Knowledge Leader™

COLLIERS INTERNATIONAL PROPERTY MAGAZINE

WINTER 2012

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PORTS OF CALL
ARE U.S. PORTS POST-PANAMAX READY?

STATE OF THE UNION (SQUARE)
GROSVENOR'S SUCCESS IN THE HEART OF SAN FRANCISCO

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contents

WINTER 2012

POST-PANAMAX SHIP: COURTESY OF MAERSK LINE

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COVER PHOTO BY DW DORKEN

From the Editors' Desk

DAVID BOWDEN DYLAN TAYLOR

IN BETWEEN THE LINES

THIS ISSUE MARKS ANOTHER great year of *Knowledge Leader*. In 2012, we've brought you diverse articles from across commercial real estate, including such topics as retail, technology centers, hospitality, corporate social responsibility, finance and investment. We've taken a look under the hood of successful clients across the many industries we partner with. As always, we hope that these insights spark new ideas and advance how you think about your own business.

We think it's important to bring you fresh concepts from all corners of the commercial real estate world, because one never knows where the inspiration for a new perspective or innovation might come from.

After all, although innovation is sometimes confused with *invention*, they're not necessarily the same thing. Innovation doesn't always mean discovering something brand new, or having an idea that no one's ever had. Often, it's just a mindset—the willingness to reinvent what you already do.

This issue's cover article is on KingSett Capital, Canada's leading private equity real estate firm. Along with Grosvenor, also featured, KingSett represents a traditional business that has remained successful and differentiated itself through its mindset and approach.

Other subjects you'll find in this issue:

- The emerging trend of retail medical clinics;
- Behind the scenes with Franklin Partners, and their creative solutions for reviving industrial space;
- How landlords are helping tenants meet their corporate social responsibility needs; and,
- The coming sea change in global trade routes as the 2015 Panama Canal expansion nears.

At Colliers, we're constantly challenging ourselves to remain innovative, just as our clients challenge us to solve their business problems. In 2013, *Knowledge Leader* will continue to bring you stories that, we hope, will challenge your thinking in the same way.

Best wishes for success and health in the coming year,

David Bowden
Chief Executive Officer | Canada
Colliers International

Dylan Taylor
Chief Executive Officer | USA
Colliers International

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In Seattle, UW Medicine's Northgate Clinic is located in an open-air retail village with dining and a multiscreen movie theater.

The Doctor Is In

YOUR HEALTH CARE CLINIC MAY BE HEADED TO A SHOPPING MALL NEAR YOU. BY RANDY WOODS

THEY GO BY MANY NAMES, including "retail clinics," "convenient care clinics," "wellness centers" and "nurse-in-a-box." For property owners, however, the health care clinics that are rapidly appearing in retail spaces around the country can be filed under just one category: long-term tenants.

Since many retail spaces in shopping centers and strip malls went vacant in the wake of the Great Recession, health care providers have been filling some of the vacuum by opening walk-in clinics that offer "urgent care"—the industry term for injuries or illnesses that require immediate treatment but are not serious enough for the emergency room. Many of these urgent-care clinics are staffed by nurse practitioners or

There are more than 1,350 retail health care clinics operating today in 35 states and Washington, D.C.

physician assistants, offering low-cost services and preventative care ranging from medical spa treatments to minor outpatient plastic surgery.

"Everyone we're hearing from is saying that urgent-care centers are popping up everywhere—in the suburbs and in urban areas," says Ann Natunewicz, National Manager, Retail Research, for Colliers International's Retail Services Group.

The retail clinic trend is not exactly new. Natunewicz began to see them appear in shopping centers and mixed-use properties about 10 years ago. But the rate has accelerated, and she says the general public is taking notice. According to the latest figures from the Convenient Care Association (CCA), there are more than 1,350 retail health care clinics operating today in 35 states and Washington, D.C., serving more than 15 million patients over the past 12 years.

John Wadsworth, Vice President and Director of Colliers International's Healthcare Services Group in Irvine, Calif., says there are two major factors that are driving this retail clinic trend: 1.) Health care reform is putting more pressure on providers to deliver care more efficiently, and 2.) Health care systems have gone through a significant period of consolidation that realigned the structure of the doctor-patient relationship.

Today, Wadsworth says, the vast majority of hospital visits are on an outpatient basis, which is the reverse of the status quo as recently as a decade ago. "It used to be that physicians dictated where you went for care," he says. "Now, the consumers are making those decisions based mostly on brand names. Today, if you get sick, you're not going to the hospital, you're going to a clinic in the neighborhood. As a result, health care providers are trying to expand their brands into the community, which they hope will increase overall hospital revenue."

"Hospital systems want to be close to their customers," Natunewicz adds. "And who's using urgent care? It's mostly older people, who will be looking for a wider breadth of supplemental health care options. [With clinics], the hours are more convenient and the locations tend to be closer to residential development. Urgent care is a good entry to this market."

Cost is another major factor. Retail walk-in clinics accept most insurance plans, but even for those without insurance, the patient costs are about $40 to $70 for a typical clinic visit, according to the CCA. That price range is far less than they would be billed for a doctor's visit or emergency room care, which can be six to 10 times more expensive, says the CCA. A recent Rand Corporation study found that between 2007 and 2009, during the worst days of the global economic crisis, the number of convenient-care retail clinics in the United States quadrupled as customers flocked to the lower-cost alternatives.

"Retail initiatives are on every hospital's plate now," Wadsworth says. "It's a very thin-margin business, and they're all jockeying for position. Reimbursements to physicians are shrinking, which is also driving the change. You have to deliver a better brand of care at a better price."

Besides the benefits to health care providers and patients, there are also advantages for property owners. "Retail vacancy rates have been rising generally; some markets are functionally dead," Natunewicz says. "Landlords looking to lease space would prefer something affiliated with a large hospital system, which will be more likely to stick around."

In the last few years, hospital systems had the opportunity to buy empty real estate at post-recession prices as low as 25 cents on the dollar, Wadsworth says. "Those prices are not as common now, since we're at the tail end of the cycle," he says. "So now it's shifting from an opportunity-driven trend to more of a proven business model."

But do the owners of a mixed residential/retail property really want a medical clinic located between unrelated businesses, such as a fast food restaurant or a sporting goods store? If they can sign a long-term lease, the answer is almost always yes, Natunewicz says.

"Having an urgent-care clinic near residential units or other retail businesses is not a stigma," she says. "You have to pay attention to what the storefronts and signage look like and how the exam rooms are designed to protect privacy. But as long as it's a classy, professional build-out, and it's backed by a major hospital, these clinics can become a great ancillary use for the ground floors of buildings."

Another retail clinic concept is the "medical mall," in which large spaces in shopping malls are leased out to one or more health care providers, Wadsworth says. Colliers International was recently hired by the Simon Property Group to test the medical mall concept at the Westminster Mall in Orange County, Calif. By leasing space in an enclosed mall setting, a hospital system can promote its wellness programs and market its brand in a structure that holds 150 national retailers, eateries and national anchor stores.

The property includes flexible space configurations, from as small as 18,000 square feet to as large as 80,000 square feet. The space also has access to the mall exterior and is adjacent to abundant and free surface parking, which is crucial for the success of a health care facility. Most important of all, the Westminster Mall is in an ideal location. Situated near the busy Interstate 405 between Los Angeles and San Diego, the mall is in a densely populated area (nearly 2 million people within 10 miles) with an average household income of approximately $76,700 annually.

At this stage, Wadsworth says it's too soon to tell how much the retail clinic trend will affect vacancy rates in retail spaces or real estate values. But he does believe the model is here to stay.

"Every situation in each market is different," he adds, "but as long as it's grocery-anchored and not off the beaten path, you're going to draw a lot of people" with medical clinics in retail properties. "I see this as a long-term trend." KL

spotLIGHT

THE PEOPLE, PLACES AND EVENTS SHAPING THE INDUSTRY

TRANSACTIONS OF NOTE

Mission Accomplished

COLLIERS REPRESENTS SALE OF SAN FRANCISCO PROPERTY.

COLLIERS INTERNATIONAL'S Investment Services Group represented Tetsuo Commercial Investment Group in the recent sale of 1161 Mission Street in San Francisco to Downtown Properties Holdings. Located in the Midmarket arts district—a.k.a. "MidMa"—the property is two blocks from Twitter's headquarters and steps from Dolby's new headquarters.

"We are happy to be participating in the influx of investment activity currently taking place in the Midmarket District of San Francisco. This transaction is a great example of the diversity of capital that is targeting this segment of the market," says Frank Wheeler, Senior Vice President of the Colliers Investment Services Group in San Francisco.

This is Downtown Properties Holdings' third acquisition in San Francisco and its first investment in the Midmarket district. The company currently owns 300 Montgomery Street and 550 Montgomery Street in the North Financial District.

Originally built in 1926, 1161 Mission Street is a five-story, 68,745-square-foot penthouse office building with ground-floor retail. Extensively renovated with a highly creative build-out, it has attracted a range of tenants. "We've had a ton of touring activity on the property, and not just from technology tenants," says Mike Monroe, Senior Vice President for Colliers International in San Francisco. "We are trading paper on nearly every opportunity in the building, from tenants in the professional service industry to venture capital firms."

Downtown Properties Holdings purchased 1161 Mission Street in San Francisco.

Frank Wheeler, Tony Crossley, and Erik Hanson of Colliers' San Francisco Investment Services Group represented the seller. Since 1997, the team has handled 40 percent of the total sales of San Francisco properties valued between $5 million and $50 million.

Colliers International's SOMA Team, comprising Monroe, Senior Vice President Mike McCarthy and Vice President Brian McCarthy, has been retained as the building's leasing agents.

LEASING NEWS

RENEWED LEASE

PSEG RENEWS LEASE FOR HEADQUARTERS IN DOWNTOWN NEWARK.

PSEG is headquartered in Newark, New Jersey.

PSEG, a New Jersey-based energy services company, has renewed the lease for its corporate headquarters in the downtown Newark building 80 Park Plaza. With its new 15-year lease, PSEG will call the landmark building home through the year 2030.

PSEG has been headquartered in Newark for more than a century. While this is not the first building in the city the company has occupied, the 26-story tower and three-story plaza building owned by Wells Real Estate Investment Trust II (Wells REIT II) has served as PSEG's corporate offices since 1978.

Under the terms of the 15-year lease arranged by Bryn Cinque of Colliers International | New Jersey, Wells REIT II and PSEG will make infrastructure improvements that are expected to result in several million dollars in energy savings within the next four years. Planned improvements include new chillers, floor-by-floor temperature controls and new lighting.

"Newark has been our home for more than 100 years, and we're committed to the city," says Ralph Izzo, Chairman, President and Chief Executive Officer of PSEG. "The finances and logistics worked and allowed us to stay in downtown Newark, a place we're proud to call home."

The PSEG building is in the heart of Newark's downtown and is an integral part of the city's economic resurgence. Other recognizable buildings surrounding it include Newark Penn Station, NJPAC, the Prudential Center and Seton Hall Law School.

The 1-million-square-foot building is home to 1,650 PSEG employees and contractors who work for the parent company or one of its subsidiaries, including PSEG Power, Public Service Electric and Gas (PSE&G) and PSEG Energy Holdings. PSE&G is New Jersey's largest and oldest utility.

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Q&A

EXECUTIVE INSIGHT WITH: SUZANNE BEDFORD

SENIOR VICE PRESIDENT, FINANCE AND OPERATIONS FOR COLLIERS INTERNATIONAL IN CANADA

A FINANCE VETERAN, Suzanne has more than 17 years of experience at an international level in strategic finance and operational roles. She held senior positions in two of the big five audit firms in Johannesburg, South Africa, and London, England, before moving into the service industry. Suzanne now leads the Service Excellence Strategy for Colliers International in Canada.

When she's not balancing budgets and ensuring Colliers Canada's profitability, Suzanne can be found behind the lens of her camera, training for—or actually running—marathons, or spending time with her pugs, Maddy and Oliver. At the time of this interview, she was training for the New York Marathon.

If you could have dinner with any public figure, who would it be and why?

I'd like to have dinner with Kofi Annan, former secretary-general of the United Nations, and discuss his work in the United Nations and his dedication to sustainable development and peace.

