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THE NATIONAL ASSOCIATION OF REALTORS® COMMERCIAL REAL ESTATE NEWSLETTER VOLUME 14 ISSUE 2 **SECOND QUARTER 2013**

The Return of Commercial Real Estate As a Valued Asset

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THE LATEST

NAR TO LAUNCH COMMERCIAL CONNECTIONS PODCAST

Alex Ruggieri

WE'RE EXCITED TO INTRODUCE *Commercial Connections Podcast*, which will be published twice monthly to give you the tools needed to get ahead in today's competitive commercial real estate industry. The podcast will focus on business information you can use immediately by engaging top real estate professionals, economists, instructors and other experts. Get access through our home page at *REALTOR.org/Commercial*, or be the first to know when a new podcast is available by following us on Twitter (*@commsource*). In addition, we are excited to announce Alex Ruggieri, CCIM, GRI, MBA will host this new program. Alex has more than 28 years of commercial real estate industry experience, is an active practitioner based in Central Illinois and host of his own radio show. Ruggieri has the recognition of earning his CCIM, GRI and Master of Business Administration degree from the University of Illinois at Urbana-Champaign.

realtor.com® TO PROVIDE COMPREHENSIVE COMMERCIAL LISTINGS

realtor.com® operator, Move Inc., has signed an agreement with Xceligent Inc. to bring commercial listings to the home search site by the third quarter of 2013. Last year Xceligent, which owns and operates *CommercialSearch.com*, signed on as a REALTOR Benefits® partner to be the association's provider of commercial real estate information services.

▷ Contact ***NARCommercial@realtors.org*** for comment or if you have any questions.

NAR RELEASES TWO COMMERCIAL RESEARCH REPORTS IN MAY

REALTORS® WHO PRACTICE COMMERCIAL REAL ESTATE have an average of 25 years of industry experience and reported an increase in annual gross income for the third year in a row; these were two key findings from the National Association of REALTORS® 2013 Commercial Member Profile. Available to members online at *REALTOR.org* (member login required). NAR also released the REALTORS® Commercial Real Estate Quarterly Market Survey for the first quarter of 2013. According to the report, markets showed continued stabilization in the third quarter with slight slowdowns in certain regions.

▷ You can access the full report online at The Source Blog, ***blog.commercialsource.com***.

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CONNECTING ON WHAT MAKES UP A SMART GRID

REDUCING ENERGY CONSUMPTION is paramount to effective operation and management of commercial properties today. Owners of commercial buildings can, for example, install high efficiency LED lights that are up to 50% more efficient than fluorescent lighting. Since lighting accounts for around 35 percent of a property's total energy costs, a retrofit can result in significant savings and reduce the carbon footprint dramatically.

That's a great option for any commercial property. But how can a group of properties or an entire metropolitan commercial market collectively reduce electricity usage and in turn help the environment? The answer may be development and implementation of a national smart grid, a long-term energy initiative that has wide-ranging implications for commercial properties.

PUTTING THE SMART GRID IN PERSPECTIVE

So, just what is a smart grid? There are various definitions. The U.S. Department of Energy's *www.smartgrid.gov* website defines it as "a developing network of new technologies, equipment, and controls working together … and the wires that connect them." This proposed national model, says the DOE, will provide the electricity needed to power commercial properties more efficiently and do much more. A true smart grid is computer-based and driven by remote control automation; plus, it would make better use of wind, solar and other types of renewable energy.

> **"Today projects that employ smart grid technologies within existing power grids have been launched in many markets in nearly all of the 50 U.S. states."**

Other sources, however, maintain the smart grid exists only as a concept at this time in the U.S. and is many years and many billions of dollars away from completion. The national power grid actually is comprised of the existing electrical wire infrastructure operated by power companies rather than a vast, interdependent network and the technology required to make the grid, well, "smart."

In concept, a true smart grid would give major users of electricity – including all classes of commercial property — real-time data on energy usage through electronic "smart meters" and the knowledge to implement ways to reduce energy costs, and in turn, cut operational costs. Buildings also could participate in demand response programs that offer compensation to cut back on electricity usage during peak usage times.

