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PLUS

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Knowledge Leader

Colliers INTERNATIONAL

IN BETWEEN THE LINES

From the Editors' Desk

David Bowden Craig Robinson

Changes and Opportunities

Charting the future of industrial real estate

PROPERTY MARKETS ARE BOOMING, AND INDUSTRIAL REAL ESTATE is near the top. Through this period of growth, industrial and logistics are also physically changing thanks to technology's massive strides. In our winter 2016 *Knowledge Leader*, we take a look at these changes and opportunities and also examine how industrial properties and logistics will, in all likelihood, look quite different in the not too distant future.

In his piece, "The Industrial Age," Andrew Nelson, chief economist at Colliers International | USA, calls the industrial sector "the darling of property investors," while Clarion Partners Director Stacey Magee explains just what is behind the sector's strength in the article, "Industrious." Our Outlook 20/20 zeroes in on the findings of Colliers' 2015 Global Logistics Report, "From First Mile to Last Mile," and takes a look at how e-commerce is having just as profound an effect on delivery and fulfillment centers as it is having on brick-and-mortar stores. Some companies are even leveraging Uber drivers to deliver their projects.

In fact, Uber's entry into the market has shaken up taxi companies and created a ripple effect. This phenomenon was the inspiration for our Trending piece, "Will Your Business Be Uberized?" In the article, David Krane, managing partner with Google Ventures, discusses how rapidly evolving technology is making significant changes in how many businesses operate, as well on the commercial real estate industry, itself.

If you want a full picture of where the industrial real estate sector is headed, Prologis' Gene Reilly has the answers in our cover feature, "State of the Industry." Reilly, chief executive officer of the Americas for the world's foremost industrial real estate giant, talks about why the market is recovering so much faster than the rest of the world's markets and what major changes we can expect in the future.

Some companies are ready for those changes. We look at one—Pure Industrial Real Estate Trust (PIRET)—in our feature "Adapting for Success." To stay on top of market conditions, the company is including innovation in its game plan. Scannell Properties is no stranger to change, either. Our Follow the Leader article, "Building for the Future," details the Indianapolis-based developer's forward-looking efforts to build properties that last.

These, and many more insights, are found in this issue of *Knowledge Leader*. We hope you enjoy reading all about them.

Craig Robinson
President | USA
Colliers International

David Bowden
Chief Executive Officer | Canada
Colliers International

VOLUME 9 / NUMBER 3

Knowledge Leader

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This magazine is a product of Colliers International.

Colliers INTERNATIONAL

Publishing services provided by

TIGER OAK MEDIA

Tiger Oak Media
1417 Fourth Ave., Suite 600
Seattle, WA 98101

Knowledge Leader is published three times annually by Tiger Oak Media Inc., with offices at 1417 Fourth Ave., Suite 600, Seattle, WA 98101; 206.284.1750.

POSTMASTER: Send address changes to: Knowledge Leader, Colliers International, 601 Union St., Suite 4800, Seattle, WA 98101. Publications Mail Agreement No. 40064408. Return undeliverable Canadian addresses to: Express Messenger International, P.O. Box 25058, London, ON N6C 6A8. PRINTED IN USA.

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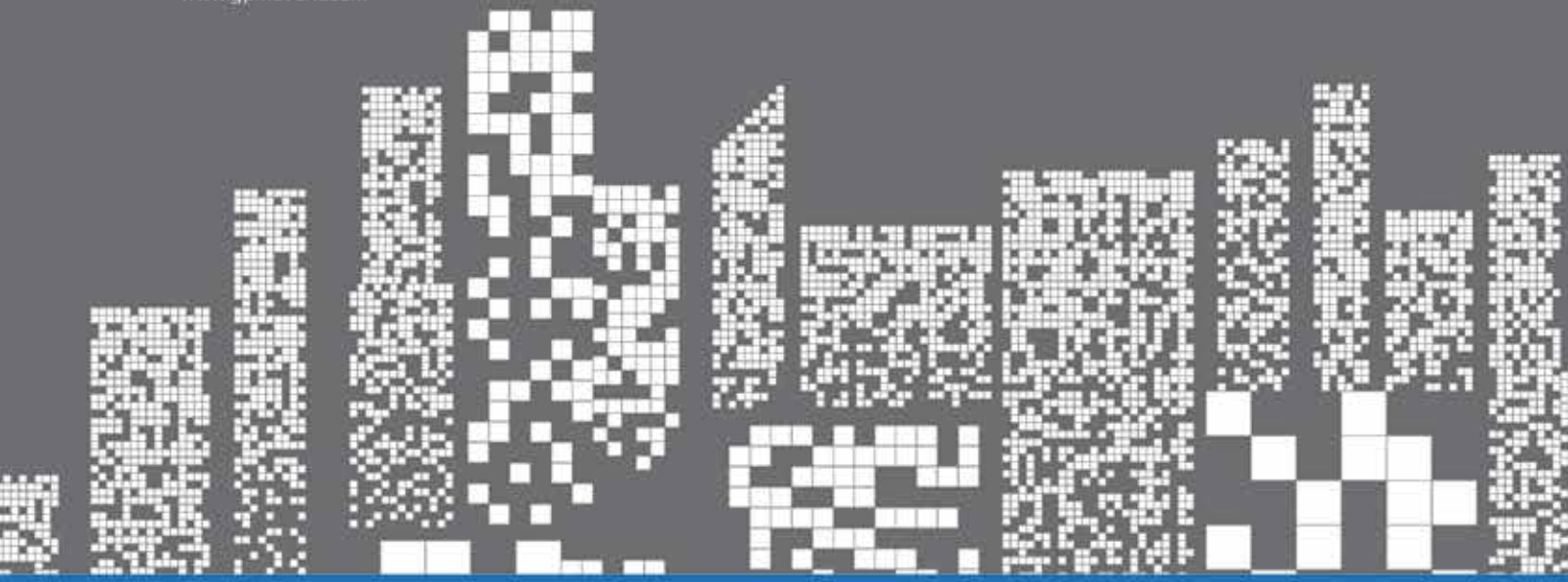

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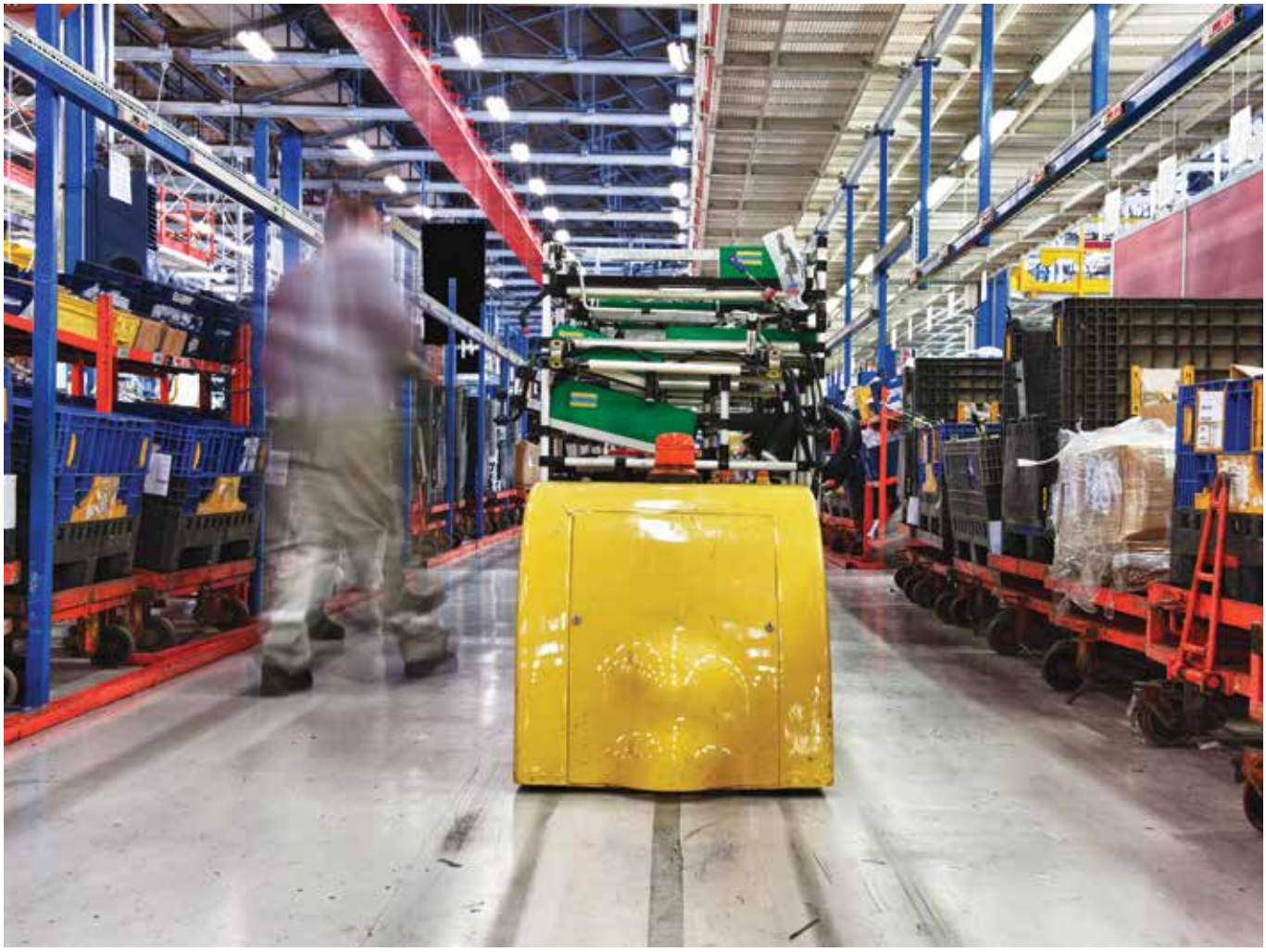


FORECASTING

What Does 2016 Hold for Commercial Real Estate's Industrial Sector?

KNOWLEDGE LEADER ASKED INDUSTRY EXPERTS what they see in store for the industrial market in 2016. From low cap rates, to more development, here's what the Colliers experts have to say.

Jack Rosenberg

Based out of Rosemont, Illinois, Jack H. Rosenberg, SIOR, is a principal of Colliers International specializing in site acquisition, leasing, sales and build-to-suit projects for industrial users and developers. He is the national director of the Colliers Logistics and Transportation Solutions Group Steering Committee, and is in the top 10 percent of national producers for all Colliers brokers. In the past five years, Rosenberg has completed transactions totaling in excess of $300 million for clients such as Bertelsmann, Best Buy, Bridgestone, Lawson Products, Ulta and Valspar.

JACK H. ROSENBERG, SIOR
NATIONAL DIRECTOR, LOGISTICS AND TRANSPORTATION SOLUTIONS GROUP COMMITTEE

"By the fourth quarter of 2016, we will see a glut of supply of new speculative industrial

buildings easing the low-vacancy crunch that the U.S. is currently experiencing.

"Bigger institutional investors like Prologis and IDI Gazeley have maintained and will continue to maintain a strict discipline on not overbuilding, but the institutional investment community is so hungry for industrial buildings that merchant developers around the country will build because they have capital, and not because of demand for space."

JEFF DEVINE
PRINCIPAL
COLLIERS INTERNATIONAL

STEVE DISSE
PRINCIPAL
COLLIERS INTERNATIONAL

Jeff Devine and Steve Disse

Based out of Chicago, Jeff Devine and Steve Disse are principals of Colliers International, focusing on investment sales of institutional-quality industrial and office properties ranging in value from $5 million to $200 million. Working as a team, they are consistently recognized as the top industrial sales group in Chicago. With more than 18 years of experience, the two have closed more than $5 billion in sales transactions and historically maintain a 50–60 percent market share of Chicago-area industrial investment sales. In the past 24 months, they have closed more than $1.2 billion in sales.

