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See p. 18 for details on the sixth iteration of the "That's Who We R" national advertising campaign.

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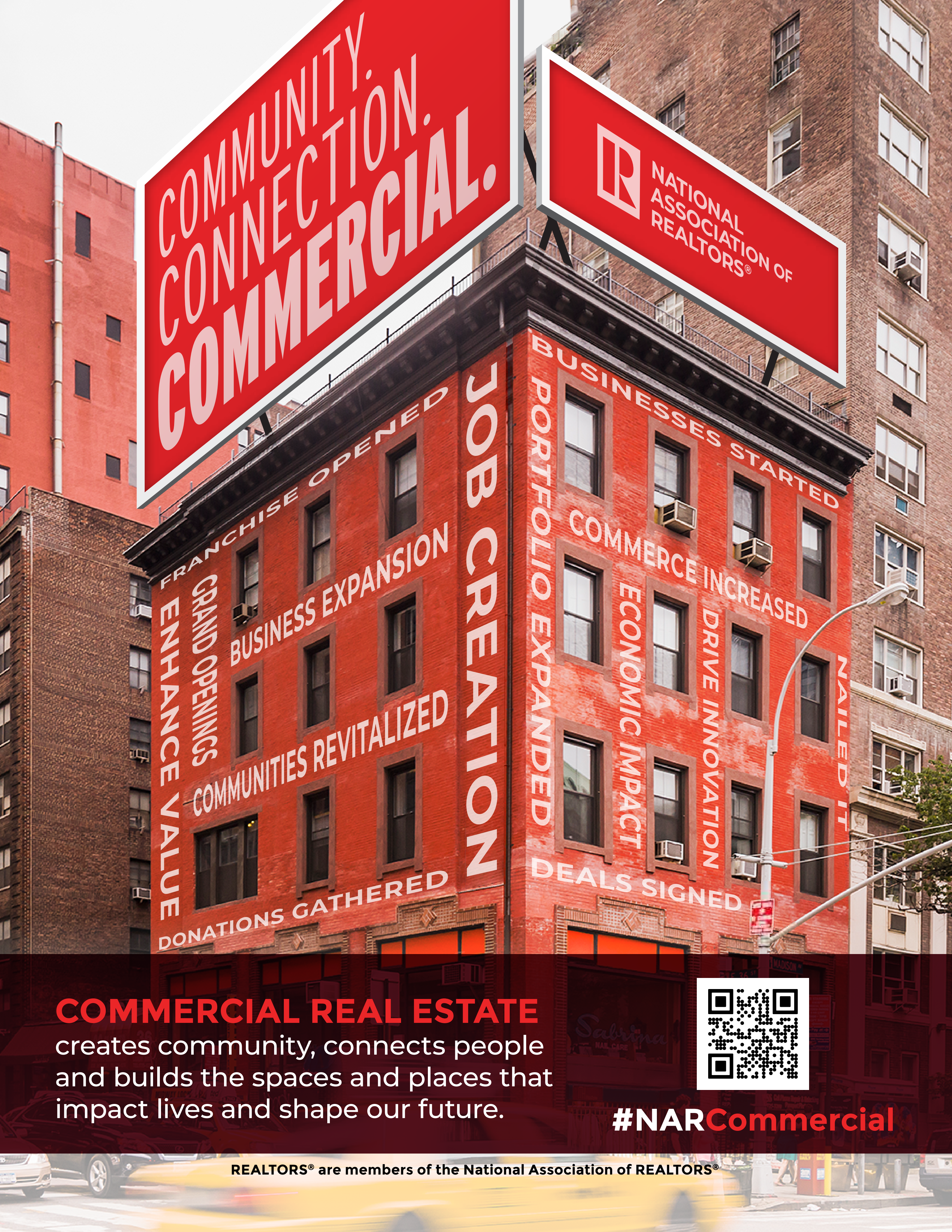
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Global

"Arizona was one of the states to [best] recover from 2020. While we are doing amazing work in the semiconductor space, we are the number one aerospace industry cluster in the world, and we are diversifying by adding car manufacturing. [These] don't work without semiconductors, so it's an interesting tripod effect that is happening."

Julie Pettit, president of Arizona Gateway Logistics, speaking on trade, foreign direct investment and the global supply chain at the International Economic Development Council Leadership Summit in Phoenix on Feb. 5.

7%

CBRE's forecast for an increase in global commercial real estate investment volume in 2024.

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Design

Trends to Watch in 2024

Wellness, sustainability and preservation remain buzzwords in commercial real estate as more companies prioritize amenities geared toward health and convenience with the aim of bringing more employees back to the office. SGA, an architecture, design and planning firm in the Northeast, offers its observations on the hot design trends in 2024.

Wellness-focused workspaces. Features gaining prominence include easy access to outdoor areas, onsite food services, fitness facilities, and staffed IT and tech bars.

Turnkey labs. A growing number of life science companies are expanding their commercial footprints and seeking greater flexibility within their spaces. SGA predicts an increase in move-in ready, international lab facilities in 2024.

Retrofitting. While the real estate industry has focused much attention on the long-term potential to convert empty office space into housing, in the short term, SGA predicts an uptick in office-to-storage space conversions.

Urban sustainability. SGA says life science companies are seeking building designs that include plants, natural light and sustainable materials in dense urban environments. The company predicts mass timber will emerge as a viable, sustainable construction method for research and lab developments nationwide.

A nod to the past. SGA predicts a rise in culture-rich developments that pay homage to an area's history and seek to preserve its green spaces.

"Designers and developers will collaborate more closely with historic districts and planning boards, aiming to create cohesive master plans that work seamlessly with the surrounding built and social environment," SGA says.


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Economic Development

From Vacant to Vibrant

With public and private support, Michigan Community Capital completed a transformational project in central Michigan.

©MICHIGAN COMMUNITY CAPITAL

The city of Mt. Pleasant, Mich., home to Central Michigan University, sought to develop a vacant and contaminated parcel of land adjacent to its city hall. After other developers walked away from proposed projects, Michigan Community Capital purchased the site and assembled a creative financing package to move the city's vision forward. The result is Broadway Lofts, a four-story, mixed-use development that is city's largest in 40 years.

Fully leased at the end of 2022, Broadway Lofts includes 48 residential units, 15 of which are income-restricted at 80% of the area's median income, as well as two commercial tenants, GreenTree Cooperative Grocery and Isabella Community Credit Union. The project, honored in 2023 with the

Jack Kemp Excellence in Affordable and Workforce Housing Award from the Urban Land Institute and two gold honors from the International Economic Development Council, offers an example of the power of public-private partnerships to breathe life into neglected or underused real estate.

Eric Hanna, president and CEO of Michigan Community Capital, describes the project's journey and the successful outcome:

Deciding What to Build

The city owned the parcel and had a very specific vision for a dense mixed-use project to extend the downtown and connect it with retail and restaurants nearby. Mt. Pleasant has an oversupply of older student housing consisting of large two- and three-bedroom units designed to be rented by the bedroom. So finding per-square-foot rental comps is highly challenging. But Broadway Lofts, being a downtown redevelopment project first and a housing project second, is some distance from much of this older stock. The housing type, location, build quality, and amenities of the Lofts have consistently set it apart in the market.

Financing

We utilized debt from National Cooperative Bank—a community development finance institution—for the source loan in the New Markets Tax Credit structure. New Markets Tax Credits were provided by Cinnaire and PNC Bank. Over 50% of the project cost was funded with a novel workforce housing loan made by the state of Michigan. Funding also came in the form of an environmental remediation grant provided by the Michigan Department of Environment, Great Lakes, and Energy, and tax relief from the city. All the sources were critical, but the workforce housing loan with a very low, interest-only cost was the key.

Key Success Factors

Ensuring the project wasn't overleveraged made it an overall financial success—in a nonprofit, low-yield sense. The support provided to both the co-op and the attainable rents have helped keep the building full. Outside of the financial metrics, the real estate fundamentals apply: The location is excellent, adjacent to a river and a park. Having a 10,000-square-foot grocery on the ground floor and walkable access to downtown shops limits the need for residents to travel. And the energy efficiency and high-quality build of Broadway Lofts makes this one of the most attractive and affordable places to live in the city.

