WINTER 2024

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Fresh Take

Find opportunity by paying attention to consumer tastes.

Mervat Berry of Las Vegas

NAR

WINTER 2024


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Contents

On the Web

International Trends

Foreign purchases of U.S. commercial real estate accounted for a 5% share of total deal volume in 2022, down from 9% in 2021. However, early 2023 data indicated cross-border activity is coming back. For insights on foreign investment, download the National Association of REALTORS®' *2023 Commercial Real Estate International Business Trends Report*. The report, released in November, analyzes Real Capital Analytics data on sales of $2.5 million or more.

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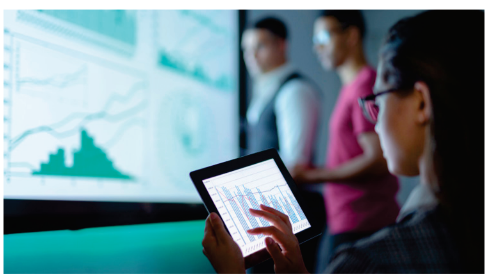

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Auto Zones

EV Manufacturing Surges Ahead

Brokers power up for growth in their markets.

As legislation and incentives charge the demand for electric vehicles, brokers in some states are seeing profound changes and opportunities.

3 Hot Spots

1. **Reno, Nev.:** The state's vast lithium deposits have attracted attention from Tesla, General Motors and Ford. Tesla built a 5.4-million-square-foot facility to manufacture batteries and ancillary products, says Bryan Gardner, SIOR, executive vice president of McIntyre Real Estate.
2. **Kentucky and Ohio:** An EV manufacturing surge is prompting ground-up developments and retrofits of industrial properties along the I-75 corridor in Kentucky and Ohio, says Norm Khoury, SIOR, brokerage senior vice president at Colliers Cincinnati Industrial Services Group.
3. **Texas and California:** "From all our indications, the EV industry is 'ramping up,' setting the stage for steady growth," says David Glasscock, SIOR, senior vice president at CBRE in Dallas.

Future-proofing Facilities

Some brokers advise caution: Many consumers still hesitate to purchase EVs because of concerns about whether charging will be available when they need it. And low demand discourages production of chargers and the establishment of charging stations. Even so, brokers can prepare for an expected surge by future-proofing buildings. "It is far better and less expensive to run conduit and allocate power supply to eventual EV charging stations during the design and construction phase versus retrofitting existing buildings," says Geoffrey Kasselman, SIOR, CEO of Op2mize Energy LLC in Chicago.

Adapted from "Meeting the Needs for EV," written by Rachel Antman, a public relations consultant and founder of Saygency, and published in the Fall 2023 issue of SIOR Report.

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Building Access

Multifamily Security Gets Custom Tech

Apps, AI offer flexible peace of mind for renters in markets worldwide.

Amenities can be hit or miss for residents of multifamily properties. A pet-friendly environment that delights a dog or cat lover might raise another tenant's hackles. But if there's one thing every prospective renter wants, it's strong security.

Remote Control

Keys, PINs and key cards are still the most common choices for multifamily managers, but newer access systems are app-controlled and AI-powered with video devices and biometrics.

These cloud-based systems allow property managers to control doors or gates remotely, programming who can and can't enter. The technology can be customized and remain secure. For example, a tenant can give access to a housekeeper for certain hours during the week, says Pepe Gutierrez, CPM, a property manager with Megafincas Alicante S.L. in El Campello, Spain.

Many U.S. property managers are on board. "Inland Residential is configuring intercoms and access control systems to update automatically based on the rent roll," says Chase Teschendorf, assistant vice president and director of systems and implementation at Inland Residential Real Estate Services LLC in Oak Brook, Ill.

Cloud-based systems also allow for better retention management, Teschendorf adds. "When an incident occurs, [the system] can easily retain mass amounts of footage with only a few clicks."

Do Your Due Diligence

When planning for a new access control system:

1. Confirm the technology has no legal restrictions in your area.
2. Consider long-term tech plans and budget.
3. Review the system's track record.
4. Ensure the system is compatible with existing building systems and technology.
5. Pilot the system in one or two locations to see if it works and is a good fit.

Adapted from "Safe and Sound," published in the September-October 2023 edition of the Journal of Property Management.

+78

REALTORS® Property Resource's Net Promoter Score among commercial practitioners.

The NPS quantifies customer enthusiasm by asking, "How likely are you to recommend this product or company to a friend or colleague?" Scores can range from -100 to +100. A score of +70 or higher indicates a world-class company.

Federal Funds

Jumpstarting Office Conversions

A Biden administration effort to funnel funds toward the conversion of empty office buildings into affordable housing units was greeted with praise by real estate industry groups, including the National Association of REALTORS®. The influx of federal funding, annouced in October, will spur development near transportation hubs such as bus terminals and subway stations.

"Even relatively modest steps will reduce the underbuilding gap while unleashing tremendous economic activity into our communities," said NAR President Tracy Kasper in a statement.

The multiagency effort will support office-to-residential conversions through new financing, technical assistance and sale of federal properties. Through the Department of Transportation, for example, local governments and developers can access over $35 billion in lending capacity for commuter-friendly projects at below-market interest rates.

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"Zombies brought the town back to life."

Lee Thomas, deputy commissioner of the Georgia Film & Entertainment Office, at the 2023 C5 + CCIM Global Summit in Atlanta, talking about the economic impact of AMC's "The Walking Dead" on Senoia, Ga. The show, which filmed in and around Senoia, ran for 11 seasons.

TAKE THIS

COMMERCIALRE NEWS, TIPS AND TRENDS

"Pickleball is the new frontier in commercial real estate. The rapid growth of the sport is similar to what tennis did in the 1970s and 1980s. Landlords love it because it brings more foot traffic from people with spending power. And it's also good for attracting and negotiating new leases."

Diego Pacheco, chief growth officer for Ace Pickleball Club, from "Pickleball Courts Serve an Ace for Vacant Malls, Retail Stores," REALTOR® Magazine, Sept. 13, 2023

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Retail

Big Plans for Small Format

Consumer trends drive changes in space, size and experiences.

Retailers and investors are quickly pivoting based on consumer changes, with retailers redefining the use of their space, size and experiences, says Anjee Solanki, national retail director for the U.S. for Colliers, as reported by GlobeSt.com. Forty-nine percent of retailers plan to expand their footprint over the next five years versus 28.5% looking to reduce space, according to Colliers' Fall 2023 Retail Report.

Why Small Format?

Retailers are expanding by opening more small-format stores to optimize their operations and streamline their costs, GlobeSt.com reports. A case in point: Macy's department store announced in early October that it plans to open as many as 30 new small-format stores over the next 18 months.

"Our small-format stores are efficient to operate, provide the customer with a shopping alternative within our omnichannel ecosystem and present a unique opportunity to target high-traffic shopping centers," Macy's COO Adrian Mitchell said in a statement.

Macy's isn't alone. Bloomie's, the smaller store concept by Bloomingdale's, opened its third location in November, according to Macy's, which operates Bloomie's locations.

