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COMMERCIAL CONNECTIONS

A PUBLICATION BY THE NATIONAL ASSOCIATION OF REALTORS®

BUDGETING FOR UNKNOWNS

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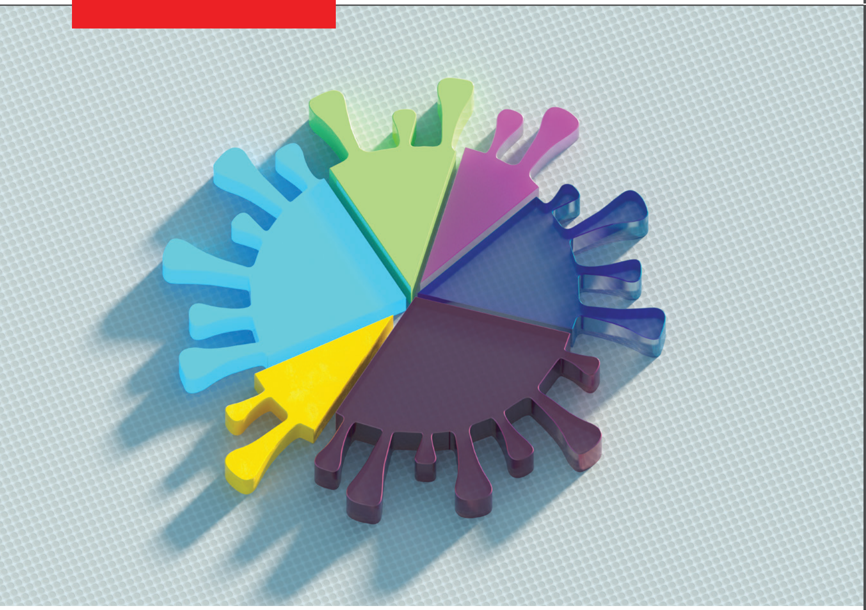

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Design & Production Isabella Mathews, Catherine Turner

ADVERTISING
Manager, Ad Sales Alvin Pulley
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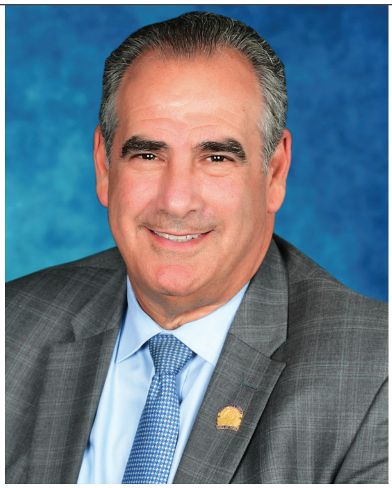

CHARLIE OPPLER, 2021 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

I am thrilled to be building on the work NAR has done to provide greater value to our commercial members. Given all the uncertainties in our world today, commercial practitioners need a sustained commitment from their association—and that's what we'll bring.

In 2021, we'll work to educate the new Congress on the value of the Sec. 1031 like-kind exchange; we'll propose ways to incentivize the conversion of commercial property into residential units, which would bring some relief to both sides of the business; and, as long as this pandemic is preventing people from earning a living, we'll keep beating the drum on the need for federal rental assistance, because an eviction moratorium without assistance puts an unfair burden on housing providers and sets the stage for a crisis.

To help invigorate the marketplace, we're launching the C5 Summit—a new, commercial-focused event to be held in New York City in September 2021. The 5 C's stand for commercial, connection, commerce, capital, and community. We'll invite top commercial brokers, developers, REIT representatives, and state and local associations to work together to secure business opportunities that are critical to keeping our economy moving.

It's said that uncertainty inspires creativity. That has certainly been the case in 2020, and we'll continue to innovate in 2021. But we can't do anything without you. Please get involved—bring your ideas and your engagement as we move boldly into our future.

WHY I'M HOPEFUL

2020 PROVES WE'RE UP TO THE TESTS AHEAD.

VINCE MALTA, 2020 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

It's amazing how hope can emerge when you're feeling tested. A test, after all, is often just a measure of one's problem-solving ability. The REALTOR® organization rose to the challenge in 2020, helping to ease the COVID-19 burden on our members—from getting the all-important "essential service" designation in states across the country to ensuring more of our members qualified for Small Business Administration lending. The pandemic isn't behind us. But my interactions with thousands of you during my presidency showed me that we'll persevere through what comes next. My advice going forward:

Don't second-guess yourself. We've all had to act on instinct more than usual, and our instinct often guides us well. It's most important to do what we think is right for our clients and businesses, and move on.

Plan, but be prepared to shift. The pivoting we've done in 2020 is without precedent: working with clients to redefine space needs, renegotiate leases, and calculate property values even as the pandemic renders old valuation models useless. As we move forward, pay attention to what experts say, but, more important, observe what's happening in your own market, and be prepared if things go in an unexpected direction.

Ask a lot of questions, and reach out to people you wouldn't normally talk to. None of us has all the answers, but asking questions creates dialogue, which leads to solutions. Our future could be shaped by joining forces with groups we haven't historically done business with.

I'm grateful that we came to the test that has been 2020 with strength and experience on our side. It's not a year many of us were prepared for, but I daresay we're ready for the challenges that lie ahead. It has been a privilege to serve you.

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DOOR MAY BE CLOSING ON OPEN OFFICES

SURVEY OF TECH TENANTS SHOWS PLANNED DROP IN FULLY OPEN LAYOUTS.

By Lynn Ettinger

After years of debate about their value, open-office layouts may be on the way out. Less than half of technology tenants surveyed by Savills, a global real estate services provider, said they plan to keep their fully open layouts. Before COVID-19, nearly 90% of tech organizations had mostly open-office or entirely open-office workplace layouts, and many of those users are still considering how their workplace planning will look going forward, according to the report.

Savills surveyed about 250 tech firms in the U.S. and U.K. in August and September. Forty-six percent of respondents said their organizations used fully open space with benching and cubicles before COVID-19. But only 22% of tenants surveyed said they expected to retain their open-space design. Respondents with a mix of open and some private offices dropped from 43% using the model before the pandemic to 33% planning to keep it.

Silicon Valley firms were among the early adopters of open offices, saying the layout would encourage innovation, collaboration, and communication, according to Entrepreneur.com. Since then, a growing body of research has shown the design may have the opposite effect.

LAND REPORT: BUYERS, SELLERS, INVENTORY, AND VIRTUAL DEALS

ROUNDTABLE OFFERS A SNAPSHOT OF HOW LAND SECTORS AND REGIONS ARE DOING.

The REALTORS® Land Institute hosted a virtual roundtable Sept. 17, where land agents across the country shared stories about their pandemic-era experiences.

