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COMMERCIAL CONNECTIONS

A PUBLICATION BY THE NATIONAL ASSOCIATION OF REALTORS®

INSIDE THE INDUSTRY: RECRUITING, MARKETING, THRIVING

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COMMERCIAL Real Estate
REALTOR®
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COMMERCIAL Real Estate
NATIONAL ASSOCIATION *of* REALTORS®
REALTOR®

THE LATEST

2018 Commercial Real Estate International Business Trends Report Released

This NAR report analyzed cross-border commercial real estate transactions made by REALTORS® during 2017, finding foreign investment in U.S. commercial real estate remains strong. The study revealed in 2017 nearly one-fifth of commercial members closed a sale with an international client, and 35 percent said they have experienced an increase in the number of international clients in the past five years.
www.nar.realtor/CRE-international-trends

Technology Update: NAR's Search for a Commercial Listing Platform

In late Spring, NAR received 11 proposals for a new national commercial real estate listing platform. During the early part of Summer, staff from NAR's Strategic Business, Innovation and Technology group as well as Commercial Staff conducted interviews and company reviews. Companies were evaluated on criteria including geographic market penetration, number of listings/users, financial capitalization, business/revenue model, user experience, and technology. Next steps will be to narrow the field of contenders and engage members in product demos. NAR's goal is to select a platform this Fall.

NAR continues to add commercial technology vendors to the Commercial Data & Listings Resource Guide online. Currently 38 companies are featured across 11 categories; 13 offer discounts to NAR members.
www.nar.realtor/commercialdata

Attend Upcoming National Commercial Events

Four of NAR's affiliated Institutes, Societies, and Councils host annual conferences this fall – all superb sources of education and networking. Which will you attend?

IREM® GLOBAL SUMMIT / September 26-29
www.irem.org/events/irem-global-summit

SIOR FALL WORLD CONFERENCE / October 11-13
www.sior.com/conferences/2018-fall-world-conference

CCIM GLOBAL CONFERENCE / October 18-19
conference.ccim.com

COUNSELORS OF REAL ESTATE® ANNUAL CONVENTION / October 21-24
www.cre.org/event/2018-annual-convention-charleston

REALTORS® LAND INSTITUTE / March 3–6
www.rliland.com/national-land-conference

THE GOOD NEWS ON DUES

HOW NAR MEMBERSHIP DUES HELP COMMERCIAL MEMBERS SUCCEED

A NOTE FROM 2018 NAR TREASURER, TOM RILEY, CCIM, CRB

TOM RILEY

As a member, I want to affirm the National Association of REALTORS® is here to support and assist your professional growth every day. We're deeply engaged in all facets of real estate, strengthening your business and the entire industry, to ensure your success and the opportunity for all Americans to enjoy the benefits of investing in real property.

This is true for all members, including those engaged in the commercial industry. I should know, because I am one too, having practiced commercial real estate for more than 35 years. And as NAR's Treasurer, let me share how the 2019 budget investment comes back to you as a commercial practitioner.

Last month at the REALTORS Conference & Expo in Washington, D.C., the Board of Directors passed a budget for 2019 with $35 million in new programming called S.M.A.R.T. Initiatives – Strategic Measures Advancing REALTORS® to Tomorrow.

Per member, almost half of the $150 in 2019 will go to advocacy programs, including REALTOR® Party initiatives such as targeted state and local real estate and homeownership advocacy, issues mobilization, campaign services, RPAC direct fundraising, consumer advocacy outreach, federal public issues advocacy, and federal independent expenditures.

NAR invests substantially in advocacy because we know the power of 1.3 million members lending their voice to an issue. It's why REALTORS® were able to, against long odds, gain wins for commercial real estate in the Tax Cuts and Jobs Act, such as preserving 1031 exchanges and capital gains treatment for carried interest in the final legislation.

Now REALTORS® are at it again, urging Congress to reform and extend the National Flood Insurance Program, which expires July 31. Millions of small businesses and home owners depend on the federal program to protect their property against flooding, the costliest and most common natural disaster in the United States.

While advocating for our members is a big part of NAR's mission, we also make sure to support commercial members in another way: by supplying you with the best possible professional resources and benefits. As an example, a portion of your dues goes to RPR® Commercial (REALTORS® Property Resource), your one-stop-shop for comprehensive market data and analysis. RPR®'s dynamic reports help agents and business owners match the best location with the most suitable target audience using demographic, psychographic, and spending data information. In today's market, instant access to powerful market data is a necessity and I use it with my clients every chance I get.

We have created a dedicated page at *nar.realtor/smartbudget* for all information related to this initiative.

Let me leave you with a final thought: At NAR, every member counts. Regardless of your scope of business, you have a role in our great organization, and I encourage you to get involved, if you are not already.

On behalf of the Leadership Team and our 1.3 million members – thank you for your support.

SUPREME COURT RULES FOR INTERNET SALES TAX FAIRNESS

By Erin Stackley, Senior Commercial Legislative Policy Representative, NAR

In June, the U.S. Supreme Court issued its ruling in the case of *South Dakota v. Wayfair, Inc.*, holding that states may require online retailers to collect and remit sales tax on purchases, even when those retailers do not have a physical presence in that state.

This ruling is a victory for NAR and commercial real estate practitioners, who have long been advocating for sales tax parity between online sellers and brick-and-mortar stores. Main street retailers are an important commercial sector and competing against online sellers offering goods at lower prices due to not charging sales tax has hurt their ability to grow and, in some cases, caused them to go out of business. It will also help states struggling to make up for lost sales tax money, estimated to be in the billions of dollars each year.

The Wayfair decision reverses a 1992 Supreme Court case, *Quill Corporation v. North Dakota*, which held that states could not require remote sellers (at the time, catalog retailers) to collect state sales tax unless they had a "nexus" to the state, via a physical presence within its borders. "Congress may be better qualified to resolve [the problem]," the Court stated. Since that decision, Congress has introduced several bills in the Senate and the House to allow states to require remote sellers to charge sales tax on purchases. NAR, which is a member of the "Marketplace Fairness Coalition" advocating for internet sales tax fairness, has long supported these measures.