"There will be greater sale activity in 2016 than in 2015. Class A cap rates will continue to be at historic lows, 5 cap and below for the best properties. Class B cap rates should fall 25 to 50 basis points."

RICHARD PUTNAM
MANAGING DIRECTOR | WEST REGION
INSTITUTIONAL INVESTMENT
SERVICES GROUP

Richard Putnam

Based out of Irvine, California, Richard Putnam is managing director, West Region, for Colliers' Institutional Investment Services Group. He has responsibility for the direction and growth of this business on behalf of institutional investor clients in the West Region, working with Colliers market professionals on both single asset and portfolio sale assignments. Prior to joining Colliers, he spent four years with Deutsche Asset & Wealth Management (formerly RREEF), an institutional pension fund advisor.

"On the West Coast, we predict that the very healthy industrial sector will continue to show advances in 2016, although in a more balanced manner. Space market fundamentals remain very tight, and rents will continue to increase even as new product is brought to market. Increases in net operating income (NOI) will overcome a bottoming of cap rates, which will lead to increasing values, though not at the pace of the last two years. Purchases of newly built product, and acquisitions in secondary markets, are where the action will be as these assets will offer slightly higher yields than the core, 100 percent leased product."

Stuart Morrison

STUART MORRISON
EXECUTIVE VICE PRESIDENT
COLLIERS INTERNATIONAL

Based out of Vancouver, British Columbia, Stuart Morrison is a top performer in the Vancouver industrial market. Specifically focused on large-scale sale and lease transactions in Vancouver and the Lower Mainland, he has represented national clients such as Grosvenor, Fraser River Group, and Kruger Products Ltd. During the past 18 months, Morrison has been directly involved in sale and lease transactions in excess of 2.5 million square feet of industrial space.

"Import distribution and e-commerce fulfillment centers have accounted for over 1.6 million square feet of distribution center absorption in the third quarter of 2015. The only speculative projects being delivered in the fourth quarter of 2015 and second quarter of 2016 are pre-leased. Planned speculative distribution center projects by Oxford and Hopewell, 300,000 and 311,000 square feet respectively, will not be delivered until the third and fourth quarters of 2016. In the meantime, there are only two existing tier-1 distribution center availabilities in metro Vancouver's core distribution markets." KL

Colliers International's industrial real estate professionals bring specialized knowledge to their area of focus, whether that is in-depth knowledge of a defined geographic area or expertise in a subtype of industrial property. They support developers, owners and occupiers to buy, sell, lease, manage, develop, renovate and value industrial space. For more information, visit colliers.com.

Executive Insight

VISION

Dwight Hotchkiss

President, Brokerage Services | USA
& National Director, Industrial | USA
Colliers International

Who were some of your role models growing up?

I have always been a big sports fan, and as a kid I remember looking up to former Brooklyn Dodgers first baseman Steve Garvey and Jerry West of the Los Angeles Lakers. They both played day in and day out and excelled at what they did. My biggest role model, however, was my dad. He was always there to watch my sports activities—even when I was playing softball at the age of 23—and he overcame tremendous adversity when he lost his business.

What was your first job?

My first job was a summer job working at my dad's factory, which manufactured skateboards. I started at the age of 15. I worked on the assembly line one summer and clocked in eight-hour days. Out of college, my first employer was Gallo Wine. I was a sales representative in Los Angeles, and I called on supermarket managers and sold display programs.

How did you get started in the commercial real estate (CRE) industry?

I had been working in the wine and spirits industry for five years, and both Gallo Wine and Bacardi Rum wanted to move me to various parts of the country. I had met Laura, my wife, and knew I did not want to leave Los Angeles, because both of our families are here. I had friends from college who had been working in CRE and decided to give it a shot. I interviewed with 18 different offices of six different firms, and ended up working at Cushman & Wakefield as an industrial broker.

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

The continued penetration of technology into our business. Although we talk about it and recognize some of what it has brought to the table, technology will continue to become a much larger part of what is expected of us from our clients.

What's the biggest accomplishment of your career so far?

In 2001, I won the National Client Service Excellence Award at my previous company. This is given to the broker in the U.S. who received the highest scores and feedback from clients. Nothing could mean more than having my clients recognize my efforts.

What advice would you give to someone just entering the business?

Although it can be a cliché, there is no substitute for hard work. Learning the history of a market in terms of comparables, tenants and landlords takes a lot of time and energy. When that information is in place, the ability to do deals and show the confidence needed to tenants and landlords will be exponentially faster.

What are you reading these days?

I love reading all different types of novels. I just finished *The Girl in the Spider's Web*, a Lisbeth Salander novel written by David Lagercrantz. I also love history and am currently reading *The Oregon Trail: A New American Journey*. The author, Rinker Buck, took a covered wagon on the Oregon Trail in 2012, from Missouri to Oregon.

Words to live by?

Live for the moment. There is so much about thinking and saving for the long term, but I have seen too many instances these past few years where young people unexpectedly passed away or people were so busy they did not enjoy the incredible events or moments in life. KL

With more than 25 years of commercial real estate experience, DWIGHT HOTCHKISS *heads Colliers' Brokerage Services platform, which includes 23 practice groups with more than 600 brokers across the U.S. Drawing on years of on-the-ground experience and senior leadership, he also develops strategies on an executive level as the national director of industrial services. In his role, Hotchkiss is focused on the ongoing development of these specialty focus areas by increasing company connectivity and broker productivity, as well as expanding the industrial services client base for leasing, management and capital markets opportunities.*

ILLUSTRATION BY KATHRYN RATHKE

RESEARCH

The Future of Logistics

The convergence of retail and industrial and the impact of e-commerce and fulfillment are driving explosive changes in logistics.

By Sheila Mickool

Colliers International's "Global Logistics Report: From First Mile to Last Mile" examines the primary factors expected to drive dramatic changes in global logistics over the next two to five years: from digital, population and consumption trends by country to global trade flows and new infrastructure paradigms.

Meteoric increases in e-commerce volumes and consumer expectations for same-day delivery will transform the logistics landscape. "E-retailing is now global and is completely altering the face of modern retail and logistics," says Damian Harrington, M.Sc., MRICS, head of EMEA Research for Colliers International and primary author of the report.

The rise of e-commerce is driven by a new generation of tech-savvy millennial and Gen X consumers, says Harrington. They know what they want and they want it now. Positive economic forecasts for the next two years, especially in the U.S. and Europe, will likely fuel continued increases in consumer demand. "We haven't seen the real impact of projected positive growth factors just yet, and we may even see a consumer boom, which will generate even more demand for product in the near future," Harrington says.

That near future is now. In November 2015, global e-commerce giant Alibaba hosted what is reputed to be the world's biggest 24-hour shopping event for Singles Day. The event generated more than $1 billion in sales in its first eight minutes—and more than $14 billion in sales for the day. Orders placed on mobile devices accounted for 68 percent of the volume. According to Alibaba's CEO, the company expected to handle more than 120,000 online orders and 60,000 payments per second during peak periods. Imagine the impact on logistics.

"The demand side is driven by consumer behavior, and two key factors drive buyer decisions: price and time of delivery," says Dwight Hotchkiss, SIOR, president, Brokerage Services, USA and national director, Industrial, USA.

The ability to fulfill orders to meet

consumers' delivery expectations is dependent on logistics infrastructure, says Harrington. "For me, one key revelation of the global logistics report analysis is just how much more warehousing space is going to be needed to satisfy growing consumer demand. Globally, we're talking about a need to add a minimum of 400 million to 450 million square feet of extra space per year for the next five years. That's a big requirement."

According to Hotchkiss, for the next 24 months, retailers will be trying to gauge just how significant e-commerce will become and how high consumer demand for two-day and same-day delivery will be. As ever more consumers order online, brick-and-mortar stores may not be as strategically important in the future for retailers as are warehousing and distribution.

"Every industry has its disrupters—companies that shake things up and end up transforming the industry," Hotchkiss says. "In retail, Amazon is the disrupter." The retail giant has created legions of loyal customers with the introduction of one-click ordering and two-day and one-day delivery. Amazon made e-commerce a viable retail alternative and set the standards for performance. It also has one of the most sophisticated logistics systems on the planet. Currently, Amazon is testing one- to two-hour deliveries and has already added urban distribution centers to expand the reach of its logistics network.

The growth of e-commerce will dictate new delivery paradigms, according to Hotchkiss. New models of fulfillment and distribution will be needed. Amazon is already addressing these issues. From highly automated, megasized distribution centers near intermodal hubs to the creation of smaller urban logistics centers and well-placed pickup lockers in metro areas, Amazon is crafting supply lines that allow it to seemingly serve its customers in real time.

Looking ahead, Harrington envisions a number of changes to traditional logistics to tackle the challenges of the new global e-commerce world. Most distribution centers are large, single-level buildings that require sizable chunks of land. The U.S. still has enough land to add 1 million-square-foot, single-story high-clear distribution facilities near urban centers, but in dense urban centers like Hong Kong, "we are going to have to stack them," says Harrington, who points to Goodman Interlink as an example of the new high-rise paradigm. Goodman Interlink is a landmark Leadership in Energy and Environmental Design (LEED®) certified 24-story warehouse and distribution center with more than 2.4 million square feet located at Tsing Yi in the heart of Hong Kong's ports district. The ultra-modern facility is ideally located near the airport, the container ports and major highways. "There are 13 such high-rise distribution centers already operating in Hong Kong, with more planned in places like Tokyo and, we believe, the U.S.," Harrington says.

Global Demand. *Worldwide, warehousing space will need to grow by as much as 450 million square feet per year for the next five years to keep up with demand.*

Additionally, urban lockers, local "e-fulfilment centers" as well as retail showrooms connected to rapid-response warehousing dispatch facilities will become increasingly important components of logistic networks.

Harrington also says that new post-Panama/Suez global trade routes are growing to complement the traditional routes dominated by ports of entry, such as Long Beach/Los Angeles in the U.S. and Rotterdam and Hamburg in Europe. The Port of Savannah, for example, saw containerized freight reach a record high in September 2015. It is the now the second-busiest U.S. container exporter. In Europe, Athens' port has seen containerized traffic grow by 322 percent since 2010, taking it from 19th to ninth place in terms of containerized freight handling. This is enabling shipping companies to utilize a four-corners strategy to transport goods across both North America and European markets, moving product ever faster along the supply chain.

Hotchkiss stresses that technology and investment in infrastructure are critical to succeeding in the new e-commerce world. China and India, both of which are expected to become dominant e-commerce countries, are making massive investments in infrastructure to support the movement of goods by adding roads, ports, railways and highways. North America currently dominates in logistics, e-commerce and fulfillment, but needs to reinvest in existing infrastructure and make significant investments in new infrastructure to maintain its dominant position.

In response to e-commerce demand, logistics networks will evolve. We'll see a continuation of the ongoing trend to establish superautomated and sophisticated mega distribution centers (1 million-plus square feet) near intermodal hubs, according to Hotchkiss.

More significant changes are coming, however, says Harrington. "The world is urbanizing rapidly." To get product in the hands of individual customers as fast as possible, supply will move more aggressively into urban areas with the rapid proliferation of smaller urban warehouses to provide "click-and-collect" options for immediate pickup or same-day delivery.

And all of these trends will be enabled, supported and controlled by technology. "Without the rapid adaptation of technology, we wouldn't even be having this discussion," says Hotchkiss. "I can't stress the importance of technology enough—both in e-commerce and in logistics." KL

Cities to Know QUICK FACTS AND FIGURES

Greater Los Angeles

Knowledge Leader shines a spotlight on the Southern California region.