In addition, Ikea announced the addition of a "plan and order" store to its portfolio. The footprint is less than 5% of the original flagship store size, according to the GlobeSt.com report. Maxing out at 8,900 square feet, the new format will be designed to simplify shopping for urban consumers by prioritizing convenience, public transportation and delivery, says Nicole Larson, national manager of retail research at Colliers, as reported by GlobeSt.com.

Adapted from "Retailers Have Little Appetite to Shrink," written by Brian A. Lee and published in the Sept. 19, 2023, edition of GlobeSt.com.

Food for Thought

Tip Wrangling Moves to the Next Course

Wage laws help workers but may hurt cities' draw as restaurant hubs.

Restaurant owners forecast negative consequences from the Chicago City Council's Oct. 6 passage of the One Fair Wage ordinance, which eliminates subminimum wages, also known as the tip credit, for tipped workers. The ordinance requires the minimum wage for tipped workers to increase by 8% every year until wages reach the city's $15.80 minimum wage. But an Illinois Restaurant Association survey, conducted in August, shows that the increase in labor costs could end expansion plans, lead to moves or cause closures for some restaurateurs.

36%

Percentage of owners who said they would open future locations in surrounding jurisdictions or other states to offset the higher cost.

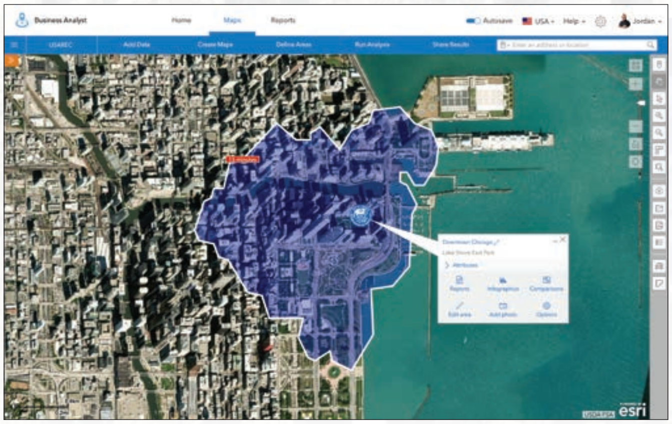
SOURCE: ILLINOIS RESTAURANT ASSOCIATION

In the survey of restaurant owners, 77% said elimination of the tip credit would have a "very negative" impact on operations. Mario Ponce, founder of Takito Brands Restaurants, which has three locations in Chicago, told Biznow that some full-service restaurants will close as a result of the increased costs, more fast-casual restaurants will open, and some full-service restaurants will transition into quick-service.

Chicago isn't the only place increasing the minimum wage for tipped workers. Washington, D.C., approved a 2022 initiative to eliminate subminimum wages by 2027. And several states—including Alaska, California, Minnesota, Montana, Nevada, Oregon and Washington—mandate that employers pay workers full minimum wage, even if they receive tips.

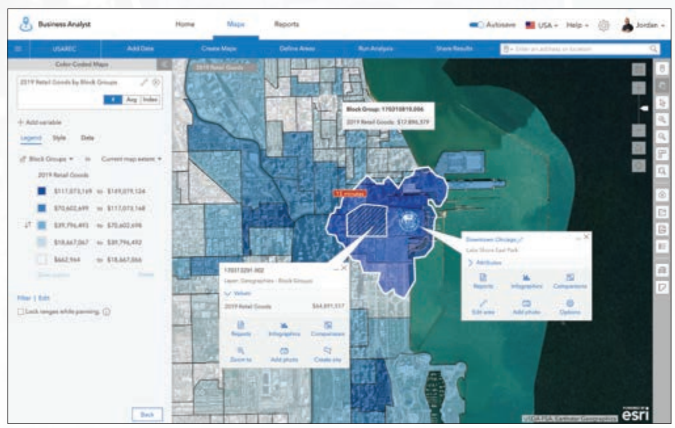
Adapted from "'It's Going to Dismantle Our Industry': Restaurateurs Say New Chicago Wage Rule Will Close Venues, Kill Expansion," by Ryan Wangman, published in the Oct. 12, 2023, edition of Bisnow.

Smart Map Search in 3 Steps



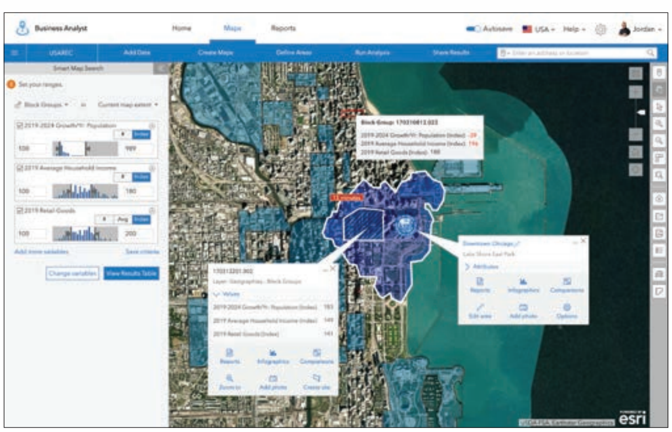
1 Bring your data into context.

Understand your market in context and compared to other options.



2 Locate gaps.

Identify the gaps and opportunities that others have overlooked.



3 Analyze.

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BY CAROL WEINRICH HELSEL

Mervat Berry, CCIM, an adviser with MDL Group in Las Vegas, says multifamily buyers with a long-term view aren't necessarily scared off by negative leverage.

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CRAFT COFFEE, CONCERTS PICKLEBALL, URBAN FARMS: LIFESTYLE CHANGES CALL FOR UNIQUE CONVERSIONS

Despite obstacles in the commercial real estate sector, the fundamentals remain solid for the industrial, retail and multifamily sectors, with signs of traction in some office sectors, as noted in the National Association of REALTORS®' October 2023 commercial insights report. For enterprising brokers and agents, a challenging market breeds opportunity. Commercial practitioners who can think outside the box are finding success by paying attention to demographic shifts and lifestyle changes, understanding consumer preferences, and creatively helping tenants realize their business goals.

Convenience and Amenities Draw Multifamily Tenants

While the multifamily segment remains strong, the increase in available units—up 17% compared to the same period in 2022, according to NAR—has resulted in reduced rent growth. To offset the impact on bottom lines, Mervat Berry, CCIM, an adviser with MDL Group in Las Vegas, suggests that brokers focus on mixed-use properties with access to service retail.

"People want convenience and value the walkability of the location," says Berry, who views flat rent growth as a temporary correction to the recent spike in rental rates. Driven by the shift to remote or hybrid work, people want amenities that provide quiet, open spaces to work and social spaces to connect as a community. "Gaming rooms, pickleball courts, fitness centers and event rooms are all hot right now," Berry says.

Most new multifamily developments cater to younger demographics—those in their 20s to 40s—who lead an active lifestyle. Berry points to UnCommons, a Las Vegas mixed-use community that uses the marketing tagline "Where work and life meet." According to Berry, nongaming residential and retail off the Las Vegas Strip are especially hot. Knowing what the consumer wants is key.

