production and Operations Center. Construction of the 11-acre site cost approximately $45 million and was completed in September 2023.

Intuitive Machine’s buildout included very specialized, high-tech interior designs, but that didn’t mean Griffin Partners received an extended deadline to complete the customized facilities. “When you’re working with the government [as Intuitive Machines is], there are certain dates you just have to meet,” Griffin said.

Axiom Space Headquarters

This was especially true with construction of the third major tenant’s facility, a new global headquarters for Axiom Space. Axiom is building a module that will, in essence, replace the International Space Station. Completion of that module is taking place in a new high-bay assembly space, built as part of the first phase of its two-phase corporate campus, a 106,000-square-foot manufacturing and testing facility.

Regulatory constraints made construction of the high-bay facility more challenging, especially with Axiom under contract to deliver the module for launch in 2026. Due to the facility’s proximity to the airport, it was necessary to use a flat crane, rather than the more standard tower crane, when constructing the facility to stay under the FAA’s 120-foot height restriction.

The first phase of Axiom’s 22-acre headquarters, referred to by the company as the Assembly Integration and Test Building, was completed in December 2023 after an 18-month construction process. Griffin said the project’s second phase will likely start by the end of 2024 and will include laboratory and office space, as well as mission training facilities for Axiom’s private astronauts.

Szczesniak said that between the three anchor tenants, plus additional university and HAS facilities, a total of 500,000 square feet of space has been built at the Houston Spaceport, representing $300 million worth of investment. From a broader economic perspective, $5 billion in contracted work has been generated, along with 1,800 jobs.

Future Plans

Building off the positive momentum of Phase I, HAS announced plans in April for Phase II, with an anticipated groundbreaking sometime in 2024 or 2025. Expansion of existing tenants’ operations will be part of this second phase, including the Edge Center’s plans for an Aerospace Institute, with the goal of connecting higher education students with the aerospace industry.

Smaller companies have also shown interest in relocating to the spaceport. Providing space for them is another goal of Phase II.


Courtesy of Houston Airports

Intuitive Machines, an American space exploration company, opened its 105,000-square-foot headquarters at the Houston Spaceport in September 2023.

"We have these three main tenants on-site, and now their contractors are looking to hopefully co-locate with them. We are working on a multipurpose building that would allow these smaller companies to come in and take 10,000 to 30,000 square feet at a time," Szczesniak said.

Constructing a road that runs through the middle of the spaceport and connects to state Highway 3 is also part of Phase II plans. The road will buffer land designated for potential hotel, retail and restaurant developments, introducing the opportunity for Houston Spaceport to tap into the growing tourism element of the new space economy.

Szczesniak believes the potential exists for Houston Spaceport to feature 1 million square feet of facilities by the time Phase II is complete. And plans for additional phases are still being discussed, suggesting the spaceport's economic potential is still coming into view, particularly in the Bay Area submarket surrounding the spaceport.

According to a report from Colliers, the total office vacancy rate for Houston in the first quarter of 2024 was 26.7%. However, the Bay Area, referred to as the NASA/Clear Lake submarket in the Colliers report, had a vacancy rate of 15.7%.

When Collins announced plans for its new spaceport facility, that meant it would be vacating the space it leased at 18050 Saturn Lane, a Class A office building in Nassau Bay. But that didn't frighten Lee & Associate's **Drew Lewis**, who is the leasing agent on the property.

"Since the 1960s, engineering and scientific talent have called this area home. And when things change at the federal level, and projects are retired or contracts are lost, many of those individuals decide to stay here and take jobs with new companies or even start their own firms," Lewis said. "Because of that workforce population, the area has attracted other industries that serve that clientele."

Select Space-related Developments Across the Country

California: The Berkeley Space Center is a proposed 36-acre research and development hub located within NASA's Ames Research Center in Silicon Valley. The $2 billion project is a joint venture between the University of California, Berkeley and San Francisco-based real estate developer SKS Partners, with the stated aim of "catalyzing deeper collaboration between the private, academic and governmental sectors."

Metro D.C./Maryland: Intuitive Machines signed a 21,117-square-foot lease at the Cromwell Business Park outside of Washington, D.C., in June. The facility, an expansion from Intuitive's existing 3,600-square-foot operations in Maryland, will be used primarily for building and testing new space-flight equipment.

Ohio: British aerospace company Blue Abyss acquired 12 acres in Brook Park earlier this year to build what is expected to be the largest commercial astronaut training center in the world. Plans include a 130-room boutique hotel to host students and visitors traveling to the campus. The facility will be near NASA's Glenn Research Center.

Courtesy of Houston Airports

Intuitive Machines held a watch party at its headquarters in February for the lunar landing of Nova-C Odysseus, which the company designed. It was the first U.S.-made spacecraft to touch down on the moon in more than 50 years.

Haldor Topsoe, a Danish company in the oil and gas sector, leased the fourth floor of 18050 Saturn Lane, formerly occupied by Collins. Lewis noted that the number of wealth management firms and health care providers in the area is growing to meet the needs of the space industry's local workforce, adding dimensions to what is typically considered "the space economy" beyond its central scientific focus.

SPACE COAST

Brevard County, Florida, was the setting for numerous iconic Space Race images such as the Apollo 11 moon launch in July 1969. And it's where NASA's Space Shuttle program soared for the final time in 2011.

Brevard County features 72 miles of coastline along the Atlantic Ocean and is approximately an hour's drive from Orlando, the amusement park capital of the world. According to a 2022 report from the Space Tourism Society, the top 10 U.S. space attractions welcome 18.3 million visitors annually. The Kennedy Space Center, located in Brevard County, and Mission: SPACE, a simulated NASA-style mission thrill ride at Disney's EPCOT, accounted for over 40% of those visitors.

Rocket Tourism

In 2023, Cape Canaveral set a record for number of orbital launches in a single year: 72. That number could reach 115 by the end of 2024, according to **Jay Cooper** of Miami-based Driftwood Capital. Each of those launches is sponsored by different companies whose personnel fly in to witness the event, which means more people in need of more hotel rooms.

This broader enthusiasm for space travel is why Driftwood, a real estate investor and developer specializing in hospitality, is moving full steam ahead on a project that Cooper, the company's managing director of development and construction, calls the "crown jewel" of its portfolio.

The Westin Cocoa Beach Resort & Spa will be a 502-room hotel built on the 16-acre site formerly occupied by the International Palms Resort & Conference Center. Included in the project renderings is 123,000 square feet of flexible meeting space, which Cooper believes will be useful to NASA and military officials looking for sizable facilities to host launch-related conferences and meetings. Also planned for the resort are 11 food and beverage options, a full-service spa, multiple pools, and green space for a park. Marriott, Westin's parent company, was drawn to Florida's Space Coast because it felt the area lacked a full-service resort.

Cooper says the growth and demand along the Space Coast is unlike


Courtesy of Driftwood Capital

The Westin Cocoa Beach Resort & Spa will be positioned along 500 linear feet of coastline, providing a natural viewing platform for launch spectators.

anything Driftwood has experienced. Much of that is attributed to "rocket tourism." The Westin resort will have multiple attractions for launch enthusiasts, including a deep-water surf pool and bar that abuts the beach and has a direct line of sight to the Cape Canaveral launchpad. The resort is also positioned along 500 linear feet of coastline that provides a natural viewing platform for launch spectators. That stretch of beach raises the project stakes.

"You have some of the most amazing beaches along that stretch of the coast, and some of the best surf as well," Cooper said. "There's only so much natural coastline like this left, so you really need to get it right the first time so as to not jeopardize what makes this area so wonderful."

The developer bought the site for $23 million in 2016 and is reported to be spending between $300 million and $400 million to replace what Driftwood CEO **Carlos Rodriguez Sr.** termed "the ugly duck" of the Space Coast due to International Palms' dilapidated condition and penchant for inviting crime.