By Teresa Kenney, Pete Culliney & Thomas Galvin

THE GREATER LOS ANGELES REGION in Southern California is ranked sixth in the global cities index behind New York, London, Paris, Tokyo and Hong Kong. Because Los Angeles is its largest city, many people associate the entertainment industry with the region, but the area's ports, global trade and manufacturing industries are equally important to its economy.

88th Most Populous

If the Greater Los Angeles region were its own country, it would be the 88th most populous in the world, between Portugal (10.4 million) and Hungary (9.8 million).

Source: World Bank

18.5 million

residents within the Los Angeles–Long Beach area

Source: census.gov

16th

Largest economy in the world with a gross regional product of $1.047 trillion

Source: International Monetary Fund & Port of Los Angeles / Long Beach

Top Import Partners

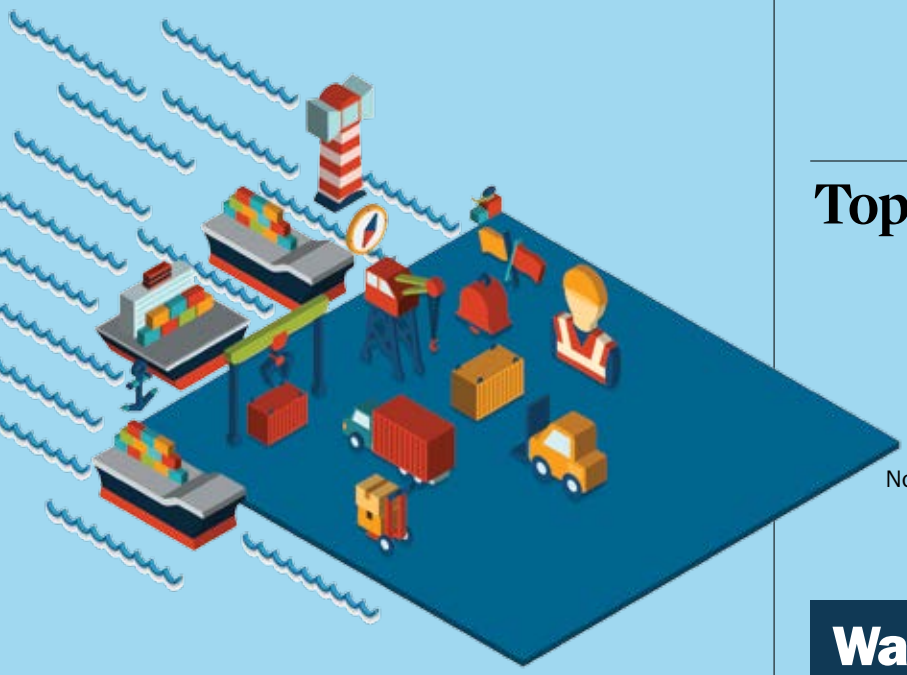
China
Japan
South Korea
Taiwan
Vietnam

Source: Port of Los Angeles

Top Imports

Furniture
Auto Parts
Apparel
Electronics
Footwear

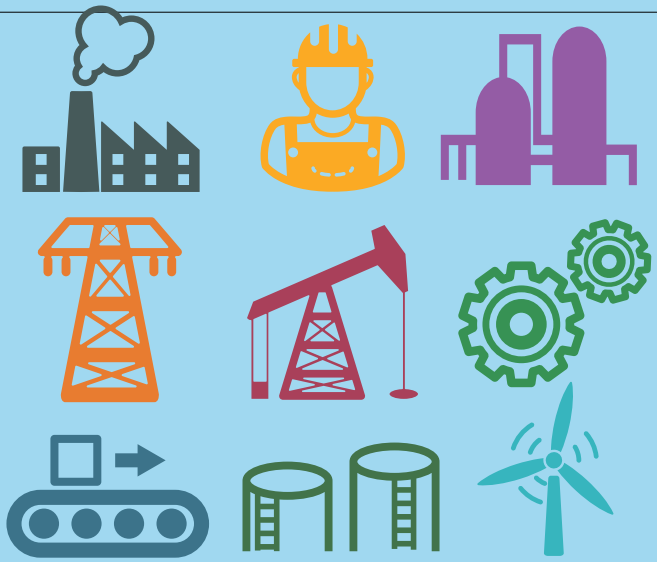
Source: Port of Los Angeles



40%

The percentage of all imports into the U.S. handled through the twin ports of Los Angeles and Long Beach.

Source: United States Census and Bureau of Economic Analysis



650,000

number of manufacturing jobs in the Greater Los Angeles region, making it the largest manufacturing hub in the U.S.

Source: Bureau of Labor Statistics

Top Manufacturers

Broadcom
American Apparel
Western Digital
Quicksilver
Jacuzzi

Source: Dun & Bradstreet

Top Industrial Landlords

Prologis
Majestic Realty Co.
Alere Property Group
Watson Land Company
TIAA-CREF
Global Logistic Properties
Clarion Partners
Norwegian Government Pension Fund Global
Deutsche Bank
LBA Realty

Source: Costar Group

Want to Learn More?

To learn more about North America's other top industrial and logistics hubs, visit *knowledge-leader.com* for details on:

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Will Your Business Be Uber-ized?

Google Ventures Managing Partner David Krane offers a fascinating look at technological disruption and innovations.

By Shawna Leader

David Krane, managing partner with Google Ventures, has been with Google for 16 years. Following a decade of overseeing the company's worldwide communications strategy as director of global communications and public affairs, he teamed up with colleagues to form Google Ventures, an investment fund with approximately 300 active companies in its portfolio, including Uber, Nest and Periscope.

On November 5, 2015, Krane shared how technology is changing the way companies are doing business in a fascinating webcast, "Will Your Business Be Uberized?" Hosted by Colliers' Occupier Advisors Services Group, the presentation was organized by Colin Scarlett, executive vice president. Here are just a few of the insights he shared with participants.

Technological Disruption

Disruptive technology is an innovation that displaces established technology or creates a completely new industry. "We live in the most exciting time ever to be in this kind of business, as a consumer and a user and as an investor and an inventor," says Krane.

"All the ways that we used to do things are being disrupted, middle men are being pulled out, and buyers and sellers are literally working together in incredibly fast, transparent new ways."

The competition between the rideshare company Uber and traditional taxicab companies is a perfect example of this. Krane notes that taxis are now going head to head with Uber for business. Uber takes advantage of consumers' ever-growing reliance on smartphones and the ability to pay via an online account. Passengers can request a ride with a push of a button, be

driven to their destination, and no money has to change hands.

"Taxis are not functioning the way they used to because something better, something more compelling, has come along, which is called the sharing economy," says Krane. As a result, traditional taxi drivers are making the move to rideshare companies because they can earn more money and are afforded more time flexibility.

Technology is rapidly changing and improving how we work, live—even heal. Speech recognition interfaces could potentially replace typing altogether. Three-dimensional printers, as demonstrated at a TED talk, can build a human kidney in approximately 30 minutes. A company called MC10 is creating tiny sensors that can monitor vital life signs and could be used to prevent concussions in football and other sports.

It's also changing how we learn. Krane notes that students today can connect with other students around the world using digital platforms. Technology can even be used to assess comprehension in students and the effectiveness of teachers. "I'm really excited about using that data to help inform teachers to be as effective as they possibly can be when they're standing in front of either virtual classrooms or traditional classrooms," he says.

Urban Planning and Real Estate

Technology also has tremendous value in improving the cities and buildings in which we work and live, says Krane. "If we look at all of this data, the insights that we can extract out of this information is again provoking so much change and so much disruption," he explains. In particular, data on the movement of people through cities can assist in developing software that can support urban planning.

Look, No Hands! *The introduction of driverless cars to the market is on the horizon.*

In real estate, technologies can make buildings more efficient and secure and make companies work smarter, as working virtually becomes more accepted. "[Technology] will affect the real estate industry. I don't think we'll need these massive, complicated, expensive, cavernous places to hold all of these people," he notes.

Krane also points to a company that Google owns in San Franciso called Bot & Dolly. The company is building robots that accelerate the rate of physical construction. "So, imagine a hurricane hits an area, there's a natural disaster of some kind, and a fleet of robots descends on a distressed area and works 24/7 at a high rate to mechanically grab materials, place materials, nail and staple materials together, and build structures and build walls that can bring shelter and safety back to a distressed community," he says. "These sorts of things are becoming more and more common and more and more compelling as the innovation on the robotics side of things continues at a very fast clip."

Governmental Regulation

With technological advances comes government regulation. Take the future of driverless cars, as an example. Krane explains that the introduction of these cars to market is one part technology and three parts government regulation. "It's a question of how fast authorities can embrace it, but the safety and efficiency is obvious, and it will happen," he says.

The Future

Asked to describe a day in the life of a corporate worker 10 years from now, Krane paints a futuristic *Jetsons*-like picture that includes a bed that wakes you up, sunscreen in pill form, digital tools to help you decide what to wear, a 3-D printer that makes food optimized to your health and caloric needs, a house that secures itself and a self-driving car to take you to work. In this future, Krane says, our needs and schedules will be known and run by computers. The devices we use will change depending on context and will seamlessly connect with each other.

Sound implausible? All of these are available, to some degree, now; it's only a matter of time before they make their way into consumers' daily lives. KL

"Taxis are not functioning the way they used to because something better, **something more compelling, has come along, which is called the sharing economy."**

— **DAVID KRANE**, MANAGING PARTNER, GOOGLE VENTURES

Mr. Roboto

Traditionally for large-scale production and fulfillment operations, the use of robotics is now entering small and midsize markets.

By Niki Stojnic

As popular Portland, Oregon–based beer brewer Widmer Brothers began to expand its brewing capacity, it needed a new solution for one of the most labor-intensive parts of the production line: bottling. Widmer's manufacturing had been entirely people-powered until then, but with the increased product volume, workers were developing repetitive motion injuries, and speed was not up to par. So the company turned to robotics, installing a custom system from KUKA Robotics that was specially designed to maneuver in the tight manufacturing space. A machine picks up 12 cases of empty bottles at a time in its giant vacuum grip and sets them on a custom-built conveyor, which then separates the boxes and lines them up for the bottling process.

That companies like Widmer—whose reputation for making a craft product is the antithesis of "automated"—are increasingly turning to robotics to increase speed and efficiency and reduce on-the-job injuries is thanks to technology that not only works better in smaller applications, but also costs less.

"Warehousing is a newer frontier in robotics and automation," says Bob Doyle, director of communications for the

Robotic Industries Association. "Traditionally, robots have been very focused on the automotive industry; that's still the largest sector, but it's shrinking," he says, giving way to small and midsize businesses that include fewer traditional industries, from microbrewing to semiconductors. "Companies are purchasing more robots than ever because technologies have changed and costs have come down."

"Robots are making their way into an increasing number of once-manual applications," says Earl Wohlrab, robotic and palletizing systems manager at Intelligrated, which specializes in customizing automated systems. "There are trends in the distribution and fulfillment market to automate several operations in the receiving area, as well as areas that involve the transition of goods from one function to another."

Intelligrated has worked with such diverse companies as The Hershey Company, Kelly-Moore (paint) and Lorillard (tobacco). "Robotic technology has a historical sweet spot performing tasks that require repeatability," says Wohlrab. "Generally speaking, using robotic solutions to automate manual tasks brings significant safety, speed and accuracy advantages, as well as significant cost savings over time."

Employing robotics means moving workers to safer, better tasks and takes human error out of the equation, "bringing consistent speed and accuracy to tasks like loading and unloading raw materials, and building more complex mixed-load pallets," says Wohlrab. He cites the food industry as one industry in which this is particularly useful in fulfilling custom-order pallets. Intelligrated has set up robots that help create store-ready variety packs, for example.

Technology at Work. *Robotics are increasingly used in traditionally manual applications, such as welding.*

The high demand for increasingly fine-tuned uses for robotics in fulfillment centers has given rise to a variety of startups developing new solutions.

