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contents

COVER PHOTO BY ERIC POLITZER

From the Editors' Desk

DYLAN TAYLOR DAVID BOWDEN

IN BETWEEN THE LINES

LAST YEAR, a largely unknown inventor passed away at the age of 91. Norman Joseph Woodland, cocreator in 1949 of the simple bar code, had lived to see his idea become ubiquitous, a cornerstone of the logistics age and the launching pad for our online economy.

Despite Woodland's receiving a patent in 1952 for a bull's-eye-shaped bar code and the scanning system to read it, his idea wouldn't be adopted until 1973. Today, 5 billion products bearing UPC codes are scanned every day, according to the standards-setting organization GS1 US.

The bar code, with its thick and thin lines representing binary digits, was inspired by the Morse code which Woodland had learned in the Boy Scouts. The simple idea was so advanced that it would be 20 years before the necessary technology—inexpensive lasers for scanning, microprocessors to store and process coded data—would be available.

Since its adoption by the grocery industry, the bar code has also revolutionized point-of-sale transactions and inventory control. In 1999, PricewaterhouseCoopers estimated that the UPC code had already saved the grocery industry $16.5 billion; and the impact in category management, fulfillment and product promotion was projected to be at least $60 billion in the next 10–20 years in the grocery segment alone. The bar code's contribution to the field of logistics is, of course, inestimable.

Woodland and cocreator Bernard Silver—who died in 1962—sold their patent to the Philco Corporation in 1957 for $15,000. As is so often the case with ideas that reshape the world, no amount of compensation would be commensurate with their contribution.

The theme for this issue of *Knowledge Leader* builds on Woodland's legacy: supply chain and logistics. Our spring 2013 cover story is on Goodman Birtcher, the new investment partnership between global industrial giant Goodman Group and Birtcher Development, a fifth-generation development company. Learn how this unique partnership came about, and its impact on the future of e-commerce and industrial real estate in North America.

Additional topics include:

- Colliers' new *Port Analysis* report, which focuses on inland ports, the next step in the intermodal chain;
- Changes in distribution centers in the e-commerce age in this issue's Working Space department;
- The environmental impact of rail in this issue's CSR; and
- Onshoring and the new U.S. manufacturing renaissance.

We'd also like to thank the members of Colliers International's Logistics and Transportation Solutions team for their help and guidance on this issue of *Knowledge Leader.*

Dylan Taylor
Chief Executive Officer | Americas
Colliers International

David Bowden
Chief Executive Officer | Canada
Colliers International

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EXECUTIVE MANAGING EDITORS
Dylan Taylor and David Bowden

EDITOR
Teresa Kenney

ASSOCIATE EDITORS
Christine Schultz, Lex Perry, Aaron Finkelstein

ART DIRECTOR
Amy Wallace

PROJECT MANAGER
Heidi Page

CONTRIBUTING WRITERS
KC Conway, Doug Frye, Teresa Kenney, Robert Mandelbaum, Meghan McGarrell, Sheila Mickool, Cheryl Reid-Simons, Heidi Stout Tretheway, Karen West, Randy Woods

PROOFREADER
Sunny Parsons

ADVERTISING SALES
Jenna Badu-Antwi

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North America toll-free: +1 800 566 2706
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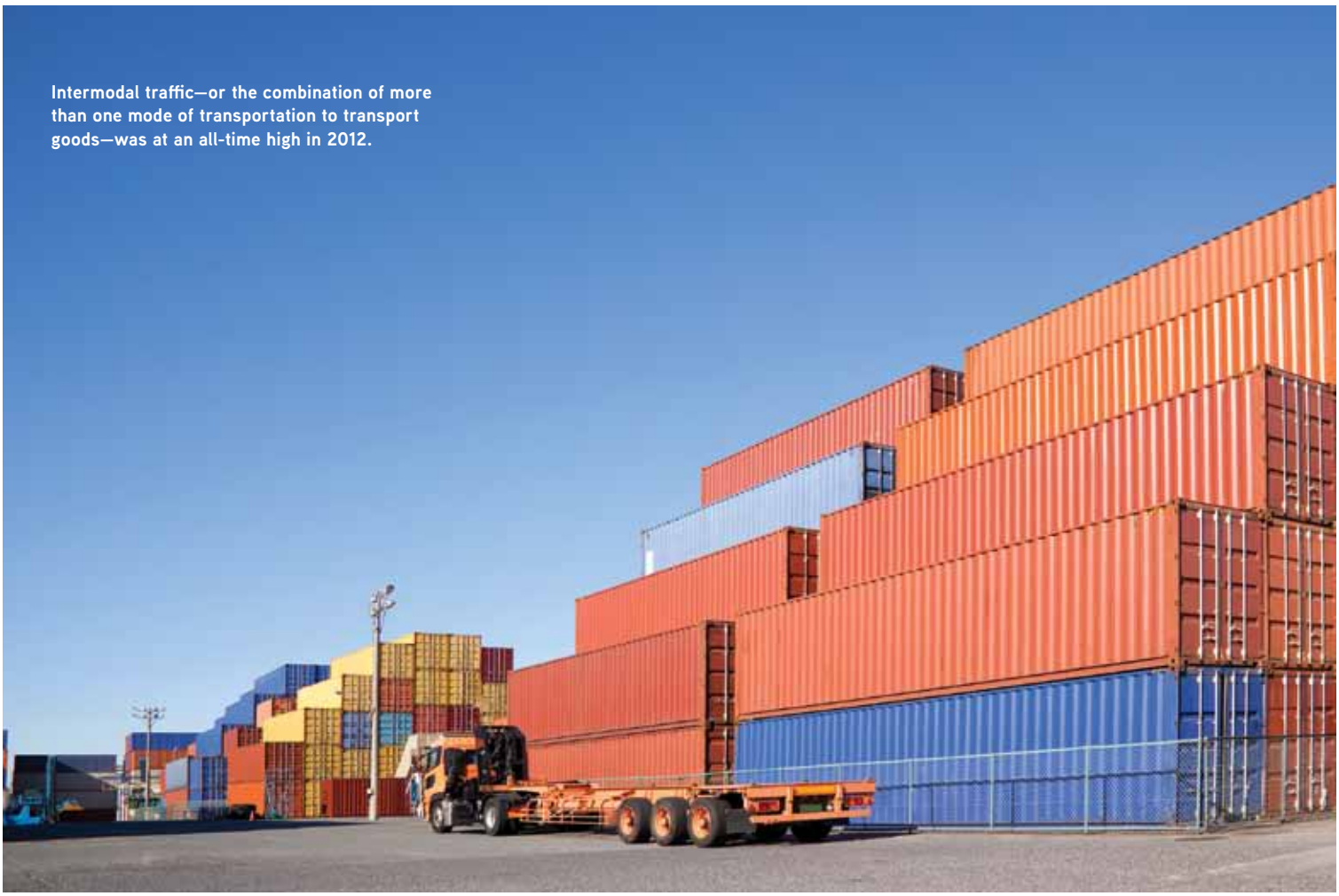


Intermodal traffic—or the combination of more than one mode of transportation to transport goods—was at an all-time high in 2012.

Port Authority

ANALYST KC CONWAY REVEALS THE RESULTS OF HIS LATEST PORT ANALYSIS REPORT. BY TERESA KENNEY

IN APRIL, Colliers International released its latest *Port Analysis* Report. The third in a series, the report examines evolving trade patterns resulting from the anticipated Panama Canal expansion in 2015, as well as emerging key inland ports and intermodal facilities in markets such as Baltimore, Indianapolis, Philadelphia and the Great Lakes, and the impact the anticipated expansion and changing markets are having on industrial commercial real estate.

"In the first report we examined the challenges and advantages of 70 of the U.S. ports. In the second, we looked at which ports are post-Panamax-ready. In this third report, we focus on intermodal infrastructures: Where do the goods go from the ports, and how do they get there? What are ports doing to eliminate obstacles and bottlenecks so that goods offloaded from ships can be efficiently transported to their destinations?" explains KC Conway, MAI, CRE, Chief Economist in the U.S. for Colliers International. "The theme is 'CapEx or Capsize.' Cities need to spend the capital to upgrade their ports, or risk capsizing their economies."

Key findings in the report include:

Intermodal Transportation: Intermodal traffic—or the combination of more than one mode of transportation to transport goods—was at an all-time high in 2012. Intermodal container volumes ended 2012 with 13.1 million moves, surpassing the previous year by 5.9 percent and the previous benchmark year of 2007 by 9.8 percent, according to the Intermodal Association of North America's *Intermodal Market Trends & Statistics* report.

Commercial Real Estate: Retailers and manufacturers are making real estate investment decisions based in large part on the ability of ports to offload materials and products and distribute them efficiently to the end user. "In the most recent annual report of the Asso-

> "Cities need to spend the capital to upgrade their ports or risk capsizing their economies." KC Conway, MAI, CRE, Chief Economist | USA, Colliers International

ciation of Foreign Investors in Real Estate (AFIRE), four U.S. markets were in the top five investment targets, globally: New York, San Francisco, Washington, D.C., and Houston," says Conway. "This is the first time the U.S. has dominated the list since the question was first asked in 2001. And what do three of the four markets have in common? Ports. Foreign capital is recognizing the importance of port markets to trade, manufacturing and the moving of goods. Ports are the safest place to put capital," he explains.

Labor Issues: Although the International Longshoremen Association strike was averted and the union has accepted an outline agreement, it must now be translated to the local level. "In November and December of 2012, there was a big clerical workers strike in California. The issues were supposedly resolved, but the national agreement was rejected by the local unions. So we have to wonder if the same thing will happen with the longshoremen agreement. Right-to-work states such as Virginia and Texas are likely to approve the agreement, while New York and New Jersey will probably reject it," says Conway. "When you have labor issues such as these, right-to-work states where the union is not as prevalent are going to be more attractive to shippers."

Latin America: Latin America is the next big growth opportunity for the East and Gulf coasts—similar to how the West Coast serves as a distribution point for Asia. "Latin America today is where the United States was in the 1950s, post-Depression. It's in the early stages of a growth economy with a newly developed middle class. They are looking for the American lifestyle and products: televisions, cars, media, etc. In fact, Walmart revealed in its 2012 fourth-quarter earnings that, for the first time, the net sales growth of Latin America surpassed that of Asia," says Conway.

Manufacturing: Manufacturing is returning to the U.S. (see related article on page 20). Factors such as a growing middle class in China—reducing the wage gap between the two countries—and the need for greater patent protection, more reliable energy and a more educated workforce for high-tech manufacturing are all contributing to its return. "In addition, food brands are recognizing that it is better to process food products targeted for Asia and Latin America in the U.S., then freeze and ship them, rather than ship the raw materials to their overseas destinations for manufacturing," says Conway.

Trade Routes: U.S. trade routes are evolving from east-to-west—the historical path of the country's railroad network—to north-to-south. "If you need to move raw materials and goods out of Canada to be processed and manufactured in the U.S. and then distributed in Mexico as finished goods, you can only do that through the Midwest and the Southeast, using the Gulf ports," explains Conway.

Foreign-Trade Zones: Previously, Los Angeles was the leader in foreign-trade zones (FTZs), but two-thirds of the country's FTZs are now in southeastern states, or auto manufacturing states and Texas now leads the country in FTZ import and export activity. An FTZ is an area at, or near, a port that is considered outside of the U.S. Customs territory, so duties only apply when products leave the zone for domestic consumption. "If you're an auto manufacturer and you have parts coming in to assemble and those components are taxed at a state or local level, that increases your costs. So having an FTZ in your market is a huge bonus," says Conway.

