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WESTERN REAL ESTATE BUSINESS®
Connecting Real Estate in the West

SANTA MONICA'S THIRD STREET PROMENADE SEARCHES FOR A NEW IDENTITY

The once-prominent LA retail destination is finding a new identity as it looks to update and stay relevant in today's changing shopping landscape.

By Devin Klein and Houman Mahboubi

The Third Street Promenade retail destination in Santa Monica, Calif., is looking for a new identity. At its peak less than five years ago, it was home to world-famous retailers and flagships like Banana Republic and Gap. At the time, rents reached $30 per square foot, just behind the likes of Manhattan and Beverly Hills. Buildings were filled with the best of the best and the streets were lined with eager shoppers looking to spend. In its true sense, it was a vacation spot, a tourist attraction and a must-see for those around the world.

Unfortunately, this has changed in the past few years as retail has changed. Even pre-COVID, areas like Las Vegas began to lure flagship stores and celebrity-owned restaurants away from LA hotspots like Santa Monica. More important, those entrenched in the market weren't necessarily on the same page

see THIRD STREET, page 20

The Third Street Promenade sits just east of the world-famous Santa Monica Pier. It contains three open-air, pedestrian-friendly blocks with more than 80 retailers.

THE PROPTECH REVOLUTION IS HERE, BUT IS CRE ON BOARD?

The right proptech tools can save owners time, energy and money, but the commercial real estate industry is still in adoption mode.

By Nellie Day

Property technology — or proptech, for short — enables real estate players to leverage technology and data as they research, buy, sell and manage properties. Essentially, it's a data-driven approach to getting things done quicker, easier and cheaper.

Still, proptech is a newer solution in an industry that's traditionally slow to adopt novel practices and technologies. On top of that, there can be some upfront investment costs in terms of time and money. As with every vendor, CRE professionals also do their due diligence or risk paying for a company or product that can't deliver what they promised — or can't train the staff on the new product.

Now that we've got the criticisms out of the way, let's talk about application.

Decision-Making in the Tech Age

"The continued uncertainty and impact of COVID-19 on the market has changed investor expectations of their sponsors," says Matt Lawson, chief marketing officer at San Francisco-based Juniper Square, which provides investment management solutions for commercial real estate. "LPs (limited partners) are asking for a higher level of transparency, detail, and frequency of reports for current portfolios and future allocations. While investment managers may take a variety of approaches to the market with adjust-

see PROPTECH, page 21

INSIDE THIS ISSUE

Pictured: The Grove, a 300,000-square-foot project by RED Development

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PUBLISHERS' NOTE

A FRONT-ROW SEAT TO THE FUTURE

The present may be uncertain thanks to the pandemic, government stimulus and an unsettled live-work-play environment. While we can't control how these factors will impact the commercial real estate market out West, we can look at forward-facing trends and technologies that may tell us where we're heading.

This includes proptech, a snazzy term that is marrying commercial real estate with technology in new and innovative ways. Proptech encompasses a variety of tools, features and applications, but when it boils down to it, this trend simply makes it easier to collect and analyze data. CRE firms can maximize proptech's uses by integrating these tools into their marketing, site selection, property management, and acquisition and disposition strategies.

Of course, proptech isn't the only way to get a leg up when you're a property owner or manager. Certifications such as Fitwel Viral Response can help owners assist their tenants with a return to the office. This third-party healthy building certification touts evidence-based strategies that promote positive health outcomes for building occupants and communities. Arming employers and employees with results they can see and numbers they can review can make them feel more secure as they weigh their decision to return to the office (or not).


Jerry France
Chairman & CEO/
Publisher


Scott France
President/
Co-Publisher

Technology doesn't always have to be a part of the solution, however. Santa Monica's Third Street Promenade is ushering itself into the future of retail, commerce and community through some good, old fashion elbow grease. Downtown Santa Monica (DTSM), Inc. has created a Stabilization and Economic Vitality Plan for the area, which will include new leasing strategies, more flexibility around the use of private spaces and new social fixtures. This is just the tip of the iceberg, so be sure to read all about DTSM's initiatives inside this issue.

Uncertainty will likely remain for some time to come, but knowing there are tools and strategies that can position your business or asset for future growth is a comforting notion, indeed.

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FINANCIAL SCOREBOARD

Loans Recently Closed For Western Properties

PROPERTY	CLASS	LOCATION (CITY, STATE)	SIZE	AMOUNT	LENDER	ARRANGED BY
Beachwood Apartments, California Palms Apartments, Countrywood Apartments, Crestwood Apartment Homes, Sundial Apartments and Uptown Fullerton	Multifamily	Southern California	1,255 units	$263 million	Freddie Mac	NorthMarq
Timber and Market	Mixed-use	Boulder, Colo.	150 multifamily units & 2,000 SF retail/ 42,000 SF office & 11,000 retail	$77 million	PGIM Real Estate	JLL
Aspire 7th & Grant	Multifamily	Denver	178 units	$49 million	Northwest Mutual Real Estate Investments	JLL Capital Markets
Triton Court	Student housing	Lynwood, Wash.	104 units, 13,000 SF retail & 15,000 SF office	$32.5 million	Undisclosed	Gantry
Peninsula Pointe	Seniors housing	Rolling Hills Estates, Calif.	87 units	$23 million	Undisclosed regional bank	Cushman & Wakefield's Senior Housing Capital Markets
Get Space	Self storage	Portland and Vancouver, Wash.	1,257 units	$16 million	Undisclosed life insurance company	Talonvest Capital

CALIFORNIA

ROCKEFELLER GROUP SELLS 135,623 SF DISTRIBUTION CENTER

SAN DIEGO — Rockefeller Group has completed the disposition of Airway Industrial Park, a distribution center located in San Diego's Otay Mesa submarket. The buyer was a fund managed by Black Creek Group, which Ares Management acquired on July 1. The price was not disclosed. Situated on 7.8 acres at 8150 Airway Road, the property offers 135,623 square feet of industrial space. Airway Industrial Park features 32-foot clear heights, a 185-foot truck yard, truck trailer parking and an efficient office design, as well as 137 auto parking spaces. The project team included Ware Malcomb, Kimley-Horn & Associates and Dempsey Construction.

Located in San Diego's Otay Mesa submarket, Airway Industrial Park features 135,623 square feet of industrial space.

MOGHAREBI GROUP BROKERS $18 MILLION SALE OF COUNTRY CLUB APARTMENTS

SAN BERNARDINO, CALIF. — The Mogharebi Group (TMG) has arranged the sale of Country Club Apartments, a 79-unit seniors housing community in San Bernardino. The buyer and seller were both private investment groups based in Los Angeles. The property sold for $18 million, or $228,000 per unit. Ozen and Alex Mogharebi of TMG represented the seller in the transaction. Built in 1986, Country Club Apartments is a two-story community comprising 71,428 square feet of rentable space. The complex is situated on a 5.4-acre site. Country Club Apartments features two-bedroom floor plans with an average size of 903 square feet.

SRS NEGOTIATES $11 MILLION SALE OF TWO-TENANT RETAIL PROPERTY

MISSION VIEJO, CALIF. — SRS Real Estate Partners has arranged the sale of a two-tenant retail property located at 26911 and 26921 Trabuco Road in Mission Viejo. Starpoint Properties sold the asset to a Hawaii-based private investor for $11 million. Smart & Final and Saddleback Carpet & Flooring fully occupy the 26,202-square-foot property, which is part of Alicia Trabuco Plaza. Smart & Final serves as the anchor tenant for the plaza. Matthew Mousavi and Patrick Luther of SRS' National Net Lease Group represented the seller and buyer in the deal.

NEWMARK NEGOTIATES $70 MILLION SALE OF CREATIVE OFFICE BUILDING

EL SEGUNDO, CALIF. — Newmark has brokered the sale of 2221 Park Place, a two-story creative office property in downtown El Segundo. 2221 Park Place Partners LLC, a partnership between Kyle Ransford of Cardinal Investments and Platform Ventures, sold the asset for $70 million, or $778 per square foot. The undisclosed buyer intends to occupy the 90,000-square-foot building, which was recently constructed. The building features a retractable rooftop, integrated landscaping, natural lighting, three-walled workspaces with open-air access, flexible layout throughout, and outdoor and upper-level patios. Kevin Shannon, Geoff Ludwig, Eric Lastition and Ken White of Newmark represented the seller in the off-market transaction.

SOUTHWEST

ABI MULTIFAMILY BROKERS $104 MILLION SALE OF SKY ANCALA APARTMENTS

SCOTTSDALE, ARIZ. — ABI Multifamily has arranged the sale of Sky Ancala Apartments located at 11545 N. Frank Lloyd Wright Blvd. in Scottsdale. A California-based buyer acquired the asset from a Canada-based seller for $104 million, or $316,667 per unit. Sky Ancala Apartments features 330 units across 20 two-story buildings. The property offers one- and two-bedroom units, all with in-suite washers/dryers. Community amenities include a business center, coffee bar, sky lounge, picnic area with barbecues, fitness center, resort-style pool, dedicated leasing office and covered parking. Alon Shnitzer, Rue Bax, Eddie Chang and Doug Lazovick of ABI Multifamily's Phoenix-based Institutional Apartment Group represented the buyer and seller in the deal.

