VOLUME 21 / ISSUE 1 / SPRING 2021

COMMERCIAL CONNECTIONS

A PUBLICATION BY THE NATIONAL ASSOCIATION OF REALTORS®

MAKING INDOOR AIR SAFE

MEASURES THAT HAVE TENANTS BREATHING EASY

PAGE 10

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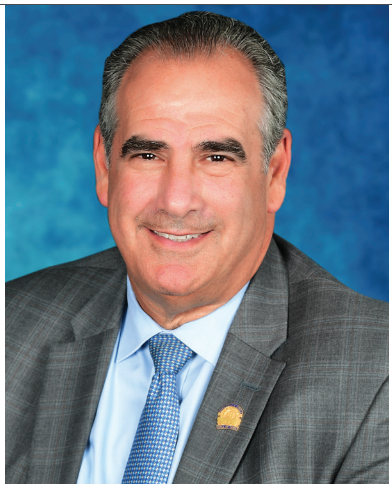
PRINTING
Omega Printing Inc., an Inc. 500 and NAPL Hall of Fame Company

NATIONAL ASSOCIATION OF REALTORS® OFFICIAL PUBLICATION

3 WAYS WE'RE SERVING YOU

THROUGH A NEW CONFERENCE COMING THIS FALL, ADVOCACY ON KEY COMMERCIAL ISSUES, AND AN EXPANSION OF RPR ACCESS, WE'RE PUTTING COMMERCIAL MEMBERS FIRST.



CHARLIE OPPLER, 2021 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

When I look across the Hudson River, I see the engines of economic growth—the buildings that make up the Manhattan skyline. I'm looking forward to the prospect of crossing the river this fall to meet with many of you in person at an event to help jumpstart commercial investment nationwide, create jobs, and build strong communities.

The National Association of REALTORS® will hold a new commercial networking event, the C5 Summit, Sept. 27–29 in New York City. It will bring together commercial brokers, developers, REIT representatives, economic development leaders, and association executives from around the country to share insights, source capital, and showcase investment opportunities. Registration opens March 31 at nar.realtor/c5.

C5 is just one of the initiatives we're working on this year to help our commercial members.

In the advocacy arena, we're developing an education strategy to preserve the 1031 like-kind exchange and the step-up in basis of capital assets received through inheritance, two critically important issues.

To counteract the myth that these tax provisions are nothing but loopholes for the wealthy, we're working with a coalition of industry partners, including BOMA, the Federation of Exchange Accommodators, MBA, NAIOP, NAREIT, the Real Estate Roundtable, and more than a dozen others, to develop and deliver consistent and persistent education to Hill policymakers and staff.

Our message on 1031s is backed by sound, independent studies that show the vast majority of 1031 exchanges are done by mom-and-pop investors—sole proprietors and pass-through businesses such as partnerships and S corporations—not the super-rich. Research shows that if the like-kind exchange was repealed, most owners would hold on to a property they would otherwise have swapped. That would generate little government revenue and waste an opportunity to put the investment to better use. Read "1031s Prove Their Worth" on page 14 for examples of how exchanges brought redevelopment and jobs to two Chicago-area properties.

NAR has also joined a coalition of family business trade groups to develop and fund a study later this year on the economic impact of repealing the step-up in basis. As you know, the federal tax allows family members to inherit assets, like real property or stocks, at a stepped-up basis to avoid paying tax on the unrealized gain that accrued. Say John inherits a warehouse from his father now valued at $1 million. His father bought the property for $10,000. If John sells the inherited property, he owes no capital gains tax on the appreciation; the IRS treats the sale as if John had just bought the property for $1 million.

Real estate is one of the most commonly inherited assets. Without the step-up, some small businesses would see their family legacy bulldozed by taxes. These policy issues will remain advocacy priorities as long as a threat remains. We don't need government policies that further harm an industry already hurting as a result of the pandemic.

In fact, given the extent of the woes in some commercial sectors, we recently opened the REALTORS Property Resource® to Institute Affiliate members. Through February 2022, all CCIM, CRE, IREM, SIOR, and RLI members can search more than 900,000 commercial listings, as well as RPR's database of public record information on 56 million off-market commercial properties. See page 18 for details on RPR's improved user experience and the many resources and tools for commercial practitioners.

By the time we gather in New York City in September, I'm hopeful we'll be charting a path with more certainty. It'll be our time to shine in the Big Apple.

BRINGING YOUR STORY TO LIFE

TV SPOTS HIGHLIGHT THE PARTNERSHIP BETWEEN COMMERCIAL REALTORS® AND THEIR CLIENTS.

With a commercial real estate expert's help, commercial buyers and renters can find the right spaces to realize their vision. That's illustrated in three of five new ads the National Association of REALTORS® launched in February.

The spots feature a storytelling approach, with REALTORS® introducing clients to "future memories." In 30- and 15-second spots, a woman prepares to tour a warehouse space that promises to be the perfect place to set up a food bank, where people can give time, work with purpose, and help their neighbors. The spots were shot at an actual food bank, and NAR was able to donate all the food used in the shoot, says Karen Bebart, director of consumer brand advertising for NAR.

In the other 15-second spot, a REALTOR® helps a buyer find the space that will become a bustling hair salon. The ads are the latest installments in NAR's That's Who We R consumer advertising campaign. The campaign aims to distinguish REALTORS® from nonmember practitioners and apps and to tell consumers that REALTORS® operate by a Code of Ethics.

The new ad spots are part of an integrated campaign, scheduled to run through fall 2021, that includes broadcast, video, audio, search, social media, and content partnerships.

At ThatsWhoWeR.realtor, you can view all five ads, as well as ad campaign assets to share on your social media channels. There's a brief animation geared for use by commercial REALTORS®. In addition, from your mobile device, you can use NAR's Photofy app to personalize and share campaign assets with just a few clicks.

THAT'S WHO WE R
REALTOR®

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RLI RECOGNIZES EXCELLENCE, PERFORMANCE

APPLICATIONS FOR APEX AWARDS SHOW INCREASED DOLLAR VOLUME AND TRANSACTION SIDES FOR FOUR LAND TYPES.

At its 2021 Virtual National Land Conference on March 17, the REALTORS® Land Institute announced its 2020 APEX award winners.

The APEX Awards Program, sponsored by RLI's magazine and website The Land Report, recognizes RLI members for their excellence and performance.

Applications for the APEX Awards were up 32% in 2020, compared with 2019, reflecting the year's robust land sales, which were amplified by COVID-19. The awards program also saw the largest number of female applicants since its inception.

This year's applications offer insight into performance across property types. Compared to 2019, 2020 applications showed increases in dollar volume and transaction sides in these areas:

COURTESY REALTORS® LAND INSTITUTE

- **Agricultural land, crops:** 40% increase in dollar volume, 29% increase in transaction sides
- **Agricultural land, ranches:** 27% increase in dollar volume, 68% increase in transaction sides
- **Recreational land:** 110% increase in dollar volume, 236% increase in transaction sides
- **Residential land:** 15% increase in dollar volume, 23% increase in transaction sides

Not all land types saw increases, however. According to the APEX applications, commercial land sales decreased 13% in dollar volume and 6% in transaction sides, while timberland sales decreased 51% in dollar volume and 10% in transaction sides.

