

Commercial Real Estate Ideas / Issues / Trends

Development[®]

SUMMER 2026

INSIDE

The Rust Belt's Next Act

Redefining Mixed Use:
Live-Work-Play-Health

From Brownfields to
Data Centers

Gateway vs. Secondary Cities Assets Over Addresses

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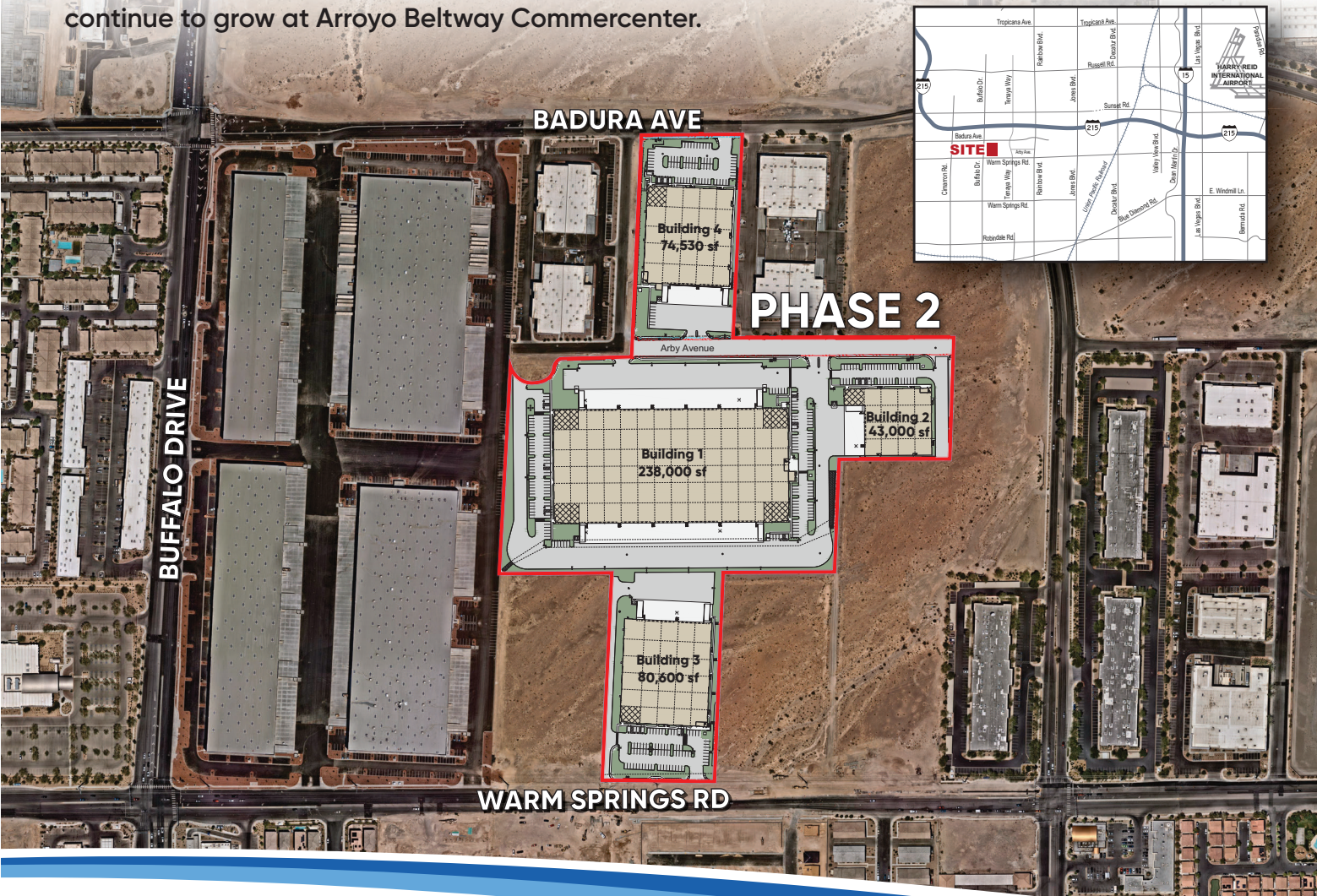
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ARROYO BELTWAY COMMERCENTER PHASE 2 UNDER CONSTRUCTION

MAJESTIC REALTY CO. APPROACHES FULL LEASE UP OF PHASE I AT ARROYO BELTWAY COMMERCENTER

At nearly 95% occupancy, and with just 50,000 square feet of their initial 764,000-square-foot Phase I speculative development remaining available, Majestic Realty Co. and joint-venture partner EJM Development Co. remain bullish on the southwest Las Vegas submarket as they continue to grow at Arroyo Beltway Commercenter.



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AI, Innovation and the Next Big Investment Opportunity in CRE

On the cover: The 700 River sky lounge overlooks downtown Austin. High Street Residential, the residential subsidiary of Trammell Crow Company, completed the 43-story luxury tower last year. Photograph by Saeid Zare, courtesy of Trammell Crow Company

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A Note From the Editor

INSIDE AND IN BRIEF

Looking Beyond the Expected

Opportunity in commercial real estate is no longer defined by a handful of primary markets. Today, it's emerging in places that offer greater flexibility, stronger affordability and room for creative approaches to development. In this issue, we explore how developers are finding momentum in secondary markets across the Sun Belt and Rust Belt, where shifting demographics and economic fundamentals are opening new doors.

That sense of possibility is also evident in projects like The Park in New Jersey and Centerview/Eighteen Main in California, where traditional office parks are being reimagined as dynamic mixed-use destinations. Increasingly, success is tied to experience — from access to major transportation lines to vibrant, on-site culinary offerings.

Behind the scenes, innovation is shaping how work gets done. Our new Leveraging Technology column looks beyond the rush to adopt artificial intelligence and instead focuses on the value of thoughtful, strategic implementation — a shift that mirrors the industry's broader move toward precision over pace.

Together, the pieces in this issue highlight an industry finding opportunity in new places and approaching growth with fresh perspective.

Telling the stories that shape our industry,

Kathryn Hamilton, CAE

Editor-in-Chief



Kathryn Hamilton



Future NAIOP Events

I.CON Cold Storage,
Sept. 1-2, 2026, Dallas

Fall Conference 2026
and **I.CON Central,**
Oct. 5-7, 2026, Denver

Most Popular From Spring 2026

1. **"The Industrial Real Estate Reset"**
(naiop.org/26reset)
2. **"IOS Market Consolidation Ramps Up"**
(naiop.org/26ios)
3. **"The Small-bay Surge at the Heart of the Industrial Market's Recovery"**
(naiop.org/26smallbay)
4. **"The Real Reason AI Isn't Working in Commercial Real Estate"**
(naiop.org/26realreason)
5. **"From Vision to Reality: Building a University-anchored Innovation District"**
(naiop.org/26innovation)

In Brief

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

Office

12.1% The increase in office utilization in San Francisco in 2025 compared with 2024, making it the leader among higher-income U.S. markets, according to data from Placer.ai. Boston showed the next best level of improvement, with office visits increasing 7.6%. Miami had the smallest gap compared with its prepandemic office visit numbers, at minus 13.7%.

1 Million The number of square feet of office space that AI firms added in Manhattan in 2025, according to data from Savills and as reported by Bloomberg CityLab. Legacy tech companies added approximately 2.1 million square feet of office space citywide. AI firms signed more than 100 leases, a 60% increase from the year before. It

was the office market's best year for leasing in New York City since 2014.

Data Centers

85% The percentage of investors in Seyfarth's 2026 Real Estate Market Sentiment Survey who identified data center development as the year's most impactful trend. At the same time, only 30% of respondents said data centers were a key strategy for their own investments, down from 41% the prior year. As the survey report indicated, "This may signal that data centers are not immune to headwinds facing other industries like rising construction costs and supply chain shortages, even as data center development remains 2026's primary trend."

300 MW The operating capacity of a planned data center being developed outside of Regina by Bell Canada and the government of Saskatchewan. Bell said

in a press release that the project is the firm's largest-ever investment in Saskatchewan and upon completion will be the largest purpose-built AI data center development in Canada. It is projected to generate economic value of up to \$12 billion for the province. Construction was scheduled to begin this past spring, with the first stage expected to come online the first half of 2027.

Fundraising

\$172 Billion The amount global private real estate funds raised in 2025, a 13% increase over the prior year, representing the first year-over-year increase in fundraising since 2021, according to the Real Estate Outlook 2026 report from With Intelligence by S&P Global. "While this marks a cyclical

recovery, fundraising is unlikely to return to the record levels of 2021 and 2022 given ongoing policy uncertainty and tempered expectations among the largest funds in market," the report noted. "Importantly, many major pension funds remain under-allocated to real estate, providing a structural tailwind for future commitments."

Adaptive Reuse

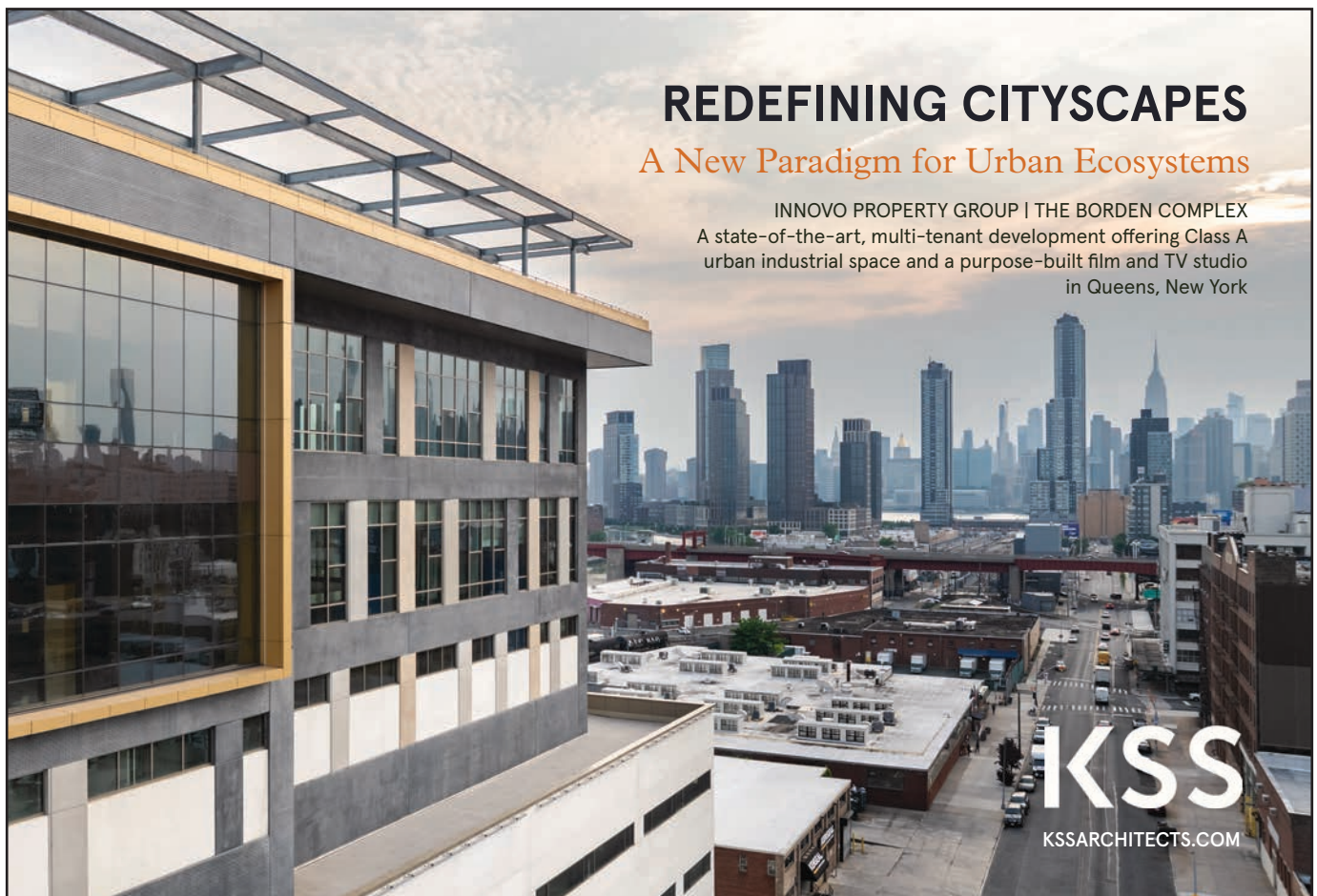
90,300 The number of units in the office-to-apartment conversion pipeline in the United States at the beginning of the year, per a RentCafe market insights report. This represented a year-over-year increase of 28% and was nearly four times the number in the pipeline in 2022. "Office conversions now account for almost half (47%) of all future adaptive reuse projects nationwide."

Retail

5% The amount by which revenue is growing each year at class A malls, according to reporting by The New York Times. Commercial mortgage-backed securities for the market doubled over the prior year to approximately \$8 billion in

2025. There is a stark divide in performance, however. Of the roughly 900 U.S. malls, "the top 100 account for 50 percent of the entire sector's value ... whereas the bottom 350 make up 10 percent."

1 in 5 Restaurants, bars and coffee shops accounted for almost 20% of all new retail leases over the past year, "solidifying foodservice as one of the primary drivers of retail absorption," according to a report on quick-service restaurants from Integra Realty Resources. "With new retail construction at historic lows and higher capital costs suppressing development, vacancy remains exceptionally tight, placing upward pressure on rents." ■



REDEFINING CITYSCAPES

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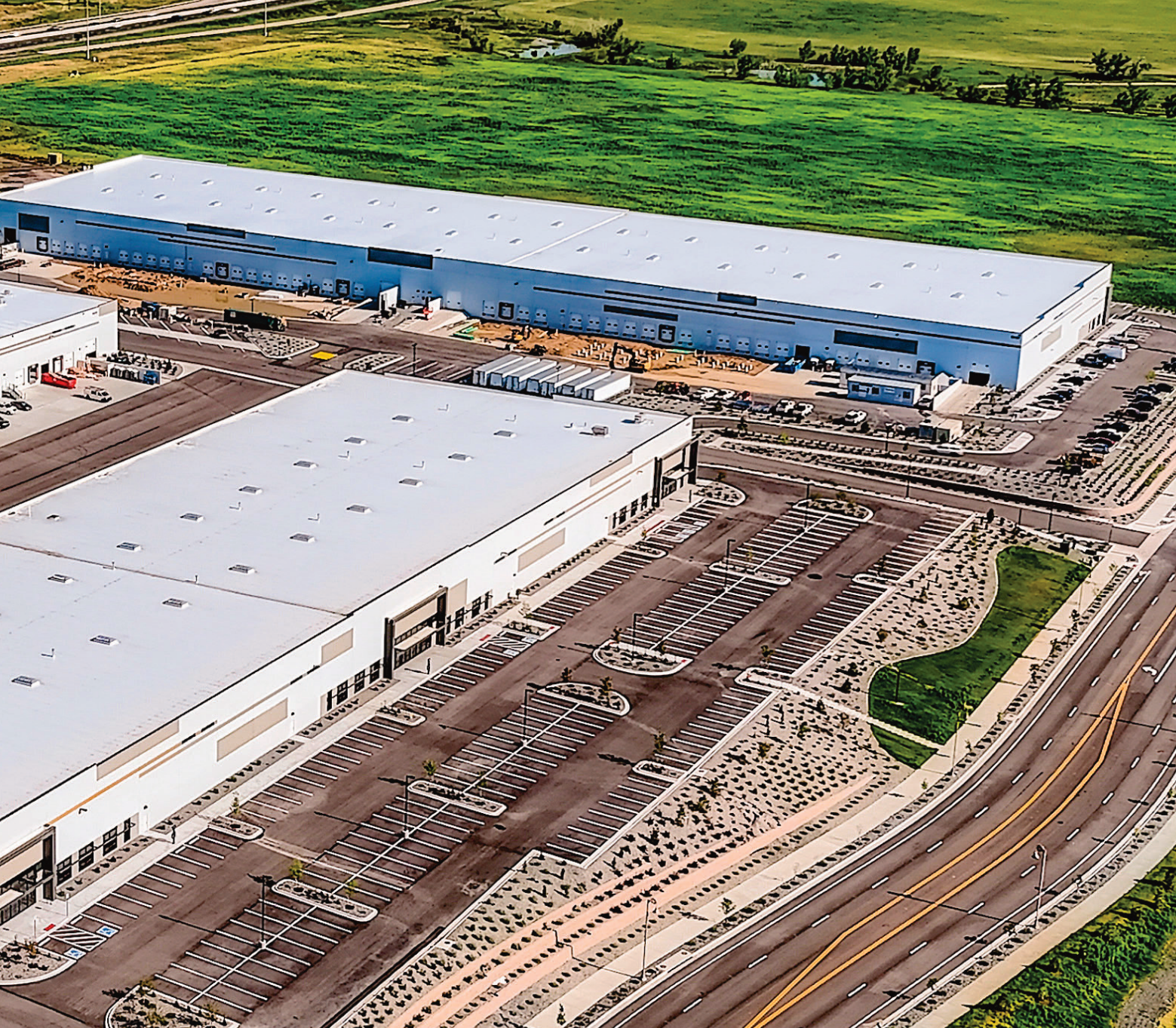
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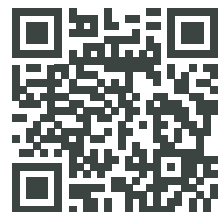
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By the Numbers

DATA IMPACTING COMMERCIAL REAL ESTATE

New Census Data Shows Shift in Metro Growth Patterns

A significant drop in immigration has slowed population growth across the United States.

By Ken Simonson, AGC



On March 26, the U.S. Census Bureau posted annual estimates for population change between July 1, 2024, and June 30, 2025, in 413 metro areas. The figures are useful to developers and investors, not only for pointing out where the largest increases and decreases occurred but also how growth rates changed from the year before.

In general, population growth slowed sharply throughout the United States, from a rate of 1% in 2024 to 0.5% in 2025. An earlier Census Bureau release showed that only two states — West Virginia and Montana — logged higher

growth in 2025 than in 2024. The March release noted that 80% of metro areas had slower growth in 2025. (The Census Bureau lists 387 metro areas, including 13 large metros for which it reports totals for two or more divisions. This article counts these 39 divisions individually but excludes the combined areas to avoid double counting.)

The slowdown was principally due to a huge drop in immigration, from 2.7 million (net of emigrants) in 2024 to 1.3 million in 2025. The Census Bureau noted in the recent release that 9 out of 10 U.S. counties experienced lower net immigration levels in 2025 than in 2024. The 1 in 10 counties that did not see a drop in international migration did not realize an increase either.

The good news: Growth accelerated in a number of metro areas. Some of these already showed above average growth in 2024, but others broke into the top 10 in 2025, making

The three metro areas with the steepest percentage point declines in population growth rates were along the U.S.-Mexico border: Laredo, Texas (from 3.2% in 2024 to 0.2% in 2025); Yuma, Arizona (3.3% to 1.4%); and El Centro, California (1.2% to minus 0.7%).

them newly attractive for some developers and investors.

The biggest growth spurt (more than 0.8 percentage points) occurred in the Bloomington, Indiana, metro area, where population had declined by 0.4% in 2024 but increased by 0.5% in 2025. (Metro areas and divisions comprise one or more entire counties but are named for their most populous cities.)

Significant acceleration (0.7 percentage points apiece) also occurred in two already fast-growing areas known principally as retirement destinations: Wildwood-The Villages, Florida, where growth climbed from 1.6% in 2024 to 2.3% in 2025, and Pinehurst-Southern Pines, North Carolina, where growth accelerated from 1.4% to 2.1%.

Another way of identifying growth prospects is by numerical change. While many metros continued to grow last year, few areas actually added more residents in 2025 than they added in 2024. Only one area exceeded a positive difference of 2,000 residents: Jackson, Mississippi,

added 1,350 residents in 2025 after losing 868 in 2024, for a net pickup of 2,218. In second place was Fayetteville, North Carolina, which went from a gain of 562 residents in 2024 to 2,505 in 2025, a net pickup of 1,943.

The three metro areas with the steepest percentage point declines in population growth rates were along the U.S.-Mexico border: Laredo, Texas (from 3.2% in 2024 to 0.2% in 2025); Yuma, Arizona (3.3% to 1.4%); and El Centro, California (1.2% to minus 0.7%). Each of these areas was heavily affected by the virtual shutdown of land-based immigration.

The tightening of immigration also had a big impact on U.S. metro areas that have histori-

cally served as initial destinations for immigrants from many parts of the world. Population growth in the New York-Jersey City-White Plains (New York-New Jersey) metro division slowed by 205,521, from 210,718 in 2024 to just 5,197 in 2025. The Los Angeles-Long Beach-Glendale (California) metro division went from a gain of 16,300 residents in 2024 to an outflow of 53,934 in 2025, a downturn of 70,234. Houston-Pasadena-The Woodlands (Texas) maintained an above-average growth rate of 1.6% in 2025, but its numerical increase contracted by 63,531, from 190,251 in 2024 to 126,720 in 2025.

The takeaway: 2025 was a year of significant changes in growth patterns. Investors and developers should consider how an area's growth rate compared with the previous 12 months rather than merely looking at its ranking for the latest period. ■

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



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A Look Ahead

CHANGES SHAPING OUR FUTURE

Reinventing Suburban Offices

A former corporate park has been reborn as a “work resort” and mixed-use destination neighborhood in New Jersey.

By Shane Connell and John Dionis, The Connell Company

The lines between where people work, live and socialize are growing increasingly blurry. As workplace expectations evolve, nice spaces that offer desks and conference rooms are no longer enough. Companies are seeking environments that also provide meaningful amenities, wellness opportunities, and access to recreation and community.

In response, developers are rethinking the traditional suburban office campus model that existed for decades. To remain competitive with urban markets, these formerly single-purpose office parks must evolve into dynamic destinations that support productivity, well-being and social connection.

Taking Steps Toward Reinvention

Since acquiring the property in 1981, The Connell Company, a privately owned and managed real estate, hospitality and equipment leasing firm, has shaped The Park into what it is today: a 185-acre mixed-use neighborhood in Berkeley Heights, New Jersey, where people can work, socialize, stay overnight, live and dine, all in one easily accessible destination.

Prior to 2018, The Park was known as Connell Corporate Park, a single-use campus containing five office buildings that reflected the workplace norms of the era, designed primarily for efficiency rather than experience. By the mid-2010s, broader market forces were beginning to challenge



The Connell Company invested roughly \$40 million in creating experiential outdoor environments for The Park.

this office product, especially in New Jersey. The Connell Company observed rising suburban office vacancies and a generational shift toward urban environments offering elevated amenities and walkable access to lifestyle experiences. Recognizing this evolving market, the development team had to make a pivotal decision: Sell or reinvent.

They chose reinvention, investing \$500 million to transform the campus into one of New Jersey's newest destination neighborhoods.

The campus's first step toward mixed-use transformation began in 2010 with the addition of a 115,000-square-foot Life Time fitness club, introducing a lifestyle-driven amenity to what had previously been a traditional office environment. In 2018, that evolution continued with the development of a 176-

Courtesy of The Connell Company



The Connell Company observed rising suburban office vacancies and a generational shift toward urban environments offering elevated amenities and walkable access to lifestyle experiences. Recognizing this evolving market, the development team had to make a pivotal decision: Sell or reinvent.

New and Noteworthy

3 million sq. ft.

The **Montgomery County Council** in **Maryland** passed its first-ever tax increment financing resolution to create a special development district to support **MCB Real Estate's** \$2.8 billion **mixed-use development, Viva White Oak**.

Located on 280 acres adjacent to the U.S. Food and Drug Administration campus, the project will activate underutilized land with 3 million square feet of commercial, retail, residential and public spaces, including 5,000 residential units, parks, bike lanes and community trails. The development is projected to generate 17,000 construction jobs, 9,000 permanent jobs and an estimated \$62 million in annual county revenue once complete. MCB entered into contract on the property in 2023.



MCB Real Estate

308 units

Moss Construction began construction on **Westside Village**, a \$1.7 billion, 37-acre master-planned **mixed-use district** west of downtown **Fort Worth, Texas**. Phase I includes a 308-unit **multifamily community** and a 100,000-square-foot **Class AA office building**

with ground-floor retail, two restaurant concepts, a private social club and a below-grade jazz club. A shared underground parking garage connects the buildings. **FW Westside RE Investors LLC**, a partnership between **Keystone Group LP** and **Larkspur Capital LP**, is developing the district. At full build-out, it will deliver approximately 880,000 square feet of Class AA office space, 238,000 square feet of retail, 1,785 residential units and a boutique hotel.



Corgan

300,000 sq. ft.

Frampton Construction Company completed construction of **Le Creuset of America's** new **North American distribution facility** in **Hampton County, South Carolina**. The 300,000-square-foot build-to-suit facility consolidates Le Creuset's U.S. distribution and administrative operations into a single campus. The two-story office houses executive offices, call centers and administrative departments, while the distribution area is designed to function as a cross-dock operation with capacity for future expansion. Frampton mitigated the site's poor soil conditions by implementing cement soil stabilization. Due to the site's rural location and distance from suppliers, the team constructed an on-site concrete batching plant to maintain quality control and protect the project schedule.



A Look Ahead



The District at The Park, a mixed-use neighborhood that caters to the daily lives of workers while also attracting the surrounding public, was developed from 60 acres of previously unutilized land.

room Embassy Suites by Hilton. To anchor the hotel lobby, the team introduced Grain & Cane, a chef-driven restaurant and bar, alongside a Starbucks featuring an enhanced lounge experience. Together, these additions served as an early proof of concept, demonstrating that the broader public would embrace new, hospitality-oriented uses within the campus.

The project's next phase began with large-scale renovation of the office buildings, which involved creating hospitality-driven spaces that promote work/life balance as well as mental and physical wellness. The Connell Company invested approximately \$90 million into upgrading the physical design of the buildings and adding high-end amenities such as

gyms, flexible workspaces, game rooms, and outdoor parks and a trail system.

The next step was incorporating a fully integrated hospitality team to support the spaces with elevated culinary offerings, catering and events services, and community activations, hosting over 150 social events each year. Today, The Park is home to approximately 9,000 workers (who average 3.5 days on-site per week) across 44 companies. As a result, the former corporate park has evolved into a “work resort,” where each space prioritizes experience, flexibility and well-being. Amenities were created not just to be accessible but also to embed seamlessly into workers’ routines. The upgraded office buildings were branded as Round Table (RT) Workspaces, which live under The Connell Company’s Round Table Resort product, defined by elevated amenities, services and design.

The District at The Park

The vision for The Park went beyond the office buildings and the initial mixed-use expansion. The Connell Company saw an opportunity to

The former corporate park has evolved into a “work resort,” where each space prioritizes experience, flexibility and well-being. Amenities were created not just to be accessible but also to embed seamlessly into workers’ routines.

Engaging the Outdoors

One important design element involved creating easily accessible and programmable outdoor spaces. The goal was to create a destination for anyone wanting to be outside, regardless of anything else happening at The Park. The Connell Company invested approximately \$40 million in experiential outdoor environments, including three signature parks:

The South Grove, a 7-acre green space featuring outdoor games, seating and workstations.

The Lawn, an event-driven venue with seasonal programming, from summer movie nights and outdoor concerts to winter ice skating.

The Trout Park, a dedicated playground featuring Monstrum-designed play equipment in the shape of New Jersey's state fish.

In addition, a 3-mile walking trail winds throughout the 185-acre property. There are plans to expand the South Grove and add sport courts for additional public amenities.

develop 60 acres of previously unutilized land into a mixed-use neighborhood known as The District at The Park, where everything is within a 20-minute walk.

The idea was to bring the energy and convenience of the urban environments that today's workforce gravitates toward into a suburban setting by thoughtfully programming the campus with beautifully designed spaces featuring lifestyle retail, wellness concepts, and elevated dining and entertainment. Central to this vision was expanding the hospitality-driven services and amenities that were already embedded within the workspaces and integrating them throughout the entire experience of The Park.

The Connell Company planned and designed The District at The Park to both enhance the daily lives of workers and attract the surrounding public, with construction beginning in fall 2023. The expansion included two luxury apartment buildings, additional dining and entertainment options, lifestyle retail, a 20,000-square-foot spa, and new outdoor parks and amenities.

To support these diverse uses, the develop-

New and Noteworthy

278 units

The Atlantic Companies selected **McShane Construction Company** to build a 278-unit **workforce housing community** across five four-story buildings in **Chattanooga, Tennessee**.

The 7.3-acre site sits along the Tennessee River. Forty-two units will be designated as affordable, serving essential members of the workforce such as teachers, nurses and first responders. Residents will choose from studio, one- and two-bedroom layouts with one to two bathrooms. The community will feature a sky lounge and terrace, a swimming pool, a clubroom, an entertainment bar and a fitness center. The development is designed to achieve NGBS Silver certification. Completion is expected in November 2027.



221,000 sq. ft.

Funds controlled by **Loc Capital Group, LLC** acquired a development site in **Richmond, Virginia**, in partnership with **Summit Real Estate Group**.

The partnership immediately broke ground on **West Creek Commerce Center**,

a 221,000-square-foot **Class A industrial facility** located on approximately 23 acres along the city's western beltway. The development will consist of a modern shallow-bay industrial building designed to accommodate a range of tenant configurations, including multiple users in the 40,000- to 60,000-square-foot range or a larger single-tenant occupancy. The site offers immediate access to Route 288, connecting Interstate 95 to Interstate 64. Delivery is targeted for later this year.



251 units

CRG and Cole West announced the groundbreaking and full capitalization of **Chapter Salt Lake City**, a 251-unit, 693-bed **student housing development** near the **University of Utah**.

Situated directly across from a light rail station, the transit-oriented development offers students a one-stop commute to campus, which is a 10-minute walk away. Designed by **LJC**, the six-story community will offer a mix of fully furnished studio, one-, two- and four-bedroom residences. Shared amenities include a fitness center with Pilates studio; sauna; ski simulator; library and study spaces; soda shop; rooftop lounge; and rooftop pool and hot tub. Delivery is targeted for summer 2028.



A Look Ahead



A newly constructed, 60,000-square-foot “entertainment building” is the latest addition to The District at The Park.

ment team designed The Park with ample free parking consisting of street parking, surface lots and parking garages to accommodate retail visitors, workers and hotel guests. The campus offers approximately 3,000 total spots, including around 50 dedicated EV spaces, ensuring convenience while helping alleviate parking challenges in the surrounding area.

Entertainment, Residential and Retail

The developers worked to curate a tenant mix and anchor uses that would support the current working clientele while also attracting future residents and the surrounding public. With the backing of an already functional and talented culinary and hospitality team, The

Connell Company decided to build a dedicated 60,000-square-foot “entertainment building” that will house three of its own concepts later this year.