Collaborative robots are one big part of that. These work side by side with people, eliminating the need for fencing and other traditional safety systems. San Jose, California–based Fetch has two robots that work in tandem—one carries bins, and another has an arm that can pick a product and put it into the container. They can follow workers around a warehouse as they fulfill orders.

Seattle-based online retailer Amazon bought another such collaborative robot startup, Kiva Systems, in 2012, which was its second-largest acquisition to date. With Kiva, autonomous carts do the work of humans, forklifts and conveyor belts in Amazon's fulfillment centers. Software directs the robots to find and pick up particular items and bring them to workers, using bar code stickers on the floors for guidance. The company recently announced that it has 30,000 of the robots rolling through its fulfillment centers.

Collaborative robots fill a niche in fulfillment centers between industrial-level robotics and fully manual labor, says Wohlrab. "Although much slower and lighter duty than industrial robotic arms, collaborative arms can be deployed for a lower cost of entry, effectively bridging the gap between a manual system and a fully automated solution." He adds that advancements in sensor technology and machine algorithms are helping fine-tune things such as bag and case depalletizing as well as less structured jobs.

With such a technology becoming available, companies of all stripes and sizes are able to incorporate robotics into their fulfillment centers, often alongside people. And there's much more to come. Doyle recently attended the fall Pack Expo conference in Las Vegas, which specializes in processing and packaging. He recalls, "That place was full of robots." KL

"Generally speaking, using robotic solutions to automate manual tasks brings significant safety, speed and accuracy advantages, **as well as significant cost savings over time."**

— **EARL WOHLRAB**, ROBOTIC AND PALLETIZING SYSTEMS MANAGER, INTELLIGRATED

Building for the Future

Scannell Properties is developing flexible industrial real estate that can adapt to ever-evolving technology and logistics.

By Keith Karpé

Whether it's an office building or a state-of-the-art logistics center, Tim Elam is just as concerned with how it will function two to three decades from now as he is in how it functions today. The managing director of development for Indianapolis-based Scannell Properties stresses the importance of delivering relevant and functional buildings that can be easily modified to meet the evolving needs of a user.

"I hope to see our buildings as useful and relevant in 20 years as they were the day we completed them, unlike the obsolete warehouse and manufacturing facilities we see today in so many markets across the country," says Elam.

Anticipating a customer's evolving business operations and how it will use a space in the future has been a focus of Scannell Properties since its founding in 1990, when the well-capitalized and privately held turnkey development firm completed its first build-to-suit industrial project. Today, the company is one of the nation's leading developers of build-to-suit projects in North America, with some 250 completed projects totaling 30 million square feet in 44 states and three Canadian provinces.

With its multidisciplinary, in-house team of experts, Scannell Properties has the capacity to assemble the resources and talent to design and complete projects of any size. The company offers clients in-house expertise covering every phase of development.

"We remain flexible and adaptable to a client's unique business needs through our core services," says Elam, "with much of our business from repeat clients." That may be an understatement. Scannell's repeat business has held steady at an impressive 70 percent, and those clients include some of the most notable names in corporate America: DuPont Pioneer, GE and FedEx—for which Scannell is a leading developer in the U.S.

Flexibility in current construction is key in Scannell's strategy. The company recognizes that technology will continue to advance, allowing users of industrial space to work smarter and manufacture and distribute product faster. So, to avoid the obsolescence it has witnessed in most major industrial markets, it builds into its projects enough flexibility to meet the anticipated changes in technology and user demand, especially when it comes to logistics. Building designs allow for an increase in the number of loading doors and docks, increased electrical capacities to meet heavier future demand, more robust and flat concrete slabs to handle heavier floor loading, and maintenance of enough surrounding space to accommodate additional building expansion and employee and trailer parking.

"Technology will be driving nearly every decision in terms of industrial building design, especially in the ever-evolving logistics sector, where the talk of drone delivery is not far-fetched and in an environment where same-day or just-in-time delivery capabilities are critical for a user," Elam

notes. This is perhaps the most notable change Scannell has witnessed in the last decade among e-commerce moguls such as Amazon and midsize retailers, suppliers and distributors alike.

Scannell has also witnessed an increased interest among its clients in facilities designed with green building initiatives. The company expects this trend will continue as users realize savings on operating costs by implementing energy-saving technologies, such as LED lighting and natural daylighting. One example is the 650,000-square-foot warehouse/distribution facility Scannell developed for Kendall Jackson. The first Leadership in Energy and Environmental Design (LEED) Gold–certified climate-controlled warehouse in California, the project took just 22 months from inception to completion.

Traditionally focused on build-to-suit projects primarily in the industrial market, Scannell has also completed several office build-to-suits and has recently placed a concerted focus on speculative development opportunities in markets where existing available product is limited or obsolete.

The company has become a leader in what Elam calls "second tier" industrial markets where demand for midsize buildings is strong and there is less competition, especially from the large, publically traded institutional development firms.

Innovative Space. *Opposite page: Scannell Properties built the Kendall Jackson warehouse, the first Leadership in Energy and Environmental Design (LEED) Gold-certified climate-controlled warehouse in California. Above: Colliers represented Scannell Properties on this speculative 72,000-square-foot flex/light industrial building in Mendota Heights, a submarket of Minneapolis–St. Paul, Minnesota.*

Lately, it has begun to add a healthy number of office projects as well, both build-to-suit and speculative. In fact, as the economy continues to show signs of strength, the number of spec projects overall for Scannell has grown, something that was unthinkable a few years ago.

"After making a push to become a bigger player in the Twin Cities development market a few years ago, we have enjoyed a great relationship and great successes with Tim Elam and Scannell Properties," says Colliers' Ryan Krzmarzick, a vice president and industrial specialist in the brokerage firm's Minneapolis–St. Paul office. "They have quickly become a go-to developer for industrial projects in our market and already have a great reputation."

Colliers represented the firm on a speculative industrial project in Mendota Heights, a submarket of the Twin Cities. The 72,000-square-foot flex/light industrial building was fully leased upon completion, due in large part, according to Krzmarzick, to Scannell's flexibility and quick, in-house decision-making process on everything from tenant improvements to the signing of lease documents.

Colliers is now representing Scannell as listing broker on a new industrial park development in Lakeville, Minnesota, which may accommodate a variety of uses within a maximum buildable area of 2.25 million square feet.

In 2014, Scannell delivered 7.3 million square feet of industrial and office space, according to Elam. The firm is expected to add 10 million square feet in 2015. Scannell's growth in 2016 is expected to remain steady as long as the economy holds and the technology sector continues to make the expected advances in logistics.

"[Logistics firms] will need our services and those of others in the development business like never before," Elam predicts.

"Over the past 25 years, our success can be attributed to our experienced leadership, internal expertise, client-focused relationships and fiscal responsibility," he notes. As a privately owned real estate development and investment company, Scannell is proud to have completed development projects in nearly all of the 50 U.S. states and in three Canadian provinces, and looks forward to continued growth and development opportunities, both speculative and build-to-suit, in existing and new markets. KL

"Technology will be driving nearly every decision in terms of industrial building design, especially in the ever-evolving logistics sector, where the talk of drone delivery is not far-fetched and in an environment where same-day or just-in-time delivery capabilities are critical for a user."

— **TIM ELAM**, MANAGING DIRECTOR OF DEVELOPMENT, SCANNELL PROPERTIES

Andrew Nelson
Chief Economist | USA
Colliers International

The Industrial Age

The industrial real estate sector retains its lead in the commercial real estate market.

By Andrew Nelson

THE INDUSTRIAL SECTOR is once again the darling of property investors. For the second year in a row, industrial has ranked as the top sector for both investment and development prospects in "Emerging Trends in Real Estate," the Urban Land Institute's annual industry survey. This year, the industrial sector posted its highest preference scores in more than a decade.

Demand Drivers All Firing Strongly

Industrial's rising stature reflects both compelling capital and property market fundamentals within the sector, as well as declining or weaker prospects for other major property types. Demand for warehouse and distribution space is soaring as the whole chain of moving goods from producer to consumer is being upended by consumer shifts toward e-commerce, to the advantage of wholesalers and warehouse space generally.

Other demand drivers are also firing strongly in concert with the continuing economic recovery. As with the other property sectors, demand for space naturally rises with gross domestic product (GDP) growth and especially job growth. But industrial demand depends on two factors, in addition to retail demand: trade and housing construction. Warehouses benefit from housing construction as homebuilders need large spaces in which to store their materials. Housing starts are not nearly at the level of the mid-2000s, which is probably a good thing. As a nation, we were building too many houses that families could not afford. But volumes have recovered nicely since the recession, with the annual rate now up to 1.1 million units, twice the rate at the depth of the recession and finally approaching the levels of the mid-1990s prior to the housing boom.

And trade is up, building on a long upward trend for both imports and exports dating back at least 50 years due to greater trade liberalization. Exports and imports combined have tripled their share of our nation's GDP, from less than 10 percent in the 1960s to almost 30 percent now. It must be noted that services account for a significant share of imports (18 percent) and especially exports (33 percent), meaning that much of what we trade with other nations does not involve any physical goods. Nonetheless, our growing trade means that an increasing share of the products we buy and sell end up in warehouses at some point in their journey from producer to consumer. All of these factors together—rising trade, increasing housing construction and the shift to e-commerce—along with moderate economic growth provide the fuel for strong tenant demand for warehouse space.

Warehouse Markets Are Thriving

So far, tenants have been fairly indiscriminate in their space demands, as relatively little new supply has been brought to market, leaving tenants with few options. In the past five years of the economic expansion through year-end 2014, the nation's warehouse base has risen less than 2.5 percent—on average only 0.5 percent per year. By contrast, supply rose by almost 1 percent annually in the expansion from 2002 to 2007, and 1.3 percent a year during the 1990s expansion.

Thus, tenants cannot be choosy with their leasing—this despite sharp changes in ideal location and configurations of warehouse space. With consumers increasingly demanding next-day and even same-day delivery, an increasing share of warehouses

ILLUSTRATION BY KATHRYN RATHKE

Overachievers. *Warehouse owners are benefiting from strong occupancies and rising rents.*

will need to be closer to where people live, as opposed to near ports and major distribution hubs. And modern, robot-driven logistics require buildings with taller clear heights than traditionally found in warehouses. For now, however, the shortage of this best-in-class space means that nearly all markets and products are benefiting from the demand surge, almost without regard to quality. Higher-finish "flex space" is one exception to the broad recovery, but this product typically performs more like office, which has been a relative underperformer.

With leasing strong and construction only moderate, at least up until now, existing buildings have seen their occupancy soar to levels not seen since the late 1990s. We estimate that only 6.6 percent of our industrial stock is now vacant, down 20 basis points (bps) in the third quarter of 2015 and the 22nd straight quarter of rising industrial demand. Industrial vacancy rates have steadily declined since peaking at 11.2 percent in early 2010, a drop of almost 500 bps in all, the biggest improvement of any sector. As a direct result, rents have risen sharply, nearly reaching their prior peaks.

Warehouse Owners Benefiting

In turn, warehouse owners have benefited as the strong occupancy and rents have translated into financial outperformance for the sector. And while the supply pipeline has been expanding recently, with deliveries expected to finally reach levels typical for an expansion, demand is anticipated to nearly keep pace with this new supply, limiting the hit to rents and occupancies.

Given all these positive trends, it's not hard to understand the sector's newfound attraction to investors. But the industrial resurgence reflects not only the positive market dynamics within the sector, but also industrial's strong performance and prospects relative to the other major property sectors. Apartments were the first sector to recover after the recession and already boast record high prices, rents and occupancy in many markets; prospects for significant further gains seem limited.