BREAKING UP THE FAMILY RANCH

Owners whose kids don't want to take care of the ranch are selling and trying to recoup as much of their investment as they can. We've taken tracts that are 30 to 40 minutes from a major metropolitan area or airport and broken them into smaller tracts. Virtual appraisals are happening. I had a 123-acre ranch right off the lake, and the appraiser never went through the gate. *—Drew Ary, ALC, Ary Land Co./KW Advantage Land, Coweta, Okla.*

SLOW RETURN OF FINANCING

Construction financing has opened back up a bit, but it's really product-dependent. Debt for construction is almost impossible for retail, speculative office, and hospitality. It's possible but difficult for retail and office with strong preleasing (tenants viewed as COVID-19-resistant). And it's very doable for industrial—even spec industrial—and well-located multifamily. *—Matt Davis, ALC, Cushman & Wakefield, San Diego*

COMMODITY PRICE INCREASE HELPS HURTING FARMERS

We had a derecho weather event in August. Iowa got its nose broken, whereas other states maybe got a black eye. We have operators who won't be able to harvest a single kernel from those fields. The good news is that commodity prices are slowly coming up to help out. Another bright spot is there are still a lot of buyers out there. *—Kyle Hansen, ALC, 2020 RLI president, Hertz Real Estate Services, Nevada, Iowa*

BUYERS AT EVERY PRICE POINT

We've got three groups of buyers. One group has decided they're not good being cooped up in 400-square-foot apartments. They may not have a job, but they want space and recreation. Buyers in the second group realize they can work from anywhere, and Montana isn't the Wild West. We've got great sushi and usually good Wi-Fi. In the last group are people with higher net worth who want to diversify into something they'll enjoy. *—Trent Lister, PureWest Real Estate, Bozeman, Mont.*

RECREATIONAL LAND

So many people are going from California to Idaho that it's driving people out of Idaho and into Colorado. We just cannot keep enough inventory on the shelf because we're putting it under contract before it even hits the open market. I did a recent virtual showing on FaceTime with someone from Tucson, Ariz., who was interested in 35 acres in the mountains. We put it under contract with a buyer who hadn't set foot on the property. *—Justin Osborn, ALC, 2020 Future Leaders Committee chair, The Wells Group Real Estate Brokerage, Durango, Colo.*

STOCK PROFITS INTO LAND INVESTMENTS

We're seeing the under–$1 million recreational tracts as the hottest item. People want land for uses from deer and duck hunting to timber investment. People made some money in the stock market and want to move it out. With large agricultural assets, we've got probably some of the best inventory right now that we've had in the last 10 years. *—Clayton Pilgrim, ALC, Century 21 Harvey Properties, Paris, Texas*

To listen to the roundtable, visit *rliland.com* and click on "Helpful COVID-19 Resources and Information for REALTORS®."

CMBS INDUSTRY NEEDS NEW SOLUTIONS

SERVICERS, REGULATORS, AND BORROWERS COULD WORK TOGETHER ON RELIEF.

By Nicholas Leider, senior content editor for Commercial Investment Real Estate

This article was adapted from the CCIM Institute course "Commercial Mortgage-Backed Securities Financing."

The commercial mortgage-backed securities market has been especially vulnerable to fallout from COVID-19. CMBS represents roughly $490 billion, about 15% of the $3.5 trillion in commercial real estate debt, according to the Mortgage Bankers Association. It's a common financing avenue for commercial real estate projects, typically offering nonrecourse provisions, higher proceeds, and less stringent underwriting practices. Unlike a traditional bank loan, CMBS is securitized by the bond market, which provides these benefits.

But the advantages come with a few strings. CMBS borrowers can't add debt to an existing loan. The loans are subject to oversight by the Securities and Exchange Commission and the Internal Revenue Service, with every dollar from a borrower passing through to bondholders without being taxed.

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"The minute a performing loan is modified, the entire pool of bonds could become taxable," says Ann Hambly, CRE, founder and CEO of 1st Service Solutions, a firm based in Grapevine, Texas, that specializes in CMBS borrower advocacy.

CMBS are handled by a master servicer, who collects payments and communicates with borrowers. But a special servicer takes over for loans that must be modified, typically those nearing or in default. "In a pre-COVID world, you'd never want your otherwise performing loan to be transferred to the special servicer," Hambly says.

The special service rate for all CMBS loans held relatively steady in 2019 and early 2020, dipping to a low of 2.83 percent in March. Two months later, that rate more than doubled, reaching 6.07 percent in May.

The $2 trillion CARES Act was mostly unable to help CMBS borrowers. The $500 billion in small-business loans couldn't help because they added debt. Meanwhile, CMBS borrowers have been trying to stay afloat while waiting for economic recovery or new avenues for relief.

For the CMBS industry to recover, servicers, regulators, and borrowers may need to work together to come up with a solution. "If CMBS special servicers work with the market and borrowers and grant reasonable relief for reasonable fees, I think we'll have a CMBS market to talk about after COVID-19," Hambly says.

Visit *ccim.com/education* for more information.

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IREM JOINS INDUSTRY EFFORT ON HOUSING PROVIDER, RENTER RELIEF

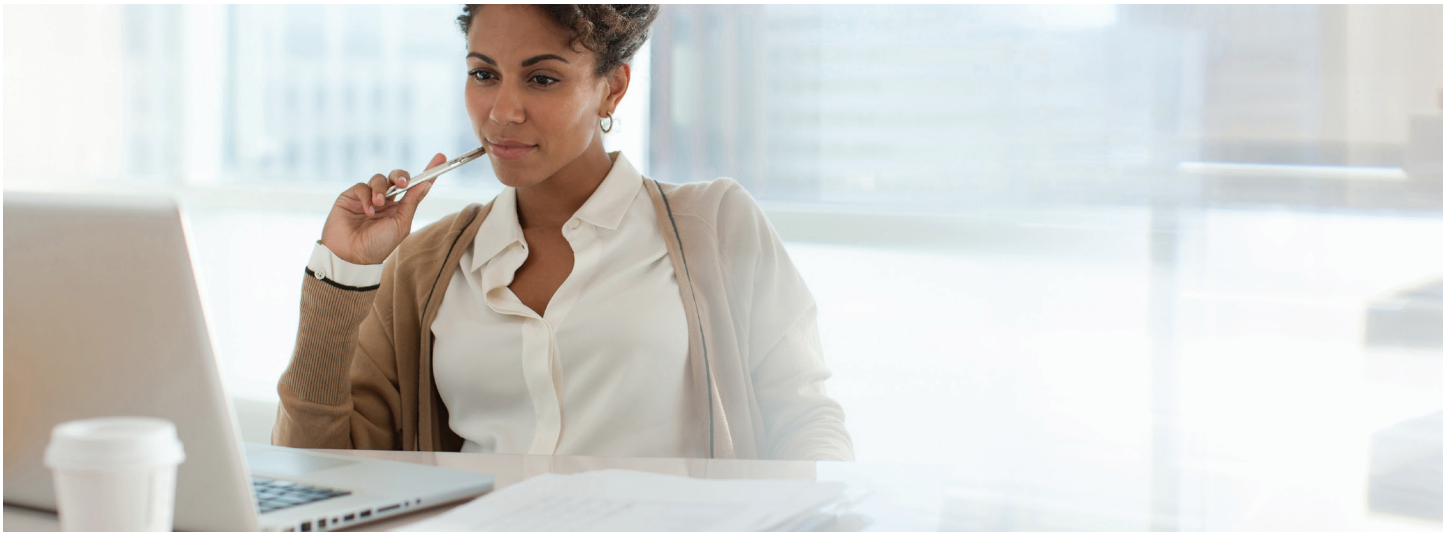
ORGANIZATIONS URGE MEMBERS OF CONGRESS TO EXTEND CRF FUNDING THROUGH Q1 2021.