Emberside Brewery will be a destination for on-site crafted beers. Rosa Azul, a Mexican restaurant and taqueria, will offer full service and window service that connects to an indoor/outdoor garden and a playground area. A speakeasy-style venue called BASH, featuring a wood-fired steakhouse, will include event spaces, multiple bars, 14 duckpin bowling lanes and a gaming area with pool tables, dart boards, shuffleboards and more.

A major phase of expanding the campus involves adding elevated living spaces, including two luxury apartment buildings containing 328 residential units, known as Round Table (RT) Residences. The first will open in August, with preleasing starting in May; the second is slated to open in late fall 2027. Designed by Minno & Wasko Architects and Planners in collaboration with David M. Sullivan Inc., each residence will feature modern finishes and a palette of neutral,

The evolution of The Park is more than physical redevelopment of an existing product. It is a rethinking of how suburban environments can successfully address shifting societal wants and needs.

calming tones. Residences will be highlighted by floor-to-ceiling windows, contemporary quartz countertops and wood-plank flooring.

As the second branch under the Round Table Resort, RT Residences will offer the same extensive amenity collection as seen within RT Workspaces, including a fitness center, game rooms with multisport simulators, and coworking spaces. Additionally, the residential product will include entertainment lounges and outdoor decks connected to an outdoor pool with cabanas and lounge seating.

The already established uses within The District at The Park allowed the development team to attract additional high-end retailers. This includes a 20,000-square-foot, New York-based spa offering amenities like saunas, steam rooms and hot/cold pools; Four Spoons Ice Cream Company, a family-owned ice cream shop offering more than 30 super-premium flavors; Doner Shack, a Mediterranean-inspired concept serving street-food favorites and kebabs; Cafe Exchange, a two-story social cafe offering premium coffee, food and an evening wine bar; Prime IV Hydration & Wellness, a modern wellness facility within a spa-like environment; Dogtopia, which will provide daycare, overnight and holiday boarding, and premium spa services for dogs; and Greatness Wins, an elevated athletic apparel brand founded by **Chris Riccobono, Derek Jeter** and **Misty Copeland** that will open its first flagship location along District Drive.

Remaining Relevant

The evolution of The Park is more than physical redevelopment of an existing product. It is a rethinking of how suburban environments can successfully address shifting societal wants and needs.

By blending hospitality, wellness, experiential design and elevated mixed uses, The Connell Company has created a suburban New Jersey destination where work, life and community are intentionally intertwined. In the process, The Park has become an example of how traditional office parks can transform and remain relevant in a rapidly shifting market. ■

Shane Connell is executive vice president at The Connell Company. **John Dionis** is the company's managing director of real estate and development.

New and Noteworthy

191,311 sq. ft.

Birtcher Anderson & Davis announced the completion and disposition of **Troy Court Industrial**, a three-building, **Class A industrial development** in **Jurupa Valley, California**.

The site was acquired as land during the height of the COVID-19 pandemic in December 2020 and successfully brought full cycle in December 2025 when the buildings were sold to multiple parties. The project totals approximately 191,311 square feet across addresses 4725, 4790 and 4795 Troy Court. Located in the heart of the Inland Empire West, one of the nation's most liquid industrial corridors, Troy Court Industrial provides modern functionality for a range of users.



Birtcher Anderson & Davis

182,000 sq. ft.

Regency Centers broke ground on **The Village at Seven Pines**, a curated **retail destination** in **Jacksonville, Florida**, that will serve as the commercial centerpiece of the larger Seven Pines master-planned community. The Village at

Seven Pines will deliver approximately 182,000 square feet of retail space designed to serve both the surrounding residential community and a broader regional trade area. The project is anchored by Publix and will feature a mix of national and regional retailers, restaurants, service providers and wellness concepts. First tenant openings are anticipated in 2027. Regency is relocating its corporate headquarters to The Village at Seven Pines.



170 units

Evergreen Real Estate Group and **Globeville Redevelopment Partners LLC**, in partnership with the **Denver Public Library** and the city and county of **Denver**, started construction on **4965 Washington Street**, a five-story, 170-unit **mixed-use community** in the Globeville neighborhood. The \$132 million

development will transform a city-owned parcel on the site of a former car dealership into housing for families earning between 30% and 80% of the area median income. Approximately half of the homes will offer three- and four-bedroom floor plans. The lower level will feature the first permanent Denver Public Library branch in the Globeville neighborhood, plus a community cafe.



John Ronan Architects

A Look Ahead

CHANGES SHAPING OUR FUTURE

Spotting Opportunities to Transform Underutilized Sites

The elimination of parking minimums in Eugene, Oregon, opened the door for development of new student housing on a former single-family lot.

By Evan Verduin, AIA, Trek Architecture

A deteriorating duplex on an 8,763-square-foot lot in Eugene, Oregon, didn't look like a 65-unit development site. It was long and narrow, zoned for single-family use and priced accordingly. But single-family lots are undervalued in most markets. With disciplined design informed by construction economics and local regulations, they can become profitable density projects.

When developer **Sean Barnes**, founder of Eastmark Capital Group, and property owner Diamond Parking Corporation — which had held the site since acquiring it for \$1.05 million in 2015 — brought the site to Trek Architecture, what emerged was proof of concept for that premise. Eighteen months later, Ferry Street Flats opened — a five-story, 65-unit student housing building that quickly reached full occupancy. The project required a developer who recognized opportunity in a policy shift and an architect that could turn the opportunity into a design optimized for constructability.

Parking Reform Ushers in a New Vision

The duplex site presented constraints that would lead most developers to walk away. Barnes saw something different.

Oregon's Climate-Friendly and Equitable Communities rules, adopted in mid-2022, required cities to reform parking minimums as part of efforts to reduce greenhouse gas emissions. Eugene responded by eliminating minimum parking



Ferry Street Flats' push-pull facade alternates metal cladding and black fiber-cement panels.

requirements entirely, first in transit corridors in 2023, then citywide. For lots with tight footprints near the University of Oregon campus, that policy shift changed the math. Structured parking would have consumed the project budget and eaten buildable area for Ferry Street Flats. Without parking requirements, capital

went to construction, and every square foot went toward rentable units.

Early massing studies confirmed what the geometry suggested: The long, narrow parcel pushed toward an efficient linear form. The site's zoning already permitted the density Barnes had in mind, and a neighborhood that had long absorbed student-oriented development offered no resistance.

"At Eastmark, we've always viewed unconventional sites as opportunities," Barnes

Courtesy of Trek Architecture

New and Noteworthy

140,340 sq. ft.

Brennan Investment Group

signed a long-term lease with **Tovala** for a new 140,340-square-foot state-of-the-art **food processing facility**

in **Winfield, Illinois**. The facility will be developed as a build-to-suit, with substantial completion expected in the second quarter of 2027. The project represents Brennan Investment Group's fourth build-to-suit development in the food service sector, further strengthening the firm's growing niche in delivering mission-critical production facilities for customers in various industries. Tovala is a leading meal delivery service, having delivered more than 45 million meals to date with a vertically integrated model that spans food manufacturing, software and hardware.



50,000 sq. ft.

W.E. O'Neil completed **Bally's**

Baton Rouge Casino and Hotel, marking the multimillion-dollar transformation of one of Louisiana's most storied properties, the former Belle of Baton Rouge riverboat casino, into a state-of-the-art, land-

based casino and entertainment complex. Located along the Mississippi River in downtown **Baton Rouge**, the project involved converting a landmark 50,000-square-foot atrium — once part of the Catfish Town open-air mall and event space — into a casino with a 25,000-square-foot gaming floor. The new facility features approximately 800 Las Vegas-style slots and 20 to 25 table games, a large DraftKings Sportsbook with a 46-foot screen, and a variety of dining and entertainment venues.



34,000 sq. ft.

Hammes is developing a 34,000-square-foot **medical office building** in **Scottsdale, Arizona**, in partnership with **NOVO Development**. The

facility will serve as an anchor component of the new 43-acre **Sierra Bloom mixed-use wellness campus, Arizona**

Sports Medicine Center, which is part of **Abrazo Medical Group**, a division of **Abrazo Health**, will occupy the majority of the new space, offering sports medicine, imaging and other advanced medical services designed to meet the growing health care needs of the Scottsdale community. The medical office building is anticipated to be completed in the third quarter of 2026. ■



Structured parking would have consumed the project budget and eaten buildable area for Ferry Street Flats. Without parking requirements, capital went to construction, and every square foot went toward rentable units.

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.

A Look Ahead

said. “Proximity to campus and transit made the density viable, and once we started diagramming massing, it became clear we could deliver far more than the single-family assumptions embedded in the original lot. Others saw width as a constraint; we saw a well-positioned corridor ready for thoughtful density.”

The Unit Variety Thesis

Most student housing buildings standardize one or two unit types because identical units simplify construction. But standardization forces every prospective tenant into the same box, competing on price alone when preferences don’t match.

“Students come with very different budgets, living styles and expectations,” Barnes said. “Variety lets us create a true affordability spectrum, from efficient micro-units to premium lofts, so more students can find a home that fits both their wallet and lifestyle.” Rents at Ferry Street Flats range from \$1,225 to \$1,590 per month — or \$3.45 to \$3.75 per square foot — depending on unit type and floor.

National student housing occupancy sits at 93%, with 1.8 times more beds absorbed than delivered in 2024. In an under-supplied market near a major university, there was room to try something different with Ferry Street Flats.

Barnes’ theory married market breadth with an understanding of his target residents. Student leasing cycles move fast, and prospective tenants often have only weeks to choose housing. More options improve the odds of finding the right fit.



The building entry at dusk.

Over time, a mixed portfolio also adapts as preferences shift.

Turning that theory into a feasible design was Trek’s challenge. Ten distinct unit configurations across 65 units is an unusually high ratio for any building. Trek had to create varied living experiences while standardizing what contractors would build.

“Proximity to campus and transit made the density viable, and once we started diagramming massing, it became clear we could deliver far more than the single-family assumptions embedded in the original lot.”

Sean Barnes, founder, Eastmark Capital Group

When Does Parking Reform Unlock Density?

Parking reform unlocked Ferry Street Flats, but policy alone doesn't guarantee opportunity. Two questions determine whether a constrained site can support density:

Has a policy shift made it financially viable?

Eugene's elimination of parking minimums removed a cost that would have killed the project. Structured parking on a tight lot consumes budget and buildable area.

Over 3,000 cities worldwide have adopted parking reforms, according to the Parking Reform Network, though only about 20% have eliminated minimums citywide. Most reform is district-specific.

A 2024 Colorado study found parking reform increased transit-oriented development opportunities by 71% — more than any other single policy evaluated.

Does the location support car-light living?

Parking savings only translate to buildable area when residents can realistically live without cars.

Student housing within half a mile of campus sells for an average of \$119,000 per bed, according to Berkadia's 2025 U.S. Student Housing Market Report, a 54% premium that explains why near-campus sites pencil and distant ones don't.

When the answers to both these questions are yes, a site that others dismiss may be exactly where density belongs.

Creating Variation With Intentional Design Solutions

Trek's approach: Vary layout while standardizing systems. Tenants experience variety; contractors build consistency. The same logic applies wherever unit diversity is a goal.

Facade: A push-pull envelope strategy shifts the metal-clad form in 2-foot increments. Some portions advance while others recede, creating units ranging from 14- to 16-feet wide and 18- to

20-feet deep. Unit orientation alternates as well. Some run front to back and others side to side, producing different entry experiences without structural complexity.

Carved volumes clad in black fiber-cement panels punctuate the facade, creating rhythm in dialogue with surrounding historic homes. The goal wasn't to mimic a previous era but to complement the district's character while creating something unapologetically of its time.

Ceiling height: Type 3 construction uses fire-treated wood

framing at a fraction of the cost of steel or concrete, but it tops out at five stories under most codes. Zoning would have allowed additional height, but going higher would have required a different construction type and blown the project budget. The economics set the story count.

A 75-foot height limit determined where lofts could go. Only two floors could accommodate the additional ceiling height required for lofted bedrooms. Floors one and five emerged as natural choices: The first floor offered



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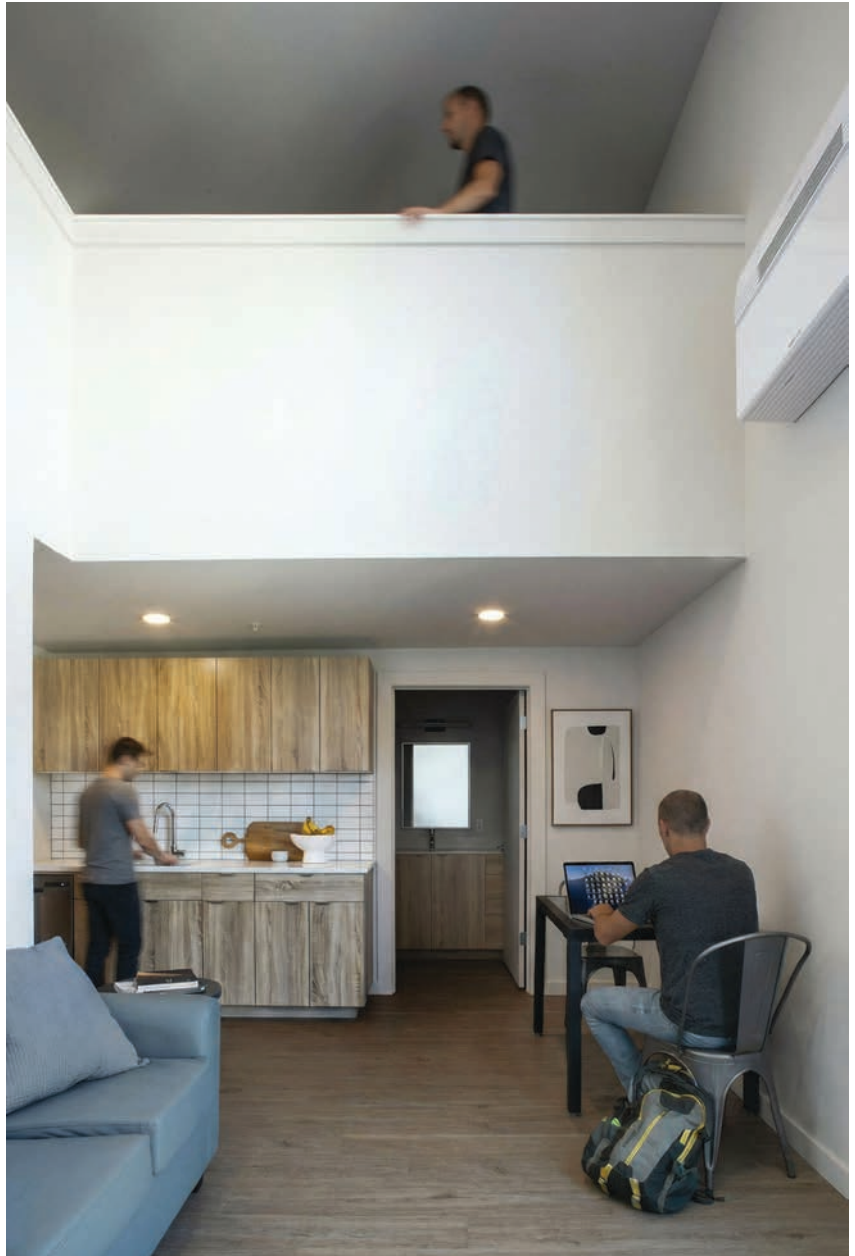
convenience and accessibility, while the fifth floor captured premium views. Both floors also have setbacks at the building's edges where lofted units could extend vertically to recover livable space that a standard layout would lose. Middle floors remain standard flats. Rather than forcing lofts throughout, the constraint created natural differentiation.

Preserving privacy: Beyond lofts, the team developed a “studio plus” configuration. In these units, a closable door creates a semi-private sleeping area that feels like a separate bedroom while meeting code for a studio. The distinction matters to renters who want privacy without paying for a true one-bedroom.

Flat units run from 326 to 342 square feet; lofted units span 420 to 490 square feet. At that size range, the spaces demanded strategies to feel larger. European-manufactured vinyl windows, often as wide and tall as the rooms themselves, proved critical. At this scale, extensive glass can cost less than framed wall assemblies.

Strategic standardization and shared spaces: All 10 configurations share identical bathrooms, but kitchens vary by unit type in ways that reflect both budget and practical use. Flat units include a kitchenette with a mini fridge and no cooking appliance. Lofted units step up to full-size refrigerators. Across all unit types, variation comes through layout and spatial experience, not finishes or fixtures.

Full kitchens and laundry appear on alternating floors rather than in every unit,



A lofted unit with bedroom tucked above the kitchenette.

reducing plumbing runs and mechanical complexity. Shared amenities trade individual unit completeness for lower per unit costs, a trade-off that works when location and price outweigh in-unit convenience.

Fast-track Execution

Design started in January 2024. Foundation permits were submitted by April and superstruc-

Beyond lofts, the team developed a “studio plus” configuration. In these units, a closable door creates a semi-private sleeping area that feels like a separate bedroom while meeting code for a studio. The distinction matters to renters who want privacy without paying for a true one-bedroom.

“The urgency was driven almost entirely by the student leasing cycle. Missing the window can mean losing an entire year of absorption. That timing pressure made speed a strategic advantage, not a gamble.”

Sean Barnes

ture permits in May, with construction beginning in July. The building was completed the following July and fully leased within a few months. That 18-month timeline — from first sketch to certificate of occupancy — required close coordination between developer and design team, along with early regulatory engagement.

“The urgency was driven almost entirely by the student leasing cycle,” Barnes explained. “Missing the window can mean losing an entire year of absorption. That timing pressure made speed a strategic advantage, not a gamble.”

Barnes had worked with Trek on previous projects, and that history made the aggressive timeline possible. Fast-tracking meant submitting civil and foundation packages separately while building design continued. Site work began before the full building permit was issued, compressing the schedule by months. That approach requires trust: confidence that design will finish on time, that direction won’t change and that both sides will absorb surprises without renegotiating terms.

Jurisdictions interpret Type 3 construction differently, and Eugene had issued specific memos on fire-rated assemblies. Early engagement with the city prevented surprises during construction. So did the flexibility to absorb changes. When the developer requested a mid-construction shift from tubs to showers — a change with accessibility implications — the team adapted without derailing the schedule.

Keys to the Project’s Success

At a total project cost of \$8.5 million, Ferry Street Flats opened fully furnished on Aug. 15, 2025, with 75% of units already leased. Full occupancy was reached by Sept. 24, just 40 days after opening and five days before the University of Oregon’s fall term began.

Three factors contributed to the project’s overall success:

- A policy shift that changed site economics before land prices adjusted.
- Proximity to campus that supported car-light living.
- A partnership that could move at the speed the market required.

Developers seeking similar opportunities should track policy at the district level while building relationships with design partners that can translate opportunity into permitted plans.

The unit variety thesis extends beyond student housing. Any market where renters segment by budget, lifestyle or preference rewards buildings that offer options. The key is designing variation into layout

rather than finishes while keeping construction standardized.

Ferry Street Flats put 65 units where a duplex once stood. The next opportunity is sitting on someone else’s undervalued lot, waiting for a developer who knows the right questions to ask. ■

Evan Verduin, AIA, is the founding principal and project director at Trek Architecture, a design-forward studio with offices in Spokane, Washington, and Jackson, Wyoming.



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A Look Ahead

CHANGES SHAPING OUR FUTURE

Lessons in Long-term Community Building

An enduring master-planned community in Colorado suggests the wisdom of not tying success to a single amenity, product type or market cycle.

By Kyle Harris, Realberry

At the 3,000-acre Centerra master-planned community in Loveland, Colorado, the outcome of long-term planning is clear: walkable neighborhoods, integrated employment centers, cultural amenities and a landscape that is distinctly native to the region.

What's less visible is the development discipline required to achieve that outcome over more than two decades and the number of assumptions that had to be challenged along the way.

Today, Centerra includes more than 4,500 homes, over 150 businesses employing approximately 8,500 people, and hundreds of acres of parks, open space and lakes connected by miles of trails. Major retail districts anchor the community's economic core, while new mixed-use investment continues to expand its reach.

Centerra did not evolve into one of northern Colorado's most resilient mixed-use communities by optimizing speed or short-term returns. It was built through a deliberate, long-horizon strategy and a development framework that prioritized balance between up-front cost and lifecycle savings, certainty and flexibility, private investment and public partnership.

Wellness Decisions Start With Operations, Not Optics

When Realberry, a diversified real estate investment, development and management firm based in Denver, first launched Centerra more than 25 years ago, wellness was not a meaningful driver in development decisions. What guided early decisions instead was a practical question familiar to most developers: How could Realberry build a community that would remain competitive across multiple market cycles?

From the outset, that question forced a broader definition of competitiveness. Rather than relying on conventional suburban formulas, the team looked to Colorado's relationship with landscape as a point of differentiation that went beyond visual appeal. Centerra's plan leaned intentionally into open space and environmental integration in a way that was then uncommon in contemporary master-planned communities. The approach was driven by a belief that communities designed around regional ecology would perform

Rather than relying on conventional suburban formulas, the team looked to Colorado's relationship with landscape as a point of differentiation that went beyond visual appeal.

better operationally over time, requiring fewer inputs, using less water and aging more gracefully as market expectations evolved.

For long-term holders, those dynamics matter. Sustainability, in this context, becomes an operating decision that delivers returns over time.

That thinking led to early commitments that were more complex and, in some cases, more expensive up-front than conventional suburban development models. This included dedicating significant acreage to open space and implementing native and xeric landscape systems across common areas, parks, greenways and roadway

medians in place of conventional, turf-heavy treatments.

Those decisions in turn introduced a new layer of responsibility: education and stewardship. Homeowners accustomed to lush green medians on day one needed to understand why native grasses look unfinished before they mature and why they are watered and maintained differently. Done incorrectly, these systems fail. Done correctly, they reduce water use, lower long-term maintenance costs and create a landscape that is durable and regionally authentic. These outcomes are supported by operations data at Centerra, where irrigation modernization has



Courtesy of Realberry



Centerra includes more than 4,500 homes, 150 businesses and multiple retail districts across its landscape-focused, master-planned community.

helped save more than 5 million gallons of water annually and reduced usage levels to 76% of the city-mandated budget.

Today, the wellness economy has grown into a multitrillion-dollar industry influencing everything from consumer products to travel and housing. Many buyers are no longer just choosing homes; they are selecting environments that support health, productivity and lifestyle alignment. For developers, that shift has clarified what early projects like Centerra demonstrated years ago: Designing for wellness can be a serious driver that affects absorption, pricing power and long-term demand.

Flexibility: The Most Valuable Entitlement

One of the most important lessons from a 3,000-acre master plan is that no market forecast can predict the future perfectly, especially over 25 or 30 years. Buyer preferences, employers and municipal priorities change. Capital flows shift as well, and asset classes move in and out of favor depending on interest rates, economic cycles and investor appetite. Retail may lead in one cycle, multifamily in another, office or industrial in the next. A long-horizon master plan must be structured to accommodate those shifts rather than assume a single product type will remain dominant.

From the beginning, Centerra was structured as a true mixed-use community, integrating residential, office, industrial and retail uses on day one rather than treating them as separate phases. In fact, Centerra experienced early success by leading with commercial development, with initial projects beginning in the late 1990s. This unconventional sequencing worked because of Centerra's location along Interstate 25 and U.S. 34, a main vein in northern Colorado, and its ability to generate jobs and tax base before residential development followed shortly thereafter.

That experience reinforced a critical principle: Zoning

A Look Ahead

flexibility is not optional in long-horizon development. Master plans must be frameworks, not fixed scripts. Developers that overoptimize for a single moment in the market limit their ability to respond when conditions inevitably shift.

Unexpected Returns From Cultural and Environmental Investments

Some of Centerra's most impactful investments produced value in ways that were difficult to model up-front. Cultural amenities like Chapungu Sculpture Park evolved into community anchors, activating the public realm and reinforcing identity beyond what traditional place-making metrics capture.



Cultural amenities such as Chapungu Sculpture Park, spanning 26 acres and featuring more than 80 stone sculptures, are vital elements of placemaking at Centerra.

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Similarly, a partnership with the High Plains Environmental Center (HPEC) extended well beyond education and outreach. The partnership was envisioned early in the planning of Centerra, when the development team recognized that the community's lakes, open space and native landscapes would require long-term ecological stewardship alongside new development. The initiative was led by **Tom Hoyt** of McStain Enterprises in collaboration with **Chad and Troy McWhinney** and with support from the city of Loveland. It resulted in creation of both HPEC and the High Plains Foundation in 2001 to steward the land and advance education around sustainable design.

HPEC has influenced landscape decisions across the entire community, contributing research on plant performance, roadway adjacency and long-term ecological resilience. These insights now inform Realberry's development strategies outside of Centerra. That influence has also manifested in community-facing activities like HPEC's annual native plant sale, which offers dozens of Rocky Mountain and prairie species sourced through the center's nursery to local homeowners and gardeners, helping make sustainable landscaping tangible and accessible to the community while reinforcing the region's ecological identity.

These investments, while enhancing quality of life, also fundamentally strengthened Centerra's long-term positioning across multiple stakeholder groups. Cultural and environmental assets be-

came tools for differentiation in a competitive market, reinforcing the community's identity in ways that supported leasing, absorption and employer attraction. They also created continuity across development phases, helping Centerra maintain coherence as the project evolved over decades rather than years.

Equally important, these partnerships increased credibility with municipal partners by demonstrating a real commitment to stewardship, research-driven decision-making and public benefit. By grounding design choices in data and long-term performance rather than short-term optics, Centerra was able to align economic

objectives with environmental responsibility. This approach created a community whose value proposition extends beyond any single amenity and is rooted instead in resilience and sustained relevance as market conditions and community expectations continue to change.

The Public Realm: Opportunity and Persistent Risk Factor

Large-scale development does not end at entitlement. Municipal leadership changes. Public priorities shift. Financing tools that once enabled progress can become misunderstood over time. Even projects that deliver clear public benefit, jobs, open space, housing diversity and tax

Zoning flexibility is not optional in long-horizon development. Master plans must be frameworks, not fixed scripts. Developers who overoptimize for a single moment in the market limit their ability to respond when conditions inevitably shift.

revenue remain vulnerable if their value is not continually articulated.

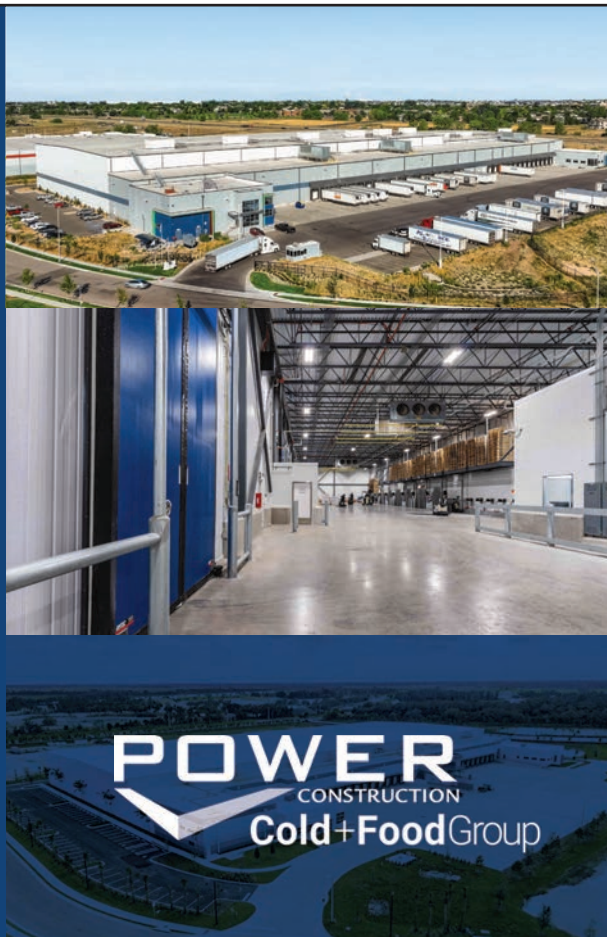
One of the clearest lessons learned at Centerra is that telling the story of a project cannot stop once approvals are secured or construction begins. Developers must consistently explain what they are building, why decisions were made, and how those choices serve both the community and the municipality. This communication,

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A Look Ahead



The Kinston Hub is the first amenity in Kinston, a village within the larger Centerra community.

while great for promotion, is equally vital for creating context and alignment.

At Centerra's Kinston neighborhood, that philosophy takes tangible form through community programming and resident leadership initiatives like the SPARK Resident Leader Program, which empowers residents to act as ambassadors who share project updates and community information with neighbors. Regular activations, events and programming reinforce that transparency, creating opportunities for residents to experience the evolving vision of the community firsthand while staying informed about its growth.

In long-horizon developments, this kind of storytelling becomes part of the development work itself. Maintaining trust, managing perception and reinforcing public benefit over time are essential to sustaining momentum and navigating inevitable political and market change.

What Endures

Centerra has evolved through multiple economic cycles, shifts in buyer behavior and changes

in municipal leadership. It has adapted because early decisions prioritized flexibility, long-term operating performance and collaboration over speed or certainty. Investments that took longer to mature — native landscapes, cultural infrastructure, public-private partnerships — proved durable precisely because they were designed with the long game in mind.

That approach continues to inform the community's next chapter, Avenue South, a 140-acre mixed-use district where horizontal construction is already underway. Vertical construction on the retail core began in the spring, with residential development anticipated to follow in 2027. The district will introduce more than 1,700 additional homes, roughly 170,000 square feet of retail and dining, and 150,000 square feet of office space in a walkable, urban environment. Rather than resetting the playbook, Centerra South builds on it, applying lessons learned around mixed-use integration and public-realm investment to demonstrate how large-scale, master-planned developments can remain economically resilient and relevant as market conditions evolve without abandoning their core principles.

The master-planned communities that last are not those optimized for a single moment in the market. They are the ones built to progress over time. At Centerra, balance has never been a one-time achievement. It remains an active development strategy that continues to guide decisions as the community enters its next chapter. ■

Kyle Harris is senior vice president of master-planned communities at Realberry.

One of the clearest lessons learned at Centerra is that telling the story of a project cannot stop once approvals are secured or construction begins. Developers must consistently explain what they are building, why decisions were made, and how those choices serve both the community and the municipality.

At Newmark, we are grateful for the opportunity to continue partnering in the success of our clients' offering strategies tailored to exceed their individual investment goals.