"It's a common misperception that a buyer needs deep pockets to invest in multifamily," Berry says. Syndicate investors—small private investors pooling their funds—are trending in the Las Vegas market. Berry advises brokers not to fear high cap rates: "Negative leverage isn't always bad. What's important is to consider value-added opportunities, such as an influx of population. Housing will always be a necessity, and you can refinance a property when rates drop."

Berry admits breaking into the multifamily institutional investor market can be challenging because many multifamily brokers have long, established relationships with institutional buyers. She credits her success to perseverance in cold calling, mailer marketing campaigns, and working industry conferences to get her name known among noninstitutional buyers in the market. "Join a team," Berry recommends. "Even if you only get a small percentage, it will help you work your way up. If I was starting over, that's what I would do."

Look for Inflation-proof Retail Tenants

Understanding consumers is integral to success in the retail market, too. Despite predictions of the death of brick-and-mortar retail during the pandemic, "the demand for retail space is strong," says Lisa Christianson, president of Christianson & Company, a Minneapolis-based commercial real estate firm. "While the consumer's dollars are getting stretched, they are still spending, especially in strong categories. There's opportunity for landlords to fill spaces that have been empty for some time or to upgrade their tenant mix," she says.

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Brookfield Properties' Chicago office develops "experiential" retail projects using traditional mall spaces, kiosks and pop-ups, including this brand partnership for the Netflix series "Stranger Things."

"SEASONAL BRANDS MAY NEVER BE INTERESTED IN A FIVE- OR 10-YEAR LEASE, BUT MANY POP-UPS EVENTUALLY BECOME LONG-TERM LEASES."

Katie Kurtz, Brookfield Properties

Echoing Berry's observation, Christianson says that entertainment-related retail is hot right now, along with discount retail, such as second-hand stores. "People need a place to eat and get services, but those working in the retail space must be in tune with consumers and their changing needs and interests," she advises.

Good space is hard to find despite the appetite for retail. "There is very little new space coming online. Deals just don't pencil with high construction and financing costs," Christianson says, but she sees upcoming opportunities on the buy side as interest rates remain high. "Right now, we're not seeing many distressed properties, but we do see distressed people. Clients with the capital to buy at current interest rates can count on increased value when rates come back down."

Commercial specialists eyeing the retail sector should know "it's a different animal," Christianson says. "It's a lot of small deals with multiple moving parts. We used to look for internet-proof tenants, then pandemic-proof. Now we look for inflation-proof retailers." Christianson advises brokers to be diligent and get to know the players in the market. "Find the smartest, brightest people doing what you want to do and find a way to work with them."

Area 2 Farms, which has 10 urban farms in development, believes indoor farming is a natural fit for commercial conversion because it requires almost no tenant improvements.

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Experiential Retail Here to Stay

"Experiential" retail is a hot sector, according to Katie Kurtz, senior vice president of business development for Brookfield Properties' retail arm in Chicago. Among other categories, experiential encompasses brand partnerships, kiosks, and "pop-ups"—a term Kurtz has used for over 20 years.

Recent experiential examples from Brookfield's portfolio range from a brand partnership for the Netflix series "Stranger Things," using traditional mall retail space, to an immersive experience of Michelangelo's Sistine Chapel in a former Sears building accommodating the high ceiling and electrical amperage requirements. "It's not as easy as just selecting a mall and having a space that works for these nontraditional concepts. Nontraditional infrastructure is needed on many of these deals, and the available space has to be able to support that," Kurtz says.

Foxtail Coffee Co., currently franchising in Florida and Georgia, helps create unique experiences by customizing each retail space to provide a local market community feel.

Beyond infrastructure, Kurtz stresses the importance of matching the experience to the community. What works in Texas won't necessarily work in Connecticut. "Experiential is not a rubber stamp," she says. "We might work with the same retail client, but the project won't look the same."

Pop-up retail—temporary shops to test a

market or take advantage of a seasonal demand—are increasingly popular among established brick-and-mortar brands. "It's a low-risk way for retailers to determine if they can do the volume necessary to be profitable," says Kurtz. "Seasonal brands may never be interested in a five- or 10-year lease, but many pop-ups eventually become long-term leases."

Traditional retailers are becoming extremely focused on the experience, Kurtz says. "Even direct-to-consumer online brands recognize the importance of an omnichannel experience for consumers," she adds. "The pandemic changed how we interact outside the home, and people want different experiences."

The win for the leasing broker and retail owner is not just short-term. Kurtz described an "event" tenant leasing a space to promote an upcoming heavy metal concert. This one-week lease will bring customers outside the typical consumer profile into a larger retail environment, potentially benefiting other tenants through increased volume.

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"PEOPLE WORKING FROM HOME WANT A THRIVING, ENERGETIC EXPERIENCE WHEN THEY LEAVE THE HOUSE. PEOPLE WILL GO THE EXTRA MILE TO FIND A COOL AND QUAINT SPACE."

Rosie Tchekmeian, Foxtail Coffee

Commercial specialists eyeing this niche must understand how it differs from traditional retail. "There aren't many people working in this space," she says. "Find experiential specialists at trade shows, ask about their sources for professional development, and build a network." Kurtz invites brokers to reach out to her. "We work with brokers anywhere in the country and know what translates well to local culture."

Creating Spaces That People Want to Visit

Florida-based Foxtail Coffee Co., a craft coffee brand, helps create unique experiences, countering the quick-service approach of most coffee shops. "People working from home want a thriving, energetic experience when they leave the house," says Rosie Tchekmeian, Foxtail's director of franchise development. "People will go the extra mile to find a cool and quaint space." She stresses that while the product is consistent from location to location, Foxtail customizes each retail space to provide a local market community feel.

Currently in two states with stores in additional states opening soon, Foxtail Coffee works with brokers nationwide to identify and lease space. Las Vegas will soon be home to two Foxtail Coffee locations—affirming Berry's observation that new retail off the Strip is a hot niche. "We look for brokers to do their homework and understand our brand is different," Tchekmeian says.

Foxtail Coffee often leases second- and third-generation sites, including former Starbucks shops. "Being a craft coffee shop, we don't generate Starbucks' volume of business, so developers need to understand our business model and what we bring to the community."

Most brokers incorrectly assume Foxtail Coffee wants an endcap or inline retail spot in an existing retail center. "We want a creative, customizable space," Tchekmeian says. "We love taking over an old building in a regentrifying neighborhood, and the community loves it when we occupy a former eyesore. People get out of their cars to spend time in our coffee shops."

Experiential retailers add value to the community because their customers may decide to do business elsewhere in the neighborhood.

Foxtail Coffee seeks leasing brokers with good follow-up and follow-through—helping to keep the transaction moving forward.

"PEOPLE NEED A PLACE TO EAT AND GET SERVICES, BUT THOSE WORKING IN THE RETAIL SPACE MUST BE IN TUNE WITH CONSUMERS AND THEIR CHANGING NEEDS AND INTERESTS."