The APEX Awards recognize:

- Highest qualifying transaction volume
- Largest number of transaction sides closed during the year
- Broker of the year by transaction volume according to land type
- Largest transaction between two accredited land consultants
- Top 20 national producers by transaction volume

The 138 applications for the 2020 APEX Awards represented 5,245 transaction sides and more than $3.4 billion in production. Sixty-two percent of applicants hold the Accredited Land Consultant designation.

Find winner names and award categories at *www.rliland.com*.

COVID-19 CHANGES ASSUMPTIONS IN CALCULATING VALUE

USE FORWARD-LOOKING ANALYTICS AND CURRENT MARKET STATUS, NOT BENCHMARKS.

By Mark Polon, CCIM, president of Polon Consulting, Middle Haddam, Conn.

Professionals who work in commercial real estate—including investors, brokers, lenders, appraisers, and lawyers—need to understand the current value of assets. Although benchmark data can be useful, it isn't always readily available or relevant to a specific market. Commercial real estate professionals need to be able to calculate valuations that don't rely solely on historical data, especially during uncertain times. Five assumptions underlie estimations of worth:

1. **Certain properties are inherently difficult to analyze.** In a robust market, substantial data from comparable sales can help determine benchmark numbers for cap rates, discount rates, and sale prices per square foot. But such information isn't available in smaller markets or for properties valued below $2.5 million.

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2. **Historical data isn't a valid indicator of future performance.** COVID-19 has made a lot of information worthless, so CRE professionals must ignore a lot of what happened before 2020. Instead, they should rely on forward-looking analytics and current market status. For example, a hotel property may look very different today than it did pre-pandemic.

3. **Asset types and locations are important.** Geography was always key to determining a real estate asset's worth, but COVID-19 has made asset type and location even more essential. As interest in suburban markets has ticked up, for example, recognizing this variability is crucial to predicting a property's future value.

4. **Future performance affects present value.** The most accurate valuations are determined by examining current and forward-looking analytics. Knowing what an asset is worth today (the acquisition cap rate) must incorporate how it will perform in the future (the discount rate). That same hotel property mentioned above will likely see its valuation rise with increasing COVID-19 vaccination rates. Estimating the performance of an income-producing property over time and applying an appropriate discount rate to those estimates will give more credence to a valuation.

5. **The future is uncertain.** COVID-19 has required everyone to set and reset expectations. For real estate, an asset needs to be valued in a range.

These tips were drawn from the CCIM Institute course "Creating Reliable Valuations." Learn more at *ccim.com/education*.

ADAPTIVE REUSE PUTS PROPERTY MANAGERS TO THE TEST

3 AREAS PRESENT THE BIGGEST CHALLENGES.

By K.C. Conway, CCIM, CRE, chief economist, CCIM Institute

It seems you can't go a day without seeing headlines about the creative ways in which an obsolete space is getting a new life through adaptive reuse. These kinds of projects can vary tremendously, and every case must be treated appropriately to reflect the unique qualities of the existing building and the goals of the redevelopment.

A CPM (certified property manager) will likely be entrusted with the management of this complex asset. There are essentially three aspects of property management unique to adaptive reuse that may not be fully appreciated.

1. Use combinations and points of friction: Most adaptive reuse properties involve more than one use. Not all uses play well together, and management can be challenging. For example, multifamily and hotel uses are not complementary. Multifamily residences tend to be unable to absorb their pro rata share of common area and concierge services from an adjoining hotel use. Friction and litigation are common between the homeowners' association and the hotel operating entity and its agreement. However, office and hotel uses are accretive.

Before agreeing to manage a mixed-use adaptive reuse, understand the friction points that can result between uses. Parking and allocation of common-area expenses are typically the two areas most contested.

2. Tenant leasing and retention: Tenants that opt to occupy an adaptive reuse property generally have two common characteristics. First, they tend to be younger companies that want something different than a generic office building, and they often lack the creditworthiness and time in business to satisfy permanent lending requirements. Large credit tenants are much more likely to stay in traditional and institutionally owned buildings for a variety of liability and security reasons. So chances are good your leasing success will come from a smaller, less creditworthy tenant.

Second, adaptive reuse tenants tend not to move when their lease expires because they invest more in tenant improvements. That translates to higher tenant retention ratios. In my experience, the average tenant retention ratio in adaptive reuse projects tends to exceed 85%, regardless of use—office, retail, or residential.

3. Added complexity: Make sure you get paid properly to manage a more complex property. Despite the fact that the mechanical systems in most adaptive reuse projects have been recently updated, they are hybrid in nature and are often made to specifically fit a particular reuse. Maintaining systems requires knowing who designed them and where parts can be sourced. But perhaps it's more important to have a Plan B for restoring a system if it goes down and takes days to repair.

Allocation of common-area expense among users will be a perennial challenge, requiring time to explain and document the fairness of the allocations. Leasing approvals will take longer because you will likely be dealing with a startup company or smaller business with less credit.

Managing adaptive reuse properties is more complex than managing most other properties. Don't underestimate the cost of doing the job right. To property owners and investors, my advice is to not go cheap when hiring property management firms any more than you would when working with engineering firms in the upfront decision to undertake an adaptive reuse project.

Adapted from the article "Art of Adaptation" published in the February 2021 issue of the Journal of Property Management.

Q4 2020 SIOR SURVEY: RISE IN ON-TIME TRANSACTIONS

LOCAL ECONOMIC CONDITIONS SURPASS NATIONAL AND GLOBAL IN BENEFITING SIORS' MARKETS.

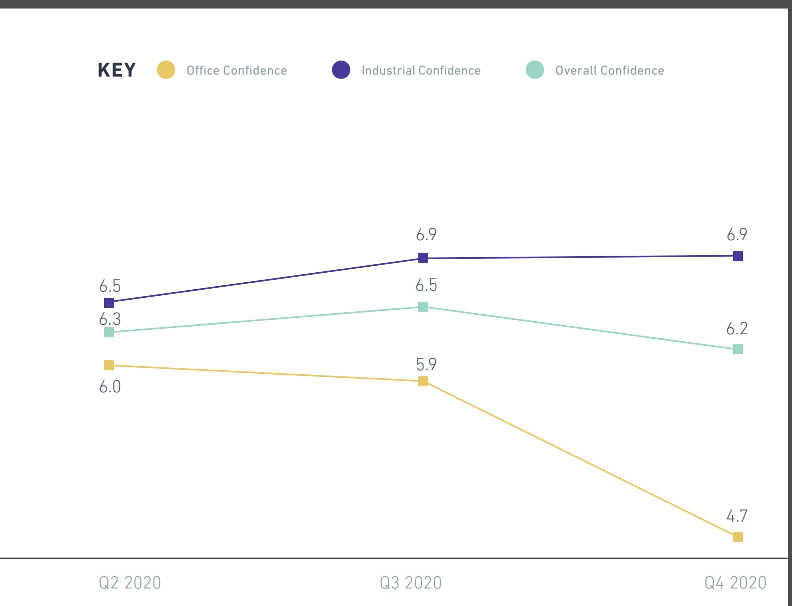
The Society of Industrial and Office REALTORS®' most recent Snapshot Sentiment Survey showed that on-time transactions increased by 20 percentage points in the fourth quarter, compared with the previous quarter. But confidence eroded, despite the frenetic market many industrial specialists said they were experiencing.