Challenges Along the Way

The project required a lot of public investment to right-size the economic challenges, as evidenced by the capital stack. On the construction side, it was on the site of a former sawmill and train yard. It had soft soil, was in a flood plain and had PFAS [per- and polyfluoroalkyl substances] and heavy metals. Both soil and groundwater contamination had to be remediated. The site was subject to an existing brownfield plan that had been bonded, but the underlying development had failed to materialize at least three times, so brownfield tax increment financing was not available. This meant that tax relief had to be balanced with the long-term carrying costs of the project and, ultimately, its ability to handle debt. Our team methodically worked with state and local partners to address each concern and overcome it.

The Win

The site went from a net drag on city general funds to a net positive for taxpayers. It boosted housing density downtown, reinforcing retail spending, and gave historically low-income populations a place to purchase healthy food. It set new comparable rents for follow-on developers to use when completing appraisals. The project has achieved all the bottom-line impacts that our team and the community anticipated.

Grants

Offering Incentives to Bring Businesses Back to Downtown

City officials in the nation's capital sweeten the pot for businesses that fill vacant spaces.

In January, Washington, D.C., Mayor Muriel Bowser's office announced $3 million in "Downtown Recovery" grants to incentivize businesses to move into vacated properties in the once-bustling two-square-mile corridor in the center of the city. Applicants had until March 15 to apply.

Approximately 35% of the District's businesses are located downtown, generating approximately 185,000 jobs and about $1 billion in net revenue annually, according to the Office of the Deputy Mayor for Planning and Economic Development.

To qualify for the grants, a business must lease a space that has been vacant for at least six months in the Downtown Business Improvement District or the Golden Triangle Business Improvement District. The project must promise to drive daytime foot traffic and be completed by September 2025. The grants can cover construction, rent and utilities.

The program is part of a $19.6 million pre-existing community grant program aimed at revitalizing the city's epicenter. Local leaders have expressed concerns about the future impact of vacancies resulting from Fannie Mae moving its private office headquarters out of Midtown Center and the Washington Capitals and Washington Wizards possibly leaving the Capital One Arena in Chinatown for Potomac Yard in Alexandria, Va.

dmped.dc.gov/service/grant-opportunities

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Land Use

NAR Files Amicus Briefs Supporting Property Owners

Cases highlight the need for just compensation in property takings.

The National Association of REALTORS® filed two amicus briefs with the U.S. Supreme Court in late 2023 supporting private property owners challenging what they say are unconstitutional violations of the Fifth Amendment. Both apply the amendment's Takings Clause, which says, "nor shall private property be taken for public use, without just compensation."

Highway Project Causes Flooding to Nearby Land

In *DeVillier v. Texas*, the state launched a highway project to enable evacuations during flooding. The project elevated the highway, added two lanes, and built a concrete barrier in the center of the highway, reports the *ABA Journal*. The highway changes resulted in widespread flooding and damage to property owned by farmer Richie DeVillier and other nearby residents. He and other landowners were unable to bring an unconstitutional takings lawsuit against the state in either federal or state court to seek compensation for the damages to their property caused by the state's actions.

County Uses Land Exaction for Road Improvements

In *Sheetz v. County of El Dorado, California*, a property owner applied for a building permit to construct a residence on his property. In exchange for the permit, the county required a $23,000 land use exaction, which is a payment from a developer that some local governments require as a condition of project approval. The homeowner paid the fee but challenged the exaction as unconstitutional.

Takings like these can artificially increase real estate costs, restrict fundamental property rights and hinder potential development opportunities. The Supreme Court heard oral arguments in both cases in January and is expected to issue its decisions in June.

Adapted from "5th Circuit takings ruling that breaks 'Pottery Barn rule' will be reviewed by US Supreme Court," ABA Journal*, Oct. 23, 2023.*

nar.realtor/washington-report/private-property

Banking

SEC Scrutinizes Smaller Banks

$2.81 trillion in commercial debt will mature by 2028, raising risk profiles.

Community and regional banks continue to face increased scrutiny by the Securities and Exchange Commission regarding their exposure to maturing commercial real estate debt held in their loan portfolios. In January, the SEC released four letters questioning smaller financial firms about their potential risks of default resulting from the commercial real estate credit crunch, according to a *Wall Street Journal* article published Jan. 25.

The recent SEC letters are a follow-up to the letters it sent last year requesting more detailed disclosures following the failures of First Republic Bank, Silicon Valley Bank and Signature Bank. Regulators publicly warned commercial real estate lenders to carefully assess any large exposures to debt on office buildings, retail storefronts and other commercial properties.

Alerus Financial and the holding companies for Mid Penn Bank, Ohio Valley Bank and MainStreet Bank received the letters recently made public by the SEC, according to the *WSJ*. The Federal Reserve defines community banks as those holding under $10 billion in assets, whereas regional banks hold between $10 billion and $100 billion. Any major losses or commercial loan defaults would significantly impact these smaller entities.

According to the Federal Reserve, the $20 trillion commercial and multifamily real estate market is financed with $5.8 trillion of debt, 50% of which is provided by commercial banks. Of that outstanding debt, $2.81 trillion will be maturing over the next four years, based on Q3 2023 data analyzed by Trepp, which projects that $544 billion in total commercial mortgage loans will come due this year.

The National Association of REALTORS® and several industry partners have voiced concerns to legislators that regulatory agencies should grant reasonable latitude to banks and allow them to work constructively with borrowers to restructure debt and correct any defaults.

UPCOMING EVENTS

April 14–17
CCIM
Midyear Governance Meetings
Nashville, Tenn.

May 4-9
REALTORS® Legislative Meetings
Washington, D.C.

May 6–9
Society of Industrial and Office REALTORS®
Spring Event
Amelia Island, Fla.

May 19–21
International Council of Shopping Centers
ICSC Las Vegas
Las Vegas

June 16–18
International Economic Development Council
Economic Future Forum
Spokane, Wash.

June 23–26
SelectUSA
Investment Summit
National Harbor, Md.

Sept. 17–19
C5 + CCIM
Global Summit
Hollywood, Fla.

Property Management

Better Rental Health

Guidance for avoiding liability from lead-based paint and mold.

Every state requires owners of rental units (single- and multifamily) to provide basic maintenance services on heating and plumbing systems and to ensure clean running water and a sound structure that doesn't pose unreasonable safety risks. The legal concept of "habitability" sounds like common sense, but neglect in any of those areas can cause legal liability for owners and landlords, challenges for property managers, and serious health problems for tenants, says Monica Gilroy, a real estate lawyer and founding principal of The Gilroy Firm in Atlanta.

Gilroy recently spoke with property managers about reducing risks associated with lead-based paint and mold.

Changes in Getting the Lead Out

In July, the Environmental Protection Agency proposed an update to its rule requiring property managers to hire a certified professional to deal with repair, renovation and remediation involving lead-based paint. If implemented, the proposed rule could require property managers be certified to deal with lead-based paint repair and remediation. A public comment period about the change ended in late 2023, and the agency was expected to release a final decision in Q1 2024. "The reality of that decision means that to be safe, potentially, if [they're] doing any renovation, property managers should be certified," Gilroy says, adding that a property management firm could appoint one person to become certified.

Take Mold Claims Seriously

If tenants claim there's mold in their unit or in the building, investigate the situation promptly, Gilroy advises. Look at any test results the tenant may have commissioned. Create written procedures and a checklist in response to any reports of mold. Develop instructions for tenants that outline what they should do whenever they believe they have encountered mold.

Adapted from the webinar "How to Avoid Legal Liabilities When Dealing With Property Owners and Investors," moderated by Rental Beast, the National Association of REALTORS®' exclusive recommended software provider in the rental space.

WILL THERE BE A SPRING THAW?

Industry experts look at what's involved in a comeback in capital markets and deal volume.