As with previous reports, Conway recognizes specific markets with his port awards, including the "Coalest Port" award to Virginia for its new automated coal facility, "Hottest Port Among Foreign Investors" award to Houston, "Top Global Air Cargo and E-commerce Port" award to Memphis and the "Disaster Recovery Tested" award to New York City for its response to the damage caused by Superstorm Sandy in the fall of 2012. KL

For a copy of the full report, visit colliers.com/us/insights.

spotLIGHT

THE PEOPLE, PLACES AND EVENTS SHAPING THE INDUSTRY

Colliers' South Florida office is marketing Blue Hole Bay (left) and Clove Cay (above).

NOW AVAILABLE

Head to the Islands

COLLIERS REPRESENTS MULTIPLE PROPERTIES IN THE BAHAMAS

NORTH AMERICAN COLLIERS INTERNATIONAL offices are representing prime Bahamas real estate, including one property that served as a filming location for two James Bond movies.

Toronto's Colliers International Hotels group has been retained by British Colonial Property Holdings Limited, as its international advisor for the sale of the British Colonial Properties in Nassau, Bahamas. The oceanfront British Colonial Properties includes the 288-room Hilton British Colonial, approximately 105,000 square feet of Class A office space and 6.1 acres of prime development land overlooking the Atlantic Ocean.

The 288-room Hilton British Colonial has been called the "Jewel of the Caribbean."

Situated in downtown Nassau, the property occupies the finest location at One Bay Street, near business and leisure opportunities. Coined the "Jewel of the Caribbean," the hotel was originally built in 1898, is a popular destination for both royalty and celebrities and has served as a filming location for *Never Say Never Again* and *Thunderball*. For information contact Alam Pirani (alam.pirani@colliers.com) or Robin McLuskie (robin.mcluskie@colliers.com).

Colliers International's South Florida office is marketing two iconic, star-studded islands in the Bahamas: Blue Hole Bay, Long Island, and Clove Cay. Neighboring islands are ultra-exclusive and owned by celebrities, business moguls and luxury resort operators. This rare opportunity offers a tempting blend of tropical seclusion and convenience, with access to amenities and air transport.

Blue Hole Bay encompasses approximately 180 acres and frames Dean's Blue Hole, a nominee for the New Seven Wonders of the World. At 663 feet, it's the world's deepest sea cave. With two miles of oceanfront, Clove Cay is a 144-acre island located at the southern end of the prestigious Exuma Cays, a worldwide destination spot for yachting, sailing and diving. For information, contact Xavier Cossard (Xavier.cossard@colliers.com) or Michael Fay (michael.fay@colliers.com).

GLOBAL NEWS

COLLIERS INTERNATIONAL OPENS TWO OFFICES IN ISRAEL AND SOUTH AFRICA

NEW PARTNERSHIPS BRINGING NEW OPPORTUNITIES FOR COLLIERS' CLIENTS

Colliers International is teaming up with two dynamic commercial real estate firms to establish offices in both Israel and South Africa.

In Israel, Colliers International has teamed up with New Target, one of Israel's leading commercial real estate consulting firms, to open an office in Tel Aviv. New Target will become a fully integrated part of Colliers and will rebrand to Colliers International.

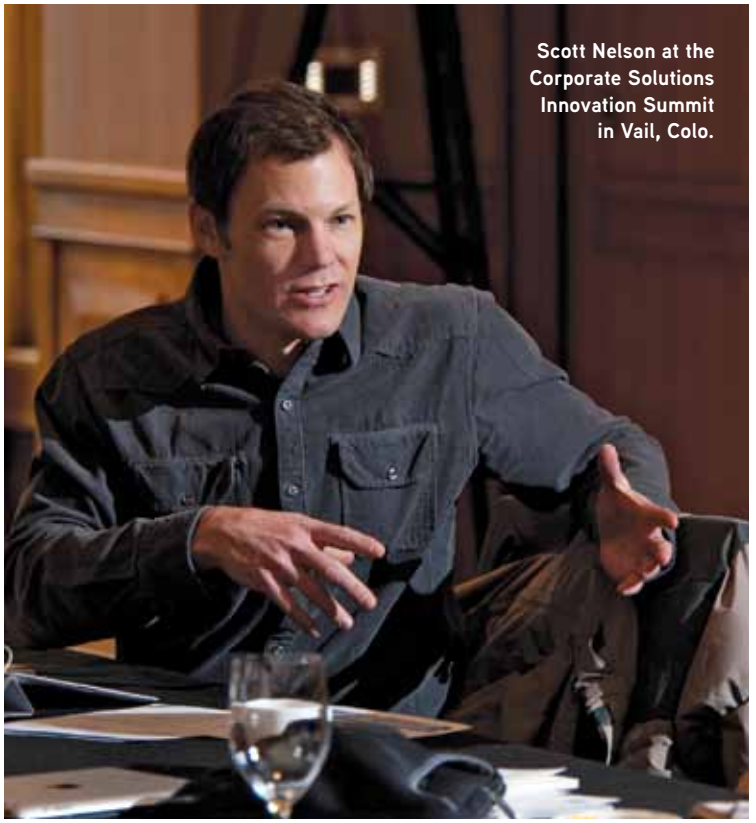
The new company, which is based in Tel Aviv, will be led by Ran Raviv, previously Chief Executive at New Target. "We have wanted to open a new office in Israel for some time now as we know there are great opportunities for us here, and we believe Ran and his team are the ideal partners to help us take full advantage of these," says Chris McLernon, CEO | EMEA for Colliers International.

In South Africa, Colliers is partnering with Chelsea Manhattan, the country's leading independent property consultancy. Chelsea Manhattan has offices in Johannesburg and Cape Town and advises local and international clients on properties in all major markets in the country.

Chelsea Manhattan will rebrand as Colliers and will be led by Mike Blair. "South Africa is a key market for Colliers International. It is an emerging market in terms of real estate and presents enormous opportunities for us and our clients. The addition of the Chelsea Manhattan and New Target business is part of our plan to grow and strengthen our EMEA business, both organically through our more than 100 offices, and through mergers and acquisitions," says McLernon.


Johannesburg


Tel Aviv



Scott Nelson at the Corporate Solutions Innovation Summit in Vail, Colo.

Q&A

EXECUTIVE INSIGHT WITH: SCOTT NELSON

PRESIDENT, CORPORATE SOLUTIONS, AMERICAS

AS HEAD OF THE Colliers International's Corporate Solutions business in the Americas, Scott Nelson is responsible for the development and strategy of the integrated services platform. He leads his team to push beyond traditional real estate service delivery, to use an in-depth understanding of clients' core business to deliver an outstanding service experience. In his 19-year career, he's served corporate occupier clients; under his leadership, Colliers Corporate Solutions in the Americas has grown 300 percent in three years.

What brought you to Colliers?

Being in the corporate services area of our industry for 19 years, I'd met and worked with many people from Colliers and our competitors around the world. From early on in my career, I was always impressed with the quality of the people at Colliers. In the summer of 2009, I saw a great opportunity to help Colliers grow its platform to better complement the outstanding culture. The strategic investment we made in new tools, talent and improvements to the Corporate Solutions platform has led to our dramatic growth over the past three years. It's exactly the vision that got me excited in 2009.

How did you get started in the business/industry?

I wanted to be an architect when I was a kid, and always had an interest in anything real estate. My first job after college was sales in the healthcare supplies and equipment industry, but I linked up with a recruiter looking to build the Atlanta office for a national tenant rep/corporate services provider, and I was hooked.

Who were your mentors?

In a passive way, my parents and my grandfathers, for sure—all of them had a tremendous work ethic and treated people with respect. In business, it was the CEO and owner of the company I first worked with in real estate—I learned so much about corporate services clients, what drives them, and how we can deliver value different from the competition.

Who are your role models?

There are several. My mom's dad built a very successful small business from nothing, was a great husband and father to a large family, and was just generally as solid a human as one could be. And my wife, for how she treats our two young daughters.

Favorite business book or writer?

I don't make enough time for reading. Although it's not a business book, one of the most entertaining I've read is Tom Wolfe's *A Man in Full*, because it went into real depth on the office real estate development business, and also was set in my home town of Atlanta. Also, a long time ago I read *Saving Big Blue* by Lou Gerstner, about the turnaround of IBM. To me, that continues to be very interesting given IBM's continued success today, particularly in business process outsourcing (BPO)—which is where I see our industry headed.

Words to live by?

"High expectations are the key to everything." – Sam Walton

How has real estate outsourcing evolved in recent years?

The tactical work of transactions, projects, facilities and lease administration is considered to be a "table stake" and the major players do it relatively well, and can subcontract where they don't have capability. Service providers now need to be able to deliver and commit to measurable improvements (such as savings and other performance categories) in order to compete at the highest level. This is a similar progression as the BPO industry, but real estate is behind. Service providers now are expected to assume risk. Beyond this evolution of the engagement structure, what differentiates for the client is thought leadership, customization and strategic value that actually helps the core business. KL

Selected as one of IREM's *2013 Women Changing the World of Real Estate Management*

Colliers International congratulates Karen Whitt, who has received national industry recognition by the Institute of Real Estate Management for her enterprising spirit, thought leadership, and high standard of service excellence.

Karen Whitt
CRM, RPA, CRE

U.S. President & COO | Real Estate Management Services

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Hanging Up and Logging In

AS THE WAY TRAVELERS COMMUNICATE CHANGES, SO TOO MAY THE WAY HOTELS CHARGE.

BY ROBERT MANDELBAUM

THE WAY TRAVELERS COMMUNICATE on the road has changed dramatically over the years, and these changes become evident when analyzing the revenue earned by U.S. hotels from their guests for use of telecommunication devices and services. In lodging-industry parlance, "telecommunications revenue" includes monies received from the guest use of hotel room phones, fax machines and Internet connections.

According to PKF Hospitality Research, LLC (PKF-HR), telecommunications revenue at the average U.S. hotel in its annual *Trends® in the Hotel Industry* survey sample has declined from a peak of $1,274 per available room (PAR) in 2000 to $269 PAR in 2011. This represents a 79 percent decline. During the 1990s, telecommunications revenues used to account for 3 percent of total hotel sales. In 2011, that number declined to just 0.6 percent of sales.

Not only has telecommunications become a minor revenue source, it now actually costs most hotels to provide telephone service to its guests. In 2011, for every dollar of telecommunications revenue earned, the average hotel in the *Trends®* sample spent $1.46 to pay for the cost of the calls, switchboard operators and other telecommunications department expenses.

Cell Phones and Calling Cards

The initial decline in telecommunications revenue during the period 2000–2009 can be easily explained—first, by the increased use of calling cards, and then by the increased number and use of cell phones. In addition, the number of hotels offering local phone calls on a complimentary basis grew dramatically during this period.

While telecommunications revenue is still significantly below its previous peak levels, PKF-HR has observed a slight uptick the past two years at the average hotel in the *Trends®* sample. Telecommunications revenue has increased from $178 PAR in 2009 to $269 PAR in 2011, an increase of 51 percent.

Certainly the recovery of the lodging industry from the depths of the 2009 recession has contributed to the recent growth in telecommunications revenue. The 9.5 percent increase in the number of rooms occupied at the average hotel in the study sample most likely contributed to a rise in spending throughout the property. However, when you analyze the data on a dollar per occupied room (POR) basis, telecommunications revenue has increased by 38 percent in the past two years. Guest spending on phone service and the Internet has increased from $0.77 POR in 2009 to $1.07 POR in 2011. In other words, the guests who are staying in the nation's hotels are beginning to spend more on telecommunications.