FEDERAL GOVERNMENT SUPPORT FOR SMART GRID CREATION

In the past decade or so, plans for building a smart grid began shaping up. One tangible step came in December of 2007, when the federal government approved legislation supporting the DOE's leadership in developing and coordinating the much-needed modernization efforts to the nation's electrical power system. Building the smart grid, of course, is expensive and requires a significant public-private partnership.

Last summer, the DOE reported that $7.8 billion has been raised through the Smart Grid Investment Grant program, an initiative that combines private sector resources and government dollars through the Recovery Act to identify and provide funding for smart grid research and development. Today projects that employ smart grid technologies within existing power grids have been launched in many markets in nearly all of the 50

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THE RETURN OF COMMERCIAL REAL ESTATE AS A VALUED ASSET

WHAT A DIFFERENCE A FEW YEARS – and a steadily improving U.S. economy – have made for investors seeking capital to fund the purchase of commercial real estate. Industry experts consulted said billions of dollars are available from life insurance companies, private equity funds, REITS, pension funds and other traditional sources to fund the purchase of properties in primary and secondary markets across all asset types. Commercial banks are relaxing underwriting criteria, leading to more capital for investments.

One source summed it up this way: “Investors are being motivated by the hunt for high yields, so currently the market is awash with capital. Real estate has gone from being a very much out of favor asset, to a very much in favor asset.”

Improved market fundamentals here and the prospect of solid income returns put the spotlight on domestic commercial properties as attractive investments in a still-uncertain global economy. In addition, potential turbulence in the stock and bond markets makes hard assets like real estate a better place for investment capital.

Analysts project investment activity throughout the remainder of 2013 will be robust resulting in positive news for practitioners who work in the commercial real estate arena.

U.S. RANKS FIRST IN INVESTMENT ACTIVITY

Transaction data from two leading sources reveal that the U.S. remains the largest and most liquid market globally for direct investment in commercial real estate. Year-end statistics from Real Capital Analytics (RCA) show that in 2012, a total of $293 billion was spent by investors on domestic commercial real estate. Worldwide across all regions (the Americas, Asia Pacific, Europe, the Middle East and Africa), sales totaled $868 billion, meaning the U.S. accounted for 33.7 % of all commercial property sales worldwide. (1)

According to the *International Capital Sources – U.S. Inflows Report* issued in early 2013 by Jones Lang LaSalle, $163.7 billion was invested in domestic commercial properties in 2012, an 11% increase from the previous year’s totals of $147.1 billion. That figure topped all markets worldwide. For comparison, the United Kingdom ranked second in the international standings the past two years, with $51.4 billion invested in commercial real estate in 2011 and $50.8 billion last year. Germany ranked third with $31.6 billion and $31.2 billion invested in 2011 and 2102, respectively. (2)

First quarter 2013 statistics from the Mortgage Bankers Association (MBA) showed that loan

DIRECT COMMERCIAL REAL ESTATE INVESTMENT, LARGEST MARKETS; U.S. IS THE WORLD’S LARGEST AND MOST LIQUID

SOURCE: JONES LANG LASALLE, JANUARY 2013

$US Billions	Q3 12	Q4 12	% change Q3 12 – Q412	Q4 11	% change Q411–Q412	2011	2012	% change 2011-2012
US	37.3	56.0	50%	42.1	33%	147.1	**163.7**	**11%**
UK	13.5	14.8	10%	12.6	17%	51.4	50.8	-1%
Germany	6.2	13.5	119%	8.1	66%	31.6	31.2	-1%
France	4.3	8.5	99%	9.6	-12%	22.7	20.8	-8%
Sweden	1.7	6.2	259%	3.4	82%	11.5	12.4	8%
South Korea	3.3	4.8	43%	3.2	50%	9.9	11.3	14%
Australia	4.2	3.9	-6%	5.5	-28%	15.5	16.5	6%
Japan	3.5	3.9	9%	4.0	-3%	20.1	21.3	6%
Brazil	0.8	3.6	367%	0.7	399%	10.1	6.5	-36%
Canada	3.8	3.3	-14%	1.8	80%	11.9	**15.2**	**28%**
Hong Kong	3.1	3.2	1%	1.7	82%	11.0	11.3	2%
Russia	1.4	3.1	124%	2.3	34%	7.8	7.3	-7%