Driftwood is currently raising funds for the project from investors, partnering primarily with high-net-worth individuals, as it has on previous projects. An August 2024 groundbreaking was anticipated for the project. Once complete, room reservations will start at $300 per night. Luxury residences will include 69 suite offerings and two 2,000-square-foot presidential suites — options Cooper is confident will come in handy as the scale and importance of the Cape Canaveral launches continue to grow.

Commercial Space for Space Employers

Hospitality isn't the only real estate sector in Brevard County benefiting from enthusiasm over the launches. Office and industrial space occupancy rates in the area are dramatically outpacing the rest of the country. Brevard County industrial properties have a 2.2% vacancy rate, and office is at 6.4%, according to **Rob Beckner**, principal of the Lightle Beckner Robison brokerage firm.

"Having **Elon Musk** [founder of SpaceX] and **Jeff Bezos** [founder of Blue Origin] in the area has created a bit of a ripple effect in the local economy," Beckner said. "New engineering firms and parts manufacturers have come to town, and it's changed the landscape entirely."

Anytime someone calls Beckner looking for space in Titusville, the closest commercial submarket to NASA's Cape Canaveral operations, he tells them to meet him an hour south in Melbourne, because there simply isn't square footage available. Beckner's firm was the listing agent

“There’s only so much natural coastline like this left, so you really need to get it right the first time so as to not jeopardize what makes this area so wonderful.”

— Jay Cooper, managing director of development and construction, Driftwood Capital

Courtesy of Driftwood Capital

A rendering of the Westin Cocoa Beach Resort & Spa, being developed along Florida’s Space Coast to take advantage of the growing enthusiasm for rocket tourism.

on the Reich Brothers Logistics Center in Titusville, marketed on its brochure as “the only Class A Industrial/Flex Building” in the area. According to online sources, Beyond Gravity, a rocket and satellite parts supplier, leased nearly all of the 137,000 square feet of space in short order.

The race for space in the commercial market has had a significant impact on rates. Beckner said industrial space is leasing for $12–$13 per square foot net, while office is approaching $20 per square foot.

Beckner shared similar sentiments to Griffin’s when discussing the intricacies of not only these tenants’ space requirements but the complexities of the lease documents themselves.

“Terms like ‘setup’ are used instead of ‘tenant improvements,’ which seems meaningless, but it has significant meaning in this context,” Beckner said. “The federal contracts these companies sign dictate how capital improvement dollars are spent, so you really have to know what you’re doing and understand how these contracts work.”

Beckner said that in the past, the area’s economy followed a boom-and-bust cycle, depending on federal funding for various NASA projects. He believes things are different this time around and that the jobs are here to stay.

“As space exploration continues to expand, so will the services offered. It’s a much more robust economy now,” Beckner said. “There’s a sense of permanency with it, and I believe Florida, and in particular this area, will be the driver for this growth for years to come.”

Will McDonald is a freelance writer in Brooklyn with prior professional experience as a commercial real estate broker.

Reaching for a New Standard in Industrial Warehouse Design

REI Co-op's distribution center in Tennessee places equal priority on logistics, environmental stewardship and employee well-being.

By Patrick Poole, Al. Neyer

At a Glance

- REI's 400,000-square-foot distribution center integrates multiple design features to support employee well-being.
- The facility is the largest LEED Platinum industrial building in the Southeast.
- Greater Nashville was identified as a strategic location for the center because it is within one day's trucking distance to 75% of U.S. markets.

National specialty outdoor retailer REI Co-op (REI) and Al. Neyer recently delivered a state-of-the-art distribution center just outside of Nashville in Lebanon, Tennessee. The 400,000-square-foot facility, known as REI Distribution Center 4, showcases modern industrial development while integrating high standards of sustainability, a commitment to the employee experience, and practical logistics requirements.

Dubbed "a warehouse where people actually want to work" by Fast Company, the project was developed, designed and built by Al. Neyer, a multiasset class design-build developer with a large presence in Nashville. The firm, with offices in Nashville, Cincinnati, Raleigh and Pittsburgh, has more than 130 years of real estate experience, specializing in speculative and build-to-suit industrial projects, in addition to multifamily, medical office and office developments.

Al. Neyer has a long-standing commitment to sustainability, having completed 22 LEED-certified projects. This dedication was highlighted in REI Distribution Center 4, which emerged as a milestone project. From the outset, REI established a clear directive not merely to accumulate LEED accreditation points with its fourth regional distribution center, but to make conscientious decisions that reduce the environmental footprint. This approach marked a transforma-

Ford Photographs

REI's newest regional distribution center was built on the site of a former cattle pasture in Middle Tennessee that had previously been permitted for speculative industrial development.

tive shift in Al. Neyer's design-build process, setting new standards for future projects.

Four Years in the Making

In 2019, REI sought out Al. Neyer's Nashville team to design, build and develop its new regional distribution center in Middle Tennessee. Although initial plans halted during the COVID-19 pandemic, the relationship between the organizations remained steadfast. **Justin Hartung**, an Al. Neyer senior vice president, spoke with REI monthly, sharing market conditions and other key observations. Once REI was ready to move forward with the facility in mid-2021, collaboration between the two companies resumed seamlessly, quickly advancing the project.

REI was drawn to Al. Neyer due to its design-build approach but also because of the cultural similarities between the two teams. "They share REI's values, commitment to sustainability and vision to leverage our respective industry leadership positions to drive innovation and change," said **Sylvia Wilks**, chief supply chain officer for REI. While REI is a co-op, Al. Neyer is an employee-owned company, and both cared deeply about this project's lasting impact on the region for generations to come.

This isn't REI's first innovative facility. In 2016, it completed construction of REI Distribution Center 3, a zero-waste, LEED Platinum-certified facility in Goodyear, Arizona. Since then, the co-op has grown into a community of more than 6 million members and nearly 150 stores nationwide.

Project Timeline

July 2021: Site selection

September 2021: Design charette

October 2021: Land closing

November 2021: Construction start date

March 2023: Project completion

April 2023: REI fully occupied facility

October 2023: Facility became operational

Ford Photographs

The facility, which is 3 miles from Lebanon's downtown, was customized to blend in with the surrounding area by incorporating local colors and architectural elements.

With this growth, REI faced new challenges in getting gear to its stores, co-op members and customers while reducing the associated environmental impacts.

In addition to the Goodyear facility, REI has distribution centers in Bedford, Pennsylvania, and Sumner, Washington. It sought a fourth location that could support its continued growth along the East Coast and in the Midwest and South.

Site Selection

REI identified Nashville as a strategic location. With easy access to major transportation routes, the market is one day's trucking distance to 75% of U.S. markets and sits at the center of the Middle Tennessee transportation service area. Specifically, the suburban town of Lebanon has direct access to Interstate 40, which connects Memphis and Knoxville, and is serviced by four interchanges.

The project's 41-acre site is 1 mile from a major interstate interchange and just 3 miles from Lebanon's downtown. REI selected the site based on general population statistics, job market potential, construction readiness, existing regional environmental commitments and cost to build. The location promised a reduction in shipping times to fulfill customers' online purchases and the ability to support more than 60 REI stores, with nearly 5.6 million REI members living in the new distribution center's service area. As the nation's largest consumer co-op, REI intended to create more than 280 new jobs at the facility, with the potential for up to 350. The proximity to downtown Lebanon would also allow the company to become fully engrained in the local community.

The location promised a reduction in shipping times to fulfill customers' online purchases and the ability to support more than 60 REI stores, with nearly 5.6 million REI members living in the new distribution center's service area.

Ford Photographs

Interior design elements such as reclaimed wood, metal accent walls and strategically placed natural lighting are used to support REI's brand and boost the quality of the employee experience.

The project garnered significant financial incentives, including $1.1 million in funding from the state of Tennessee. Additionally, the Wilson County Joint Economic Development and Community Development Board granted a five-year property tax incentive valued at $2.8 million. The board forecasts that for every $1 of taxes that Wilson County waives, the city of Lebanon will benefit by $1.51 in the form of wages.