In November, the Institute of Real Estate Management joined the National Association of REALTORS® and other real estate industry organizations in asking every member of Congress to support additional assistance for renters and housing providers. In a letter to Senate and House leaders, the group urged Congress to provide immediate aid to renters through the Coronavirus Aid, Relief, and Economic Security Act, which created the Coronavirus Relief Fund. The letter cited a statistic from Moody's Analytics estimating a $70-75 billion backlog in rent owed by January. The organizations recommended allowing state and local governments to use CRF funding through the first quarter of 2021, extending the 2020 year-end deadline. During that time, the group said, the industry will explore longer-term solutions to stabilize the sector. The groups also requested support for additional COVID relief measures.

IREM®
INSTITUTE OF REAL ESTATE MANAGEMENT

Earlier in the fall, IREM leaders and representatives of the NAR met with members of the National Economic Council and White House Office of Domestic Policy Council to express concerns over an executive action to halt evictions through the end of the year. 2021 IREM President Chip Watts, CPM, communicated the need for a more sustainable long-term solution.

"Not only does the housing industry need a plan that provides the necessary help to housing providers," Watts said, "but that plan needs to provide funds directly to property owners to ensure financial obligations are being met.



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GETTING A REBOOT FROM VIRTUAL TOURS

SIOR MEMBERS CONNECT WITH PROPTECH TO HELP TENANTS—AND BUSINESS.

This article was adapted from "3D Tours: Digital Tools Keeping Brokers in the Game," by Michael Hoban, a Boston-based commercial real estate writer.

When shelter-in-place fallout hit commercial real estate, proptech joined the rescue party.

"Virtual tours with 360-degree cameras have gone through the roof; it's skyrocketed for us," said Dan Palmeri, SIOR, in an article published in the Fall 2020 issue of SIOR Report.

"Helping clients tour a space without physically walking through it is huge," said Palmeri, a senior director specializing in tenant representation at Cushman & Wakefield in Las Vegas. "Every big landlord is now requesting that their brokers put together virtual tours, and they don't really care how they do it as long as they get it right."

Businesses offering cameras and services include GeoCV, VPiX 360, Rescan, and Matterport, the company that pioneered the technology. Matterport technology enables brokers to scan a space and create a 3D model, or "digital twin." From there, brokers can generate 3D tours, 4K photos, short videos, and schematic floor plans. Using a unique web link, they can post 3D virtual tours to their website or other sites and email the link to prospective tenants or share it on social media.

SIOR

Space management software such as Space IQ and i-Office has also gained greater attention as a result of the pandemic. The software provides real-time metrics such as total square footage, percentage of space used, and operational costs per square foot. As a result, tenants can effectively plan workspace layout and usage. Chris Falk, SIOR, executive vice president of Newmark Grubb Acres in Salt Lake City, said many of his clients had considered putting sublease space on the market, but the software helped them make more informed decisions. "Tenants are realizing that if they're going to bring people back and space things out, they're going to be going from 140 square feet per person to 175–180, so they're going to need every bit of that space," he said.

For more on how commercial brokers are using proptech tools, read the article in the SIOR Report at *sior.com*.

CBRE EXEC OUTLINES COMMERCIAL COMEBACK

WEBCAST LOOKS AT WHEN RELIEF MAY BE COMING FOR SECTORS.

Spencer Levy, chairman of Americas Research and senior economic adviser at CBRE, presented to the Counselors of Real Estate on Sept. 10. Here are highlights from his presentation:

CBRE has broken down asset classes into what we call our "one, two, three" scenarios for recovery. We expect the multifamily and industrial class to come back in year one, the office class in year two, and retail and hotel classes in year three.

We'll start at the scary end of the spectrum: retail and hotels. Today I'm in Maryland, between St. Michaels and Easton. Ten years ago, Easton was dilapidated and broken-down, but today it's beautiful. A resurrection happened here and in places such as Frederick, Md., and Times Square in Manhattan. These transformations show the resilience of retail and hotels in troubled locations and times.

Industrial has performed extremely well from the perspectives of capital markets and fundamentals. In fact, CBRE's outlook for industrial is better today than it was pre-COVID. Amazon announced in early fall that it's hiring for another 20,000 jobs.

Multifamily is also doing well, but not in the major markets, including New York, San Francisco, and Chicago. Transitional issues exist in student housing and senior housing. Many younger people have said, "I'm going to ride out the storm in my parents' house." The problems will pass, probably next year, when more students return to universities.

In the office sector, the biggest problem is price discovery. Tenants don't know what the values are because they don't know what their rents will look like in six months to a year. We need to see people ready and willing to trade before we can reach recovery.

We're bullish on office over the long term. A Stanford University study in 2015 found that working from home is effective for efficiency but not productivity. In other words, workers who don't go to an office have trouble getting what they need professionally—for example, learning how to communicate and getting promoted. And a Harvard Business Review study said great companies focus on productivity, not efficiency. [Editor's Note: JPMorgan Chase required its most senior sales and trading employees to return to their offices in September after noticing a productivity decline, according to Fortune.] Where we'll settle is in a fluid workplace, meaning workers will do their jobs from the office, their home, their car, or even outside of a restaurant in Maryland.

We know there will be an office upgrade cycle. McCarthy Cook, a CBRE client, is installing a hydronic HVAC system, using water to transport energy, in a $500 million office building it's developing in West Hollywood, Calif. The system will pump hot and cold water through pipes in the walls rather than using forced air. That's the future of clean air.

For more, including a debate with moderator Mario Lefebvre, search for "What's Next Webinar Series—Session 4" at *cre.org*.

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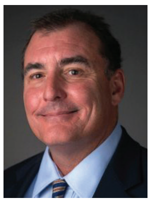
FEATURE

BUDGETING IN THE TIME OF COVID-19

PLAN STRATEGIES FOR RESPONDING TO WHAT'S AHEAD.



By Daniel Levison, CCIM, chairman, CRE Holdings

Your commercial real estate business may be thriving because you've tapped into opportunities arising from market changes, or you may be contemplating how to counter a market slowdown. Either way, the COVID-19 environment presents unique budgeting challenges for 2021.