What was your first job?

I was a sales assistant in a jewelry shop in Johannesburg. At the same time, I was a supermarket cashier on Fridays and Saturdays. They were quite the lucrative and enterprising roles. I learned early on all about customer service and issues, at all levels.

Who are your role models?

I admire Margaret Thatcher for her determination to create a better world in which women are seen as equals. She was the first woman to come into power as head of the British government and that's commendable. Another one of my role models is Dean Karnazes, the "Ultramarathon Man," for his sheer enthusiasm for the ultramarathon, as well as his passion and his commitment to family.

What advice would you give to someone entering the business?

Be passionate about everything you do, every day. See every day as an opportunity to rise to a new level. Look for a group of people that can assist you in growing your career—more perspectives will give you a balance versus having just one. Have a group of mentors.

What are your favorite business books?

The 7 Habits of Highly Effective People by Stephen Covey, *Change Is Good...You Go First* by Mac Anderson and Tom Feltenstein, and *Discovering the Soul of Service* by Leonard L. Berry.

What do you see as new industry trends that clients or brokers should be aware of?

The fluidity with which we need to operate a real-time business. Generation Y professionals entering our business are having a huge impact on how we service clients and deliver employee satisfaction in all demographic groups. The world economy and real estate trends are changing constantly, and it will increasingly do so in the next five to 10 years. Flexibility is the key word.

Any words to live by?

My favorite Adidas statement: "Impossible is nothing." It says it all. KL

Named as Industry Leaders by *Real Estate Forum*

Colliers International congratulates Ryan Kratz and Anjee Solanki, who have received national industry recognition for their enterprising spirit, thought leadership, and high standard of service excellence.

RECOGNIZED AS

2012 Women of Influence

Anjee Solanki

Executive Vice President, Retail Services | Western Region

2012 40 Under 40

Ryan Kratz

Executive Managing Director | Tampa Bay & Central, SW Florida

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Budget Smart

U.S. HOTEL MANAGERS NAILED THEIR BUDGETS IN 2011

BY ROBERT MANDELBAUM AND VIET VO

IN THE FALL OF 2010, when U.S. hotel managers were preparing their budgets for 2011, most industry participants were pleasantly surprised at the strong pace of the recovery in lodging demand. By year-end 2010, the occupancy level for U.S. hotels increased by 5.4 percent. While hopeful that their good fortune would continue into 2011, managers were somewhat skeptical given the continued sluggishness of the economy.

This skepticism appears to have influenced the 2011 budgets prepared by hotel managers in the fall of 2010. Operators planned for a continuation of the growth in occupancy, but not at

the same rapid pace enjoyed in 2010. At the same time, they realized that the soft economy would inhibit their ability to raise room rates.

As 2011 transpired, the budgeted projections became reality. In fact, the 2011 U.S. hotel budgets were the most precise we have seen since PKF Hospitality Research, LLC (PKF-HR) began tracking budget accuracy in 2001.

General managers, controllers, and directors of sales are currently beginning the process of preparing their budgets and marketing plans for 2013. To assist them, we present our annual look at the budgeting accuracy of U.S. hotel operators. From PKF-HR's Trends® in the Hotel Industry database, we identified 623 operating statements that contained both actual and budgeted data for 2011. Using these statements, we compared the revenues and expenses projected for 2011 with what was actually earned and spent during the year.

Just Short on Top

For 2011, hotel managers were expecting occupancy to continue to dominate revenue per available room (RevPAR) growth. The average 2011 budget called for a 5.1 percent increase in occupied rooms, combined with a 3.4 percent gain in average daily rate (ADR). The net result was a forecast of 8.6 percent growth in rooms revenue. At the end of 2011, rooms revenue at the properties in our study sample increased by 8.2 percent, just short of the budgeted 8.6 percent growth rate.

Contrary to expectations, occupancy levels at the subject hotels did not increase as much as projected. In 2011, rooms occupied grew by 4.1 percent, a full percentage point short of the budgeted 5.1 percent growth rate. Conversely, the ADR increased 3.9 percent, greater than the budgeted projection of 3.4 percent. Throughout the year, it appears that the managers in our study sample were able to be more aggressive with their pricing policies than initially anticipated.

Total revenue growth for the sample fell just 0.1 percent short of expectations. This implies that the combined growth in revenue from food and beverage, other operated departments, and rentals and other income exceeded the budget.

Expense Controls Preserve the Bottom Line

With occupancy levels falling below expectations, it is not surprising that total hotel expenses also came up short of the budgeted amount. Hotel managers had expected a 5.8 percent increase in expenses in 2011, but only spent 5.4 percent more to operate their properties.

By spending less for expenses than budgeted, managers were able to overcome their revenue shortfall and exceed the budgeted levels of hotel net operating income (NOI). The hotels in our study sample enjoyed a 16.1 percent increase in NOI in 2011, 0.9 percentage points greater than the 15.2 percent budgeted growth rate.

Cautious Optimism

The attitude of U.S. hoteliers has not changed much since the fall of 2010. Entering 2013, uneven economic news tempers the enthusiasm of hotel owners and operators despite the fact that revenues and profits continue to grow at a healthy rate.

History has shown that hotel budgets are most accurate during prosperous periods. Based on our September 2012 edition of Hotel Horizons®, PKF-HR is forecasting a 6.2 percent increase in total revenue during 2013 that will result in a 10.9 percent rise in NOI. It will be interesting to see how aggressive hotel managers are when budgeting their revenue, expense, and profit growth rates for 2013.

Robert Mandelbaum and Viet Vo work in the Atlanta office of PKF Hospitality Research, LLC (PKF-HR). PKF-HR offers hotel managers several tools and reports to assist them in the preparation of their 2013 budgets. For more information, please visit the PKF-HR website at www.pkfc.com/store, or call (855) 223-1200.

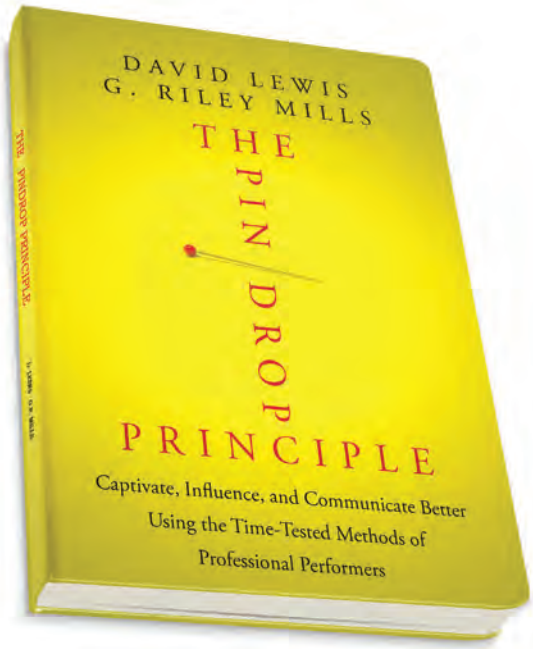
Talk to Me

THESE SIX SECRETS CAN HELP YOU MASTER THE ART OF PERSUASION. BY G. RILEY MILLS

AS THE LEGENDARY acting teacher Stella Adler once said: "When you stand on the stage you must have a sense that you are addressing the whole world, and that what you say is so important the whole world must listen."

We all know a great communicator when we hear one: that rare individual who captures our attention, rouses our emotions or compels us to take action. Ronald Reagan, Winston Churchill and Oprah Winfrey are famous examples of highly skilled communicators, but we also encounter them in our everyday lives. We are drawn to these unique individuals. They can change the way we feel, think or act.

It is not your audience's job to be engaged or persuaded; it is up to you to persuade them.



In truth, we all want something as a result of our communication with another person. A parent wants their child to return home before curfew. A coach wants the team to stop making mistakes. An insurance sales rep wants you to renew your policy. And none of these goals can be accomplished without persuasion.

In my book with David Lewis, *The Pin Drop Principle*, we discuss the formula for persuasion and lay out some simple tools to utilize when attempting to gain commitment from or persuade others:

1. **Define your objective** (and choose an intention). You should always have a goal with your communication, what we refer to as your *objective*—something you want or need from your audience. Once you have an objective, you must pair it with an *intention* to do something—a one-word verb that will color your delivery and help you reach that goal (e.g., to excite, to persuade, to engage). Once identified, the intention will inform your voice, gestures and body language. You should be able to complete the following sentence with any message you deliver: "I want to _____ my audience, so my audience will _____." For example: A broker may want to excite a prospective client with the benefits of a property so the client will sign a lease to rent that space.
2. **Provide options.** Always be ready with an alternative plan or proposal in the event that your first one is not received with enthusiasm. Stay in tune with your audience at all times, both by observing what they are saying and what they are not saying. If you notice sudden resistance to, or lack of interest in, an aspect of your program or proposal, don't hesitate to shift gears—and intentions—and offer an alternative that might meet the client's needs more effectively.
3. **Uncover needs.** Being able to ask the right questions is important when you are attempting to persuade or gain commitment. Questions not only build rapport but also serve to confirm understanding and uncover information. Open-ended questions that include the words "what," "how" or "tell me about" are especially helpful in unearthing information that can help you tailor your message.
4. **Don't oversell.** People don't like to feel that they are being sold to, so be careful about going overboard with your pitch or proposal. Limit hyperbole and avoid the hard sell at all costs. Don't rush your pitch and don't promise something you can't deliver. It is always better to underpromise and overdeliver than the opposite.
5. **Bring the passion.** People are drawn to others who are passionate and excited, so make sure your body language and voice communicate enthusiasm about your message or proposal. Our brains are wired to reflect back to people exactly what we are seeing or feeling from them. So remember: While enthusiasm is contagious, so is apathy. Be sincere, be engaged, and be present in your presentation.
6. **Ask for a commitment.** If you don't ask, you don't get. Or as the great hockey player Wayne Gretzky once said, "You miss every shot you don't take." As with anyone who is attempting to persuade or influence an audience, at a certain point you need to be prepared to ask for commitment. Be assertive in your "ask." This is not the time to hesitate, waver or retreat from your intention.

For anyone communicating a message to others, the burden of engagement always lies with the speaker. It is not your audience's job to be engaged or persuaded; it is up to you to persuade them. Therefore, resist the urge to rely on your data or visual aids alone to get the job done. While the words and information are certainly an important piece of the persuasion puzzle, strong and focused vocal and visual deliveries are also key elements of success. By incorporating these six techniques into your preparation and delivery, you will be well on your way to capturing your audience's attention and changing the way they think or behave. KL

G. Riley Mills is co-founder of Pinnacle Performance Company, a company that delivers groundbreaking Performance-Based Training® to improve the communication and presentation skills of business professionals around the world. He and co-founder David Lewis authored The Pin Drop Principle. *For more information on Pinnacle, visit pinper.com.*

A Retrospective

A CMBS UPDATE: CAN MORE BE SECURITIZED?

BY KC CONWAY, MAI CRE

SINCE THE RESTART of commercial mortgage-backed securities (CMBS) in the fourth quarter of 2009, new issuance has struggled to return to even 25 percent of the annual $200 billion-plus peak levels preceding the financial crisis. 2012 will mark the third consecutive year of new issuance below the $50 billion mark. In fact, only $102.6 billion in 62 new private and 57 new agency (Freddie Mac, Fannie Mae and one FDIC deal) issuances has occurred since the first quarter of 2010 through the second quarter of 2012. That volume is less than half the total new issuance in 2007.

The Second Half of 2012

The mood toward CMBS issuance in the first half of 2012 was best described as tepid. Through July, CMBS delinquencies set five consecutive monthly records, rising past the 10 percent mark for the first time and peaking at 10.34 percent in July. However, the changing of seasons from summer to fall has ushered in a renewed sense of optimism despite the uncertainty and volatility of the November elections, ongoing European debt saga, and approaching expiration of tax cuts—the so-called "fiscal cliff." Two elements are fueling the CMBS rally: 1) improved performance measures hinting that the worst of the "Refi Wall" may have been scaled; and 2) investor search for yield.