2025 Year End Industrial Investment Sales Highlights



Project Stemmons
DALLAS, TX

1,267,649 SF

Sold on behalf of: Confidential



111 Commerce Center
WEST JORDAN, UT

1,022,624 SF

Sold on behalf of: Boyer Company



Westside 35
FORT WORTH, TX

540,324 SF

Sold on behalf of: Confidential



Mid-Atlantic Micro-Bay Industrial Portfolio
MARYLAND/VIRGINIA

1,305,649 SF

Sold on behalf of: Confidential



Altamont Industrial
LIVERMORE, CA

241, 213 SF

Sold on behalf of: Principal



Project Bandit
TEXAS

1,245,692 SF

Sold on behalf of: Confidential



Scholastic Distribution Portfolio
JEFFERSON CITY, MO

1,413,635 SF

Sold on behalf of: Scholastic Corp.



I-35 Convergence
DENTON, TX

477,500 SF

Sold on behalf of: Confidential



Salt Lake City Portfolio
WEST VALLEY, UT

265,899 SF

Sold on behalf of: Dogwood Industrial



Chesser 35
FORT WORTH, TX

313,732 SF

Sold on behalf of: Alliance Industrial



Bullfrog International
HERRIMAN, UT

264,832 SF

Sold on behalf of: Dogwood Industrial



Sunnyvale Industrial Park
SUNNYVALE, TX

846,783 SF

Sold on behalf of: Confidential

A Look Ahead

CHANGES SHAPING OUR FUTURE

Unlocking Federal Lands

A developer's road map to federal land acquisition, permitting and the new fast-track process.

By David L. Edelblute, Esq., Howard & Howard Attorneys PLLC

The American Southwest is expanding at a pace that outstrips its capacity to house its people. The region already confronts a significant housing deficit, and over the next 15 years it is projected to absorb 15 million new residents.

For developers, the central paradox is that the land exists, but it is largely inaccessible. Nevada, where 80% of the land is federally owned, exemplifies the problem, with private developers competing for a fraction of the state's acreage in one of the nation's fastest-growing markets. That constraint is regional across the West, with federal ownership in other states ranging from 32% in New Mexico to 63% in Utah.

At the current rate, only one-tenth of 1% of federally owned land is sold each year. Pair that with a national shortage of 7.1 million affordable rental homes, which are disproportionately concentrated in the Southwest. Without a significant increase in developable land, affordability will remain beyond reach for millions of Americans.

Last year produced the most consequential set of legal and policy changes to federal land development in a generation. What follows is a practitioner's road map through this evolving landscape.

Understanding the Regulatory Framework

First, it helps to understand the statutory framework that governs federal land disposition.

FLPMA: The Gatekeeper

Every federal land transaction begins with the Federal Land Policy and Management Act of 1976. FLPMA establishes a presumption of retention: Public lands remain in federal ownership unless disposal serves the national interest. Any parcel identified for sale must appear in a Bureau of Land Management (BLM) resource management plan and satisfy at least one of three statutory criteria:

- The tract is difficult or uneconomical for BLM to manage.
- It is no longer required for federal purposes.

If an environmental assessment or impact statement is needed, evaluate the OBBBA fast-track option, budget for the 125% fee, and integrate expedited timelines into financing and construction schedules.

- Disposal serves important public objectives such as community expansion or economic development.

For practitioners, the takeaway is to review the applicable resource management plan before committing capital. If the target parcel is not identified for disposal, a plan amendment will be required. That process, which involves public comment, interagency coordination and review of the National Environmental Policy Act (NEPA), routinely extends across multiple years.

NEPA: The Procedural Bottleneck

NEPA requires federal agencies to assess environmental impacts before authorizing land sales, leases or other dispositions. Depending on the significance of the proposed action, this entails preparing an environmental assessment or a full environmental impact statement.

Between 2010 and 2018, the average environmental impact statement took four-and-a-half years to complete. For developers, those years translate into carrying costs, financing risk and missed market windows. NEPA also invites litigation under the Administrative Procedure Act, a liability that, until recently, could add years of additional delay.

The 2025 Landscape: What Changed

In March 2025, the Department of Housing and Urban Development (HUD) and the Department of the Interior announced a Joint Task Force on Federal Land for Housing. The task force is charged

Federal Land Ownership Across Western States

State	Federal Land (%)
Nevada	80%
Utah	63%
Idaho	62%
Alaska	61%
Oregon	52%
Wyoming	47%
California	45%
Arizona	39%
Colorado	36%
New Mexico	32%

Source: Congressional Research Service, CRS Report R42346.



A convergence of legislative, judicial and executive action has created more favorable conditions for federal land development.

with inventorying underutilized federal properties suitable for residential development and streamlining transfer processes, signaling that housing is being treated as a legitimate public objective under FLPMA's disposal criteria. Developers that cultivate relationships with local governments and housing authorities positioned to receive federal land transfers will be well placed to participate.

The One Big Beautiful Bill Act (OBBBA), signed into law July 4, 2025, introduced the most consequential reform to NEPA permitting in the statute's 55-year history. Section 60026 creates a fee-based expedited review process through which a project sponsor may pay the Council on Environmental Quality (CEQ) a fee equal to 125% of the anticipated cost to prepare or supervise an environmental assessment or environmental impact statement. In return, the lead agency must complete the environmental assessment

within 180 days or the environmental impact statement within one year.

To invoke the process, a sponsor submits a project description and declaration to CEQ indicating whether the sponsor intends to prepare the environmental document itself under NEPA Section 107(f). CEQ then has 15 days to notify the sponsor of the required fee.

Three open issues bear monitoring. First, the statute prescribes no remedy if the agency misses the expedited deadline. Second, CEQ has not yet published guidance on fee calculation methodology. Third, compressed timelines may strain resource-constrained agencies, potentially increasing litigation risk if reviews appear deficient. Notably, OBBBA also imposes a 120-day statute of limitations on NEPA challenges and requires a showing of irreparable harm for injunctive relief, materially reducing post-approval litigation exposure.

Pathways to Federal Land: A Developer's Tool Kit

Developers wishing to access federal land can explore several options.

Direct sale under FLPMA Section 203: Where a parcel is already identified for disposal in a BLM resource management plan, acquisition proceeds through the Section 203 sale process at not less than fair market value. The process entails a Notice of Realty Action in the Federal Register, a public comment period, NEPA review and title examination. Note that FLPMA sales typically reserve the mineral estate to the United States, so subsurface mineral reservations warrant careful due diligence on title and development feasibility.

The Recreation and Public Purposes Act: The R&PP Act authorizes BLM to convey public lands at less than fair market value, or at no cost, to states, political subdivisions and nonprofits for public purposes, including affordable housing. Under the Southern Nevada Public Land Management Act (SNPLMA), R&PP conveyances have produced more than 650 affordable rental units on 25 acres of former federal land. Developers pursuing affordable projects should structure partnerships with eligible public entities to leverage this below-market pathway.

A Look Ahead

SNPLMA: Enacted in 1998, SNPLMA authorizes BLM to sell public land within a designated boundary around Las Vegas through modified competitive auctions. Since enactment, SNPLMA has generated over \$4 billion in land sale revenue and facilitated the development of master-planned communities, schools and municipal infrastructure. Developers interested in Nevada should monitor BLM Nevada realty action notices and cultivate relationships with the local governments that nominate parcels for sale.

Federal land exchanges: FLPMA Section 206 authorizes BLM to exchange federal lands for nonfederal lands of equal value within the same state. This mechanism can benefit developers who hold parcels of conservation value. Exchanges require dual appraisals, a public interest determination and NEPA review. While complex, they offer a pathway to specific federal parcels not otherwise available.

Financing the Build: OBBBA Tax Provisions
OBBBA delivers the most significant expansion of affordable housing tax incentives in more than two decades. Developers pursuing housing on federal land should evaluate four provisions in particular:

Expansion of the low-income housing tax credit (LIHTC): Each state's annual LIHTC allocation authority increased permanently by 12%, effective Jan. 1, 2026. The private activity bond threshold for 4% credits dropped from 50% to 25% of aggregate basis, freeing bond capacity for additional projects.

Permanent opportunity zones: The qualified opportunity zones program is now permanent, with rolling 10-year zone designa-

FLPMA Section 206 authorizes BLM to exchange federal lands for nonfederal lands of equal value within the same state. This mechanism can benefit developers who hold parcels of conservation value.

tions starting this July. The changes also ushered in a new category of qualified rural opportunity funds offering a 30% basis step-up for five-year investments.

100% bonus depreciation: This provision was permanently restored for qualified property placed in service after Jan. 19, 2025, improving investor yield and reducing after-tax construction costs.

Permanent New Markets Tax Credits: This provision was extended at \$5 billion in annual allocation authority, providing long-term financing predictability for mixed-use projects pairing housing with community facilities.

Practical Steps for Developers

Conduct early reconnaissance. Identify target parcels using BLM's geographic information system data and publicly available land records. Review the applicable resource management plan to determine disposal status. Within SNPLMA boundaries, review auction schedules and local government nomination processes.

Engage local government partners. Federal land dispositions routinely require local government involvement through parcel nominations, R&PP applications or task force referrals. Establishing relationships with planning departments, housing authorities and elected officials is essential.

Evaluate the NEPA pathway. Determine early whether the action requires an environmental assessment or environmental impact statement or if it qualifies for a categorical exclusion. If an assessment or impact statement is needed, evaluate the OBBBA fast-track option, budget for the 125% fee, and integrate expedited timelines into financing and construction schedules.

Commission preliminary environmental and cultural surveys. Section 7 of the Endangered Species Act and Section 106 of the National Historic Preservation Act impose consultation requirements that run concurrently with NEPA. Preliminary biological and cultural resource assessments can identify potential issues before the formal process begins.

Assemble the right team. Federal land transactions sit at the intersection of property, environmental and tax law. Having counsel experienced

in FLPMA and NEPA is essential. For deals leveraging LIHTC, opportunity zones or New Markets Tax Credits, specialized tax counsel is equally critical.

Plan for infrastructure. Federal parcels frequently lack roads, water, sewer and electrical service. Engage with local utilities and municipal offices early to evaluate capacity and negotiate cost-sharing arrangements.

Monitor the regulatory landscape. With individual agencies now promulgating their own NEPA procedures, subscribe to Federal Register notices for BLM, Department of the Interior and CEQ actions. Participate in comment periods to shape outcomes favorable to development.

The New Viability of Federal Land Development

The convergence of legislative, judicial and executive action in 2025 has created the most favorable conditions for federal land development in a generation. There now exists both procedural and financial architecture to make federal land development projects viable. Developers that master the framework, build the right partnerships, and plan for both infrastructure deficits and regulatory contingencies will position themselves to come out ahead. ■

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A Look Ahead

CHANGES SHAPING OUR FUTURE

What Out-of-state Developers Need to Know Before Building in Southern Nevada

There are unique opportunities for those who understand how to navigate the region's complexities.

By Jamie Thalgott and Rebecca Miltenberger, Brownstein Hyatt Farber Schreck

Southern Nevada continues to attract out-of-state developers thanks to its pro-growth attitude, favorable tax climate and strategic location. Nonetheless, the region presents unique legal, regulatory and logistical challenges that should be understood before breaking ground.

Navigating these issues often requires familiarity with Nevada-specific statutes, local municipal processes and regional development norms that differ markedly from other states. Additionally, Southern Nevada's rapid pace of growth means zoning expectations, infrastructure capacity and community priorities can shift quickly, making early due diligence essential.

Out-of-state developers would be wise to consider the following complexities before entering the southern Nevada market.

Know the Jurisdiction: City vs. County

Nevada is divided into 17 counties that contain various incorporated cities. Importantly, unincorporated areas fall under county — not city — governance. In southern Nevada, developers typically consider land in unincorporated Clark County or one of three cities: Las Vegas, North Las Vegas or Henderson. Most of the famed Las Vegas Strip lies in unincorporated Clark County, not the city of Las Vegas.

Before beginning a project, developers should determine which jurisdiction (city or county) governs the site and study



Henderson is one of the localities in southern Nevada drawing the attention of out-of-state developers.

the applicable municipal or county development codes. Each has distinct zoning, permitting and approval processes that can significantly impact site design, timeline and submittal requirements. Understanding these jurisdictional nuances early not only reduces surprises but also helps with engaging the correct agencies and stakeholders from the outset.

Federal Land Ownership Limits Access to Privately Developable Property

Approximately 80% of Nevada is federally owned and is primarily managed by the Bureau of Land Management (BLM). This creates challenges in accessing outlying parcels, especially when federal easements or rights of way are involved. Many BLM encumbrances do not appear on standard title reports because they are unrecorded. A thorough due diligence process, often involving direct

Southern Nevada's rapid pace of growth means zoning expectations, infrastructure capacity and community priorities can shift quickly, making early due diligence essential.

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communication with BLM, is critical if a site is near undeveloped federal land.

This also means most large tracts of undeveloped property are either not privately accessible for development or must be accessed through the Southern Nevada Public Land Management Act (SNPLMA), which requires a very specific nomination and public auction process. Once that process is completed, the acquiring party must then navigate:

- Annexing into an incorporated city's boundaries and out of unincorporated Clark County (if so desired).
- Proceeding through the relevant jurisdiction's zoning

and entitlement process, which could require payment of fees to connect to public services.

For example, in West Henderson, a public facilities needs assessment would apply and require a development agreement. Legal counsel can help developers understand both SNPLMA and what comes next.

Resources Are Regional

While a developer may be working with one jurisdiction, major projects in southern Nevada are often subject to regional review. Water, flood control, transportation and environmental concerns are managed through coordinated

While a developer may be working with one jurisdiction, major projects in southern Nevada are often subject to regional review. Water, flood control, transportation and environmental concerns are managed through coordinated regional efforts, which can trigger cross-agency oversight.

regional efforts, which can trigger cross-agency oversight.

This can provide benefits, such as limiting environmental reviews under the Endangered Species Act due to a federal permit held by Clark County under the Multiple Species Habitat Conservation Plan.

Conversely, Nevada's access to water from the Colorado River is limited, and conservation is a top priority. Development in southern Nevada is heavily regulated through regional water planning authorities. One such conservation measure provides for a moratorium on evaporative cooling technology in new commercial and industrial buildings, which is a major consideration for large-scale and significantly vertical developments. Accounting for these additional reviews is essential to a successful development.

Utility Access Requires Early Engagement

Southern Nevada's utility infrastructure is largely controlled by privately owned utility companies, which are regulated by the state's Public Utilities Commission. One important detail for developers to consider is that most of these utilities do not reserve capacity for future projects. Therefore, it is critical to initiate discussions early in the development process to confirm capacity, obtain will-serve letters where available and plan for long-term utility needs.

Especially in mature areas, utility capacity is a common issue and may require connection points that are farther away from a project than initially anticipated. These new connections may require extensive coordination with one or more utility companies or third parties. Additionally, continued sustainability initiatives may require modifications or additions to site design to meet development code requirements and utility service rules. Early conversations with utility companies to discuss development needs and utility requirements are essential to avoiding delays with new development.

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Site H
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Site I
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Follow the State Legislative Cycle and Incentive Processes

The Nevada Legislature meets biennially for four months (not including the possibility of extension through a special session). At the most recent session, which concluded in June 2025, the Legislature considered 601 Assembly bills, 508 Senate bills and 28 joint resolutions. Much of the action, including a record 87 vetoes by Gov. **Joe Lombardo**, occurred during the last week of the session.

This timing matters, as significant land use, zoning and development legislation is often passed during these sessions. For example, Assembly Bill 241 from the 2025 session required that no later than March 1, 2026, each governing body adopt an ordinance authorizing by-right development of multifamily housing or mixed-use developments that include residential use on properties currently zoned for commercial use; industrial property does not fall within the scope of commercial use. The ordinance may establish the standards for doing this.

Entities like the Governor's Office of Economic Development, Las Vegas Global Economic Alliance and other regional development authorities are excellent starting points for exploring incentives, abatements or public-private partnership opportunities. Engaging with them early can enhance a project's viability. For example, Senate Bill 28, championed by the city of Las Vegas, encourages development of public transportation near housing developments. It will allow developers proposing projects that align with a municipality's goals for affordability or transit-oriented development to partner with local governments to use tax increment financing to fund necessary public infrastructure, such as new roads, utility upgrades or transit stops. This could significantly reduce a developer's off-site improvement costs, making large-scale, master-planned and mixed-use projects more financially feasible.

With Brightline breaking ground on its new high-speed rail, and reports of The Boring Company steadily assembling property interests for its transit tunnel system (the Las Vegas Loop), southern Nevada is creating the framework for more transformative regional mobility projects. New large-scale transportation initiatives may influence how private development connects with public infrastructure. At a time when construction costs remain elevated and unpredictable, having local governments engaged as collaborative partners on issues of infrastructure, access and permitting could be paramount to a project's feasibility.

Emerging Opportunities

Southern Nevada offers strong potential for those who navigate its complexities strategically. Understanding the full landscape — from jurisdictional differences to infrastructure and environmental regulations — before building will save time and money and mitigate risk. With the right guidance from local planning and legal experts, out-of-state developers can move forward with confidence, capitalizing on the region's unique opportunities. ■

Jamie Thalgett and **Rebecca Miltenberger** are shareholders in the Real Estate Department at Brownstein Hyatt Farber Schreck and are based in the firm's Las Vegas office.

With Brightline breaking ground on its new high-speed rail, and reports of The Boring Company steadily assembling property interests for its transit tunnel system, southern Nevada is creating the framework for more transformative regional mobility projects.

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On Leadership: Garry Holmes and Elizabeth Holmes, R.W. Holmes Commercial Real Estate

By Ron Derven



Garry Holmes and Elizabeth Holmes

“Our brokers get involved in their submarkets by joining boards and committees, and many live in the communities where they work. They are expected to be local resources who know the buildings in their markets, the landlords in their markets, and make connections due to their local networks. Clients recognize that level of nuance.”

*Elizabeth Holmes,
director of corporate services,
R.W. Holmes Commercial
Real Estate*

R.W. Holmes Commercial Real Estate of Wayland, Massachusetts, celebrated its 50th anniversary in February. Founded by **Robert Holmes**, the company helped pioneer brokerage along Route 128 and throughout MetroWest in Greater Boston as those corridors began taking shape in the 1970s. Today, **Garry Holmes** and his daughter **Elizabeth Holmes** are guiding the 20-person firm through a measured transition to its third generation.

There is no fixed retirement date in place; instead, Elizabeth, director of corporate services, is steadily taking on greater responsibility while Garry remains the firm's president, maintaining long-standing client relationships and industry ties. Together, they are modernizing where needed while preserving the hyperlocal expertise that built the company's reputation.

Development: *R.W. Holmes was founded in 1976, just as suburban business corridors were beginning to emerge. What did Robert Holmes see in those markets that others missed at the time?*

Garry Holmes: I don't know that my father saw something others completely missed. I think it was more being in the right place at the right time. Back then, the entire real estate community — developers and brokers — were focused on Boston and Cambridge. That's where the action was. Then developers began taking risks and moving out toward what was the Route 128 belt. My father focused there.

He had worked at Nordblom Company, a major developer and brokerage firm in Boston. As he spent more time in the suburbs, he saw development accelerating. It wasn't dramatic at first, but it was consistent. He saw the trend early enough to commit to it. So, yes, he had foresight. But timing matters in this business, and he happened to be paying attention when others were still looking downtown.

Development: *Suburban commercial real estate was not yet an established specialty in the 1970s. How did being early shape the firm's culture and approach to the market?*

Elizabeth Holmes: Reputation matters. Being around for 50 years matters. But more importantly, we are deeply committed to local expertise and attention to detail. Some of the larger firms have

started to commoditize brokerage services. We are committed to being true advisers. Our brokers get involved in their submarkets by joining boards and committees, and many live in the communities where they work. They are expected to be local resources who know the buildings in their markets, the landlords in their markets, and make connections due to their local networks. Clients recognize that level of nuance. And that is what differentiates us.

Development: *Has there ever been serious pressure, internally or externally, to sell, merge or affiliate the company? How did you evaluate those moments?*

Garry Holmes: We've had the privilege of working with venture-backed companies from our inception, particularly in medical device and cybersecurity. We've helped them scale. Everything goes well until you open the business section of *The Boston Globe* and see that your client has been acquired by a large national or international company. When that happens, we often lose the ability to continue servicing them.

We had three of those acquisitions happen within a few months before the COVID-19 pandemic, and each prompted serious discussions about affiliation. But when we brought it to our team, there was strong pushback. Our employees are here because they prefer to work for a midsized regional firm. They value independence. They value identity. We evaluated it seriously, but we remain independent and are committed to it.

Development: Family succession is notoriously difficult in professional services firms like yours. What did you get right — and what was harder than expected — as leadership transitioned from first to second generation and now from second to third?

Garry Holmes: My father passed away unexpectedly at age 57. I was 31 at the time. You don't prepare for that. One day I am working alongside him as senior vice president, the next day I am responsible for everything. I had mentors who encouraged me not to bring in an outside president but to step up myself. They believed I could do it.

And now, in transitioning from the second generation to the third generation, I've had to stop saying, "That won't work." I'd sit in strategic meetings and say, "We tried that before." Eventually, I realized that experience can become a brake on progress. So I stepped back from those meetings and let the team explore new — or old — ideas. Ideas or strategies that didn't work 10 years ago might work today because the market has changed. That was an adjustment for me.

Development: Elizabeth, what was your title coming into the company?

Elizabeth Holmes: When I was hired from Ernst & Young, we created the director of corporate services title, and I have had it ever since. It doesn't display all the internal work I do, but it is a helpful title for our larger corporate clients so they know we can service them.

Development: As you step into a leadership role, how do you balance honoring what was built before with the need to perhaps modernize other areas of the firm?

Elizabeth Holmes: We're careful about that. We follow a strategic plan. If something doesn't work, we adjust the approach, not the objective. Hiring is a good example. Just because one hire doesn't work doesn't mean you abandon investing in talent. Being a boutique firm helps. We can identify issues quickly. We can pivot without bureaucratic delay.

Development: How do you divide your responsibilities today in a way that avoids overlap, tension

or mixed signals inside the firm?

Elizabeth Holmes: We're both in the office every day. If something falls into a gray area, we talk immediately. I'm handling more of the day-to-day operations. Employees increasingly come to me first. If it requires collaboration, we sit down and work through it.

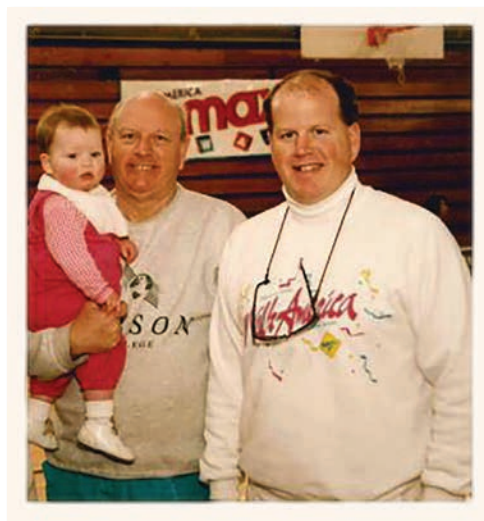
Garry Holmes: We have two sides to the business: brokerage and ownership. We own a modest portfolio of office, lab and warehouse buildings. For now, Elizabeth's primary focus is brokerage, while I focus on ownership.

Development: Over the past decade, how has the Greater Boston suburban market fundamentally changed, from tenant expectations to deal structures?

Garry Holmes: Dramatically. When I started, ownership was primarily local and entrepreneurial. Now it's institutional. Institutional ownership changes everything. Lease terms are longer. Credit standards are tighter. Security deposits are larger. Tenant improvements are more costly. The days of sitting across from a local owner are largely gone.

Development: What investments — technology, data, talent, services — were essential to staying competitive as the market evolved?

Elizabeth Holmes: You can spend endlessly on technology in this industry. But technology alone doesn't differentiate you. Talent does. Our brokers know their submarkets intimately. They know who owns each



Robert Holmes, holding granddaughter Elizabeth and standing next to son Garry, founded R.W. Holmes Commercial Real Estate in 1976.

"Our employees are here because they prefer to work for a midsized regional firm. They value independence. They value identity. We evaluated [affiliation] seriously, but we remain independent and are committed to it."

*Garry Holmes, president,
R.W. Holmes Commercial
Real Estate*

"The joke internally is that even the spouses of our team members know the buildings. My husband, for example, can now name most of the buildings along Route 128 because he hears about them at dinner. That's the level of immersion at which we operate."

Elizabeth Holmes

The Entrepreneur



As a third-generation family business, R.W. Holmes Commercial Real Estate also strives to treat employees like family "because that culture sustains the firm," says Elizabeth Holmes.

"Employees want you to succeed. Don't hide challenges from them. If you share concerns, people step up. I've been surprised by how willing employees are to help solve problems when you're transparent. Too many leaders try to conceal issues."

Garry Holmes

building. They know which buildings are quietly available. They know which landlords will negotiate aggressively and which won't.

The joke internally is that even the spouses of our team members know the buildings. My husband, for example, can now name most of the buildings along Route 128 because he hears about them at dinner. That's the level of immersion at which we operate.

Development: You publish regular market reports and maintain deep local intelligence. How important is hyperlocal knowledge in an era of national data platforms?

Elizabeth Holmes: We launched a hyperlocal quarterly report because we felt the national firms were grouping too broadly. Each submarket has its own personality. Highlighting that reinforces our credibility. The response has exceeded our expectations.

Development: Only about 1 in 8 family businesses survives into the third generation, according to family business research. As you look at R.W. Holmes celebrating its 50th year, what lessons have you learned about leadership continuity? And what has surprised you most along the way?

Garry Holmes: Employees want you to succeed. Don't hide challenges from them. If you share concerns, people step up. I've been surprised by how willing employees are to help solve problems when you're transparent. Too many leaders try to conceal issues.

Elizabeth Holmes: Longevity has been an intentional choice for us. Because independence and continuity matter to us, we evaluate decisions

in 10- and 20-year increments, not quarterly cycles. We also treat employees like family because that culture sustains the firm. Alignment around long-term goals makes continuity possible.

Development: When mistakes happen or deals don't go as planned, how do you handle accountability internally?

Garry Holmes: We ask two questions: Did we act ethically, and did we give full effort? If the answer isn't yes to both, we have work to do.

Elizabeth Holmes: With the average tenure of our employees being 24 or 25 years, trust is built in. When something doesn't go as planned, we analyze it. We learn from it. We improve. That continuous refinement has been part of our success.

Development: What does success look like for the firm 10 years from now?

Elizabeth Holmes: Stability. Reputation. Continued relevance. I'm fortunate to inherit a firm with strong fundamentals. My responsibility is to preserve the foundation while modernizing intelligently.

If in 10 years we're still known for deep market expertise, sophisticated transactions, and treating clients and employees with care, that's success. We don't need to become something entirely different. We need to continue doing what we do well — at a high level. That's how you last in this business. ■

Ron Derven is a contributing editor to Development magazine.

The Entrepreneur interviews are edited for length and clarity.



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INNOVATIONS INFLUENCING COMMERCIAL REAL ESTATE

Structure Before Speed: A Framework for Meaningful AI Adoption in CRE

Firms positioned to lead the next cycle are treating AI adoption as a coordinated initiative across three pillars.

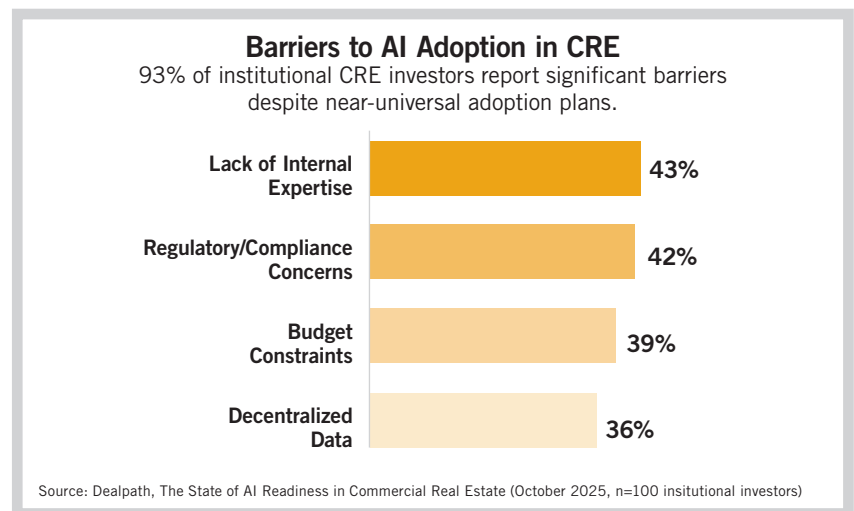
By Jonathan Buckelew, CPA; Nadine Ezzie, Esq.; and Topher Stephenson, MBA, CRE AI Studio

The conversation has become a fixture in conference rooms across the commercial real estate industry. Someone raises the question of artificial intelligence. Heads nod. A pilot is proposed, existing tools are rolled out or a tool is purchased, and a small team is assigned. Six months later, the tool sits underused, the team has moved on, and the next conference room conversation starts the cycle over again.

The pattern is remarkably common. According to JLL's 2025 Global Real Estate Technology Survey, 88% of investors, owners and landlords have begun piloting AI, with most firms pursuing an average of five use cases simultaneously. A separate Dealpath survey of institutional investors in 2025 found that 96% plan to increase their AI spending in the next year.

The enthusiasm is real. So is the gap between ambition and results. Only 5% of firms in the JLL survey reported achieving all their AI objectives. While 90% of firms in the Dealpath survey had established or were building AI-focused teams, 93% simultaneously reported significant barriers to adoption. The top obstacle, cited by 43% of respondents, was not budget or regulatory risk. It was a lack of internal expertise.

That disconnect between investment and preparedness defines the current moment. Meaningful AI adoption requires



a coordinated approach across three pillars: standardized processes, practical application at the point of work, and an AI-literate workforce. Firms that invest in all three are positioned to capture what Morgan Stanley Research estimates could be \$34 billion in efficiency gains for the real estate industry by 2030. Firms that address only one or two are building on sand.

Pillar One: Standardizing Before Automating

The most predictable failure with AI implementation has nothing to do with the technology. Gartner predicts that through 2026, organizations will abandon 60% of AI projects that lack AI-ready data. An S&P Global survey found that 42% of companies walked away from most of their AI initiatives in 2025, more than double the 17% that did so in 2024. RAND Corporation research in 2024 put the overall AI project failure rate at 80%, twice the rate of traditional technology projects.

The common thread isn't that AI does not work. It is that organizations deploy AI on top of workflows, data structures and processes that were never designed to support it.

Organizations reporting significant financial returns from AI are twice as likely to have redesigned their workflows before selecting technology.

In commercial real estate, this problem is especially acute. For example, a firm decides to use AI for lease administration. The team selects a capable platform, invests in licensing and assigns a group to pilot it. Within weeks, the initiative stalls. Not because the AI cannot read leases, but because the firm's documents are stored inconsistently across three systems, in varying formats, with no standardized naming conventions. The AI is not the bottleneck. The workflow is.