The *Wayfair* decision opens the door for other states to enact similar laws to South Dakota's, which will help level the playing field between retailers regardless of where they exist. The majority opinion, written by Justice Kennedy, reflects the changing nature of 21st century commerce, declaring the physical presence test is out of date and "economic and virtual contacts" with a state are enough to satisfy the nexus requirement.

This decision does limit states to the scope of the South Dakota law, which requires sales tax collection by sellers delivering more than $100,000 of goods or services into the state, or engage in two-hundred or more separate transactions for the delivery of goods or services per year.

Estimates vary, but it is agreed billions of dollars are lost each year via uncollected sales tax on online purchases (technically residents are supposed to remit that money when they file state taxes each year). States will now be able to reinvest that money into infrastructure, schools, public works projects, and other areas that make communities attractive and increase property values.

NAR is pleased with the result from the Supreme Court on this issue, and looks forward to seeing Main Street businesses once again competing on a level playing field with e-commerce retailers.

Learn more at *www.nar.realtor/internet-sales-tax-archive*

TELLING YOUR STORY TO SUPPORT LOCAL LEGISLATION

By Adriann Murawski, State & Local Government Policy Representative, NAR

The best way to support local legislative efforts is to make it personal. When a legislative issue you have a strong opinion on arises, craft your narrative. For example, a number of communities have updated sign ordinances. In some situations, local governments have proposed amendments that are broad and applicable to all temporary signs including real estate signs. These regulations could significantly impact real estate transactions, if for example, temporary signs have a short time limit for placement or there are heavy restrictions on the location within the public right of way.

Personalize your connection to the proposed sign ordinance and how it impacts your business. Determine how long a typical commercial transaction takes place. Emphasize how much the sign helps you to market the property and what is at stake if you are unable to use it properly. This personal connection can be very compelling to local governments. Further, consider expanding your thought process to include the potential loss of revenue to the local government if the ordinance means more properties like yours will sit vacant.

Your local REALTOR® association has the capability to influence public policy as a major stakeholder, so it's wise to familiarize yourself with its structure. Typically, local REALTOR® associations hire professional staff, such as Government Affairs Directors (GAD), Political Coordinators, or the Association Executive to ensure your interests are represented in your market. Your REALTOR® association also likely has a legislative committee with volunteer REALTORS®. These members shape the association's policy priorities and advocacy for legislation on real estate issues. Sharing your personal story with your legislative committee or GAD can be very useful as they formulate policy recommendations.

REALTOR® associations also have access to NAR's REALTOR® Party resources such as the Land Use Initiative, Issues Mobilization Grants, and Smart Growth Grants. These programs assist local association efforts to engage the public and lawmakers throughout any legislative stage. The end goal is to position REALTORS® as experts and industry leaders.

As a final thought, the time is ripe to engage in local legislative efforts that increase your city's desirability. Think about the impact of a new park, bike trail, or other amenities with great potential to attract new businesses or services. Engaging in the legislative process by sharing your perspective can have a long-lasting effect on your market. Ultimately, you and your local association can drive public policy. When you share your personal story on legislative issues, you help strengthen the REALTOR® message.

TAKE A DEEPER DIVE

NAR APPLAUDS SIGNING OF BANKING REFORM LAW

In late-May, the President signed into law S. 2155, the "Economic Growth, Regulatory Relief, and Consumer Protection Act," easing the process for banks to make commercial loans by clarifying implementation of the Basel III "High Volatility Commercial Real Estate" (HVCRE) risk-weight rules. Federal banking agencies must now issue a new rule addressing HVCRE loans that comports with the Act. NAR will closely monitor this process and work with the agencies to ensure a smooth implementation. *Learn more at bit.ly/2LBah2q*

CONFERENCE & EXPO GUIDE

READY >>>>>>>>> SET BOSTON!

REALTORS® CONFERENCE & EXPO
NOVEMBER 2-5, 2018

PAAK THE CAA IN HAAVAAD YAAD AND GET READY TO LEARN, GET NEW TOOLS, AND FIND THOSE MISSING R'S! (and by that we mean meet new REALTOR® colleagues from all over the world!)

THE COMMERCIAL MARKETPLACE AT THE REALTORS® EXPO >>>

A space designed for networking, deal-making and finding technology tools from exhibitors, the Commercial Marketplace is all-things-commercial real estate.

COMMERCIAL SERVICES PAVILION

Stop by for a complimentary cup of coffee, pick up the latest magazine and chat with staff about resources and services. Visit with the Institutes, Societies and Councils – get the latest info on upcoming classroom education and online learning opportunities, including how to earn valuable designations.

EDUCATION CENTER

Got 30 minutes? Take a seat and learn about hot topics, industry trends, and new tools useful in your commercial, land or property management business. Experts will give "Learning Breaks" on the hour and half hour, with interactive Q&A time in a small group format.

BUT WAIT, THERE'S MORE!

A special networking event, complimentary headshots for commercial practitioners, and fun awaits! Look for the RED carpet at the Expo to find your space. Hint: We're near the entrance this year.

COMMERCIAL SCHEDULE AT-A-GLANCE >>>

>> THURSDAY, NOVEMBER 1ST

- Commercial Legislation and Regulatory Advisory Board Meeting
- Commercial Research Advisory Board Meeting

>> FRIDAY, NOVEMBER 2ND

- Commercial Caffeinated Breakfast (TICKETED EVENT)
  Grab a cup of coffee and a hearty breakfast and hear from a keynote speaker. Bring your business cards to network!
- Commercial Committee Meeting
- Property Management Forum
- Land Use, Property Rights & Environment Committee Meeting
- Federal Taxation Committee
- Global Business & Alliances Committee
- Commercial Economic Issues & Business Trends Forum
- Commercial Education Sessions
- Commercial Marketplace
- Global Real Estate Pavilion & Global Real Estate Theater
- REALTORS® Trade Expo

>> SATURDAY, NOVEMBER 3RD

- Commercial Leadership Forum
- Commercial Education Sessions
- Commercial Marketplace
- Global Real Estate Pavilion & Global Real Estate Theater
- REALTORS® Trade Expo
- International Night Out & Awards Ceremony (TICKETED EVENT)
- Commercial Red Carpet Networking Social (TICKETED EVENT)
  Get your ticket to walk the red carpet at this exclusive event for commercial members! Join colleagues at WeWork on 501 Boylston Street in the Back Bay neighborhood of Boston, near the NAR Headquarters hotels.