Highlights of the Q4 report:

- After rising in the third quarter of 2020, confidence dipped in Q4, dropping below levels reported in Q2 at the height of the pandemic lockdown. The report noted a global confidence of 6.2 (out of 10) versus 6.3 in Q2. Confidence in the industrial sector was higher at 6.9.
- 88% of office specialists reported a Q4 decline in leasing activity and 49% reported lower asking rents; among industrial specialists, only 34% reported a decline in leasing activity, and 14% saw rents decline.
- Across the board, SIOR members reported transactions were moving forward at an improved rate: 67% of transactions were on schedule during Q4, compared with just 47.1% in Q3 and 31.7% in Q2. On-hold transactions dropped to 20% in Q4, compared with 39.5% in Q3, while the number of cancelled transactions remained stable at about 13%.

AVERAGE LEVEL OF CONFIDENCE

Average level of market confidence on a 10-point scale.



*CONFIDENCE DATA REFLECTS SENTIMENT SURVEY RESPONSES REPORTED BEGINNING IN Q2 2020. NO PRIOR DATA EXISTS FOR THIS METRIC

SOURCE: SOCIETY OF INDUSTRIAL AND OFFICE REALTORS®

The quarterly survey also tracks how current market performance is affected by local, national, and economic conditions. Both industrial and office specialists were more likely to see a positive impact from local economic conditions than from national or global conditions in Q4. Not surprisingly, those in the office sector were more likely to feel an overall economic hit: For example, 72% of office specialists said national economic conditions were having a moderately or significantly negative impact on market performance in Q4. By contrast, nearly 50% of industrial specialists said national economic conditions were having a moderately or significantly positive impact.

SIOR now combines the results of the quarterly survey with responses to the Commercial Real Estate Index survey to create one in-depth look at current market conditions and compare them with historical averages.

Read the whole report at *sior.com*.

CONSULTING CORPS SERVES U.S. NAVY MISSION

COUNSELORS HELPED A NAVAL AIR STATION IN VIRGINIA ANALYZE BEST-USE OPTIONS FOR NONCORE ASSETS.

Seeking an analysis and development plan for a portion of the 5,331-acre Naval Air Station Oceana in Virginia Beach, Va., the U.S. Navy turned to the Counselors of Real Estate.

The station, also known as NAS Oceana, is the Navy's East Coast master jet base, home to F/A-18 Super Hornets. CRE's public service initiative, the CRE Consulting Corps, helped the Navy develop a strategic plan to

- Work with public and private partners
- Realign infrastructure, facility use, and delivery of services
- Redevelop housing, recreation, and support facilities for Navy and Marine Corps personnel

"The Navy approached [CRE] for its expertise in analyzing noncore activities, land, and buildings, and to provide viable best-use options," said Michel Couillard, CRE, chair of the Counselors. As part of its information gathering, the Consulting Corps team toured the installation and its facilities, analyzed demographics and market data, studied maps, and interviewed more than 40 local stakeholders, said Jerry Turner Jr., CRE, the group's team leader. The group also identified market sectors that could use land or facilities on the property.

The Consulting Corps provided Navy officials with a framework to achieve their goals by examining redevelopment options, considering alternative leasehold structures, and working with key partners to explore and implement public-private partnerships.

COURTESY COUNSELORS OF REAL ESTATE

LEFT TO RIGHT: REID WILSON, CRE, CHAIRMAN, WILSON CRIBBS + GOREN, HOUSTON; CAPT JOHN W. HEWITT, COMMANDING OFFICER, NAVAL AIR STATION OCEANA; TAYLOR ADAMS, DIRECTOR OF ECONOMIC DEVELOPMENT, CITY OF VIRGINIA BEACH

As an addition to the assignment, U.S. Navy and Virginia Beach municipal officials toured a successful military redevelopment project in San Antonio—the conversion of the former Brooks Air Force Base into a modern 1,300-acre mixed-use community.

The CRE Consulting Corps provides objective analysis, adaptive reuse strategies, and action plans to help communities, educational institutions, government entities, and nonprofit organizations.

CRE members volunteer for Consulting Corps assignments. The Naval Air Station Oceana is one of more than 50 assignments completed by CRE Consulting Corps teams.

Learn more about the Consulting Corps at *cre.org*.

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THE (INDOOR) AIR WE BREATHE

INNOVATIONS PROMISE TO IMPROVE THE QUALITY OF AIR IN COMMERCIAL BUILDINGS. PROPERTY MANAGERS, BUILDING OWNERS, AND DEVELOPERS WILL LEARN FROM EARLY ADOPTERS.

By Carol Weinrich Helsel, contributing writer

The focus on COVID-19 transmission shifted in summer 2020 to include the role that ventilation, and heating, ventilating, and air-conditioning systems, might play in preventing the spread of the virus. In October, the Centers for Disease Control and Prevention (CDC) updated its guidance accordingly. The property market response shifted, too. A survey of corporate decision-makers by the Building Owners and Managers Association International in late 2020 found that among five COVID-related health and safety services tenants would pay extra for, "full utilization of 100% fresh air in HVAC systems" topped the list.

Scientists now have a better grasp of the COVID-19 virus, including consensus that it is transmitted primarily in crowded and poorly ventilated indoor areas. Yet property managers, building owners, and developers don't yet have a clear playbook on how to factor effectiveness, practicality, and affordability into a clean and safe air quality strategy.

TECHNOLOGY OPTIONS

Various technologies can mitigate airborne pathogens. Most fall into one of the following three categories:

1. **Air exchange.** Replacing indoor air with fresh outdoor air is a basic approach that has been proven to reduce the transmission of airborne diseases by lowering the concentration of infectious particles in the air. The technology ranges from none (opening the window) to pumping air through HVAC systems. Most important to consider is the rate of air exchange. The World Health Organization recommends a ventilation rate of six to 12 air exchanges per hour, although space size and number of occupants should be considered.

2. **Air filtration.** Filters can be built into an HVAC system or function as part of a standalone unit. The two most common are:

    - **High-efficiency particulate air.** HEPA filters capture up to 99.97% of harmful particles sized down to 0.3 microns, the hardest size to capture. While highly rated, HEPA filters may not be compatible with all HVAC systems. The wrong filter setup can strain the HVAC system, increasing electrical bills and potentially damaging the system. HEPA filters require careful handling, although they are available preassembled and in portable systems. While replacement is required only every two to three years, it can be costly.

    - **Minimum efficiency reporting value**. MERV represents a rating system developed by the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE), based on the filter's efficiency in capturing particles down to 0.3 microns. The higher the MERV number, the more efficient the filter. A high-efficiency filter, recommended for coronavirus pathogens, is rated between MERV 13 and 16. Increased filter efficiency usually results in increased pressure drop (the difference in the ductwork air pressure on one side of the filter versus the other side). Check the HVAC system to confirm it can handle a filter upgrade. For any filter to be effective, the particles must reach the filter, so even the best filter isn't a cure-all for COVID-19 but can significantly lower the risk.

3. **Deactivation of microorganisms.** Ultraviolet light—specifically UV-C, a high-energy form of ultraviolet light—has been shown to be effective at breaking down coronavirus microorganisms, rendering them harmless. UV-C technology is available in systems designed for in-duct and upper-air disinfection, in-duct surface disinfection, and portable room decontamination. Property managers and developers have been especially interested in UV-C solutions because they're relatively inexpensive and don't affect pressure drop. Not everyone is on board with the effectiveness of UV-C technology, however. There is no tried-and-true formula for determining the best placement and dosages of UV-C for killing the coronavirus. Applications vary by the device design, and all come with some caveats, including potential damage to skin and eyes if safety guidelines aren't followed when handling.