That disconnect between investment and preparedness defines the current moment. Meaningful AI adoption requires a coordinated approach across three pillars: standardized processes, practical application at the point of work, and an AI-literate workforce.

McKinsey & Company's 2025 Global AI Survey confirms the pattern: Organizations reporting significant financial returns from AI are twice as likely to have redesigned their workflows before selecting technology.

The lesson is counterintuitive but critical. The most important work in AI adoption involves no AI at all. It starts with mapping how work actually gets done today, identifying bottlenecks, standardizing inputs and outputs, and establishing clear ownership. Only then can a firm evaluate where AI meaningfully improves a process versus where it accelerates existing dysfunction.

This work is not glamorous, and it is routinely skipped by firms eager to demonstrate AI progress. But it is the single most expensive step to skip.

Pillar Two: Deploying AI at the Point of Work

The process discipline described above is not an end in itself; it is what makes precise AI deployment possible. When workflows are mapped and data is organized, AI tools can be introduced with a specific role in the process rather than a vague mandate to "make things faster."

The productivity gains at that point are well documented. A landmark Harvard Business School study conducted with Boston Consulting Group and published in 2023 found that consultants using AI completed

12% more tasks, finished them 25% faster and produced work rated 40% higher in quality compared with a control group. The study also found that lower-performing consultants saw the largest gains — a 43% improvement — suggesting AI has the potential to elevate performance across an entire organization, not just among top performers.

Those numbers translate directly into CRE workflows. A broker preparing a client update traditionally spends hours gathering comparable data, synthesizing market reports and drafting a narrative. With standardized inputs and AI tools, that deliverable can be produced in a fraction of the time, not by cutting corners but by automating the synthesis and first-draft stages while the broker focuses on analysis and client-specific judgment.

Document analysis illustrates the point at a more granular level. Dealpath's survey found that 67% of CRE firms are already using AI for document analysis, making it the most common use case in the industry. In practice, this means an asset manager

Five Questions Every CRE Executive Should Ask Before Their Next AI Initiative

Before committing budget to AI tools or platforms, leadership teams should pressure-test their organizational readiness. These five questions, drawn from the three-pillar framework, can quickly reveal whether a firm is building on a strong foundation or racing toward an expensive pilot that stalls.

- 1. Can the team responsible for this initiative document the current workflow — every step, handoff and decision point — in under 30 minutes?** If they cannot, the process is not standardized enough to automate.
- 2. Where does the data for this process live, and is it in a consistent, accessible format?** Fragmented data across multiple platforms is the most common structural barrier to AI deployment in CRE.
- 3. Who owns AI governance at the firm, and does that person have executive support?** Governance without authority is policy without enforcement. Sustainable AI adoption requires clear accountability.
- 4. Is the training plan role-specific and hands-on, or is it a one-size-fits-all overview?** Generic AI demos do not change behavior. Professionals need to learn AI within the context of their own workflows and responsibilities.
- 5. Are employees being trained to use tools or to think alongside AI?** The highest-performing AI users are not the ones who know the most shortcuts. They are the ones who understand when to rely on AI and when to override it.

preparing for a quarterly portfolio review can upload a set of lease abstracts, ask the AI to identify every lease expiring within 18 months that contains an unexercised renewal option, and receive a prioritized summary in under five minutes. That same task across a 30-property portfolio typically consumes an entire business day without the use of AI. Development teams are applying similar capabilities to zoning documents, flagging regulatory constraints before committing resources to a site. Investors are using AI to extract financial data from lengthy offering memorandums, surfacing inconsistencies that would otherwise require hours of manual review.

The critical principle across all these applications is human-in-the-loop oversight. AI drafts; professionals verify. AI surfaces patterns; professionals make decisions. The Harvard study found that when consultants used AI for tasks beyond its capabilities, they were 19% less likely to arrive at correct conclusions. The technology is a force multiplier, not a substitute for professional judgment.

Leveraging Technology

Pillar Three: Building an AI-literate Workforce

Tools and processes alone do not create lasting organizational change. Recall that the No. 1 barrier to AI adoption in the Dealpath survey was not technology, budget or regulation. It was a lack of internal expertise.

Broader data tells the same story. A 2025 AI readiness survey from DataSociety found that 65% of organizational leaders did not know when or where to apply AI, and 52% lacked a foundational understanding of how it works. The implication: The firms that will sustain AI adoption are those investing in their people, not just their platforms.

Effective AI training in CRE goes far beyond a one-hour vendor demo. The programs gaining traction share several characteristics. They are:

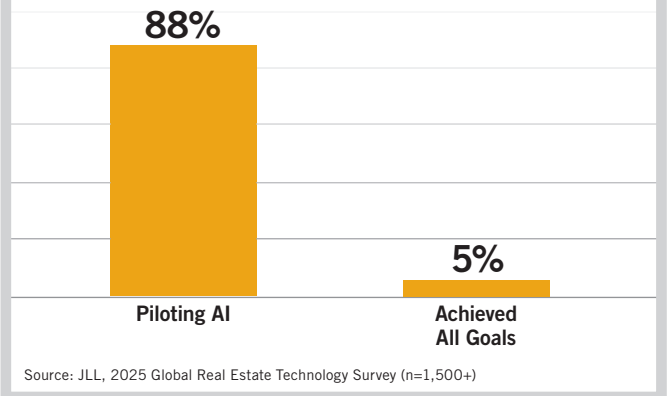
- Hands-on, requiring participants to work with AI tools rather than watch someone else do so.
- Role-specific, recognizing that a broker's AI needs differ from those of an asset manager.
- Tied to actual workflows, teaching professionals to integrate AI into tasks that they already perform rather than presenting the technology in the abstract.

The Harvard study underscores why structured training matters. Consultants who received prompt engineering guidance before the experiment performed meaningfully better than those given unguided access to the tools. The researchers identified two successful patterns: “centaurs,” who clearly divided tasks between themselves and AI based on respective strengths, and “cyborgs,” who wove AI into every stage of their workflow. Both outperformed unstructured use, and both require deliberate skill-building to develop.

Beyond individual skill-building, organizations need governance structures that sustain AI adoption. This includes acceptable-use policies addressing confidentiality obligations, which are particularly important in CRE, where deal data and financial projections carry significant sensitivity. It includes internal champions who bridge the gap between technology capability and business need. And it includes executive sponsorship that signals AI literacy is a strategic priority.

Major CRE firms and industry associations are already moving in this direction, investing in structured AI education programs designed specifically for the commercial real estate context. The trend reflects a growing recognition that AI fluency is becoming a baseline professional competency.

The Adoption Paradox
CRE firms are piloting AI at record rates,
but few have achieved their goals.



Beyond individual skill-building, organizations need governance structures that sustain AI adoption. This includes acceptable-use policies addressing confidentiality obligations, which are particularly important in CRE.

The Competitive Imperative

Commercial real estate has never been an early adopter of technology, but the pace of AI development is compressing the timeline that firms have for responding. Findings from a 2025 Gartner Inc. survey showed that organizations with high AI maturity were more than twice as likely as low-maturity organizations to keep AI initiatives running beyond three years. The gap between leaders and laggards is widening, and it compounds over time.

The firms positioned to lead the next cycle are treating AI adoption as a coordinated initiative: standardized processes that give AI something solid to work with, practical deployment

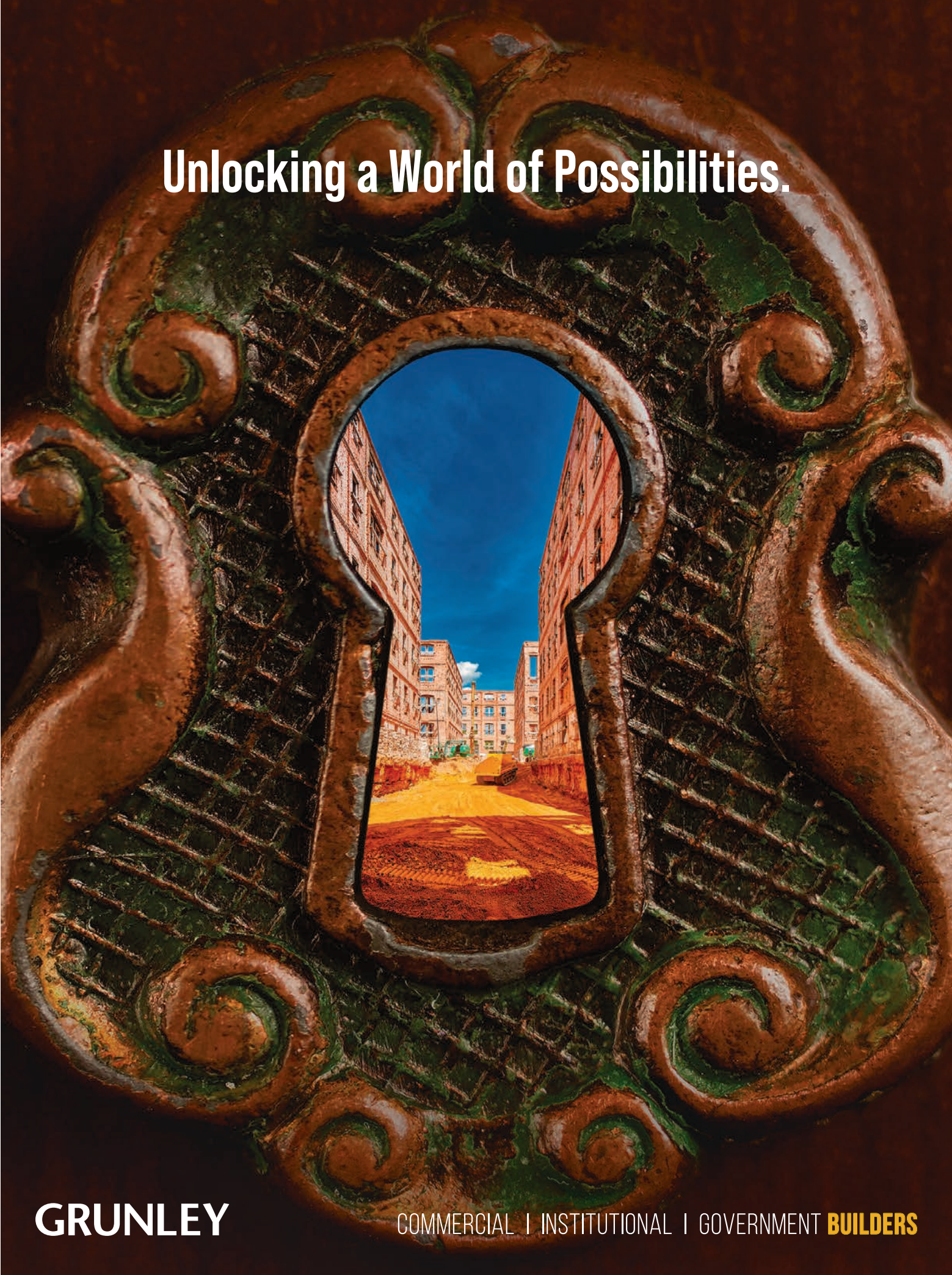
where it creates measurable value, and a workforce equipped to use these tools with confidence and judgment.

The next wave of capability is not theoretical. Agentic AI workflows that execute multi-step processes, underwriting models that learn from a firm's own deal history, and intelligent document systems that monitor an entire portfolio in real time are all approaching production readiness. The organizations that have built the three-pillar foundation will integrate these advances as natural extensions of work already underway. Those still cycling through disconnected pilots will face the same conference room conversation, starting from scratch.

The question for CRE executives is no longer whether to invest in AI. It is whether the investment has structure or only speed. ■

Jonathan Buckelew, CPA, Nadine Ezzie, Esq., and Topher Stephenson, MBA, are co-founders of the CRE AI Studio, an AI education and training platform built exclusively for commercial real estate professionals.

This article was written by the authors of NAIOP's new course, AI in Commercial Real Estate, which provides a structured, CRE-specific approach to understanding and applying AI. Learn more at learn.naiop.org.



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In Touch With Tenants

IDEAS FOR ATTRACTING AND RETAINING TENANTS

Repositioning Office for the Hybrid Era

Future-proofing office assets requires prioritizing tenant and community experience alike.

By Justin Nguyen, EMMES

In a commercial real estate environment defined by uncertainty, hybrid work and evolving tenant expectations, many office owners have struggled to maintain relevance. Rising vacancies, shortened lease terms and downward pressure on rents have become familiar headlines across major U.S. markets.

At Centerview, EMMES Realty Services of California, LLC, a member of the EMMES Group of Companies, has taken a different path rooted in deliberate repositioning, operational discipline and a clear understanding of how people want to work today. This was accomplished in part by transforming a traditional office park in Irvine into an experience-driven environment anchored by Eighteen Main, a curated culinary and lifestyle destination.

The result: more than 142,000 square feet of leasing activity in 2025 alone, a diverse and expanding tenant roster, and a campus that functions more like a self-contained neighborhood than a conventional office park. Current occupancy is approaching 90%, compared with around 60% at the time of acquisition in 2017.

For developers and asset managers looking to future-proof office assets, Centerview offers a case study in success.

Start With Tenant Experience, Not Square Footage

EMMES' strategy at Centerview, which includes twin 12-story office buildings totaling

625,000 square feet, began with a fundamental shift in mindset. Rather than viewing office space as a commodity, the firm treated it as a service platform that must actively support productivity, collaboration and lifestyle.

Although this mindset was already in place at the time of acquisition, the pandemic had EMMES rethink the way that people use office space and what would make people want to return to the office. Improvements have included renovated common areas, expanded on-site amenities, tenant engagement initiatives and a multimillion-dollar plaza transformation that was completed in 2021 featuring soft seating, accent furniture and flexible shade structures. The property also offers 40 Tesla Superchargers and 44 Level 2 EV chargers.

But the transformation extended far beyond programming and amenitization. EMMES has invested significantly in upgrading the building itself, including:

- Renovating the lobby and the five-story, approximately 1,900-stall parking garage.
- Modernizing elevators and HVAC systems.
- Upgrading lighting.
- Refreshing restrooms and corridors.
- Enhancing suite and building-standard finishes.

Execution Takeaway

EMMES audits assets through the lens of daily user experi-

EMMES' strategy at Centerview began with a fundamental shift in mindset. Rather than viewing office space as a commodity, the firm treated it as a service platform that must actively support productivity, collaboration and lifestyle.

ence. This means mapping an employee's full day, from arrival and lunch options to wellness, outdoor access and informal collaboration spaces.

At Centerview, this process led to investments in:

- Lifestyle amenities, such as auto detailing, EV charging, lockers and showers, a weekly farmers market and dining options.
- Productivity amenities, such as a business lounge with a conference room, kitchenette and banquet seating, and a large conference center.
- Smart building features that support flexibility and energy efficiency.

These improvements were not cosmetic; they were designed to make coming to the office feel purposeful rather than obligatory.

Activate the Ground Plane With Destination Retail

EMMES has been repositioning Centerview as a premier destination not just for business



Centerview includes twin 12-story office buildings totaling 625,000 square feet.

professionals but for surrounding communities.

To enhance tenant and community experience, EMMES developed Eighteen Main, a chef-driven, 17,000-square-foot dining haven with four restaurants that complement the four additional restaurants on-site at Centerview.

EMMES curated a mix of artisanal and award-winning local operators, including Goldfinch and Izakaya Osen. This approach aligned with a broader national trend of experiential retail outperforming transactional retail, particularly in mixed-use environments. Since the development of Eighteen Main, the Centerview property remains bustling in the evenings and on weekends.

“We have seen the fruits of creating dining destinations where all restaurants thrive,” said **Todd Miller**, partner at The 908 Restaurant and Goldfinch. “There is a built-in guest base with the business tenants, nearby hotels and the con-

tinuous addition of homes and apartments locally. People will drive 10 to 15 minutes in Irvine if you create an enticing dining destination, and that is already happening at Eighteen Main.”

Execution Takeaway

Successful repositioning requires treating retail tenants as long-term partners. At Centerview, EMMES supported operators well beyond lease execution, assisting with marketing, tenant introductions and community events.

“The EMMES team was extremely helpful in helping us get open,” said **Jeffrey Tran**,

manager of Rise Bagels. “From installing equipment to marketing events, they were invested in our success from day one.”

This hands-on approach helped ensure early momentum, minimized vacancy risk and reinforced Centerview as a cohesive destination rather than a collection of isolated storefronts.

Build a ‘Little City,’ Not an Office Park

A recurring theme among Centerview tenants is the campus's sense of place. Walkability, visibility and proximity to fitness, hospitality and dining have

In Touch With Tenants



EMMES undertook a multimillion-dollar plaza renovation at Centerview after considering amenities that would encourage people to return to the office.

To enhance tenant and community experience, EMMES developed Eighteen Main, a chef-driven, 17,000-square-foot dining haven with four restaurants that complement the four additional restaurants on-site at Centerview.

turned the property into much more than a standard office park for tenants.

Brad Nielsen, partner at Allen Matkins, cited this eco-system as a key differentiator when selecting Centerview for the law firm's Orange County office.

"It's close to the airport, has amenities within walking distance, and the investment in restaurants — from takeaway to white tablecloth — creates a 'little city' feel that most office projects do not have."

Execution Takeaway

Placemaking is not about large-scale redevelopment alone. Incremental improvements such as outdoor seating, public programming, landscaping, signage and events can fundamentally change how a campus is perceived and used.

EMMES reinforced this sense of place through:

- A weekly farmers market.
- Tenant appreciation events and restaurant previews.
- Complimentary yoga for tenants monthly in the Centerview conference center.
- Local partnerships offering preferred pricing to tenants through an EMMES Advantage digital card (discounts apply at local hotels, restaurants, fitness studios, etc.).
- EV charging.

These activations transformed Centerview into a social and professional hub, strengthening tenant loyalty.

Design for Flexibility and Diverse Use Cases

Centerview reflects another critical trend shaping office

demand: multifunctional space. Tenants are no longer using offices solely for individual workstations.

At Centerview, offices function as:

- Collaboration hubs
- Client-facing showrooms
- Outdoor patios
- Hybrid meeting environments

This flexibility has attracted a broad tenant mix spanning legal, financial, creative, health tech, retail and media sectors.

For CCSMI, a national insurance and risk management firm, the quality and adaptability of the environment played a central role in its leasing decision.

"Employees want to enjoy their workplace and environment," said **Tracy Reynolds**, corporate facilities manager at CCSMI. "A nice, clean and up-



Multifunctional space has helped Centerview attract tenants spanning legal, financial, creative, health tech, retail and media sectors.

dated building lets our employees know that we care about their well-being.”

Execution Takeaway

EMMES designs and markets office space as a platform, not a fixed product. Layouts can evolve with tenant needs and support build-outs that prioritize natural light, hospitality-inspired finishes and employee comfort.

Align Amenities With Talent Retention

Another defining aspect of EMMES’ success is its focus on talent attraction and retention. As companies compete for skilled workers, office location and amenities increasingly influence hiring outcomes.

For lifestyle brand P.J. Salvage, Centerview’s indoor-outdoor design and community energy were key.

“This new office space has lots of natural light, customizable work areas, and a vibrant, bustling community,” said **Maia Andersen**, vice president of global marketing at P.J. Salvage. “As a growth-oriented company, we were looking for a more collaborative, amenity-rich space.”

Execution Takeaway

Amenities should directly support tenants’ human resources and recruiting goals. Features like EV charging, wellness-oriented design, outdoor collaboration areas and high-quality dining are no longer just “nice to have,” they are competitive necessities.

Commitment to Continuous Evolution

EMMES views Centerview as a living asset rather than a fin-

Placemaking is not about large-scale redevelopment alone. Incremental improvements such as outdoor seating, public programming, landscaping, signage and events can fundamentally change how a campus is perceived and used.

ished product. The firm continues to explore new offerings for 2026 and beyond, including on-site laundry services, grooming stations and expanded wellness concepts.

Christine Miller, vice president of marketing and communication for EMMES, focuses on building amenities, programming and customer satisfaction. “Work-life integration has redefined what tenants expect,” Miller said. “The office park of the future isn’t just about space efficiency. It’s about lifestyle and how a workplace supports employees’ daily needs.”

Execution takeaway

Repositioning is not a one-time capital event. EMMES plans for ongoing innovation, tenant feedback loops and periodic amenity refreshes to stay ahead of shifting expectations. Thus far, \$50 million has been invested into Centerview, exclusive of leasing cost.

A Blueprint for Modern Office Development

Centerview’s success is not the result of a single bold move but rather a series of coordinated, strategic decisions grounded in tenant behavior, market trends and operational follow-through. EMMES has achieved this by:

- Prioritizing experience over density.
- Treating food and retail as destination drivers.
- Investing in placemaking and community.
- Designing for flexibility and multiuse.
- Aligning amenities with talent needs.
- Committing to continuous reinvention.

In a market still redefining the role of the office, Centerview demonstrates that demand has not disappeared. Rather, it has simply evolved. For developers willing to rethink traditional models and execute with intention, the opportunity remains substantial. ■

Justin Nguyen is executive vice president of asset management at EMMES, based in Irvine, California.

In Touch With Tenants

IDEAS FOR ATTRACTING AND RETAINING TENANTS

When Occupancy Misleads: Uncovering the True Cost of Economic Vacancy

Physical occupancy rates offer an incomplete picture of a property's long-term financial health.

By Bhavna Goyal, ORIX USA

For commercial real estate investors and operators, understanding the distinction between economic vacancy and physical vacancy is fundamental to evaluating asset performance. This differentiation became more relevant in the wake of the COVID-19 pandemic, when the expiration of government stimulus programs exposed real estate portfolios to elevated delinquency levels.

Physical Versus Economic Vacancy

Physical vacancy is the more straightforward metric, reflecting the proportion of units that are unoccupied at a given time. For example, a 100-unit multifamily property with seven unleased units exhibits a 7% physical vacancy rate, or conversely, a 93% occupancy rate.

Economic vacancy, by contrast, provides a more accurate representation of a property's revenue-generating capacity. It captures the lost rental income due to additional factors besides physical vacancy, such as delinquencies, rent concessions, and model and employee units.

There are multiple reasons that could contribute to a high economic vacancy, but the impact from delinquent tenants is among the most difficult and expensive to remediate. These are tenants who are physically in place but delinquent in rent payments. Continuing the earlier example, if an additional 13 tenants are not paying rent, the property's economic vacancy



effectively rises to 20%, even though only seven units are physically vacant. While this example is simplified for illustration, economic vacancy is calculated as: $(\text{Gross Potential Rent} - \text{Actual Rental Income}) \div \text{Gross Potential Rent} \times 100$.

This metric reflects the percentage of potential rental income lost due to nonpaying tenants, vacancies and concessions.

The Strategic Importance of Assessing Economic Vacancy

While both indicators merit attention, economic vacancy is the more critical determinant of net operating income (NOI) and, ultimately, asset valuation.

Physical vacancy can often be addressed through improved marketing, competitive pricing or enhanced property management — actions generally within the control of ownership. Economic vacancy, however, presents a more complex challenge. Rent collection is subject to factors such as jurisdictional eviction procedures and tenant protections, which can prolong the removal of nonpaying occupants for months and generate significant legal costs. During this

period, landlords suffer a direct loss of rental income. Furthermore, units vacated after protracted delinquency frequently require substantial rehabilitation to remedy damage or neglect before they can be reintroduced to the market.

The Real Cost of Economic Vacancy

The financial consequences of elevated economic vacancy extend well beyond lost rent and include:

Erosion of NOI and asset value:

Every dollar of uncollected rent represents a direct hit to NOI. Given that commercial properties are typically valued using income capitalization, even a small sustained decline in NOI can translate into a significant drop in market



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Physical vacancy can often be addressed through improved marketing, competitive pricing or enhanced property management — actions generally within the control of ownership. Economic vacancy, however, presents a more complex challenge.

value. For instance, at a 6% capitalization rate, a \$50,000 annual reduction in NOI reduces property value by roughly \$833,000, calculated as NOI/Capitalization Rate.

Legal and administrative expenses: Evicting delinquent tenants often entails legal fees, court costs and management's time. Depending on the jurisdiction, these expenses can accumulate over months while the property continues to forgo rental income.

Carrying costs and interest burden: During periods of nonpayment, owners must still meet fixed obligations such as property taxes, insurance, maintenance and debt service. Prolonged economic vacancy can stress debt covenants and increase the risk of loan default.

Turnover and rehabilitation costs: When delinquent tenants are eventually removed, units frequently require significant repairs due to neglect or damage. These unbudgeted capital expenditures delay re-leasing and further suppress cash flow.

Reputational and operational impact: High levels of delinquency can signal management weakness or market instability to lenders, equity partners and prospective tenants, potentially leading to higher borrowing costs and a weaker competitive position.

Operational Strategies to Minimize Economic Vacancy Risk

Although the jurisdictional eviction process for delinquent tenants is outside an investor's direct control, property owners and managers can take several proactive steps to reduce economic vacancy and attract a stable tenant base, including:

Expanding the target pool of clients: This can be accomplished by strengthening the property's online presence and improving the quality of listing materials. In addition, targeted digital marketing campaigns can help reach specific renter demographics that are most likely to be interested in the property. Partnering with local

brokers or leasing agents can further expand the tenant pipeline by leveraging their networks and market knowledge.

Enhancing tenant retention: Retaining existing tenants is often more cost-effective than constantly acquiring new ones. Property managers should prioritize strong communication with residents and maintain a high level of service responsiveness. Promptly addressing maintenance requests and resolving issues quickly helps build trust and satisfaction among tenants. When residents feel their concerns are heard and addressed efficiently, they are more likely to renew their leases and remain long-term occupants.

Improving property amenities and appeal: Investing in property upgrades can increase the perceived value of the asset and make it more attractive in a competitive rental market. Enhancing common areas such as lobbies, hallways and shared spaces can significantly improve first impressions. Adding high-demand amenities, such as fitness centers, coworking areas, secure package lockers or high-speed internet infrastructure, can further differentiate the property. Improvements to curb appeal, including landscaping, exterior lighting and updated signage, can also make the property more inviting to prospective tenants.

Strategic repositioning can help attract a new demographic of renters while distancing the property from any prior negative perceptions.

Repositioning the asset strategically: In some cases, it may be beneficial to reposition or rebrand the property to better align with a desired tenant segment. Strategic repositioning can help attract a new demographic of renters while distancing the property from any prior negative perceptions. Through thoughtful branding, targeted marketing and selective upgrades, owners can refresh the property's identity and strengthen its competitiveness in the local market.

In a competitive real estate environment, investors, lenders and asset managers should prioritize tracking and mitigating economic vacancy as a core component of risk management. While physical vacancy reflects market demand and leasing effectiveness, economic vacancy offers a truer measure of a property's income stability and long-term financial health. ■

Bhavna Goyal is a senior director of credit risk management at ORIX USA.

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Inside Investment and Finance

CAPITAL MARKETS, FINANCE AND SALES

Cold Storage Investment: The Case for Temperature-controlled Real Estate

Several pathways exist for investors seeking exposure to this specialized asset class.

By Michael Delaney, Seyfarth Shaw LLP

Cold storage has shifted from a niche to a core pillar of the industrial ecosystem. In the process, temperature-controlled warehousing is transforming into one of the most compelling strategic investment opportunities in the modern real estate landscape.

In a yield-starved environment, this specialized asset class combines resilience with strong growth potential and offers a natural hedge against inflation. Recent transactions and joint ventures point to accelerating institutional interest, as investors seek durable cash flows tied to essential goods. Cold storage is fast becoming essential logistics infrastructure for food security, health care and supply chain integrity. In many regions, vacancy in modern facilities remains exceptionally tight, reinforcing landlord pricing power and long lease visibility.

Demand and Growth Drivers

Market fundamentals underscore a significant and sustained growth trajectory. The global cold storage market is projected to more than double over the next decade, with valuations at \$188.81 billion in 2025 expected to exceed \$435 billion by 2034, reflecting robust long-term demand for chilled and frozen warehousing infrastructure. Across North America, the cold chain storage and logistics market is projected to reach approximately \$362 billion by 2034, underscoring the region's central role in sup-

porting temperature-controlled supply chains.

Within this landscape, the United States is experiencing rapid cold storage expansion, with the market set to grow from about \$44 billion in 2025 to roughly \$125 billion by 2034. This growth reflects the country's large food distribution networks and early adoption of advanced biologics logistics. In Canada, cold storage revenue is forecast to rise from \$12.84 billion in 2025 to \$28.93 billion by 2033, representing an annual growth rate of nearly 10%, supported by expanding protein and produce exports and growing biologics distribution capacity.

Three powerful, interconnected secular trends are fueling this rapid expansion. First is the acceleration of e-commerce and online grocery shopping, which has created massive, immediate demand for refrigerated fulfillment infrastructure. With U.S. online grocery sales forecast to surpass \$150 billion by 2026, a corresponding expansion of cold chain capacity is critical for supporting last-mile delivery networks.

Second is the revolution taking place in the pharmaceutical sector. The emergence of complex biologics, mRNA-based treatments and advanced cell therapies requires increasingly sophisticated, ultracold environments, often ranging from minus 20 degrees to minus 80 degrees Celsius. This represents a fundamental, noncyclical shift in health care logistics.

Finally, for everything from fish and meat to dairy and produce, cold storage offers essential infrastructure. Frozen capacity still represents the majority of the market, anchoring demand in food distribution and import/export gateways.

