TAMING UNCERTAINTY
THE RIGHT DATA CAN MAKE THE FUTURE EASIER TO PREDICT

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In the middle of difficulty lies opportunity.” Albert Einstein’s words inspire us to stay positive through these challenging times. Clients look to us for flexibility and innovative ideas for adjusting to uncertainties around health and safety—and the state of our business—and, as REALTORS® do, we are rising to the occasion. I’m heartened by the generally upbeat responses by members to NAR’s Market Recovery Survey, released July 9. NAR surveyed commercial and residential practitioners, and the results confirm what I’ve been finding from my virtual engagement with members from coast to coast: Resiliency within our ranks is strong. Nearly two-thirds of members reported in late June that their market was back to normal or slowly entering recovery. And 28% indicated their market is hotter than normal.

Of course, we know the picture is quite different in commercial real estate. Building owners are facing pressure from both directions. When tenants struggle with cash flow, owners’ financial limits and patience are tested. This struggle is real for me as the owner of multifamily investment properties, and where I can offer my tenants forbearance options, I do. Many of you are doing the same. In the survey, nearly 60% of property managers and nearly 50% of landlords said they were able to accommodate delays in rent payments by commercial tenants. The figures were slightly lower, 40% and 24%, for residential tenants. In these times, the grace we show one another—as well as the unwavering support we get from the REALTOR® community—will help us prevail. Meanwhile, dramatic jumps in the residential market in June and July—bolstered by an improving employment outlook—bode well for commercial real estate for the long haul.

As I write this, NAR continues to advocate for pandemic relief for our industry. Among the provisions we’re supporting are direct assistance to housing providers whose tenants have been financially impacted by COVID-19 and limiting of eviction moratoriums to those financially impacted by COVID-19. We also continue to strongly defend the 1031 like-kind exchange rules against policy-makers who seek to repeal the rules or limit the use of 1031s (see Advocacy, page 21). And we’re keeping the lines of communication open with the lending community. In July, with COVID-19 continuing to surge in many states, we spoke with Leanne Spies, who heads Freddie Mac’s servicing portfolio operations. Spies outlined new forbearance options, such as delayed repayment and elongated repayment periods, for multifamily borrowers whose 90-day forbearance agreements were reaching an end.

Living through uncertainty is hard. But what you can count on is that NAR is committed to working for a strong real estate industry that supports the needs of commercial practitioners. While many of you would ordinarily be making plans now to attend the REALTORS® Conference & Expo, originally scheduled for New Orleans, in November, this is a reminder that we’re going virtual. (Watch for details, as they become available, at conference.realtor.) I’ll miss seeing everyone in person, but gathering online makes it easier and safer for members to hear from and engage with industry influencers, government officials, and NAR leaders. Based on the turnout for our successful virtual Legislative Meetings in May, we’re expecting to at least double typical participation levels during the Nov. 13–16 conference, which will include vital content for commercial practitioners. It’ll be an opportunity for professional growth and connection. Einstein surely would have approved.
As office buildings reopen, managers and tenants are reviewing compliance with Centers for Disease Control and Prevention guidance regarding precautions against COVID-19. The CDC recommends employers “consider conducting daily in-person or virtual health checks (e.g., symptoms and/or temperature screening) of employees before they enter the work site,” Concern about workplace safety has combined with technology advances to generate interest in thermal imaging systems for offices. The technology measures a person’s surface skin temperature without requiring close physical proximity to another person, according to the Food and Drug Administration.

A new Chicago office building, opened in late summer, is one of the first to incorporate safety advances including thermal scans, according to a recent Forbes article. Fulton East is a multistory office and retail building. Prospective tenants were greatly concerned about “safety and well-being,” developer Bob Wislow, chairman and CEO of Parkside Realty in Chicago, told Forbes. That led to changes in the structure and design.

Some of the biggest real estate owners and developers in the U.S. are evaluating thermal imaging and other solutions across their portfolios, says James Scott, IREM innovator in residence and lead researcher for the MIT Real Estate Innovation Lab. The U.S. Equal Employment Opportunity Commission has offered criteria in weighing an investment in thermal imaging technology:

**Potential for integration:** “Try to find a system that can integrate into other systems—turnstiles, access systems, control systems, and intrusion devices,” Scott says. “You want to allow for the quickest flow of people while creating the safest, most efficient system.” It makes sense to invest in something that can be used in conjunction with other systems to create long-term benefits, he adds. “You don’t want something that will go into your storage and gather dust when this pandemic is over.”

**Confidentiality:** The EEOC allows employers to measure employees’ temperatures as long as confidentiality is observed. The commission’s website says, “As with all medical information, the fact that an employee had a fever or other symptoms would be subject to ADA [Americans with Disabilities Act] confidentiality requirements,” Scott says.

**Your environment:** “Demonstrations of the product might be in a closed environment with only one or two people,” Scott says. “You have to make sure the thermal imaging works in your specific property environment as well. Certain parameters are necessary to ensure the temperature readings are as accurate as possible.

“Also, it’s important to understand whether the technology will work for the volume of people coming through the lobby,” he continues. “You can’t just scan a group of people. You need a certain amount of time between readings for the system to recalibrate and sanitize.”

**Training and setup:** Creating the right environment and a safe traffic flow requires a significant amount of training and a thoughtful setup, Scott notes.

Adding a thermal imaging system requires due diligence. Doing research and taking an objective look at the pros and cons are starting points.
PROPERTY MANAGERS: BEWARE OF LEGIONELLA BACTERIA IN REOPENED BUILDINGS

LENGTH OF THE PANDEMIC SHUTDOWN MAY REQUIRE PRESCRIPTIVE ACTIONS.

By Lynn Ettinger

Few if any buildings are immune to the challenges of reopening after a months-long shutdown caused by COVID-19. Even the U.S. Centers for Disease Control and Prevention faced a hurdle when property managers found Legionella bacteria in the water systems in some of the buildings it leases in the Atlanta area. The bacteria can cause Legionnaires’ disease, defined by Mayo Clinic as a severe form of pneumonia usually triggered by inhaling the bacteria from water or soil. Although no CDC employees were sick, the buildings had to be temporarily closed in August after reopening earlier, reported CNN Health.