    In this category of solutions, **needlepoint bipolar ionization** has gained a lot of attention due to COVID-19. Integrated into HVAC systems, bipolar ionization chemically converts oxygen molecules into charged atoms that deactivate airborne pathogens. Many consider this an emerging technology compared to other air cleaning systems, because its track record is less documented. Also, some of these systems may emit harmful ozone. If you're considering using bipolar ionization equipment, the CDC recommends verifying that it meets UL 2998 standard certification for zero ozone emissions.

BEST SOLUTION IS ASSET-SPECIFIC

As organizations plan for employees' return to the workplace, building owners and property managers may be pressured to address the possible spread of COVID-19 through HVAC systems. Tenant demand for enhanced air filtration systems varies, according to Chip Watts, president of Watts Realty in Birmingham, Ala., and 2021 president of the Institute of Real Estate Management. "Some of our members report higher demand, especially as virus-related concerns continue to heavily impact high-density properties."

COVID-19 has moved air quality higher on the list of tenant demands, but interest has been growing for some time as part of the well building movement. The pandemic accelerated the industry's response by three to five years, according to Watts. "Without COVID, we wouldn't be where we are now with air quality until 2025."

While the industry works to adopt solutions to enhance air quality, no easy formula exists to determine the best solution—or more likely—mix of solutions. "The most effective approach will combine options and be asset-

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specific," says Watts. "Variations in moisture balance, vent locations, and HVAC effectiveness, along with building size and design, all must be considered."

LARGE COMPANIES LEAD ADOPTION

In the property industry, early adopters have mostly been large companies—not surprising, given the cost. In January, real estate investment management advisor BentallGreenOak (BGO) announced it had achieved Fitwel's Viral Response Approval for 17 U.S. office buildings, making it the largest commercial real estate portfolio to do so, to date. Fitwel is a building certification that supports healthier workplace environments.

Other leaders include Madison, Wis.–based Compass Properties and Dallas-based Granite Properties, both of which installed needlepoint bipolar ionization technology as part of a broader initiative to protect building users from the coronavirus.

"There was no specific demand from tenants," says Todd Greenwald, vice president of real estate operations for Compass Properties. "We started talking about our systematic approach to COVID measures in January 2020, and this specific project in August 2020, because we thought it was the right thing to do. Others have pointed out that it separates us from the competition, and I think that's true, but that is truly a side benefit. Safety was the No. 1 driver."

COST AND ROI

Most firms will likely consider cost and return on investment. Air purification-filtration systems on a commercial scale will likely increase costs by 20% to 25%, although the cost will drop as the technology advances. "Installation costs for needlepoint bipolar ionization systems started at $40,000 for each office building," says Greenwald. "There is no immediate measurable ROI for installation."

It's too early to fully understand the long-term ROI of installing purification-filtration systems, but improved air quality adds value, especially in high-density buildings, notes Watts. Right now, "systems that mitigate viral spread can help entice users back to a property and attract new occupants."

Compass' experience confirms this. "We heard from many tenants who were very appreciative of our efforts. They see the enhanced air quality systems as a great way to retain employees and attract talent in the future."

BGO is also thinking about the future. "We expect that the demand for these sorts of building-level plans to mitigate COVID-19 and any future infectious disease will only increase over time," says Scott Matthews, managing director, asset management for BGO.

A January 2021 survey by Honeywell found that specific to COVID-19, 31% of workers said updates to air quality systems were critical to their feeling safer in returning to work.

EXPERT GUIDANCE RECOMMENDED

To find best-fit solutions, seek expert guidance from a recognized resource to review the property and make recommendations. The pandemic generated a flood of new products. "Property managers will make their own decisions on improved air quality but should have the facts," says Watts.

Separating the facts from marketing messages, however, can be challenging. ASHRAE is a widely recognized source of guidance (including by the CDC) for managing the spread of COVID-19 related to the operation and maintenance of HVAC systems. The ASHRAE website (www.ashrae.org) offers extensive resources, including a COVID-19 infographic on the homepage that links to information about building readiness, mitigation strategies, building guides, standards, and certification.

Although optimism is growing about progress to end the pandemic in the U.S., COVID-19 has fundamentally changed our view of the air in our shared work and living spaces. Long-term, expect changes in the way buildings are designed. Short-term, property managers and developers must weigh the various factors to identify the right mix of solutions for each asset.

CORRECTION

Congratulations to Another Award Winner: Randy Scheidt, CCIM, GRI, broker-owner of Scheidt Commercial Realty LCC, Columbus, Ind., was a 2020 National Commercial Award winner, recognized by the Indiana Commercial Board of REALTORS®. Scheidt was inadvertently omitted from the 2020 NCA list that appeared in the Winter 2020-21 issue.

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NATIONAL ASSOCIATION OF REALTORS®

1031S PROVE THEIR WORTH

WHEN POLITICIANS CALL FOR THE REPEAL OF LIKE-KIND EXCHANGES, COMMERCIAL PRACTITIONERS HAVE AN OPPORTUNITY TO SHOW HOW THE MISUNDERSTOOD PROVISION CAN BE A BOON FOR COMMUNITIES.

What would *really* happen if legislators did away with the Section 1031 like-kind exchange in an attempt to raise federal revenues? As commercial real estate professionals know, such a move would have the opposite of the intended effect, stifling economic activity and ultimately eroding GDP. And yet, the 1031 is perennially under threat, says Evan Liddiard, CPA, director of federal tax policy for the National Association of REALTORS®. That's primarily because many legislators and their staff see the provision as a giveaway to the wealthy; they don't have a clear understanding of why tax-deferred exchanges exist or how they work.

NAR is part of a coalition that helped preserve like-kind exchanges of real property during negotiations for the 2017 Tax Cuts and Jobs Act. That coalition has been on high alert since candidate Joe Biden proposed repeal of 1031s as a way to fund certain social programs. And although getting COVID-19 under control has been Job One for the Biden administration, the president's tax plan is likely to surface in the spring or summer. "We have to continuously work on educating Washington about the 1031," says Liddiard.

In late 2020, NAR and its coalition partners began that work anew, updating research that was used back in 2015–2016 to help dispel the myths and demonstrate the benefits of 1031s *(see "What the Research Shows," page 15)*. However, nothing is more powerful in the eyes of elected officials than real-life examples in their home states, Liddiard says.

REALTORS® are in a great position to share those examples: A majority of REALTORS® working in commercial sales helped to facilitate at least one 1031 exchange in the past several years, according to NAR. Two 1031 success stories, recently published in REALTOR® Magazine and excerpted here, demonstrate the benefits that can accrue to businesses, individual investors, and communities.

SUCCESS STORY 1: SHINY NEW ANCHOR

When a grocery chain pulls up stakes, the results can ripple through a community for years. That situation began in 2013, when Safeway announced it was closing its Dominick's Finer Foods stores in the Chicago market, including three locations in suburban Naperville, Ill.

One of those Dominick's properties anchored a shopping mall called Fox Run Square. "Grocery stores are probably one of the safest types of anchored shopping center," says Christine Jeffries, president of the Naperville Development Partnership. But the older centers "tend to get dog-eared and need reinvestment and modernization." The owners may not have money to sink into improvements; at the same time they may be ready to sell it and realize a big capital gain. "So, they just sit on the property."