The Supply-Demand Imbalance: A Landlord's Market

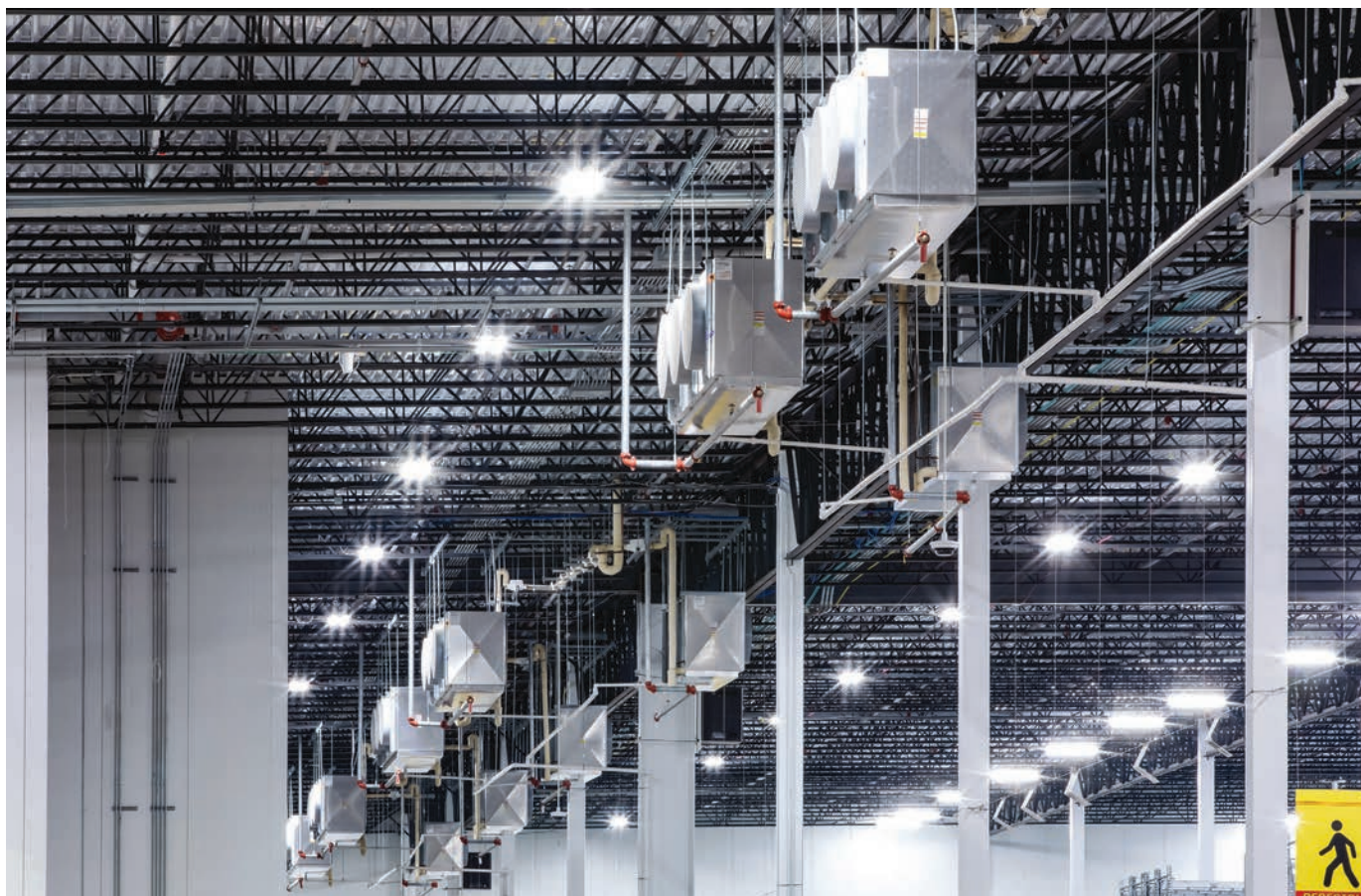
Perhaps the most persuasive argument for investment is the sector's acute and persistent supply-demand imbalance. Temperature-controlled warehousing accounts for a mere 2% to 5% of total U.S. industrial real estate inventory, creating a scarcity premium in key logistics markets. Despite booming demand, new supply has significantly lagged, cultivating a landlord-favorable environment characterized by

Across North America, the cold chain storage and logistics market is projected to reach approximately \$362 billion by 2034, underscoring the region's central role in supporting temperature-controlled supply chains.

pricing power and strong tenant retention.

The scarcity stems from significant barriers to entry. Development complexity is a major deterrent, demanding specialized knowledge of refrigeration systems, insulation requirements and energy management. As a result, construction costs typically range from \$130 to \$350 per square foot, which is often two to three times higher than conventional warehouses, increasing the risk of speculative developments.

Compounding this is the issue of aging inventory. More than 75% of U.S. cold storage capacity was built before 2000, and the average facility is approximately 37 years old. These outdated assets often lack the ceiling heights, energy efficiency and technological infrastructure required by modern food and pharmaceutical operators. While new development is accelerating, it remains insufficient to



A refrigeration system mounted on the ceiling of a cold storage warehouse.

close this growing gap, which translates directly to persistently low vacancy rates — often below 2% — and premium rental rates versus dry warehouses.

An Attractive Financial Profile

The financial characteristics of cold storage are uniquely compelling. Capitalization rates for cold storage assets can reach up to 7.65%, typically offering a 50 to 100 basis point premium over traditional dry warehouses. This reflects the specialized nature of the asset class and its higher initial capital intensity.

Investors benefit from several favorable features. The premium rental rates commanded by cold storage, which are often 100% to 200% higher than conventional industrial space, directly enhance cash flow and asset valuation. Furthermore, the specialized nature of the facilities, combined with high tenant improvement costs,

encourages longer lease terms, usually 10 to 15 years. These terms, alongside the reliance on essential businesses as tenants (e.g., food distributors, pharmaceutical companies), significantly enhance income stability and reduce default risk.

Critically, most cold storage leases and storage agreements incorporate escalations based on the Consumer Price Index (CPI). This provides an effective hedge, ensuring real returns are preserved during inflationary periods. Finally, the significant costs associated with relocating or replicating specialized infrastructure create high switching costs for tenants, resulting in strong renewal probabilities and low turnover expenses. This combination of premium rents, CPI-linked escalators and switching costs creates a rare mix of growth and defensiveness for investors.

Navigating Complexity and Risk

To realize the full potential of cold storage, investors must understand and strategically manage its unique risks. The sector is capital intensive. Basic cooling spaces start with construction costs of \$130 to \$180 per square foot, with advanced, automated facilities reaching \$250 to \$400 per square foot. These elevated costs stem from specialized insulation, advanced refrigeration and modern automation systems such as robotic material handling.

Operational complexity is another key challenge. Facilities require 24/7 temperature control, and refrigeration systems can account for up to 70% of a building's energy usage, making energy consumption a major cost driver. Mitigating this risk involves investing in modern, energy-efficient systems and leveraging technologies like IoT sensors and AI-driven predictive maintenance to optimize energy usage and reduce downtime.

Investors must also manage the risks associated with aging infrastructure, specifically the potential for frost heave or vapor barrier failure, and the reliance in about 90% of U.S. facilities on ammonia-based refrigeration systems, which present environmental and safety considerations. Thorough due diligence, strategic capital improvement plans and careful insurance structuring are essential mitigation strategies.

Inside Investment and Finance

Lastly, navigating complex regulatory compliance with agencies like the Food and Drug Administration and the Department of Agriculture necessitates robust management systems. Where feasible, power resiliency (e.g., on-site generation, microgrids) and demand-response strategies can further de-risk operations and stabilize operating expenses.

Strategic Entry and Market Selection

Location fundamentally influences performance. Prime markets that stand out for their superior demand dynamics include Dallas-Fort Worth, Chicago, Atlanta, and key urban centers in Florida and the Northeast Corridor (New Jersey and Pennsylvania). These markets benefit from central distribution nodes, thriving food processing ecosystems and dense population centers.

An exciting geographic trend is the emergence of microfulfillment centers. These smaller, strategically located urban and suburban facilities are optimized with automation to support the growing need for rapid, temperature-

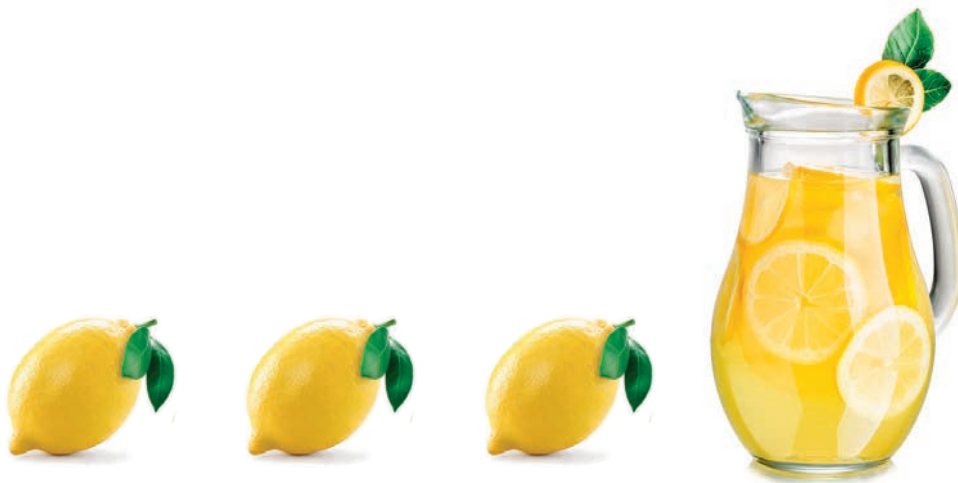
sensitive last-mile deliveries. For investors, these facilities can offer outsized rent growth potential relative to footprint due to proximity premiums and service-level requirements.

For investors seeking exposure, several pathways exist, including investing through public REITs for liquidity, accessing institutional quality through private equity funds, or pursuing direct ownership and joint ventures with experienced developers for maximum control. Regardless of the entry strategy, success hinges on rigorous due diligence that assesses not just real estate fundamentals but also operational capabilities, tenant profile and building specifications. Target underwriting should stress-test energy

intensity, retrofit scope for older assets, and the durability of tenant demand across food and pharmaceutical subsectors.

Cold storage investment offers far more than a tactical industrial real estate play. It provides exposure to essential infrastructure that will only grow in importance as global supply chains adapt to climate volatility, changing consumer preferences and accelerating health care innovation. Investors who establish positions now can lock in yield premiums, CPI-linked growth and value creation upside from modernization and automation before the sector fully institutionalizes. ■

Michael Delaney is a partner and corporate attorney at Seyfarth Shaw LLP.



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Inside Investment and Finance

CAPITAL MARKETS, FINANCE AND SALES

Market-timing Strategies for Property Acquisitions in Uncertain Times

Disciplined structure and the right markets can create an advantage while others wait for clarity.

By Sanat Patel, AVANA Companies

The commercial real estate market has not lost opportunity. It has become far more selective about what deserves confidence.

Uncertainty has a way of doing that. It strips away the easy deals, exposes weak assumptions and forces every buyer, lender and broker to get honest about what really drives outcomes: basis, structure and execution.

For senior-level development professionals, this shift creates both challenge and opportunity. The current environment features fewer “easy wins” and more situations where timing is determined by the capital stack, not the real estate. The rewards go to those who can find opportunity where others see only uncertainty.

Why Timing Feels Harder Right Now

Three macro forces are colliding simultaneously, creating an environment where traditional timing strategies fall short.

Cost of capital: The cost of capital has stayed higher, longer than many models anticipated. That shift has reset cap rates, reduced leverage and made “good deals” fail on math alone. CBRE’s 2025 U.S. real estate outlook highlighted the risk that rates remain “higher for longer,” even as investment activity gradually improves.

The maturity wave: A major maturity wave is turning into a decision wave. The Mortgage Bankers Association estimated



Successful market timing involves acquiring assets where firms can survive the stress case and realize meaningful upside once markets normalize.

that about 20% of outstanding commercial mortgages — roughly \$957 billion — matured in 2025, often pushing owners into refinance gaps as proceeds retrade under current underwriting.

Tightening underwriting and risk management:

Underwriting and risk management expectations have tightened, especially for CRE-concentrated institutions. The Federal Deposit Insurance Corp. (FDIC) has emphasized strong capital, appropriate allowance levels and robust credit risk management for banks or other lenders managing CRE concentrations in a challenging environment.

Layer in uneven property fundamentals depending on sector and market, and the result is a familiar standoff. Buyers underwrite today's

Buyers underwrite today's reality while sellers remember yesterday's pricing. That gap does not close with optimism.

It closes with structure and with buyers who can underwrite multiple outcomes without losing conviction.

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reality while sellers remember yesterday's pricing. That gap does not close with optimism. It closes with structure and with buyers who can underwrite multiple outcomes without losing conviction.

A Practical Definition of Market Timing in 2026

In uncertain times, market timing is rarely about calling the bottom. It's about buying optionality.

For professionals building wealth through a combination of cash-flow compounding and equity creation via value-add strategies, the playbook becomes simpler: Time the basis and the structure, not the headlines. There is an opportunity to capitalize by structuring flexibility while others wait for certainty that may never arrive.

That approach does not mean taking blind risks. It means acquiring assets where firms can survive the stress case and still have meaningful upside when markets normalize.

The following market-timing strategies work right now.

Buy 'Basis' Where the Capital Stack Is Breaking

Some of the most attractive acquisition opportunities currently are not "distressed" in the classic sense. Rather, they are misaligned.

Refinance gaps are showing up because loans originated in a different rate regime are maturing into today's underwriting reality. Many assets are still viable, but the debt is not. The Federal Reserve Bank of St. Louis points directly to repricing risk as borrowers face refinancing at higher rates alongside weakening valuations and pressure on net operating income in parts of the market.

Among the signs to look for are:

- Loans hitting maturity with proceeds meaningfully below the payoff.
- Sponsors facing "gap equity" needs even on performing properties.
- Partnership friction from buyouts, dilution or recap fatigue.
- Assets where fundamentals are intact but capex and reserve needs were undermodeled.

This creates a timing edge because it doesn't involve waiting for rates to fall. The strategy involves buying when the market is forced to reprice capital structure risk. When entered at the right basis, value-add equity creation becomes more achievable because the deal starts with realism.

Risk control requires underwriting refinance as a probability, not a plan. If the deal only works if rates fall, that's not a strategy — it's a bet.

Underwrite Capex Like It's Part of the Purchase Price

Capital expenditure surprises are deciding deals now. Roofs, HVAC, life-safety, property improvement plans, facades, parking lots and unit turns are not "later." They are immediate drivers of debt-service coverage ratio (DSCR) durability and can impact the ability to refinance.

In tight credit conditions, deferred maintenance does not just reduce value. It reduces liquidity because lenders and buyers price uncertainty aggressively.

Disciplined underwriting requires treating capex and deferred maintenance as

Risk control requires underwriting refinance as a probability, not a plan. If the deal only works if rates fall, that's not a strategy — it's a bet.

a use of proceeds, not a footnote. Reserve appropriately and model timing honestly. Underwrite stabilization periods longer than is wanted. Stress DSCR on the cash-flow reality after capex timing, not before.

This is where experienced entrepreneurs win. The market rewards operators who can see around corners, price the real cost of execution and still structure a transaction that closes.

Target Overlooked Growth Nodes

In uncertain times, capital crowds into the obvious. That's why some of the best timing opportunities show up where growth is real but the narrative has not fully priced it in.

One category to watch closely is AI-driven growth nodes beyond headline tech markets. This includes construction projects for server farms and data centers, high-capacity data grids, fiber-optic networks and, increasingly, AI user hubs or specialized cooling infrastructures. Think here of data-adjacent development, specialized manufacturing and the service economy that follows, including housing, hospitality, medical, retail services and light industrial. A second category is infrastructure-led corridors featuring markets with tangible drivers such as transportation improvements, reshoring-linked suppliers, logistics connectivity and public/private investment that creates sticky employment.

This matters for timing because if the entry basis is reasonable and demand is being built underneath, cash flow can be compounded while executing a value-add plan. The need isn't to "win the cycle." The need is to win the basis and then execute.

The discipline is to remain rigorous. Overlooked does not mean unproven, but it can mean less competition for those willing to do the work.

Reset Borrower Expectations Early

This strategy matters to every persona: brokers, lenders, borrowers and aggregators. In the current market, deals often die late because borrower expectations were set early using outdated assumptions: proceeds, pricing, timing, capex, exit caps and “best case” rate scenarios.

The most valuable thing that can be done right now is to have the honest conversation earlier than everyone else. What that looks like in practice is replacing hope with scenarios: base case, stress case, severe stress. Make the borrower state what must be true for the deal to work. Identify the trade before it becomes a surprise: price, reserves, structure, interest only, hold period or business plan. Confirm capital sources early because timing is not just about the asset; it's about the certainty of execution.

Borrowers who accept today's reality early can move faster, negotiate more effectively and maintain credibility with capital partners. Borrowers who resist reality lose time — and timing is expensive right now.

Disciplined Underwriting in Today's Market

Successful market timing requires specific underwriting discipline that aligns with both market realities and regulatory expectations.

Successful financing across asset types requires this discipline. The common denominator is not property type but rather the quality of sponsorship, clarity of the business plan and defensibility of cash flow.

The approach in this market is intentionally disciplined: up to 75% loan-to-cost/70% loan-to-value when the story is sound and downside is underwritten, and a minimum DSCR of 1.25x as a target, with various stress tests that ensure a minimum of 1.00x the DSCR is achieved within these asset-stressed constraints, ensuring the deal does not depend on perfect execution.

This aligns with what regulators are emphasizing across the system: robust risk management and clear discipline where CRE concentration exists. Confidence today is not created by leverage. It's created by structure, transparency and execution plans that survive the stress case.

Principles for Successful Market Timing

Professionals who build wealth in CRE during uncertain times are rarely those who guess the next rate move correctly. They are the ones who

One category to watch closely is AI-driven growth nodes beyond headline tech markets. This includes construction projects for server farms and data centers, high-capacity data grids, fiber-optic networks and, increasingly, AI user hubs or specialized cooling infrastructures.

enter at a defensible basis, underwrite capex and refinance risk with precision, target demand nodes that are real but overlooked, and structure transactions with flexibility.

Success requires focusing on fundamentals over forecasting, maintaining discipline around

defensible entry points, and building competitive advantages through precise execution while others wait for perfect market conditions that may not materialize. ■

Sanat Patel is chief lending officer and co-founder of AVANA Companies.



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Inside Investment and Finance

CAPITAL MARKETS, FINANCE AND SALES

Entering High-growth Cities Without Overpaying

With retail investment, underwriting should stay grounded in the mechanics that turn growth into realizable NOI.

By Nick Kolbe, Capstone Advisors

High-growth cities such as Phoenix and Salt Lake City are increasingly considered sound locations where retail investment cash flow can meaningfully grow, even as consumer spending is uneven, construction costs have increased and interest rates remain higher for longer. While strong population migration, household formation and business relocation create a compelling narrative, however, story-driven growth too often underperforms when basis discipline is traded for urgency.

Understanding the Pitfalls

In evaluating exciting submarkets such as Phoenix's Deer Valley or Salt Lake City's South Jordan, three recurring pitfalls tend to surface when investors try to latch onto growth.

Pricing drift: In high-demand submarkets, cap rates can compress faster than property-level fundamentals improve. Buyers underwrite the "next lease" as if it were already signed or assume a smooth transition to market rent despite fixed contractual renewal options on the horizon. Entry pricing for assets then becomes a gauge of how hot the market is rather than an assessment of the asset's ability to convert growth into realizable improvement in net operating income (NOI) within the intended hold period.

Lease structure constraints: Retail assets in growth markets often trade at a premium, but poorly structured leases can cap upside for extended

periods. Fixed-rate renewal options, percentage rent provisions that look attractive but rarely monetize, and long WALT (weighted average lease term) profiles that delay mark to market can all convert expected growth into delayed cash flow gain.

Rate volatility: High-growth markets are prime areas where investors use leverage to enhance returns. Execution can be impacted due to financing risk when the debt structure is misaligned with the business plan, such as an insufficient interest-only period, a near-term maturity before lease roll or unhedged floating-rate exposure.

Market expansion, therefore, should rely less on geography and more on disciplined capital allocation when conditions are uncertain. Capstone Advisors' 30-year operating history has reinforced a straightforward principle: Growth is valuable only if it can be captured at a basis that protects downside through leases that allow value realization, with diligence that prevents avoidable defects and a debt structure that does not force unfavorable timing decisions.

Screening Factors for Expansion Into Retail Markets

Successful expansion into markets such as these starts with separating merely "fast-growing metros" from solid "investible markets." A top-down assessment is necessary but rarely sufficient. From a retail perspective, four factors typically guide screening:

Population and household formation: Net in-migration and household growth tend to show up in neighborhood-serving retail demand first, particularly in grocery-adjacent and service-heavy categories.

Employment diversity and job nodes: Retail performance in growth markets is strongest when job growth is durable and diversified rather than tied to a single boom/bust driver.

Income trajectory and affordability: Retail rent growth can lag population growth when housing costs accelerate faster than wages, limiting discretionary spending.



Retail demand signals: New store openings, tenant pipeline depth and leasing velocity often provide more insight than splashy economic headlines.

Drilling Down Into the Submarkets

These factors produce a short list of cities to research, with Phoenix and Salt Lake City frequently rising to the top. But real investment advantage is created at the submarket level.

Submarket selection is about observed absorption, not forecasted opportunity. Growth



Capstone Advisors decided to acquire a grocery-anchored shopping center in South Jordan, Utah, in part because the master plan for the surrounding community had already delivered meaningful scale, with approximately 10,000 homes built and another 10,000 planned.

markets can expand in multiple directions at once, but retail follows the path of rooftops, access and daily trip generation. Key questions to consider include:

- Where are new rooftops being delivered today, and where have they been entitled?
- Which nodes are becoming habitual trip destinations (grocery, school, medical, civic uses)?
- What is the level of competitive supply? What is the new retail pipeline, land availability and entitlement friction?

In retail, durable “necessity” outperforms convenient trips. Assets adjacent to grocery anchors, schools, health care, entertainment, transit and civic investment tend to be less

sensitive to tenant churn and more supportive of rent growth. These hubs also influence tenant decision-making, as retailer site selection often follows the same logic of visibility, access, daily traffic and complementary uses.

Passing the Underwriting Test

Once a submarket has been selected, disciplined capital allocation determines whether expansion is repeatable. Underwriting should pass four primary tests:

Market expansion should rely less on geography and more on disciplined capital allocation when conditions are uncertain.

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In-place NOI quality: Credit, rent collections history and lease enforceability matter as much as the headlining cap rate.

Mark-to-market runway: Rent gaps are not return generators until they can be captured through tenant roll, renewals or re-leasing.

Replacement cost and competitive parity: A basis that approaches replacement cost can be justified, but only if supply constraints and asset positioning support it.

Time-to-realize rent lifts: Renewal option structures, WALT and tenant leverage define when the value can be captured.

A common underwriting mistake in growth markets is paying for rents that can be achieved only years later. Fixed-rate renewal options can convert a market rent story into capped, long-duration income. This is not inherently negative, as stability has value, but it must be priced correctly. WALT and option stacks should drive hold-period logic and return expectations. If the next decade is governed by fixed-rate options, mark to market should be treated as a long-term potential upside. The key question: How much of the rent gap is achievable within the hold period?

When entering new markets, due diligence should be treated as a return driver because it governs post-close flexibility. Governance documents, reciprocal easement agreements (REAs), signage and access rights, parking allocations, shared maintenance obligations and tenant exclusives can materially affect performance. The objective is clarity on agreements at acquisition to properly price investment risk. Who controls what? Who pays for what? What can or can't be modified over the hold period?

Success also depends on appropriately matching the business plan timeline to the capital stack. Floating-rate debt can be appropriate, but only when hedged and synchronized with lease roll and planned value capture. Disciplined structure typically addresses interest-rate hedging (swap or cap strategies), maturity timing relative to lease roll, a sufficient interest-only period to execute on the business plan, and manageable prepayment and extension provisions. Debt should support execution, not jeopardize it.

Case Study: Trail Crossing

Recently, Capstone Advisors, a diversified real estate investment, development and asset management company, acquired Trail Crossing, a grocery-anchored shopping center in the Daybreak master-planned community in South Jordan, Utah. The property consists of five outparcel buildings across four pad sites, surrounding the Smith's Marketplace shadow anchor. The asset totals approximately 38,000 square feet and was acquired for \$12.2 million (approximately \$340 per square foot) at a 6.75% going-in cap rate with 96% occupancy at acquisition.

This location is a strong growth node with a long-duration runway. The master plan has already delivered meaningful scale, with approximately 10,000 homes built and another 10,000 planned for development over a number of years. Beyond rooftops, announced development plans by Larry H. Miller Real Estate Company point toward a transformational urban center, including the new Salt Lake Bees minor league baseball stadium, a Megaplex cinema-entertainment center, and additional residential,

commercial and community developments.

Three pillars drove Capstone Advisors' investment thesis for Trail Crossing:

Submarket durability: Daybreak's phased residential delivery and mixed-use expansion provide a long-term runway. The thesis relied on visible absorption, not distant projections.

Rent growth, priced for timing: In-place rents showed upside, but underwriting separated market rent from realizable rent. Fixed-rate renewal options enhanced occupancy stability while limiting near-term mark to market, aligning return expectations with actual lease timing.

New-market diligence and rate alignment: Governance clarity, signage and access rights, and shared-use provisions were evaluated alongside a hedged capital structure designed to support the execution window rather than force timing decisions.

An Integrated System

Trail Crossing is representative of the broader approach: Growth-market entry works when basis, lease structure, diligence and debt are underwritten as an integrated system

Market expansion

- Start at the submarket level. Metro growth signals opportunity; submarket absorption defines it.
- Follow durable trips. Grocery adjacency, master-planned nodes and civic/entertainment investment drive repeat visits, supporting tenant performance and rent stability.
- Favor constrained retail supply. When demand compounds faster than new retail can deliver, occupancy stability and rental rate growth become durable.

Capital allocation

- Underwrite timing, not just spreads. Rent gaps are valuable to the investment only if they can be captured within the hold period.
- Treat option stacks as a core risk. Fixed-rate renewals can cap upside for years.
- Use replacement cost as a reality check. Growth does not eliminate competitive supply; it changes how and when new supply arrives.

Due diligence and rate risk

- Treat governing documents as investment documents. Requests for equitable adjustment, parking, signage and access rights can change the economics of the asset. These should
- be diligence priorities, not afterthoughts.
- Evaluate constraints that cannot be fixed. If a constraint cannot be amended, it must be reflected in the basis and return expectations. Even small defects can move the needle.
- Align debt to execution. Hedge floating exposure, match maturities to lease roll, and avoid debt structures that could force untimely decisions.

A common underwriting mistake in growth markets is paying for rents that can be achieved only years later. Fixed-rate renewal options can convert a market rent story into capped, long-duration income. This is not inherently negative, as stability has value, but it must be priced correctly.

High-growth markets can offer compelling opportunities, but underwriting should stay grounded in the mechanics that turn growth into realizable NOI. A disciplined framework of submarket selection, basis protection, lease-structure pricing, governance diligence and rate alignment helps ensure expansion is repeatable and resilient across market cycles. ■

Nick Kolbe is director of acquisitions at Capstone Advisors.

High-growth markets can offer compelling opportunities, but underwriting should stay grounded in the mechanics that turn growth into realizable NOI.



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Inside Investment and Finance

CAPITAL MARKETS, FINANCE AND SALES

Forecasting the Future: Turning Cash Flow Into a Competitive Advantage

Developers and contractors who treat liquidity as a strategic priority gain flexibility that others lack.

By Nancy Cox, The Bonadio Group

In real estate development and construction, profitability often steals the spotlight. Developers and contractors analyze margins, model internal rates of return, and structure capital stacks with precision. However, in practice, even projects that look strong on paper can struggle. Not because they lack projected profit, but because they lack liquidity at critical moments. Cash flow is an integral strategy for risk management.

In an environment defined by higher borrowing costs, tighter underwriting standards, insurance volatility and extended timelines, disciplined cash flow forecasting is one of the most powerful tools developers and contractors possess to protect profitability, manage risk and preserve momentum.

Profitability Alone Isn't Enough

Traditional financial metrics such as net income or EBITDA (earnings before interest, taxes, depreciation and amortization) can paint an incomplete picture in real estate. They can be skewed by noncash items like depreciation, unrealized gains or accounting strategies that shift revenue recognition. More importantly, they don't reflect major outflows like capital expenditures or debt service, both of which are fundamental to real estate.

Real estate is uniquely sensitive to timing. Rent cycles, capital inflows and debt payments rarely align perfectly. Fixed obligations, such as payroll,



taxes, insurance or loan payments, don't wait for delayed collections or pending asset sales. This timing gap is where risk lives and where cash flow planning becomes essential.

Because projects are prone to showing healthy long-term returns while experiencing short-term stress that forces additional equity, renegotiated financing or delayed execution, cash flow visibility (not just profitability modeling) must be central to development strategy.

Budgets vs. Forecasts

Budgets are typically static, as they are built once and adjusted periodically. Forecasts are dynamic and continually updated based on real project performance. Every approved change order, shift in construction timeline, interest rate adjustment or lease-up delay should flow into a revised forecast. If a company's model has not been updated recently, it is unlikely to reflect current exposure.

A common misconception is that a detailed budget is sufficient. A budget answers the question: What will this project cost? A cash flow forecast answers a different and more urgent question: When will cash actually move? Dynamic

forecasting allows leadership teams to see pressure building early, before it becomes disruptive.

Scenario-based Planning

Sound forecasting cannot rely on a single projection. At minimum, developers and contractors should model three potential scenarios: a most likely case, a best case and a worst case. Downside modeling should include variables such as:

- Construction delays
- Cost overruns
- Slower lease-up or absorption
- Interest rate increases
- Insurance premium spikes

Even modest shifts can materially affect cash flow. In a higher-rate environment, a delay of several months can signifi-

cantly increase interest carry. If that delay also postpones revenue stabilization, the liquidity gap widens. When contractors and developers understand how downside modeling affects debt covenants, reserves and working capital, it becomes easier to negotiate financing structures more intelligently and structure equity contributions more strategically.

Short-term Liquidity vs. Long-term Growth

Effective cash flow management operates on two timelines:

- Short-term forecasting protects continuity and ensures timeliness with payroll, subcontractor payments, interest obligations and daily operating expenses.
- Long-term forecasting supports strategic decisions such as expansion, acquisitions, sales or recapitalizations.

Developers should maintain rolling 18- to 24-month forecasts for active projects, combined with longer-term capital planning at the portfolio level. Developers who focus only on immediate liquidity may hesitate to pursue growth opportunities, while those who focus only on long-term projections may overlook near-term stress, making balance a critical planning element.

Working Capital Discipline

Working capital management is foundational to cash health. Monitoring receivables, payables and billing cycles can have as much impact as revenue does on growth. Alternately, issues like delayed collections or front-loaded cost commitments can create strain even on profitable jobs

Key areas that require ongoing oversight include:

- Aging of receivables
- Timing of progress billings
- Retainage recovery schedules
- Vendor payment terms
- Utilization of credit facilities

Many development projects rely on incentives such as tax credits, abatements or grants to make returns viable. These tools are valuable, but their timing must be modeled conservatively. It's not unusual for proceeds to be received later than anticipated, monetization to involve transaction costs or regulatory requirements to shift. To mitigate the consequences of timing issues, forecasting should treat incentive inflows with the same scrutiny applied to debt and equity contributions rather than assuming perfect timing.

Portfolio-level Visibility

For firms managing multiple active developments, liquidity risk rarely resides in a single project. Instead, it compounds across the portfolio.

One project hitting peak construction spend at the same time another faces delayed stabilization can create meaningful strain on enterprise cash. What appears manageable in isolation can become disruptive when aggregated.