Different types of commercial structures—including large office buildings, hotels, and some factories—can be vulnerable after a protracted closure, said Chris Edens, an epidemiologist on the CDC’s Legionella team quoted in the article.

The bacteria can develop in stagnant water that hasn’t been properly disinfected. When that happens and building occupants turn on faucets or flush toilets, the bacteria can travel through the air and be inhaled, according to a New York Times article on the Atlanta closure. Chlorination and other disinfecting procedures can kill the bacteria, but the bacteria can also create sludge inside pipes that’s hard to remove, Edens said.

Although turning on taps and sending fresh water through the building, called flushing, are known to help, the length of the recent lockdown may call for more, said Andrew Whelton, an associate professor of civil, environmental, and ecological engineering at Purdue University quoted in the article. He explained that specific actions may be needed in addition to CDC general guidance. For example, some buildings may require more chlorine than usual, more flushing, or flushing throughout the entire building.

PROPERTY MANAGERS SEE OPPORTUNITY IN CRISIS
FROM BETTER TENANT ENGAGEMENT TO MORE PROPTECH, FIND THE PANDEMIC’S SILVER LINING.

Property managers are moving into the next phase of the COVID-19 experience: identifying opportunities stemming from the crisis. That was the subject of a recent IREM webinar, “Reopening in COVID-19: What Property Managers Need to Know,” moderated by 2020 IREM President Cheryl Gray, CPM.

Many opportunities have come in the form of tenant engagement, said panelist Angela Aeschliman. The pandemic led to communications that were “more rapid and more upfront. Even if we don’t have a particular answer, it was important to get back to tenants right away.”

Electronic platforms that were in place are being used more, she added. “We had a lot of different platforms that were electronic previous to the stay-at-home order, but they weren’t adopted at a high percentage rate. We’ve found now that we’re ticking upward near 100%.” Those increases have been in areas such as vendors uploading invoices rather than mailing them, online rent payments, and tenant work orders, she noted.

**FAST TRACK NEW TECH, PROTOCOLS**
“From an operational standpoint, the pandemic has allowed us to fast-forward our strategic plan,” said panelist Kevin Owens. “There are some things that have begun during this process—things like virtual leasing or self-guided tours—that are here to stay.”

How-to videos will also become a larger factor at his firm, Owens continued. “Our teams have been producing how-to videos for minor service requests or work orders that residents can do themselves, whether it’s simple things like changing a lightbulb or a toilet flange or knowing where to change air filters.”

The difficult situation has supported staff growth, said panelist Richard Forsyth. “It’s given us some time to evaluate staff—to understand our strengths and weaknesses and identify where we can [improve] for ourselves and our clientele.”

**IDENTIFY OWNERS’ SHIFTING GOALS**
The ongoing health crisis presents an opportunity to revisit owner expectations, Forsyth said. “We always like to find out what an owner wants to do with a property over the long term. [The pandemic] may change those goals.”

Gray said the industry has become more interested in proptech, whereas before, “we were a little slow to adopt.” She also thinks there’s more focus on occupant wellness and the industry’s “sustainability journey.”

For more insights from the panelists, visit irem.org/learning/reopening-properties-covid-19-webinar-recording.
SALE-LEASEBACKS: LIFELINES FOR CASH-STRAPPED BUSINESSES

THESE TRANSACTIONS CAN WORK FOR BUSINESSES OF ALL SIZES AND MEET THE NEEDS OF BOTH SIDES.

By Joseph A. Fisher, CCIM, president of Fisher Investment Real Estate, Indianapolis, and a senior instructor with CCIM Institute

The COVID-19 pandemic has left everyone uncertain about the future, but it’s safe to say that instability in public health and the national economy will be with us for the foreseeable future. In commercial real estate, many businesses are struggling to keep the lights on. Quick, affordable access to cash is a lifeline that could save companies, from the biggest of big-box stores to the smallest mom-and-pop operations. In commercial real estate, the sale-leaseback is a transaction that may prove especially valuable to cash-strapped companies.

The sale-leaseback allows a business to improve its cash position by selling owned real estate while retaining the right to use the property through a long-term lease. Potential investors, meanwhile, are looking for quality, income-producing real estate with a tenant or tenants who are willing to sign a long-term lease. Sounds like a win-win, right? The tenant receives an influx of cash that will improve its ability to operate in the immediate future; the buyer makes a long-term investment while managing risk with an established tenant. Both sides of a deal address their priorities.

Sale-leaseback transactions come in all shapes and sizes. Recently, discount retailer Big Lots completed sale-leaseback transactions on four distribution centers with affiliates of Oak Street Real Estate Capital LLC, collecting roughly $550 million after taxes and expenses. The initial lease terms are 15 years for facilities in Columbus, Ohio, and Montgomery, Ala., and 20 years for facilities in Durant, Okla., and Tremont, Pa. Much smaller businesses, such as law firms and medical practices that own their real estate, can also benefit from sale-leasebacks.

WEIGH THE REWARDS AND RISKS

The lease commitment in a sale-leaseback is usually 10 to 15 years. The seller provides cash at long-term rates while realizing 100% of the asset’s available value—compared to, say, accessing 70% of an asset’s value through bank debt. By using this available cash, the seller also preserves its borrowing limit access to the debt market for the future. The business also is able to maintain control of the facility’s operation, maintenance, and potential alterations.

Nothing is too good to be true; accordingly, sale-leasebacks come with risks. By disposing of its real estate, the selling business gives up the right to potential future appreciation. Also, the long-term lease removes the flexibility to benefit if rental rates drop. And the disposition means the seller-lessee may be subject to relocation at the end of the primary lease period.

For the investor, the sale-leaseback represents an opportunity to acquire an attractive real estate investment with a long-term income stream from a selling tenant with good credit. But the investor still carries some risk. A sale-leaseback transaction that took place in December 2019, for example, might be problematic for an investor facing current difficulty related to COVID-19.

Still, considering its appeal to businesses of all sizes in nearly all sectors of commercial real estate, the sale-leaseback will surely be discussed in corporate boardrooms and over dinner tables in the months and years to come.