The 35 investors in Fox Run Square didn't want to do that. They strategized with Rahul Sehgal, chief investment officer at Inland Private Property Corp., and sold the mall to Bradford Real Estate Corp. for $25.6 million in 2014. By using a 1031 exchange, the investment group was able to defer capital gains taxes. Without the exchange, the investors would have held onto the property and tried to renegotiate with the bank, says Sehgal. "Our investors did not have the nearly $30 million of additional capital that the developer spent. Even if they had come up with that kind of money with our assistance, that property would have sat vacant for a long time."

The deal led to the construction of a new Mariano's grocery store on the Dominick's site in 2016. Most of the mall's tenants, primarily small businesses, stayed on, continuing the employment and services they had long provided the community. "It's about keeping and supporting the small businesses," Sehgal says. "You can't support them unless you have an anchor, no matter how loyal a base they have."

The two other former Dominick's properties in Naperville followed a different trajectory. After both were leased by Albertsons Companies, one was still unoccupied in 2020, and the other only recently became home to an Amazon Fresh store. Jeffries said the dark buildings took a toll on the community. "We started seeing a lot of vacancies [nearby]. Albertsons was paying rent, but there wasn't the same traffic, the same vibrancy you would have had if a grocery store had occupied there immediately."

SUCCESS STORY 2: FARM TO TABLE

In 2014, Craig Fernsler's 95-year-old client sold a farm in Williamsport, Pa., to a company that wanted to build a plant there. Of the $4 million purchase price, a little under $2 million had gone into a passive investment for her.

MARIANO'S: COURTESY OF COSTAR; WENDY'S: COURTESY OF CCIM INSTITUTE

EXCHANGE TRANSACTIONS LED TO NEW DEVELOPMENT AND JOBS IN TWO CHICAGO-AREA LOCATIONS, ONE NOW A MARIANO'S GROCERY STORE AND THE OTHER A WENDY'S RESTAURANT.

She wanted to put the remaining funds into a replacement property but didn't know how. “My immediate goal was to find out the client’s and her family’s risk tolerance and what they were really looking for,” says Fernsler, CCIM, senior director at KW Commercial in Blue Bell, Pa.

What Fernsler found, and the family chose, was an investment in a new corporate-guaranteed Wendy’s fast-food restaurant in Chicago. “There were minimal risks,” Fernsler says. “This was a new 15-year lease with increases in rent that Wendy’s would pay my client. And Wendy’s would take care of snow removal, lawn care, and any repairs and maintenance. The [client’s] kids knew this Wendy’s would be staying in business.”

The Wendy’s was built on the site of a dilapidated warehouse. When it was determined that the groundwater and soil were contaminated, the developer hired a company to oversee removal of the storage tank and collect samples for testing. Eventually, more than 4,200 tons of soil were removed and disposed of in accordance with environmental safety requirements.

“Nobody was working in that run-down warehouse for years,” Fernsler says. The restaurant brought employment and drew more people to the area, creating more activity and traffic to nearby businesses. In addition, Fernsler says. “I worked with an attorney and a title company. The developer hired people to construct the building. Engineers were hired, as well as a surveyor, an attorney who took the project through the approval process with the municipality, and the municipality attorneys. Everybody that touched this was paying regular income taxes. And transfer tax was paid when the transaction happened. This kind of transaction creates a chain reaction, but if you take away 1031s, the chain breaks.”

Want to share your 1031 success story? Email the editors at narpubs@nar.realtor.

WHAT THE RESEARCH SHOWS

THE ECONOMIC EFFECTS

David C. Ling, professor of real estate at the University of Florida, and Milena Petrova, an associate professor in the finance department at Syracuse University, recently updated their study on the tax and economic impacts of 1031 exchanges. Key findings:

87%

of tax-deferred like-kind exchanges are followed by a fully taxable sale.

More tax is ultimately paid to the Treasury than if the exchange had not occurred.

Repealing 1031 will slow sales, reducing the expected tax revenue.

Repeal could hurt employment in real estate and related sectors.

SOURCE: “THE TAX AND ECONOMIC IMPACTS OF SECTION 1031,” SEPTEMBER 2020. THE AUTHORS ANALYZED A RANGE OF DATA, INCLUDING 816,000 COMMERCIAL PROPERTY TRANSACTIONS WITH A MEDIAN SALES PRICE OF $1.1 MILLION (NOT ADJUSTED FOR INFLATION) FROM 2010 TO 2020 PROVIDED BY COMMERCIAL DATA GIANT COSTAR.

NAR MEMBERS’ EXPERIENCE

The National Association of REALTORS® surveyed members, including all 76,000 who list commercial real estate as their primary business, about transactions that took place between 2016 and 2019.

68%

of commercial REALTORS® had at least one 1031 exchange transaction.

12%

of commercial REALTORS®’ transactions involved 1031 exchanges.

84%

of properties exchanged were held by small investors in sole proprietorships (47%) or S corporations (37%).

89%

of REALTORS® said clients invested additional capital into the replacement property.

SOURCE: *LIKE-KIND EXCHANGE TRANSACTIONS OF REALTORS® IN 2016-2019*, NAR RESEARCH, JULY 2020.

WHERE OPPORTUNITY LIES

LAND AND INDUSTRIAL REMAIN THE BRIGHTEST SPOTS FOR COMMERCIAL REAL ESTATE SALES

By Gay Cororaton, senior economist and director of housing and commercial research for NAR

With the economy and businesses still hobbled by the pandemic, commercial real estate transactions are struggling to make a comeback. However, the land and industrial properties markets are bucking that trend, according to the National Association of REALTORS® fourth quarter market survey of commercial members.

Looking at the member survey against other available data indicates that the market in which NAR commercial members typically work (representing transactions below $2.5 million) is faring much better than commercial real estate overall. Among REALTORS® whose primary business area is in sales, sales volume contracted by 2% on average in the fourth quarter, compared with the fourth quarter of 2019. In contrast, for transactions of $2.5 million or more, Real Capital Analytics reports that sales declined 56% year over year in the same period.

Meanwhile, NAR commercial members reported an average 3% increase year over year in the dollar volume of land sales. The survey defined a land transaction as one where the value of the property is at least 51% of the total property value. Among land transactions, the largest gains were in sales of recreational land (for camping, hunting, fishing, and so on), ranches, and residential land. This is likely attributable to consumer desire to buy outside of urban centers in the wake of the COVID-19 pandemic.

INDUSTRIAL ACTIVITY IN MAJOR MARKETS, OFFICE GAINS IN SMALLER MARKETS

The darling and lifeblood of commercial real estate today is the industrial property market. Demand has been bolstered by the acceleration of e-commerce sales. REALTORS® reported that dollar sales volume for industrial properties rose 1% in Q4. According to Real Capital Analytics, the most active markets with respect to industrial property acquisitions were Los Angeles, Chicago, Dallas, Atlanta, and the Inland Empire (Southern California).

In the hardest-hit commercial segment, hotel/hospitality sales, REALTORS® reported an average decline of 5%. January 2021 data from the U.S. Census Bureau showed that about half of businesses in food service and accommodation reported they were operating at half the capacity of one year ago.

Meanwhile, with about a quarter of the workforce still working from home, office occupancy fell by 98 million square feet in 2020. The largest losses of office occupancy were in primary/gateway cities such as San Francisco and New York, each with a 9 million square foot loss of office occupancy, followed by Boston (7.5 million square feet) and Dallas (5 million square feet).

