Knowledge Leader

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WHAT'S ALL THE TALK ABOUT?

ULI's Kathleen Carey on the trends you should watch

PLUS

FAMILY MATTERS
GUPTA GROUP'S FORMULA FOR SUCCESS

LOCATION, LOCATION, LOCATION
NEW CORPORATE STRATEGIES

Colliers INTERNATIONAL

contents

FALL 2016

COLLIERS INTERNATIONAL REAL ESTATE & BUSINESS MAGAZINE

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Knowledge Leader

Colliers INTERNATIONAL

COVER PHOTOGRAPH BY ORANGE PHOTOGRAPHY

IN BETWEEN THE LINES

From the Guest Editor's Desk

Karen Whitt

Trendsetters

Shining the spotlight on what's new and what's ahead

THE WAY WE WORK IS CHANGING—from how people source jobs to where companies relocate. In this issue of *Knowledge Leader*, we delve into these trends and take a look at how they are impacting commercial space.

In our cover feature, "What's All the Talk About?," Kathleen Carey, president and CEO of the Urban Land Institute Foundation, discusses various movements in the world of real estate to keep your eye on, including companies that are relocating to follow the talent and the decreasing need for parking.

A shift in consumer behavior is changing the interaction between the industrial and retail property sectors. Driven by product delivery expectations, the previously distinct delineation between retail and logistics is now all but erased, resulting in increased—and modified—use of industrial space. Read all about it in our feature "Industrial and Retail Sectors Find Common Ground."

Another trend to watch is the use of crowdfunding to secure capital for significant projects. In "The In Crowd," Brandon Jenkins, chief operating officer of Fundrise, sheds some light on the benefits of this growing practice to the real estate industry.

Additional topics covered in this issue include:

- In "Family Matters," Steve Gupta of Gupta Group explains the business demands that led to the emergence of a property class in which his firm specializes: office condos.
- In "Is 18 the New 24?," we highlight 18-hour cities, which have transitioned from strictly 9-to-5 areas to thriving business hubs.
- "It Takes a Village" shines the spotlight on the Village of Estero in Florida. This Gulf Coast town is becoming a true live-work-play community, thanks to the efforts of resident volunteers.
- On page 8, Martha O'Mara, executive managing director of corporate solutions for Colliers Americas, identifies key location initiatives corporations are undertaking, and their potential impacts on business operations.
- And Colliers Chief Economist Andrew Nelson examines the growing gig economy and how it's impacting our use of office space.

I hope you enjoy this issue of *Knowledge Leader*. I'd like to especially thank our featured clients for being so generous with their time and helping us to explore the future of commercial real estate.

Karen Whitt, CPM, RPA, CRE
President
U.S. Investor Services & Real Estate Management Services

VOLUME 10 / NUMBER 2

Knowledge Leader

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Dylan Taylor and David Bowden

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CONTRIBUTING WRITERS
Emi Adachi, Marita Clark, Anthony Ferrante, Teresa Kenney, Mike Otillio, Andrew Nelson, Martha O'Mara, Michelle Santos, Alexa Stanard, Niki Stojnic, Dylan Taylor, Naomi Tober, Aimee Val, Steven Warsaw

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This magazine is a product of Colliers International.

Colliers INTERNATIONAL

Publishing services provided by

TIGER OAK MEDIA

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

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

POSTMASTER: Send address changes to: Knowledge Leader, Colliers International, 601 Union St., Suite 3320, Seattle, WA 98101. Publications Mail Agreement No. 40064408. Return undeliverable Canadian addresses to: Express Messenger International, P.O. Box 25058, London, ON N6C 6A8. PRINTED IN USA.

ILLUSTRATION BY KATHRYN RATHKE

TECHNOLOGY

Business Networking

A new report by Colliers International's Toronto office recommends companies place fiber-optic networks on their must-have checklists for office space.

WITH INTERNET-BASED WORKPLACE APPLICATIONS becoming the backbone of many companies rapidly adopting cloud storage, public messaging, online advertising and advanced analytics, Internet connectivity and speed have become increasingly critical to workplace productivity. As such, fiber-optic Internet should be on the must-have lists of companies in the market for office space, recommends a report released by Colliers International's Toronto office.

Fiber-optic Internet is the most efficient telecommunication infrastructure available today, enabling faster upload and download speeds and providing superior connectivity compared to traditional fixed-line copper broadband. While the average upload speed in Ontario is 22.33 megabits per second (Mbps), fiber can reach speeds of up to 1000 Mbps, according to the Canadian Internet Registration Authority.

"Fiber optic is synonymous with peak productivity," says Shawn Gilligan, senior analyst with Colliers International and primary author of the report. "Companies are opting for cloud computing and Internet-based applications to improve data access and operational efficiency. 'Turbo-charged Internet' is the key component in making these technologies perform optimally, and thus achieving peak output and results."

While the report acknowledges that finding fiber-optic-ready office suites is a daunting task for firms in the Greater Toronto area—which has a limited supply of buildings equipped with fiber—it identifies Markham in southern Ontario as an

advantageous location, with its numerous fiber-optic lines and commitment to continually enhance its telecommunication infrastructure. Colliers surveyed the office buildings in the area and found that 99 percent have access to fiber-optic Internet.

This access gives Markham a competitive advantage in attracting office tenants, explains Yanis Tzatzoglou, vice president and sales representative with Colliers Toronto North and a contributor to the report. "The appetite for fiber optic will only grow as more organizations adopt Internet-heavy business applications. Markham's constantly improving fiber-optic network will best position the region to meet this demand, making it an appealing destination for progressive companies," notes Tzatzoglou.

> **"The appetite for fiber optic will only grow** as more organizations adopt Internet-heavy business applications.
>
> — YANIS TZATZOGLOU, VICE PRESIDENT, SALES REPRESENTATIVE WITH COLLIERS TORONTO NORTH

Gilligan stresses the importance of making fiber-optic availability a primary criterion when selecting office space: "There are certainly many factors to consider in the process of securing an office location. But given the integral role high-speed Internet is playing in operational efficiency and success, it is in the best interest of companies to make fiber-optic Internet a top requirement for their office space." KL

GROWTH

Expansion News

Colliers International continues to expand into new markets.

THIS PAST SUMMER, Colliers International expanded into two new U.S. markets. In July, Colliers announced its acquisition of Colliers International Long Island in Lake Success, New York. Colliers Long Island provides leasing and sales brokerage services to real estate occupiers, owners and investors.

"The addition of Colliers Long Island is another strategic step in expanding operations in the New York tri-State region and providing a foundation for growth into Queens and Brooklyn," says Joseph Harbert, president of Colliers International's Eastern Region. "The acquisition is further evidence of our commitment to invest in our people, our markets and our clients."

"Becoming part of the Colliers International global entity was the natural next step for us," says Herb Agin, CEO of Colliers Long Island. "We expect to fully integrate operations within the existing tri-state region and leverage the size, capital and best-in-class infrastructure of the Colliers International brand and global platform to better serve our clients and expand opportunities for our professionals."

The same month, Colliers announced its acquisition of Colliers International West Michigan. Serving the entire western region of Michigan, including Grand Rapids, Kalamazoo and Lakeshore, the company is the number-one commercial real estate advisory firm in the region, providing a full range of services, including sales, leasing brokerage, capital markets advisory and property management to local, regional, national and international clients.

"West Michigan is a thriving marketplace with a diverse economy that appeals to a broad range of large corporations," says Steve Everbach, the president of Colliers International's Central Region. "Colliers West Michigan has deep local-market knowledge, and by expanding our capabilities throughout Michigan, we can now integrate our services, not only in the state, but throughout the entire Central Region."

Of the Michigan acquisition, Dylan Taylor, president and COO of Colliers International, notes: "This addition is the latest in a series of strategic acquisitions that we have completed in the U.S. and is the fourth addition in the Central Region over the past two years following Indianapolis, St. Louis and Dallas. We continue to invest in our operations to reinforce Colliers International as the global firm of choice for organizations and professionals seeking to align with a company differentiated by an enterprising culture." KL

Executive Insight

LEADERSHIP

Chris Zlocki

Executive Managing Director, Strategy and Innovation

AS HEAD OF THE STRATEGY and innovation service line for Colliers International's corporate solutions, Chris Zlocki counts among his practice areas: lease administration; technology services (including Colliers360); and consulting services focused on portfolio strategy, footprint optimization, operations consulting, capital expenditure management and financial forecasting. At Colliers, he has advised some of the world's most successful and recognizable companies and institutions, including U.S. Bank, Capital One, NASDAQ and Siemens.

Who were some of your role models growing up?

My parents and teachers: They set the stage for my live-work ethic and my belief system. I would be nowhere without them.

What was your first job?

I was an analyst for a land-planning and urban-design firm.

How did you get into the commercial real estate industry?

Working as a designer early in my career, I began to understand how the impacts of even minor market, financial and operational decisions could shift the outcome of projects. I wanted to make sure I was helping clients make the right decisions. Positioning myself on the real estate advisory side would provide me the opportunity to create greater influence.

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

Assisting in the growth and evolution of the occupier services and corporate solutions platform at Colliers. Most notably, leading the team launching and developing our Colliers360 platform.

What are the top three trends that will impact the future of real estate?

Big data: Increased access to big-data sources, including transparency on key performance metrics. The availability of key financial and market-assessment data will provide more opportunities to develop creative real estate delivery solutions.

Labor: The war for talent is on. Location strategy is all about where the talent is and how that talent will work together, locally and globally. Human resources and other groups are not focused on this as a core competency, so real estate leaders and advisers will need to advance the charge in finding the right talent pools for companies.