Meanwhile, the office sector continues its moderate pace of recovery, but leasing has not reached the levels typical of a late-stage economic expansion, despite exceptionally strong office job growth. Firms are more focused now on controlling operating costs through alternative work arrangements and efficient space planning than they are in capturing the best space. So vacancies remain elevated and occupancy may not reach prior highs before the next downturn hits.

Finally, the retail sector has suffered since the recession as it struggles to counter the growing competition from e-commerce as well as its legacy of overbuilding. Clearly, many retail markets and shopping centers are thriving, with historic occupancies and eye-popping rents. But these winners are increasingly separating from the losers, so the rising economic tide is not lifting all boats, at least not equally.

Real estate markets are nothing if not cyclical. It's now industrial's turn to shine. Who knew the humble industrial sector could be so sexy? KL

In Good Company

Corporate social responsibility goes grassroots.

By Naomi Tober

Corporate social responsibility today is adopting more of an employee-centric focus for charitable giving than ever before. Case in point: Sixty-five percent of Fortune 500 companies now offer matches for their employees' donations. Many other employers are also offering paid time-off for employees to volunteer at organizations of their choice. Rather than companies deciding for themselves how charitable contributions will be distributed, they are trending toward supporting the causes that their employees are already investing in.

And sometimes, it becomes even more grassroots than that. Hayes Swann, senior vice president of Colliers Investment Services Group in Atlanta, Georgia, recently held a fundraising event that broke all local office records for donations, with more than 100 individual Colliers employees donating nearly 27 percent of the total amount raised. The company also served as the presenting sponsor, assisting in the underwriting and promotion of the event.

The story starts in 2012, when Swann was first diagnosed with Parkinson's disease. He shared the news with his partner at Colliers, Huston Green, and Atlanta market leader, Bob Mathews, but decided to otherwise keep his diagnosis private, as he had very few outward symptoms of the disease. Eventually, in January 2015, Swann became convinced that he should "take it and do something good with it." In one sleepless night, Swann thought about the bike his wife had just given him for Christmas, and the concept for Pedaling to End Parkinson's and Paralysis was born.

The event evolved into a single-day 95-mile ride on Alabama's Chief Ladiga Trail and Georgia's Silver Comet Trail, slated for October 10, 2015. Swann had never been a serious cyclist, and he'd never organized any kind of similar fundraising event.

Family Affair. *The Swann family gathers together after the fundraising ride, including (L-R) Sarah Elizabeth, Wayland, Hayes and Kathleen.*

From the beginning, he points to the involvement and support of his colleagues at the Colliers office as a key component of what made the event successful. He credits Mathews especially for successfully promoting the event within Colliers.

Swann initially set the goal of raising $250,000, with donations to be shared equally between Emory University's Parkinson's Disease and Movement Disorders Program, which is a pioneer in research to treat and cure Parkinson's disease, and Shepherd

Center's Recreation Therapy Department, which helps those who've been disabled due to injury or disease to reintegrate into their communities using recreational therapy. Friends and colleagues who heard about his fundraising goal early on cautioned him that it was a bit optimistic. However, Swann moved forward with his plan, starting with a cocktail party for 80–85 friends whom he felt comfortable asking to support him and whom he felt would also be willing to seek support from others. The planning and promotion of the event, as well as training, eventually came to feel like a second full-time job to Swann, but he was determined to reach his goal.

And this past October, Swann and 14 other cyclists completed the nine-hour ride from beginning to end. Swann had trained for six months prior to the ride, but had never completed a training run this long, and it wasn't until mile 70 that he was confident that he could finish. The day had been cloudy and cool, but as he reached the final half mile, he says, "It was like a Hollywood production—on queue the clouds moved aside, and the sun came out in its full glory." Waiting for him at the finish line were friends, family and many of his Colliers colleagues.

And the total amount raised to date, $323,000, has exceeded even Swann's ambitious initial goal. That 27 percent from the Colliers office referred to earlier translates to almost $88,000. "It's been a miracle in so many ways," says Swann.

Swann's story is just one example of employers becoming more authentic in how they support the charities and social issues that matter to their employees, reaching beyond simple gift matching. The key is paying attention to the causes and events about which their employees become so impassioned. KL

Swann's story is just one example of employers becoming more authentic in how they support the charities and social issues that matter to their employees, reaching beyond simple gift matching. **The key is paying attention to the causes and events about which their employees become so impassioned.**

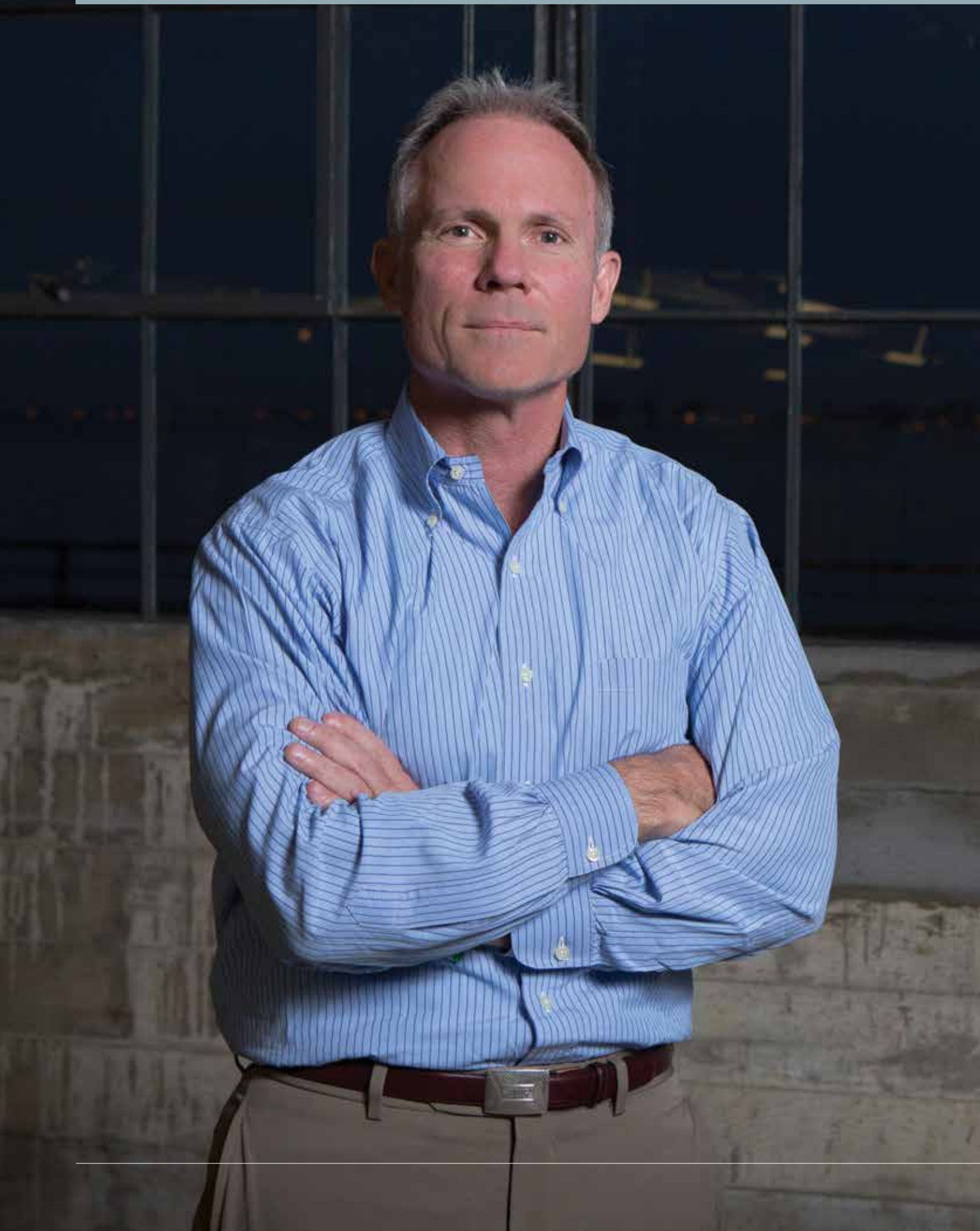
Support Beyond the Boardroom

IT ALL STARTED when John Cornuke, managing director and head of global real estate asset management for TIAA-CREF, noticed a man with the worst mustache ever. They struck up a conversation, and Cornuke learned that the man was growing his mustache for Movember, a foundation that raises awareness and funds for men's health issues—more than $650 million in the last 11 years.

Cornuke decided to join forces, and what started with 10 personal friends and acquaintances raising $38,000 in the first year has grown to a group of nearly 175 who have raised more than $730,000 over the past six years. In fact, Cornuke's group—Team Nuclear—has been the number-one team in the country for the past two years.

Cornuke is a client of Colliers International, but Colliers' participation in his fundraising project was initially sparked by his personal friendship with Colliers Senior Vice President of Investor Services John Ogburn. They met as rival coaches of their sons' baseball teams. When Ogburn was diagnosed with stage 4 throat cancer, it "hit home how important funding cancer research was," says Ogburn, and he created the Mo Colliers team to support Team Nuclear. "We want to support our clients and what they're passionate about," explains Ogburn. The 2016 campaign will commence mid-October.

MOVEMBER FOUNDATION



INDUSTRY GIANTS

STATE OF THE INDUSTRY

PROLOGIS' GENE REILLY OFFERS AN EXPERT PERSPECTIVE ON THE INDUSTRIAL REAL ESTATE MARKET.

BY TERESA KENNEY
PHOTOGRAPH BY BILLY COLE

Rarely do you get the chance to discuss the state of any industry with one of its giants, but that is exactly what *Knowledge Leader* did when we sat down with Gene Reilly, chief executive officer of the Americas for Prologis, the world's largest owner, operator and developer of industrial real estate.

Reilly joined AMB Property Corp. in 2003 before the company merged with Prologis in 2011, in what *The Wall Street Journal* called one of the biggest real estate deals since the recession. He has more than three decades of experience in real estate development, spanning both bull and bear markets, so he offers a unique perspective on the factors that have made the industrial sector the darling of today's commercial real estate industry.

Demand is outstripping supply, causing rents to rise.

REILLY NOTES THAT OCCUPANCIES ARE AT ALL-TIME HIGHS in the industrial real estate sector in the U.S. "Those high occupancies are well distributed among virtually all the global markets and most of the regional markets as well. In prior cycles, we have certainly had low vacancy rates, but generally there was a fairly large disparity between secondary and tertiary markets and the major markets. Today, there are very high occupancies virtually across the board," he notes.

Rents, explains Reilly, are growing quickly as well, a trend that he says is unusual for the industrial sector. "It has become almost an investor rule of thumb that over long periods of time, rents don't grow very much in industrial real estate. But this time, rents have been growing for at least the past five years. Prologis was out in front of this trend in 2010, and at that time, people thought we were crazy because we were forecasting significant rental growth, and that's what we've seen. We believe rent growth will continue for at least the next couple of years."

While 2015 saw demand outpacing supply, Reilly says, "As we move into 2016, we think by the end of the year demand and supply will begin to get in balance. Going into 2017, you'll be close to equilibrium between the two. When we hit equilibrium, vacancy rates in the U.S. will average about 5.8 percent, which is extraordinarily low—and that is the vacancy rate across the markets, good real estate and bad real estate. Good portfolios are going to be several hundred basis points better in occupancy than the average."

Multistory. *Prologis Park Osaka 5 in Japan features four stories of space.*

E-commerce is changing where and how industrial real estate is built.

ONE OF THE FACTORS AFFECTING INDUSTRIAL REAL ESTATE right now is e-commerce. Reilly notes that of the demand throughout Prologis' portfolio—which includes more than 400 million square feet across the U.S. and the Americas alone—approximately 10 percent of that activity is related to e-commerce.