Al. Neyer supported REI in its site selection and land purchase, engaged with Lebanon's elected officials and economic development council, and facilitated introductions with regional power suppliers. When selecting the site, REI toured several properties that Al. Neyer had under contract, ultimately choosing a site previously laid out and permitted by the city for speculative industrial development. With the city's support, Al. Neyer quickly pivoted to reengineering the site to align with REI's specific needs, vision and timing. The selected site, a former cattle pasture, allowed Al. Neyer's design-build team to quickly prepare the site for construction.

A Collaborative Model

REI invited its project partners to visit the completed Goodyear distribution center. The group of consultants and partners participated in an in-depth site tour and a purposeful sustainability charette to discuss ways to design, build and develop another distribution center that would have a positive impact on the co-op's employees, the environment and the community. Lessons from the Goodyear project were shared, allowing all parties to align and evaluate solutions.

Key takeaways included proposals for enhancing the overall layout,

Additional Project Partners

Architect:
A.N Architects

Landscape Architect:
Cumberland Landesign, Inc.

Civil Engineer:
Warren & Associates

Transportation Engineer:
RG Phillips

Geo Professionals:
TTL, Inc.

MEP Engineer:
I.C. Thomasson Associates, Inc.

LEED Consultant:
Hastings Architecture

Interior Designer:
ASD | SKY

optimizing truck access points and strategizing material handling configurations. Additionally, the team addressed the adaptation of the heating system for the new facility. Unlike the Goodyear center in Arizona, which required no heating due to its warm climate, the Lebanon facility eliminated all natural gas heating and instead uses electric heating solutions to meet sustainability goals.

The group also discussed ways to customize the Lebanon facility to blend in with the surrounding area. Given the facility's proximity to the community, the team emphasized integrating with the local neighborhood. This focus guided the design process, leading to a building that honors the regional character by incorporating local colors and architectural elements. In considering construction obstacles, the team expected to hit rock when preparing the building pad, which is a common challenge in Middle Tennessee.

Why Lebanon?

Lebanon, Tennessee, located approximately 25 miles east of downtown Nashville, is emerging as a key industrial hub in the region. With nearly 41,000 residents and a robust growth rate of 6.37% since the 2020 census, the city's vitality is evident. The strength of the local job market is further underscored by a daytime population of 58,000, highlighting Lebanon's appeal as a place to work and do business. Familiar with the area's demand, Al. Neyer has developed 11 industrial buildings in Lebanon.

This hurdle was turned into a sustainable advantage by repurposing the pulverized rock as a foundation for the stone base under the building and parking areas.

This level of collaboration continued throughout design and construction.

Delivering a Great Employee Experience

What sets this project apart from other industrial facilities in the region is the building's emphasis on employee experience.

The facility provides a productive and healthy environment for employees through design features that support work, rest and a connection to nature. In the warehouse, employees experience ample daylight by way of 90 skylights strategically placed over regularly occupied spaces, along with sections of floor-to-ceiling windows — a stark contrast to the typical industrial space.

"One of our highest priorities for a new distribution center was creating an industry-leading employee experience," Wilks said. "REI and Al. Neyer considered every element of an employee's time at work, including their roles at ergonomically friendly spaces and the environment in which they work. Walking into REI's Lebanon distribution center is unlike any other facility in this category, and together we have set a new standard for warehouse design."

In addition to the warehouse, the facility includes a two-story, 20,000-square-foot office for administrative support and employee amenity spaces. These include a recreational courtyard, a fully equipped gym and extensive walking paths that blend the workplace with the natural environment.

"One of our highest priorities for a new distribution center was creating an industry-leading employee experience. **REI and Al. Neyer considered every element of an employee's time at work, including their roles at ergonomically friendly spaces and the environment in which they work."**

— Sylvia Wilks, chief supply chain officer, REI Co-op

Design Details

Along with its focus on the outdoors, REI regards its employees as a top priority. Throughout this build-to-suit project, Al. Neyer's architects sought to provide innovative solutions that captured the essence of REI's brand, purpose and company culture.

Ford Photographs

Amenity spaces for employees include a recreational courtyard, a fully equipped gym and walking paths that blend the workplace with the natural environment.

The teams worked through various iterations of design details together, including the following elements:

Window and skylight placement that aligns with employee work areas. The 90 skylights are designed to help employees reduce eye strain and headaches, as well as to boost mental health. Most warehouses are windowless, offering no connection to the outside and little indication of the time of day. In REI Distribution Center 4, windows are also placed near loading docks and on the path to the employee break room.

An outside courtyard featuring a patio with recreation areas and a fire pit, as well as roll-up glass doors in the lunchroom that open toward the courtyard. These communal gathering and amenity spaces help provide a high-quality employee experience and encourage work-life well-being.

A mountain motif, based on the regional Appalachian Mountains, formed into the concrete tilt panels. Created with varied form liners, reveals and sand-blasted concrete, this design element symbolizes REI's connection and commitment to the outdoors. It also enhances the building's exterior appearance.

Interior design elements that support REI's brand with exposed and unpainted structures, reclaimed wood and metal accent walls, and strategically placed natural lighting. A polished concrete "stream," inspired by the Cumberland River, was designed to meander through the office area and leads outdoors to connect the exterior spaces and walking paths. Preserved wood and metal elements from the original barn and trees found on the site prior to development are used as art features throughout the interior. Additionally,

REI's pledge to minimize its environmental impact is apparent in not just every aspect of the center's design but in its plans for operation too.

the color accent wall in the lobby features rock climbing rope.

Enhanced landscaping and harvested rocks from site excavation to create dry creek paths along the front parking areas. These areas are complete with foot bridges, benches and Wi-Fi in consideration of the different ways employees may wish to reset.

Biophilic design elements such as natural woods, supergraphics/images, daylighting and north-facing glass. Each element was added to assist in energizing unique spaces while contributing to a positive workspace environment.

A Commitment to Sustainability

REI's pledge to minimize its environmental impact is apparent in not just every aspect of the center's design but in its plans for operation too.

Energy

The distribution center addresses carbon impacts by using 100% electric energy through REI's partnership with Clearloop, a leading carbon solutions provider, and Intuit, a global software company. The group recently partnered and built White Pine Solar Farm in nearby White Pine, Tennessee, to power the facility.

The building will use 30% less energy than required by code, primarily due to energy-efficient lighting and HVAC building systems. This focus on energy savings extends to all building systems. For example, there is widespread use of conveyor belt sensors that pause when product is not moving, which also supports acoustic comfort for employees.

Electric forklifts transport goods in the facility, while EV chargers are available for staff vehicles. Concrete and steel building materials include upward of 30% less embodied carbon than typical material specifications.

Waste

The project team diverted over 90% of its construction waste and more than 90% of operational waste from landfills, which the U.S. Green Building Council (USGBC) defines as "zero waste." The facility also participates in an enterprise-wide partnership with Trex to recycle all thin-film plastic into durable, plastic decking. After a year of operation, REI will pursue certification for the facility through the USGBC TRUE zero-waste program, allowing it to join the co-op's fleet of distribution centers as certified facilities.

The facility is also highly water efficient, designed to use 50% less water in its operations and landscaping than required by industry baseline. A cistern captures rainwater for nonpotable uses within the building, while efficient fixtures reduce overall demand. Native and drought-tolerant landscaping further reduces the site's water needs.

Recognition

Influenced by design, sustainability and an employee focus, REI Distribution Center 4 has attracted widespread recognition. Notably, it was awarded LEED Platinum certification, the highest level of achievement in USGBC's LEED v4 rating system. The facility is the largest LEED Platinum industrial building in the Southeast.

Additionally, the facility was named a 2023 Industrial Development of the Year by the NAIOP Nashville chapter.

> **"Effective communication is key when demonstrating the value of industrial projects to communities.** We engage early and often with local officials to fully understand and respond to the city's needs."
>
> *— Justin Hartung, senior vice president, Al. Neyer*

Lessons for Future Projects

Al. Neyer's perspective was enriched by its involvement in the design-building of REI's Distribution Center 4. Every detail and decision came to be viewed as integral to the narrative of the project story rather than just another component. This approach offers guideposts for evaluating decisions, steering toward a more impactful final product. The innovative solutions developed for reusing site materials, such as the existing trees and barn wood, will continue to influence future projects at Al. Neyer.