“INVESTORS ARE BEING MOTIVATED BY THE HUNT FOR HIGH YIELDS, SO CURRENTLYTHE MARKET IS AWASH WITH CAPITAL.”

originations for U.S. commercial and multifamily properties climbed 9% over the same period of 2012. The increase, according to the MBA, was driven by many more originations for hotel and multifamily properties last quarter, along with a modest increase for industrial property transactions.

The first quarter results reflect a 36% decrease in loan originations from the last quarter of 2012, in what the MBA noted as a "traditional seasonal pattern." But the numbers show an encouraging trend in origination activity compared to first quarter statistics over the past four years. Consider this comparison: The MBA Origination Index for first quarter 2013 reached a total of 123. In the same period of 2009, it was 40.

COMMERCIAL PROPERTY SALES SURGE IN FIRST QUARTER

Sources contacted agreed the robust domestic investment numbers will continue throughout the balance of 2013. In our By The Numbers article on page 8, George Raitu, Manager, Quantitative & Commercial Research, explains how the first quarter sales statistics support this contention.

Earlier this year, two major apartment REITS flexed their collective investment muscle with a major acquisition that contributed significantly to the overall investment totals for that investor group. On February 27, Equity Residential and AvalonBay Communities, Inc. closed a $16 billion deal with Archstone Enterprises, LP for the sale of a combined 45,000 apartment units. The Archstone sale reportedly is the largest real estate transaction since late 2007, when private equity firm the Blackstone Group completed its $26 billion purchase of Hilton Hotels.

Other buyers of commercial properties in the January-to-March period include institutions at 16%, with the balance coming from foreign or cross-border investors, end users and other sources, Ratiu said. Regardless, he predicted all investment groups would continue to find commercial real estate a favored investment class for the remaining three quarters of 2013.

"Analysts project investment activity throughout the remainder of 2013 will be robust, resulting in positive news for practitioners who work in the commercial real estate arena."

CROSS-BORDER CAPITAL INTO THE U.S.

SOURCE: REAL CAPITAL ANALYTICS, JONES LANG LASALLE RESEARCH

Source of Capital	Volume in $US Billions	# of Properties
Canada	$8.78	360
Singapore	$2.45	11
Germany	$2.36	24
Switzerland	$1.83	27
UK	$1.56	23
South Korea	$1.49	39
Israel	$1.07	25
France	$0.95	107
Kuwait	$0.67	45
Other	$5.64	162
Total	$26.80	823

* Properties and portfolios of $2.5 million and greater, February 2013

"The good news is that we're ahead of last year, and we can anticipate this year an increase in total investment volume," he added. "There is a lot of capital in corporate accounts and investment funds seeking opportunities."

IMPROVING FUNDAMENTALS

Two main developments, sources said, helped jumpstart investor interest in commercial real estate assets:

1. Steadily improving industry fundamentals related to the supply and demand of commercial properties in the years following the 2008 recession.
2. A rebounding U.S. economy that's slowly – but steadily – regaining its foothold while many major foreign national economies continue to demonstrate increased signs of instability.

In the years immediately following the recession, vacancy rates soared and rents dwindled. Over the past

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1. RCA collects data on transactions valued at $2.5 million and above across all property types and is not limited by deals completed by major brokerage houses.
2. The JLL *U.S. Inflows Report* only covers transactions valued above $5 million and excludes multifamily properties.

three years, many markets experienced strong, positive absorption, especially in the multifamily sector; and rents have started to climb back, increasing cash flow. What's more, many commercial assets are priced right.