That is why cash flow forecasting must operate at two levels: project-specific and portfolio-wide. Leadership teams need visibility into when each development reaches peak

Developers who focus only on immediate liquidity may hesitate to pursue growth opportunities, while those who focus only on long-term projections may overlook near-term stress, making balance a critical planning element.

cash deployment, how total debt service obligations stack up across the organization, and how simultaneous downside scenarios would affect overall liquidity.

True resilience comes from understanding how projects interact financially, not just how each performs independently.

Building a Forecast That Works

The most effective forecasts extend beyond a static 12-month view and instead provide a rolling, multiyear perspective tied directly to construction milestones, capital contributions, financing resets and stabilization timelines. They incorporate sensitivity testing so leadership can see how shifts in rates, delays or cost overruns ripple through liquidity.

Equally important, the model must be built for its audience. While an investor may focus on capital calls and return timing, a developer may concentrate on interest reserves and contingency usage, and a CFO may prioritize covenant compliance and enterprise liquidity. The structure of the forecast should always reflect the positions of those using it to make decisions.

Perhaps most critically, forecasts must be regularly put into use. A forecast that is prepared but not revisited cannot serve as a risk mitigation tool. It becomes strategic only when it informs conversations, negotiations and capital planning in real time.

At its core, cash flow forecasting is about building a more resilient business. In a market where capital is cautious and margins are hard-won, developers and contractors who treat liquidity as a strategic priority gain flexibility that others lack. They can move quickly when opportunities arise, absorb volatility without destabilizing operations and negotiate from a position of strength rather than urgency. Profit may define the vision for a project, but disciplined cash flow management determines whether that vision becomes reality. ■

Nancy Cox is the construction and real estate industry leader at The Bonadio Group.

Transportation and Mobility

MOVING PEOPLE AND GOODS

Repositioning Office Assets Around New Rail Infrastructure

Those who capture the most value from transit-oriented development execute well ahead of the ribbon cutting for new service.

By Jud Pankey, Will Guerriero and Natalie Johnson

Knoll Trail Crossing in North Dallas is the only commercial office property along DART's newly opened Silver Line with a station at its front door. The platform for the regional rail service is less than a one-minute walk from the office building's lobby.

That physical fact required years of deliberate groundwork to monetize, and it illustrates the central challenge of transit-oriented development (TOD): Proximity does not automatically confer value. Value is created through capital sequencing, operational integration, and tenant positioning that anticipates how rail reshapes space utilization expectations before those expectations reach asking rents. Adding further complexity are community perception and experience with the transit agency and its execution of TODs.

Identifying an Asset Before Transit Value Is Priced In

Prescott Group, a diversified real estate investment firm headquartered in Dallas, acquired Knoll Trail Crossing, a five-story, 96,509-square-foot office building, in 2019 — prior to completion of the Dallas Area Rapid Transit (DART) Silver Line and well before Knoll Trail Station's impact on the surrounding submarket was legible to most investors. Prescott's familiarity with DART's development patterns gave the firm a meaningful edge. The team had previously owned 6060 North Central Expressway, a Class A office

adjacent to the Mockingbird Station DART stop, and carried forward a firsthand understanding of how TOD could lift asset value. At that stage, Knoll Trail Crossing was priced largely as a conventional Dallas North Tollway corridor office building — a product type facing well-documented headwinds in the local market.

The acquisition was built on two overlapping bets: that the Silver Line would complete on a timeline aligned with a planned capital improvement cycle, and that the station's specific location — directly adjacent to the property — would create a differentiation unparalleled elsewhere along the line.

Not all transit-adjacent assets are equal. Properties within a one-minute walk of a platform command meaningfully different rent premiums than those a five-minute walk away. Research from the University of North Texas has found that developments within walking distance of light rail stations capture 12.6% higher commercial rents and 10% higher residential rents than comparable properties farther from transit. The first analytical step for any developer evaluating assets near planned rail is station proximity mapping, with underwriting that stress-tests rent premium assumptions rather than accepts them as given.

Executing Capital Improvements Ahead of Occupancy Demand

Following acquisition, Prescott Group and its equity partners committed several million dollars in capital upgrades during 2020 and 2021. This was a deliberate decision to renovate during a period of depressed leasing activity rather than wait for market recovery. The scope of improvements included:

- Lobby modernization designed to signal institutional quality to tenants evaluating the building for the first time via rail, not just by car.
- Move-in ready spec suites to compress the time between prospect interest and lease execution — a critical advantage in a submarket where tenants began touring more frequently as transit became operational.
- A redesigned tenant lounge and updated

Research from the University of North Texas has found that developments within walking distance of light rail stations capture 12.6% higher commercial rents and 10% higher residential rents than comparable properties farther from transit.

conference center to align the building's amenity profile with the urban walkability narrative the transit station enables.

- Exterior and landscaping upgrades to reinforce the pedestrian experience between the Silver Line platform and building entrance.
- Redesigned drop-off zones along Knoll Trail Drive to improve circulation during peak hours for both transit users and drivers.

The acquisition was structured through Prescott's strategy funds and a long-standing institutional banking



Knoll Trail Crossing has been reframed as a multimodal workplace where employees are no longer reliant on their cars for commuting or reaching the airport.

relationship maintained across multiple Dallas-area transactions, allowing the capital stack to be assembled quickly and on favorable terms when broader office lending had tightened. The Silver Line itself was funded through federal grants, state allocations and local tax revenues, a public investment that effectively de-risked the private capital committed by owners who had positioned ahead of the opening.

Renovating during a downturn is counterintuitive but strategically sound when a fixed transit opening provides a hard timeline. The goal is a finished, lease-ready product the day the

station opens — not construction that begins once leasing momentum is already visible to competitors.

Pursuing Operational Integration, Not Just Physical Proximity

Physical closeness to a transit station is a starting point. Operational integration is what converts proximity into a durable competitive advantage.

At Knoll Trail Crossing, that integration took several concrete forms, including:

- Rooftop garage access coordinated with DART for Silver Line operations and emergency vehicles, with eight to 10 dedicated spaces allocated for Silver Line drop-off operations, while Knoll Trail tenants retain their on-site parking for use when commuting or traveling via the line to Dallas Fort Worth (DFW) International Airport.

- Pedestrian infrastructure aligned with both platform access from Knoll Trail Drive and the Cotton Belt Regional Trail, extending the station's effective catchment area.
- A 4,100-square-foot lease to DART as a satellite management office for Silver Line operations.

That last transaction carries outsized strategic value. It embeds an institutional tenant with long-term operational ties to the station and signals to prospective tenants that this is permanent infrastructure rather than a stop that could be deprioritized in a future funding cycle.

Transportation and Mobility



The walk from Knoll Trail Crossing's lobby to Knoll Trail Station takes less than a minute.

All these actions were the product of deliberate, early engagement with DART that began well before the station opened. Transit agencies can be far more than infrastructure neighbors; when engaged as long-term partners, they become institutional anchors whose presence adds value that no amount of marketing can replicate.

Repositioning the Tenant Value Proposition Around Mobility

The Silver Line provides a direct rail connection to DFW International Airport in approximately 35 minutes from Knoll Trail Station. For tenants with mobile workforces, visiting clients or employees distributed across the region, that figure offers reliability — unaffected by road congestion and at no parking cost to the employer — representing a meaningful operational advantage.

Prescott's leasing strategy shifted to lead with that advantage explicitly. Rather than positioning Knoll Trail Crossing as a Dallas North Tollway corridor office building with transit nearby, the asset was reframed as a multimodal workplace where employees can reach the airport predictably and access other DART lines across the region — all without entering a car. The framing resonated most strongly with professional services firms with frequent client travel, medical office users, and regional operations centers whose employees commute from multiple directions across North Texas.

Transit does not sell itself. Leasing teams should convert travel times and connectivity maps into concrete operational value for the tenant types they are pursuing. A 35-minute airport connection is more valuable when applied to a real scenario that a decision-maker

Best Practices for Developers Pursuing TOD

Engage the transit agency as a strategic partner, not just a neighbor. Starting conversations two to three years before anticipated opening creates the lead time needed to structure agreements that benefit both parties. That groundwork can produce an integration that sets a property apart from every other building along the line.

Underwrite against a range of opening scenarios. Infrastructure timelines are subject to variables that are rarely fully in view at acquisition. A capital plan stress-tested across multiple opening windows avoids overextending on renovation spend ahead of a delayed catalyst.

Treat the pedestrian path from platform to lobby as prime real estate. That 60-second walk is the first physical experience a prospective tenant has of the building. Signage, landscaping and lighting along that route should be intentional from day one. They are among the highest-return investments in the entire project.

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Transportation and Mobility



Prescott Group acquired Knoll Trail Crossing in 2019, wagering that the office property's location directly adjacent to a future DART station would create differentiation unmatched elsewhere along the Silver Line.

can picture, such as desk to departure gate in under an hour, without the unpredictability of road congestion.

Tracking Leading Indicators and Adjusting Quickly

Since Silver Line ridership commenced in October 2025, early outcomes at Knoll Trail Crossing have validated the strategy ahead of the original timeline. Tenant and prospect feedback on the line's benefits for business travel has been consistently positive, touring activity has increased, prospect pools have deepened, and tenants that previously filtered out of the Tollway corridor have reengaged.

The asset is also benefiting from a broader market shift favorable to well-positioned office properties:

- Lenders that pulled back from the office sector are returning with more competitive terms.

- Employers are reestablishing in-office expectations, increasing demand for locations that reduce commute friction.
- Business travel has rebounded, heightening the value of reliable airport access.

TOD is a multiyear play, but leading indicators — touring velocity, inbound inquiry volume, prospect mix — move faster than rents. Tracking those metrics in the first 12 months after a transit opening provides the data needed to adjust capital deployment and leasing strategy before the full rent cycle turns.

The Broader Opportunity

Knoll Trail Crossing is one data point, but the pattern is replicable. Across the United States, transit agencies are expanding rail into suburban corridors built around automobile dependency. In nearly every case, an acquisition window opens years before

Transit does not sell itself. Leasing teams should convert travel times and connectivity maps into concrete operational value for the tenant types they are pursuing.

The Public Funding Equation

The Silver Line was funded through a layered combination of federal grants, state transportation allocations and local tax revenues collected within the DART service area, reflecting how most modern U.S. rail expansions are financed. Federal contributions through programs like the Federal Transit Administration's Capital Investment Grants typically cover a significant share of eligible project costs, with state and local sources covering the remainder.

For private owners adjacent to new rail, the implication is significant: The infrastructure investment driving asset appreciation has largely been paid for by public sources. The developer's job is to move early enough to acquire at pre-transit pricing, execute improvements aligned with the opening timeline, and capture the rent premium the public investment enables. That dynamic underscores why station selection is the single-highest-leverage decision in the entire process. Once the market recognizes which stops will anchor value, the window closes fast.

service begins, then closes quickly once the market prices in the new connectivity. The developers that capture the most value will be those that treat transit adjacency as a fundamental input to capital planning and leasing strategy — and that are already executing when the ribbon is cut. ■

Jud Pankey is CEO of Prescott Group. Will Guerriero is Prescott Group's portfolio manager. Natalie Johnson is the account executive for Ashlar Projects.



With \$20bn+ of net lease transactions completed over the past 20+ years, Fortress Investment Group has the experience and capabilities to move quickly and structure tailored solutions.

We specialize in sale-leasebacks and build-to-suits, and we always seek to deliver certainty in complex situations while maintaining the highest standards of confidentiality.

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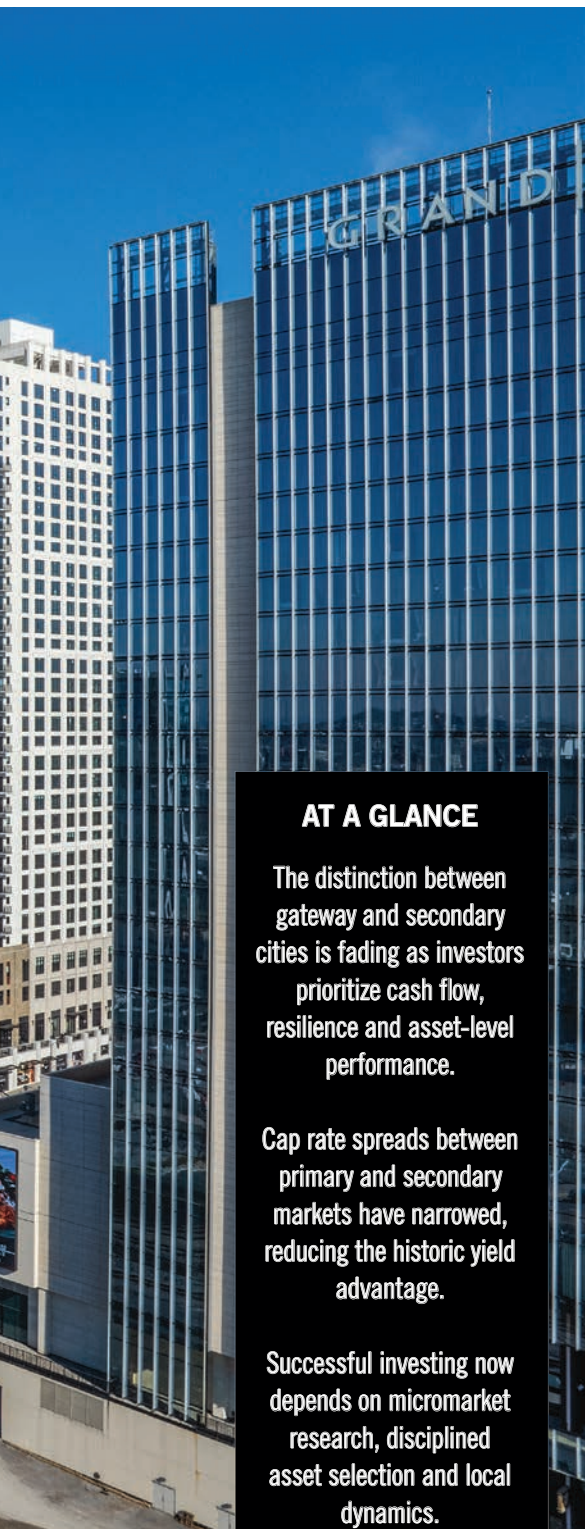


FORTRESS

Gateway vs. Secondary Cities: The New Investor Road Map



Southwest Value Partners' Nashville Yards, master planned by Gresham Smith, brought an underutilized space and former railyard back to life with nine new parcels and a layered, walkable environment, including a new stacked street.



Performance and precision take center stage while old city labels fade in importance.

By Liz Wolf

AT A GLANCE

The distinction between gateway and secondary cities is fading as investors prioritize cash flow, resilience and asset-level performance.

Cap rate spreads between primary and secondary markets have narrowed, reducing the historic yield advantage.

Successful investing now depends on micromarket research, disciplined asset selection and local dynamics.

For decades, the iconic gateway cities of New York, Los Angeles, Boston and San Francisco were considered the unshakable giants of commercial real estate investing. Their prestige, deep liquidity and reliable returns set the industry standard.

Over the years, however, the landscape has shifted. Investors began looking beyond legacy hubs, turning their attention to more affordable, up-and-coming cities, particularly in the Sun Belt. Markets such as Austin, Texas; Nashville, Tennessee; Raleigh-Durham, North Carolina; and Charlotte, North Carolina, have grown into consistent performers, attracting capital that previously stayed parked in gateways.

The pandemic and remote work accelerated this transformation. Freed from office locations, people pursued affordability and opportunity, with many heading South for cheaper housing, better job prospects and a higher quality of life. Companies followed, drawn by lower taxes and fewer regulations. Investors chased bigger returns and easier access than on the coasts. Secondary cities stepped up to meet these new demands.

Although the peak pandemic rush has eased, the momentum toward the Sun Belt and secondary markets remains strong and continues to drive growth. This continuing trend reinforces their reputation as magnets for talent and investment.

According to CBRE's 2026 North America

Investor Intentions Survey, Charlotte and Nashville have broken into the top 10 U.S. investment markets. Secondary cities, previously considered risky, now anchor investor portfolios. And growth isn't limited to the Sun Belt. The Mountain West — including Phoenix, Denver and Salt Lake City — has become a hub for tech investment. The Midwest — including Kansas City, Indianapolis, and Columbus, Ohio — is recognized for its resilience and consistent yields.

Blurring Boundaries

As 2026 progresses, the distinction between gateway and secondary markets continues to fade. Investors are no longer focused solely on popular Sun Belt hot spots or famous Manhattan ZIP codes. Instead, they're prioritizing local market fundamentals and evaluating assets on their individual merits. The focus has shifted

Chad Baumer Photography



Steel House, a design-driven modern workplace developed by Beacon Capital Partners and Elevation Development Group, features one of Denver's most expansive amenity collections. The Park, a 13,000-square-foot landscaped oasis, serves as its centerpiece.

The focus has shifted to securing reliable returns and ensuring resilient operations rather than relying on a city's reputation or rapid growth.

to securing reliable returns and ensuring resilient operations rather than relying on a city's reputation or rapid growth.

Industry leaders such as CBRE, Cushman & Wakefield and J.P. Morgan emphasize that strong cash flow and asset performance now carry more weight, with institutional investors — including pension funds, private equity and REITs — seeking steady, risk-adjusted returns despite elevated interest rates and ongoing market volatility.

This change is particularly evident in the data center sector, where decisions about expansion are driven by access to power supply, infrastructure, land and connectivity — sometimes in places that aren't traditional tech locations.

Cities such as Charlotte and Salt Lake City are emerging as

data center hubs, supported by advanced infrastructure that surpasses established tech markets. Hyperscale companies and energy developers are investing heavily in modular microgrids, small modular reactors and liquid cooling technology to support AI demands and are willing to pay extra for reliable energy, according to Prologis' 2026 Supply Chain Outlook and JLL's "Where Energy Meets Property" insights report. As Prologis noted, "location, resilience, reliability" is the new rule.

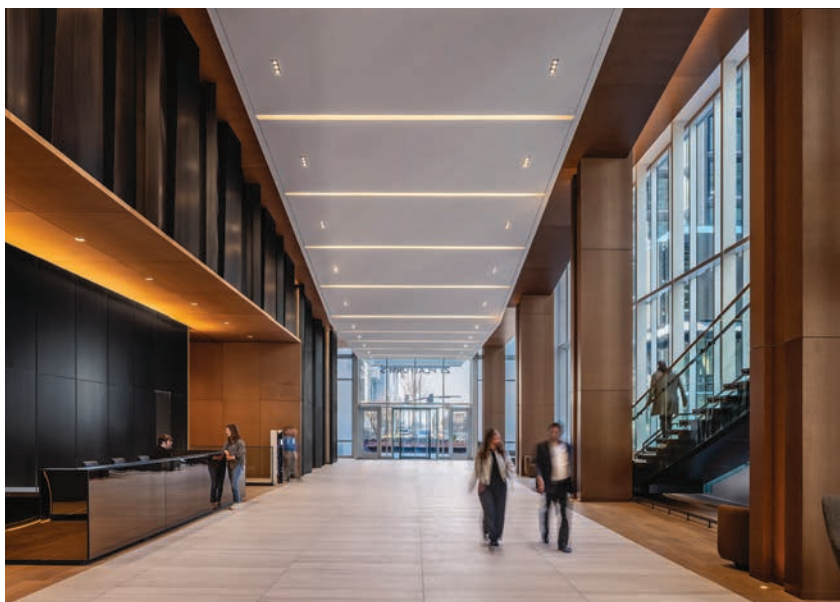
This change is happening across the real estate industry.

"We'll see much more dispersion across markets within each asset class and across the quality spectrum of assets," said **James Bohnaker**, senior economist at Cushman & Wakefield. "Local market fundamentals will drive portfolio performance over the next five to 10 years," no matter the city's size or reputation.

The era when "falling rates helped lift returns pretty much universally across markets and sectors" has passed, Bohnaker said. Now, local factors like job growth, demographics, cost of living and regulations have more say in shaping performance than do broad economic trends.

“We’ll see much more dispersion across markets within each asset class and across the quality spectrum of assets. **Local market fundamentals will drive portfolio performance over the next five to 10 years,”** no matter the city’s size or reputation.

*James Bohnaker,
senior economist,
Cushman & Wakefield*



The Pinnacle Tower at Nashville Yards, designed by Gresham Smith, is a 35-story multitenant office tower and headquarters to Pinnacle Financial Partners. The 1.5-million-square-foot building features office, retail and amenity space.

Narrowing the Spread

Also blurring the line is cap rate compression. Institutional capital is pouring into cities previously perceived as being “too small” but now increasingly regarded as reliable options for long-term investment, which is increasing competition and pushing up pricing.

As a result, the gap between cap rates in major gateway hubs and secondary markets is shrinking, especially for multifamily and industrial assets.

“We have seen cap rate spreads between primary gateway and secondary markets narrow significantly, reaching what I would describe as historic lows,” said **Will Milam**, head of U.S. investments at Morgan Stanley Real Estate Investing.

CBRE’s 2026 Market Outlook cautions investors not to rely on cap rate declines to drive returns. Only minor compression — 5 to 15 basis points — is expected, so steady property income and strong asset management will be critical.

Tommy Lee, CBRE’s co-head of capital markets for the U.S. and Canada, said, “Cap rates appear to have largely reached their peak and are expected to remain relatively stable over the next year, with modest compression possible.”

He explained that tightening will likely be more measured than in prior cycles, as long-term benchmark rates are expected to remain elevated. “Overall, we expect cap rates in these secondary markets to move broadly in line with national trends rather than diverge materially,” he added.

For example, in Austin and Phoenix, multifamily assets are now trading at cap rates much closer to those in primary cities. Previously, investors could count on roughly a 100 to 150 basis point spread between gateway and secondary markets, which

helped offset the perceived higher risks and lower liquidity compared to established hubs.

“That extra yield, alongside stronger job and population growth, made it easier to justify investing beyond New York, San Francisco or Boston into emerging metros,” Bohnaker noted. Now, the math looks different.

As pension funds and private equity firms pump capital into secondary cities, the yield gap with traditional markets is disappearing. Investor demand and confidence increased in the Sun Belt and other select secondary cities, making them essential, reliable investments. Now, risk and return matter more than location alone, and these markets have become core elements of national portfolios.

Gateway Recovery vs. Sun Belt Reboot

Gateway hubs are now recovering after a tough period, while the Sun Belt — which experienced a multifamily building boom — is cooling as units gradually fill up.

CBRE’s market outlook highlighted New York and San Francisco as leaders in the urban rebound, driven by AI and financial services. Investor

confidence is rising, pushing demand for prime offices and luxury apartments in city centers. In contrast, Austin and Phoenix are seeing higher vacancies and slower rents after a surge in new apartments from 2021 to 2022. However, stabilization is underway as excess units are absorbed.

Apartments.com, using CoStar data, reported that national multifamily construction starts have plummeted 71% since their peak in the first quarter of 2022.

Many investors are refocusing on premium gateway assets for short-term gains, even as key Sun Belt and interior markets remain attractive due to solid fundamentals.

Bohnaker sees the best opportunities “in a narrower set of fast-growth secondary markets — Austin, the DALLASES of the world, and across the Southeast, places like Raleigh, Nashville and Atlanta. ... Those have been the outperformers on economic and demographic fundamentals, and that’s what will draw investors back to preferred Sun Belt markets over the next couple of years.”

Jimmy Hinton, chief revenue officer for Newmark Capital



Steel House offers over 300,000 square feet of wellness-first work environments, with the highest indoor/outdoor space ratio in Denver and private tenant terraces on every floor.

“Employment fundamentals are one of the most significant factors in our decisions to expand or invest in any secondary market. They serve as a core component of our investment thesis.”

*Scott Kirchhoff,
principal,
Trammell Crow Company*

Markets, said investors are increasingly focused on what he calls “good old-fashioned success markets” like Charlotte; Columbus; Indianapolis; San Antonio; Greenville-Spartanburg, South Carolina; and Richmond, Virginia.

According to Hinton, these are underinvested markets where fundamentals remain strong and growth is sturdy. “At the moment, investors feel that secondary markets are giving them a good risk-adjusted return in a steady interest rate environment,” he said.

Micromarket Research: The New Competitive Edge

With cap rates tightening, the key to outperformance lies not in simply picking the “right

city,” but in making smart decisions about which assets to select and how effectively they are managed.

Competition is intensifying as investors zero in on neighborhoods with strong job and wage growth. Many Sun Belt and tech hub cities now rival traditional gateway markets in terms of talent pool and infrastructure.

“Employment fundamentals are one of the most significant factors in our decisions to expand or invest in any secondary market,” said **Scott Kirchhoff**, principal at Trammell Crow Company and its residential subsidiary, High Street Residential (HRS). “They serve as a core component of our investment thesis, since sustained, high-quality job creation is among the strongest signs of long-term housing demand.”

A central question arises: Which came first to these emerging markets — the employees or the jobs? Current findings indicate a talent-led cycle in which employees are drawn by lifestyle and affordability, and companies follow to tap into expanding labor pools. Ultimately, capital flows to



Kane Realty Corporation broke ground earlier this year on Tributary, the newest residential community within the North Hills Innovation District in Raleigh, North Carolina. Tributary will deliver 332 apartments and 6,000 square feet of ground-level retail and include a digital content creation studio.

where employment and opportunity are strongest.

Jake Muse, senior vice president at HRS in Nashville, emphasized that developers are especially attracted by “the alignment of institutional capital” in rapidly growing regions with robust economies. For example, he said, Nashville’s population growth “is driven not just by volume but by an influx of high-earning households,” as well as diversified job creation and strong absorption rates.

Muse also noted these markets are “relatively affordable compared to gateway cities,” which supports rent growth, while their “business-friendly environments further enhance the appeal.” He pointed to Tennessee’s lack of a state income tax, low property taxes and competitive corporate tax rates as compelling factors for investors and developers.

Selectivity as a Core Strategy

Experts note that the era of broad, across-the-board market gains has ended. In the current economic climate, deliberate asset selection and a precise understanding of local markets are essential.

Milam’s team at Morgan Stanley reflects this approach, prioritizing focused selection in both primary and secondary markets. “We don’t take a broad-brush approach but rather cherry-pick assets where cap rates do not yet fully reflect future growth potential,” he explained.

“In this environment, disciplined asset selection and a highly targeted submarket strategy are critical,” CBRE’s Lee said. “Investors who focus on operational execution and durable income growth will be best positioned to navigate these conditions.”

“The real risk,” Milam cautioned, “is supply dynamics and finding assets that can deliver outsized growth.” Pinpointing opportunities that can drive rent and income growth is vital. The challenge, he said, is identifying assets with above-average return potential rather than assuming strong performance across an entire market.

With the simple cap rate gap between primary and secondary markets no longer doing the heavy lifting, investors must look at jobs, population flows, sector mix, supply pipelines and local policy to decide which secondary markets will earn their place in the next cycle.

Hinton of Newmark Capital Markets summed it up: “Commercial real estate is an exceptionally idiosyncratic asset class. Risk and returns depend not just on location but also on your neighbors, microneighborhood dynamics, city council politics, and the financial budgets of the city, county and state.”

A Deeper Dive

Traditional geographic boundaries and market labels are quickly losing relevance. Now, the spotlight is on tracking

sector and asset performance and spotting where the next big opportunities will emerge. Here are the sectors driving growth:

Multifamily

Construction growth in Sun Belt cities led to a surge of new apartments, slowing rent growth and causing double-digit percentage declines in rents for areas like Austin and Raleigh-Durham, according to **Rob Filley**, senior analyst and co-head of U.S. market analytics at Green Street. However, vacancy rates are dropping as supply is absorbed, and several regions are returning to normal levels. Barriers to homeownership continue to support demand for apartments, with CBRE’s intentions survey reporting that 74% of investors plan to target multifamily this year.

The Corcoran Group reported the Manhattan apartment vacancy rate was just 1.93% in January.

Filley noted that San Francisco’s rents are only about 5% above prepandemic levels. With rising incomes and limited new supply, “San Francisco seems to have already bottomed out,” he said.



CapRock Partners, a privately owned investor and developer of industrial real estate, recently secured a 597,357-square-foot-lease from a global advanced energy storage systems manufacturer across two freestanding warehouse buildings at CapRock West 202 Logistics Phase 2. The 3.4-million-square-foot Class A campus, the largest speculative industrial development in Phoenix, is approximately 82% leased.

“We don’t take a broad-brush approach but rather cherry-pick assets where cap rates do not yet fully reflect future growth potential.”

*Will Milam,
head of U.S. investments,
Morgan Stanley Real Estate Investing*

Midwestern cities like Cleveland and Columbus show unexpected strength, with solid fundamentals, cap rates in the high 5% to low 6% range, and extra yield due to minimal new supply. “The Midwest has probably been the biggest surprise for Green Street over the last couple of years in terms of fundamentals,” Filley said.

Industrial

Industrial is undergoing transformation as capital shifts from crowded coastal markets to interior regions with stronger fundamentals. Secondary hubs like Indianapolis have seen milder price corrections due to more balanced supply and demand, unlike the steep declines in some coastal cities.

The real issue isn’t “gateway versus secondary,” Bohnaker said, but rather which markets overheated. Coastal cities that depend on imports and experienced rapid construction are seeing the largest declines, making them particularly vulnerable to shifts in global trade.

Cushman & Wakefield reported the Inland

Empire’s industrial vacancy rate was 8.1% in the fourth quarter of 2025, well above the 10-year annual average of 4%, driven by record-breaking supply and a sharp drop in tenant demand.

Interior markets in the Sun Belt and Midwest have maintained healthier vacancy rates and steadier rent growth. As noted in a JLL industrial market dynamics report for the third quarter of 2025, Savannah, Georgia, is thriving thanks to port expansion. Also, Minneapolis, Columbus and Louisville, Kentucky, stand out for their affordability, strong business climates and robust logistics networks.

“Industrial demand is migrating away from the highest-cost coastal markets because the

CONFRONTING RISKS

Despite new opportunities, investing in secondary cities comes with risks. Liquidity, although gradually improving as more buyers and sellers enter these markets, remains a key concern.

As Jimmy Hinton of Newmark Capital Markets pointed out, “The most frequently voiced concern is liquidity and ability to exit, given that secondary markets have dramatically lower individual market transaction volume. Investors must exercise caution when taking large positions if they might need to sell to rebalance their portfolio during a downturn.”

Other risks include economic concentration, unpredictable insurance costs and the possibility of overbuilding, especially in multifamily and industrial sectors. Markets struggling with slow wage growth or heavy reliance on a few large employers are especially vulnerable to swings in rent and cap rates.

economics just work better in the interior,” said **Thomas LaSalvia**, Ph.D., head of commercial real estate economics at Moody’s Analytics.