Improved Performance Measures

One need only examine the headlines since the end of the first half of 2012 to get a sense of the perceived improvement in CMBS:

- "CMBS Delinquency Rates Fall For 1st Time in 2012" (Trepp September release of August CMBS delinquency stats showing a 21 base point decline to 10.13 percent)
- "CMBS Special Servicer Volumes Drop" from $83.1 billion at beginning of 2012 to $80.5 billion at mid-2012 (Fitch Ratings August U.S. CMBS Market Trends newsletter)
- "More CMBS Loans Exit Special Servicing" (Fitch Ratings, September 2012)
- "CRE Loan Values Up for a 5th Consecutive Month" (DebtX, August 2012)

While this updated CMBS delinquency and special servicer data has resulted in a renewed interest in CMBS issuance and improved pricing, it may be premature to conclude that pre-2007 happy days are here again.

The Outlook

New private and agency CMBS issuance should see a strong finish in 2012, but will fall short of that elusive $50 billion hurdle. In the first half of 2012, CMBS issuance totaled just over $26.5 billion, compared to $31.4 billion during the first half of 2011. Nearly $8 billion in CMBS has come to market in September with another $5.7 billion priced, just shy of last September's issuance. There is another $2.8 billion in public issuance awaiting pricing, with yet another $6.1 billion in the pipeline that could make it to market by year-end. However, there are some legacy issues to be cognizant of that create material headwinds for CMBS. Those include:

- **Beware of improved August CMBS measures.** All is not as it first appears in the decline in August's CMBS delinquency. Since 2010, CMBS measures, like delinquency rates, have improved to only resume an upward trajectory and set new highs in the fall. There are both technical and seasonal explanations for this anomaly. Remember that one month's data does not establish a trend.
- **The CMBS refinancing wall remains.** There is still upward pressure on CMBS delinquencies from the volume of approaching maturity defaults—maturing loans whose loan-to-value (LTV) ratio is upside down—and take-out financing for high LTV commercial real estate debt remains elusive. The second half of 2012 and first half of 2013 are peak periods for maturing CMBS loans. While delinquencies dipped in August, that decline was more a function of special servicer intervention strategies to mitigate loss, as well as strong new issuance skewing the ratio calculation. Special servicers continue to play a key role in the level of delinquency reached, as potential maturity extensions, large loan modifications, lender financing (through discounted assumptions and modifications prior to foreclosure) and approved forbearance have the potential to slow or mitigate delinquency growth and delay losses.
- **Future risks to CMBS remain.** Another U.S. debt downgrade after the elections, inaction on the impending fiscal cliff, anemic job growth and a reversal in any of the aforementioned CMBS measures (like delinquency) are uncertainties moving forward. Do you recall the disruption in the capital markets from August to November a year ago following the initial U.S. debt downgrade? A second debt downgrade is highly likely given Congress' inability to address the fiscal cliff.

The recent headlines noting improvement in key CMBS performance measures have been welcome after a volatile spring and summer. Investors in search of yield in reaction to the Federal Reserve's quantitative easing (also known as QE3) are boosting pricing. This improved pricing will stimulate some additional fourth quarter new issuance, but 2012 volume will fall short of the elusive $50 billion threshold for a third consecutive year. KL

> In the first half of 2012, CMBS issuance totaled just over $26.5 billion, compared to $31.4 billion during the first half of 2011.

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The KingSett Capital team, from left to right: Anna Kennedy, Jim Hewitt, Jon Love, Joe Mazzocco, and Rob Kumer.

PHOTOS BY DW DORKEN

THERE'S NO "I" IN THIS TEAM

KINGSETT CAPITAL'S COLLABORATIVE SPIRIT TRANSLATES TO STRONG RETURNS FOR ITS INVESTORS.

BY CHERYL REID-SIMONS

There is no superhuman strength, no power of flight or sound-shattering speed among the partners at Toronto-based KingSett Capital. Still, the collaborative way Jon Love and his partners—Jim Hewitt, Anna Kennedy, Rob Kumer and Joe Mazzocco—work together sounds a bit like a summer blockbuster. Think *The Avengers* or *The Fantastic Four*; only instead of battling villains, KingSett Capital works to build premium risk-weighted returns, thereby saving its clients from overly risky investments and weak returns.

Now celebrating its 10th year, KingSett Capital has become Canada's leading private equity real estate firm by leveraging the key strengths and experience of its partners and managers. And while Love is the founder and managing partner, the firm is very much a team effort.

"It sounds like a cliché, but Jon's vision is to hire, empower and align strong people," says Mazzocco, who, along with Kumer, oversees the acquisition, financing and disposition of KingSett's properties. "Finding strong people has been one of our strengths."

Love's previous tenure as president and chief executive officer of Oxford Properties—a global investment firm also headquartered in Toronto—helped cement his stature as an industry leader. But while he may have the most recognizable name, he insists that he isn't the sole key to the company's success. "In all regards, my personal influence on success can be overstated," Love says. "The thing that I've done best is to recruit and motivate a high-performance team. My job is to lead the team and help direct the team, but it is certainly not a one-man show."

"Our belief is that better decisions are made with more people giving input. The collaborative effort from everyone has been a major factor in our business being able to make the right big calls at critical times, all leading to generating premium risk-weighted returns for our stakeholders," Kumer notes. "Our brand is thought of as being astute real estate investors. What others may be less aware of is how great it is to be a part of the KingSett team. The respect that we have for each other, as well as all of our external stakeholders, is remarkable. Our business is always growing, expanding and changing; being part of it has been exciting and a terrific learning experience."

Love says it's important to foster an environment where people feel comfortable to voice an opinion, even if that means disagreeing with him or any of the other partners. "The longevity and success of the business is a direct result of the quality and alignment of the team and having strong enough people around you who know that their opinions


Jon Love

"The longevity and success of the business is a direct result of the quality and alignment of the team and having strong enough people around you who know that their opinions will be heard and valued."
Jon Love

will be heard and valued," Love says. "The advantage of having committed, sophisticated partners who know they can speak their minds is that you have an engagement of skills and intellect that in all circumstances leads to better decision-making."

Like all good partnerships, each member has an important and specific role. "We're all in the right chair," says Hewitt, who is in charge of portfolio management. "We all have our strengths."

While KingSett is just marking a decade of service, its key players—from the five partners to its directors—have decades of experience in various areas of real estate. "They all come from different backgrounds with lots of experience, and they seem to work really well together. My guess is they all feel like they're owners of the company," says Scott Addison, Colliers International's President for East Canada.

In a very real sense, Addison is right. "Employees of KingSett are invited to invest in the funds that KingSett creates and manages," explains Kennedy, KingSett's chief financial officer. "It gives us the opportunity to be truly aligned with the goals of our investors. There is a real sense of pride of ownership that makes it quite unique."

Mazzocco says that's part of KingSett's DNA. "One of our key philosophies is that as long as we take care of our stakeholders, we'll do well. Many investment vehicles look out for themselves first, having onerous transaction or activity fees, which is a complete misalignment with investors. Our profits are based on the returns we deliver to our investors. If our investors do not make money, we will not make money."

That willingness to share risk and reward with investors keeps KingSett's partners intensely focused. "We're all well motivated," Mazzocco explains. "We're always looking for ways to do better." And because he invests his own money, he jokes that he doesn't stop answering to investors when he goes home for the day. "The CEO I have at home is a lot more stringent than anybody here."

"One of the things really clear to me is just how important our investor relationships are," Kennedy adds. "They are really held with the greatest of respect, which inspires confidence but also focuses all of us on our sense of duty to our investor partners."

Although the firm avoids undue risk, KingSett isn't timid. The Canadian real estate market never experienced the turbulence of the U.S. market, but there was something of a collective pause in 2009. Yet the company didn't sit back and wait for someone else to test the waters. "We were probably the first out of the gate to make a large-scale acquisition after that," Mazzocco says.

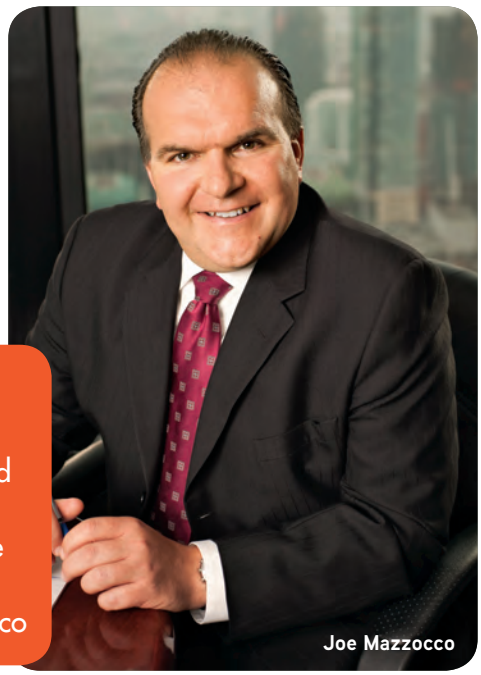
KingSett led the market when it bought a 50 percent interest in a high-quality regional shopping center in Ottawa. "Others were unable to make a decision, whereas in the span of six months we completed three large acquisitions. Some were concerned the sky was falling; we made a decision that, 'No, the world's not going to end, so let's get going,'" Mazzocco notes.


Anna Kennedy

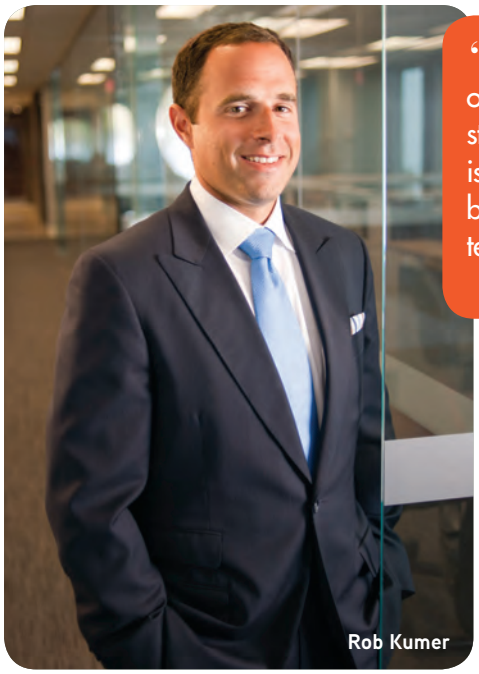
"Employees of KingSett are invited to invest in the funds that KingSett creates and manages. It gives us the opportunity to be truly aligned with the goals of our investors."
Anna Kennedy

When the time isn't right, however, KingSett has no trouble sitting things out. "We have very patient capital. Nobody is on our back asking, 'When are you going to spend the money?' And since we are not looking to do deals for the sake of earning fees, there is no pressure from within either. That's why we're different," Mazzocco says, noting that the principals continue to roll their profits back into KingSett's funds. "Should something ever go wrong, we are not just going to sit back and watch. We will continue to be completely aligned with our investors the whole way through."

KingSett Capital's first investment vehicle was a


Joe Mazzocco

"The theory behind KingSett was that an experienced and deep management team together with strategic investors could build a private equity real estate business where active management could generate premium risk-weighted returns."
Joe Mazzocco


Rob Kumer

"The respect that we have for each other, as well as all of our external stakeholders, is remarkable. Our business is always growing, expanding, changing; being part of it has been exciting and a terrific learning experience."
Rob Kumer

defined-term growth fund that launched 10 years ago. "The growth fund strategy has raised over $2.7 billion of equity," Mazzocco says.

And the company has since expanded into financing and joint ventures. In 2008, it opened a second fund vehicle, this time an income fund that "allows investors to invest alongside us in long-term, stable-core and core-plus type assets," Mazzocco explains. "These are assets that have proven quality cash flow and long-term growth potential. They are the kind of buildings you want to own forever." The income fund currently holds another $1.5 billion of core strategy income properties. It has $400 million of equity committed and is looking for an additional $1 billion of high-quality core investments.

Simply put, KingSett's growth fund buys non-institutional quality assets, creates institutional quality and then sells immediately. "Our income fund buys institutional quality and holds," Mazzocco says.

Rarely, the income fund will buy an asset from the growth fund. "When you've created a great asset, it's hard not to take a look at holding it," Mazzocco explains. "But it's not something we prefer to do. There is a detailed process to ensure there are no conflicts of interest, and that the transaction is completely open and transparent."