Technology: The consumer economy (fueled by companies such as Airbnb, Uber and LiquidSpace) will accelerate the ability to develop flexible procurement and occupancy opportunities that fall outside traditional leasing structures. This will begin to free up alternative models to own versus lease. The opportunity to source on-demand real estate solutions will become more and more viable.

Do you see any past real estate trends that are making resurgences?

Location still matters. Given all the recent technology, and workplace and alternative real estate solutions, where and how we work is still a paramount reason for a company's success. The most innovative companies see their environments being core to collaboration and innovation.

Who you work with and how you work are key enablers for the culture, and for the operational and financial well-being of a company. It is our job to ensure that those companies' business needs are aligned with their real estate needs.

What impact do you see millennials having on how we utilize commercial real estate?

By 2020, millennials will be the largest generation in the workforce, making up more than 50 percent. They were the first generation to grow up with technology and mobile communication core to their lifestyle. Millennials ushered in mainstream trends such as distributed work, acceptance of open environments, and leveraging social networks and mobility as fundamental to their work ethic. A key phrase associated with them and integral to shifting our mind-set is "Work is where you used to go; now it is what you do." They will continue to look for alternative solutions to occupancy that go beyond one seat for one person or the traditional corner office.

How is the traditional office building changing?

Today, more often than not, the answer is focused on an adaptive office solution from another asset class. Whether it is a high-tech company setting the pace or a co-working or services office seeking to provide a differentiated setting, it is pretty clear that a majority of today's urban and suburban office stock is antiquated compared to today's contemporary work environments. Companies are looking for alternatives to make their own environments differentiated from the traditional cube farm.

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

I would say hone your craft, try to master it and then explore the boundaries on how to improve the space you're working in. Always keep exploring ways to push beyond the accepted solution. KL

ILLUSTRATION BY KATHRYN RATHKE

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Location, Location, Location

A look at trends in corporate location strategy: Are you making the right assumptions?

By Martha O'Mara, Ph.D., Colliers International, Corporate Solutions Services

Economic-, social-, demographic- and technology-driven changes are transforming what the concept of "location" means to businesses. Companies must transform their location strategy to respond to these forces of change—a costly, risky and time-consuming process. Mergers and acquisitions (M&A) experienced a record year in 2015, leading to a decrease in headquarter locations, but also to more complex real estate footprints for larger organizations. In addition, more companies are facing redundant or aging facilities in tight skilled-labor markets.

In the late 1990s, I led a team of researchers at Harvard University in examining trends in location decision-making for information-based companies. We found that development incentives and purely cost-driven considerations were becoming less important than labor quality and "ease of living" factors, such as educational resources and transportation. Many of those emerging trends have since become standard practice. However, some outdated assumptions about location strategy persist today, including:

- When a company moves, its workforce will follow
- Locate where the executives live, and the

workforce will commute
- Cheaper labor and real estate are the most important drivers
- Mid-career executives will readily transfer

Types of location decisions vary greatly. Moves or consolidations within the same geographic area—allowing companies to retain most of their workforce—are more straightforward. If a company has multiple locations in different metropolitan areas, an ongoing, rigorous planning process focusing on portfolio consolidation over time is needed. Greater challenges emerge when a decision requires commitment to a new location, as well as employee relocation or significant new hiring. Here are the trends for three distinct types of location initiatives:

Pick Up and Go: ***A large component of a company moves to a new area, along with its employees.***
These types of moves are increasingly rare, even though they get a lot of attention in the media, such as the GE headquarters move from suburban Connecticut to downtown Boston. Such moves signal a major repositioning and require a strong future vision and internal leadership.

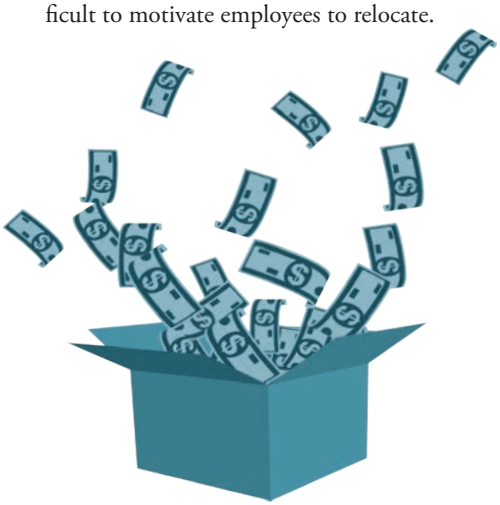
When companies move, economic incentives, usually in the form of supporting infrastructure, are nearly always included. But the biggest motivators are access to future talent and critical resources, such as universities and professional services.

Today, more employees resist relocation, and companies want to avoid the heavy costs required. Only 200 of the 800 employees currently housed at the GE headquarters are moving to Boston. There is an increasing tendency to separate executive and back-office operations, rather than housing everyone in a huge campus. Companies are locating support operations in areas with lower costs of living, leading to lower operating costs.

Consolidate to Beachhead: ***Multiple locations are consolidated into one location where some corporate facilities are already present, employing a mix of current and new personnel.***

M&A activity is driving the upsurge in these initiatives. Increased operating efficiency is more important than real estate cost savings. Shared service operations scattered across multiple locations are especially targeted. While companies look to labor quality first, locations with structurally lower costs, such as salaries, housing and operating expenses, typically win out. A long-term view is needed; economic payback can take years, and there is a risk of operational disruption.

Although employee relocation increased in 2015 according to a survey by Atlas Van Lines, it has been declining for more than a decade, and it is increasingly difficult to motivate employees to relocate.



Management may assume that because workers leave frequently, it may be more convenient to hire in the new location. However, cost savings are elusive; there is usually a several-year payback once severance and recruitment costs are factored in.

Because approximately half of marriages or partnerships include dual careers, it's not surprising that more than 50 percent of employees who declined relocation offers cited their spouse's or partner's employment as a reason.

Companies today may also be more willing to jettison current employees and hire a new workforce. The Bureau of Labor Statistics reports that the average worker stays at a job for a little less than four and a half years, and the difference across generations is dramatic: Older workers (ages 55–64) typically stay at a job 10 years, while those 25–34 have a median tenure of three years. Management may assume that because workers leave frequently, it may be more convenient to hire in the new location. However, cost savings are elusive; there is usually a several-year payback—even with a 15 percent salary cost decrease—once severance and recruitment costs are factored in.

New Horizons: ***A start-up, new division or existing function is moved to a new area, hiring mostly new employees.***
In previous decades, these moves sought cheaper-cost labor for lower-skilled jobs, such as call centers. With more automation and offshoring, new horizon searches are now focused on the quest for skilled, educated labor in a somewhat lower-cost location. Because skilled-labor unemployment is extremely low in most cities, and employees prefer to live where they have multiple employment opportunities, companies now have to locate near their competitors to poach employees. High-quality, lower-cost locations do exist, but these are mostly away from major coastal metropolitan centers. Initiating operations in an entirely new community takes considerable effort, which is why companies should first look to current locations for growth potential and only consider a greenfield location if it is appreciably better than what they already have.

Whether your company is looking to pick up and go, consolidate or head for new horizons, it pays to examine your options closely and heed the hidden costs of these strategies. KL

Cities to Know QUICK FACTS AND FIGURES

The 'BIG D'

Dallas proves everything's bigger—including opportunity—in Texas.

By Mike Otillio and Teresa Kenney

PRITZKER PRIZE–WINNING ARCHITECTURE. The fastest-growing rapid transit system in the U.S. One of the country's top-performing economic regions. A healthy economic environment for both small and major employers. The reasons for living and doing business in Dallas continue to grow. For information on commercial real estate in the Dallas–Fort Worth area, contact Steve Everbach at 214.217.1254 or Steve.Everbach@colliers.com.

5%

lower cost of doing business than the national average.
(Source: Dallas Regional Chamber of Commerce)

22 million square feet
of industrial product under construction in 2016, more than any other U.S. market.
(Source: CoStar Realty Information)

$24.02/square foot
average office rental rate in the second quarter of 2016 (up 23 percent from five years ago).
(Source: CoStar Realty Information)

201-plus companies
moved to, or grew their businesses in, North Texas in 2015.
(Source: Dallas Business Journal*)*

Dallas Cowboys

is the most valuable sports franchise in the world.
(Source: Forbes*)*

Nearly 26 million

visitors came to Dallas in 2015.
(Source: Dallas Convention & Visitors Bureau)

2nd highest

overall population gain in the U.S. from 2014 to 2015.
(Source: census.gov)

20 square blocks
and 68 acres make up the largest urban arts district in the U.S.

22,000 works of art
in the Dallas Museum of Art, one of the 10 largest art museums in the country (and it's free).
(Source: visitdallas.com)

7,000-acre

Great Trinity River Forest in Dallas is the largest urban hardwood forest in America.
(Source: trinityriver.audubon.org)

7th largest

municipal park system in the U.S. is in Dallas.
(Source: dallas-ecodev.org)

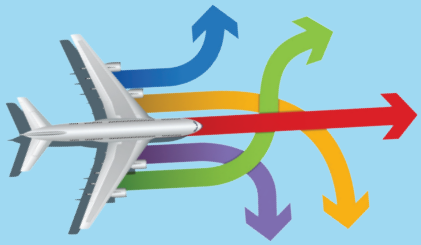
1 square mile
in the city boasts the greatest concentration of award-winning architecture.
(Source: citylab.com)

20 companies

from Dallas–Fort Worth made the 2016 Fortune 500 list.
(Source: Dallas Business Journal*)*

#1

Texas has been the top state in the country for business for 12 years in a row.
(Source: Chief Executive Magazine*)*



Dallas–Fort Worth International Airport

could fit John F. Kennedy International, Chicago O'Hare International and Los Angeles International airports with room to spare.
(Source: dfwairport.com)

COURTESY OF JPMORGAN CHASE

Leaders of the Future

Corporations are creating opportunities for today's youth through custom curriculums, skills training and mentoring.