Because budgeting is typically a mundane process, it's tempting to add 5% to last year's budget and be done with it. This is not recommended in an ordinary year, and 2020 was far from ordinary. Even if you've already accounted for the impact of COVID-19 on your operations, it's worth another look. Your ability to anticipate and plan for big unknowns is critical to business success. Let's start with three assumptions.

- Some market sectors will continue to suffer in 2021, while others are poised for growth.
- The needs and use of "people space" in a work environment are changing.
- Efficiencies, productivity, synergies, and culture may suffer from a remote workforce.

Consider the impact of these assumptions on your situation and market, then determine how to counter or leverage that impact. What follows are some factors to consider and how they might affect costs or revenues.

FEWER DEALS, HIGHER CONVERSION RATES

Firms specializing in hotel and retail are among the hardest hit, along with office leasing, which is experiencing a large-scale slowdown. Alternatively, multifamily, warehousing, and logistics are doing quite well. While your pipeline may be smaller than last year, opportunities exist in every sector. Tenants looking for space in today's market are serious. The result is higher conversion rates, even with fewer transactions. When you project revenue, factor in an ob-

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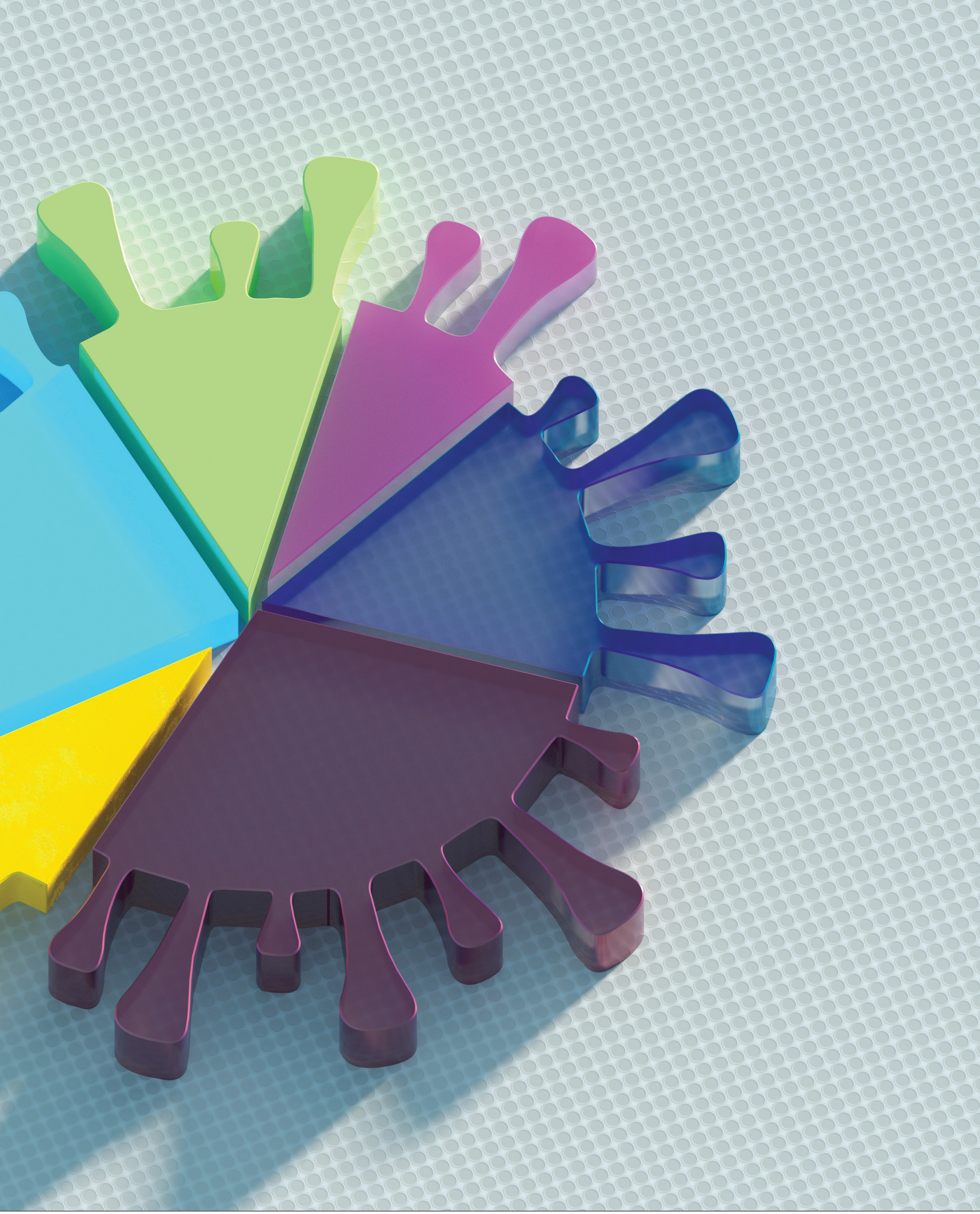

vious hit to your pipeline, but look for new opportunities.

Fewer deals can mean more time to creatively market properties. Shuttered restaurants can be ideal spaces for small office operations, which are increasingly in demand as companies shun large office towers where they can't control ventilation systems and common spaces. Finding new uses for old spaces may require developing new business networks or expanding your services. Plan for associated costs, such as membership in niche sector organizations, expanded architecture, or engineering support to prepare marketing proposals that reflect out-of-the-box thinking.

Limitations on traditional building tours make budgeting for high-grade virtual tours a must for 2021. Whether you contract with a service or buy a camera and go the DIY route, expect your costs to be higher than brochure production. We typically spend less than $200 on a basic flyer; contracting a basic 360 virtual tour costs us $750-$850. While a virtual tour may not be ideal for assessing clients' needs and proposing solutions, assume your competitors are using this technology and plan for the investment.

SHORT-TERM LEASES: HERE TO STAY

You can drive new business in 2021 by responding to clients' needs for flexibility—especially with leases. Companies are understandably hesitant to sign long-term leases. Accommodating shorter leases may seem like a hit to your P&L statement (don't count on the normal short-term lease premium), but renewing a lease every one to three years (versus five or 10) can mean increased fees. Further, in exchange for lease-term flexibility, clients understand or can be educated that tenant improvement funds and periods of free rent are reduced, making short-term leases more acceptable to landlords.

CHANGING USES OF SPACE

While most companies won't maintain an entirely remote workforce over the long term, buyers and tenants now look at their space needs differently. Companies that previously wanted 30,000 square feet in one location may now want three 10,000-square-foot locations to better control the number of people in the space and the associated systems and amenities, such as HVAC and high-touch elevators.

Open floor plans jammed with workers will disappear. The average square footage per U.S. office worker had been declining since 1990 from about 260 square feet per employee to 214 in 2019, according to data from commercial real estate firm CoStar. Expect that number to increase, but don't equate more space per employee with larger spaces. Rather, many employers plan to continue work-at-home policies after the pandemic. Others are rotating groups of workers in the office on alternating days.