Potential conflicts are also mitigated because each fund has its own investment committee to examine every deal.

"The combination of KingSett's institutional pedigree—when it comes to transparency, underwriting and analysis—combined with our entrepreneurial mind-set and approach to decision-making is what makes KingSett unique in the Canadian real estate investment industry," Kumer notes.

Between the growth and income funds, KingSett is always looking for new properties. And because of its reputation, it is often first in line to see new assets coming on the market.

"A lot of product is shown to us," Mazzocco says. "Our success factors are the ability to source property and the ability to execute purchases. Our reputation is that we don't play games and we make decisions very quickly. Jon alone has been involved in over $15 billion of acquisitions. We've seen a lot of deals. The investment team is made up of 12 very experienced people. Just by doing more deals you automatically get a sense of what to look for. We're able to dig in deep, quickly and thoroughly.

"One of the things we do is empower people internally. For example, when a broker calls and says, 'I may be able to bring you an offer,' or suggests taking a look at a property that isn't on the market, everyone here is comfortable engaging in the dialogue," he adds.

What that means for those outside the company, says Addison, is that KingSett is much more nimble than most institutional investors, without sacrificing strong due-diligence practices. "They set really high standards. They give a broker an assignment, and then they give the broker freedom to just go do it," Addison says, praising KingSett's lack of bureaucracy. "All they judge you on is results at the end of the day. They trust you."

"We recognize how we get deals," Mazzocco says. "Brokers are a very important part of our success. We do not sport grind. If we put something under contract and have the opportunity to grind that buyer for another dollar, that dollar could cost us a deal down the road. We're not focused on just the one deal. We're focused on the entire relationship."

"It helps that the organization is relatively flat," Hewitt adds. "We're able to respond quickly because we're blessed with very strong partners. The ability to be decisive is a key differentiator."

KingSett works hard to develop and maintain relationships throughout the industry, including brokers, lessees, developers, project partners and investors.

"When I talk about the KingSett team, it extends beyond those that have 'KingSett' on their business cards," Love notes. "It includes leading industry organizations such as Colliers that have worked with us to source properties and execute our investment strategies. It's that extended community that is a key reason for our ability to succeed."

KingSett has been extraordinarily successful in its first decade, but it hasn't achieved it by taking heart-pounding, adrenaline-boosting risk. Instead, the company has leveraged experience and careful strategy into returns that benefit everyone.

"The theory behind KingSett was that an experienced and deep management team together with strategic investors could build a private equity real estate business where active management could generate premium risk-weighted returns," Mazzocco says.

But just because it's well-considered, doesn't mean it isn't fun.

"It's always fun," Hewitt says. "You feel blessed to be here because every day's a new challenge and there's an unwavering code of ethics that has us focused on the needs of our investors."

"We're able to respond quickly because we're blessed with very strong partners. The ability to be decisive is a key differentiator."
Jim Hewitt


Jim Hewitt

Ports of Call

GLOBAL TRADE ROUTES ARE POISED TO CHANGE WHEN THE PANAMA CANAL UNVEILS ITS EXPANSION IN 2015. ARE U.S. PORTS READY?

BY TERESA KENNEY

WHEN THE PANAMA CANAL OPENED IN 1914, it changed the way the world traded goods, shaving more than 7,900 miles off the journey between the Pacific and Atlantic oceans. Now, nearly 100 years later, it is about to make history once again with a $5.2 billion expansion. When completed in 2015, the expansion will double the size of ships that the canal can accommodate.

These so-called post-Panamax ships (Panamax is the name of the class of ships that are the maximize size allowed through the canal) will be able to hold 12,000 shipping containers—or four times the loads now carried—at little additional cost, says KC Conway, MAI, CRE, Executive Managing Director of Real Estate Analytics for Colliers International.

The impact to retailers', manufacturers' and commodity traders' bottom lines will be dramatic and will drastically alter global trade routes.

"If you go back to when the Panama Canal first opened, about 15 percent of the cost of the goods was in shipping; today it's about 1 percent. And now, with the post-Panamax ships, we have the opportunity to cut shipping costs to one-half or one-quarter percent of the cost of goods," Conway explains.

"In 2008 and 2009, we were focused on the economic crisis and rescuing the banks, and all along this massive thing with the Panama Canal expansion has been happening in shipping and global trade, which has been off the radar. People knew about it but it was downplayed. But now that we are getting closer to the real date of the expansion, everyone is realizing that this will really have an effect on global trade routes," he adds.

Conway says that in the next 10 to 15 years, 60 to 70 percent of ships will be post-Panamax size, and cities on both coasts are jockeying for the global trade business by preparing their ports to accept these larger ships. The promise of post-Panamax vessels brings with it renewed economic vitality, so the stakes are high and the competition fierce.

A port is considered post-Panamax ready when it has met all three of the following conditions: a channel depth of 50 feet with sufficient width and turning basin size; cranes capable of loading and unloading post-Panamax ships; and docks capable of handling the larger cranes.

On the West Coast, the ports of Los Angeles/Long Beach, Oakland and Seattle are currently post-Panamax ready. On the East Coast, Norfolk, Virginia, is post-Panamax ready, with Baltimore scheduled to be ready by the end of 2012.

"In the past six to eight months, New York, Baltimore and Miami have all accelerated what they need to do to be post-Panamax ready," Conway notes.

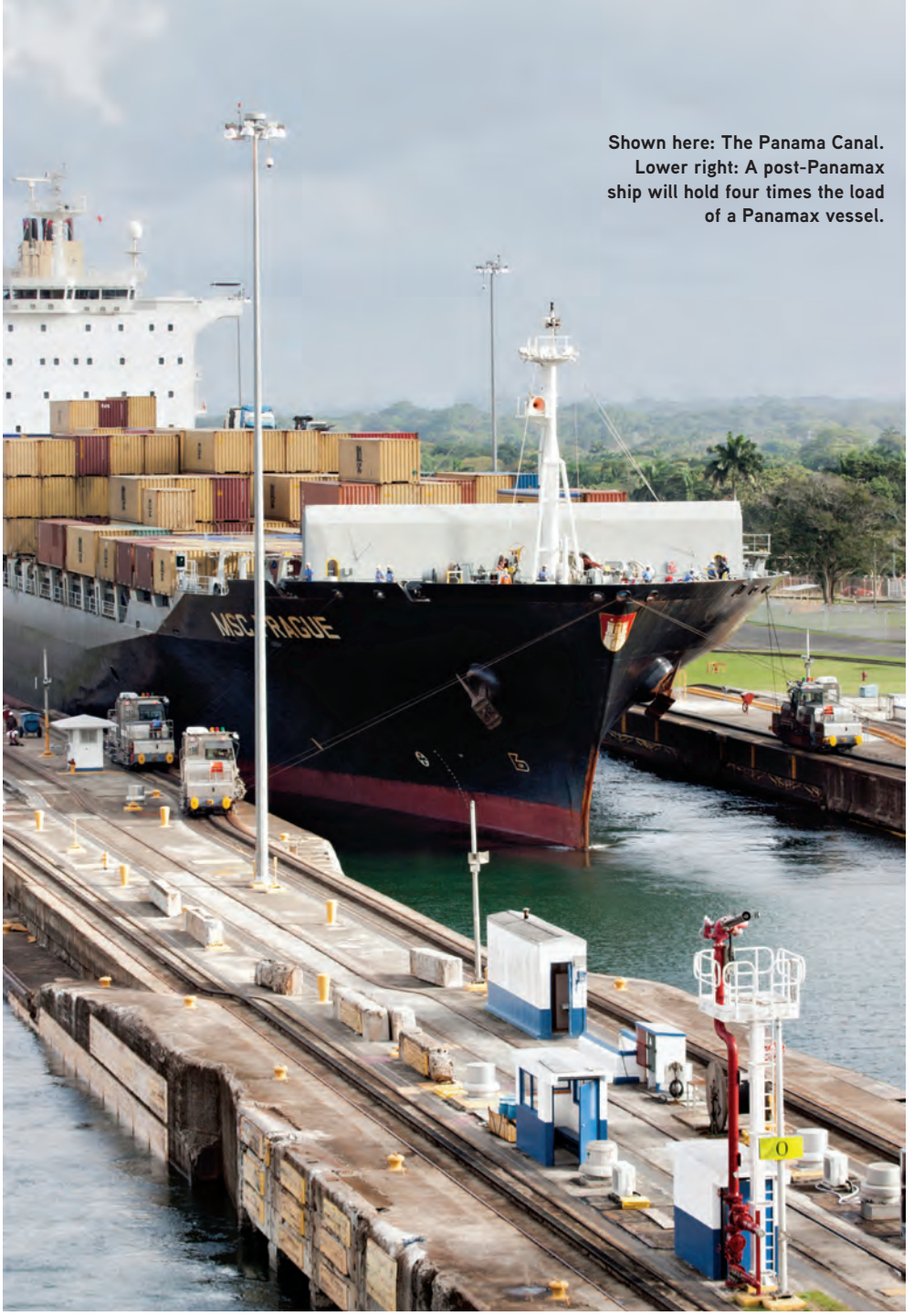
"There are a number of ports that have been taking post-Panamax vessels for a while; some are taking as many as five or six each week—even fully laden vessels," says Hagood Morrison, SIOR, Senior Vice President and Principal of Colliers International in Charleston. "South Carolina has committed $300 million for the harbor deepening and has over 200 post-Panamax ship calls scheduled for 2012. And both Savannah, Georgia, and Baltimore have taken some as well."

Competition is coming from outside the country, also. Canada and Mexico have been able to steer container traffic from U.S. ports because they don't charge port taxes and can transport goods into the U.S. via rail.

MANUFACTURING AND THE PORTS

Getting the ports post-Panamax ready is just half the battle to winning global trade business, however. While the ports along the West Coast may be post-Panamax ready, they lack the manufacturing and infrastructure to support the increase in container ship traffic. This is especially critical as manufacturing sees a renaissance in the States.

"Who would have forecast a few years ago that we would have a manufacturing boom again? This rebirth of manufacturing is accelerating the need for logistics," says Conway.



Shown here: The Panama Canal. Lower right: A post-Panamax ship will hold four times the load of a Panamax vessel.

Manufacturing's return to the U.S. is due to a number of factors. Some companies are finding U.S. patents are not always honored in other countries where they have manufacturing plants, such as China. In addition, the devalued dollar has made it less expensive to manufacture in the U.S. than in countries like Japan.

"Companies cannot get stable energy overseas, either. In India they have had these rolling blackouts. So manufacturers are saying, 'We need stable energy, patent protection, cheap currency and skilled workers to operate more automated systems,'" explains Conway. "With manufacturing coming back, companies will have a larger dependence on the ports because the goods manufactured will be for all of the world, not just the U.S."

"We continue to see more manufacturers researching the Charleston area," Morrison says. "Along with the infrastructure problems in India, the cost of power in the Southeast is generally less than in many other countries. The right-to-work statutes of the Southeast have also had a major effect on both high-tech and low-tech companies relocating here."

As the expansion nears completion, retailers and manufacturers are beginning to discuss contracts with shippers and ports. Those contracts will be formalized within the next two years.

"There's not a lot of time to dawdle," Conway explains. "If they don't see a particular port being ready, they're not going to renew those contracts and they'll look to another port. I think that is already happening in places like Houston, which is the fastest area of cargo growth in trade with Asia. They are already taking away a lot of shipping traffic from California."

INTERMODALISM

All of these changes have made the science of intermodalism more critical than ever before.

Intermodalism is the system of seamlessly transporting cargo containers around the world and across the country through multiple modes of transportation. As Colliers International's *2012 North American Port Analysis* notes: "No longer can a shipping company, manufacturer or retailer think of the various modes of transportation in isolation. They are interconnected in a global supply chain."

"Shippers, retailers and manufacturers are looking at efficiencies in the ports. When the big ships go through the Panama Canal, they have to make a reservation and they pay a very hefty fee to reserve that spot. If they

COURTESY OF MAERSK LINE

"SHIPPERS, RETAILERS AND MANUFACTURERS are looking at efficiencies in the ports."

