SUMMER 2024

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Green ROI

Commercial experts consider the long-term value of sustainable building practices.

NAR

SUMMER 2024

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New Construction

Supply Is Big Story in Multifamily Rent Growth

Metros experience highs and lows based on region.

In metros with 1 million–plus residents, multifamily rent growth followed a clear geographic trend last year, according to Igor Popov, chief economist at Apartment List, speaking at the National Association of REALTORS®' Real Estate Forecast Summit: Commercial Update on March 7. The metros where year-over-year rent growth was the slowest tended to be in the Sun Belt. "Austin, Texas, is leading the way, along with Atlanta, Jacksonville and Raleigh," said Popov, with Portland and San Francisco also making the list.

Where Rents Are Falling or Growing

In places with the most quickly falling rent growth, there's still job growth and a lot of renters moving in, so the demand is there, Popov said. The big story is supply. "Austin, Atlanta and Raleigh are building [multifamily housing] significantly more than other parts of the country," he said. But the large number of multifamily units coming online is putting significant pressure on pricing. "Those markets are coming down from their peaks, as renters have a lot of options with new lease-ups coming on the market."

At the other end are Midwestern metros, which top the leaderboard for the fastest-growing rents. Cities such as Grand Rapids, Mich.; Milwaukee; St. Louis; and Louisville, Ky., have been seeing strong rent growth compared to national numbers, Popov said.

Suburban-Urban Rent Growth Gap Widens

Within metros, a gap started during the pandemic, as property prices and rents dropped in core cities but remained stable in the suburbs—or even grew in the outer rings. That gap has not only continued but also widened over the past few years. A large millennial generation is aging into wanting more space and prioritizing suburban over urban amenities, according to Popov.

nar.realtor/events/nar-real-estate-forecast-summit

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Property Management

Wellness Amenities Can Lead to Healthier Rents

Creative ideas to keep workers healthy and happy.

Property managers looking to enhance the offerings in their commercial spaces may find wellness amenities just the thing to attract commercial tenants and even help justify higher rents. Property managers "can attract top-tier talent by describing what the building does and what we have to offer," says Deborah Webb, CPM, of Webb Property Services in Washington, D.C. "Features like that—plus the building's alignment with sustainability goals—matter to the younger generation."

To guide property managers creating or maintaining a healthful building, several organizations have set standards:

- **Fitwel:** Developed by the Centers for Disease Control and Prevention and the U.S. General Services Administration, this certification system has been implemented in more than 23 million buildings. It's based on thousands of studies on environmental health, facility management and design.
- **IREM Certified Sustainable Property:** The program "recognizes excellence in property operations and performance based on aspects like energy, water, health, recycling and procurement."
- **WELL Building Standard:** The system takes a "holistic approach to health in the built environment, addressing behavior, operations and design."

Wellness certifications touch on points from food to exercise to intellectual pursuits that appeal to tenants and employees. "With diabetes and heart problems in our society, we need to do something while people are at work to the extent possible," Webb says.

Fitwel encourages activating buildings by adding amenities such as:

- Having healthy food options delivered to your building
- Encouraging people to take the stairs by using signage to let them know how many steps they've taken
- Trading old water fountains for new ones that easily allow employees to fill up water bottles

In addition, landlords and employers can form partnerships and offer lectures on nutrition, bring in a nurse or physician for employee health screenings, or have personal trainers in the building, which might help to lower health insurance costs.

Adapted from "Welcome to Wellness," published in the March/April 2024 issue of Journal of Property Management.

jpmonline.org/welcome-to-wellness

New Realities

Clearing Today's Hurdles in Commercial Real Estate

NAR and industry partners encourage policies to support market recovery and protect against looming debt maturation.

The National Association of REALTORS® and its affiliated organizations are uniting to give elected officials a clear picture of how commercial real estate is faring in what—for many owners—is an increasingly stressful environment.

On behalf of NAR and commercial affiliates The CCIM Institute, the Institute of Real Estate Management, and the Society of Industrial and Office REALTORS®, NAR President Kevin Sears sent a letter to a congressional panel examining the health of commercial real estate markets. In the letter to the U.S. House Subcommittee on Health Care and Financial Services, Sears called attention to long-term negative impacts on commercial businesses, including the shift to e-commerce, changing work patterns and the looming debt challenge.

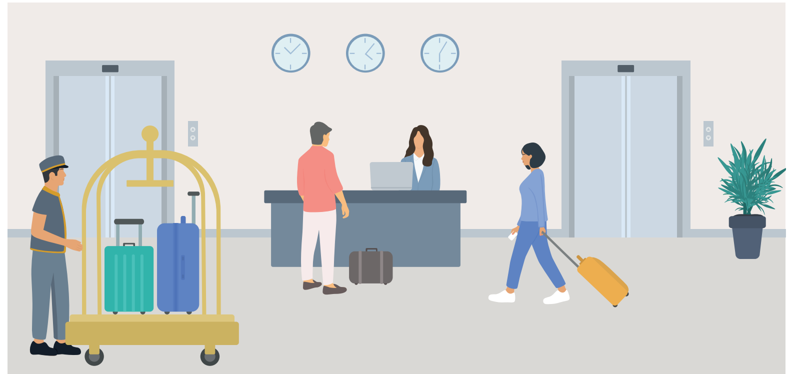
A Trepp analysis of Federal Reserve data last year showed that an estimated $2.81 trillion in commercial loans was expected to mature between 2023 and 2028. Much of that debt was originated under vastly different economic conditions including higher occupancy and lower interest rates. "As a result, while many commercial property owners and occupants are still attempting to recover from the economic damage done by COVID and adapt to new consumer trends, they may be facing larger loan payments to their lenders," the letter says.

NAR and its affiliates are calling on financial regulators to offer flexibility to commercial real estate lenders, often small or community banks, and establish a program (following precedents from 2009, 2010, 2020 and 2022) that would encourage financial institutions to work prudently with borrowers on troubled debt restructuring.

At the same time, NAR says, it's important that unnecessary barriers to equity investment be lowered and that taxes on risk-taking not be increased.

"The country's financial regulators and lawmakers should be considering prudent, but flexible policies that assist this critical sector in its recovery, not arbitrary requirements that will only serve to further reduce values and leave both lenders and commercial real estate borrowers in danger," the letter states.

Sears pointed out that commercial real estate in the U.S. "contributes an estimated $2.3 trillion to the economy (or 9% of the total U.S. GDP), supports over 15 million jobs and provides $559 billion in property taxes to local governments. … We look forward to working with you to develop solutions to protect this critical sector of the U.S. economy."



"The hotel market is coming back nicely. Hotel occupancy is now back to a pre-COVID level. Depending on hybrid and remote work [permissions], you may see some individuals who say, 'I can combine travel along with work-from-home, and work-from-home can be anywhere.'"

NAR Chief Economist Lawrence Yun on how remote work trends positively benefit the hotel sector, speaking at the 2024 NAR Real Estate Forecast Summit: Commercial Update

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Credit

Banks Continue to Tighten Loan Standards

Federal Reserve survey points to slight improvement in demand for commercial real estate loans.