While the tenant generally bears the cost for workspace changes, property managers may benefit by providing additional services related to the sanitization and redesign of the space, especially for tenants nearing the end of a lease. A small investment now can save lost income from tenants lured away by offers of a "safer" environment.

SUPPORT EMPLOYEE WELL-BEING

Budgeting for agent and employee well-being, especially for those who work remotely, is essential for 2021. First, consider whether the technology used by remote workers supports efficient work processes and effective communications with one another and clients. If not, you may need to upgrade software (high-speed Wi-Fi, premium-level access to tools, cybersecurity) and hardware (new laptops, high-quality microphones, dual monitors). By now, you've identified automation needed to remotely manage operations. While you may be over that initial hump, consider how advanced technologies can enhance efficiency, help identify risks, and drive growth. New tools may help you reduce administrative staff or reallocate their time to revenue-producing activities.

In addition, keep in mind the emotional health of remote workers. The inability to bring everyone together, whether for business or social events, can compromise the work culture and overall productivity. Consider expanding mental health services as part of your overall benefits offering, and be sure eligible plan participants are aware of this benefit. Plan regular activities to keep the culture alive and thriving in the absence of daily face-to-face interaction. This is especially important as you add new team members. Such activities carry hard costs, and earmarking funds will help ensure follow-through. The well-being of your individual team members directly equates to the well-being of your organization, so this is no place to be stingy.

BUDGET FOR SUCCESS

Budgeting with so many unknowns is a challenge. Expect more surprises in 2021. Whatever your "miscellaneous" line item was last year, double it. Address known cost increases and diminishing pipelines, but account for new market opportunities. Prepare to take advantage of these opportunities by budgeting funds to support a business refocus and innovative marketing activities, and position your team for high productivity by maintaining a healthy culture that embraces employee well-being.

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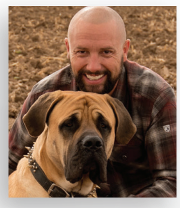

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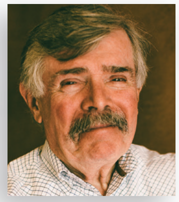

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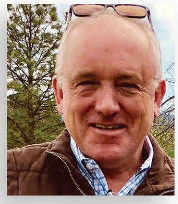

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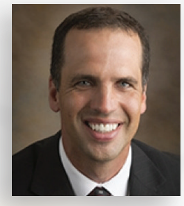

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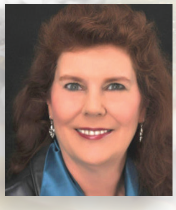
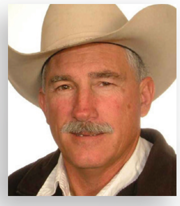


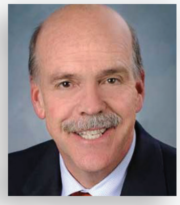
LOUISIANA
Cathy Craddock, CRS, GRI, SRS
REALTOR®
Mike Walker & Associates Real Estate
Greater Baton Rouge Association of REALTORS®

MICHIGAN
Jason Makowski
REALTOR®
NAI Wisinski of West Michigan
Commercial Alliance of REALTORS®

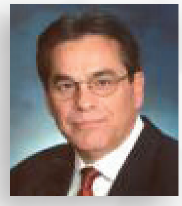
MONTANA
Krista Macek
Associate Broker
Macek Companies Inc.
Great Falls Association of REALTORS®



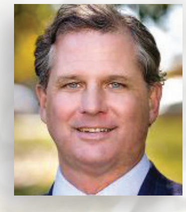
NEVADA
Paul Bottari, ALC, GRI
Broker
Bottari & Associates Realty Inc.
Elko County Board of REALTORS®



NEW MEXICO
Mike Leach, SIOR
Designated REALTOR®
Sycamore Associates LLC
Commercial Association of REALTORS®
New Mexico



NEW YORK
A. Gordon Furlani
Associate Broker
CBRE Albany
New York State Commercial Association of
REALTORS®



NORTH CAROLINA
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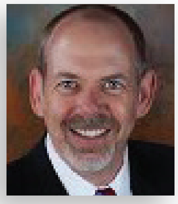
President
Baldwin Properties
Winston Salem Regional Association of
REALTORS®

SOUTH CAROLINA
Jeremy N. Willits
Senior Vice President, Office &
Investment Services
Avison Young-South Carolina
Charleston Trident Association of REALTORS®

TENNESSEE
Michael Honeycutt, CCIM, CRE
Senior Vice President and Principal
Realty Trust Group
Knoxville Area Association of REALTORS®

TEXAS
Joey Bellington
Broker
Whitetail Properties Real Estate LLC
San Antonio Board of REALTORS®



TEXAS
Andy Flack, ALC
Principal/Broker
Homeland Properties
Tall Pines Association of REALTORS®

TEXAS
Terrance G. Maiden
CEO
Russell Glen
Metrotex Association of REALTORS®

TEXAS
William Northern
Broker-owner
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Greater Fort Worth Association of REALTORS®

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NATIONAL ASSOCIATION OF REALTORS®

LAND, INDUSTRIAL, AND RESIDENTIAL SALES BUCK PANDEMIC'S IMPACT

YEAR-OVER-YEAR TRANSACTIONS HOLD STEADY IN LAND AND INDUSTRIAL WAREHOUSES.

By Scholastica (Gay) Cororaton, senior economist, director of housing and commercial research

Sales transactions were down 3% on average, year over year, in the third quarter of 2020, according to NAR's quarterly market survey of commercial members. About 650 commercial members responded to the survey.

SALES VOLUME BY PROPERTY TYPE

Predictably, sales of land, industrial, and residential properties have emerged the healthiest from the pandemic's blow to the commercial real estate business. In fact, sales transactions involving land and industrial warehouses were essentially unchanged. The heaviest decline was in acquisitions of retail malls (down 7%), retail strip centers (down 5%), Class A office properties (down 5%), and freestanding retail (down 4%). Sales deals for industrial flex properties and apartments declined by just 1%.

SURGE IN E-COMMERCE AND MAIL ORDER

Accelerated online shopping and mail-order sales buoyed the demand for industrial properties and accounted for 15% of retail sales as of August. This was up from 13% at the beginning of the year, equaling about $100 billion more on an annual basis.

LEASE TRANSACTIONS

Looking at leasing transactions, REALTORS® reported a decline for all property types except industrial, which experienced slightly higher leasing volume. Leasing volume in retail malls was down 9%. Leasing activity, including renewals and new leases, for office space among respondents declined 2% year over year.

