

PREMIER

A publication of **KBS** | 2023 ISSUE

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Change for the Better

It's been said that the only constant in life is change. Today, nothing could be more true. In the past year alone, we've seen a shift in the way America approaches work; a significant technological transformation of retail; and a continuing balancing act as the economy seeks more predictable footing. However, with great challenges come great opportunities.

For one, we've changed the masthead of this publication from Premier Office to simply Premier. While seemingly minor, this new name will better reflect the ever-changing scope of commercial real estate — as well as KBS' widening array of assets and interests.

“I can only hope to match the pursuit of excellence Chuck brought to previous issues.”

Another difference is yours truly. With Chuck Schreiber assuming the role as president and chairman of KBS, it's my honor to now address you in this space. I can only hope to match the pursuit of excellence Chuck brought to previous issues — let alone match the pioneering leadership and unwavering passion he continues to bring to our industry.

From the start, our goal has been to cultivate content that would resonate with peers, business leaders and tenants. This has not changed. Each year, we distribute copies to KBS-owned properties and fellow real estate professionals — something that would not be possible, in part, without our advertising partners. To those advertisers who have joined us this year, we offer our kindest appreciation for their participation.

That said, it's my distinct pleasure to bring you this inaugural issue of Premier magazine. You'll not only visit some interesting places, but along the way, get to meet people who've had an impact on CRE — from tenants to a trailblazing industry icon.

In a special one-on-one conversation with Chuck, the KBS co-founder discusses his storied career, past and present. Chuck is a true commercial real estate visionary. I know you'll enjoy his thoughts on the market, its opportunities and challenges, and what's on the horizon for CRE investment.

In our feature story, you'll take a grand tour of KBS' Park Central Apartments in North Hills, North Carolina, and the surrounding Midtown Raleigh community. Hear from people who live in this luxury multifamily property — and those behind the scenes who've made it such an attractive place to live.

Also, we'll visit with Mike Adair, CEO of Red's All Natural delicious, convenient and clean-label frozen foods. In our tenant profile of Red's, Mike shares his company's origin story, its operating philosophy, and how KBS' The McEwen Building is meeting the needs of his growing enterprise.

Nashville isn't just great music and food. Our story will give you a new look at this vital mecca of tourism and business, including KBS' UBS Tower — one of our latest Class A office acquisitions in the heart of Music City.

You'll also hear from KBS Regional President, Western U.S., Giovanni Cordoves, on the future of CRE. Plus, as they say, so much more.

Happy reading. Here's wishing every change in the next year will be a change for the better.

God bless America,



Marc

Marc DeLuca

Chief Executive Officer and
Regional President, Eastern U.S.
KBS

EXECUTIVE INTERVIEW

30 Years of KBS

with **Charles J. Schreiber Jr.**

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30 Years of KBS

A Conversation with KBS
President and Chairman,
Commercial Real Estate Trailblazer
Charles J. Schreiber Jr.

During the last three decades of commercial real estate investing, KBS' Co-founder, President and Chairman Charles "Chuck" J. Schreiber Jr. has steered the company successfully through a multitude of opportunities and challenges from the savings and loan crisis to COVID-19 and more. Chuck has a unique perspective on the industry that is honed by his outstanding business acumen and career-long accomplishments.

We sat down with him to tap into his deep understanding of the market, his take on its current challenges and what he sees over the horizon for commercial real estate investment.



Photo Credit | John Glover Photography | johngloverphotography

Chuck, you founded KBS alongside Peter Bren and Don Koll in 1992 and served as its CEO for 23 years before taking on the role of president and chairman in 2022. What are some of the most notable commercial real estate changes you've witnessed over the last 30 years in this industry?

I've been part of the dynamic commercial real estate market through numerous cycles. One of the most prominent changes I've seen is the availability of widespread market analysis. For many years, all the market data came from a few large brokerage firms. Today, several sophisticated companies publish excellent, targeted market data that investors can use to make sound decisions. This has permanently altered the trajectory of the industry.

Today's investors have visibility into net demand from tenants, trend overviews, case studies of competing properties, planned developments and more. At KBS, we take this information a step further by conducting our own market-level analyses in each area where we invest.

“ This ties back to our core ethos, which is to serve investors first.”

We have boots on the ground with asset managers in each region who have firsthand experience and in-depth insight on these markets. Our commercial real estate portfolio, which is valued at close to \$10 billion, consists of properties that are comparable to the assets we are considering, providing additional data for us to make effective investment decisions. This ties back to our core ethos, which is to serve investors first.

To do this, we maintain and track a list of at least 25 target markets where our team conducts thorough and continuous studies to understand each and every building we're targeting. Rather than simply hearing that, for example, Charlotte, North Carolina, is a great market, we go into each target market, understand the tenants and familiarize ourselves with every detail about the area so we can deliver at the highest level for our investors.

Based on our approach, I'd suggest that we have better data than any entity that is not negotiating leases or dealing directly with tenants in the marketplace. We have a ground-level perspective on changes in the industry and a deep comprehension of market conditions that few other investment managers have.

So now that the entire market has better data and KBS has that boots-on-the-ground insight, as you look ahead to negotiate leases, what are some of the office amenities that are most beneficial to offer tenants?

Health and wellness are enormously important to tenants and investors today. We have understood this for a long time and have placed a strong focus on well-being at our properties.

I personally enjoy the gyms and fitness programs offered at our premier office assets around the country. That said, our commitment to tenants goes beyond these high-end amenities and services. KBS is also nationally recognized for the environmental and physical health of our buildings, with certifications such as LEED and Energy Star at many of our properties as well as UL Verified healthier indoor air and touchless systems in common areas.

We take our responsibility seriously in running our buildings so our tenants can be as successful as possible. Enhancing the health of our properties is a means to that end.

Moving back to data for a moment, how has technology affected commercial real estate over the last five to 10 years?

Technology has allowed our analysts and asset managers to run scenarios and financial models quickly and thoroughly, giving us both a bird's-eye and a granular view of our portfolio.

For example, no single tenant occupies more than 10% or 15% of rentable square footage at most of our properties, which reduces downside risk if a tenant should leave. We are also careful to ensure our tenant mix is diverse among industries, so each property remains stable against industry-specific downturns.

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“Our high-level use of technology enables us to understand these shifts and make smarter investment decisions to manage risks accurately.”

This is important based on the complexity of activity across our assets. At any time, one or more assets will have dozens of dynamic scenarios regarding how tenants will lease space and how local market fundamentals will shift. Our high-level use of technology enables us to understand these shifts and make smarter investment decisions to manage risks accurately.

Because we work proactively to minimize risk, we're one of the few commercial real estate investment managers that actively sells buildings whenever we determine the risk of holding is too high. In those cases, our strategy is to sell properties and return those proceeds to our investors or reinvest in assets that demonstrate lower risk and higher value. Our investors are always top of mind in every decision we make.

When you speak about KBS being one of the few managers who is actively selling buildings and really assessing risks, how does this forward-thinking approach affect your investors?

Our investment thesis and process enable us to position our assets to provide the best possible returns for our investors on a building-by-building basis.

For example, at one of our large Northern California properties, a tenant occupied 25% of the building and wanted to expand by another 30%. Upon completion of that transaction, they would have occupied 55% of the building and extended their lease. That tenant also had the ability to develop and occupy their own building down the road, which, in addition to increasing vacancy at our property, could substantially

put a damper on its value. The risk of that scenario becoming reality was great enough to prompt our decision to sell the asset while its valuation was still strong.

This move protected our investors' capital and appreciation in the value of the asset.

We believe this strategy helps KBS preserve and grow our investors' capital for the long term. We understand that in many cases, the funds placed in our care comprise retirement savings that will give people financial freedom throughout their lives. KBS is vigilant over these investments. Our first responsibility is to our investors, and we always try to put their needs first.

You've been extremely successful in your career. Looking back, who have your mentors been, and how have they helped shape these strong opinions for you?

The three mentors who stand out for me are Ray Wirta, former president of Koll Companies and the Irvine Company, Donald Bren, chairman and owner of Irvine Company and Peter Bren, previous partner and past chairman of KBS. Peter passed away in 2019.

Ray was one of the smartest gentlemen I've ever known. I was fortunate to work with him for a number of years. He was simply unmatched in his management talent, business acumen, methodology and accountability.

Donald's wisdom, tenacity and passion distinguish him as a true mentor and model. Instead of focusing on his new worth, he has always cared about the community at large.

“Attention to others — is what truly matters.”

This principle — attention to others — is what truly matters. It's a remarkable trait in a businessman and one I have always admired, respected and strive to maintain in my own life.

Peter was a great thinker and understood all aspects of real estate investing. I was blessed to have him as a partner for close to 30 years.

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Throughout your career and certainly since the inception of KBS, there have been several defining moments. Some of the top challenges that come to mind include the savings and loan crisis, the dotcom bubble, September 11th, the Great Recession and COVID-19. Many of these stand out in investors' minds as well. As you look at those challenges, what do you take away from them and how have they shaped your own leadership?

These pivotal events have taught us that the commercial real estate industry is always changing. We cannot control this change, and in many cases, we were not able to anticipate it, but we can be prepared for it. Equally, these disruptors have taught us that while trends will vary among markets and some markets will recover differently than others, nearly all markets will eventually recover.

At KBS, we believe that well-located, high-quality office properties are positioned to fare well, especially when paired with a disciplined investment strategy like ours.

“We know recovery will look different in each market across the country.”

We know recovery will look different in each market across the country.

Current post-COVID-19 office occupancy by employees is being reported at approximately 60% on average, yet it's as high as 90% in some markets. It's important to also consider how these numbers compare to actual leasing activity. Companies with hybrid and/or remote policies still need space to accommodate all team members when they come to the office — activity that is poised to further boost occupancy averages.

Beyond the data, the reality has set in, and most CEOs now realize that while remote work has value for some workers in certain job functions, there is tremendous value in having teams together in the office.

In-office schedules help companies maintain a supportive and cohesive culture and a level of training that is just not possible in a remote environment. The ability for senior talent to teach and mentor younger team members face to face is invaluable.

KBS is helping tenants find solutions to these issues while also committing capital to freshen up lobbies, outdoor space, parking and common areas — all part of our dedication to support a healthy lifestyle for our tenants.

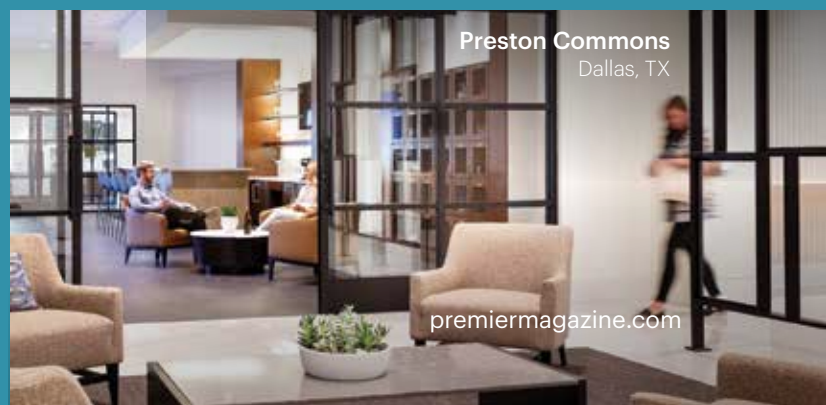
Let's dive a little deeper into what you see ahead in the office sector. As people are coming back and reconnecting with the office, what changes do you expect to see in that space?

There is renewed energy in the office sector because companies and owners are investing capital to bring these spaces to life in a new way.

In addition to KBS' commitment to continually improve our buildings, we are seeing tenants commit substantial capital to improve their own spaces. Investments are being made in tenant lounge/reception areas, coffee bars, restrooms, etc. These tenants know that as people come back, they will notice the improvement and feel more comfortable and more accommodated than ever before. It is important that employees are proud of their office environment.

In addition, as interest rates rise, we expect to see continued demand for multifamily properties near premier office properties. Many people who can't afford to buy a home because the cost of debt has risen so much will be looking for high-quality multifamily properties close to where they work. The call for apartment homes across the board is growing louder, and where there is high demand for Class A apartment homes, Class B assets can be redeveloped or refurbished to provide great places to live.

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“ We also anticipate increased demand for office properties in business centers with well-run public transportations systems that make commuting easy.”

We also anticipate increased demand for office properties in business centers with well-run public transportations systems that make commuting easy and convenient for building occupants. This trend will have the potential to positively impact property performance.

Further, we expect office users' need for flexibility in space usage to be a growing trend. In today's business climate, flexibility is essential for office users, which is why KBS has created a successful spec suite program designed to provide turnkey space for smaller companies that are interested in growing. We also offer co-working space in some of our properties that can accommodate tenants with changing space needs. Since most office tenants will want to expand their staff within their suite by 10 to 15% upon move-in, it's important for our tenants to know what flexibility exists within their lease terms as well as what space is available within the building that might meet their future requirements.

As both KBS and your tenants are committing capital to spruce up office spaces, how are you seeing ESG initiatives evolve? How important are they to you, and where is this headed?