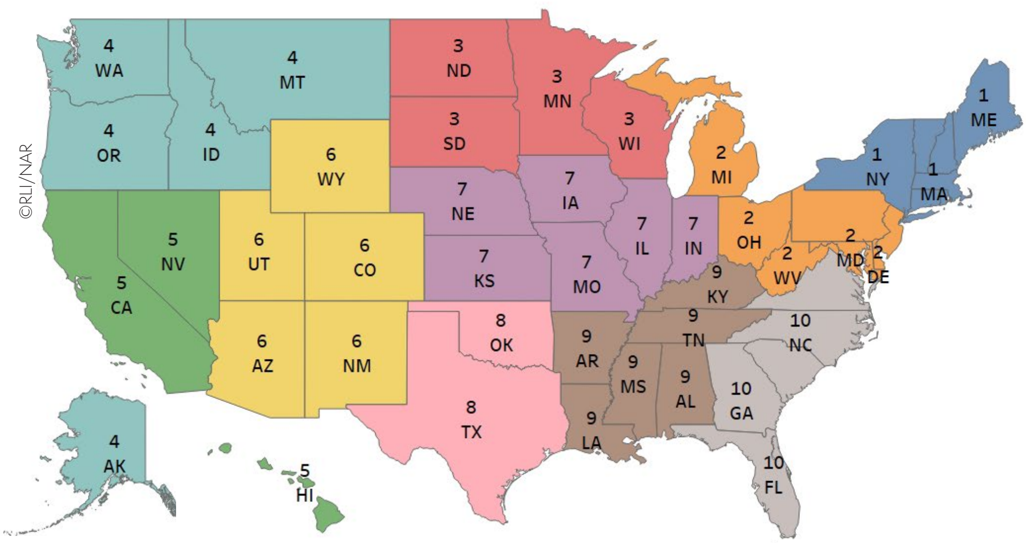
U.S. banks continued to tighten credit standards on commercial and industrial loans in the first quarter of 2024, according to a Federal Reserve survey of lending officers published in May.

The net share of banks that tightened standards for mid-sized and large businesses (those with annual sales of $50 million or more) rose to 15.6% from 14.5% in the fourth quarter, the Fed reported, citing weakening demand for industrial loans and a decline in household loan demand, with demand for auto loans at its weakest in a year.

For commercial real estate loans of all types, however, signs pointed to some improvement in credit supply and demand. The share of banks tightening standards for these loans shrank to the lowest in two years, according to a Reuters article published May 6. Foreign banks reported an overall rise in demand for commercial real estate loans in the first quarter.

The figures in the report, known as the Senior Loan Officer Opinion Survey, are calculated as net percentages, or the shares of banks reporting tighter conditions or stronger demand minus the proportion of banks reporting easier standards or weaker demand.

The survey's most cited reasons for tightening commercial credit policies were less favorable or more uncertain outlooks for market rents and high vacancy rates and property prices.



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Price Growth

Land Market Showing Resilience

Survey compares transaction data across 10 regions.

Sector performance has been volatile in commercial real estate, but "land demand has held on very well," said Lawrence Yun, chief economist at the National Association of REALTORS®, during a webinar highlighting results of NAR's 2023 Land Market Survey.

"By type of land, residential, industrial and timber land posted the strongest price growth, in line with pre-COVID performance," said Oleh Sorokin, co-presenter and NAR data analyst for commercial real estate.

The survey analyzed 2023 transaction data in 10 U.S. regions reported by members of the REALTORS® Land Institute.

Here are six highlights:

1 Land sales: Land sales grew 1.2%. Although this marks a slower pace compared to past performance, the data point highlights the market's resilience.

2 Land value: As of 2023's third quarter, the underlying value of the land of household-owned real estate totaled $18.6 trillion, up from $17.2 trillion in 2022 Q3.

3 Length of time for purchase: Land sales generally concluded within 60 days, and 25% of these transactions are wrapped up in less than 30 days.

4 Land price growth: Growth in land price per acre adjusted to a rate of 1.9% on average in 2023. By type of land, residential, industrial and timber land posted the strongest price growth of 1.9% to 2.9%. Timber and ranch land prices also have increased since the end of the pandemic.

5 Hottest markets: Regions 1, 9 and 10 had the largest increases in land sales, in the range of 2.8% to 3.7%.

6 Most expensive residential land: Region 1 had the highest prices for residential land, commanding up to $200,000 per acre.

rliland.com/Resources/Land-Market-Survey

UPCOMING EVENTS

July 28–30
Southern Economic Development Council
Annual Conference
Savannah, Ga.

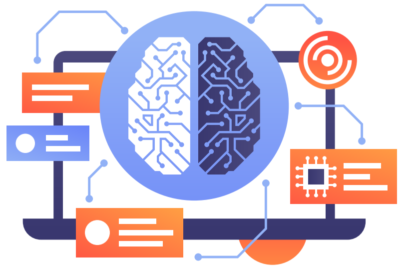
Sept. 15–18
International Economic Development Council
Annual Conference
Denver

Sept. 17–19
C5 + CCIM
Global Summit 2024
Hollywood, Fla.

Oct. 6–9
Institute of Real Estate Management
Global Summit
Indianapolis

Oct. 15–18
Society of Industrial and Office REALTORS®
Fall Event
Hollywood, Calif.

Nov. 8–10
NAR NXT, The REALTOR® Experience
Annual Conference
Boston



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Technology

AI Needs Solid Input Data for Better Results

Bias and flawed decision-making can hinder deals.

Artificial intelligence is already proving to be valuable to early adopters in commercial real estate who are involved in content creation and marketing, property valuation and market analysis, predictive analytics, and risk assessment. But unquestioningly trusting the data can be risky.

Hallucinations and Other Problems

"Hallucinations" are AI-generated responses that sound plausible but are factually incorrect. They're difficult to detect because AI-generated answers are typically well-stated and sound matter-of-fact, yet might provide false data sources and, in some cases, even manufacture quotes.

"AI models depend heavily on the quality of input data used for training models. If it's incomplete, it can lead to biased predictions or responses," says Ra'eesa Motala, SIOR, president of Chicago-based Evoke Partners. "Do you have all the key factors inputted correctly to ensure your output will yield results with little room for error or miscalculation? Have you taken variables into account? You need to understand for yourself what went into that decision-making to avoid [hindering] an investment or development transaction."

How to Ask Questions

"The way that AI generates a response is based on how you ask the questions," says Kim Ford, SIOR, CEO of the Rise Agency Group in Pittsburgh. ChatGPT provides tips on how to ask questions that will result in the most useful answers:

- Be specific with your request.
- Provide context and background information.
- Use explicit constraints and guidelines.
- Experiment with various phrasings and approaches.

Another challenge, Ford says, is the lack of publicly available information to input into AI, especially on the leasing side, whereas recorded data exists for building sales.

Adapted from SIOR Report, Spring 2024.

sior.com/education-and-insights/insights/magazine/sior-report

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Trek Coffee House moved into a new home along the Mahoning Avenue commercial corridor in Youngstown, Ohio, as part of a local program to enhance community revitalization and investment.

Economic Development

Fostering Community Along a Commercial Corridor

The Economic Action Group in northeastern Ohio collaborates with public and private partners to catalyze building renovations, increase foot traffic and attract new customers.

In Youngstown, Ohio, a multiyear investment program to renovate blighted properties along primary commercial corridors in the Mahoning Valley has earned the city's Economic Action Group an international award and leveraged more than $1.8 million into local redevelopment, positively impacting local businesses, citizens and neighborhoods.

EAG's Commercial Property Revitalization program, which is dedicated to enhancing economic viability and attracting potential tenants, has resulted in pending and ongoing investment in nearly 28,000 square feet of commercial property along the main corridor.

"EAG works closely with local governments and nonprofit partners to implement the program," says Nick Chretien, EAG executive director. "These strong partnerships are key to our success."