Lisa Christianson, Christianson & Company

Urban Farms Add to Community

Lifestyle preferences toward health, fitness and sustainability also drive opportunities for unique commercial conversions. Urban farming, for one, is an increasingly popular niche that can fill unused industrial and office space. "We are inundated every day with inquiries from owners, developers and real estate firms about redeveloping an existing commercial space into a farm," says Jackie Potter, a farmer speaking on behalf of Area 2 Farms, which has 10 urban farms in development in the Washington, D.C.–Maryland–Virginia area. The first Area 2 Farms occupies a former paper mill in Arlington, Va., where growers are nurturing everything from microgreens to turnips.

"Farms are a natural fit for commercial conversion," Potter says. "We provide a service to the surrounding community and have few hard requirements—and almost no tenant improvements." Area 2 Farms requires only access to water and power and has never encountered a property with insufficient infrastructure. Municipalities often embrace urban farms because they require few zoning changes.

"All we want is a space that meets all required codes," Potter says. "We prefer nothing but cold, dark shelves, and we'll make it work."

Brokers seeking urban farming tenants need to understand the patience they require. "Farms take time," Potter says. "We're not interested in short-term partnerships—especially if offered because the market is stressed."

The company aims to have farms within 10 miles of 90% of the U.S. population. Says Potter: "We want to work with owners who think creatively about the long-term health and wellness of their properties."

Writer Carol Weinrich Helsel is the owner of Pastiche Communications.

PRESERVING AND PRIVATE

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LAND OWNERSHIP

WHAT COMMERCIAL REAL ESTATE PROS NEED TO KNOW ABOUT CONSERVATION EASEMENTS.

BY DAVID A. GOLDBERG

Tom and Rose Rupert were "in a bit of a quandary," they recall. After decades spent working an 84-acre ranch in the mountains 20 miles north of Aspen, Colo., Tom was ready to take it a little easier, and they were dreaming of starting a new chapter on the coast of Mexico. They were eager to leave behind the snow masses in Old Snowmass and return to the place they chanced to meet in 2010, when each was seeking solace after the recent loss of a spouse.

Taking some value out of their land was their best hope for realizing the dream. They were adamant that the wildlands, wetlands and fields of the ranch should remain intact, but there were few suitors for the full acreage. "It's not the rich man's dream," says Rose, adding that the dwelling-related structures are kind of funky. "But if we'd wanted to break it up for development, we wouldn't have had a problem selling it," she adds. Then there was the question of Tom's three children, one of whom was raising his family on the land. "He's lived on that property since he was born," Tom says.

Pitkin County's office of Open Space & Trails had already been looking at putting some of the surrounding property in conservation. The couple began talking with staff of the agency about the possibility of preserving the Rupert ranch by putting some or all of it under a conservation easement. Such an easement allows landowners to retain ownership while surrendering the development rights on the conserved property in perpetuity.

In exchange for the value of those development rights, the Ruperts would receive tax credits from the state of Colorado that they could use themselves or sell to others. "It seemed like a win-win," Rose says. After a somewhat lengthy and complex transaction, the couple agreed to conserve 77 acres in perpetuity, keeping a "development envelope" of seven acres. Ultimately, they netted enough to realize their retirement aspirations while keeping the ranch intact and in the family.

A Tool for Land Conservation

"A conservation easement is a voluntary, legal agreement a landowner makes to limit the type and amount of development that can occur," says Dan Lobbes, vice president for land and watershed programs at The Conservation Foundation. The foundation has used easements, along with other tools, to preserve roughly 36,000 acres in eight counties surrounding the Chicago metro area. "The purpose is to safeguard natural resources while keeping the land in private ownership," Lobbes says. "Government agencies can't afford to buy every property that has natural value, and taxpayers wouldn't want [them to do] that.

"The easements are tailored to the vision of the owner and characteristics of land," Lobbes says. "The property can be sold or inherited. Every other right is in place." In nearly all cases, the resulting agreements are monitored and enforced by a public agency—as in the case of the Ruperts' ranch—or by a nonprofit entity, which ensures that the conditions specified in the resulting deed are upheld.

Local land trusts like The Conservation Foundation are easily the most common such stewards, says Rex Linville, eastern division director of field programs for the Land Trust Alliance, a nationwide 1,000-member local nonprofit organization that safeguards lands under conservation easements.

While the concept of the conservation easement has existed in various forms for a century or more, its use accelerated dramatically beginning in the 1980s, when federal income tax incentives were formalized, Linville says. Federal taxpayers can take a charitable deduction equal to the value of the surrendered development rights. Many states, such as Colorado, offer additional inducements (more on that later).

As of 2020, about 61 million acres of privately held land were under conservation via restrictive easements—more than all national parks combined, according to the LTA. Through the 2010s, land was conserved at a rate of roughly 1 million acres a year. The LTA is pursuing an ambitious goal of adding another 60 million by 2030.

"The most common properties under easements are working forest or agricultural lands," Linville says. "They stay as part of the economic productivity of a community, because the restriction makes sure the land continues to be available for productive use and doesn't get developed." Conservation easements also play a growing role in efforts to preserve or improve water quality, establish wildlife and pollinator corridors and, more recently, sequester carbon in the face of climate change.

"Along the Mississippi River, which has huge problems with agricultural runoff

A 92-acre preserve—a collaboration between The Conservation Foundation, the city of Naperville, Ill., the Army Corps of Engineers and Pulte Homes—provides a scenic view for residents of the Atwater subdivision and a habitat for birds, butterflies and other wildlife.

TAKING SOME VALUE OUT OF THEIR LAND WAS TOM AND ROSE RUPERT'S BEST HOPE FOR REALIZING THEIR RETIREMENT DREAM, BUT THERE WERE FEW SUITORS FOR THE FULL ACREAGE.

problems, farmers are putting riparian land in easements to compensate them for declining to farm on that area," says Dan Wagner, senior vice president of government relations for Inland Real Estate Group in Oak Brook, Ill., and a board member of The Conservation Foundation and the REALTORS® Land Institute. Often these open space set-asides come as mitigation for a development project under regulatory requirements, though those arrangements aren't eligible for tax benefits.

States Get Into the Act

Many states interested in seeing more of their natural and working lands preserved from development offer additional tax incentives. In Illinois, for example, land under conservation receives a 75% property tax reduction, Lobbes says. "In one case, I know [this incentive] helped an elderly owner stay on her property." It's important to note that property taxes aren't reduced for the part where building is allowed.

In addition to, or in place of, property tax cuts, about a dozen states offer tax credits for preservation. Colorado and Virginia even allow owners to sell the tax credits.

"A tax credit pays your taxes dollar for dollar," says Ariel Steele, owner of Tax Credit Connection Inc., a Loveland, Colo., consultancy that helps people earn money by conserving their land with conversation easements. "In Colorado, we not only give you tax credits but also let you sell those tax credits. We don't want just people who have a lot of money to make use of this."

The state caps its annual outlay for credits at $45 million, with 40 to 70 landowners a year opting for them. The program is popular enough that the annual allotment is mostly spoken for through half of 2025, Steele says.