Ford Photographs

Nearly 5.6 million REI members live in the new distribution center's service area, and the facility has the ability to support more than 60 of the co-op's stores.

Relevant Research

In June 2023, the NAIOP Research Foundation released "Designing for Wellness in Distribution Centers," a report that offers design recommendations to improve occupant well-being. The authors conducted secondary research, observed conditions in existing distribution centers and interviewed occupants to collect information on key wellness concerns. They then drew from these findings to design a prototype distribution center with elements and features that contribute to a healthier and safer work environment.

To view and download the report, visit naiop.org/research-and-publications.

For clients, developers, architects and designers, and construction experts considering similar projects, the key takeaway is the value of true collaboration among project partners. REI challenged all its partners to pull up a seat at the table and "work the problem" together, offering their relative expertise to set a new standard in industrial warehouse design by investing in sustainable practices and creating a positive environment for employees. These elements might require a substantial initial investment, but they should offer considerable long-term benefits in operational efficiency, worker satisfaction and reduced environmental impact.

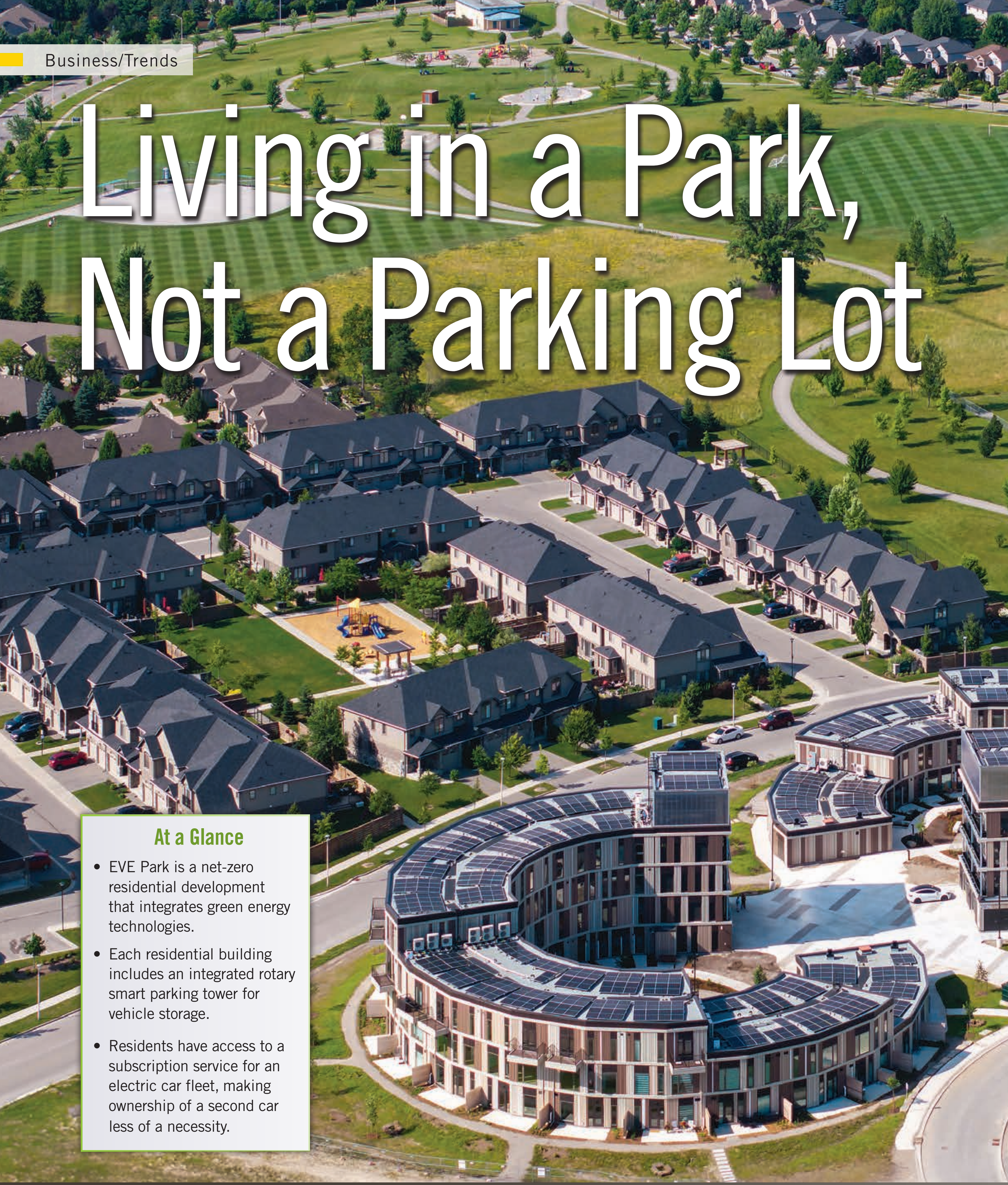
Elements such as these can also help redefine what it means to have a warehouse in your community. This is especially relevant in today's commercial real estate market as more industrial projects are delivered.

"Effective communication is key when demonstrating the value of industrial projects to communities," Hartung said. "We engage early and often with local officials to fully understand and respond to the city's needs. Once we're able to share with community members, it's important to clearly educate on the benefits these projects bring, like job creation, infrastructure improvements and increased tax revenues."

REI's Distribution Center 4 does more than just store and ship goods; it represents a new era of warehouse design that is equally considerate of the environment and the people who work there. It serves as an exemplary model for future industrial projects that aim to harmonize business growth with environmental and social responsibility. ■

Patrick Poole is the Nashville market leader at Al. Neyer.

Living in a Park, Not a Parking Lot



At a Glance

- EVE Park is a net-zero residential development that integrates green energy technologies.
- Each residential building includes an integrated rotary smart parking tower for vehicle storage.
- Residents have access to a subscription service for an electric car fleet, making ownership of a second car less of a necessity.

EVE Park's distinctive courtyards and circular layouts stand out among conventional suburban housing developments.


Scott Norsworthy, courtesy of Gensler

EVE Park, a multifamily development in London, Ontario, is designed to prioritize people and community rather than cars.

By Oliver Schaper, Gensler

Focusing on parking when describing sustainable housing development may sound counter-intuitive. However, in the case of the Electric Vehicle Enclave (EVE) Park, rethinking parking has been crucial to designing an environmentally and economically sustainable development.

EVE Park is a net-zero residential development integrating green energy technologies. Its master plan focuses on community and shared spaces. When the two-phase project is completed, it will comprise four buildings holding 84 units organized in a mix of one-, two- and three-bedroom condominiums. The units are fitted with energy-efficient appliances, energy recovery ventilators for filtered air, and custom-crafted millwork.

EVE Park is in London, Ontario, a midsized city with a population of slightly less than 450,000 located roughly halfway between Toronto and Detroit. London residents rely heavily on automobile transportation, with most people commuting daily by car. For the project, developer s2e Technologies, alongside Gensler and co-designer Studio Dror, decided to abandon conventional parking models in favor of a design innovation that allocates more space for people and the community.

"The design team came up with the innovative solution of structuring each residential building in a helix and including an integrated rotary smart parking tower for vehicle storage," explained **Glen Drummond**, senior marketing and

> "**The design team came up with the innovative solution of structuring each residential building in a helix** and including an integrated rotary smart parking tower for vehicle storage."
>
> *— Glen Drummond, senior marketing and strategic adviser, s2e Technologies*

Scott Norsworthy, courtesy of Gensler

An aerial view of the courtyards and connecting gardens that link the first two buildings of s2e's Gensler-designed EVE Park residences.

strategic adviser for s2e. The novel approach has garnered significant media interest, with EVE Park being named one of the "10 architectural projects set to shape the world in 2024" by CNN Style.