CAPROCK PARTNERS ACQUIRES 20.7 ACRES FOR THREE-BUILDING INDUSTRIAL DEVELOPMENT

NORTH LAS VEGAS, NEV. — CapRock Partners has purchased a 10-parcel land assemblage totaling 20.7 acres in North Las Vegas. The firm will develop CapRock Tropical Logistics Phase II, an industrial complex adjacent to CapRock Tropical Logistics, on the site. Totaling 441,554 square feet, this second phase will feature three industrial buildings with 32-foot clear heights, large truck courts and about 362 parking stalls. Development is underway, with a groundbreaking planned for first-quarter 2022. Completion is slated for the fourth quarter of 2022. The adjacent CapRock Tropical Logistics park is a two-building, 1.1-million-square-foot industrial complex currently nearing completion. The first phase is 100 percent preleased and scheduled for completion in third-quarter 2021.

GEORGE OLIVER COMPLETES SALE OF $56.5 MILLION OFFICE COMPLEX

PHOENIX — George Oliver has completed the sale of CASA, a Class A office complex in Phoenix, for $56.5 million. At $312 per square foot, the sales price sets a new record for the Piestewa Peak submarket. JLL's Benjamin Geelan and Brian Ackerman represented George Oliver in the transaction. The buyer was Macquarie Asset Management. New office amenities include coworking suites, a dog park, dedicated food truck parking, and shaded outdoor dining and lounge areas. A final lease-up initiative this summer brought the building to full occupancy. CASA will now serve asthe new Mediacom headquarters, which relocated from North Carolina, with D.R. Horton and CrossCountry Mortgage also leasing space.

DALFEN INDUSTRIAL ACQUIRES 711,855 SF INDUSTRIAL PARK

TACOMA, WASH. — Dalfen Industrial has purchased Tacoma Supply Chain Center, a three-building industrial park in Tacoma. The newly developed property features 711,855 square feet of industrial space and close proximity to Interstate 5, State Route 512 and the Port of Tacoma. Over the past 12 months, Dalfen Industrial has acquired and developed more than $1.5 billion of industrial properties in key metros across the United States.

FARIS LEE BROKERS $7.3 MILLION SALE OF SINGLE-TENANT PROPERTY

BAKER CITY, ORE. — Faris Lee Investments has arranged the $7.3 million sale of a single-tenant, 48,239-square-foot retail property in Baker City. Albertsons has approximately 15 years remaining on its absolute triple-net lease. Chris DePierro, Jeff Conover and Scott DeYoung of Faris Lee Investments represented the Orange County-based seller in the transaction. The buyer was not disclosed.

BERKADIA NEGOTIATES $11.1 MILLION SALE OF EVERGREEN PARK MULTIFAMILY COMMUNITY

OLYMPIA, WASH. — Berkadia has arranged the sale of Evergreen Park, a garden-style apartment property at 2121 Evergreen Park Drive SW in Olympia. The community traded for $11.1 million, or $150,000 per unit. The names of the buyer and seller were not released. Built in 1979, Evergreen Park features 74 one- and two-bedroom apartments. The property was 99 percent occupied at the time of sale. Chad Blenz, Mitchell Belcher, Steven Chattin and Jay Timpani of Berkadia Seattle represented the seller in the transaction.

MOUNTAIN STATES

TRUAMERICA MULTIFAMILY ACQUIRES 276-UNIT MULTIFAMILY COMMUNITY

SANDY, UTAH — TruAmerica Multifamily has purchased Falls at Hunters Pointe, an apartment community in Sandy. The Wasatch Group sold the property for an undisclosed price. Falls at Hunter Pointe features 276 apartments in a mix of one-, two- and three-bedroom floor plans. Community amenities include a swimming pool, playground, walking and biking trails, covered parking and basketball, racquetball and tennis courts. Danny Shin and Brock Zylstra of Institutional Property Advisors, a division of Marcus & Millichap, represented the seller and procured the buyer.

OPUS GROUP BREAKS GROUND ON SECOND PHASE OF INDUSTRIAL DEVELOPMENT

THORNTON, COLO. — The Opus Group has broken ground on two speculative industrial buildings in Thornton. The buildings, totaling 282,108 square feet, are the second phase of North Washington Commerce Center. The 163,686-square-foot building will offer 35 dock positions, 270 parking stalls, 15 trailer parking spots and four drive-in doors. The 118,422-square-foot building will offer 28 dock positions, 196 parking stalls and four drive-in doors. Opus is the design-builder, architect and project developer. Both buildings are slated for completion in January 2022.

HUNT MIDWEST BREAKS GROUND ON 102-UNIT SENIORS HOUSING COMMUNITY

LOVELAND, COLO. — Hunt Midwest has broken ground on The Capstone at Centerra, a 78,000-square-foot assisted living and memory care community in Loveland. Located within the 3,000-acre, master-planned Centerra development, the community is projected to open in late 2022. Integral Senior Living (ISL) will be the operator of the 102-unit property.

PHOENIX'S OFFICE MARKET REMAINS QUESTIONABLE

Laurel Lewis
Senior Vice President,
NAI Horizon

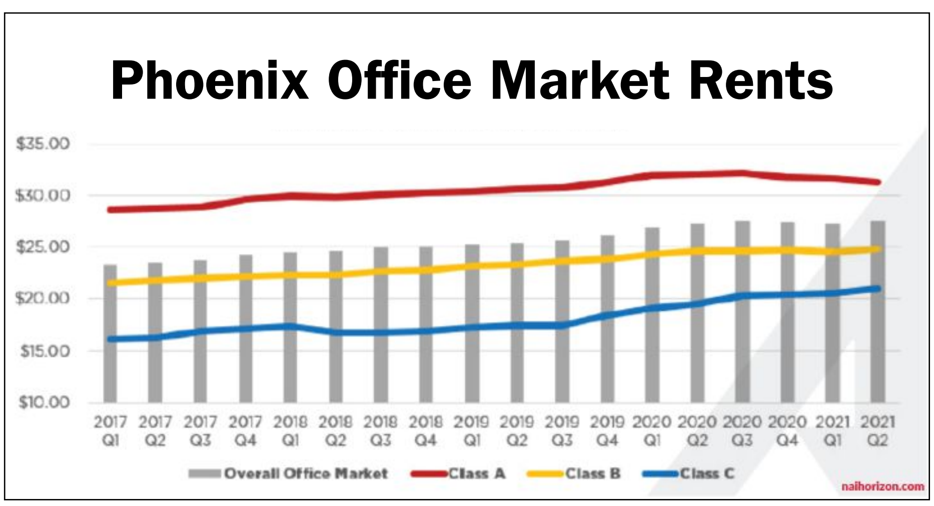
The office market is in uncharted territory, like going "Down the Great Unknown." When John Wesley Powell navigated through the Grand Canyon, he did not know what lay ahead. Perhaps if he did, he might have chosen to leave it uncharted. Yet here we are in the midst of the proverbial river, wondering what lies ahead.

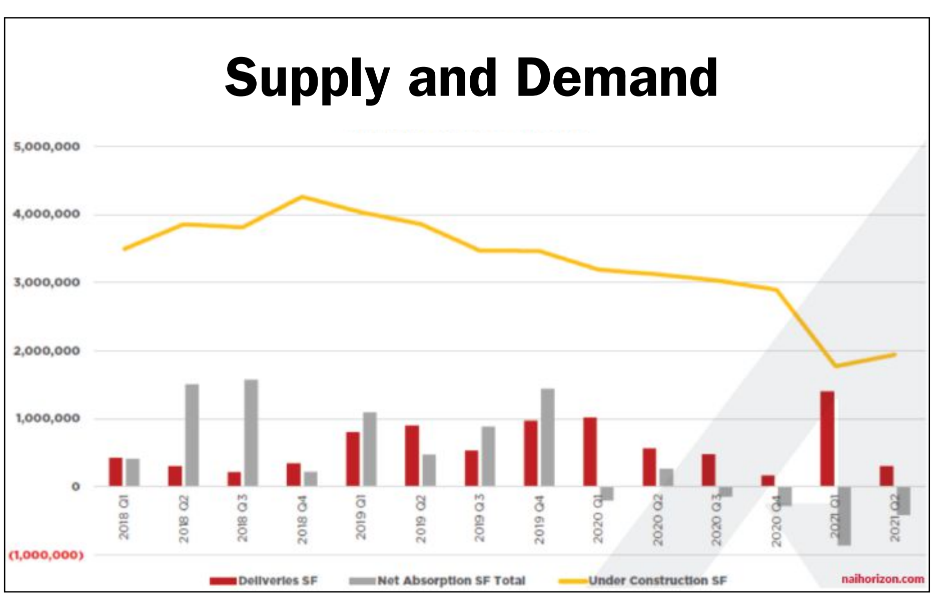
The advent of a pandemic is changing minds about how and where we work. The work-from-home model may have started a decade ago, but the pandemic and new technology have exacerbated the trend. How will this affect the office market and, more specifically, the office market in Phoenix? The long-term effects remain to be seen, but we know Phoenix continues to attract new residents and new businesses. The Central Business District, for instance, is experiencing renewed interest. This is enhanced by the City of Phoenix's efforts to offer a pedestrian-friendly environment, more entertainment and access to the light rail.

The investment is paying off. Companies in bioscience, education, technology and financial services are taking an interest in the area's vibrancy. To top it off, the second quarter came to a close with the Phoenix Suns making it to the NBA finals, bringing national attention to the corridor.

While current trends point to a positive outcome, unknowns remain. How will new variants affect the demand for space, and how many employees will be required (or opt) to work from home? Second-quarter numbers show vacancies have risen due to sublease space. However, we can argue much of that sublease space resulted from mergers, acquisitions or companies already downsizing. It is important to note sublease space is not always in competition with direct space due to challenges with subleasing.