Internet Fees

At this time, PKF-HR does not possess sufficient information to offer an exact explanation, but we believe it is an increase in the monies collected from Internet connections that is driving the growth in telecommunications revenue that has occurred during the past two years. We have heard from our clients that compared to 2008 and 2009, managers are less likely to concede complimentary use of the Internet when negotiating corporate and group contracts. Furthermore, more hotels are beginning to follow the successful paths of those chains that have always opted to charge for Internet connectivity.

A tiered pricing structure based on connectivity speed is the current trend in hotel Internet charges. While this practice will most likely not restore the profit-producing days of the old telephone, it will most likely curtail the slide in telecommunications revenue until the next wave in communication technology comes along. KL

Robert Mandelbaum is Director of Research Information Services for PKF Hospitality Research, LLC (www.pkfc.com). He is located in the firm's Atlanta office. This article was first published in the December 2012 edition of Lodging.

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Déjà vu or Vujà dé?

IS 2013'S ECONOMIC OUTLOOK A REPEAT OF 2011–2012, OR WILL THIS YEAR BE SOMETHING ENTIRELY DIFFERENT? BY KC CONWAY, MAI, CRE

THE FIRST HALF OF both 2011 and 2012 saw above-trend gross domestic product (GDP) growth, only to see momentum flag as the GDP turned in a growth figure below 2 percent. As we head into the second half of 2013, the question on every one's mind is "Are we going to see more of the same?"

In some respects, yes: 2013 will leave us with a feeling of déjà vu. However, the year is also likely to be unlike anything we've seen before—or, as comedian George Carlin called it, "vujà dé."

Here are some key factors to monitor:

Congressional dysfunction: After two years of harmful "UV"—uncertainty and volatility—rays, the market needs clarity. Unfortunately, 2013's early indications are that Congress remains incapable of making an assault on banning rapid-fire, $1 trillion budget deficits. This kick-the-U.S.-budget-deficits-down-the-road strategy has material consequences for job growth, GDP, inflation and interest rates. On this factor, it's déjà vu all over again.

Debt-to-GDP and U.S. credit rating: The U.S. currently has a debt-to-GDP ratio of 103 percent, third worst behind only Italy (120 percent) and Japan (212 percent). The $15.1 trillion U.S. economy is no longer growing at a rate sufficient to sustain $1 trillion annual deficits. Failure to address this is driving foreign investors to divest themselves of U.S. currency and sovereign debt in favor of tangible assets, such as commercial real estate. Look for another year of $1 trillion deficits and a flood of foreign capital into U.S. commercial real estate. It's déjà vu here, too.

U-3 versus U-6: Unemployment will remain a confusing metric in 2013. The official U-3 unemployment rate—which includes the labor force that is unemployed and actively seeking employment—started off the year with an uptick to 7.9 percent, but it is likely to fall to near 7 percent by year-end from unemployed workers losing their unemployment benefits. The U-6 total unemployment rate remains at 14.4 percent, however. The U-6 rate includes the U-3 number, as well as the number of individuals who are working part-time for economic reasons but need full-time work.

Bernanke balance sheet and interest rate benchmarks: The most vujà dé factor of all is the change in composition of our central bank. New Federal Reserve presidents from fiscally conservative districts opposed to quantitative easing, such as St. Louis and Kansas City, Mo., just rotated onto the federal open market committee (FOMC), and Federal Reserve Chairman Ben Bernanke retires at the end of 2013. President Barack Obama's appointments will have a material impact on interest rate benchmarks, such as the 10-year Treasury bond, and whether the Fed's balance sheet balloons beyond 20 percent of GDP ($3 trillion).

Monitor the construction activity of retailers remaking their supply chains with new distribution and logistics centers.

New jobs and "ICEE" versus "FIRE": 2011 and 2012 both saw an average monthly job growth of approximately 150,000 jobs. The new reality is that, in an increasingly technological era, 150,000 new jobs per month may be all the country is capable of creating, because the U.S. today can produce a lot of GDP without a lot of workers. The distinguishing local aspect to monitor is intellectual capital, energy and education (ICEE) markets versus finance, insurance and real estate (FIRE) markets. This year, we will continue to see those metropolitan statistical areas (MSAs) with an ICEE economy create more jobs than traditional FIRE markets by a ratio of at least 2-to-1.

Autos and housing: It's déjà vu for both strong auto sales (predicted to be 15 million new cars in 2013) and the housing recovery. At last, the market is functioning without the artificial stimulants of Cash for Clunkers and housing tax credits. A natural replacement cycle is under way as Americans replace older, inefficient vehicles with newer, high-mileage automobiles. And, the National Association of Home Builders/First American Improving Markets Index is the best macro and locally translatable measure of housing's recovery. Even rising interest rates (up to 200 basis points) won't derail these two vital economic drivers in the second half of 2013.

Rail Time Indicators: The Association of American Railroads' *Rail Time Indicators* report will reveal the true U.S. manufacturing and trade story. Intermodal traffic continues to grow, as does rail employment. Trade with Latin America and the new post-Panamax port additions along the East and Gulf coasts will fuel the industrial real estate locomotive in 2013. Monitor the construction activity of retailers remaking their supply chains with new distribution and logistics centers to reveal industrial market opportunities in places such as Charleston, S.C.; Baltimore, Md.; Denver, Colo.; Indianapolis, Ind.; Memphis, Tenn.; and Fort Lauderdale, Fla.

CMBS 10/75: Commercial mortgage-backed securities (CMBS) have made it through the first wave of refinancings and held defaults to a 10 percent ratio. There is now a new euphoria about increasing 2013 CMBS issuance by 50 percent—from just below $50 billion in the past two years to $75 billion. That is definitely vujà dé for 2013. However, keep in mind that a second refi wave is coming in 2015–2017 as the 10-year term loans securitized between 2005 and 2007 mature. Take advantage of this capital markets window in 2013.

ONEi: This relatively new metric is the On Numbers Economic Index (ONEi) produced by The Business Journals. On a monthly basis, the 40 local business journal publications rate the top 102 MSAs on a range of measures that define which MSAs are in a strong recovery or growth mode. ICEE, secondary and port markets lead in this index, and reinforce the ICEE versus FIRE and the port markets' growth trends. If you want to be number one in performance with your real estate portfolio in 2013, make sure you are monitoring ONEi.

In summary, a changing central bank and the threat of a second U.S. debt downgrade are likely to be the most market-moving events this year. The fundamentals in housing, autos and manufacturing are in good shape for a strong second-half rally after a weak first half due to congressional dysfunction. Take advantage of the window of opportunity being provided by improving CRE fundamentals, an expansion of the capital markets and reawakening CMBS issuance. This window may not be open as wide in 2014. KL

Click and Mortar

THE E-VOLUTION OF DISTRIBUTION/WAREHOUSE DESIGN.

BY RANDY WOODS

E-COMMERCE HAS RADICALLY CHANGED the retail landscape over the last 15 years, forcing many businesses to close their brick-and-mortar operations and move toward leaner fulfillment centers that provide "just in time" delivery systems.

But these e-commerce changes don't necessarily mean the end of warehousing as we know it. In fact, the new reality of digital commerce has created demand for more purpose-built facilities that are customized for the specific needs of a single retailer. Eventually, market pressures for increased customization of distribution centers may become a new driver of speculative construction activity.

"In the last few quarters, new inventory has been primarily build-to-suit or occupier-driven improvement," says Guy Preston, Vice President of Colliers International's Industrial Services Group in Jacksonville, Fla. "It appears we're reaching an inflection point where rents and occupancy have recovered enough to make speculative construction feasible."

Last fall, Preston's team helped complete a $9.5 million e-commerce facility deal in Columbus, Ohio, for sports merchandise retailer Fanatics, Inc. The Jacksonville-based retailer purchased a 514,000-square-foot, 68-acre facility in the Columbus area, formerly owned by Longaberger Co., a manufacturer of baskets and housewares.

Longaberger had opened the distribution facility in 2000 as part of its multibuilding, 1.7 million-square-foot industrial park, but was able to move its distribution crew of 61 employees to other parts of its campus. Today, its former building is now Fanatics' second U.S. distribution hub.

Opposite page: E-commerce facilities must address higher employee density, increased fire safety issues, the need for more employee parking and company-specific materials handling equipment needs.

Securing the deal, however, was not easy, Preston says. After a long search, his team narrowed it down to 15 buildings in three different states that met the minimum criteria for e-commerce. Some of the limitations they faced were common to others looking for e-commerce space.

According to Preston, some of the main criteria for siting an e-commerce facility, in comparison to a traditional warehouse/distribution center include:

1. Higher employee density

E-commerce needs more human employees, Preston says. While a traditional 500,000-square-foot facility might have 100 employees, an e-commerce hub may need 500 to handle the complex, individual shipping orders from customers. "You have so many people picking and pulling merchandise and preparing it for shipping all day, it almost becomes like a manufacturing operation," he says. "About 10 to 20 percent of these properties are used as office space, while in traditional warehouses, it's just 5 percent or less."

To make room for these extra employees, Preston says, warehouses are closing some loading dock space and truck courts to use for employee parking. "In some buildings they used to utilize 80 doors for semis, but now they only use about 20," he says. "E-commerce warehouses usually receive products from semis and run out packages in FedEx or UPS trucks. You're not going to have semis going out as much, so you can use that space for employee parking."

2. Increased fire safety concerns

E-commerce properties are no more prone to fire than any other warehouse, but the higher employee density (and resulting layout) can make egress more difficult. In some cases, property owners must add more fire exits by punching holes in the walls or adding external fire escapes.

"These facilities have a much higher clearance height, and not all employees work on the floor," Preston says. "Some work platforms are three or four stories high, so you have to have an exit strategy for those employees. The fire marshal will also require that employee workstations not exceed a certain distance from the nearest exit."

3. Larger parking lots

With five times more people being employed, you also need to squeeze in five times more cars, a requirement that repurposing existing space may not meet. Unfortunately, many existing warehouses don't have a lot of extra adjacent land to handle such an increase.

To make matters worse, e-commerce orders tend to ramp up in the fall before the holiday season, forcing retailers to add staff in their distribution centers exactly as they might in their traditional retail storefronts. So property owners may struggle to find room for an additional 500 daily seasonal workers.

"What industrial buildings have an extra 5 to 10 acres of land to spare?" Preston asks. "Fortunately in the Columbus deal, there were 30 acres of adjacent land in surplus. You don't see that too often."

4. Customized systems

Finally, there is the reality that e-commerce requires precise itemization and tracking systems, so no two fulfillment center operations are alike. Even if an inexpensive materials handling equipment (MHE) system currently exists, the amount of work that must be done to customize it eliminates any savings.

While searching for the Fanatics site, Preston says, he saw a former Abercrombie & Fitch facility that came with an intact storage and retrieval system, including three miles of functioning conveyor belts. "It looked like a steal at first, but it wasn't designed for the [Fanatics] layout," he recalls. "We realized that taking it all apart for scrap would have been a cheaper and faster solution to delivering a MHE package than converting the existing fulfillment center."

In a traditional warehouse, "racking is racking—you can always use that anywhere," he adds. "But for e-commerce, at the end of the day, conveyor systems are specific to each user's operation and can cost $30 million plus."

More to come

Building customized e-retail warehouses appears to be a trend with legs, Preston says. General demand for e-retail warehouse/distribution centers is rising, with many facilities expanding to between 500,000 and 1.3 million square feet.

While this industry niche has not yet experienced speculative growth, Preston says he's starting to see more activity and increasing interest from municipalities that are eager to attract new business. In the Columbus facility deal, for example, the state of Ohio approved an eight-year, 65 percent state tax credit to Fanatics for bringing in an extra 240 permanent jobs to the region this year, a figure that could rise to 300 by 2016.