The International Economic Development Council named the EAG a gold winner in the Neighborhood Development category of its 2023 Excellence in Economic Development Awards. Among many accolades, the EAG was recognized for providing access to design interns who can assemble portfolios for sites to help potential developers envision future uses and for contributing more than 3,500 hours of service to entrepreneurs, small businesses and anchor partners last year.

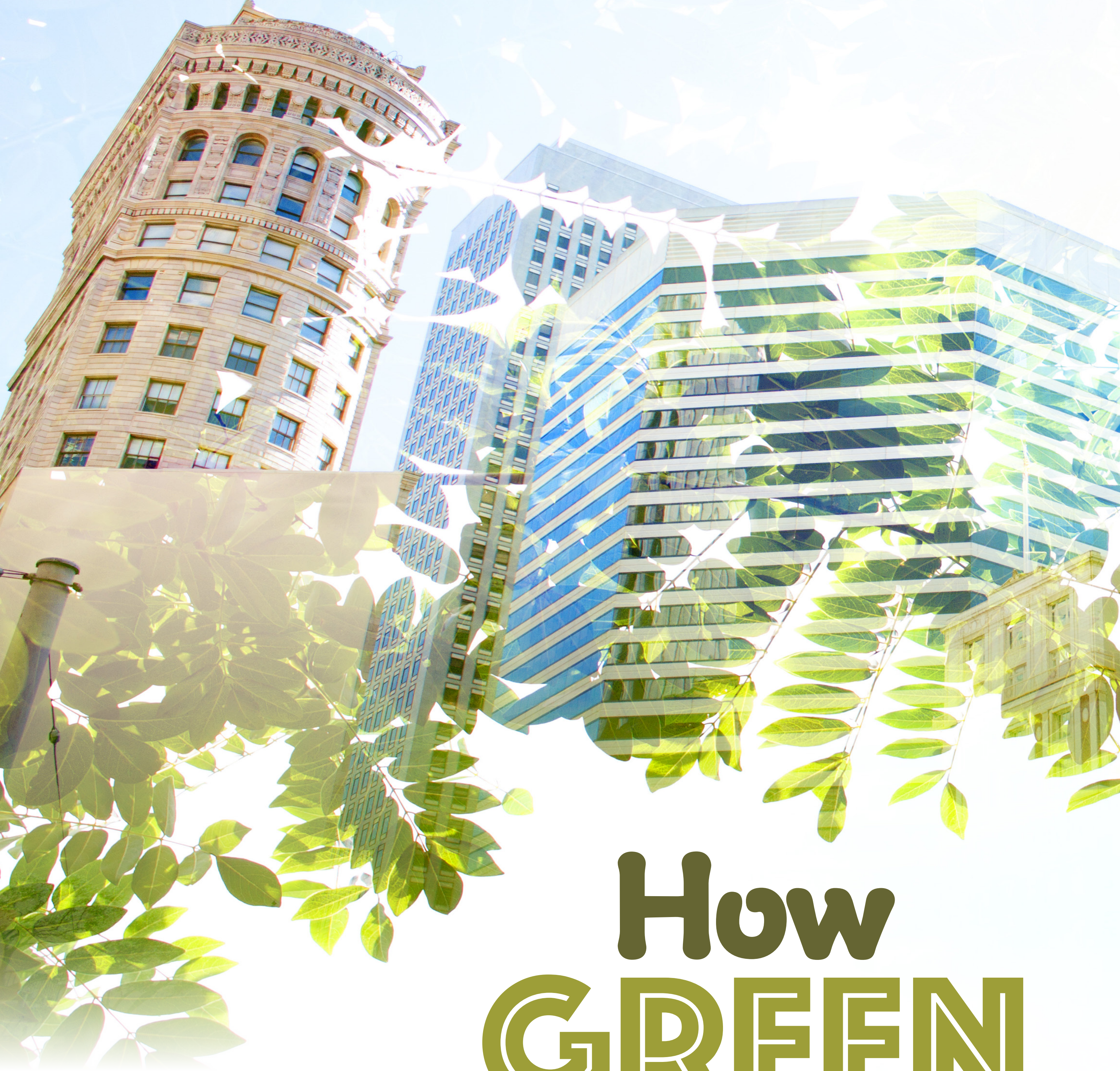
Anchor partners include the city of Youngstown, local land banks, the Western Reserve Port Authority and other nonprofit partners.

Mahoning County Land Bank supports the EAG by gaining "clean and clear" title to commercial properties that owners have abandoned. The land bank examines real estate data, property conditions, tax foreclosures and other indicators of inactivity, including utilities, to determine revitalization priorities.

Through Ohio's Community Reinvestment Act, property owners that renovate existing or construct new buildings can receive property tax exemptions for investing in real property improvements that encourage walking, shopping and engaging locally. Covered renovations may include structural repairs, facade improvements, energy-efficient features, and compliance with safety and accessibility regulations.

The newest batch of IEDC Award winners will be recognized at the 2024 Annual Conference in Denver in September.

eagworks.org



How GREEN Pays Off

Weighing new regulations and tax incentives, many pros say sustainable practices can be worth the investment.

BY DAVID A. GOLDBERG

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Whether building from the ground up, managing existing assets or preparing them for sale, commercial real estate professionals are feeling the pressure to invest time, energy—and, yes, money—into sustainability considerations.

These days, environmental, social and governance represent much more than a collection of feel-good words. Various market drivers provide the impetus for setting ESG goals, with both pushes and pulls from various stakeholders.

Pushes on the environmental side include a growing suite of regulatory initiatives at the federal, state and local levels to build green and retrofit existing assets to prevent and adapt to the growing threats of natural disasters, rising seas and more. But don't disregard the pulls, industry watchers say. Investing in energy and water-use efficiency, using renewable energy, and reducing waste can pay off in myriad ways, from financing to leasing success to operational profitability.

In its 2024 Emerging Trends in Real Estate, the Urban Land Institute notes that "Sustainability performance [is] now tightly linked to the quality and financial returns of real estate assets." The threats from record heat and increasing natural disasters are one reason, but not the only one, the authors say. "Rising insurance costs and their implications for property owners and tenants are catalyzing an urgent reevaluation of strategies."

This awareness is starting to take hold across the industry, though acceptance is not universal. A 2023 survey of National Association of REALTORS® members in commercial real estate found:

- A majority of commercial agents and brokers (65%) said that energy efficiency promotion in listings was very or somewhat valuable.
- 39% of REALTORS® said buildings with green certifications, such as LEED, Green Globes, or the Living Building Challenge, had increased commercial property values.
- 52% of respondents were extremely comfortable or comfortable answering clients' questions about building performance, while 17% said they were uncomfortable or extremely uncomfortable.

“We found that on average LEED-certified buildings received higher rents than otherwise comparable buildings at the cost of somewhat lower occupancy.”

–Jacob Albers

Brad Dockser, CEO and co-founder of GreenGen, a global sustainability solutions firm, urges real estate professionals to shake off any reluctance and embrace green solutions as central to their business model.

“We unequivocally think that addressing climate and clean energy transition is profitable,” Dockser says. “So much of the world thinks about regulation and how much it will cost to comply. That’s the wrong question. The right question is, ‘How much value will it create?’

“We think assets will be worth more, energy and operating costs are lower, and they can lease at a higher rate. And, with the increasing green incentives, you can get better terms on debt.”