By Aimee Val

There's no question that widely disparate educational opportunities for America's youth is a hot-button issue in the political and social arena. According to the Organisation for Economic Cooperation and Development (OECD)—which counts some of the world's most developed countries among its 35 members—the U.S. spends 31 percent more on elementary/secondary education than the OECD average. Despite this, the achievement gap between children from high- and low-income families is approximately 40 percent larger among children born in 2001 than among those born in 1976, according to a report by Stanford University professor Sean F. Reardon.

More than ever, many major corporations are recognizing the value of investing in today's youth. This heightened sense of awareness is bringing forth a new wave of social programs focused heavily on developing a new generation of leaders. The programs take many different forms—mentoring, research and development initiatives, and community-building activities.

Forward-thinking corporations recognize the importance of helping form tomorrow's leaders. They see beyond the dollars needed to launch education or diversity initiatives straight to the numerous benefits of doing so.

Here are just a few initiatives that are making a difference:

Earn Your Future

In 2012, PricewaterhouseCoopers (PwC) rolled out its "Earn Your Future" (EYF) program, an ambitious five-year commitment focused on arming children with sound financial skills. In its PwC Educator Survey, the firm noted that "92 percent of K-12 educators surveyed nationwide believe financial education should be taught in schools, but only 12 percent do so." PwC set out to change this by creating its own financial literacy curriculum to be downloaded, taught and shared by the educators themselves.

The program has now reached more than 3.5 million students and educators with its custom curriculum, showcased within the EYF Digital Lab and its 22 interactive online modules. Other components of the program include PwC's partnership with *Time* magazine to create the special kids-literacy magazine, *Your $*, and a student-loan paydown program for its lower-level employees.

New Skills for Youth

JPMorgan Chase & Co. is investing $75 million to launch its New Skills for Youth program, focused on providing high-quality, career-focused education programs for young people. According to CEO Jamie Dimon, "New Skills for Youth is a $75 million, five-year global career-readiness initiative aimed at investing in high-quality, career-focused education that prepares young people to prosper in the growing global economy." The program addresses what JPMorgan Chase calls "a youth unemployment crisis" that disproportionately impacts high-poverty and minority groups because of lack of education and necessary skills.

A highlight of New Skills for Youth is its summer employment program taking place in 14 U.S. cities. In 2014, its inaugural year, more than 50,000 young adults were hired for summer employment through the program, exposing them to invaluable early work experience.

LINK Unlimited Scholars

Celebrating its 50th year in 2016, LINK Unlimited Scholars is Chicago's highest-performing and longest-running high school mentoring and scholarship program. Since its founding in 1966, more than 2,200 economically disadvantaged African-American youths have been guided through a one-on-one mentoring experience from junior high through high school and beyond. Mentors provide financial support and, more importantly, academic and familial support. Many former LINK scholars have returned to be mentors themselves and to serve on the organization's board of directors.

William M. Fausone, president of Colliers International's Chicago office, reflects on his experiences as a LINK mentor and why he connected his firm with this great cause.

"Once we have identified promising but disadvantaged kids and they go through an application process, we are able to provide tools to success that they would not have access to otherwise," he says. "I can't even describe how rewarding it is to engage in a long-term mentorship program with kids who have so much untapped potential. Because of the LINK opportunity, they get accepted into quality high schools and universities and learn how to push themselves beyond what they thought was their limit," he adds. "The most unexpected result is how the LINK kids truly become a part of our family."

Corporations with the foresight and ingenuity to implement ambitious and far-reaching social responsibility initiatives share a message we all can learn from: Opportunities abound when society is armed with a more educated, worldly and diverse workforce. KL

DOT WARD PHOTOGRAPHY/COURTESY OF LINK UNLIMITED

"I can't even describe how rewarding it is to engage in a long-term mentorship program with kids who have so much untapped potential. Because of the LINK opportunity, they get accepted into quality high schools and universities and learn how to push themselves beyond what they thought was their limit."

— WILLIAM M. FAUSONE,
PRESIDENT OF COLLIERS INTERNATIONAL | CHICAGO

Above: LINK Unlimited Scholars attend the program's End of Year Scholar Celebration.

The 'In' Crowd

Crowdfunding enters the commercial real estate market.

By Alexa Stanard

When you have a cause that needs monetary support—the family down the street lost their home in a fire or the local animal shelter is seriously low on supplies—where do you turn? The Internet, of course, via crowdfunding: raising funds through small cash contributions from a large group of people. It's not uncommon to find a crowdfunding campaign shared on social media to help a local nonprofit, an individual in need—or even a small business or startup grow a company or launch a product.

Some in the business world, however, are taking a more sophisticated approach to crowdfunding, using it as a means to finance much larger projects. In fact, crowd-investing platforms—which allow groups of people to band together to fund a project in the hopes of a good return—generated $2.1 billion in investment in 2015, according to *Forbes*. That figure is expected to nearly double this year.

In the real estate space, Washington D.C.–based Fundrise has been well ahead of the crowdfunding curve. The company was founded in 2012 by four individuals with backgrounds in commercial real estate, with the mission of giving people the opportunity to make low-cost, direct investments in high-quality real estate projects. That same year, President Barack Obama passed the Jumpstart Our Business Startups (JOBS) Act, which made it legal for the public to receive company equity in exchange for funding a business.

"We came to the conclusion that it was very challenging for individual investors to invest in good real estate deals," says Brandon Jenkins, Fundrise's chief operating officer. "We were looking for a way to go directly to the investors and let them invest in the projects we were doing."

Fundrise made its first offering in 2012, which was scooped up by 175 individual investors. The company now boasts more than 100,000 members and has invested

in nearly $3 billion worth of real estate. We spoke with Jenkins about investment trends and why crowdfunding is one to keep your eye on.

What are the key trends in crowdfunding that you're seeing?

BJ: The big trend is that companies like Fundrise are becoming much more mainstream. In the past 24 months, we've seen this type of funding model grow from something that people viewed as a fun idea but didn't take seriously into something that's pretty widely accepted as a legitimate way to get deals done. It really is becoming a true competitive alternative to traditional channels for financing large commercial transactions.

Why is crowdfunding taking off?

BJ: People are driven first and foremost by the economic benefits. For example, real estate companies looking to raise money are starting to see that we can provide them with solutions at a lower cost and with more flexibility. Technology has allowed us to cut out so many middle men from the process that we are able to operate more efficiently, and that means cost savings for both investors and real estate companies—it's a win-win.

What role does technology play in your model?

BJ: Technology is critical for us. Traditionally when you want to finance a project, you're going to use a broker or investment banker who acts as a middle man introducing you to the people with money. Even if you could go directly to the investors, the logistics of managing a large number of individuals are more likely than not prohibitive. The scale we can achieve by operating online through a Web-based platform is a true game changer—we can have tens of thousands of individual investors engaging with us every day. That's just not possible for traditional groups without the kind of software systems that we've developed over the past four years. The incremental cost of adding each new investor is now almost nonexistent. That means we can

"We've seen this type of funding model grow from something that people viewed as a fun idea but didn't take seriously into something that's pretty widely accepted as a legitimate way to get deals done. **It really is becoming a true competitive alternative to traditional channels for financing large commercial transactions."**

BRANDON JENKINS
FUNDRISE CHIEF OPERATING OFFICER

constantly increase the amount of money we are raising and do it more efficiently. For real estate companies, that means we can provide the fastest, lowest-cost and most flexible capital.

Are there benefits to your model even for large investors?

BJ: Whether you're a small or large investor, we provide equal opportunity of access. Many people often underestimate how much of the ultimate performance of any investment has to do with the fees being charged. By having a low-cost model, we believe we can provide better returns over the long run—regardless of whether you're a small or large investor. We don't earn any money from profit sharing or taking a percentage of revenue, which means we don't go out looking for home runs. That kind of swing-for-the-fences mentality, where managers are looking for huge returns to maximize their earnings, means investors end up taking on more risk. Because we're a low-fee model, we're able to focus on less risky assets and potentially pass on a greater return to the investor. Less risk with better returns is something all investors like, regardless of size.

What are Fundrise's goals for the next stage of its growth?

BJ: Right now we're seeing commercial real estate prices at all-time highs. Cap rates are incredibly low, and margins are thin. For us, this is a signal to proceed cautiously; we're really focused on figuring out how to continue to have strong, steady growth and find good opportunities while recognizing that the market may be at its peak. We're focusing on being patient and diligent in looking for true value. The best real estate investors are successful because of the deals they didn't do, more so than the ones they did. By focusing on our investors first and taking a long-term outlook, we think there is a lot of opportunity ahead of us. It's not crazy to imagine in a few years people investing in real estate through Fundrise as easily as people buy stocks on E*Trade. KL

Is 18 the New 24?

Eighteen-hour cities are attracting young talent, startups and investors.

