

Commercial Real Estate Ideas / Issues / Trends

Development®

WINTER 2025/2026

INSIDE

A Fresh Vision
for Philadelphia's
Historic Navy Yard

NAIOP Research
Foundation: 25 Years
of Insight and Impact

Investors Eyeing
Opportunities in the
Office Market

CRE's New Currency: Power Availability

DISCIPLINED DEVELOPMENT EXECUTION

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A photograph of two men in a server room. One man, wearing a dark suit and glasses, is pointing at a laptop held by the other man, who is wearing a light blue shirt and dark trousers. They are standing on a metal walkway overlooking rows of server racks. The room is dimly lit with blue ambient lighting from the server racks and overhead lights.

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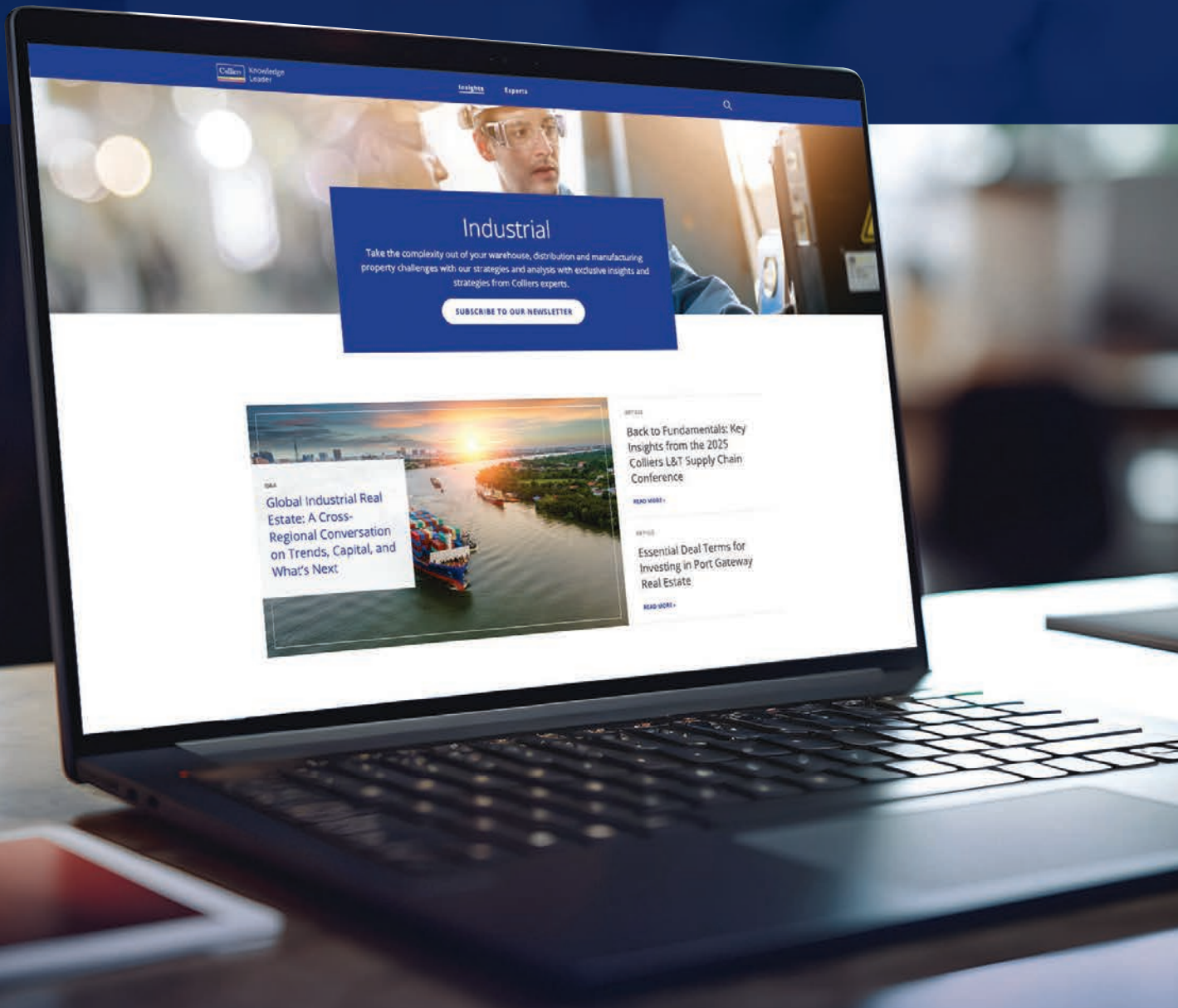
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On the cover: Year-over-year power demand from U.S. data centers is expected to nearly triple by 2030. IR_Stone via iStock/Getty Images Plus

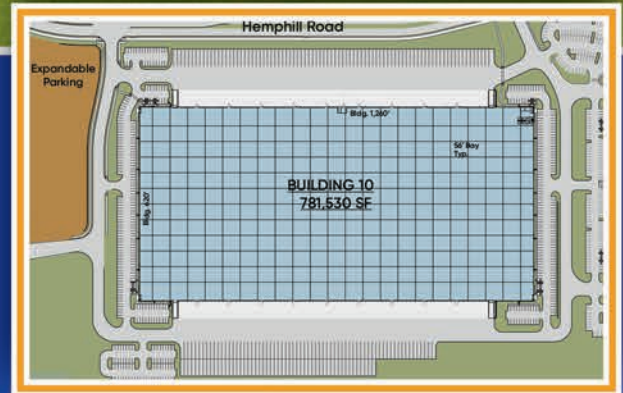
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A Note From the Editor

INSIDE AND IN BRIEF

Powering the Future of Development

Energy — how we produce it, manage it and plan for its future — is driving some of the biggest decisions in commercial real estate today. Our cover story takes a closer look at how developers are meeting growing energy demands for data centers and other power-intensive projects, and how innovation in power and sustainability is shaping the next generation of industrial development.

This issue also takes you inside the transformation of Philadelphia's Navy Yard — a striking model of adaptive reuse and placemaking — and celebrates 25 years of progress from the NAIOP Research Foundation. You'll get insights from research directors across leading CRE firms who recently came together to share industry outlooks and learn what lenders and buyers are looking for in the office market.

As we look toward the future of commercial real estate, one thing is clear: Energy, in all its forms, continues to drive our industry forward.

Telling the stories that shape our industry,

Kathryn Hamilton, CAE

Editor-in-Chief



Kathryn Hamilton

Future NAIOP Events

Chapter Leadership and Legislative Retreat,
Feb. 2-4, 2026,
Washington, D.C.

I.CON West, March 3-4,
2026, Los Angeles

National Forums Symposium, April 28-30,
2026, Salt Lake City

I.CON Data Centers,
May 19, and
I.CON East,
May 20-21, 2026,
Jersey City, New Jersey



Most Popular From Fall 2025

1. **"Industrial Real Estate: Why Build-to-suit Matters More Than Ever"** (naiop.org/25buildtosuit)
2. **"Detroit's Blueprint for Advancing Industrial Site Readiness"** (naiop.org/25Detroit)
3. **"The Benefits and Challenges of Developing Sports and Entertainment Districts"** (naiop.org/25SEds)
4. **"Vulcan Real Estate: Bold Vision, Lasting Impact"** (naiop.org/25Vulcan)
5. **"Accessing Institutional Capital in a Mature Real Estate Industry"** (naiop.org/25capital)

In Brief

Notable facts and figures on the state of the commercial real estate industry, culled from media reports and other sources.

Data Centers

522 The number of hyperscale data centers in the United States through the first half of 2025, according to Synergy Research Group data as reported by the Wall Street Journal. An additional 280 such facilities are projected to come online through 2028.

Multifamily

13 to 15 The percentage point discrepancy in future renter demand by unit type versus existing supply for two bedrooms/junior two bedrooms (52% unit demand vs. 39% unit supply) and three bedrooms (23% vs. 8%), based on findings from RCKRBX's National Renter Demand Indexing study. On the flip side, 21% of the 2,342

prospective renters surveyed voiced future demand for one-bedroom units versus unit supply of 41%. "Renters are seeking larger units and different configurations than current supply would indicate," according to the report's key takeaways. "[The] study found significant untapped and underserved demand for 2- and 3-bedroom units at competitive and premium rental rates."

929 The number of deals, totaling \$41 billion, in the 30 most active U.S. multifamily markets through September, according to data provided to Bisnow by Yardi Matrix. The average cap rate for the deals was 5.04%. Bisnow noted a more than 200-basis-point gap in cap rates across the most active markets. "The city-to-city differences offer a unique insight into how investors are measuring risk against reward in both mainstay primary multifamily markets and the pandemic-era darlings."

Industrial

8% The rise in vacancies in industrial buildings larger than 100,000 square feet since 2022 in North America, according to Lee & Associates' market overview for the third quarter of 2025. Buildings from 50,000 square feet to 100,000 square feet have experienced a 5.7% increase in vacancies over the same period. "Buildings smaller than 50,000 SF are in most demand ... with vacancy typically at less than 5%."

Office

62% The percentage of office space preleased in the construction pipeline that was taken by finance, insurance, real estate and technology companies in the top 14 office markets at the end of September, according to a

Colliers research report. That equated to 4.2 million square feet, with Amazon preleasing the largest amount of space (1 million square feet in Puget Sound), followed by Goldman Sachs (700,000 square feet in Dallas-Fort Worth). Colliers noted that only 16.8 million square feet of office space was actively under construction in the top 14 markets, with 41% of the space preleased.

23.2 Million The number of square feet the New York City office market leased through the first nine months of 2025, representing the largest total in 19 years, per CBRE. "Manhattan developers are moving ahead with more than a half-dozen new office projects, the most at any point since the pandemic," the Wall Street Journal reported. "They are encouraged by a record 143

leases signed so far in 2025 for more than \$100 a square foot."

Retail

\$7.8 Billion The amount lenders had financed in single-asset commercial mortgage-backed securities for U.S. mall properties through early October. In 2024, the total amount for the year was \$4 billion, according to CoStar data. "It shows that banks expect investors to be willing to buy the securities backed by these retail centers," CoStar News reported.

Artificial Intelligence

57% The percentage of mid- to senior-level professionals at leading institutional real estate investment firms who said they have advanced past simple AI tasks in a commissioned survey for the Dealpath report "The State of AI Readiness in Commercial Real Estate." Of respondents, 8% are exploring new investment use cases powered by AI, 13% are piloting bespoke tools designed to streamline CRE investment tasks, and 36% are actively scaling AI solutions across their organizations. ■

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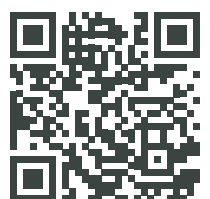
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By the Numbers

DATA IMPACTING COMMERCIAL REAL ESTATE

Looking for Clues About Construction Activity

Alternative data sources point to ongoing demand for data centers.

By Ken Simonson, AGC

The federal government shutdown that started in October had an immediate impact on construction data and left data consumers looking more eagerly than usual for alternative sources of information. Although several such sources exist, none is an exact replacement for data provided by the U.S. Census Bureau.

The first set of numbers to go missing was the Census Bureau's monthly report on "value put in place" or spending on construction projects underway in August. That report, which was due Oct. 1, covers more than 170 types of nonresidential projects.

ConstructConnect and Dodge Construction Network produce two other snapshots of construction spending, with both firms privately collecting detailed information on projects. Around the 20th of each month, they put out releases providing estimates of the total value of projects they deem to have started in the previous month. These estimates can offer an early indication of turning points for various segments, since the starts (or lack thereof) affect spending totals over the next several years as construction progresses.

There is no simple formula for translating starts into spending put in place, however. There is wide variation in how long a start takes to complete, even assuming it proceeds without interruption. The final value may differ substantially from the estimated initial value. And the categories used by the two



There is no simple formula for translating construction starts into actual construction spending.

firms differ from the Census Bureau's classifications.

Furthermore, the Dodge and ConstructConnect numbers frequently point in opposite directions or at least have different magnitudes. Even if the firms are working from the same universe of projects (which is unlikely), they may have different information or interpretations of when a project started or what amount constituted construction costs.

For instance, in late October, Dodge reported that the value

of multifamily starts for January through September 2025 had climbed 13% compared with the same months in 2024. In contrast, ConstructConnect estimated year-to-date apartment starts had slipped 6% from 2024.

ConstructConnect included more detail in its release. (Both firms sell custom tabulations by project type, value, square footage, geography and other characteristics.) The firm estimated commercial starts for 2025 had climbed 5.2% year to date.

The commercial starts were a mixed bag: Warehouse starts were down 17.3%, and hotel/motel starts were down 21%. In contrast, retail/shopping starts edged up 0.8%, and "office" starts soared 38.1%. The office category includes

The commercial starts were a mixed bag: Warehouse starts were down 17.3%, and hotel/motel starts were down 21%. In contrast, retail/shopping starts edged up 0.8%, and “office” starts soared 38.1%. The office category includes data centers, however.



faced ongoing declines in planned investment.”

The Dodge Momentum Index, released Oct. 7, is “a monthly measure based on the three-month moving value of nonresidential building projects going into planning, shown to lead construction spending for nonresidential buildings by a full year to 18 months.” Dodge reported that in September, commercial activity “slowed down for warehouses, traditional

office buildings and hotels but gained momentum in data centers and retail stores. Without data centers, commercial planning would have only increased 0.5% this month.”

The takeaway: Both firms’ indicators suggest there has been no letup in demand for data centers, despite some pundits’ qualms that the sector is in a bubble that will inevitably burst. Other nonresidential categories still appear to be weak, while reports differ as to whether multifamily activity has pulled out of its nosedive. ■

Ken Simonson is the chief economist with the Associated General Contractors of America. Contact him at ken.simonson@agc.org.

data centers, however. Traditional office starts have declined year to date, while data center starts appear regularly among the firm’s top 10 list of biggest starts in some months.

Both firms produce more speculative measures of future activity. ConstructConnect calculates a U.S. Expansion Index that “compares the total dollar value of construction projects in planning for the current month to the value of projects in planning for that same calendar month in the prior year.” The October reading “reflected an 8% year-over-year increase in planned construction investment, continuing three months of consecutive growth. Industrial, Military and Commercial sectors saw notable expansion, while Educational, Residential, Community and Medical sectors



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Data Center Site Selection and Development in the Age of AI

Navigating this changing market requires an integrated understanding of power infrastructure, site logistics and shifting regulatory frameworks.

By Jonathan Bartkowicz, Corgan

The demand for more data centers, already steadily increasing, was supercharged when generative AI programs such as ChatGPT and Gemini hit the market. Now, the architecture, engineering and construction industry is challenged to keep pace, with data center vacancy rates dropping to a record low of 1.9% at the end of 2024, according to CBRE.

With the need for computing power increasing exponentially as AI is adopted more broadly, commercial real estate developers have an opportunity in an otherwise sluggish construction industry. At the same time, it is no longer the Wild West of the early 2000s tech boom or the rapid cloud expansion of the 2010s. Surging power demands, fewer sites that check all the predevelopment boxes and tighter permitting requirements mean that finding and developing a site requires foresight and expertise. As developers navigate this changing market, they should keep several important considerations in mind.

It's Not (All) About Power

The amount of power available to a site is typically the first consideration for a data center, but it is not the be-all and end-all. Just as important is how much power is available per square foot of the site, known as power density. The ideal power density ensures that power is not going unused or the reverse: a site where large swaths of land stand vacant because there was not



It is critical to account for evolving power needs, especially with large, master-planned data center campuses and AI campuses.

enough power available to continue building.

It is also vital to plan for evolving power needs. Large, master-planned campuses will require more power as each phase is rolled out over multiple years, and AI campuses will need to scale to support workloads that require two to three times more power per server rack than traditional applications.

To determine if a site's power density will work for a client, the best approach involves using prototypical building concept designs to see what is possible and what is profitable. The prototype building program informs the anticipated power densities, cooling strategies and computer topologies that may be deployed on the site. These building blocks aid in initial evaluations and give clients a high-level visualization of the site's possibilities. This allows clients to test fit multiple sites

quickly while also moving key design decisions forward, reducing downtime and streamlining the due diligence process.

Beyond the immediate power capacity, a site's ability to scale is an important long-term consideration as chip density continues to rise. Sites that allow for a phased power build-out, strategically aligned with the data center's construction phases, offer significant advantages. Prototypical concept designs can also be helpful here, allowing developers to investigate both the power that is readily available and the

New and Noteworthy

641,563 sq. ft.

Granite Properties and **Highwoods Properties** announced the opening of the **23Springs office development** in Uptown, a mixed-use neighborhood in **Dallas**. The site features a Class AA, 26-story, 625,215-square-foot office tower, two freestanding restaurant buildings totaling approximately 16,348 square feet, and a half-acre park. It was 63% leased before opening. Designed by **GFF** and constructed by **DPR Construction**, 23Springs is the tallest office building in Uptown. It includes a six-level parking garage, and its lobby features the largest interactive indoor video wall in Dallas. The development is Fitwel certified and designed for LEED Silver certification.



Amber Jones + PGP

It is no longer the Wild West of the early 2000s tech boom or the rapid cloud expansion of the 2010s. Surging power demands, fewer sites that check all the predevelopment boxes and tighter permitting requirements mean that finding and developing a site requires foresight and expertise.



427,000 sq. ft.

Formation Interests and partner **Crescent Real Estate** recently completed phase one of **Formation Park 10**, an **industrial development** in **Goodyear, Arizona**, that features a 3-acre park serving as an amenity for future tenants and the surrounding community. The initial phase spans 427,000 square feet across two buildings, offering 28,000 to 230,000 square feet of turnkey occupancy with two spec office suites per building. When fully built out, the site will encompass five buildings totaling 688,000 square feet on 44 acres, offering speculative light industrial, commercial and office space to meet the demands of modern industrial users.



725 units

MVE + Partners recently completed two **mixed-use buildings** for the first phase of the **Gateway Crossings development** in **Santa Clara, California**. The two seven-story structures, **Orlo** and **Alba**, developed by **Holland Partner Group**, add 725 residential units anchored by a 2-acre central green space. Orlo's amenities include a pool, coworking space and fitness center. The building has 3,613 square feet of retail space. Alba provides 11,345 square feet of retail, along with amenities such as a pool and lounge area, fitness and coworking space, clubroom, gaming space and makerspace. MVE is master-planning the entire high-density, transit-oriented Gateway Crossings development.



Steve Manger

utility provider's detailed road map for delivering additional capacity to the site over time. This approach can mitigate substantial up-front capital on power infrastructure that isn't immediately required, allowing for more agile financial planning.

Setting Up for Success

Once the power availability of a site is known, the next consideration is understanding the other infrastructure availability and the local development requirements, which are critical to positioning a site for success. Deployment of utility power to the site requires additional infrastructure, utility easements and a dedicated site development area, all of which affect the project's schedule and budget.

Another consideration as power demands increase is creative power delivery strategies.

A Look Ahead

Acoustics are another major consideration, as data center generators and cooling systems may need to be managed to meet code requirements for noise pollution at the property line and beyond.



To minimize costly revisions and timeline delays, developers and designers need to be proactive in addressing performance and aesthetic requirements in the conceptual design phase.

Developers are more frequently weighing on-site generation and renewable energy integration. For sites where the power utility has not been coordinated, short- or long-term temporary power generation solutions may need to be addressed. This can add expense and may require additional coordination with other utilities and permitting with the governmental authority having jurisdiction (AHJ) over the site.

It is also important to understand what site modifications are necessary. Beyond power, utilities including fiber, water, sanitary and stormwater management should be considered and coordinated. Grading modifications that allow proper drainage are vital due to the facilities' critical infrastructure and 24/7, year-round operations. Some sites may require retention ponds to handle runoff, which adds a large site element that needs to be incorporated into the facility or campus plan.

Acoustics are another major consideration, as data center generators and cooling systems may need to be managed to meet code requirements for noise pollution at the property line and beyond. In such cases, the developer may choose to work with an acoustician early in the process to understand expected decibel levels based on the site plan and equipment selection. Mechanical, electrical and plumbing partners and the client's operational team should be integrated

early so that space planning and infrastructure requirements are coordinated holistically.

The AI race has compressed project timelines, so speed to market is a significant advantage. Existing facilities that are repositioned may allow for greater speed to market — as the envelope is mostly complete and the extent of construction can be limited — but usually at a reduced scale. While some existing facilities can be retrofitted successfully, there are typically constraints due to structural limitations and other factors such as column spacing, floor-to-floor clear heights and roof capacity for equipment. New builds can take more time, but they have the benefit of being more customizable to the client's needs.

Do Your Diligence

The final factor in site assessment is due diligence on the AHJ's zoning and permitting requirements. As the data center

market expands, the AHJ falls into two broad categories:

1) Primary markets close to major cloud availability zones that are becoming more sophisticated in terms of their requirements.

2) Secondary markets with available power and land that are newer to the data center world and could become overwhelmed by the process.

While many states offer incentives for data center construction, some primary markets are pulling back on permitting approvals because local utility grids are experiencing the strain. For example, Atlanta, one of the fastest-growing data center markets, recently passed an ordinance requiring a special-use permit for all new data center proposals.

In primary markets, knowing how to coordinate with the AHJ for zoning and permitting is necessary to avoid a project (and its timeline) becoming prohibitively expensive. In these

New and Noteworthy

markets, the development process can involve long review and comment periods, public hearings and other processes that push the timeline back. Often, the process in these markets requires the campus design — and building elevation designs — to be submitted and approved before the permit is granted.

To be approved, the AHJ may require changes that elevate the design, increase glazing proportions and change materiality, in addition to making other building form modifications that increase the cost per square foot. The AHJ may even require a specific building orientation, impacting a site plan that was previously optimized for power density and other site considerations. Developers and designers should engage with the AHJ early to develop strategies that address performance and aesthetic requirements in the conceptual design phase to minimize costly revisions and timeline delays.

While proximity to major cloud availability zones remains important, power availability and regulatory environments may outweigh geographic preferences, meaning there is increased activity in secondary markets that offer favorable infrastructure and permitting conditions. While this can facilitate faster speed to market, the AHJ in these markets may not be used to the scale and volume of documentation being submitted, resulting in unexpected slowdowns. In this case, success hinges on the ability to integrate local regulatory nuances and specific AHJ preferences with streamlined design document generation, phased submission strategies and optimized construction processes.

Shaping the Future of Data Centers

While power remains the most important factor, a successful data center project isn't only about max power. It's about establishing other critical elements — zoning, utility agreements and thoughtful site planning — to ensure a strong understanding of the maximum site development and the timeline to achieve it. Navigating complex processes effectively requires an integrated understanding of power infrastructure, site logistics and shifting regulatory frameworks.

As the data center industry continues to evolve, developers can anticipate an even greater emphasis on sustainable power solutions and innovative integration of emerging cooling technologies that will help further shape the future of data center architecture, site selection and development. ■

Jonathan Bartkowicz is a vice president and the data centers studio leader in Chicago at Corgan.

372,000 sq. ft.

McShane Construction Company completed a build-to-suit **manufacturing and distribution facility** in **Kenosha, Wisconsin**, for **Schuetz Container Systems**, a manufacturer of industrial packaging. McShane provided design-build construction services for the 372,000-square-foot facility. Positioned on a 25-acre site, the precast building offers a 40-foot clear height with 48 truck docks, four drive-in doors, 245 trailer parking spaces, and six 4,000-amp power services. The facility also integrates a two-story, 14,000-square-foot office, mezzanines throughout the manufacturing areas, and four interior cranes to assist with equipment installation and moving materials. McShane also completed a railroad extension, bringing three rail lines to the site.



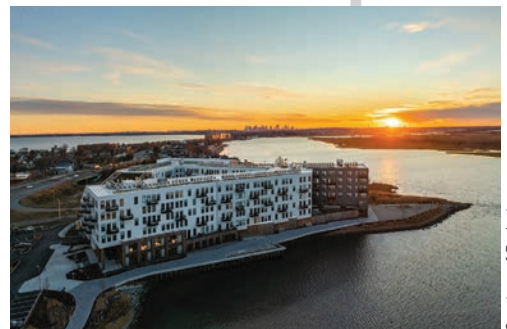
573 units

PREMIER Design + Build Group and partner **Cullinan Properties** began work on **The View at Rock Run Collection**, a **multifamily residential project** within a larger 310-acre mixed-use development in **Joliet, Illinois**. The largest multifamily development in the Chicagoland area will eventually feature 573 units across 14 three-story, garden-style apartment buildings spread over 30 acres. Centralized amenities will include an outdoor pool, entertainment area, volleyball court, yoga platform, bocce ball court, cabana building and fully equipped gym. Phase one includes three residential buildings totaling 264 units, a freestanding clubhouse building, three parking garages, retention ponds and additional infrastructure work.



335,074 sq. ft.

Redgate transformed a long-abandoned waterfront site in **Revere, Massachusetts**, into **Gibson Point**, a spa-inspired luxury **multifamily community**. The 335,074-square-foot, 291-unit property offers a comprehensive wellness package, including a full thermal cycle with cold plunge pools, heated pools and a sauna. Other amenities include a fitness center and multipurpose studio, a recovery room and Zen garden, a coworking hub, a parking garage with EV charging, and an on-site restaurant, **Mila's**, created by local restaurateur **Michael Aldi**. The property has one of New England's largest living roofs on a residential property, which slows runoff and enhances the site's overall resiliency.



Courtesy of Redgate

A Look Ahead

CHANGES SHAPING OUR FUTURE

Is Your Office Property a Candidate for a Data Center Conversion?

Capacity, space allocation and building resilience are among important factors to consider.

By Leo Bertolino, DCIS, Partner Engineering and Science, Inc.

Data centers are in high demand by many industries, including agriculture, banking, e-commerce, logistics, defense, mining and health care. As operations become more data-driven, these industries and others rely on secure and efficient infrastructure to store, process and analyze large volumes of information.

According to a recent report by Newmark, data center demand will double by 2030. Given the excess office stock in the United States, adapting an office building (or another underutilized building) can be a win-win solution. However, the conversion process can be challenging due to data centers' complex infrastructure requirements.

Understanding Leasing for Data Centers

Unlike most asset classes in which tenants lease square footage, data center leases are structured according to power usage along with space rented and related services such as security. Because disruption of service can be catastrophic for data centers and the end users relying on them, redundancy in power and cooling pathways is critically important. The more sensitive the data, the more redundancy is required. Higher redundancy is directly tied to price.

Data centers are classified in tiers according to a standard established by Uptime Institute. Briefly, the tiers are:



Power supply cabinets for a data center.

Tier 1: Basic capacity with a single path for power and cooling. Uptime: 99.671% (28.8 hours of downtime annually). Suitable for small businesses with noncritical applications.

Tier 2: Redundant capacity components with multiple power and cooling paths (one active). Uptime: 99.741% (22 hours of downtime annually). Suitable for small- to medium-sized businesses.

Tier 3: Concurrently maintainable with multiple active power and cooling paths. Uptime: 99.982% (1.6 hours of downtime annually). Ideal for larger businesses with high availability needs.

Tier 4: Fault-tolerant with fully redundant power and cooling paths. Uptime: 99.995% (26.3 minutes of downtime annually). Suitable for mission-critical operations.

Lease terms include a service-level agreement (SLA) that specifies the uptime, security and maintenance standards the data center must

meet. The SLA also specifies who is responsible for various costs related to maintaining the standards and who is liable for losses related to disruption.

Conversion Considerations

Location is a critical factor in determining the feasibility of a site's conversion. Data centers are generally best suited to commercial and industrial zoning districts and may, in some cases, be conditionally permitted in rural or agricultural areas. It is crucial to evaluate these factors before a project begins because zoning ordinances can vary significantly between municipalities and they continue to evolve.

Access to reliable water sources is also essential for

New and Noteworthy

284,000 sq. ft.

Colorado School of Mines, Capstone Development Partners and design-build team members **Milender White Construction** and **SAR+** completed the **Village at Mines Park** on the university's campus in **Golden, Colorado**.

A redevelopment of a former apartment community, the site houses 1,058 students. In the project's second phase, six existing residential buildings were demolished and replaced with five new buildings totaling 284,000 square feet and consisting of apartment-style units in studio, two- and four-bedroom layouts. The buildings are LEED Gold certified and constructed with cross-laminated timber panels. The new community is all-electric, and 18 EV charging stations are located throughout the property.



Capstone Development Partners

Because disruption of service can be catastrophic for data centers and the end users relying on them, redundancy in power and cooling pathways is critically important. The more sensitive the data, the more redundancy is required.

cooling systems and fire suppression infrastructure. Local water regulations, seasonal variability and infrastructure capacity must be assessed to ensure consistent supply under all operating systems. Engaging with local municipal authorities early in the planning process is crucial to confirm site feasibility and identify any additional entitlements or approvals required for conversion.

A building will be suitable for data center use if it has the capacity to deliver required power and cooling, along with the structure and resilience necessary to ensure adequate space and the protection of equipment. These characteristics can be assessed through a well-scoped property condition assessment (PCA) and feasibility study.

Because electrical supply and cooling systems are critical for data centers, a mechanical, electrical and plumbing (MEP) assessment is also fundamental. An MEP specialist can confirm electrical capacity for the proposed project, create an inventory of current equipment, assess the condition of each asset, and provide a capital budget for deferred maintenance as well as a replace-

253,951 sq. ft.

C.W. Driver Companies announced the opening of **Jamul Casino Resort** in **Jamul, California**, a tribal community east of San Diego. The new 16-story, 253,951-square-foot **hotel tower** connects to the existing casino via an enclosed pedestrian sky bridge. The 200-key hotel comprises 148 standard guest rooms and 52 suites. Other features

include an 11,000-square-foot rooftop pool deck with a jetted hot tub, cabanas and bar; a 4,800-square-foot restaurant; retail space; a full-service spa and salon with outdoor deck; a fitness center; meeting and banquet facilities; and an adjacent 119,634-square-foot parking structure with 257 spots, including 31 allocated for electric vehicles.