Using Innovative Car Storage to Reprioritize Community

In less automobile-centric residential areas, particularly those built before World War II, many homes are entered through the front door and may contain porches or other entry spaces that create opportunities for engagement with neighbors and passersby. Typical suburban environments, however, are designed around the garage. Residents often enter their homes through back doors or from within the garage itself, effectively severing that vital connection to people on the sidewalk and other residents who might be nearby.

While designing EVE Park, rethinking parking has been vital in creating more space for human interaction and lessening the visual impact of garages. The team's solution involves stacking the cars and automating parking so that residents can drop their cars off and walk to their homes. Stacking cars in an architecturally distinctive, small-footprint parking structure centralizes all the infrastructure necessary to accommodate automobiles while still affording the possibility of a more socially driven, pedestrian-oriented residential condition.

This approach permits the team to rethink site planning from a fundamental level. It removes the typical emphasis on serial garages accessed directly from the street and allows for a unique and community-oriented plan instead.

There are trade-offs to manage, however. The parking structure limits the number of cars that a resident can own to one per family. Accordingly, s2e Technologies offers a subscription model for an electric car fleet that makes ownership of a second car less of a necessity for residents.

The parking structure limits the number of cars that a resident can own to one per family. **Accordingly, s2e Technologies offers a subscription model for an electric car fleet that makes ownership of a second car less of a necessity for residents.**

Scott Norsworthy, courtesy of Gensler

The units are wrapped in light-colored metal panels that reflect sunlight throughout the project's interior courtyards.

The subscription service, EVE Car, is designed as an hourly electric vehicle (EV) car-sharing program where residents have access to two EV options starting at $25 per hour or $99 per day, depending on the model, explained **Ashley Hammerbacher**, EVE Park project lead for s2e. "Billing for the service occurs over 15-minute increments, and when users go over four hours, they are charged the cheaper rate, either hourly or daily. The subscription program is accessed through a yearly membership fee of $99 per year. All maintenance, cleaning and charging are handled by the property."

The stacked parking garage and subscription plan reduced the overall need for driveways at EVE Park while also promoting the transition to EVs more broadly.

In terms of overall massing, EVE Park homes are organized side by side as they are in other nearby developments, but instead of being laid out in uniform, parallel rows, they are organized in a circular plan to create a centralized courtyard faced by all the front doors. The courtyards are planted with greenery and are paved intermittently to create a naturalistic landscape. The result is that residents are living in a park — not a parking lot.

Rethinking Energy

The project also rethinks how the residences and the parking structure are powered. To create a self-sufficient development, s2e Technologies, which broadly focuses on building sustainable housing communities, combined a conventional ground-up condo development business model with a micro-utility, creating a net-zero operation property. The property generates its annual energy budget from solar panels, trading credits back and forth with local utilities and the grid to level out its energy consumption and the cost associated with powering the development. This allows the development to balance seasonal fluctuations in energy use and on-site energy generation so that EVE Park produces as much energy as it needs to run and operate sustainably using clean energy.

This approach to energy development extends to futureproofing the parking structure so that it eventually receives EV charging capabilities. Each of the parking spots is prewired for EV charging and subsequently equipped with a charging cable once the resident purchases an electric car. The EVE Car fleet is also stored and charged in the parking towers. This approach extends the sustainability of the overall development as residents transition from internal combustion engine automobiles to EVs.

All-electric Design and Intelligent Envelope Design

The architectural design and detailing of the residences play a central role in achieving operational net-zero status. For example, the homes have a tight thermal envelope, producing energy-efficient structures that require less energy to heat and cool.

Scott Norsworthy, courtesy of Gensler

EVE Park is anchored by a pair of vertical parking structures that allow residents to access their homes from within a courtyard rather than from a private parking garage.

In addition, the depth of each unit is optimized so that natural sunlight can fully penetrate the apartments. Window size and the placement of openings provide ample access to natural light and facilitate heat gain during the colder months of the year. (London's climate is considered a "humid continental climate" comparable to that of Detroit). The combination of a tight envelope and intelligent design creates an energy-efficient and pleasant living environment that is closely tied to the natural cycles of daylight and the weather.

The condominiums are equipped with mini-split systems connected with air-source heat pumps and energy recovery ventilators. In the context of EVE Park's tight building envelope, this all-electric design becomes practical without the need for a redundant heating source for cold weather.

The current unit mix is as follows:

- Two one-bedroom units (750 square feet)
- 24 two-bedroom units (ranging from 1,310 to 1,850 square feet)
- 12 three-bedroom units (ranging from 1,750 to 2,230 square feet)
- Four four-bedroom units (2,230 square feet)

Challenging Conventions

The first phase of the project was completed this past summer, and the first group of condo owners have moved in. This portion of the overall project includes two buildings, Buildings A and B, each of which houses 21 units. The second phase will bring Buildings C and D online, each also including 21 units. Timing for the second phase of the project has not yet been confirmed. Twenty-seven of the first 42 units are currently occupied.

"Residents began moving in during November of 2023," Drummond said. "Buyer interest was high during the preconstruction phase. The

The property generates its annual energy budget from solar panels, trading credits back and forth with local utilities and the grid to level out its energy consumption and the cost associated with powering the development.

Scott Norsworthy, courtesy of Gensler

The interiors of each unit are shaped to optimize solar heating during the winter and to minimize heat gain during the summer.

interest rate increases starting in Q1 2022 have had the predictable effect on sales velocity."

Despite the overall success of the project, the design and development team did encounter a few hurdles. Initially, the goal was to use prefabricated construction to increase speed and efficiency while reducing construction site waste and the embodied carbon footprint that goes with it. However, local contractors' prefabricated coordination and delivery systems, particularly for stick frame construction, made including the materials challenging. Another early design goal that remains aspirational is to have the parking structures be fully automated and for autonomous vehicle technology to streamline the process of parking. Unfortunately, the technology (and regulatory context) is not there yet.

Another major issue was the regulatory and approval process for the project. "Our team encountered a variety of issues over the 18-month permitting process, from excessive cost increases across the board during COVID to an underdevelopment of codes specific to four-story wood buildings," said **Derek Satnik**, vice president of technology at s2e. For example, general requirements for a four-story stacked townhome wood building currently share the same code requirements as those of an 18-story building, from structural design to fire safety.

"We were being asked to add fire-hose cabinets to every suite, which would typically be installed only once per floor in a residential tower, and which firefighters wouldn't use in this case even if we did install them," Satnik said. "We believe a more finely grained and tactical code applying to this building morphology would support the development of more housing overall."

Additionally, municipal rules have not been fully adapted for all-electric buildings. For example, inspectors typically expect to see carbon monoxide (CO) sensors, even though there is no source of gas or CO in the building. Lastly, Ontario's Technical Standards and Safety Authority has not developed specialized standards for the parking towers used at EVE Park. This required several technological changes, costing the project hundreds of thousands of dollars and over a year of development.

Ultimately, however, EVE Park demonstrates that innovation is possible when a client and a project brief are open to a design team pushing conventional notions of residential design and challenging accepted norms of operation. Given that Ontario's grid is very low carbon, just by designing without gas, EVE Park has eliminated most operational building emissions.

After six years of development and construction, and with one phase fully complete, it is clear that new models for sustainable living can emerge from a spirit of imaginative collaboration between developer and architect. ■

Oliver Schaper is an interdisciplinary design director and a cities and urban design leader for Gensler's Northeast region.

Implications of PFAS Regulation on the Commercial Real Estate Industry

Newly designated "hazardous substances" could pose fresh challenges for stakeholders.

By Laura Boorman Truesdale and Mary Katherine H. Stukes, Moore & Van Allen

The term "forever chemicals" generally refers to per- and polyfluoroalkyl substances, also known as "PFAS." PFAS are human-made and have been manufactured in the United States for over 70 years. Used in a wide array of consumer and commercial products and processes across industry sectors, they have achieved popularity and success in large part because of their unique resilience to degradation. While this chemical makeup has made PFAS critical to certain industries, it has also allowed them to persist widely in the environment (and potentially in humans and animals).

Greggory DiSalvo via iStock/Getty Images Plus

EPA's designation of certain PFAS as "hazardous substances" is likely to have wide-ranging impacts for property owners and other CRE stakeholders.