Surprisingly, speculation of where the office market is heading has not affected overall rental rates in Phoenix. According to CoStar, the average full-service gross rate is up 21 cents from the previous quarter, coming in at $27.48. This is compared to the $26.92 rate seen at the pandemic's start. Newly constructed Class A space is attracting companies focused on quality, amenities, location and walkability. Office rental rates support this development - with an all-time-high asking rate of more than $50 per square foot.





When it comes to negotiating leases, larger tenants are in the driver's seat. Although rates are steady, tenants can expect a close-to-turnkey buildout, in addition to free rent. Landlords are benefiting from longer lease terms, unlike at the start of the pandemic, when tenants were hesitant to sign long-term renewals and chose to wait and see. Optimism in the market is returning, and the trend is increasing lease terms from a five-year average to seven years, sometimes more.

In addition to built square footage, land is becoming more valuable. Hopeful developers are buying land and getting entitlements, preparing for tenant demand and timely delivery. Phoenix is hot, and Phoenix will rise.

PHOENIX MULTIFAMILY CONTINUES ITS UPWARD TRAJECTORY

Drew Ricciardi
Research Manager,
ABI Multifamily
Research

Following a chaotic year that left investors on the sidelines, the Phoenix market proved resilient. In fact, it ended up witnessing one of the most significant rebounds nationally. The Phoenix multifamily market exploded with a record start for 2021 and is now considered one of the top multifamily markets in the country.

Phoenix continues to see robust population increases due to job growth, quality of life, industry diversity and affordability. According to a Redfin study, the Phoenix metro market had the highest population net inflow in 2020 of all U.S. metros. Phoenix benefited from the work-from-home phenomenon due to COVID-19, which resulted in high-paid workers fleeing high-priced, high-density markets for more affordable markets offering more spacious living options.

Not only are people migrating to Phoenix, but the area is becoming a prime spot for company headquarters and advanced facilities. The metro area's educated workforce, strong talent pool, business-friendly tax environment, and affordability are all key factors. Taiwan Semiconductor Manufacturing Co. plans to invest around $35 billion in new Phoenix facilities. This is the most substantial direct foreign investment in Arizona to date. The investment will have significant ripple effects on the city's economy in terms of job growth, development and seeing more companies following suit. Add to this consistent rent growth and high-occupancy levels in the Phoenix multifamily market, and this area has become a prime investment target.

Multifamily sales volume is up dramatically in Phoenix compared to previous years. The first half of 2021 represented a 175 percent year-over-year increase against the first half of 2020. Comparing the same period to the first six months of 2019, this year showed an increase of 41 percent in the same metric.

The average rent per unit for the Phoenix MSA was $1,413 in the second quarter of this year, with a high average occupancy rate of 96.3 percent. Both metrics witnessed sizable increases year-over-year.

Multifamily development in the Phoenix MSA also remains active. Demand continues to outpace supply, compounded by high construction costs and national labor shortages. These are due to an imbalance in the supply chain resulting from COVID-19.

Build-to-rent communities, a hybrid concept that involves traditional single-family detached units in a large rental community with luxury amenities, continue to be a hot trend that developers are pursuing. The Phoenix market is ideal for these communities due to its flat landscape, available land and high demand for rentals. Large development companies like Christopher Todd Communities and NexMetro Communities helped pioneer the model, and plans to expand this popular concept are now sprouting across all corners of the Valley.

Multifamily development is not centralized in one specific area or submarket in Phoenix. However, it's important to note the concentration of multifamily construction in the downtown Phoenix corridor is helping to fill in the sprawling and spacious city.

Expect Phoenix multifamily to continue to grow and prosper throughout 2021 as its extremely favorable demographic and economic trends persist, barring any significant economic events.

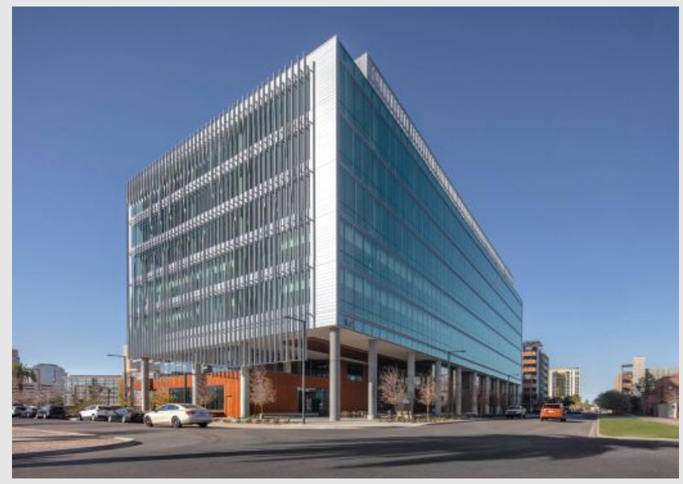
PHOENIX'S LIFE SCIENCES MARKET IS ON A RECORD RISE

Despite global and domestic market challenges from the pandemic, Phoenix continues to shine amongst its competitive Western cities. With Maricopa County being the fastest-growing county in the U.S., Phoenix offers employers a diverse, educated workforce, business-friendly environment and affordable housing options. Arizona's economy is booming and experiencing record revenue growth, as well as personal income growth. From 2019 to 2020, Arizona led the nation (tied with Montana) in the category of highest personal income growth with a 7.1 percent increase. The state is also projected to add 325,000 jobs in the next 12 months.

Phoenix's life sciences industry has gained significant momentum during the past 12 months, with no slowdown in sight. The Phoenix Biomedical Campus (PBC) in downtown Phoenix is ground zero for life sciences development and tenant activity. The 30-acre campus is currently occupied by Arizona State University, the University of Arizona, Northern Arizona University, Translational Genomics Research Institute (TGen), OncoMyx Therapeutics, Calviri, Vidium Animal Health, and Exact Sciences, which recently acquired Paradigm Diagnostics and Ashion Analytics. The PBC is the ideal environment when it comes to collaboration and innovation for life sciences tenants. The 227,000-square-foot, Class A, purpose-built life sciences building known as 850 PBC offers a collaborative, activated lab/office facility option. The project was developed by Wexford Science & Technology and completed in December 2020. It has experienced tremendous demand, boasting 90 percent commitment to date. The fifth level of 850 PBC is currently being built out as Wexford Innovation Labs, a move-in-ready, incubator-style lab space that will allow companies to scale in place. Additional PBC phases of private lab space that are in various stages of design and planning total more than 2 million square feet.

Tenant demand has been very active among local life sciences tenants looking to relocate from an office or flex facility into a purpose-built life sciences cluster. The market has also seen strong activity from larger out-of-state tenants eyeing Phoenix for its talent pipeline and friendlier business environment. The Phoenix market has a strong presence of companies focused on genomics research, diagnostics, therapeutics and regenerative medicine, with new tenants looking to collaborate and grow in this dynamic research community.

Alexandra Loye
Senior Vice President,
Healthcare & Life Sciences Services,
Colliers



The move-in-ready, incubator-style 850 PBC lab space in downtown Phoenix will allow companies to scale in place. It was developed by Wexford Science & Technology and debuted in November 2020.

SMALL BUSINESSES MAKE BIG STRIDES IN PHOENIX'S RETAIL MARKET

Matt Harper
Senior Vice President of Retail,
NAI Horizon

Arizona relies heavily on a robust tourism industry. When COVID-19 hit, it was a massive blow to the hospitality and retail sectors. Coming out of the pandemic, however, the Metro Phoenix retail sector has shown great resiliency, especially mom and pops.

Phoenix ended the fourth quarter of 2020 with a positive net absorption of 124,330 square feet of retail space. With negative net absorption in the second and third quarters of 2020 — the devastating months of the pandemic — Phoenix ended the year at negative 373,715 square feet. This was compared to an overall positive net absorption of more than 1.1 million square feet in 2019.

Phoenix vacancy rose slightly in the second quarter of 2021 from the previous quarter, coming in at 7.7 percent and 7.5 percent, respectively. Net absorption for the second quarter was a negative 63,558 square feet, down from a strong first-quarter 2021 of 466,714 square feet. The average triple-net rental rate rose slightly to $15.81 per square foot.

COVID-19 travel restrictions and stay-at-home orders attributed to the paltry second- and third-quarter 2020 numbers. Then those orders were lifted by Gov. Ducey, and the sun came out for retailers. The national retail sector also got the best news it had received since the pandemic started as retail sales jumped 9.8 percent for the month of March.

The majority of the leases I have completed year to date are less than 3,000 square feet and typically include the mom-and-pop variety. There were about 589 retail deals executed in Phoenix in the second quarter of 2021, with 75 percent of these deals being for less than 3,000 square feet.

Coming out of COVID-19, these types of businesses were able to execute quickly after being shut down or having to limit their services. The speed of these transactions is attributed to a single decision-maker, as well as not having to get approval from corporate real estate committees and shareholders.

Some lease types included check-cashing firms, barber shops and salons, e-bikes, restaurants, auto mechanics, reflexology, insurance brokers, churches, liquidators, dog grooming, tool supply and CPAs.

Lease terms and lengths for small business owners have changed slightly since coming out of COVID-19. I have seen shorter lease lengths and less tenant improvement allowance in exchange for rent abatement.

Brick and mortar is — and will remain — an important component of retail. Ecommerce is certainly going to continue growing, however, the experience consumers have through brick-and-mortar opportunities cannot be fulfilled online. We continue to see growth in social retail opportunities and experiences, such as axe throwing, escape rooms, arcade bars, etc.

This year, more than 80 percent of my transactions have occurred in the West Valley. It's the fastest-growing market in Metro Phoenix. There is a vast amount of undeveloped land, as well as new freeway infrastructure with the recently opened Loop 202 freeway and still-expanding Loop 303 freeway.