In 2023, the federal Inflation Reduction Act reinforced various green building tax incentives, such as the 179D Energy-Efficient Commercial Building Tax Deduction and the 45L Tax Credit. *(See “Putting Tax Incentives to Work,” page 9.)*

The Regulatory Push

In a shifting regulatory environment, there are costs to avoiding sustainability investments. “Where five years ago we were talking about a strategy to decarbonize, today those requirements are going into place,” Dockser says. “Almost every major city, for example, has some level of carbon reduction and/or clean energy requirement.”

Why the regulatory focus on buildings? For one, they represent about 35% of total U.S. energy-related emissions, split roughly evenly between commercial and residential, according to data cited by the National Building Performance Standards (BPS) Coalition, a nationwide group of state and local governments launched by the Biden administration in 2022. Addressing emissions from the built environment is central to meeting a U.S. goal of reducing emissions to half of 2005 levels by 2030. “Tackling climate change and meeting our goals can only be achieved with significant emissions reductions from buildings,” according to the BPS Coalition.

While building green according to standards such as LEED has been on the rise for several years, regulators increasingly focus on retrofitting existing buildings, recognizing that the built legacy represents the lion’s share of consumption. The BPS Coalition is working to implement “building performance standards,” laws that require existing buildings to achieve minimum levels of energy or climate performance. While establishing mandatory efficiency levels, the rules permit flexibility in the measures owners use to comply and allow for more time based on age and other factors.

NAR supports voluntary, performance-based incentives to save energy and make buildings resistant to climate change. NAR encourages policies and programs that prioritize climate resiliency and adaptability, while also providing for robust real estate development.

On March 6, the U.S. Securities and Exchange Commission voted to approve a significantly scaled-back proposal to require publicly traded companies to disclose a variety of climate-related information, including details about the climate risks they face, the costs of severe weather events and, in some cases, their greenhouse gas emissions. The agency most notably dropped its so-called Scope 3 disclosures, which would have required certain large companies to provide data about the emissions generated by their suppliers and customers (their “value chain”). NAR opposed the provision because it risked roping in private companies that supply publicly traded ones, such as NAR members who are independent contractors but are affiliated with large real estate companies. (*See nar.realtor/washington-report/sec-approves-climate-disclosure-rule*.)

A Glimmer of Hope for Office ROI

In today’s world of flagging office values, properties with high performance ratings and strong environmental commitments tend to outperform others, particularly in the Class A market, according to analysis by real estate services firm Cushman and Wakefield. Immediately after the pandemic’s onset, the firm produced a report titled “Green is Good” that set out to answer: “As demand for ESG-committed assets has grown … do these assets perform better than their non-ESG peers? If so, is it possible to quantify this difference?”

Because U.S. Green Building Council data and progress reporting were readily available, researchers chose to examine LEED-certified projects delivered from 2010 to 2020, says Jacob Albers, a report co-author who is now head of alternatives insights for Cushman & Wakefield. “We found that on average, LEED-certified buildings received higher rents than otherwise comparable buildings at the cost of somewhat lower occupancy,” the report notes. Measured by revenue per available square foot, “LEED-certified buildings have generated greater cash flows on average.”

“Today, more than 30% of the office inventory is obsolete,” Albers says. “In the upper tier, sustainability commitments are not a nice-to-have, but a need-to-have for trophy assets that are still performing well.”

Increasingly, he adds, newer buildings in the top echelon are built to the exacting standards of LEED Platinum. “Tenants in those buildings have their own ESG commitments, and they want to be in that kind of asset. Developers are following on with what tenants are saying, but they are also following capital. Investors are increasingly wanting to support projects with sustainability commitments. Since 2021, this has become more and more ubiquitous.”

Environmental performance is important for older buildings, too, but with caveats, Albers says. “For Class B and C assets that are losing tenants, a lot of things need to be done beyond green upgrades. But if you are coming up to a big lease renewal or for-sale, bringing your asset up to higher [sustainability] standards could help get the sale over the line.”

Multifamily, meanwhile, is on a different trajectory, says Sam Tenenbaum, head of multifamily insights at Cushman and Wakefield. In high-demand urban areas—and even in some that are less so—multifamily construction is surging, while the uptake of sustainability commitments has been slower than for office, he says.

“The relative rent premium you’re able to command as green-certified isn’t substantial—3% or so in our research," Tenenbaum says. While office and institutional tenants are insisting on clean-energy commitments and performance tracking, "multifamily tenants don't have as much leverage, because renters care more about price than they do anything else. Green amenities such as bike storage are important, but they aren't the whole deal."

Other factors are prodding apartment and condominium projects into going green: "The big push is on the finance side, coming from the government entities, Freddie Mac and Fannie Mae," Tenenbaum says. "They offer incentives that give you more points on your financing for ESG commitments. Green upgrades are increasingly part of a strategy of how you perform better in your market and compete for loans for acquisition and for reinvestment in your property."

"The relative rent premium you're able to command as green-certified isn't substantial—3% or so in our research."

–Sam Tenenbaum

Local regulations, too, are driving a green trend, as Dockser indicates, but there are strong cautionary flags where housing is concerned, notes Tenenbaum. "For ground-up construction, communities are balancing how much housing they want with that regulation. Many recognize that any impediments we throw in the way need to be balanced with the urgent need for more housing."

Creating Value Through Retrofits

"Certifications like LEED are important for new construction, but there is so much more to be done with existing buildings," Dockser says. Buyers are looking for climate-ready buildings. "More and more, if someone is selling a building, the buyers want to know how much it will cost to meet the regulations. We see more sellers doing a certification before they sell, including an audit of how the asset can be improved to meet requirements. Buyers and lenders are correlating the certification to a better asset."

Energy efficiency saves on operating costs, thereby boosting profitability, says Nicholas Stolatis, a 40-year veteran of property management across global portfolios. Stolatis in 2007 inaugurated TIAA's global sustainability platform, benchmarking the energy performance of the giant financial services company's massive real estate portfolio under the EPA's Energy Star rating system. That sustainability later grew to include water efficiency and waste reduction, he says. His philosophy: "As a fiduciary, I'm not looking to put money into something that feels good unless there is a return."

Major upgrades to high-performance HVAC or other systems can pay off over time. However, he says, "Before a property [makes] high-performance investments, it should first find and implement as many no-cost and low-cost operational improvements as possible. These offer [faster] payback and continue to generate positive financial impacts."

As an example, he cites TIAA's decision to replace incandescent lighting with compact fluorescent lightbulbs throughout its portfolio. The bulbs used less energy and lasted for years rather than months. And TIAA saved on labor costs from frequent bulb changes. "We recovered the cost after the first year."

Tools such as the Energy Star Portfolio Manager tool, which is used by 25% of U.S. commercial buildings, enable an asset manager to benchmark their energy use and calculate their return on investment (*energystar.gov/buildings/benchmark*).

If you're focused on the bottom line, you have no choice but to be concerned about environmental sustainability, Stolatis says. "To be competitive you have to operate efficiently. Real estate is a long-term business and investment class, and sustainability is about taking long-term impacts and costs into account."

Those who are known for doing good also tend to do well, he adds. "Reputation is a huge part of this business." ■

David A. Goldberg has been writing about cities, transportation and housing issues, and urban design for 30 years.

PUTTING TAX INCENTIVES TO WORK

Developers and owners still have several years to use federal **Inflation Reduction Act** green building incentives.

According to the U.S. Green Building Council, "whether it's improvements to a multifamily housing complex, rooftop solar at an office complex, or electric vehicle charging at a retail center," green projects can qualify for incentives that will cover 30% and as much as 50% of the cost. For example, a multifamily project can receive $2,500 or $5,000 for achieving Energy Star or Zero Energy Ready certification, USGBC says.