Kenneth P. Riggs, Jr., CRE

"For the most part, commercial real estate is not overpriced right now, except possibly properties in some of the coastal markets," said Kenneth P. Riggs, Jr., CRE, Chairman and President of Real Estate Research Corporation (RERC). "Plus real estate is a hard asset. It's a tangible investment that investors can actually see being used. For the long-term investor, commercial real estate provides a solid income return they can count on in the form of rents."

"Besides, there's little real competition from the other major investment alternatives," he continued. "The major swings of the stock market are frightening many investors, bonds and securities are becoming risky since interest rates are expected to rise, and cash is still a poor investment."

A quarterly survey of institutional investors conducted by RERC supports commercial real estate's investment value. In first quarter, commercial real estate received a 7.0 rating, far above bonds and cash at 3.6 and stocks at 5.7. In the final quarter of 2012, commercial real estate topped all categories with a 6.7 rating.

And, despite the economic problems still facing the U.S. economy, like the stubborn unemployment rate, the nation remains a favorable place for capital investment when compared to most other countries. Riggs cited benefits that include our strong legal system, availability of market and property data, sound valuations and commitment to transparency in the commercial real estate industry. "This isn't the case in many other parts of the world," he said.

A GLIMPSE DOWN THE ROAD, AND WHERE THE CAPITAL IS BEING INVESTED

The robust investment activity recorded to date was fueled by some of the factors noted above. But how long will the cycle last? Will capital be available for commercial real estate transactions for the foreseeable future, like through the balance of this year?


David Rifkin

"I'll take the long view and say 'yes,'" said David Rifkind, Principal and Managing Director of George Smith Partners, a real estate investment banking firm based in Los Angeles. "Interest in investing in commercial real estate is increasing – not on a quarter-by-quarter trend – but on a year-by-year trend. Capital is needed through 2013 and certainly in 2014 because there will be a large wave of refinancing that will be taking place. The peak of that refinancing will take place in 2014 and 2015. There has to be capital allocated to meet those refinancing needs."

Rifkind said national challenges ranging from the frequent stalemate on Capitol Hill, to slumping consumer confidence to the job market will collectively be a factor in the long-term availability of capital. In this phase of the economic cycle, "We'll continue to enjoy the benefits of low interest rates a little bit longer and fundamentals are somewhat improving," he said. "But job growth is everything. It's the factor we really need to be watching."

RERC's Riggs agreed that the unemployment rate is a dominant factor holding back even more positive news regarding improved commercial real estate fundamentals and the national economy. However, the current state of a market in transition has its positive side.

"Commercial real estate tends to attract investors during periods of instability and uncertainty, and I expect the industry to remain a safe haven for investors, particularly those who are investing for the long haul," Riggs said. "The total return (appreciation and income) is projected to be around 8% for institutional real estate in 2013."

Commercial properties located in markets with low unemployment rates are being targeted by investors

"THE POTENTIAL FOR LONG-TERM RETURNS HAS ALSO ATTRACTED INTEREST FROM A WIDE RANGE OF FOREIGN INVESTORS."

seeking value. Three industries, one expert said, hold the greatest opportunities for job growth.

Marisa Clinton

"Technology, energy and healthcare," said Marisa Clinton, Director of Capital Markets Research at Jones Lang LaSalle. "Those are the industries that will continue to create jobs in 2013 and beyond. People want to live close to where they work, so commercial real estate investments will follow the markets where there's a good potential for job growth."

Clinton said investors are seeking Class A properties in the primary markets like New York, Los Angeles, Washington, Chicago and Boston, but also have targeted some secondary markets, especially in Texas. "Austin right now is off the charts in terms of investor interest," she said. "And, Seattle and Denver are becoming attractive options. Investors favor real estate now because they are hard assets and can provide a hedge against inflation. They're looking for high-quality assets that are well located."

The potential for long-term returns has also attracted interest from a wide range of foreign investors. The JLL International Capital Sources report ranked Canadian sources of capital as the clear cut winner in property sales in 2012 at $8.78 billion to take ownership of 360 properties. Singapore investors ranked second at $2.45 billion spent on 11 properties, and Germany took third with $2.36 billion invested in 24 properties.

"Cross-border capital is very actively pursuing U.S. trophy properties right now," Clinton said.