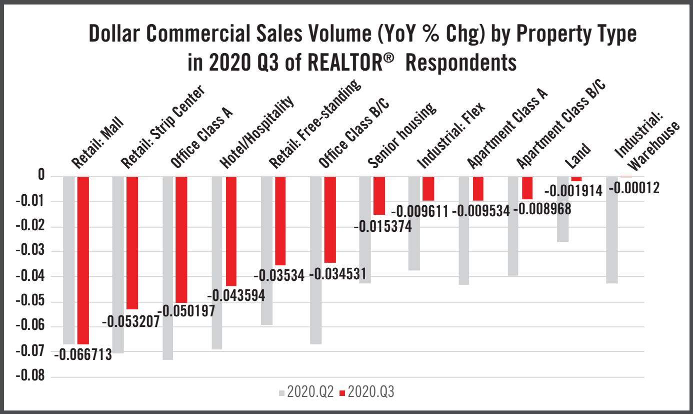
REALTORS® reported that, on average, the leased space of Class A office buildings declined from nearly 10,000 square feet in the second quarter of 2020 to just about 8,000 square feet in the third quarter. In Class B/C office buildings, the average leased space declined from about 8,000 square feet in the second quarter to 4,000 square feet in the third quarter.

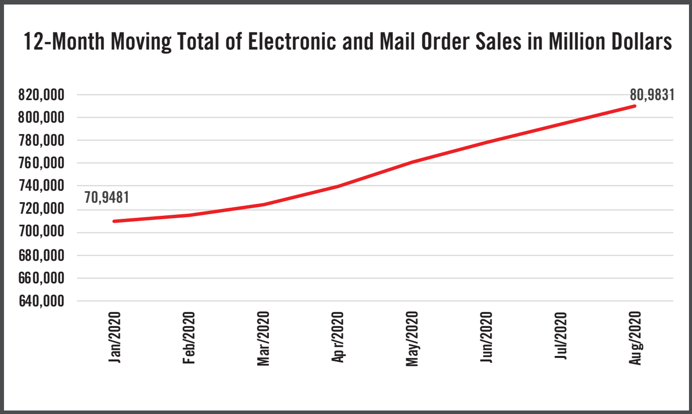
NET ABSORPTION

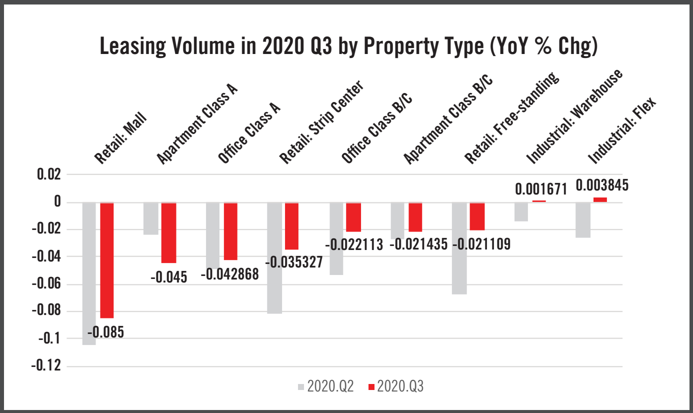
Separately, Cushman & Wakefield reported a larger loss of occupancy (negative net absorption) in the third quarter compared to the second quarter among occupiers of office and retail establishments. Office occupancy fell by 41 million square feet, and retail occupancy fell by 13.6 million. However, occupancy in industrial establishments rose by 62 million square feet.

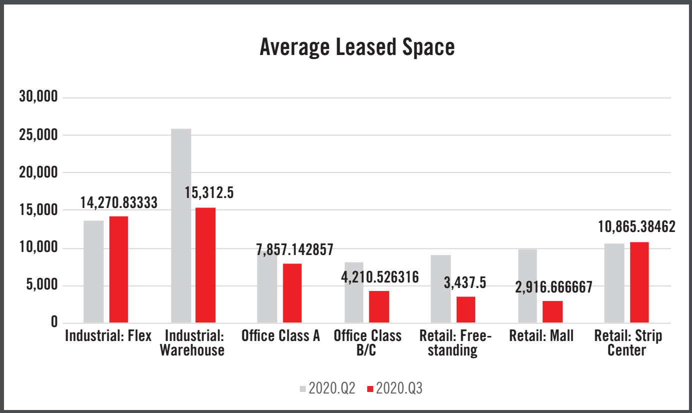
DEMAND FOR RECREATIONAL LAND RUNS STRONG

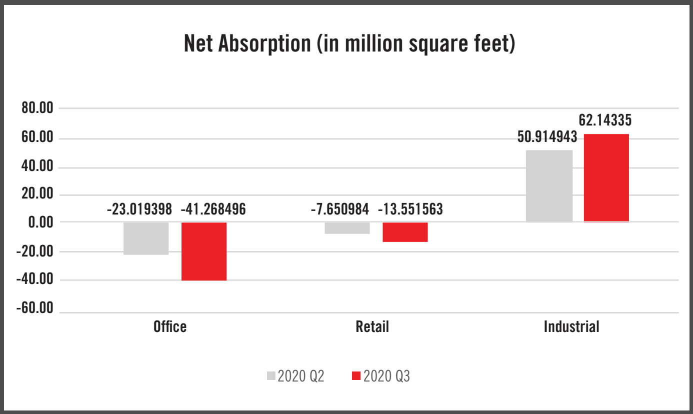
With the pandemic constraining leisure activities such as dining out and going to the theater and movies, outdoor or nature-based recreational activities appear to have increased, as evidenced by the demand for recreational land. (A land transaction is any transaction in which the value of the land, including improvements that are agricultural in nature, accounts for at least 51% of the total sale of the transaction.) Since the pandemic, the demand for homes outside of cities has grown, leading to an increase in sales of residential land. On average, respondents reported that sales of land for residential use rose 6% year over year and sales of land for recreational use rose 5%.