C.W. Driver

197,000 sq. ft.

Ware Malcomb announced that construction is underway on a new **office and manufacturing campus** for global company **HOERBIGER** in **Delray Beach, Florida**.

The project consists of a 43,000-square-foot two-story office building and a fully air-conditioned 154,000-square-foot factory building with a 28-foot clear height. The buildings will utilize tilt-up construction, with areas featuring storefronts and other sections with spandrel glass. The location is designed to meet LEED certification standards, including high-efficiency HVAC systems, LED lighting with occupancy sensors, and building automation systems that will monitor and optimize energy consumption. **Butters Construction & Development** is providing general contracting services.



A Look Ahead

A building will be suitable for data center use if it has the capacity to deliver required power and cooling, along with the structure and resilience necessary to ensure adequate space and the protection of equipment.

ment schedule for these assets. Sometimes power requirements will indicate the need for relocating or adding a substation to support the project.

Electrical systems in data centers must include an uninterruptible power supply (UPS) to provide continuous power nearly instantaneously in case of power failure. The MEP specialist will assess the UPS and include a replacement cost and schedule according to its condition and useful life. The MEP specialist can also evaluate existing cooling systems, not only for functionality and adequacy but for efficiency. Sometimes half of a data center's total

energy consumption is used by cooling systems.

The MEP specialist can recommend additions or replacements that can boost efficiency and improve net operating income. For example, replacing older air-cooled chillers with high-efficiency water-cooled units and adding hot-aisle/cold-aisle containment can cut cooling energy use by 20% to 40% and reduce operating costs. Alternatively, implementing liquid cooling solutions such as direct-to-chip or immersion cooling can improve heat removal efficiency, decrease energy consumption by 30% to 50%, and support higher rack densities.

The condition of the roof and building envelope is of great importance. As with any building, water intrusion can undermine the integrity of its envelope and structure. In data centers, however, water intrusion can also damage sensitive equipment, cause short circuits and even start fires, all of which are serious threats to operational

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A property resilience assessment can provide insights about the building's vulnerabilities to severe weather events and natural disasters by incorporating regional climate data with an evaluation of site-specific characteristics.

continuity. A building envelope specialist should be engaged to evaluate these systems.

In terms of the building structure and space allocation, consider the following questions:

- Where will the computer room be located?
- Where will the battery room(s) be located?
- Is the floor-to-floor height sufficient?
- Is the structural load capacity of the floors and roof sufficient?
- What level of redundancy is required, and where will backup equipment and supporting infrastructure be located?

Finally, consider climate and seismic resilience. A property resilience assessment, performed in conjunction with the PCA, can provide insights about the building's vulnerabilities to severe weather events and natural disasters by incorporating regional climate data with an evaluation of site-specific characteristics. It will also include recommendations such as structural reinforcements, elevated equipment, and redundant power and cooling systems. A seismic risk assessment can further identify structural weaknesses and recommend retrofits to reduce damage potential during earthquakes. These measures help minimize downtime and increase resiliency.

Moving Forward With a Conversion

If owners believe their buildings are candidates for conversion to data center use, they should enlist the help of a qualified engineering consultant with expertise in MEP, fire and life safety, building envelope and building resiliency, along with specific experience with data centers. These professionals can assess the existing state of the building and identify necessary improvements. Well-scoped, high-quality assessments can provide the data needed to make an informed decision about the owner's asset and business objectives. ■

Leo Bertolino is a national client manager with Partner Engineering and Science, Inc. He is also a certified data center infrastructure specialist accredited by the International Data Center Authority.

121,000 sq. ft.

Alexander & Baldwin, Inc. started redevelopment of a portion of its largest industrial asset, **Komohana Industrial Park (KIP)** in **Kapolei, Oahu, Hawaii**, with the construction of two **Class A industrial buildings** totaling approximately 121,000 square

feet of gross leasable area (GLA). The project will replace an existing 16,000-square-foot building on 5.7 acres of land with a 91,000-square-foot build-to-suit distribution center preleased to Lowe's and a 30,000-square-foot spec build that could be divided into two units. Upon completion, KIP's GLA will increase 44% to approximately 343,000 square feet. Construction is expected to be completed in the fourth quarter of 2026.



121,000 sq. ft.

Oppidan Investment Company broke ground on **Mill + Miss**, a new **workforce housing project** in **Grand Rapids, Minnesota**.

The 121,000-square-foot, 132-unit market-rate rental development is the result of a public-private partnership designed to meet the area's critical housing needs amid recent economic and job growth. Located near the Mississippi River and inspired by the region's rich paper mill history, Mill + Miss will offer one-, two- and three-bedroom units with heated and detached garage parking, a fitness center, game room, coffee bar, outdoor patio and grill area, and walking paths. The project is expected to be completed in March 2027.



47 units

The Michaels Organization and **Virtua Health** recently opened **Oliver Station**, a \$24 million **affordable housing and health care community** in **Camden, New Jersey**, for those 55 and over with household income no more than 60% of the area median income. In addition to 47 modern one- and two-bedroom apartments designed by **Urban Practice**, the transit-oriented community includes a 5,200-square-foot primary care office. It is the second community in the state to benefit from the New Jersey Housing and Mortgage Finance Agency's Hospital Partnership Subsidy Program, which supports the construction of mixed-use communities near hospitals. ■

It is the second community in the state to benefit from the New Jersey Housing and Mortgage Finance Agency's Hospital Partnership Subsidy Program, which supports the construction of mixed-use communities near hospitals. ■



Do you have a new and noteworthy project in the planning, design or construction stage that you'd like to share with fellow real estate professionals? Send a brief description and high-resolution rendering to developmentmagazine@naiop.org.

Mitigating Tariff Impacts Through Price Adjustment Clauses

Owners and contractors are looking for effective ways to address the rising costs of building materials and products.

By Richard F. Whiteley and Phillip L. Sampson, Bracewell

The Trump administration enacted sweeping global tariffs in April 2025 under the International Emergency Economic Powers Act. Although subsequent trade agreements have been reached with several traditional allies of the United States (including the United Kingdom, Japan and South Korea), the legal uncertainty surrounding the application of the tariffs remains complicated.

The administration's tariff policies have changed frequently since first being announced, and the unpredictability of their application can be more detrimental than the tariffs themselves. The tariffs especially impact the construction and development industries because increases in the costs of building materials and products only serve to delay projects and make them more expensive. Fortunately, there are contractual mechanisms that can be implemented to protect owners and contractors, helping to curb current levels of uncertainty and, in many cases, allowing projects to move forward.

Impacts on the Construction Industry

The impacts of the new tariffs have been significant for materials that are vital to construction projects, including steel, aluminum, lumber, copper, concrete, drywall, appliances and other electronic component parts. While the market initially absorbed some increases in material costs because of pauses in implementation and



Tariffs are expected to significantly increase the costs of many materials central to construction projects, including steel, aluminum, lumber and concrete.

decreases in energy costs, the tariffs are expected to significantly increase the costs of new projects, which could significantly delay projects and decrease profit for contractors. According to the Producer Price Index (PPI) from the U.S. Bureau of Labor Statistics, various construction commodities reflected year-over-year price increases in August, including

aluminum mill shapes (up 22.8%); construction sand, gravel and stone (up 7.3%); copper wire and cable (up 12.2%); plywood and lumber (up 4.8%); and steel mill products (up 13.1%).

As a result of the imposition of tariffs, contractors are increasingly insisting on cost-plus contracts at the negotiating table, and owners are insisting on guaranteed maximum price contracts. Neither of these contract types adequately addresses the increased material costs caused by tariffs; they simply shift those costs to one of the parties through change orders. Change orders are



ineffective at addressing significantly increased costs because they require the agreement of both parties and do not provide a mechanism to terminate the project if agreement cannot be reached, resulting in disputes that delay projects and erode the trust between parties.

Likewise, contingency and allowance clauses are not particularly effective because

the amounts typically budgeted into such clauses are not sufficient to cover significant cost increases. Substantially raising the amounts of contingencies and allowances is not feasible because lenders require certainty in project costs and are unwilling to issue debt for projects that have high variances.

Relying on force majeure clauses to address increased costs associated with tariffs is also an inadequate solution. Courts have been reluctant to apply force majeure clauses for economic conditions that may make a project less profitable, or unprofitable for one party, because losing money on a project does not prevent performance.

Addressing Substantial Cost Increases

Price adjustment clauses offer the most effective solution in construction contracts to equitably address price increases caused by tariffs. Parties negotiate these clauses, which include a specific process to address significant increases in material costs at the outset of a project. Parties are more likely to reach agreement on the parameters of how to manage increased costs before a project begins, unlike the change order process, where one party will have leverage over the other party. And unlike force majeure clauses, price adjustment clauses are enforced by the courts as long as they rely on objective standards and are allowed by the Federal Acquisition Regulation.

Contractors are increasingly insisting on cost-plus contracts at the negotiating table, and owners are insisting on guaranteed maximum price contracts. Neither of these contract types adequately addresses the increased material costs caused by tariffs.

The primary challenge to inserting a price adjustment clause into an existing or a new contract is convincing the opposing party to agree to its terms. Both parties must compromise, and it is important for the party with the most leverage during the negotiations to recognize that their leverage could be diminished by economic factors beyond their control in the future.

Elements of Price Adjustment Clauses

The wording of price adjustment clauses is imperative to their effective applicability. The clauses need to include triggers, cost-sharing mechanisms, ceilings, and options for parties if the price increases are not sustainable after application of the price adjustment mechanisms.

Price Adjustment Triggers

- Effective triggering mechanisms relate to a specific percentage increase in the cost of a material measured from the time the contract is executed and tied to a reliable and accepted index such as the PPI, the Construction Cost Index or the Building Cost Index.
- Price adjustment mechanisms should not be triggered for nominal increases in material costs.
- Triggering mechanisms should include clear and detailed notice requirements.
- It is important to specify the materials that are subject to the price adjustment clause to avoid any doubts among the parties.
- Drafting price adjustment clauses that are focused on mutuality and fairness will reduce the risk of a court declining to enforce such a clause due to a lack of consideration or unconscionability.

A Look Ahead

CHANGES SHAPING OUR FUTURE

Cost-sharing Mechanisms

- Price adjustment clauses should clarify that only the increased costs beyond the trigger price are subject to sharing rather than all of the underlying cost increases.
- Both parties should have the right to review and audit all documents used to justify the implementation of a cost-sharing mechanism once it has been triggered.
- It is customary to document cost-sharing through percentages (e.g., the owner pays 30% and the contractor pays 70%).

Ceilings and Options

- Price adjustment clauses should contain a ceiling that allows the parties to either suspend or terminate the project when reached. A ceiling is important because even with a cost-sharing mechanism, there is a point at which cost increases become so substantial that it is not economically feasible to continue.

Parties are more likely to reach agreement on the parameters of how to manage increased costs before a project begins, unlike the change order process, where one party will have leverage over the other party.

- The ceiling should be negotiated up-front by the parties and should use the same mechanism as the trigger (i.e., a percentage above a certain price index).
- A project termination under these circumstances should allow the parties to recover their reasonable costs and not give rise to a default. This allows either party to move on from the project without having to incur an extremely prohibitive increase in costs or be subject to litigation.

Other Important Terms

- To avoid complications, any price adjustment clause should provide that it governs to the extent of any conflict between other clauses.
- Specific severability language should be strongly considered if any part of the clause is determined to be unenforceable.
- It is important to require other agreements for the same project with subcontractors, consultants or other parties to include reference or subordination to the price adjustment clause.

The inclusion of price adjustment clauses in construction contracts should be strongly considered as a solution to control and quantify rising material costs resulting from the current administration's expansive tariff program. Care should be taken to ensure price adjustment clauses are fair to both parties and contain objective criteria for when they are triggered and how they are applied to ensure they are enforceable. ■

Richard F. Whiteley and **Phillip L. Sampson** are partners in the Houston office of the Bracewell law firm, where Whiteley chairs the firm's construction litigation practice group.

The Soundtrack of Development: Music as a CRE Strategy

By embedding live music into its urban and commercial DNA, Huntsville, Alabama, turned cultural capital into a magnet for mixed-use investment, private equity and workforce attraction.

By Shane Davis, City of Huntsville

In a hypercompetitive market for talent, capital and investment, cities can no longer rely on cheap land or geographic luck to drive economic growth. To attract the next generation of employers and the workforce on which they depend, cities must intentionally build places where people want to be. Huntsville, Alabama, decided a decade ago to center its growth strategy around quality of life and, more specifically, music.

Huntsville used the music industry as an avenue to unlock private capital, catalyze mixed-use development and generate long-term return on investment (ROI) in an erratic commercial real estate environment. It offers a case study in how culture-based infrastructure and complementary programming can serve as a foundation for profitable and sustainable development.

A Sound Investment

Huntsville's path toward music-led development began with a question: Given Nashville's popularity, could a second mid-size Southern city, with a population of just under 250,000, be a future music destination? To answer that, the city hired Sound Diplomacy to conduct the first municipal music audit in the United States.

Over the course of a year, Sound Diplomacy leadership

and staff made multiple trips to Huntsville as part of the study, conducted extensive quantitative and qualitative research and analysis of the city's specific industry opportunities and needs, and prepared multiple reports to help shape Huntsville's strategy.

Sound Diplomacy noted Huntsville's relative proximity to major markets on international touring circuits and suggested its location could incentivize artists to add the city to their regional tours. Beyond geographic advantages, the consultancy found a city with an existing vibrant live music scene, an abundance of music and cultural organizations, and a strong sense of community. As a result, the audit yielded 45 strategic recommendations — chief among them, building performance infrastructure to support a year-round live music economy.

"Music is a medium that attracts — whether it's jobs, music education or touring acts," said Huntsville Mayor **Tommy Battle**.

That strategy became the foundation for what is now MidCity, a 110-acre redevelopment of the defunct Madison Square Mall. Built in 1984, the mall had become a liability by the early 2010s, with just 22% occupancy. After nearly two years of negotiation, acquisition



Built in Huntsville's MidCity District in 2022, the Orion amphitheater is considered one of the Southeast's premier live music venues.

The audit yielded 45 strategic recommendations — chief among them, building performance infrastructure to support a year-round live music economy.

and legal disentanglement from eight separate property owners, the city took a leap of faith. In 2017, it demolished the mall, laying the groundwork for a public-private partnership that would yield financial, social and cultural returns that exceeded expectations.

“Partnering with the city of Huntsville enabled us to transform an underperforming property into a dynamic arts and innovation ecosystem deeply rooted in music and creative industries,” said **Max J. Grelier**, co-founder of RCP Companies, a real estate owner, operator and developer with offices in Huntsville and Birmingham. “Our nonprofit, the Apollo Coalition, is spearheading ongoing collaborations with the city’s Music Office. This strategic ap-

proach has also attracted institutional real estate investors, sparking the potential for additional investment in tech and innovation in Huntsville. At its core, music-driven development at MidCity strategically attracts talent, elevates quality of life and ensures sustained economic vitality for the district and the broader community.”

Financial Fundamentals

Huntsville’s public-private model for the MidCity District was focused entirely on public infrastructure and long-term value creation. The city invested approximately \$45 million in infrastructure through roads, utilities, a public park and other public amenities without providing tax abatements or cash incentives to the developer. The city also funded the \$55 million Orion, an 8,000-capacity amphitheater now considered one of the premier live music venues in the Southeast and recently named best amphitheater on the East Coast by Billboard.

“We didn’t incentivize apartments or retailers. We invested in music and cultural offerings, and the market responded,” Battle said.

Lessons Learned

Cultural infrastructure pays off. Music is not just entertainment. It’s economic development.

Programming is critical. A venue without a plan is just a building. Activation creates ROI.

Public leadership matters. The mayor of Huntsville and the City Council supported this vision consistently, even when the path was uncertain.

Flexibility is essential. The development agreement allowed Huntsville to pivot during COVID-19, advancing multifamily while retail paused.

Think like a placemaker. Don’t just build for transactions. Build for experiences.

A Look Ahead



An aerial view of MidCity earlier in the redevelopment process of a 110-acre defunct mall.

Initially, Huntsville modeled \$380 million in private return on its investment. That return has already exceeded \$480 million, and with more than 60% of the project still to build out, it is now projecting a return closer to \$900 million. That includes new property taxes, sales taxes and indirect economic benefits.

The city can offer developers and retailers a high degree of confidence. Two 10-year capital plans — one for economic infrastructure and another for quality-of-life projects such as parks and music — provide transparency, predictability and trust. This helps private partners understand not just what the area is today but what it will become a decade from now.

New major retailers include REI and Trader Joe's, in addition

to entertainment venues Topgolf and Dave & Buster's, plus multiple hotel and residential projects. The combination of walkability, entertainment and dining has created a district with staying power. For example, every Sunday from March to November, The Market at MidCity is activated with over 50 farmers, bakers, makers and more who gather at one of the largest open-air markets in Alabama.

Programming Makes It Stick

One of the biggest lessons Huntsville learned is that building venues is only half the battle. The other half is programming. The 2018 music audit also led to the creation of the Huntsville Music Office and the nation's first municipal music officer.

City staff and private partners activated the performance spaces and worked closely to maintain a calendar of events that ensures steady foot traffic, cultural relevance and business viability.

This applies across Huntsville, not just at MidCity. The Mars Music Hall downtown and Butler Green Park each host live music regularly. Huntsville's Music Office programs a weekly

series to ensure that venues are used, not just built. Music has become a calling card for developers who know they are building in a city that can deliver sustained, people-driven interest.

Scaling Citywide: Music as a Catalyst

What started at MidCity District has become a citywide strategy. Developers are integrating live music into their plans from the outset. On the west side, Schrimster Properties repurposed a former elementary school to include a new park and performance space. Downtown, New York-based Essex Capital and partner Silverstein Properties are transforming a former Coca-Cola bottling plant into a \$400 million mixed-use live-work-play development with



The open-air Market at MidCity, one of the state's largest, brings extra activity to the district every Sunday from March to November.

“Partnering with the city of Huntsville enabled us to transform an underperforming property into a dynamic arts and innovation ecosystem deeply rooted in music and creative industries.”

Max J. Grelier, co-founder, RCP Companies

entertainment integrated into the plan.

Huntsville is also seeing growth near the new MLS Next Pro soccer stadium, where Crunkleton Commercial Real Estate Group and its partners are constructing a new \$200 million mixed-use project that includes live entertainment as a central feature. Developers increasingly view music and cultural programming as essential anchors in mixed-use environments, not just “nice-to-haves,” said **Wesley Crunkleton**, a principal at the company.

Over the past decade, these strategies have helped create 46,000 new jobs and attracted more than \$7 billion in private investment across the Huntsville community. The music economy remains a crucial component in establishing Huntsville as a “city of preference” for individuals and companies alike.

“The really cool aspect of Huntsville’s emerging music economy is the diversity,” said **Matt Mandrella**, the city’s music officer. “We are seeing musicians in Huntsville refining their craft in the R&B, country, pop and contemporary Christian sectors.”

Responding to Challenges

The city began work on MidCity District in 2019, with Topgolf promised as the first major tenant and the Orion amphitheater, Apollo Park and a variety of mixed-used developments slated to follow closely thereafter. When the COVID-19 pandemic caused severe disruptions to the development schedule, Huntsville and RCP quickly pivoted.

While retail was on pause, the team focused on advancing public infrastructure improvements throughout the planned district and building multifamily developments that were already in the master plan. This turned out to be a win-win because postpandemic, Huntsville experienced a significant increase in population and needed more available housing across the city.

Huntsville was (and continues) seeing growth of 7,000 to 8,000 new residents per year but was delivering only about 2,300 new residential homes annually. Since 2021, the MidCity District has added 1,043 multifamily units. The pivot allowed the city to quickly respond to multifamily demand while retail demand temporarily

How the Numbers Stack Up

- \$45M: City infrastructure investment at MidCity.
- \$55M: Orion Amphitheater construction (2022).
- \$12M: Mars Music Hall and Rhythm on Monroe (2021).
- \$7M: Stovehouse Performance Center (2023).
- \$5M: The Lumberyard Entertainment Center (2024).
- \$4.6M: Legacy Performance Park (2023).
- \$3M: Back Forty Brewing Stagehouse (2025).
- \$100M: Total public investment.
- \$480M+: Private investment to date.
- \$900M+: Projected private investment at full buildout.
- 46,000: Jobs created citywide in the last 10 years.
- \$7B+: Total private investment in Huntsville since music strategy was launched in 2018.

ily slowed. This strategy has allowed population growth to continue while maintaining affordability and quality of life.

As commercial real estate markets evolve, the next competitive edge will come from cities and developers that treat culture and quality of life as primary infrastructure. Whether it’s music, parks or public art, these investments build the environments where people want to live and where capital wants to follow. ■

Shane Davis is the director of urban development for the city of Huntsville.

A Look Ahead

CHANGES SHAPING OUR FUTURE

Transforming Unused Office Space

The conversion of an underused office building into CityHouse Old Town highlights the challenges and opportunities inherent in adaptive reuse.

By Mark Taylor, American Real Estate Partners

Across the Washington, D.C., metro area, office vacancy rates hover around 20% — a reflection of a broader national trend sparked by the COVID-19 pandemic's lasting impact on the workplace. With millions of square feet of underused space, cities nationwide are facing a critical question: Rejuvenate, adapt or demolish?

American Real Estate Partners (AREP), an institutional fund manager and owner with over 25 million square feet of assets currently under development, has leaned into the opportunity that adaptive reuse presents to rewrite the “rental by choice” playbook. Members of AREP's residential team possess decades of collective experience leading and delivering adaptive reuse projects, including the company's first office-to-residential conversion project, in Alexandria, Virginia, just south of Washington.

Adaptive reuse is not without its challenges. In AREP's experience, adaptive reuse is applicable to less than 5% of buildings, typically takes 25% longer and costs about 25% more than new construction. The upside is that it offers access to otherwise difficult markets, distinctive design opportunities and correspondingly higher lease rates.

CityHouse Old Town, AREP's transformation of a 40-year-old midrise office building in the heart of Alexandria's historic downtown, stands as a compelling example. By converting outdated commercial space into nearly 200 high-end residential homes, the project not only reimagines the building's potential but also breathes new life into the urban fabric, blending historic charm with modern luxury to meet evolving market demand.

Targeting Tastemakers

The housing shortage in the United States has coincided with an evolution in renter preferences. As homeownership becomes less accessible due to high interest rates and inflated prices, demand has surged for high-quality, well-located rental housing. This shift is especially pronounced among the “renter by choice” demographic: residents who value flexibility, lifestyle and design-forward living over homeownership.



The former midrise office building's tiered form supported the design of unique luxury homes that new-build construction couldn't replicate.

Adaptive reuse projects like CityHouse Old Town resonate with this audience. Each project comes with a distinctive personality shaped by the original building's architecture. In this case, the structure's tiered form (reminiscent of a wedding cake), dramatic ceiling heights and interior atrium afforded the design of unique luxury homes that new-build construction could not replicate.

Location adds significant value. Old Town Alexandria is one of the region's most sought-after suburban-urban communities, celebrated for its walkability, transit access, cultural character, and extensive food and beverage offerings. Its recogni-

tion as the second-leading city for office-to-residential conversions in 2022 (behind Los Angeles) underscores the area's appeal and its readiness for innovative infill projects that emphasize location, character and community enhancement. CityHouse Old Town is a short walk from the King Street public transit station, the Potomac River waterfront and a vibrant mix of restaurants, shops and



historic charm, combining neighborhood authenticity with downtown convenience.

The Nuts and Bolts

The transformation of a 141,000-square-foot office building into a 236,000-square-foot multifamily community began with a strategic consolidation of ownership. Over a four-month period in late 2023, AREP acquired

all seven units of a previously failed office condo project and negotiated buyouts with eight nonowner office tenants. This move restored the property to single ownership, establishing a clear path for a full-scale adaptive reuse initiative.

While reuse projects are known for their sustainability benefits — preserving core elements can reduce embodied carbon emissions by up to 75% — the scope of work at CityHouse Old Town was still extensive and technically complex.

One of the most significant spatial transformations occurred in the parking structure. Office parking often features sloped floors unsuited for residential uses. Additionally, office buildings require significantly more parking than residential buildings do. At CityHouse Old Town, AREP demolished three levels of an internal sloped parking garage and replaced them with flat residential floors, which required reinforcing the remaining structural columns. This adjustment from 516 parking spaces, 322 of which were compact, to 223 spots added over 100,000 square feet of habitable space while realigning parking capacity to match residential demand.

To address the challenge of deep floor plates that are common in office buildings, AREP introduced short, branching corridors off the main hallways. This design allows access to each home from the



AREP removed an existing skylight to create a six-story open-air atrium and courtyard for residents.

center of the floor plate rather than the ends, significantly improving natural light penetration, ventilation and spatial proportions. The result: a more balanced layout that avoids the narrow “bowling alley” configurations typical of office-to-residential conversions.

AREP dramatically expanded the building’s existing central atrium, originally a four-story enclosed space, by removing its skylight. This architectural intervention opened the structure vertically, creating a six-story open-air atrium and courtyard that now serves as a focal point, framed by the building’s interior residences.

The building’s stepped-back facade was reimagined as a series of large private terraces, offering residents ample outdoor living space. On the fourth level, the expansive indoor and outdoor areas overlooking King Street were transformed into a club lounge and terrace. Because the building predates current zoning restrictions, the club terrace provides unobstructed views across Old Town and toward other historic landmarks on

A Look Ahead



An interior view of one of CityHouse Old Town's 199 high-end units.

the horizon. Additional amenities include a fitness studio, coworking spaces, bike storage, EV charging stations, a dog grooming salon and premium hospitality concierge services.

Delivering its first floors slightly ahead of schedule in late 2025 and remaining on budget, CityHouse Old Town drew interest from more than 600 prospective residents before preleasing began. Originally underwritten in 2022, projected rents have since exceeded expectations, with homes starting at \$2,675 a month.

Challenges and Considerations

Bringing an adaptive reuse project to life requires more than vision — it demands regulatory agility; relentless coordination across zoning, architecture, engineering and construction teams; and early alignment on the value proposition for future residents.

From the outset, AREP focused on understanding municipal processes. Adaptive reuse requires navigating both

discretionary and administrative entitlements. Discretionary entitlements include public hearings and community engagement; administrative entitlements ensure compliance with zoning, building and safety codes.

At CityHouse Old Town, these layers of review were compounded by the site's location in a historic district. AREP worked closely with Alexandria's Board of Architectural Review to meet preservation standards while aligning the project with the city's goals to expand housing and revitalize aging assets.

To meet the terms of AREP's due diligence period, zoning approvals had to move swiftly. The team secured them within six months by proactively engaging the community and addressing concerns around traffic, parking, and building design. Tactics included distributing informational flyers and establishing direct communication channels between the project team and residents. Once construction began, AREP maintained its

community commitment, adjusting work hours and mitigating noise to minimize disruption to nearby businesses and residents.

The Big Picture

CityHouse Old Town, which is in the process of being Fitwel certified, underscores both the potential and limitations of adaptive reuse. While often celebrated as a scalable answer to the housing crisis, the reality is more nuanced. Adaptive reuse is time- and capital-intensive, and it is not easily applied to most buildings. Additionally, it requires a location that can support the rent levels to achieve the necessary returns to undertake such a project.

AREP does not see the urban office market returning to its pre-COVID days. Many outdated buildings, particularly those lacking distinctive character or prime locations, may be demolished to make way for new residential projects. These builds will likely target midrise scales given construction economics and site constraints.

The result will be a subtle shift in urban form. Some neighborhoods will lose office worker foot traffic, accelerating retail closures. And while new housing will emerge, it will come at lower densities than the commercial buildings it replaces.

As residents migrate toward suburban-urban neighborhoods that offer walkability, transit access and lifestyle appeal, AREP believes well-positioned adaptive reuse projects will become increasingly important. Adaptive reuse alone won't solve the housing crisis, but when executed thoughtfully, it represents a powerful strategy for invigorating or revitalizing communities, optimizing the built environment and unlocking long-term value. ■

Mark Taylor is managing director, residential at American Real Estate Partners.

CityHouse Old Town by the Numbers

- 199 homes
- 7 stories
- 106 unique home types
- 223 parking spaces
- 236,000 square feet total
- 71,000 square feet demolished concrete
- 3,550 tons of concrete removed
- 1,100 cubic yards of new concrete
- 85 tons of new decking
- 170 tons of new steel

An aerial photograph of industrial buildings and a marina, overlaid with a large, semi-transparent blue and white geometric shape that resembles a stylized 'V' or a large letter 'C'. The text is positioned in the upper right quadrant of the image.

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A Look Ahead

CHANGES SHAPING OUR FUTURE

Driving Project Viability Through Smarter Site Selection

The early involvement of preconstruction teams can reduce risk and enhance flexibility for developers.

By Phillip Marino, Frampton Construction

Site selection has always been a nuanced process, but the current market has introduced several newer pressures. Escalating land prices, limited inventory, and stricter environmental and permitting requirements have intensified the risks and narrowed the margin for what makes a site viable.

Too often, these risks emerge only after a site is secured and plans are in motion, when solving for them becomes far more costly. It is advisable to involve preconstruction teams as early as possible, not just to evaluate how to build on a site but for help in determining whether a site can support a project that pencils out.

Early evaluation of subsurface conditions, the use of adaptable building strategies and stakeholder coordination can help developers mitigate risk and strengthen long-term project viability before the first shovel enters the ground.

Why Subsurface Conditions Can Make or Break a Site

Some of the costliest development risks are hidden underground. Conditions like unstable soils, buried rock or limited utility access can drive up site-work costs, delay construction or render a project unbuildable without major redesign.

Yet these risks are often discovered after plans are already underway. Treating geotechnical evaluation as an early investment — not just a technical requirement — can prevent costly surprises and



Getting early insight into subsurface conditions at a site in Landis, North Carolina, avoided millions in development costs and led to an alternative layout that worked much better with the site's natural topography.

help developers determine whether a site truly supports their goals. The cost of a geotechnical evaluation will range depending on site size, but a good baseline for a typical industrial project is \$15,000 to \$30,000.