ESG initiatives are a major focus for us at KBS and a growing movement in the office sector. The companies that own, operate and occupy commercial real estate have an opportunity to effect true positive change in the environmental, social and governance realms with these initiatives.

Our company recently established a dedicated Green Team and appointed a new ESG manager, Apaulo Malloy, to direct our ESG efforts as a proactive strategy to drive us toward a sustainable future.

I believe the business community needs more education, research and sophistication regarding ESG. We need better data to help us reduce petroleum products, establish alternative energy and achieve net zero carbon emissions by the established deadlines. I have faith that we will reach these goals if we harness our creativity and innovation to develop new solutions. As we approach this challenge, KBS will be looking to raise our game in the ESG scope as well.

Speaking of new solutions, many of them may be coming in from the next generation of leaders. As the commercial real estate industry faces our current challenges and opportunities, what is your advice for this next generation of leadership?

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I encourage young people entering the commercial real estate industry to consider diversity in their career. Pursuing work that teaches them about a variety of areas in our industry, including construction, property management, leasing, finance and engineering, is key.

All the sectors of our business contribute to overall investor returns. It's important to fully understand the challenges to all these sectors. For example, what's happening in the financial market today is impacting the banks and life companies, which need to continue as active lenders. Nurturing relationships with those businesses will make young people more well rounded and serve them well in their careers.

A good example of this would be someone who begins their career in construction and engineering. There are so many aspects to developing a building. They will understand the simple importance of the entire development timeline. The developer in the current market must decide whether to postpone construction and modify the bank loan that is ready to fund immediately or take another course of action.

A young leader who has lived through these challenges will better understand how to create meaningful and workable solutions for our industry.

Having career diversity versus doing just one thing at a company can open doors for young people as they grow in this field. Comprehending how all these separate parts work together cohesively makes commercial real estate professionals more valuable and can ultimately drive a long and successful career in this industry.

From the lens of someone who has been in the industry for as long as you have, what do you believe distinguishes KBS from other commercial real estate investment managers?

From a strategy perspective, KBS takes a unique approach to acquisitions that allows us to identify and add to our portfolio properties across the country that are best positioned for strong returns — sometimes even before they go on the sale block.

Within the markets we track, we focus on roughly five to seven primary target markets. Our pool of market-specific asset managers located around the country identify buildings they want to buy in those markets — even buildings against which they're currently competing. We have approached those property owners and informed them that we are interested in buying their building, and we may acquire a few assets per year successfully with that strategy.

Of course, we are nimble enough to change our strategy as needed. Among the 18 buildings across the country that we've targeted to buy, we may not attempt to purchase any of them for three or four years — or we may be considering an entirely different set of assets by then. Because we've been in this industry for three decades, we understand how markets can change.

Ultimately, though, I believe what sets us apart from other investment managers is our unwavering concentration on what's best for the investor. While we're in this industry for the long term and are not in the business of quick turnarounds, we are also willing to make changes to our portfolio and our strategy as necessary if it will benefit our investors. This philosophy has carried KBS through three decades of success, and it will continue to drive our company moving forward.

You're a leader who runs a large, highly sophisticated and successful company. What is your personal advice for finding fulfillment in work? And as people are coming back to the office, what do you see personally that's going to make work and humanity work together again?

First and foremost, since we are working for our investors, our goal is to be able to provide returns to our investors that exceed their expectations. To deliver a report that shows them what we have accomplished for them is incredibly fulfilling. And we are able to do it because of our extraordinarily talented, creative and tenured team, some of whom have been with KBS for 20 years. Our team is dedicated, passionate, enthusiastic and operates at the highest level of integrity. Their passion for the investor is quite remarkable. They are the reason why what we do at KBS is so rewarding for me and has been for the last 30 years. **P**

A Conversation with

Red's All Natural

CEO MIKE ADAIR

Delicious, convenient and clean-label frozen foods designed to positively impact people's lives.



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If you're particular about the healthfulness, taste and quality of the foods that go into your freezer, then you may be familiar with Red's All Natural delicious, convenient and clean-label frozen foods. This relatively young specialty brand has been winning over consumers since 2010 when Red's frozen burritos first debuted to shoppers in New Canaan, Connecticut.

Since then, CEO Mike Adair and his Red's team have been diligently searching for ways to up the ante on their already popular selection of burritos and breakfast sandwiches — by procuring the best talent, technology, equipment and ingredients available on the market.

From the beginning Mike has been committed to using only the highest-quality, all-natural ingredients available, including organic, non-genetically modified organism (GMO) produce and cage-, hormone- and antibiotic-free protein sources.

We sat down with Mike at Red's headquarters in Franklin, Tennessee, a suburb of Nashville, where he discussed his company's founding, its mission, vision, values, and how KBS' The McEwen Building is the optimal location for a company.

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Can you give us a little background on how Red's came to be, and what was your inspiration for getting into the food business?

I had a former career in finance. Out of college, I worked for a money management firm but wanted to build a business of my own. I liked what I was doing although it didn't offer the control I desired.

If the company made good decisions, it made my life really easy. If it made bad decisions, it made my life miserable. So, I fell in love with the idea of building a business and controlling my own destiny.

I gravitated toward consumer product goods. If we could produce a product that could positively impact people's lives just a bit — that would be amazing. And, if we could put smiles on customers' faces and make their lives a little bit easier, our team could sleep a little better at night knowing we were doing something good.

That was my original thesis.

As I was still mulling it all over one day, I took a walk and wandered into an animal shelter to find an amazing reddish mutt. We bonded the moment we met, so I adopted that dog immediately and named him Red.

Sometime later, I returned to business school and began conceptual work on my first entrepreneurial project.

My wife happened to make these incredible tacos and burritos, which became my inspiration. Her cooking evolved into what would become our first burrito recipe — and the company's first product.

When it came to naming the endeavor, Red's seemed like a fun way to go.

I never thought this project was going to become a real company. It was my first introduction to entrepreneurship, and we were playing with a lot of ideas at the time. But people loved the product. And they kept asking for more and more. I began to fall in love with the idea that there could be a great market for it. Frozen foods were at the beginning of a renaissance at this point.

“Frozen foods were at the beginning of a renaissance at this point.”

For years, there was this negative perception about frozen food. There was still a hangover from the frozen TV dinner phenomenon that started in the 1950s.

When we began to develop the concept, a lot of people were realizing the freezer aisle was the closest thing you could possibly get to a fresh, homemade meal. Most frozen foods can go without preservatives, and produce can be processed directly from the fields with very little waste. If prepared with new technologies, such as air fryers and toaster ovens, the experience could be incredible.

What from your previous corporate experience did you want to do differently when you started Red's?

We've never spent much on sales and marketing. We wanted to focus on operations and the quality of the product. I knew if we spent the vast majority of our time, energy and resources on the product, then we would win. Develop a product that people love and they'll want more.

How much R&D did you do before deciding you had products people would enjoy?

I've learned that R&D is never-ending. There's always an opportunity to make the product better through various aspects of the supply chain, ingredient and flavor profiles or an improved manufacturing process. For the first six or seven years, we didn't do the manufacturing ourselves, and I really wanted control of every aspect.

“I've learned that R&D is never-ending. There's always an opportunity to make the product better.”

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We initially had to do R&D within the guardrails of existing manufacturers. We've done some very successful R&D over the years, but we've also failed at some things.

One of those "failures" was a really big burrito that ended up being a great product, but there really wasn't a market for it. So, we downsized the product, both in volume and price point. Right now, we're putting the final touches on a buffalo chicken burrito that has been through about 50 iterations.

Whether it's developing a new product or improving on our existing portfolio, R&D is in our DNA. We're always asking, "How can we do it better?" Once we have an item that sells well, we're going to keep trying to improve it.

The same goes for suppliers. Even through all the recent supply chain shortages, we never compromised on quality. We're always looking to upgrade to the best possible resources available.

There are new technologies being developed all the time. In fact, I'm on a continuous quest to find the perfect kettle to slow cook beans, but even if I think I found it, someone else might be improving it as we speak.

Red's is a family business. How important is that to you — and to your employees?

We don't really call it a family business per se. My wife is a nurse and my number one supporter. I do want everyone who works for Red's to feel like it's a family. It is, after all, a small, entrepreneurial business where there's camaraderie, we can be nimble and we can create a familial culture. At Red's, I'm cultivating an environment that gives people freedom and the autonomy to be successful. All ideas are welcome.

My plan isn't to hand down this business to my kids necessarily. I want them to find out what they want to do, make their own mistakes, and find their passion. Red's is my passion, but I feel I would be robbing them if I steered them toward joining the company.

Your tagline is "delicious, convenient, clean label," and your website defines clean-label as fewer, better ingredients for food that's better tasting and better for you. How do you stay true to that commitment?

When we were smaller, it was a lot easier, but as we've grown, we're realizing that we need to be on the forefront of developing our supply chain because — if you think about the scale of frozen food or food for the most part — it's not yet scaled with "clean-label, non-processed, natural, organic, non-GMO" options.

The supply chain is set up to deliver product for processed foods, so we are constantly working with suppliers to develop these options.

“We’ve committed to partnering with suppliers on a massive scale that will have more farmers raising animal protein that’s cage-, antibiotic- and hormone-free.”

We’ve committed to partnering with suppliers on a massive scale that will have more farmers raising animal protein that’s cage-, antibiotic- and hormone-free. Much of this is still in its infancy. But we’re big enough now where we’re helping to drive that supply chain because we have the market for it. And it needs to be good enough and big enough for us to continue to scale. From our perspective, the consumer wants our product, but the supply chain isn’t developed enough to deliver fully yet. To us, that’s unfair, and the world needs to catch up. We’re doing our part to push that change.

We use organic whenever possible, but there are certain areas of the organic supply chain that are underdeveloped, but others are very mature. Non-GMO is another challenge. Currently 90% of corn is GMO, so we have a finite amount of corn we can buy. I want anyone — not just food scientists — to be able to read one of our labels and understand what’s in it. I want it to be as short and clean as possible, so that if I can understand it, then most other people will be able to understand it, too.

Your headquarters are in The McEwen Building in Franklin, Tennessee — a KBS building. How does the location and its amenities support your company’s mission, vision and values?

We wanted an approachable, warm, inviting environment. I believe our office reflects that; it looks and feels like our culture.

One of the great aspects of The McEwen Building is that it’s located in the Nashville suburb of Franklin, Tennessee. It’s a growing location with terrific amenities. It’s super convenient and so clean. We can walk to so many different places, like restaurants, coffee houses, gyms — it has all the factors a business like ours is looking for.

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The McEwen Building
Nashville, TN

Photo Credit: J. Perry White Photography | jerrywhite.com



Does having a UL-Certified Healthy Building with outdoor areas, amenities and everything else help you attract and retain team members at the talent level and values you share?

One hundred percent. We're in the natural organic food business, so the more our office can align with those values, the more it helps from a culture and team-building perspective. We always want to emulate what our products and company are about. We will keep this focus as we continue to grow. This building has been a great fit for us.

Do you have testing facilities in the office?

We have a kitchen with several air fryers and microwaves, so we do a lot of testing here. Our main testing kitchen is located in North Sioux City, South Dakota, which is literally on the border of Iowa and Nebraska, where they all touch. That's where our head chef and food scientists are located with other operations people. Key personnel go there every four to six weeks, but when we're not there, they send all the innovation here for us to test.

How do you see the company growing in the next several years?

We're very ambitious. We're expanding our South Dakota plant extensively and spending a tremendous amount of time, energy and money on equipment to improve our processes and products.

We fully anticipate expanding here, and KBS has been very open about working with us and sharing the availability of space. From a revenue standpoint, we expect to triple our footprint in three years or so. Moving forward, Red's is one hundred percent committed to seek out properties — like The McEwen Building — that share our commitment to clean-label standards.

Lastly, is the company's namesake, Red, still with us?

While he's been gone four years now, Red remains in our hearts. He and I had a special bond. Red left us all with great memories, and we miss him. He was literally an underdog when we met, and the joy he gifted me still inspires. **P**

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There are showers in the building downstairs, so if you use one of the nearby gyms, you can come back and shower, which is such a convenience.

There's also a restaurant in the building. Our people can go get a slice of pizza or beer, which we do very regularly. It's great for team building, to hang out a bit, and talk in a different environment. They've got a great food and beer selection. As a beer snob, that's important to me. The rest of the tenants seem great. Everyone seems nice, so it's checked off all the right boxes.

We also use the courtyard, where we have coffee, catch up, and even have meetings. For instance, today is an absolutely gorgeous day, which means we'll be spending a lot of time outside. After 13 years, we're finally growing up, and our office is a reflection of that.



Luxe Living in a Vibrant Community

By **Dara Holland**

Last year, Disney released a live-action version of “Pinocchio.” As with the 1940 animated classic, audiences were drawn into the story through the Academy Award-winning song that tells us that when we wish upon a star, “anything your heart desires will come to you.”

Well, what if many of the things you desired were right where you lived, in your home and outside your door — including a true sense of family?

That’s the magic of Park Central Apartments, KBS’ luxury high-rise multifamily property with a view of Midtown Park and downtown Raleigh, North Carolina.

The most recent residential collaboration between KBS and Kane Realty is a star in its own right: a combination of what many Raleighites would consider perfectly curated retail — plus the luxury-and-chill personality of an incredible building.