"These are decent jobs, too, that pay $10 to $12 per hour," Preston adds. "Cities just love these buildings for the jobs they bring in, so expect to see more of them in the future."

The new reality of digital commerce has created demand for more purpose-built facilities that are customized for the specific needs of a single retailer.

GOODMAN ENTERS U.S. MARKET

BY CHERYL REID-SIMONS
PHOTOS BY ERIC POLITZER

Greg Goodman is CEO of Goodman Group, one of the largest industrial property groups in the world.

Australian industrial property company Goodman Group partners with Birtcher Development to form Goodman Birtcher.

Who would have imagined that a conversation over a cup of coffee would ultimately lead to a $1.5 billion partnership that's taking on the North American commercial real estate market? But that's precisely the genesis of an alliance between Australia's Goodman Group—one of the largest industrial property groups in the world—and Southern California–based Birtcher Development & Investments (Birtcher)—a fifth-generation company specializing in industrial and logistics development. The new company—known as Goodman Birtcher—combines Goodman Group's global funds management and development capabilities and Birtcher's local market expertise.

The introduction of these two formidable companies was made by Colliers' Southwest Regional Managing Director for Valuation & Advisory Services, Jason Lund. How did an appraiser become integral to such an enormous undertaking? It started at a commercial real estate panel in California's Inland Empire that both Lund and Birtcher CEO and President Brandon Birtcher served on. "As we were leaving, Jason said, 'I have an opportunity that I'd like to share with you. Let's have a cup of coffee,'" Birtcher recalls. Over coffee, Lund asked if Birtcher would be interested in finding a platform-financing vehicle. "I found it startling," Birtcher says. "He was so observant about something I never discussed during my speech."

Lund was familiar with the Goodman Group because he'd been working with them for some time, traveling to Australia at least twice a year to talk about the markets. He knew the group—which has a global presence in 18 countries and works with international corporations such as Amazon, Excel, Kuehne + Nagel, OfficeMax and Kimberly-Clark—was ready to move into the North American market. Lund had a gut feeling that Birtcher was the right partner to help it do so.

"Brandon sees the world the same way [Goodman Group CEO] Greg Goodman does," Lund says. "His personality was such a great fit; in their bones they're both developers and deal guys." Both men have been building properties their whole lives: Birtcher is a fifth-generation developer, while Goodman developed his first property as a 19-year-old university student. Neither can imagine doing anything else.

Soon, Birtcher, Lund and Birtcher's National Director of Development and Acquisitions, Shannon Hondl, were boarding a plane for Sydney. By the end of that week, they were leaving with a signed letter of intent in hand. Shortly after, the Goodman team flew to the U.S. to tour the properties that would be the basis for the new company's entry into the market.

Goodman says it was easy to see that Birtcher's company was precisely the North American partner they had been looking for. Their businesses and visions for the future were well matched, and both companies were on solid footing. "Brandon's enthusiasm and connections, and understanding of what we were doing and what we wanted to accomplish in North America made it a very good strategic fit," says Goodman.

A little less than two years later, and "The relationship is going better than we could have expected," notes Goodman. Goodman Birtcher has secured four development sites: two in the Inland Empire, one in Oakland, Calif., and another in Pennsylvania's Lehigh Valley. In total, the properties have in excess of 9.8 million square feet of gross leasable area and a combined completion value of more than $700 million.

"INDUSTRIAL AS A CLASS IS BECOMING MORE IN FAVOR because of the growth of online retail, and financial institutions understand this. There is more money today around the world for industrial development than in the last 20–25 years. E-commerce is changing the face of industrial, making it a far more vibrant market."
Greg Goodman, CEO, Goodman Group

THE GROWTH OF E-COMMERCE AND INDUSTRIAL REAL ESTATE

A significant component of Goodman's strategy is to serve the burgeoning e-commerce sector. With the evolution of online retailing and the push for ever-shorter delivery windows, the company is poised to deliver the kinds of logistics and distribution spaces that are in growing demand.

"Industrial as a class is becoming more in favor because of the growth of online retail, and financial institutions understand this," Goodman says. "There is more money today around the world for industrial development than in the last 20–25 years. E-commerce is changing the face of industrial, making it a far more vibrant market.

"It's a paradigm shift in the marketplace," he adds. "And it's a generational shift. If you've got grandchildren, you know they do everything online."

Globally, Goodman has already been taking advantage of the new paradigm. "We have $2.4 billion in development around the world, and 40 percent of it is e-commerce or e-commerce related," Goodman says. Indeed, Goodman is the largest developer for Amazon worldwide.

"We've been working our way up through Asia and into Europe," Goodman says. The plan has always been to come to North America. "It's fair to say we would have been there sooner, but the global financial crisis put our plans on hold until the markets adjusted," he explains.

During the height of the global financial crisis, "the future of American real estate was foggy at best in any sector," Birtcher says. "But one thing was clear to me: Distribution systems of North America were changing radically in a way that even the [global financial crisis] couldn't put down."

During the deepest parts of the U.S. recession, "Class I railways of America were continuing to invest," Birtcher says. "Add to that changes in regulations for trucking … it's all changing the future model for site selection and making inland ports more important than ever." The specter of cap and trade taxes and rising fuel prices, along with a push toward same-day delivery, will also continue to drive changes in industrial development.

KEY U.S. MARKETS

Goodman sees North America as an opportunity for a developer with a strong track record—like Goodman Birtcher. "The size and scale of the U.S. market is the largest globally, and will continue to be so over the next 10 years," Goodman says.

Although the U.S. e-commerce market is more mature than in places such as Brazil, Goodman and Birtcher both recognize that there is still plenty of room for growth. And with a $400 million investment from the Canadian Pension Plan Investment Board already secured—bringing the total capitalization to $890 million—they clearly have little difficulty getting capital behind their vision.

Goodman Birtcher is focused on the development of, and investment in, prime quality logistics and industrial facilities in key locations across North America. "We're only focusing on prime markets," Goodman says. "In the development pipeline we've got north of about a billon and a half U.S. dollars, which we will develop out over the next few years."

In addition to the sites already acquired, Goodman is looking for opportunities in the key West Coast logistics hubs of Los Angeles, San Francisco and Seattle, with New York, New Jersey and Philadelphia to be targeted on the East Coast. Other logistics hubs based around inland ports, intermodals and tier-one ports are also being considered.

Colliers International's Jason Lund (center) made the introduction between Goodman (right) and Brandon Birtcher (left), CEO and President of Birtcher Development. Goodman and Birtcher subsequently joined forces to form Goodman Birtcher.

DEVELOPING PROPERTIES AND CUSTOMER RELATIONSHIPS

In keeping with the Goodman model worldwide, Goodman Birtcher will be holding its properties and managing them for the long haul.

"Large customers rolling out 1 million square feet want to know that someone can finance it and they want to know who's going to own it. We develop and hold 90 percent of what we develop," Goodman says. "When we're talking about big customers, we build for them, and they know we'll own it and manage it for them. They know we're going to live with the asset for the long term."

The size and strength of Goodman will also ensure that as those large customers' needs change and evolve, the property company will be able to evolve with them. "From our point of view, we can handle all those outcomes because the customer relationship is the basis of our business. A building is just what houses that customer relationship," Goodman says.

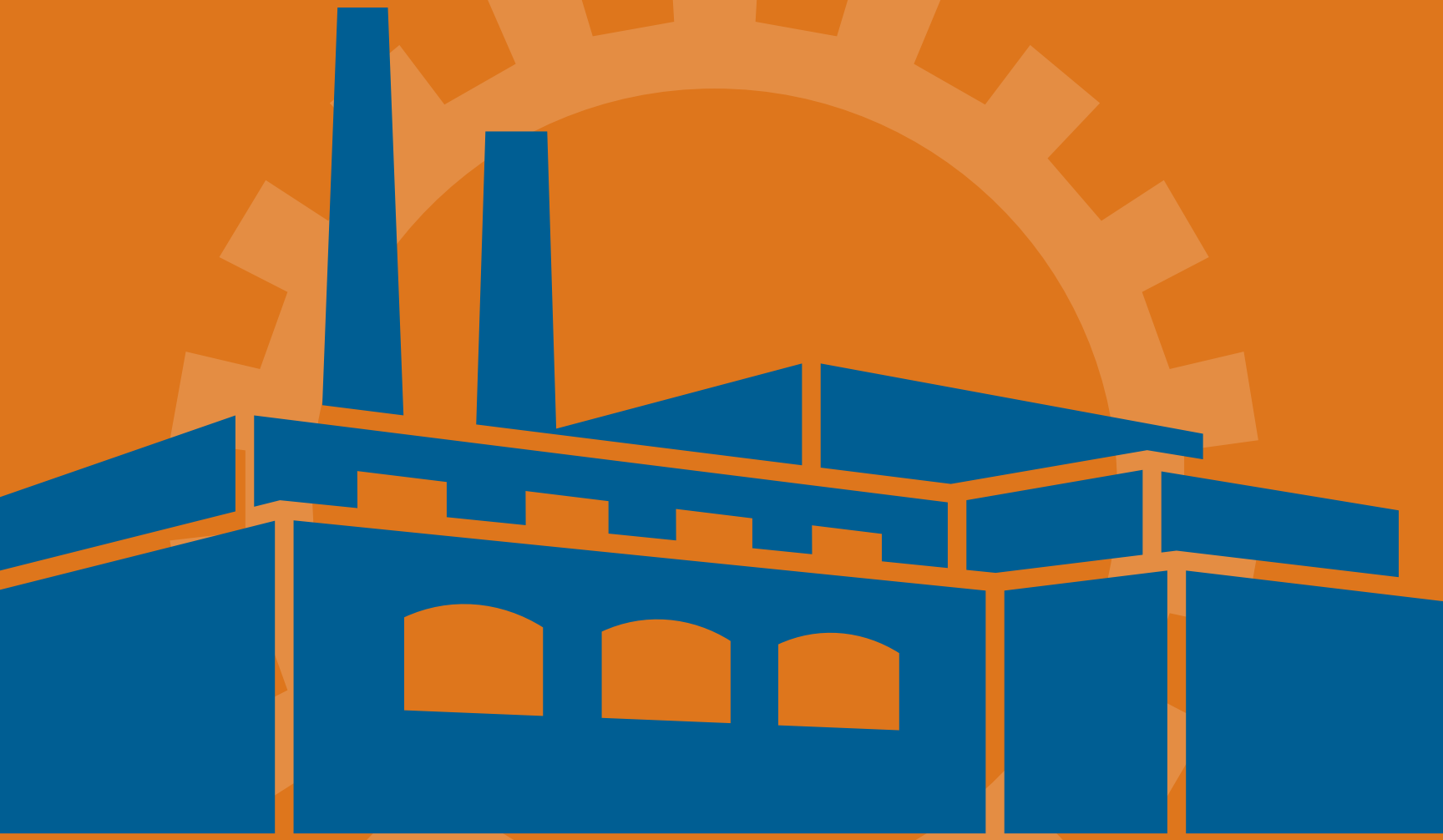
Around the world, Goodman was already among the largest developers, even without a U.S. presence. The expansion into the huge North American market will only increase the company's profile.

And it all started with an appraiser and a cup of coffee. The coffee may not have been memorable, but Birtcher says the appraiser certainly was, praising Lund's perceptiveness and interest in all areas of real estate, not just valuations. "Jason played many roles that were far beyond what an appraiser would normally get involved with," Birtcher says.