>> SUNDAY, NOVEMBER 4TH

- Commercial Education Sessions
- Commercial Marketplace
- Global Real Estate Pavilion & Global Real Estate Theater
- REALTORS® Trade Expo

>> MONDAY, NOVEMBER 5TH

- Commercial Education Sessions
- Commercial Marketplace
- Global Real Estate Pavilion & Global Real Estate Theater
- REALTORS® Trade Expo

PLUS!

RED CARPET NETWORKING SOCIAL

Don't miss your opportunity to connect over cocktails at this private, ticketed event, hosted by WeWork Boylston.

&

REALTORS® RELIEF RUN

Run or walk alongside Team Commercial on the morning of Saturday, November 3rd. Sign up at *www.ReliefRun.realtor*

NATIONAL ASSOCIATION *of* REALTORS®

REALTORS® Conference & Expo
Global Reach, Local Focus
November 2-5, 2018 • Boston, MA

FIVE STEP GUIDE TO MARKETING YOUR PROPERTY


JEF CONN

By Jef Conn, CCIM, SIOR

Congrats, you've just landed a new listing! Now what? This is the age-old question all agents face. How do you market the property to reach the right customers so you can quickly lease or sell the property for your clients?

HERE ARE A FIVE IDEAS THAT COULD WORK FOR YOU:

1 **Physical Signage** – Simply placing your real estate sign in front of the property will catch people's attention as they drive by. Be careful to place your sign to maximize drive-by exposure. Facing the sign where most of traffic sees it is ideal. Sometimes you need two signs, depending on the property and exposure levels.

2 **Marketing** – Make your property stand out with these pro tips: Use good colors on the package to grab attention. Show the property at multiple angles, including the inside! When possible include a floor plan. This helps potential buyers see potential in use of the space. Don't forget to include demographics. RPR® Commercial is a great asset to find demographic data for your property. Plug in the RPR® data to beef up your marketing.

3 **Tell the neighbors!** – Sometimes the most likely buyer for a property is located within a stone's throw of the property. When I list a building, I drop off marketing flyers in person to the neighbors of the property. It helps build new relationships, creates awareness for your real estate business, and of course helps market your property.

4 **Geo-Farming** – In addition to telling the neighbors, send physical marketing to the people that make the most sense. On a typical commercial deal, sending a postcard or marketing piece to the following entities creates awareness and drives business: properties within one-mile radius of your property, similar properties (ex: industrial marketing to industrial clients, retail to retail, etc), and other brokers. Some brokers find it important to send marketing to their top 100 clients (or future clients).

5 **Pick up the phone** – You've set up the marketing plan, now it's time to pick up the phone. Follow up with the people who received your physical marketing pieces and ask if they have any questions or know of anyone who might be a fit. Reach out to other brokers to make sure they are aware of the listing. Finally, cold call future clients. You now have a reason to call – your new listing!

Ultimately, you must decide what works best for you and your property.

TAKE A DEEPER DIVE

GO-TO SOURCES FOR GEO-FARMING LISTS

LIST SELLERS
Buy them from list sellers.
Just google *"buy mailing list for <zip code>."*

CENTRAL APPRAISAL DISTRICT
Find out if your central appraisal district is an option. Many will sell their lists for a nominal fee ($20-$100).

DO IT YOURSELF
Create your own lists by taking information from online appraisal district information. This takes a long time but is the most accurate.

NAR REach® CLASS OF 2018 HIGHLIGHTS STRONG COMMERCIAL TECHNOLOGY

By Todd Carpenter, Director of Strategic Investments, Strategic Business, Innovation, & Technology, NAR

Second Century Ventures, the strategic investment arm of the National Association of REALTORS®, has selected eight organizations for the 2018 REach® Class, a growth technology accelerator program helping launch companies into the real estate, financial services, banking, home services, and insurance industries.

As the number of innovators building new technologies for the overall real estate industry continues to expand, commercially-focused REALTORS® benefit as well. Here's how three of the companies in the 2018 REach® Class can serve you in your commercial real estate business.

BOX BROWNIE.COM

Looking for an affordable way to virtually stage a vacant commercial space? Box Brownie offers high-quality photo editing, virtual staging, floor plan redraws, and computer-generated imagery (CGI) renders at competitive prices. You simply upload your existing photos or floor plans, and the Box Brownie software creates beautifully-staged renderings of the space – allowing potential investors or business owners to see what the space could become.

ACTIVEPIPE

Your time is valuable. Would you like to spend it on trying to create a marketing flyer or would you rather spend hundreds of dollars on an expensive graphic designer? Active Pipe gives you a third option! When it's time to assemble a beautiful marketing flyer on a new property to email to your network, Active Pipe helps you build and deploy beautiful, professional, and mobile-responsive emails in minutes. In addition, use predictive data analytics and property feed integration to create automated customer journeys for your clients.

hurdlr

The last thing any agent wants to spend time on every day is tracking their mileage and expenses. But doing so can pay off in a big way when it comes time to do your taxes. Hurldr is like a FitBit for your financial performance. Hurdlr can help agents hit their income goals by keeping them updated with automatic tracking on progress along with proactive guidance.

To get plugged into these tech tools and other companies in the REach® 2018 class visit narreach.com/2018-reach-class

IN THEIR WORDS

ATTENDING THIS INTERNATIONAL EVENT PAYS OFF FOR MEMBERS

"It's an opportunity to build relationships I could not do geographically if I stayed in the U.S."

GEORGE HARVEY, ABR, CIPS, CRS, GRI, TELLURIDE, CO

THE USA PAVILION WAS HOME TO MEMBERS AND REPRESENTATIVES FROM MORE THAN 15 MARKETS

RÉSERVE CETTE DATE!

MIPIM 2019
MARCH 12 – 15
CANNES, FRANCE

VISIT
WWW.NAR.REALTOR/MIPIM
FOR REGISTRATION DISCOUNT
& MORE INFORMATION

"If I am back home and I want to talk to the CEO of the largest home builder in the U.S., I'm not getting in. He's got gatekeeper after gatekeeper after gatekeeper. I come to MIPIM and meet him personally and he says "Hey, come on our yacht so we can talk." MIPIM opens doors I could never do back home."