NAR's Ratiu projected cross-border capital will remain constant at around 8% of the total investment sales in the U.S., the same level it has maintained for the past five to six years. "I expect it to stay constant barring any shocks in Europe or any of the emerging markets," he said. "I don't think we'll see a huge change in that mix."

"At mid-year 2013, rents in most markets have remained constant and developers are waiting on the sidelines for demand to exceed supply."

THE TAKEAWAY FOR THE COMMERCIAL PRACTITIONER — MORE BUSINESS

Commercial real estate, of course, is a complex market that fluctuates, in part, on a simple economic principle: Supply and demand. When supply decreases and demand increases, rents tend to spike and the marketplace is ready for new construction. Approaching mid-year 2013, rents in most markets have remained constant and developers are waiting on the sidelines for demand to exceed supply.

The increase in commercial activity across many U.S. markets is being fueled by billions of dollars of investor capital seeking better returns through the purchase of existing office, retail, multifamily, industrial and hospitality assets. This market development offers the potential of income growth for practitioners who specialize in many aspects of the industry.

"The number of commercial deals is likely to keep growing through year-end," Ratiu said. "For the practitioner who is a broker, sales agent or investment manager, growing investment activity leads to more business opportunities and commissions. And, if you're on the leasing or management side, there's the potential for higher and more fees."

More investment volume also may lead to property appreciation, increasing the potential for higher commissions. That's all great news for REALTORS® who had to work through the market retrenchment caused by the recession four years ago. CC

COMMERCIAL SALES CHARGE AHEAD IN FIRST QUARTER

WITH 35% YEARLY INCREASE, LENDING VOLUME GROWS

BY: GEORGE RATIU
MANAGER, QUANTITATIVE & COMMERCIAL RESEARCH

FOLLOWING ON THE SOLID 24% yearly gains in 2012, commercial real estate investments notched a very strong first quarter of 2013. Sales of major properties totaled $72.8 billion in the first quarter, a 35% rise from a year ago, according to Real Capital Analytics. Portfolio transactions made up a large portion of the volume, especially due to the sale of Archstone apartment properties to Equity Residential and Avalon Bay. Individual property sales comprised $40 billion, a 7.8% gain from the same quarter last year.

Prices for commercial properties were up slightly in the first quarter. Cap rates inched up slightly, to an average 7.5% nationally across all property types, mostly due to a redirect in investments towards secondary and tertiary markets.

Commercial practitioners should acknowledge this early investment activity as a very positive development which should create more business opportunities for members on the brokerage, leasing and management side of the industry.

The rise of secondary and tertiary markets, which began during 2012, has intensified in early 2013. Faced with lower inventories of top properties in major metropolitan areas, investors have been searching for the higher yields of performing properties in smaller markets. During the first quarter, in terms of nominal volume, New York and Washington, D.C. metro areas dominated the landscape, with close to $20 billion in combined sales.