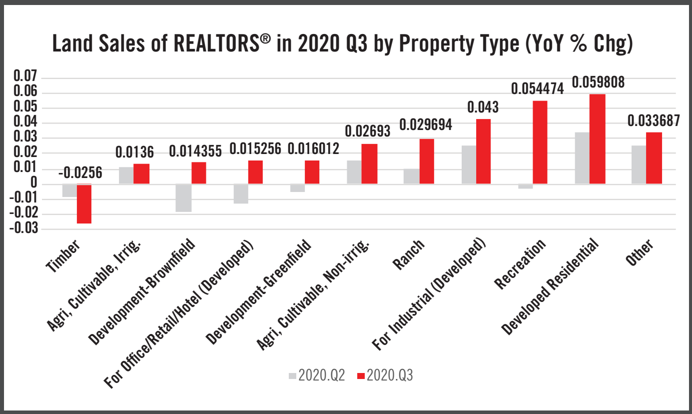




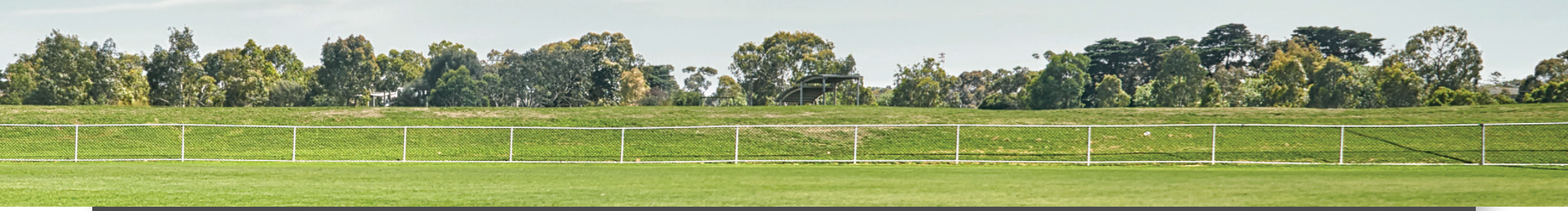








SOURCE: NATIONAL ASSOCIATION OF REALTORS® QUARTERLY COMMERCIAL SURVEY



ONE TOOL, MULTIPLE FUNCTIONS

2020 REACH COMMERCIAL COMPANIES HELP YOU AUTOMATE AWAY PAIN POINTS.

By Jeb Griffin, NAR director of strategy and innovation

My role within the National Association of REALTORS® enables me to look over the horizon at new technologies that may disrupt or benefit the real estate industry. My colleagues and I see a wide range of tools and automation designed to impact every stage of the commercial sales and leasing timeline. Each year, some of the most promising of these startups become partners in NAR's REACH Commercial technology accelerator program.

Tech startups look for pain points and deliver solutions to help facilitate communication, manage processes, automate, and improve efficiencies. Two of the greatest pain points in commercial real estate today are COVID-19 and new accounting rules designed to create greater investor transparency, says Andrew Flint, co-founder of Occupier, a 2020 REACH Commercial company:

- **New accounting rules.** By the end of 2021, all companies issuing U.S. GAAP and IASB financial statements must account for their real estate expenses on their balance sheet. This increased transparency into real estate expenses can significantly alter the perception of a business's financial health, and failing to comply with these new standards can lead to significant fines, loss of investor confidence, and increased auditor expenses.
- **The pandemic.** With COVID-19 precautions causing shutdowns of office, retail, and industrial space, it's more important than ever that companies have online tools to execute a real estate strategy. Companies can't afford to overspend on real estate.

The solution Occupier brought to the market is a transaction and lease management platform that enables tenants and brokers to collaboratively plan and execute on a real estate strategy. Users manage transactions and optimize their portfolio through a centralized real estate management platform. In essence, Occupier has brought what has historically been accomplished through four distinct solutions—lease administration, transaction management, portfolio management, and customer relationship management—together into one consistent tool.

Old habits can be hard to change. Adoption has been the biggest challenges for Dealius, another 2020 REACH Commercial company, says co-founder Obie Walli. Dealius automates the transaction cycle, providing a solution that includes pipeline management, transaction management, and reporting—something that, until recently, was not offered in a single solution. "The overall process doesn't change," Walli says, but users achieve efficiency.

Ten months into the current health crisis, it's clear that commercial real estate and the practitioners who represent buyers, sellers, owners, and tenants remain in demand. But practitioners who thrive will be those who can use technology to drive efficiency and cost savings. Until recently, many technologies were exclusive to institutional commercial companies. Today, startups are making products accessible to individual practitioners and small to midsized brokerages. These tools are relatively easy to implement and integrate with platforms you may already be using, and, because many of these new tools live in the cloud, barriers to entry are low and ongoing costs are reasonable.

REAL ESTATE'S TECH ACCELERATOR

REACH is a unique growth program that helps promising technology startups scale with exposure to and guidance from REALTORS®. REACH companies participate in educational programming, receive guidance from mentors, and collect direct feedback from brokers and agents through industry events. Occupier and Dealius are among eight technology companies selected for the 2020 REACH Commercial program. Learn about other REACH Commercial companies offering solutions for risk management, multifamily housing, clean energy, and brokerage management at narreach.com.

3 APPS FOR PPP BORROWERS SEEKING FORGIVENESS

GOOD NEWS: THE TREASURY DEPARTMENT HAS BEGUN PROCESSING FORMS.

By Erin Stackley, NAR senior representative, Commercial Legislative Policy

Since it was created by the Coronavirus Aid, Relief, and Economic Security Act in March, the Paycheck Protection Program has provided billions of dollars in loans to small businesses affected by the COVID-19 pandemic. The funding has helped them to stay open, pay their expenses (including rent and mortgage interest), and keep employees on payroll. However, the program, which is administered by the Small Business Administration and the Treasury Department through individual lenders, has faced challenges. Its requirements, timeline, and forgiveness process have been changed, and multiple extensions and reauthorizations have been made to allow it to continue helping businesses in need.

The good news for PPP borrowers is that the Treasury Department has officially begun processing forgiveness applications. All PPP borrowers should submit the application directly to their lender, not to the SBA or the Treasury. The lender will review it and submit it to those agencies. The review and approval process may take anywhere from a few business days to 150 days, the statutory maximum allowed. PPP loans of $2 million or more will automatically be audited, per Treasury policy, but smaller loans may be randomly audited as well.

Borrowers have multiple options when deciding which of the three forms they'll use to apply for forgiveness:

Form 3508 was the original application and includes a forgiveness calculation form; certification that the amount borrowers seek forgiveness for was used for appropriate purposes and that they have provided supporting documentation to their lender; and a requirement to provide detailed information regarding the number of employees and their salary or wages. The full application is five pages, and any borrower can use it. But if borrowers qualify to use one of the other two forgiveness applications, they may not want to use this one.

Form 3508EZ, or the EZ Application, was released in the spring after an outcry that the original form was overly complicated, especially for borrowers who are sole proprietors or independent contractors and who do not have an accountant or lawyer on staff to help them. The EZ Application is available to borrowers who are self-employed with no employees, who did not reduce the pay of their employees by more than 25% and did not reduce employees' hours, or who certify that they lost business due to COVID-19 and did not reduce employees' pay by more than 25%. Borrowers who meet one of those requirements can use this streamlined three-page application, which requires fewer calculations and less documentation. Using this form, independent contractors with no employees who opt for the 24-week covered period can claim their full loan amount as forgivable owner-compensation replacement.

Form 3508S, the newest addition, was released by the SBA and Treasury in early October. This form is only one-and-a-half pages and is available to borrowers with a total PPP loan amount of $50,000 or less. Similar to Form 3508EZ, it requires fewer calculations and less documentation than the full forgiveness form, though supporting documents that show how the loan was used must still be provided to lenders. The greatest benefit for borrowers who qualify to use this form is that they are exempt from the program rule that forgivable loan amounts will be reduced based on cuts in full-time-equivalent employees or in salaries or wages. This provides borrowers with flexibility, reflecting the understanding that very small businesses may have taken PPP loans with the intent of following the requirements for 100% forgiveness, but as the pandemic stretched on and their business continued to suffer, they were unable in every instance.