Thankfully, the small businesses that were able to sustain through the pandemic are coming out stronger. They have learned to shift how they serve the consumer based on consumer demand. Many are still offering curbside pick-up options and delivery, which is something that will likely remain in place long into the future.

There is quite a bit of pent-up demand for the retail experience in Metro Phoenix. This has large retailers and mom and pops faring well.

WEST 202 LOGISTICS

PHOENIX'S INDUSTRIAL MARKET IS FIRING ON ALL CYLINDERS

Rob Martensen
Executive Vice President, Colliers

As a racing driver, it is important that my vehicles fire on all cylinders to run their best. In the Phoenix metro area, the engine cylinders of the industrial market are the different industries, as well as the geographic locations around the Valley where these industries conduct business.

First, let's look at advanced manufacturing. Intel, which already has a large presence in the Southeast Valley, just announced a $20 billion expansion of its Price Road facility. This will create hundreds of construction jobs and demand for these contractors to find space, not to mention all the equipment suppliers, etc., that will require space for the long-term.

With the huge demand for semiconductors and the supply of land and labor, Taiwan Semiconductor Manufacturing Company (TSMC) has chosen Phoenix to build its next fabrication plant. TSMC will spend $12 billion to build the new factory, which is already under construction in North Phoenix. This will create a huge demand for industrial space in the Deer Valley submarket to support TSMC.

Other manufacturing companies like Apel Extrusions, MLILY and Ball Container have either recently completed projects or are under construction on new manufacturing facilities.

Food and beverage manufacturing is quite active as well. Red Bull, Mark Anthony Brewing (White Claw) and Bang Energy are also opening new facilities in the Phoenix area. Other food-related companies are also growing their footprint. Organic grocery distributor KeHE's new 480,000-square-foot dry and cold storage distribution facility in Phoenix will be complete in September.

Thanks to a girth of tenant demand, all submarkets are active in Metro Phoenix. As previously mentioned, the Southeast Valley is seeing tremendous growth not just from Intel's expansion, but several other companies growing in the area. Dexcom recently leased 280,000 square feet in the Mesa Gateway from Marwest. This success has led Marwest to take a chance on two of the largest spec buildings ever built in the Southeast Valley. Elliot 202 is under construction on 460,000- and 640,000-square-foot buildings on the Loop 202 and Elliot Road.

Organic grocery distributor KeHE will occupy a new 480,000-square-foot dry and cold storage distribution space in Phoenix this September.

Other active Southeast Valley developers include EastGroup Properties, Orsett, Ryan Companies, Bird Dog Industrial, Conor Commercial and Trammell Crow.

The Deer Valley submarket is also poised for tremendous growth due to the TSMC factory. The challenge of this submarket is a lack of available land, but the City of Phoenix and the Arizona State Land Department are working hard to establish new areas for these businesses to locate.

Meanwhile, the big box sector is thriving in the Glendale submarket and 303 corridor. Recent large lease transactions include Walmart at Park 303, a Lincoln Property Company Development, and mattress manufacturing company MLILY at G303, a Hines development. Both tenants leased just over 1.2 million square feet each.

There are several other 1-million-plus-square-foot tenants eyeing the market for spec buildings or build-to-suit options.

To say the Phoenix industrial market is firing on all cylinders is an understatement. With available buildings, land and labor, Phoenix has a very bright future ahead for those in the industrial real estate business.

LA'S APARTMENT MARKET TURNS A CORNER

Mark Ventre
Senior Vice President,
Stepp Commercial

As it turns out, COVID has once again delayed hopes of a return to normalized operations for apartment owners. Just when it seemed the shackles that have hindered the ability to raise rents and recoup lost income would be removed, it now appears the light at the end of the tunnel has grown more distant.

Fortunately, there have been positive indicators that the economic environment in Los Angeles for the first half of 2021 has improved considerably from the second half of 2020. According to the California Labor Market, the unemployment rate lowered from 17.9 percent to 10.6 percent a year ago. Apart from the third quarter of 2020, which experienced an enormous economic bounce back of 33.4 percent, the second quarter of this year has seen a GDP increase of 6.5 percent, one of the strongest since 2003.

This is great news for a city that was particularly hard hit considering the amount of hospitality and leisure jobs. However, Los Angeles has still lagged the nation with respect to rent growth in 2021. Average asking rents have improved by 3.9 percent since the beginning of the year, far below the national average of 9 percent, according to CoStar.

The slower rental rate increase is partly due to the 11,000 new apartment deliveries over the past 12 months in the Greater Los Angeles region. Nearly all of these were Class A product, which has experienced the most challenging rental environment of any asset class. Vacancy rates in these buildings are at an elevated 9.8 percent, dragging down the rest of the market, for an overall blended rate of 4.8 percent. At least this is below the third-quarter 2020 peak of 6.1 percent, but still higher than the 20-year average of 4.4 percent.

Both positive and negative economic indicators, along with speculation of potential legislative changes, have created mixed feelings on the trajectory of the Los Angeles apartment market.

On one hand, rents and occupancy levels are improving, debt remains at all-time lows and the job market is rebounding quickly. Largely fueled by the emergence of tech, media and venture capital, Los Angeles is still considered by many to be the premier gateway city in the country for overall investment. The potential for upcoming policy changes on a federal level is driving investors into apartment buildings before any implementation of these new laws occur. These include an increase in capital gains taxes, changes to the 1031 tax-deferred exchange, the removal of the step-up in basis and carried interest provisions, and adjustments to estate and inheritance taxes.

Another curve ball is inflation. With the $1.5 trillion infrastructure bill currently being negotiated in the Senate — and a possible $3.5 trillion budget reconciliation bill that could follow — inflation is looking less "transitory" and more like a thorn in the nation's side that is here to stay for the foreseeable future. In anticipation of a weakening dollar, investors would rather have their money parked in apartment buildings than lose value sitting in the bank.

On the other hand, despite the job market improving, delinquencies are still a major issue in many buildings. During the pandemic and through the first quarter this year, 7 percent of renters in Los Angeles did not make a single payment, and about 31 percent have made, or continue to make, partial payments.

The much-anticipated Rent Relief Program that was created to rescue landlords from the mounting collections incurred over the past 18 months has turned out to be a slow grind. While many thousands of tenants are approved for the program, as of now, the funds have largely failed to trickle into the hands of landlords.

California recently extended the eviction moratorium through September 30, and many believe it will be further extended through the end of the year or longer. Even when evictions are once again allowed, owners will likely experience major court delays and unsympathetic judges. In addition to the eviction moratorium, a rent increase moratorium will remain in effect for 12 months following the end of the local emergency period, which is also set to expire on September 30.

Despite the potential obstacles and uncertainties, overall market sentiment is increasingly bullish, resulting in healthy activity that started in the fourth quarter of last year and has continued to gain steam. The Los Angeles transaction volume in 2021 is expected to dwarf that of 2020, with a year-to-date volume of $5.5 billion compared to just $6.9 billion for the entirety of last year.

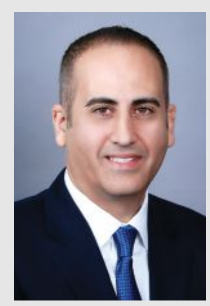
This activity has created downward pressure on Los Angeles cap rates and upward pressure on prices per unit. The average cap rate decreased to 4.12 percent from 4.18 percent year over year, according to CoStar, while the average marketing price per unit increased to $367,000 through the first half of the year, up from $350,000.

While it is too early to suggest current market conditions have eclipsed pre-COVID levels, it is certainly headed in that direction. However, with the implementation of new mask mandates and an alarming increase in the number of infected, one cannot get ahead of oneself.

If this past year has taught us anything, it is to remain on high alert, because anything could happen at a moment's notice.

Stepp Commercial recently completed the $6.4 million sale of Astoria Oaks, a 29-unit apartment property in Sylmar, Calif. The price per unit was about $221,000, with a closing cap rate of 4.87 percent. At $309 per square foot, this sale garnered the highest price per square foot ever paid for an apartment building in Sylmar.

VALLEY AREA RETAIL MARKET SLOWLY PICKING BACK UP



Yair Haimoff
Executive Managing Director,
Spectrum Commercial Real Estate

The COVID-19 pandemic slowed or halted markets across the world. But how did Los Angeles fare? Well, the retail market slowed in 2020 as a result of the pandemic, but, fortunately, it is slowly picking up with reopenings and the adoption of the COVID-19 vaccine.

Looking back, recent transactions in the retail space have predominantly included food-related deals. With established fast food businesses like In-n-Out, Starbucks, Popeye's Chicken, Chick-Fil-A and more showing more transactions, there is definitely a pattern of increased demand for services that support activities necessitated by isolation. However, there have also been deals that included gyms/fitness users, family entertainment, tutoring centers and a few other ancillary retail uses. It looks as if the reopenings are starting to bring in a renewed demand for more social activities, which, blended with the rise of fast food establishments, is a good sign the market is picking up.

Looking at current retail development activities, the local market has been mostly quiet in terms of retail-only centers. This makes sense, as retail stores suffered during the shutdown, with many existing retailers turning to curbside pick-up services to stay afloat. Many developers simply aren't developing retail-only centers at the moment, but some have switched over to mixed-use developments that have apartments over retail. Other developments that have cropped up include hotel developments and, of course, drive-thru restaurant developments. Mixed-use projects are performing very well in general in the Valley. This shows that while the market evolved during the pandemic, developers have been able to get creative to meet demand and maintain profitability.