ALEX RUGGIERI, CCIM, CIPS, CRE, GRI, CHAMPAIGN, IL

"This is the future. Our world is shrinking. The people here understand that and are taking great advantage."

VINCE MALTA, SAN FRANCISCO, CA

"In the first day, I met someone which led to a meeting – resulting in someone actually being interested in investing in Rhode Island."

JOE LUCA, SRES, PROVIDENCE, RI

"I've gained new relationships. It's an eye-opening experience to learn how much people want to invest in the United States."

JENNIFER OTT, CCIM, LAS VEGAS, NV

"The world is getting smaller. This (MIPIM) is the mecca of real estate."

LEIL KOCH, CCIM, CIPS, CPM, CRB, MAUI, HI

"The second and third year combined we were able to get an investor commitment of $240 million to our region."

CHRIS ANDERSON, GRI, SAN DIEGO, CA

"MIPIM is the place to reinvigorate your business."

MAURICE HAMPTON, ABR, CIPS, SRS, CHICAGO, IL

MIPIM ATTENDANCE TOPS 26,000, INCLUDING DEVELOPERS, BROKERS, INVESTORS, AND POLITICAL LEADERS

OPPORTUNITIES TO NETWORK WITH 5,000 INVESTORS TRANSLATES TO BUSINESS FOR NAR MEMBERS

LOCAL ASSOCIATIONS REPRESENTING OPPORTUNITIES IN THEIR MARKETS

"So many different ways we can share what we have to offer in our region with people from all over the world – it would be next to impossible to do this anywhere else."

CHRISTOPHER SURANNA, CRES, GREEN, WASHINGTON, DC

YOUR MARKET HAS A STORY TO TELL

HOW RPR® CAN MAKE IT COMPELLING

By Emily Line, Vice President of Commercial Services, Realtors Property Resource®

Demographics and economic statistics are crucial for site selection. Consumers and employees alike now expect to connect with their environments, believe in products, and interact socially. How can REALTORS® get ahead of this experiential trend to support clients and ensure business sustainability? By moving beyond traditional demographic and economic facts to share a more detailed and thoughtful story about the trade area.

Let's walk through a scenario where a client is seeking locations with educated young professionals who spend on entertainment and self-improvement.

CUSTOMIZE AN ATTRIBUTE STUDY. Show your clients the right spots for business placement with tailored details around their specific needs. Demonstrate the depths of your knowledge by offering locations heavily populated by 20- and 30-something tech-focused professionals who spend on going to movies and museums, eating out, and shopping for clothes in stores and online.

TARGET AN AREA THAT SPEAKS TO THE CLIENT'S NEEDS. Confirm their essential criteria and dive deeper into their needs with a profile that paints a more comprehensive picture. For instance, this selected geography consists of young, highly-educated, tech-focused professionals with over 50% renting condos. They strive to be healthy, practice yoga and run, eat organic foods, go to museums, travel for work and pleasure, purchase trendy clothes, and frequent Starbucks, etc.

VALIDATE THE BUSINESS VIABILITY WITH PROJECTIONS. Share the current economic and demographic stats, along with a five year forecast. Ensure population density, millennial concentrations, per capita income, education, and employment.

THE TENANT SIDE OF COMMERCIAL LEASES

SPECIAL RISKS, SPECIAL ATTENTION

By Rob Warmowski, Contributing Writer

No matter which business sector it serves, the commercial real estate lease is a detailed, binding contract created to define the terms of occupancy. Yet, beneath this definition lurks the second great purpose of the document: commercial leases are also designed to offload as much risk as possible from the landlord and onto the tenant. It's for this reason that caution must be undertaken by prospective tenants and their brokers. Qualified, experienced legal representation is an absolute must when negotiating commercial leases. This article will barely scratch the surface by looking at some common issues and risks in the details of commercial leases.

Gross vs. Net Leases

Roughly speaking, the two biggest families of commercial lease types are gross leases and net leases. While both represent big risks to tenants, gross leases offer the greater chance of the lease language obscuring hidden pitfalls. This is because net leases outright leave the tenant with responsibility to pay property expenses beyond rent (taxes, insurance, maintenance) almost as if the tenant were the owner of the property. Gross leases, on the other hand, lay out tenant expense beyond rent in details that need attention right down to the units of measure being used and the calendar years being referenced. Getting the right "fit" with the details of a gross lease is a serious undertaking that depends on meticulous attention to those details.

What's at Stake? Way More Than Rent

A commercial lease can be dangerous because it can easily contain the seeds of destruction for a tenant. From a tenant's standpoint, the proposed mechanisms and rhythms of a commercial renter's term of occupancy might be easily imagined and sketched, but when they make it to paper, it's a different story entirely. This is because the commercial landlord is guaranteed to be concerned with contingencies and eventualities, largely invisible to the tenant at negotiation time, that add up to produce that landlord's total costs of ownership of the project or property. The lease is the number one tool landlords use

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THE TENANT SIDE OF COMMERCIAL LEASES: SPECIAL RISKS, SPECIAL ATTENTION *CONTINUED*

to protect themselves against these costs.

Total costs, whether or not they are related to the activities of a particular tenant, are commonly assigned by landlords to all tenants in a property, using a wide variety of mechanisms and formulas that, to the unfamiliar or unprepared, can shackle a tenant with unexpected and burdensome expenses down the road.

Pro Rata: Dividing the Whole Building Among Tenants
Pro rata shares of expense categories are an overwhelmingly common mechanism for negotiating and determining costs borne by a single tenant in a multi-tenant space. The Latin term simply means “proportion,” and space consumed against the whole building is used to determine dollar obligations of tenants. If a tenant is signing a gross lease for 35% of the "usable space" in a project, then there is a rough expectation that the landlord will be using that 35% as a factor in calculating expenses charged to that tenant.

It's the question "35% of what, exactly?" that offers a glimpse into the dangers. "Usable space" can be counted up a variety of ways, and finding out exactly how the term is defined can mean many dollars of difference to the bottom line. For example: does the useable space referenced in an office lease include or exclude structural columns or entry/exit ways? What about elevators, ductwork, or stairwells? Because each property and each landlord has a differing answer as to what is "usable" vs. "rentable", the tenant risks paying for space they don’t actually occupy.