Commercial buildings owners can receive $2.50–$5 per square foot for efficiency improvements that meet a certain threshold. Property owners installing rooftop solar, energy storage systems or EV charging can get 30% or more back in the form of a credit.

The **Sec. 48 Clean Electricity Investment Tax Credit** expands credits for clean energy investments for at least 10 years.

The **179D Energy-Efficient Commercial Building Tax Deduction** gives qualified taxpayers, including commercial owners, up to $5.65 back per square foot for constructing or retrofitting energy-efficient commercial or tax-exempt buildings, according to tax consulting firm KBKG.

The **45L New Energy Efficient Homes Tax Credit** offers eligible contractors up to $5,000 per unit for constructing or substantially reconstructing energy-efficient homes for sale or lease. To claim these tax credits, eligible builders must obtain a certification from a qualified third-party verifier. Milestone inspections and diagnostic testing of the units are also necessary to meet IRS requirements.

usgbc.org/resources/inflation-reduction-act-buildings-provisions

SERVING THE NONPROFIT NICHE

BY CAROL WEINRICH HELSEL

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Commercial specialists share their insights on navigating funding sources, zoning, property acquisition, relationship building and whether to go pro bono.

Helping nonprofit organizations with their property needs can be a fulfilling experience professionally and personally. Opportunities exist in every market, but it's essential to understand the unique aspects of nonprofits before pursuing this niche.

The IRS reported 1.97 million nonprofits were registered in the U.S. in 2022, according to USAFacts. Yet, there are niches within niches. "You wouldn't approach a medical nonprofit the same as a religious organization," says Richard Rosenthal, CRE, CRB, CEO of the Rosenthal Group in Los Angeles. "Each niche has different characteristics and unique needs. If you're in a large market, specializing in one nonprofit sector can give you a market edge."

Commercial specialists offer value to nonprofits beyond sales and leasing to include space planning, new construction, land acquisition and property valuation. Plus, opportunities abound to advise local government agencies.

Understanding Funding Sources

Regardless of their sector, nonprofits share a common need: sustainable funding. Typical funding sources include membership fees, donations and grants. Among larger nonprofits, 90% adopt funding models around a single dominant source of revenue, according to the industry website Philanthropy Circuit. Understanding an organization's funding model is essential to representing the organization as a buyer or tenant. "Donors can be there one year and gone the next," Rosenthal says. "Likewise, grant funding is unpredictable."

Chris Cockerham, CPM, GRI, commercial manager and broker with F.C. Tucker in Bloomington, Ind., knows this firsthand. "I worked with a group that learned at the eleventh hour that grant money received couldn't be used for acquisitions," Cockerham says. "Fortunately, I had a very willing seller and was able to negotiate a solution."

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Lending Insights for Nonprofit Clients

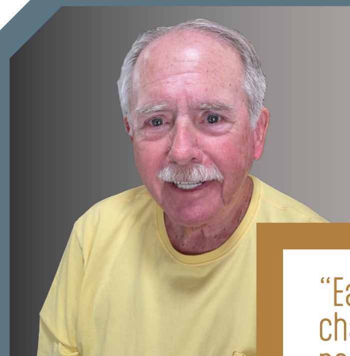
"Cash flow and the ability to make loan payments are the top considerations for lending to any client, but we work with nonprofits to explore all options," says Cheryl Sakalosky, vice president, commercial loan officer for ACNB Bank in Pennsylvania. "For those undertaking a capital campaign, we look at fundraising plans, how they engage with donors and what they will do if they fall short," she says. "If we know other business partners and get good feedback, that gives credence to their efforts."

Brokers who help clients navigate the lending process add significant value. Sakalosky asks anyone seeking a loan to buy property if they are working with a commercial REALTOR®. (She prefers agents who are REALTORS® because she's confident they work in the client's best interest.) "If they tell me they are working with a residential agent, I tell them to find a commercial specialist," she says. "If they don't take that advice, it's a red flag. It tells me they may not take our advice on a loan.

"I encourage nonprofits to interview several banks," Sakalosky says. "Some have board members with ties to a bank, but you need to be comfortable with your lender."

She recommends asking about what happens after the loan is made. "Some bankers' role is to generate business and will turn over the account to someone else. If a nonprofit struggles to make payments, it's helpful for the loan officer to have a history with the group to explore options for restructuring the loan or deferring payments."

A bank may offer special terms for nonprofits. Rick Lam, Los Angeles area executive for First Citizens Bank (located in 25 states), helped negotiate a loan for the Greater Los Angeles Association of REALTORS® in 2023 to buy a new building. Lam frequently works with nonprofits, offering a 1x debt service coverage ratio for qualifying organizations. "We look at the organization's history, reputation and make-up of the board," he says. "In pockets where business owners are involved, we know they won't let the organization fail."



"Each niche has different characteristics and unique needs. If you're in a large market, specializing in one nonprofit sector can give you a market edge."

Richard Rosenthal, CRE, CRB, CEO
The Rosenthal Group

Understanding a nonprofit's financial position can be a complex process. "I am very inquisitive about its finances and financial resources," Rosenthal says. "I ask about their annual budget and how much they raise and spend annually. Do they have an endowment? What's their average collected balance? Who are their financial supporters? Do they have deep pockets, or do they fight for every dollar?" Rosenthal also asks about bank relationships and advises on financing strategies. *(See "Lending Insights for Nonprofit Clients," left.)*

A financial analysis goes beyond a purchase price or lease. Cockerham encourages groups planning a capital campaign for property acquisition to build an endowment. "If they need $5 million to buy a property, I tell them to raise $6 million to cover operating costs," says Cockerham, citing an organization that failed because building operation costs were higher than they calculated.

Overcoming External Barriers

Zoning is a barrier for some nonprofits, especially those that provide housing. "Group homes are very limited in where they can operate due to laws that limit the number of people residing within a property," Cockerham says. "Even if you find a zoning class that works for the organization, you may face community pushback due to perceptions about the group's mission or clientele."

Cockerham has gone door-to-door with clients to talk to neighbors. "Letting people know what is happening and listening to their concerns can go a long way to overcoming objections. When possible, we make accommodations to address their issues."

Some sellers and landlords are wary of nonprofits. "Sometimes there is a lack of focus among

"Most nonprofits are more flexible about floor plates and more willing to consider less-desirable properties."

Ed Gardner, GRI, broker-owner
Gardner Real Estate

> “I worked with a group that learned at the eleventh hour that grant money received couldn’t be used for acquisitions. Fortunately, I had a very willing seller and was able to negotiate a solution.”
>
> *Chris Cockerham, CPM, GRI, F.C. Tucker*

decision-makers due to too many fingers in the pie,” Rosenthal says. “It makes it hard to get a timely decision.”

Cockerham warns there is more risk until you get to the closing table. “Every deal is subject to board approval. We try to put time parameters in place, but we let the seller know the board could reject the deal. Sellers don’t want to tie up a property for six months, only to have the sale fall through at the last minute.”

But the softness in the office market means owners might be more willing to negotiate. “If a property has been on the market a while, I’ll have a better chance of getting the property for a nonprofit client,” he says.

Ed Gardner, GRI, broker-owner of Gardner Real Estate in Portland, Maine, suggests nonprofits might be more open-minded about the type of space they lease or buy.

“Most nonprofits are more flexible about floor plates and more willing to consider less-desirable properties,” Gardner says. “Few nonprofits want a glitzy building because it undermines their fundraising efforts.” Also, nonprofits may be willing to forgo tenant improvements and take on basic tasks, such as painting, in exchange for lower rent.