Early insight into subsurface conditions recently helped turn a financially unworkable plan into a viable phased development in Landis, North Carolina. The original layout called for three industrial warehouse buildings, including one large facility placed atop a steep grade change and significant areas of underground rock. Executing that plan would have required substantial blasting and fill to

level the site, adding millions in development costs and putting the project's financial feasibility at risk.

Frampton Construction's preconstruction team proposed an alternative layout that worked with the site's natural topography rather than against it. By stair-stepping multiple smaller buildings across the elevation, the new plan avoided the most problematic rock zones while



Some of the costliest development risks are hidden underground. Conditions like unstable soils, buried rock or limited utility access can drive up sitework costs, delay construction or render a project unbuildable without major redesign.

Build to Fit: Designing for Flexibility in a Shifting Market

As parcels get smaller, zoning grows more restrictive and construction costs continue to climb, developers are encountering new limits on how much they can build and how quickly. Add to that a tighter lending environment, and flexibility becomes not just a design preference but a financial strategy. In this context, bigger isn't always better.

At an industrial site located outside Raleigh, North Carolina, the original plan called for two large buildings, one measuring 285,820 square feet and the other 658,560 square feet. On paper, the site appeared flat and straightforward, but the economics didn't hold. With lenders pulling back on large-scale speculative development and the client needing more optionality, the site was no longer viable as originally designed.

Frampton reimagined the layout to include five smaller buildings ranging from just under 100,000 square feet to 285,820 square feet, each with its own access and truck court. This opened the door to phased construction and made it possible to secure financing in more manageable increments. It also allowed for a more diversified tenant strategy — positioning the project to attract smaller users across different timelines rather than relying on a single anchor tenant.

The revised plan improved traffic flow, reduced permitting friction and gave the developer more control over sequencing. If demand softens or accelerates, the team can adjust accordingly without needing to lease or fund the entire site at once.

Designing for flexibility means moving beyond square footage as the sole measure of value. When building to fit the realities of the site and the

maintaining (and in some areas exceeding) the original square footage. The reconfigured spine road and shared truck courts preserved functionality while minimizing sitework.

In addition to cutting millions in site development costs, the new approach gave the client more flexibility. Rather than committing to a single 700,000-square-foot spec build, they could phase construction across smaller buildings that were easier to finance, lease and deliver — creating a development strategy that aligned more closely with current market conditions and reduced overall risk.

A Look Ahead



Part of Frampton's team evaluates a potential site.

Designing for flexibility means moving beyond square footage as the sole measure of value. When building to fit the realities of the site and the market, developers gain more options to deliver long-term performance with less up-front risk.

market, developers gain more options to deliver long-term performance with less up-front risk.

Loop in Stakeholders Early to Unlock Site Potential

Some of the most significant development challenges happen before a site is even buildable. For an intermodal logistics facility in Summerville, South Carolina, Frampton led a multiyear effort to rezone agricultural land and secure the infrastructure needed to make the project viable.

The site lacked water and sewer service, requiring 1.5 miles of new utility extensions across multiple privately owned parcels. Frampton coordinated with four adjacent landowners, including a gas station, a church and a local homebuilder, to secure easements and facilitate a public-use utility corridor. In parallel, the team led a complex rezoning process that included close collaboration with county officials, traffic mitigation planning and direct outreach to neighboring residents.

These early stage efforts, typically outside the traditional scope of a general contractor, were essential to unlocking development value. By resolving infrastructure and entitlement hurdles up front, Frampton reduced long-term risk for the developer and helped deliver a functional cross-

dock facility with intermodal access to the Charleston port.

The result was a 385,000-square-foot logistics hub delivered through a phased approach, balancing constructability, cost and market timing.

The New Rules of Site Selection

These projects illustrate a consistent truth: The most successful developments don't just adapt to site conditions, they use them to drive smarter outcomes. In each case, early design flexibility, construction insight and stakeholder coordination played critical roles in preserving feasibility and protecting long-term value.

Here are a few lessons emerging as the new rules of site selection:

- Treat subsurface studies as a first-round investment rather than a formality.

- Design for the site you have, not the one you expected.
- Reduce financial exposure and improve leasing strategy with phased, flexible footprints.
- Overcome infrastructure and entitlement hurdles with early stakeholder engagement.
- It is often more cost-effective to work around site constraints than to try to eliminate them.

Site selection isn't just a real estate decision. It is a preconstruction strategy. By bringing in construction professionals early enough to provide input, projects will be more likely to move forward and more resilient when conditions change. ■

Phillip Marino is vice president of preconstruction at Frampton Construction.

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2025 INDUSTRIAL INVESTMENT SALES HIGHLIGHTS



Premier Logistics Portfolio
DALLAS, HOUSTON, CHICAGO MSA

5,793,026 SF | Recapitalized on behalf of: Crow Holdings



Garfield Business Center
COMMERCE, CA

544,705 SF | Sold on behalf of: Terreno Realty Corporation



El Paso Infill Industrial Portfolio
EL PASO, TX

1,054,233 SF | Sold on behalf of: Stonelake Capital Partners



Birch Commerce Center
BREA, CA

218,648 SF | Sold on behalf of: AEW Capital Management



Sunrise Industrial Park
LAS VEGAS, NV

509,216 SF | Sold on behalf of: Institutional Investor



Inwood Center
DALLAS, TX

738,199 SF | Sold on behalf of: Hines



Dallas Infill Industrial Portfolio
DALLAS/FORT WORTH, TX

553,242 SF | Sold on behalf of: Stonelake Capital Partners



**180 Centreport/
95 Distribution Center**
FREDERICKSBURG, VA

486,720 SF | Sold on behalf of: TF Cornerstone



15015 Valley View
SANTA FE SPRINGS, CA

302,850 SF | Sold on behalf of: Institutional Investor



Amazon Easy Street
SIMI VALLEY, CA

175,035 SF | Sold on behalf of: XEBEC



I-35 Convergence
DENTON, TX

477,500 SF | Sold on behalf of: Hunt Southwest



Sierra View Industrial Park
ROSEVILLE, CA

712,733 SF | Sold on behalf of: Institutional Investor

A Look Ahead

CHANGES SHAPING OUR FUTURE

Pivot to Permanent: How the Pandemic Altered Multifamily and Office

Designers, developers and property managers have sharpened strategies for creating connections.

More than five years ago, individuals, businesses and jurisdictions were coming to the realization that shutdowns would be a longer-term response to COVID-19 than originally anticipated. While that era of restriction eventually passed, some of the pivots driven by the pandemic conditions have resulted in enduring impacts on commercial real estate.

Earlier in 2025, several design, development and property management experts responded to questions from real estate public relations firm Taylor Johnson about the pandemic's longer-term effects on multifamily and office.

When it comes to amenities, how did the pandemic impact what residents are looking for in apartments?

Diana Pittro, executive vice president, RMK Management Corp.: Today, our communities offer more remote work areas and in a variety of forms, depending on residents' needs. Options include private pod rooms, booths, Zoom and podcast rooms, workspaces with relaxing views, and small and large conference rooms to accommodate groups. Our sister company, M&R Development, in recent years has built new communities with an increased number of these workspaces. For existing properties that we manage, we have repurposed spaces that were underutilized during the pandemic, such as theater rooms, to create these work areas.



Incorporating outdoor areas where residents can socialize, such as this activity courtyard at 42 Hundred on the Lake in St. Francis, Wisconsin, has become a focal point for multifamily communities.

For our city properties, the remote work areas are just as popular today as they were a year ago, but many of those residents are interns and students attending college downtown. In more suburban areas, we have seen a slight decline in the use of these workspaces due to the return-to-office push, but the spaces are still heavily used and popular.

In addition to creating more spaces and seating areas for residents to socialize inside the building, we've responded by providing outdoor areas where they can relax and meet neighbors. At some properties, we repurposed outdoor tennis courts and indoor racquetball courts into pickleball courts, which have soared in popularity. For properties with basketball and pickleball courts, holding tournaments around these sports has become a hit with residents.

“Coworking spaces [in multifamily communities] have gone from ‘nice to have’ to a must-have amenity that needs to offer high-end tech features and fast Wi-Fi.”

*Brad Lutz,
multifamily practice leader,
Baker Barrios Architects*

Brad Lutz, multifamily practice leader, Baker Barrios Architects:

Coworking spaces have gone from “nice to have” to a must-have amenity that needs to offer high-end tech features and fast Wi-Fi. Baker Barrios often brings in our director of workplace strategies, **Marilyn Russell**, to assist in designing the coworking spaces of multifamily projects to ensure the environment is equal to, if not better than, in-person work.

Desire for spending time outdoors is another carryover from pandemic days. Clients want us to incorporate direct outdoor access for amenities, such as gyms with retractable window walls that open to a green roof for fitness classes, and coworking spaces that have an adjacent terrace equipped for productivity, with flexible seating, ample outlets and a strong Wi-Fi signal.

How have multifamily communities adapted to the demand for face-to-face interaction in a post-social-distancing era? How do you foster desired resident connections?

Pittro: We have seen a return to the desire for more face-to-face interaction among residents and our on-site staff. We first offered the opportunity for in-person meetings for things like lease renewals, and many residents were on board. Now we have returned to handling nearly all our traditional resident interactions in-person, although some residents still appreciate the option of a virtual meeting due to their schedules. During the pandemic, residents began to file virtual maintenance work orders, and this practice has continued at many communities, and our teams follow up on all work orders to be sure they are completed. While much of this communication

is through phone calls, these contacts provide important touchpoints to cultivate relationships with residents.

Renters today also seek a sense of community and want to interact socially with fellow residents. To help foster these connections, our management teams offer a comprehensive schedule of creative resident mixers and activities. The feedback to these gatherings has been so positive that we probably offer more resident events now than we did before the pandemic, with the most popular offerings including breakfast on the go, sip-and-paint classes, wellness and nutrition events, karaoke nights, casino nights, and sports viewing parties around major games.

Lutz: Amenity design has shifted postpandemic in response to desire for more social connections. Increasingly, amenities are focused on community engagement, such as fitness spaces with group class areas and lounge/game rooms for residents to gather. There is an increased emphasis on lobbies as a social connection point with ample seating for gathering, as well as more open layouts for management and leasing offices to foster interaction with residents.

How have the roles and responsibilities of property management evolved in multifamily communities amid the growing reliance on technology?

Pittro: Our use of technology has changed in recent years, with tools delivered on many different platforms. Residents can communicate with property managers and maintenance staff via our portal or app. Marketing tools have advanced too, as we have increased our frequency of video and photo postings to social media and our use of AI for customized messaging.

We utilize a number of operational and marketing AI tools, such as a chatbot, that help us present professional and quick responses as well as customized communication. We also use software reporting systems that help us multitask and integrate multiple processes for higher levels of efficiency when dealing with work orders, inventory ordering, purchase orders and invoices. Bill payment and resident rent payments are all electronic. Various apps allow residents to do anything from completing an application to planning a move-out and all services in between. Our resident app also allows them to update their addresses, change bank routing, set up cleaning services and schedule on-site wellness classes.

We also are less reliant on Internet Listing Service sites for leads, instead opting for more digital marketing. Our digital advertising efforts include all mobile devices, social media, chatbots, AI and

“Various apps allow residents to do anything from completing an application to planning a move-out and all services in between. Our resident app also allows them to update their addresses, change bank routing, set up cleaning services and schedule on-site wellness classes.”

*Diana Pittro,
executive vice president,
RMK Management Corp.*

outreach services. We also use pay-per-click advertising as well as targeted digital marketing via mobile devices and direct digital mail, and we include customer feedback surveys as part of our marketing efforts.

How have offices changed to address modern workplace needs?

Marilyn Russell, director of workplace strategies, Baker Barrios Architects: Few sectors have been as impacted by the pandemic as office. Rightsizing space allocation and infusing flexibility throughout have been very important to our clients’ postpandemic architecture projects. Companies are mindful that offices must function well during the peak “in-office” days but still offer a vibrant and enjoyable atmosphere for those in the space during the less-attended days, in a move informally dubbed “earning the commute.”

Remote work made it easier to balance work with personal life, so there is more desire for amenities that serve that at the office. From practical offerings like on-site child care, doggy day care or drop-off laundry service to features that provide the fluidity of working from

A Look Ahead



The coffee bar and flexible remote workspace at 2929 on Mayfair in Wauwatosa, Wisconsin.

“We’re seeing a shift in how square footage is allocated. Instead of maximizing desks and individual workstations, more space is being devoted to shared and flexible-use areas: collaboration rooms, casual lounges, open work cafes and transitional/liminal zones.”

*Al Fiesel,
executive director and
interior design market leader,
Lamar Johnson Collaborative*

home — coffee bars and snack stations, quiet rooms, outdoor space and “third spaces” like lounges — today’s office design seeks to support the whole person.

Al Fiesel, executive director and interior design market leader, Lamar Johnson Collaborative (LJC):

Today’s offices have shifted away from places where people are simply expected to show up every day and instead have become environments designed to support effective work. This change is less about whether employees are remote or in-person, and more about ensuring that productivity, collaboration and well-being are prioritized.

Post-COVID, many companies have rethought the function of their spaces. The rise of hybrid work requires flexibility in office design. Traditional

desk layouts are being replaced or supplemented with a greater variety of work settings — collaboration zones, open meeting areas, touchdown spaces in hallways and lobbies, and more social “we spaces” that encourage spontaneous interaction as opposed to so-called “me spaces” like private offices.

There has also been a significant shift toward hospitality-driven environments. Buildings are integrating food and beverage offerings, curated lobbies and comfortable gathering areas to make the workplace feel more like a destination. The goal is to offer employees something they can’t get at home — community, culture and connection.

Are you finding that companies need less square footage in their office space than before the pandemic and the rise of remote or hybrid work arrangements?

Fiesel: While it might seem that hybrid work requires less office space, the reality is more

nuanced. In many cases, companies aren’t shrinking their footprint — they’re reconfiguring it to support new patterns of work. Some companies are even expanding their space to better accommodate the needs of a hybrid workforce. It’s not about less office space; it’s about better space.

We’re seeing a shift in how square footage is allocated. Instead of maximizing desks and individual workstations, more space is being devoted to shared and flexible-use areas: collaboration rooms, casual lounges, open work cafes and transitional/liminal zones like lobbies and reception areas that now double as meeting or touchdown spaces. In these environments, the square footage per person has actually increased to support comfort, flexibility and choice.

One example is the offices LJC designed for Horizon Therapeutics — now Amgen — in Deerfield, Illinois, which fully planned, designed and constructed an 800,000-square-foot headquarters in the middle of the pandemic while operating under hybrid work constraints. Despite the remote nature of the planning process, the client prioritized creating an office that supported flexibility and ease of operation to enhance employee experience and attract and retain top talent. Hospitality-inspired amenities included a Starbucks-style coffee barista, a full-service cafe, a game lounge and even a bowling alley. The space was designed to be functional and engaging, proving that hybrid schedules don’t always lead to smaller footprints — they demand a smarter, more intentional approach to space planning. ■

“Few sectors have been as impacted by the pandemic as office. Rightsizing space allocation and infusing flexibility throughout have been very important to our clients’ postpandemic architecture projects.”

*Marilyn Russell,
director of workplace strategies,
Baker Barrios Architects*

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Feel the Power

On Leadership: Brian DePotter

The managing partner of FirstPointe Advisors in Fort Lauderdale, Florida, discusses the importance of integrity, leading by example and proactive property tax strategies to help commercial real estate owners protect profitability in challenging times.

By Ron Derven



Brian DePotter

“I saw the chance to create something different: a boutique firm that understands local markets and can still support complex, multistate portfolios.”

*Brian DePotter,
managing partner,
FirstPointe Advisors*

Development: *How did you get interested in property tax as a career?*

Brian DePotter: Property tax wasn't something I planned to pursue. I started at Florida State University studying criminology but quickly realized it wasn't the right fit. I shifted to accounting and real estate, which made sense given my background: My father was in construction, and my mother was a realtor. Real estate was a regular part of our dinner table conversations, and I grew up swinging a hammer on jobsites with my dad.

During my senior year in college, I landed an internship with Deloitte in its property tax practice. I saw it as an opportunity to combine my passion for real estate with the technical side of accounting. I didn't expect it to be a long-term career, but I've stayed in the field ever since — nearly 20 years now. It's been a rewarding path, allowing me to work with some of the largest real estate owners in the country.

Development: *Why did you launch FirstPointe Advisors?*

DePotter: I started FirstPointe in 2014 after seeing a clear gap in the market. Throughout my career, I'd taken on every opportunity I could — raised my hand, asked questions, took on more responsibility. That mindset helped me progress quickly and build a wide knowledge base. Eventually, I recognized a shift in the industry. Large national owners were starting to bring on internal tax teams, and they wanted advisers who could provide localized expertise — boots on the ground — while still offering the sophistication and professionalism of a national platform. I saw the chance to create something different: a boutique firm that understands local markets and can still support complex, multistate portfolios.

Development: *What is the scope of the work that FirstPointe provides for developers and owners?*

DePotter: We assist clients through all three phases of the property life cycle — acquisition, holding and disposition. During the acquisition stage, we help investors understand how the property is currently assessed and what future liabilities might look like. We analyze the valuation

methodology of the jurisdiction and identify opportunities or red flags before closing.

During the holding period, we monitor changes in value, advise on appeal strategies and ensure there are no surprises when tax bills are issued. We also help with budgeting, long-term forecasting, and educating owners/asset managers so they know what to expect from a tax standpoint.

At disposition, we help sellers think like buyers. A buyer's operating metrics will influence how a deal gets underwritten. If there's a disconnect between assessed value and income potential, it can affect price. We guide clients on how to position the property so they can maximize value at exit.

Development: *What is your primary role at the firm?*

DePotter: As managing partner, I focus on vision and strategy — determining where we need to be in 12 months, in five years, and how we get there. I'm constantly thinking about the resources, technology and personnel we need to stay ahead of client expectations. I also stay engaged on the technical side. I work with many of our national accounts and handle valuation disputes on high-valued properties. I enjoy getting into the weeds, understanding the nuances of a case and helping to strategize on the proper valuation approach. That part of the job keeps me grounded and sharp.



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The Entrepreneur

Development: *How critical is a property tax review for developers and owners today?*

DePotter: It's absolutely essential. Taxes are often the largest operating expense on a property, especially outside of payroll-heavy assets like hotels. But unlike insurance or utilities, property tax is judgment-based. That means there is room to analyze, influence and correct it.

Unfortunately, property tax is still overlooked in many cases. If it's not proactively managed, it can seriously impact a project's internal rate of return or cash flow. I've seen it make or break deals. Owners need to treat property tax like any other major financial lever and have a plan for how to manage it.

Development: *How do you typically work with developers and owners?*

DePotter: We see ourselves as an external extension of the internal team. Our goal is to be part of the early conversations — investment committee meetings, underwriting discussions, development planning — so we can offer guidance before decisions are finalized.

Every market is different. There are local nuances in how properties are assessed and taxed. What works in one jurisdiction may not apply somewhere else. Having someone who understands those differences and how to navigate them can be a major advantage.

Development: *Could you give an example of the kind of results you've delivered for clients?*

DePotter: We recently had a case where a client acquired a property with a strong tenant in place. The valuation reflected that stability. But not long after the acquisition, the tenant de-

clared bankruptcy and vacated. That had a direct impact on the property's income and market value. We worked with the client to present the impairment to the assessor and secure a reduction in the assessed value. That translated into a substantial tax savings and helped reposition the asset for re-lease.

I've achieved tax savings as small as a few hundred dollars and as large as over a million dollars, depending on the situation. It's always about ensuring clients are paying their fair share — but nothing more.

Development: *What do you look for when hiring senior staff?*

DePotter: At the entry level, I look for curiosity and a willingness to learn. I want team members who ask questions, raise their hands and embrace change, especially with how quickly technology is evolving today.

At the senior level, I look for discipline, integrity and collaboration. This business is relationship-driven. You need people who can build trust with clients and colleagues, share their knowledge with others and adapt to new challenges. I want team members who are always looking to get better, regardless of how much experience they already have.

Development: *How do you define leadership?*

DePotter: I believe in leading by example. I won't ask anyone to do something I wouldn't do or haven't done myself. Leadership also means being approachable, being someone others can come to for support or direction. At the same time, it's not a one-way relationship. I learn from my team every day. Leadership means creating space for people to grow, take risks and

“Unfortunately, property tax is still overlooked in many cases. If it's not proactively managed, it can seriously impact a project's internal rate of return or cash flow. I've seen it make or break deals.”

Brian DePotter

contribute. It also means giving back, whether through mentoring, speaking at universities or supporting nonprofits. Leadership should extend beyond the four walls of the company.

Development: *How do you handle mistakes or internal conflicts when they occur?*

DePotter: The most important thing is to set the tone before a mistake happens. I tell the team that we all make mistakes. What matters is that we address them early and learn from them. If something goes wrong, we bring it to the surface immediately. We talk about it, figure out what the root cause was and put a process in place to prevent it from happening again. Mistakes are learning opportunities if you handle them the right way.

Development: *What is your outlook for commercial real estate in the near and long term?*

DePotter: I think we still have some headwinds ahead in the commercial real estate market. Financing is going to be a major issue, both in terms of access to capital and the cost of debt. That's going to challenge a lot of deals, especially those with high leverage. Operational performance will matter more than ever. Owners need to stay on top of revenue, expenses and how outside forces like insurance costs and property taxes are impacting their numbers. Those who have built-in flexibility, who planned conservatively

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The Entrepreneur

and keep their powder dry will be in a much stronger position to take advantage of opportunities when the market shifts.

Development: *What is the best advice you've received in your career?*

DePotter: Lead with integrity. People want to do business with people they know, like and trust. If you do the right thing consistently, opportunities will come your way. That approach has shaped everything we do at FirstPointe, and it's been a major factor in our growth.

Development: *What is the most important lesson you've learned in the business?*

DePotter: Relationships drive results. You can have the best data and the best presentation, but if you haven't built trust with the decision-makers, it doesn't matter. Relationships take years to build, but they can be lost in an instant. They're worth protecting at all costs.

Development: *Outside of work, how do you like to relax?*

DePotter: I love to be near the water. I live along the New River in Fort Lauderdale, a historic waterway once used by Native Americans for trade. I walk it most evenings; it's a way for me to disconnect and reset. When I travel, I usually head somewhere warm and coastal.

“Leadership means creating space for people to grow, take risks and contribute. It also means giving back, whether through mentoring, speaking at universities or supporting nonprofits. Leadership should extend beyond the four walls of the company.”

Brian DePotter

The sun, the water, the calm — it all helps me recharge. Outside of the office, I'm pretty low-key. I like to be comfortable, relax and reflect. ■

Ron Derven is a contributing editor to Development magazine.

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JLL Capital Markets Team | Miami, Florida

Best Buy Facility

Polk City, Florida | Disposition | \$49.5 M | 650,808 s.f.



In Touch With Tenants

IDEAS FOR ATTRACTING AND RETAINING TENANTS

Beyond the Facade: Repositioning Historic Workplaces for the Future

Legacy buildings are enhancing their architectural identity and user functionality to appeal to modern office tenants.

By Jim Vallos, Harbor Group International

The office sector continues to navigate one of its most profound resets in decades. From the pandemic era of fully remote work to hybrid solutions to more and more companies announcing return-to-office mandates, office developers, landlords and tenants have been forced to get comfortable with flexibility and change. In markets like Midtown Manhattan and other central business districts, trophy office buildings are consistently leading the return-to-office movement by offering modern infrastructure and experiential upgrades.

Today's tenants are seeking more than just efficient layouts and prime addresses; they are drawn to environments that promote wellness, creativity, productivity and collaboration. As a result, the most desirable office spaces have evolved to include experiential quality, design authenticity and hospitality-driven programming.

While the desire for amenities and newly designed space is evident, delivering these attributes via ground-up development has become increasingly difficult. In dense urban cores, buildable parcels are scarce, capital costs are high, and entitlement timelines are lengthy. In contrast, underutilized midcentury office buildings — many with strong architectural foundations — can present a faster, more strategic path to competitiveness. The growing appeal of these repositioned assets has made



Originally opened in the mid-1960s as the Midtown Manhattan headquarters of CBS, the 51W52 tower is also known as Black Rock.

adaptive reuse a dominant trend among institutional owners.

Location remains foundational, but experience now defines value. For legacy buildings, this means going beyond cosmetic upgrades and undertaking transformations that enhance both architectural identity and user functionality.

Delivering What the Market Demands

Recent market performance underscores the bifurcation in the office market, where newly built or recently renovated spaces far outperform older, outdated buildings. Trophy buildings — defined by

location, quality and service — are capturing a disproportionate share of tenant demand. As of October, availability in Manhattan's top-tier segment had dropped to 10.1%, down from 17.5% at the start of 2023, according to data from CoStar Group.

This pattern is a function of quality more than geography. Tenants are selecting buildings that support hybrid work with enhanced infrastructure and purpose-built shared spaces. Experience-driven design is now an expectation for success rather than just another amenity. According to Gensler's 2024 global workplace survey, employees in offices with strong design identity and access to collaboration space report higher levels of satisfaction and productivity. Additionally, Kastle Systems reported at the end of May 2025 that on the most active workdays, trophy buildings had reached 94% of their prepandemic occupancy, far exceeding the national average of 60%.

Colin Miller



The reimagined Transamerica Pyramid Center in San Francisco preserves its historical significance while introducing modern amenities.

While the desire for amenities and newly designed space is evident, delivering these attributes via ground-up development has become increasingly difficult. In dense urban cores, buildable parcels are scarce, capital costs are high, and entitlement timelines are lengthy.

In parallel, investor strategies are evolving. PwC's 2025 Emerging Trends in Real Estate report identified adaptive reuse and repositioning as among the most attractive investment plays in urban cores, citing their speed to market, sustainability profile and alignment with environmental, social and governance priorities. When thoughtfully executed, these projects offer compelling risk-adjusted returns, delivering differentiated products in markets otherwise saturated with obsolete inventory.

A Reintroduction to a New Icon

One such example is 51W52, also known as Black Rock. Originally completed in 1965 as the Midtown Manhattan headquarters for CBS, the 38-story tower was the only skyscraper ever

designed by world-renowned architect **Eero Saarinen**. With its sculptural granite cladding and column-free interiors, it represented a forward-thinking vision for corporate architecture in its era. But by the 2020s, despite its pedigree, the building faced the same pressures as many midcentury assets — aging systems, a lack of amenities and outdated common areas.

In 2021, affiliates of Harbor Group International acquired the building and invested \$128 million to reposition the iconic asset. MdeAS Architects and

Vocon led the design transformation with a clear directive of preserving the integrity of Saarinen's vision while unlocking a completely new workplace experience. The team began by stripping away accretions to the historic lobby, revealing travertine and bronze surfaces, and enhancing the entry sequence with a minimalist lighting strategy that emphasized Saarinen's geometry.

The work extended far beyond the surface. Outdated mechanical systems were replaced, and the entire lower level was

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PwC's 2025 Emerging Trends in Real Estate report identified adaptive reuse and repositioning as among the most attractive investment plays in urban cores.



The historic lobby at 51W52.

reimagined as a hospitality-grade amenity suite. A former mail room was converted into a wellness and conferencing center anchored by a grand custom stair evoking Saarinen's sculptural sensibility. New

tenant-only features include a lounge cafe, fitness facilities and spa-style locker rooms, all directly connected to a lounge dubbed Club 53.

These upgrades are not just aesthetic; they address the experiential and functional demands of modern office tenants. According to VTS's Office Demand Index, demand for high-quality office space in New York City rose 19% between January and April 2025, with tours and deal activity concentrating in buildings offering hospitality-style services.

Since 51W52's repositioning, more than 550,000 square feet of space has been leased, including Harbor Group's headquarters relocation. 51W52 offers a compelling case study in turning legacy constraints into leasing catalysts and demonstrates how high-design repositioning can honor historic roots while simultaneously meeting modern demands.

Extending the Playbook

This trend is also evident with the recent reimagining of Transamerica Pyramid Center (TAPC) in San Francisco. Originally designed by futurist architect **William Pereira** in 1972, TAPC has long been seen as a symbol of San Francisco's growth. Fifty years later, luxury real estate development and investment firm SHVO saw an opportunity to revitalize the entire city block where TAPC stands while still respecting Pereira's original vision and the property's unique heritage.

SHVO acquired TAPC at the height of the pandemic in 2020 with plans to reimagine the property alongside global architect Foster + Partners and supported by San Francisco-based Huntsman Architectural Group. The new design, unveiled in September 2024, breathed new life into the iconic asset, striking a deft balance between preserving its historical significance and introducing modern amenities.

Comprising three buildings — the 853-foot Transamerica Pyramid at 600 Montgomery St., 505 Sansome St. (Two Transamerica) and 545 Sansome St. (Three Transamerica) — along with the historic Transamerica Redwood Park, TAPC has been unified through a series of strategic ground-level improvements. The result is an inviting hub featuring retail, restaurants, green space and cultural exhibitions.

51W52 Timeline

1961:

Construction started on the original structure.

1965:

Construction completed and building opens.

October 2021:

Affiliates of Harbor Group International (HGI) acquire the building and invest \$128 million to reposition the iconic asset.

2023 to 2024:

Renovation and restoration process ongoing.

Fall 2023:

HGI relocates headquarters to 51W52.

April 2024:

Renovation and repositioning completed.

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Transamerica Pyramid was reimagined with a hotel-like aesthetic, seamlessly integrating luxury, culture and public space. The project emphasizes the building's historical significance while modernizing its functionality, as seen in the lobby redesign, which highlights and celebrates the original diagonal structure. The design prioritizes tenant experience through hospitality and service, with tenant-only amenities including meeting rooms, a wellness center, and a sky lounge and bar with panoramic views of the city.