KC CONWAY, MAI, CRE

don't make the reservation, they lose that fee and have to wait in line. That can be incredibly costly to shippers. The lack of modern cranes, fog delays, the risk of cargo getting stuck in another city because of a freight train bottleneck or traffic—these could cause a ship to miss its reservation," Conway notes.

"We're already seeing the historic supply chains with regards to some commodities—specifically apparel—looking to shift to other ports on the East Coast. Much of the apparel imports came into the port of New York/New Jersey. But because of the inbound trucking costs and the continued growth of the Southeast creating larger consumption zones, many apparel companies are shifting their vessel strings down to the Southeast ports of entry in order to better accommodate their customers," explains Morrison.

To expedite exports, lower costs and increase efficiency, companies are also looking to keep shipping containers and chassis as close as possible to the vessels.

"Companies can do this by locating distribution centers as close to the ports as possible. Goods are trans-loaded into 53-foot dry vans from 40- to 45-foot container chassis, and then the dry vans are driven to inland distribution centers or direct to retailers," says Morrison.

Rail is also integral to the intermodal system.

"Unit trains are set up to transport 100 to 200 containers on a daily basis to inland destinations, and then the containers and chassis are returned to the shipper. It may not be less expensive than trucking, but it adds an element of reliability to the users, whether they are retailers or manufacturers. This also enables European companies to meet their stringent environmental standards, which are often higher than ours. Rail is seen as having less environmental impact than trucking," says Morrison.

To assist with efficiency, the U.S. Department of Agriculture recently introduced the *Ocean Shipping Container Availability Report* (OSCAR). OSCAR allows distributors, retailers and others to better track empty import containers, which they can then use to transport their goods back to the ports for export. The report also highlights chokepoints in the intermodal system, allowing companies to research the best inland routes.

THE PORTS AND COMMERCIAL REAL ESTATE

As the clock ticks off toward the 2015 deadline, companies will begin relocating their warehouses and distribution centers to the most optimal locations.

"Currently, there is a lot of jockeying and changing of the infrastructure, which will lead to more port-related construction and activity, but we are on the cusp of that now," says Morrison.

This activity will potentially be seen within 500 miles of a port—or about the distance a truck driver can travel in one day.

"Most ports are still trucker ports, and a trucker incurs much higher costs when he or she goes beyond that 500 miles—for instance, they have to hire a second driver—so you can see the ripple effect of changes in port efficiency. That is the informal zone of influence of a port. Obviously there are exceptions to that rule, but that's basically how it works," Morrison explains.

Morrison also says more manufacturing will be built at the point of inland terminals.

"This will allow for backhaul—the return of goods to the ports, so companies can get their products back on the vessels to Europe and China," he says. "South Carolina has committed to funding an inland terminal in Greer, 250 miles from its port, near the plants for Adidas, Michelin and BMW. The containers will be transported daily to and from the ports, taking 25,000 trucks off the road initially. It's predicted that eventually it will take 50,000 trucks off the road. The key to efficiency is having that balance between truck and rail transport."

One challenge currently facing new development, however, is financing.

"We still see banks restricting credit to owner-occupied properties. Developers are the machines that build these spec buildings, and it is still difficult to get financing for them. We are seeing more build-to-suit properties and build-to-suits to sell, which is an interesting trend. This is when an owner wants to take advantage of low financing rates and will go to a developer to build a building in the developer's industrial park that is then sold to them, rather than leased," says Morrison.

Y2.015K

Conway likens the Panama Canal expansion to last century's Y2K threat.

"In the mid-1990s, people kind of heard that there might be a problem with computerized technology when the date changed to 2000, but no one was too stressed by it. But by 1997 and 1998 companies realized that they had a lot of work to do. Everyone was in kind of a panic mode and throwing money at it," Conway says.

"I think we'll begin to see how it's all going to play out in the second half of 2014; we're still almost two years away. Before that, though, as companies start entering into new shipping contracts, they'll start building their distribution centers," he adds.

For more information on the Panama Canal expansion, the state of the ports around the country and a list of Colliers 2012 Port Awards, download a copy of Colliers International's *North American Port Analysis* at colliers.com. KL

Tom Ohlson, Senior Vice President of Grosvenor Americas, in front of 185 Post Street. Opposite page: Grosvenor's Union Square properties embody the company's "living cities" ethos.

State of the Union (Square)

INTERNATIONAL PROPERTY GROUP GROSVENOR'S SUCCESSFUL PORTFOLIO INCLUDES ICONIC HISTORIC PROPERTIES IN THE HEART OF SAN FRANCISCO.

BY CHERYL REID-SIMONS

PHOTO BY STEPHAN HAWK

New York has Fifth Avenue. In Los Angeles, it's Rodeo Drive. And for Chicago, it's the Magnificent Mile. But San Francisco's premier shopping district has never fit on a single street. And today, Union Square doesn't even fit into, well, Union Square.

Reborn as a retail district after the 1906 earthquake that leveled more than 80 percent of San Francisco, Union Square is a shopping mecca for locals and tourists alike. It's a neighborhood where an Apple Store fits in quite nicely with the West St. Francis, the only hotel in the world that still offers a remarkably old-school coin-washing service for its guests to save them from sullying their white gloves. Anchored by Macy's, Bloomingdale's, Barneys New York, Nordstrom, Saks Fifth Avenue and Neiman Marcus, the district sits conveniently at the terminus of the Powell-Hyde and Powell-Mason Cable Car lines.

More than just a shopping district, Union Square is the ceremonial "heart" of the city, hosting holiday tree and menorah lightings, concerts and rallies. Since 2009, each corner of Union Square proper has been home to a large painted heart sculpture as part of the Hearts in San Francisco public art project. Every year, the sculptures are auctioned off to benefit San Francisco General Hospital Foundation, and new heart sculptures are installed.

With San Franciscans devoted to, and rabidly protective of, their hometown, developers in such a beloved and important neighborhood as Union Square know they have to do right by the city and by the retail tenants they hope to attract. That sort of balancing act is second nature to privately owned international property group Grosvenor.

"Grosvenor has been in the place-making business for 300 years," says Tom Ohlson, Senior Vice President of Grosvenor Americas.

Indeed, Grosvenor's history is as storied as San Francisco's. The British-born company traces its roots to the 1677 marriage of Mary Davies and Sir Thomas Grosvenor—a descendent of William the Conqueror. Davies had inherited 500 acres of land west of London and north of the River Thames. The land was largely untouched until the 1720s, when the family began developing the northern portion—now known as Mayfair—around Grosvenor Square. A few generations later, in the 1820s, the focus moved south to what is now Belgravia, developing Eaton Square, Chester Square and other famous addresses. Later in the 19th century, the area of Pimlico was developed and later sold in 1953. The Grosvenor family progressively incorporated the London properties in the 20th century, and the London estate is now managed within Grosvenor Britain & Ireland.

Grosvenor expanded into North America nearly 60 years ago. The company has had an office in Vancouver, British Columbia, since 1953, in San Francisco since 1977, in Washington, D.C., since 1988, and in Calgary—with one small gap—since 1997. Grosvenor moved

Grosvenor's "jewel box" property at 185 Post Street is home to the luxury jeweler De Beers.

into the Asia Pacific market nearly two decades ago, with offices in Hong Kong since 1994, in Tokyo since 2001, in Shanghai since 2004, and in Beijing since 2010. Its fund management business operates from offices in Australia, China, France, Italy, Japan, Luxembourg, Spain, Sweden, the U.K. and the U.S.

Even with its remarkable international presence and growth, Grosvenor is "a family-run business in a lot of ways, so we operate under a slightly different ethos than public companies," Ohlson says. "The shareholders are the trustees of the Grosvenor Estate who hold the shares and assets 'in trust' for the benefit of current and future members of the Grosvenor family."

"From our beginnings in the heart of London's highly sought-after Belgravia and Mayfair neighborhoods to internationally renowned retail destinations like San Francisco's Union Square, we understand what helps neighborhoods work," he adds.

"Grosvenor is one of those companies where people who work there are there for years and years and years," says Vikki Johnson, Senior Managing Director for Colliers Retail Services Group in San Francisco. Johnson specializes in the Union Square and downtown market, and has worked with Grosvenor on its Union Square and other holdings for almost two decades. "They all have a great loyalty to the company, and that's a really nice reflection of how well it must be run," she says.

Grosvenor currently owns three major historic properties in the Union Square district: a 1908 building at 180 Post Street, a 1907 building at 251 Post Street, and what Ohlson calls the "jewel box" at 185 Post Street. When Grosvenor acquired this building from Prada in 2005, it still had a 1950s-era tile façade covering its original 1908 masonry.

"I remember going into the building and it had wood floors that had holes," Ohlson says. "I felt uncomfortable walking on the floors. It was a great corner location, but it was old and tired and something needed to happen to it."

In 2007, Grosvenor removed the tile, painted the badly damaged brick and wrapped it in fritted glass set 9 inches out from the brick shell. The result is beautiful in the daytime and spectacular at night. It stands out like a luminescent jewel box among the traditional masonry buildings, yet still complements Union Square's historic look and feel. "It's one of those buildings where you always see people stopping to take a photo," Ohlson says. "It also doesn't hurt to have a prestigious tenant like the international jeweler De Beers."

Ohlson points to the combination of superior architecture, noteworthy tenants and a "sense of place" in its Union Square projects as the embodiment of Grosvenor's "living cities" ethos. "It shapes our approach to retail in San Francisco and every property and property type we invest in or develop around the world," Ohlson says. "We want to be a part of a community and active in developing and investing in properties that become basically interwoven into the fabric of the city."

Johnson says this spirit of the company is evident. "I'm always very proud to say I represent them," she says of Grosvenor. "They are truly a quality landlord, and they've become a very good developer, very creative. And in the past few years they've become much more adventurous, venturing out into mixed-use, but always at the top end in terms of quality."

Even when the economy soured, Grosvenor maintained its properties carefully, even those with vacancies. Johnson is blunt about the downturn. "That was the worst I have ever seen because it was global," she says. "I had tenants who had been working in retail for 30 years, and they had never seen the retail industry as a

whole as paralyzed as it was."

The problem for landlords was simple. "The supply and demand teeter-totter just slid into oblivion," Johnson says. The analogy is apt, because for Union Square and other high-profile retail districts, the teeter-totter has reversed itself again. "Now there is a huge demand and very little supply," she says.

In fact, currently, all three of Grosvenor's Union Square assets are fully leased and continue to strengthen thanks to rising office rents. "Although both the office and retail portions of the assets were negatively impacted by the economic downturn, they have definitely recovered the quickest and with the greatest strength when compared to assets in other markets," Ohlson says. "A recent conference I attended highlighted the fact that retail vacancies in Union Square are at the lowest level in 10 years."

But that doesn't mean Grosvenor, or any developer, can afford to just sit back and collect rent. "We're always looking for ways to reimagine our properties to attract new and exciting tenants," Ohlson says. "Case in point: at 180 Post, we attracted both Kipling (handbags) and Harputs (fashion) as pop-up tenants. While the tenants didn't wind up working out for the space on a long-term basis, the pop-up concept did successfully elevate the awareness level of 180 Post Street and ultimately aided us in attracting Icebreaker, the New Zealand clothing retailer, to the location."

Ohlson says he's optimistic about Grosvenor's future with Union Square. "We're always looking in and around the Union Square neighborhood for solid investment and development opportunities, and actively pursuing retail and mixed-use properties that meet our criteria," he says. "We've been active in the San Francisco Bay Area since 1977, and we continue to have a long-term view of our Union Square properties."

Ohlson believes that, while Union Square won't always look as it does today, it will always be one of the world's premier shopping destinations. "Union Square is going to continue to evolve," he says. "There may be short-term disruptions, but in general it's going to continue to maintain its strength." For a neighborhood with such a rich and beloved history, Union Square has proven that it can make the changes it needs to remain relevant, Ohlson says. "It's not stuck in the past." KL

Shop Talk

The U.S. economy may still have post-recessionary sleep in its eyes, but the retail real estate market is wide awake and moving forward. With top shopping districts like Union Square boasting decade-low vacancy rates, it's important to look at the trends fueling this retail renaissance.