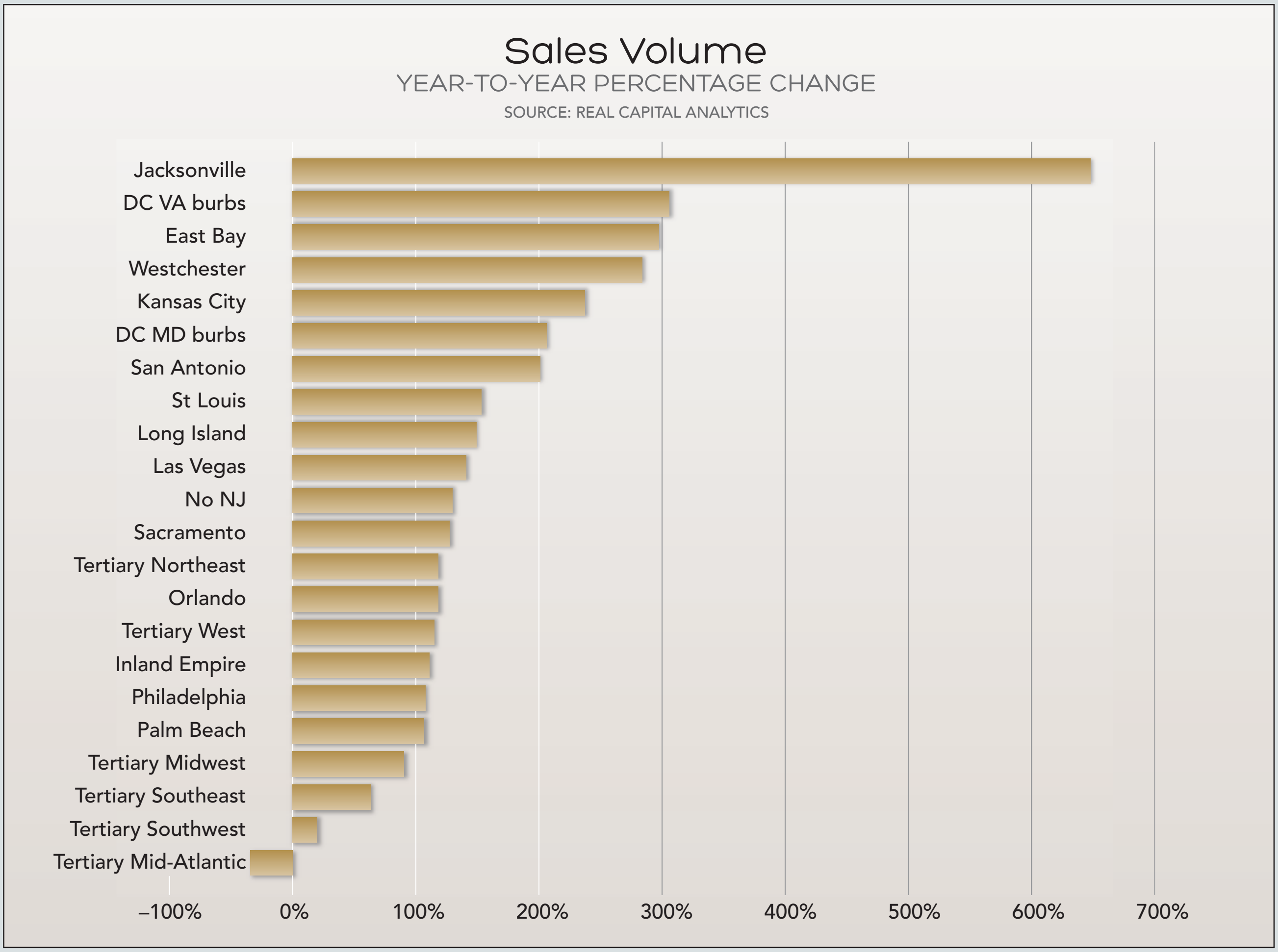
However, on a year-over-year basis, the first quarter recorded 16 individual markets with triple-digit gains in sales, most of them being secondary markets. Jacksonville posted the strongest sales gains, up a whopping 625.2%, boosted primarily by apartment and office sales. Closed transactions in the Virginia and Maryland suburbs of the nation's capitol also jumped significantly at 295.3% and 199.1%, respectively. The surge in sales was driven by large office and apartment property (Archstone portfolio sale) transactions in both markets. Other markets with noticeable investment surges were East Bay, Westchester, Kansas City, San Antonio, St. Louis, and Long Island.

After several years of drought, the lending spigot opened a little wider during 2012, as every lender group upped its volume. With asset valuations rising and record low interest rates still in place, lending provided a firmer foundation for investment deals. The lending landscape became more balanced as multiple sources competed for deals. Commercial banks and CMBS issues posted the strongest yearly growth rates, taking market share from the government agencies and insurance companies.

National banks, which retreated from commercial markets in the wake of the recession, have been finding conditions favorable and re-entering the market. During 2012, national banks made up 16% of the market, a 4% increase from 2011. Regional banks also added to their portfolio of commercial real estate loans, spelling good news for properties and deals in secondary and tertiary markets. It is likely that many of the loans made by banks will end up as CMBS issues during 2013.