SHVO's bold, contrarian bet on San Francisco during the COVID-19 pandemic, when many were divesting from office assets, proved transformative.

The company's multiyear, \$400 million makeover of TAPC has positioned the building as San Francisco's most expensive office space. Leasing at TAPC has performed at pro forma, receiving strong demand from tenants across sectors with very high tour activity. With current pending deals included, TAPC sits at 85% leased, with major leases signed with top-tier technology, AI, venture capital and law firms, including Morgan Lewis and AppDirect.

Combining the Old With the New

As more cities contend with aging building stock and constrained development pipelines, thoughtful repositionings

As more cities contend with aging building stock and constrained development pipelines, thoughtful repositionings are emerging not just as an opportunity but as a necessity in competitive urban markets.

are emerging not just as an opportunity but as a necessity in competitive urban markets. Buildings that combine architectural heritage with modern infrastructure and curated tenant experiences present an intriguing alternative to building from the ground up, especially in dense urban cores where new developments aren't always viable.

This evolution is not simply about preserving what was; it's about designing what's next. Repositioned assets are answering the call for resilient and adaptable workplaces that resonate with the modern workforce's values of performance, wellness and purpose. ■

Jim Vallos is managing director of Harbor Group International.



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CAPITAL MARKETS, FINANCE AND SALES

How EB-5 Can Help Projects Get to the Finish Line

A reformed Immigrant Investor Program demands more rigor from developers but still offers abundant opportunity.

By Adam Greene and Jessica DeNisi

In a capital markets environment defined by volatility, constrained lending and increasing investor caution, real estate developers are once again looking to the EB-5 Immigrant Investor Program as a supplemental — yet strategic — source of project financing. In a properly structured project, EB-5 capital can serve as a patient, flexible tranche in the development capital stack. While the program has undergone significant reform under the EB-5 Reform and Integrity Act of 2022, its core value proposition remains the same: a pathway for qualifying foreign nationals to obtain U.S. permanent residency in exchange for making a job-creating investment.

For developers navigating a tougher deal-making environment, EB-5 capital can help close funding gaps and revive projects that might otherwise stall.

EB-5 Program Basics

Under the program, foreign nationals may be eligible for an employment-based, fifth-preference (EB-5) immigrant visa if they have invested, or are actively in the process of investing, \$1.050 million (or \$800,000 in a high unemployment or rural area) in a qualifying new commercial enterprise (NCE) that creates or preserves at least 10 full-time U.S. jobs. Most developers raise this capital through a regional center designated by U.S. Citizenship and Immigration Services (USCIS), which allows



EB-5 capital can provide the final push to begin construction on projects with a clear job-creation model.

them to credit indirect and induced job creation based on econometric modeling.

Developers typically access EB-5 through regional center sponsors and operators who structure the financing and then, in turn, facilitate the raising of capital from would-be immigrants.

Key structural features of EB-5 capital include:

Higher leverage: EB-5 typically can stretch senior debt leverage beyond what is usually provided by traditional sources.

These features make EB-5 capital particularly well suited to real estate developments that create lots of construction jobs and, in some cases, many jobs after completion, such as with multifamily, hospitality, industrial, infrastructure and mixed-use projects.

Lower financing costs: EB-5 participants generally require low investment yields, which allows the debt to have somewhat lower costs than other sources.

Private credit: Because EB-5 is not a bank or public debt execution, debt terms do not have to conform to portfolio restrictions required by bank regulators or capital markets.

These features make EB-5 capital particularly well suited to real estate developments that create lots of construction jobs and, in some cases, many jobs after completion, such as with multifamily, hospitality, industrial, infrastructure and mixed-use projects.

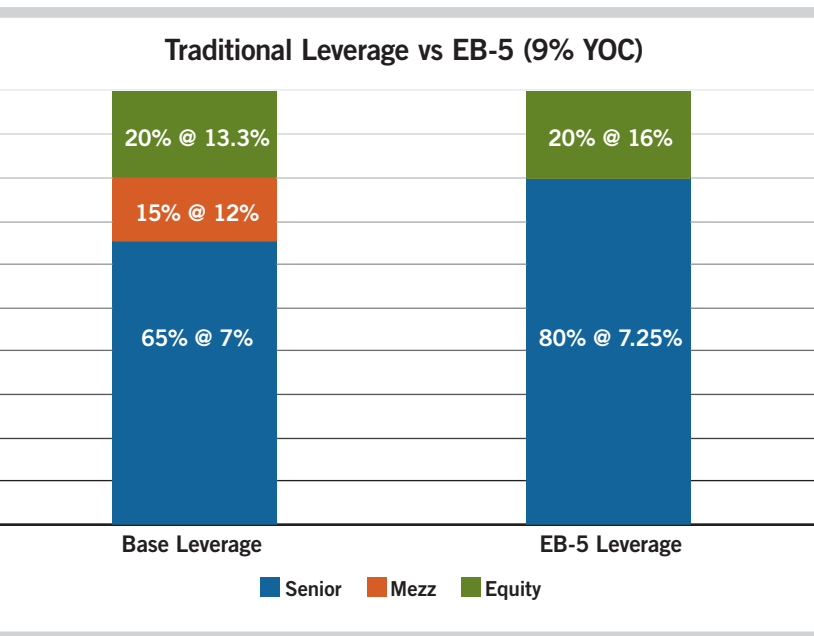
Why Developers Are Taking a Second Look at EB-5

In the current environment, traditional sources of mezzanine debt and preferred equity have become more expensive and risk averse, and senior lenders are increasingly conservative in their loan-to-cost ratios. EB-5 capital can offer developers a lower-cost alternative with built-in flexibility.

Here is how EB-5 can help:

It fills financing gaps: Developers facing capital shortfalls due to higher interest rates or reduced valuations can use EB-5 proceeds to stretch proceeds of senior debt.

It improves leverage profile: EB-5 plays well with other sources of capital and other financing incentives. EB-5 has been successfully com-



combined with New Markets Tax Credits, C-PACE (Commercial Property Assessed Clean Energy), opportunity zones and many state-level programs.

It enables shovel-readiness:

For projects with zoning entitlements and a clear job-creation model, EB-5 capital can provide the final push to secure senior financing or begin construction.

Moreover, the Reform and Integrity Act introduced new safeguards — such as investor protections, regional center oversight, vetting procedures and increased transparency requirements — that are making EB-5 capital more predictable and potentially attractive to institutional players.

The Math

The power of EB-5 leverage is demonstrated by basic development math (see graphic above). Assuming a 9% yield on cost, a typical financing structure with 65% senior debt costing 7%,

combined with 15% mezzanine debt at a rate of 12%, would provide equity yields of about 13.3%. Using EB-5 to stretch the senior debt to 80% costing 7.25% (just a 25-basis point premium to the rate previously quoted) and eliminating the mezzanine would provide equity yields of 16%. Under this scenario, EB-5 would lower the total cost of financing by nearly 70 basis points. This hypothetical demonstrates how EB-5 can bridge the gap between feasible and not feasible.

Structuring Matters: Legal and Operational Considerations

While EB-5 capital can be accretive, the immigration components of the EB-5 program are highly regulated. Developers must ensure compliance with both immigration law and securities regulations. Some key structuring elements include:

NCE and JCE structure: EB-5 capital must flow through an NCE into a “job-creating entity” (JCE). Developers typically serve as the JCE or partner with the JCE.

Required immigration filings: All projects sponsored by a regional center must file an application for approval of an investment in a commercial enterprise (Form I-956F) with USCIS before foreign investor petitions (Form I-526E) can be submitted. The process requires early legal coordination, up-front filing fees (\$47,695 for a Form I-956F) and the

Inside Investment and Finance

The Reform and Integrity Act introduced new safeguards — such as investor protections, regional center oversight, vetting procedures and increased transparency requirements — that are making EB-5 capital more predictable and potentially attractive to institutional players.

provision of extensive details about the project.

Material change risk: USCIS closely scrutinizes any post-submission modifications to the business plan, offering documents or capital structure for deviations it may view as “material.” This means developers should avoid last-minute changes and ensure conservative assumptions are baked into the original submission.

Early engagement with experienced EB-5 immigration counsel, economists and securities counsel is critical to crafting a successful raise.

EB-5 Beyond 2025

EB-5 capital is not a silver bullet, nor is it appropriate for

every deal. But for developers willing to invest in the right project and the right team, it can represent a competitive advantage, especially in geographies or sectors prioritized by the Reform and Integrity Act, such as rural areas, areas experiencing high unemployment, and infrastructure projects.

Additionally, international investor interest remains strong. A global backlog of high-net-worth individuals in China, India, Latin America and the Middle East continue to seek U.S. permanent residency through investment. Potential investors from these regions would otherwise wait years, or decades in some cases, to become legal permanent residents in other green card categories.

A Tool Worth Mastering

The new EB-5 landscape demands more rigor but still offers opportunity. With its long-term, low-cost capital and job-creation incentives, EB-5 can unlock critical financing for projects that matter. For developers facing a capital squeeze, it is a tool worth mastering.

As with any specialized strategy, success lies in informed execution. With the right legal, financial and operational guidance, EB-5 capital can help get a developer’s next project across the finish line. ■

Adam Greene is executive vice president of Peachtree Group’s EB-5 program.

Jessica DeNisi is a partner at Klasko Immigration Law Partners, where she leads the firm’s EB-5 developers and regional centers practice.



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CAPITAL MARKETS, FINANCE AND SALES

Tariffs, Tax Credits and Transformation

Upcoming opportunities will be available to stack incentives for developments in underserved markets.

By Darryl Jacobs, Ginsberg Jacobs LLC

The Trump administration's tariff policies have created global uncertainty for businesses across industries, including commercial real estate. But opportunity zone (OZ) tax incentives, made permanent last summer by the One Big Beautiful Bill Act, could be just as effective and help offset rising costs. For that matter, the extension of OZs and other programs like new markets tax credits (NMTCs) may reshape commercial real estate development and unlock profits in locations many investors previously overlooked.

The ever-present threat of tariffs is spurring some developers to explore investments in less economically advantaged areas, particularly in underserved and rural markets where land costs are lower and federal incentives can significantly enhance returns. The key is understanding how to stack these incentives to maximize returns.

A Complementary Framework

The first step requires understanding the incentives themselves. The NMTC program, which began in 2000, provides a 39% tax credit spread over seven years for investments made in qualified low-income communities. Since its inception, it has awarded \$81 billion in tax credit authority through 1,667 allocations.

OZs emerged from the 2017 Tax Cuts and Jobs Act, enabling investors to defer capital

gains taxes by reinvesting in qualified opportunity funds (QOFs) that deploy that money in economically distressed areas. Currently, if the QOF investment is held for at least 10 years, gains earned from its appreciation may be excluded from future taxation. More than \$42 billion has been invested in OZs since the program began, according to Novogradac, which tracks QOFs.

These programs complement each other. The funds generated by NMTCs can help fund up-front costs ranging from land acquisition to construction — bridging financing gaps in some cases — while OZs provide long-term tax benefits by allowing investors to defer capital gains on their initial investment and exclude gains from appreciation if held for 10 years or more.

New tariff policies are likely to further encourage developers to take advantage of the combined incentives between these programs. The rising interest in domestic production has created opportunities for manufacturing facilities in rural areas that NMTCs and OZs can help finance through cost reductions. The current market trend supports projects that match national goals for job creation and infrastructure development while offering high investment returns.

Project Examples

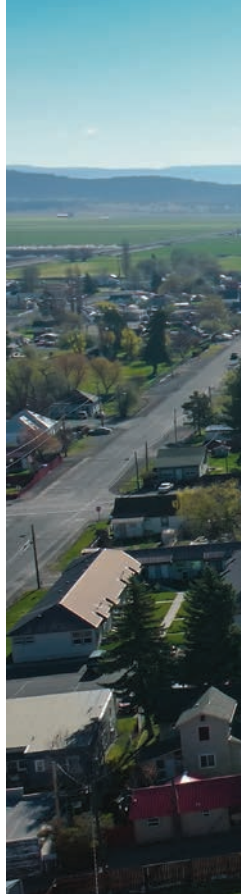
In 2022, the Tillamook County Creamery Association in Decatur, Illinois, obtained NMTC

The rising interest in domestic production has created opportunities for manufacturing facilities in rural areas that NMTCs and OZs can help finance through cost reductions.

funding for a \$74 million ice cream manufacturing plant located in an OZ. The project also received \$7 million in NMTCs for initial construction costs and equipment purchases. These programs minimized project financial risks and brought private investment into a neighborhood where poverty levels reached 20%. Once completed, the facility brought 70 jobs to the area while encouraging future investment.

Similarly, the Pit River Tribe in Northern California created a nonprofit health care foundation and used NMTCs to build a federally qualified health center. The \$11.75 million NMTC funding leveraged \$14 million in U.S. Department of Agriculture and construction lending funds to create a \$25 million piece of much-needed rural health care infrastructure.

Since 2011, General Communications, Inc. has used more than \$220 million in NMTC allocation to finance construction of broadband connectivity in Alaska Native communities.





The extension of the opportunity zones program should encourage more investment in rural areas.

These projects have made high-speed internet available to thousands of rural households, solving vital infrastructure deficiencies and enabling better telehealth and educational services.

As these projects demonstrate, the use of NMTCs, along with permanent OZs, presents commercial real estate developers with an attractive investment possibility in underserved U.S. markets. Greater industry awareness of each program — and how they can be combined to increase project profitability — should help developers navigate fluctuating costs and make investments in the communities that stand to benefit most.

Encouraging Rural Investment

The new, permanent version of the OZ program will result in fewer qualifying zones, which will likely result in fewer deals getting done. It is also more likely that the deals will benefit communities deeply in need as opposed to communities

that are already gentrifying. The extension will encourage rural investment, and it tightens some requirements, making the program more difficult to misuse. One drawback is that the real changes do not begin until 2027.

Recent guidance from the U.S. Department of the Treasury and the IRS provided a listing of the census tracts that meet the criteria for being rural for amounts invested in QOFs after Dec. 31, 2026. However, qualifying census tracts have not been identified yet. Nominations for qualifying tracts can be made by states' governors beginning July 1, 2026. After their staffs review the nomina-

tions, each state's governor will certify qualifying tracts by Jan. 1, 2027. Hence, many of the census tracts listed in the notice may not ultimately qualify for OZ status.

Once the designations are made, several accounting firms, such as CohnReznick, Novogradac and Baker Tilly, will maintain unofficial interactive maps that allow interested parties to input addresses or coordinates to determine if a property is in a qualified census tract, regardless of whether it is rural. ■

Darryl Jacobs is a co-founder and partner of Chicago-based law firm Ginsberg Jacobs LLC.

Strategically Green

BEYOND THE BASICS OF SUSTAINABILITY

Navigating Environmental Complexity in Modern Industrial Development

Firms willing to confront the challenges posed by brownfields also find opportunities to create long-term value.

By Brian Danahy, Stonemont Financial Group

The industrial real estate landscape is evolving, especially in the wake of changing consumer demands, higher interest rates and tariffs throughout the past year's market cycle. As consumer needs shift, developers are focusing on high-demand areas near population centers that provide logistical advantages. A key driver of this trend is the meteoric rise of e-commerce, which requires faster and more localized distribution centers.

With that shift comes a new set of challenges. Densely populated regions often present environmental hurdles resulting from past commercial and industrial operations. These complexities can have a direct impact on site selection, design, entitlements, costs and community perception. As demand for smaller, strategically located infill sites grows, so does the likelihood of encountering environmental risk, requiring a deeper understanding of these challenges from a developer's perspective.

Because of this shift in market demand, Stonemont Financial Group, a private firm specializing in industrial real estate investments, is seeing over 90% of its active targets come with environmental complexities related to historical land use and urban infill locations. However, that complexity can lead to opportunity for industrial developers when managed successfully.

Stonemont has learned firsthand that redevelopment of urban infill sites often requires strategic prepurchase due diligence, careful underwriting and planning, and creative cleanup strategies. Although these sites require additional work, their advantageous locations near core urban markets often make it worthwhile to put in the extra effort.

Stonemont conducts a strategic and layered approach to determine if a potentially impacted project is worthwhile. It first evaluates the site's history and any site-specific conditions that increase or decrease potential environmental risk, including nearby property uses or ecological features. It also considers the environmental regulatory framework and incentives in the state

in which the project is located. Targeted environmental sampling is sometimes necessary to better understand the environmental conditions and risks associated with the project.

Armed with this data, Stonemont next evaluates the approach, time and cost to obtain regulatory closure for any environmental issues; how the environmental conditions may impact the project's design, construction schedule and budget; and whether the conditions affect Stonemont's ability to obtain financing for the project.

Stonemont Passaic Logistics Center

Development varies across regions. For example, many properties in northern New Jersey have long industrial histories that have left behind soil and groundwater impacts. Most of these sites are classified as brownfields and are abandoned, idle or underutilized due to environmental contamination.

That was the case with Stonemont's Passaic Logistics Center, a site that formerly sat as an abandoned and derelict lot after years of previous heavy industrial use. Stonemont acquired the land for \$60 million in 2023 to build a 300,000-square-foot logistics center, completed in January 2025. The project is the result of a public-private partnership between Stonemont and the city of Passaic, which deemed the area in need of redevelop-

Stonemont Financial Group, a private firm specializing in industrial real estate investments, is seeing over 90% of its active targets come with environmental complexities related to historical land use and urban infill locations.

ment and approved it as an urban renewal redevelopment project, opening the way for tax benefits. It was crucial that both groups worked seamlessly together to reimagine an aging property into a new hub for economic development.

New Jersey has some of the strictest and most frequently updated environmental regulations in the U.S., particularly around emerging contaminants such as PFAS (perfluoroalkyl and polyfluoroalkyl substances). This makes the state's environmental regulatory landscape particularly challenging for developers.

Passaic Logistics Center faced inevitable hurdles,



Development of the Stonemont Passaic Logistics Center, approved as an urban renewal redevelopment project in New Jersey, involved excavation and off-site disposal of the former site's impacted soils, groundwater cleanup and vapor intrusion mitigation.

including excavation and off-site disposal of impacted soils and asbestos-containing materials, groundwater cleanup, long-term monitoring and vapor intrusion mitigation. Over the course of a year, Stonemont spent seven figures securing approvals from local agencies, continued to navigate New Jersey's Industrial Site Recovery Act (ISRA) process and completed substantial cleanup activities. The former involved formulating a remediation plan after thorough site investigations before any transactions were completed. Stonemont is one of the few industrial developers to complete a project of this complexity within the planned project timeline and within terms of ISRA in the last two years.

Leasing momentum continues at Passaic, with notable prospects being drawn to the strong labor force, nearby proximity to the largest metropolitan area in the country and the logistics center's appealing design.

Castings Commerce Park

In Columbus, Ohio, Stonemont developed Castings Commerce Park, a 70-acre, 862,000-square-foot Class A distribution center consisting of three buildings on the site of the former Buckeye Steel Castings facility. Over decades of industrial activity, materials such as steel, sand, petroleum products, paints and other chemicals were used and stored on-site. The property, active for more than a century, was shut down and demolished in 2016.

Recognizing the site's redevelopment potential, the property was enrolled in Ohio's Voluntary Action Program (VAP), a state-led initiative for cleaning

up historical contamination sites. VAP required environmental assessments, cleanup planning, and safety measures such as soil caps and land use restrictions. The overall cleanup, which required a significant investment and took several years to complete, included soil management measures in conjunction with the project's development. As part of the cleanup approach, a 1.25-acre area of lead-impacted soil was capped and left in place rather than excavated and removed from the site.

Following these efforts, a "no further action" letter was issued by the certified environmental consultant. Stonemont

Strategically Green



Castings Commerce Park, an 862,000-square-foot Class A distribution center in Columbus, Ohio, was redeveloped on the site of the former Buckeye Steel Castings facility that was active for more than a century.

continues to follow long-term operations and maintenance plans to ensure the site remains protective of the environment.

The Ohio Environmental Protection Agency then issued a covenant not to sue for the site's past impacts and unlocked more than \$7 million in eligible tax incentives and grant funding, including JobsOhio's Ohio Site Inventory Program, the Ohio Department of Development demolition and revitalization grant, the Franklin County port authority sales tax exemption and a city of Columbus tax abatement. Through a careful balance of environmental remediation, public-private

partnerships and strategic investment, Stonemont successfully transformed a long-dormant industrial site into a modern logistics hub, further revitalizing a key piece of Columbus' industrial landscape. Following its completion in late 2023, Castings Commerce Park has exceeded leasing expectations, with several notable signings occupying 232,477 square feet of the development as of August 2025.

Chamblee International Logistics Center

In February 2024, Stonemont and a development partner, Seven Oaks Company, com-

pleted Chamblee International Logistics Center, a four-building, 236,000-square-foot infill industrial project in Georgia. This area is heavily constrained, and new development opportunities inside the Atlanta perimeter are rare.

During Stonemont's prepurchase due diligence process, chlorinated solvent contaminants were discovered arising from surrounding commercial and industrial operations, such as a previously existing dry-cleaning facility near the property. Based on the environmental conditions, Stonemont enrolled the Chamblee site in the Georgia Brownfield Program. In partnership with Seven Oaks Company, Stonemont completed the Georgia brownfield process in less than two years and obtained a final limitation of liability letter from the Georgia Environmental Protection Division. Stonemont was also able to take advantage of a property tax abatement afforded to brownfield participants in the amount of its environmental costs.

By navigating the environmental and administrative process, Stonemont succeeded in bringing much-needed industrial space to a high-demand submarket, unlocking value others might have overlooked. Stonemont has since sold the property, which was 68% leased to five tenants at the time of sale.

Environmental Complexity Is the New Norm

Environmental complexity is no longer an exception but rather the expectation. For industrial developers, managing these challenges is now a core competency.

When evaluating whether a brownfield site is worth pursuing for redevelopment, it is wise

to create a comprehensive assessment of both risks and opportunities. Key considerations include the site's environmental condition and the scope of required remediation, as well as location factors such as access to major transportation corridors, proximity to workforce populations and compatibility with surrounding land uses. Developers should also weigh infrastructure availability, as well as potential incentives offered through local, state or federal brownfield programs.

It is best practice to engage environmental consultants early to identify any regulatory hurdles and develop realistic cleanup cost estimates. Equally important is building strong partnerships with municipali-

Environmental complexity is no longer an exception but rather the expectation. For industrial developers, managing these challenges is now a core competency.

ties, as local support can streamline entitlements and unlock funding sources. Stonemont's lessons learned from past projects underscore the value of patience, thorough due diligence and a collaborative approach to transforming underutilized properties into productive, market-ready assets.

Whether leveraging public-private partnerships, targeted remediation strategies or innovative insurance and incentive structures, firms that proactively embrace environmental complexities are best positioned to deliver transformative projects and create long-term value in their communities. ■

Brian Danahy is vice president, development/acquisitions at Stonemont Financial Group.

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BEYOND THE BASICS OF SUSTAINABILITY

Reducing Embodied Carbon in Industrial Development

By strategically addressing this environmental imperative, developers can simultaneously enhance the value of their properties.

By Anand Parthasarathy, BranchPattern

Even amid macroeconomic headwinds, the industrial real estate sector continues to be well positioned for steady growth, fueled by onshoring and reshoring efforts, e-commerce expansion, and the fast-paced buildout of logistics and AI infrastructure.

However, as demand surges, so does scrutiny over the environmental impact of new development. While the industry has made significant strides in improving operational efficiency — reducing energy consumption and integrating on-site renewables to address Scope 1 and 2 emissions — embodied carbon remains a largely untapped opportunity to lower emissions at scale.

Unlike operational emissions, which can be reduced over time through efficiency improvements and renewable energy adoption, embodied carbon is largely determined by decisions made before and during construction. Addressing this challenge early in the design and material selection process is key to meeting both regulatory and market expectations in today's evolving landscape.

Up-front emissions from new construction are immediately reflected in an organization's Scope 3 inventory, which is a growing area of investor focus. For developers and fund managers, achieving low-carbon performance standards not only improves GRESB scores, an overall measurement of ESG performance, but also mitigates the risk of stranded assets as carbon limits tighten.

Whole-building Life Cycle Assessments

Embodied carbon refers to the greenhouse gas emissions associated with the entire life cycle of a building, including raw material extraction, manufacturing, transportation and construction. In the context of industrial real estate, materials such as concrete, steel and asphalt are among the largest contributors to embodied carbon emissions due to their energy-intensive production processes. These emissions are often overlooked in the design and construction phases, yet they represent a significant portion of a building's total carbon footprint.

GRESB's 2025 Real Estate Benchmark found that 50% of participants now track embodied carbon emissions of their developments compared with only 23% in 2023. As awareness grows around the environmental impact of material selection and other contributors to embodied carbon, more developers and investors are turning to whole-building life cycle assessments (WBLCA) to measure these emissions in a more comprehensive way. WBLCA evaluate the full range of impacts, from sourcing and transportation to construction and eventual demolition. This allows stakeholders to better understand the environmental consequences of their decisions and identify opportunities for emission reduction.

A recent BranchPattern study analyzing nearly 100 industrial WBLCA found that embodied carbon intensity (ECI) for core and shell buildings declined by approximately 4% year over year compared to the building consultancy's 2023 study. It's important to note that part of the decrease can be attributed to the expanded dataset used in this latest report, which provides a more robust picture of trends across industrial projects.

Despite making progress, industrial development remains a high-impact sector in terms of carbon emissions. More aggressive strategies will be necessary for the industry to align with global climate goals and make deeper reductions in embodied carbon emissions moving forward.

Unlike operational emissions, which can be reduced over time through efficiency improvements and renewable energy adoption, embodied carbon is largely determined by decisions made before and during construction.

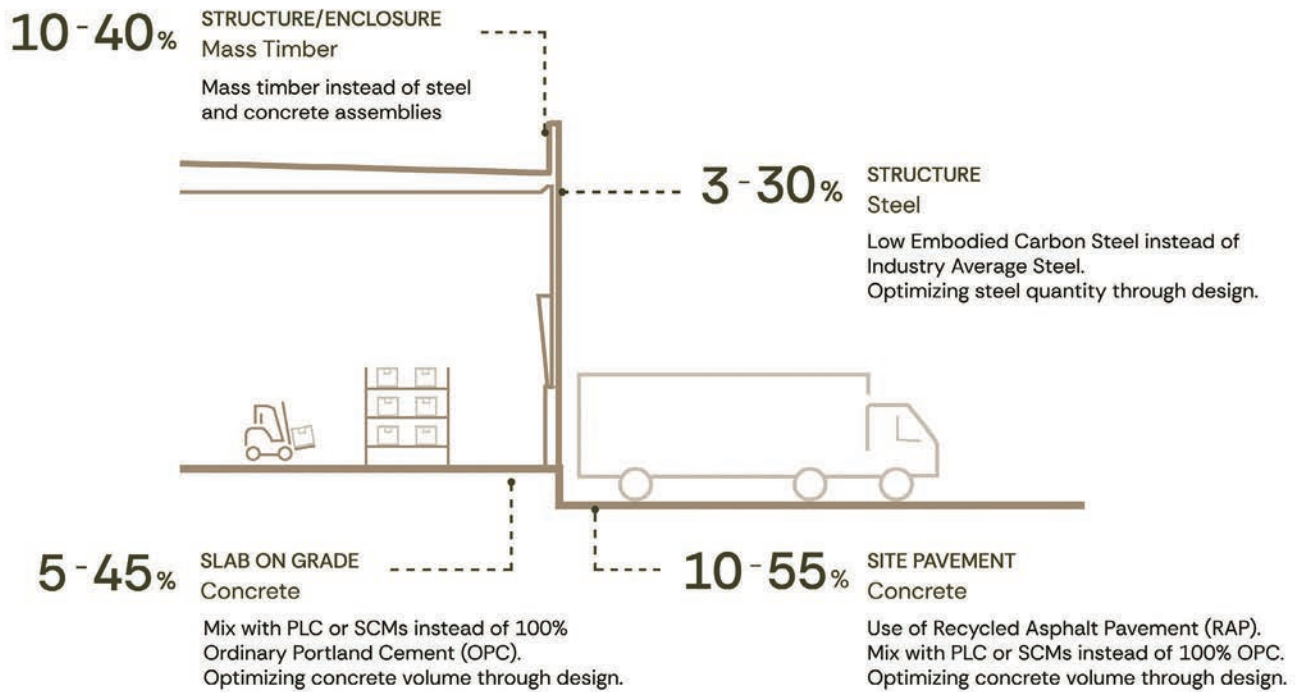
Key Insights From Industry Benchmarking

Recent industry benchmarking reveals some important trends. Concrete and steel continue to dominate the embodied carbon footprint of industrial buildings, with concrete alone accounting for roughly 45% of emissions and steel contributing an additional 21%. These materials are essential for structural integrity, but their carbon intensity can be significantly reduced based on material choices and design strategies.

Concrete used in slabs, site paving and walls remains the single largest contributor to up-front carbon, followed by asphalt for paving and structural steel/decking. These findings underscore that nearly every industrial project has untapped opportunities for carbon reduction.

Emissions generated by pavement and slab-on-grade work also play a substantial role. Site preparation, including roads,

Resulting Emission Reduction Potential for Individual Material Replacements



parking lots and foundations, can contribute up to 30% of a project's embodied carbon. By optimizing pavement design and using lower-carbon concrete mixes, developers can reduce emissions in this area as well.

Regional variations further impact emissions levels, influenced by factors such as climate, seismic requirements and material availability. For example, colder regions typically require heavier structural systems, leading to higher emissions, while areas with stricter policies — such as the Buy Clean California Act — tend to see greater use of low-carbon materials.

These variations suggest that localized data — and data quality in general — should be prioritized. The commercial real estate industry needs stronger transparency and accountability across the supply chain, including contractual requirements for emissions reporting on new buildings.

Practical Strategies for Reducing Embodied Carbon

Some common barriers to implementing and prioritizing embodied carbon reduction include the perception of cost premiums, limitations of the supply chain, limited internal awareness or alignment, and schedule pressures.