For his part, Lund sheepishly says he's afraid it sounds "cheesy," but he was inspired by his very first weeks as a Colliers employee when a client engagement seminar stressed the importance of working as a team with other service lines. "That was a different mindset from where I'd come from," he says. "It made sense and inspired me. Not many companies work that hard on training their people to help other people [in other service lines]."

Birtcher credits Lund for being able to see the big picture, even when it isn't, strictly speaking, in his job description. "He's a very perceptive executive and was able to connect the dots to create an opportunity for two companies." KL

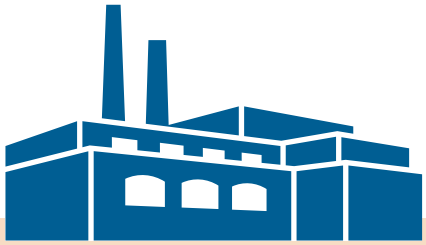
WELCOME



ONSHORING IS FUELING A RESURGENCE IN U.S. MANUFACTURING.

SHEILA MICKOOL

BACK



According to KC Conway, MAI, CRE, Chief Economist in the U.S. for Colliers International, the United States is experiencing a domestic manufacturing renaissance. In his *North America Industrial Report Q3 2012*, Conway wrote that "reliable industry data suggests expansion is ongoing and the outlook is good for 2013." Since the report was published, Conway has become even more optimistic. "Japan has plans to bring more auto plants stateside, and Germany is considering doing the same," he says. "Latin America is the new 'playground,' and manufacturers will have to be located in the U.S. to get goods there quickly."

Onshoring—or bringing operations back to the U.S.—is one of the factors driving this growth. In its report *Made in America Again: U.S. Manufacturing Nears the Tipping Point*, The Boston Consulting Group—a leading business strategy firm—advises companies to reassess their plans for production overseas, focusing on the real cost of producing overseas, not just labor. By 2015, Boston Consulting expects that "the total cost of production for many products will be only about 10 to 15 percent less in Chinese coastal cities than in some parts of the U.S. where factories are likely to be built."

Working in the U.S.'s favor is its skilled information technology and engineering workforce, attractive tax incentives, right-to-work laws in many states, infrastructure (especially power), low natural gas prices and the decline of the U.S. dollar. Add to that the growth of wages in China, quality control issues, lack of intellectual property protection overseas and the high cost of shipping, and doing business abroad is becoming much less desirable.

The practice of going global by being local is especially true in industry segments with high-tech manufacturing or high-quality craftsmanship requirements. General Electric manufactures most appliances in China, but has started producing cutting-edge, low-energy water heaters and high-tech refrigerators in Kentucky. Walmart's U.S. president announced that the company will buy an additional $50 billion in U.S. products over the next 10 years. Caterpillar decided to shift some of its production from abroad to Texas, and furniture maker Sauder is moving production back to the U.S. from low-wage countries.

Knowledge Leader sat down with industrial brokers across the country and found, for the most part, that the outlook for manufacturing is very good:

Duke Suwyn

THE MIDWEST

Manufacturing is definitely picking up, says Duke Suwyn, SIOR, CCIM, CEO and Principal of Colliers in West Michigan. "There is no question. We've been seeing this for a few years in West Michigan," he says. Fueling the growth in his market is a highly skilled labor force and the fact that West Michigan has operated as a non-union area for a long time. Michigan is now a right-to-work state, which has only accelerated demand. "Every manufacturing plant in our market that is of current construction with quality infrastructure is leased or sold," he says. "The low-tech, high-volume stuff is not coming back, but the high-tech, low-volume production is definitely returning. The entrepreneurial, high-quality, quick-response type products are here. It's an exciting time to be in industrial," Suwyn says.

Hagood Morrison

THE SOUTHEAST

Hagood Morrison, SIOR, Senior Vice President and Principal of Colliers International in Charleston, S.C., agrees—and with good reason. The Brookings Institute ranked the Charleston/North Charleston/Summerville metro area first nationally in manufacturing job growth from 2010 through 2011. South Carolina is a right-to-work state with a highly skilled labor force and has the global connections and transportation resources necessary to compete in this new manufacturing era, says Morrison. "Charleston has access to a port that is almost post-Panamax ready (deep enough to handle larger vessels after the Panama Canal expansion is completed in 2015); is a principal load center for equipment, autos, lumber and paper; and is attractive to clients seeking a more efficient supply chain and the ability to respond quickly to their consumers," Morrison says.

In the last two years, Morrison has seen a number of U.S. and foreign companies expand production lines or start new production in the region, including BMW, Cummins and Michelin. In addition, InterWrap, a Canadian company with a distribution center in South Carolina, decided to add manufacturing. And Sarla Performance Fibers, a textile company headquartered in India, opened its first-ever U.S. facility in South Carolina's Colleton County.

Grant Miller, Vice President of Colliers International in Charlotte, N.C., has definitely noticed an uptick in the last six to nine months. "Furniture manufacturing is coming back from overseas, especially the higher-end products where craftsmanship is important. Clients want to keep their shipping costs low and be able to respond to consumers more quickly," Miller says. Textiles had moved to South America, but are also starting to return to North Carolina. Gildan Activewear just announced that it will open a yarn-spinning plant in Salisbury.

Grant Miller

Miller has also noticed Chinese and European companies moving into the area, and cites Charlotte's central location and good labor pool as the draw. Miller's most significant challenge is the low supply of suitable manufacturing facilities with the requisite power, high ceilings and quality infrastructure required in today's high-tech manufacturing environments.

NEAR-SHORING

THE VIEW FROM MEXICO


Rafael McCadden

Ten years ago, China was the place to go for companies looking to cut production costs, says Rafael McCadden, Director of Industrial and Logistics for Colliers International in Mexico. "Brazil was the popular choice from 2006 to 2010. Now, it's Mexico's turn," says McCadden. "Mexico is on a roll." The country is firing on all cylinders, quite literally: Its number-one industry is automotive, and the country is now the fourth-largest automotive exporter in the world.

The numbers are staggering. While other regions were struggling, Mexico's economy grew 3.9 percent last year. It's the number-one parts supplier to the U.S., with more than 80 percent of its exports in all industries, ranging from aerospace and electronics to medical equipment and surgical kits, shipped stateside. "But it's a two-way street," McCadden says. "Last year trade between Mexico and the U.S. grew 7.9 percent, with exports from the U.S. to Mexico growing at a whopping 9 percent. Exports to the U.S. from Mexico only grew by 5.6 percent.

Investment in Mexico pays off for U.S. companies, McCadden says. Production and logistics are becoming regionally based, and companies find nearshoring production to Mexico attractive financially. Mexico is politically stable, doesn't have the banking challenges other countries face and protects intellectual property. With the average age of its baby boomers being in the mid-20s, a standard 48-hour workweek and pay for capable engineers at $650 per month, the labor pool is ample, productive and cost-effective. "Oil prices help Mexico, too," McCadden notes. "It's expensive shipping to and from China, and it takes weeks. For Mexico, we're talking days." *Sheila Mickool*


Gary Mabray


Mike Taetz

THE THIRD COAST

It is the oil and gas industry, both domestic and international, that drives manufacturing in Houston, according to Gary Mabray, SIOR, Principal, and Mike Taetz, SIOR, Principal and Director of Colliers International in Houston. And that industry is hot, hot, hot—with oil and gas exploration, natural gas production, and coal and oil exports all contributing to a boom in manufacturing and distribution. In addition, many of the raw materials needed to support manufacturing in other regions—such as natural gas and steel production in South America—are now sourced from Houston, adding to the city's manufacturing growth. In this robust environment, Houston's most significant trading partners are Brazil and Mexico.

Houston is also a pivotal import/export hub, Mabray says. The expansion of the Panama Canal will be a boost to its port, which ranks first nationally in international waterborne tonnage handled. A lot of that is related to the petrochemical industry, with crude and chemicals going in both directions. Rail lines will be extending connections to both Chicago and Mexico, further strengthening Houston's role as a distribution hub.

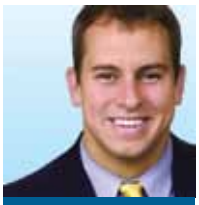
Taetz met recently with the Norwegian Consulate to discuss options for manufacturers in Houston. "We are very diverse internationally, with more foreign consulates here than any city but New York," he explains. Mabray says they've seen an influx of companies from Europe, many of which are related to the metal side of the oil and gas industry, such as steel suppliers, specialty steel and specialty alloys. "The political climate, the incentives, our free trade zones, the ports, and the availability of land and labor bring people to our market," says Taetz.

THE WEST COAST

In Southern California, aerospace drives the growth, reports Clyde Stauff, SIOR, Senior Executive Vice President of Colliers International in Irvine, Calif. Both Boeing and Airbus are located in the region and draw suppliers. Goodrich, part of United Technologies, makes hoists for helicopters and recently leased a 100,000-square-foot facility. B/E Aerospace—which makes cooling units for Humvees and helicopters—moved into a 90,000-square-foot facility. Panasonic renewed a lease on its 450,000-square-foot facility for avionics in Lake Forest Park, Calif.


Clyde Stauff

Stauff is also seeing companies move onshore. Foxconn, Apple's principal manufacturing partner in China, opened an assembly and distribution facility in the City of Industry, Calif., and is looking at manufacturing space. Amada, a Japanese company with the world's largest laser manufacturing plant, just opened a state-of-the-art laser manufacturing facility in Brea, Calif. With a deep-water port ready for post-Panamax ships (Long Beach), the high demand for property, the availability of cheap financing and the proximity to Mexico, Stauff expects growth to remain strong.


Ryan Sawyer

CHALLENGES STILL EXIST

Despite the good news, certain markets continue to experience contraction. "The trend may have started, but there are markets with abundant space and labor that need leasing, including Conyers, Ga., which is located right outside Atlanta," says Ryan Sawyer, Assistant Vice President of Colliers International in Atlanta. "I personally have more than 500,000 square feet and 31 acres available, and a possible consolidation could add another 100,000 square feet to an already saturated market," he adds.

Still, the U.S. is experiencing a renaissance in manufacturing in industries where highly skilled labor is required, quick response to customer needs is paramount, and overseas shipping and production have become costly. This strength in manufacturing will also drive growth in other segments. KL

Manufacturers returning to the U.S. are focused on markets with strong, distribution channels so that they can get their goods to their customers more efficiently.

SARLAFLEX LOCATES IN SOUTH CAROLINA

Sarla Performance Fibers, a Mumbai, India–based producer of yarn and threads, located its first-ever U.S. manufacturing facility in Colleton County, South Carolina. Operating under the name Sarlaflex, the company will ship most of its product to the Caribbean and Central America.

Sarla sought a location in the U.S. in an effort to close the distance gap to its customers. "When they saw the 300,000-square-foot brick building, which had previously been used for textiles, it was love at first sight," says Heyward Horton, Economic Development Director, Colleton County Economic Alliance (cceainc.com).

The building needed work, but was perfect for Sarlaflex—it had an under-floor air-handling system, utilities tunnels, robust wiring and power service, and is a structure that could support adding an extrusion-equipment penthouse.

The North American Free Trade Agreement (NAFTA) and Dominican Republic–Central America–United States Free Trade Agreement (CAFTA-DR) also made this a good move for Sarla. By establishing enough manufacturing in the U.S., Sarlaflex will be able to label its products "American made," and benefit from tax advantages. "It's a win-win for all parties," Horton says.

This is the company's first plant in the U.S., and Sarla cites the state's positive business environment, skilled workforce, market access and close proximity to the Port of Charleston as reasons for locating in South Carolina. *Sheila Mickool*

PIRET (pī-rĕt): Canada's largest internally managed public real estate investment trust (REIT) focused purely on industrial properties.