"That compares to e-commerce being about 7 percent of total retail sales in the U.S., so we have a significantly disproportionate amount of demand for our product coming from e-commerce overall," explains Reilly. "If we then look at our new development activity, and that could be build-to-suits—buildings that we build specifically for one customer—or speculative buildings that we build with no customer and we lease after the fact, demand in that segment of activity is about 30 percent directly related to e-commerce. That's a huge amount relative to overall retail sales."

Moreover, e-commerce is growing at nearly 15 percent in the U.S. each year, making its future impact on industrial real estate even more dramatic.

"If you look at a dollar of sales that goes through the e-commerce channels versus a dollar of sales that goes through the traditional brick-and-mortar channel, that dollar of e-commerce sales needs approximately three times the amount of warehouse space than the brick-and-mortar channel. And the reason for that is e-commerce is all about getting the product to customers quickly. The only way to do that effectively over time is to carry more inventory and have the inventory located in more places," he says.

E-commerce also must contend with reverse logistics as consumers return items, as well as the concept of the last mile of delivery, or how the product is transported from a regional distribution center to a point from which it can be delivered quickly to the customer's front door. This becomes increasingly important as companies such as Amazon are now offering delivery on select products within hours of ordering online.

"The last mile is creating a need for modern logistic space in locations that traditionally we never had before. That's a really interesting new frontier. We're looking at doing multistory buildings, and other creative ways to get space built and supplied to our customers in those in-city locations," says Reilly. "It's very exciting and

PHOTOS COURTESY OF PROLOGIS

Apodaca.
Prologis' Apodaca facility is located in Nuevo León, Mexico.

it's very much in its infancy. We've been doing business in Japan and China for a long time. Prologis has built a big percentage of the modern logistics space in Japan, and all that space is multistory. So we have experience building multistory buildings, whereas most of the industrial developers in the United States don't do these types of developments."

Industrial real estate strength is bolstered by global consumption.

THE INDUSTRIAL REAL ESTATE MARKET HAS RECOVERED much more than other commercial real estate markets, says Reilly, because industrial real estate's growth is driven by consumption and global trade, not gross domestic product (GDP). "Los Angeles has the double benefit of being near the country's largest port complex and having a large population consuming goods. Consumption is running in the U.S. at 3 to 3.2 percent, whereas the GDP has been growing at 2 to 2.3 percent. So that is a pretty big difference. It's almost growing 50 percent faster than the underlying economy. If your business is driven by GDP, you're going to grow a lot slower than if your business is driven by consumption, and ours is driven by consumption. This is why our business grows so fast in places like Mexico, Brazil, China and other emerging economies with a lot of the population entering the consumer class, so to speak," he notes.

Reilly continues to be bullish on the economy and real estate in particular. "We have been in this economic expansion—as weak as it's been—for more than five years. So, many believe that things may turn the other way. Personally, I have a different view because I think we have a tremendous slack in the workforce. We have a low unemployment rate in this country, but we are closing in on 100 million Americans not working. So in reality we have capacity in the labor market that we didn't have in prior downturns. I'm also bullish that the global economy will recover, so I don't think we will be in another downturn anytime soon; I think it will be slow growth for a while," he says.

He also points to better checks and balances that were not in place before. "Historically, industrial real estate has been like other real estate types: When the market is good, there is plenty of capital available and developers do what they do best, which is build new space. Most of the financing in prior strong markets was supplied by local banks that were concerned about the next deal, not so much about the big picture. In addition, most of the real estate was developed by local or regional developers, or national developers who used those local lending relationships. Incentives were stacked in favor of an overbuilt situation. That is what happened in the late '80s and the mid-2000s in a big way. Today, getting capital is much more difficult, and those that do supply capital tend to be institutions—pension funds or private equity vehicles. You have more professional stewards of this capital today, and I think the incentives are oriented better than they were in the past."

Readily available data is also a factor. "You can get your hands on data very quickly to do serious economic forecasting for what's going on in this business. So all of these things have led to a much more disciplined response to this recovery we're in. Five years into this economy, we still have excess demand. That never happened in the past. Most of our competitors are talking about lowering deliveries next year, and frankly, we're doing the same thing. No one wants to get into what we were staring at in 2008." And Prologis is uniquely positioned to continue its lead in the sector through its entrepreneurial, hands-on approach. "With deep expertise across markets, we focus exclusively on industrial real estate and run our properties like we own them. And we manage our assets directly to provide the best customer care," Reilly says. KL

Orlando Central Park.
Clarion Partners' warehouse distribution center in Orlando, Florida, is leased by Dade Paper.

LEADERSHIP

Industrious

CLARION PARTNERS DIRECTOR STACEY MAGEE TOUTS THE INDUSTRIAL MARKET'S TREMENDOUS POTENTIAL

By Cheryl Reid-Simons

Clarion Partners Director Stacey Magee is enjoying an endless summer. Six days after graduating from college, she took a summer job with Trammell Crow Company, fully expecting to head back to school for her MBA come the fall. That was 30 years ago.

While the letterhead has changed through a couple of company-level transactions and her title has changed through promotions and transfers, Magee never left her temporary summer job to return to school.

But that doesn't mean she's not enjoying an elite education. "I learn something, if not every day, certainly every week when I come to work," Magee says. "There is constantly a new challenge, constantly a new situation you haven't addressed before that keeps you interested. I'm still learning, and as long as I'm learning, I'm motivated."

Today, Magee is a director and head of industrial asset management for Clarion Partners, a real estate investment manager with a 33-year operating history. Headquartered in New York City, it has approximately $38 billion in assets under management across property types, including office, retail, industrial, multifamily residential and hotel. Clarion owns more than 1,000 properties on behalf of its commingled funds and separate accounts, serves more than 200 institutional investors and has approximately 275 employees.

Magee and the industrial team are responsible for more than 100 million square feet of industrial holdings with a value of approximately $8 billion. That includes about 565 buildings across 30 markets and some 1,300 tenants. And all of those numbers are growing. She's a self-described player-coach, maintaining responsibilities for Clarion's industrial portfolio in the western region, as well as overseeing the 12-member national team. "To lead a team of asset managers, I need to stay fresh in business," Magee explains. "I still get to be part of the actual asset management business, as well as the management of people business."

It's a big change from the college senior who wasn't entirely sure what she wanted to do except get an MBA while she figured it out. A business school professor told her about the summer job at Trammell Crow Company, and she figured it would be good experience. "At the end of the summer, they offered me a permanent job. I figured, 'I'll take this for a year, then go back to school.'" But hard work and success kept getting in the way. "They kept giving me more challenging responsibilities," Magee recalls. "Just when I'd think, 'I've got this figured out,' something new would come up. It was a very large, very active company."

"This is a great time to be in the industrial business. All the leading indicators are very positive. Availability rates are in single digits, probably the lowest since 2007, and demand continues to outpace supply."

STACEY MAGEE, CLARION PARTNERS DIRECTOR

In the early 1990s, an asset management job presented itself, and Magee dove in. In 2002, ING Clarion bought the Crow entity she worked for. Clarion Partners, which became independent again with a management buyout from ING in 2011, was a good fit, Magee says.

"It's the people and the culture," she says. Many of the people in Clarion's industrial group have been working together for a quarter century. "We just stuck together. We have a collaborative and supportive culture, and we actually like each other," she says.

But beyond the people she works with, it's clear that Magee loves what she does. Where others might see warehouses or fulfillment centers as unglamorous compared to office or retail space, Magee sees enormous potential and the chance to react quickly to changing environments.

"That's the one thing I really like about industrial: It stays relevant," Magee says. "Even in the downturn, sure we were all hit, but industrial typically fares a little bit better; you can react a little more quickly. You can turn off the spigot faster. For example, when we see signs of a downturn in industrial, we can turn off construction relatively quickly," Magee says. "It's a stable asset class."

Right now, the spigot is very much on, Magee says. "This is a great time to be in the industrial business," she enthuses. "All the leading indicators are very positive. Availability rates are in single digits, probably the lowest since 2007, and demand continues to outpace supply."

In addition to accelerating rent growth, Magee says, the recovery is broadening. While the big-box, big-credit businesses led the way out of the recession, "it's spread to smaller tenants and secondary markets," she says. "Consumer spending is up, and you've got to find a place to store those goods. Import growth is healthy; intermodal rail traffic is up; the gross

PHOTOS COURTESY OF CLARION PARTNERS

domestic product is expanding; the housing market is recovering. These are all very positive signs and drivers." For additional confirmation that things are looking up in the sector, she says, "I just look at the performance of our own platform, which is doing very well."

Magee says Clarion's industrial platform made $450 million in acquisitions of land and buildings through third quarter 2015. As Clarion was heading into the end of the year, approximately 12 million square feet were under construction, with another 7 million square feet in the pipeline. "We're growing pretty significantly," she says. "We have a very healthy appetite for growth in this cycle. We're still very actively pursuing deals both on the development and acquisition sides."

The explosive growth in e-commerce has provided industrial real estate with enormous opportunities, Magee says. "Our largest industrial tenant is in the e-commerce sector," she says. "They typically take very large buildings and make a big investment in terms of improvements.…It's been great for our business." With Internet retailers now moving into faster delivery, including same-day or even one-hour service, Magee says that means the sector is now moving into smaller sites closer to major cities and population centers, opening up new demand from e-commerce users.

"Our research group says e-commerce retail sales have been growing 21 percent annually since 2000 and account for approximately 9.5 percent of total retail sales, up from 0.8 percent in 1999," she notes. "That's phenomenal." And those e-commerce giants are typically very good tenants. "They're making a big investment in the building. They upgrade the power; they employ a lot of automation as well as a lot of employees. Their commitment to the building is pretty significant, and the leases tend to be a little longer," she says. "We like that."

Magee also likes working with companies that share Clarion's values and attention to the market. She says Colliers has helped Clarion find and close deals in critical markets. "In Northern California, we had tried for many years to grow our position in that market, but not a lot comes up for sale, and when it does, it gets really expensive." After working with the Colliers team on a lease in 2011, Magee let them know she was on the lookout. They didn't forget, even though nothing attractive was available right away. "This year, they didn't just help us to increase our Northern California position, they tripled it," Magee says.

Industrial Platform. *Clarion's portfolio of industrial properties includes business parks in Pennsylvania's Lehigh Valley (top) and Redlands, California.*

She tells similar stories of Colliers teams in Seattle and Chicago. "They've been a great partner," she says. "I trust them. That's big. They aren't just going to sell us something for the sake of making a deal. I know they aren't going to push a lease deal just for the commission." That's one reason Colliers' share of Clarion's business is growing.

"When you can have a culture align with the culture of the client, it makes it flow that much easier," Dwight Hotchkiss, Colliers International's president of Brokerage Services USA and national director of Industrial USA, says of the relationship between the two companies.

Hotchkiss says Magee helps brokers find her what she wants by being very clear about what that is. "If you ask anyone in the industry the thing about Stacey is she's a real straight shooter. She's always very clear about how and what the expectations are. I find her so refreshing to deal with."

Despite her high-profile national responsibilities, Hotchkiss says, Magee remains approachable and willing to dive into the nitty-gritty. "She's very hands-on and she has a lot of great relationships with brokers, people in the field and executive level both. She's a lot of fun," Hotchkiss says. "One of the reasons brokers enjoy interfacing with her is that she gets to know people and it's fun."