Retailers in the Valley have remained resilient during the pandemic. While vacancy rates have increased for retail sites, new mixed-use developments and drive-thru restaurant developments, in particular, have carried the market into the new normal. In the meantime, new concepts like small versions of Target and other brands are starting to trend, but it will take some time to determine if these concepts will continue to populate the market.

INDUSTRIAL IS THE BELLE OF THE BALL IN LA

Robert Flores
Senior Vice President,
CBRE

Not too long ago, industrial real estate was generally viewed as an obscure and often unpopular subset of commercial real estate. Instead of owning a concrete box, many investors and developers were drawn to the flashier structures in Central Business Districts and hip submarkets. Fast forward a few short years, and industrial has firmly taken center stage for many who might have previously shunned the sector. The Greater Los Angeles area is one of the beneficiaries.

The Greater Los Angeles region is the second-largest metro in the U.S. and is home to some of the nation's most critical infrastructure. With the ports of Los Angeles and Long Beach accounting for more than 40 percent of the country's inbound container traffic and Los Angeles International Airport serving as a major gateway for passengers and air cargo, the local industrial market is ground zero for industrial users.

At the close of the second quarter, the Greater Los Angeles industrial market totaled more than 1 billion square feet of rentable space with a vacancy rate of just above 1.5 percent, according to our CBRE research. Based on current activity levels and leasing velocity in the market, that number is likely to go even lower by the end of the third quarter.

Recent noteworthy transactions in the market include Lief Labs, a manufacturer and product development innovator of dietary supplements, leasing 111,260 square feet of industrial space in Valencia, as well as Pelican BioThermal leasing 54,060 square feet in the city.

The region continues to be driven by an extreme supply and demand imbalance and a critical shortage of available land for new construction. Adding to the pain, the local market is experiencing a tectonic shift from its roots as a traditional transportation and logistics hub to a more balanced market with a much broader mix of users. Some of the more active user groups in the market today include aerospace and defense contractors, rocket manufacturers, notable cosmetic brands, electric vehicle companies, and various food and beverage groups. These user groups have largely sought out higher-quality assets in more strategic parts of the market and have shown a tolerance for higher rents than traditional users have.

Zooming in further, the South Bay industrial submarket continues to set the pace for the broader region. With an industrial base of about 220 million square feet of rentable space and a vacancy rate of a mere 0.7 percent, opportunities are scarce for users looking to expand their footprint or relocate within the market. Tenants are drawn to the South Bay specifically because of its proximity to the ports, as well as accessibility to a deep, diverse labor pool and adjacency to executive housing communities in the beach cities and West LA.

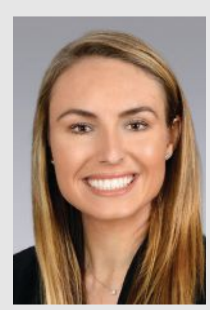
Lief Labs recently leased 111,260 square feet of industrial space in Valencia, Calif.

As ecommerce demand intensifies and businesses rush to shore up stock before more supply chain disruptions, industrial leasing activity in the South Bay has totaled 6.6 million square feet year to date. This is more than any other submarket in Greater Los Angeles, according to our latest research.

A surge in the South Bay's lease rates in the first half of 2021 has led many South Bay users to explore neighboring submarkets. This has resulted in substantial rent growth across the broader market and into the Inland Empire. Certain parts of the South Bay have seen upwards of 30 percent to 40 percent rent growth year to date, by some estimates. While many are wondering if this momentum can sustain itself, Los Angeles is uniquely positioned to continue this path for the foreseeable future. The frenzy of tenant activity in the market and robust investor demand seem to validate this trajectory.

GREATER LOS ANGELES' OFFICE MARKET IS BOUNCING BACK

Steve Solomon
Senior Executive Vice President,
Colliers International



Kristen Bowman
First Vice President,
Colliers International

Greater Los Angeles leasing activity surged, reaching nearly 3 million square feet in the second quarter. Although higher than the past few quarters, it was significantly lower than the 2019 pre-pandemic quarterly average of 4.6 million square feet. Much of the activity occurred in West Los Angeles, where large expansions and renewals were signed by tech, media and entertainment tenants. While leasing did ramp up, overall vacancy continued to rise, eventually reaching a historic high of 19.4 percent. This rate, which includes direct and sublease space, is 160 basis points higher than the previous peak in 2013 when it hit 17.8 percent. Nearly 25 percent of office space, whether vacant or currently occupied, is available for lease.

There is currently 4.9 million square feet of speculative new office construction underway delivering by 2023 in Greater Los Angeles. These major developments, which do not include renovations, are currently 30.7 percent pre-leased. Over half of this new construction is in West Los Angeles, which has a higher preleased rate of 36.6 percent. The rate is highest in Central Los Angeles, where Netflix has snatched up 44.6 percent of the new office projects in Hollywood.

Greater Los Angeles leasing activity has accelerated, with a lot of that credit going toward the large leases signed in West Los Angeles. Streaming giant Hulu completed a 351,000-square-foot expansion renewal at Colorado Center in Santa Monica, which comes on the heels of Roku's new 72,000-square-foot lease in the same complex. Snap, Inc. and GoodRx also expanded office footprints in Santa Monica, causing this submarket to record 791,888 square feet of leasing activity. This accounts for 57.7 percent of the total leasing activity in West Los Angeles, which finished at 1.4 million square feet for the quarter.

Rising demand from entertainment tenants looking for studio product is driving up the need for office space in Hollywood and Burbank. Burbank is one of the few submarkets with single-digit overall vacancy. While average asking rents declined across Greater Los Angeles, rates in Burbank have increased for the past three quarters as Class A average asking rents hit $3.90 per square foot, per month. This is a record for the submarket. The broad demand for media content amplified during the pandemic is expected to push rates here even higher.

During the pandemic, rent growth was strongest in South Bay compared to all the other major submarkets. The year-over-year hike of 6.2 percent was more robust than the 2.8 percent in West Los Angeles. The average asking rents in other major submarkets were flat or had decreased during this period. El Segundo has stayed an active submarket, signing several large new deals and renewals this year. Other South Bay areas have struggled a bit, with landlords making more of an effort to retain and attract tenants.

We expect South Bay to continue to flourish in an otherwise flat or regressing office market. This is due to the area's demand for amenities, lifestyle, education, and a short commute among the region's residential communities of Manhattan Beach, Hermosa Beach and Palos Verdes. Additionally, biotech now has close to a 15 percent market share in El Segundo, with more than 1 million square feet and growing.

DO TENANT EXCLUSIVES WORK IN TODAY'S 'ON DEMAND' RETAIL ENVIRONMENT?

Diversification and buy online, pick up in store (BOPIS) are crucial for success in today's shopping centers. However, some tenant exclusives can hinder these efforts for both the landlord and prospective tenants.

By Manuel Fishman and Kirsten Day

The retail environment has caused shopping centers to be hit with many changes in recent years. Retail owners and developers need to preserve as much flexibility as possible to attract the foot traffic needed to energize their centers. Granting a major tenant an exclusive as to a certain product line or type of use within a shopping center impacts other tenants' abilities to expand their brand. As the brick-and-mortar environment now morphs to include the full retail experience, these exclusives can also impact a retailer's online sales, which may be as important as in-store sales.

Such exclusives also restrict the recruiting of new tenants. Whether the major tenant receiving the exclusive actually benefits from this alleged protection, however, is not so clear. Shopping center landlords and tenants need to consider whether an exclusive truly increases sales volume at the center (or even to the relevant major tenant), or simply hamstrings retailers with a strong internet presence and whose tenancy within the shopping center could bring vitality to the shopping center and its tenants. Just imagine if a shopping center had a FedEx store and gave FedEx an exclusive on package drop-off and pick-up for delivery. This is happening throughout the industry.

Given retail's tumultuous past year with COVID-19, it is also important to inquire whether an exclusive, even if granted by a landlord, has actually benefitted the receiving retailer when there has been a long period of store closures and low in-store sales volume.

Given that most exclusives require the tenant to be open and operating in the premises and achieving a certain level of gross sales in order to maintain its exclusive — is the retailer getting the benefit of the exclusive? Is the exclusive hamstringing this tenant because it inadvertently creates a tenant default for failure to continuously operate? Is the exclusive simultaneously hamstringing the landlord from experimenting with kiosks, pop-ups and other common area experiences that maintain the vitality of the center?

Some examples of the application of exclusives in a post-COVID environment:

• Given the explosion in food delivery services, should an exclusive prevent a tenant from offering online food delivery services, even if it is for "off-menu" food items that would be served at the restaurant? Many restaurants are experimenting with new food items, both to survive and perhaps because the food item is more suitable for home delivery.

Why should a landlord inhibit this creativity just to protect a restaurant that is only open for limited operations, if at all? Similarly, should a food exclusive for a brick-and-mortar location prevent kiosks or food trucks?

• Consider the explosion in outdoor Pilates, weight lifting, spin and group exercise classes. Should any exclusive for a "fitness center" serve to prohibit these outdoor uses post-COVID? Does the same apply to screening outdoor movies in parking lots when there is an indoor movie theatre exclusive?

• The pandemic has caused a tectonic shift in digital sales and in-store fulfillment. This shift needs to be taken into account in granting any tenant exclusive. Retailer "A" may have a brick-and-mortar store at a shopping center that sells certain products subject to an exclusive, but Retailer "B" may have an online presence that infringes on Retailer A's exclusive where sales are fulfilled at Retailer B's store within the shopping center. The breadth of retailers' online presence needs to be considered and may operate to limit the utility of exclusives.