“Tenants can secure more modern space at a lower total cost while also sitting closer to major population centers rather than a single port,” LaSalvia said. He added that Phoenix is emerging as an attractive alternative to Southern California, offering stronger financials and a business-friendly environment.

Office

The office sector has been volatile, especially in gateway markets, which experienced steep corrections as remote and hybrid work shifted demand.

However, demand is turning a corner. Gateway cities are seeing a selective comeback, particularly for trophy assets and those benefiting from AI-driven technology growth. Meanwhile, some secondary office markets show greater resilience and recovery potential.

“Charlotte and South Florida are gaining positive momentum, driven by favorable

industry composition, population inflows and improving fundamentals,” Lee said.

Nashville is noteworthy for attracting major tech companies like Oracle and Amazon, supported by a strong local economy and low unemployment, according to a Cushman & Wakefield MarketBeat Report in January.

Cushman & Wakefield forecast growth in a mix of primary and secondary markets for 2026, including San Francisco, Austin, New York, Atlanta, Dallas, Nashville, and San Jose, California. The firm noted these cities recorded strong positive absorption in 2025, fueled by AI investment and widespread economic development.

Data Centers

The data center boom, fueled by hyperscale demand and AI workloads, is pushing developers and investors out of power-constrained hubs like Northern Virginia and Silicon Valley and into secondary markets with more reliable utilities and stronger incentives. Cities like Salt Lake City, Columbus, Austin and San Antonio are emerging as new hot spots for data center expansion.

Oxford Economics projects retail as the only sector to exceed prepandemic returns over the next five years, thanks to robust demand and tight supply, especially in Sun Belt cities like Fort Worth, Nashville and San Jose, and in gateways like New York and San Francisco.

Meanwhile, primary hubs are experiencing unprecedented tightness. According to CBRE’s North America Data Center Trends H2 2025, vacancy rates in primary markets fell to a historic low of 1.4% at the end of the year.

Retail

Oxford Economics projects retail as the only sector to exceed prepandemic returns over the next five years, thanks to robust demand and tight supply, especially in Sun Belt cities like Fort Worth, Nashville and San Jose, and in gateways like New York and San Francisco. In contrast, cities with higher rates of new supply, such as Austin, Houston, Las Vegas and Orlando, may underperform despite ongoing demand.

Placer.ai named Salt Lake City; Reno, Nevada; Indianapolis; Raleigh-Durham; and Tampa-St. Petersburg, Florida, as markets to watch in 2026 for exceptional population growth and retail/dining traffic growth well above national averages.

A Changing Map

The old real estate map doesn’t matter much, as gateway and secondary cities are now on more level playing fields. And for investors, the lines have all but vanished.

In the current market, opportunity isn’t about big, prestigious names or hot, emerging zones. It’s about zeroing in on hyperlocal trends and acting fast. The future belongs to those who read every city for what it is, adapt to the shifting scene and spot value wherever it’s emerging. In this climate, every market is in play. ■

Liz Wolf is a Twin Cities, Minnesota-based freelance writer and reporter who has been covering commercial real estate for more than three decades.

The Rust Belt Renaissance



Ryan Companies served as developer for the Endeavor Health Cardiovascular Institute, a three-story, 71,600-square-foot medical office building and ambulatory surgery center offering advanced outpatient services in Naperville, Illinois.



Land, power and policy are repositioning the Midwest as a CRE hub, while adaptive reuse and redevelopment are revitalizing Pennsylvania's Lehigh Valley.

By Ron Derven

AT A GLANCE

The Midwest is becoming a strong strategic alternative for industrial, manufacturing and data center projects.

Deep skilled labor pools and comparative affordability are giving the Midwest a competitive workforce advantage.

Adaptive reuse of former mills and industrial campuses is spurring growth in Pennsylvania's Lehigh Valley.

Corey Gaffner Photography

The old steel-and-smokestack economy isn't coming back. Instead, the Rust Belt is being remade.

Across the region, former steel sites, freight corridors and aging industrial districts are attracting a new wave of advanced manufacturing, logistics, data centers and mixed-use development. As coastal markets run into land shortages, power constraints and pricing fatigue, the Midwest's infrastructure scale, labor depth and relative room to grow are giving it a new strategic edge.

Hyperscalers are moving beyond their traditional strongholds in search of new sites across the region. Manufacturing investment tied to federal incentives is clustering near legacy industrial corridors, and institutional capital is following. In the process, the Midwest is reasserting itself as one of the country's most important centers of industrial and data infrastructure growth.

Reinvention, Not Revival

"The Midwest went through a truly gut-wrenching restructuring as core manufacturing declined," said **Jeff Adler**, vice president of Yardi Matrix, a commercial real estate data and research company. "The entire region was effectively gutted over several decades. But it survived, and now the foundation is in place for steady growth. I'm very bullish on the Midwest, but investors have to be

clear-eyed. This isn't going to be explosive growth. It's more likely to be sustained growth — 3% or 4% a year. And over time, that can be very powerful."

That steadier, more durable growth is central to the Midwest's appeal, according to **Michael Copella**, senior managing director of CBRE's advisory services in the eastern Midwest region. He said the Midwest's corporate real estate market is building on an existing base of skilled labor and manufacturing expertise. In addition, many Midwestern states have strengthened incentive packages for major manufacturing and industrial projects, increasing their competitiveness for job-creating investment.

The comeback is far from uniform, however. Some markets have rebounded strongly, moving from legacy manufacturing into a broader mix of industries, while others have



Ryan Companies redeveloped a former Ford Motor Company plant in St. Paul, Minnesota, into Highland Bridge, a 122-acre mixed-use community with 3,800 new residences, office, retail and green space.

“The Midwest has intellectual capacity, it has resources like power and water, and it has the workforce base. That puts it in a very good position to take advantage of [current] trends.”

*Jeff Adler, vice president,
Yardi Matrix*

struggled to reimagine themselves, said **Tony Barranco**, northern division president of Ryan Companies, the Minneapolis-based developer with deep roots in the region.

“Cities like Columbus, Des Moines and Indianapolis have seen solid growth, while some population centers, including Detroit and Chicago, have been more stagnant,” Barranco said. “The Midwest is known for its well-trained and reliable workforce, and while some markets have performed better than others, the Midwest has largely avoided boom-and-bust real estate cycles. This has allowed construction to remain steady and real estate investment returns to be more durable.”

“The Midwest has several advantages over the coastal markets, especially when it

comes to industrial, manufacturing and data center projects,” Copella said. “For those projects, space, power and infrastructure are more readily available, with the overall real estate and occupancy costs being lower than on the coasts. In addition, the Midwest’s stable climate, abundant flat ground and natural resources, like the Great Lakes, [plus] its overall central location, which give it proximity to a high percentage of the U.S. population, make it a strategic alternative.”

Advanced Manufacturing, Not Just Warehousing

For all the attention paid to logistics and warehouse construction, the Midwest opportunity is increasingly about something more valuable: advanced manufacturing, critical com-

ponents, electrification, chip-adjacent production and digital infrastructure.

Adler said the Midwest is benefiting from a manufacturing shift driven by industrial policy, reshoring and digital infrastructure demand. “The Midwest has intellectual capacity, it has resources like power and water, and it has the workforce base,” he said. “That puts it in a very good position to take advantage of these trends.”

That shift is changing the character of industrial development. **Seth Martindale**, vice chairman at CBRE, said: “We see a definite trend of companies leaning harder toward automation, knowing that labor access is currently difficult and likely to continue that way. According to CBRE, 11.4% of bulk leasing activity [100,000



SteelStacks hosts large-scale concerts, festivals and other programming throughout the year.

square feet or more] in the Midwest was for manufacturing in 2025. This figure is down slightly from 2024, when it was 14.4%. ... This was due to a wave of 3PL [third-party logistics] deals in 2025 that lowered the share somewhat. In 2021, it was 9.6%.”

Buildings are changing too. **Brian Kombrink**, senior vice president of industrial at Ryan Companies, said modern Midwest industrial projects are trending smaller, are more specialized and feature more automation than the large, less complex distribution centers built over the past decade.

“Instead of planning one massive distribution center, developers are now designing sites to accommodate either multiple smaller buildings or a single large, divisible facility

that can serve various tenants with different needs,” he said. Kombrink added that developers are building more robust electrical infrastructure to handle the higher utility demands of automated tenants and are increasingly treating truck circulation, utility capacity and even alternative energy potential as critical design considerations from the start.

Labor: The Workforce Edge

Power availability may decide whether a project gets built, but labor often determines whether it succeeds. One of the Midwest’s enduring strengths is that it retains a deep base of skilled workers, technical talent and training infrastructure that many faster-growing regions struggle to match.

Barranco said this is a huge advantage for hyperscale data center development in the Midwest. “Many regions are importing skilled labor because their trades cannot keep up with demand,” he said. “The Midwest is exporting some of this talent. ... There are reports of a national shortage of 81,000 electricians each year, forcing some companies to offer extreme

“The Midwest is known for its well-trained and reliable workforce, and while some markets have performed better than others, the Midwest has largely avoided boom-and-bust real estate cycles. This has allowed construction to remain steady and real estate investment returns to be more durable.”

*Tony Barranco,
northern division president,
Ryan Companies*



The Waterfront in Allentown aims to turn underused industrial land into a modern mixed-use district.

“Clients and developers are looking for power wherever they can find it. In many cases, the best options available recently have been in the Midwest.”

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

incentives to attract Midwest talent to remote sites.”

Pat Lynch, executive managing director, CBRE Data Center Solutions, made the same point from the data center side. “Labor and talent are key components that play a major role in the selection decision,” he said. “Mechanics, electricians, technicians, laborers, construction workers [and] linemen/linewomen are all critical not only for the construction but also for the ongoing operation of any data center.”

He added that housing, hospitality, schools and airport access all help support major projects by making both construction and long-term operations more feasible.

Affordability helps hold that workforce in place. Adler said housing in the Midwest has remained relatively affordable

compared with many other parts of the country. Multifamily rents have grown, but not to the extent seen in the Sun Belt. “That means the region maintains a cost-of-living advantage,” he said. “Housing markets are more balanced, less volatile and generally more predictable.”

Drawing Interest From Data Centers

Data centers have become one of the clearest signs that the Midwest is moving into a new industrial era.

“This has been a bright spot for the Midwest economy,” Barranco said. “These sites are all about power availability and infrastructure.”

Interest from hyperscalers is significant and concrete, as evidenced by Google’s forthcoming 480-acre data

center site in Pine Island, Minnesota. The site has several key elements in place, including a clear and scalable plan for abundant clean energy, shovel-ready infrastructure, and private infrastructure capital investments that protect local ratepayers from exposure to project-related costs.

Lynch said the Midwest is becoming an attractive option for data centers for multiple reasons, including land costs, favorable development conditions, fiber connectivity, existing transmission lines for power, existing power generation plants and labor availability. “Clients and developers are looking for power wherever they can find it,” he said. “In many cases, the best options available recently have been in the Midwest.”



The adaptive reuse of a former Bethlehem Steel site turned into an economic catalyst for Bethlehem, Pennsylvania, and the wider Lehigh Valley.

Industrial Decline and Hard-won Recovery

Other parts of the Rust Belt outside of the Midwest share in the redevelopment pressures seen across legacy manufacturing markets. Pennsylvania's Lehigh Valley offers a clear example of the reinvention that is reshaping the old industrial heartland.

"Lehigh Valley is a mature market with a balanced and diversified economy," said **Kristin Cahayla-Hoffman**, vice president of business development and attraction for Lehigh Valley Economic Development Corp. "Manufacturing has reemerged as a leading driver. There is an emphasis on place-making — building safe and fun communities that provide opportunities for everyone. Our cities — Allentown, Bethlehem and Easton — have been

revitalized with new housing, office space and entertainment venues. The population is growing, and the region is one of the leaders in the state in drawing young adults."

Unlike 50 or 60 years ago, when one dominant employer could shape the region's fate, Lehigh Valley now has a diversified economic base that includes life sciences, food and beverage, advanced manufacturing, professional and engineering services, and technology. Recently, Eli Lilly and Company announced plans to invest more than \$3.5 billion in a new manufacturing facility in Lehigh Valley that will produce next-generation weight-loss therapies. For every dollar that Lilly invests, it estimates up to \$4 in additional local economic activity, according to the company.

Lehigh Valley's accessibility to Philadelphia, New York and the rest of the East Coast is a huge plus for the area. "Our location offers the advantage of lower land and lease costs and proximity to the ports, along with immediate access to other transportation infrastructure, including an international airport with a growing cargo hub and a network of highways putting companies within a day's drive of one-third of the U.S. population," Cahayla-Hoffman said.

Asked if there is a lesson in the economic reinvigoration of Lehigh Valley that could be applied to other areas of the Rust Belt, she said: "Lehigh Valley's renaissance has been driven by our partnership-based, regional approach. Leaders in business, education, government and

"Our cities — Allentown, Bethlehem and Easton — have been revitalized with new housing, office space and entertainment venues. The population is growing, and the region is one of the leaders in the state in drawing young adults."

Kristin Cahayla-Hoffman, vice president of business development and attraction, Lehigh Valley Economic Development Corp.



The lobby at Six Fifteen Waterfront, a six-story Class A office building within the larger Waterfront in Allentown development.

“[Instead of] clearing the site, adaptive reuse allowed ArtsQuest and its partners to leverage the architectural scale, infrastructure and cultural heritage [of SteelStacks] to create a destination with strong community identity [that is also a] tourism draw.”

*Kassie Hilgert,
president and CEO,
ArtsQuest*

community organizations have worked together. We have prioritized talent development and site readiness and invested in quality-of-life improvements, from walkable downtowns to arts and trails, which help to attract and retain talent.”

Adaptive Reuse: One of the Area's Strongest Development Tools

Adaptive reuse throughout Lehigh Valley has transformed former mills, industrial campuses, hotels and breweries into places that attract local residents, visitors and investment, all while preserving the kind of architectural character that new greenfield projects cannot easily replicate.

No project better illustrates the reinvention of Lehigh Valley than SteelStacks, developed through a public-private

partnership led by the Bethlehem Redevelopment Authority. Approximately 10 acres of the 1,800-acre former Bethlehem Steel site was transformed into the nationally recognized arts, entertainment and community campus that is a hub of economic activity in downtown Bethlehem. SteelStacks hosts large-scale concerts, festivals, film programming, exhibitions, corporate events and community activations throughout the year, drawing more than 2 million visitors annually, according to **Kassie Hilgert**, president and CEO of ArtsQuest, which operates the site.

Hilgert explained that preserving the iconic blast furnaces and other core industrial structures on the repurposed site was not merely sentimental. Rather, it “maintained the authenticity and sense of place that differentiates SteelStacks from traditional redevelopment projects,” she said. “[Instead of] clearing the site, adaptive reuse allowed ArtsQuest and its partners to leverage the architectural scale, infrastructure and cultural heritage to create a destination with strong community identity [that is also a] tourism draw.”

Meanwhile, Easton’s R.H. Simon Silk Mill is one of Lehigh Valley’s most substantial adaptive reuse projects. The 300,000-square-foot,

15-building complex was converted over several years into 170 apartments and more than 30 mixed-use commercial businesses, turning a long-vacant silk mill into one of Easton's most distinctive live-work destinations.

In Allentown, the former Neuweiler Brewery is being repositioned as Neuweiler Lofts, a mixed-use multifamily project on a site that sat vacant for decades. The redevelopment includes 282 apartment units and roughly 40,000 square feet of commercial space.

Cityplace is another example of adaptive reuse supporting Allentown's downtown revival. City Center Group converted a former Holiday Inn into a 120-unit residential community, adding attainably priced apartments to downtown.

The Waterfront: Industrial Land Reengineered

If SteelStacks shows what happens when industrial heritage becomes a cultural anchor, The Waterfront in Allentown demonstrates what happens when underused industrial land is reengineered into a modern mixed-use district.

"When we look at The Waterfront, it's not just another development to us. Our family has lived here for generations. We went to school here. We built our lives here. This project is about reinvesting in the same community that gave us everything," said **Zachary J. Jaendl**, chief operating officer of Jaendl Enterprises, which developed the project.

The 29-acre site was once home to Lehigh Structural Steel, a major fabrication plant along the Lehigh River. When foreign steel gained traction in the 1990s, the site went dark. There were a dozen dilapidated buildings. Nothing active. "A huge piece of land was just sitting there," Jaendl said.

He had studied the property years earlier and concluded

that redevelopment would not work without government help. "When the state introduced the Neighborhood Improvement Zone in 2012, that changed the equation. The numbers finally worked," Jaendl said.

What followed were years of difficult site work. The company demolished the 12 industrial buildings, raised the entire site above the 500-year floodplain, installed 8 miles of underground conduit for fiber and electric infrastructure, and completed full environmental remediation.

"To bring a 29-acre former steel plant to residential environmental standards, that's not simple work. It took years of testing and a significant investment. But if you're going to do it, you do it right. ... We saw that Lehigh Valley was short roughly 9,000 housing units. Rents had increased nearly 25%, and vacancy was well below the national average. Originally, the project was predominantly office. Now it's predominantly multifamily, with office, makerspace and recreational opportunities integrated throughout."

For Jaendl, The Waterfront's larger lesson is about public-private partnership and long-term civic value. "Without the public side, it doesn't work. Without the private side, it doesn't work. It has to be both."

He also measures success in fiscal terms. Jaendl said that when he acquired the site, it generated about \$100,000 a year in real estate taxes; at full buildout, the project is expected to generate roughly \$4.5 million in taxes annually.

Outlook: Capital, Hot Property Types and the Next Decade

Back in the Midwest, the story is not just about projects. It is about whether investors see these markets as strategic.

Barranco said some Midwest markets still struggle to attract

"To bring a 29-acre former steel plant to residential environmental standards, that's not simple work. It took years of testing and a significant investment. But if you're going to do it, you do it right."

*Zachary J. Jaendl, chief operating officer,
Jaendl Enterprises*

institutional capital because of liquidity concerns tied to lower transaction volume. "That said, we are observing solid operating performance in our Midwest real estate assets, so investors participating in the markets are seeing outsized returns and lower boom-and-bust scenarios," he remarked.

According to Copella, "Institutional capital is moving into the Midwest for increased stability and higher yields compared to gateway cities and major markets. For multifamily, the Midwest offers a much higher level of stability versus the Southeast, which has been challenged by oversupply, hurricanes and dramatic increases in property insurance." He added that "areas like Columbus and Indianapolis have growing populations and constrained housing pipelines, which promise both stability and future rental growth."

In terms of product types, CBRE sees data centers, industrial and manufacturing projects as the fastest-growing and most successful sectors in the Midwest. From 2024 to 2025, the firm recorded a 41% increase in industrial leasing activity across the region, with more than 45 million square feet of new industrial product under construction.

Over the next five to 10 years, the region's growth is likely to be concentrated in higher-value industrial uses, according to Adler. "We expect new industrial supply nationally to rebound over the next few years, and a greater proportion of that supply is likely to move toward the Midwest," he said. "But the growth there is likely to be more about advanced manufacturing and digital infrastructure rather than traditional warehouse logistics."

Copella is optimistic about what he sees taking shape. "I believe that the Midwest is entering a new era of growth — one that will create more housing, more job opportunities and, overall, more prosperity. This success will come with challenges, but its overall friendly business climate will allow it to shake that 'rust' off its shoulders." ■

Ron Derven is a contributing editor to Development magazine.

Why Purpose-built Medical Is Reshaping the Live-Work-Play Model



Medical Pavilion I at National Harbor in Prince George's County Maryland, outside of Washington, D.C.



Class A medical assets are emerging as stabilizing anchors within mixed-use districts.

AT A GLANCE

The growth of outpatient care and the decentralization of hospital systems have direct implications for mixed-use planning.

Purpose-built medical often outperforms office conversions due to specialized infrastructure and clinical design requirements.

Medical Pavilion I and II at National Harbor show how integrated medical uses can boost mixed-use stability and value.

By Peter Papantoniou, Gittleston
Zuppas Papantoniou Medical Realty

For more than a decade, the live-work-play model has defined mixed-use strategy across the United States under the rationale that residential density fuels retail and office supports daytime activation, while hospitality, dining and entertainment extend evening traffic. It is a synergistic system that supports energizing a space or a corridor throughout all hours of the day.

More recently, a fourth pillar has emerged — health care — that is reshaping how these environments are underwritten, designed and stabilized. The live-work-play model is now becoming live-work-play-health, and it is rapidly increasing in popularity. This shift is being reinforced by accelerating outpatient demand, with outpatient visits increasing 7.2% year over year in late 2025 and outpacing inpatient growth, according to Strata Decision Technology.

Medical office buildings (MOBs), once treated as single-use suburban assets adjacent to hospital campuses, are now being integrated directly into walkable districts. The shift reflects structural changes in outpatient delivery, capital markets resilience and regulatory economics that are materially altering development strategies for upcoming projects.

Nationally, Class A MOB cap rates have remained comparatively resilient relative to traditional office, reflecting stable tenancy, long lease terms and demographic demand. In the first quarter of the year, cap rates for institutional-quality, on- or off-campus Class A MOB assets generally ranged in the mid-5% to low-6% band depending on geography and tenant credit, with compression in top-tier markets, according to a Capital Real Estate Group market analysis. While spreads fluctuate by region, investor appetite for well-located, purpose-built medical remains durable.

At the same time, hospital systems are decentralizing. Outpatient consultations, diagnostics and ambulatory procedures increasingly occur closer to where patients live rather

Courtesy of Rethink Healthcare Real Estate



Medical Pavilion II at National Harbor features a covered patient drop-off area and a dedicated valet service for ease of access.

Medical office buildings, once treated as single-use suburban assets adjacent to hospital campuses, are now being integrated directly into walkable districts.
The shift reflects structural changes in outpatient delivery, capital markets resilience and regulatory economics.

than at centralized hospital campuses. This migration has direct implications for mixed-use planning.

Medical Pavilion I and II at National Harbor in Prince George's County, Maryland, just outside of Washington, D.C., offers a case example of how this convergence can be executed at scale, embedding purpose-built medical within a dense, lifestyle-oriented district while aligning with broader outpatient and regulatory trends.

Hospitals Are Moving to the Patient

Historically, patients traveled to the hospital campus for most services. Today, the front door to care is increasingly local.

Outpatient visits now account for a significant majority of health system interactions nationwide. Federal

analysis from the Medicare Payment Advisory Commission shows outpatient service utilization per capita is rising, while inpatient volumes remain below prepandemic levels. Health systems and large specialty groups are expanding neighborhood-based access points for primary care, urgent care and access to various specialist types. The economic rationale is straightforward: While a patient may require surgery or advanced treatment at a hospital, the initial consultation and follow-up care can occur in a community-based setting. In short, hospitals are coming to the patient rather than requiring the patient to come to the hospital.

In an age when commute times and ease of accessibility drive incentive, this model allows systems to maintain revenue capture for higher-acuity procedures and lower barriers to entry for routine visits. It also provides an opportunity for increased brand visibility in competitive markets, where hospital systems are expanding beyond traditional geographic limitations.

Within a mixed-use district where residential density, hospitality and retail converge, the embedded medical asset becomes both a service node and a brand extension strategy.



Many office landlords have explored conversion to medical use as a repositioning strategy. **In practice, however, conversion frequently underestimates the technical requirements of clinical tenancy.**

Purpose-built vs. Conversion: A Development Reality Check

These assets are not limited to upscale suburban mixed-use environments. They are increasingly being integrated into urban infill and regional mixed-use districts where access and visibility are strongest. Unlike urgent care's transactional model, purpose-built medical office supports a broader continuum of care within an integrated setting. Projections from Sg2, a Vizient company, that show outpatient volumes growing 18% over the next decade compared with 5% for inpatient care reinforce this shift.

The migration of health care into mixed-use environments has coincided with another market dynamic: elevated vacancy in traditional office. Many office landlords have explored conversion to medical use as a repositioning strategy. In practice, however, conversion frequently underestimates the technical requirements of clinical tenancy. Investors and decision-makers need to consider several key elements when designing and selecting the right site for their space.

Parking ratios and patient churn: Medical parking demand is fundamentally different from office

parking demand. Staff parking must be accommodated alongside constant patient turnover throughout the day. National benchmarks for MOB parking often range from 4.5 to 6.0 spaces per 1,000 square feet, depending on specialty mix and ambulatory components — typically higher than traditional office requirements.

In medical underwriting, insufficient parking remains one of the most common performance constraints. Successful Class A spaces often design a built-in parking garage for patients and staff. Shared parking can be effective in mixed-use environments, but total capacity and ease of access are critical for any medical space.

Elevator and surgical compliance: Certain specialties require elevators capable of

ABOUT NATIONAL HARBOR

National Harbor, developed by Peterson Companies, features 350 acres of waterfront resort space along the Potomac River, south of Washington, D.C. It includes 160 stores, 40 restaurants and the Capital Wheel, a 180-foot observation wheel.

National Harbor is also home to the Gaylord National Resort and Convention Center, with almost 2,000 rooms and 600,000 square feet of meeting space, and MGM National Harbor, an integrated luxury entertainment resort featuring a 3,000-seat theater and one of the largest gaming floors outside of Las Vegas. National Harbor has more than 2,000 residents and attracts more than 12 million visitors per year.



Tenants benefit from a strong referral ecosystem within the Class A medical campus at National Harbor.

accommodating gurneys and meeting surgical certification standards. Retrofitting elevators in an office building can be cost prohibitive or physically impractical. Purpose-built medical buildings incorporate appropriately sized elevator cores from inception, supporting a broader range of clinical uses.

Wet stack density and plumbing: Medical tenants require significantly more plumbing infrastructure than traditional office users do. Wet stack placement — or the vertical alignment of plumbing infrastructure, specifically the centralized risers that carry water and drainage through a building — influences suite flexibility and the cost of construction and tenant improvement. Buildings initially designed for traditional office tenants feature limited wet stack locations, forcing

expensive plumbing costs during conversion. Purpose-built medical buildings incorporate distributed wet stacks, enabling efficient layouts for 2,500- to 3,000-square-foot suites, which is the common size range for many specialty practices.

Floor plate depth and layout:

Many office buildings were designed for large, full-floor users and thus utilized deep floor plates. This can create inefficient layouts for smaller medical suites, resulting in “bowling alley” configurations with limited natural light at the window line.

Design for ADA compliance and patient drop-off:

Clinical assets require intentional drop-off zones, entries that comply with the Americans with Disabilities Act (ADA), and accessible pathways that function

seamlessly for patients with mobility constraints. While office buildings may meet minimum code requirements, they are rarely optimized for high-volume patient circulation.

Collectively, these factors illustrate why ground-up, purpose-built medical assets often outperform conversion strategies when attracting Class A clinical tenants.

Intentional Design vs. Opportunistic Conversion

Beyond technical infrastructure constraints, there is a more straightforward challenge amid discussion of adaptive reuse: Traditional office buildings were never designed with clinical needs in mind.

Office architecture over the past two decades has emphasized collaborative environments, open floor plans, flexible tenant demising and amenity-driven workplace experiences. Ceiling heights, glazing patterns and other elements are maximized for corporate efficiency and tenant churn — not for exam rooms, imaging suites or procedure spaces that require privacy, acoustic control and strict spatial adjacencies.

Victor Lorenzo, who leads the San Diego studio for MBL Architects, which has experience



designing major office campuses and mixed-use districts, noted that “office buildings are intentionally designed for a different end user. The structural grid, core placement and circulation patterns are optimized for collaborative workspace, not clinical workflow. When you retrofit without respecting that intent, inefficiencies can compound quickly.”

That distinction matters because clinical design is not simply about dividing space differently. Medical space requires reinforced floor loads for imaging equipment, specialized mechanical systems for air exchanges, medical gas pathways in certain cases, and sound attenuation standards that exceed typical office specifications.

While office corridors are designed for employee circulation, medical corridors must

accommodate wheelchairs, gurneys and two-way patient movement without congestion. This is challenging to incorporate in prebuilt office spaces, which weren’t designed to anticipate use by a high volume of patients with accessibility challenges. This issue is only reinforced when considering other needs, like waiting areas for family members or restrooms requiring ADA accessibility.

In many office conversions, developers find themselves working against the building’s original geometry. In the case of MOB, the result can be excessive tenant improvement costs that sophisticated clinical operators ultimately reject.

This does not mean that office conversions are impossible. In certain markets, adaptive reuse may be viable where structural conditions align and specialty requirements are limited. However, for Class A clinical tenants, intentional design from inception typically provides greater long-term use. When the goal is to anchor a mixed-use district with durable, referral-driven medical tenancy, infrastructure decisions are critical.

Regulatory Dynamics and Jurisdictional Strategy

Regulatory requirements have a large influence on where surgery centers and certain outpatient services can operate, and these requirements often vary. In many states, certificate of need (CON) laws regulate the establishment of ambulatory surgery centers and imaging facilities.

In jurisdictions with restrictive CON environments, independent physicians may face significant barriers to opening

facility-based services. In neighboring jurisdictions with more permissive frameworks, those same providers may be able to operate surgery centers and capture facility fees directly. This dynamic creates a site selection lens that extends beyond demographics and traffic counts. Where surgery-friendly policies exist, ambulatory demand may be structurally stronger, supporting both lease-up and long-term valuation.

Class A Ecosystems and Referral Synergy

Successful medical buildings function as ecosystems where primary care providers refer to specialists, then those specialists coordinate with imaging, laboratory and pharmaceutical services. In the same way that closely located retailers and entertainment destinations create synergistic spaces, proximity enhances convenience for patients and operational efficiency for health care providers.

A strong tenant strategy under the live-work-play-health model focuses on assembling complementary practices capable of creating referral synergies within the building. A typical MOB stack may include one larger anchor user complemented by numerous 2,500- to 3,000-square-foot specialty suites.

For instance, large spaces at National Harbor are leased by Adventist HealthCare and the University of Maryland Medical System, both of which have long-term commitments comprising entire floors of Medical Pavilions I and II, respectively. Their operations attract a steady stream of potential retail

“A healthy medical building benefits from strong synergies among tenants. When referrals stay within the building, the experience improves for patients and stability improves for the asset.”

*Winston Williams,
senior vice president,
Gittleson Zuppas Papantoniou
Medical Realty*



Patients routinely access services at the medical campus and then utilize a variety of amenities within National Harbor's larger lifestyle-oriented district.

consumers to the mixed-use district while also feeding medical referrals to independent specialists located on-site.

Winston Williams, senior vice president at Gittleson Zuppas Papantoniou Medical Realty, a leading MOB brokerage in the Washington, D.C., metro area, emphasized that “a healthy medical building benefits from strong synergies among tenants. When referrals stay within the building, the experience improves for patients and stability improves for the asset.”