To make meaningful progress in reducing embodied carbon, developers, architects and contractors must integrate low-carbon solutions at every stage of a project. The following strategies, implemented early in and throughout the timeline of development, offer clear, actionable paths for industrial developments.

Optimizing the use of concrete and improving mix design is one of the most impactful strategies. By replacing traditional Portland cement with blends incorporating fly ash, slag or limestone, developers can reduce emissions by up to 40%. Reducing the volume of concrete through more efficient designs, such as thinner slabs or alternative structural systems, also plays a significant role in minimizing embodied carbon.

Similarly, choosing low-carbon steel is another critical area for improvement. Steel produced through an electric arc furnace generates significantly fewer emissions compared with traditional blast furnace methods. Additionally, prioritizing high-recycled-content steel can further reduce a project's carbon footprint. Beyond

Scope 1, or direct, emissions are emitted from sources directly owned and operated by the project, such as running a boiler or refrigerant leaks. These emissions typically happen on-site.

Scope 2 emissions are associated with the energy that is purchased by the project that it does not produce itself. Together, Scope 1 and Scope 2 make up the operational carbon emissions.

Scope 3 emissions are the hardest to measure. They encompass all other indirect emissions such as those tied to raw material production, material transportation, disposal of building materials and so on. They make up the embodied carbon on a project.

Strategically Green

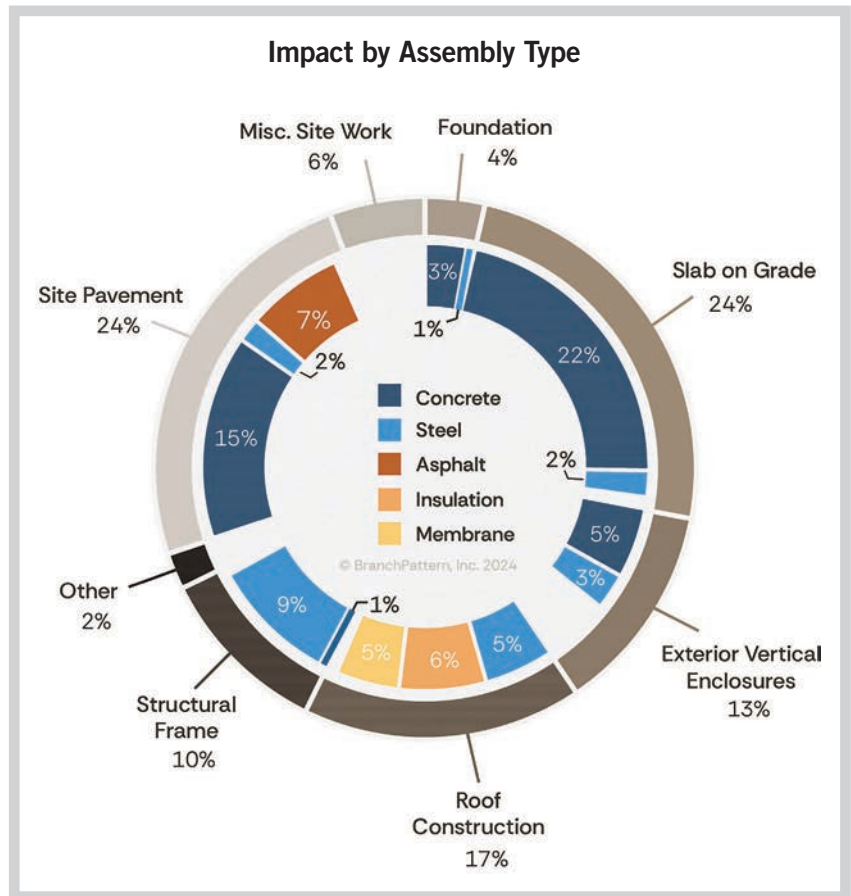
Concrete used in slabs, site paving and walls remains the single largest contributor to up-front carbon, followed by asphalt for paving and structural steel/decking. These findings underscore that nearly every industrial project has untapped opportunities for carbon reduction.

concrete and steel, evaluating emerging low-carbon materials such as mass timber, bio-based insulation and carbon-capturing concrete can help developers stay ahead of the curve in adopting innovative solutions to reduce embodied carbon.

With site work, developers can focus on reducing unnecessary paved areas and optimizing sub-base materials. Exploring alternatives like permeable paving and using lower-carbon asphalt and concrete formulations can also substantially reduce embodied carbon.

Leveraging environmental product declarations (EPDs) is another effective strategy. EPDs offer detailed information on the environmental impacts of materials, better enabling developers to compare and select lower-carbon options. Integrating EPD tracking into procurement processes ensures accountability and encourages more sustainable decision-making.

Finally, developers may choose to require carbon accounting for completed projects and establish internal performance incentives for teams that meet embodied carbon targets. This builds organizational accountability and accelerates progress toward decarbonization goals.



Concrete, steel, asphalt, insulation and membranes have the most embodied carbon impact across the average industrial product. Of all assemblies, slab on grade, site paving and roof construction typically contribute the largest impacts due to the high quantity of these intensive materials.

The Business Case for Embodied Carbon Reduction

For industrial real estate developers and investors, reducing embodied carbon isn't just about meeting sustainability targets; it's a strategic move that enhances asset value, reduces regulatory risk and unlocks financial incentives. As regulations evolve, many investors are prioritizing responsible business practices, increasingly incorporating embodied carbon metrics into risk assessments.

Industrial spaces with lower embodied carbon footprints are becoming preferred leasing options, helping developers secure blue-chip tenants faster and differentiate properties in competitive markets. According to JLL, "65% of future industrial and logistics space requirements from top occupiers will be tied to corporate carbon reduction

targets," showing that carbon, in particular, is a driver for how tenants value a potential space.

In a down market, there's an even stronger case for action: Investing in decarbonization during slower cycles positions portfolios to outperform when growth resumes. A holistic view of both operational and embodied emissions provides intelligence for guiding investments and managing long-term risk.

Taking stock of investor expectations — including GRESB and other assurance frameworks — allows developers to

proactively manage climate risk and improve financial positioning.

At the same time, major jurisdictions across the U.S. are implementing policies designed to curb embodied carbon emissions. From state-level Buy Clean programs to evolving climate disclosure rules, proactive adoption of these measures can help developers avoid costly retrofits or compliance challenges in the future.

Equally important is planning for the next phase of regulation: building performance standards, carbon caps and disclosure requirements that could soon affect both capital and operational budgets.

A Strategic Opportunity

Industrial real estate is at an inflection point, with sustainability expectations accelerating across the market. As stakeholders navigate these shifts, adopting embodied carbon reduction strategies will be crucial for future-proofing assets to improve resilience and preserve long-term value, meet investor demands and maintain market leadership.

By embracing data-driven decision-making, utilizing innovative materials and pursuing forward-thinking design approaches, industrial developers can reduce carbon emissions while enhancing the value and performance of their properties. With the right strategies

For industrial real estate developers and investors, reducing embodied carbon isn't just about meeting sustainability targets; it's a strategic move that enhances asset value, reduces regulatory risk and unlocks financial incentives.

in place, the industry can meet today's sustainability challenges and position itself for long-term success in an evolving commercial real estate market.

The developers that move decisively now — building clear decarbonization road maps and embedding carbon intelligence into every project — will define the next generation of market leadership. ■

Anand Parthasarathy is a principal and practice lead at BranchPattern specializing in sustainability consulting for commercial real estate portfolios.

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MOVING PEOPLE AND GOODS

The End of Guesswork: Movement Data and the Future of Retail Site Selection

Real-time mobility analytics helps developers and retailers pursue data-backed decision-making.

By Michael Cottle, INRIX

Modern retail success depends not just on where it's sited, but on how, when and why people engage with it. In today's challenging retail landscape, the difference in performance between an accessible site and a less viable one is more important than ever, particularly for retailers that depend on vehicle traffic. Postpandemic shifts in consumer behavior and tighter margins have added new layers of complexity to site selection. While traditional resources such as radius maps and aggregated footfall counts are still useful, they fall short in understanding the potential for retail sites that depend on vehicle traffic.

In 2024, U.S. retailers shuttered more than 7,300 stores, the highest number of closures since 2020, and analysts projected that closures could more than double to 15,000 in 2025. Although e-commerce continues to grow — with forecasts reaching \$6.8 trillion in global online consumer spending by 2028 — 80% or more of U.S. retail transactions still occur in physical stores.

Given these pressures, forward-looking developers and retailers are leveraging real-time mobility data to understand where potential customers are coming from when they go to a particular vendor or store, how they move through a market and how accessible a site is at different times of day. The result: data-backed decisions that reduce risk, increase store performance and align more closely with modern consumer patterns.

Understanding Vehicle Movement at Specific Times of the Day

Traditional determinations that rely on mobile or footfall traffic, often aggregated at a daily level, do not usually apply to retailers that need to understand how consumers reach their stores by car. And vehicle volume alone is a blunt metric. What truly drives understanding is the quality of that traffic: who the people are, where they originate and what time of day they pass by a site.

For instance, a breakfast-focused restaurant needs to understand the volume of traffic that can easily access a potential location from the side of the road that morning commuters take. A location

in the opposite direction from the commuter flow might not perform as well if drivers need to make a U-turn or cross traffic. Similarly, a national coffee chain has used real-time mobility data to identify intersections where pedestrian counts spike during early morning and late afternoon commutes, ensuring store placement directly along those walking routes. Another example is a major big-box retailer that leveraged traffic flow data to avoid opening near a competitor whose parking lot consistently captured the majority of weekend shoppers — a nuance that static demographic reports failed to reveal.

This is where real-time mobility data becomes indispensable. Leveraging aggregated, anonymized location intelligence equips retailers and their development partners to make investment decisions that align with real-world consumer behavior. They can evaluate traffic both in terms of volume and intent, identifying patterns that reveal whether passersby are potential customers, how often they return and how far they're willing to travel. In short, movement data allows teams to assess a site's actual commercial gravity rather than relying on assumptions rooted in visibility alone.

A Smarter Approach to Site Selection

With mobility data integrated into the decision-making process, site evaluations can now include:

A national coffee chain has used real-time mobility data to identify intersections where pedestrian counts spike during early morning and late afternoon commutes, ensuring store placement directly along those walking routes.

Traffic volume analysis: Identifying not just high-traffic areas but the type and timing of traffic on the specific roads that lead to the retail site.

Trip movement data: Tracking how customers and competitors move through trade areas.

Real-time catchment areas: Defining accurate drive-time zones based on actual origin-destination patterns, not assumptions.

Side-of-the-road bias analysis: Revealing how the direction of travel and the ease of turn-in affect drive-through and storefront performance.

Origin and destination analysis: Identifying where potential customers originate from and whether a location is in the right demographic area.



Retailers can identify potential friction points that could affect accessibility by layering mobility data with real-time traffic analytics.

These insights empower retailers and developers to compare actual visit volumes between candidate sites and top-performing stores; understand how traffic flows shift depending on time of day, day of week or seasonality; and evaluate accessibility to the site from key anchors, competitors and commuting corridors.

Best Practices

Retailers seeking to modernize their site selection strategy can adopt several best practices rooted in mobility intelligence:

Analyze origin-destination patterns early. Before narrowing in on a site, use mobility data to analyze where current customers are coming from and how they interact with an existing footprint. Understanding origin-destination flows helps predict whether

a new site will attract similar high-value traffic or dilute performance at an adjacent location.

Go beyond vehicle counts.

Static traffic data alone lacks context. Retailers should look for insights into dwell time, trip purpose and daypart traffic to identify, for example, whether visitors are commuters, lunch-hour shoppers or weekend family groups. This allows for more precise forecasting and merchandising strategy.

Segment customers by visit frequency and loyalty. Not all visitors contribute equally to a store's success. Frequent repeat visitors often drive outsized revenue. Use mobility data to identify high-loyalty cohorts and determine whether a new site lies within their travel patterns.

Understand competitive overlap.

Evaluating where customers stop before or after visiting a location allows CRE professionals to detect potential synergies or threats. For instance, a site near complementary retailers may benefit from cross-shopping patterns, while proximity to strong competitors may reduce performance potential.

Assess real-time accessibility and infrastructure impact.

Some locations may appear promising but suffer from congestion, poor ingress/egress or inconsistent traffic flow. By layering mobility data with real-time traffic analytics, retailers can identify potential friction points that may affect accessibility and, ultimately, revenue.

Simulate "what if?" scenarios.

With predictive analytics

Evaluating where customers stop before or after visiting a location allows CRE professionals to detect potential synergies or threats. For instance, a site near complementary retailers may benefit from cross-shopping patterns, while proximity to strong competitors may reduce performance potential.

Transportation and Mobility

tools, retailers can simulate future performance based on changes in traffic infrastructure, seasonal travel patterns or even local development plans. This helps stress-test assumptions before committing to a large investment.

Modernizing Site Strategy

As the CRE landscape grows more complex, access to accurate, real-time mobility data provides a competitive edge. Retailers who once relied on instinct or anecdotal trends can now ground their decisions in verifiable insights, reducing risk and boosting confidence for investors, developers and internal stakeholders.

For example, consider a retailer deciding between two potential storefronts in a busy commercial corridor. By analyzing mobility data, they might discover that one location sees a far higher volume of lunchtime foot traffic from nearby office workers, while the other attracts more evening and weekend visitors from surrounding neighborhoods. Depending on whether the retailer's

target customer skews toward office commuters or families, this insight could make the difference in choosing the site that delivers the best long-term performance.

Adopting this approach requires a mindset shift. Retailers must be willing to question legacy assumptions, integrate data-driven decision-making into their workflows, and partner more closely with data science and analytics teams.

A More Predictable Future

Retail success has traditionally hinged on foot traffic and visibility. But with e-commerce competing with brick-and-mortar stores and consumer routines being more fluid than

ever, a high-traffic corridor doesn't automatically guarantee high conversion rates.

In an era when physical footprint decisions are make-or-break for retail brands, site selection requires more than instinct or experience. It demands a data-driven approach grounded in real-world movement patterns. Embedding mobility intelligence into the development process empowers retailers to improve location performance and future-proof their expansion strategies. ■

Michael Cottle is the senior vice president for INRIX Enterprise.

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Top: Aerial of James Snow Business Park.
Right: Cerulean Warbler, local to the region.

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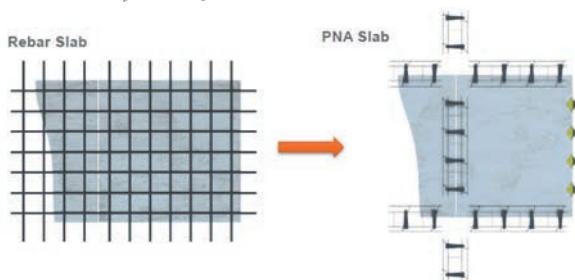
How strategic reinforcement for slabs-on-ground can reduce steel while improving joint performance

By: Matt Bollé, PNA Construction Technologies

Strategic Reinforcement design is a concept that was first introduced as an alternative to traditional deformed reinforcement as a means to reduce slab-on-ground costs when steel prices soared in the early 2000's.

It proved to be a cost-effective solution for interior and exterior concrete flatwork exposed to wheeled traffic and has since become a widely used solution recognized within ACI design guides.

Commonly adopted by facility owners worldwide, this design optimizes material usage and minimizes joint spalling and random cracking. It achieves this by removing reinforcing steel from the mid-panel and strategically placing PD3 tapered plate dowel baskets at control joints where load transfer and joint stability are critical to ensure long-term serviceability and performance.



Concrete flatwork – whether slabs-on-ground or paving – serves as the working platform for businesses in distribution, warehousing, logistics, food, retail, and manufacturing facilities. The performance and functionality of these businesses heavily rely on the serviceability and durability of their concrete flooring. By effectively managing the behavior of concrete, the Strategic Reinforcement design ensures long-term durability. It mitigates internal and external restraint and stress, optimizing load-carrying capacity of the concrete while delivering the joint stability required by advanced material handling equipment (MHE) and wheeled traffic. The Strategic Reinforcement design approach optimizes material usage, while providing superior and consistent joint performance. By substituting the #3 rebar in a traditionally reinforced floor with PNA's Strategic Reinforcement design using 3/8" PD3 plate dowels at 18" on center spacing at the contraction joints, the amount of steel reinforcement can be reduced by *50% (by weight), helping reduce embodied carbon.

* based on a 7" slab with construction joints at 15' spacing

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To connect with our Engineering team or to submit a design request, visit pna-inc.com



Power Strain: Inside CRE's Race to Secure the Next Megawatt



CoreSite's SV9 is part of a Silicon Valley data center campus with 1.4 million total square feet of facility space.



As grid expansion lags, developers and investors are rewriting the development playbook around energy.

By Ron Derven

AT A GLANCE

Power availability has become a top constraint for commercial real estate development, often surpassing land and zoning concerns.

Data centers lead demand for electricity in CRE by a wide margin, but other sectors are also feeling the pinch.

On-site generation and behind-the-meter solutions are emerging as partial answers to grid delays and reliability challenges.

Today's commercial real estate conversations

are inevitably turning to talk of power and how to attain it. For many industry players, electricity — not land, zoning or entitlements — is the ultimate constraint. Power delivery, once measured in months, is now calculated in years, according to industry sources.

A September forecast from S&P Global reported that year-over-year power demand from U.S. data centers was expected to rise 22% by the end of 2025 and to nearly triple by 2030 compared with 2024 levels. But data centers aren't the only commercial real estate with big power needs. Many other high-load users are also waiting in line.

From electric vehicle (EV) charging depots and battery plants to cold storage warehouses and ports, the development cycle increasingly revolves around electricity and when it will become available. Take retail EV charging stations, for example. While actual physical construction may take a matter of months, the time from first utility engagement to final energization can drag on for as long as two years, according to SparkCharge, a company that specializes in mobile charging services for EVs. Service connection studies, transformer procurement and distribution feeder upgrades are delaying fleet depot and multifamily charging projects across multiple states.

Industrial and manufacturing users are feeling the same pressure. Power sector consulting firm Grid Strategies estimates that nationwide five-year load forecasts have surged fivefold, largely driven by semiconductor, EV and battery plant construction. Utilities in states such as Arizona, Ohio and Tennessee currently warn that interconnection queues and transformer shortages could postpone new factories for years — an echo of what data centers are facing in Northern Virginia.

Meanwhile, cold storage warehouses — among the most power-intensive industrial uses — are running up against substation and equipment backlogs that can add a year or more to delivery schedules, according to Cushman & Wakefield's 2024 outlook. Ports and intermodal facilities are also facing a tight energy future. Even asset classes such as multifamily, mixed use, office and

Courtesy of Corgan



The Vantage Data Centers AZ1 campus in Goodyear, Arizona, will have a combined capacity of 176 megawatts.

“Power is king. For the groups we’re working with, the timeline to first power — whether 18, 24, or 36 months — drives everything.”

*Davis Griffin,
managing director,
Strategic Development
Solutions Group,
Trammell Crow Company*

life sciences that require lower electrical loads are feeling the pinch. In these cases, the strain is less about megawatts and more about local capacity, panel upgrades and transformer availability.

An Extending Power Timeline

“Power is king,” asserted **Davis Griffin**, managing director of Trammell Crow Company’s Strategic Development Solutions Group. “For the groups we’re working with, the timeline to first power — whether 18, 24 or 36 months — drives everything. In many locations, power may be five years or more out.

“The reality is that demand for power continues to grow much faster than supply. In most primary data center markets, power requests now

exceed available capacity by two to three times. As a result, power has become the gating issue. Of course, entitlements, labor, water and other elements are still fundamental.”

According to those interviewed, the quest for power is reshaping the way developers plan, design and finance commercial real estate projects. In many instances, a parcel’s value might be related less to geography or zoning and more to its position in the grid.

“Everyone has the best intentions,” said **Pat Lynch**, executive managing director for CBRE Data Center Solutions, “but the technology industry’s speed-to-market needs are very different from the utility sector’s timelines. We often need power today, while utilities are planning five to 10 years out. That’s the core disconnect.”

Data Centers Dynamics

Data centers lead demand for electricity in commercial real estate by a wide margin. “Data centers are becoming a much larger consumer of power in the U.S.,” said **Carrington Brown**, senior managing director of development at institutional investment firm Affinius Capital. “A few years ago, they used maybe 3% to 4% of total U.S. energy consumption. Today, that percentage is closer to 6% to 7%, and by 2030, reports suggest it could reach as high as 12%.”

In many markets, generation capacity is the issue, “but a lot of the real challenges are with transmission and transmission upgrades,” Brown added. “When you have huge volumes of power being consumed by data centers, it has to be transmitted from the generation

source to the user. Those upgrades take a lot of time — not only engineering and construction but also securing easements and rights of way, which can face opposition.”

Right-of-way battles in particular can add years to the transmission process. The U.S. Department of Energy estimated that adding a major new line can take eight to 12 years from proposal to energization. For industries like commercial real estate development, that is an eternity and, often, a deal-breaker. According to Grid Strategies, only 322 miles of new high-voltage transmission lines were completed in 2024, the third-slowest year of new construction for 345-kilovolt and above transmission over the past 15 years. A kilovolt is equal to 1,000 volts.

Gridlock in Core Markets

No area demonstrates this tension more vividly than Northern Virginia, easily the world's top data center market measured by capacity. “There’s no question that parts of Northern Virginia are gridlocked today,” Griffin said. “Power and entitlements are a real challenge. But the market isn’t standing still. We’re now seeing expansion south toward Richmond and north into Maryland as utilities invest in new transmission and as users chase available power and entitled land.”

Nate Kirschner, branch manager at Bohler Engineering, an engineering firm with numerous commercial real estate clients, has witnessed the same problem. “Some of our clients have told us that they will not get power until 2027,” he said.



Power transmission upgrades can be a challenge on par with generation capacity in some markets.

“In some instances, utilities are projecting power delivery timelines extending as far as 2029. Nevertheless, clients across multiple sectors — including retail, industrial, not solely data centers — continue to pursue land acquisitions and welcome [electric] load letters aligned with those extended timelines.”

These commitments provide valuable lead time to address current development challenges, according to Kirschner. What was once considered short term is now defined as a horizon of two years or more. “We’re observing heightened activity across a wide range of markets, including geographies that until recently were not considered viable data center locations but are now emerging as significant hubs,” he said.

Power First

The order of development seems to have flipped in recent years. It used to be that a developer found the right parcel and then negotiated energy delivery. Now, it’s the opposite: The power comes first and the land follows.

“Securing power first makes perfect sense,” Griffin observed, “but in practice, it’s not always feasible. Most utilities can’t or won’t study an

ABC OF THE U.S. ELECTRIC GRID

The U.S. power grid isn’t a single system; it’s three semiconnected networks: the Eastern Interconnection, the Western Interconnection, and ERCOT in Texas. Together, they move electricity over 700,000 miles of high-voltage lines owned by hundreds of separate utilities.

That patchwork design, born of state regulation and regional monopolies, makes expansion a bureaucratic marathon because projects must clear:

- **Approvals:** Federal and state regulators, plus local siting boards.
- **Buy-in:** Multiple utilities agreeing who pays and who benefits.
- **Community Consent:** Landowners and environmental groups signing off on rights of way.



An aerial view of the 300-acre Panasonic battery manufacturing facility at Astra Enterprise Park in DeSoto, Kansas.

“In some instances, utilities are projecting power delivery timelines extending as far as 2029. Nevertheless, clients across multiple sectors — including retail, industrial, not solely data centers — continue to pursue land acquisitions and welcome [electric] load letters aligned with those extended timelines.”

*Nate Kirschner,
branch manager, Bohler Engineering*

entire area; they want a specific site tied to a substation or circuit before they complete a power study. And many utilities require proof that you own or control that land before they will even begin. We often have to move on both fronts simultaneously — securing the right site while advancing conversations with the utility in parallel.”

That chicken-and-egg dilemma has given rise to a new discipline in commercial real estate: energy-forward development. In this model, site planners, engineers and utility specialists collaborate from day one, integrating power planning into every design and entitlement decision. Deals now depend on who can move electrons fastest, not just who can move the dirt.

Grid Determines Design

The scarcity of power-capable sites is reshaping the physical form of projects. When access to a substation or high-capacity feeder determines feasibility, developers are rethinking how to extract every possible square foot from a parcel that already has power.

Kirschner described the shift: “From a development standpoint, the projects we’re tackling today are truly atypical. Traditionally, you focus on value-engineering — those ways to cut costs. Now, land with access to power is so scarce, and the upside so significant, that developers will say, ‘We’ll spend \$2 million on a retaining wall if it gets us 20,000 more square feet of space.’ It’s a no-brainer.

“The next question usually is: ‘What if we double the height of the retaining wall? How many square feet extra can we get now?’ The mindset has shifted from trimming costs to maximizing footprint. For designers trained to squeeze out expenses, the new challenge is: ‘How can we make the building bigger?’”

That shift mirrors what’s happening in the



The process for getting an EV charging station up and running can take as long as two years.

utility sector itself, where grid constraints have turned engineering from optimization to triage that is prioritizing projects that are furthest along or have firm power-purchase agreements.

New Markets Rising

As legacy hubs run out of capacity, developers are fanning across the map in search of fresh power and friendlier permitting. Kirschner sees movement “in the Midwest, the Southeast and the northern Plains — markets like Louisiana, North and South Dakota, Kansas.” These locations, once off the data center radar, now hold appeal precisely because they aren’t crowded. “Communities that want these projects are getting creative in providing support,” he said. “They see the tax base and career opportunities.”

Lynch agreed that the center of gravity is shifting. “That’s why you’re seeing projects in places like Louisiana, Pennsylvania and Alabama — locations we wouldn’t have imagined five years ago.”

Secondary markets like Tulsa, Oklahoma; Columbus, Ohio; and Hillsboro, Oregon, are also emerging as fast-growth nodes. According to reports from CBRE and JLL, many of these areas have become national leaders precisely because they can still deliver power in less than two years — a competitive edge that’s disappearing elsewhere.

The Substation Squeeze

Even when a utility approves new service, the local substation can become a choke point. “You would be hard-pressed to acquire a greenfield site and be operational in under two years,” Brown said. “Substations require long-lead equipment, and those transformers are in short supply.”

According to global research and consultancy group Wood Mackenzie, large transformer delivery times now average 24 to 36 months, driven by steel shortages and global demand. Power transformers and distribution transformers faced supply deficits of 30% and 10%, respectively, in 2025.

WHY ELECTRIC SUBSTATIONS TAKE SO LONG TO BUILD

Substations convert high-voltage power to lower voltages that end users can use. They’re vital but also painfully slow to deploy because:

- Transformers are huge (some over 400 tons) and scarce.
- Switchgear and relays have global supply backlogs.
- Permitting requires environmental and local approvals.
- Coordination with multiple utilities can stall progress for years.

The Electric Power Research Institute reported that some users now wait three years just for parts. Even after equipment arrives, commissioning requires utility coordination that can take months. For developers, it’s one more bottleneck.

In addition, local opposition to a new project, particularly large data centers, can add another year or two. The result: Power may be “committed” on paper, but it can’t be delivered in practice.

Looking Beyond the Utility

Faced with multiyear grid delays, the industry is exploring on-site generation and



“National Grid is committed to advancing economic development, and we recognize the essential role we play in supporting commercial real estate growth across our service territories,” said Morgan Steacy, vice president of connections and strategic accounts for utility company National Grid. “Addressing speed-to-power challenges is a priority across the country, and we are leveraging innovative technologies, processes and software to accelerate connections efficiently.”

“End users expect 100% uptime. That makes it difficult to rely heavily on intermittent renewables like wind or solar, especially on the scale we need. Nuclear power is one of the most promising solutions.”

*Pat Lynch,
executive managing director,
CBRE Data Center Solutions*

DEVELOPERS' PLAYBOOK: KEEP YOUR FRIENDS CLOSE AND YOUR UTILITY CLOSER

The most successful developers think like utilities — mapping, financing and reserving electrons years before breaking ground. Power is no longer an afterthought; it's the first entitlement, according to experts. Here are some tips for potentially cutting lead times:

- Build relationships with utilities years in advance. Utilities plan on five- to 10-year horizons, far longer than typical CRE cycles. Early engagement could shorten delays.
- Undertake parallel-track site control and power studies.
- Design with flexibility and redundancy, including dual feeds, modular substations and battery buffers.
- Leave space for future on-site power generation because fuel-cell or microgrid systems could allow facilities to ride out future grid curtailments.
- Lock in transformer and switchgear procurement early, which could avert 24- and 36-month waits, respectively.
- Plan for water and cooling alongside power.
- Engage with local government entities early.

behind-the-meter solutions, although industry practitioners expect grid-connected projects to remain the favored choice, according to Boston Consulting Group. As Brown explained, “On-site generation will become a much larger piece to data centers because many states are passing laws requiring demand response. When the grid is maxed out — hot summer days, cold winters — utilities can scale back your allocation. On-site generation may be the only way to keep a data center running 24/7.”

Options currently gaining traction include:

- Microgrids and battery storage systems combining renewables and gas turbines.
- Natural-gas-powered turbines that provide continuous base-line power.
- Small modular nuclear reactors.

- Corporate renewable power purchase agreements and off-grid solutions, often in partnership with regional utilities.

Griffin noted these solutions come in many forms, and all have pros and cons. There is also the question of whether they are simply bridge solutions until the grid catches up or part of the long-term power strategy for specific sites.

Lynch added that reliability remains non-negotiable: “End users expect 100% uptime. That makes it difficult to rely heavily on intermittent renewables like wind or solar, especially on the scale we need. Nuclear power is one of the most promising solutions.”

According to JLL’s 2025 Global Data Center Outlook, nuclear power is rapidly gaining traction as a practical and low-carbon solution to meet the surging energy needs of data centers — particularly those supporting AI and high-performance computing. With technology companies driving massive new power demand and simultaneously pursuing some of the most ambitious net-zero commitments in the corporate world, nuclear energy offers a way to satisfy both imperatives: reliability and sustainability.