The CCIM Institute course “Unlocking Value and Capital with Sale-Leasebacks” is the source for the article. For more information, visit www.ccim.com/education.
HOW CONFIDENCE SHIFTED THIS SUMMER

A RECENT SNAPSHOT SHOWS OVERALL VOLATILITY BUT INCREASED ON-SCHEDULE TRANSACTIONS.

By Alexis Fermanis

The Society of Industrial and Office REALTORS’® Snapshot Sentiment Survey assesses the impact of the COVID-19 pandemic on North American SIOR members’ current transactions and reveals members’ level of confidence in regional markets six months from now. The most recent snapshot—the fourth consecutive survey—reveals a volatile overall market. After a steady incline for several months, market confidence dropped in July, with the office sector continuing to be the hardest-hit area.

The lowest levels of confidence were seen among office brokers in the Northeast, Northwest, and West regions, and among industrial brokers in the Central region. The Canadian, Central, and Southeast regions were the only ones to report more confidence in office than industrial. The actual number of on-schedule transactions is continuing to improve, particularly for the industrial sector, which saw 42% of transactions proceeding on time, up from 35% in June.

JULY RESPONSES REVEAL KEY TAKEAWAYS

• Overall, market confidence dipped from June to July (see “Confidence Wanes”).
• Comparing local market confidence, brokers in large firms and networks reported notably higher confidence than their independent counterparts in the global, Canadian, South, and Southwest regions.
• Regionally, industrial and office brokers in the global and Canadian regions showed the biggest gains in confidence. The biggest drops in confidence were shown by industrial and office brokers in the West, Southwest, and Northwest regions and office brokers in the Northeast.
• The overall status of current transactions continued to improve. On-schedule transactions overall increased steadily, from 37% to 39.2%, with corresponding declines in third-party delays and delayed projects. The industrial sector continued to show steady gains, while the office sector showed ongoing uncertainty in July, with on-schedule transactions going from 30.5% to 32.5% but canceled transactions increasing from 16.1% to 20%.

The survey began in April 2020 and will continue monthly throughout the year. Find the entire report at SIOR’s Thought Leadership Series page, sior.com/education-and-insights/insights/thought-leadership-series. Click on “Reports and Briefs.”
LONG-TERM CHANGES EXPECTED IN USE OF SPACE

NEW FOCUS WILL CAUSE REDESIGN AND REBUILDING, DISPLACING OLD FORMATS.

Space utilization has taken on immediate importance for tenants and landlords during COVID-19. In “Space Utilization and the Built Environment,” published in the latest issue of Real Estate Issues by The Counselors of Real Estate, authors Tomáš Ctibor, CRE, and Thomas Wootten, CRE, predict:

- In place of old retail formats, designs will center on walkability and integration of uses, enabling continued normalcy in case of subsequent lockdown orders. Intentional design will combine social connectedness with physical distancing and integrate residential, office, retail, and public spaces in a way that resembles the design of older European cities.
- Suburban office blocks will experience reinvestment they haven’t seen for many years.
- The focus on mechanical systems will result in redesign and rebuilding projects to improve air quality and reduce transmission of airborne particulates.
- The public’s growing comfort with online grocery shopping will reduce the need for large-format grocery stores, as consumers turn to smaller specialized markets and make direct connections with food producers.

Space utilization was ranked seventh in “2020-21 Top 10 Issues Affecting Real Estate.” Read all 10 issues at cre.org.
LEADERSHIP ACADEMY ADDS COMMERCIAL FOCUS

LEARN ABOUT THE PROGRAM BEFORE THE 2022 APPLICATION PERIOD LAUNCHES.

By Lynn Ettinger

One way people become strong leaders is by learning from others. For the past 12 years, the National Association of REALTORS® Leadership Academy has been identifying, inspiring, and mentoring emerging leaders. Academy participants hone their leadership skills while learning about institutional, industry, and association issues.

SPOTS FOR COMMERCIAL PROS

Now NAR has added a commercial focus to the academy curriculum, and, for the class of 2022, three slots are dedicated to members engaged in commercial real estate. The application period for the 2022 class opens Dec. 2, 2020, so now is the time to consider applying.

“We want commercial real estate professionals to see the same value in NAR as residential professionals,” says NAR’s 2020 President-elect Charlie Oppler, who was instrumental in the change. Oppler, chief operating officer of Prominent Properties Sotheby’s International Realty in Tenafly, N.J., also recently announced a new commercial conference that will take place in 2021 (see page 18).

Leadership Academy participants experience many facets of leadership and, along the way, define their personal leadership style. The academy includes eight sessions combining interactive online and in-person experiences. Sessions are self-paced and extend over a three-week period. Participants have exclusive access to a library of more than 600 “micro-videos” featuring more than 40 nationally recognized industry leaders. In addition, special guests host live online “office hours.”

National committee experience is a great path to leadership, Oppler explains, but the academy accelerates that process and provides a supportive environment for growth. “The participants are all there for the same purpose, as opposed to sitting in a committee with 80 or 100 people. Everybody comes in equal,” he says.

WHAT ARE THE QUALIFICATIONS?

REALTORS® are encouraged to apply if they have leadership experience at the local or state level but haven’t been actively involved at the national level and have demonstrated leadership abilities and passion about the industry and issues. Applicants often have completed formal leadership training through a local or state REALTOR® association, a juris doctor or master of business administration degree, or a community or military leadership program.

Applicants should prepare to describe an incident or activity that most affected their development as a leader. Responses to industry challenges and leadership aspirations are carefully considered because they reflect personal point of view and vision. Other factors include applicants’ ability to contribute to diversity based on age, gender, ethnicity, geography, and specialty.

LEARN MORE

From the pool of applicants, Academy participants are selected by the NAR Leadership Academy Advisory Group. Participants pay a $1,000 tuition fee, which covers course materials and other expenses. To learn more about the program and selection criteria, visit nar.realtor/leadership-academy. Or email questions to narla@nar.realtor.
HOW TO STAY AHEAD OF UNCERTAINTY

WITH INGENUITY—AND THE RIGHT DATA AND TOOLS—YOU CAN BE READY TO ACT ON WHAT’S COMING.