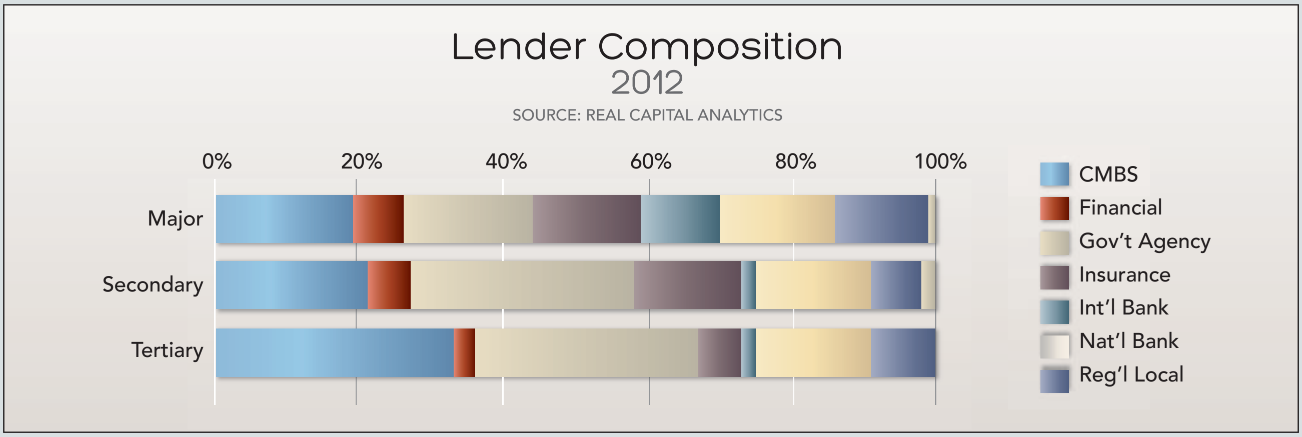
The CMBS market seems to have finally regained its stride. CMBS issuance was brisk during 2012, closing in on government agencies in terms of market share, at 22%. Furthermore, private label CMBS issuance totaled $30 billion during the first quarter of 2013, a noticeable jump from $48 billion during the entirety of 2012.

The increased level of competition among lenders became obvious, as government agencies and insurance companies — even with similar or higher commitments in 2012 as in 2011 — saw their market share diminish. The retail and hotel sectors found much interest in the CMBS market, as the government agencies maintain their dominant presence in the apartment market. Office properties were of interest to most lenders, while commercial banks were dominant in the industrial sector.



The bifurcation in capital availability along property values continued in 2012 and the first part of 2013. Data from Real Capital Analytics indicated that for deals valued at $2.5 million and above, CMBS issuers and government agencies remained dominant players in secondary and tertiary markets, followed by national banks, insurance companies and regional banks. Meanwhile, data from the REALTORS® Commercial Real Estate Lending Survey revealed that for transactions below the $2.0 million mark, private investors, local and regional banks continued to serve as the main conduits for capital liquidity.

The full survey results are available here: ***www.REALTOR.org/reports/commercial-real-estate-lending-survey***.



THE TRUTH ABOUT CARRIED INTEREST

BY: VIJAY YADLAPATI,
NAR COMMERCIAL POLICY REPRESENTATIVE

In previous years, legislation passed the U.S. House to treat carried interest compensation as ordinary income instead of taxing it at the capital gains rate. To date, the U.S. Senate has been hesitant to change the tax treatment of carried interests. However, with comprehensive tax reform possibly on the table in the 113th Congress, both chambers could view a change in the tax treatment of carried interests as a way to offset the cost of lowering general tax rates or of increasing the perceived fairness of the tax system.

The proposals to restructure the way carried interests are taxed appear to be largely based on flawed assumptions. For example, some lawmakers believe that the majority of those who receive carried interests are Wall Street hedge fund or private equity fund high rollers. This is not the case. Real estate accounts for almost 50% of the 2.5 million partnerships in the United States. In reality, the proposed tax hike on carried interests would be an increase on a substantial amount of real estate activity in an already volatile and recovering sector of the economy.