Common Areas, Loss Factors, Load Factors
Parts of a building shared with all tenants are defined as common areas. Common areas can include elevators, hallways, lobbies, parking lots, and other non-private areas of the property. They require maintenance, and landlords under gross leases usually will not bear those costs themselves.

The way a landlord charges a tenant for the maintenance of this non-private space is not usually in rent but in an adjustment calculation against the space provided. The landlord often does this one of two ways. Either the tenant will pay for the space advertised but have that space reduced (called a loss factor) or the tenant will get all the space advertised but will pay more per square foot (called a load factor).

The method chosen is influenced primarily by reconfiguration options present in the space. If the space is retail and is subdivided permanently, the landlord is likely to use the "load" method to cover the common area costs, adding a cost per square foot. Alternatively, when the space is new construction the tendency will be for the landlord to use the "loss" method, delivering less space.

Depending on the method used, a tenant can end up with significantly less space than expected, or conversely, can end up paying significantly higher cost per-square-foot than is advertised. This is where an experienced broker earns their keep, by anticipating the final outcome – real space occupied and real dollars paid – and guiding a tenant through the ways to get there. A broker will raise the issues early and learn the specific calculations put down by the landlord, do their own measurements, and compare against what's being offered.

Your Mission: Find All the Risk
Common-area calculations are only one of a set of concerns where advertised per-square-foot rent and the lived reality on the ground can be significantly different. Base year calculations, escalation clauses, measurements of floor space that don't resemble reality: all of these and much more can add up to giant risks tenants and their brokers must identify, specify, and negotiate early in the process. After the lease is signed is the wrong – and most expensive – time to learn about these risks.

THE PROPERTY MANAGEMENT SIDE OF COMMERCIAL LEASES

MICHICA N. GUILLORY, GRI

FIVE LESSONS I WISH I’D KNOWN THEN

By Michica N. Guillory, GRI

C.S. Lewis wrote “experience is the most brutal of teachers.” But why learn the hard way when you can benefit from the mistakes of others? Here are five costly mistakes I’ve witnessed over my 18-year career in leasing and property management. I’ve concealed the names to protect the not-so-innocent offenders, but every word is true. Helping landlords avoid these pitfalls can save them money and headaches!

“Disaster Years” as Base Years
Using a base year to calculate operating expenses is simple. First, establish how much it costs to operate a property in a specified year – the base year. In subsequent years, the tenant pays its pro rata share of operating costs in excess of the base year’s costs. Got it? Great! In my neck of the woods, Houston’s suffered two straight years of disasters: the 2016 Tax Day Floods and Hurricane Harvey in 2017. If a tenant is "slick" enough to use one of them as a base year and the landlord had high expenses restoring the property, expenses may never be recovered from that tenant. One of my largest tenants was a global oilfield services firm occupying multiple full floors. During renewal negotiations, they’d slipped a disaster year past the landlord and leasing director. They didn’t pay an OpEx bill for years! Here’s a tip: If a disaster happens after a base year has been selected, build in a clause allowing for expense recovery utilizing a different year.

Casualty Clause in a Firebug's Favor
Many moons ago, I managed a 13-property portfolio with a mixture of office, retail, and industrial sites. What no one told me during the interview was that nearly 25% of a retail site had just been destroyed by fire. Thanks! A karaoke bar was the origin of the blaze, which fire marshals deemed "incendiary." This lead to further investigation into the tenant’s culpability and infuriated the property owner, who didn't want to lease to the same tenant after restoration. But guess what? The lease forced the landlord to give the “fire bug” the right of first refusal to occupy the suite. Needless to say, the landlord quickly had all of his leases re-written. The lesson? A quarterly lease review should be standard operating procedure.

Team Tenant vs Team Landlord
On the residential side of real estate, the proper and legal way to conduct an intermediary transaction is drilled into our psyches. (re: We’re petrified of landing in mediation, arbitration, or litigation for misrepresentation!) Residential practitioners are very clear on how to request permission from clients to enter into intermediary and how to assign agents and conduct proper communications. Things aren’t so prevalent on the commercial side where it’s not uncommon to discover an assumed intermediary status buried in the final clauses of a lease. This is an expensive lesson if an unaware broker representing a tenant ends up with no commission after working for weeks. Moreover, landlords and property managers can find themselves in a precarious position by attempting to walk both sides of the line. The best bet? If you’re unsure about how to be an intermediary, pick a side!

OT HVAC Is a Hot Button Issue
Boy, oh boy! I have seen it all when it comes to OT, or after-hours, HVAC billing. I've seen tenants get reamed

...CONTINUED

THE PROPERTY MANAGEMENT SIDE OF COMMERCIAL LEASES: FIVE LESSONS I WISH I'D KNOWN THEN *CONTINUED*

with unjustifiable hourly rates as high as $65 in a C-class building. In this scenario, the tenant used after-hours air for an additional three hours per day, Monday through Friday, costing nearly $47,000 annually – comparable to one full year of rent. This became a major sticking point during renewal negotiations. Conversely, I've seen landlords miss a billing opportunity because multiple tenants on the same floor are riding on another tenant's OT HVAC request. The solution? Ask housekeeping to report which tenants are in their suites after hours on a regular basis. They'll be more than happy to share as these are generally the tenants who ask them to come back and finish later.

Learn the ABCs of CPI

Expense Reimbursement CPI calculations can be uber complicated and landlords can lose thousands if performed incorrectly. Midway through my career, upon starting a new job at a REIT, I was handed a binder containing two-inches of documents. My boss gave me one directive: "Get our money back." I'd acquired yet another nightmare situation. This time, a non-GSA, local government tenant owed the landlord nearly $90,000 in CPI-based expense reimbursements spanning several years. The problem? No one at the company understood how to use Cost of Living indexes and appropriate formulas to calculate proper billing amounts. After revamping early miscalculations, and several commissioners court meetings later, we successfully recaptured $86,000. Ownership also learned a valuable lesson. Let's just say the landlord was no longer impressed by a 15-year lease that recovered virtually no expenses.

Do you have a comment or question about this article? Contact us at NARcommercial@realtors.org with your thoughts.

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(RE)DEFINING ADAPTIVE REUSE

By K.C. Conway, CRE, MAI, Chief Economist, CCIM Institute

K.C. CONWAY

Editor's note: This article is an excerpt from the 2Q18 Commercial Real Estate Insights report from CCIM Institute and the Alabama Center for Real Estate, which redefines, quantifies, and provides best practice examples of adaptive reuse. To read the full report, visit www.ccim.com/insights.