By Lynn Ettinger

Planning in an uncertain business environment is like taking a trip to an unknown destination with no idea of how long you’ll be there, what you’ll find, or how much your stay will cost. Unpredictability generally isn’t a welcome condition, but in commercial real estate, it’s a familiar one, whether created by legislative or regulatory changes, economic and industry downturns, changing investor and buyer preferences, or—in the case of 2020—all of the above brought on by a global public health crisis. The usual solutions, including hiring and investment freezes and avoidance of new markets, aren’t producing enough results. So, how can commercial professionals adjust—and keep adjusting?

For starters, they can look at what’s coming and not duck. They can define a question or a hypothesis, then search for useful, credible data and work with analytics tools or analytics professionals to get clues about what’s ahead.

START WITH A PURPOSE

Commercial professionals who work extensively with data and tools recommend you ground your research and anal-
yisis by first defining your purpose. “Ask yourself, what’s
the problem I’m trying to solve or answer I need?” says
Carol Campbell, vice president of CCIM Technologies at
the CCIM Institute.

Before doing even preliminary data searches, jot down
your idea or a hypothesis, advises Blaze Cambruzzi, co-
founder of True Commercial Real Estate in Lancaster, Pa.
You don’t even need to know exactly what you’re looking
for, he says. “Start with a question.”

Firsthand observation can help inform your search, says
K.C. Conway, chief economist at CCIM Institute. “I’m
a third-generation appraiser, so I was trained to drive
around and ask, Why is that building vacant? Why did
that building suddenly become something else? Why are
there no grocery stores here? Ask yourself, What are some
anecdotal indicators?

“If you go looking without a defined purpose, you’re go-
ing to get overwhelmed with information, become dis-
couraged, and revert to what you typically might do,”
says Cambruzzi.

**ZERO IN ON DATA SOURCES**

Once you have a purpose, pinpoint your data sources. The
massive volume of data and sources can be intimidating,
and the relevance and reliability vary widely. A premier
source for demographics and related data is Esri, which
supports integration with Microsoft Office and a number
of platforms, Cambruzzi says. Cambruzzi accesses Esri
through CCIM TECH’s Site to Do Business, which pro-

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**THINK OUTSIDE THE BOX—OR EXPAND THE BOX**

While data can point you in the right direction,
you can often gain additional insights for managing
uncertainty—as well as ideas for expanding your
business—by studying other industries.

Look at industries that align well with commercial real
estate, says Jim Berry, U.S. real estate sector leader
at Deloitte.

Hospitality is one such industry, Berry notes, especially
with regard to the importance of direct interaction
with the end user and the need to limit COVID-19
spread in buildings.

“Think about how hospitality companies interact
with their hotel operators and owners, the customer
experience they’re driving toward based on interaction
with the product, and analysis of customers’ lengths
of stay, travel patterns, and use of various services,”
Berry says. “A year and a half ago, mobile keys weren’t
commonplace in hospitality but now they are. Think
about that in a COVID-19 environment.”

K.C. Conway, chief economist at CCIM Institute,
says the mortgage brokerage industry offers a good
example of business expansion. When originations
slowed, some brokers “wouldn’t just arrange financing
and get a fee for that deal. They would say, ‘We want
to service that loan.’ That’s how they made it when
transaction activity slowed down.

“We’re going to see less transaction activity, but you
have tremendous skills,” Conway continues. “You
know how to do cash flows. You know how to analyze
markets. You have investment analytical skills. How do
you translate your skills so that maybe you can become
more of a consultant or an adviser, whether it’s to a
bank, a fund, a private entity, or a REIT?

“Cross-pollinate your disciplines,” adds Conway.
“When you sell a building, have a property management
person approach the investor and say, ‘We can also
do your property management. We can help you
maintain it and keep track of the leases.’ Or let’s say
investors are coming into your area and doing multicity
brokerage transactions. You might be a brokerage
that isn’t licensed in a neighboring state, but you can
participate in an opportunity by having a relationship
with another brokerage.”

By adapting or building on available resources—
including practices from other industries and skills
within your business—you can better control the
impact of uncertainty.
vides data and tools as a member benefit for CCIMs and by subscription for REALTORS® who are not CCIMs and other commercial professionals.

Campbell explains how the site works: “We get data from [a variety of] sources. Let’s say someone wants to put together an index to measure how different areas will emerge from COVID-19. That would take data related to COVID-19 and commercial real estate, and probably Bureau of Labor Statistics data about what’s happening in the job market. We would put all the data together to see areas that are going to lag and areas that are going to rebound more quickly.”

You can also check government sites—local, county, state, municipality, and federal, Cambruzzi says. “All these places are rich sources of data that can be integrated into your work product. Many states will have commerce or community economic development information and all types of economic engine data.”

Conway suggests looking at the public companies that are material to your local economy and to your tenants. Let’s say you manage or sell retail properties and are near a Home Depot or Walmart. Find out how they are doing. “Look at and listen to what these companies are telling you, what stores they’re closing, or what is underperforming. That will tell you more about what’s coming at you.”

Analyst calls of large public real estate companies provide useful information for Tom Bothen, CCIM, director of investment analytics at One Chicago Realty and a senior instructor for the CCIM Institute. “I especially listen to the analysts’ questions to know what the companies are actually doing, not just what they say they’re doing.” He reads economic reports from Warren Buffett and Black-Rock. And because he views real estate demand as a function of the job market and compensation, Bothen analyzes job growth, struggling companies, and the current and long-term impact of COVID-19 on retail, office, and hotel properties. “As a result of COVID-19, adaptive reuse will be a major market opportunity,” he says.

**COLLECT AND ANALYZE THE DATA**

The ability to find opportunity in all this research may require information beyond what your own observation, data gathering, and analysis can produce. That’s where the field of predictive analytics comes in. Campbell offers a simple definition of predictive analytics: combining data from the past with current information to predict what’s going to happen. Software giant SAS defines it as “the use of data, statistical algorithms, and machine learning techniques to identify the likelihood of future outcomes based on historical data.”

“Some of the tools within Site to Do Business will provide users with an introductory level of predictive analytics,” Campbell says. “We have tools that will forecast what a market is projected to do in the next five years. We’re working with a new tool called Alteryx that allows us to bring in data sets from different places and build workflows with that data to create reports and maps.