BY LYNN ETTINGER

©PETER CROWTHER

Is this as good as it gets? Heading into the second quarter of 2024, commercial real estate professionals are holding out for an answer to that question as they wait for interest rate cuts and ponder whether to greenlight transactions and seek out business opportunities that have been on hold for the last year or more. Many commercial real estate leaders are in limbo, waiting on action by the Federal Reserve.

Fed officials want to see a continuation of the good inflation data they've recently seen before they cut interest rates, said Fed Chair Jerome Powell at a press conference in late January. A Fed governor, Christopher Waller, made a similar point in a speech at the Brookings Institution in January. After describing recent improvement, he said, "For a macroeconomist, this is almost as good as it gets. But will it last?"

"Investors and other commercial real estate participants are patiently waiting for the Fed's direction on short-term rates so there can be stability in borrowing costs," says Brent Raindl, Dallas Region chairman of PlainsCapital Bank. "While debt is only one component of the capital stack, it does have an impact on new projects, with the amount of equity required and pricing of existing CRE assets. Significant capital in both public and private sectors has been allocated to CRE that investors are patiently waiting to invest. Once the Fed begins to cut, I think you'll see an increase in CRE transactions."

Keeping Data in Perspective

When evaluating the data, perspective is important, says Lawrence Yun, chief economist for the National Association of REALTORS®. Data from investment research firm MSCI shows the volume of commercial real estate transactions declined by 51% in 2023 from 2022. But relative to the average annual pace of deal volume seen from 2015 to 2019, volume was down by only 32%.

"That data on transactions is showing quite a sizable decline," Yun says. But a comparison between 2023 and 2022 requires a broader context.

A broker who shares that view is Dan Spiegel, SIOR, senior vice president and managing director at Coldwell Banker Commercial. "2022 was a very strong year for commercial real estate. At least for Coldwell Banker Commercial, we were at a 10-year high in 2022. The industry's dropping 51% in 2023, while dramatic, is coming off a very high point of comparison."

Factoring in Inflation

The Fed previously said three rate cuts might be coming in 2024. "It depends on the path of inflation, and I think inflation will be much calmer," Yun says. "With the interest rate for commercial real estate having come down 1% toward the end of last year, that would imply more than three rate cuts in the market.

"One key determinant of the path of inflation is apartment rents," Yun adds. "Extensive apartment construction in the past two years created an oversupply. With the rent component of the data being less volatile in the upcoming months, that will bring overall inflation down."

Yun anticipates a best-case scenario where decelerating inflation gives the Fed a reason to cut interest rates more deeply, more than three times. "And that means cap rates can begin to come down. So, property owners will no longer see depreciation in their values."

For Raindl, the best case would be the Fed succeeding in its dual mandate and accomplishing an economic "soft landing" where conditions are ripe for growth. "If the Fed can navigate this mandate and provide some clarity on where short-term rates are moving, CRE participants would

have the present and future stability they need," Raindl says.

Shape of Deals to Come

Besides inflation, other factors that may improve capital markets and deal volume include:

The need for land for multifamily and other housing: Spiegel is seeing a "fair amount of activity in land acquisition, particularly for building housing," he says. "We concluded a number of transactions at the end of last year and anticipate there will be more, early this year, for builders of single-family homes, single-family rentals and multifamily."

More community bank lending: "Community banks were in a more uncertain state last year," Yun says. "As interest rates go down, it's going to help community banks perform a little better in terms of their overall balance sheet outlook." That should increase lending.

Job creation: Office and multifamily will be challenged by lower demand and oversupply. But the other sectors need job creation to recover, Yun says. "I think Florida, Georgia, the Carolinas and Texas—along with some of the Mountain time zone regions of Colorado, Utah, Nevada and Arizona—will be outperformers in terms of net absorption. Commercial real estate prices will hold on better there than in other areas."

How to Spot Opportunity

Spiegel says he measures success in any market by looking at market share and market conditions. For example, he checked Coldwell Banker Commercial's market share rankings for Q3 2023 and a year earlier, when

Top 10 Issues

Making Moves in a Complex Age

BY LAUREN E. PINCH

Each year, members of The Counselors of Real Estate vote on the 10 big-picture themes likely to have the greatest influence on real estate in the coming year. Although the Counselors' 2023–24 list was released back in October, many of these themes have only magnified in importance. In the organization's published report, CRE members with subject matter expertise offer their take on the issues. Here are highlights:

1 Geopolitics and the Global Economy

The conversation has shifted from a focus on global risks such as gas prices and commodities to pressing concerns about economic instability, according to Timothy H. Savage, Ph.D., CRE, and Constantine Korologos, CRE, both clinical assistant professors at the Schack Institute of Real Estate, New York University.

"The state of capital markets is creating a strong undertow to the economy," Savage and Korologos say.

The list of stressors includes inflation, high interest rates, banking debt, and tightening liquidity, as well as the influences of artificial intelligence, migration trends, hybrid work and the reconfiguring of supply chains.

One of the highest risks, the authors say, is potential bank failures: "Loan delinquencies are now higher than they were at the start of the pandemic," they warn, "and the expectation is that there are more defaults coming, especially in the office sector."

2 Empty Offices

At the peak of the pandemic, 62% of all office workers were working remotely. Now, 58% of workers are now fully back in the office, while 29% are working hybrid schedules and 13% are fully work-from-home, according to WFH Research.

"As the future of hybrid work continues to unfold, the near-term focus is centering on calibrating hybrid schedules and setting new expectations for work that needs to be done in person," says Maureen Ehrenberg, CRE, CEO of real estate consultancy Blue Skyre.

Offices will need to be deemed "destination-worthy" and experiential, allowing people to do different types of work throughout the building, with sustainable, automated, and digital components and amenities that employees consider to be worth the commute.

"Those buildings in the line of fire are older B and C properties in central business districts, particularly those in poor locations and those that face costly capital projects for repositioning and decarbonization requirements," Ehrenberg says.

"Now is not the time to sit back and wait and see how hybrid work trends play out," she adds. "If the property doesn't check the box in some critical way—location, access, convenience, tenant amenities or even an amazing view—owners need to start thinking about alternative strategies."

3 Housing Shortage

The U.S. continues to face an overwhelming housing shortage that has resulted from decades of underbuilding, says Paula Munger, CRE, vice president of research with the National Apartment Association.

"Progress will be bumpy," Munger says. "Now that the market is seeing improvement in supply chain and inflation, developers are dealing with higher interest rates and higher construction costs that are making it more difficult to secure financing along with general economic uncertainty that is causing some developers to push the pause button," Munger says.

In addition, uncontrollable operating costs, such as insurance and property taxes, will continue to impact bottom lines.

4 AI 3.0

Now that the genie is out of the bottle on AI, commercial real estate pros are contemplating its function and purpose for the industry.

Today's advanced version of AI—"AI 3.0"—is integrating data analysis with new forecasting techniques, including probabilistic modeling and causation modeling. "Will a tenant renew in year three, four or five? We want to be able to predict with great accuracy what the most probable outcome is likely to be," Savage says.

Ideally, AI 3.0 will merge massive databases into one clean data source that includes alternative data sets, such as sentiment data collected from chatbots, with traditional rent and vacancy data.

Proptech startups also will be reimagining the idea of data collection, Savage says. "They're incorporating mind-boggling amounts of data, and they're adopting probabilistic frameworks to think about the future."

5 Labor Dynamics

"Everyone, everywhere, in nearly every sector is reporting that it is difficult to find skilled, willing and able workers," says Kathleen Rose, CRE, president of Rose & Associates Southeast Inc. Job market data consistently shows more job openings than available workers.

The dynamics go beyond demographics to include changes the market was robust. The rankings were close. "That means irrespective of the market conditions, we're retaining our share of the market," he explains. "Brokerages and brokerage leaders want to make sure they're getting their fair share of the market, whether the market is frothy or frozen."

Opportunity was scarce last year, especially on the transaction side, because of bank lending constraints, Yun says. "But if bank lending loosens up a bit, be prepared, whether representing buyers or sellers. Sometimes sellers resist cutting prices or think they can get the property prices of two years ago. We are not at a 3% or 4% interest rate environment, so property won't get that valuation. There have to be some price concessions."