Personal Involvement Can Be a Win-Win

Gardner uses GuideStar, a public information database of nonprofit organizations, to research prospective nonprofit clients’ missions, leadership and financials.

He stresses the importance of building rapport with the organization’s leadership. “Get to know the executive director and meet the board president,” he advises. “Learn who serves on the board. What’s their commitment to the mission and ability to sustain success?”

It’s not unusual for commercial brokers to be personally involved with the nonprofit organizations they do business with. Gardner says this makes the work more enjoyable. “It makes my heart happy,” he says.

Rosenthal’s experience is that the nonprofit sector is tough to break into without some personal knowledge or contact with an organization. “Smaller nonprofits are typically an easier target market, as large groups often have in-house real estate professionals,” he says.

“Getting involved with a nonprofit is good for the nonprofit and good for you,” says Cockerham, who recommends expanding your reach statewide into smaller cities.

Pro Bono: Yes or No?

However, personal involvement doesn’t necessarily mean donating your services. “I separate the personal from the professional,” Cockerham says. He serves on six nonprofit boards and gives generously to these groups. “Nonprofits need professional expertise, and they need to pay for these services. This keeps the relationship very professional.”

Gardner typically donates his commission back to the organization. “I’ve built a successful business, and now it’s time to give back,” he says. Gardner was recently featured in REALTOR® Magazine for turning his empty investment property into a center for 12 local organizations, enabling them to pay reduced rent and dedicate more resources to assisting high-risk communities.

He acknowledges his generosity has likely generated new business.

The question of pro bono work should not discourage commercial specialists from pursuing the nonprofit sector.

“Real estate firms don’t typically work pro bono unless there is a special relationship, as there is no steady cash flow coming from these clients,” Rosenthal says.

Sometimes an agent or broker may be asked to work on behalf of their local state or REALTOR® association and receive a commission. “So long as they disclose it, there is no conflict of interest,” Rosenthal says. “Keep in mind, however, that you must be very knowledgeable and a good communicator, because you have a lot of colleagues who think they can do better.”

Nonprofits typically share information, especially within a sector, so one successful transaction may open other doors. Rosenthal advises doing your research to be knowledgeable about their needs and market options.

“The bottom line is that if you want to go after this market, assume [most decision-makers] don’t have a clue and that you’ll have to educate them about what’s important,” he says.

Carol Weinrich Helsel is owner of Pastiche Communications.

Bringing Investment Home

BY JOHNNY NOON

In the world of commercial real estate, success hinges on making connections and spotlighting opportunities. At MIPIM 2024, in Cannes, France, the National Association of REALTORS® took this ethos to an international level, showcasing U.S. investment opportunities and allowing attendees to forge invaluable relationships on a global scale.

By hosting the USA Pavilion at the massive trade show, NAR set the stage for members and stakeholders to sell the U.S., and particularly the represented markets of Illinois, Florida, Missouri, North Carolina, Tennessee and Westchester County, New York, as prime places to invest and conduct business.

The USA Pavilion emerged as an energetic and strategic hub for creating connections and hosting live theater sessions and networking receptions. Top left, among those representing NAR were First Vice President Kevin Brown (standing) and Treasurer Greg Hrabcak (seated).

The convention, drawing more than 20,000 attendees including economic development officials, government entities, investors, landlords, and architects, provided an unparalleled platform for NAR members to showcase their communities, services, and job-creating opportunities on a global scale. More than 55 NAR members attended, representing 12 state and local associations, economic development offices, and a partnership with the International Economic Development Council.

NAR's participation received an extra boost with platinum sponsorships from Florida REALTORS® and The CCIM Institute, underscoring a dedication to propelling the real estate industry forward both domestically and internationally.

"MIPIM was paramount in making connections and opening opportunities for CCIM globally. We made excellent connections with attendees and are looking to grow those relationships, translating into new growth avenues for our organization and members," says Stephen Welch, vice president of education at The CCIM Institute.

These gatherings served as catalysts for forging invaluable connections and laying the groundwork for potential collaborations. Maria Grulich, CIPS, AHWD, vice president of global and commercial real estate at Florida REALTORS®, was enthusiastic for the networking opportunities: "We loved having the live theater, where we showcased all that Florida has to offer in terms of investment and jobs. There was a lot of interest from global investors and developers, and we see this as a boon for the state of Florida."

Breaking Through

"After years of meetings . . .now we're witnessing tangible development progress."

This year, NAR's pavilion featured a live theater, hosting 20 sessions and taking the spotlight to present a comprehensive selection of development and investment prospects. This platform not only captured attention but also fostered meaningful engagement with attendees. "This year marks the best in six years for us," says Tony Harrington, CIPS, GREEN, president of NC REALTORS®. "After years of meetings, we finally had a breakthrough, and now we're witnessing tangible development progress and a return on our investment," he says.

Echoing Harrington's sentiments, Andrea Bushnell, CIPS, RCE, CEO of NC REALTORS®, says, "We had multiple meetings where we could present shovel-ready projects to investors. Two of our meetings are expected to translate into tangible development activities. Notably, one involves a flex space project with investors poised to deploy millions of dollars in capital in our home state. This will create jobs and build communities."

With strengthened partnerships, heightened visibility and promising prospects ahead, NAR underscores its pivotal role in driving real estate investment forward on a global scale and being a trusted business partner for commercial practitioners.

Johnny Noon is NAR's director of engagement for commercial real estate.

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A Quiet Powerhouse for Property Rights

BY PATRICK NEWTON

It was just after midnight Eastern time on a Friday in late August of 2021 when a rare breaking news email hit the inboxes of NAR's full membership:

Supreme Court Sides with Property Owners, Eviction Moratorium Unlawful.

It was big news, wake-up-the-members kind of news—the culmination of an NAR-backed legal challenge to a federal eviction moratorium imposed by the Centers for Disease Control during the pandemic. The case ended up before the D.C. Circuit Court of Appeals and Supreme Court twice.

The justices wrote, "The moratorium has put the applicants, along with millions of landlords across the country, at risk of irreparable harm by depriving them of rent payments with no guarantee of eventual recovery. Despite the CDC's determination that landlords should bear a significant financial cost of the pandemic, many landlords have modest means."

Indeed, this case wasn't about large corporate landlords. It was about small housing providers who had one or two units and relied on that rental income to pay their bills and keep up their properties.

NAR argued for robust rental assistance to help tenants truly in need. However, a blanket eviction ban left some housing providers powerless over their own properties. The ruling resulted in a legal precedent that has been the basis of nearly all recent challenges on federal administrative overreach.

You hear a lot about NAR's advocacy work, from city halls to statehouses to the halls of Congress. Yet legal advocacy is a quiet force supporting it all.

Advocacy Support
Your state or local association can call on the expertise of the NAR Land Use Initiative to analyze proposed legislative and regulatory land-use measures.

NAR's advocacy team works with the Legal Action Program to identify cases around the country that are critical to the real estate sector and private property rights, providing support when needed.

Although court cases can be a slog, NAR doesn't hesitate to go the distance as the nation's preeminent organization defending private property rights. The successes are stacking up.

In April, NAR got another two Supreme Court wins in cases involving the takings clause of the U.S. Constitution, which says private property cannot be taken for public use without just compensation.

Property rights don't get any simpler than that concept, and NAR filed amicus briefs supporting two property owners. In both cases, the ruling was unanimous.

The first case found that local governments cannot demand hefty development fees from property owners in exchange for building permits. It stems from a 2016 lawsuit filed by a California landowner forced to pay $23,000 for a "traffic impact fee study" to obtain a permit to install a manufactured home on his property.