As Kane’s Stacey Buescher puts it, “Park Central is such an unbelievably dynamic building, especially from the retail side.” When you consider how much “going local” defines the Raleigh lifestyle and heart, you understand precisely what she means.

Fellow Kane employee and Park Central Community Manager Tiffany Cyrus, a lifelong Raleigh resident, put it this way, “Park Central is a full and lively building. We have a great group and mix of people here, many from the area who had no idea we had so much going on downstairs — bigger retail names and importantly, a lot of local businesses.”

If you’re looking for the pinnacle of a well-rounded lifestyle in Raleigh, you’ll find it at Park Central Apartments.

If you’re looking for the pinnacle of a well-rounded lifestyle in Raleigh, you’ll find it at Park Central Apartments. Located in the already great what-more-could-you-want community of North Hills, many consider Park Central the ultimate in apartment living.

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apartment units and 34,226 square feet of ground-floor retail space. Plus, Park Central's location puts it at the center of all that is North Hills, a community with more than 40 restaurants and 80 retailers, banks, pharmacies, salons, a 24/7 grocery store, a fitness center and a movie theater. Notes Tiffany, "North Hills is just so alive and has so many outdoor spaces."

And then there are the views from the property. Whether of Midtown Park or downtown Raleigh, the views from Park Central are a treat. Park Central stares at Park and Market Streets. Diagonal from its base is a two-story Harris Teeter, the American supermarket chain headquartered under three hours away in Matthews, North Carolina.

Life couldn't be more scenic, convenient or walkable.

For self-described "apartment dweller at heart" Liz Fuller, Park Central is "amazing." The full-time physician's assistant for Raleigh Orthopedic sold her North Hills house after falling in love with Park Central while searching for community and connection during COVID-19. She says, "I have a beautiful one-bedroom apartment that's the perfect space, and I have an amazing view from my balcony — which also means I don't have to pay for concerts!" Fuller, whose apartment overlooks a greenway near the Midtown Park amphitheater, just re-signed for the maximum leasing period.

She continues, "I couldn't ask for a cleaner, nicer, better-maintained spot. The staff is unfailingly wonderful. I like knowing the common amenities are available, but the biggest thing for me is the amenities in the apartment itself and how everyone here is so nice and pleasant. And I love being able to go downstairs and get coffee at Jubala — where they always have my cup waiting — or have a glass of wine at Vita Vite, where I keep trying to talk them into giving me a tab. There are so many restaurants in the area where I live, but everything else, including Target, clothing stores and whatever, is just a short walk from the building. What's available here is amazing. You get to know people. It's comfortable, and it's safe. I will not own a house after this."

The mid- and high-rise apartments provide fun, luxurious style, comfort and convenience and sit atop an incredible mix of retail shops. Located in the heart of the Midtown District in North Hills, Park Central's surrounding highly walkable community means tenants are steps away from over 150 restaurants, shops and entertainment and minutes away from downtown Raleigh.

To understand how the incredible area known as North Hills came into being, you need to go back a few decades to when Kane Realty began redeveloping it.

Walk to Everything

Mastermind developer and CEO of Kane Realty, John Kane, is credited with transforming North Hills into a life-changing location for people of all ages and backgrounds. Says Kane's Tiffany Cyrus, "There's so much diversity because North Hills really does bring in that ability for anyone and everyone to find something here that they need and want."

Kane himself summarized, "When Kane Realty began redeveloping North Hills nearly 20 years ago, we had a long-term vision for the property and the surrounding area. Since then, North Hills has grown rapidly, becoming one of the most premier mixed-use developments in North Carolina — offering visitors and residents alike the opportunity to live, play and work all in one place."

It's no surprise that the North Hills redevelopment has received ongoing recognition, including several Triangle CREW awards and Metro magazine's Best



Shopping Center award. As a 2020 Elite 1% ORATM Power Ranking property, Park Central Apartments was identified as having one of the best online reputations in the nation.

Park Central is the third and latest development project to be completed between Kane Realty and KBS.

Park Central is the third and latest development project to be completed between Kane Realty and KBS. KBS began partnering with Kane on projects in North Hills several years after CEO John Kane set his sights on reinventing the submarket in 1999. Kane took what was originally a mall and completed a billion-

dollar redevelopment of the area that covers 165 acres, a district called Raleigh's Midtown.

The first KBS development joint venture with Kane was Bank of America Tower, which was 72% leased at delivery in January 2016 and 100% leased one year after delivery. Its second project was collaborating with Kane on the development of Midtown Plaza, which was leased to 94% occupancy in March 2018 and sold in mid-2018.

Park Central was the companies' most recent project together. It's a clear win for 100% locally sourced and curated retail. Completed in 2017, the asset was stabilized within two years. Currently it's 100% commercially leased and about 94% residentially leased. KBS is intent on keeping the property going strong.

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The North Hills Community with Park Central Apartments Located in the Lower Left.

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As summarized by Allen Aldridge, KBS senior vice president of asset management/acquisition, co-director of asset management, as well as Park Central Apartments asset manager “Park Central will continue to do well because of its positioning in North Hills and the fact it’s right off Midtown Park. Plus, we continue to improve the property. We have plans this upcoming year to redo common areas again and change the look to make the property more relevant and modern.”

Living Luxe: The Property and Its Incredible Amenities

Featuring a contemporary architectural design and luxury finishes, Park Central Apartments is considered one of the highest-end multifamily communities in Raleigh, known for its exceptional amenities.

KBS and Kane built the property to feature mid-rise and high-rise units at two different price points. The 134 high-rise units offer 10-foot ceilings with 8-foot doors and more square footage, while the 152 mid-rise units offer similar finishes and fixtures to the high-rise units — but at a more affordable price point.

“It is a very diverse community because North Hills really does bring in that ability for anyone and everyone to find something that they need and want.”

As Property Manager Tiffany Cyrus shared, Park Central can practically customize a renter’s experience to what they want and need. “It is a very diverse community because North Hills really does bring in that ability for anyone and everyone to find something that they need and want,” said Tiffany. “I think our building does that as well, with our two different constructions and different views and floor plans. There really is so much to offer people here at Park Central. If someone comes in with an idea of what they want and we can get to the core of what they need, we usually can place them in this building.”

In-unit amenities include walk-in closets, granite countertops, stainless steel appliances, full-sized washers/dryers, pre-wired high-speed data (phone and cable included), ceramic tile backsplashes and walk-in showers. Select units feature built-in bookcases, built-in and movable kitchen islands, floor-to-ceiling windows, deep soaking tubs and shelved pantries.

The team also provided luxurious common area amenities at the property that are rarely found in the Raleigh market. In addition to a clubroom that overlooks Midtown Park — and a second-floor terrace that invites residents to gather for happy hour and to kick off the latest concert series or other event — the development features an eighth-floor sky lounge with indoor/outdoor bar and sky deck with saltwater pool offering views of downtown Raleigh, three distinct resident-only outdoor courtyards with turf lawn, TVs, grills and fire pits. Other amenities include free Wi-Fi and dining areas, a fitness center with cardio, CrossFit and strength equipment, a bike center with bike share program, sauna, professionally equipped pet spa, work-from-home cubicles, a conference area and a billiards room, a gourmet coffee station and more — all situated directly above North Hills shops and restaurants.

Besides offering flexible luxury to its human residents, Park Central is also known for being one of Raleigh's most welcoming apartment communities for pets. Says Tiffany, Park Central is "definitely a pet-friendly community. We have a professionally equipped pet spa and a bark park [the 9,500-square-foot North Hills Dog Park] is right around the corner. Our team keeps dog treats close to our office so we can always feed the Park Central dogs. If you visit the Park Central Instagram account, you'll notice people post pictures of our dogs and amenities all the time."

Raleigh Retail Perfection: A Local's Dream Offering of Retailers

Park Central's 11 retail tenants comprise a beautiful blend of what Kane's Stacey Buescher describes as "extremely intentional leasing as it relates to local markets." They include several Raleigh-based businesses, like children's clothing store and party venue Alara + Zane, barber shop Arrow Haircuts, Kilwins chocolates, fudge, and ice cream shop, and 2022 Diamond Awards, The Best of Raleigh winners Happy + Hale, Midtown Yoga, Vita Vite and Raleigh's

Jubala Coffee. The balance of the retail space is leased by well-known chains like Orangetheory Fitness, premium indoor cycling studio CycleBar, wellness center iCRYO Cryotherapy and world-class primary care provider One Medical — the first ever in North Hills to be a truly boutique, concierge-type service (recently bought by Amazon).



The heavenly smell of chocolate from Kilwins and the heady aroma of freshly roasted coffee from Jubala emit from both businesses' storefronts along the edge of Midtown Park, bookending neighboring retailers Alara + Zane and Vita Vite, enticing adults and children who gather and play in and around the plaza. Alara + Zane founder and owner, Sanaa Alyemeni, has a uniquely built-out space on Park Central's main floor that faces and welcomes foot traffic from Midtown Park. Sanaa opened her store in the dead of COVID-19, which understandably brought on challenges. Having weathered the pandemic and now thriving, she feels embraced by the Park Central and North Hills communities. Her growing business comprises a thoughtfully curated boutique of children's goods and clothing store and a creatively designed play space — which has become a hotspot for memorable birthday parties. "I love seeing regulars as well as visitors to the area walk into Alara + Zane," she says.

Echoes art gallery and wine bar owner, Lindsay Rice, whose two-story Vita Vite also faces the Park, says, "It's so great that people can go take a class at Midtown Yoga and then head over here for a glass of wine. They sit on our balcony overlooking the Park and can catch the events at the amphitheater for free while chatting with neighbors and friends."

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Lindsay likes how “It’s all very purposeful. I feel like North Hills is where you have apartments, retail — everything works well and aligns together. Park Central was a new building when we first moved in, and it’s definitely grown and changed. It’s been exciting to see how the whole area has expanded so much in the type of people who live, work and go out to eat and drink around here.”

Lindsay continued, “Our name, Vita Vite, means ‘life and vine’ in Italian. It’s based around the idea that the vine grows the grapes that make the wine that brings everybody together around the table with a sense of community, which is what we’re all about here at Vita Vite.”

The most recent commercial tenant to sign, Jubala Coffee, is a valued addition. Shares Kane’s Buescher, “We were thrilled to sign this beloved local coffee chain that chose Park Central for its third store in Raleigh.”

“North Hills has been a very important part of Raleigh’s growth.”

Jubala owner, Andrew Cash, said, “As someone raised in Raleigh, I know North Hills has been a very important part of Raleigh’s growth. Jubala is about capturing and activating the ‘front end of the day’ experience, that coffee-and-breakfast experience for people who live close by but also work close by and want to bring their families and enjoy the park that’s right outside our door. North Hills is great at making this happen.” Looking beyond his front door, Andrew observes, “It’s a gorgeous day, and I see one family having a picnic, another’s kicking a soccer ball across the park — and they’re all drinking coffee from Jubala. It’s under this landscape where people are working and living and spending time with family that’s exactly what I envisioned our shop providing to an already great area. And I’d say we’ve grown 20% a month since we opened in the spring of 2021.”

Tyler Helikson, who owns the happiness-fueling health food restaurant Happy + Hale, couldn’t agree more. “We’ve been open in North Hills for about four years,” says Tyler. “As we expand, my number one question is ‘How can we find more properties like Park Central in North Hills?’ Business has only gotten better since we’ve been here. There aren’t many properties like Park Central in North Hills. This location is our fourth and top-performing store, the perfect combination of residential, office, recreation and fitness — the perfect intersection of that live, work and play experience everyone is craving. It lends well to our offering and the community.”

Midtown Park: Gorgeous Hub and Busy Venue

One of the best perks of living in Park Central is being next door to Midtown Park. Known as the defining presence of Midtown Raleigh, Midtown Park is a fantastic gathering spot and local venue for concerts and other events. The beautiful green space is bordered by a walking path and features plenty of shade trees. It’s surrounded by world-class shopping, dining, entertainment and all the conveniences of Midtown Raleigh.

KBS recently upgraded the outdoor mixed-used plaza in the North Hills area by building an amphitheater and installing weather-tolerant turf. The amphitheater offers more than 450 events each year, including the Midtown Farmers’ Market, Midtown Beach Music Series, Kickin’ It Country and a five-week Christmas celebration.

Midtown Park events announced for 2023 already include 20 weeks of Wellness Wednesdays, three North Hills Kids events, ten weeks of Beach Music Series and four weeks of North Hills Nights. In addition to Midtown Park happenings, Raleighites can enjoy events around Midtown at two other nearby venues. The Commons hosts the Midtown Farmers’ Market on Saturdays from mid-April to early November and a festive holiday tree lighting in November.

In North Hills, people are invited to gather for a Summer Sidewalk Sale in July and a Holiday Shop & Stroll before the tree lighting in The Commons. Everything happening in the area is meant to build community and create memorable experiences for residents and visitors alike.



Midtown Park with Park Central Apartments in the background.

Conclusion

As one of the highest-end multifamily communities in Raleigh, North Carolina, Park Central offers residential tenants a luxurious home with common amenities that engage and bring people together. Then with a gentle elevator ride to the main floor of the building, they enjoy access to an incredible mix of retail. Just beyond the building's perimeter awaits an urban quality of life that's tough to beat.