If property owners struggle with refinancing their properties, "those properties will go back to the bank," Spiegel says. "Investors will buy them, resetting the basis for those assets, and the properties will go back into the market."

Brokerages are seeing signs of positive rental absorption in retail, industrial and apartments, Yun says. "For people who are involved in leasing, business activity will continue, possibly with further improvement this year."

Spiegel suggests branching into new concepts, such as lifestyle trends.

"I have a number of brokers around the country who are engaged with operators of pickleball," he says. "That's a whole new business opportunity." *(See also, "Where Work and Life Meet," CREATE, Winter 2024.)*

Lynn Ettinger is a Chicago-based business writer.

in technology, migration trends and worker behavior, she says.

"Employers are following the people and paying close attention to migration shifts. Traditionally, older generations set up their lives around where their job was located. Younger generations, including X, Y and Z, are . . . reversing the order, choosing their lifestyle and where they want to live first and the job second."

6 Migration's Impact

A great migration shift is being fueled by a fundamental human need: housing affordability, says KC Conway, CCIM, CRE, principal and founder, KCnomics, LLC. Businesses are following suit, moving out of high-cost, high-regulation states in favor of the Sun Belt and the interior of the country.

"Companies are looking for locations that have the workforce and the logistics infrastructure—rail, interstates and access to ports," says Conway. Future plants to build electric vehicle batteries will be concentrated from the Great Lakes to the South. "Urban areas with density and lack of affordability are seeing outflows, and that trend is not likely to reverse," he says.

7 Domestic Economy

"Because real estate is so focused on the ramifying effects of the housing economy, it is not a surprise to feel that we are choking on [the Federal Reserve's] policy. But it's important to remember the Fed's dual mandate: price stability and full employment," says Hugh Kelly, Ph.D., CRE, principal of consultancy Hugh Kelly Real Estate Economics.

"While it's always tempting to second-guess public officials . . . the real estate and financial industries need to look in the mirror, too. How is it that banks, whose primary business involves the management of interest rate risk, found themselves unprepared for the consequences of Fed tightening, its squeeze on spreads and the potential for disintermediation by depositors?" Kelly says.

"Likewise, how is it that commercial real estate investors accepted cap rate compression to the point where risk premiums virtually disappeared? In many ways, we once again find ourselves with Pogo's confession: 'We have met the enemy and he is us.' "

8 Supply Chain and Logistics

The galvanization of a more resilient, efficient supply chain will continue, coinciding with a reshoring boom of manufacturing focused on the interior and southern states, says Conway.

With over half of the U.S. GDP produced in "The Golden Triangle"—the Great Lakes to Texas to the mid-Atlantic hub—Conway predicts manufacturing companies will begin relocating to be near new FedEx, Amazon and Walmart e-commerce fulfillment locations in cities such as Memphis, Tenn.; Wichita, Kan.; and Huntsville, Ala.

"Cities that are going to benefit from that shift are those connected to a port by rail," he says. "Cities that don't have the logistics infrastructure and don't have that connectivity don't have a chance of being part of this new e-commerce economy."

"A decade ago, about 60%–65% of all containerized goods were flowing through the West Coast ports of Los Angeles and Long Beach with 30% to 35% coming from the East Coast and Gulf Coast ports. Now that flow of goods has flipped," he says.

9 Market Pricing Reset

Although markets are past their peak for the cycle, it remains to be seen where prices will settle in 2024.

"Although there is some acceptance [among sellers] that prices have dropped . . . owners are opting to hold rather than sell in what could be a trough of the market," says Del Kendall, CRE, senior director of SitusAMC's appraisal and consulting operations. "So, there is a bit of a Catch-22 and a big barrier to assessing true values."

Debt coming due before the end of 2025 will have "big implications for the transaction market," Kendall says.

"Will refinancing challenges force lenders holding the debt—largely banks—to mark to market," Kendall asks, "which will have a cascading impact on commercial real estate and financial markets?"

10 Infrastructure Investment

The need for robust infrastructure is now being met with significant funding through both the $1.2 trillion Bipartisan Infrastructure Law and the Inflation Reduction Act, which allocates $783 billion to improvement projects.

The country is legislatively committed to investing in major infrastructure projects. "Will investment be made with a . . . traditional view of infrastructure, with spending on megaprojects, such as highways, bridges, and pipelines?" asks Korin Crawford, CRE, executive vice president with Griffin Swinerton. "Or will investment focus on forward-looking infrastructure needed to support new technologies, changing societal needs, and volatile environmental conditions?"

One opportunity, he suggests, lies in reimagining infrastructure the same way we are reimagining how we deliver products and services, with smaller-scale, decentralized facilities, powered by alternative energy sources.

The Counselors of Real Estate, an affiliate of the National Association of REALTORS®, is an international organization of approximately 1,000 credentialed real estate problem solvers practicing in more than 60 disciplines across all asset classes.

See the full report, "2023–24 Top Ten Issues Affecting Real Estate," at cre.org/topten.

TECH

What Are Tech Hubs?

The federal Regional Technology and Innovation Hubs initiative is a program of competitive grants designed to spur innovation and help develop several U.S. regions into global centers in their respective fields.

BACKGROUND: DA-KUK/GETTY IMAGES.
BOTTOM LEFT: FRED ZWICKY, UNIVERSITY OF ILLINOIS URBANA-CHAMPAIGN.
TOP AND BOTTOM RIGHT: MORGAN STATE UNIVERSITY.

HUBS: Competitive Centers of Innovation Spark Economic Development

BY DAVID A. GOLDBERG

Designated U.S. regions build momentum to advance a burgeoning workforce and create new business opportunities.

In 2022, in the face of lingering post-pandemic supply chain issues and uncertainty about the country's economic future, the federal CHIPS and Science Act was signed into law. It included funding for competitive grants to boost development of Regional Technology and Innovation Hubs—Tech Hubs for short. Last fall, the federal Economic Development Administration designed 31 regions from among roughly 400 applicants to be eligible for the first round of Tech Hub grants. This spring, up to 10 of these applicants will be awarded implementation grants of $40 million to $70 million.

Located in both urban and rural areas across 32 states and Puerto Rico, the designated Tech Hubs are multi-jurisdictional consortia of public, private and academic partners looking to become global centers in arenas ranging from quantum computing to biotechnology, precision medicine, clean energy, semiconductor manufacturing, and many more.

The grants are intended to help consortium members take innovations coming out of research and development into commercial applications at a global scale while developing a domestic workforce that can fill the wide variety of jobs to be created. Twenty-nine applicants, including 11 of the designated Tech Hubs, received planning grants.

Here, we take a closer look at three of the designated Tech Hub regions. Whether or not they receive implementation funding, these and other hubs will be worth keeping an eye on for associated commercial real estate opportunities in the coming months and years.

A Corncob by Any Other Name

The Illinois Fermentation and Agriculture Biomanufacturing Tech Hub

If there's one thing Central Illinoisans have plenty of, it's corn—sometimes, almost more than they know what to do with. That should change in a big way with the help of the Tech Hub centered in Champaign-Urbana and Decatur, Ill.

In the heart of the nation's corn and soy production—and building on a robust base of food processing and agriculture-related research—the University of Illinois Urbana-Champaign is leading a 31-member consortium to make the region a hotbed of biomanufacturing. The goal: Be a critical part of feeding a burgeoning global population while cutting climate-harming emissions, reducing petroleum dependency and producing "sustainable chemicals." Innovation in precision fermentation is the key, or as the consortium puts it, using "single-celled organisms acting as 'micro factories' to convert plant feedstocks ... into high-value ingredients, materials, fuels and more."

Beth Alexandra Conerty is the regional innovation officer for the Tech Hub—each designee is required to have one—and associate director of the Integrated Bioprocessing Research Lab at U of I. Precision fermentation, she says, can be used to create alternatives to meat—think Impossible Burger—and for the use of animal byproducts, such as collagen, used in cosmetic ingredients and derived from pig intestines. "It's also being used to make less biologically impactful pesticides and herbicides," Conerty says. "There are processes to create nylon and performance materials, the building blocks for skis, snowboards, outdoor outerwear." It also provides ingredients that will be needed for sustainable aviation fuel, she adds.