Over the past several years, states and the federal government have undertaken efforts to regulate PFAS. Most of the regulations have been directly aimed at protecting human health, such as the regulation of certain PFAS in drinking water systems and limitations on the future manufacture or use of particular PFAS compounds.

Recently, however, the Environmental Protection Agency (EPA) has also taken steps to regulate certain PFAS — perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS) — under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). EPA designated PFOA and PFOS as "hazardous substances," meaning they now trigger both the "reportable quantity" release reporting requirements and the statute's strict liability scheme familiar to many in the commercial real estate industry. Given these compounds' ubiquitous nature, this designation will have wide-ranging impacts for current property owners and those engaged in buying, selling, financing or redeveloping many types of commercial properties.

Liability Exposure

One of the most significant implications of the CERCLA listing is potential liability exposure. Under that statute, current and former owners and operators of property with contamination can face liability for cleanup costs associated with the release of PFOA and PFOS, regardless of fault (unless one of the defenses or exemptions from CERCLA liability applies). This liability is triggered by any amount of PFOA or PFOS.

The designation is also likely to affect transactional due diligence. While PFOA and PFOS have not traditionally been within the scope of Phase I environmental site assessments in real estate transactions, prospective buyers and lenders will now need to consider potential PFOA and PFOS sources or contamination, especially when a property may have been impacted by historic uses of PFAS on-site or at nearby properties.

The more a buyer or lender knows about the existence of PFOA or PFOS prior to finalizing a transaction, the more they can protect themselves or

Given these compounds' ubiquitous nature, this designation will have wide-ranging impacts for current property owners and those engaged in buying, selling, financing or redeveloping many types of commercial properties.

mitigate related risks before closing. However, sellers may be reluctant to grant preacquisition sampling for two reasons. First, the strict liability scheme under CERCLA means that sellers could face liability for identified PFOA or PFOS should the transaction fall through. Second, because some states require that all sampling results be reported to the local or state environmental agency, sellers may be unwilling to generate data that triggers potentially problematic reporting requirements.

Even if prospective purchasers or lenders include PFAS within the scope of their transactional due diligence, many questions will likely remain unanswered. For example, it may be difficult to discern which PFAS contaminants to include in the scope of sampling. To date, EPA has approved some sampling protocols, but few laboratories and samplers are fully capable of implementing those methods. Furthermore, if sampling identifies PFAS in on- or off-site media, only a few viable options are currently available for addressing or remediating those contaminants.

Final Rule To Be Determined

While all of this may seem daunting for the commercial real estate industry, stakeholders can take some reassur-

The more a buyer or lender knows about the existence of PFOA or PFOS prior to finalizing a transaction, the more they can protect themselves or mitigate related risks before closing. However, sellers may be reluctant to grant preacquisition sampling for two reasons.

ance in the unknown as well. Concurrent with the CERCLA listing, EPA issued its PFAS Enforcement Discretion & Settlement Policy Under CERCLA, which provides some exceptions to the otherwise strict liability scheme and is intended to give comfort to certain stakeholder groups (including some private owners or operators of contaminated properties). In addition, based on the recent actions of Congress and certain states, carve-outs and challenges to the scope and implementation of the final rule are likely.

Regardless of the potential uncertainties, stakeholders should prepare to comply with the rule, which became effective July 8. Those engaged in various aspects of real estate could face novel challenges as the rule is implemented over the next several months and years. NAIOP is paying close attention to Congress, the courts and the actions of the states, all of which are likely to shape the ultimate reach of the final rule. ■

Laura Boorman Truesdale is counsel in the environmental practice at Moore & Van Allen in Charlotte, North Carolina. **Mary Katherine H. Stukes** is head of the environmental practice at Moore & Van Allen.

Chapter Profile: NAIOP Austin

A strong local economy and continued population growth are pushing ongoing CRE opportunities.

By Jonathan Rollins

Austin has remained one of the fastest-growing large cities in the United States for more than a decade. Touting itself as the "Live Music Capital of the World," Austin is also a center of technology and business. According to a December 2023 report by CBRE, 66 U.S. companies have relocated their corporate headquarters to the city over the past five years, with half being in the tech industry.

Development magazine reached out to NAIOP Austin President **Brenda Studt**, development director for United Properties, to gain insight on the CRE trends and issues happening in and around the Lone Star State's capital city.

Development: *What are the market conditions for member companies in your area?*

Studt: Despite the ongoing challenges facing the national economy, Austin's commercial real estate market remains strong and poised for growth. The Texas capital added nearly 35,000 jobs year over year, and Austin's low unemployment rate of 3.5% falls below both state and national levels. Recent expansions by Samsung and Tesla, along with **Elon Musk's** announcement to move social platform X to Austin, serve as catalysts for future corporate expansions and relocations, signaling a promising outlook for new jobs in the Austin market.

Although the office market is showing signs of recovery, office investment is estimated to remain subdued due to elevated inflation, steeper costs of capital and muted demand. Approximately 382,000 square feet of new office product was delivered in the first quarter, driving vacancy rates to 27.3%. Additionally, according to Q1 2024 data, approximately 5.3 million square feet of sublease space remains available citywide. Persistent hybrid work arrangements and slowing job growth among tech firms continue to challenge overall demand. As leases expire, tenants are downsizing and trending toward less square footage in newer, higher-quality assets. Overall asking rents are projected to remain flat, with bolstered concessions and higher tenant improvement allowances.

Austin's industrial market continues to see rapid growth. Nearly 2.5 million square feet of new product was delivered in the first quarter. This new supply will continue, as 16.3 million square feet, or 12.2% of the market's

CrackerClips via iStock/Getty Images Plus

NAIOP Austin is building a strong legislative foundation that includes focusing on regional infrastructure, city policy, and incentive and tax credit opportunities.

> **"Despite the ongoing challenges facing the national economy, Austin's commercial real estate market remains strong and poised for growth. The Texas capital added nearly 35,000 jobs year over year, and Austin's low unemployment rate of 3.5% falls below both state and national levels."**
>
> *— Brenda Studt, president, NAIOP Austin*

Jonathan Ross via iStock/Getty Images Plus

Over the past five years, more companies have relocated their headquarters to Austin than any other U.S. city.

inventory, is currently under construction. This abundance of new supply has increased vacancy 380 basis points year over year to 9.1%. New deliveries are 48.9% preleased and will outpace demand in the near term. The Austin industrial market realized 3 million square feet of positive absorption during the first quarter of the year, the first time demand has outpaced supply since Q1 2022. Rental rates have grown 12.3% year over year, reaching a historical high, and are projected to continue increasing due to elevated inflation and an abundance of new product commanding higher rents. Class A warehouse space accounted for 45.2% of first-quarter transactions.

While multifamily demand continues to hang on, an abundance of new supply has increased Austin's vacancy rate to 14%. Even so, the market saw over 8,500 units absorbed in the first half of 2024. Vacancy rates were projected to peak by mid-2024, after which new supply will slow, resulting in improved absorption. Because of increased supply, Austin's multifamily asking rents have declined 5% year over year to $1,595 per unit. This comes on the heels of unprecedented rent growth — 21% year over year — from 2021-2022. On the transaction side, Austin is seeing higher cap rates along with a year-over-year decline of more than 60% in overall volume.

Strong demand and limited supply continue to push retail into the limelight. A fast-growing population and rising household incomes are supporting catalysts. Retail posted 1.9 million square feet of absorption over the trailing 12-month period, which is a historical high. Developers introduced 2.8 million square feet of new retail space in 2023, primarily driven by suburban expansion in the form of new, large occupants such as grocery stores, discount retailers and general merchandise stores. Austin's availability rate of 4.1% remains near all-time lows. The current pipeline includes 1.5 million square feet under construction, with 75% of that space preleased. With vacancies just above 3%, average asking rents are increasing at a pace of 4%, and given supply constraints, rents are expected to continue increasing.

"Strong demand and limited supply continue to push retail into the limelight. A fast-growing population and rising household incomes are supporting catalysts."