There are a couple of major factors at work, says Colliers Executive Vice President for Retail Sales Anjee Solanki. "We're seeing significant movement from retailers from other countries coming into the marketplace." She points to New Zealand athletic wear company Icebreaker, which just opened a flagship store in Union Square.

"At the same time that Americans are lamenting our economy, we're seeing a huge influx of foreign money," confirms Vikki Johnson, Senior Managing Director for Colliers Retail Services Group in San Francisco. "The majority of retailers who are in expansion mode are from overseas. Most of those companies feel that ultimately they have more confidence in our economy returning than in their own."

That influx of foreign capital is also helping raise interest among shoppers, bringing them back into the retail centers. "We're seeing interesting and exciting new names, new brands," Johnson explains.

And the foreign money isn't just coming from the retailer side of things, Johnson notes. With the dollar weakened and economies in South America and mainland China booming, hotel concierges have been reporting that visitors are "arriving with empty suitcases," Johnson says. "These retail tourists can recoup the cost of their trips and then some by bringing home small luxury goods like iPads. It's a repeat of what happened with the Japanese in the 1980s," she says. "It's sort of fun to watch these countries awakened to our retail world of consumerism."

Besides new brands and new customers from overseas, Solanki says major home-grown retailers are spinning off smaller, specialty stores. The Gap's Athletica shops are facing competition from Target's new concept C9 stores, selling Target's *C9 by Champion* athletic wear in storefronts without any Target branding. Instead of opening big-box stores, Solanki says this type of spin-off will increase the demand for smaller, 2,000- to 3,000-square-foot storefronts.

Solanki says developers and landlords who are waiting out the changes to see where things settle may be left behind, because change is the new norm. "This change is happening so rapidly and from so many different planes," she says. The advent of pop-up stores has added to retailers' sense that they don't want to be locked into a decade-long lease. That means the life cycle of retail assets is shortening dramatically, and Solanki says landlords and developers need to find ways to plan for that. KL

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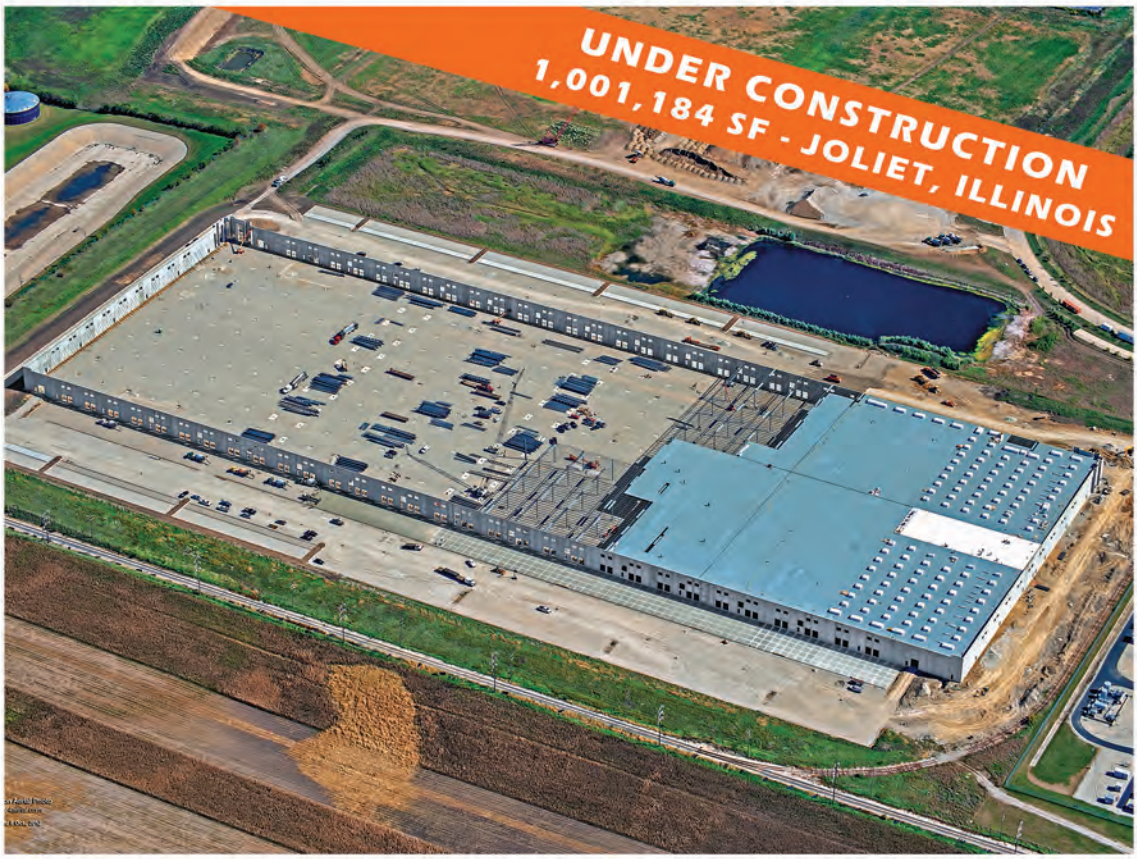

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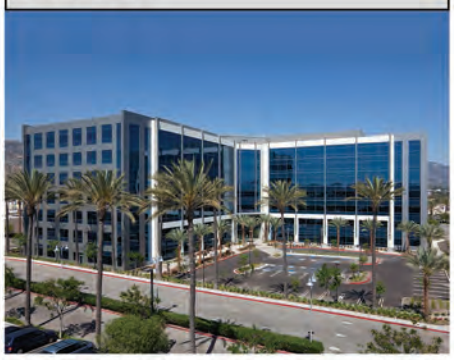

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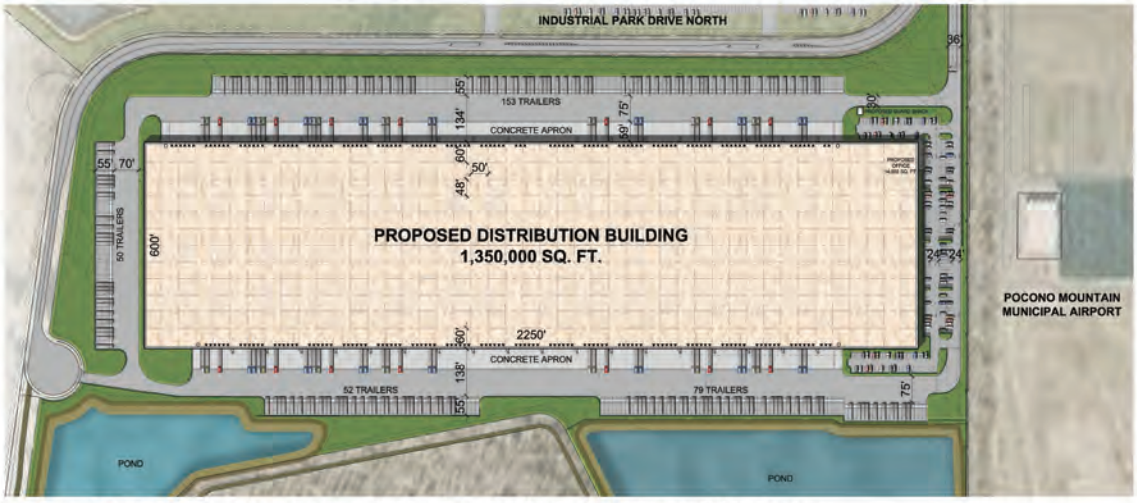

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Undercar Products' facility before (top photo) and after (bottom photo) the roof was raised.

RAISE THE ROOF

NOT EVEN MOTHER NATURE CAN PREVENT FRANKLIN PARTNERS, LLC FROM KEEPING A COMMITMENT TO A CLIENT.

BY SHEILA MICKOOL

DON SHOEMAKER, co-founder and managing partner of Franklin Partners, is not one to back down from a challenge. Established in 1995, his company has owned more than 14 million square feet of industrial, office and retail space in the Midwest and is known for implementing creative solutions to uncommon problems. In West Michigan alone, Franklin Partners has executed eight of the largest industrial redevelopment projects, including the renovation of the Bosch plant in Kentwood and the Michigan Electrical Transmission Company (METC) facility in Caledonia.

At 915,000 square feet, the Bosch plant was too large and deep for any one tenant, so Shoemaker and his team decided to cut the building into two unique stand-alone facilities. Today, X-Rite's world headquarters occupies one building, while the other serves as a fully leased multitenant facility.

In Caledonia, METC's electronic transmission control center was unique in that it was a virtually brand-new building designed to withstand almost any natural disaster or terrorist attack. The challenge was identifying an alternative use for a building with such a distinctive infrastructure. But with the help of Duke Suwyn, Chief Executive Officer of Colliers International | West Michigan, the team converted the property into a modern data center and within 90 days moved Amway's information technology center into the building.

When it comes to creative solutions, however, nothing has topped the challenge of providing a new manufacturing facility for Undercar Products, an international auto supplier with an operation in Grand Rapids. Undercar had outgrown its current facility, and there were few available sites in West Michigan that could meet the company's needs. "There was a growing manufacturer in need of a state-of-the-art manufacturing building with ample clear height for their equipment, but there were no buildings in the market that fit their needs," Shoemaker says.

The former Siemens Dematic facility in Wyoming, Mich., had much of the infrastructure required by Undercar, including heavy power and floors, quality infrastructure, and excess land for storage and parking. But the building did have one major shortcoming: only 16-foot clear height, while Undercar needed 32 feet to accommodate its equipment.

Shoemaker's solution? Raise the roof. Gary Tamminga, Director of Facilities for Franklin Partners, selected Rooflifters for the job, a company that specializes in adding height and cubic space to existing commercial buildings. And raise the roof they did. Using hydraulic lifts (or crib posts) as temporary supports, the existing roof support columns were removed, and the roof was lifted at the rate of 6 inches per hour until the new height of 32 feet was reached, increasing the total cubic feet from 3.5 million to 7 million.

The work was done in the dead of winter, a necessity because Undercar needed the new facility ready by spring. While the first half of the lift went smoothly, West Michigan's wicked weather kicked in during the second phase, serving up heavy snow, ice and high winds. "There were days when we manually had to shovel more than 2 feet of snow out of the building's interior," Shoemaker recalls.

Even so, no one doubted the project would be ready on time. "When a prospective tenant walks through a deserted, leaky building and Tamminga says that the roof will be raised and replaced—that a first-class manufacturing facility will be created and delivered turnkey specific to the tenant and operational on day one—they believe him," Shoemaker says. "He has that kind of credibility." And despite Mother Nature's curveball, the new facility was ready by spring.

Suwyn, who represented Franklin Partners in all eight of its West Michigan renovations, believes this is the first time the roof has been raised on a major industrial building in his area. According to him, this kind of creativity is classic Shoemaker. "He does crazy, unique stuff that works. He has an uncanny ability to anticipate market needs. He comes up with a common-sense solution and gets things moving."

The respect is mutual. Shoemaker has done business with Suwyn since 1997 and places a high value on the relationship. "When the recession hit us hard in 2009, Suwyn fought harder than anybody to help Franklin Partners fill its buildings," he says. "As an owner, it's a relief to work with someone who has the same sense of urgency you do." Together they leased more than 3 million square feet of space during the recession.

Franklin Partners built its reputation on industrial property renovations, but the firm owns more than 1 million square feet of office space as well, and its next commercial challenge will be to transform 99 Monroe in Grand Rapids into a premier downtown office building. Shoemaker is passionate about the project, which he says is going to be a true Class A renovation. "We're bringing contemporary standards and tenant amenities comparable to that of a high-end Chicago office building," he says. "But even more important is the sense of hospitality we're going to provide. It's unlike anything in the current market."

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MAKING A STATEMENT

VANCOUVER, B.C.'S MARINE GATEWAY PROJECT SHOWCASES PCI DEVELOPMENTS' TALENTS AND EXECUTIVE VICE PRESIDENT DAN TURNER'S PASSION.