"It has dramatically raised the rate of conservation so that Colorado is one of the most conserved states in the country," she says. Approximately 800,000 acres have been conserved using tax credits in Colorado since the state's division of conservation began tracking that information in 2011.

Costs and Considerations

"There are a lot of moving parts to an easement deal," Linville says. As with a typical property sale, the process involves appraisals, a real estate attorney and often a surveyor. For deals involving a land trust as guarantor, a contribution is made to a fund to support the defense of the easement terms. "On the land trust side, there's a fair bit of complexity to ensure they are protecting the right property, with the right terms, and creating a robust document that will last in perpetuity. If at the outset an owner isn't committed to a higher purpose, many would walk away."

And more than a few do just that, Steele notes. For starters, appraising the value of conserved land is a specialized practice, and getting a result isn't cheap. A preliminary appraisal to let an owner assess a deal's potential can cost $5,000 to $10,000, with a full appraisal for closing costing as much as $30,000, she says. "Somewhere between 25% and 50% walk away after the preliminary appraisal."

Deeds can number in the dozens of pages. Though much is boilerplate, deeds will detail permitted uses—farming, hunting, recreation and so on—and require careful legal review. In Colorado, landowners, or a sponsoring organization, can expect a deal to cost $70,000 to $100,000, plus an endowment for the organization providing stewardship if it is other than a government agency.

Selling a property with a conservation easement can be tricky, too, and could again involve a specialized appraisal. But there are selling points to such properties, too. "Typically, it will have a lower sticker price than a similar property with all of its rights intact. This is important for farmland near urban areas, because it stays affordable even in the face of development pressure," Lobbes says.

At the same time, in some growing areas, the portion of a property that retains development rights might be more valuable: "Parcels adjacent to or surrounded by preserved land might increase in value over time as they become more and more rare."

Recreational Preservation

In states where environmental protection regulations require substantial mitigation of sensitive natural areas, conservation easements can be part of a solution that is both cheaper and more ecologically beneficial, Lobbes says. Often, a regulatory agency identifies portions of a development site that should be preserved, such as wetlands, watersheds, pollinator paths and migratory bird corridors.

"Too often a developer will be required to do some restoration, but there's no long-term management and they become weedy messes," he says. That's where a guarantor agency such as the Conservation Foundation comes in. With funding supplied by the developer, a land trust will manage the ecological health and aesthetics of preserved areas. Often a trust will sustain recreational elements such as trail systems, while the developer can regain its investment by putting premiums on the units closer to the preserved areas.

What Could Your Role Be?

"It's really exciting for real estate professionals to understand what a conservation easement can do," Wagner says. Whether you practice commercial or residential real estate—or some combination—"you know that a house near a park or a preserve will sell for more," he says, "and [preserved land] also raises the value for the entire community."

A lot of land trusts work very closely with real estate agents, Linville says, because "the real estate community is well connected to landowners in a region. Practitioners who know the area very well have been some of the people most committed to identifying land and landowners for preservation."

Like any real estate transaction, executing a conservation easement is business—but it's done on a firm foundation of love, Linville says. "Your financial adviser might say conservation, like any charitable gift, is a 'bad' financial decision. But owners are primarily motivated by a love of the land. There are financial incentives, sure, but first and foremost, the decision comes from loving the place."

Writer David A. Goldberg has covered real estate, transportation and urban planning for more than 20 years.

A boardwalk serves walkers and runners in a 122-acre preserve within the Winchester Glen subdivision in Carpentersville, Ill.

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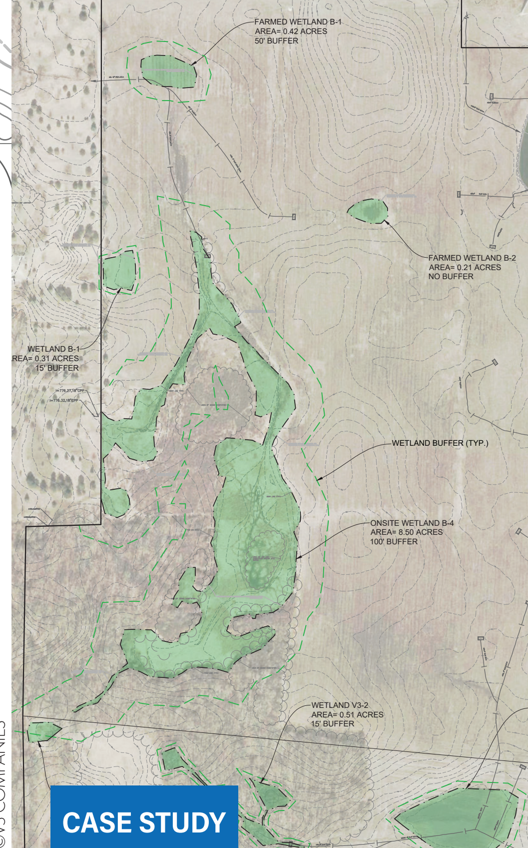

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CASE STUDY

An Easement Success Story in the Chicago Suburbs

Conservation easements and independent monitoring will play a key role in the development of a 211-acre industrial/warehouse project in the western suburbs of Chicago, in partnership with the adjacent city of Geneva, Ill., which is extending an arterial road and electrical service to the site. Regulations required the developers to mitigate impacts to over 15 acres of wetland and to employ "naturalized" stormwater management.

Tom Slowinski, technical director of wetlands and ecology for V3 Companies, responsible for wetland permitting and mitigation design on the Geneva development, says paying into a fund for offsite mitigation turned out to be significantly more costly than restoring, preserving and managing a chunk of the overall parcel. As a result, the approved plan now conserves a larger 41-acre area.

"We will end up with 12.39 acres of wetland while preserving and improving 9.8 acres of woodland and woodland buffer," Slowinski says. "We're creating 5.4 acres of prairie buffer of the wetland and 13 acres of naturalized stormwater mitigation facilities." The Conservation Foundation will hold the conservation easement, and the property owners will pay into a fund. "There's definitely an environmental benefit," Slowinski says, "and it will be an amenity for the tenants as well."

2023 National Commercial Awards

Congratulations to the 36 commercial real estate professionals recognized this year by their local or state REALTOR® association or by one of NAR's affiliated institutes, societies or councils for exceptional contributions to the commercial real estate industry or their community.