Secondary and tertiary areas—such as Raleigh-Durham, N.C.; Hampton Roads, Va.; Boise, Idaho; Milwaukee; Fort Myers, Fla.; Northern Virginia; Colorado Springs, Colo.; and Syracuse, N.Y.—are holding up better. One reason these smaller metro areas are continuing to see increased demand is the price differential: In 2020, the average price per square foot in the central business district in the six major markets (New York, Chicago, Boston, Washington, D.C., San Francisco, and Los Angeles) was $769. By contrast, the cost per square foot in the non-major markets was less than half that, $280, according to Real Capital Analytics.

COMMERCIAL OUTLOOK IN 2021

REALTORS® expect the demand for industrial space and land to remain strong compared to other assets. Working from home, the desire for a place outside urban areas, and the growth of e-commerce will continue to be the primary drivers of growth.

Apartment buildings are expected to show modest growth, with investors still worried about the ability of renters to pay rent. Nearly 20% of renters are not caught up on rent, according to the Census Bureau's December Household Pulse Survey.

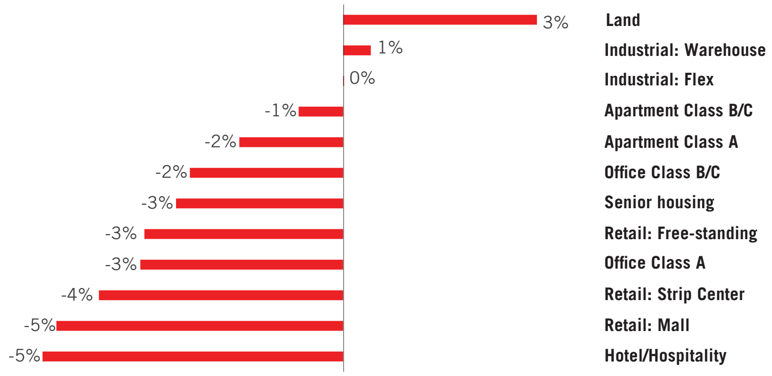
Meanwhile, hotels and the lodging sector will continue to operate at below normal capacity until the effectiveness of the vaccine starts to become evident, when we can expect to see more traveling and in-person business and personal gatherings.

2021 is still going to be a challenging year for commercial real estate, but the trajectory is up.

See the full Q4 Survey: At *nar.realtor*, search for January 2021 Commercial Market Trends and Outlook Report.

% CHANGE IN COMMERCIAL SALES VOLUME, YEAR OVER YEAR, 2020 Q4 AMONG REALTORS®

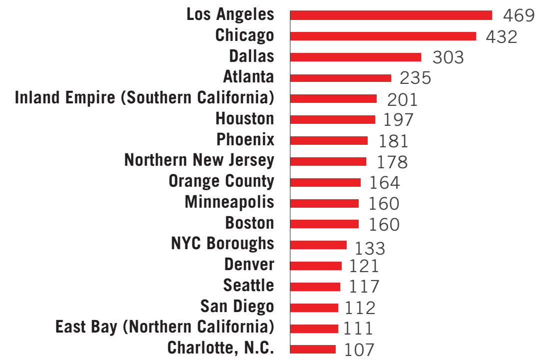
While most sectors saw declines, demand for recreational, residential, and ranch land sparked a year-over-year gain for land sales in the fourth quarter.



SOURCE: NAR

MOST ACTIVE INDUSTRIAL MARKETS BY NUMBER OF PROPERTY ACQUISITIONS IN 2020

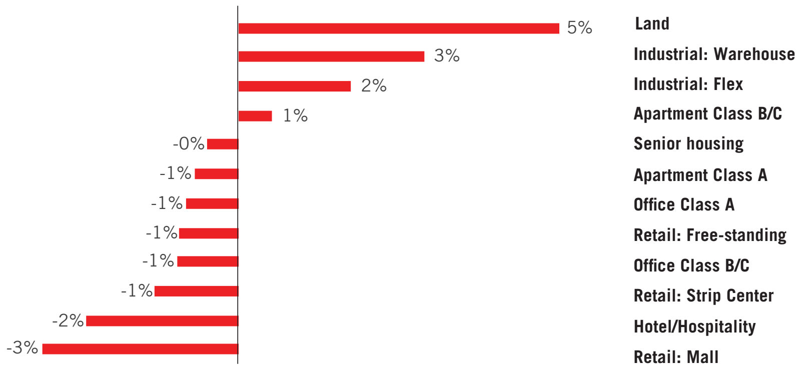
Industrial sales held steady in 2020 with major markets seeing the most activity.



SOURCE: REAL CAPITAL ANALYTICS

OUTLOOK FOR COMMERCIAL SALES VOLUME, YEAR OVER YEAR, IN 2021 Q1 (COMPARED TO Q1 2020)

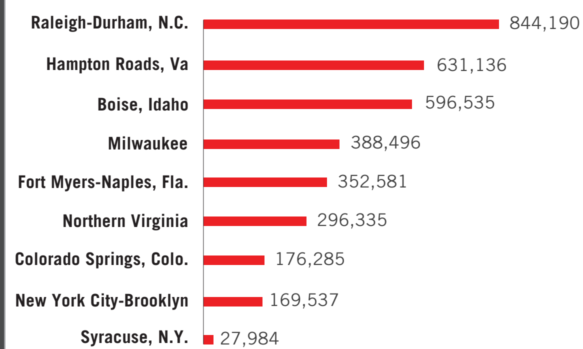
REALTORS® surveyed in January said they expect 2020 market trends to continue.



SOURCE: NAR

METRO AREAS WITH AN INCREASE IN OFFICE OCCUPANCY (MILLION SQUARE FEET) IN 2020

The COVID-19 pandemic, combined with lower prices, is driving office occupancy in smaller markets.



SOURCE: CUSHMAN AND WAKEFIELD

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EXPLORE THE NEW RPR

NAR'S DIGITAL PROPERTY PLATFORM NOW OFFERS IMPROVED USER EXPERIENCE, SOLVES PAIN POINTS.

By Emily Line, RPR vice president of member experience

REALTORS Property Resource® now has a refreshed user experience. Redesigned from top to bottom, the platform boasts a more modern look, feel, and functionality. The site—which offers comprehensive data, powerful analytics, and client-friendly reports, exclusively for NAR members—made many of its latest updates with commercial members in mind.

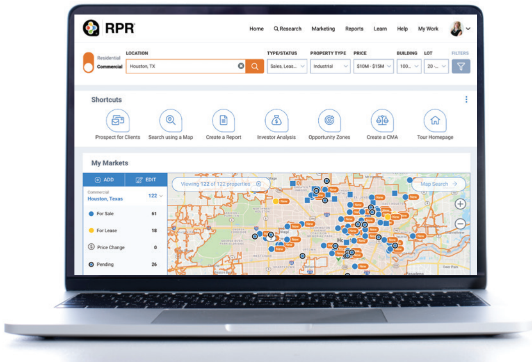
YOU ASKED, RPR LISTENED

In one-on-one testing and group meetings, RPR users said they wanted a dashboard style of navigation and an easier, more streamlined way to find their saved items and past searches. The new RPR homepage delivers on these asks, with an approach built around the user's regular routine. From the homepage, RPR users can take shortcuts to tools and features, as well as customizable "My Markets" with quick access to property hot sheets. Simply put, users can now get more done with fewer clicks.