BY MICHELLE SANTOS

"THIS IS A GAME-CHANGING development," Dan Turner proudly declares. Turner, Executive Vice President and Partner with Vancouver, B.C.-based real estate development company PCI Developments, is referring to Marine Gateway on the Canada Line. As Vancouver's newest, mixed-use, transit-oriented development, it will feature 415 condominiums, 46 rental apartments, 240,000 square feet of Leadership in Energy and Environmental Design (LEED®) Gold office space and 220,000 square feet of retail.

"It's going to be the heart of that community," notes Turner.

Turner didn't specifically set out to create landmark real estate projects. He graduated from Queens University in 1984 with a double major in physical education and biology. "But I knew I didn't want to teach," he explains. "1984 was a very good time. Corporations were looking for 'personalities'; it wasn't just all academics. So even a phys-ed guy like me could get his foot in the door!"

In the midst of postcollege interviews, a dinner with friend John Topping changed his course. Topping had started his own company, Enterprise Property Group, and offered Turner a job in property management. Enterprise went on to become Canada's third-largest property management company. "I owe a lot to John," Turner reflects. "He got me into the business."

A few years later, Turner joined PCI Developments, where his first order of business was managing the renovations and leasing of The Burrard Building, in which the PCI office remains to this day. The work, Turner says, remains "one of the largest renovations completed on an office building in B.C."

Turner transitioned into leasing and acquisitions before becoming a senior member and partner of the PCI team. And he likes the change. "I liked real estate from the start," Turner notes. "But when I joined the developer side at PCI, my love for real estate grew. Every day, every hour can be different. You could be in a project meeting discussing finishes, on a site visit, looking at potential development sites, reviewing a landlord's work, meeting with a tenant. …As you work in a more senior role, it gets much more fun, but with more pressure," he chuckles.

Turner's passion for his job is evident in his voice when he speaks of Marine Gateway, a project five years in the making. "It took four years to rezone," Turner says. "It was industrial-zoned land with a Canada Line station coming to it. I give a lot of credit to Andrew [Grant, President and Founding Partner of PCI Developments] because he believed when we tied up the property in 2007 that it should have a residential component. So we worked with the City of Vancouver and helped them realize having retail, residential, office—a real mixed-use development—would be a great asset to the city, especially with the property being adjacent to a transit station."

PCI was right on the money: Marine Gateway's residential component sold out in four hours.

Marine Gateway not only makes a statement for the city of Vancouver, but also for PCI. "It shows that we are a very capable mixed-use developer," Turner says. "A lot of developers look at the residential and office components and don't put much thought into retail. We start with the retail to make sure it works and anchors the overall development correctly. Retail is the ground plane that everyone sees at the street. Good retail can make the street; the street doesn't always make good retail. There's a lot of marketing value in retail if you get it right."

Turner says Marine Gateway's business tenants are also drawn to the address because of its LEED certification.

"If you don't do a LEED Gold office building today, you're taking a good segment of potential tenants that require no less than LEED Gold out of your market."

For PCI, however, developing a sustainable building is more than just securing tenancy. "It's the right thing to do," Turner says.

So is keeping PCI a smaller company. "We are most effective when we touch every project," Turner explains. "If you grow so big that you can't stay hands-on with the projects, you lose touch, and if you lose touch, you potentially lose what makes you good," he continues. "At the same time, we have talented, younger people in the company that will allow us to do more things in the future."

And what recipe for success does he impart to these young people just starting out in the industry, particularly those starting out in property management like he did?

"Work hard, but work smart. Get out there and meet the brokers; meet the consultants. Real estate is a small, intertwined community, but young people's networking spheres can be really big if they want them to be…then they can see what other people do and move around, if they want, to a part of real estate they love."

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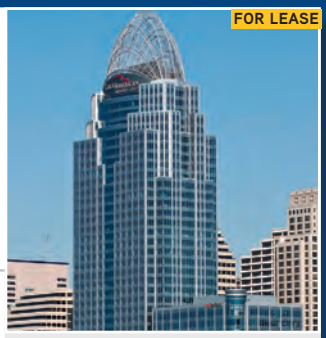

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- Designed for maximum container/trailer storage
- In Rivergate submarket, easy access to marine terminals, railroads, freeways
- Rail service possible

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Investment/Leasing Opportunities

A SELECTION OF COLLIERS INTERNATIONAL AVAILABLE PROPERTIES

Colliers INTERNATIONAL

Hilex Poly Ind. Portfolio

FOR SALE

3526 OLD MOUNT OLIVE PARKWAY AND
606 IDDINGS STREET

Mount Olive, North Carolina and Milesburg, Pennsylvania

- Warehouse/manufacturing investment portfolio
- 177,000 SF facility on 21.31 acres in Pennsylvania
- 137, 980 SF Facility on 24.64 acres in North Carolina
- Cap rate 9.77%
- Leases expire December 2023

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DEL MARKWARD
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Iron Point Business Park

FOR LEASE

1110-1180 IRON POINT ROAD

Folsom, California

- Folsom's highest quality office campus
- Five-building business park with above standard parking
- On-site conference center, fitness center, deli & more
- Range of suite sizes allows for growth within the project
- Easy access to shopping outlets, retail services, & freeway
- 961 SF – 50,000 SF

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Olivette Business Center

FOR LEASE

9315 OLIVE BOULEVARD

St. Louis, Missouri

- Up to 128,000 SF available, easily divisible
- Lease rate: $10.00 per usable SF, NNN
- Approximately 6.5/1,000 parking
- Ideal for high-density office user
- Raised floors and high ceilings
- Backup generator
- Great neighborhood amenities

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colliers.com/stlouis

Warehouse Distribution / Manufacturing

FOR LEASE

PROLOGIS PARK TRACY - 2000 CHABOT COURT

Tracy, California

- 285,730± SF divisible to 50,000± SF
- Office area: 2,400± SF
- Minimum clear height: 30'±
- Power: 2,500 amps, 277/480V, 3-phase
- Loading: 44 (10' x 10') dock-high doors
- Rail: Union Pacific (potential)
- Yard area available
- Excellent access to I-205, I-5 and I-580, Hwy 120 & Hwy 99

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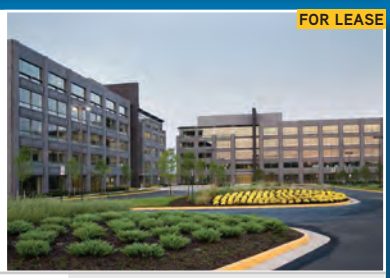
Plaza East at Westfields

FOR LEASE



14291 PARK MEADOW DRIVE

Chantilly, Virginia

- 20 minutes to Washington, D.C.
- 5 minutes to Washington Dulles International Airport
- 122,000 SF building available for lease
- New building with modern shell condition space
- On-site fitness center and food service
- Excellent signage on Route 28

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ANDY KLAFF
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Zondervan Building

FOR SALE & LEASE

5300 PATTERSON AVE

Grand Rapids, Mi

- Presentation/training facility or traditional office space (128,000 SF)
- Warehouse with 27'-30' clear ceilings on fiber-optic route (229,000 SF)
- Mezzanine-level manufacturing space with heavy floors (35,000 SF)
- Fitness center, full-service cafeteria
- Back-up generator
- Partially air conditioned warehouse

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Imagine the Possibilities

CREATIVE VISUALIZATION TECHNIQUES CAN HELP YOU REACH YOUR GOALS. BY TERESA KENNEY

BEST-SELLING AUTHOR Napoleon Hill has been quoted as saying: "Whatever the mind of man can conceive of and believe, he can achieve." The Silva Method International Training Director Ken Coscia says he would edit those words ever so slightly to read: Whatever the mind of man (or woman) can conceive of and believe, he can achieve—as long as he knows what it is he wants and is willing to do whatever it takes to achieve it.

This practice of using thought imagery to produce results is known as creative visualization.

"Creative visualization is the process of using our imagination to consider possibilities—to conceive of improving the quality of our lives, generating more revenue, taking a few strokes off our golf games or making wiser, more intelligent decisions," says Coscia.

The Silva Method is a program designed to enable individuals to make better use of their mental processes through techniques such as dynamic meditation and creative visualization. The program was researched and developed by Jose Silva in the 1940s and today is used by more than 6 million people in 110 countries. Corporations like Green Mountain Coffee Roasters, Bose, the Arnold Agency and RCA Records have all sent their employees to the training.

"The visualization process begins with our thoughts; our thoughts then create feelings and the emotions that we begin to generate will influence our behavior, our physiology, our stress level, our health," Coscia explains. "If our thoughts are worrisome, overly critical, and blaming, that will influence our emotions. It's been well documented that our emotions influence our breathing, our temperature, our immune system, even our ability to think clearly and access our higher-thinking functions of our frontal lobes—what's been called the executive center of the brain."

"We know creative visualization works; the key is being really clear about what you want—that's 90 percent of the work," says Kelly Howell, founder of Brain Sync, a company that produces meditation and guided imagery audio programs.

Her company's technology balances both the right and left hemispheres of the brain using bio-beat frequencies that guide brain activity to specific consciousness levels: gamma for inspiration and focus, beta for concentration, alpha for relaxation and creativity, theta for meditation and visualization, and delta for sleeping and healing.

"Our audio programs are used as training wheels for your brain," says Howell.

Initially, Howell created the tapes for medical researchers looking for an effective way to place someone into a deep hypnotic state. "They tried every single modality that was out there and then they put one of my programs into the mix. Eighty-seven percent of the research subjects who had never meditated before were able to get into the theta state [through Brain Sync's programs]," she says.

Howell has even successfully used creative visualization to sell—and purchase—real estate. "It was the time of the dot-com crash, and there was a big dip in the real estate market here in Santa Fe. We had a beautiful home, but it was way out of town and too much driving so we put it on the market," she says. "We did everything—open houses, advertising—we were very proactive and had it on the market for a year." She and her husband got an offer at a much-reduced price; however, on the day of the closing, with the movers emptying the home of furniture, the deal fell through. With no other option, they moved back in.

"We took it off the market and waited three or four months, and then we raised the selling price. …We got very clear about what we wanted to sell our house for and [the type of buyer] we wanted to sell our house to—a retired

couple who didn't need to drive into the city as often," she says.

She and her husband also made a list of what they wanted in a new home for themselves, and they, along with their agent, visualized selling their home and purchasing their dream home at the prices they wanted. "We called it 'universal marketing.' It's a lot less expensive," she says with a laugh. Within a week, the buyer that would ultimately purchase their home at the price they had determined attended their open house.

And the home they had visualized about purchasing?

"My husband and I had realized that we had both visualized the same house, which wasn't even on the market at the time," Howell says. "One day I was grocery shopping and bumped into the woman who owned the home we visualized." Howell asked her if she had ever thought about selling her home, and after the seller consulted with her husband, the home was the Howells' at the exact price they wanted.

So how do you get started? Here are some tips:

BE SPECIFIC ABOUT WHAT YOU WANT. "Start imagining possibilities, have a clear outcome on your desire and reflect on those outcomes," notes Coscia.

BUT NOT SPECIFIC ABOUT HOW THE OUTCOME IS REALIZED. "You look at the end result and say, 'This or something better,' says Howell. "Don't fixate or obsess on a specific outcome. …You keep it loose, you don't attach to a specific person or thing. It's more about context than content: 'This is the type of deal that I want to do.' Otherwise the ego can attach to things."

GET INTO THE RIGHT STATE OF MIND. Alpha and theta are two levels of consciousness to assist in visualization. "Theta is also called the twilight state, because it's that in-between state of being asleep and awake," says Howell. "Normally we don't experience it unless we are meditators; that is the key to strengthen the visualization process."

FOCUS ON THE POSITIVE. "Through the process of manifestation, we are cultivating the practice of not dwelling on problems. Yes, you should acknowledge the challenges, identify the problems, identify the roadblocks, but not ruminate on them, or it will influence your emotions and you could give up prematurely," Coscia explains. "We tend to attract into our lives what we dominantly think about; it's important to acknowledge problems, then move on and think, 'How can I turn this around?'"

ACT. "Actions are the key: following our hunches, showing a property or attending that class. Highly successful brokers and people in general do their homework, seek help, attend professional seminars, are willing to invest in themselves," says Coscia. KL

For information on Ken Coscia's training, visit silvamethodct.com. For information on Brain Sync's programs, visit brainsync.com.