See the award won by each of this year's national commercial award recipients.

nar.realtor/nca

Alabama

Clint Flowers, ALC, C2EX
Managing Broker, National Land Realty
Mobile Area Association of REALTORS®

Colorado

Dax Hayden
Broker, Hayden Outdoors
Durango Area Association of REALTORS®

Connecticut

Jed Backus
Broker-owner, Backus Real Estate
New Haven Middlesex Association of REALTORS®

Florida

Bill Eshenbaugh, ALC, CCIM
Broker, Eshenbaugh Land Co.
Florida Gulfcoast Commercial Association of REALTORS®

David Hitchcock, ALC, CCIM
Senior Advisor, SVN Saunders Ralston Dantzler
Central Florida Commercial Association of REALTORS®

Jon Kohler
Broker, Kohler & Associates
Tallahassee Board of REALTORS®

Chase C. Mayhugh, CCIM, SIOR
Senior Advisor, Mayhugh Realty, Inc.
Royal Palm Coast REALTOR® Association

Ryan Sampson, ALC, CCIM
Principal, Eshenbaugh Land Co.
Florida Gulfcoast Commercial Association of REALTORS®

Clay Taylor, ALC
Sales Agent, SVN Saunders Ralston Dantzler
Lakeland Association of REALTORS®

David Hitchcock, ALC, CCIM
Senior Advisor, SVN Saunders Ralston Dantzler
Central Florida Commercial Association of REALTORS®

Illinois

Amy J. Hall, CIPS
COO, Caton Commercial Real Estate Group
Northern Illinois Commercial Association of REALTORS®

Paul Martis
Managing Broker, Coldwell Banker Realty
Mainstreet Organization of REALTORS®

Iowa

Steve Bruere
President, Peoples Co.
Des Moines Area Association of REALTORS®

Troy Louwagie, ALC
Real Estate Broker, Hertz Real Estate Services
Cedar Rapids Area Association of REALTORS®

Maine

Kirk A. Butterfield
Broker, Keller Williams Realty
Maine Commercial Association of REALTORS®

Michigan

Mark Ansara
Retail Specialist, Advantage Commercial Real Estate
Commercial Alliance of REALTORS®

Mississippi

Micah McCullough, CCIM, SIOR
Broker Associate, UCR Properties, LLC
Mississippi Commercial Association of REALTORS®

Missouri

William Holman, AHWD
Managing Director, SVN Holman Partners
St. Charles County Association of REALTORS®

Patrice TenBroek, AHWD, SFR
Director, Commercial Division, RE/MAX Results
St. Louis Association of REALTORS®

New Mexico

Tim J. MacEachen, CCIM, SIOR
Associate Broker, Rio Real Estate Investment Opportunities Commercial Association of REALTORS® New Mexico

New York

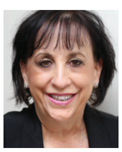
Jim Kelly, CCIM
Associate Broker, Hanna Commercial Real Estate
New York State Commercial Association of REALTORS®

North Carolina

Eric Knight
Broker in Charge, Nest Realty
Cape Fear REALTORS®

Marty McLaughlin
Partner and Broker, Park Commercial Real Estate
Charlotte Region Commercial Board of REALTORS®

Ohio



Lynn Singh
Director, Commercial Division, RE/MAX Affiliates Inc.
Columbus Association of REALTORS®

Oklahoma

Andrea Frymire, CCIM, AHWD, C2EX
Broker-owner, Oklahoma Investment Realty Inc.
Midwest City Del City Moore Association of REALTORS®

Oregon

Howard Friedman, CCIM
Broker, Compass Commercial Real Estate
Central Oregon Association of REALTORS®

Alvin Nash
Principal Broker, Tradition Real Estate Partners
Mid Valley Association of REALTORS®

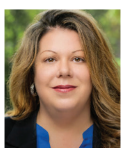
Walt Ramage
Partner and Broker, NAI Cascade
Central Oregon Association of REALTORS®

Jeff Reed
Broker, NAI Cascade
Central Oregon Association of REALTORS®

Pennsylvania

Heather Kreiger, CCIM, C2EX
Brokerage Advisor, High Associates Ltd.
Lancaster County Association of REALTORS®

South Carolina



Darath Mackie
Associate Broker, Lee & Associates–Greenville
Greater Greenville Association of REALTORS®

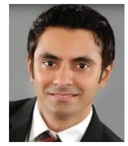
Chip Shealy, SIOR
First Vice President, CBRE Inc.
Charleston Trident Association of REALTORS®

Tennessee

Larry Jensen, SIOR
Chairman and Principal, Commercial Advisors LLC
Memphis Area Association of REALTORS®

Christa Rosenberg
Senior Advisor, Wallace Commercial
East Tennessee REALTORS®

Texas



Imran Bhaidani
Team Lead, Keller Williams Realty Southwest
Houston Association of REALTORS®

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

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.

Diamond Level

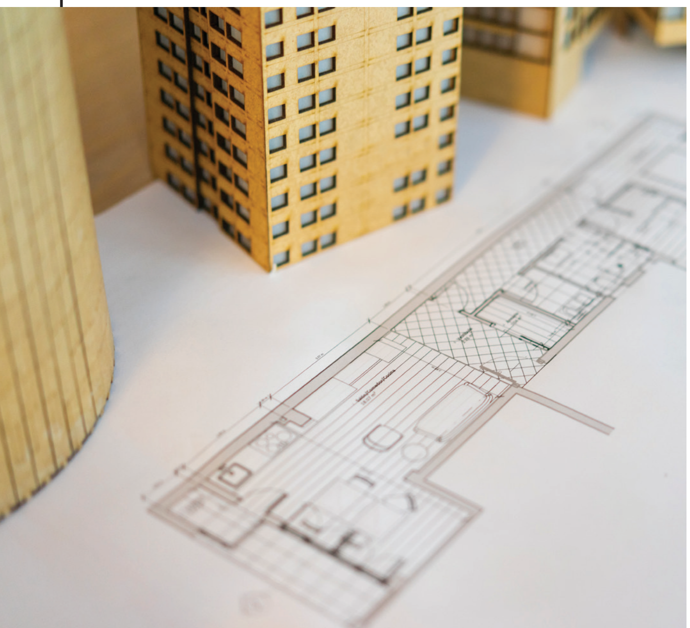
Broward Palm Beaches & St Lucie REALTORS®, Central Oregon Association of REALTORS®, Charleston Trident Association of REALTORS® Inc., Commercial Alliance of REALTORS®, Commercial Association of REALTORS® Wisconsin, Greater Baton Rouge Association of REALTORS®, Greater Harrisburg Association of REALTORS® Inc., Greater Tampa Association of REALTORS® Inc., Long Island Board of REALTORS® Inc., Mainstreet Organization of REALTORS®, MetroTex Association of REALTORS® Inc., Miami Association of REALTORS® Inc., Orlando Regional REALTOR® Association, San Antonio Board of REALTORS® Inc., Scottsdale Area Association of REALTORS® Inc., Space Coast Association of REALTORS® Inc.

Platinum Level

Arcadia Association of REALTORS®, Charlotte Region Commercial Board of REALTORS®, Dekalb Association of REALTORS® Inc.

Gold Level

Bay East Association of REALTORS®, Central Wisconsin Board of REALTORS® Inc., Commercial Board of REALTORS® Inc., Greensboro Regional REALTORS® Association Inc., Naples Area Board of REALTORS®, New Haven Middlesex Association of REALTORS® Inc., Northern Illinois Commercial Association of REALTORS®, Oklahoma City Metropolitan Association of REALTORS® Inc., Pinellas Suncoast Association of REALTORS® Inc., REALTOR® Association of Sarasota & Manatee, REALTORS® Commercial Alliance of Massachusetts Inc., Southern Maryland Association of REALTORS®, South Shore REALTORS®.