The site will soon launch a concierge service, Campbell said in early summer. “We have a partner that will provide turnkey analytics solutions such as predictive analytics, sophisticated mapping, and video marketing with a fee-based structure.”

Cambruzzi uses tools including Esri’s ArcGIS Business Analyst and ArcGIS mapping platform, as well as Microsoft Excel. “If you can’t sit down with a piece of paper and rattle off 10 advanced Excel formulas and know what the inputs are, you may want to take some training. There are tons of resources online. If you’re evaluating five [building] sites to identify which might be best for an office user, for example, you have to be able to not only pull the demographics—like how many businesses would be in that area—but also analyze the data. Esri doesn’t spit out the analytics.”

**GET HELP TO FILL IN GAPS**

Cambruzzi, who before entering the commercial real estate industry helped companies with data research and analysis, says commercial professionals don’t need to become analytics experts. “The greatest homebuilder in the world probably hasn’t swung a hammer in years,” he says. “You do need enough understanding of the mechanics to ask for the right output. You need to sharpen your saw and integrate tools and resources to make yourself stronger.”

From there, “find people who can do different types of things” that enhance your own knowledge and skill set, he adds. “Get an intern. Hire somebody who doesn’t have your knowledge about commercial real estate but knows a lot about software packages and tools.”

The time and resources you invest in accessing and analyzing credible data and using analytics tools or support can do more than help you in today’s unpredictable environment. They can keep your business moving forward to weather whatever uncertainties lie ahead.
WORKING IN A BARGAIN HUNTER’S MARKET

OFFICE SPECIALISTS SHOULD ANTICIPATE SLUGGISH GROWTH WHEN PRICING PROPERTIES.

By Lawrence Yun, NAR chief economist

There’s always investment money out there ready to snatch up bargains. That may be the one thing owners, managers, and brokers in the office sector can count on during these tumultuous times.

At the start of 2020, office buildings looked primed for another solid year; 2020 was expected to mark 12 consecutive years of improvement since the last recession. The vacancy rates had been steadily falling, from 16.5% in 2009 to 12% right before the pandemic. What derailed that streak—unprecedented job losses, the biggest stimulus package ever by several multiples, and the shift to remote work and videoconferencing—will impact the office space for years to come.

Even with many states advancing into the next phase of the reopening, office buildings across the country are standing empty. Many office workers are reluctant to reenter the workplace. More and more companies are announcing work-from-home flexibility until the end of the year or even into 2021.

Unlike the retail sector, where many small businesses in downtown locations or big box department stores at closed shopping malls are going under and hence not paying rents, office rents are still being paid for the most part, even if the spaces aren’t being utilized. Going by stock prices, some companies, such as the big tech and biomedical industries, are actually booming and expanding in the midst of the pandemic. Office space expansion, however, is not happening even among these companies.

WHY PRICE DROPS MUST BE MEANINGFUL

Nationwide, as of the end of June, there were 2.07 million fewer jobs in sectors comprising financial activities and professional business services, industries that heavily use office spaces. That’s an 8% reduction in office jobs and a commensurate 8% reduction in office space needs. Such a change would correspond to an office vacancy rate rising by around 400 basis points to 16%, essentially back to the last recession levels, in a very short period. Even if the economy were to rapidly grow and reach back up to peak employment, say over the next 24 months, which is in the realm of reasonable possibility, the demand for office space is unlikely to rise in any meaningful way. Aside from the remote work expansion, plentiful fresh supply of space was already hitting the market early in the year and will continue to do so as office construction cannot be stopped in mid-stage. The new office construction spending was running at a $72 billion annualized rate in the months before the pandemic, which is well above the $45 billion average over the past 20 years.

Not only has leasing all but stopped, but the buying and selling of commercial buildings is also not happening during the pandemic. Large expensive property transactions (those involving buildings priced above $2.5 million) were down a whopping 68% in the second quarter of this year compared to a year ago. The sales decline was less sharp for more affordable buildings, partly reflecting frozen conditions in major downtowns and increased interest in suburbs and smaller towns.

To get deals done, owners might consider quickly lowering the price in anticipation of higher vacancy rates and lower rents. At least 15% off the peak price may be appropriate. This change, after all, is not so painful considering office property prices have essentially doubled over the past decade. Some may hope that the super low interest rates, which should be with us for the next couple of years at least, will more than offset falling office rent revenue. But the reality of remote work will force cap rates to rise and prices will fall. Rents will be pressured to decline by 10% in 2020 in order to draw new tenants.

THE LIMITS OF VIDEOCONFERENCING

One wild card going well into the future is how much of the current remote work will become permanent. Before the pandemic, only 5% of the work force principally worked from home. The new reality could be as high as 20%. Research on worker productivity consistently has shown no loss of productivity from remote work involving repetitive or similar tasks.
But how well will companies innovate without face-to-face collaboration? New ideas translate into new products and services. Yet, collaborating via videoconferencing is clunky at best. In group interactions, it’s less clear when to interject your thoughts in that critical half-second pause—or how to quickly advance the conversation using body language to disagree or concur with other participants during the discussion. Video doesn’t allow for the water cooler conversations that lead to new thoughts not even considered before arriving to the office in the morning. These types of communication are the stuff of business dynamism for future growth.

If companies determine that having employees in the office is the key to growth and survival, then we can expect office demand to rise commensurately with broader employment growth. Otherwise, approach transactions with the expectation of a sluggish recovery ahead.
The coronavirus pandemic deepened its impact on sales and leasing transactions in the second quarter of 2020. Retail, hotel, and office properties were hit the hardest, while residential, industrial, and land assets were being only mildly impacted. These are some of the findings of the latest Commercial Real Estate Market Trends and Outlook, a quarterly survey from the National Association of REALTORS®.

SALES, LEASING DECLINE ACROSS ALL SECTORS

Nearly 500 REALTORS® provided information about their sales volume, with respondents reporting a 5% year-over-year average decline in sales transactions in the second quarter, mostly transactions of less than $2.5 million. Among transactions valued at $2.5 million or more, sales plunged by 68% year over year, according to a report from Real Capital Analytics.

REALTORS® reported the largest declines in sales of office, retail, and hotels, with sales down by 6% to 7% year over year. Sales of apartment properties and industrial properties dropped 4% year over year, while land sales declined 3%.