VISUALIZATION HAS BEEN THE SECRET TO SUCCESS FOR EVERYONE FROM ATHLETES TO ARTISTS:

"The harder you work... and visualize something, the luckier you get."
–Seal

"I would visualize things coming to me. It would just make me feel better. Visualization works if you work hard. That's the thing. You can't just visualize and go eat a sandwich."
– Jim Carrey

"You have your rest period you should take, and before you doze off you should visualize how you're going to have to move with and against your opponent. You have to see yourself moving through that action. It activates you. It's an emotional process. And when the moment arrives in the game, on the floor, you're not a stranger to it."
– Coach Phil Jackson

"Visualize winning."–Gary Player

Landlord with Benefits

LOOKING TO BOOST YOUR SUSTAINABILITY PROGRAM? LOOK NO FURTHER THAN YOUR OWN LANDLORD. BY MICHELLE SANTOS

BEFORE YOU EVEN enter the doors of 200 Granville Street in Vancouver, British Columbia, home to Colliers International's Canadian headquarters, you see sustainability at work. Bicycle racks line the building entrance, encouraging employees to cycle to work. Inside Colliers' offices, beside virtually every desk is a paper recycling bin. And in the kitchen, you'll find separate recycling bins for you to deposit your milk carton, juice bottle, paper towel—even leftover breakfast. Nothing is trash here, thanks to a Zero Waste Program.

And there's more. Colliers' washrooms feature low-flow fixtures that reduce water consumption, and its lighting systems use the lowest wattage lamps available. In fact, every day starting at 8 p.m., an hourly lighting control sweep ensures all lights are off when the offices are empty.

These are just a few of the programs Colliers has in place that enable the company to meet its sustainability objectives. And yet the firm did not conceive of nor implement any of them—its landlord, Cadillac Fairview, did.

One of North America's largest investors, owners and managers of commercial real estate, Cadillac Fairview develops and manages high-quality office properties and regional shopping centers in Canada and the United States, as well as international investments in real estate companies and investment funds. The company's affiliates own and manage 47 million square feet of leasable space at 83 properties across North America, including some of Canada's landmark developments: Toronto-Dominion Centre, Toronto Eaton Centre, Pacific Centre (Vancouver) and Chinook Centre (Calgary).

Colliers is just one of the many tenants at 200 Granville that benefit from Cadillac Fairview's GREEN AT WORK™ program, a national proprietary initiative that "sets operational benchmarks to reduce energy consumption and waste, improve environmental protection, and encourage sustainable procurement and ongoing communication with key stakeholders." Through GREEN AT WORK, Cadillac Fairview is able to baseline and track energy use, water consumption and waste diversion year over year. Annual targets are set that each property is expected to meet.

> **As Cadillac Fairview** demonstrates, landlords are delivering increasingly comprehensive sustainability programs.

One of Cadillac Fairview's general managers tasked with ensuring properties meet GREEN AT WORK goals is Lesley Heieis. Heieis is a veteran at sustainability advocacy, having been a member of the Building Owners and Managers Association of British Columbia (BOMA BC) since the early 1990s and a part of the original task force that created the BOMA Go Green (now BOMA BESt) program.

"As part of Cadillac Fairview's corporate mandate, my team is currently pursuing LEED® (Leadership in Energy and Environmental Design) EB (Existing Building) certification for the buildings in our portfolio," Heieis says. "In our own management office, we have implemented many sustainability initiatives so we can share our results with tenants and, hopefully, get them on board through our GREEN AT WORK Tenant Team. As an example, we have removed all desk-side garbage cans and only order local, sustainable lunches, with no disposable plates or utensils, for meetings. On the energy side, we reduced our lighting usage by 69 percent by changing to T5 lights and installing motion sensors."

As Cadillac Fairview demonstrates, landlords are delivering increasingly comprehensive sustainability programs. "In the past, landlords would limit initiatives in their buildings to paper recycling, mainly because of revenue generation to offset operating costs, and would only pursue energy management projects with three-year paybacks or less," Heieis observes. "Today, landlords are prepared to accept longer payback periods on projects and are ensuring they have formal sustainability programs with benchmarks, like Cadillac Fairview's GREEN AT WORK program."

This shift can be attributed to tenants' growing environmental awareness and heightened expectations of their landlords with regards to sustainability programs. Sustainability at work has evolved from a nice-to-have to a must-have, and has become a key factor in selecting office space.

"Tenants are now asking landlords about their sustainability programs as a matter of course," Heieis notes. "They want to be in, and stay in, green buildings that are achieving results. It is therefore important to not only implement green initiatives, but to have benchmarks and share results with our tenant stakeholders."

Tenants at 200 Granville Street (shown here) benefit from landlord Cadillac Fairview's sustainability program GREEN AT WORK.

In Cadillac Fairview's case, tenants have specifically requested recycling programs, including some custom programs that require landlord support, says Heieis. And far more than simply supplementing tenants' sustainability initiatives, Cadillac Fairview has actually jump-started some tenants' own green programs, allowing their sustainability reporting to go from minimal to mission-accomplished.

"We have helped many tenants implement or augment their programs by providing them information at our Eco Forums, Eco Fairs and Tenant Team meetings, as well as sharing our 'Greening Your Office' information package with them," Heieis explains. "In our regular tenant meetings, we encourage participation in our GREEN AT WORK Tenant Team, if they are not already involved."

With involvement being such an integral factor in a successful sustainability program, Cadillac Fairview knows how to get tenant buy-in and generate enthusiasm: "We found that keen individuals would go back to their workplace and become 'sustainability ambassadors.' We saw that it was important for leaders within our tenant firms to support the individuals participating in our green events and programs, so we now ask for senior management to endorse and support their Tenant Team representative," explains Heieis.

Cadillac Fairview's successful sustainability efforts extend beyond Vancouver, as evidenced by its numerous LEED-certified properties across Canada, which allow tenants to add the sought-after designation to their "sustainability resumes." Toronto's Simcoe Place and Royal Trust Tower at Toronto-Dominion Centre have both attained LEED Gold Certification under the Existing Buildings: Operations and Maintenance category, and Chinook Centre in Calgary is slated to achieve LEED certification for its expansion.

Cadillac Fairview has other green programs in the works as well. "We continue to work on optimization of all mechanical equipment," Heieis says. "We have had a Zero Waste program in our buildings for a few years now, but are constantly striving to increase diversion rates by educating and engaging our tenants."

"As of fiscal 2013, all our tenants will be billed premises electricity on a consumption basis, with sub-meters installed throughout the buildings," Heieis continues. "We will work closely with tenants to help them reduce their electricity consumption and offset the related costs. We participate in BC Hydro's Energy Manager Program and have an energy management specialist on staff to ensure we are always pursuing and tracking the effectiveness of energy management projects."

Cadillac Fairview's energy consumption practices have not gone unnoticed. In 2011, the firm, along with its tenant, Fraser Milner Casgrain LLP (FMC), received BOMA BC's Tenant Improvement of the Year Award for the sustainable practices implemented in FMC's space at 250 Howe Street in Vancouver. Cadillac Fairview has also been short-listed as 2012's BC Hydro Energy Champion.

And while the kudos are nice, the real rewards come from earning the satisfaction of tenants.

"I have always loved…the opportunity to offer the highest level of service to tenants," Heieis says. "I enjoy the challenge of striving for operational and customer service excellence, and find it very rewarding when clients say we have exceeded their expectations." KL

The Innovation Equation

CULTURE AND TECHNOLOGY TAKE EXPERTISE TO THE NEXT LEVEL.

BY DOUG FRYE

Doug Frye is the Global President and Chief Executive Officer for Colliers International.

KENNA KLOSTERMAN

IN REAL ESTATE, expertise is table stakes.

It might be enough to get on a short list, but to stand out, innovation is key. I've never met a client who said, "I have a business that's pretty much the same as others, so I just want to go through your usual process. Can you give me a standard form?"

Every client has a unique dimension to their business, so each assignment is an opportunity to innovate—but not everyone puts in the extra effort to figure out how.

What Is Innovation?

Many thought leaders and even the *Wall Street Journal* argue that innovation has become such an overused buzzword that the term is essentially bankrupt.

The term, maybe, but not the value it creates.

I like this definition of innovation from Harry West, CEO of the global design firm Continuum: "Innovation is the creation and delivery of new value." In *The Little Black Book of Innovation*, Scott Anthony defines innovation as "something different that has impact."

I believe innovation is about using expertise to create a dramatically different result. In music, expertise enables a musician to play on the fringes of an instrument's capabilities. (Watch Jimi Hendrix's performance at tinyurl.com/jimi-innovate. As he plays the "Star-Spangled Banner," his guitar transports you onto the battlefield. This was during the Vietnam War and served as both a political statement about the war, and a tribute to those who were serving in it.)

A New Way to Create Greater Value

So, what does innovation look like? Let me give you a few examples. Our Canada team transformed a hotel investment sale into a redevelopment opportunity by evaluating other uses, such as a residential condominium conversion. This expertise gave the client greater value with a more well-rounded perspective and a stronger sales position.

In the U.S., our team was charged with finding new warehouse space for a major consumer products brand. The obvious answer was to move into existing space, but the innovative solution was a build-to-suit partnership with a new developer in the marketplace—again, an opportunity the client would have never considered.

In Asia, our team formed a unique partnership with a global private bank, gaining access to the bank's roster of high-net-worth individuals. While it's easy to identify institutional investors, it's extremely difficult to connect with private investors, so this innovation enabled us to sell a major Hong Kong property with exceptional speed, privacy and value.

Out-of-the-Industry Thinking

I look beyond our industry and even the professional services sector for innovation inspirations. Strong brands applied to a different category can reveal surprising new possibilities.

What if Starbucks operated an international airport? What would it look like? What would be your customer experience?

What if Apple created an automobile? How would product quality, service and design be different?

And what would a commercial real estate company look like…if it were created by Virgin? By The Ritz-Carlton? By Zappos?

The essence of the Colliers brand is being enterprising, which means we take initiative, think creatively, collaborate to achieve and use our expertise to innovate. (Yes—innovation is part of who we are and what we stand for.)

To make good on that brand promise, we invest in both technology and culture. But technology—such as our new website, intranet and office communicator system, all launched this year—is not an end in itself. It is a means to amplify our experts' ability to collaborate and innovate.

Culture: Colleagues Must Be Collaborators, Not Competitors

Whether it's a commission split, referral fee or simply who takes the credit for a great idea, we must offer systems that support an environment where everyone contributes—and everyone wins. Without this, people won't contribute fully and innovation lags.

Another element of innovation is what West terms "managing creative friction." That means ensuring that all of the people on the team—our professionals *and* our clients—share an equal appetite for risk and drive for results.

We call this process "validate and learn," and it happens throughout an assignment, because when the feedback loop remains open, we can do hundreds of midcourse corrections that ensure we stay focused on the one agenda that matters: the client's.

We also invest heavily in behavioral coaching that encourages people to understand their own work styles and intuit the styles of others. The result is dramatically more effective teams who have a collaboration mind-set. And if you've spent any time with a sales force, that's a rare thing indeed.

Without this, you see people turn in "good enough" work or present clients with a "safe" option, rather than going out on a limb to put in the extra effort for something that can be dramatically better.

When people care more about *doing* their jobs than *keeping them*, you're in the right place for innovation to flourish. KL

Colliers
INTERNATIONAL

COLLIERS INTERNATIONAL NAMED AFLAC PARTNER OF THE YEAR

Colliers International was recognized as an Aflac Partner of the Year at Aflac's Fourth Annual Partner of the Year Award Ceremony. Colliers was one of 12 companies named Partner of the Year from thousands of global vendors that serve Aflac, a Fortune 200 Company and the number one provider of supplemental insurance in the United States. The honor was based on Colliers' staff's dedication, creativity and ability demonstrated by helping Aflac achieve its business goals.

Colliers has provided Aflac with tenant representation services through their expansion in the Columbia market as well as property management services, and construction and project management services. Over the past two years, Colliers has played a significant role in helping provide state-of-the-art facilities for Aflac, which has added hundreds of new jobs at its new Aflac Group Insurance business in Columbia, South Carolina.

Colliers thanks Aflac for their presence and commitment to Columbia, South Carolina.

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