By Naomi Tober

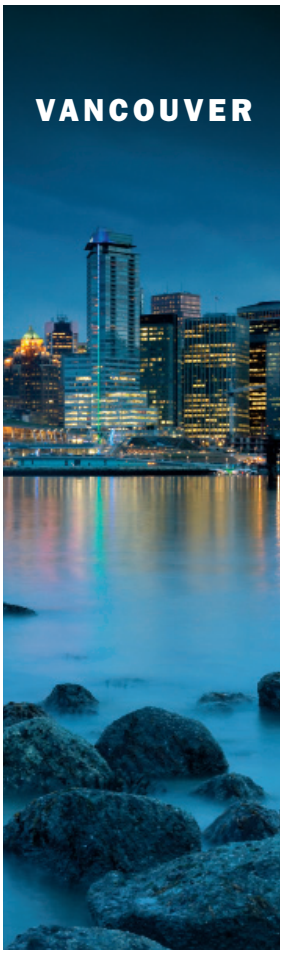
A few decades ago, cities could be divided into two categories based on their downtown cores: sleepers, with central business districts that became virtual ghost towns after 5 p.m., and 24-hour cities that never slept. Urban amenities—robust mass transit, rich cultural experiences, walkable neighborhoods, and vibrant mixtures of residential, retail, and business properties—were exclusive to the sleepless meccas, such as New York, the quintessential 24-hour city.

All of these urban amenities come with a price tag, of course. So, most individuals have been content—or at least resigned—to live in and commute from suburban or bedroom communities, where the cost of living is cheaper, the square footage of homes is larger and the in-city conveniences were a car ride away.

Until now. Cue the evolution of the 18-hour city.

In essence, 18-hour cities are former 9–5 cities that have "woken up," revitalizing their urban cores. Nicholas Brown in *Realty Times* describes this as their defining feature, and it's a common thread across the formerly sleepy cities, which are becoming increasingly desirable locales for millennials, empty nesters, employers and investors.

The term "18-hour city" was coined by the Urban Land Institute (ULI) and PricewaterhouseCoopers (PwC) two years ago in their annual "Emerging Trends in Real Estate" report. Kathleen Carey, president and CEO of the ULI Foundation explains, "The 18-hour cities are not necessarily small cities. Some of what we call 18-hour cities are places like Dallas, Denver and Seattle. They are sizable cities, but they have a number of criteria in common: They have relatively lower costs of doing business. They have relatively lower costs of living. And they have a high quality of life that attracts population growth. They aren't cheap, but they are relatively lower cost. It's less expensive to live in Raleigh than it is to



live in San Francisco, for example."

And as far as amenities go, they can play with the big boys—or cities. "Eighteen-hour cities have walkable downtowns. They have retail that is interesting. They have great mixed developments. They have active transportation, as well as great transit hubs. They have availability of housing that's affordable. So they have many things to attract this workforce that employers are looking for," says Carey.

So which cities fit the bill? According to our top 10 list (which overlaps with a number of other "18-hour city" lists), the cities to watch are Austin, Charlotte, Denver, Nashville, Portland, Raleigh/Durham, Minneapolis, San Antonio and, in Canada, Vancouver and Montreal.

Much of the growth these cities are experiencing is due in large part to the increasing presence of technology companies and the millennial workers they attract. Marc Vanderslice, cochairman and principal with Colliers International in Austin, Texas, says this is a major factor for Austin's growth, pointing to long-standing tech companies such as Dell, local startups such as HomeAway and tech companies relocating to Austin, such as Oracle. He explains that many of the workers moving to Austin for those companies want to be close to downtown, which has caused explosive growth in central Austin real estate.

Bill Wardwell, executive vice president of broker services at Colliers Minneapolis, notes similar trends. "Minneapolis is in the heart of the 18-hour city trend," he says. "We're seeing urbanization of the city and many more multifamily units in the urban core. In northeast Minneapolis, former industrial properties are being sought after for conversions into offices or apartments."

This growth among 18-hour cities also brings a new dimension of competition, which cities need to understand to sustain their development. As Carey explains, 18-hour cities are competing against each other for talent. "If they don't continue to offer the amenities that the next generations want in their urban experience, they won't be able to retain this talented workforce, and they will go, as will the employers."

Those cities that can build a vibrant, sustainable urban core and an accessible and robust transit system, and maintain affordable housing are certain to be the winners over time. As demographer and social critic Joel Kotkin writes in his 2007 *Wall Street Journal* editorial, "The future of American urbanism lies not in the elite cities but in younger, more affordable, and less self-regarding places." KL

Village of Estero's Crown Jewel. *Coconut Point offers a variety of waterside dining and entertainment options for residents and visitors.*

It Takes a Village

Village of Estero demonstrates how to plan, run and grow a community.

By Niki Stojnic

Sometime in 2008, the Federal Aviation Administration changed the flight paths of airplanes arriving to the Southwest Florida International Airport from northeastern U.S. The Village of Estero, a Gulf Coast town, was under the new paths, and consequently experiencing noise disruption. "All of a sudden we were getting all these planes overhead," says Don Eslick, a former chairman and founding member of the Estero Council of Community Leaders (ECCL).

Residents organized to fight the problem, much like many a neighborhood or town might do. Unlike other communities, however, Estero residents who formed the "airport noise committee" knew a little bit about flying and airports: The group included three retired commercial airline pilots, a woman who ran the Newark, New Jersey, airport and a retired air traffic controller. As you might expect with an expert team like that, they were successful in getting noise levels reduced.

That the community was able to draw on such expertise is a testament to the town's magnetism as a place to live. Its charm starts with its natural assets: The Estero River flows through the town west into Estero Bay, and, says Eslick, "It's strategically located between Naples and Fort Myers; everyone likes to be as close to the coast as possible." But what makes it truly unique are the community-minded residents who guide the town's growth. The result is an example of city planning done intentionally and well.

"I moved [to Estero] because of what I thought was an ideal location and weather. After 15 years, I find that I am so very fortunate to live in a piece of paradise that is so much more than location and weather," says Estero Mayor Nick Batos.

The community was incorporated as Village of Estero on December 31, 2014. Eslick says that a substantial number of its residents are professionals and retired executives who want to do something meaningful, so they put their significant talents to use volunteering in various capacities. "Among all the communities in southwest Florida, we're the only one that has sustaining community organizations."

Among those volunteers is Tim Bristow, senior vice president and sales representative in Colliers International's Toronto office. Initially, Bristow found himself looking for a good real estate investment after the U.S. housing bubble burst in 2007. He bought a home in Estero with the intention

PHOTOS BY JANE AND JOE MORAN

to eventually turn it around to sell. That didn't happen. He and his family fell in love with Estero, and now Bristow lends his time to the community as a part-time resident. "My wife says we're never selling it," he says with a laugh.

Estero's development into a volunteer-planned community came about as surrounding areas experienced a boom in development. As those areas filled up, people began to look toward Estero's undeveloped land, which offered easy access to an international airport as well as a university, among its many attractions. Housing development brought commercial properties. Eslick, who arrived in 1999, and a couple of like-minded residents led the formation of ECCL, as well as the Estero Community Planning Panel and Estero Design Review Committee—which created architectural and landscaping guidelines so that new development would keep the character of Estero consistent.

The ECCL oversaw the addition of 14,000 homes and appealing commercial developments, including its crown jewel: Coconut Point Mall. An outdoor complex of shops, restaurants and condominiums, it also plays host to live music events and festivals.

Three years ago, Estero landed a major corporate resident: Hertz. The company opened a new, three-story, 250,000-square-foot global headquarters last fall, bringing more than 700 jobs to the area. The company just put 8–10 acres of the land it didn't use on the market for the next interested buyer. In addition, in early 2015, Colliers International Southwest Florida brokered the sale of 43 acres of land to the developer Stock Development.

"Estero hits every criteria for businesses seeking a headquarters or regional office location: a welcoming business environment with great housing options, quality schools (including one of America's fastest-growing universities), a diverse workforce, fantastic recreational amenities and no state income tax," notes Jim Tamblyn, senior associate with Colliers International's Southwest Florida office.

Estero has continued to evolve to address the needs of old and new residents alike. Today, older residents want smaller homes and more walkable amenities. And students are flocking to Florida Gulf Coast University, located about a mile north of Estero.

"There's a clear need for multiuse housing projects, affordable rental housing and single-family housing," says Bristow. "That will bring more jobs, more companies."

On that front, Estero is firing on all cylinders: Eslick says about 1,000 units of senior housing are being added in the area, while the past two to three years have seen four major rental projects get underway. The local Lee Memorial Hospital is developing a state-of-the-art outpatient system on 31 acres, which will include a 24/7 emergency room. The project is slated to be finished in mid-2018. That means more jobs for the town, which ranks among the top 20 cities in Florida to find a job, according to a 2016 WalletHub survey.

Among the many things that make Estero an ideal place for businesses to locate, Batos points to highly qualified potential employees, including university students, as well as the lack of state or city income tax. "Estero has, for over 15 years, established a high standard of development that has resulted in a community that has attracted the most discriminating residents and businesses.

"It is filled with people who are willing to give of themselves for the community," says Batos, "and a place that is truly a village with a vision." KL

A Piece of Paradise. *Sunset at Lovers Key on the Gulf of Mexico*

Andrew Nelson
Chief Economist | USA
Colliers International

The Gig Economy and Collaborative Space

What are the implications for office buildings?

By Andrew J. Nelson, Colliers Chief U.S. Economist

We're using less office space than we used to. Sure, the total amount of occupied office space continues to rise, but that's not saying much for a country in which the population and labor force continue to grow as well, and a large share of work is white-collar—the type of work traditionally suited for office buildings. Yet increasingly, jobs are not situated in offices, and when they are, firms are providing less space per worker.