For its commercial tenants, Park Central provides a likewise unbeatable location in the heart of North Hills — and the opportunity to shape and grow with a diverse, well-connected community.

Through the tried-and-true partnership of KBS and Kane Realty, it's a property that exemplifies luxury residential living with retail as an amenity.

Park Central tenant Kyle Murphy, who works as a risk analyst for a Raleigh-based bank, agrees the walkability of the area elevates living at Park Central. "The amenities are necessary for luxury living, but it would all be for naught if things weren't so accessible and community-minded." Having lived with all that Park Central offers, Kyle is quick to say, "It's definitely a lifestyle that'll be hard for me to walk away from." (No pun intended.)

When anything your heart desires is in the building — or right outside its doors — why would you live anywhere else?

As Park Central Property Manager Tiffany Cyrus summarizes, "The amenities, floor plans, life outside the building — especially in a bigger city, it can be hard to find community. But here at Park Central, there are people who remember being new to the area or new to the building. People tend to look out for the newcomers, and there's a constant bonding going on here that even occurred during COVID-19."

For further evidence, Tiffany encourages people to visit Park Central's social media. "You'll see, for example on Instagram, there's a very large presence from our community — and from North Hills as well. It's a very powerful one of people and community and the feeling of truly belonging."

“One could argue that deep sense of community is the very dream John Kane had in mind 20-plus years ago.”

Or like it says on the wall of the play area that welcomes visitors to Alara + Zane, "We are family." One could argue that deep sense of community is the very dream John Kane had in mind 20-plus years ago when he first envisioned North Hills: a mixed-use development that would offer businesses, people and families a place to thrive — together.

And today, right in the middle of it all, stands Park Central Apartments, a building that shines like a star, perhaps even like the one Pinocchio wished upon. **P**



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ESG's Emerging Role in Commercial Real Estate

By Susan Belknap



Converging factors have aligned in the commercial real estate (CRE) industry, initiating a forward shift toward environmental sustainability. The coronavirus pandemic, climate change, the push for social justice and a new influential generation of workers have all played a hand in necessitating sustainable CRE development.

More than ever, CRE firms are embracing the crucial importance of green, clean, and smart buildings. It's a commitment that should pay off in a myriad of ways — from significant cost savings, carbon neutrality, the attraction of top talent, and fostering the loyalty of customers — for decades to come.

Gen Z and millennials have very specific priorities when it comes to their job searches, and they're gravitating to companies that take environmental, social and governance (ESG) fundamentals very seriously. But it's not just prospective employees. Investors and consumers are also looking for companies that "walk the walk" when prioritizing environmental awareness and sustainability.

According to a NASDAQ analysis, Gen Z and millennials account for 43% of the U.S. population and 49% globally. The youngest Gen Zs are only 10 or 11 years old and the oldest are 25, so only a fraction are of professional working age right now.

Millennials are currently the largest workforce in U.S. history. When combined with emerging Gen Z, they are poised to be on the receiving end of a wealth transfer as high as tens of trillions of dollars. This is a market that can't be ignored, and they have very clear ideas about what they want in ESG.

- According to Nielsen, 75% of millennials are eco-conscious to the point of changing their buying habits to favor environmentally friendly products.
- A Pew Research Center survey finds that millennials and Gen Z stand out for their high levels of engagement with the issue of climate change.
- 90% of millennials are interested in pursuing sustainable investments.

Now let's take a deeper dive into the variables and how they can be expanded to the benefit of developers, brokers, landlords, tenants and employees.

ESG centers on sustainability and the societal impact of a business or investment as the cornerstone of a company's mission...

ESG centers on sustainability and the societal impact of a business or investment as the cornerstone of a company's mission, factoring into all decision making. These priorities are not just important to attract and retain talent and customers, but they're becoming increasingly important to stakeholders and potential investors.

ESG principles, which are designed to model how to do the right thing for the planet, people and profits, are not mutually exclusive. In fact, making commitments

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in the short and long term can result in more efficient buildings and processes, which aids in retention and saves on expensive turnover. Amazon alone loses more than \$8 billion a year to attrition, so small changes that make employees happy can make a huge difference to the bottom line.

According to Schroders Wealth Management, companies that focus on the reduction and neutralization of carbon emissions will be better positioned to transition to a sustainable economy, and this will create revenue going forward. Businesses with low- and neutral-carbon profiles will be better protected against risks involving lack of access to unsustainable sources, such as fossil fuels, and won't have to contend with high carbon taxes, which can drive higher financing costs.

The United Nations campaign, "Carbon Neutrality by 2050 — the World's Most Urgent Mission," has already received commitments from 110 countries, including the U.S. (China has agreed to the year 2060 for its carbon neutrality deadline.) The unexpected economic impact of the war in Ukraine, however, may severely alter each country's commitment to sustainability.

Converting buildings, infrastructure, consumption, and products produced within the next 28 years will be a challenging feat, so the sooner companies and organizations get started, the less likely they'll experience expensive overhauls as the deadline approaches. Businesses that launch their energy efficiency and low-carbon initiatives now will be on the forefront and more likely to attract forward-thinking investors, consumers, and a progressive workforce.

According to Blueprint for Better, a coalition of architects and civic leaders committed to reducing emissions in the built environment to help improve communities, "Buildings contribute nearly 40% of all fossil fuel carbon dioxide emissions (CO₂), and nations around the world are on schedule to double the current building stock by 2060." To ensure they meet zero-carbon standards, architects need to find innovative ways to improve and reuse existing structures.

To really spearhead these numbers, buildings need not just to be green or healthy, they need to be "smart."

Smart CRE agrees, noting that real estate continues to be a major contributing factor to global CO₂ emissions and energy consumption and is responsible for 40% of global energy consumption and more than 30% of greenhouse gas emissions. To really spearhead these numbers, buildings need not just to be green or healthy, they need to be "smart." A smart building leverages technology such as temperature and lighting sensors, building management systems, computerized HVACs and even artificial intelligence and augmented reality to automate environmental systems to maximize energy efficiency.

When it comes to evaluating and ranking green buildings in the U.S., LEED certification is the gold standard. LEED is an acronym for Leadership in Energy and Environmental Design; it's the most widely used green building rating system, run by the United States Green Building Council (USGBC). Buildings can earn LEED certification by accruing LEED Points. The higher the points, the higher the rating, with Platinum being the highest. Other levels are Gold, Silver and Certified.

LEED certification is achievable by accruing points based on several key classification categories. These categories address carbon, energy, water, waste, transportation, materials, health, and indoor environmental quality.

The pandemic drove demands for healthy building certifications...

The pandemic drove demand for healthy building certifications, such as the UL Verified Healthy Building Program. This is a certification that owners can pursue when they want to provide their building occupants an environment that's as healthy as possible. UL offers three levels of Healthy Building Verifications: Healthy Building for Indoor Air, Healthy Building for Indoor Air and Water, and Healthy Building for Indoor Air, Water, Hygiene, Light and Acoustics.

KBS is committed to furthering its industry leadership through ESG and is being proactive about office well-being efforts. In March 2022, the company announced it had already completed the successful verification of 14 million square feet of Class A office space in its portfolio, achieving the UL Verified Healthy Building Mark for Indoor Air.

"The World Health Organization (WHO) defines a healthy building as a space that supports people's physical, psychological, and social health and well-being. This interest in a more holistic approach to real estate has been implemented in a wide range of design strategies, certifications, and verifications. While there has been research done to reflect the potential economic impacts of Smart, Connected, and Green, there has not yet been research done to reflect the impacts of Healthy-Certified Buildings," as cited by the Massachusetts Institute of Technology.

According to Conserve Energy Future, the top Sustainable Tools and Technologies in Green Construction include the use of solar power and biodegradable materials to water efficiency technologies and use of smart appliances.

Additional factors that work to support both green and healthy buildings include: premium air and light quality; greater access to nature, such as gardens and outdoor areas; convenient locations close to community; walkability; increased activity-based spaces; and improved energy efficiency.


So, what are the costs and benefits of smart, healthful, and green buildings? According to Smart CRE, there's a misconception of what they cost to build compared to "traditional" structures, their materials and construction.

According to the USGBC, green buildings cost 2% more on average to build — but they save 14% to 19% in operational expenditures. Sustainable CRE investments can make back their return in a couple of years, if not sooner, depending on the efficiency and size of the project.

Smart CRE estimates the compound annual growth rate of the green building market will be about 14.3% until 2027. The materials market alone was valued at about \$280 billion in 2021 and is expected to reach \$520 billion in 2027 — less than five years from now.

Also, innovation in design and technologies — such as on-site renewable energy supplies, like battery technology and solar — allow buildings to more efficiently use resources to reduce energy consumption. And when coupled with healthy building technologies, they can improve occupants' health, well-being, productivity, and overall quality of life, which can benefit the surrounding communities.

“In short, ESG is an investment in CRE's well-being and bottom line.”

In short, ESG is an investment in CRE's well-being and bottom line. For companies wanting to attract top talent and loyal consumers — as well as run at the highest levels of energy efficiency and emissions neutrality — commitment to a comprehensive ESG program has become a business necessity. 



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A Tale of Two Cities Where Life Sciences CRE is Soaring

By **Peter Miller**



Reeling from the coronavirus pandemic and the growth of emerging technologies from the nation's top laboratories, commercial real estate (CRE) is repositioning itself to accommodate the demand for life sciences space.

Not since Salk and Sabin beat polio in the 1950s has the U.S. been more focused on scientific innovation. The race is on to defeat countless diseases and conditions — a race that requires vast amounts of life sciences CRE.

How Life Sciences Affect Office Demand

According to Cushman & Wakefield, \$70 billion in private equity and National Institutes for Health funding went into North American life sciences-related companies in 2020, a figure that rose to a record \$78 billion in 2021. As a result, there's strong demand for the specialized laboratories, offices and facilities that life sciences research requires.

"Developers are rushing to build in life science markets as supply of lab space lags demand. Including owner-occupied properties, 21.6 million square feet of lab space is underway nationally," said CommercialEdge.

Not only are new facilities coming online, existing buildings are being converted for life sciences use.

Why Conversions?

- The developer already owns the site. That's not only a cost savings, but existing sites often feature premium locations near the amenities that employees value.
- Conversions are a faster way to add space. New construction typically means a lengthy approval process, plus there are potential weather delays and supply shortages.
- In September 2020, Bloomberg reported that "most people who work in the life sciences — pharmaceutical, biotech, and other medical research fields — can't do their jobs from their couches or backyard sheds. For them, the pandemic has helped fuel a real estate scramble."

Perhaps most importantly, the life sciences CRE market attracts investors and tenants alike because such properties are likely to be in demand for years to come.

“The life sciences sector is buttressed by more fundamental, long-term shifts than most industries.”

"The life sciences sector is buttressed by more fundamental, long-term shifts than most industries, such as advances in science and technology, expanding uses for biotechnology, and the long-term trend toward more individualized treatment," said Matt Gardner, CBRE's Americas life sciences leader.

“Indicators and market forces will shift on a quarterly or annual basis, but the underlying science continues to develop and expand.”

Matt added that "indicators and market forces will shift on a quarterly or annual basis, but the underlying science continues to develop and expand."

Such underlying value is visible to property owners and investors.

In July 2022, for instance, CoStar noted, "Several markets with a particularly large tech, biotech and healthcare presence — such as Austin, Texas; San Diego, California; and Tampa, Florida — have seen above-average rent increases and faster recovery in [office-using] employment than the national average since the fourth quarter of 2019."

Or as CommercialEdge explained, "Life science properties continue to command high sale prices in 2022, with the average facility trading at \$645 per square foot, 150% higher than the overall average of \$258 per square foot for general office buildings. Buildings that are candidates for lab space conversions can command higher prices, too."

The Best of Times for San Diego and Austin

There are life sciences centers around the country, but two of the fastest-growing and compelling are found in San Diego, California, and Austin, Texas, where excellent facilities and inviting lifestyles attract — and keep — companies and top talent.

San Diego and Biotech Beach

For companies interested in attracting life sciences talent, few places are more alluring than San Diego. It's part of Southern California's Biotech Beach, a life sciences hotspot that's home to The Scripps Research Institute, the Salk Institute for Biological Studies and a huge number of bioscience jobs.

According to the San Diego Regional Economic Development Corporation, the area includes "more than 1,800 Life Sciences companies employing more than 61,000 workers with an average wage of \$168,694, amounting to a \$27 billion regional economic impact." Biospace.com says San Diego is one of the eight "best cities in the US offering biotech jobs." In fact, it's just behind Boston and San Francisco.

In the San Diego market, KBS Senior Vice President of Asset Management and Acquisitions Tim Helgeson said that the life sciences industry is "a major economic driver providing high salaries which continuously attract both local and out-of-state educated workers. San Diego is also home to major research universities, like UCSD and San Diego State, and offers current students convenient access to mentorship and job opportunities. The opportunity in this sector is why last year our company assisted in the acquisition of a 296,327-square-foot Class A office complex in the heart of Sorrento Mesa, San Diego, California's life sciences and technology marketplace."