Among sales of properties valued at less than $2.5 million, commercial prices declined 3% year over year in Q2 2020. Among transactions of at least $2.5 million, commercial prices were still up nearly 4%, but this increase is lower than in the precoronavirus period (6% year over year in January 2020).

Meanwhile, commercial properties held by REITs declined in value 9% year over year, according to the Green Street Commercial Property Price Index.

THE IMPACT OF STAY-AT-HOME ORDERS

In the small commercial market, according to the NAR research, prices were down across all commercial property types, with the largest decline in hotel (~7%), retail (~6%), and office (~5%). Apartment prices fell by 2% year over year. Industrial commercial real estate prices fell the least, by about 1% year over year.

With sheltering-in-place guidelines shuttering offices and businesses in April and May—and with social distancing...
Commercial Real Estate Trends & Outlook  
July 2020
National Association of REALTORS® Research Group

guidelines reducing foot traffic in stores, restaurants, bars, and hotels—the vacancy rate across all commercial sectors averaged 25%, up from 7% in the first quarter of the year. With travel at a standstill, hotel vacancies spiked to 73%, up from 10% in Q1, and retail vacancies rose to 20%, up from 9% in Q1. REALTORS® reported smaller increases in industrial and multifamily vacancies.

COLLECTION OF RENT DUE VARIES
NAR also recently surveyed members engaged primarily in leasing and property management. The Leasing Conditions Report revealed that across single-family rentals, apartment buildings, offices, and industrial buildings, at least 90% of rent due in the second quarter was collected. However, only 70% of rent due was collected from tenants at strip malls and freestanding stores, and the fraction of rent collected fell to just half among mall tenants.

The federal CARES Act’s $600 weekly pandemic unemployment assistance (PUA), which ended July 31, enabled tenants to keep up rent payments. States had until Sept. 10 to apply for funding under the Lost Wages Assistance Program, which promises federal relief through a partnership between the Federal Emergency Management Association and the Department of Labor. However, the benefit will be less generous, increasing the risk that a higher fraction of rent due in the coming months won’t be collected.

Sixty-four percent of respondents reported landlords offered rent payment options to residential tenants. The most common form of assistance was allowing the tenant to pay the missed rent over several months. Rent payment options offered included:
- Rent abatement or rent reduction
- Frequent, smaller rent payments
- “Other payment options” such as “no late fees or charges,” “use of the security deposit,” and “not increasing the rent when the lease is renewed.”

Sixty-nine percent of respondents said landlords of nonresidential buildings offered rent payment options. Assistance mostly took the form of allowing the tenant to pay the missed rent over several months and rent abatement or reduction. Respondents cited other options, including:
- Extending the lease term for deferred rent
- Extended term on rent abatement
- Using deposit for rent

INVESTORS SEEK HIGHER RETURNS
Amid lingering uncertainty over the direction of the economic recovery—caused by the resurgence of coronavirus cases, extension of working from home, and effects of increased online shopping—investors are asking for higher returns on long-term demand for commercial real estate. One measure of the increased risk aversion is the difference between operation income (cap rates) and the risk-free 10-year Treasury bond. A larger spread means investors are seeking higher returns to compensate for the increased riskiness of investing in the asset. The risk spread (cap rate less 10-year T bond rate) increased to about 6% in the second quarter of 2020 from just 4% in the first quarter of 2019 in both the large commercial real estate market (transactions of $2.5 million and more) and the small commercial market (less than $2.5 million).

OUTLOOK: NEXT THREE MONTHS
REALTORS® anticipated a continuing tough environment in at least the third quarter. They expected sales transactions to decline across all property types and vacancy rates to remain elevated. Multifamily remains the strongest leg of the business, as turbulent times generally boost the demand for apartments and e-commerce continues to make deeper inroads into retail.
Alex Ruggieri is a believer, which he says is the first step in taking your business to the next level.

“You have to believe that it’s possible,” says Ruggieri, CCIM, CIPS, CRE, senior investment advisor for SVN–Ramshaw Real Estate in Champaign, Ill. “Early in my career, I didn’t think I would be doing business nationally, but after priming the pump for a few years, it happened.”

In fact, it took Ruggieri three years of active networking before he closed his first national deal. “The first couple of years I was spending $15,000-plus to attend national meetings with no return, but in year three, it began to pay off.” Ten years in, Ruggieri was curious and added up the income associated with his national networking efforts. When he reached $1 million, he stopped counting. It was clear the investment had paid off.

In recent years, taking his business to the next level has meant working with international investors.

In 2015, at the Illinois REALTORS® Global Business Forum, there was a discussion about joining the National Association of REALTORS® in a USA pavilion at the annual MIPIM commercial property exposition in Cannes, France. Ruggieri was intrigued. (Note: This discussion took place before the COVID-19 pandemic, which forced the cancellation of MIPIM’s 2020 conference.)

“Lots of people were against being part of MIPIM, saying it was too expensive and no business would come from it,” says Ruggieri. “I thought about it differently and wondered if I could repeat the experience of expanding my business, but this time on an international scale.”

Ruggieri’s market, the Champaign-Urbana metro area about two hours south of Chicago, is home to about 230,000 people. The University of Illinois, located there, is well known for its science and engineering programs, and the university has spawned many tech startups. So Ruggieri knew the area was an attractive target for global investors.

When Illinois REALTORS® decided to participate in MIPIM, Ruggieri was among the first to say, “I’m going.”

**HISTORY REPEATS ITSELF**

His international business expansion mirrored his national experience. In the first two years Ruggieri returned from MIPIM with nothing but a new list of contacts. In year three, he secured a $6 million hotel listing—beating out both local and Chicago-based competitors—because he offered one thing the others did not.

“I told them I could market it internationally using the global network I had built.” That first “international” transaction ended up being domestic, with the buyer coming from the U.S., but the story illustrates that global positioning can be a valuable marketing tool.

The U.S. has consistently ranked high as a target for foreign investment. AFIRE, an association for international property investors, conducts an annual survey of foreign investors. The group’s latest survey (conducted before the
global pandemic), included six U.S. cities among the 10 cities where investors said they wanted to increase their exposure in 2020. When Ruggieri listed a five-acre tract of land on the University of Illinois campus, he immediately thought about the potential for international interest and used his network to eventually connect with Chinese investors, who built a $40 million student housing project.