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Industry Supports Urgent Permitting, Zoning Reform

BY LAUREN E. PINCH

High interest rates aren't the only culprit for creating a drag on commercial real estate transactions. Outdated and cumbersome permitting and zoning rules, at the local and federal levels, prove to be an ongoing frustration for developers, urban planners and professionals handling the sales and purchases of commercial properties. Without these pervasive roadblocks, many neighborhoods in need of economic revitalization could thrive and generate new business income.

The issue starts at the policymaking level. The U.S. Chamber of Commerce reports that for government buildings, it now takes an average of 4.5 years for a project to obtain a federal permit. Roads or bridges take an average of 7.4 years to move forward, public transit projects average 5.3 years, and renewable energy projects can take up to a decade or more.

An arcane environmental review process is partly to blame. The National Environmental Policy Act, which governs environmental review, was signed into law more than 50 years ago, on Jan. 1, 1970, and it has seen only minor updates since.

The problem spills into the private sector. The Chamber's surveys find that almost 46% of commercial real estate professionals indicate zoning or permitting is impacting their ability to convert office space into other types of real estate, with 23% saying it is the most important factor. Some 44% indicate environmental regulations are a big factor preventing the conversion of office space.

"We can and must conduct environmental reviews and provide for meaningful community input, but it shouldn't take longer to get a decision about a permit than it does to actually construct a project," says Martin Durbin, senior vice president of policy for the Chamber. "To meet our growing challenges—like updating crumbling roads and bridges, addressing water quality, expanding broadband access, combating climate change, and strengthening our energy security—the permitting process must be improved," he adds.

Congress has yet to take significant action on reform. Meanwhile, the National Association of REALTORS® continues to monitor and support local level zoning reform. Under a new California law, for example, religious institutions and nonprofit colleges can now turn their parking lots and other properties into low-income housing. Beginning this year, they'll be able to bypass most local permitting and environmental review rules to bring much-needed multifamily housing to the state. A study by the University of California, Berkeley, Terner Center for Housing Innovation estimated the state's religious and higher education campuses have more than 170,000 acres that would be eligible under the law.

In another example, the Miami Association of REALTORS®, in the process of constructing a shipping container prototype home, identified nonsensical irregularities in the zoning code. The association's work led to the allowance of flexible zoning and permitting for smaller nonconforming lots so more affordable units could be built, establishment of eco-friendly container homes as viable dwellings for single lots, and allowance of container homes as accessory dwelling units.

Advocacy by NAR members, even on a small scale, can have a big impact on fostering needed development, and redevelopment, in the nation's towns and cities.

Joining Forces

Parameters for a Better Process

NAR joined with nearly 350 organizations last fall in signing a letter requesting Congress to "Permit America to Build." The coalition, led by the U.S. Chamber of Commerce and representing multiple sectors of the U.S. economy, says providing greater certainty in the federal permitting process will unleash private sector investment. The group outlined four parameters needed for meaningful action.

Predictability: Project developers and financiers must have an appropriate level of certainty regarding the scope and timeline for project reviews, including any related judicial review.

Efficiency: Interagency coordination must be improved to optimize public and private resources while driving better environmental and community outcomes.

Transparency: Project sponsors and the public must have visibility into the project permitting milestones and schedule through an easily accessible public means.

Stakeholder input: All relevant stakeholders must be adequately informed and have the opportunity to provide input within a reasonable and consistent time frame.

IT'S OVER.

PRESIDENT'S MESSAGE

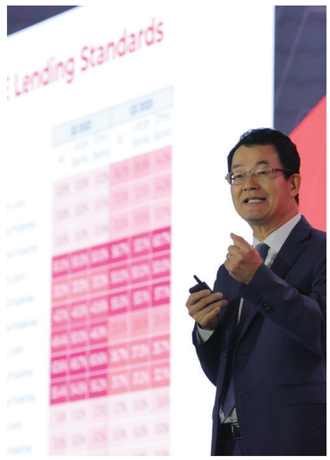
PRIDE OF PLACE

What led us to choose a career in real estate? For many of us, it started with a passion for dealmaking and morphed into a love of seeing our communities grow and thrive. We often talk of quality of life, but economic development professionals focus on quality of *place.* It exists in cities where people not only enjoy living and working but also have ample access to things they prioritize—like recreation, culture, healthcare, transit, parklands and safety. For nearly a decade, the National Association of REALTORS® has fueled placemaking, providing grants to local REALTOR® associations to help their members bring about the small enhancements that can snowball into big gains. At our C5 + CCIM Global Summit, one speaker cited research that showed quality of place was the second most important factor for companies seeking to locate in an area. Strong public and private leadership was also cited as crucial. That's where we shine! We have all built relationships in our careers. It is through those relationships that we help build the communities in which we live, work and play. Thank you all for all you do! –*Tracy Kasper*

Conference Highlights

Commercial Success

The C5 + CCIM Global Summit brought hundreds of commercial practitioners to Atlanta in September for a cutting-edge look at trends, technologies, and market forces driving commercial real estate. Attendees had the opportunity to tour some of Atlanta's newest commercial developments, including the mixed-use 1105 W. Peachtree, Microsoft's Atlantic Yards and Summerhill, the visionary redevelopment of the city's Olympic stadium area. Mark your calendar for the 2024 C5 + CCIM Global Summit, Sept. 17–19, in Hollywood, Fla.



NAR Chief Economist Lawrence Yun was part of a stellar cast of speakers.