“Job creation and overall life sciences employment saw a year-over-year rise of 5.3% in January 2022.”

Tim points out that "the U.S. government recently increased funding for life sciences. Job creation and overall life sciences employment saw a year-over-year rise of 5.3% in January 2022. More specifically, nationwide the biotech research and development subsector — a major segment of the San Diego life sciences market — experienced more than 11% growth in employment during that same period."

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San Diego offers an especially attractive life/work balance for the 3.3 million people who live there. Welcoming beaches, a world-famous zoo, Comic-Con, a major naval base, proximity to Mexico and international trade plus a mild climate year-round are all part of San Diego's appeal.

...it's an outright bargain when measured side by side with leading California metro areas.

Another draw: housing. In mid-2022, the typical area home sold for \$965,000 according to the National Association of Realtors. That may seem steep when compared with many markets, but it's an outright bargain when measured side by side with leading California metro areas.

Austin and the Life Sciences Real Estate Market Report

As always, America is on the move, and this time around, one of the most favored destinations is the Austin area. The Austin metro population increased by 167% between 1991 and 2020, second only to Las Vegas according to Axios.

What makes Austin a hot market? It's the capital of an enormous and fast-growing state. There's no Texas income tax. The typical Austin existing home sold for \$613,200 in the second quarter, up 19% from a year earlier, but a bargain when compared with many high-cost, high-tax markets.

Also, it's hard not to notice Austin's growing clout as a tech employment center:

- Tesla has moved its headquarters to Austin and is building a Gigafactory there with more than 10 million square feet.
- Apple has invested \$1 billion in a new Austin campus with 3 million square feet. It's expected to employ 15,000 people when built out.

- Oracle — the giant database company — moved its headquarters to Austin from Redwood Shores, California, in 2020.

According to Kastle Systems, as of mid-September, the average office occupancy rate in 10 major metro areas stood at 47.5%. Austin is one of the 10 metro areas surveyed, but it had a 60.5% occupancy rate. Located on roughly 20 acres, Austin's SouthTech Business Center includes four buildings. The KBS-owned multi-tenant property features 260,112 square feet of space and 744 surface parking spaces.

Erected in 2001 as industrial space, the buildings have 21-foot ceiling heights, which means there's plenty of room for HVAC and other mechanical equipment. Wide 30-foot-by-30-foot column spacing and loading at ground and dock heights permit large equipment to be easily loaded and unloaded. Because this is climate-controlled flex space with heavy electric power, a single address can include offices, laboratories, meeting rooms, storage and other facilities.

Home to MedtoMarket (M2M), a private medical training and coworking facility, SouthTech Business Center was able to renovate its footprint to accommodate M2M's needs with research and development labs, state-of-the-art auditorium, stadium event center and training facilities.

The SouthTech Business Center is more than bricks and mortar, however. It's well located, and that makes it attractive to the talent every business requires.

Put it all together, and there are reasons why more and more life sciences companies are looking at San Diego and Austin. These are attractive life sciences hubs where skilled professionals are now working to make tomorrow better for all of us. **P**



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What History Teaches Us About Inflation and Commercial Real Estate

By **Marc DeLuca**

This article originally appeared on Forbes.com.



Despite the concern it generates, inflation has always been a natural occurrence in our economic cycle. Because of this, I believe investing in asset classes like commercial real estate, which historically outperform the market during inflationary climates, is one of the best ways for investors to diminish risk during this point in the cycle.

As an investor in commercial real estate (CRE) for 28 years, I believe that by studying economic periods of the past, we can be better informed on how inflation is likely to affect our industry now. Because history, like CRE, is known to repeat itself, what happened decades ago can lend insight into today's market.

So, what does inflation signify for current CRE investments?

Inflation In The Past Versus Inflation Today

First, let's look at economic policy and inflationary episodes of the mid-1940s and late 1970s/early 1980s and compare them to our current economy. Both earlier periods show patterns of inflation increasing and then decreasing, which is what other experts and I anticipate will happen soon.

In 1946, a post-war rise in consumer goods spending and pent-up demand for celebration led to inflation soaring to a whopping 20%. Inflation rates also crested during the late 1970s. Paul Volcker was appointed Chairman of the Fed in 1979, and his first attempts to curb inflation were insufficient. And, of course, more recently, in 2020, the pandemic caused a rise in unemployment and many businesses to fail.

But all of these situations righted themselves in the end. During the post-World War II era, inflation fell naturally to manageable levels. Similarly, in the early '80s, after stringent monetary policy and credit controls shocked the economy into a recession with a high unemployment rate, inflation and interest rates began decreasing and remained generally low for decades to follow. And even though inflation is currently rising, consumer goods demand has been strong.

While this demand has been distorted by supply chain disruptions, global shortages and an increase in energy and labor costs, all these factors are artificially created and so are expected to subside over time. Also, the economy has been making a bullish comeback due to increased consumer mobility and milder virus variants. As a result, by the beginning of 2022, unemployment recovered to a rate of 3.9%, closing in on the 50-year low of 3.5% just before the pandemic. Yes, inflation has been rising, but unlike in the early '80s, unemployment remains low.

In addition, our current monetary policy is radically different than it was back in the late '70s and early '80s. In 1982, the Federal Reserve was targeting the money supply, causing interest rates to fluctuate. Conversely, according to *Vigour Times*, the Fed today primarily "ignores the money supply, which expanded dramatically as the Fed bought bonds to hold down long-term interest rates." And although inflation reached a 7.5% annual rate in January, we currently have a relatively robust market.

CRE Has Innovation And Demand

CRE held up as a solid hedge in the early '80s, so I expect it to hold up again. What's more, inflation is inspiring innovation in the industry, and demand for space greatly outweighs supply; this was not the case in the late '80s, an era of big lending and construction.

The ways in which companies utilize office space are dramatically changing. As calls back to the office increase and new office lease agreements are being inked—13.8 million square feet in new large-block transactions were signed last year—there is a fight for superior real estate to entice workers back to the workplace.

...now inflation is pushing companies to seek more creative and cost-efficient methods of accomplishing a new normal.

The pandemic launched this shift, and now inflation is pushing companies to seek more creative and cost-efficient methods of accomplishing a new normal. This includes flexibility in office design and providing unique amenities in order to create an attractive and collaborative environment for retaining talent.

So yes, prices are high, but the economic fundamentals are strong.

Inflation Can Benefit CRE Investment

Higher inflation for a shorter time is generally good for real estate. Analysis at Cushman & Wakefield shows that every 1% increase in inflation is associated with a 1.1% increase in total returns to investors, including REITs, pension funds and individual investors.

When inflation was high in the past, the equity positions of commercial properties were highly leveraged, with fixed-rate debt acquired at positive spreads. However, rental income increases caused by inflation can multiply yields on equity, protecting CRE asset values.

...CRE can benefit from the same forces that currently drive inflation.

In other words, CRE can benefit from the same forces that currently drive inflation. Burgeoning labor costs and supply-chain issues are limiting new development, which benefits existing properties. Given current supply and demand, it is likely that valuations of commercial properties will remain firm.

In addition, growing interest rates evoke a double-hedge effect where financing costs become higher, especially in construction, meaning there is less new product on the market. This economic landscape provides an opportune moment for the office sector. We can focus on incorporating key amenities and integrative technology to cater to the changing needs of consumers and young professionals who tend to value experience over compensation.

Another positive sign for CRE today is that commercial and multifamily mortgage delinquencies across all sectors have reached pre-pandemic levels. The CMBS delinquency rate at the end of last year was 4.02%, a decrease of 0.84 percentage points from the third quarter.

Falling delinquency rates, coupled with rent increases, create the ultimate hedge against inflation through CRE.

The Bottom Line: Glass Half-Full

Though we can't predict exactly when, and despite the pandemic, geopolitical conflicts and tidal shifts in socio-economic policies, today's inflationary climate will eventually subside as it has in the past.

Equally, regardless of where we are in the economic cycle, CRE has historically remained one of the strongest tangible alternative investments available in all economic environments. CRE held up before, and I believe it will hold up again — especially since the demand for assets has never been greater. 



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How E-Commerce is Changing the Landscape of Retail CRE

By **Scott Sower**



Even before the coronavirus pandemic, the retail world was changing. While COVID-19 was instrumental in accelerating that change, a combination of working from home, government stimulus money and an abundance of spare time all combined to spin e-commerce into a maelstrom that's still powering the upward trajectory of warehouse rates and industrial commercial real estate values.

Supply chain disruptions, logistics, location technology and "last mile delivery" started making front page headlines as the retail world became defined by home delivery of practically everything. With the worst of the pandemic now behind us, what's the state of retail, where's it headed and from where — and how — will our treasures bought online be shipped?

Transformation

In February 2022, the U.S. Department of Commerce reported that e-commerce sales in the U.S. were up by 14.2% from 2020 to 2021. Going back to the pre-pandemic days shows an increase of 50.5% from 2019 to 2021.

During the pandemic, U.S. shoppers rang up an \$870 billion shopping spree led by purchases of furniture, electronics and building supplies. These surges in demand for online goods during the pandemic highlighted the need to rethink aspects of supply chain management.

The transformation of retail is now facing a new set of challenges posed by inflation resulting from supply chain snafus and compounded by the war in Ukraine. In August 2022, the U.S. Department of Commerce released new e-commerce figures for Q2 pegging the sales estimates at over \$250 billion, an increase of just 2.7% over Q1.

Things have flattened out, but buying things online isn't going away. E-commerce sales in Q1 of 2022 accounted for 13.9% of total sales — a figure that's expected to grow.

Let's Get Phygital

The numbers indicate that the brick-and-mortar model is not quite dead yet, but it is changing. Several large retail chains are embracing phygital, a made-up word that mashes digital shopping together with the physical store experience to create a new type of retail space.

The numbers indicate that the brick-and-mortar model is not quite dead yet, but it is changing.

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Online powerhouses, including Bonobos, Allbirds, and Warby Parker, have all gone old school by opening real stores. Buying online is efficient, but it eliminates the experience of walking through aisles while hunting and gathering goods. These retailers and others are betting that consumers will continue to seek three-dimensional shopping.

The digital end of a phygital transaction includes ordering something online and picking it up at the store. Selecting an item at the store and having it delivered also counts. Retailers are also using more self-checkouts and deploying sales associates with handheld point-of-sale devices.



The Rise of Industrial

To make the digital half happen in the phygital world, goods need to be stored in industrial CRE locations along the supply chain, ideally somewhere in the last mile from the consumer. Demand for this warehouse space has caused an explosion in the once sleepy CRE segment, while supply chain adjustments have further pushed that demand to unseen levels.

According to a report from Cushman & Wakefield, “E-commerce companies had accounted for 28.2% of all industrial absorption from 2016 through 2019, and that number increased even more to approximately 40% from 2020 through 2021 as COVID-19 shifted consumer shopping patterns to more frequent online purchasing.”

E-commerce supply chain operations require more warehouse and logistics space — typically three times more than a traditional brick-and-mortar supply chain. The increasing demand for land that can be converted into warehouse space has spilled over into other industries, including housing.

In June 2022, just outside the Austin suburb of Round Rock, Texas, nearly 200 acres went up for sale. Austin is a booming town for tech firms and in desperate need of affordable housing. Potential buyers for the property included homebuilders, private equity giant Blackstone and industrial landlord Prologis. The winner of the coveted acreage turned out to be the world’s largest e-commerce company, Amazon.

The Amazon Effect

Once content with renting warehouse space from companies like Prologis, Amazon has shifted its strategy into buying land and building its own industrial space. According to numbers from CoStar Group, between 2020 and 2022, Amazon tripled the amount of built industrial space it owns in North America by buying existing buildings, defunct call centers and bare land.

During the same period, Amazon scooped up about 4,000 acres, spending a total of \$2.2 billion. In March 2020, in the deep recess of the pandemic, it spent \$30 million for a 63-acre plot between San Diego, California, and Tijuana, Mexico, to build a same-day shipping facility.

**The goal is to
tighten delivery
times so Amazon can
compete with the
instant experiential
gratification...**

The goal is to tighten delivery times so Amazon can compete with the instant experiential gratification of going to a store, finding the right product and buying it. “There’s going to be something on the other side of all of this investment for the consumer,” said John Blackledge, an analyst at Cowen and Company LLC.

"People will buy more on Amazon when they see they can get it in five hours instead of in two days."

Illustrating how quickly things are changing in the marketplace, Amazon appears to be reacting to a slowdown in consumer spending. Amazon has abandoned plans to open 42 additional warehouse facilities across the country. Two sites in Maryland have closed, laying off 300 people as the supply chain continues to thrash around while looking for balance.

Amazon attributes the closings as a move to more modern buildings. "We regularly look at how we can improve the experience for our employees, partners, drivers and customers, and that includes upgrading our facilities," said Maria Boschetti, an Amazon spokesperson. "We have dozens of fulfillment centers, sortation centers and delivery stations under construction and evolving around the world."

Delivery giants, such as FedEx and UPS, are also competing for land against grocery stores, restaurant chains, car dealers and mixed-use CRE developers. New buildings required for e-commerce use enormous amounts of electricity and are designed around a high level of automation. A typical not-so-smart warehouse costs about \$200 per foot to build. The newer, smarter, more electrified versions cost nearly twice that amount.