Financing

The energy bottleneck may be changing project financing. Developers now need not only strong engineering but also strong balance sheets. Utilities are demanding letters of credit, financial guarantees and detailed load profiles before allocating capacity.

“The capital markets are healthy,” Brown said. “There’s a diverse pool of financial parties — traditional banks, life insurance companies, debt funds, project and infrastructure finance. We’ve seen IPOs [initial public offerings], large acquisitions and major institutional investors entering the space. When you lend or invest in data centers, you’re helping to capitalize essential and critical infrastructure being led by some of the best credits in the world.”

However, for newer or smaller AI companies, the barriers are high. As Lynch noted: “Many emerging AI or neocloud firms are backed by private equity and don’t have the credit under

which these deals can be underwritten. We advise our clients to engage at least three years in advance to address their future data center needs.”

The Next Decade: CRE in the Age of Power Scarcity

Looking ahead, the consensus among experts is clear: The next decade will reward developers that treat energy as the first design variable.

Data centers already account for a significant share of the nation’s electricity use, and that share will increase dramatically by 2030. With the grid near capacity, Kirschner said, “people will need to get creative. Secondary and tertiary markets will become a bigger focus.”

Lynch said the “AI wave” will push computing closer to major cities, and those edge locations will bring new constraints. He cautioned that “the next wave, inference-based AI, will need to be closer to population centers like Los Angeles and New York. The aggregate demand for power will grow, even if individual facilities are smaller.”

In short, the grid isn’t broken, but it is out of sync with the speed of modern commercial real estate development. Utilities plan decades ahead; the tech and CRE industries move in quarters. Until that mismatch narrows, power will remain the defining constraint on real estate’s most ambitious projects. ■

Ron Derven is a contributing editor to Development magazine.

“The capital markets are healthy. There’s a diverse pool of financial parties. ... When you lend or invest in data centers, you’re helping to capitalize essential and critical infrastructure being led by some of the best credits in the world.”

*Carrington Brown,
senior managing director of development,
Affinius Capital*

SMALL MODULAR REACTORS

Small modular reactors (SMRs) have moved well beyond the concept stage, with the Nuclear Regulatory Commission already having licensed several designs, including NuScale Power’s 77-megawatt-electric reactor design. SMRs are compact, factory-built nuclear power units designed to deliver low-carbon, always-on electricity at a fraction of the scale of a large nuclear power plant.

If SMRs move into broad use, they could solve a lot of problems for data center developers by supplying their own power instead of tapping into the local utility’s power supply.

Advocates cite faster construction, improved safety systems and flexible siting near industrial or microgrid locations. However, costs, waste handling and regulatory hurdles remain significant challenges, so commercial deployment is unlikely before late this decade.

Charting a Course for the Navy Yard's Ongoing Evolution



The 2.5-acre Crescent Park is located just beyond the Navy Yard's front gates. The Navy Yard has more than 20 acres of parks and a mile of waterfront trail.



From shuttered shipyard to dynamic business campus to Philadelphia's newest neighborhood, the Navy Yard's story is one of continued reinvention.

By Jay Nachman

AT A GLANCE

Ensemble and Mosaic are steering development of the entire 1,200-acre Navy Yard site and control 109 acres themselves.

When finished, the new neighborhood will be home to 30,000 workers and up to 8,000 residents.

The former shipyard is the largest LEED neighborhood development project in the United States.

At the time of its 1996 closure, the Philadelphia Navy Yard employed 2,000 workers, a far cry from its World War II peak, when it produced and repaired more than 1,200 vessels and employed 40,000 workers. A November 1997 Washington Post article described the Navy Yard as a “silent wasteland where a bustling industry once thrived.”

City officials determined to keep the ship(yard) afloat, however. The Philadelphia Industrial Development Corporation (PIDC), the city's public-private economic development corporation, was tapped to oversee the Navy Yard's development.

When the naval base closed, the city and PIDC “saw not just vacant land, but extraordinary potential,” said **Kate McNamara**, executive vice president of the Navy Yard for PIDC. She noted the site's proximity to Philadelphia International Airport and the city's downtown, as well as its convenient location between New York City and Washington, D.C.

“We stepped in with a vision to transform the Navy Yard into a dynamic business campus that could create thousands of jobs, attract private investment, and generate significant revenue and long-term economic growth for the city and commonwealth,” McNamara said. “Today, it is an economic powerhouse for the Philadelphia region, with \$2.8 billion in public and private investment.”

Ensemble Investments, a commercial real estate investment firm founded in 1989, and its partner, Mosaic Development Partners, are now

piloting the entire site's development while controlling 109 acres. Their work has been recognized as a leading model for repurposing military and industrial assets for a diversified modern economy.

Ensemble/Mosaic's marketing materials for the 1,200-acre Navy Yard site call for development of a 24/7 “Live, Work, Play, Stay, Breathe” community. In reality, that means creating a campus, built with \$6 billion in investment, for an anticipated 30,000 permanent workers and 6,000 to 8,000 residents when the development plan is completed in approximately 20 years.

Teaming Up for Greater Impact

West Coast-based Ensemble's path to becoming the primary developer with Mosaic began in 2014 when it developed a Courtyard by Marriott with 212 guest rooms and suites, 2,000 square feet of meeting space and a business center at the Navy Yard. “A lot of the local Philadelphia

Courtesy of Ensemble Investments



An aerial view of the Navy Yard, with the Delaware River as a backdrop.

“A lot of the local Philadelphia developers and regional developers saw the Navy Yard as an extension of the airport submarket. They didn’t fully buy into the [overall] vision.”

*Brian Cohen,
managing director,
Ensemble*

developers and regional developers saw the Navy Yard as an extension of the airport submarket. They didn’t fully buy into the [overall] vision. ... Ensemble understood the vision and the potential,” said **Brian Cohen**, who along with fellow managing director **Mark Seltzer** is responsible for Ensemble’s East Coast developments and investments.

“Because Ensemble is truly a mixed-use developer and had done office, residential and hotel, it saw a unique opportunity to take its experience in all of those different product types and leverage it in one location as part of one planned development,” Cohen said.

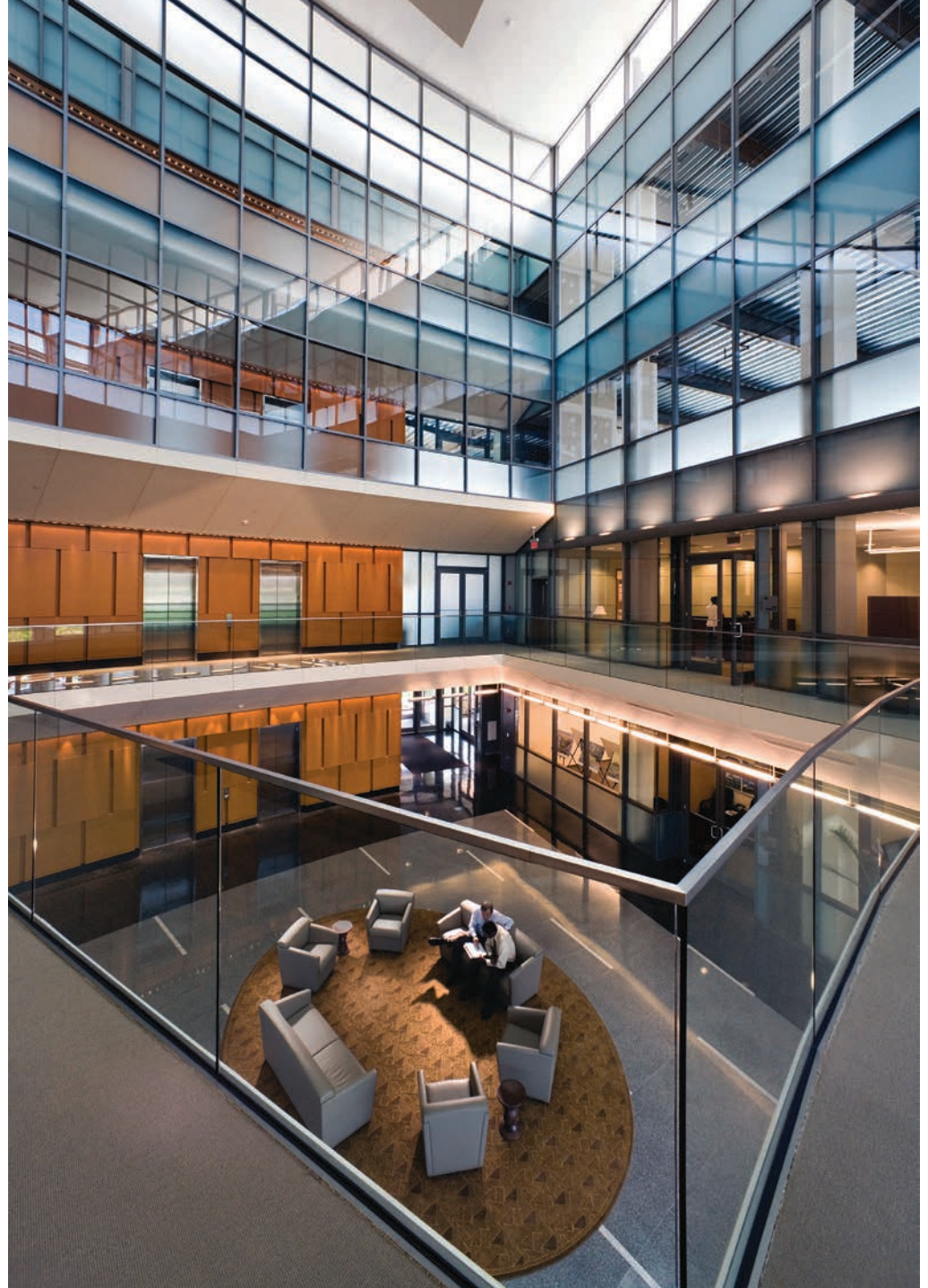
Ensemble and Mosaic, a Philadelphia development company devoted to making a positive economic impact in the communities where it develops, were familiar with each other’s work through local real estate circles. They decided to join forces because both companies recognized “there was imbalance in equity within the commercial real estate space,” said **Leslie Smallwood-Lewis**,

a founder and chief operating officer of Mosaic. “What we have found is that if you are not coming with that lens and that sensitivity, sometimes things get missed.”

On that front, Smallwood-Lewis noted the involvement of Basis Investment Group, a certified minority- and women-owned business specializing in diversified commercial real estate investments. Basis brought in a portion of the equity for the Navy Yard’s first residential project, AVE Navy Yard, which includes Chapel Plaza. The recently opened plaza is a signature 35,000-square-foot public space featuring dining, lounge areas and performance spaces.

The project’s minority participation is “setting the bar even higher, not just for our projects but for other projects,” Smallwood-Lewis said.

Together, Ensemble and Mosaic put together what they termed an “impact strategy.” Among the goals were devising a comprehensive approach to equity for minority- and women-owned businesses; designating a portion of the residential



units for affordable housing; developing in a highly sustainable manner; and supporting a well-trained workforce to meet the current and future needs of Navy Yard employers.

“Economic development is not just about building buildings but creating jobs,” Seltzer said. “We created an impact strategy not only to help diverse companies but to help small businesses grow. The idea here is to create jobs and create small businesses to allow our city to thrive.”

Sustainability is another component of the impact strategy. From the start, the Ensemble/Mosaic team was guided by standards set by the U.S. Green Building Council. In April 2025,

the Navy Yard achieved LEED Gold certification for neighborhood development, making it the largest such project in the country.

Ensemble/Mosaic also engaged a firm that specializes in resiliency to ensure the Navy Yard is prepared to handle rising sea levels 75 years into the future. After all, the site was

originally an island, sitting at the confluence of the Delaware and Schuylkill rivers. Ensemble/Mosaic raised vulnerable portions of the site, including elevating buildings and infrastructure, and used dry ponds, green roofs, and resilient landscaping and trees to mitigate the impact of climate change and prevent flooding in the new community. Future plans involve incorporating innovative infrastructure, including canals and swales along the streets on the east side of the campus, to convey stormwater.

One Crescent Drive was the first new privately developed office building in the Navy Yard's Corporate Center and the region's first LEED Platinum office building. It comprises 76,000 square feet of space around a central indoor atrium.

“Economic development is not just about building buildings but creating jobs.

We created an impact strategy not only to help diverse companies but to help small businesses grow. The idea here is to create jobs and create small businesses to allow our city to thrive.”

*Mark Seltzer,
managing director,
Ensemble*



The Chapel Block complex includes a seven-story building and two connected six-story buildings. As the Navy Yard’s first residential complex, it offers over 600 luxury and mixed-income apartments. It will also include 75,000 square feet of resident amenity space and 25,000 square feet of retail/restaurant space.

What’s Now and What’s Next

According to McNamara, the Navy Yard is currently home to more than 16,000 employees and 150 employers. They occupy more than 8 million square feet of facilities across a mix of property types, including life sciences, health care, advanced manufacturing, creative industries, technology, and research and development. Navy Yard employees occupy roles ranging from office workers and lab technicians to designers and welders.

In November, Ensemble/Mosaic, in partnership with Korman Communities, a real estate company with 40 properties throughout the United States and London, opened the first residential housing in the Navy Yard. Two midrise apartment buildings offer 614 studio, one-, two- and three-bedroom apartments and 25,000 square feet of retail.

Joining the Navy Yard’s growing amenities across the street from the residential buildings will be Happy Bear Coffee Company, which has signed a lease for 3,036 square feet. The cafe will combine specialty coffee, a wine bar and chef-inspired casual grab-and-go food from its culinary partner, Carlino’s Specialty Food. The

shop is on the first floor of 1201 Normandy Place, a multitenant lab building. The space will offer outdoor seating on Triangle Plaza and is next to two additional public spaces, Central Green, an award-winning 5-acre park, and Chapel Plaza.

The Navy Yard has more than 10,000 parking spaces for residents and workers. Additionally, a robust shuttle program offers employees and visitors easy access to the Navy Yard from Center City and public transportation.

A Gradual Transformation

The “overnight success” of the Navy Yard was no sure thing following the base closure.

In 2000, PIDC acquired the site from the Navy on behalf of the city of Philadelphia. The plan at the time was to create a business campus. Because of deed restrictions placed by the Navy, any consideration of residential was far in the future.

Liberty Property Trust and Synterra Partners won the rights to develop the site. Their 2004 plan was more practical than inspirational.

“At that point,” Cohen said, “there was no new development at the Navy Yard. ... [The site] was



Ensemble/Mosaic beat out more than 30 other bidders, including large national developers, for the rights to develop 109 acres at the Navy Yard. Importantly, those rights included the opportunity to develop residential apartments, with the former deed restriction being lifted in 2023.

Ship Maintenance Facility. A handful of existing structures originally built by the government were occupied by companies not associated with the Navy. There were no amenities and limited infrastructure.

Even so, in 2006 the site received a confidence-boosting proof of concept that it could draw companies to the atypical setting when lifestyle retailer Urban Outfitters moved its headquarters from Philadelphia's Center City. Initially, 500 people began working at the site. The company now employs about 3,000 people across its corporate campus of 16 buildings totaling 667,872 square feet, with each of its consumer brands having its own building.

"There are several other examples now in office, life sciences and manufacturing where CEOs were able to come out of suburban Philadelphia or Center City or from out of market and create their own campuses within the Navy Yard with signage, branding and unparalleled control of culture, processes and efficiency," Seltzer said.

Focusing on market demand, Liberty/Synterra and PIDC initiated a new plan in 2012 that called for four-story office buildings measuring 60,000 to 80,000 square feet that could be speculative or build-to-suits. Not everything in that plan panned out, such as the idea to build distribution centers.

"The vision for this area was always to take advantage of a large land parcel to create large-footprint buildings, as Philadelphia has a dearth of

AMERICA'S COOLEST SHIPYARD

In a July 2016 article, Politico called the Philadelphia Navy Yard "the coolest shipyard in America."

In the nearly 10 years since, the site has only gotten "cooler," adding multiple new buildings, thousands of new workers and various public art installations. Last April, the Navy Yard was recognized as the nation's largest LEED neighborhood development, affirming the project team's commitment to health and wellness, sustainability, walkability and public green space.

The site offers more than 20 acres of green space, including Central Green, a 5-acre park featuring a running track, hammock grove, bocce courts and an outdoor meeting table, and Riverfront Greenway, a scenic 1-mile path along the Delaware River. In addition, the Navy Yard is a certified arboretum, one of just six in Philadelphia, and home to more than 2,000 trees, historic plantings, and an array of birds and wildlife.

The Navy Yard also hosts more than 100 free events annually, including seasonal festivals and outdoor art installations, fitness classes, a weekly running club, recreational sports leagues, dog-friendly gatherings, composting workshops, food truck lineups and apiary tours.

Visitors can enjoy historic architecture and docked naval ships that recall the site's legacy as a U.S. naval shipbuilding powerhouse. The Navy Yard's public arts projects have included critically acclaimed installations by local and international artists.

In November, the Navy Yard welcomed its first-ever civilian residents to two newly constructed apartment buildings. Residential amenities include a pool and sundeck; gaming lounges with billiards, video games, card tables and a golf simulator; a 24/7 fitness center with top-of-the-line equipment and seven individual fitness pods; a soundproof recording studio for podcasting and music; a pet spa; and Zen courtyards with firepits, grilling stations and lounges.

Cool indeed.

seen as an opportunity to compete with a [walkable] suburban corporate campus." That meant low- to midrise office buildings with parking. The idea was to draw companies from the suburbs into the city while discouraging city-based companies from departing, he said.

Commercial activity at the time was concentrated in a few areas rather than being spread over the site's 1,200 acres. In 2005, two new properties were completed, one a multitenant speculative building with a small medical lease and the other a build-to-suit. Combined, they had approximately 350 workers. In addition, the Navy maintained a presence at the yard with its Naval Ship Systems Engineering Station, the Naval Foundry and Propeller Center, and the Naval Inactive



1201 Normandy is optimized for research and development companies engaged in cell and gene therapy, but its 137,000 square feet of space were built with flexibility to accommodate all types of life science tenants.

“ Our vision for the Navy Yard balances growth with preservation — keeping the parks, the waterfront and the natural beauty intact so that residents and visitors can continue to enjoy its openness.”

*Leslie Smallwood-Lewis,
founder and chief
operating officer,
Mosaic Development Partners*

sites in a mixed-use campus environment to accommodate those uses. And with the Navy Yard having access to the highways, airport and [surrounding] population, it was seen as a potential opportunity,” Seltzer said. “However, with the costs to prepare pad-ready sites, it did not make economic sense to do one-story distribution centers. With Ensemble/Mosaic’s 2022 plan, we still envision larger-footprint buildings than you can find in other areas of Philadelphia. We continue to target life sciences and advanced manufacturing but have the flexibility to attract other sectors like the office market as that becomes an area of growth.”

Seltzer said the current site’s success is due in part to Ensemble/Mosaic’s ability to adapt. “The needs of the

market and our tenants are going to change,” he said. “AI is coming into the workplace and it’s affecting life sciences. What an office means to people and how they are using it is changing. We understand all those things are going to change. With the transformation of the Navy Yard into a mixed-use community, we wanted a flexible plan, and I think that’s what we’ve done. We’re building for the future.”

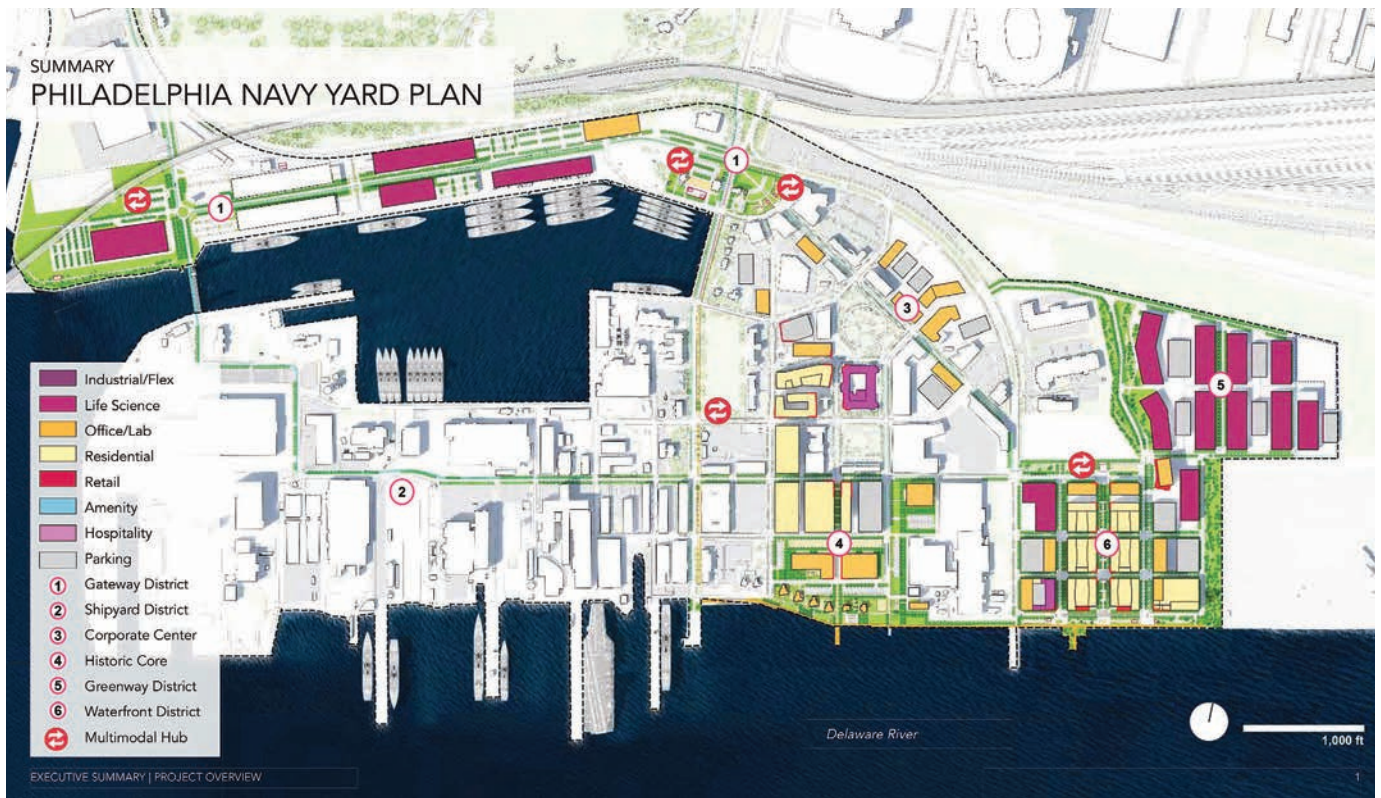
Ensemble Takes the Lead

In 2019, Liberty and Synterra, which had developed 1.5 million square feet at the Navy Yard, relinquished their development rights, as Liberty decided to focus on industrial real estate.

By that time, Ensemble had acquired another \$360 million in office buildings and labs

across 60 acres at the Navy Yard. Recognizing the site’s ongoing possibilities, Ensemble was eager to be a part of its future. Both Cohen and Seltzer had spent years evangelizing about the Navy Yard’s potential while working for Liberty and implementing its blueprint. They decided to join Ensemble to lead its development proposal. In 2020, Ensemble/Mosaic beat out more than 30 other bidders, including large national developers, for the rights to develop 109 acres at the Navy Yard.

Importantly, those rights included the opportunity to develop residential apartments, with the former deed restriction being lifted in 2023 after years of negotiations between the Navy and PIDC. Until its 1996 closure, the Navy Yard had provided different types



of housing for its personnel and their families, including homes for admirals and other officers, enlisted family housing for married enlisted personnel and their families, and barracks to house single enlisted service members.

Ensemble estimated the cost for its initial phase of development at approximately \$500 million. This includes development of a 670-space parking garage with 11,882 square feet of ground floor retail; mixed-use multifamily buildings in partnership with Korman; and a 223-room luxury hotel, The Waylen, that will be part of the Unbound Collection by Hyatt.

As one of the first undertakings of the new master plan, Ensemble/Mosaic also built a \$100 million, four-story, 137,000-square-foot state-of-the-art lab building on spec. Two tenants currently occupy the building: bioMérieux, a global leader in the field of in vitro diagnostics, and a robotics company.

Life sciences and advanced manufacturing emerged organically as sectors at the Navy Yard in the early 2000s. In 2004, Liberty/Synterra developed an approximately 75,000-square-foot building for AppTec, a global contract research, development and manufacturing organization. The company, which was acquired by Minaris Regenerative Medicine, has since expanded three times and occupies approximately 400,000 square feet in four different buildings.

In May, Pennsylvania announced a \$30 million grant to fund utility infrastructure, soil excavation, grading and stormwater management to develop

the Greenway District, an advanced manufacturing and life sciences district at the Navy Yard.

Developing With a Wider Scope

While Liberty/Synterra's emphasis had been on creating a suburban-style corporate campus, Cohen said Ensemble/Mosaic's plan began with a much different question given knowledge of the ongoing negotiations to lift the Navy Yard's residential restriction: "How do we create Philadelphia's newest neighborhood?"

"We had to give real thought to how residential was going to be incorporated," Cohen said. "We had to think how each of these uses could be complementary to each other. ... Where should retail be placed so that both the daytime employees and the residents can benefit from that retail? Ultimately, what we ended up with was a lot more density but also thinking about placemaking [and] how parks will be used by

employees and residents. And how do we do this in the most sustainable way?"

Added Smallwood-Lewis, "Our vision for the Navy Yard balances growth with preservation — keeping the parks, the waterfront and the natural beauty intact so that residents and visitors can continue to enjoy its openness."

"In most instances as a developer, you're looking at the block that you own and what you are going to develop on that block," Cohen said. "You're thinking about the surrounding blocks and how does your project relate to that. But in this instance, developing 109 acres within a historic site is a generational opportunity. You don't think about it building by building. You're thinking about what this place is going to be for the millions of people who are going to interact with it for decades to come." ■

Jay Nachman is a communications consultant who provides services to clients in greater Philadelphia and beyond.

Celebrating 25 Years of the NAIOP Research Foundation

The Foundation's legacy of research and thought leadership continues to shape the future of commercial real estate.

By Shawn Moura, Ph.D.,
and Jonathan Rollins

AT A GLANCE

The Foundation's endowment and Governors program has enabled steady growth and timely, practical research reports for industry professionals.

The Visionaries program brings younger leaders into the Foundation, fostering mentorship and fresh perspectives on emerging trends.

Distinguished Fellows connect academia with real estate practice, further enriching NAIOP's research.

The NAIOP Research Foundation, which marked its 25th anniversary in 2025, was established with the stated purpose of supporting “individuals and organizations engaged in real estate development, investment and operations with the information they need to be successful.” While the Foundation has evolved over the years, it continues to deliver on its purpose with regular and timely research reports on trends affecting commercial real estate (CRE).

In addition to topical reports on emerging trends, the Foundation's publications include analyses of the economic contributions of CRE to the U.S. and Canadian economies, office and industrial space demand forecasts, the NAIOP Market Monitor and the CRE Sentiment Index. The Foundation hosts regular meetings for Research Foundation Governors and Visionaries, as well as thought leadership summits on issues of importance to the industry. It also maintains a Distinguished Fellows program for university faculty who are engaged in research related to CRE and hosts meetings of the National Research Directors group — composed of professional CRE researchers — to discuss trends affecting the industry (see page 96). The Foundation's research and activities are funded by annual contributions from NAIOP and individual NAIOP members and

by the proceeds of an endowment funded by contributions from NAIOP Research Foundation Governors, who have each pledged \$25,000 to the Foundation.

Formation and Early Years

The NAIOP Research Foundation came about at a time when NAIOP volunteers and staff were expressing growing interest in publishing research on emerging topics in CRE. As **Shirley Maloney**, the Foundation's first executive director, recalled, prior to the Foundation, NAIOP did not have a funding mechanism to pursue research unless it could be easily turned into a for-sale publication. The Industry Trends Task Force, which had already been established to identify important trends for NAIOP to study, could suggest ideas for future research, but NAIOP had only limited resources to pursue

At the October 1999 board of directors meeting, Ronald Rayevich proposed that NAIOP study the feasibility of using a portion of its operating surplus to fund a foundation that would “support research of generally non-political topics of importance to NAIOP and its membership.”



The Research Foundation Trustees met in Toronto in 2015 at the Fairmont Royal York.

them. **Ronald Rayevich**, who served as a member of NAIOP’s board of directors from 1991 to 2001 and had helped to start the National Forums program, remembered that the Forums would also generate ideas for topics to study.

Maloney said Rayevich was instrumental in coming up with the idea for the Foundation and recruiting other volunteers to help with its initial organization and fundraising. As NAIOP approached its 35th anniversary, “Ron Rayevich was telling us that we have these members who have been members since the beginning, and they have done really well in the CRE industry and are probably open to giving back,” Maloney recalled. Rayevich indicated that he, **Ronnie Duncan** and **Dana Rowan** constituted a committee of three NAIOP volunteers to organize and fundraise for a new foundation.

At the October 1999 board of directors meeting, Rayevich proposed that NAIOP study the feasibility of using a portion of its operating surplus to fund a foundation that would “support research of generally non-political topics of importance to NAIOP and its membership.” At the February 2000 board meeting, **Marty Irving** proposed a motion that was approved to seed the Foundation with a \$100,000 contribution from NAIOP. That summer, Maloney, Rayevich and **Thomas Bisacquino**, then-president of NAIOP, led conference calls with Duncan, Irving, Rowan and **Anne Evans Estabrook**, NAIOP’s chair-elect, to create a business plan for the Foundation and work on its incorporation. The NAIOP Research Foundation was officially established Aug. 30, 2000, and held its first meeting at NAIOP’s annual conference in Orlando that October. Rayevich served as its first chair (a position he retained through 2008), and Estabrook, Duncan, Bisacquino, Rowan and Irving comprised the remaining original Trustees.