"There are so many startup companies growing these products in labs, but they need help getting to market," Conerty says. "They need an industrial scale of production that doesn't exist in the U.S." For that reason, she says, "our Tech Hub is very build- and construction-heavy. We have four capital construction projects," to build incubator space and expand production capacity. The consortium is working closely with locally based ag-processing giants ADM and Primient with the idea that startups' facilities can be "co-located with them so there are no transportation requirements" for startups' feedstock needs.

Training all workers will be critical, Conerty says. "Today, there is no degree program in precision fermentation. So, our tech hub has a workforce development project that includes education for trades workers, along with certificate and degree programs at our community colleges and one-year and graduate degrees at the university." The consortium also includes two local workforce development agencies that will use a separate grant from the EDA, dubbed Recompete, to help prepare currently unemployed residents for some of the coming jobs.

"Through the Tech Hub and Recompete, we plan to train 2,500 people into entry and skilled trade positions in manufacturing over five years," says Cristobal Valdez, president of Richland Community College in Decatur. "We have received word from ADM that they expect a need for 1,000 workers in the next five years in the precision fermentation and alternate proteins development they are doing under the Tech Hub." A key goal in the workforce development effort is reducing the prime age employment gap, or PEG, among adults 25–54 who aren't currently working. "All of Macon County and Decatur has a very high PEG, and we have the second highest rate for unemployed Black residents in the nation," says Valdez.

In its early stages, the Central Illinois Tech Hub already has room for local real estate development. "I am talking to our [real estate agent] about 26 acres adjacent to campus that we hope to acquire and renovate for a $10 million purchase and buildout for a training facility."

Predictive Health Care

The Baltimore Tech Hub

Silicon Valley, perhaps the country's best-known technology hub, is famously exclusive. "The vast majority of investment goes to people who are white and male," says Pothik Chatterjee, the regional innovation officer for the Baltimore Tech Hub.

Baltimore intends to stand that statistic on its head.

Leveraging local medical powerhouses Johns Hopkins University and the University of Maryland, as well as the Baltimore region's health care industry leaders, the Baltimore Tech Hub aims to make the region a center for "precision medicine." That cutting-edge approach uses artificial intelligence and biotechnology to personalize medical treatments and identify susceptibility to disease based on genetic and data analysis, says Chatterjee, who is the chief economic officer for the Greater Baltimore Committee, which leads the 38-member coalition. The GBC is a collective of 400 organizations promoting the civic and economic development of the Baltimore region.

Allied technologies are behind the rapid approval of the mRNA COVID-19 vaccine, Chatterjee says. Research in this arena led recently to the first cell-based gene therapies for the treatment of sickle cell disease, which were approved by the federal Food and Drug Administration last December.

The region has been a font of medical innovation for some time, says consortium member Kory Bailey, CEO of UpSurge Baltimore, a nonprofit supporting local startups founded by women and people of color. The problem has been that, once those products show promise, they are whisked off to the traditional tech hubs in Silicon Valley, Boston and New York, he says. Chatterjee calls it a "brain drain."

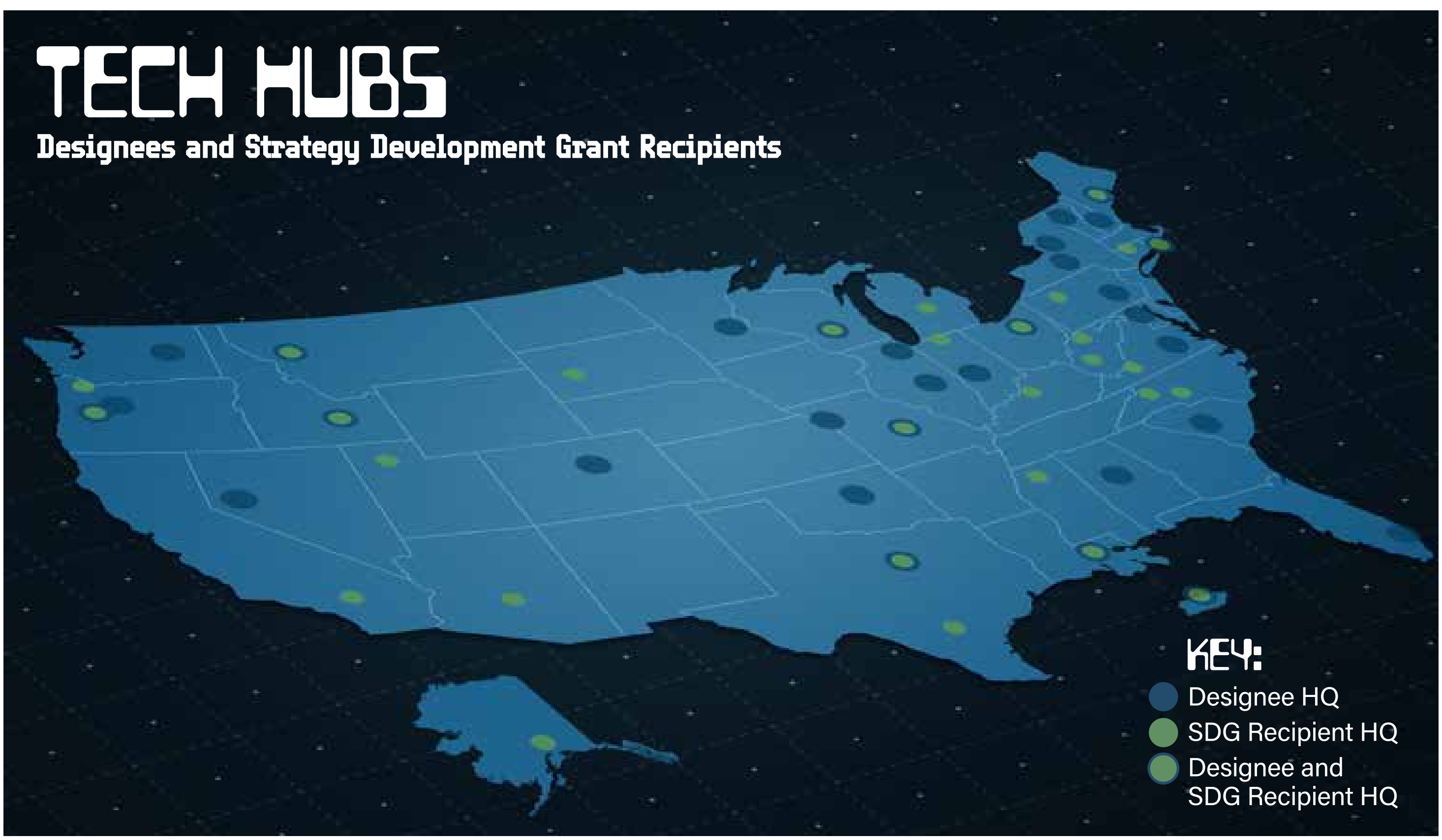
The Baltimore hub has a focus on lifting up the work of Black, Brown and women-founded enterprises and providing jobs for a broad range of tech and medical workers—a concept they've dubbed "equitech."

"We have aspiration to be known for that," Bailey says. "The challenge will be to prove how we can be the most equitable tech economy. We have to set the standard for what that looks like. We need concrete data sets to show [measured success]."

"The ethos in Silicon Valley is 'move fast and break things,'" Chatterjee says. "Executing at the scale we are proposing is a real challenge. So is building trust among diverse members and coordinating action that can equal the private sector. We all have to learn a new way of cooperating so we can move as fast as Silicon Valley." Pulling together the consortium across private sector, public and institutional players is already paying dividends in efforts to keep those innovations closer to home.

"There is momentum for some of our startups to succeed," he says. "We have unprecedented alignment from state to city. For the first time, the technology, university and governments came together to make a joint proposal, rather than compete."