Three key private sectors occupy a significant share of office space in the country: professional and business services; finance, insurance and real estate (FIRE); and technology. Their relative shares vary by metropolitan area, but overall these sectors account for the majority of office space used.

Employment in these sectors is now at an all-time high of about 31 million workers as of the end of 2015—6 percent above its prior peak reached in 2008. By comparison, total non-office jobs are up about 4 percent over their prior peak.

After more than seven years of economic expansion and a record 68 consecutive months of private-sector job gains, we're essentially back to full employment. Yet, more than 16 percent of office space nationally is still vacant—compared to less than 13 percent at the peak of the last cycle—according to the commercial real estate research firm Reis. And we're adding less than half as much new office stock annually in this expansion as in prior cycles.

In sum, we're now leasing about half as much space per new office worker than in prior expansions. Since 2012, our country has leased approximately 60 square feet per new office worker, compared to 118 between 2003 and 2008. What's going on?

A Gig Economy

One popular theory is that more individuals are actively seeking temporary or contract jobs—what is known as the "gig" economy. A recent study found that the share of Americans working outside the traditional employer-employee relationship has jumped from 10 percent in 2005 to nearly 16 percent barely a decade later.

A key question is, how many of these new jobs are in traditionally office-based sectors? Despite media fascination with Uber, TaskRabbit and their ilk, such online apps for arranging work account for just 0.5 percent of jobs, and only 1 percent of U.S. adults were earning income from all online platforms, including Airbnb and eBay.

Rather, the job shifts we're seeing are taking place primarily in more offline industries, and a growing share of firms are contracting out their work rather than hiring directly. Firms appreciate the flexibility of contracts for scheduling projects, while not having to provide benefits. And the contracting firms frequently do not provide office space to their contract workers.

In many cases, these contractors work from home or in shared space called co-working or collaborative space. These arrangements are particularly popular among millennials and others who have a less formal attachment to traditional workplaces.

Regus, the industry leader in shared work space, has 3,000 locations in 900 cities in 120 countries, while the upstart juggernaut WeWork claims 50,000 members who work in its spaces. Together, they and other providers of co-working space have leased several million square feet of space in the past

ILLUSTRATION BY KATHRYN RATHKE

couple of years that they then release to individual workers under a variety of arrangements.

In many markets these users have been among the biggest lessees of space in recent years. One recent study says co-working firms now account for 0.7 percent of all office space in the country. An analysis by Colliers International's Seattle research team led by Bobby Shanahan found that co-working space accounts for 1.4 percent of all occupied office space in downtown Seattle.

These firms have been leasing huge blocks of space that otherwise would be vacant. But it's important to recognize that these leases do not all represent net additional occupied space. Rather, many of the workers housed in the space formerly worked in a traditional office.

New (and Less) Work Space

Collaborative work space is also impacting office-leasing trends. Firms are increasingly redesigning their offices to provide fewer private offices and cubicles, and more open and collaborative space. The goals are twofold: First, to provide workplaces that facilitate discussion and collaboration. Second, to decrease the firm's overall rent bill by providing less physical space per worker.

Firms are increasingly redesigning their offices to provide **fewer private offices and cubicles, and more open and collaborative space.**

Relatedly, Internet speeds, conferencing technology and collaboration software have all made working remotely not only feasible but frequently preferable. Employees can spend less time commuting and more of their workday actually working. They have more flexibility for child care and other concerns. And when these workers do need to come into the office for face-to-face meetings, the firms can provide hot spots and conference rooms on a temporary basis. With fewer desks and individual offices, less space is required overall.

We work differently now. Contracting and collaborative workplaces are key factors in why office vacancies remain elevated even with our economy at full employment, and why so little new office space is being built. Continued economic and job growth won't change that. We just don't need as much office space. KL

WHAT'S ALL THE *TALK* ABOUT?

THE URBAN LAND INSTITUTE FOUNDATION'S PRESIDENT AND CEO SHARES WHAT SHE AND HER COLLEAGUES ARE WATCHING IN THE WORLD OF COMMERCIAL REAL ESTATE.

by TERESA KENNEY | PHOTOGRAPH *by* ORANGE PHOTOGRAPHY

WHEN DISCUSSING REAL ESTATE TRENDS, one organization that must be part of the conversation is the Urban Land Institute (ULI). The highly regarded, global nonprofit education and research organization facilitates the sharing of ideas and experiences among industry experts. Each year, it publishes its much-anticipated "Emerging Trends" forecast reports in partnership with PricewaterhouseCoopers (PwC)—the result of an in-depth annual survey and interviews with its senior members. *Knowledge Leader* sat down with ULI Foundation's president and CEO, Kathleen Carey, to learn more about the issues that have ULI talking.

1. Jobs are following people.

In previous generations, the workforce followed employers. Today, however, Carey says, the opposite is true.

"What we're seeing is jobs following people. I'm a baby boomer. When I graduated from college, I moved because I had a job in a new location. Nowadays, college grads decide that they want to live in Austin, Raleigh/Durham, Charlotte or Seattle, and they move there without a job, but they find work because employers are following the people. The competition for talent is a major issue for our cities, businesses and the real estate sector."

And nowhere, she says, is that mobility more evident than in the millennial generation, a demographic that ULI has researched and published several reports on, including "GenY and Housing: What They Want and Where They Want It" and "America in 2015."

"In 2015, we did a statistically accurate survey of Americans and asked, 'Do you plan to move in the next five years?' Almost one-half (48 percent) answered, 'Yes.' If you segment the data by generation, 73 percent of millennials said they planned to move in the next five years. They are a highly mobile population. They can just pack up and go," she says.

2. The suburbs are going downtown.

And one of the places millennials are moving to is the suburbs.

"We have some early indicators that older millennials—33-, 34- and 35-year-olds—are moving to the suburbs. That's interesting because the millennials are the children of the baby boomers. Our theory is that they are following the same path as their parents but at a much later age. I turned into my parents, settled down and moved to the suburbs at a fairly young age. This generation is doing the same thing but later in life," she says.

Carey notes that some of the reasons millennials give for moving to the suburbs are affordability, space, public schools and quality of life. "Interestingly, they told us that they don't necessarily want a house with a backyard. In fact, they are looking for a lot of different options in housing stock, but they would like to be within a short walk of a park or some form of open space."

The move to the suburbs, however, does not necessarily mean that they want to forgo urban amenities. So, successful suburban communities are planning accordingly.

"Suburban areas, like Bethesda, Maryland, are urbanizing. They have the amenities that the millennial generation and Gen Xers have come to enjoy. The suburbs that are going to be the most successful are the ones that are able to create an urban experience for them. They can get a little more space. They can have real estate that is a little more affordable. But they can still have a beautiful downtown. They can still have transit, and they can still live fairly close to a major city. Remember: When you look at the entire United States, the majority of people live in the suburbs, including the majority of millennials. It's something that we will be continuing to study: What is a suburb? How are we defining it? Is it just that first outer ring beyond a city, or are we seeing transformation beyond that?" explains Carey.

3. The next generation: Who are they, and what will they want?

Today, there are approximately 80 million millennials, and the number is growing, thanks to immigration. Baby boomers—also numbered at around 80 million—are moving out of the workforce, and sandwiched between the two are about 40 million Gen Xers.

Much has been made about millennials in the workplace, and with good reason, says Carey—the sheer size of their numbers means that they have an influence on everything, from open-space office design to where companies are locating. But one generation that Carey says is not getting the attention it should is the next generation.

"Coming up behind millennials is generation 'z,' or as I sometimes call them, 'generation i,' because of their reliance on iPhones and technology. They are the first generation that will never know life without a smartphone The leading edge of this generation is 19 years old. An important factor to keep in mind for commercial real estate is that ULI members are not building for 10 or 20 years; they're building 50, 75 years and beyond. We should not only be looking at the needs of millennials, but at the generation following the millennials to try to assess their preferences, even though they are still very young," she says.

"They will be a generation accustomed to living in multigenerational households. How will the housing industry respond to that? With life expectancy increasing, this might be the first generation living in households with four generations under one roof. We also think that this generation is going to be a large, very diverse and socially aware group, so what trends will that drive? We need to be looking closely at those questions now," she advises.

4. As the need for office space declines, existing office space is getting older.

Carey notes that the number of square feet per worker in a building has continued to shrink. In 2000, it was 250 square feet per person, but ULI projects this will fall to 140 square feet per person by 2020.

"In 2010, office space per employee had fallen by about 10 percent in a decade to approximately 225 square feet. At the time, we attributed this to the downturn in the economy; however, we saw the trend continue through the recovery. What's driving that? We don't need as much traditional office space because people are working remotely; people are working more flexibly. That's supported by the fact that most new jobs in this country are now being created by smaller businesses that are more entrepreneurial. So, there is less of a need for conventional, large office space."

She notes that working remotely is also a by-product of employers' expectations that their employees are connected 24/7.

"That's the type of workforce that we have now: highly productive and connected all of the time. So you won't need as much office space per worker. We do think that it will probably stabilize, and there will always be demand for people to collaborate. There is nothing that will replace a face-to-face meeting, but the norm will be that people will work more remotely. Which begs the question: What will we do with office space that doesn't translate into some other use, and how will we see buildings evolve over time?"

Particularly older buildings.

"Close to 80 percent of existing office buildings in the U.S. were built before 2000. Can those buildings be repurposed for something else? Not all of those offices built in the '70s, '80s and '90s are great examples of functional architecture and design. So, are they going to be able to be used for something else? If they are, it is going to require a creative and an imaginative approach," she says.