Inflation and Interest

The Fed's decision to gradually step up interest rates to cool inflation has some analysts watching for a decline in demand for industrial space. Any softening isn't expected to have much of an effect on a segment that's still flying high.

Numbers from CRE brokerage house Newmark show that warehouse rent has grown an average of nearly 3% a quarter nationally since mid-2020, reaching \$9.56 per square foot in Q2 2022. In certain markets, including Silicon Valley and Los Angeles, California, and Long Island, New York, rents exceed \$15 per square foot.

It's also worth noting that in areas where there are geographical and existing development and zoning constraints, prices are higher due to an inability to provide new supply.



Some analysts have suggested that the market has topped out. In August 2022, Cedrik Lachance of CRE research firm Green Street said, "The industrial business has risen very far and very fast in recent years, and it clearly benefited from the pandemic as we all became addicts of online shopping. But as normalcy returned and consumer behavior changed again over the last 12 months or so, you can tell that e-commerce growth is just not going to be at the same pace as what we would have expected."

At the same time, e-commerce firms are convinced they can beat brick-and-mortar retail at their own game, and the current slowdown is temporary. In August, Prologis proclaimed that less than 4% of its warehouse was available. It followed up by announcing it would acquire Duke Realty, an industrial CRE investment trust, for \$26 billion to expand its range and holdings. Prologis believes that the 13.9% total e-commerce sales figure seen above will grow to 25% of all retail sales by 2025.

End of the Industrial Golden Age?

Nobody knows if or when the industrial bubble will burst. Current trends show that e-commerce growth will continue driving demand for space. Putting the genie back into the brick-and-mortar bottle seems unlikely. Experts believe that e-commerce occupiers are projected to account for between 35 and 40%

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of industrial demand as consumer shopping habits refuse to reverse course. Younger digital native generations who grew up shopping online will also continue to increase in numbers.

Pioneered by Amazon, new real estate development wrinkles are redefining how warehouse space gets financed and built. In recent deals, the company has shied away from paying a developer fee and eventually leasing the building from a bank. Instead, it's cutting deals with investment firms. The new financial arrangements lean more toward the structure of corporate bonds as opposed to build-and-lease arrangements. Tax advantages are already baked in.

"Unlike developers who worry whether the building will appeal to the next tenant, these investors focus more on the creditworthiness of the borrower," said Eric Frankel, CRE consultant and director at Validus Capital. "They're also often willing to accept a lower return — paid by Amazon over approximately 20 years — since the real estate can shelter profit from other investments from taxes. These new warehouses are so specialized they're more like manufacturing facilities. So Amazon needs to find different financing partners."

Along with the new development options, rent growth is also expected. Assuming continuing improvement in the supply chain, the pace of growth will likely slow down due to economic shifts but will never completely dissipate. CRE mixed-use development will also continue to thrive.

Robots and Drones

The opportunity to capitalize on high-growth areas will remain as investors constantly seek out smart places to put their money. To earn investor interest and deliver returns, the major players are pursuing emerging technology. Amazon now has over 200,000 robots helping deliver 350 million products. The warehouse robotics business is ballooning with a 15% growth rate every year. It's expected to double by 2027 and be worth over \$23 billion. The projected increase in productivity is estimated to be between 200 and 300%.

A survey by the Material Handling Institute confirms the tremendous potential. The move to fully automate

is happening on several fronts. While e-commerce giants are building smarter warehouses, robot builders are developing more adaptive robots. Jonathan Hurst, chief technology officer and a founder of Agility Robotics, said, "Instead of designing the whole warehouse around the robots, we can now build robots that are able to operate on our terms, in our spaces, in our environments."

“We are doubling or even tripling the productivity of the humans in that warehouse.”

The robot revolution is going beyond mechanical arms and smart conveyor belts. "Our robots know what the item is; nobody has to look at a list," said Karen Leavitt, CMO, Locus Robotics. "By doing it that way, we are doubling or even tripling the productivity of the humans in that warehouse, and we're cutting down on the amount of walking that they do by probably 75% or 80%."

The tales of air delivery via Amazon drone have been going on for years. And yes, it's a real thing. In 2020, the company was granted a Part 135 Air Carrier Certificate by the FAA. This special permit means Amazon has been authorized to operate as an airline and deliver small packages via drone. In August 2022, Amazon announced plans to start conducting deliveries to Lockeford, California, and College Station, Texas, via Prime Air. The future will arrive any minute now and will be delivered by Amazon.

The pandemic's rippling effects continue to influence the world of CRE. Regardless of how it all shakes out, the voracious appetite for e-commerce should sustain interest in retail and industrial CRE. **PK**



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Nashville is Playing a New Tune as a CRE Powerhouse

By Peter Miller

Mention Nashville and your thoughts will likely turn to country music and great barbecue. It's Music City, Tennessee's state capital and home to Vanderbilt University. But there's more: Nashville is a growing office hub and part of a large and thriving metro area.

The local multiple listing service (MLS) estimates that 82 people a day move to Nashville. That's roughly 30,000 new arrivals per year. Nationally, Nashville ranked fifth in 2022 among the most popular largest U.S. cities in which to move.

So, what draws people there?

As it turns out, Nashville has been attracting quality jobs for some time. According to Stessa, a provider of real estate management software for investors, the Nashville metro area had 14,510 six-figure jobs in 2015, a number that increased to 53,820 positions by 2020, which means that Nashville had the biggest growth rate for high-paying jobs among large metro areas.

“Nashville is a vital business, tourism and transportation center.”

“With a population quickly approaching two million, Nashville is a vital business, tourism and transportation center,” said Marc DeLuca, CEO and Regional

President, Eastern U.S. at KBS. “Nashville boasts a thriving economy that is predicted to see a 3.9% growth in employment in 2022. This activity creates numerous office-using jobs and significantly increases the rental growth and demand in the market.”

Several recent arrivals explain Nashville's growing importance as a commercial hub.

Amazon and Oracle Hit High Notes in Music City

Hundreds of major metro areas competed in 2017 to win the Amazon HQ2 project, an opportunity to land an estimated 50,000 office jobs plus \$5 billion in development money to create a second headquarters for the giant retailer. The winners were announced in 2018, and the huge project was divided between New York City and a site in Northern Virginia just a few Metro stops from Washington, D.C., and Capitol Hill.

When Amazon divided the HQ2 project between the New York and D.C. metro areas, the headlines largely ignored what Amazon actually said. Amazon announced the two winners, but — importantly — also disclosed that it was creating a new “Operations Center of Excellence” in downtown Nashville that would employ 5,000 full-time workers.

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Nashville's Key Growth Drivers:

Employment

According to the Nashville Chamber of Commerce, the leading local industries by job count isn't just music, but healthcare management (167,916), advanced manufacturing (86,425), tourism and hospitality (74,440) and technology (62,876). Music and entertainment pull up in fifth place with over 41,000 jobs.

The city has made a remarkable turnaround since the worst days of the coronavirus pandemic. "Unemployment," says Colliers, "has dropped dramatically from 16% in April 2020 to 2.7% in May 2022. The office sector continued to grow with job growth up 9% at the end of Q2 2022 compared to Q1 2020."

Lifestyle

The New York Times has a list of all restaurants in the U.S. and names the "50 places in America we're most excited about right now." For 2022, the list included two Nashville favorites: Audrey and Locust. That rivals the same number of exciting restaurants listed for Washington, D.C., and San Francisco, California.

Whatever your interest, Nashville likely has it. The city has long been recognized as a leading music center, home of the Grand Ole Opry, Ryman Auditorium, and free outdoor concerts at Centennial Park. Downtown has live music with no cover charge at many clubs and bars, plus the city has opera and ballet companies. You can take in professional sports with the NFL's Tennessee Titans or Nashville Predators of the NHL.

Nashville is actually larger than such major metro centers as Chicago, Los Angeles or New York in terms of square area. However, it has a much smaller population and thus far less density. One result is that the metro area has 12,000 acres of green space with lots of places to play, picnic and walk.

Tax Costs

Tennessee doesn't have an individual income tax. That's good news, but the better news is that other taxes are also low. The District of Columbia recently compared the cost of income, property, sales and automobile taxes as a percent of income for a family earning \$100,000 a year. The results by location showed that Tennessee had one of the lowest tax costs in the country.

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The Amazon success was a big deal, and it wasn't a fluke: Nashville notched another big win not long thereafter.

If you're a city or state government, one of your top development priorities is to bring in new jobs and the tax revenues they generate. Not just any jobs, but jobs of the future.

If you're a city or state government, one of your top development priorities is to bring in new jobs and the tax revenues they generate. Not just any jobs, but jobs of the future, the ones that pay well and provide healthy sustainable growth for the city's future.

Oracle, a computer software company, has such jobs. In 2021, Nashville again scored when Oracle announced plans to establish a 60-acre office complex that will ultimately employ 8,500 workers in the city. Not only is the project worth \$1.2 billion, but the typical worker will earn an estimated \$110,000.

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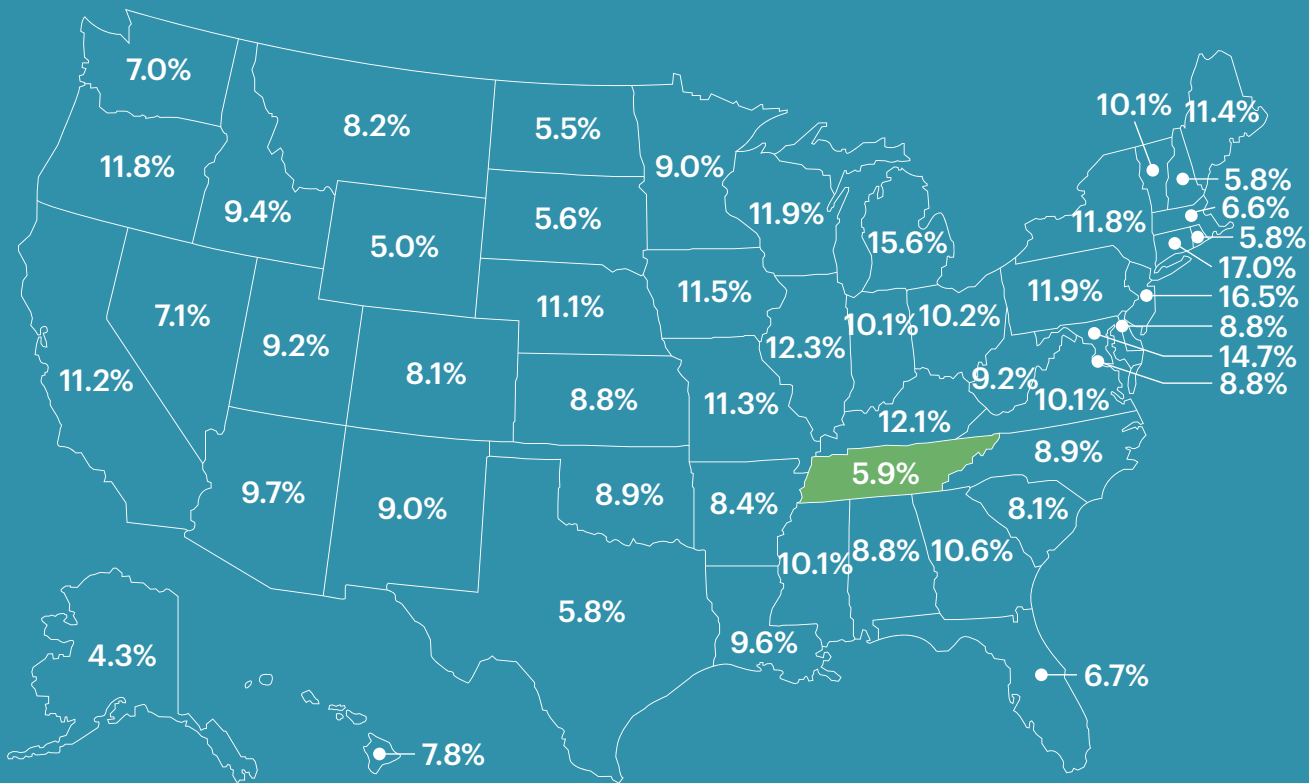
Navigating Change

Few industries are as influenced by fluctuating economic conditions around the world as the real estate sector. As it continues to navigate this unprecedented time, the market turns to experienced organizations such as KBS, which has been shaping the commercial real estate industry for 30 years.

We're proud to partner with KBS as the industry works through this period, and we look forward to an even stronger market on the other side.

Combined 2020 Tax Burdens as a % of Income

(Includes Income, Property, Sales and Auto Taxes)



Office of Revenue Analysis, District of Columbia

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Location

Three-quarters of the U.S. market is within two hours of Nashville by air. The city is served by 20 air carriers, offers nearly 100 nonstop destinations, and its airport is just eight miles from downtown. If you prefer driving, it's less than seven hours by car to Pensacola's sandy white beaches and just eight hours to Chicago's Museum of Science and Industry.

Housing

The relationship between jobs and homes is best explained by Redfin CEO Glenn Kelman. In a 2017 interview, Kelman told CNBC that "technology companies, the Wall Street companies, they're chasing the talent, [and] the talent is chasing affordable housing."