A GBC board member and prominent cheerleader for the Tech Hub, Greg Fitchitt is executive vice president for government affairs



SOURCE: U.S. ECONOMIC DEVELOPMENT ADMINISTRATION and business development for Howard Hughes Holdings, a real estate development and management company.

"Baltimore has tremendous assets—a great educated workforce and great institutions like Johns Hopkins and the University of Maryland. But there have been missed opportunities, and we haven't always capitalized," Fitchitt says. "As someone interested in commercial and real estate development, I see this as bringing a lot of opportunities."

Adapting to Change

South Florida Climate Resilience Tech Hub

In South Florida, climate change is big business. That's not to make light of the intensifying tropical storms, sea rise, reef degradation and other impacts already being felt. It's an acknowledgement of the significant investment needed to harden infrastructure; adapt to changed conditions with new approaches to construction and heating and cooling; and create more resilient materials. That need is driving the creation of new products and business lines, says Francesca de Quesada Covey, Miami–Dade County's chief economic development and innovation officer for the South Florida Tech Hub.

The situation is far from unique to coastal Florida. Global demand for climate-responsive technology has given rise to a new economic sector dubbed sustainable and resilient infrastructure. "We are ground zero for climate change, sea level rise and extreme weather conditions," de Quesada Covey says. "We are surrounded by water as a peninsula, and we are sitting on top of water. We have a vital interest in thinking about resilient infrastructure and innovative technology 'from sea grass to saw grass'"—in other words, from water's edge to inland marshes. The sustainable and resilient infrastructure market is "exploding," de Quesada Covey says. "It's expected to reach $1.3 billion globally by 2032. We've seen a big influx of venture capital dollars over the last five years, R&D dollars in the area are increasing, and related patents are growing 10% year over year. And we in South Florida are positioned to have a global competitive advantage."

Led by the Miami-Dade mayor's office, the 39-member consortium includes Florida International University, a national leader in research into all things coastal, along with several other higher educational institutions, philanthropies including the Knight Foundation, several venture capital entities, and local corporations. "The single biggest thing [launching the tech hub] has done is create greater connective tissue," de Quesada Covey said. "That we now have at least 70 people meeting every week—every week!—

©CLOCKWISE: 1PRINT INFRASTRUCTURE, MORGAN STATE UNIVERSITY, FRED ZWICKY, UNIVERSITY OF ILLINOIS URBANA-CHAMPAIGN.

Tech Hub consortium members are developing a domestic workforce that can fill the wide variety of new R&D jobs to be created.

to work toward the same goal, even if they are working on component pieces, is just amazing."

The Tech Hub will focus on commercializing and scaling up innovations in four areas of sustainable and resilient infrastructure: coastal resilience and marine infrastructure, clean cement, energy-efficient building operations, and clean energy generation, transmission and storage. Climate change is leading to stronger and more frequent tropical storms akin to Hurricane Andrew, which devastated South Florida in 1992. After that experience, Miami-Dade implemented strict, resilient building codes known as the Dade Standard. The Tech Hub is working "to go beyond that, to new ways to heat and cool" and develop technologies that both mitigate against and adapt to climate change, de Quesada Covey says.

One is adding the capacity to produce "clean cement." The production of cement for concrete construction accounts for an outsized 7%–8% of global carbon emissions. The decarbonization of cement, and potential to capture existing carbon emissions in concrete, is a key piece of climate-responsive infrastructure, she says.

"The coastal reefs are another place we need to focus," she notes. The Hub will work to boost research into and deployment of artificial reefs and sea walls both as barriers to inundation and for ecological restoration. "The coastal reefs we are building, and the way we are thinking about changing the built and natural environment—about building with nature instead of on top of it—will transform the way we do development."

Hub leaders hope to create 23,000 jobs through 2032 in construction and related trades, and for software developers, engineers and scientists. Seventy-five percent of those would not require four-year degrees. And the spin-off effect—additional jobs that serve the tech hub workers and enterprises—could lead to an additional 63,000 jobs, the consortium predicts. "We are one of the most diverse communities in the U.S.," says de Quesada Covey.

The consortium is working to establish a climate tech apprenticeship program aimed at giving students and workers from underserved populations practical experience on a path to good jobs. It's also developing coursework for a climate skills academy to train existing workers doing climate resilience work. Higher-ed members are moving in tandem to create and coordinate coursework, certifications, and cross-enrollment programs in sustainable and resilient infrastructure.

"I think of the economic opportunity, 10 years from now, for people to find good-paying jobs that are doing well by the environment and their households. That's the real promise of this designation and this funding," de Quesada Covey says. ■

David A. Goldberg has been writing about cities—their growth and development, transportation and housing issues, and urban design—for nearly 30 years.

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How to Safeguard Against Insurance Market Risks

Clients face the hardest commercial insurance market in a generation.

BY CAROL WEINRICH HELSEL

Surging inflation and extreme weather-related events caused record U.S. property insurance losses in recent years. The result was less deployment of capital, especially in high-risk areas, as insurers sought to limit their exposure and recoup losses. The remaining capital became significantly more costly and harder to secure. Faced with the need for more funding, as well as rising cap rates and lower values, some investors pulled out, causing developers to cancel projects. Existing owners experienced lower returns due to insurance premiums that may have doubled or tripled in one year, affecting buyers and sellers.

These conditions have made shopping for commercial property insurance an overwhelming proposition. Commercial real estate specialists who can offer creative solutions and connect owners to carriers with a high commercial property IQ will add significant value to a transaction and engender loyalty.

Rate Increases With Few Options

"The commercial property insurance market has been in chaos for the past 12 months," says Chris Tolland, executive vice president of Foundation Risk Partners, a network of insurance agencies across 22 states with more than $5.5 billion in premiums under management.

"It is a simple supply and demand problem—a high demand for insurance with a limited number of insurers in the market," Tolland says. "We're seeing the full effects of a hard market cycle." According to Tolland, market hardening has been ongoing since 2018, but buyers have really begun feeling fatigued over the past 18 months.

"Insurers have a low appetite for risk and are unable to deploy enough limit to satisfy demand," he says. "When there is a lack of profitability, companies won't deploy capital or will limit their exposure in certain markets or asset classes. The result is high rates and adverse risk selection."

Gus Fonte, CCIM, broker-owner at AJF Properties Inc. in Miami, reports his insurance is up more than 100% over the last two renewal cycles despite only two claims in 30 years. "That makes it very difficult to meet debt coverage ratio if you have loans," says Fonte, who represents REITs in the warehouse sector.

Besides the high cost, Fonte says his options are limited, estimating the number of carriers in the market has declined by 60%–70% in recent years. While Florida has a public insurance company to help those who can't acquire private coverage, it doesn't cover retail, warehouse or office. "National players with properties throughout the country can get better deals, because carriers are spreading their risk more widely," Fonte says.

Factors Driving Costs

Florida is not alone in insurance challenges. In 2023, the U.S. experienced 28 separate weather or climate disasters, each resulting in over $1 billion in damages, totaling $92.9 billion and driving up the cost of property insurance everywhere, according to National Oceanic and Atmospheric Administration data.

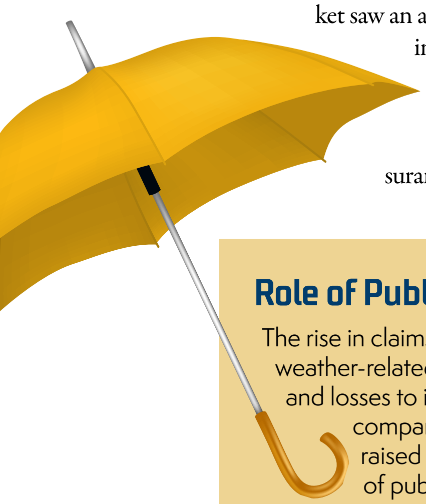
On top of weather-related events, supply chain issues have hindered projects. Steven Moreira, CCIM, CIPS, managing director of special projects at RealSource in Salt Lake City, is building 216 residential units in Henderson, Nev. He has needed to extend construction insurance twice due to a delay on electrical supplies.