Right Place, REIT Time

Pure Industrial Real Estate Trust is a small team of real estate operators with bold acquisition goals.

BY MEGHAN MCGARRELL

"We have a **VERY LOW COST OF CAPITAL,** and I think we've earned it. We've made good acquisitions that add **STABILITY AND QUALITY** to our portfolio. We have a bias and focus on **QUALITY DISTRIBUTION PRODUCT,** and I don't think anyone else is as focused on the product that we're looking for." *Kevan Gorrie, President, Pure Industrial Real Estate Trust (PIRET)*

It has been pronounced many ways: "pirette," "pi'REIT"—those who mistakenly believe it is a French company have even mispronounced it as "Pirée." Yet, Pure Industrial Real Estate Trust (PIRET; properly pronounced "pirate") has a clear focus that cannot be mistaken: PIRET is Canada's largest internally managed public real estate investment trust (REIT) focused purely on industrial properties.

The company sprouted from seemingly humble beginnings. Darren Latoski and Stephen Evans, now PIRET's Co-Chief Executive Officers, owned Sunstone Realty Advisors, which specialized in private-equity-style opportunity funds, investing predominantly in retail real estate. Sunstone had raised more than $350 million in equity to acquire 60 properties totaling more than $800 million. In August 2007, when Summit REIT, Canada's only industrial REIT, was privatized by ING, Latoski and Evans saw an opportunity to fill the void in the Canadian REIT universe. The pair recognized that there were no pure-play industrial REITs in Canada, and it was also apparent to them that industrial product itself is a strong investment channel for REITs with very stable income. Believing that the time was ideal to establish the REIT, that same year they launched the initial public offering (IPO), which at the time was $20 million—an amount some may consider rather modest.

Six years later, the team now consists of a nucleus of six players. Latoski and Evans lead PIRET's office in Vancouver, British Columbia, in conjunction with Chief Financial Officer Francis Tam, who brings more than 15 years of specialized financial experience in real estate management and development. Based in the Toronto office are Vice President of Operations Heidi Tibben, who runs all property management and leasing, and Mike Lazier, Director of Acquisitions, who works very closely with President Kevan Gorrie.

Hailing from Oxford Properties as Vice President of Industrial, Gorrie assumed his role as president of PIRET in October 2012, and leads asset management, acquisitions and strategic initiatives. Gorrie's education and background are in engineering, and he holds an honors degree in civil engineering from the University of Toronto. He also brings 15 years of real estate experience to PIRET. "I think that industrial, as I have learned coming from the pension side, is the most entrepreneurial asset class in real estate. You have to be very nimble. You have to be able to look across the table at someone and agree on the basic terms of a deal over a conversation. That's how quickly it can move, and you have to stand by your word. So, I really like the culture that we have here because it's not too big or bureaucratic," Gorrie explains.

Describing the benefits of working with a small team, he says, "When we look at doing a deal, it's not a long-winded process. It goes without saying that there are governance mechanisms in place, but we have the ability to move quickly and fluidly with deals. It doesn't take as long as perhaps a larger company would to build consensus on a deal."

Being fairly new to his role as President of PIRET, Gorrie notes that one of the largest differences—and perhaps the most challenging aspect of working for a REIT—is raising capital. "As with any REIT, we rely on the support of the public capital markets to acquire and to grow. Whereas with a pension fund, you have a single and rather captive capital source," he explains.

He and his team have clearly been up to the challenge, however, because

PIRET's portfolio includes this Class A industrial building in Vancouver, B.C.'s Fraser Port.

PIRET has been successful with the support of its investors and investment banks. In January, as part of its equity offering, PIRET announced $129 million of acquisitions, broken down into six separate acquisitions nationwide, from British Columbia to Quebec. The assets are primarily located in Vancouver, Alberta and Toronto, which reflects PIRET's acquisition focus moving forward.

So what is facilitating PIRET's success across the country? The company continues to maintain and grow its transaction credibility.

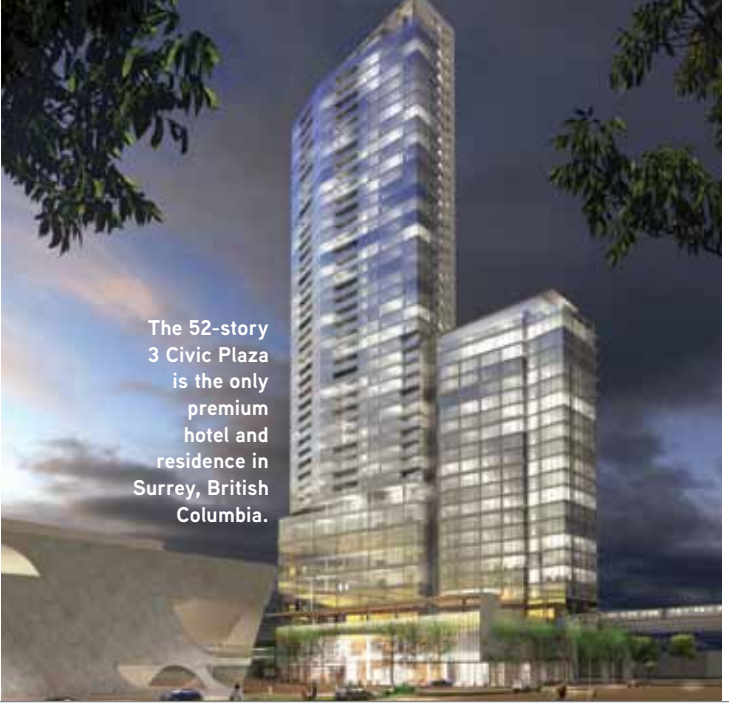
PIRET has completed 90 deals since the beginning of 2010. "We've built up trust and strong relationships in our markets," explains Gorrie. "We are the first call or at least the second for a lot of people, and I think that really is where our success lies. We can provide a response very quickly and we can signal our interest to move forward in a very short period of time; and I think that decisiveness is what the brokerage community is looking for most of all."

When asked what the future holds for PIRET, Gorrie responds with confidence. "We're working on building the highest-quality pure-play industrial portfolio within the public markets. Where our portfolio currently stands is very strong, and it's getting better every day." PIRET has stated publicly that it expects to reach a market capitalization of $750 million by the end of 2013, and to hit $1 billion by the end of 2014, suggesting a $2 billion–$2.5 billion portfolio, resulting in more than 20 million square feet. "We're focusing on modern, institutional-grade distribution product," explains Gorrie.

Given the robust investment market over the past couple of years, many look to gain insight from established REITs and their outlooks for 2013 and beyond. The positive outcomes PIRET is experiencing in the early stages in 2013, paired with its success in 2012, make Gorrie optimistic that it is going to be a very active investment transaction market in 2013. "I think we are going to be very competitive," he declares. "We have a very low cost of capital, and I think we've earned it. We've made good acquisitions that add stability and quality to our portfolio. We have a bias and focus on quality distribution product, and I don't think anyone else is as focused on the product that we're looking for."

With the U.S. fiscal cliff at the end of last year, the markets significantly slowed down and investors withdrew money from the market. So in 2013, will REITs be passé or will there be continued demand for profitable yield product?

"We have seen really strong signs that there has been continued demand," responds Gorrie. "In January, we went out to raise $50 million in equity, and demand greatly exceeded our requirement. There has been tremendous demand, not only for our stock, but for good-yield product in general. Part of it is a change in demographics; the population is getting older. I heard somebody say the other day, 'Well that's retail investors, but what about the institutional investors?' Well, who do you think their clients are? Their customers are the ones who are buying mutual funds and other investment products, and they are looking for yield." KL



The 52-story 3 Civic Plaza is the only premium hotel and residence in Surrey, British Columbia.

CHANGING THE LANDSCAPE

SURREY CITY DEVELOPMENT CORPORATION'S GROWING PORTFOLIO BENEFITS THE BRITISH COLUMBIA CITY'S BOTTOM LINE AND THE COMMUNITY'S DIVERSE NEEDS AND OBJECTIVES. BY MICHELLE SANTOS

COMBINE REAL ESTATE development expertise, a proven track record, charisma and humor, multiply it by two, and you get Aubrey Kelly and Josh Anderson, Surrey City Development Corporation's (SCDC) Chief Operating Officer and Development Manager, respectively. SCDC is a developer wholly owned by the City of Surrey, British Columbia, and its mandate is to "generate positive financial returns from the city's real estate holdings and to help achieve community objectives."

If SCDC's industrial flagship development, Campbell Heights North Business Park, is any indication, it's safe to say the developer is fulfilling its mandate to a T. The business park offers build-to-suit clients the opportunity to purchase one-acre-on-up sites zoned, fully serviced, vacant industrial land.

The development speaks volumes about SCDC's high caliber of work. A 250-acre project is a significant undertaking, but SCDC rose to the occasion. The firm is now in the process of selling Campbell Heights North Phase II, having completely sold out Phase I.

"We were uncertain how Campbell Heights North would be received," Anderson reflects. "But it's had amazing success."

"It's the first true development project we brought to market," Kelly adds. "Campbell Heights North, in a way, reversed the initial perception of SCDC. This property has allowed us to demonstrate that we're a collaborative developer with flexible options for end users and other developers…that we're about partnering and facilitating development."

Kelly was raised in what he described as "a construction family." After moving to British Columbia in 1993, he worked for a property developer that was also involved in construction, allowing him to delve into both arenas. "I went towards the development side because of the job opportunities it offered; plus, I enjoyed it more," Kelly says. "I liked seeing a project get started versus getting involved just in the construction phase; being in the front end was a better match to my personality."

While Kelly grew up immersed in the concept of building a structure, Anderson was interested in the process of designing one. "I had a passion for architecture and design," he says. "So I went to planning school and eventually got the opportunity to work as a planner at the City of Vancouver." Anderson's career took him abroad: first to Abu Dhabi in the United Arab Emirates, where he helped build large-scale development schemes, then to Singapore, where he worked for a developer that specialized in residential master planning. Last year, Anderson returned to Vancouver, where he found a "good fit" with SCDC.

Anderson speaks of the responsibility that comes with developing property for the City of Surrey: "We have a huge opportunity to be creative and set a strong precedent in a community that's growing very quickly. But given that and who our shareholder is, we have a very small margin for error."

"A lot of developers, particularly in the Vancouver lower mainland, focus on one or two asset classes as the core of their businesses. Focusing primarily on Surrey, we have to be flexible in the types of assets we get involved in. We get exposed to various parts of the market, not just multifamily or industrial. There is no area of development that's not our area. We have a blank canvas; it's 'real' real estate development, an open statement," says Kelly.

While SCDC strives to meet its financial objectives first and foremost, it also strives to meet community, civic and environmental objectives, maintaining a "triple bottom line." Case in point: SCDC's 3 Civic Plaza. The 52-story structure is the only premium hotel and residence in Surrey. Located adjacent to the new City Hall, it combines retail, hotel, office and residential space, making it a true mixed-use property that fulfills Surrey's full spectrum of needs: live, work and play.

3 Civic Plaza is being developed in partnership with Century Group and Patrick Cotter Architects, a venture Kelly and Anderson say significantly contributed to the property's success. In fact, SCDC prides itself on its successful ventures with private sector partners—ventures the company carefully considers prior to pursuing.

"A partner's reputation has to be irreproachable," states Kelly. "Our partners need to be recognized as emergent leaders in their subsegment of the market. At the end of the day, our ventures must benefit both parties; there's no such thing as a silent partner."