No matter which form borrowers use, they should talk with their lender throughout the process and ask questions about documentation and other requirements as soon as possible. Borrowers can apply for forgiveness at any time up to the maturity date of the loan, and some tax experts suggest waiting to see if Congress passes new stimulus measures. However, borrowers who don't apply within 10 months after the last day of their covered period will have to begin making loan payments to their PPP lender.

NO SMALL PLANS

PREPARING FOR 2021 AND SHOWING NO FEAR

Commercial real estate professionals aren't waiting until 2021 to get ready for a productive year. They're laying the groundwork for changes in their businesses, technology, and networking. Here's what four commercial colleagues have in the works that might inspire new ideas for you.

Shane Cook, REALTOR®, My Home Group Real Estate, Phoenix

During the first 10-12 years of my real estate experience, I was a business owner and entrepreneur, building a multistate foreclosure acquisition company and a hard-money lending business. When the market flipped, I was flipped with it, but the background gave me a bunch of experience, including in commercial real estate. I went into residential real estate but knew I wanted to add commercial and investment. I've been focusing on that for about five years, and this year, commercial and investment will account for more than half the business.

I started serving in the REALTOR® organization at the local, state, and national levels. I took commercial classes and let other association members know I was in commercial.

One colleague referred me to someone who ended up becoming my business and development partner in the purchase of 30 acres of land. The deal closed this year, and we're working on a mixed-use industrial development in the city of Maricopa, about 45 minutes south of Phoenix. We bought the property from the city and got some good incentives to build the infrastructure. Next year, we'll pitch to some bigger users for industrial space and logistics.

Some technology tools that became important in commercial real estate this year will stay at the forefront. I'm seeing more Matterport or VR/360-type images in listings. I own a camera to shoot the images necessary to put together a full 3D walkthrough, and I've been part of a software service for a few years.

My advice is to have a clear goal or pathway. I had a specific way I wanted to add commercial real estate to my business. I concentrated on getting referred to entrepreneurs and others who don't always receive the attention they need from the bigger commercial brokerages. It's important to focus on relationships, not necessarily money.

Moses Hall, owner, MoHall Commercial & Urban Development, Chicago

We're a full-service commercial brokerage representing the interests of tenants, landlords, sellers, buyers, investors, and developers. Our primary focus is underserved communities on the South and West sides of Chicago.

Doing so much virtually has been an adjustment. I'm kind of Zoomed out. In the past, I've traveled to a lot of conferences. The networking afterward helped me create personal relationships, and that's how I've normally done deals and pushed them over the finish line. It's been a little bit harder to do that through a computer screen. When it's safe, companies will combine virtual and in-person business because they can save by closing deals without paying for flights and hotels. We're a boutique brokerage, so the cost of keeping up with technology has been a challenge. But it's important that we stay on top of the latest trends.

My firm is adding a real estate development component in 2021. We'll be going into underserved communities and building up commercial corridors. I was born in the Bronx, a borough of New York City. My parents were middle class, but we lived in a run-down apartment. It was just terrible—mold and rats. My parents had the vision to say, "Let's save up to buy a home to raise our kids in," and they bought a house in Queens, N.Y. We still own that house. Seeing that stability in housing transformed my thinking.

My firm will work on mixed-use development, with local businesses on the ground floor and rental housing on the upper floors. I'll be building and renovating homes so that people can build equity and value for their family. This is a passion of mine, but I also want to show investors and developers that there's profit to be made. And there are incentives I plan to use. Chicago Mayor Lori Lightfoot is rolling out programs supporting reinvestment in underserved communities. JPMorgan Chase has committed to help these areas as well.

My advice is to keep in mind that what happens in commercial real estate is part of a cycle. We will recover, even though we won't go back to what used to be. The industry will be a hybrid of old and new.

Soozi Jones-Walker, CCIM, SIOR, president and broker, Commercial Executives Real Estate Services, Las Vegas

My agents and I specialize in investment properties and the leasing of office, retail, and industrial properties. Fifty percent of what I do is sell investment properties: office buildings, retail centers, industrial buildings—that type of thing. So I'm going to watch those property types closely in 2021. What my clients look for is rental income growth.

In early 2021, as people come out of this malaise, we're going to need to hit the ground running. The first thing most commercial real estate agents should do is pick up the phone and call prospects. Research the people before you call; then call them to talk about the properties you have and their needs. If you can see them in person, do it.

We need to contact landlords and sellers and give them good information, which means we should start our research now. Every market has one or two platforms where folks announce their new tenants and the sales and loans they've just made. I read those religiously. That's how I know if a medical firm has expanded or gone out of business, for instance. I contact the agents involved in those transactions, congratulate them, and ask for some basic information. Then I repackage that information and share it, saying, "You may think this market's been slow, but we've had [this many] leases in the last X months. Here's how they break down." People will listen to that information.

As we get going, I'd advise colleagues to do these things:

- Think creatively. Put into practice the strategic thinking processes you've learned through education programs.
- Be kind. People are raw right now; a little kindness goes a long way.
- Have fun. People are yearning to laugh again.

If you're going to change your focus from, say, retail to warehouse, now's the time to get the information you need and get going. Don't wait until next year. I'd also suggest putting on your high heels or dress shoes. We've been casual, but agents who are dressed up and ready to work will grab the opportunities in 2021.

Nancy Lane, 2021-22 NAR treasurer, broker, Lane-Harkins Commercial Real Estate, Jackson, Miss.

Our firm handles leasing management and sales for every type of commercial real estate except heavy industrial. We're trying to up our game in technology. After the onset of the pandemic, we changed management of our remote computer access to a new company that we thought was more user-friendly. We also brought all our machines up to date and changed our backup system.

Our interoffice communication needs to be stronger, and that's going to happen through technology. We want to position ourselves so that if anything hits again, we can immediately put into action the communication we need to work from home. We've already taken steps to enable us to access all the files we need from home.

The strong retailers we're working with want long-term lease renewals. They're mostly discounters that never shut down and, in fact, had more business because other businesses were closed. They're saying, "We need to renew our lease but we're projecting that we won't be doing as well because of COVID-19, so we need a lower rental rate." The landlords want to keep the tenants. They have responsibilities to lenders. And so they negotiate. It's definitely a tenant's market at this point.

I've thought for several years that our retail stores may become more like catalog stores. Consumers will go into a store and see and touch the item on display, then order from the store, their phone, or their computer. Retailers may also end up having storefronts with a warehouse behind them. Some of the big hospitals have taken big-box space and split it up into various outpatient departments for specialists. They're building these units closer to residential areas to make it more convenient for people.

I can't predict what's going to happen next, but we need to be prepared to respond quickly. I have a sign on my office door that says, "Opportunities are never lost. Someone takes them."

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