• Shopping center operators have empty storefronts and need flexibility to offer shoppers new experiences even if the product may infringe on current tenant exclusives. Some centers are even creating digital districts where shoppers can visit numerous select retailers they may not have otherwise known about.


Fishman


Day

Going forward, shopping center operators and developers should consider approaching current tenants who hold exclusives — especially in instances where such tenants are carrying hangover rent deferrals – and develop common sense approaches to amend existing exclusives to provide the current retailer with a core protection of its brand and position at the shopping center. At the same time, the landlord operator should be allowed to bring in expanded and creative uses to drive greater shopping center traffic and experiences — both indoor and in the outdoor common areas — for retail customers.

Tenant exclusives in retail leases have always been a point of friction as to their scope, the exclusions that apply, and the loss of the exclusive for failure of the retailer to continuously operate or achieve a certain level of gross sales. The re-emergence of retail post-COVID is only accelerating the need for both landlords and tenants to re-examine the underpinnings and reach of these lease provisions. This will help balance a tenant's need for protection of its use within the shopping center, while providing flexibility for new and expanded retail alternatives to flourish. Though there may be instances where granting the exclusive is appropriate, the impact of COVID has resulted in retail alternatives and creativity that need to be taking into account in new leases and in amending existing leases.

Manuel Fishman and Kirsten Day, Real Estate Lawyers in Buchalter's San Francisco, and Portland and Seattle offices, respectively.

OFFICE OWNERS FOCUS ON A SAFE, WELCOMING ENVIRONMENT FOR TENANTS

Given the uncertainty surrounding the office market, it's up to owners to ensure everyone feels safe and supportive as many mull a return to the office.

By David Pogue

When RREG was looking for an office building to create the company's new headquarters last year, we researched everything from sanitation practices, indoor air and water quality standards, new cubicles, touch-free fixtures, automated doors, indoor/outdoor office areas, sustainable materials and a host of new amenities. Even still, RREG had to ask — as does any office owner, tenant and manager nowadays — will it be enough?

A recent story from the *East Bay Times* noted that half of Bay Area residents believe working in an office is still risky. About one in five of those surveyed said working in the office was "very unsafe," while a third described it as "somewhat unsafe." This was taken from a new poll put out by a prominent business group. It reflects the difficulties big employers may have in bringing workers back after more than a year of social distancing.

The research only confirms landlords and employers need to give their tenants and workforce as much assurance as possible that the environments they return to are safe. That takes more than improved practices and new workplaces. That takes trust.

One Solution

Our own headquarters search lead RREG to review current marketplace options. We ultimately chose to pursue the newly released Fitwel Viral Response certification. This third-party healthy building certification system is operated by the Center for Active Design (CfAD) and was originally created by the CDC and U.S. General Services Administration. It introduced a wide range of evidence-based strategies to promote positive health outcomes for building occupants and communities. These strategies were equally focused on mitigating viral transmission, communicating with stakeholders, and creating healthy environments for both building occupants and management company employees. All were designed to help build that trust.

One of the unexpected aspects of the certification was how much attention was paid to our own organization, including our standards of health and wellness support for our staff. This included sick day policies, health insurance provisions, emotional support and the healthy living training that we provide. The program has shown RREG that the office environment is about more than the physical components of a building; it's also what we do for our employees and how we communicate with tenants. This underscores the social aspect of what matters in commercial real estate today.

Pogue

For RREG, this certification is a critical step to bringing our own employees back to the workplace. We felt that, like many of our landlord clients, evidence of rigorous certification would be important confirmation that our managed buildings are safe and open for business. It also demonstrates a corporate commitment to health and wellness for employees and tenants, and communicates asset quality and safety.

Studies consistently show real estate portfolios that score well on sustainability and environmental social governance (ESG) metrics outperform their market peers. BlackRock, Goldman Sachs and Blackstone, among others, have cited ESG as a key factor in their investment assessments. A strong, certified commitment to employee and occupant health is another opportunity for building owners to demonstrate this ESG leadership. It is validation for the market that the ownership cares and is engaged.

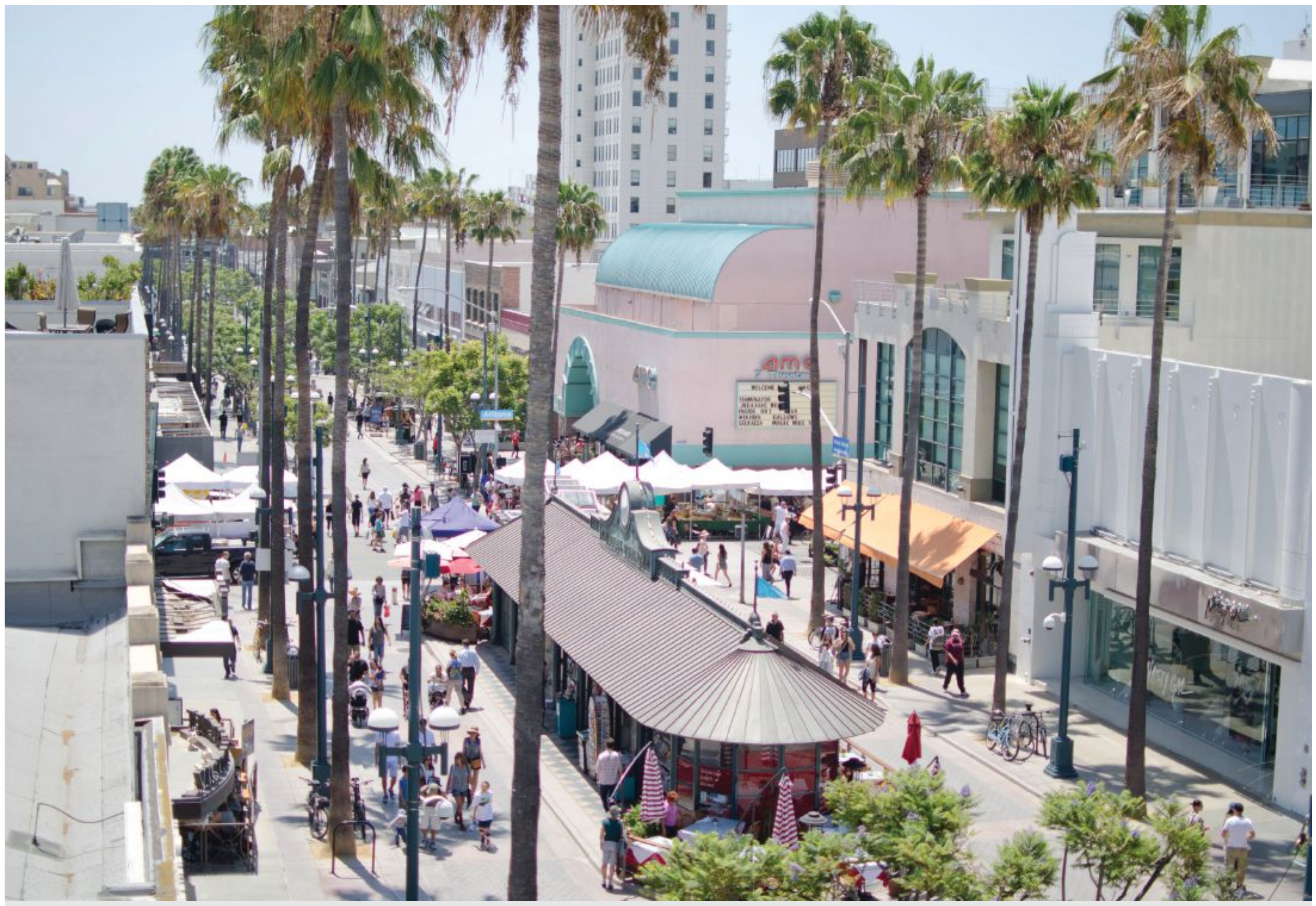
Looking ahead, office will survive COVID. The immediate future for office occupancy, however, is unclear. What does seem clear is there is likely going to be a real race for tenants, both new and returning. Anything owners can do in this new environment to demonstrate a commitment to health and wellness can make a difference for tenants in their leasing and re-tenanting decisions.

David Pogue, Chief Strategy Officer, RREG in San Jose, Calif.

THIRD STREET from page 1

as far as a vision and plan to get retailers and customers coming back. When fear meets realty — and vacancies near 30 percent — it becomes an eye-opening experience that causes change. Such is the situation now along Third Street.

Spurred into action, the city, local landlords and brokers are trying to create a new identity for Third Street Promenade — a more sustaining identity, one for the future that not only includes out-of-staters but the equally important locals.



Though the flagships have evolved over the years, the Third Street Promenade is still home to a farmer's market and the Metro Express Line, which connects Santa Monica to Downtown Los Angeles.

Promenade Progress So Far

The community has made strides in just a few short months. Earlier this year, Downtown Santa Monica, Inc. (DTSM), the urban place management organization tasked with overseeing and advancing the longevity of Third Street Promenade, began developing a comprehensive private space plan to revitalize the iconic public street.

DTSM has enlisted world-renowned experts in public space environments and retail strategy, including MIG and Streetsense, to work with the City of Santa Monica, private stakeholders, and a Project Advisory Committee that contains longtime property owners and architecture/urban design, marketing and hospitality professionals. The city also expanded its ambassador program, a group of people patrolling the area to ensure the well-being of visitors.