Adaptive reuse has been garnering headlines for more than a decade, but it's no longer just about repurposing beautiful historic properties in primary markets to entice millennials. Many less sexy but equally newsworthy projects are starting to appear in secondary and tertiary markets, where investors are searching for yield.

We predict that adaptive reuse projects will make up a greater percentage of investment activity than self-storage and other select non-core property types by 2023. But the commercial real estate industry's understanding of this property segment isn't keeping up with this growth. The absence of a generally accepted and comprehensive definition for adaptive reuse real estate impedes investment and development.

That's why the Alabama Center for Real Estate (ACRE), housed within the Culverhouse College of Business at the University of Alabama, in collaboration with CCIM Institute, is working to quantify and qualify adaptive reuse activity across primary, secondary, and tertiary U.S. markets. Market participants need to understand its impact on metrics such as vacancy and absorption; and debt and equity capital sources need segmented data to underwrite more of these investment opportunities. Capital will not flow to what it can't measure, monitor, or manage.

To develop a recommended industry definition for adaptive reuse, ACRE and CCIM Institute interviewed a broad cross section of industry participants, including developers, brokers, municipal government leaders, CCIM instructors, Counselors of Real Estate, lenders, and investors. Utilizing their input, we determined that the following elements are necessary for a project to qualify as adaptive reuse:

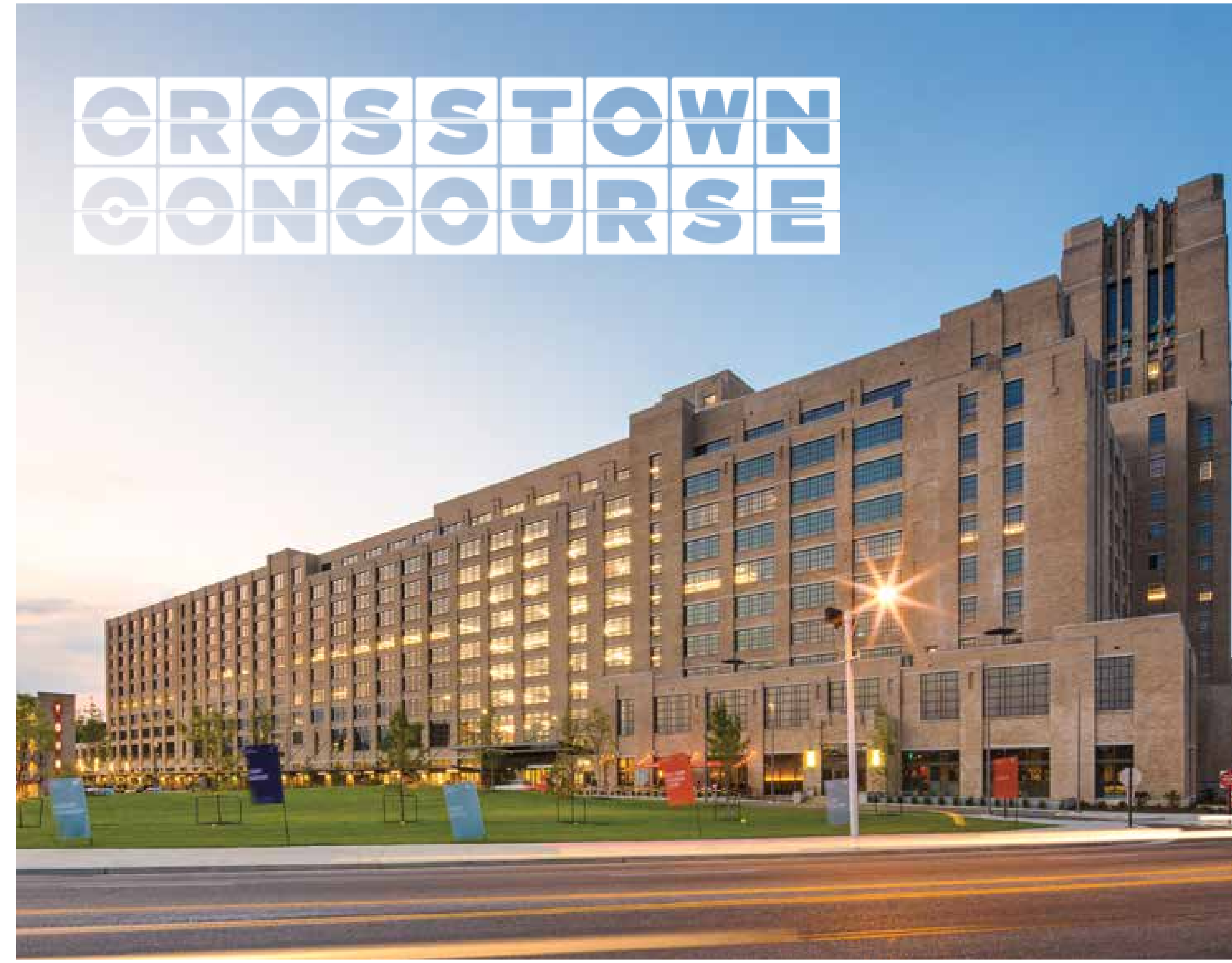
1. Existing structure: While adaptive reuse projects may involve some level of new construction or an expansion/addition of space, they always start with an existing structure.

2. Functional and/or economic obsolescence: All adaptive reuse projects commence with a property in a state of disrepair, high rate of vacancy, or with highest and best use in transition. In essence, the old use is no longer productive or economically viable, and the tenants have left.

3. Change of use: The project/property must involve a repurposing of a prior structure and use, not a mere re-tenanting with tenant improvements.

4. Economic viability: The new project/property must pass the ultimate test of highest and best use. Not only does the reuse need to be physically possible and legally permissible; it also has to be economically viable. This final element raises an interesting question about the use of tax credits or other local government incentives. Frequently such incentives are necessary to make a project economically viable due to the cost of assemblage, higher repurposing costs with a greater cost-overrun risk factor than new construction, and speculative lease-up risks. The use of tax credits and incentives does not disqualify a project for adaptive reuse classification.