— Brenda Studt

Development: *What are the challenges you're facing in either the business or regulatory climate in your area?*

Studt: Our members are facing a variety of headwinds, including inflated land basis, unstable construction material and labor costs, weakening demand, increased supply or declining occupancy across all asset categories, stringent underwriting standards, rising costs of capital, higher interest rates, challenging entitlement processes and increased fees, a lack of readily available utilities, and a lack of affordable housing inventory. Despite these ongoing challenges, Austin's commercial real estate market remains fueled by a strong local economy, favorable business climate and continued population growth.

Development: *What are the big opportunities in commercial real estate in your area right now?*

Studt: Austin remains an immature market poised for continued growth. While inbound migration has slowed slightly, a strong business environment and other essentials remain, which should continue to draw business expansions to the area.

"Austin remains an immature market poised for continued growth. While inbound migration has slowed slightly, a strong business environment and other essentials remain, which should continue to draw business expansions to the area."

— Brenda Studt

A few specific opportunities in the Austin market include the following:

- Capital markets' continued interest in Class A warehouse industrial facilities.
- Higher home prices and low single-family inventory are driving demand for build-to-rent and multifamily product. Simply put, it is 2.5 times more expensive to buy a single-family home than to rent in today's economic environment. This increased demand should help to accelerate absorption of the oncoming multifamily supply.
- Acquisition of distressed real estate assets.
- Public-private partnerships.

Development: *What are some of your chapter's legislative priorities?*

Studt: As a relatively new NAIOP chapter (formed in 2020), our Board of Directors is building a strong legislative foundation. We have recently identified three primary issues impacting membership: Texas regional infrastructure, Austin city policy, and incentive and tax credit opportunities. In addition, our Executive Leadership Team participates in various roundtables with NAIOP Corporate and other Texas chapters and supports the broader NAIOP legislative initiatives of adaptive reuse and tax policy affecting the commercial real estate industry.

Development: *Education is an important part of NAIOP's mission. Have there been educational sessions specific to your chapter recently?*

Studt: Our chapter has participated in several educational sessions this year:

- **January:** A Texas and Austin political landscape program
- **February:** An annual economic update and outlook meeting

"We have recently identified three primary issues impacting membership: Texas regional infrastructure, Austin city policy, and incentive and tax credit opportunities."

— Brenda Studt

- **March:** An economic development and Opportunity Austin panel program
- **April:** An annual pitch-and-putt golf event where we all learned how to improve our short game
- **May:** A project tour and case study of T3 Eastside Austin with Hines
- **June:** A half-day real estate summit with the Central Texas Commercial Association of Realtors and CCIM

Development: *What is your chapter doing to cultivate the next generation of leaders in the commercial real estate industry?*

Studt: In addition to the broader membership supporting the Developing Leaders mission and spirit, our Developing Leaders committee has implemented a mentor program that pairs experienced NAIOP Austin members with Developing Leader members. Each mentor has a group of four to six mentees who meet regularly to exchange insights, host discussions and project tours, and simply make connections. Participant feedback has been overwhelmingly positive, highlighting the program's effectiveness in fostering professional growth and development. ■

Jonathan Rollins is the managing editor of publications for NAIOP.

Developing Reverse Logistics Supply Chains From the Ground Up

Report identifies best practices in reverse logistics facility location and design.

By Shawn Moura, Ph.D.

Halbergman/E+ via Getty Images

Developers can adapt existing warehouses or speculative projects for some reverse logistics occupiers, but others will require build-to-suit construction.

Consumers are returning an ever-increasing volume of goods, a trend that has grown alongside e-commerce and the prevalence of free return policies. Although retailers have made it easier to return unwanted items, few companies have developed the capacity to effectively extract value from those returns. Most continue to treat returns as an expense of doing business, in part because reverse logistics — managing the flow of products and materials backward in the supply chain — requires different capabilities and infrastructure than "forward" (traditional) logistics. So, a large share of returned items is currently sold off in bulk or ends up in landfills.

Reverse logistics facilities require dedicated spaces to evaluate, repair/refurbish, recycle and dispose of returned goods. Some industries may require that facilities have additional capabilities such as temperature controls or secured storage for high-value items.

However, as the cost of handling returns increases and more companies make commitments to environmental sustainability, a growing number of retailers and manufacturers are developing reverse logistics strategies to maximize the value of returned goods while minimizing related costs. As investment in reverse logistics grows, so will demand for spaces that can effectively process returned goods.

The NAIOP Research Foundation's September 2024 report, "Reverse Logistics Strategies for the Post-pandemic Supply Chain," explores best practices in reverse logistics supply chain design, including facility location and building

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design. The report's author, **Chad Autry**, Ph.D., interviewed professionals with extensive experience in reverse logistics to examine challenges and opportunities associated with implementing a strategy. The resulting findings can help developers work with supply chain managers to locate, design and build facilities that support reverse logistics operations without interfering with a company's forward logistics.

As with traditional logistics, locational requirements for reverse logistics vary among occupiers. Some firms opt to outsource reverse logistics to a third party, while others develop their own capabilities. Firms that provide reverse logistics services to other companies benefit from being centrally located relative to their clients, while those that insource these capabilities should seek sites near consumers to shorten the time that returned items spend in transit. Both types of occupiers need access to transportation networks and waste management infrastructure such as wastewater treatment plants and recycling centers.

Reverse logistics facilities require dedicated spaces to evaluate, repair or refurbish, recycle and dispose of returned goods. Some industries may require that facilities have additional capabilities such as temperature controls or secured storage for high-value items. The space and equipment requirements for these processes vary by industry and by the volume of returns a facility must handle. Developers can adapt existing warehouses or speculative projects for some reverse logistics occupiers, but others will require build-to-suit construction. Similarly, some reverse logistics operations can be embedded in a larger facility that also handles traditional logistics, while others are better situated in a dedicated reverse logistics facility. The report provides guidance on typical building requirements for different industries.

Visit naiop.org/research-and-publications to read "Reverse Logistics Strategies for the Post-pandemic Supply Chain."

Most reverse logistics occupiers are interested in environmental sustainability but need to balance sustainability objectives with controlling operational costs. Developers can help firms identify sustainable design features that are in line with their budgets and may also be able to coordinate with occupiers, nonprofits, and federal, state and local governments to obtain incentives to help defray costs associated with eco-friendly facilities.

Supply chain managers are increasingly aware of the limited capacity of supply chains designed to deliver products to consumers to simultaneously handle goods moving in the opposite direction. Developers and other commercial real estate practitioners will play an important role in helping firms design supply chain networks that can extract value from returned goods and lower their environmental footprint in the process. ■

Shawn Moura, Ph.D., is senior research director at NAIOP.

NAIOP Supports Rising CRE Leaders Through Diversity Student Scholarship

Six students awarded for academic excellence and their aspirations to forge careers in the industry.

In May, NAIOP announced six recipients of its annual Diversity Student Scholarship. The scholarship program supports students who are pursuing a degree in commercial real estate and is a key component of the association's pledge to advance diversity in the industry.

"Congratulations to all the remarkable scholarship winners. We are pleased to recognize them for their academic excellence and dedication to a career in commercial real estate," said **Marc Selvitelli**, CAE, NAIOP president and CEO. "By investing in their futures, NAIOP continues to champion a more diverse and inclusive industry — a critical part of our strategic plan. We look forward to seeing what's next for their careers."

NAIOP awarded four $5,000 graduate student scholarships and two $2,500 undergraduate student scholarships to individuals from demographics that are traditionally underrepresented in commercial real estate and whose universities are part of the NAIOP University Membership program.

In addition to the scholarship, each recipient will have the opportunity to make new professional connections and sharpen their commercial real estate acumen with complimentary registration to attend NAIOP's CRE.Converge 2024, taking place Oct. 8-10 in Las Vegas.