Over the years, the city has tried different strategies to drive retailers, restaurants, service companies and, most importantly, consumers to Third Street Promenade. Area landlords like Michael Farahnik, executive vice president of Starpoint Properties, have taken notice. Farahnik has particularly appreciated the better lighting, new landscaping, outdoor spaces and new venues. He also believes, however, that the city needs to ease restrictions and make the Promenade more business friendly for developers and investors to secure permits. This, Farahnik says, will allow for the revitalization and transformation needed to bring back tourists and locals.

RDR Properties is another local landlord trying to invoke change. Robert Resnick, the company's president and CEO, has signed on as a member of the Strategic Planning Task Force for DTSM. He will work with the city council, businesses and the community to build on the unique experience of being on the Promenade to attract visitors and new investment to the area.

Transformation Takes Place

Though there's still progress to be made, transformation is taking place. Third Street Promenade received a boost recently when Athens Group's long-planned redevelopment of the Fairmont Miramar Hotel on Ocean Avenue received the green light from the city. The project will bring 312 new guest rooms, 60 for-sale luxury condominium units, 428 parking spaces, exclusive amenities, retail, restaurant and meeting space and 14,000 square feet of publicly accessible open space to the area.

Adding to the momentum, JLL signed a large user to fully occupy the now-vacant Banana Republic building. There is also consistent interest in the newly vacant Gap building on the high-profile corner of Third Street and Santa Monica Boulevard.

As Third Street Promenade evolves, we continue to see interest for new types of tenants, from medical to entertainment to professional services. This diversity will be a catalyst to the recovery and attraction of the area.

Klein

Mahboubi

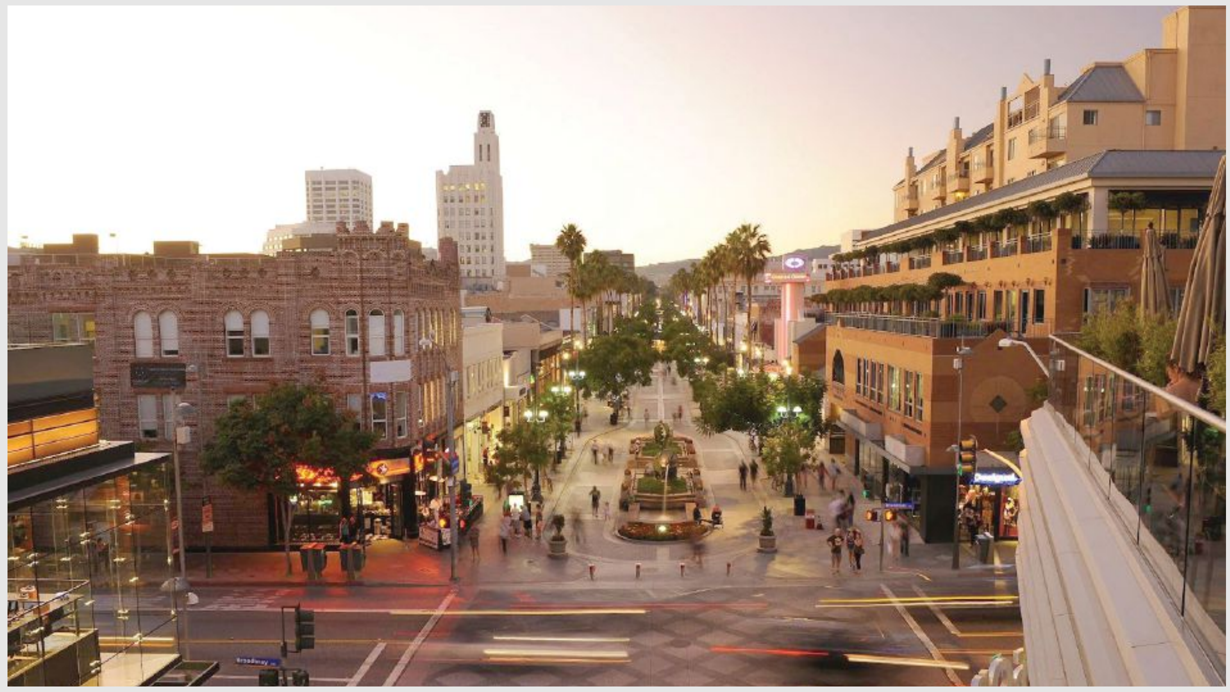
Devin Klein, Vice President, and Houman Mahboubi, Executive Vice President, JLL in Los Angeles

DTSM RELEASES NEW PLAN FOR THIRD STREET PROMENADE

Downtown Santa Monica, Inc. (DTSM) has released its Third Street Promenade Stabilization and Economic Vitality Plan as it responds to an evolving consumer and retail landscape amidst changes brought on by the pandemic.

"As communities are considering meaningful ways to recover from the economic devastation brought about by the pandemic, DTSM and the City of Santa Monica, together with property owners, passionate local residents and industry experts, have laid forth a significant infrastructure investment to address the ongoing needs of the Promenade and the downtown district," says Chair Barry Snell, DTSM Board Chair.

The Vitality Plan has targeted changes to land use and zoning regulations for the Third Street Promenade to create more flexibility around the use of private space. It also reconsiders regulations that limit private properties to the traditional retail, dining and office models. The goal of these efforts is to create a modern, equitable and inclusive place for experiential retail, live entertainment, nightlife, cultural offerings, small-scale manufacturing, housing, office space and more.



The proposed plan for the Third Street Promenade calls for more rooftop bars and restaurants, nightlife underground hideaways, and a new cultural and entertainment venue.

"[The plan] focuses on creating an exciting new experience for our diverse and expanding customer base," says Robert Resnick, Promenade advisory committee member and property owner. "Recommended zoning changes will be instrumental for tenant strategies on each of the three blocks, with tools to help landlords adapt their space to emerging market demands. These initiatives, supported by robust public space activation steeped in art, culture and diversity, is our roadmap for the next generation of Third Street Promenade."

The proposed plan also calls for more rooftop bars and restaurants, nightlife underground hideaways, and a new cultural and entertainment venue. It may also include the possible creation of a signature public space like a town square that could host outdoor concerts, makers markets and provide the community with more open space.

Some of the DTSM initiatives are already underway. They include the installation of new lighting and interactive elements that will satiate demand for public art. Certain fixtures will also be used to create fun and engaging moments that can be shared on social media. DTSM's economic development team also developed a leasing strategy to build a more diverse and inclusive business mix with a focus on small-scale manufacturers and artisans who do not currently have a brick-and-mortar presence within the city. DTSM purchased six kiosks that will be placed along the Promenade to give entrepreneurs opportunities to grow their businesses at a scale that works for them.

"Our hope is the Vitality Plan will help encourage better use of public and private property in an effort to help recapture the street's vibrancy while building an exciting, diverse and inclusive new era that meets the evolving needs of our residents and the greater Santa Monica community for years to come," Snell adds.

— Nellie Day

THE PROPTECH REVOLUTION IS HERE, BUT IS CRE ON BOARD?

PROPTECH from page 1

ments to product types or investment thesis, they are going to need to answer to their LPs with timely and accurate information."

Enter proptech. Juniper Square's tools, for example, allow general partners to host their data in a single, secured cloud-based platform that can be viewed by limited partners. This saves real estate investors significant time over old practices, which often rely on individual spreadsheets and PDFs. It also frees up general partners and the staff to focus on strategic activities like fundraising, acquisitions and investor relations, rather than worrying about collecting and analyzing data.

KPMG's recently released Global PropTech Survey 2021 notes 65 percent of real estate companies are investing in proptech to improve efficiencies in terms of speed and operations. Meanwhile, 47 percent want to reduce costs, 33 percent are looking to improve asset performance and 30 percent are out to maximize revenue.

Curtis Williams, a land investment professional with National Land Realty, believes deal evaluation is one of the key areas that can be improved through proptech.

"Proptech can provide investors a rich data set of information that can speed up the time it takes to make great investment decisions," he says. "For example, my brokerage uses site selection tools that enable the evaluation of geospatial data, socioeconomic demographics and user-defined criteria. Our clients can make quick decisions — based on robust data collection — about the location to build, buy or lease investment properties."

Williams notes there are two types of buyers who typically walk into his office. One type knows exactly what they want to build, they're just looking for land that will fit their vision. The other is looking for land within a specific location. Once they find that lot, they'll build their property around its dimensions.

National Land Realty deploys tools like Land Tour 360, a proprietary interactive touring technology that lets both types of buyers virtually tour a property. They can see boundary lines between properties and view a property from a variety of angles. The user can also add in data, such as setbacks, zoning restrictions and buffers to resource-protected areas to better visualize the buildable space. Those who want to envision the full buildout potential can create multiple scenarios based on any number of factors to determine if this site will work for their building — or if their building will work for this site.

"Proptech tools developed to meet the investor's goals directly translate to an increased speed of understanding," Williams continues. "This gives investors a competitive edge. Our investor clients are able to pull the trigger before their competition."

Compliance in the Tech Age

Proptech's applications extend far beyond transactions. Dave Harris Kolada, managing partner at GreenSoil Investments — which funds companies with transformative technologies, including proptech ventures — notes these tools can also keep projects in compliance. This is a particularly useful skill during a pandemic.

"Proptech will continue to play a critical role in the creation of strategies to safely return workers to the office in the pandemic age," he says. "A long list of technologies are being rapidly deployed, from motion sensors and thermal check equipment that count and screen a room's occupants to sophisticated HVAC and air quality monitoring systems, there are proptech tools that can do it all."

Harris Kolada also believes proptech will be valuable for building owners when it comes to greenhouse gas reduction mandates. Many states have adopted specific greenhouse gas reduction targets to address climate change, while eight states — including Washington, California and Colorado — have specific legislation or executive orders that target buildings and their emissions.