It's exactly the type of reputation that Kelly advises people entering the industry to build and maintain. "In this industry, you see the same faces wherever you work. So keep your reputation intact. Don't burn bridges. Build those relationships. While people do jump from company to company, reputation is what you trade on."

Adds Anderson: "It's important for young people to look for mentors. Talk to people at an early age. Get yourself out there and maintain relationships."

Hillshire Brands transformed an underutilized, 60-year-old, Class C Art Moderne building into this beautiful brick-and-glass structure.

MISSION IMPOSSIBLE

HILLSHIRE BRANDS' BRIAN HUNTER HANDLES A LEASE TERMINATION, A REDEVELOPMENT PROJECT AND THE RELOCATION OF 500+ EMPLOYEES—ALL IN LESS THAN 12 MONTHS.

BY SHEILA MICKOOL

BRIAN HUNTER, VICE PRESIDENT of Real Estate and Facility Services for Hillshire Brands, likes a challenge. And this one was a whopper. As it turned out, Hunter was up to the task.

Late in 2011, executives at Sara Lee Corporation decided to streamline operations and spin off part of the business to better position the firm for long-term growth. They spun off the international coffee and tea business, but retained the meat products division—brands such as Jimmy Dean, Hillshire Farm and Ball Park—as well as the Sara Lee frozen dessert line of products, including perennial favorites like its cheesecake and pound cake. The new company that emerged was renamed Hillshire Brands in early 2012.

These changes meant reducing the workforce from more than 1,000 employees to a little more than 500. Wanting to create an environment that more significantly energized the company and fostered creativity, Hillshire Brands' executives evaluated the feasibility of moving corporate headquarters from suburban Downers Grove, Ill., to Chicago. For such a move to happen, they wanted a state-of-the-art building—although exactly where was yet to be determined. The management team envisioned something unique, and wanted everything done within 12 months so that the corporate move could occur in December 2012. Brian Hunter was tasked with the job of making it all happen.

"We didn't have much time," Hunter recalls. "We wanted to be in as soon as possible if we were going to move. That was the mantra." For help, he called Bob Chodos, SIOR, and Steve Levitas, both principals of Colliers International in Chicago. Within 45 days, Chodos and Levitas analyzed stay/move scenarios, identified potential backfill tenants for the Downers Grove site, located a downtown Chicago off-market redevelopment option that fit the "needle-in-the-haystack" requirements, and negotiated a comprehensive 15-year design-build lease for nearly 235,000 square feet with the building's owner, Sterling Bay Company. They also helped procure tax increment financing (TIF) incentives from the City of Chicago, negotiated the termination of the Downers Grove lease (while simultaneously securing two tenants for 50 percent of the 400,000 square feet that Hillshire Brands was leaving behind) and assembled the design-build team for the new facility.

"It all worked because Brian Hunter is a great client," says Chodos. "He has always been very loyal to us, decisive, and committed to following through in support of the business and our efforts. We will run through walls for him."

When asked how he accomplished so much so quickly, Hunter says it boils down to hiring great people. "It wasn't our first rodeo. We rehired people we had worked with before—people with whom we had a long-standing relationship with, like Chodos and Levitas from Colliers, Clune Construction and DRI, the project manager."

When the project was complete, 400 South Jefferson, an underutilized, 60-year-old, Class C Art Moderne building, had been transformed by the architectural firm Perkins & Will into a beautiful contemporary, brick-and-glass structure. This coming year, Hillshire Brands also has plans to install a roof deck, which will include a green space open to the sky and the Chicago skyline.

The interior is mostly open space with modern amenities and decorative items unique to Hillshire Brands, including a statue of a hog named Elvis that was once owned by Jimmy Dean, the original Hillshire Farm sign that once stood in front of Founder Fritz Bernegger's farm, and a glass wall with the names of each employee on it. "It's an extremely cool space that epitomizes the concepts of performance-driven design, change management and collaborative work areas," says Chodos.

Hunter is justifiably proud of Hillshire Brands' new headquarters. "We took an authentic 1940s building and retained all the great bones of that era, things you can't replicate or fake—like the concrete pillars and some of the Art Moderne elements. We updated the building without changing the basic architecture.…We added state-of-the-art systems like new elevators, washrooms, HVAC systems and lighting, but the raw elements of the space remain the same. It's wide open, with unfinished steel, exposed concrete, glass and wood everywhere. You don't see much drywall in this place. It's cool, open, authentic and rough—kind of like Chicago," Hunter says.

The project has received favorable press and a number of awards, including two coveted NAIOP Chicago 2012 Awards for Excellence; Innovative Deal and Redevelopment of the Year at the Greater Chicago Food Depository's 2012 Chicago Commercial Real Estate Awards and a Deal of the Year award from *Real Estate Forum* magazine.

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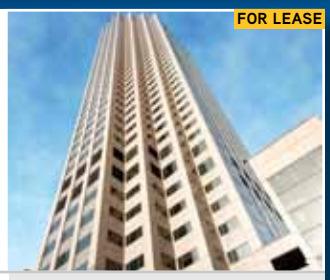

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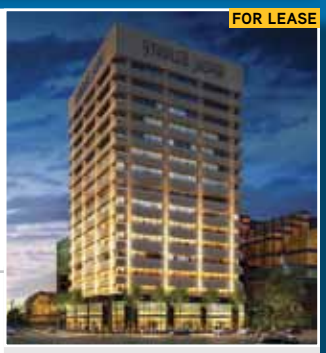

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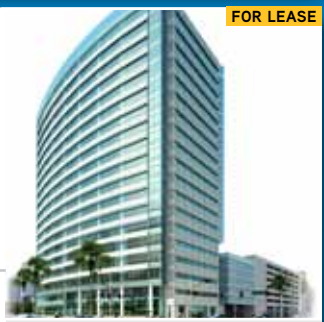

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BY TERESA KENNEY

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If you're concerned that your device has been stolen, you can also remotely erase your data from this screen. This is a last resort, because after you erase the device, you will not be able to use either of Find My iPhone's locator features.

For iOS 6 or later, you can use Find My iPhone to remotely lock your device with a passcode, preventing anyone else from using it. Just click "Lost Mode" and follow the prompts.

If you use the same Apple ID for each of your iOS devices, you can locate all of them from the same screen. Click on the cloud icon in the upper left-hand corner of the iCloud website page and then specify which device you are trying to locate.

Lost BlackBerry Blues

To locate a lost or stolen Blackberry, use **BlackBerry Protect**. BlackBerry Protect is a built-in feature for BlackBerry 10 and can be downloaded from BlackBerry World (blackberryworld.com) for BlackBerry 7 OS and earlier versions.

When your phone is lost or stolen, log on to the BlackBerry Protect website (blackberry.com/protect) with your BlackBerry ID. You can select "View Location" to see the approximate location of your phone on a map, or you can have your phone ring (even on mute) by selecting "Play Sound." For the optimistic among you, BlackBerry Protect will even allow you to send a message to your phone, such as "If found, please call xxx-xxx-xxxx" in hopes that a good Samaritan will return it.

BlackBerry Protect also allows you to lock or completely erase your smartphone, as well as back up your information on the website. The information you backed up can be used to restore your data if the phone is found, or it can be transferred to a new phone. As an added precaution, backups can be scheduled on a regular basis.

BlackBerry Protect allows you to manage as many as five BlackBerry devices. Not all data plans support this app, however, so be sure to check.

The Droids You're Looking For

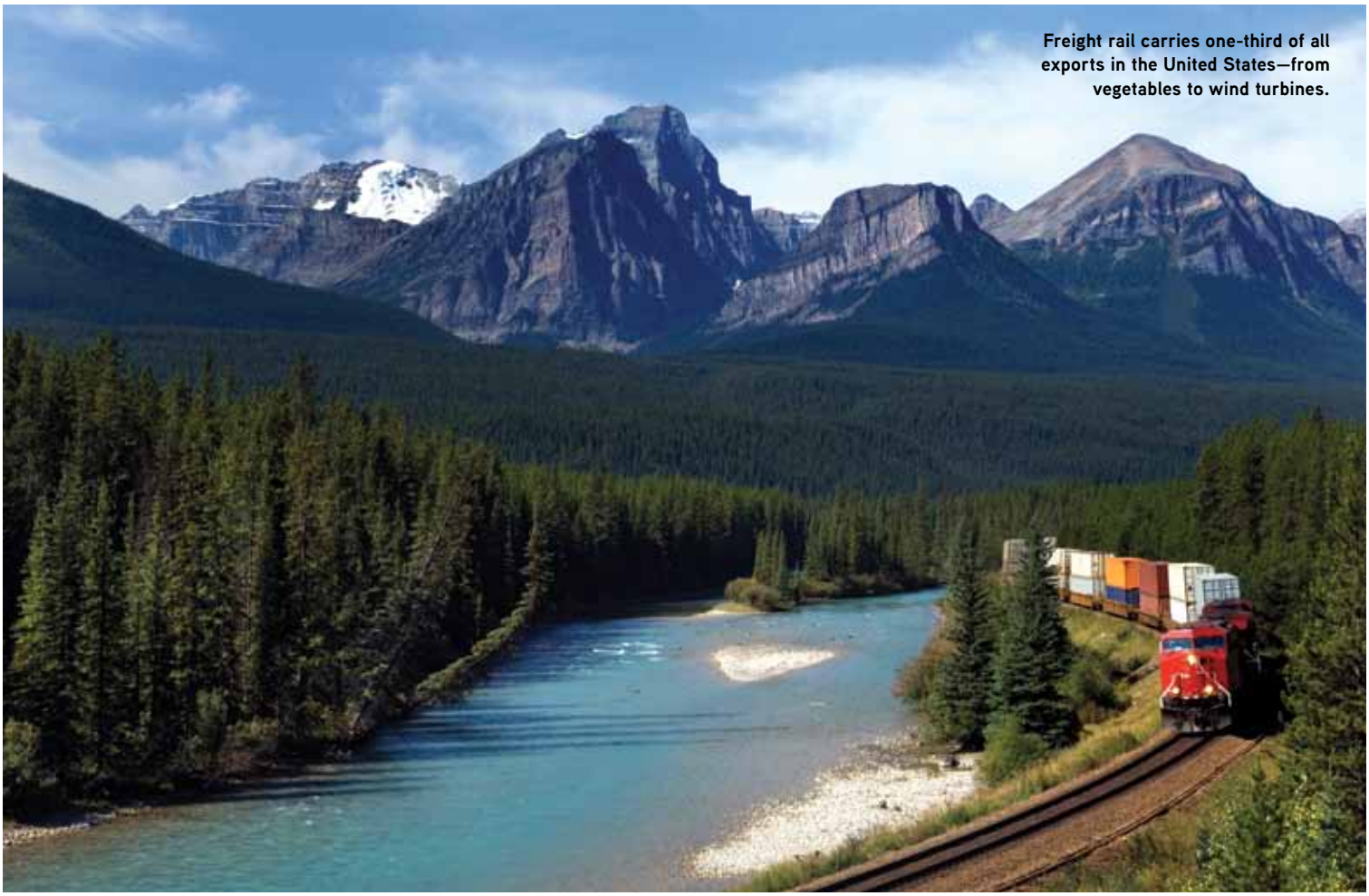
Two apps can help you find lost or stolen Android smartphones: **LocateMyDroid** (locatemydroid.com) and **Where's My Droid** (wheresmydroid.com).