Like much of the country, there has been strong demand for Music City homes. According to the National Association of Realtors (NAR), Nashville home prices in the second quarter were 19.8% higher than a year earlier.

Such increases raise affordability issues for buyers. However, in the particular case of Nashville, rising home costs are offset by several factors.

Such increases raise affordability issues for buyers. However, in the particular case of Nashville, rising home costs are offset by several factors.

- First, while Nashville home prices have strongly increased, at the end of the second quarter the typical metro area residence sold for \$418,500 according to NAR. That's substantially less than real estate prices in other leading markets; in some cases just a half, or a third or a fourth of home values elsewhere.
- Second, according to the Nashville Chamber of Commerce, the area cost of living is below the U.S. average while local incomes are roughly 5% higher. This means wages go further in the area than in many other locations.
- Third, moving from high-cost areas can cut annual tax expenses by \$3,000 to \$10,000 per \$100,000 in income, according to the Chamber.

UBS Tower, the Essence of Nashville

UBS Tower is in the heart of Nashville. Rising 29 stories, it offers 605,000 square feet of Class A office space at 315 Deaderick Street.

No less important, it's centrally located.


The building — which spans a full city block — faces Public Square Park, which features large outdoor concerts and festivals. No less important, it's centrally located. Go a few blocks west and you're at the state capitol complex. Nissan Stadium, home of the Tennessee Titans, is to the east, and if you head south, you're near Broadway's famous nightlife, the historic Ryman Auditorium, and the National Museum of African American Music. Have people coming for meetings? UBS Tower is just a short distance from many of the city's leading hotels.

"The property offers unobstructed views of downtown, move-in ready full-floor spec suites and superior access to executive housing to the west and south via Charlotte Avenue," said Allen Aldridge, senior vice president of acquisitions, dispositions and co-director of asset management for KBS.

The building — purchased by KBS in August 2022 — is now being upgraded and improved.

"We plan to make UBS Tower even better by adding in-demand features, such as a coffee bar located in the lobby, bike room and shower, dog recreation area and modernized façade," said Aldridge. "We also plan to add electric car charging stations and verify the building with UL Healthy Buildings since we are constantly looking for ways to incorporate eco-friendly property amenities that elevate the tenant experience while reducing our carbon footprint."

"Not Just Another River Town"

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Urban Beekeeping:

A Sweet Office Amenity

By Allen Aldridge



Commercial property owners have found a way to increase office building sustainability while providing an experience for tenants that's both entertaining, educational and environmentally friendly.

Best of all, the “buzz” around its success is music to everyone’s ears.

Commercial property owners throughout North America are implementing urban beekeeping programs in the form of rooftop apiaries (collections of beehives) in an effort to give back to nature and enhance the well-being of tenants.

To date, these urban hive properties have landed at eight premier KBS office buildings, including:

- Bank of America Tower in Raleigh, North Carolina
- Dulles Station East in Herndon, Virginia
- 1000 Continental in King of Prussia, Pennsylvania and CrossPoint in Wayne, Pennsylvania
- 3001 Washington Boulevard and 3003 Washington Boulevard in Arlington, Virginia

How did this initiative come to bee? Well, here’s a primer on how these prolific pollinators play a crucial role in the greater ecosystem — and why rooftop beehives and KBS office buildings make a sweet pair.

Supporting the Natural World to Meet Critical Needs

Honeybees are responsible for about 80% of pollination worldwide. With one-third of the U.S. food supply dependent upon pollination, they’re a critical part of our country’s agricultural production. Yet U.S. bee populations have declined from six million hives in the 1940s to around 2.5 million today.

With one hive — which contains approximately 50,000 bees or more — producing roughly 100 pounds of honey a year, the contribution of just one or two beehives is highly significant for the ecosystem.

What’s more, according to Smart Cities Dive, beekeeping in urban areas can have a greater positive impact on food production than rural bees. They have a winter survival rate of 62.5% as compared to only 40%

for their rural counterparts. Additionally, urban bees live longer, healthier lives on average and produce more honey than rural bees.

Properties Made for Beekeeping

KBS began to consider features like rooftop beehives several years ago, which align with our environmental, social and governance (ESG) goals to repurpose unused space AND make the workplace an exciting place to be.

When we acquired Arlington, Virginia properties 3003 Washington Boulevard in 2014 and 3001 Washington Boulevard in 2015, we recognized that the LEED Gold-certified buildings with green roofs installed were well suited for an urban beekeeping program.

The urban apiary program at these properties is maintained by a beekeeping company that provides turnkey urban apiaries to businesses and schools. Working in partnership with the Building Owners and Managers Association (BOMA.org), the company ensures its beekeeping program is professionally managed and high safety standards are met.

“The success of this program led to additional partnerships and beehives at our properties throughout the country.”

The success of this program led to additional partnerships and beehives at our properties throughout the country. For example, at Bank of America Tower in the North Hills section of Raleigh, North Carolina, features two beehives, each holding about 65,000 honeybees. The hives were recently installed and are maintained by a company that runs an urban apiary program on corporate campuses around North Carolina. The company's main goal is to rebuild the honeybee population and engage employees in its mission of saving the bees.

The addition of these hives enables areas near the apiaries to be pollinated. In turn, this helps flowers and vegetation in the region to thrive. The program is having a strong positive impact on the surrounding 18,000-acre stretch of the environment in Raleigh while providing bountiful benefits for our Bank of America Tower tenants.

Rooftop beehives can also be enhanced by other property amenities. At 1000 Continental in King of Prussia, Pennsylvania, KBS has a community garden for tenant use. The hive is not only a dynamic complement to the garden, but its components — lavender and assorted flowers in particular — are an integral part of the pollination process. What's being produced is truly sustainable, on-site products naturally manufactured from the nectar of herbs and flowers cultivated in the garden.

A Sweet Arrangement

Although the beekeeping program incurs some expense, the benefits tend to outweigh the costs because it creates such a unique office amenity — and is good for the environment, too.

The beekeeping companies with whom KBS partners facilitate the process, manage operation of the hives, and make the whole experience fun and engaging for tenants.

In the spring, the apiary organizations open the hives on the rooftop. A beekeeper visits every three weeks to service the hives and provide livestream webinars of their progress for tenants to view in real time. Most of the apiaries have individualized webpages for each property in the program. In the fall, the honey is harvested, the hives stay in place year-round and are monitored throughout the winter.

As a perk, at most properties, KBS gives tenants jars of the honey the bees produce.

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Bees on the rooftop of 60 South Sixth in Minneapolis, MN.

each building's community to experience a day in the life of a beekeeper by virtually opening an actual buzzing hive.

As part of the interactive and educational experiences, programs also offer online components such as providing others the opportunity to escape the office, house, apartment or desk for a moment and get a little taste of what a typical beehive inspection looks like. Tenants are highly engaged in these programs — livestream webinars about beehives at our Arlington properties have attracted up to 150 attendees during the coronavirus pandemic.

...Actual return on investment for this program is too complex to measure, the return in environmental benefits...

Although the actual return on investment for this program is too complex to measure, the return in environmental benefits — and even the delight of honey aficionados — cannot be overstated. The program's cost is minimal compared to the value of the positive response of KBS tenants and the communities in which our properties are located. KBS, its property managers and the apiary companies measure ROI by the level of engagement the hive inspires.

Supporting beekeeping in urban areas is one of many small things KBS assets do for the environment — all of which add up. We strive to take care of our tenants and bring a value-added experience wherever possible. Through this program, KBS has discovered an innovative way to make the environment a better place and add a little sweetness to our tenants' workdays. 

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As a perk, at most properties, KBS gives tenants jars of the honey the bees produce. At 100 pounds of honey per hive produced each year, this translates into several hundred jars for each building, depending on the number of hives installed.

The beekeeping workshops at these KBS assets have allowed each building's community to experience a day in the life of a beekeeper by virtually opening an actual buzzing hive.

Aside from the environmental gains and gifts of honey that KBS is bestowing upon its tenants, the urban apiary program offers additional benefits. The beekeeping workshops at these KBS assets have allowed



Allen Aldridge

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Service Champion Awards



Customer service is the hallmark of KBS’ management philosophy. Each year, KBS selects building personnel who have gone above the call of duty to serve.



Jill Hellwig
Property Accountant

Park Central Apartments
Raleigh, NC

- Jill works extremely hard to not only ensure that all financial matters are handled properly, but also to support the leasing and operations team in numerous ways that make their lives easier, and she does it all without seeking praise or recognition.
- Jill is especially helpful when it comes to budgeting season and reforecasting exercises. She takes a proactive approach to ensure the teams have everything they need to complete annual budgets, and she isn’t afraid to dive into the exercise herself. Additionally, she is very insightful and supportive when completing CAM reconciliation reports and ensuring that all AP and AR are clean and tidy.



Candy Howes
Janitorial Account Manager

60 South Sixth
Minneapolis, MN

- Candy is a true asset to the building and our tenants. She did a phenomenal job navigating through COVID-19 with tenants describing her as a “great communicator” along with comments such as “takes pride in her work” and “prompt when addressing concerns with no follow-up needed.”
- Candy was chosen to sit on the National Safety Committee for Harvard Maintenance, and they look to Candy for best practices for how she operates the team at 60 South Sixth. Because of her dedication to and pride in the building, the 60 South Sixth day porter team was recently selected to be pictured in the “Thank Your Cleaner Day” national campaign.

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Eddie Romo
Assistant Chief Engineer

Ten Almaden
San Jose, CA

- Eddie is an invaluable asset to Ten Almaden and is well regarded by everyone who walks through the building. He is accommodating and friendly to all. He always says, "Call me if you need anything," and he makes it a priority to support those who are supporting him at the building.
- Eddie is also focused on addressing tenant concerns promptly and looks for ways to improve their daily well-being. He ensures that tenants are comfortable in their workspaces and that their maintenance issues are resolved in a timely manner. He does everything that he can to support the tenants and is well respected and appreciated because of it.



Luisa Tabbert
Assistant Property Manager

The Offices at Greenhouse
Houston , TX

- Luisa has been an integral part of the team for over three years and has built lasting relationships with co-workers and tenants by exhibiting outstanding customer service. She always has a smile and will be the first to step up and assist. She is a true pleasure to work with, and her positive attitude is infectious!
- During a recent staffing change at another KBS building, 1800 Bering, Luisa stepped up and assisted with ongoing capital and tenant improvement work during the transition. She never hesitated and took on the additional responsibilities — all while just returning from maternity leave! She also made sure she was available to train the new staff. Luisa's dedication and commitment to her team are inspiring!



Lee Ann Taylor
Assistant Property Manager

Dulles Station East
Herndon, VA

- Lee Ann exhibits fabulous customer service when communicating with tenants, prospective tenants, owners and vendors and focuses on productivity and results. She consistently exceeds customer expectations with her diligence, attention to detail and sincere interest in creating meaningful experiences with everyone.
- Lee Ann is the epitome of teamwork, always eager to help reach our collective goals. She recently helped oversee the construction of our new tenant amenity at the building. She fine-tuned every detail to ensure a successful opening.



Mary Tinkler
Marketing Manager

Park Place Village
Leawood, KS

- Mary exemplifies tenant service by working tirelessly with a variety of tenants to create successful public events and ensure all tenants are included and promoted. Throughout 2022, Mary coordinated over 25 significant public events from concerts to outdoor movie nights, which provided a boost to restaurant/retail tenant sales. Mary does all this with incredible patience and a positive attitude.
- Mary worked hard coordinating a complete redesign of the property website. The unique retail component of the property required considerable planning and testing to ensure maximum website functionality for customers. The website SEO and Mary's efforts to build the property's social media following have helped boost almost all tenant sales above their pre-coronavirus pandemic levels.

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David Vail
Chief Engineer

3001 & 3003 Washington Blvd
Arlington, VA

- David is dedicated to making sure the buildings run smoothly and tenants' needs are attended to, all done with an amazingly positive attitude. Always thoughtful and considerate, if a customer or team member needs assistance, David is there to lend a hand.
- In 2022, David oversaw three major projects, including a full-floor tenant improvement project. He is an invaluable asset when it comes to tenant improvement plans and oversight. His involvement kept things running smoothly to completion.
- David also played a vital role in leading a significant elevator programming upgrade that presented several challenges. He maintained the highest level of professionalism while keeping our tenants' needs and comfort at the top of his priorities.



Linda Williams
Day Security Supervisor

Carillon
Charlotte, NC

- Linda ensures contractors, vendors and guests get to where they need to be and always treats everyone with respect. She helps make our lobby warm and welcoming by greeting every tenant and guest with a huge smile and an audible "Good morning" or "Good afternoon," after which they can't help but walk away with a smile in return.
- Linda embodies the dedication and attitude that is needed to make an excellent security officer and building ambassador. She anticipates the needs of tenants and teammates and truly makes our building feel like home to our many tenants. We are fortunate to have her on the team!





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Accenture Tower Elevates Its Game

By Brian Lee

KBS' trophy office tower in Chicago mixes uses to max out appeal and community feel.