One of the things that stands out in Rayevich’s memories about the Foundation’s first year was the effort to fund an endowment for future research. The Foundation’s Trustees set a goal to recruit as many Governors as possible by Sept. 1, 2001, all of whom would be recognized as

FOUNDING GOVERNORS OF THE NAIOP RESEARCH FOUNDATION

- Richard Cannon**
- Peter Coccoziello**
- Ronnie Duncan**
- Anne Evans Estabrook**
- James “Marty” Irving**
- William Mitchell**
- Ronald Rayevich**
- Thomas Senkbeil**
- Terry Stiles**
- Joseph Taylor**



1996 NAIOP Chair Thomas Senkbeil (left) passes the gavel to 1997 Chair Ronald Rayevich. Both would be founding Research Foundation Governors, with Rayevich serving as the Foundation's first chair.



Thomas Bisacquino, then president (and later CEO) of NAIOP, at the Panama Canal in 2012.

“I think the Research Foundation elevated NAIOP to the next level as a premier national, or you could even say international, real estate association. It really put us on the map as something special and world class.”

*Research Foundation
Governor
Douglas Howe*

Founding Governors of the Research Foundation. Despite the dot-com recession playing out at the time, the Foundation was successful in recruiting 10 Founding Governors (see page 85). According to Maloney, the Governors program was initially conceived as a way for senior NAIOP members to give back to the industry and remain engaged with the association by helping to shape the Foundation's research agenda.

Shortly thereafter, the nation was rocked by the events of 9/11. Although the Foundation's main purpose was to support research on topics related to CRE, NAIOP turned to it as a vehicle to raise donations for a relief fund. The fund ultimately raised and donated more than \$175,000 to charities supporting the families of the victims and the communities impacted by the attacks.

Another of the Foundation's first initiatives was establishing a Distinguished Fellows program to serve as a bridge between university real estate

degree programs, academic researchers and the CRE industry. According to Maloney, NAIOP also began offering discounted conference registration to students around this time so that Distinguished Fellows could bring students with them. In October 2001, the Foundation established a fund to cover the cost of the Fellows' travel to NAIOP conferences, and the first class of Distinguished Fellows was admitted in 2002. That same year saw the Foundation's first published report, "Financing Regional Infrastructure," by **Robert Schmidt, Ph.D.**

Governors Reflect on Joining the Foundation

Douglas Howe came on board as a Governor in 2005 after becoming aware of the Foundation through his involvement on the Industry Trends Task Force. "I saw the immediate benefit of opportunities to gain additional knowledge and experience through involvement in the Research Foundation,"

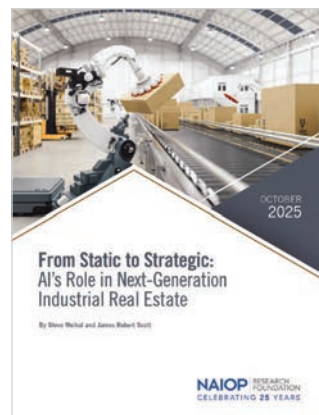
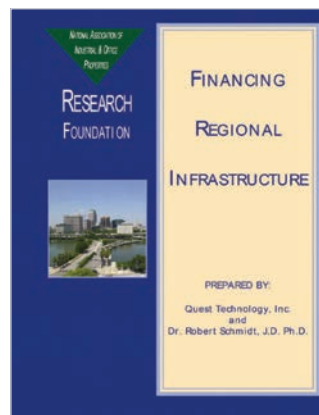
he said. "I think the Research Foundation elevated NAIOP to the next level as a premier national, or you could even say international, real estate association. It really put us on the map as something special and world class. ... It's all about increasing and enhancing the membership benefits through providing additional learning and knowledge."

Bill Hunt noticed the projects and reports originating from the Research Foundation while he was serving on NAIOP's board of directors. He elected to become a Governor in 2011 in recognition of all the Foundation research he had utilized in his career and to acknowledge the work of the Founding Governors in setting up the organization. "I thought it was my time to be part of the process as well as the solution, to give back and to keep the organization moving forward," he said.

In being part of the Foundation, "you're around people who have similar passion for the industry that you do,"



The Research Foundation Governors meeting in 2009.



The first report published by the NAIOP Research Foundation and one of its most recent reports.

“I love that our research focuses on case studies and insights that our members can implement and use today. The topics and themes — whether it’s about real estate, succession planning, adaptive reuse — they always provide practical, real-time information.”

*2025 Research Foundation Chair
Jean Kane*

Hunt said. “And that’s a great thing. Everyone cares a lot and is dedicated to doing what they can to support those within the real estate industry to get better.”

Jean Kane, 2025 chair of the Research Foundation, became a Governor in 2013. “My initial introduction to the program was when I was serving on the NAIOP executive committee. I had a very close lens on the activities of the Research Foundation and the Governors. When I looked at the composition of the Governors at that time, it was made up of people who were well respected, who had been in the industry a long time, and who had navigated a lot of different business cycles. I saw an opportunity to gain some wisdom from connecting with them, which I absolutely did.”

Skip Kalb said he became a Research Foundation Governor in 2015 because he was approaching the end of his “active employment career and I wanted to give back to

the industry that I love — the industry that allowed me to combine my vocation with my avocation.”

Growth and Evolution

The growth of the Foundation’s endowment provided it with a reliable funding source for research, allowing the Foundation to gradually increase the pace of its publications and continue its activities through the Great Recession. Over time, it widened the scope of its research and related activities.

When prominent NAIOP volunteer and Foundation Governor **Boyd Stofer** passed away in 2011, the Foundation raised an endowment in his honor that provided for the **Boyd Stofer Distinguished Fellowship** and established a permanent source of funding for the NAIOP Distinguished Fellows program. Another notable initiative around this period was an international trip that the Foundation coordinated for Governors to visit the Panama Canal in 2012.

The primary difference Hunt has noticed between the time he joined the Foundation and its current iteration is its scale. “It’s gotten much, much bigger. It has evolved and grown over time, and it’s exciting to see new people entering,” he said.

Hunt also noted that through the years, the release of Foundation research reports has gotten timelier and more relevant for members. “There’s an understanding that these projects need to be done quickly,” he said. He highlighted the applicability of the Foundation’s research, such as 2022’s “New Uses for Office Buildings” and 2025’s “Succession Planning for Commercial Real Estate Firms.”

“The reports are more and more focused on current trends and therefore more value added to the developers and less theoretical content,” he added.

FOUNDATION FACTS AND FIGURES

Number of Reports Published by the Research Foundation: **141**

Number of Research Foundation Governors: **96**

Number of Research Foundation Visionaries: **16**

Number of NAIOP Distinguished Fellows: **14**

“My generation has a good deal of experience to offer, but these [Visionaries] are the ones currently on the front lines of projects. They’re working for companies doing many, many transactions.”

*Research Foundation Governor
Bill Hunt*

Kane also commented on the Foundation’s ability to fund the publication of more frequent research reports, which she believes has broadened the Foundation’s impact. “I love that our research focuses on case studies and insights that our members can implement and use today,” she said. One report that stood out to her was 2020’s “The Evolution of the Warehouse,” which examined advanced trends in warehouse technology. “The topics and themes — whether it’s about real estate, succession planning, adaptive reuse — they always provide practical, real-time information, not too much theoretical. And I also appreciate that we engage with multigenerational members, our Distinguished Fellows, and people in diverse sectors and regions of North America. The topics are percolating up from our actual members, which is so very important.”

Thinking back to when he joined as a Governor in 2005, Howe said the Foundation “was small at the time, but we were very focused on growing the membership. We created a goal



Gathering at the most recent Governors dinner in Toronto in 2025.

of reaching 100 Governors, and we made a concerted effort to build awareness of the Research Foundation within NAIOP.” Twenty years later, attainment of that goal is in reach. “We were hoping it would happen a little quicker,” Howe said, “but when it does, I think it will create some huge opportunities to fund and enhance the Research Foundation even further.”

Creation of the Visionaries Program

The establishment of the Visionaries Program, which provides opportunities for industry leaders who are 40 and younger to participate in the Foundation, marked a significant evolution in the Foundation’s membership. Foundation Governor **Barbara Schaefer McDuffie** played a key role in advocating for the creation of the Visionaries

program to bring younger voices into the organization. McDuffie also helped to establish the Foundation’s mentorship program, which provides Visionaries with opportunities to meet and learn from several Governors, allowing them to benefit from the accumulated experiences of individuals who have reached the pinnacle of their careers. The participation of the Visionaries has also helped the Foundation identify emerging trends and projects that will resonate with midcareer professionals. The



Douglas Howe gives a toast at the Governors dinner in Seattle in 2023.

Foundation admitted the first class of Visionaries in 2017.

Governors who have participated in mentoring the Visionaries speak highly of the program. “Like any other scenario with younger people, you can teach them and they can teach you as well,” Hunt said. “My generation has a good deal of experience to offer, but these developing leaders are the ones currently on the front lines of projects. They’re working for companies doing many, many transactions.”

Kane concurred: “I love to lean in and connect with these rising professional leaders because they’re a different generation offering a fresh perspective, and what they’re experiencing in real estate is different from when I started.”

Kalb cited the broader impact the program can have on the future of CRE as a reason that he has volunteered to mentor about a dozen Visionaries over the years: “If I could help the next generation in any way, it doesn’t just help them; it helps the corporate real estate industry, which helps all of us.”

Since the program’s beginning, 12 Foundation Visionaries have gone on to become Foundation Governors, and several now participate in mentoring current Visionaries.

Looking to the Future

Hunt continues to find his involvement in the Research Foundation and Governors program motivating. “Sometimes you get a sense of complacency, and then you go and meet with your peers — national peers — and you realize all the great things they’re doing in real estate and



Research Foundation Governors reception in Las Vegas in 2024.

TIMELINE

- 2000** NAIOP Research Foundation Established
- 2001** First 10 Foundation Governors
- 2001** 9/11 Relief Fund
- 2002** First Research Foundation Report Published
- 2002** First Class of NAIOP Distinguished Fellows
- 2006** Governors Program Reaches 25 Members
- 2011** 25th Research Foundation Report Published
- 2011** Boyd Stofer Memorial Fund Established
- 2012** Research Foundation Trip to Panama
- 2015** Governors Program Reaches 50 Members
- 2015** 50th Research Foundation Report Published
- 2017** First Class of Research Foundation Visionaries
- 2021** 100th Research Foundation Report Published
- 2022** Governors Program Reaches 75 Members
- 2025** Foundation Celebrates Its 25th Anniversary

in their communities. It gives you a burst of energy. It makes you go back to your company and say, ‘Let’s continue on and do the right things. Let’s learn from others in the industry and grow as much as we can.’”

Kane said her ongoing involvement in the Research Foundation, and particularly her exposure to how a new generation of Governors and Visionaries is leading through unique challenges, “has reinforced my optimism for our industry and our ability to evolve, adapt and thrive. I think there’s a lot of promise ahead. The next generation of NAIOP leaders has some impressive talent.”

Kalb feels the Foundation is

well positioned to continue providing cutting-edge research as the industry navigates a constantly shifting landscape, driven in large part by the emergence of AI. “The industry is undergoing major changes right now. It is evolving, and we just have to keep up with it,” he said. “With AI and the blending of the asset classes, the industry is becoming more complex than it has ever been, which I think makes the Research Foundation all that much more important.”

Kalb added: “What are the three words associated with real estate? Location, location, location. I’m saying now, side by side with that, we need information, information, information before we can even think about location.” ■

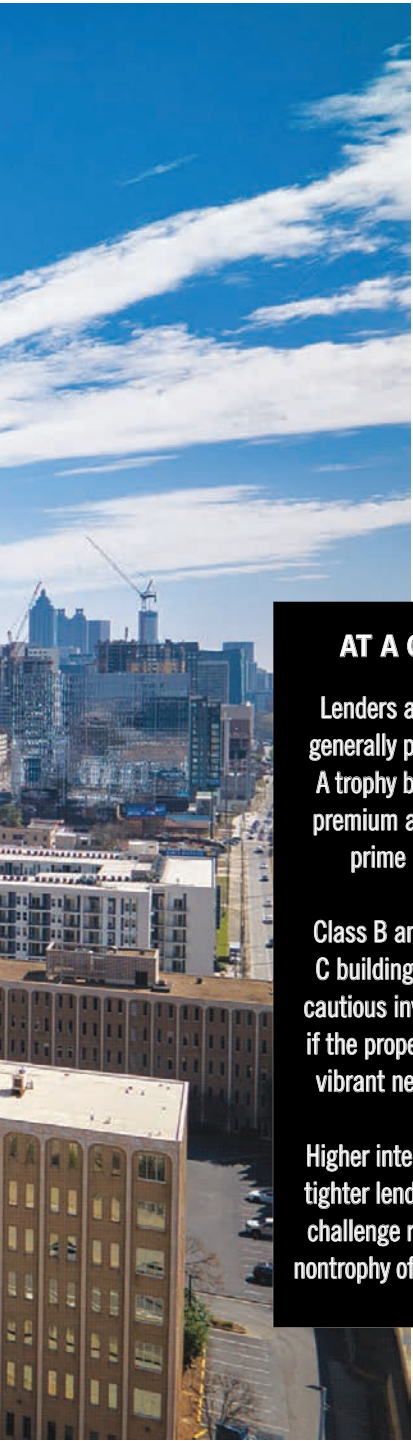
Shawn Moura, Ph.D., is vice president for the NAIOP Research Foundation.

Jonathan Rollins is managing editor of publications for NAIOP.

The Office Market's Selective Rebound Offers Opportunities



Granite Properties' Midtown Union in Atlanta comprises a 26-story, 612,000-square-foot office tower; a 26-floor, 355-unit residential building; a 14-story, 230-key Kimpton hotel; and 32,000 square feet of retail space.



Lenders and buyers are on the lookout for “critical mass” and key property features.

By John Hintze

AT A GLANCE

Lenders and investors generally prioritize Class A trophy buildings with premium amenities and prime locations.

Class B and even Class C buildings can attract cautious investor interest if the properties are near vibrant neighborhoods.

Higher interest rates and tighter lending standards challenge refinancing for nontrophy office properties.

San Francisco's battered office

real estate market experienced a revival in 2025, and ground could be broken for a new 1,225-foot office tower that would be the tallest such structure on the West Coast. Houston-based Hines recently initiated a city review process to pursue the project, which, according to a recent Wall Street Journal article, coincides with a strong rebound in the city's leasing activity.

Especially hard hit in the wake of the COVID-19 pandemic, San Francisco saw office vacancies skyrocket and office property values plummet. The advent of artificial intelligence, however, has breathed life into the city's commercial real estate (CRE) market as new and rapidly growing technology firms seek office space. The Journal noted that major institutional investors such as Blackstone are buying properties at large discounts, while real estate services firm JLL reported that tenants leased 5.1 million square feet in San Francisco in the first half of 2025, more than some prepandemic years.

The city still has a long way to go. At the beginning of September, San Francisco's office vacancy rate was hovering at just under 23%, according to Moody's Analytics, three times its prepandemic rate and above the 20.6% national average. Nevertheless, global real estate investment manager Hines clearly sees life returning to the city's office market, at least for certain properties, and that trend appears to be unfolding across the country.

“A lot of our clients are no longer completely disregarding office, whether it's lending or investing clients,” said **Thomas LaSalvia**, head of commercial real estate economics at Moody's. “They're looking for opportunities where they may have less competition.”

Leasing and construction of new office space essentially halted in the first few years of the pandemic and the advent of remote work. It began picking up again in 2023, even after interest rates skyrocketed in the second half of 2022, fueled in part by return-to-office mandates.

Lenders, however, have focused primarily on Class A buildings, and specifically the trophy variety that resemble what Hines has planned for 77 Beale St. in San Francisco. Encompassing a city block, the tower will mix modern office space, residential units, ground-level restaurants and retail space, and a public garden.

Not all cities are so fortunate to be the location of choice for a quickly growing industry like AI. However, demand has emerged across the country for office buildings with certain features, particularly if the properties are in neighborhoods

James Cool/coolnewmedia.photography



Granite Properties and Highwoods Properties recently delivered 23Springs in Dallas. The 26-story, 625,215-square-foot office tower was 63% leased before opening and has attracted several leading financial, legal and real estate companies.

“A lot of our clients are no longer completely disregarding office, whether it’s lending or investing clients. They’re looking for opportunities where they may have less competition.”

*Thomas LaSalvia,
head of commercial
real estate economics,
Moody’s Analytics*

with “critical mass,” which some metro areas generate more easily than others.

Lenders’ Flight to Quality

The Hines project is a prime example. Its mix of high-end office and residential space, as well as proximity to mass transit and major roadways, dining options and green space are all important features of trophy office buildings. Additional amenities are certain to be announced. Options increasingly associated with trophy properties include concierge and day care services, covered parking, gyms and showers, bike storage, and perhaps a pickleball court on the roof.

Most trophy office buildings have been built in the last 20 years. Iconic skyscrapers in central locations, such as New York’s Empire State and Chrysler buildings and Chicago’s Sears Tower, have been extensively renovated and also fit into the trophy category, although some amenities may be lacking.

In New York City, trophy office towers on Park Avenue, in Times Square and at Hudson Yards provide those trophy features, and the commercial mortgage-backed securities (CMBS) sold to finance such properties, backed by a single asset, single building (SASB), have found strong demand. Trepp reported that the volume of private-label CMBS in the first half of 2025

was the highest in 15 years, despite a dip in the second quarter, and three quarters of that was SASB transactions. The CMBS conduit deals that make up the rest usually hold a mix of nontrophy CRE loans, with between 10% and 20% supporting office properties, down from more than 40% before the pandemic.

Looking Beyond Trophies

Tracy Chen, a portfolio manager at Brandywine Global Investment Management, said investors are starting to look at Class B and C buildings in or adjacent to those New York hot spots, which offer retail shops and restaurants, transportation options and other key neighborhood features, even if the buildings themselves are less impressive. Office properties outside those areas, however, are still struggling. “It’s still a buyer’s market there,” she said.

Important neighborhood features include a mix of leisure, hospitality and entertainment, which all together foster foot traffic and what LaSalvia called “a center of gravity” from which nearby nontrophy office properties benefit.

“If you have that mix, developers may see an opportunity to invest in properties that will never be Class A trophies, but instead A, A-minus or even B-plus buildings,” LaSalvia said.

Other cities are taking measures to engender



23Springs is “focused on maximizing productivity, comfort and connection through a unique set of collaborative spaces and amenities for top talent to enjoy,” said Paul Bennett, senior managing director, Granite Properties. “The building’s early leasing success validates our growth strategy focused on developing and acquiring best-in-class buildings located in exceptional mixed-use environments in high-growth Sun Belt cities.”

those centers of gravity, often with public-private partnerships that may focus on revitalizing an area of just a few blocks. The intent is to generate sufficient activity so that it becomes self-perpetuating and spreads to surrounding blocks.

LaSalvia pointed to San Francisco, whose municipal government has helped sponsor events such as the Downtown First Thursdays street party and Let’s Glow SF, a free holiday event in which large-scale art concepts are projected nightly across the facades of iconic financial district and other downtown buildings. The city has approved one office-to-residential conversion, the Humboldt Bank Building, and in the last year passed several reforms to encourage additional conversions in an effort to reduce the supply of office space and bring more people into downtown neighborhoods.

“It’s trying to move away from the 9-to-5 model toward the 24-hour model,” LaSalvia said.

Similar efforts are underway in Chicago’s Millennium Park

and Fulton Market neighborhoods and Dallas’ Warren Park. Such “gateway” cities serve as transportation hubs and entry points for trade, however, providing them with significant advantages over other metropolitan centers. Importantly, they support a wide range of businesses, including white-collar firms in areas such as wealth management, accounting and law, that often reside in Class B and nontrophy Class A properties and tend to be more resilient when the economy falters.

Cities Facing Challenges

On the other hand, LaSalvia said, markets such as Denver, St. Louis and Charlotte, North Carolina, have fewer major employers and have experienced a deterioration in fundamental property performance.

“Occupancy has gone down, expenses have gone up, and it’s difficult to operate as a business,” he said.

Those cities are struggling to avoid the so-called “doom loop,” in which lower occupancy rates lead to lower property values and tax revenues, fewer

public services, less surrounding economic activity and still lower occupancy rates — a red flag for investors.

“Without that activity and vibrancy, that critical mass, you may be throwing good money after bad,” LaSalvia said.

A current tailwind for office property occupancy and valuations is the lack of new construction since the pandemic, due to the emergence of remote work and, more recently, high funding and material costs. But there’s still a glut of office space that must be winnowed before the nontrophy market returns to health.

“The office usage rate in the 10 largest cities is still stuck at about 60% when compared to a 100% baseline before the pandemic. And that’s a big problem” said **Mark Bhasin**, senior vice president of Basis Investment Group and adjunct associate professor at New York University’s Stern School of Business.

Local governments are taking measures to facilitate conversions of office buildings to other uses, particularly

“The office usage rate in the 10 largest cities is still stuck at about 60% when compared to a 100% baseline before the pandemic. And that’s a big problem.”

*Mark Bhasin,
senior vice president,
Basis Investment Group*



Trophy office towers remain in high demand in areas such as New York City's Hudson Yards.

“Private capital is hopefully going to step in with solid underwriting and partner up with solid developers who can look at the costs and demographics and do the math to determine the feasibility of office-to-multifamily conversions.”

*Thomas Taylor,
head of CRE and
CMBS research, Trepp*

multifamily housing, and that will help chip away at supply. RentCafe estimated a record 70,700 office-to-residential conversions in 2025, up from 23,100 in 2022.

Thomas Taylor, head of CRE and CMBS research at Trepp, pointed to growing opportunity in the “value-add space” that should attract investors willing to take additional risk for elevated returns.

“Private capital is hopefully going to step in with solid underwriting and partner up with solid developers who can look at the costs and demographics and do the math to determine the feasibility of office-to-multifamily conversions,” Taylor said.

The Outlook for Interest Rates and Financing

Another key factor for funding conversions and renovations will be interest rates, which remain in flux.

S&P Global noted in a report published at the end

of July that office real estate prices have stabilized and that investors with significant capital have shown an appetite to acquire properties at discounted valuations. The rating agency added that it anticipated the Federal Reserve cutting rates by 50 basis points in the fourth quarter, easing access to capital for especially speculative-trade issuers.

“Everyone is waiting for the Fed to cut interest rates, and CRE is the most sensitive sector to rates,” Chen said. “If they do cut aggressively, it will be a mini-boom in CRE, even for the office sector.”

Even so, financing won't be easy to come by. Banks have largely sought to modify their clients' underwater CRE loans rather than refinance them, but the CMBS market provides insight into where nontrophy properties stand.

Chen said Class A office buildings typically have little difficulty refinancing their SASB CMBS, but it's a different story

for office CRE loans in conduit CMBS transactions, where investors have tightened their lending standards significantly. Prepandemic, loans usually carried debt service coverage ratios (indicating borrowers' ability to pay their debt obligations) between 1.5 and 1.8, she said. Now, they are between 1.8 and 2.6. Loan-to-value ratios that were above 65 before the pandemic now range between 55 and 65, she said, and borrowers can expect to pay 10% to 13% yield in interest compared with 10% to 11% previously.

“Those metrics are also dependent on property type and the quality of the property,” Chen said. “These are important to determine whether the loan can be refinanced in the future.”

Given where interest rates stood at the end of September, a few cuts will be insufficient to refinance many existing office CRE loans. S&P Global noted that tariffs could increase inflation, in turn keeping



San Francisco approved the Humboldt Bank Building as the first office-to-residential conversion in the city since the COVID-19 pandemic.

monetary policy tighter and even leading to higher long-term market rates. That would bode poorly for office loans that were originated before the jump in rates in the latter half of 2022, since they will have to refinance into a much higher rate environment.

Many nontrophy buildings, especially in gateway cities, still have reasonable occupancy rates and house mostly white-collar firms. Their finances are solid under the terms of their current loans, but the interest rates on those loans may be close to 3% compared with current market rates in the 6% to 8% range.

“Even if the property is performing under its current debt and the fundamentals are relatively strong on that property, generating enough operating income to cover current debt service, there is no way for it to qualify for the loan proceeds that would take out the existing principal balance,” Taylor said. “The capital markets and valuation paradigm have shifted.”

Confronting Risk

The situation will be even more dire in cities such as Portland, Oregon, and Hartford, Connecticut, where there has been a fundamental deterioration in property performance and office CMBS delinquency rates are among the highest in the nation.

“These cities have some industry, but it’s not a very deep bench as far as white-collar employers,” Taylor said, adding that other cities with high delinquency rates, including Atlanta, Minneapolis and Philadelphia, have more diversified economies but may have overbuilt, slowing their recoveries and increasing risk for lenders.

“I call that more of a CFO problem than a COO problem, in that there was probably an overextension of leverage versus a failure in performance,” he said.

The paradigm has shifted even for bonds originally rated AAA and backed by single properties — the SASB CMBS deals that currently draw the most investor interest. For example, a dramatic reassessment of the value of the Worldwide Plaza building, a 49-story Midtown Manhattan skyscraper built in 1989, stands to saddle AAA investors with losses of 20% and wipe out lower-ranking debt, according to an August Bloomberg article.

“Loans suddenly get distressed when tenants move out, and landlords have a hard time finding replacements,” Chen said. “Investing in CMBS-seasoned legacy deals in the 2015 to 2019 vintage is very challenging.” ■

John Hintze is a freelance writer in Newark, New Jersey. He writes regularly for publications covering banking, the financial and derivatives markets, corporate finance and risk issues.

AN EYE ON DISTRESSED PROPERTIES

In a June research report titled “The Office Reset: Now May Be the Time to Buy,” Trepp laid out several factors when considering office properties, noting that “buying opportunities many assumed would have taken shape in 2023-2024 are finally starting to present themselves.”

Financial activity related to office properties has increased dramatically this year, the report said, with \$10.1 billion in commercial mortgage-backed securities backed by office properties issued in the first quarter of 2025, an amount that exceeds all office CMBS originations in 2023 and 2024 combined. New York City accounted for \$7.3 billion, while San Francisco — somewhat surprisingly given the city’s recent history — accounted for \$1 billion, in both cases mostly top-of-the-line Class A properties.

The rest of the report focused on “everything else,” including where opportunities might be to buy distressed properties. Looking at properties nationwide, their age and whether they have active loans and occupancy rates below 60%, indicating distress, Trepp identified 279 office loans with outstanding balances totaling \$9.02 billion.

Well over three quarters of those loans were for properties built before 1990, which tend to have minimal amenities and are generally less desirable compared to modern buildings. “These are the buildings that should be targeted for purchase at aggressive pricing,” according to the Trepp report.

Trepp said a significant portion of the loans held debt service coverage ratios below 1.0, “signaling a pool of assets ripe for acquisition,” since the distress has been realized and the assets may be undervalued or mismanaged, enabling “investors to acquire and reposition the operations for higher returns.”

The most quantifiable challenge facing distressed office owners is the higher interest rates they will have to refinance into. Trepp found that \$6.6 billion of the loans it examined were originated with rates between 3.5% and 5.49%, while the rates of most recent originations rested between 6.7% and 7.75%.

“This should lead to increased distressed sales or recapitalization needs,” the report said, “creating buying opportunities for well-capitalized investors” if they can purchase the properties at steep discounts.

Trepp said lenders have had plenty of time to reserve for some amount of office-loan losses, so if rates remain higher for longer, “they will begin strategic portfolio reallocation and divestment.”

Era of Uncertainty Results in Hesitancy, Indecision

**Research directors and Distinguished Fellows
share perspectives on the trends
shaping the short-term and long-term
outlook for CRE in Canada and the U.S.**

AT A GLANCE

Tariff issues, economic unpredictability and AI disruption are among the factors discouraging deals in CRE markets across Canada and the U.S.

Despite solid fundamentals and tenant diversification, small-bay industrial faces mixed prospects.

Companies are avoiding commitments to sublet office space, delaying investments due to AI-driven uncertainty and considering conversions of outdated office buildings.

By Jonathan Rollins

Based on the wide-ranging discussion at the most recent National Research Directors Meeting, uncertainty remains a key driver of action — or in many cases, inaction — within the commercial real estate (CRE) industry.

Held by the NAIOP Research Foundation in September at CRE.Converge in Toronto, the meeting brought together research directors from CRE services, data, investment and development firms from across Canada and the United States to discuss tariffs, artificial intelligence and other X factors influencing the industry. Also in attendance were three NAIOP Distinguished Fellows, university faculty engaged in research related to CRE.

Tariff Impacts on Canadian Economy and CRE

Luke Simurda, director of research overseeing Marcus & Millichap's Canadian operations, began the meeting with a presentation on tariff implications on CRE in Canada. He said Canada's economy had started gaining momentum throughout 2024. As a result, CRE investors were preparing to deploy capital at the end of 2024. "Dashboards were starting to turn green, largely due to strong population growth, a friendlier interest rate environment and relatively sound fundamentals across the property spectrum."

The outlook turned for the worse once tariff uncertainty clouded the market. The data didn't show the impact of tariffs

in the first quarter of 2025, Simurda said, "but when second-quarter GDP [gross domestic product] growth came out, it was negative. Canadian GDP contracted by about 1.6% annualized, and that was on the heels of a pullback in exports and widespread uncertainty entering business investment."

Forecasters generally believe economic growth in Canada will begin picking up the latter part of 2026, Simurda said, "hopefully on the heels of more trade clarity, a more-friendly monetary environment, increased government spending on defense, and the potential for widespread infrastructure investment."