Where's My Droid offers three versions: Where's My Droid Lite for Android 1.6+ (free), Where's My Droid for Android 2.2+ (free) and Where's My Droid Pro for Android 2.2+ ($3.99). To use the app, you need another cell phone to text your lost Android a preselected message prompt, which will cause your smartphone to ring or vibrate, depending on how you've set up the feature. A text message can also prompt your phone to reply with GPS coordinates and map. The Pro version can remotely activate the camera to give you a snapshot of your wayward smartphone's surroundings, and hopefully (if stolen), the thief who absconded with it. Where's My Droid is currently testing a feature that allows you to e-mail the message to your phone from a computer instead of texting.

Locate My Droid is a free app that can be downloaded for installation from the Android Market (android.com/apps). You will need a Google account to log in, and you will need to run the app after installation to activate your phone. You can then wake up the tracking feature by clicking "Locate," and your phone's location will be indicated on a map on the Locate My Droid website. To put the feature to sleep, click "Stop Track." To conserve your phone's battery, the app only runs when you are tracking it. Additional features are available for a charge, including Scream—which prompts the phone to sound an alarm when lost nearby.

The Small Print

As valuable as these apps are as tools for keeping your phone safe and sound, they will only work if your device is on, and some features will only work with GPS enabled and an Internet connection. And most important, remember that lost devices are replaceable—data isn't. As always, keep current backups of your data in the cloud and on your computer. KL



Freight rail carries one-third of all exports in the United States—from vegetables to wind turbines.

Riding the Rails

MANUFACTURERS ARE TURNING TO FREIGHT RAIL AS A MORE ENVIRONMENTALLY FRIENDLY DISTRIBUTION CHANNEL. BY KAREN WEST

FREIGHT RAIL, once viewed as an environmental enemy, has emerged as the most eco-friendly and energy-efficient form of long-distance distribution for businesses nationwide. With an expected growth of 60 percent in the next 30 years, rail companies plan to invest an estimated $24.5 billion this year to build, maintain and upgrade America's rail network, reducing greenhouse gases in the process.

"Everywhere you look, there is a push to be more eco-friendly," says Chris Teesdale, SIOR, Executive Vice President with Colliers International in Dallas. He says rail companies today are putting a greater emphasis on reducing their carbon footprints and relieving highway congestion. The U.S. Environmental Protection Agency estimates that for every ton-mile, a typical truck emits roughly three times more nitrogen oxides and particulates than a locomotive.

A recent marketing campaign by the Association of American Railroads (AAR) underscores the greening of America's railroads. The "Carbon Calculator" on the AAR website estimates that shipping fresh and frozen food from Oakland, Calif., to Baltimore, Md., by freight rail instead of by road prevents as much as 1,331 tons of carbon dioxide from being released into the atmosphere. It would take 30,955 tree seedlings 10 years to remove the same amount of carbon dioxide from the environment.

Carrying 43 percent of the country's intercity freight and one-third of all exports—from vegetables to wind turbines—freight rail allows businesses to move their products more cheaply, quickly and efficiently, especially on shipments of more than 400 miles. Unlike some truck operators that went bankrupt during the peak recessionary period, railroads continue to gain market share, explains Teesdale.

Those business opportunities will only increase as the federal government pushes its plan to double exports by 2020. "People are recognizing there is a

greater value of shipping by rail," says Teesdale. Case in point: Whirlpool Corporation decided in 2011 to build a 1.6 million-square-foot regional distribution center—the equivalent to 36 football fields full of home appliances—in Columbus, Ohio, and another—approximately 1 million square feet in size—in southern Dallas County in Texas, primarily because of the two locations' access to freight rail.

As the economy slowly recovers from one of its most severe downturns, freight rail traffic, which acts as a barometer for the overall health of the economy, has continued to grow, says Mike Rader, President of Texas-based Prime Rail Interest. Since 1980, privately owned railroads have spent $480 billion in building, maintaining and growing their 140,000-mile rail network, or about 40 cents for every dollar of revenue. Even during the economic downturn, freight railroads spent about $10 billion per year on capital expenditures, according to the AAR.

Railroads also help reduce highway congestion by taking long-haul freight trucks off the road. Rader points out that a double-stack intermodal train, for example, removes more than 280 freight trucks from the highway—the equivalent of 1,100 automobiles. "That equates to a considerable amount of reduction in greenhouse gases," he notes.

In the last decade, many of the major rail companies, including BNSF Railway and Union Pacific Corporation, have invested millions of dollars on cutting-edge technologies aimed at greening their fleets: New, fuel-efficient "Generator Set" (GenSet) locomotives are replacing older engines; companies are installing idle-control mechanisms; and new intermodal gate systems are being unveiled. (GenSet technology replaces the large diesel engine and generator found in almost all existing freight locomotives with two or three much smaller diesel engines and generators. Advanced computer technology allows for precise control of the engines, starting and stopping each only as power is needed.)

In 2005, Union Pacific started testing new ultra-low emissions engines as the backbone of its "cleaner and greener" fleet of locomotives. It claims that if 25 percent of truck freight was diverted to rail, there would be "nearly 800,000 fewer tons of air pollution" by 2025. Norfolk Southern Corporation touts similar statistics and its website features "The Green Machine," a carbon footprint analyzer, allowing customers to measure the environmental advantages of moving goods by freight instead of by trucks.

Jacksonville, Fla.–based CSX Corp. has committed to reducing greenhouse gas emissions intensity by 6 to 8 percent by 2020, after reaching its previous goal of an 8 percent reduction one year ahead of schedule. Its "Trees for Tracks" program calls for planting 21,000 trees (one for every mile of track) by the end of this year. CSX boasts that moving 10 percent of long-haul trucking to rail would conserve more than 1 billion gallons of fuel and reduce greenhouse gas emissions by more than 12 million tons each year.

Rail can move one ton of freight nearly 500 miles on just one gallon of diesel fuel.

The growing emphasis on green technology is paying off: Rail can move 1 ton of freight nearly 500 miles on just 1 gallon of diesel fuel—that's three to five times more fuel efficiency. In 1980, 1 ton of freight moved an average of only 235 miles per gallon of fuel.

Hundreds of transportation infrastructure projects are under way nationwide. Railroads are investing in projects such as intermodal terminals that facilitate truck-to-train freight transport; new tracks, bridges and tunnels; modernized safety equipment; new locomotives and rail cars; and other components that ensure the U.S. freight rail network remains the most reliable and efficient in the world.

Over the past 10 years, intermodal transport—moving truck trailers or containers by rail and at least one other mode of transportation, usually trucks—has been the fastest growing rail traffic segment. Containerization of U.S. freight traffic has been a boon for the rail industry. Rail intermodal traffic has more than tripled in just over 20 years, rising from 3.1 million trailers and containers in 1980 to nearly 10 million units in 2003. Today, intermodal accounts for about 21.5 percent of the revenue for major U.S. railroads. In 2003, for the first time ever, intermodal surpassed coal in terms of revenue for the U.S.

Teesdale says companies are increasingly recognizing the role rail intermodal can play in their distribution networks, providing a cost-effective transportation solution to move goods to market on time, safely and free of damage. He cites a new intermodal container transfer facility development at Port Everglades, Fla., which will allow freight to move more efficiently via rail between South Florida and the Southeast. The facility is expected to be completed next year and will be used to directly transfer international containers between ship and rail, instead of having trucks haul the containers to and from off-port terminals, diverting an estimated 180,000 trucks, Teesdale says.

Railroads still face challenges related to coal—once the railroads' single largest revenue source—and agriculture, which experienced a warmer-than-normal winter last year. The precipitous drop in coal is partly due to cheaper and more abundant natural gas. But with greater overall freight volume across the freight railroad networks, a rebound in coal and automotive shipments are expected to fuel the future growth of the railroad industry.

A recent Zacks Investment Research report states that, for product and service improvements, railroad operators are far ahead of other transportation industries, noting, "Very few U.S. industries can match the railroad operators with respect to high capital investment rate." This investment will undoubtedly lead to higher service reliability and demand. KL

Open Leadership

ENGAGEMENT IS THE NEW CURRENCY FOR INFLUENCE.

BY DOUG FRYE

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

The context for leadership is changing.

Nowhere was this more apparent than at the World Economic Forum's annual meeting in Davos, Switzerland. While there, I noticed that leaders were not simply the people who controlled the world's largest companies or countries. The emerging leaders in Davos—and indeed, in the world—are defined by what they invent, imagine and affect.

They're idea people.

But it's not enough just to have good ideas, or just to share them. What makes the world's emerging leaders most dynamic and powerful is their ability to engage with their followers and other influencers to create meaningful change.

Engagement is swiftly emerging as the world's currency. Consider the power of social networking and how it shapes our attitudes and actions. People use social media before they make buying decisions for products and services. And they're not just researching restaurants and gadgets—71 percent of B2B buying decisions start with online research, and a large portion of that is social.

Social technologies also cannot be dismissed as playtime for the younger generation, as social tools are increasingly important to the influence of brands, politicians and individuals.

The Pew Research Center's study on social networking use revealed that half of people ages 50 to 64 are engaged in social media, as well as nearly three-quarters of people ages 30 to 49. With this in mind, leaders can capitalize on the potential for engagement through social technology.

Recently, Colliers International hosted a forum on open leadership aimed at marketing leaders from a variety of industries. We took a closer look at how social technology is changing what it means to be a leader, and driving changes in business.

It's clear there's a shift toward a greater culture of sharing, as individuals become more open and public about their lives. There's also a shift toward feedback, as users routinely rate experiences, products and places.

This combination of openness and feedback has the ability to dramatically enhance a leader's capabilities, and the first of these is listening. For example, leaders can use social tools to listen to their employees on platforms including Yammer and Glassdoor, and they can track industry conversations, client mentions and competitors on Twitter.

But there are also new demands on how leaders behave: They are naturally expected to be more open with their lives, more forthcoming with plans (even those in progress) and more open to hearing feedback.

Most importantly, the audience demands that leaders respond—a question or negative comment launched into cyberspace by a follower demands an answer, and many brands have fallen down in their failure to respond quickly, respond honestly or respond at all.

With this in mind, I wanted to share some of the new rules of open leadership from Charlene Li's book *Open Leadership*, which we discussed at the Marketing Leadership Roundtable:

- Respect that your customers and employees have power
- Share constantly to build trust
- Nurture curiosity and humility
- Hold openness accountable
- Forgive failure

For me, the guiding principle is to trust our people to use their best judgment at all times. My guess is you already have plenty of legal and human resources policies governing privileged information and codes of conduct, and you won't need many more. Some companies cut off social channels by blocking them from work computers, but I don't think that solves a concern for productivity (it typically just migrates non-work use of social channels to employees' mobile devices).

A more effective way to create structure for open communication and social technology is to create guardrails rather than directives, and to define expectations on how employees may engage with clients, leaders and each other.

We see a business case for promoting—not hindering—social technology use at Colliers. Colliers' professionals routinely use LinkedIn both for prospecting and for keeping in touch with our clients. Many are on Twitter (see public lists maintained by @ColliersIntl for a directory of our people and offices) and use that to effectively share news and stay abreast of new information within their areas of specialization.

We use internal social tools, including our Microsoft SharePoint-based intranet, Colliers Hub (which includes collaborative team sites), Yammer and Microsoft's Lync technology which indicates presence and enables chat, desktop sharing, videoconferencing and more. We have also developed external collaboration sites that are customized per client.

There's a business case for all this openness: McKinsey Global Institute estimated that more than $1 trillion (with a T) of added value could be unlocked through social technology, with a 20 percent to 25 percent increase in employee knowledge and productivity. Yet, only 3 percent of companies currently derive substantial benefits from using social technology across all stakeholder groups.

When will the other 97 percent get on board? It's a big opportunity, and to capture that value, it's up to leaders to guide the way. KL

KENNA KLOSTERMAN

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