In addition, you can now access any property from one search bar. Simply toggle from "Residential" to "Commercial," and the search settings change accordingly. You can access more than 900,000 active commercial listings from partners such as Biproxi/OfficeSpace.com, Brevitas, CREXi, Catylist, and TotalCommercial.com. Plus, with RPR you can access public record information on off-market commercial properties—56 million properties in all.

The new RPR offers commercial users:

- **Shortcuts:** Take guided tours of business-building features such as prospecting, mapping insights, reporting, investor analysis, opportunity zones, and comp lists.
- **Smoother navigation:** Locate the tools you need from anywhere in the site using the main navigation. For example, need quick access to Commercial Site Selection? It's in a dropdown menu, under the Research tab.



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- **Market activity mapping:** Monitor selected geographies and properties daily to keep an eye out for client opportunities. Once you set up My Markets, they'll be displayed when you log in to your RPR account.
- **Streamlined saves:** Saved searches, properties, and listings are now easy to find and retrieve.
- **Helpful details:** Access partner resources, including national listing platforms, from property details pages.

REAL-WORLD APPLICATION

The site provides video tutorials and on-demand webinars to help you become an expert user. Gail Clements of Southport, N.C., was already a regular RPR user when she started doing research on Opportunity Zones. She stumbled onto RPR's "Opportunity Zones Tips and Tricks" webinar and was able to quickly apply what she learned. She located properties using RPR maps, connected with owners via the RPR mailing labels feature, and presented the properties to investors using RPR reports. "I received an immediate response," says Clements, who works in residential, commercial, and land sales. Her story is a textbook example of how to use RPR to impress your commercial and investor clients. Get started today at *narrpr.com*.

NO ADDED COST

Access to RPR is a benefit of your membership in the National Association of REALTORS®. Beyond your member dues, there's no cost to use the site or access any of the tools. And now, through March 1, 2022, members of the CCIM Institute, Counselors of Real Estate, Institute of Real Estate Management, Society of Industrial and Office REALTORS®, and REALTORS® Land Institute who belong to NAR as Institute Affiliate members have access at narrpr.com.

RELIEF FOR TENANTS AND LANDLORDS ALIKE

AS STATE AND LOCAL GOVERNMENTS WORK OUT HOW THEY'LL DISTRIBUTE NEW FEDERAL RENTAL ASSISTANCE FUNDS, NAR CONTINUES TO ADVOCATE FOR PROPERTY OWNERS HURT BY PANDEMIC.

When the COVID-19 pandemic reached the United States a year ago, federal, state, and local governments acted swiftly to protect residential tenants with eviction moratoriums. Until recently, however, there's been too little government support for rental assistance.

From the start, the National Association of REALTORS® has advocated for federal rental assistance, beginning with a coalition letter sent on March 19, 2020, days before passage of the first COVID-19 relief bill, the Coronavirus Aid, Relief, and Economic Security (CARES) Act. That act included funding for states to help address the COVID crisis, including providing rental assistance. More than 21 states did provide some form of rental assistance, but funding was limited, and aid was often targeted to the lowest-income renters.

The CARES Act also included a 120-day eviction moratorium. The federal moratorium was extended in early September after former President Donald Trump issued an executive order, asking the Department of Health and Human Services and the Centers for Disease Control and Prevention (CDC) to consider whether the extension was warranted to stop the spread of COVID-19. The current CDC order extends the moratorium to at least March 31, 2021. In addition, property owners with federally related mortgages have been prohibited from evicting tenants, and, as of mid-February, eviction moratoriums remained in place in about a dozen states and many local areas.

NAR's message to lawmakers, throughout the pandemic, has been that moratoriums without adequate rental assistance leave renters saddled with a growing mountain of unpaid debt. Meanwhile, housing providers who rely on rental income may be unable to pay their mortgages or maintain their properties.

Federal relief came in December 2020 in a spending bill that included $900 billion in stimulus relief. One provision allocated $25 billion in rental assistance to states and local communities with at least 200,000 people; the American Rescue Plan, passed in March 2021, appropriated an

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additional $21.55 billion. The program is run through the Department of the Treasury, and states and eligible localities had to apply for funds by Jan. 12, 2021. The Treasury Department distributed the first round of funds in the last week of January, and on Feb. 22, the Biden administration released updated FAQs for states to use when creating their programs, clearing the way for funds to be disbursed to eligible housing providers and renters.

Each jurisdiction can set its own program rules within the confines of the law. The law says:

- 90% of all funds received must be used for rental assistance or utility bills.
- Rental assistance can include current rent, rent in arrears, and up to three months' future rent for a total of no more than 12 months (with some exceptions up to 15 months).
- Past due rent can be from March 2020 forward.
- Rental assistance is to be paid directly to the housing provider unless the housing provider refuses it, in which case the assistance money goes to the resident.

Eligible renters include anyone making less than 80% of local median income based on either 2020 income or current income. In addition, recipients must have qualified for unemployment assistance or experienced a reduction in income and must be at risk of housing instability. From the American Rescue Plan funds, $2.5 billion is reserved for high-need grantees, very low-income families spending more than 50% of their income on rent or living in substandard housing. Tenants may apply directly for assistance, or housing providers may apply on tenants' behalf.

Expect significant differences across states in implementation of the program. Some states may simply adjust an existing program they were offering through CARES. Others will create new programs. Most monies will be distributed by housing authorities, housing finance agencies, or community development agencies.

Meanwhile, NAR will continue to advocate for additional rental assistance money. The latest analysis by the Urban Institute indicated the need through January 2021 was closer to $60 billion in unpaid rent, so the $46.55 billion thus far allocated will not be enough. In January, President Biden extended the eviction moratorium through March 31, 2021, and further extensions are possible. NAR has encouraged states to streamline their programs for distributing rental assistance and to refrain from requirements and burdens that will slow participation. Only when all back rent is paid can renters feel relief and housing providers find stability for their properties.

SPENDING BILL INCLUDES TAX RELIEF

OMNIBUS BUDGET PACKAGE INCLUDES PRO-REAL ESTATE, PRO-BUSINESS TAX PROVISIONS

In December, at the same time it was voting on the fifth COVID-19 relief package, Congress passed a federal spending bill—the Consolidated Appropriations Act of 2021—that included several NAR-supported provisions.

- **179D energy-efficient buildings deduction.** Congress made 179D a permanent part of the tax code, with some updates. Since 2006 the provision has allowed commercial property owners to deduct up to $1.80/square foot for qualifying energy-efficient improvements. Going forward, the deduction will be indexed for inflation. The act requires that the ASHRAE (American Society of Heating, Refrigerating, and Air Conditioning Engineers) standards that govern the deduction be updated.

- **PPP-paid business expenses.** In spring 2020, the IRS issued guidance stating that expenses paid with forgiven PPP loan money would not be tax deductible. The guidance would have resulted in struggling small businesses having to use valuable resources to pay tax on expenses not normally taxed. Congress clarified its intent that such expenses be deductible, and the IRS has since reversed its ruling.

- **Low-Income Housing Tax Credit.** Congress created a permanent 4% floor for the portion typically used for rehabilitation of older rental housing and the preservation of subsidized rental developments.

- **Employee Retention Tax Credit**. The ERTC was extended through June 30, 2021, and modified, increasing the credit rate from 50% to 70% of qualified wages and expanding eligibility by reducing the year-over-year gross receipts decline from 50% to 20%. The act increased the limit on per-employee creditable wages from $10,000 per year to $10,000 per quarter, increased the 100-employee delineation to 500 or fewer, and allowed businesses with PPP loans to qualify.