Simurda termed the short-term outlook as bleak,

NATIONAL RESEARCH DIRECTORS MEETING PARTICIPANTS



Juan Arias,
CoStar



Liz Berthelette,
Newmark



Lisa DeNight,
Newmark



Omar Eltorai,
Altus Group



Eric Gaus,
Dodge Construction
Network



Cornelia Le,
Manulife Investment
Management



Phil Mobley,
CoStar



Andrew Petrozzi,
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Dustin Read,
Virginia Tech



Keith Reading,
Morguard



Jesse Saginor,
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Maryland



Luke Simurda,
Marcus & Millichap



Kim Somers,
La Caisse



Mark Stapp,
Arizona State
University



Susie Wang,
Oxford Properties



Ray Wong,
Altus Group



Anthio Yuen,
GWL Realty Advisors

however. “Canada is so heavily dependent on trade with the United States. Canada holds a trade surplus with the U.S., whereas it holds a deficit with the rest of the world. ... Tariffs are now taking a toll on trade with the U.S., and that surplus is narrowing.”

At the same time, data suggest the share of goods going to the United States that is compliant with the U.S.-Mexico-Canada Agreement, and thus trading tariff-free, is as high as

90%. “Because of that, Canada holds a much lower effective tariff rate than the United States’ other largest trading partners,” Simurda said. “Over the long run ... [that] could actually act as a tailwind for [Canada’s] economy, as well as for commercial real estate and property fundamentals.”

Investors Searching for Stability

In looking at the impact of tariffs on CRE in Canada,

“Canada holds a trade surplus with the U.S., whereas it holds a deficit with the rest of the world. ... Tariffs are now taking a toll on trade with the U.S., and that surplus is narrowing.”

*Luke Simurda,
director of research,
Marcus & Millichap’s Canadian operations*

“If you talk to lenders, they really want to be active in the market, but they’re being very selective. If you talk with the buyers, they’re all kicking the tires, looking at assets, where to go, but nobody wants to make a mistake at this point.”

*Raymond Wong,
vice president, data solutions, client delivery,
Altus Group*

“[In previous cycles] everybody was waiting for the correction in value that never really came. And I think it’s the same this time around.”

*Keith Reading,
senior director of research,
Morguard*

Simurda said the best place to start was the industrial sector. “First and foremost, industrial plays a fundamental role in cross-border trade flows, but also, industrial performance highly tracks the economy.”

Marcus & Millichap expects to see a continuation of muted net absorption of industrial space in Canada in the early parts of 2026 before potentially picking up later in the year. Simurda noted that inventory accumulations for wholesalers had spiked drastically in early 2025, largely due to tariff frontloading. “Usually in times of uncertainty, especially when supply chains are ruptured, firms tend to hold higher inventory levels,” he said. “They switch away from that just-in-time inventory to a little bit more just-in-case inventory. While I don’t think that’s going to really make a material difference [in industrial space demand], it’s something to keep in mind over the upcoming quarters.”

Where tariffs are taking the strongest hold is on the manufacturing side, including automobiles, metals and softwood lumber, Simurda said. “As you look at PMI [Purchasing Managers Index] surveys, inventory accumulation and future sales in the manufacturing side, it doesn’t look great in the short term. But there are some policies in place that could stimulate growth

over the longer term. If Canada really does want to expand to more global markets in terms of trade, it will need to increase industrial capacity at home.”

Simurda said there is currently an oversupply of large-bay industrial in Canada, and thus higher vacancy rates. “The development economics on [small-bay] right now just don’t work, so people don’t build it. And because of that, vacancy is a lot more contained, sitting at around 2%. ... The smaller-bay assets are a little bit more contained and shielded from tariff pressures simply because they service more local markets, whereas this larger-bay space is more prominent in global trade. That said, the under-construction pipeline [for large-bay] is beginning to taper, which is another reason we see fundamentals beginning to stabilize sometime [in 2026].”

Tariffs are also having an indirect effect on other Canadian CRE sectors, including multifamily and retail, Simurda said. At the beginning of 2025, there was a sharp decline in consumer confidence, largely due to tariff uncertainties. “We were expecting retail sales to follow suit ... but [they] are actually holding up quite well,” he said. Second-quarter GDP data showed “consumption was up 4.5% annualized, and final domestic demand was up 3.5%. So consumption is that

one bright spot right now in the Canadian economy.”

Moving forward, the expectation is that essential spending will begin outpacing total sales and discretionary spending as tariff uncertainty continues clouding the market, Simurda said. “That, in my opinion, is what is driving the narrative for grocery-anchored retail being the preferred investment in Canada right now. [Those assets] capture more spending in times of uncertainty [and] provide that stability we really need from an investment standpoint.”

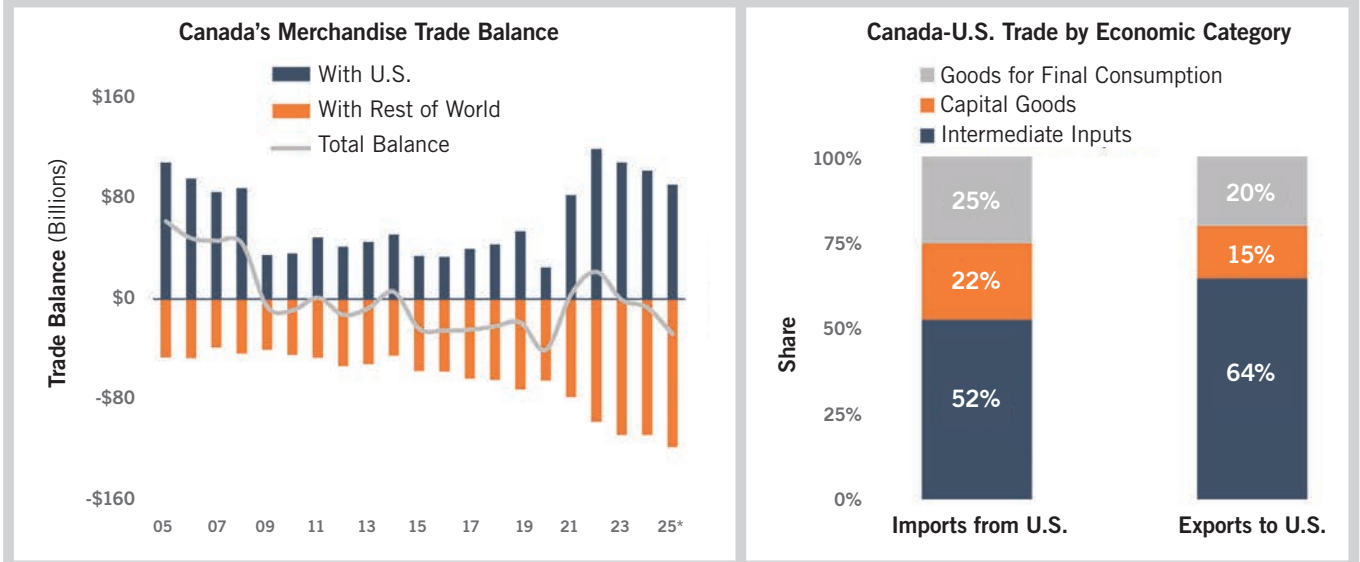
“The most traded asset still remains industrial,” Simurda said in concluding his presentation. “However, that share is starting to decrease due to its exposure to tariffs. Multifamily has also been picking up the pace a little bit,” with investors currently favoring lower-rise, suburban multifamily. “But the preferred investment right now is grocery-anchored retail. ... It offers strong in-place income growth, while at the same time, there’s upside to it from intensification or redevelopment over the longer ride.”

Capital Sitting on the Sidelines

Following Simurda’s presentation, **Kim Somers**, economic director, real assets and thematics at La Caisse, asked the assembled research

Canada's Dependence On U.S. Trade Creates Both Strength and Vulnerability

(Trailing 12-months through 2Q Canada-U.S. trade by economic category as of 2024)



Sources: Marcus & Millichap Research Services, Statistics Canada

directors for their thoughts on the current cost of real estate in Canada. “Technically, the market has repriced, but not that much in Canada,” she observed. “Do we still find real estate expensive or are the risk premiums that we’re seeing now the new normal? What do we make of this considering the high cost of debt too?”

Simurda said he didn’t think prices had corrected enough and that cap rates should have gone up more. “Canada’s market is supported not just by limited supply but by the dominance of institutional ownership. With deep-pocketed investors able to hold through downturns, forced selling is rare, and that stability slows price discovery,” he added.

Raymond Wong, vice president, data solutions, client delivery at Altus Group, said he thinks a substantial amount of capital is sitting on the sidelines because of the uncertain environment. He is hopeful transaction volumes will pick up in the spring. “If you talk to lenders, they really want

to be active in the market, but they’re being very selective,” he said. “If you talk with the buyers, they’re all kicking the tires, looking at assets, where to go, but nobody wants to make a mistake at this point.”

Keith Reading, senior director of research at Morguard, said in looking at previous cycles, “everybody was waiting for the correction in value that never really came. And I think it’s the same this time around. People are waiting for a 150-, 200-basis point correction in cap rates.” He doesn’t see that happening, he said, because the Canadian market is comparatively small, its investors are generally conservative, and its “big players are not going to sell.”

A large portion of Canada’s real estate is institutionally held, so there is less liquidity than in the United States, added **Anthio Yuen**, senior director of investment strategy at GWL Realty Advisors.

Andrew Petrozzi, director, head of Canada research at Newmark, concurred: “You’ve

got these large institutional holders, which are more prevalent in Canada, particularly in the Vancouver market, and they don’t want to destabilize the values of their own [office] portfolios, so they’re stuck. ... They won’t transact because they can’t accept the lower values and what it will do to the value of the rest of their properties.”

Sentiments on Small-bay Industrial

Shawn Moura, vice president for the NAIOP Research Foundation, asked why small-bay industrial doesn’t attract more interest from institutional investors in the United States or Canada despite solid fundamentals.

Juan Arias, national director of U.S. industrial analytics at CoStar, said he has seen institutional players pursue small-bay Class A product, but there are fewer of these assets available relative to prepandemic levels and strong competition for those that are. “It’s hard to find a willing

“A lot of [small-bay industrial] over the past few years has been getting demolished. It’s disappearing because there’s higher, better use [and] multifamily’s taking over. The more that happens, the more important the locations are.”

*Juan Arias,
national director of U.S. industrial analytics,
CoStar*

“The story for office is ultimately one of transformation — moving away from obsolete spaces that no longer serve the evolving needs of people and businesses.”

*Cornelia Le,
director, Canada strategy
and research, private markets,
real estate,
Manulife Investment
Management*

seller,” he said. He added that the “dry powder has shifted away from the equity play into the financing play” because the risk-adjusted returns are much higher on loans than on capital.

Canada doesn’t have much true small-bay product, Reading noted, “and a lot of what comes to the market has got some hair on it. You’ve got to have a plan for it if you’re hoping to bump the rents. For a lot of investors, that is too much of a headache. ... It tends to be the private [players] that take it on because they’ve done them before.”

Arias added that many small-bay occupiers put a premium on remaining close to their local consumer bases. “They don’t need 32-foot clear, 40-foot clear [heights]. That’s not what they care about. ... A lot of this smaller stuff over the past few years has been getting demolished. It’s disappearing because there’s higher, better use [and] multifamily’s taking over. The more that happens, the more important the locations are.”

Lisa DeNight, managing director, head of North American industrial research at Newmark, said a handful of U.S. markets have seen speculative small-bay development in recent years. However, in some cases, the new supply appears mismatched with local demand, “where it’s not necessarily near the infill tenant who would want to upgrade to a more modern facility,” she said.

According to Newmark data, the small-bay segment has experienced net outflows of occupancy for the past two years, DeNight added. The enduring benefit of small-bay is the diversification of its tenant base, which helps cushion against vacancies. The segment’s prospects are important to mention, DeNight said, “especially as we look to a slower growth, potentially higher inflation outlook for the United States.”

Arias said the push for higher rents is causing some churn among small-bay tenants in the near term. “But you’re still targeting 80% to 90% of the lease activity, [and] you’re more likely to find a tenant to backfill that space than in the big bulk distribution stuff. ... I do think in the medium to long term, [small-bay] is still an even safer play than” large industrial.

The Outlook on Office Space

Phil Mobley, national director of office analytics at CoStar, said he was surprised there hasn’t been more activity around significantly discounted sublet space in the office market. “Your very top-tier occupiers have wanted this first-generation direct space with long terms and huge concessions,” he said, “and now that that stuff is drying up ... they’re just doing without.”

“Their mindset now is ‘what do I need today?’” he continued. “They’re not taking on that extra 10% for growth because a) they’re not hiring; b) they’re short term, they’re cost-conscious; and c) if they do start hiring again, they can use the same tech that let us work remote for two years to flex and maybe find some other space. But the phenomenon of just doing without rather than settling for something that’s less than perfect is really an important one right now.”

Omar Eltorai, senior director of research at Altus Group, said being in an ongoing period of uncertainty has caused companies to delay making additional investments in their businesses. “And on top of that, you have a huge structural change to our economy, which is AI ... and we’re not even through the first inning of that.”

“We’re entering an exciting phase of discovery as companies explore how to grow and how to harness AI’s incredible potential to elevate workflows and empower an evolving workforce,” said **Cornelia Le**, director, Canada strategy and research, private markets, real estate at Manulife Investment Management. “This transformation is unlocking new levels of innovation and creativity and smarter ways of working. For office spaces, this shift represents a tremendous opportunity to reimagine

“[The U.S. has] been so predictable for so long, and now all of a sudden we’re not, and it’s going to be really hard to unwind that. I think that speaks a lot to why investors aren’t doing anything right now.”

*Eric Gaus,
chief economist,
Dodge Construction Network*

workplaces — spaces that inspire collaboration, integrate modern tools and enable the future of business. The story for office is ultimately one of transformation — moving away from obsolete spaces that no longer serve the evolving needs of people and businesses and creating environments that are agile and future-ready.”

More companies will look at converting their older office buildings to residential or other uses, Reading said, especially if they are near mass transit. “But each individual building will depend on where it is located, the value of that building and the value of that site. Some sites are better than others.”

Trends Worth Monitoring

Participants concluded by touching on several trends that could have ramifications for various asset types over the long term.

Wong mentioned higher unemployment for younger workers, especially among those 18 to 25, and said this could impact both office space and housing. “AI would definitely make a big difference in overall efficiencies regarding how we use the space and how many employees we actually need on-site versus off-site,” he said. On the proptech side, “we haven’t really seen ... the real influence on construction yet.”

Mark Stapp, Fred E. Taylor Professor of Real Estate and

executive director of real estate programs at Arizona State University, said he is monitoring the United States’ aging population. The Census Bureau has projected that by 2030, 1 in 5 Americans will be of retirement age. “That’s going to create a labor problem for us, and it’s going to shift how we work and who those employees are,” said Stapp, a NAIOP Distinguished Fellow. “You couple that with immigration policy, and it’s going to cause ... a substantial impact on employment sectors.”

Mobley suggested the wealth transfer from the baby boomers to the millennial generation could be more disruptive and unpredictable than most are expecting. He doesn’t have full confidence in the narrative that the silver tsunami will automatically translate to built-in demand for more medical office and senior housing, he said. One alternative could be a rise in multigenerational households deciding it is more efficient and less costly to care for senior family members at home.

Eric Gaus, chief economist at Dodge Construction Network, said he believes an “uncertainty premium” could be present for the next decade due to the political environment in the U.S. “We’ve been so predictable for so long, and now all of a sudden we’re not, and it’s going to be really hard to unwind that,” he said. “I think that speaks a

lot to why investors aren’t doing anything right now.”

Also significant, Eltorai said, is that both major political parties in the U.S. are acknowledging the reality of the housing problem. “I think they’ll approach it in different ways, but you’re seeing a number of cities starting to test the waters with different housing policies” involving incentives, zoning and financing.

Stapp wondered about the potential for reverse migration to cheaper markets as constraints to growth and climate-related risks push living costs up in markets across the Southeast and Southwest.

Arias said he believes employer costs are the stronger determining factor. “Florida has been outpacing all the other states in [business] relocations for the last decade, and that’s been driving a lot of our population growth,” he said. “I don’t foresee people going back to the Midwest or all these other regions because they have been falling behind in building these hubs of employment.”

DeNight said this scenario could be particularly interesting to watch over the next decade. Newmark has profiled billions of dollars in manufacturing investment taking place in secondary and tertiary “value” markets. ■

Jonathan Rollins is the managing editor of publications for NAIOP.

Securing the Reliability of Electric Grid Infrastructure

Both new grid development and upgrades to existing infrastructure are urgently needed.

By Jack Hargrove

In 2024, 60 data centers in Northern Virginia dropped off the electric grid at the same time because a piece of equipment that shields transmission lines from surges, known as a lightning arrester, failed, causing a voltage drop. Fortunately, PJM Interconnection, the local grid operator, reacted in time to prevent a cascading blackout. As electric grids across North America become increasingly strained, near-miss incidents like this one will eventually cause serious issues unless governments act to upgrade grid infrastructure and improve reliability.

Over the next five years, North America's consumption of electricity will increase precipitously because of AI and data centers, reshoring and onshoring of manufacturing, and building electrification mandates.

Blackouts Past and Future

When an electric grid fails, it can cause a power outage for an entire geographical area. This is known as a blackout. Although such events are rare, the U.S. has experienced multiple major blackout episodes, most commonly due to extreme weather. During a series of winter storms in 2021, much of Texas experienced power outages, resulting in hundreds of deaths and hundreds of billions of dollars in property damage. The Electric Reliability Council of Texas reported that the grid was "4 minutes and 37 seconds" away from catastrophic failure.

Another major blackout in 2003, caused by a combination of high heat and computer failures, affected over 50 million people in the Northeast. The event prompted passage of the Energy Policy Act of 2005, which designated the North American Electric Reliability Council (NERC) as the electric reliability organization of the United States. Every year, NERC publishes a long-term reliability assessment (LTRA) that projects grid reliability over the next 10 years.

In its 2024 LTRA, NERC reported that over half of North America faces an elevated risk of shortfalls over the next decade. "Elevated risk" is defined as a shortfall being likely to occur during extreme weather events. Areas identified as being at elevated risk include California, Texas, New England, the U.S. Midwest, the Great Plains, portions of the Southeast, and the provinces of British Columbia, Saskatchewan, Manitoba and Ontario. NERC's findings indicate that as electricity demand increases, the electric grid status quo is not sufficient for reliability.

Transmission Siting and Permitting

To keep the electric grid reliable in the near future, existing grid infrastructure must be upgraded and new transmission infrastructure must be built. The National Renewable Energy Laboratory found in a 2024 report that the U.S. transmission system must double in size by 2050 to guarantee reliabil-



ity. In the nearer term, the United States needs significant expansion of the grid by 2035 to keep up with demand. The good news is that NERC's 2024 LTRA found an increase in transmission projections for "the first time in recent years." Unfortunately, those projections show up only in planning, not in construction data thus far.

As developers are aware, the permitting process for a new project can impose significant costs and delays. Grid infrastructure faces much the same problem. Stakeholders for any new transmission project include federal, state and local governments, plus any private landowners and other interest groups. Securing approval



The Electric Reliability Council of Texas reported that the grid was “4 minutes and 37 seconds” away from catastrophic failure.

old. Additionally, increased electricity demand will require the United States to have 260% more transformers by 2050.

Transformers are just one element of the aging grid; 70% of all U.S. transmission lines are over 25 years old, more than halfway through their lifespans. If the electric grid continues to age without significant upgrades, the likelihood of failure will only increase as time goes on.

Policy Solutions

With so many threats to and burdens on the electric grid in coming years, governments at all levels have their work cut out for them to ensure transmission reliability. One major policy intervention that would help tremendously is permitting reform. Permitting for new grid transmission sites must be predictable, consistent and transparent. Much like in real estate, clear permitting processes are necessary to increase supply. State governments should identify where grid infrastructure is most needed and work with local governments to streamline the permitting process.

As permitting challenges demonstrate, a significant challenge for the electric grid in general is the number of overlapping jurisdictions and stakeholders required to coordinate. The grid is managed by regional transmission operators, owned by utility companies, and often permitted by multiple state and local governments. If these

from all these parties can take years — often more than a decade. Environmental review requirements can also delay grid infrastructure projects, counterproductively reducing access to electricity over other energy sources.

Grid Modernization

While new grid development is greatly needed, modernizing and upgrading existing infrastructure is also a priority.

In particular, vital components known as transformers require imminent replacement.

Transformers are devices that increase or decrease voltage during the transmission of electricity. Transformers are needed to increase voltage when electricity moves from generation to transmission lines, and again to decrease voltage before electricity arrives to consumers. As of 2025, 55% of U.S. transformers were more than 33 years

Government Affairs

As of 2025, 55% of U.S. transformers were more than 33 years old. Additionally, increased electricity demand will require the United States to have 260% more transformers by 2050.

various entities and governments set up interjurisdictional programs for development beforehand, the process can be markedly streamlined. This is an area where the federal government, particularly entities like the Federal Energy Regulatory Commission and the Department of Energy, could foster cooperation.

State governments could help reduce reliability issues by allowing businesses to use behind-the-meter energy generation and storage. Behind-the-meter generation refers to energy sources operated by individuals or businesses that are independent from the grid and intended for on-site use. When businesses can use

behind-the-meter generation and storage, it reduces strain on the grid and provides backup during blackout events. Microgeneration sources like solar panels can also generate electricity behind the meter that can then be sold back to the electric grid if there is a surplus.

Finally, governments and data center developers must work together as much as possible to ensure their incentives and planning are aligned. Governments should consult with developers concerning where grid infrastructure will be needed. Data center developers should be included in all government planning decisions so that governments know

where grid risk will be in the future. This is one reason that the government affairs work performed by NAIOP chapters is so important.

With each passing year, energy demand, supply and transmission become more important to the success of the commercial real estate industry. State and local governments must take action to keep grid infrastructure up to date and guarantee reliability. At the same time, real estate owners and developers must stay aware of the risks and prepare for what North America's energy future holds. ■

Jack Hargrove is NAIOP's director of state and local affairs.

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New Voices

THE CHANGING FACE OF COMMERCIAL REAL ESTATE

Leadership in Action: Innovation, AI and Continuous Growth

NAIOP's 2025 Developing Leaders Award winners are poised to navigate an evolving industry.

By Marie Ruff

Commercial real estate is a competitive industry and one that is constantly evolving to provide new opportunities and challenges. NAIOP's Developing Leaders Award winners are ready for what's next. This annual award recognizes the association's top members ages 35 and younger for their outstanding professional accomplishments, strong leadership and significant community involvement.

NAIOP presented the 2025 award to four exceptional young professionals in September at the CRE.Converge conference in Toronto in front of more than 1,100 industry professionals. The award recipients shared their inspiring perspectives with Development regarding their ongoing growth as leaders, highlighting how they're embracing continuous learning. They also revealed how they are weaving cutting-edge artificial intelligence tools into their daily work.

Growing as Leaders



MaryVictoria Montanari
National Market Leader, Hospitality,
NELSON Worldwide
NAIOP Greater Philadelphia

I love the topic of leadership. I love reading about it and learning about it. Thinking about leadership and strategy could keep me busy for hours. Whenever I join an organization or volunteer as a member for a particular cause, I always raise my hand to serve on a committee or lead a particular effort to get thoroughly involved. These extra spaces are the perfect place to practice my leadership away from my corporate team, where I can fine-tune certain skill sets or try out a new approach.



Michael Tait
Leasing Representative,
St. John Properties, Inc.
NAIOP Maryland

As a leader, I believe staying curious and asking "why" is key to growth. I actively listen and ask thoughtful questions to gain deeper insights and diverse perspectives. This approach clarifies challenges, fosters collaboration and sparks creative solutions. It keeps me adaptable and committed to evolving as a leader.



Alexander Vasileff
Vice President,
Acquisitions, Bedrock
NAIOP Detroit

I continue to grow by learning from the strong leadership within my company and staying connected with peers through NAIOP who offer valuable insights and perspective. I also make time for reading and podcasts, which help me stay sharp and expand my thinking.



Jennifer Villalobos
Associate,
Cushman & Wakefield
NAIOP Arizona

I make it a priority to put myself in situations that stretch me, whether that's public speaking, emceeding for the first time or showing up in rooms where I might feel uncomfortable. I've learned the most when I've leaned in to those moments. I also learn from mentors, colleagues and the boards I serve on, such as Valleywise and Arizona Financial Credit Union, where I'm surrounded by strong leaders with different perspectives. Finally, I remind myself to always listen, ask questions and look for ways to invest in others — especially the next generation entering the industry.

Using AI in CRE

Montanari: As the leader of a hospitality design team, I am awed by the time and money AI saves our team during the proposal process for new hotel and casino projects. We showcase the creative boundaries we can push by generating a variety of renderings in a matter of minutes rather than the days it has historically taken. I see AI's role in the future as continuing to

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New Voices

be an aid for our industry, but I don't believe it will ever totally replace the brokers, architects and engineers on whom our business relies. This industry is people-driven and relationship-driven at the end of the day, but I'm sure our recordkeeping and documentation will see an increase in efficiency with AI.

Tait: I think AI will be a supporting function that helps drive efficiency in the CRE world. It will provide individuals with the opportunity to be more productive throughout their day with automation of tasks. For example, AI can help draft an initial lease draft and ultimately

review lease comments to help expedite a deal and get it across the finish line quicker. Also, AI can help facilitate deal analysis for both leasing and development decisions, allowing teams to make "go" or "no-go" decisions under a quicker timeline.

Vasileff: We're using AI primarily to reduce friction and save time, whether it's sourcing properties, creating materials or reviewing investment documents. Tasks that once took days can now be done in hours. While we haven't yet applied AI to underwriting, I expect it will soon play a major role in reshaping that process. AI is poised to transform every aspect of commercial real estate, driving efficiency and accelerating outcomes across the board.

Villalobos: It's a tool that has helped create efficiency in my day-to-day to better support my

clients. I use it to compare numbers, build spreadsheets, analyze market data and simplify complex legal language so my clients have clarity. It also helps me draft clear communications quickly. Looking forward, I see AI transforming our industry by accelerating transparency, whether through predictive analytics on market trends, streamlining lease negotiations or making information more accessible to tenants who don't always have the resources or expertise. ■

Marie Ruff is director of marketing and communications at NAIOP.

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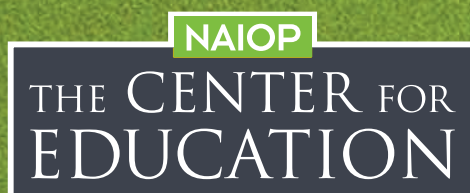
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Kathryn Hamilton, Editor-in-Chief, September 30, 2025

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THE CHAIR'S PERSPECTIVE

Reflection and Renewal

Year-end is a natural time for reflection. Winter also offers a perfect opportunity to prepare for the fresh ideas, energy and opportunities of spring.

When I addressed our board upon assuming the gavel, I stated that I wanted my time as NAIOP chair to be impactful, productive and fun. Reflecting on this aim, I'm pleased to see evidence of these themes across many areas this year.

We highlighted our industry's considerable economic impact across North America by publishing new editions of both our Canadian and U.S. reports. In the U.S., the operation and development of commercial real estate contributed \$2.5 trillion to the U.S. economy. Yes, trillion — with a T! In Canada, the industry supported more than 1 million jobs and generated more than \$342 billion in economic activity. As chair, I've joined our staff and members across the continent in sharing that message and highlighting the positive ways we contribute to our communities. The Economic Impacts of Commercial Real Estate reports are useful tools to have in our advocacy efforts.

As an association, we have also had meaningful impact on careers. I've been fortunate to attend case study competitions in numerous markets where NAIOP chapters and members support and mentor university students tackling real-world problems. Our members gathered at numerous conferences and events in 2025. NAIOP's four I.CON conferences alone drew more than 3,500 industrial real estate professionals for deal-making, knowledge-sharing and networking. And thanks to the support of great partners like

Prologis, our association has continued to award scholarships that empower the next wave of incredible talent in our industry.

In addition to being impactful, we've been productive. In July, our board approved a new brand for the association, and you'll be seeing more about this regularly as the process moves forward. Indeed, the most productive part of this decision is occurring now, as chapter staff and members collaborate with our corporate staff, volunteer board and graphic design partner to develop the messaging and materials that are key to success in this new era.

Productivity is evident, too, in refinements we are making to Development magazine, the National Forums program, and the way we work with and champion the NAIOP Research Foundation, which celebrated its 25th year in 2025. We've made some changes in staffing and support for these initiatives so that we can thrive and accomplish even more going forward.

On top of everything, we've had fun. Our chapters have hosted golf tournaments, pickleball events (of course!) and bus tours. We held a networking event at the tallest open-air bar in the Western Hemisphere (Spire 73 in Los Angeles). My extraordinary colleagues on the executive committee joined me in making a commitment to be the most engaged, most accessible members of our association this past year. We tried to live up to that promise by connecting with members, speaking on panels, reaching out to chapters and more.

Serving as your chair has been one of the signature honors of my life. I'm immensely grateful for the warm welcome



Alex Thomson

and support I've received. I simply cannot mention all those who have made this year so special. Thank you all.

As previously mentioned, winter is not only a season for reflection but a time to ready ourselves for renewal. With that in mind, I invite you not only to watch what is going on but to stay involved. One of the abiding lessons I have taken from my travels is this: Many people can see what is not working in any given situation, and some have ideas about what to do. It is those who see what needs to happen and who personally commit to making it occur that are the real lifeblood of success — in this association and in life.

We are very fortunate to welcome **Celeste Tanner** as our 2026 NAIOP chair. Celeste's keen instincts for communication and implementation are a great fit for the role. If you offer her even one-half of the wonderful support, encouragement and welcome you have given to me, she will enjoy a spectacular year. Thank you all for making this term as chair such a meaningful and rewarding experience. ■

A handwritten signature in black ink that reads "Alexander Thomson". The signature is fluid and cursive.

Alex Thomson, Founder, Prevail Consultants
2025 NAIOP Chair

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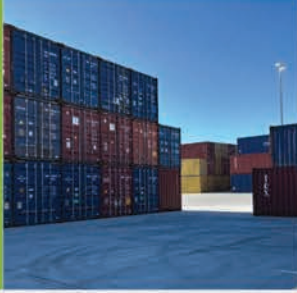


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