Again, Magee's emphasis on building relationships guides her work life. It seems to be a successful strategy, and she hopes to pass it on. "I worked hard, for sure, but I was also just in the right place at the right time with some really good mentors in the business," she says. "Now I'm in a role where I'm managing people more than I'm managing investments. That's what I enjoy most, working with junior talent and not-so-junior talent, helping them develop their careers just as my mentors helped me develop mine." KL

ADAPTIVE TRANSFORMATION

ADAPTING FOR SUCCESS

ADJUSTING ITS BUSINESS PLAN TO MARKET CONDITIONS, **PURE INDUSTRIAL REAL ESTATE TRUST** HAS CONTINUED TO THRIVE.

by **Ron Engeldinger**

Special Delivery. *PIRET acquired 10 FedEx sorting and distribution facilities, including this 199,865-square-foot facility in Austin, Texas.*

When conditions in the marketplace change, successful enterprises make adjustments. Pure Industrial Real Estate Trust (PIRET) is an outstanding example of an organization effectively adapting to changing circumstances. While not abandoning its original goals, PIRET was able to make focused alterations to its operating strategy in response to external conditions. In the end, the company has transformed itself and its operations, and is now even stronger and well-positioned for the future.

For more than five years, a well-managed yet aggressive, investment strategy paid off as PIRET grew to become one of Canada's largest public industrial real estate investment trusts (REITs). Internally managed, PIRET was launched in 2007 and was one of only a couple of Canadian REITs focused solely on industrial properties. The industrial property niche proved to be profitable.

The Taper Tantrum

By 2013, the company was in a high-growth mode, and investor sentiment was positive. Unit prices were trading above the net asset value (NAV). Since then, however, conditions in the marketplace have changed, and PIRET has successfully modified its strategy accordingly.

Kevan Gorrie, PIRET's president and CEO, points out that the "taper tantrum"—which refers to the surge in U.S. Treasury yields—in the summer of 2013 had a strong, negative effect on REITs. Interest rate uncertainty hammered share prices. Economists and investors tried to understand the effects of the U.S. Federal Reserve's decision to wind down its asset purchase program, known as quantitative easing. There was widespread fear of dramatic interest rate increases.

REITs are perceived to be particularly sensitive to rising interest rates, and publicly traded Canadian REITs suffered. The market capitalization of some dropped by as much as 25–30 percent. Gorrie reveals that, as a result, "the capital markets became much more difficult, and the cost of capital rose dramatically. This made it much harder to grow." PIRET's goal was to continue its growth, but market circumstances took away much of its ability to issue equity. It had to make changes in the way it acquired property.

PIRET management's response to the difficult environment has been to undertake a transformation in its game plan. While not abandoning its acquisition goals completely, it focused on becoming more well-rounded in its approach. The company continued to follow the acquisition strategy of purchasing properties in good physical shape with strong tenants. In 2013, PIRET had approximately 8 million square feet under management, and that has grown to about 17.5 million square feet today as the acquisitions continued.

However, the company has become more diversified, developing strengths and expertise beyond the acquisition and management of properties. Gorrie says, "PIRET evolved from a simple real estate aggregator to an asset manager, operator and developer. This was always our plan, but we had to implement the strategy much more quickly." This evolution has resulted in a more diversified company that can continue to thrive even during unfavorable market conditions.

A New Game Plan

PIRET's strategy to become a value-added investor in real estate consisted of four components. It began strengthening its balance sheet. It explored development opportunities to complement its acquisition goals. It focused on establishing venture relationships with strong partners, and it undertook a capital recycling program to improve the quality of its cash flow. The company focused on adding high-quality property and high-quality tenants while liquidating some lesser-performing assets at a profit.

Gorrie acknowledges that "fear of interest rate increases has changed the way we look at debt." In 2014, PIRET began to

"We are developing some of the best products in the country with a company that is at the leading edge of e-commerce and distribution."

KEVAN GORRIE on PIRET's acquisition of 60 acres of land in Vaughan, Ontario, for a modern FedEx distribution facility

PHOTOS COURTESY OF PIRET

strengthen its balance sheet by deleveraging. PIRET intends to maintain overall leverage within a range of 45 to 50 percent with a long-term goal of reducing it to 40 percent. This deleveraging has positioned the company to accomplish several lucrative real estate transactions without the need to issue new equity. "We are taking a measured approach to deleveraging and we plan to stick to that approach," he explains. At the same time, PIRET has continued to enhance unit holders' value through appropriate stock buybacks. This enables it to continue to make strategic investments.

The strengthened balance sheet has been instrumental in attracting new venture partners. In October 2015, PIRET announced the acquisition of a three-asset portfolio in partnership with Fiera Properties. The properties, located in Alberta and Manitoba, are occupied by stable tenants with long-term lease commitments. In the press release announcement, Gorrie commented that "this is the first transaction of what we expect to be a long and growing partnership."

Shipping News. *PIRET's 422,000-square-foot FedEx ground distribution and sorting center in Ontario.*

Moving into the U.S.

Also in 2014, PIRET moved into the U.S. market by acquiring 10 FedEx sorting and distribution facilities. The online shopping boom in recent years has driven strong demand for warehouse and distribution space. As a leader in logistics management and global transportation, FedEx is well-positioned to capitalize on the e-commerce trend. As Gorrie contends, "This was a key positive development for us. It took us to a different level with a leading global e-commerce service provider." Currently, PIRET has 13 properties totaling more than 3 million square feet in the U.S. and comprising approximately 22 percent of PIRET's net operating income (NOI).

The advantages of expanding into the U.S. are a stronger diversification of PIRET's portfolio and the ability to work with some very creditworthy, stable tenants. There are drawbacks, however, as tax and currency exchange matters can be unfavorable. Gorrie shared that the company plans to keep U.S. investments at around 20 to 25 percent of the overall portfolio.

Adding Value Through Development

Gorrie reveals that development has become a very important component of PIRET's strategy. The organization wants to continually add value to its properties beyond the underlying value of the real estate. Enhancing the value of the properties is important for creating a good product for PIRET's investors.

An excellent example of executing a value-added strategy is the project under way in Vaughan, Ontario. In partnership with Scannell Properties, PIRET acquired 60 acres of development land for the construction of a modern FedEx sorting and distribution facility that will serve the Greater Toronto area. At a cost of more than $100 million, this is one of the largest industrial development undertakings in Canadian history. "We are developing some of the best products in the country with a company that is at the leading edge of e-commerce and distribution," explains Gorrie.

The strategic changes that PIRET has made since 2013 continue to pay off. In 2015, oil price declines weighed down all sectors of the Canadian market, and the industrial REIT market is no exception. Gorrie commented that PIRET plans to hold the course. "We invested about $250 million in 2015, and we expect to be a bit below that figure in 2016. We are OK with that." With its value-added approach, PIRET can continue to grow through suitable acquisitions, increased development and capital recycling when appropriate. It expects this approach to continue to strengthen the balance sheet and grow cash distributions to the unit holders.

According to Gorrie, "What drives our decision making is simple. Will this improve the business? This is a simple business, and we don't want to mess it up." Guided by this philosophy, he adds, "The company has grown up and become more well-rounded."

As for the future, Gorrie is optimistic. PIRET has continued to flourish in spite of fluctuating market conditions. He maintains, "We are very confident about the future. The industrial real estate fundamentals in Canada and the U.S. are strong. The developments that we have under way will positively and significantly affect the future of the organization." KL

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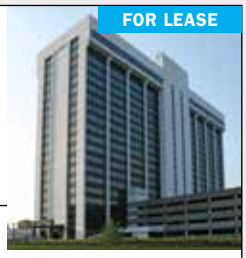

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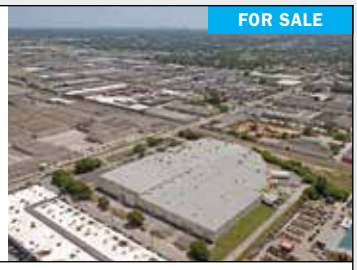

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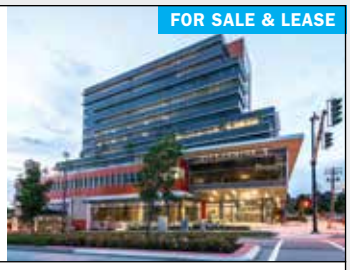

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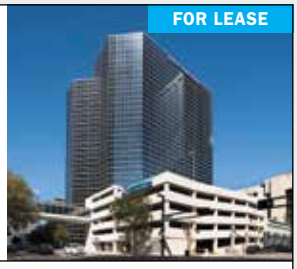

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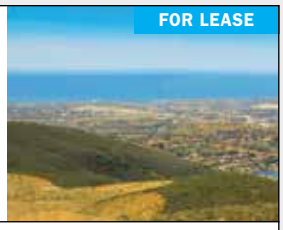

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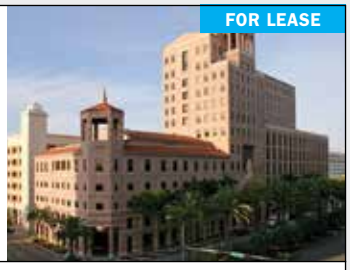

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INTERMODAL

Logistically Speaking

CenterPoint Properties is a leader in facilitating the distribution of goods.

By Ron Engeldinger

CenterPoint's Joliet/Elwood intermodal center.

IT'S AN AGE-OLD STRUGGLE for businesses: As the marketplace expands and goods are sourced from around the globe, customers demand an increasing selection and even faster delivery. At the same time, companies must aggressively control expenses. In response to these longstanding issues, Chicago-based **CenterPoint Properties** is developing new solutions. Jim Clewlow, chief investment officer for CenterPoint, explains that "a lot of companies are beginning to focus more on their supply chain as they look for ways to control costs."

Clewlow notes that container-ship capacities are growing—the largest ships can now hold as many as 19,000 20-foot containers. Limited storage space at the ports and expansion constrained by lack of available real estate make it a priority to get the containers off the ships and moved inland as quickly as possible. However, inland's inadequate infrastructure has created local logjams.

Chicago has always been a major transportation hub because of its geographically central location. Cargo was transported by rail from the ports to terminals in Chicago to be off-loaded and distributed regionally, but increasing inbound rail traffic has strained the region's infrastructure. According to Clewlow, "Cargo would only take two and a half days to travel from the Southern California ports, but it would take another two and one-half days moving it around Chicago."

To address this need, CenterPoint has become a leader in the development of intermodal centers. These facilities are located at the nexus of two modes of transportation, primarily rail and truck.

The volume of goods shipped into the country, especially from Asia, is increasing, driving the need for a more efficient transportation infrastructure. An inland port enables the speedy flow of cargo from ships to major transportation networks inland. Developed as full-service facilities in a campus setting, inland ports serve as centralized distribution points where the time-consuming activities of sorting and processing containers can be facilitated.

The company developed its first intermodal center just outside of Chicago at Joliet/Elwood, Illinois. Located at the intersection of cross-country rail lines and major interstate highways, the center is ideally situated for regional freight distribution. At more than 6,500 acres, this is the largest center of its kind in the country.

The success of the Joliet/Elwood facility led CenterPoint to move beyond its Chicago-centric focus. The successful acquisition of California Public Employees Retirement System (CalPERS) in 2006, led to CenterPoint's expansion beyond the region. The company began to develop a nationwide inland port and intermodal center platform. "CenterPoint continues to expand nationally by investing in real estate close to ports and intermodal centers," says Clewlow.

CenterPoint now focuses on acquisition, development, redevelopment and management of logistically advantaged industrial real estate and transportation infrastructure. The company currently manages approximately 55 million square feet of distribution and warehouse facilities across the country, and it expects the demand for intermodal centers to continue to grow.

Clewlow explains that the rapid growth of e-commerce is an ever-intensifying logistics story. To keep up with customer demand and be able to deliver goods faster than ever, merchants are looking for ways to establish more efficient supplier-to-consumer connections. They want to be able to deliver their products quickly. Strategically located distribution centers near intermodal centers are crucial for this approach.

Another trend in logistics is an increasingly competitive trucking industry. On-demand transportation services were pioneered in the passenger sector by Uber. Such services are now being developed for the commercial transportation arena. It is not yet clear how this new operational model will affect the industry, but Clewlow believes it will put even more focus on intermodal centers.