Developers have already been transforming former warehouses and factories into housing, retail and hotels. And New Jersey–based AeroFarms has repurposed a former steel factory and warehouse into vertical, urban farms. Could office buildings be next?

Urban Inspired.
ULI points to a number of suburbs that are leading the way in creating a successful, urban-inspired environment, including Rockville, Maryland; Arlington, Virginia (above); Tysons Corner, Virginia; Richardson, Texas; and Shoreline, Washington.

5. Water control is becoming the responsibility of developers.

California is in the fifth year of a historic drought. Southeast Texas has been faced with unprecedented flooding. And developers are taking responsibility.

Carey notes that one of the things that ULI is currently focused on is storm-water management and flooding. "Cities like Philadelphia and Washington now expect the private sector to assist in implementing citywide green infrastructure plans and are requiring developers to manage their buildings' own storm-water needs." That, she explains, is something typically handled by the municipality.

Some developers are also integrating water management into their work without municipal requirements. "Where we are seeing water scarcity, developers are starting to factor in the short- and long-term costs of water into their development plans," Carey says.

6. Parking takes a backseat.

As more and more people seek out the urban lifestyle—whether within or outside of city limits—the number of cars on the road is decreasing.

"We're seeing a trend of fewer people driving. There is a desire to utilize shared vehicles like Uber and Lyft, or active transport, such as bikes," says Carey. "And there is a demand for the infrastructure that supports cycling and pedestrian access. People don't want to hop in their cars and drive all of the time."

The question, then, is what's going to happen to existing parking—both surface and structured?

"People are starting to talk—not in a visionary way, but in a practical way—about what the implications might be of having fewer cars and different types of vehicles on the road. How will streetscapes change? Will we need parking for all of these driverless cars, and will it look the same as the parking we have now? If not, what are we going to do with the parking that we already have? Is this an opportunity to build more housing or logistics facilities? Will we have to have parking on the outskirts of town or will we be able to adapt what we have?" asks Carey.

And—as one would expect from an organization that continues to look to the future of building livable, sustainable communities—ULI's members are taking the lead.

Says Carey: "Our members are taking a very realistic and pragmatic approach to the question and not just saying, 'I wonder what's going to happen 10 years from now when we all have driverless cars?' They're asking, 'What am I going to do with my particular development? What can I do to help my community prepare for this?' We think that is a very positive development." KL

Family Matters

Steve Gupta and daughter Reetu Gupta build iconic properties and stay ahead of industry trends while putting family first.

BY MICHELLE SANTOS

REETU GUPTA LOOKS BACK FONDLY at her childhood memories of her father, Steve Gupta, bringing home color palettes and fabric samples for her and her siblings to peruse as they watched television after school. The daily exercise wasn't a simple pastime for the Gupta children; they were providing critical input on the design scheme of their father's latest hotel project. Reetu Gupta didn't realize it at the time, but the activity she looked forward to every evening was actually a component of the valuable—and lifelong—training she would receive from her father on hotel and real estate development.

Elegance Meets Economy.
Steve Gupta and his children balance taste with an awareness of value to treat their guests to high-quality furnishings and amenities without a hefty price tag.

She could not have asked for a better teacher. Mr. Gupta came to Canada 45 years ago with $108 in his pocket and a vision to build beautiful properties that would provide impeccable service reminiscent of the five-star hotels he had admired as a child in his native India. Invested in his dream and unafraid of hard work, Mr. Gupta initially sold insurance door to door to make a living. In 1979, he finally made a humble foray into property ownership and development, purchasing a truck stop off Highway 401 in Port Hope, Ontario. Anticipating that proximity to a major highway would create demand, Mr. Gupta added restaurants and a hotel to the site. His foresight was 100 percent accurate. He had cemented his first real estate success.

Today, he is president and CEO of Greater Toronto–based Easton's Group of Hotels and the company's real estate arm, Gupta Group. His real estate portfolios include a hotel portfolio boasting 15 properties bearing the Marriott, Hilton and IHG brands in locations across Ontario and Quebec; a residential portfolio consisting of landmark buildings offering upscale living in the city core; and a recent, successful venture into office condos, a property class that is exponentially gaining market appeal.

At every step of Mr. Gupta's ascent to success, his family was by his side, where they remain to this day. Reetu Gupta is now chief operating officer of Easton's Group and Gupta Group.

"Hotels are in my blood," says Ms. Gupta. "I've always enjoyed being and working in hotels. I remember staying at a Marriott in Orlando when I was 4, when my dad took us with him for a hotel convention. The staff was so friendly, giving me comic books and crayons to entertain me. The people and the facility were just gorgeous."

Family Ties

An affinity for hotels coupled with the unparalleled Indian hospitality coursing through the Guptas' veins make for a dominant force in the industry that is only made stronger by an unbreakable family bond.

It all began with a patriarch who made it a point to involve his family in discussions, be it about personal issues or business matters. "Our opinions as his children always mattered," explains Ms. Gupta. "To this day, we would discuss as a family—and we might have differing standpoints—but in the end, we come to an agreement."

Indeed, Mr. Gupta assents that while the business hires the industry's best consultants to offer expert advice on its projects, "The family makes the final decision."

The Gupta signature is evident in the family's properties. Filling the gap between luxurious, five-star hotels and their all-too-basic counterparts, Gupta brand hotels occupy the upper-mixed-scale tier, offering the conveniences of a four-star facility with stellar service.

"We did away with five-star luxuries, such as a piano bar or rooftop pool, and instead married white-glove service with midrange facilities," explains Mr. Gupta.

The Guptas' version of midrange is by all accounts still top-tier. The family's discerning taste and cognizance of value guarantee that their guests are treated to high-quality furnishings and amenities without the exorbitant price tag.

The same philosophy applies to their game-changing residential properties, The Rosedale on Bloor and Dundas Square Gardens, both of which offer the perfect combination of optimized living spaces and state-of-the-art amenities.

"I taught my children the importance of respect, reputation and humility. It might be an old-fashioned approach, but it's a great way to do business."

"Today's young professionals don't want to spend on huge condos," says Mr. Gupta. "They want smaller, practical spaces to eat and sleep, while the rest of the building provides the extras they want: a rooftop garden, bar, pool, fitness center, a business center like what we offer at The Rosedale—even a gourmet kitchen or theater like what we have at Dundas Square Gardens."

In fact, residents of The Rosedale have full access to premier hotel amenities—at no extra cost—as the first nine floors of the building make up The Canopy, a new Hilton lifestyle hotel.

Again, Mr. Gupta's projection was right on the money. The blended hotel-residential model was exactly what his target market

Four-star Accommodations. *Yonge Park Plaza in Toronto pairs a high-end hotel with Class A office space featuring top-of-the-line executive amenities. The property is designed to Leadership in Energy and Environmental Design (LEED) Gold standards.*

wanted, and they proved it by purchasing 900 units at Dundas Square Gardens in one month, making Gupta Group the fastest-selling condo developer in the Greater Toronto area in 2014.

Trendsetting Real Estate

With a penchant for identifying and building on industry trends, and having conquered the hotel and residential sectors, the Guptas have entered new, niche territory: office condos.

Mr. Gupta knew there was a demand from businesses to own their office space. He knew because he was one of them. "After having paid $20 million over 30 years to rent my office space, I wanted to build my own," he explains. "In Toronto, nobody built office condos. Only long-term leases were available."

He saw the opportunity to meet this demand and sought to offer companies the benefits of owning office space, including, he notes, "freedom and flexibility to build your space the way you want it, investing towards your own asset, stable monthly payments versus rising rents and peace of mind that you won't be removed from your space."

Mr. Gupta's vision gave rise to Yonge Park Plaza (YPP), a mixed-use, four-star hotel and office building at Toronto's 4050 Yonge Street. Designed to Leadership in Energy and Environmental Design (LEED) Gold standards, the property features 250,000 square feet of premium executive space and top-of-the-line facilities—from fully furnished boardrooms equipped with the latest audio-visual equipment to modern common spaces to bicycle storage. Owners at YPP also have the option, via membership, to use the connecting Hilton Hotel's guest rooms, pool and fitness facility, illustrating Mr. Gupta's trademark approach of combining practical necessities with welcome add-ons.

Asked what excites him the most about YPP, the real estate mogul is quick to point to its prime address at Yonge and York Mills. Located 15 minutes to popular amenities, near major highways and multiple transit options with direct subway access, the property, says Mr. Gupta, is a "once-in-a-lifetime ownership opportunity."

The Guptas not only homed in on the strategic location of YPP, but they also foresaw the lure of such a premier property within the affluent neighborhood of Yonge and York Mills. "We looked at who's living, working and playing in the area, and anticipated what and who could move into it in the future," explains Ms. Gupta. "There were no retail, restaurant or hotel options in the immediate vicinity. This gap made it clear that the YPP concept would work."

The lobby level of YPP offers more than 20,000 square feet of restaurants and retail shops, catering to tenants and customers alike. The void has officially been filled.

Given their sterling track record of bringing iconic, profitable properties to market, the Guptas have no shortage of partners and vendors clamoring to work with the family. Just as they carefully choose the design and furnishings for their properties, they mindfully select professionals to hire and teams to involve in their projects. "We look for the right fit," Mr. Gupta says. "Yes, someone's résumé speaks for itself, but we bring on people who love their work and not just the monetary rewards that come with it. Being in the hospitality industry, we choose to work with happy people who can, in turn, make others happy. Most of all, we value those who recognize that in our business, family comes first, and want to be part of our extended family."