There are other elements that are common among adaptive reuse projects but not prerequisites for classification. For example, many involve costly rezoning or local ordinance



THE CROSSTOWN CONCOURSE IN MEMPHIS, TENN., MEETS ALL THE CRITERIA TO QUALIFY AS ADAPTIVE REUSE. BUILT IN 1927, THE FORMER SEARS FACILITY NOW FEATURES MULTIFAMILY, OFFICE, AND RETAIL SPACE, AS WELL AS CROSSTOWN HIGH SCHOOL. *PHOTO CREDIT: CHAD MELLON*

variances. Communities such as Tucson, Ariz., have incentivized adaptive reuse by officially addressing some of these impediments and thus saving developers time and money.

Also, local community support and a local developer or project team are front and center in every large-scale, successful adaptive reuse project that we studied.

In addition, most adaptive reuse projects involve multiple uses, which requires project participants to be skilled in more than one property type, as well as market analysis.

Adaptive reuse projects are typically complex and capital-intensive undertakings that require vision, flexibility, and a diverse project team anchored with local experts. But they can also breathe new life into communities and provide significant returns for investors. With an official definition for adaptive reuse, we can begin to quantify investment activity and further encourage the transformation of cities across the country.

K.C. Conway, CRE, MAI, is CCIM Institute's chief economist and the director of research and corporate engagement at the Alabama Center for Real Estate (ACRE) housed within the University of Alabama's Culverhouse College of Commerce. Learn more at www.ccim.com/insights.

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SUPPLIES UNCHAINED:

PERSPECTIVES ON PROVIDING 21ST CENTURY DISTRIBUTION SOLUTIONS

By Jacob S. Knabb, Associate, Commercial Communications & Services, NAR

Wayne Gretzky famously claimed the secret to his success was quite simple: "Skate to where the puck is going, not where it has been." Gretzky's philosophy struck a chord with leaders in a multitude of industries and for good reason: the idea of consistently being ahead of trends by anticipating what's coming better and earlier than the competition is how you become known as "The Great One."

In the industrial market, commercial practitioners are attempting to skate ahead of supply chain innovation in order to capitalize on a robust market. What will the warehouse of the future look like? How will goods be delivered and what specialized handling equipment will process them? How fast can someone get twenty pallets of refrigerated goods from the Port of Charleston to a cold storage unit in Ohio?

These are the sorts of questions Howard Lichtig, SIOR, is asking. Amazon is making a substantial investment in Lichtig's Cleveland/Akron market, converting two failed malls into distribution centers employing several thousand North-East Ohioans.

Lichtig feels this represents an opportunity, so he's anticipating future market needs by developing a cold storage hub to accommodate increased demand. "I've got land under contract and am working on securing tenants," Lichtig says. "We have lenders and it appears we can build about a five hundred thousand square feet and accommodate north of 100,000 pallets."

As the only hub in Lichtig's market, it's being built 'forty-foot clear' to accommodate future occupants who will be thinking by the cubic foot, and will feature a glycol antifreeze system to prevent floors from buckling, allowing rooms to change temperatures based on current needs.

Chris Copenhaver, SIOR, agrees with Lichtig's assertion that there is a need for more distribution solutions like cold storage hubs. He believes these opportunities further heighten the importance of supply chain solutions and advises clients to "follow the transportation trail."

"We are taking a deeper dive with our clients on their new locations," Copenhaver explains, "accounting for distances to major logistics hubs and ensuring they make sense throughout the entire supply chain." If Copenhaver's clients can't easily get their inventory from suppliers, they can't meet the delivery expectations of their customers in today's "on-demand" culture.

Copenhaver anticipates a major shift in material handling equipment such as automated retrieval systems and "pick & pack" machines. Construction and design trends in cold storage facilities are costly, because they require a building shell designed to fit around the interior operations, not the other way around. "Due to the amount of capital corporations have to invest," Copenhaver explains, "our clients are forecasting the next 20 years of operating efficiencies, labor availability, changes in technology and environmental protection." Much of this expanding supply chain is fed by goods shipped overseas on deep draft vessels, a phenomenon that led to expansions of the Panama Canal and East Coast ports like the one in Charleston, South Carolina, as well as rapid development of inland ports, which serve as holding facilities for goods.

Hagood Morrison, CCIM, MBA, SIOR, says this evolution has changed his business. "Folks like me get paid when we fill a distribution center that's here," Morrison says. "Before, when you did not have active inland ports with active distribution centers, it meant a simpler process to fill bulk distribution centers."

Now Morrison's team must know how to get a shipping container from Charleston to the inland port in Greer, South Carolina, the next day, where it will be retrieved and shipped to a distribution hub. Morrison closely monitors trucking costs and "turn times," which are measured in the time it takes for a trucker to pick up a container, deliver it, and get back. "I've got a matrix schedule which allocates for the number of costs for a facility and number of turns. And I work it constantly because it is a major attractant for my clients."

At the end of the day, logistics is a fancy word for how things get from one place to another. It's a complicated, dynamic system of knowledge, demanding attention and dedication to all of the 'links' in the supply chain. Commercial practitioners with interest in this corner of commercial real estate must work to understand everything from how to create a hazmat compliant storage facility inside a larger facility to how to get FDA approval for storing coffee inside of a distribution hub that also contains chemicals and uncooked meats. From the Port of Charleston to a grocery store in Akron, practitioners like Lichtig, Copenhaver, and Morrison are providing this value to their clients and there are many more like them out there ready to network in order to get deals done. Will you become one of them?

SIOR AROUND THE WORLD

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SIOR recently held its second International European Conference in the historic city of Warsaw, Poland. Attendees hailed from 14 countries. Programming offered education, networking, industrial and office tours – including a guided tour of Warsaw and the Royal Lazienki Park. The conference topper was a presentation featuring the former President of Poland, Lech Walesa!

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LICHTIG'S TIPS FOR COMPREHENSIVE THINKING

1. Ask your client if they need help comparing markets and utility/labor/costs. They may not tell you what's going on in another part of their company only because they never saw you as part of that solution.
2. Don't silo yourself into transaction work. You provide better value by widening your focus beyond rent rate per square foot.
3. Work with academics to figure out how market trends relate to real estate. They're not our competitors but our collaborators.