Specific software, such as Home365, Greensoil PropTech Ventures Fund II LP's (GSPV II) new proptech portfolio company, can remove some of the work involved with tracking properties' performance. This can ensure a building's compliance, improve the bottom line and keep tenants happy, Harris Kolada notes.

"Property owners can track every facet of their property's performance — from energy use to progress handling maintenance and filling empty units — while they receive a steady rental income stream," he explains. "Young people are driving a push for buildings that aren't merely energy-efficient and environmentally sustainable. To attract and retain top talent, employers are investing in new property technologies to make offices greener, healthier, more pleasant places to work — from the lighting, heating, and cooling to the water quality, air and aesthetics."

Home365 utilizes internet-enabled sensors, artificial intelligence and modeling software to estimate and lower a property's monthly management cost. Building owners then receive a fixed monthly return after Home365's single management fee.

Another GSPV II proptech firm is Electriq Power, which offers new, low-cost ways to tap renewable resources like the sun, wind and water. Harris Kolada sees ventures like this opening new frontiers for commerce, capital creation, and digital transformation in commercial and residential real estate.

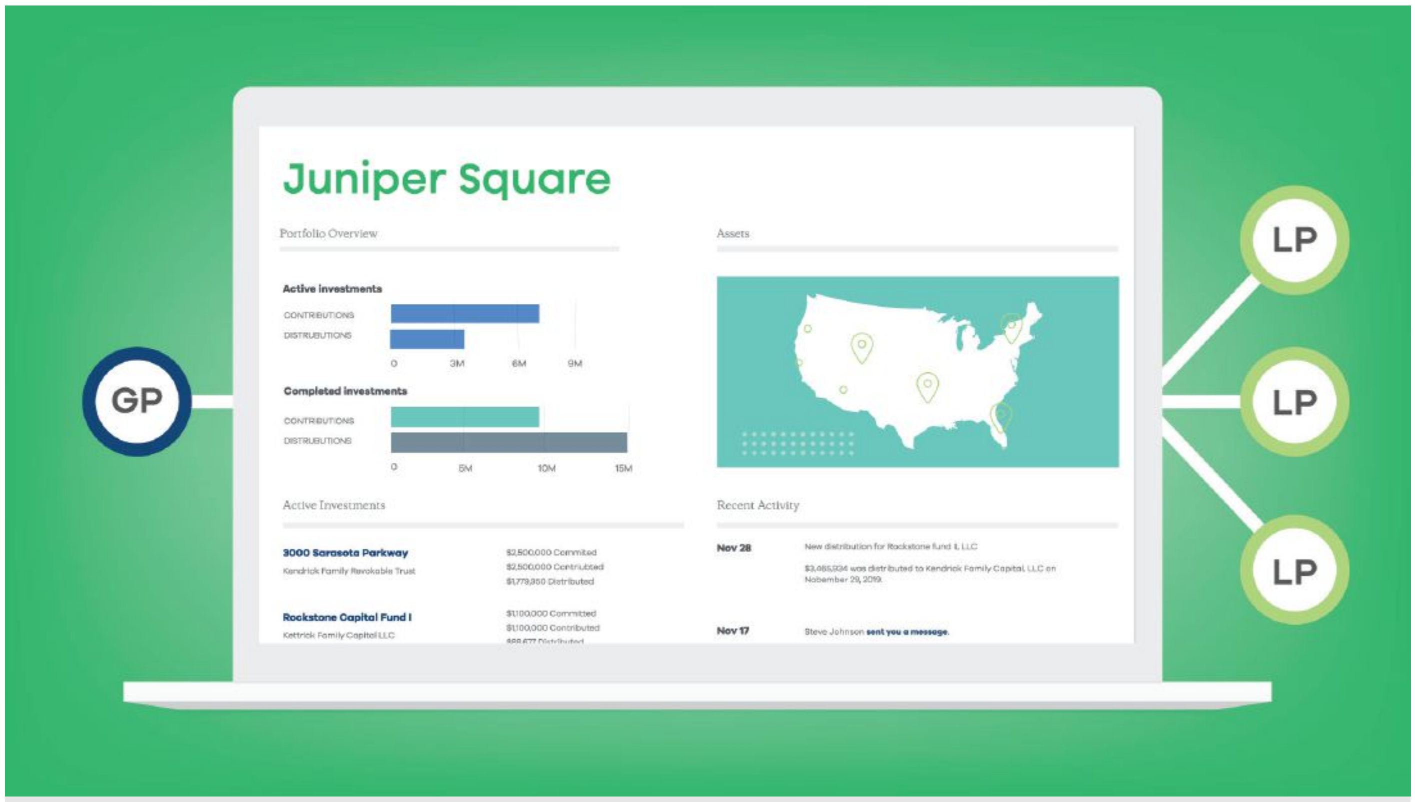
Harris Kolada

"Fossil fuels are finite resources," he says. "They're energy intensive to extract, transport and process. Across the real estate industry, the fundamental epiphany that sustainability can equate to earnings is energizing efforts to innovate, invent, and invest in constructing and running better buildings."

Pain Points in the Tech Age

No new technology or trend gets off the ground without a few hiccups. As previously mentioned, criticisms do exist when it comes to proptech's use, integration and upfront investment.

"CRE professionals are rightfully skeptical about proptech because they are under the impression it is expensive and time-consuming to deploy," Lawson says. "Oftentimes that's because of a poor vendor experience or set experiences they have had. The reality is, it doesn't have to be that way, but the choice of vendors does matter."



Juniper Square recently launched Institutional Reporting, the commercial real estate industry's first networked reporting system designed to unite institutional limited partners and general partners around a shared set of partnership, performance and asset data. This fund administration solution streamlines institutional investor reporting with a centralized record of performance and asset data that general partners manage and control.

Choosing a vendor has become increasingly difficult, as the proptech field has attracted $116.5 billion in venture capital funding between 2017 and 2020, according to the Center for Real Estate Technology & Innovation. More vendors mean more competition — and more choices — than ever before, placing the onus on owners to choose wisely.

Lawson

Lawson says it's critical to understand a vendor's typical implementation times and processes. Checking referrals can also help potential users understand the typical experience and hone in on exactly what this vendor will deliver. Lastly, he advises asking the proptech companies and current users about the types of resources you will need to provide to ensure a successful deployment.

Harris Kolada, who has extensive experience with proptech start-ups, adds that owners should look for a proven track record amongst customers and investors when dealing with a newer market entry.

"Property owners should study how the technology and the company have performed historically, considering their property's needs to assure they align with the technology's specific functionality," he says. "It is equally important to consider any future changes that may undermine an investment."

Problems can arise even with the right vendor and expectations if the user isn't maximizing its software solution. Though proptech can do away with individual spreadsheets and PDFs, it can't integrate seamlessly into a company's operation if this information — or the company's departments — don't talk to each other, Williams adds.

Williams

"One of the biggest challenges I see associated with proptech is the creation of proptech silos," he says. "This is caused by owners and CRE professionals across all service and product types not seeing the big picture."

Williams notes, for example, that proptech data collected during the construction phase, including building information modeling (BIM), is valuable to the property manager's proptech data, or computer-aided facility management (CAFM).

"The proptech data collected during the property management phase is important during the disposition of the asset," he continues. "I don't think owners and CRE professionals realize that the data the asset managers and property managers are collecting or not collecting will directly impact the disposition bargaining chips. Negotiating with a clearly documented condition of the asset gives the owner the upper hand."

Williams believes owners should review the technology utilized by their service providers and discuss how data will be collected and utilized. He also thinks owners should hire commercial real estate professionals with a long-range view of the total real estate investment lifecycle, rather than hire companies to oversee individual phases. Ultimately, owners should have a forward vision of all the digital data collected from the new construction of a building through operation, maintenance and, finally, disposition. Once they reach this stage, Williams asserts, they're ready for proptech.

"The biggest assumption I see in the industry is owners and CRE professionals assuming proptech doesn't apply to them," he continues. "Wake up, professionals. Proptech is here to stay and it touches every facet of the commercial real estate property lifecycle." ■

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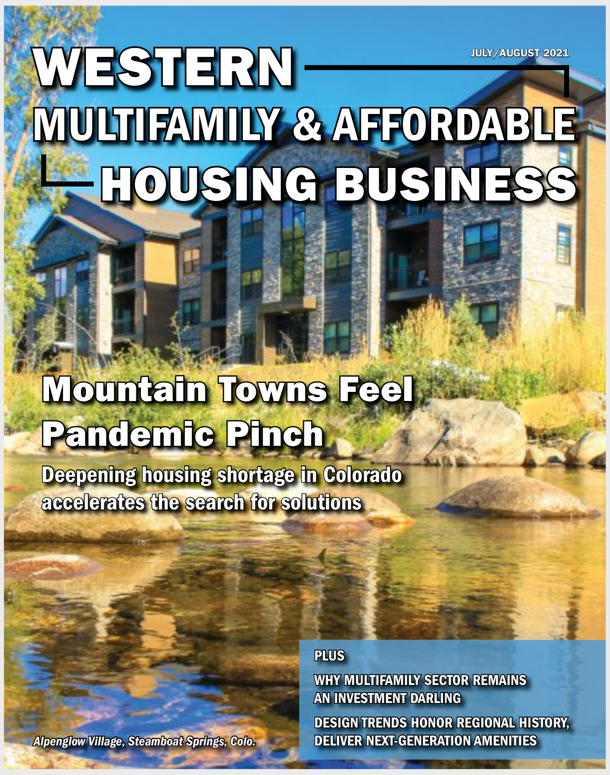

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