Justice Amy Coney Barrett wrote that the takings clause "prohibits legislatures and agencies alike from imposing unconstitutional conditions on land-use permits."

The second case was brought by a Texas man whose land repeatedly flooded after the state changed a nearby highway. In its ruling, the Supreme Court said the man may pursue compensation from the state. It was a technical ruling, although nonetheless important, that removed procedural barriers preventing the property owner from pursuing his "just compensation."

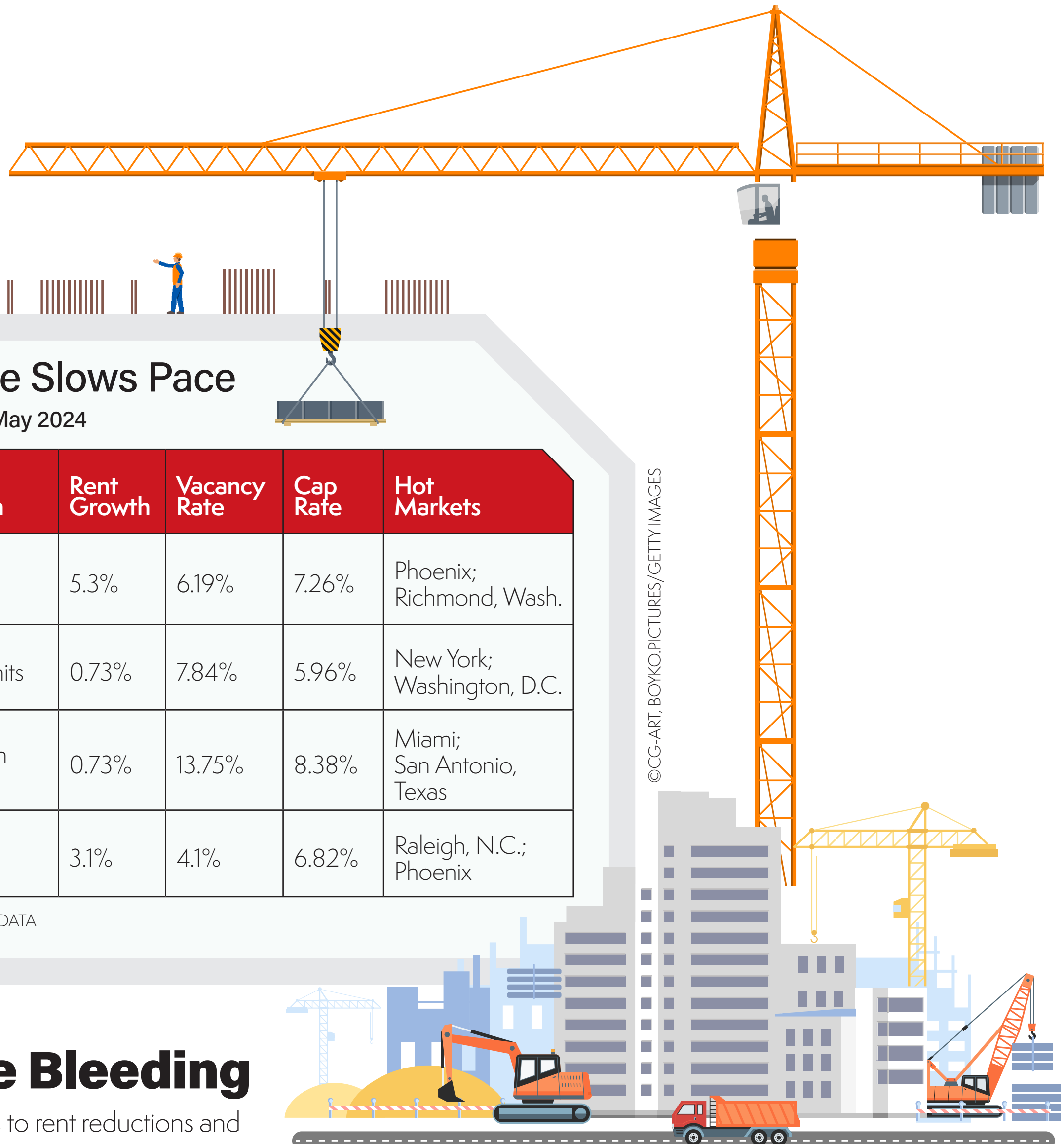
In May 2023, NAR triumphed in a significant case on "home equity theft." An elderly Minnesota woman sued when the county confiscated her condo for unpaid taxes, sold it for more than the debt, and kept the profit. This practice was shockingly still prevalent in multiple states. NAR joined with the American Property Owners Alliance and the Minnesota REALTORS® in filing an amicus brief in the woman's defense, and the Supreme Court unanimously sided with the homeowner.

Also, in 2023, NAR successfully filed suit to stop the EPA's Waters of the U.S. regulation, which makes it harder for property owners to utilize their land.

The EPA issued a new rule that still poses problems for homeowners, so the litigation continues. But NAR has expanded the fight by bringing in the REALTORS® Land Institute and the South Carolina REALTORS®.

As these cases demonstrate, NAR, along with its partners and state and local associations, are the first and last line of defense for property rights—backed by 1.5 million members who live in every ZIP code in America. It's a standing army ready to raise the alarm anywhere property rights are threatened. ■

Patrick Newton is director of advocacy for the National Association of REALTORS®.



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Industrial Space Slows Pace

Year-over-year data as of May 2024

	Net Absorption	Rent Growth	Vacancy Rate	Cap Rate	Hot Markets
Industrial	124 million square feet	5.3%	6.19%	7.26%	Phoenix; Richmond, Wash.
Multifamily	356,984 units	0.73%	7.84%	5.96%	New York; Washington, D.C.
Office	–57.9 million square feet	0.73%	13.75%	8.38%	Miami; San Antonio, Texas
Retail	45.8 million square feet	3.1%	4.1%	6.82%	Raleigh, N.C.; Phoenix

SOURCE: NAR ANALYSIS OF COSTAR DATA

An End to the Bleeding

Apartment construction leads to rent reductions and lower inflation. **BY LAWRENCE YUN**

High interest rates have not only whacked commercial investment transactions by more than 50% but also pushed commercial property prices down by 25% from their peak two years ago.

The Federal Reserve has delayed the rate cut due to consumer price inflation remaining above the desired 2% target. But interest rates are set to descend soon, putting an end to the hemorrhaging.

With massive apartment completions set to take place this year, the rent component of the consumer price index will steadily move from a recent level of 5.7% to nearly 0% in the upcoming months. This expected trend will help push down inflation and similarly affect interest rates.

Do not, however, expect super-low borrowing rates. The very large federal budget deficit will soak up more loanable funds, thereby leaving behind less to borrow in the private sector. The 10-year Treasury yield is likely to fall by at best 100 basis points, from 4.5% in spring to 3.5% early next year. The lowering of interest rates is still good news, as it will lead to more property transactions and price recovery for most properties in most markets. The downtown office market is still bleeding and, unfortunately, will not participate in the recovery. ■

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

Sears with the Massachusetts delegation at the U.S. Capitol.