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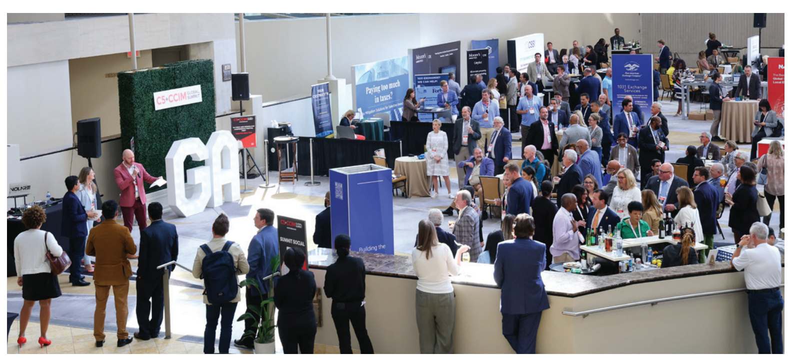
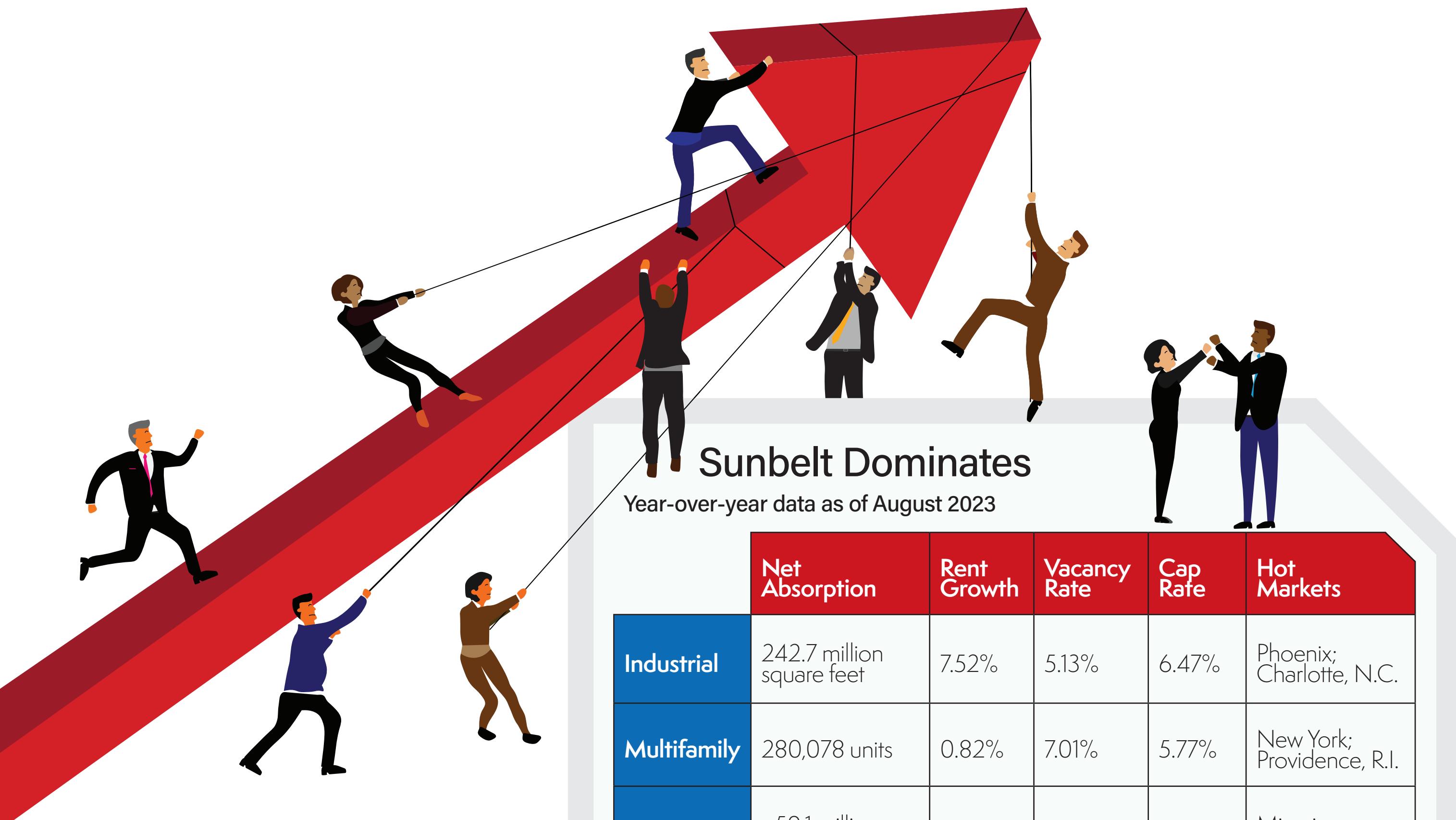
Jeff Conn, CCIM, SIOR, with Coldwell Banker Commercial in Lubbock, Texas, and Tracy Johnson, RCE, CAE, president and CEO of the Commercial Association of REALTORS® Wisconsin, were Summit emcees.



The exhibit floor was the spot to network, learn about new commercial products and services, and attend live-theater training sessions.

> **"We have to make a distinction between quality of life and quality of place, which is becoming a more important consideration in economic development."**
>
> *Jay Garner, president and founder of Garner Economics LLC, at the 2023 C5 + CCIM Global Summit in Atlanta*



Sunbelt Dominates

Year-over-year data as of August 2023

	Net Absorption	Rent Growth	Vacancy Rate	Cap Rate	Hot Markets
Industrial	242.7 million square feet	7.52%	5.13%	6.47%	Phoenix; Charlotte, N.C.
Multifamily	280,078 units	0.82%	7.01%	5.77%	New York; Providence, R.I.
Office	–50.1 million square feet	0.61%	13.3%	6.90%	Miami, Jacksonville, Fla.
Retail	56.2 million square feet	3.53%	4.13%	6.48%	Austin, Texas; Phoenix

SOURCE: NAR ANALYSIS OF COSTAR DATA

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Interest Rate Hikes Must Stop

Work habits have changed, and so must the Fed's strategy. **BY LAWRENCE YUN**

More Americans are working now than in March 2020, right before the pandemic—4 million more. But job gains in recent months have been sluggish, potentially signaling that a job-cutting recession may occur in 2024. The unemployment rate is still low at under 4%. Nonetheless, what is more critical for commercial real estate is how many Americans are working and receiving paychecks—and where they are working.

The office market is the only commercial sector to witness continuous negative net absorption at a time of job additions, and the end of the down cycle is not yet over. Through the first half of 2023, an additional 35 million square feet became vacant. More worrisome is that the positive absorptions in both retail and industrial were only about half of what they were in the first half of 2022.

The high interest rates are slowly breaking the economy. The Fed has to stop raising rates and consider a new strategy: cutting rates. After all, inflation is trending lower and will be in the comfort zone by early 2024. ■

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: BIG D CONSTRUCTION. LEFT: DAVID LAUER

New 'Post' in Salt Lake City

Hippest enclave in Utah offers office, residential, dining and parks in a walkable neighborhood.

BY JEFFREY STEELE

Salt Lake City–based real estate developer and investor BCG Holdings, together with Lowe Property Group and Bridge Investment Group, led the vision for the Post District, a walkable, mixed-use enclave featuring four new-construction buildings along with six converted, century-old industrial buildings. The neighborhood originally featured a railyard and was a hub for newspaper production and postal distribution, hence the name.

The $300 million development welcomes the area's burgeoning population of businesses, residents and tourists, offering innovative dining concepts and abundant patio seating, as well as locally owned shops and modern work spaces. Among the first wave of restaurants is Urban Hill (above), a chef-driven, modern American restaurant, and Sunday's Best, a restaurant that will serve brunch every day.

"The workforce coming from the East and West Coasts is used to being in walkable districts with restaurants and music venues. We're giving [them] something that hasn't been available here before."

Brandon Blaser, president, BCG Holdings

A METAMORPHOSIS

The construction on Salt Lake City's Post District, which began in 2019 and was completed in late 2023, transformed abandoned industrial space into office buildings and new residential structures, along with eateries, shops and green space just west of downtown.

THE DETAILS

- Historic buildings dating from 1907 to 1932 revitalized through adaptive reuse
- Land was acquired in an opportunity zone, which helped to attract investors
- In the 13.2-acre, 1.5-block historic district, 70% of original buildings were retained
- Four new multifamily buildings offer 580 units ranging from 375 to over 2,000 sq. ft.
- 150,000 sq. ft. of creative office and adaptive reuse retail; 25,000 sq. ft. of new build retail, and ability to build another 100,000–150,000 sq. ft. in a future phase
- Located 30 minutes from six world-class mountain resorts

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