COPENHAVER'S TIPS FOR EFFECTIVELY SPECIALIZING

1. Gain insight into the shipping industries and how they operate between customers and suppliers.
2. Educate yourself in cold storage construction and governmental regulations.
3. If you're going to pick a specialty, stick with it and network.

MORRISON'S TIPS FOR LEARNING PORT LOGISTICS

1. Study transportation patterns around your market and understand how trucking costs are constructed.
2. Put in the time to be able to break down the types of services which support a port and understand what those are.
3. Invest in education: read the Journal of Commerce (JLC), create a network of SIORs in ports like yours for brainstorming, and attend logistics talks at SIOR conferences to stay current.

FINDING NEW COMMERCIAL AGENT TALENT:

TIPS FROM VETERANS

By Rob Warmowski, Contributing Writer

The "aging-out" of the commercial real estate industry is a real thing. With the national average age of commercial practitioners at or above 60, the hunt is on for new talent. Is your brokerage on the radar for the next generation of commercial real estate leaders? Top professionals from around the country weighed in on ways to make your brokerage a destination:

"Our top two advantages in recruiting are 1) our collaborative and tech-savvy culture; 2) a truly open Salesforce platform with curated leads, analytics, and dashboards. We hold career nights and had 40 attend the last one, out of which we will hire one or two."

JAMES KILPATRICK, PRESIDENT, NAI NORTHERN CA, SAN FRANCISCO, CA

"Teach real estate. Talk with commercial professionals in the banking industry. They have a good understanding of financing terms and leases and many work on commission incentives. Work with second- and third-career individuals."

SOOZI JONES WALKER, CCIM, GRI, SIOR, PRESIDENT/ BROKER COMMERCIAL EXECUTIVES REAL ESTATE SERVICES, LAS VEGAS, NV

"We look for people willing to do what it takes including being vulnerable, uncomfortable, and able to say 'I do not know, I will get back to you with the answer.' I also suggest joining local active social organizations, such as the Krewes we have here in New Orleans, to network and attract talent from other industries."

JEFF WILKE, CCIM, SIOR, MANAGING DIRECTOR, SVNIGULF PARTNERS, NEW ORLEANS, LA

"Consider your local business school campus. I was approved as adjunct professor at Cal State University Northridge's Nazarian College of Business where I had a chance to review program applicants and recruited a very valued assistant."

MEL WILSON, BROKER/OWNER MEL WILSON & ASSOCIATES, NORTHRIDGE, CA

"Offer opportunities on Indeed, Craig's List, and LinkedIn. Meet with students a year or two before graduation. Look for residential agents who prefer commercial real estate's more logic-based approach to sales."

GENE SZPEINSKI, GRI, MANAGING BROKER, KW, GRAND RAPIDS, MI

"Our last four hires averaged 32 years of age, and three came from residential real estate. Because we can demonstrate a clear path to equity in the firm and a market-leading culture, it's been a strong and positive environment for recruiting. Ideally, our team will reflect the face of our community, so we have an eye toward bringing diverse candidates in to diversify the industry marketwide."

BARBI REUTER, PRESIDENT, PICOR, TUCSON, AZ

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"I think the key to engaging younger generations is to look at things differently: be a more fun place to work, embrace technology, and understand the needs for flexible hours. Most of all, we must recognize this next generation may in fact have it right: personal relationships are very important in large transactions, and we need to be better people, not just better real estate practitioners."

LOU NIMKOFF, CCIM, CPM, PRINCIPAL, BRIO COMPANIES, WINTER PARK, FL

"I fell into the Commercial realm when an exceptional long-term client offered to teach me the ins-and-outs of commercial transactions. Today there are a multitude of ways to recruit new talent as well as to source deals due to the plethora of commercial networking events happening in the Los Angeles Market. BizNow, my local Association's Commercial Committee, CREW, and The RealDeal all regularly host great events/meetings."

SANDRA MILLER, CIPS, CRS, PRINCIPAL, ENGLE & VOLKERS, SANTA MONICA, CA

COULD SMART GROWTH HELP MAKE YOUR STREETS MORE COMPLETE?

EMIKO ATHERTON

The continuing push toward walkable communities and commercial corridors is spreading across the U.S. and shows no signs of slowing. As a result, many REALTORS® find themselves working with stakeholders in the public and private sectors to create multi-modal development corridors in their markets. Smart Growth America's Complete Streets Program is one source of knowledge, guidance, and funding for commercial practitioners working on these unique opportunities.

Emiko Atherton, National Director of the Complete Streets program, oversees the National Complete Streets coalition whose goal is to "improve lives by improving communities." NAR is a member of this community-minded coalition and has helped Atherton's team roll out more than 1,300 complete streets policies across the country, building communities of all sizes.

Commercial Connections (CC): What is the primary goal of the Complete Streets Program?

Emiko Atherton (EA): We promote healthier, more walkable and bikeable communities by working with elected officials, transportation officials, developers, members of the community, and others to develop programs that improve communities and enhance people's lives. Think of us as the home for all kinds of communities!

CC: Doesn't this sort of urban design cost more?

EA: Smart Growth America conducted a study of 37 Complete Streets projects, looking closely at economic impact. We learned our projects are remarkably affordable compared to conventional transportation projects. Our data also suggests Complete Streets projects are related to broader economic gains like increased employment and higher property values.

CC: Can Smart Growth America work in suburbs, 'county seat' cities, and other rural settings?

EA: More than half of Smart Growth projects are in these communities. Complete Streets takes into account what's happening in each location and then works with engineers to identify the problems we're trying to solve before offering solutions. We're focused on rebuilding retail corridors and helping communities fight against high obesity rates. When you look at overall benefits in this manner, the dividends are huge and translate to increased revenue, retail growth, lower healthcare costs, less missed work, and more.

CC: Isn't funding for smart growth projects confusing to understand and generally hard to come by?

EA: Not at all! We have a wide range of programs to help communities, provide technical assistance, and locate funds aimed at job creation and development. Part of our technical assistance is finding the best funding for the communities we're working with on each project. One popular source is Better Utilizing Investments to Leverage Development (BUILD) Grants, which are offered by the U.S. Department of Transportation.

CC: Where can members go to initiate a dialogue with your organization?

EA: Give us a call at (202) 207-3355 or send us an email at *info@smartgrowth.org*. We also have resources including free webinars and reports on our website at *www.smartgrowth.org*.

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