"Initially, when we did this deal, construction insurance was $350,000 for the year for a $37 million construction project," Moreira says. "Our latest policy extension cost was $640,000 for six months." Add to this rising construction loan rates, which Moreira reports increased from 3% at origination to 8% for a two-year extension, causing investors to up their ante by $2 million to cover costs. With zero occupancy during the extended construction phase, Moreira estimates the delays have cost investors $7.8 million.

When the cost of building materials rises, so does the cost to repair and rebuild. Following a catastrophic event such as a hurricane, owners compete for limited building and labor resources, creating additional demand and further pushing up prices, including for insurance.

Reinsurance Market Improving

Losses in the primary insurance market have caused reinsurers to raise their rates to mitigate losses. During the Jan, 1, 2023, renewal period, the North American reinsurance property market saw an average price increase of 40%–60%. The outlook for the reinsurance market is brighter for 2024, however, with renewals being described as more "orderly" by industry experts. While U.S. property catastrophe reinsurance rates rose by as much as 50%, rates held steady for some clients not exposed to natural disasters in 2023, according to global reinsurance broker Gallagher Re.



Cost Management Strategies

While real estate brokers cannot change market factors, they can partner with insurance professionals who can recommend strategies to purchase adequate insurance at an affordable price when traditional coverage isn't available or viable. Some insurance professionals have recommend these strategies:

New product or structure. Owners should look at different products and coverage structures. For example, owners with multiple assets might buy loss-limit coverage sufficient to cover probable maximum losses of occurrences versus purchasing coverage equal to total insured values. "Even if those assets are in the same region, the likelihood of experiencing a total loss from a single event, such as fire, is low," Tolland says.

If your coverage is a master policy, ask about individual risk placements. "This can result in tremendous savings if there is a 'stinker' property on the policy, says Rich Michelson, president and founder of RISCO, a risk and insurance company in Louisville, Ky.

Pooling. "In a hard market, pooling is an effective way to manage risk given its 'price smoothing component,'" Tolland says. Fonte likewise sees smaller owners pooling their properties for coverage but notes the benefits are limited if all the properties are in one area because they share the same risk. The function and regulation of a pool can vary significantly, and many are subject to rising rates.

Loan-only coverage. Fonte's strategy has been to reduce coverage to a minimal amount or eliminate it for low-risk assets. In response, lenders may "force place" insurance, obtaining it on the owner's behalf to cover only the loan amount. "Banks don't like it, but they understand," he says.

Parametric insurance. For those in markets with a significant lack of capacity or uncovered situations, parametric insurance may be an option. Payment results from the occurrence of a triggering event and the intensity of the event—not based on property damage. Parametric products are often associated with wind, fire, flood, and earthquake events. They can complement indemnity-based coverage to fill gaps or provide coverage for perils, such as pandemics, which would not be covered under a traditional indemnity program.

Manage Client Expectations

Tolland notes that insurance professionals can help prepare clients for market realities well before renewal periods. "Quotes don't get released until the last minute, and clients experience sticker shock, even if you told them to expect rate increases," he says.

To set expectations about current market rates, Holland recommends that brokers develop relationships with multiple carriers so that they can provide their clients access to the broadest range of options, as well as personalized, competitive quotes.

Michelson encourages brokers to do their homework identifying insurance carriers. "You need to pick your agent based on their insurance IQ and past successes," he says. Also, brokers should ask about underwriting relationships, length of representation, premium volume with a specific carrier and ratio loss. ■

Carol Weinrich Helsel is the owner of Pastiche Communications.

Role of Public Adjusters for Claims

The rise in claims due to weather-related events and losses to insurance companies has raised the profile of public insurance adjusters—individuals who advocate for the property owner with the insurance company. Owners often face the "delay, deny and defend" tactic used by some insurers to minimize their losses, says RISCO's Rich Michelson, who works as both a public adjuster and traditional insurer (never for the same claim).

Michelson tells of an Oklahoma shopping center settlement that went from the insurance company's initial offering of $16,000 (after deductible) to $480,000 at cash value and $640,000 at replacement cost.

Owners' gains are often more modest, he notes, but he believes public adjusters, who receive a percentage of the settlement, almost always secure a larger amount for a client.

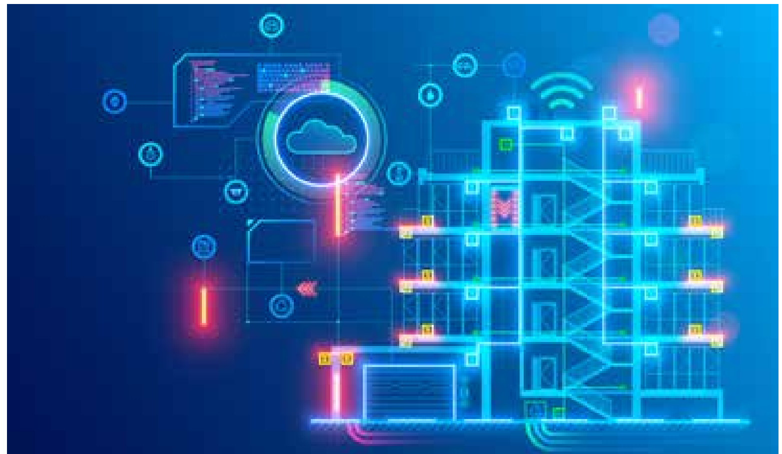
Adjusters are regulated at the state level, and not all states allow them to obtain licenses. In Florida, for example, legislative battles recently arose regarding whether the involvement of lawyers and public adjusters in claim settlements drives up insurance costs. Some insurers have begun putting public adjuster exclusions into their contracts.

Public adjusters and insurers need not be at odds, says Michelson. "Good adjusters are happy to work with another professional to work out the claim."

Uncommon Sense

Sophisticated IoT devices combined with AI are becoming a game changer for building owners and managers seeking to centralize operations.

BY STACEY MONCRIEFF



Powering Innovation

Since 2019, REACH Commercial has helped launch and accelerate dozens of promising new technology companies into the commercial real estate space. "From being part of the REACH Commercial cohort, we got a 'crash course' in the commercial real estate industry. It would have otherwise taken us years to gain that depth of knowledge," says Dwellwell CEO Dan Simpkins. The REACH accelerator program is operated by Second Century Ventures, the investment arm of the National Association of REALTORS®.

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Imagine it's a weekend, you're operating with a skeleton staff, and you get a text alert. A sensor has picked up a potential water leak in an unoccupied apartment unit. Such remote monitoring is part of the promise of the Internet of Things, a term coined more than two decades ago to describe potential uses for internet-enabled devices. For commercial owners and managers, a growing number of applications can integrate IoT data to help remotely manage multiple functions for an entire portfolio of buildings.

Simply put, "IoT is revolutionizing management and operations of commercial real estate," says NAR's Bob Gillespie, managing partner of REACH Commercial.

"We got a 'crash course' in the commercial real estate industry." Dan Simpkins

One IoT solution from the 2023 REACH Commercial program, Dwellwell, gives single-family and multifamily owners and managers a 24/7 window into the health of their buildings' plumbing, electrical, environmental and HVAC issues.

We talked with Dwellwell CEO Dan Simpkins to learn more about the service he calls the "check engine light for homes." Simpkins began germinating the idea for Dwellwell in 2014 when his Maryland vacation home suffered catastrophic damage from a frozen water pipe that subsequently burst. How, he wondered, could he apply his considerable experience with sensors to create an early-warning system for building owners? Simpkins and co-founder Chuck Gritton, Dwellwell's chief technology officer, had previously earned patents for creating motion control technology for television and game remotes.

"The idea was to make a whole-home diagnostic platform," Simpkins says. "At the time, I couldn't find a sensor that could monitor my entire home. I would have had to cobble together many different IoT devices, which would have required more complex installation, and then multiple apps and potentially multiple subscription fees."

Installing Dwellwell sensors is a matter of plugging them into standard electrical outlets. An app walks users through the setup process.

"The sensors—about the size of a deck of cards—marry to an AI-driven platform that uses proprietary algorithms to track the building's systems," Simpkins explains. The data that's generated is sent to an edge processor, meaning it's processed onsite, providing better data privacy.