‘TRAVEL FOR FUN AND PROFIT’

Ruggieri doesn’t suggest the global market is right for everyone. In comparison to local or national business, “it’s harder,” says Ruggieri. “I was once working with a buyer in Australia, the property was in the western U.S., and I’m here in Illinois. I couldn’t just pick up the phone at any time to discuss the deal.

“Global business takes longer, both to cultivate and to do a deal. You have to be patient and work it,” he says, “but I say, ‘So what—even if takes a couple of years?’”

Beyond the income, global business development provides opportunities to see the world. Ruggieri has traveled to industry events in Abu Dhabi, Kuala Lumpur, and Cannes, France. “I tell people I travel for fun and profit,” says Ruggieri. “I love seeing the world, but more importantly, it’s the people you meet. They really add to your quality of life.” Ruggieri says he can go to any major city in the world and find a friendly voice and someone willing to help him or connect him with others who can. “That’s huge.”

WHERE TO START

For those interested in doing business globally, Ruggieri recommends first growing your business nationally. National contacts may be able to help you identify foreign investors because you can’t know everyone. Involvement in global industry groups such FIABCI USA and NAR’s own CIPS Network is a good place to start.

Above all, however, is mindset. “You don’t have to be in a big market to do international business,” Ruggieri says.

But you do have to be a believer.
REALTOR® ACTIVITY ACROSS TWO LISTING PLATFORMS

STUDY IDENTIFIES PRESENCE OF TOP-PERFORMING AGENTS ON BREVITAS AND CREXI.

By Emily Line, vice president of member experience for REALTORS® Property Resource, and Amanda Riggs, NAR data scientist

To better understand where NAR members fit into the picture when compared with other commercial practitioners, we analyzed REALTORS®’ business activity across two commercial listing platforms—Brevitas and CREXi. We looked at property type, list price, price per square foot, and building and lot size, as well as members’ geographic activity across the U.S.

The analysis showed that agents who listed properties on both Brevitas and CREXi outperformed agents who listed on only a single platform. These top-performing commercial agents tended to list more properties and at higher list prices. Of all agents across Brevitas and CREXi, 14% captured 24% of all market listings across both platforms. REALTORS® constituted 49% of all these top agents and listed 50% of the top agents’ properties. REALTOR® top agents listed properties at a median price of $722,000 on Brevitas and $650,000 on CREXi. Agents who listed on only a single platform had a median of $580,800 on Brevitas and $549,000 on CREXi. These member top agents also outshined single-platform users in terms of median price per square foot (on CREXi, $113 compared to $99); median building size (on Brevitas, 11,900 square feet compared to 10,000 square feet; on CREXi, 6,500 square feet compared with 6,100 square feet); and median lot size (on Brevitas, 88 acres compared to 85 acres; on CREXi, 68 acres compared to 53 acres).

On Brevitas, where sales and leasing are combined, REALTORS® listed a greater share of multifamily properties than other users and slightly more land and lots and industrial properties. On CREXi Sales, REALTORS® listed more land and lots, and slightly more special-purpose buildings, compared with other users; On CREXi Leasing, REALTORS® listed a greater share of commercial, distribution warehouses, and professional properties compared with others. For many property types across each site, there was virtually no difference in share between REALTORS® and other platform users.

Stay tuned for follow-up research. In the meantime, see what’s available on both platforms at narpr.com.
JOIN THE FIGHT TO SAVE LIKE-KIND EXCHANGES

CALLS TO ELIMINATE OR LIMIT SECTION 1031 OF THE TAX CODE THREATEN TO DERAIL ECONOMIC RECOVERY AND FURTHER DAMAGE A HURTING INDUSTRY.

By Evan Liddiard, NAR director of federal taxation

Four years ago, as Congress began debating what was to become the Tax Cuts and Jobs Act of 2017, the commercial real estate industry came together as never before to defend Section 1031, the like-kind exchange provision of the federal tax code, from legislative oblivion.

Unlike the perennial listing of like-kind exchanges on the “unwarranted loopholes” list by certain extremist think tanks, the threat to Section 1031 posed by House Republicans in the last tax reform bill was a clear and present danger. This was because their plan included the concept of immediate expensing of real estate. Policymakers driving that particular tax reform train, known as the Blueprint, saw no need to retain a deferred tax exchange mechanism in a world where the cost of any kind of real property investment could simply be written off in the year of purchase.

Sensing the immediate threat to one of real estate’s growth engines, trade groups and alarmed commercial practitioners joined forces and formed coalitions in the common quest to educate members of Congress and their staff about the economic growth and job creation benefits of Section 1031.

Over a multimonth coordinated operation, a veritable brigade of determined coalition members met with a high percentage of members of Congress from both sides of the political aisle. Armed with studies, surveys, and statistics, the coalition aimed to convince policymakers that retaining Section 1031 for real estate was essential in a bill designed to create jobs and invest in communities. These efforts paid off and the repeal bullet was dodged for real property exchanges.

Fast forward to September 2020, and a new and perhaps even greater threat has emerged. This time, the Democratic Party, looking to offset the cost of various spending programs, has targeted 1031s and other so-called “unproductive and unequal tax breaks for real estate investors” for extinction, at least in certain cases.

Too many policymakers do not understand the strong boost that real property exchanges can provide to efforts to reclaim our economy from its doldrums. It’s quicker and easier to simply believe a tagline about unscrupulous investors ravaging society through the tax code.

To meet this new threat, those who understand the growth benefits of the like-kind exchange must again answer the call to action, organize, and prepare to educate their members of Congress and those running for those offices. This process has already begun. A monumental study of the impact of real property exchanges on the economy has been updated to capture the latest data and trends. This paper, written by two outstanding university professors, was instrumental last time in convincing skeptics and friends alike of the need to retain 1031. The new research found that like-kind exchanges have increased significantly from 2016 to 2020 and that they are still used mostly by small investors and business owners. Armed with the updated data, commercial professionals can hopefully persuade fair-minded policymakers that now is the worst time imaginable to further harm a commercial real estate sector that is being horrifically damaged by the pandemic and to take away a critical tool for rebuilding our economy.