Industry trends point to continued emphasis on fast, efficient and cost-effective transportation of goods. Clewlow states that CenterPoint is well positioned to support these developments. "Since 2009, we have experienced a healthy expansion—including roughly half of our operating assets being outside of Chicago. We expect to continue to expand and continue to diversify nationally," he says. KL

PHOTO COURTESY OF CENTERPOINT PROPERTIES

RENAISSANCE

Positive Development

Jawl Properties is transforming Victoria, British Columbia's neighborhoods.

By Michelle Santos

DOWNTOWN VICTORIA, British Columbia, is undergoing a renaissance. Increasing job opportunities, metropolitan conveniences within culturally rich communities and a relatively affordable cost of living are drawing residents and companies to the provincial capital. Over the past 15 years, Victoria's full-time downtown residential population has surged; subsequently, amenities available to these residents have reshaped the city's retail, cultural and social landscape.

"Victoria used to become a ghost town after 5 p.m., when offices closed. This is no longer the case," states Robert Jawl, who is a director with **Jawl Properties**, a developer, owner and manager of premium office, retail and light industrial space in Victoria. Operating for more than 40 years and with a history of transforming mundane, underutilized spaces into bustling buildings that energize the neighborhoods they occupy, Jawl Properties has contributed to Victoria's revival.

The Selkirk Waterfront Community and The Atrium are two recent Jawl Properties developments that have enhanced the way Victorians live, work and play. The 27-acre Selkirk Waterfront Community is a former brownfield site that the firm redeveloped over a 20-year period. With the final phase complete as of March 2015, this office, residential and retail hub is a realization of "the mixed-use and human-scaled design objectives Jawl Properties and its design team established at the project's onset," says Jawl.

The Atrium, a 200,000-square-foot office and retail development, sits on what was previously a forgotten downtown Victoria block. Featuring large-scale floor plates and state-of-the-art building systems and amenities, it houses government-related offices and local, high-quality retailers and restaurants. Five years into The Atrium's operations, Jawl notes, "We're pleased to see the successful coexistence between a speculative commercial office development providing premium space for corporate office occupants, and engaging public spaces and uses."

Both developments embody Jawl Properties' mandate, which, in Jawl's words, is "to provide customers top standard office space solutions and deliver broadly shared value to the communities we operate within."

D'AMBROSIO ARCHITECTURE + URBANISM

Jawl Properties does not take the word "customer" lightly. Given that it retains and manages the developments it builds, the company takes more interest in occupant priorities and trends than the average landlord or developer. "We operate within a very competitive industry, and our whole team works hard to differentiate ourselves through very responsive and personalized customer service," Jawl explains. "Our team perceives a subtle but important difference between a 'tenant' and a 'customer.'"

Jawl Properties' customers benefit from the firm's model, which strives for top-tier construction, maintenance and service standards. "Building for our own account alters the incentives pertaining to construction quality," Jawl says. "We live with the implications of any suboptimal design or construction practices, so we tend to spend more time and capital on the front end to ensure our projects are built for efficient, sustainable, long-term operations."

Currently, Jawl Properties is developing two high-profile projects: ***1515 Douglas Street*** is a 300,000-square-foot office and retail complex across from Victoria's City Hall. Targeting Leadership in Energy and Environmental Design (LEED®) Platinum certification, it offers a slew of amenities and ground-level retail and dining options. The firm hopes the project will "establish a new quality standard for office premises within the city," says Jawl.

Its other current project, Capital Park, is a multiphased, mixed-use development on a 6-acre site next to the British Columbia Parliament Buildings.A partnership between Jawl Properties and Concert Properties, the project encompasses 400,000 square feet of office, retail and residential space within a network of courtyards, plazas and pathways.

Although Jawl Properties strives to be a catalyst for change, it keeps its core values constant. "We're a small company, and as we grow, we don't want to compromise our detail-oriented and highly personalized approach to construction and customer service," reflects Jawl.

Jawl Properties appears committed to searching for opportunities to undertake well-thought-out, carefully crafted developments that leave a lasting, positive impact within its hometown. "As company cofounder Bob Jawl is fond of saying, we will likely run out of capital long before we run out of interesting projects to work on. The trick for us is to remain adherent to our core values and project criteria, and be discerning," says Jawl. KL

From the President & COO

Emerging Markets

Collaborating for inclusive growth and development.

Dylan Taylor
President & COO
Colliers International

As we move further into the 21st century, emerging market economies (EME) will be a source of tremendous growth for the consumer sector and the logistics that support them. In its 2012 report "Urban World: Cities and the Rise of the Consuming Class," the McKinsey Global Institute projected that the top 600 cities (by contribution to global gross domestic product, or GDP) will generate almost 65 percent of global economic growth between now and 2025. The "Emerging 440"—440 cities of the top 600, located in EMEs—will account for 47 percent of that global GDP growth. These burgeoning economies are giving rise to a new urban consumer class, and developing cities must plan carefully to build the infrastructure and business environment that will support consumer needs. It is incumbent upon leaders in commercial real estate and its allied industries to help nations meet the increasing challenges of their growing urban populations with strategic urban planning.

One example of this type of partnership is the World Economic Forum's Future of Urban Development & Services (FUDS) Initiative, which makes innovative models and practices available to city and business leaders across the world. The initiative's members, global business leaders from diverse industries and backgrounds, collaborate with governments and development organizations to address their nations' near- and long-term goals.

For example, FUDS is assisting the Indian government with its 100 Smart Cities vision and recently released a new set of recommendations that focus particularly on India's stated goal of growth that is inclusive in terms of poverty reduction, regional balance, empowerment and equality.

As with FUDS' previous urban development projects in mainland China (Tianjin, Dalian and Zhangjiakou), India's unique urban challenges were examined from many perspectives, including infrastructure, technology, sustainability, policy and governance.

The FUDS report, prepared in partnership with Accenture, offers three strategic recommendations:

1. **Integrate spatial planning at all governmental levels: national, state and city.** The primary goal of spatial planning is to integrate housing, strategic infrastructure and urban infrastructure, and improve national and local governance in the context of urban development.

2. **Create a stable policy framework for private investment in urban infrastructure.** Once the right conditions for investors have been created, the government of India needs to look at the various tools available such as public-private partnerships, to enable investments in strategic infrastructure and urban development.

3. **Create institutions to stimulate capacity building and attract talent to grow businesses.** Organizations will be required to help the private sector increase the quality of white-collar service jobs and to attract investment in manufacturing capacity. India also needs "lighthouse" projects with the potential for interdisciplinary collaboration in the area of urban development.

The report highlights the urgency of addressing an estimated $80 billion to $110 billion infrastructure funding gap over the next 15 years—a shortfall that threatens India's ability to provide basic services to its growing urban population. There's broad agreement among international development organizations such as the United Nations, World Bank, International Monetary Fund and World Economic Forum (WEF) that public-private partnership (PPP) is a vital means of addressing this need.

The most important aspects of the FUDS report go beyond India's infrastructure funding problem. Also considered are the social, regulatory, technological and environmental impacts that these recommendations can have on India's cities and population. For example, several approaches for building the services sector through urban development are examined, using case studies from around the world.

By bringing India's planners and policymakers in contact with experts from many disciplines and by considering the challenge of urban growth from a holistic standpoint, WEF hopes to positively impact the living conditions and economic future of all of India's citizens for decades to come. The developed world has enjoyed the luxuries of a consumer class supported by global logistics for almost a century; now, a future in which emerging markets like India's growing cities have access to those luxuries is also coming into focus.

Collaborating with EMEs for inclusive growth and development is not just the right thing to do: The economic future of emerging urbanized economies is closely tied to our own. Our participation in solving these problems—by teaching *and* learning—is to our mutual benefit. KL

Vice chairman of the Real Estate Council of the World Economic Forum and a Delphi Fellow of Big Think, DYLAN TAYLOR *has a unique perspective on the factors influencing global business and the future of urbanization. You can find his blog entries at knowledge-leader.colliers.com/author/dylan-taylor.*

ILLUSTRATION BY KATHRYN RATHKE

COMPANY LISTING PLAN

One Premium Listing Plan Shared Across Your Company

Customizable Plans

Flexible plans allow you to purchase a set number of Premium, Platinum or Diamond Listings to share between the brokers in your firm. Plans start as low as 25 Premium Listings with the flexibility to add additional listings as needed.

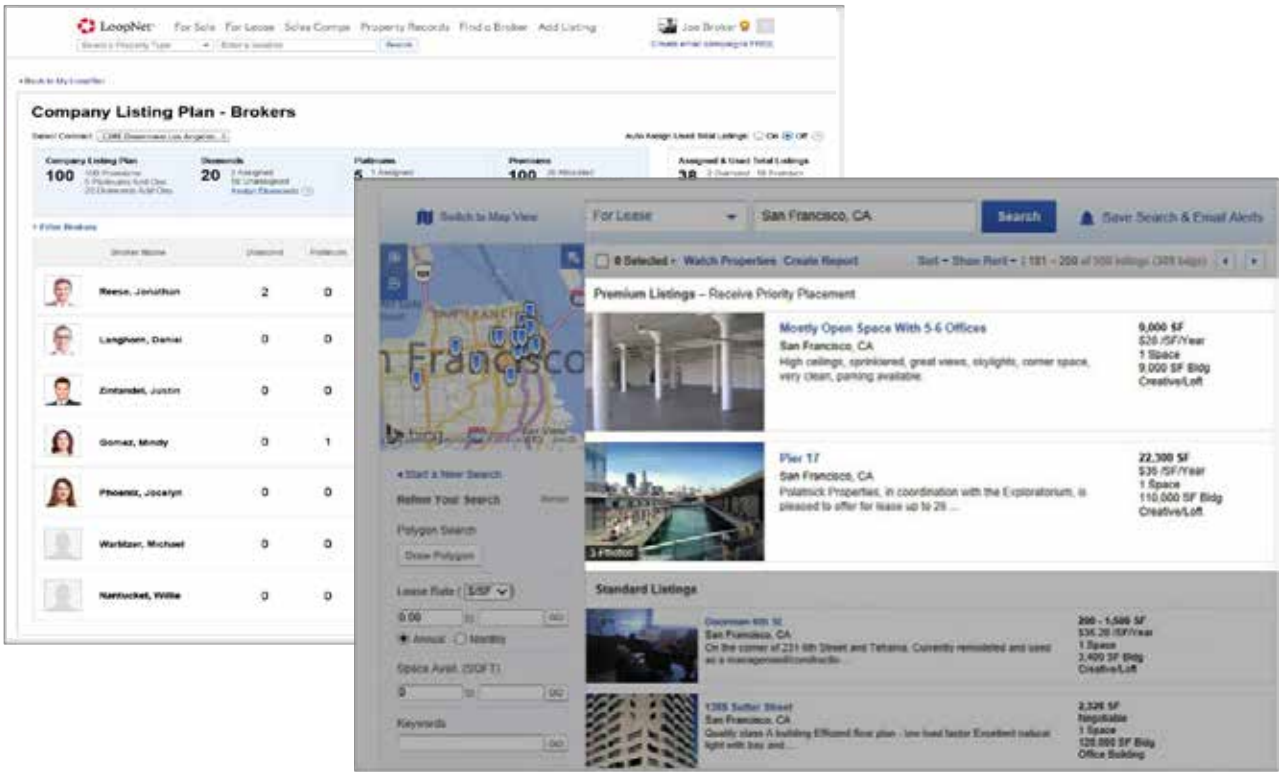
Unbeatable Exposure

All the benefits of Premium Lister including:

- Nationwide exposure to over 5 million monthly unique visitors
- Listings optimized for Google®, Yahoo!® and Bing®
- Direct contact with tenants and investors

Easy In-House Account Management

With the company admin dashboard you are in control. Make changes on demand with the click of a button, including Premium Listing allocation across the company and broker account management without having to call customer service.



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