The Guptas have no shortage of projects, either. In less than five years, Gupta Group plans to complete two significant developments totaling no less than 3 million square feet. The company's "build one at a time" approach is an assurance that the team dedicates ample time, effort and resources to delivering only best-in-class properties.

The Guptas have made an indelible mark, not just on the neighborhoods and cities in which their properties stand, but on the hotel and real estate industries themselves. While other magnates measure their success based on dollars and prestige, for Mr. Gupta, his children—and their sound values and achievements—are his legacy.

"My family have their feet firmly planted on the ground," he says proudly. "I taught my children the importance of respect, reputation and humility. They are brilliant in all they have accomplished in their education and work, and remain true to these values. It might be an old-fashioned approach, but it's a great way to do business. It's this philosophy that makes people say, 'Gupta Group is a great company to work with.'" KL

COMMON

25%

The estimated amount of all industrial leasing activity related to e-commerce.

GROUND

The intertwining of industrial and retail sectors presents an array of opportunities.

By **EMI ADACHI,** *Vice President, Research, Heitman (Chicago);* **ANTHONY FERRANTE,** *Senior Vice President, Portfolio Management, Heitman (Chicago);* **STEVEN WARSAW,** *Senior Vice President, Asset Management, Heitman (Chicago)*

Over the past two decades, technological advancements have led to the development and widespread adoption of e-commerce as an alternative to traditional store-based retailing. For a time, it seemed that bricks-and-mortar and e-commerce were facing off in a zero-sum game that might spell disaster for conventional retailers and shopping centers across the board. But consumers continued to shop in stores as they adopted online channels, and forward-thinking companies on both sides started to cross the boundary between bricks and clicks. Today, the omnichannel model involves the integration of all avenues through which retailers and consumers interact, including physical stores, online, mobile and social media. As the evolution continues, retailing and logistics operations are becoming increasingly intertwined, resulting in the convergence of two formerly disparate property sectors.

Changes in Industrial Demand

The rise of e-commerce has been strongly positive for the industrial sector. Traditional drivers of warehouse demand, such as gross domestic product (GDP) and industrial production, are no longer as highly correlated with net absorption as they used to be, particularly for modern logistics space (Figure A). As a result, industrial demand has consistently surpassed expectations over the past few years, despite only modest growth in the U.S. economy. Although they are somewhat difficult to quantify, the industry currently estimates that requirements related to e-commerce now account for as much as 25 percent of all industrial leasing activity and 45 percent of new tenant requirements for spaces 200,000 square feet and larger.

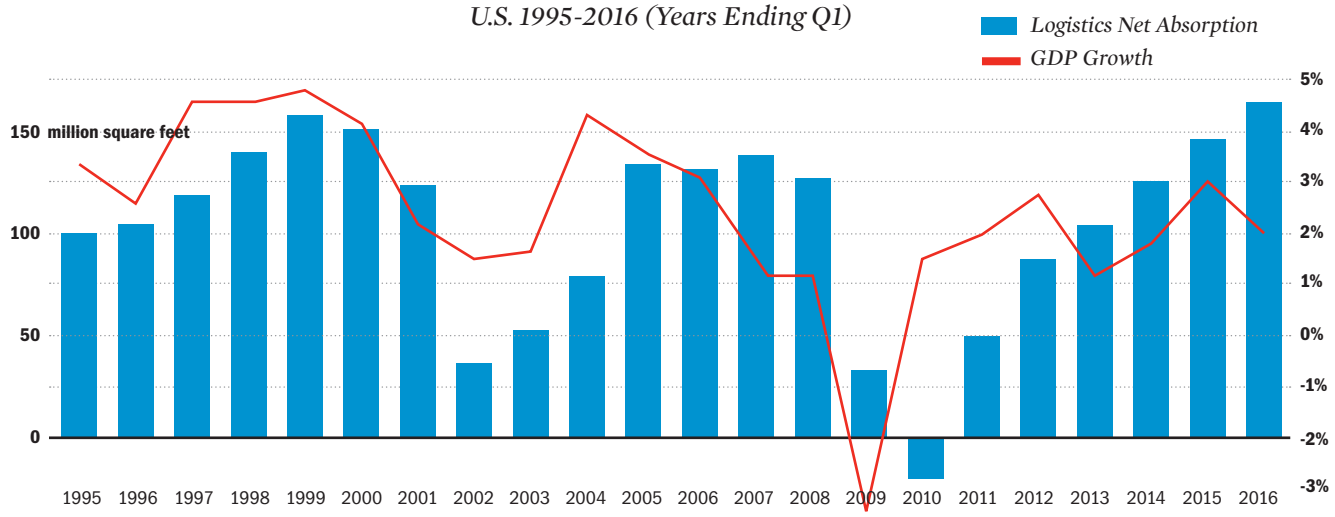
The continued growth of e-commerce and a broader focus on supply-chain optimization are likely to boost industrial demand for a long time to come. Traditional retailers are increasingly focused on building out their omnichannel capabilities, which is crucial to their long-term survival, and most are only in the very early stages of this undertaking. According to Prologis, large retailers need three times the amount of warehouse space to support the same level of online sales compared to sales through a traditional store network. Retailers also need to keep more inventories on hand so that they can offer a wide range of products and quickly fulfill online orders at the same time.

Retail Continues to Morph

Bricks-and-mortar retail is not dying, but it is undergoing profound and rapid change. Heitman Research shows retail market performance is increasingly bifurcated, and a large subset of properties is struggling to adapt. These include Class B/C regional malls and lower-quality, open-air centers located in trade areas with weak demographics and challenging competitive landscapes. Many of these will eventually be redeveloped or converted for entirely different uses. Meanwhile, high-quality retail assets are

(FIGURE A) LOGISTICS NET ABSORPTION AND GDP GROWTH

U.S. 1995-2016 (Years Ending Q1)

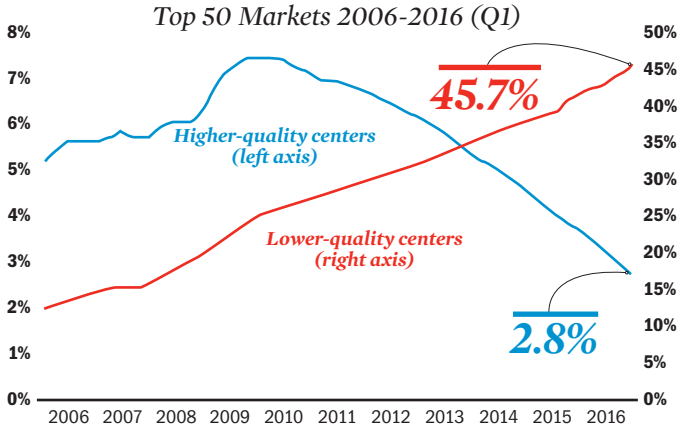


GRAPHICS SOURCE: MOODY'S ANALYTICS; COSTAR PORTFOLIO STRAGTEGY; HEITMAN RESEARCH

performing better than ever. Class A malls have seen outsized tenant sales growth and captured market share from their weaker competitors. Infill urban and high street retail in large metropolitan areas is thriving, and dominant open-air power, community and lifestyle centers are enjoying low vacancy rates and strong tenant demand (Figure B). At these properties, the loss of a struggling tenant is typically viewed as a net positive for the center because there are multiple retailers interested in backfilling the space that will likely be stronger contributors to overall sales productivity and traffic. Mall REITs have also reported excellent results from replacing department store boxes with a variety of uses including in-line space, restaurants, sporting goods, fast fashion, grocers and fitness concepts.

(FIGURE B) RETAIL VACANCY RATE

Top 50 Markets 2006-2016 (Q1)



Despite the current strength of the market, owners of high-quality retail properties can't afford to be complacent. Like retailers, shopping centers need to constantly evolve to keep up with changing consumer preferences and offer compelling experiences to draw people out of the house and away from their screens. Cookie-cutter tenant lineups are giving way to curated small-shop collections that mix household names with fresh concepts, new-to-market international brands, unique local boutiques and pop-up shops that change frequently. The same idea applies to food and entertainment, which have become increasingly important traffic drivers and can truly differentiate a shopping center.

Convergence and the New Supply Chain

The convergence of retail and industrial manifests in many ways, particularly in how goods reach consumers. Instead of products going from warehouse to store and ultimately to the end consumer, they are increasingly going directly from warehouse to consumer. But in an omnichannel model, stores can also act as warehouses, sometimes providing inventory to fulfill online orders for faster delivery. Customers are increasingly choosing to place orders online and collect them at their local store—an advantage that omnichannel retailers have over pure-play online competitors.

Many retailers also find that by accepting in-store returns of online orders, they can drive higher sales through impulse purchases. Finally, there is a growing number of online retailers opening physical stores to raise brand awareness and increase sales volumes significantly across channels.

Retailers that can efficiently deliver goods to the end consumer regardless of how the order is placed will have a leg up on the competition in today's environment. This transition will not be easy, however, given the cost and complexity of managing multiple channels and offering a seamless customer experience across them. Omnichannel retailing requires substantial investment in systems, equipment, facilities and employees to facilitate the flow of inventory across channels, fulfill orders quickly and handle the large volume of returns that online orders generate. Most companies selling goods to the consumer are too small to make the same kind of supply chain investments as Amazon, Walmart and other large retailers. Instead they're turning to third-party logistics (3PLs) firms to manage order fulfillment, last-mile delivery and returns. As a result, 3PLs are likely to represent a larger share of the industrial tenant base as e-commerce grows.