“Now is the worst time imaginable to further harm a commercial real estate sector that is being horrifically damaged by the pandemic.”

Commercial REALTORS® can play a key role in this education process. Who better knows the communities and economies of the states and districts of Senate and House members? Who can better pull together key commercial leaders to meet with policymakers and convince them that success in rebuilding and hiring has, and can again, come from carefully planned real estate development, based in many cases on the bedrock of the like-kind exchange? Please consider how you can aid in this vital effort.
WHAT'S NEXT?
IDEAS FOR MOVING BEYOND THE PANDEMIC

About half of the U.S. population was working from home during April and May, according to a Massachusetts Institute of Technology survey. This included more than 35% who reported they had been commuting before the COVID-19 pandemic. Although workers were home largely because of stay-at-home orders, many companies have extended remote work through the fall and beyond because of continued concerns about the spread of COVID-19. Given the dramatic shift, what are real estate professionals, inside and outside the United States, doing to ensure the viability and safety of commercial spaces? We hear from Tommy Faulkner of Raleigh, N.C., about his company's response to the crisis and his long-term outlook. Then, Liviu Tudor of Bucharest, Romania, talks about a new set of building standards he has developed in cooperation with a team of professionals.

Tommy Faulkner is CEO of JDSfaulkner, a civil engineering firm in Raleigh, N.C.; a broker with Fathom Realty, in Cary, N.C.; and a general contractor. For many years, he’s been involved in building code development as a member of the Structural Committee of the International Code Council.

I’ve had to confront COVID-19 on several different fronts and really think through the process to keep all our people safe. I’m happy to say that, at this moment in time, with over a hundred people working with me, no one in our company has contracted the virus—and they’ve all stayed active. Some of our staff are still out visiting job sites; they are now deploying from home, and we have a protocol for them to follow. In our 12,000-square-foot office, we allow no more than seven people, and we have specific protocols for them as well. To prepare for more people to come into the office, we’ve installed ultraviolet light ionizers in our HVAC systems that are supposed to take 99.9% of all germs out of the air. That was about a $10,000 investment. We’ve also spent a fair amount on hand sanitizers, toilet paper, and paper towels.

JDSfaulkner works in several different sectors. Some have not slowed down one bit; others, like the university marketplace, have slowed down significantly. The reason I’ve been given for that is, “We don’t really know what our sticks-and-bricks demand is going to be, and we may need to rechannel those funds to keep people safe.”

Because so many people look to the ICC to be the standard for safe buildings, it was the first organization that a lot of people turned to for guidelines on safe building reentry. It’s interesting to note that much of the ICC’s guidance is wrapped around not just how to make the environment more safe but how to keep people out of that environment if you can right now. They’re trying to minimize the contact that we have with one another.
A lot of think tank groups are talking about how the pandemic will change the workplace. What will remain after the pandemic, and what will go back to normal? If we begin to redesign everything to fit the model of current events, what happens when the current event is over? There are many who feel that this separation of people from one another, even six feet apart or eight feet apart, is unhealthy psychologically. Then there are those who say, “No, this is probably the right way to live forever.”

There’s still a lot to learn, but we’re using the knowledge we’re getting now. Like anything else, it will change, and we’ll adjust as it changes. I also can’t help but look at history. I look back at the pandemic from 100 years ago and the H1N1 flu from just a decade ago. How much did those change our behavior? And so there’s this fundamental question of how much this pandemic should change our behavior and what happens when the vaccine comes.

Will workers ever return to the office in full force? This is my prediction: As leases run out, these large office complexes are going to find themselves with more vacancy than ever before. There’s been a trend here in our cities in North Carolina that we have been taking old buildings, warehouses and even residential apartment buildings, and turning them into office space. It may well be that we’re moving in a direction to repurpose office space into potentially residential or some other use that’s more in demand.

Commercial real estate pros will need to get creative. Align yourself with people like myself, architects, people in the design field. Be part of a think tank to figure out how to capitalize on changes in the market. Change isn’t new; we’re always dealing with it. It’s a matter of who can be the most creative or recognize a long-term change early enough to provide a solution.

Giving employees the confidence to return to the workplace hinges on assuring them that they are returning to a safe and productive environment where they can enjoy their work, collaborate with colleagues, and achieve organizational objectives. Following implementation of lockdown measures and the closure of commercial buildings worldwide, it was clear the property sector was neither prepared nor equipped to manage a situation of this nature.

In that context, we have worked on introducing an open-source framework we’re calling The Immune Building Standard, with a strategy to engineer safer built environments for people and organizations returning to their offices. It’s a set of measures, technical solutions, and facility management practices to certify how built environments can withstand present and future health challenges. A team of around 20 multisector R&D professionals from health, technology, real estate, architecture, and engineering—borrowing learnings from hospitals and the IT industry’s clean rooms—drew up 100-plus recommended measures. An authorized building assessor in the field of sustainable building design and development will evaluate and award properties as Strong (3 stars), Powerful (4 stars), or Resilient (5 stars). We initiated the standard in April and have received considerable interest; a phase one pilot includes Ericsson, Société General, Siemens, Accenture, HP, Garanti BBVA, and Alpha Bank in Bucharest.

The standard can be applied to buildings at any stage of their life cycle and type, such as new, in-use, or a regeneration project, and can apply to multiple building types such as offices, hospitality, retail, residential, health care, and education. Some of the most significant changes include modifications in the equipment and architecture of the building, such as upgrading the filtration system, UV light air treatment inside air handling units, and ozone water treatment for sinks. For building owners and managers who lack the resources to attain the full Resilient certification, there are low-cost measures that can bolster tenant confidence, including hands-free systems to allow access to tenant office areas; application of physical distancing and signage; and availability of protective personal equipment, along with receptacles for hazardous waste disposal at entry and exit points.

July and early August saw governments across Europe begin to encourage workers to return to the office, but there is still a sense of unease. The Guardian cites Morgan Stanley research from July showing that offices in the United Kingdom had the fewest number of people return to offices. Just over a third (35%) of white-collar employees in the UK had returned to work, considerably below France (83%), Italy (76%), Spain (73%), and Germany (70%).
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