DETAILS, DETAILS

Visit nar.realtor for more on these topics:

- For details on rental assistance, search for “Housing Provider FAQs.”
- For a complete summary of the December 2020 coronavirus relief and spending measures, as well as the March 2021 coronavirus relief measure, known as the American Rescue Plan Act, go to nar.realtor/coronavirus.

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FILLING THE VOID

PROBLEM-SOLVING THE PANDEMIC'S EFFECT ON VACANCIES IN OUR CITIES

Despite everything, there's oomph in the economy. A recent report from the Congressional Budget Office said it expects the economic expansion that began last summer to continue throughout 2021. The CBO projected real inflation-adjusted) gross domestic product to return to its pre-pandemic level by midyear and the number of people employed to return to pre-pandemic levels in 2024. The National Retail Federation in late February said that, as Americans get their vaccinations and the economy reopens, retail sales are expected to grow by around 6%–8% to more than $4.33 trillion in 2021. Still, the pandemic's effect remains worrisome. With many office workers now more than a year into work-from-home protocols and consumer shopping habits changing, what's to become of downtowns? We asked commercial real estate specialist Bill Milliken of Ann Arbor, Mich., and New York–based retail real estate strategist Larisa Ortiz to tell us what they're experiencing today and what advice they're giving clients.

Bill Milliken, CCIM, CIPS, is broker-owner of Milliken Realty Corp. in Ann Arbor, Mich. (population 120,000), located 45 minutes outside of Detroit. He served as Michigan REALTORS® president in 2013 and National Association of REALTORS® regional vice president in 2017. He currently chairs the board of trustees for Washtenaw Community College and serves on the board of New Detroit, a racial justice organization.

SHOW LOCAL BUSINESSES THE LOVE

I run a full-service commercial real estate company that provides leasing, sales, tenant representation, and real estate consulting services.

For building owners and businesses in our cities, this is a challenging time. Things are quiet. We all look back on 2008–2009, the height of the Great Recession, as a low point—but it wasn't this low. I live downtown in Ann Arbor, and I'm very aware of the reduced pedestrian traffic and street traffic. The biggest reason is that the University of Michigan is operating at dramatically reduced levels.

The return of students to the classroom will make a difference. But I see long-term change in office space. The amount of vacant office that we have now is high, and, according to Bisnow's commercial real estate newsletter, 59% of businesses in offices are contemplating a reduction of their square footage based on this "new" phenomenon of working from home. Several clients have come to me saying they're simply not coming back to their offices. We've listed their space for sublet trying to find users.

It's hard to know how this will play out. I'm part of the Real Estate Answer Forum, a group of brokers, attorneys, and commercial real estate portfolio managers in the Detroit metro area. On a recent Zoom call I learned that DTE, a big public utility here in Michigan, had a 60,000-square-foot office up for renewal, and they walked away. A year ago their intention would have been to renew. On the other hand, one Detroit broker shared a story of a Fortune 500 company that doubled its space. Being in the office is central to their culture, so they want to be able to conduct business in the office while maintaining social distance.

One way to retain tenants may be to offer reduced rent lease extensions. But the best tenant retention tool is simply to have provided the highest level of tenant service during the term of their lease. Send Easter lilies. Build tenant loyalty. To move vacant office space today, you may have to discount asking rents by 25%–30%, maybe even offer an attractive tenant improvement allowance for the right lease term. Then there are always trade outs: Provide rent breaks to tenants in exchange for goods or services.

The most important thing local governments can do is to avoid making things worse. Avoid regulatory hardship during these times. Seek ways to help small retailers and restaurants keep their doors open. Increased costs for our businesses and property owners at this time would be the epitome of bad timing. The biggest thing the federal government can do is promote vaccinations. Normalcy won't be back until the pipeline is filled and people feel safe going back into shops and restaurants.

Until then, we all need to do what we can to support local businesses. Last week, I went out to dinner, on a winter's night, for the first time in months. We were seated in a tent dressed in parkas and hats. It was fun but not something I could have imagined a year ago. This local restaurant is a third-generation family business. Everyone would grieve if they didn't survive.

Larisa Ortiz is managing director of public and non-profit solutions at Streetsense, advising public, private, and non-profit sector clients on retail real estate strategy in urban environments. A resident of New York, she currently serves on the New York City Planning Commission. She's the author of *Improving Tenant Mix*, published by the International Council of Shopping Centers.

NEW REALITY REQUIRES FRESH APPROACH

We focus on the principles that make great retail environments—so we can help cities with the investments and the policies they need to set the stage for private-sector investment. That might be zoning, it might be regulatory, it might be forming a business improvement district, or it might be helping to create or market programs for pop-up stores. The bulk of our practice is advising public and nonprofit entities, such as business improvement districts, merchants' associations, chambers of commerce—stewards of places driven by retail. Before joining Streetsense, I ran my own business, and I led large projects for the city of New York. One project included rezoning of 125th Street in Harlem, a retail-driven environment. More recently, I worked with the city of Cambridge, Mass., on a retail strategic plan that included a great food-truck program, technical assistance for small businesses, and vacant storefront activation best practices.

We will see more vacancies, and that's not just because of COVID-19. We are overbuilt in this country. In the U.S, we have 23.5 square feet of retail space per capita. In European countries, it's well under 10. We spend a lot, but we still can't support that much retail.

It's a conundrum because residential is what's needed. But nearby residents will scream that they don't want new residents and their kids going to local schools, and they don't want the commercial tax base diminished. We need to educate public sector decision-makers and residents that we are facing a new reality. I'm doing work in Santa Monica, Calif., along Third Street Promenade, and I was looking at their zoning code. They restrict residential throughout almost all of downtown, and they restrict schools on the ground floor. They use zoning to curate what happens at the ground floor. Many cities do this, and it's wishful thinking. By contrast, we recently worked in Midtown Atlanta. There's a lot of new development there, and the rezoning preceded our work there. I was pleasantly surprised to see an acknowledgment that retail can't be everywhere and that some streets are residential streets—and it's OK.

COVID-19 is having serious impacts, but it may actually help drive this move toward mixed-use development. In downtowns driven by office-worker demand, businesses are more affected by the pandemic than downtowns that serve residential communities. There was just a *New York Times* article *("Why Some Suburban Businesses Are Thriving During the Pandemic," Feb. 1, 2021)* that talked about what I've been saying for months—that residents are discovering their own communities in a way they hadn't previously.

We need to be very, very mindful of how long it's going to take urban centers to recover, particularly where there are destination drivers—cultural institutions, museums, nonprofit arts organizations—that have been such critical components. For example, the Tenement Museum in Lower Manhattan closed its doors during the pandemic. Will we come together to save these destination drivers? I hope so. That museum attracts something like 200,000 people a year to that neighborhood. For now, those people are gone. What we don't want is to enter into a downward spiral where one vacancy begets another begets another. We know the impact of blight.

The public sector needs to come in and think about creative ways to hide vacancies. Malls do this all the time. You probably don't even notice when there's a vacancy in a mall. They put a billboard on it. Or art. When Hudson Yards (in New York) opened, there were many, many vacant spaces. They created tactile art, so a vacancy became this opportunity to touch something, and it became a fun thing.

We need creativity, and we also need flexibility so that we can fill spaces with what's needed. There are often very onerous use restrictions that prevent change of use. Right now, that's not a barrier we should be putting in the way of building owners.

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