WHAT ARE CARRIED INTERESTS?

Many partnerships (including real estate) are organized with general partners, who contribute their expertise (and, in some cases, capital) and limited partners who contribute capital in the form of money and/or property to the enterprise. Generally, any profits of the partnership are divided among the limited partners. A common practice, however, is to provide additional incentive for the general partner to perform well by sharing some of the profits above a certain "hurdle" rate with him or her through a "carried interest," even when the general partner contributed little or no capital to the enterprise. The general partner's profits interest is "carried" with the property until the property is sold, which can be years after the enterprise is formed and limited partners have received profit distributions.

During the time the property is held, the general partner receives compensation through management fees that are taxed as ordinary income. The limited partners can receive both ordinary income from operations and capital gains from any profits generated

“The National Association of REALTORS® believes the current-law treatment of carried interests helps better align real estate managers’ interests with those of investors...”

during the year. When the property is sold, the limited partners receive their profits distribution (the earnings on the capital they invested) as capital gains. If the venture is successful, the general partner then also receives the value of any carried interest as capital gains income. This partnership structure has been a huge success, giving investors and entrepreneurs in many industries the tools needed to create and grow businesses, build shopping centers, launch technology companies, and create millions of jobs.

EFFECT OF CHANGING THE TAX TREATMENT

It is unclear how much revenue the government could generate by changing the taxation of carried interests. Some tax policy experts believe that talented entrepreneurs would simply find other ways to structure new ventures to avoid the higher tax. Others argue that some deals that now make economic sense would simply not be done in the future, since a higher tax would increase the hurdle rate of return. Moreover, Congress itself seems torn on how to approach the issue, with some proponents of changing the tax rules urging that certain industries, such as real estate and venture capital, be exempt from the change. Such an approach would likely reduce any possible revenue raised by a significant amount. Other policy makers argue that the change should be made prospective only, which would also likely reduce any new revenue by a large amount.

CARRIED INTEREST TAXATION SHOULD NOT BE CHANGED

The National Association of REALTORS® believes the current-law treatment of carried interests helps better align real estate managers’ interests with those of investors, and the existing policy has played an important role in economic development and job creation. Changing the tax treatment to increase the rate of tax on general partners would decrease potential rates of return on successful ventures and raise the hurdle rate, resulting in fewer ventures being funded, and less economic growth and job creation. CC

CONNECTING ON WHAT MAKES UP A SMART GRID

CONTINUED FROM PAGE 3

U.S. states. But building a truly encompassing national smart grid may face some local roadblocks.

“The national power network is actually several local or regional grids that are attached to each other and maintained by the energy providers,” said Russell Riggs, Senior Regulatory and Policy Representative for the National Association of REALTORS®. “These power companies do share power, but there’s suspicion among some providers about the smart grid. Some don’t want the federal government taking over power distribution because it would give the government too much power to regulate the industry.”

VALUE TO COMMERCIAL REAL ESTATE

Beyond the expected energy savings, the movement toward smart grid technologies holds other potential benefits for commercial real estate. A 2012 study from Jones Lang LaSalle, called the “Connected City,” showed that major U.S. markets with public investment and use of smart grid technologies had better employment statistics, higher annual GDP growth rates and office occupancy rates 2.5 percent higher than less advanced metro areas.

The JLL report also points out that smart grid technology can only prove beneficial if data is shared and analyzed across a property portfolio, a challenge because commercial buildings in dense urban areas have different owners and managers. A solution may be in the works in Chicago, where the Building Owners and Managers Association in February announced plans for a pilot smart grid program that would incorporate up to 40 downtown member office buildings.

Riggs offers another perspective on the value of a smart grid to the industry, and the nation. “The market is taking care of a lot of the energy efficiency needs at the commercial property level as more tenants demand that their rent money gets used efficiently,” he said. “But the industry should encourage a grid modernization because if we can’t compete with other countries that are moving forward with a smart grid, we’ll be behind the curve.” CC

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