Recipients of NAIOP's 2024 Diversity Student Scholarship are:

Hrishi Bukshin

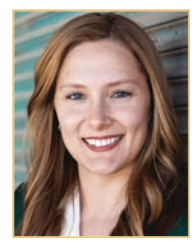
Hrishi Bukshin is an undergraduate student in economics and business at the University of Oregon and a member of NAIOP Oregon. He interned as a real estate development analyst for the Brookfield Properties Real Estate Development Cup and joined Walker & Dunlop as a summer analyst, where he worked on multifamily debt processes and credit analysis. He is also participating in Adventures in CRE's Accelerator Core program.

Bukshin previously worked as an acquisition intern for Lincoln Properties Company, where he delved into market research and underwriting across various asset classes.

Alex DeSouza

Alex DeSouza recently earned his master's in real estate at the University of Colorado Boulder Leeds School of Business and is a member of NAIOP Colorado. He previously worked with JLL on the capital markets team in Denver, where he assisted with debt and equity placement for clients. In that role, he was able to work on financing deals across the country that covered acquisitions, refinancing and ground-up development.

Roxanne Ibe



Roxanne Ibe is a graduate student in the Master of Real Estate Development program at Iowa State University. She recently started her own real estate development company, Talisman Development Group, specializing in historic building redevelopment projects.

Ibe began her commercial real estate career with a bachelor's in architecture from the University of Illinois Urbana-Champaign, then worked in construction for eight years doing a mix of architectural design, preconstruction, estimating and project management. Her love for historic buildings grew over her five-year role as part owner and co-developer of two large adaptive reuse projects of historic buildings in her hometown of Peoria, Illinois. After completing her MRED degree, Ibe plans to pursue her MBA with a concentration in real estate finance.

"Congratulations to all the remarkable scholarship winners. … By investing in their futures, NAIOP continues to champion a more diverse and inclusive industry — a critical part of our strategic plan."

— Marc Selvitelli, CAE, NAIOP president and CEO

Luke Lonneman

Luke Lonneman is an undergraduate student pursuing a Bachelor of Science in real estate and business management at the Indiana University Kelley School of Business Indianapolis. He is a member of NAIOP Indiana. He is vice president of the Indiana University Indianapolis Real Estate Club, an Indiana University-Purdue University Indianapolis Top 100 student and a Harold E. Eisenberg Scholar. He was a junior developer intern at Sullivan Development this past summer.

Jeanette "Jaye" Nelson

Jaye Nelson is a graduate student in the Master of Real Estate Development program at the University of Maryland and a member of NAIOP DC/MD. She holds an MBA from the University of Maryland's Robert H. Smith School of Business and is an art director who fosters a collaborative environment while achieving exceptional results. Leveraging design expertise and historical research, she conceptualizes original visual solutions, uncovering untapped potential for impactful multimedia solutions. Her real estate investment interests have led her to pursue a career path in real estate development. She was part of the Maryland team that won the 2024 NAIOP DC/MD Capital Challenge.

Revati Rajwade

Revati Rajwade is a graduate student in the Master of Real Estate Development and Design program at the University of California, Berkeley and a member of NAIOP San Francisco Bay Area. After several years of work experience in the real estate and architecture industry in India, Rajwade joined the MREDD program to augment her skill set and gain a holistic understanding of real estate development and its financial aspects. Prior to moving to the Bay Area, she managed a diverse portfolio of residential, commercial and mixed-use projects. Following the MREDD program, Rajwade aims to enhance functionality, prioritize sustainability and ensure equitable development. ■

NAIOP Resources
ASSOCIATION PROGRAMS AND SERVICES

NAIOP represents commercial real estate developers, owners and investors of office, industrial, retail and mixed-use properties. It provides strong advocacy, education and business opportunities, and connects its members through a powerful North American network. **For more information, visit naiop.org.**

Programs and Services

NAIOP Membership
For membership, information or changes to your membership record, contact membership@naiop.org.

Chapter Network
NAIOP chapters provide local and regional education, networking and legislative affairs.

naiop.org
NAIOP's central resource for industry and association news, programs, advocacy efforts and connections.

National Forums
Special-interest groups that comprise senior-level NAIOP members in a non-competitive environment for exclusive networking and experience exchange.

Center for Education
The principal learning resource for the commercial real estate development professional. Offerings include online, on-demand and live courses, plus two certificate programs.

Development Magazine
Current and past issues are available online and are mobile-responsive for those who want to read Development magazine on-the-go.

NAIOP Research Foundation
Research projects and initiatives to improve the understanding of the built environment and the challenges that lie ahead for individuals and organizations engaged in real estate development, investment and operations.

Career Center
Online resource designed to help employers and job seekers find new commercial real estate job opportunities.

Business Development Industry Partners
Enhance your company's presence as an industry partner by sponsoring, exhibiting or advertising.

Government Affairs
Strong, effective support and guidance to create, protect and enhance development and property values. NAIOP's government affairs team is active on Capitol Hill, in state legislatures and in Canadian provinces.

Market Share Blog
Insights on trends, CRE-related topics and professional development tips. Subscribe to weekly posts, interviews and news at blog.naiop.org.

Mobile Apps
Take NAIOP wherever you go. Access the membership directory, find news, chapters and events, and connect on social media. ■

People + Companies INDEX

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** This is a listing of NAIOP members who are mentioned in this issue, as well as paid advertisers, which appear in bold.*

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Addressing Common Concerns

Since the start of the year, I've been fortunate to have visited nearly 20 chapters across our network, with the goal of reaching 30 by year-end. The caliber of our chapters is unmatched. I've been impressed with the quality of the programs and events I've attended, as well as the hospitality and camaraderie of the members I've met along the way. Thank you for welcoming me so generously.


Brian Walker

While the areas our chapters serve differ in size, location and focus, commonalities have emerged in our conversations. Issues that begin in one market can rapidly spread to others. The value of an organization like NAIOP is that we can compare notes, share strategies and work together on the following issues for the greater good of the industry.

Permitting Delays

Members of almost every chapter are concerned about permitting and the massive challenges it brings. Local building permits are an essential and fundamental requirement for development, rehabilitation and improvement of commercial real estate; however, the process for obtaining these permits varies by city and county and can be cumbersome and costly.

The real estate adage that "time kills all deals" is true. Consistency and transparency in local permitting processes will help all of us do our jobs more efficiently in providing communities with properties for people to live, work and play. Some governments have created legislation to ease the process.

The real estate adage that "time kills all deals" is true. Consistency and transparency in local permitting processes will help all of us do our jobs more efficiently in providing communities with properties for people to live, work and play.

Using Georgia as a model, North Carolina enacted legislation last year that establishes a 45-day timeline for local permitting entities to review applications. If the permitting entity is unable to meet this timeline, the applicant can seek review by a certified third party. Our North Carolina chapters were key to the bill's development and passage, and the approach can inspire efforts in other states.

Office Vacancy

Markets across North America are still rebounding from the pandemic and its ripple effects. Downtowns are struggling with underused office buildings, reduced tax revenues and an influx of crime.

NAIOP's four Canadian chapters supported the government's call for federal workers to return to the office on a hybrid basis beginning in September. The decision is consistent with the private sector and is a positive step toward the economic revitalization of cities that depend on property valuations and municipal tax collections.

To spur the conversion of underused office space to other uses — including residential, mixed use and distribution centers — NAIOP was instrumental in introducing bipartisan legislation that provides a 20% tax credit to owners for the conversion of commercial properties. This bill reaches beyond the urban core and into cities of all sizes across the country. Its impact on tax revenues will replace dollars lost to underutilized and defaulted properties, providing building owners with the opportunity to create more sustainable, energy-efficient spaces.

Access to Capital

Capital and credit markets remain extraordinarily tight, and overall investment sales activity was down 19% year over year in the first quarter of 2024. NAIOP is working to ensure access to capital and credit is less constrained and with elected officials toward a more certain regulatory environment.

I hope to see many of you this fall in Las Vegas for our I.CON Cold Storage (Oct. 7) and CRE.Converge (Oct. 8-10) conferences. With a presidential election to follow shortly thereafter, we'll have much to discuss regarding its impact on our businesses and industry. ■

Brian Walker, President, Burns Scalo Real Estate
2024 NAIOP Chair

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