Customers receive data and insights in three ways:

- A web interface to their entire portfolio, accessible from any device
- Email or text alerts when something is amiss
- Reports that can be delivered in print or electronic format

Although Dwellwell can't detect 100% of what's going on in a building, the company has logged a growing number of success stories since its 2022 launch, Simpkins says. "For example, we detected a water supply line leak on a Christmas Day. We detected a broken gas stove that was leaking carbon monoxide. And we've identified homes that had conditions for mold, which ultimately was caused by undiscovered water leaks."

Simpkins predicts building monitoring of this kind will become a standard feature and save building owners time and money by driving improved labor efficiency, staving off catastrophes, and creating differentiation for buildings, which could lead to higher rents. "As costs are going up, especially insurance costs, Dwellwell will be an important part of managing that cost structure," he says.

YOUR NAR
MEMBER BENEFITS AT A GLANCE

President Sears at NAR Broker's Edge in Waltham, Mass.

PRESIDENT'S MESSAGE

WE'RE ALL ADVOCATES

Coming from a family that has been active in local politics for many years, I am aware that governments can support progress or can hinder progress; often it depends on whose story they're hearing. We need to make sure they're hearing our story. Advocacy is at the root of our organization's mission. It's a big reason why my fellow Leadership Team members and I got involved in the National Association of REALTORS®. As practitioners who work every day with buyers, sellers, tenants and landlords, we know the challenges you're facing in the commercial space, and we must make sure our elected officials do, too. Please join us in sharing our story at the federal, state and local level. While we have an incredible advocacy team, their work at all levels of government is most effective when we are present—telling our stories, sharing our challenges and those of our clients, bringing solutions to the table, and uniting behind policies that pave a path of progress for our industry. –*Kevin Sears*

Learn more at nar.realtor/advocacy, and watch Sears' video updates from the road on NAR's social media channels, @nardotrealtor.

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2024 Ad Campaign Showcases Commercial Expertise

New 'That's Who We R' consumer ads are live on television broadcast and streaming platforms, online and terrestrial audio, and social media.

The National Association of REALTORS® unveiled its sixth iteration of the "That's Who We R" national advertising campaign in January, offering consumers a first-hand look at how agents who are REALTORS® are committed to putting their clients first, to the closing table and beyond.

The new creative spots highlight honest and candid scenarios that Americans may face in their paths toward buying or selling a home or commercial property. One ad focuses specifically on the experience of an entrepreneur looking for mixed-use space to expand her commercial business.

Across visual, audio and digital storytelling, the campaign highlights what sets agents who are REALTORS® apart in a crowded real estate industry: commitment to the REALTOR® Code of Ethics, access to specialized resources, and unmatched expertise in the markets and communities in which they live and work.

"In today's fast-evolving real estate landscape, buyers and sellers need professionalism and expertise more than ever," says Nykia Wright, NAR interim CEO. "Agents who are REALTORS® deliver unmatched value every step of the way."

NAR members are encouraged to leverage the campaign assets and share them with colleagues and in their professional marketing efforts. Access will require member sign-in credentials.

nar.realtor/thats-who-we-r

New Commercial Champions

NAR's Commercial Services Accreditation recognizes local and state REALTOR® associations for meeting benchmarks based on governance, communication, education, advocacy, technology and involvement in initiatives geared toward commercial members. *(See CREATE, Winter 2024, for previously named designees.)*

Platinum Level
Southland Regional Association of REALTORS®

Gold Level
REALTORS® Association of South Central Wisconsin
Rhode Island Commercial and Appraisal Board of REALTORS®

Multifamily Space Gets Absorbed

Year-over-year data as of January 2024

	Net Absorption	Rent Growth	Vacancy Rate	Cap Rate	Hot Markets
Industrial	163.2 million square feet	6.26%	5.67%	7.03%	Las Vegas, Phoenix
Multifamily	331,533 units	0.87%	7.50%	5.82%	Chicago, New York
Office	–54.8 million square feet	0.72%	13.47%	8.24%	Miami, Tampa, Fla.
Retail	53.4 million square feet	3.28%	4.04%	6.77%	Phoenix, Salt Lake City

SOURCE: NAR ANALYSIS OF COSTAR DATA

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Banks Under Stress

Interest rate reduction would prevent commercial asset crisis. **BY LAWRENCE YUN**

In the aftermath of the Silicon Valley Bank collapse, the Federal Reserve created a special credit line to prevent the spread of a potential banking crisis. It exchanged the reduced value of paper assets of commercial real estate loans and even U.S. government securities for the artificially stated full values of those same assets as priced before the interest rate hikes. But this special credit line meant that the Fed itself was taking on the losses over the duration of this policy. With the line expected to be cut in March, the community and regional banks will have to retake those fallen assets unless the policy is renewed.

It is possible, therefore, that many community banks will come under stress and pull back on commercial real estate lending and refinancing. This looming crisis can best be avoided by lowering interest rates, which would then boost the value of those underlying assets. After all, inflation looks to be much calmer thanks to a sizable buildup of new apartments in recent years. Rents are falling in Austin, Texas; Nashville, Tenn.; Charlotte, N.C.; and other fast-growing markets because the positive demand is unable to match the large growth in supply.

Over the long term, rent growth will return in many markets since the economy keeps adding jobs, especially in states located in the South and in the Mountain time zone. But the movement of these underlying asset values could temporarily swing depending on Fed policy. ■

Lawrence Yun is chief economist and senior vice president of research for the National Association of REALTORS®.

The Latest

NAR's monthly Commercial Market Insights and quarterly Commercial Real Estate Metro Market reports analyze the fundamentals and direction of the commercial real estate market and provide a deep dive into the nation's 175 largest metropolitan commercial real estate markets.

Commercial Market Insights: nar.realtor/commercial-market-insights

Commercial Metro Market Reports: nar.realtor/commercial-metro-market-reports

©BELOW: LIKENESS STUDIO, LEFT: MACKENZIE SMITH KELLY

Tiny Grocer, Big Impact

Adaptive reuse of a midcentury post office yields a new hot spot in Austin, Texas.

BY JEFFREY STEELE

When it comes to adaptive reuse, old post offices deliver both upsides and downsides. Among the positives are that post offices tend to be built near the centers of the communities they serve, making them ideal for new uses as community hubs. Among the negatives are the presence of loading docks, once required for sending and receiving mail, that can create obstructions in repurposed buildings.

In the Hyde Park neighborhood of Austin, Texas, these elements factored into the triumphant conversion of a long-abandoned, 1967-era property into a beloved small grocery and a bustling French restaurant.

Steph Steele, owner and operator of Austin's Tiny Grocer, was searching for a second store location and decided to lease space from the building's new owner, State Street Properties, to occupy a third of the former post office.

She turned to local architectural firm Side Angle Side, which specializes in single-family, high-end custom homes, to envision the transformation. Steele had come to know and respect founders Annie-Laurie Grabiel and Arthur Furman when they designed the renovation of her Austin ranch-style home.

Together, the project team took a "less is more" approach, enabling original features, such as the existing ceiling and concrete floors, to shine through. Doors, windows, and other design elements were chosen to complement the building's midcentury appearance.

"It's sad to see these old midcentury buildings fall into disuse. If we can, we would like to keep the buildings and give them new uses."

Arthur Furman, architect, Side Angle Side

TRÈS CHIC

Local businesses Tiny Grocer and Bureau de Poste, a French bistro helmed by celebrity chef Jo Chan, opened their doors in October in a formerly blighted building in the charming Hyde Park enclave.

THE DETAILS

- The businesses consume 3,500 square feet combined, with an additional 1,500-square-foot courtyard.
- The project was partially funded through community fundraising of $2.4 million that went toward construction, equipment, and pre-opening labor.
- A loading dock was transformed into an indoor dining room.
- A driveway became a tree-and-greenery-lined patio and wine garden.
- Builders: Archive Properties and Thought Barn Studio (shell)
- Engineers: Creative Engineering (structural) and ATS Engineers (MEP)
- Landscape architect: Wild Heart Dirt

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