Within National Harbor's broader live-work-play-health district, that synergy extends beyond the building envelope. Patients can access services at Medical Pavilion I and II, then utilize adjacent wellness amenities such as fitness facilities, retail and dining. For staff, proximity to amenities improves recruitment and retention relative to isolated suburban office

parks or medical campuses. The result is not merely a convenient location but also an integrated, health-oriented environment.

As **Malika Peltier**, managing director at Rethink Healthcare Real Estate, the owner of Medical Pavilion I and II at National Harbor, explained, “When medical is integrated into a mixed-use district, it becomes a stabilizing anchor. Health care brings consistent daytime activity, supports surrounding retail and hospitality uses, and ultimately strengthens the long-term performance of the entire environment.”

Case Study: Medical Pavilion I and II at National Harbor

Built in 2019 and 2022, Medical Pavilion I and II at National Harbor comprise purpose-built Class A medical space embedded within a larger mixed-use district. The buildings, which together span over 185,000 rentable square feet (92,945 square feet at Medical Pavilion I and 93,278 square feet at Medical Pavilion II), were designed specifically for clinical use. They incorporate surgical-ready infrastructure such as a gurney elevator, distributed wet stacks and patient-oriented circulation.

Both sites hold five floors and three elevators, and include amenities such as:

- An imaging center and radiology lab.
- A 19,352-square-foot orthopedic surgery center.
- A gastroenterology suite.
- A plastic surgery suite.
- A variety of multispecialty uses.
- An 11,500-square-foot multispecialty surgery center.
- Access to a 10,000-square-foot parking garage.

A location within walking distance to National Harbor's dense, amenity-rich environment aligns with outpatient decentralization trends. Nearby residential density, hospitality and entertainment generate consistent activity. Accessibility from major regional highways, including the Washington Beltway and Interstate 295, enhances draw from the Maryland, Washington, D.C.,



“When medical is integrated into a mixed-use district, it becomes a stabilizing anchor. Health care brings consistent daytime activity, supports surrounding retail and hospitality uses, and ultimately strengthens the long-term performance of the entire environment.”

*Malika Peltier, managing director,
Rethink Healthcare Real Estate*

and Northern Virginia markets.

The project also reflects forward-thinking capital strategy, with Rethink Healthcare Real Estate recognizing the opportunity to integrate health care into a mixed-use district. “We approached the project with a long-term ownership mindset from day one,” Peltier said. “Partnering institutional capital with experienced development allowed us to deliver purpose-built medical space that can perform for decades.”

That strategy ultimately culminated in the approximately \$51 million recapitalization of Medical Pavilion I with joint venture partner Trammell Crow Company following the building’s completion and substantial lease-up. By investing in purpose-built medical infrastructure rather than retrofitting traditional office product, the development is well positioned

to attract high-credit, Class A clinical tenants seeking long-term operational functionality. Today, the development is diversified across multiple complementary medical specialties, including high-performing ambulatory surgery center space, underscoring how thoughtful regulatory and geographic positioning can create a competitive advantage for medical assets within mixed-use environments.

The Evolving Mixed-use Framework

The integration of health care into mixed-use districts represents structural changes in outpatient delivery, demographic demand and regulatory economics. As capital continues to seek resilient asset classes, purpose-built medical embedded within community density offers a compelling argument.

Sites like Medical Pavilion I and II illustrate how live, work, play and health can operate not as parallel components, but as a unified development strategy. For developers nationwide, the question is less about whether health care belongs within mixed-use environments and more about how intentionally it is executed. ■

Peter Papantoniou is principal, Gittleson Zuppas Papantoniou Medical Realty.

PRACTICAL TAKEAWAYS FOR DEVELOPERS

For development professionals evaluating whether and how to incorporate medical into mixed-use projects, there are several lessons to keep in mind:

Underwrite parking conservatively. Medical demand patterns differ from office. High patient churn requires robust ratios and easy access.

Design for medical from inception. Elevator cores, wet stacks and suite depth materially affect tenant viability.

Evaluate regulatory climate. Certificate of need (CON) environments and jurisdictional boundaries can influence surgery center demand and long-term asset value.

Build tenant ecosystems intentionally. Referral synergy enhances both tenant performance and building stability.

Position Class A accordingly. Premium medical environments attract operators aligned with quality, compliance and long-term presence.

Bringing Data Centers to Brownfields



A chiller tower for a data center.



A framework is in place for understanding and allocating environmental risk.

By Jason B. Hutt and Daniel J. Pope, Bracewell LLP

AT A GLANCE

Brownfield redevelopment offers attractive infrastructure advantages for data centers but entails complex environmental risks.

Developers can mitigate risk through environmental due diligence, contractual allocation, insurance, and voluntary cleanup programs.

Federal policy initiatives aim to accelerate permitting and incentivize data centers on brownfield sites.

The redevelopment of brownfield sites into sites for data centers offers unique advantages as well as environmental challenges. Potential site benefits include grid adjacency, established rights of way, zoning, and access to water and other infrastructure. At the same time, site-specific environmental challenges may impact the scope and timeline for development and permitting for new infrastructure.

While data center developers are focused on the development timeline, access to power and stakeholder support, sellers of a brownfield site are most focused on finding a next owner capable of addressing legacy environmental risks in a manner that reduces the possibility of a “boomerang” liability.

Legacy environmental issues at brownfield sites range from minor to significant. An old warehouse could have tiles and insulation containing asbestos, or a transformer might contain polychlorinated biphenyls. Through historical spills and releases, the soil or groundwater at a brownfield site may contain hazardous substances.

Because the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) makes current and former “owners” and “operators” jointly and severally liable for environmental contamination at a site, these historical impacts can present a significant impediment to redeveloping a brownfield for productive use.

Developers can evaluate and manage these risks through due diligence, contractual mechanisms and the various brownfield programs aimed at bringing industrial sites back into productive use.

Environmental Due Diligence

At each stage of a diligence effort, developers should ask whether and how the findings affect the viability, cost and timeline of a potential project. Typical diligence tools include database searches, historical aerial photographs, site visits, interviews and a review of existing environmental permits. Helpful questions to ask include:

- How has the historical use of the brownfield site impacted soil and groundwater conditions? Is off-site migration a concern? Do existing conditions pose a risk to neighboring properties that might trigger a more active intervention?
- What concerns do state and local authorities have about legacy liabilities at the site? Are there “buffer” properties that could also be purchased to facilitate redevelopment? Has the site been formally enrolled in any remediation programs?
- Is there legacy infrastructure at the site that may need to be removed, and if so, will it

alacatr via iStock/Getty Images Plus



Overhead view of a data center under construction.

While data center developers are focused on the development timeline, access to power and stakeholder support, **sellers of a brownfield site are most focused on finding a next owner capable of addressing legacy environmental risks in a manner that reduces the possibility of a “boomerang” liability.**

present environmental challenges (e.g., removing asbestos-containing materials from buildings, removing underground piping)? Will the infrastructure be a potential project benefit (e.g., electric transmission lines, tie-ins to neighboring facility processes)?

- Are there legacy permits at the site that present challenges or opportunities? Does an existing permit include closure obligations that require a new owner to conduct investigation and remediation activities?
- Does the seller have existing insurance policies that might mitigate the consequences of discovering unknown contamination during redevelopment?

Contractual Liability and Risk Allocation

Brownfield redevelopment is predominantly structured as an asset sale, not as a lease or a sale of stock or membership interests. Leases are generally disfavored because a continuing role as the

owner of the site does not allow the lessor to distance themselves from the legacy liabilities. Stock transactions are often less favorable because the purchaser does not want to acquire other liabilities — such as product, exposure and off-site disposal liabilities — associated with the former business conducted at the site.

Preexisting environmental liabilities:

Typically, a purchaser will want the seller to retain responsibility for all preclosing environmental liabilities associated with a site because the purchaser was not in position to control a preclosing presence or release of hazardous substances.



At a brownfield, however, the value of the transaction to the seller is often the opportunity to delay environmental requirements triggered by closing the site and to potentially have someone else remediate preexisting soil and groundwater conditions as part of the redevelopment effort. In such cases, the seller will be focused not only on price but also on the purchaser's likelihood of success and how to ensure the site's legacy liabilities will not boomerang back to the seller should the purchaser fail in its redevelopment efforts.

Representations and warranties: In brownfield transactions, the buyer should expect to purchase

the site "as is" and without substantial contractual recourse if environmental surprises arise after closing. The seller's environmental representations and warranties typically focus on the seller's knowledge about environmental conditions and confirmation that they have provided all relevant environmental information in their possession or control. Additional representations may focus on compliance with applicable environmental law and the presence of environmental permits, but these are less of a focus when the buyer plans to redevelop the site. Any indemnity from the seller will likely be limited to a breach of environmental representations. This places a premium on assessing environmental risks prior to closing using due diligence.

Post-closing covenants: After closing, the seller often seeks to ensure the purchaser will fulfill existing site investigation and remediation obligations. This may include obligations for the purchaser to conduct specific work and possibly enter the site into a state-directed remediation program. The seller may also have identified areas of the site that are not suitable for redevelopment or that would potentially trigger environmental risks if disturbed. In that case, the seller may seek negative post-closing covenants restricting the purchaser's ability to utilize such areas.

Separately, the parties can negotiate the parameters of insurance policies that the purchaser must obtain to protect both sides from unexpected environmental issues. In an

asset sale, the purchaser may want to acquire the seller's rights under preexisting insurance policies for preexisting environmental issues that are not discovered until the redevelopment work commences post-closing.

Parent guarantees: Purchasers prefer a single-purpose type of entity to own a site with significant environmental liabilities. The purchaser does not want to put its larger balance sheet and resources at risk if redevelopment costs and liabilities prove to be materially higher than anticipated (a practice known as "ringfencing").

On the other hand, the seller may be seeking to minimize the likelihood that conditions at the brownfield site will boomerang back to the seller if the purchaser is unsuccessful. One way for the seller to better insulate against that risk is to require a guarantee from the purchaser's parent entity. The parties must then address whether the guarantee is one of payment, performance or both, as well as the duration of the guarantee.

Voluntary Cleanup Programs

With the Brownfields Amendments to CERCLA, enacted in 2002, Congress sought to alleviate some of the risks brownfield redevelopers faced when returning sites to productive use. Through several memorandums of agreement with the Environmental Protection Agency (EPA), numerous states have established voluntary cleanup programs to help owners and developers perform cost-effective

After closing, the seller often seeks to ensure the purchaser will fulfill existing site investigation and remediation obligations. This may include obligations for the purchaser to conduct specific work and possibly enter the site into a state-directed remediation program.



When enrolling a brownfield into a voluntary cleanup program, the owner or developer commits to characterizing and remediating environmental contamination at the site.

Voluntary cleanup programs pull state agencies into the site redevelopment process, which can require a broader scope of investigation and remediation and extend the timeline to completion. The state's role may not prove to be compatible with the rush to get data centers online.

and successful cleanups through coordination with state and federal agencies.

When enrolling a brownfield into a voluntary cleanup program, the owner or developer commits to characterizing and remediating environmental contamination at the site. This work is overseen and supported by technical staff at agencies, who can leverage significant experience in support of cleanup efforts. After the design and implementation of a remedy, many states will issue the owner or developer a certificate of completion, signifying the agency's view that the brownfield has been remediated to appropriate levels. Importantly, this certificate often constitutes a defense to state claims of

liability for any future cleanups that may be necessary at the site.

In addition, voluntary cleanup programs offer several other benefits to the entities that pursue remediation to completion. For example, the owner or developer increases the property value of the site and adjacent sites, benefiting nearby landowners and communities. For subsequent real estate transactions, the certificate of completion can provide confidence to prospective purchasers that many of the site's environmental liabilities have been addressed.

Conversely, voluntary cleanup programs pull state agencies into the site redevelopment process, which can require a broader scope of investigation and remediation and extend the timeline to completion. The state's role may not prove to be compatible with the rush to get data centers online.

Brownfields 2.0?

The approach outlined above is immediately actionable for data center developers and others



seeking to revitalize brownfield sites. Developers should also pay attention to actions taken by the Trump administration to further incentivize data center development at brownfields.

Within days of taking office, President **Donald Trump** issued an executive order to remove barriers to American leadership in artificial intelligence. It instructed agency officials to prepare an “Artificial Intelligence Action Plan,” which was published in July 2025. The AI Action Plan includes a recommendation to streamline numerous environmental permits and requirements that apply to data center developments, including permitting requirements and regulations promulgated under the

Clean Water Act, the Clean Air Act and CERCLA. Also in July 2025, the president issued an executive order to accelerate federal permitting of data center infrastructure. It directed EPA to develop guidance for identifying Superfund and brownfield sites and to assist states in returning brownfields to productive use.

In January, EPA published “Guidance on the Redevelopment of Superfund and Brownfield Sites as AI Data Centers.” The guidance provides additional information and criteria that may be useful in evaluating brownfield sites for potential redevelopment as data centers.

It remains to be seen whether Congress, EPA or individual states will take steps to further incentivize data center development at brownfields, but the Trump administration’s statements make it clear that the race to power AI will be facilitated by favorable policies.

Real estate owners, investors and data center developers should stay up to date on new policies that make brownfields redevelopment even more attractive, while also recognizing that many strategies, contracting tools and programs are already available to bring data centers to brownfields. ■

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Authors’ note: The information contained in this article is for informational purposes only and should not be construed as legal advice on the subject matter described.

In July 2025, the president issued an executive order to accelerate federal permitting of data center infrastructure. **It directed EPA to develop guidance for identifying Superfund and brownfield sites and to assist states in returning brownfields to productive use.**

DATA CENTERS AND BROWNFIELD SITES

BY THE NUMBERS

450,000+ brownfield sites exist across the United States — a vast inventory of former industrial land with existing power, water and grid infrastructure, many of which are candidates for data center reuse.

Source: U.S. EPA, About Brownfields

\$3 trillion investment expected by companies in U.S. AI infrastructure to power the next generational of computing.

Source: American Edge Project, America’s AI Surge: Powering Investment, Jobs and Growth in Every State

9% to 17% of U.S. electricity generation could be consumed by data centers by 2030, up from roughly 4% in 2023, making proximity to existing grid and power infrastructure a critical site selection factor.

Source: EPRI, Powering Intelligence 2026

\$1.5 billion invested by Congress in EPA’s Brownfields Program through the Infrastructure Investment and Jobs Act — the single largest federal investment in brownfields remediation in U.S. history.

Source: U.S. EPA, Infrastructure Investment and Jobs Act: A Historic Investment in Brownfields

Government Affairs

LEGISLATIVE NEWS AFFECTING YOU

Capital Gains Deferral Under Original OZ Program Is Ending

Time is running out for investors to explore options for how best to handle resulting tax liability.

By Angel Rice and Dave Sobochan, Cohen & Co Advisory, LLC



Investors in the qualified opportunity zone (QOZ) program are facing a critical milestone this year: Any capital gains that were previously deferred into qualified opportunity fund (QOF) investments will become taxable again on Dec. 31. The question investors should be asking is whether they have minimized the amount of capital gain to be recognized on that date.

The opportunity zone (OZ) tax incentive was created in 2017 as part of the Tax Cuts and Jobs Act (TCJA). Since then, investors have been able to reinvest eligible capital gains into a QOF in exchange for three tax benefits:

- 1) Income tax deferral on those gains until Dec. 31, 2026 (deferral benefit).
- 2) Basis step-ups equal to a

maximum 15% that reduce the amount of gain to be recognized as income (reduction benefit).

- 3) No taxation on the appreciation of a QOF investment over and above the original investment (exclusion benefit).

As established under TCJA, the deferral period for OZ investors was always set to expire at the end of 2026, regardless of

whether an investor deferred capital gains back in 2018 or as recently as 2025. The capital gain retains its tax attributes throughout the deferral period. For example, if an investor deferred long-term capital gain, they would recognize long-term capital gain at the end of this year. It will also generate a tax liability using the tax rates in effect for the 2026 tax year. The amount of capital gain an investor will recognize is the lesser of either the amount of capital gain deferred or the fair market value of the QOF interest over the tax basis in the QOF interest. The option to look at the fair market value of the QOF interest as of Dec. 31 provides investors with an important tax planning opportunity.

Pursuing the Fair Market Value Option

These past few years have presented many real estate projects with challenging market conditions that can affect the fair market value of an investment. The process of performing a business valuation considers not only the impact of these market conditions but also the nature of the investment (public or private) and whether an investor is in a position of control to consider discounts for the lack of marketability. The generally accepted practice of applying discounts in the process of performing a valuation could put an investor in a position where the fair market value option provides a lower amount of gain to be recognized. If an investment has appreciated, the investor would simply choose to recognize the amount of originally deferred gains into their taxable income.

As of mid-April, the IRS had yet to provide guidance regarding how investors will be required to report the 2026 gain recognition. OZ investors have been filing Form 8997 with their tax returns. The form “tracks” the deferred gain and gives the IRS a starting point for the income it expects to see recognized with the 2026 tax return. If an investor is going to recognize an amount that is different from the originally deferred gain, it is likely that the IRS will require support for that amount.

In the case of a real estate-focused OZ investment, many investors may be tempted to just get an appraisal of the property and use that as evidence for the fair market value of the QOF

interest. However, there is established case law where this approach has been rejected as acceptable evidence of the fair market value of the related partnership interest that owns the real estate. In addition, an appraisal report does not consider valuation discounts for the lack of marketability and lack of control. A business valuation incorporates an appraisal but also uses accepted valuation methodologies that document assumptions and sources of

The option to look at the fair market value of the QOF interest as of Dec. 31 provides investors with an important tax planning opportunity.

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data and the qualifications of the valuation provider.

For QOFs taxed as S corporations or partnerships, the regulations under the OZ statute require additional calculations to be performed beyond what is done in a typical business valuation. Therefore, combining a qualified business valuation with a qualified OZ tax adviser is essential for properly reporting the gain.

Having a proper business valuation of the QOF interest provides a supportable defense of the gain amount being recognized in the event of IRS scrutiny (assuming it is less than the amount of original gain that was deferred).

The tax liability resulting from the gain triggered on Dec. 31 will be due April 15, 2027. This will apply regardless of whether the OZ investment is liquid. The sooner that investors can start working with their tax and investment advisers to plan for this event, the better. Not only does proactive planning allow for more time to address any liquidity concerns, but it also provides a longer runway to employ other tax minimization strategies (such as tax loss harvesting, among others) that could further reduce the related tax bill. At minimum, investors should be having a conversation with their advisers and fund managers about whether the

Having a proper business valuation of the QOF interest provides a supportable defense of the gain amount being recognized in the event of IRS scrutiny.

fair market value option would make sense to pursue — before it is too late. ■

Angel Rice is a partner at Cohen & Co Advisory, LLC. **Dave Sobochan** is a partner and market leader of the firm's real estate and construction group.

This article is for informational purposes only and should not be construed as tax advice.



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Research Update

NEW FROM NAIOP'S RESEARCH FOUNDATION

Insights on Capital Markets Conditions

New Research Foundation reports offer members practical guidance as capital markets continue to shift.

By Max Shpilband

Commercial

real estate lending and transactions increased in 2025 as declining interest rates provided a tailwind for the industry. However, while overall conditions for CRE have improved, sales and construction activity reveal significant variation across different property types. A slowing economy, above-target inflation and the recent conflict with Iran have also clouded the outlook for future interest rates.

To help industry professionals navigate this environment, the NAIOP Research Foundation has launched two recurring reports, both available only to NAIOP members, to track capital market trends.

The Debt Market Survey, Fourth Quarter 2025, authored by **Omar Eltorai** of Altus Group, provides quarterly insight into commercial real estate loan interest rates. The survey offers

data on benchmark rates, spreads and all-in interest rates for office, industrial, retail, multifamily and construction loans, including both short- and long-term senior debt and mezzanine loans.

The results from the fourth quarter point to a debt market that continued to ease for borrowers. Benchmark rates declined in 2025 across all major indices, contributing to lower all-in financing costs for most product and collateral types compared with a year earlier.

The survey also highlights several changes in quoting and pricing activity across products and property types. Fixed-rate products continued to rise through 2025 and accounted for more than half of all quotes, while floating rate senior loans remained the most quoted structure but declined from earlier periods. Collateral patterns held mostly steady, with industrial as the most quoted sector and multifamily close behind, though respondents reported a higher share of quotes for non-trophy office loans than in earlier quarters.

Overall, the survey points to a debt market that is gradually recovering. Borrowers are benefiting from more favorable pricing, lenders are increasing participation in select areas, and product mix is shifting in ways that indicate rising confidence as market conditions continue to normalize.

The results from the fourth quarter point to a debt market that continued to ease for borrowers. Benchmark rates declined in 2025 across all major indices, contributing to lower all-in financing costs for most product and collateral types compared with a year earlier.

Product Mix as Percent of Total Quotes Received

Rate Type	Product	4Q 2025	3Q 2025	QoQ %Δ	4Q 2024	YoY %Δ
Fixed	Senior Short ¹	29%	23%	5%	26%	3%
	Senior Long ²	15%	14%	1%	13%	2%
	Mezzanine ²	5%	7%	-2%	4%	1%
	Pref. Eq. ³	3%	6%	-3%	4%	-1%
Floating	Senior Short ⁴	36%	39%	-3%	40%	-4%
	Mezzanine ⁴	7%	7%	0%	6%	1%
	Repo/Facility ⁴	5%	4%	1%	7%	-1%
Total (All Products)		100%	100%		100%	

Benchmarks: 1) 5-year U.S. Treasury yield; 2) 10-year U.S. Treasury yield; 3) All-in Coupon Rate %; 4) Term SOFR

Source: Altus Group



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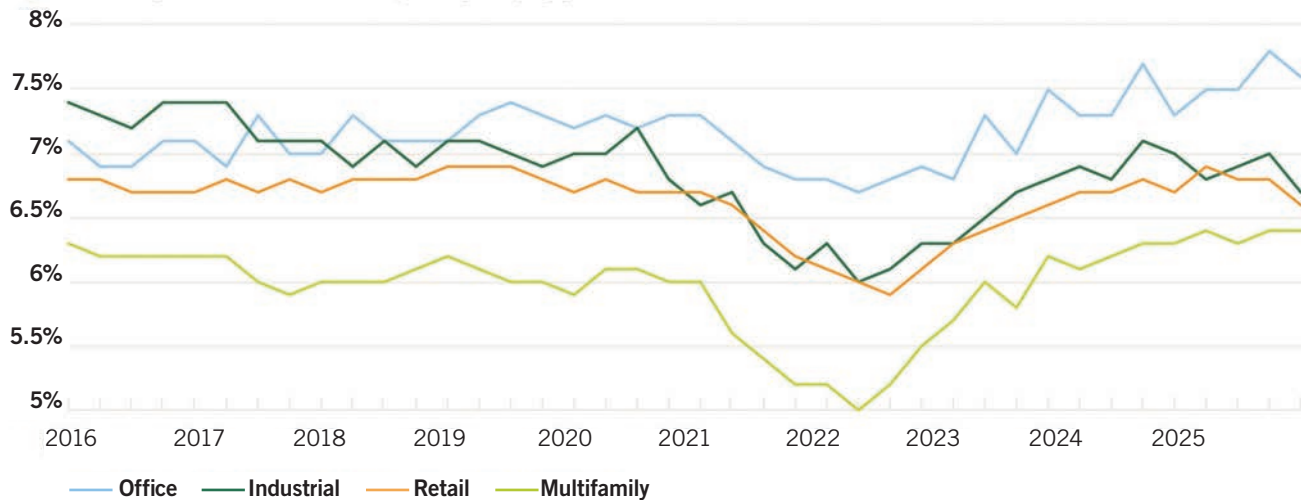
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Research Update

Capitalization Rates by Property Type, 2016-2025



Source: CoStar Group and NAIOP Research Foundation

The U.S. Capital Markets Report, H2 2025 describes a commercial real estate market entering 2026 in a transitional phase. Authored by NAIOP Research Foundation Senior Visiting Fellow **Will McIntosh**, Ph.D., and Executive Director **Shawn Moura**, Ph.D., the report draws on economic data, transaction activity, mortgage lending, valuations and development trends to provide insight into how capital is moving across property types. Liquidity has improved, valuations have stabilized, and both debt and equity capital have become more available, even as rate-driven volatility and broader uncertainty continue to influence investment decisions. The report observes that capital markets have largely adjusted to the disruptions caused by the rapid increase in interest rates that began in 2022, but activity remains closely tied to movements in long-term rates.

After surging during the low-rate environment of the pandemic, transactions slowed sharply as interest rates rose in

2022 and 2023. They began to recover in 2024, led first by multifamily transactions and then followed by other major property types. In 2025, pricing stabilized across most sectors, with cap rates leveling off in industrial, retail and multifamily, and office showing early signs of improvement. Development activity has followed a similar multiyear pattern, though the construction pipeline for multifamily and office projects continued to shrink in 2025.

Lending activity offered some of the clearest evidence of increased liquidity in recent quarters. Banks shifted from reducing their commercial (non-multifamily) mortgage holdings in late 2024 to becoming the largest net lenders to commercial real estate in 2025, marking a notable change in momentum. As a group, federal agencies, government-sponsored enterprises and mortgage-backed securities investors remained the largest buyers of multifamily mortgages.

Banks shifted from reducing their commercial (non-multifamily) mortgage holdings in late 2024 to becoming the largest net lenders to commercial real estate in 2025, marking a notable change in momentum.

Taken together, both reports offer timely insight into market conditions as the investment and lending environments continue to evolve. As 2026 progresses, these recurring reports will help NAIOP members calibrate strategy, evaluate risk and plan new projects.

Access the reports at naiop.org/research. ■

Max Shpilband is a research analyst for the NAIOP Research Foundation.

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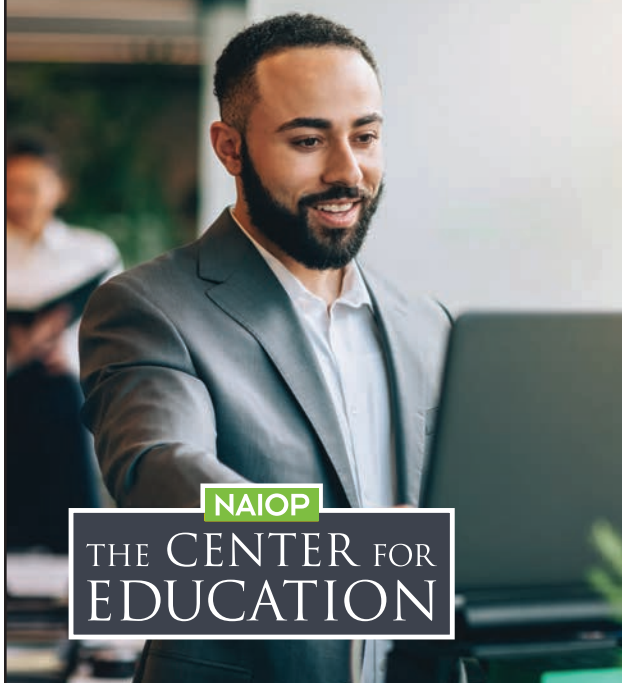


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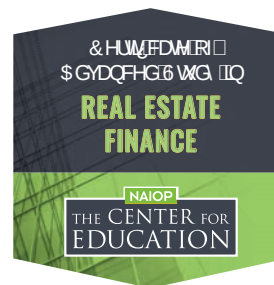


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At Closing

THE CHAIR'S PERSPECTIVE

AI, Innovation and the Next Big Investment Opportunity in CRE



Celeste Tanner

While my journey into commercial real estate was purely by circumstance — it was not on my radar when I was studying poetry — I've now spent more than two decades in the industry, including 14 years with Confluent, a diversified developer. Development magazine recently asked me to share my perspective on CRE's past, present and future possibilities.

What innovations do you think have made the biggest impact on commercial real estate over the past five years?

By nature of our risk appetite and investment horizons, CRE professionals have been painstakingly slow at innovation adoption. I remember sitting in a proptech study session at a NAIOP conference many years ago when new operational technologies were all the rage. After a few minutes of discussion, an asset manager of one of the larger CRE investors at the time confessed that their greatest tech advancement was just to get all their properties reporting in the same software.

AI adoption in the industry is still in its infancy, but the number of individuals and companies utilizing even early stage models for concept planning, reporting, financial analysis and

document review with continued success is incredible. As these technologies become more proven in design and construction integration, and as large-scale 3D printing technologies continue to prove out, I think we are finally reaching a tipping point for widespread adoption of real innovation practices in our industry.

What product do you predict will next experience a surge?

I wish I had a secret new asset class to point to, but I think the reality is that we are back into a pure fundamentals phase of real estate. While every market is different, in general we have been working through some significant supply deliveries in our industrial and multifamily spaces, which — combined with macroeconomic uncertainties — caused some pain points over the last 18 to 24 months in certain markets.

What we experienced is new supply decreasing significantly in those sectors, with deliveries dropping by over 50% in the United States, and absorption maintaining or improving year over year in 2025. That is a simple recipe for development demand to increase in the markets best demonstrating this supply-demand imbalance. I am a believer in smaller bay and true small-bay industrial. In addition, while I am not sure I buy into top-end forecasts on manufacturing demand, I think the inherent lack of operationally efficient supply will generate demand for quality manufacturing space in certain markets.

As we look at alternatives, pure fundamentals also mean a concentrated focus on demographic demands, which are hard to ignore. For example,

I would be increasingly selective with new student housing opportunities, as our colleges face both population and sociopolitical pressures that will likely lead to decreased enrollments in the next five to 10 years.

Conversely, senior living is facing a potential supply crisis as the baby boomers age into prime occupancy years. According to NIC (National Investment Center for Seniors Housing & Care), with the population of Americans ages 80 and over expected to increase by 4 million in the next five years, the country would have to deliver twice as many units annually as it has ever delivered in a single calendar year just to keep up with demand. I think that spells real opportunity for those well versed in the asset class.

Where I expect to see the most rapid surge in our industry, however, has less to do with our product-level investment and more to do with our operational investment. Commercial real estate must embrace the hard reality that we need to be smarter, faster, more efficient and more cost-effective to remain sustainable. The actual future application of AI is still to be determined, but its potential uses have catalyzed the conversation and opened the minds of real estate professionals who are starting to understand how technological applications can improve how we resource, design, analyze and construct our projects.

NAIOP is working in partnership with other organizations to ensure our members have access to the best in real estate technology and can be at the forefront of this inevitable advancement.

What is the best investment opportunity today?

Ultimately, I think the best investment opportunity may be in our organization and in building partnerships with those who have adopted proven design and construction technologies that make site investigation, design and delivery more predictable and affordable. NAIOP is an incredible resource, both in our partnership and membership experience, to help identify best practices and pitfalls in investment strategy. ■

A handwritten signature in cursive script that reads "Celeste Tanner".

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