Key Takeaways

As technology continues to transform consumer preferences and expectations, retail is integrating into the supply chain, blurring the lines between where a retailer ends and a logistics company begins. As the number of bricks-and-mortar stores declines, it will become more important than ever that these stores be well-located and offer a compelling experience that cannot be replicated online. Dominant shopping centers will thrive at the expense of their weaker competitors, and some excess retail supply will be repurposed or demolished over time.

Conversely, the need for warehouse space will grow along with diversity in the location and type of buildings that tenants demand. Specifically, the need to deliver products quickly to the end consumer will continue to drive demand for infill warehouse locations as a complement to traditional big box warehouses located outside the trade area, where developable land is abundant. And, as the convergence trend is recognized by investors, we anticipate their interest in including last-mile distribution assets in retail allocations will grow. KL

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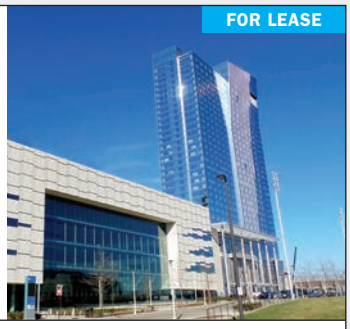

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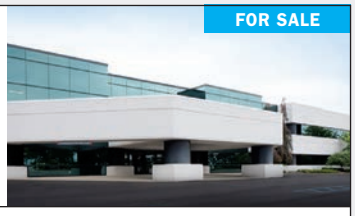

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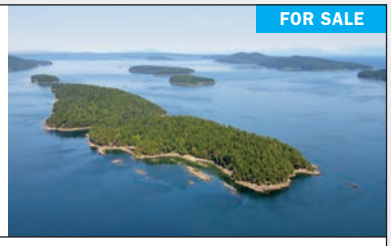

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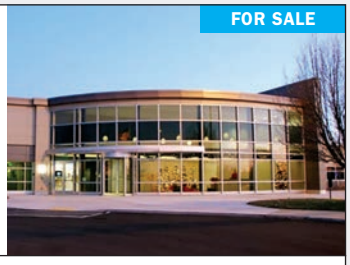

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VISIONARY

What Can Be

Saskatchewan developer Mitch Molnar transforms and reimagines distressed assets.

By Marita Clark

Developer Mitch Molnar is rehabilitating underutilized office buildings in Saskatchewan.

DEVELOPER AND LANDLORD Mitch Molnar grew up in Yorkton, Saskatchewan, and graduated from the University of Saskatchewan with a degree in economics. While he did not plan to pursue a career in commercial real estate, he learned the basics of the industry from a family friend. Like many young Saskatchewanians at the time, Molnar made the move to Calgary, but soon realized real opportunities were to be found back at home. Molnar moved to Regina with his young family in 1999 and started his own business, Mitchell Developments.

The Saskatchewan economy wasn't in great shape at the turn of the millennium, and the real estate market had been neglected for quite some time. Undeterred, Molnar says, "There was a real opportunity to go in and buy distressed assets and re-envision them … no one else was prepared to work on them."

One example of these early projects is Avord Tower, a 110,000-square-foot office tower in Regina's downtown. Prior to Molnar purchasing it, the building had upward of 70 percent vacancy with no recent improvements as rental rates were far below market value. "We were able to get into this asset for all intents and purposes because it was distressed," Molnar says.

Not only did Molnar re-tenant Avord Tower, but he elevated it from a low Class B to a Class A building. Part of this remodel infused life into downtown Regina by transforming street-level offices and vacancies with a popular restaurant component.

For Molnar, it's not about what a building is, but about what it can be. "By far and away, my most successful projects, and the projects I get the most personal satisfaction from, are the rehabilitation and re-envisioning projects," he says. Finding new builds to be cookie-cutter and formulaic as though "squirted from an extrusion machine," Molnar likes "looking at a box and turning it into a triangle."

Projects similar to Avord Tower have become more difficult for Mitchell Developments to obtain, partly because Saskatchewan's recent economic boom has limited supply, and partly because the structure and commoditization of the real estate industry have increased, along with the sophistication of developers and owners in all asset levels and classes.

"When I was in school, there wasn't a course in development; now there is," says Molnar. He explains that there is a greater awareness of how to secure and finance projects, and how to mitigate risks. "Development has become less magic, more formula these days," he says.

Another change Molnar has seen in the past 20 years in the Saskatchewanian market is the rise in multinational tenants willing to incur greater leasehold improvement costs for the flexibility of short-term leases. When Molnar was just starting in the business, 10- to 15-year deals were the norm; now, tenants desire more tenant improvements with a five-year lease.

Even though Saskatchewan's economy has slowed and outside investors have become less active in the resource sector, Molnar feels Saskatchewan still has the resources the world needs, and its real estate will remain a safe haven. A reassessment of underutilized and distressed properties that no longer hold a certain intrinsic value simply because they exist will give Molnar the opportunity to work with these assets again. While they do present the most risk, Molnar maintains that "a good developer has the ability to identify and mitigate the risk factors."

As his company continues to mature, Molnar sees a greater ability to take on these assets to add to a substantial portfolio, acquire more established, exciting properties and invest in Saskatchewan's market for years to come. KL

PHOTO COURTESY OF MITCHELL DEVELOPMENTS

From the President & COO

A New Era in Office

Colliers International report reveals new tech firms are outpacing legacy firms when it comes to real estate.

Dylan Taylor
President & COO
Colliers International

PERHAPS NO INDUSTRY SECTOR moves more swiftly from trendsetting to the everyday than technology, media and telecommunications (TMT). The sector is transforming how we work and communicate at rapid speed; what seems groundbreaking today is quickly relegated to the tried and true tomorrow as something newer, more exciting—and typically faster—takes its place.

Along with innovation come new space needs. Colliers International recently released its technology and commercial real estate report and found that technology companies' real estate footprints are expanding at a rate and scale rarely—if ever—experienced by traditional industries.

According to the Colliers report, the markets in which technology firms are prevalent are seeing greater absorption, higher asking rents and lower vacancy rates than in non-technology markets. In fact, office-space absorption in the nation's leading office markets is now largely being driven by technology firms, leaving those

Office-space absorption in the nation's leading office markets is now largely being driven by technology firms, **leaving those industries that previously dominated office leasing—such as finance and law—in the dust.**

ILLUSTRATION BY KATHRYN RATHKE

industries that previously dominated office leasing—such as finance and law—in the dust. As an example, the study found that a major market like Manhattan, where a financial tenant may occupy 4 million to 5 million square feet of space, is now seeing technology companies requiring two to three times that amount. Case in point: In 2015, technology companies in Seattle absorbed 10 times the commercial real estate as all other industries combined.

And their needs are growing.

Expanding Needs

In Silicon Valley, where technology is king, the majority of major tech leases were an expansion of their existing footprints. The report notes that of the 36 deals of more than 50,000 square feet signed in the area over the prior five quarters, only six were not expansions. Nearby San Francisco tells a similar story. In 2015, nine of the top 10 tech deals were net space additions.

It's important to note that while technology's big-name players—like Apple and Microsoft—still account for large quantities of leasing and absorption, it is the new players that are having the biggest impact. And we can expect that to continue for some time.

In an interview, Paul Sallomi, global technology, media and telecommunications industry leader for Deloitte and a co-author of its TMT 2016 study, stressed that the pace of technological change shows no signs of slowing. "As more companies recognize that standing still is not an option, the technology market's barriers to entry will continue to fall. We are already seeing the rapid rise of 'unicorns'—privately funded companies in existence for several years whose market capitalization would exceed U.S. $1 billion if they were to go public. The population of unicorns is likely to increase as innovators and investors look to develop new products, platforms and services as rapidly as possible," he says.

New Tech's Impact

In fact, while tech firms overall have a disproportionate impact on our leading office markets, it is "new tech" (those established within the past 20 years) that is increasingly dominating the deal flow of larger leases of 50,000-plus square feet. In our report's six-city sample, the share of the total square footage of large deals has been increasing fairly steadily, from less than 10 percent in 2010 to nearly 30 percent in the first quarter of 2016. San Francisco leads overall, with nearly 60 percent of large leases signed by these younger firms, edging out Chicago at 54 percent and Seattle at 51 percent.

And more and more of these companies are seeking space in secondary markets, as the cities most associated with technology become cost-prohibitive to millennials, who make up a large portion of their workforce. In May of this year, Salesforce announced that beginning in 2017, its regional headquarters will be calling Indianapolis, Indiana, home. The company is moving into 278,000 square feet of prime real estate in Chase Tower on Monument Circle—the very center of downtown. The huge deal comes with naming rights—Chase Tower will become Salesforce Tower—and will bring an estimated 800 new jobs to the Midwest city over the next five years.

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Strategic Partner

Colliers International's technology solutions group has had the pleasure of assisting many of the world's high-growth TMT companies with their real estate challenges, including Red Hat—one of the fastest-growing companies globally. The company is the world's leading provider of open-source, enterprise IT solutions. In 2011, the company was ranked number seven among *Forbes*' list of "The World's Most Innovative Companies," and in 2010, the New York Stock Exchange selected the Red Hat platform and middleware solution for its financial trading platform. Colliers was chosen as the company's exclusive global project management provider. As such, our team of experts deployed portfolio-wide scenario planning to ensure that the company was prepared for all potential business cycles and change.

As technology's real estate needs continue to overshadow those of other industries, landlords and developers should look into renovating existing product and developing new projects with the needs of tech firms—and the interests of millennials—in mind. Colliers International looks forward to continuing to lead the way as a valued strategic partner. KL

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