PRESIDENT'S MESSAGE

KEY PRIORITIES

Thousands of members were on Capitol Hill in May advocating for commercial real estate priorities, including expansion of the Low-Income Housing Tax Credit, retention of the 199A qualified business income deduction, and preservation of the 1031 exchange. In April, NAR wrote to a congressional panel, emphasizing the need for federal policies that ease the adjustment to COVID market changes and encourage lender flexibility as billions of dollars in debt comes due. And the Bipartisan Congressional Real Estate Caucus was launched this spring to explore solutions with industry experts. Meanwhile, NAR is supporting property rights in the courts and fighting regulatory burdens at the state and local level. Effective advocacy takes time and continuous effort. Your membership and engagement are the reason we achieve so much year after year. We'd love to thank you personally at this year's C5 + CCIM Global Summit *(see page 19)*, where a dynamic lineup of speakers and networking experiences will help you make the most of the coming year. –Kevin Sears

Collaborative Partnerships

Build Local Relationships Using EDO Toolkit

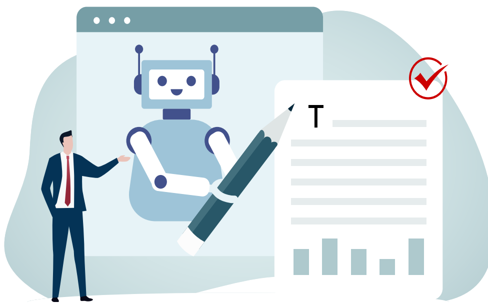
As a commercial practitioner, you're selling the value of your market. A local or state economic development organization can be a great partner in helping you attract and retain clients.

The Economic Development Organization Toolkit is a new guide to understanding the work of economic developers and building strong collaborative relationships with EDOs. For practitioners, as well as state and local REALTOR® associations, the toolkit offers information on:

- Common incentives aimed at attracting businesses and stimulating economic growth
- Opportunity zones as drivers of revitalization and job creation
- Tech hubs as centers of innovation
- National Association of REALTORS® grants that can be used by state and local REALTOR® associations to support economic development initiatives in your community
- Details about how EDOs strategically target foreign direct investment
- Information about how to join the USA Pavilion at MIPIM, one of the world's leading property summits

Whether you're looking to explore new initiatives or ideas for growth, dive in and discover how you can build collaborative partnerships with your EDO.

nar.realtor/commercial/economic-development-toolkit



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Client Resources

Let a Market-Specific AI Scriptwriter Do the Work

Want to keep your clients updated about the market but don't have the time to write? The new Realtors Property Resource® Market Trends ScriptWriter analyzes market trends and does the work for you. The AI software, powered by ChatGPT, can help create content specific to a chosen market. Commercial members can tailor the script output by selecting a trade area, and then customizing:

- Tone to match the recipient's style (professional, engaging, or conversational)
- Target audience (city planners, business owners, tenants or investors)
- Data points (primary segment, income, population and housing) that resonate with clients

The script can be modified into several formats:

- One-pager: A concise explainer that captures the essence of the area
- Detailed report: A deeper understanding of an area for data-driven clients or as a thought-leadership article
- Presentation outline: A step-by-step guide for an investor pitch session

Realtors Property Resource® delivers access to an all-encompassing, exclusive real estate platform at no additional cost.

narrpr.com

Insurance Intel

Premium Increases: A Multiheaded Beast

Despite handwringing over the availability and rising cost of insurance, premium increases aren't even keeping up with the rate of inflation, according to Eric Goldberg, an attorney and department vice president of commercial lines for the American Property Casualty Insurance Association, an organization that represents insurers. "Insurance is not a source of inflation but a reflection of it," Goldberg told a crowd of commercial practitioners at the REALTORS® Legislative Meetings in Washington, D.C., in May.

Of course, inflation is just one of the factors behind today's insurability challenges, he said. Goldberg pointed to troubling legal trends—including jury anchoring, in which plaintiffs' attorneys request excessive awards, and third-party litigation financing by those who approach the courts as an investment opportunity—that are creating losses for insurers.

Other factors include climate change, the increase in exposure values for buildings in hazard-prone areas, the cost of reinsurance, office vacancy rates, and ESG activism. On a positive note, Goldberg said, the insurance industry is taking an active role in the effort to make areas more resilient and mitigate risks.

Goldberg's presentation slides and others from RLM are accessible at nar.realtor/presentations.

©NAR

Eric Goldberg

$15.2B

The amount of money poured into litigation by third-party financers in 2023

Financers admit they "make it harder and more expensive to settle cases."

Financing is now being reported in 30% of patent litigation.

SOURCE: AMERICAN PROPERTY CASUALTY INSURANCE ASSOCIATION

Gear Up for the C5 + CCIM Global Summit 2024

Conference offers premier education, networking and commercial real estate forecasting.

Network, build relationships with key decision makers, learn about the latest commercial real estate trends and get deals going—all at one event, the C5 + CCIM Global Summit, Sept. 17–19 in Hollywood, Fla.

Keynote speakers (as of press time on June 3) include Tiffani Bova, an expert in top-line growth and sales transformation, and Paco Underhill, CEO and founder of global consulting firm Envirosell, who will provide actionable insights on understanding consumer behavior. Bova has led innovation strategies at Salesforce and advised the world's largest technology companies as a Distinguished Analyst and Research Fellow at Gartner. Underhill is author of popular books that have been translated into multiple languages: *Why We Buy: The Science of Shopping; What Women Want;* and *The Future of Eating and Drinking.*

The summit will offer field experiences in the booming South Florida region along with specialized sessions on building a new commercial real estate consulting or investment business, real estate asset and portfolio management, and leasing versus owning comparison and analysis. Breakout sessions will cover 1031 tax-deferred exchanges; industrial, office, multifamily and retail markets; and financing and loan servicing.

c5summit.realestate

©URBAN VILLAGES

A Sweet Success

A 20th century office building is returned to glory.

BY JEFFREY STEELE

Denver's historic Sugar Building, formerly the Great Western Sugar Company, designed in the style of architect Louis Sullivan, had lost most of its office and restaurant tenants and gone into receivership. It was in bad shape.

Developer Urban Villages set about returning the building to its glory. In a gut remodel, it replaced the roof, windows and mechanicals, opened the ceilings to reveal long-concealed timber beams, removed plaster and drywall to showcase brick interiors of exterior walls, and restored the showpiece Otis cage elevator and adjacent wraparound staircase.

"The building had been broken up into a lot of smaller spaces, and we took those divisions out to create large open office spaces. We exposed the original brick, which made it a much more appealing interior," says Jon Buerge, president of Urban Villages. On the exterior, tree wells have been added, shading new wraparound patios outside its two restaurants.

The Sugar Building commands some of the highest lease rates in downtown Denver, despite being 118 years old. That doesn't mean, however, that Urban Villages is finished with the project.

"Right now, we're working on upgrading all our systems and working to hike our energy performance," Buerge says. "We are converting from considerable natural gas to 100% electric within the block."

"Historic adaptive reuse and historic preservation can co-exist with addressing climate change in a beautiful and respectful way."

Jon Buerge, president, Urban Villages

BLOCK PARTY

Urban Villages continues to work with the city of Denver on streetscapes to draw customers into Sugar Building's restaurants: Little Owl Coffee, ChoLon Modern Asian and The Kitchen American Bistro.

THE DETAILS

- Opened in Downtown Denver in 1906
- Acquired in 2003 after falling into disrepair, losing many tenants
- 75,775-sq.-ft. renovation project completed in 2006
- SugarCube and SugarSquare added to create Sugar Block
- 166,000-sq.-ft. SugarCube building features luxury apartments, offices, restaurants and 132 underground parking slots
- 16,000-sq.-ft. SugarSquare infill addition to the original building completed in 2017
- New sustainability effort under way to update lighting and beautify outdoor areas