"Welcome back to a city that's missed you!" That's what Chicago's mayor exclaimed at the September 2022 ribbon-cutting at Accenture Tower, where office workers and visitors were eagerly ready to embrace all the new offerings and renewed appeal of KBS' iconic 40-story building in the Windy City's West Loop.

In the wake of the pandemic, people have been on the search for communities and spaces that promise higher quality of life and a wealth of innovation. They'll find it at Accenture Tower, which has undergone more than \$22 million in upgrades, including a new office lobby inspired by the hospitality industry, a state-of-the-art conference center with a pre-function area, and a contemporary tenant lounge with an outdoor terrace with two fire pits in a garden-like setting.

In addition to the new deluxe office amenities, one will find 70,000 square feet of retail and more than 20 fast-casual and dine-in restaurant options on-site. The renovations have helped bring the 1.46 million-square-foot building reach more than 95% in leasing occupancy.

"We're truly a city within a city from which you never have to leave," said Julia Horan, vice president of asset services at Transwestern, which manages Accenture Tower. "Tenants and visitors love the convenience of location, the quantity of retailers, the quality of our staff, and the community atmosphere that's been created."

Consumers now want to max out on mixing things up, and the more-empowered office worker seeks additional reasons to return to the office. In fact, COVID-19 raised the stakes for office owners. People and companies have become even more attracted to smart, flexible, and multifaceted buildings that offer the opportunity to work, live, shop and play in relatively close proximity.

That's Accenture Tower, a place that boasts top-of-the-line convenience and connections — the property offers direct, in-building light rail access via Chicago's Ogilvie Transportation Station — but with what have been called "transformational" amenities.

“For landlords, it's not about just building out great amenity space, but activating them in a way that is truly engaging.”

"Chicago has always been an incredibly competitive market, which was commonly referred to as the 'amenities arms race,'" said Matt Lerner, executive vice president at Stream, the property's office leasing company. "It's become even more important coming out of the pandemic as companies push to entice their employees back to work. For landlords, it's not about just building out great amenity space, but activating them in a way that is truly engaging. Paying attention to details matters more than ever as we look to make 'commute worthy' experiences for our tenants."

The Rise of Mixed-Use Properties

"All in one," "from A to Z," "the whole nine yards" — there are so many ways in which to say something's "got it all." Mixed-use developments, those properties that integrate a variety of real estate applications, including retail, office and residential, offer the variety that can spice up life, maximizing appeal and avenues of engagement for consumers.

Tenants embrace mixed-use properties because of the increased ways that consumers can be engaged. Beyond the solo, need-based visit (e.g., picking up dry cleaning), people will patronize an establishment to eat, be entertained, browse, socialize, and simply relax. The more a mixed-use property connects commerce with lifestyle, the more a sense of place and community will be created, building more entry points for the consumer and thus increased likelihood for tenants to get traffic besides that intentional, need-based visitor. And mixed-use developments, with office and residential components built-in, offer daytime and 24-7 populations ready to consume products and services.

Accent on Diversification

Located at 500 West Madison, Accenture Tower was constructed in 1987 atop the historic Northwestern Station connecting downtown Chicago to the northern and western suburbs by rail. It was billed as the city's first and largest full-service office location — and continues to exemplify the very best-in-class among mixed-use properties.

Over the years, however, the appeal that all paths (and rails) lead to 500 West Madison turned instead into all paths lead through. According to Stream, the property had "evolved into an asset of convenience, serving [merely] as a pass-through point of entry for 180,000 commuters daily." Dated spaces and lack of other attractive uses led to rising vacancies and a slow but steady decline.

KBS worked with Stream to create a comprehensive marketing, renovation and leasing strategy that made Accenture Tower stand out to the huge commuter crowds and appeal to a diverse tenant base. To provide an "inviting, yet grand first impression," including leveraging its high ceilings and open views, the lobby underwent a \$10 million renovation. Management and security offices were moved from the reception area, and the third-floor space was upgraded with an expanded first-class lounge with a staffed bar, a landscaped outdoor terrace, and a new conference center.

“Our focus is premier customer service and tenant engagement where our staff not only knows you by name but already has your favorite drink poured.”

"Accenture Tower does more than 'check the box' with the amenities we offer," Horan said. "We don't just have a fitness center; we have a 15,000-square-foot fitness club with a half basketball court and personalized fitness training. There's not just a tenant lounge on-site, we have a full tenant experience program

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Accenture Tower
Chicago, IL

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with seasonal and weekly events ranging from do-it-yourself holiday wreaths to wine tasting and pumpkin painting contests. Rather than just a coffee bar, we have a fully staffed, open from dawn to dinner lounge that serves all café offerings in the day, then switches to a fully curated cocktail menu in the late afternoon. Our focus is premier customer service and tenant engagement where our staff not only knows you by name but already has your favorite drink poured.”

KBS has constructed and leased almost 250,000 square feet of spec suites and converted interior storage space into shared tenant lounges to help further distinguish the Accenture Tower offerings from the competition. An additional 90,000 square feet are currently in the pipeline.

The numbers tell quite an impressive story: 350,000 square feet of space leased since the pandemic to achieve 95% occupancy at the property. More than half (54%) of that activity consisted of new deals and expansions, including anchor and title tenant Accenture expanding by approximately 185,000 square feet.

The Class A LEED Gold-certified building won The Outstanding Building of the Year (TOBY) Award from The Building Owner and Managers Association (BOMA), which has represented all CRE property types, including office and mixed-use. That prestigious and comprehensive program grades all facets of a building’s operations from community involvement, tenant relations and site management, to environmental and “green” policies and procedures.

Everyone loves a winner — even better when it involves a comeback story. There’s something special about renewal, too. Like the changing seasons, it fosters fresh feeling but with foundation. The frame of reference, knowing what once was and what is now, brings greater appreciation. In real estate, it’s change for the better, which is aided by a mix of uses that maximizes connection, convenience, and community.

“ [It] is a great reminder of the camaraderie we’ve been missing in an office environment.”

“The new first-class lobby and tenant lounge have dramatically changed the first impression of the building,” said Corey Seigrist at JLL, a tenant who knows more than a little bit about real estate. “Seeing all the activity and vibrancy at the bar in the lounge is a great reminder of the camaraderie we’ve been missing in an office environment.”

Today’s mixed-use properties are setting a new standard for developing engaging spaces. It’s not only a fine fit for office, it’s also perfect timing in an era where office spaces must do more. KBS’ Accenture Tower is leading the way. **P**



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A Lesson in Smart Buildings

By **Cindy Peterson**

"Smart" buildings are not a new concept. In 1983, The New York Times featured an article titled "'Intelligent' Buildings Using Computers," which talked about Cityplace, "the world's first intelligent building" located in Hartford, Connecticut.

"Intelligent in this case means that each building's services will be orchestrated by a computer system and linked by a fiber-optic network — a trademarked system called a 'Data Highway' — running through its core. Functions such as heating, ventilation, lighting, transportation, security, fire protection and most important, telecommunications and electronic office services will be integrated, providing economies in construction and management. Still, it is too early to say this constitutes a trend. ...They are still in the testing stage."

So here we are, 40 years after the introduction of the internet, and smart buildings have become mainstream. In fact, it's become an \$80.62 billion industry that's projected to reach a global value of \$328.62 billion by 2029 according to Fortune Business Insights.

What used to be cutting-edge innovation, however, is now common practice, considering that practically every building across America today is equipped with some element of smart tech.

Property technology (proptech) is the primary driver behind smart buildings and often overlaps with financial and smart technology as well as with shared economy real estate.

It's essentially all the tech tools commercial real estate (CRE) employs to optimize the way people buy, sell, research, utilize, market and manage a property. The general purpose of proptech is to improve the tenant experience and help stakeholders, like the owners-operators, tenants and brokers, make informed investment and property-related decisions.

Here is some of the most popular proptech in use by CRE stakeholders today.

Owners-Operators

Technology-like sensors can collect and aggregate valuable data about a building's systems, tenant behavior and the local market to provide a holistic representation of an asset's overall performance. This can help owners-operators determine how to best put their budgets to work, including facility improvements, environmental, social and governance (ESG) efforts, and identifying new revenue opportunities.

Artificial intelligence (AI) technology is heavily used in maintenance-monitoring systems to automatically alert system needs, reduce process redundancies, improve response times and cut expenses. Self-diagnosis and self-correcting smart applications are of special interest to managers as they save time and money while minimally impacting tenants.

Owners-operators can also benefit from tax rebates and other government incentives associated with sustainable proptech.

Tenants

Post-COVID-19, tenants are returning to the office with an appetite for innovation — especially for "touchless" technologies (e.g., sensor faucets, keyless entry) and augmented HVAC and ventilation systems as well as utility automation that promotes energy conservation (e.g., motion-detection lighting and heating).

...smartphone apps
are also a welcomed
enhancement...

Tenant and landlord smartphone apps are also a welcome enhancement to the office experience, offering customer-centric convenience while creating a competitive advantage within the CRE industry.

"This multitasking technology decreases stress and increases workflow," said Marc DeLuca, CEO and Regional President, Eastern U.S. of KBS, in Forbes. "Instead of having to get your car washed and detailed after a long workday, you can now order a car wash to detail it for you on-site during the day. If you're having a larger team conference and need to order lunch, it can all be done through the app. Streamlining small processes like these adds up to increased satisfaction."

One such smartphone app is Simpli, which has been in use at various KBS properties throughout District of Columbia metro locations, including 3001/3003 Washington, One Washingtonian, Reston Square, Dulles Station East and Redwood Plaza. The Simpli app provides its users with greater overall connectivity to their workplace community.

Brokers

The broker community also leverages AI to procure property intelligence, such as demographic trends, property records and permits, building and tenant information, valuation, management reports and historical maintenance. This information is then used in their sales, marketing and acquisition due diligence.

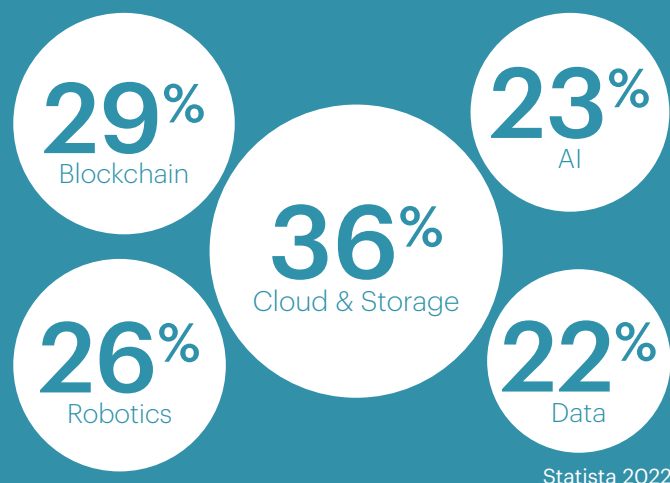
Virtual reality (virtual tours) is also considered a must-have because it reaches a much broader audience of potential investors or tenants. Most platforms provide the opportunity to tour a space from various viewpoints, navigate surroundings, arrange furniture, research specs and amenities and chat with a property representative.

What's Next?

While physical proptech remains important, digital and intuitive technologies are quickly becoming the next big thing in designing future-focused smart buildings.

There's a greater shift toward technologies aimed at business continuity. According to Statista, 2021 saw more than \$24 billion in proptech investments, the highest value on record, with AI, virtual reality, augmented reality and the Internet of Things (IoT) leading the charge. More specifically, Statista points to cloud computing and storage as the most popular technology CRE firms planned on investing in for 2022 and 2023, followed by blockchain and robotic process automation.

Share of CRE Executives Planning a Large Investment in Different Technologies Worldwide in 2022



These are specific future-focused, process-driven technologies that can maintain essential functions during a crisis such as a cyberattack, natural disaster or another health emergency. These technologies can also help CRE better understand — or even predict — property, market and economic behavior to better articulate response practices in the face of disruption.

Smart technology has the potential to transform CRE. Stakeholders, however, need to be vigilant; anything that exists on the internet is vulnerable to security threats and privacy breaches. A sophisticated cybersecurity strategy is essential as smart buildings become more prominent — and at this stage, there lacks a true "industry standard" to help CRE safely navigate risk. Compliance needs to evolve and tighten its fists.

Like information traveling along the "Data Highway," technological advancements in smart buildings have increased exponentially. Buildings are smarter today than yesterday. But not as much as they'll be tomorrow.



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What's Next for Commercial Real Estate's Office Sector?



The commercial real estate office sector has faced numerous challenges spurred by the coronavirus pandemic, the rise of remote and hybrid work and the economy. How the sector is handling these challenges is dependent on a variety of factors.

We spoke with Giovanni “Gio” Cordoves, KBS Western regional president, regarding the outlook for office recovery in light of current obstacles — and which markets are best positioned for a strong recovery in the coming year.

Kastle reported the national office occupancy rate hovered around 47% for the last few months of 2022, with 55% reported for midweek days. What occupancy levels do you foresee for 2023?

The office sector is tremendously nuanced, and occupancy levels vary depending on the market. Recovery will continue to look significantly different in San Francisco than it has in Miami because there are so many different factors at play — from climate to industry clusters and so much more. By continuously tracking fundamentals and specific office properties within 25 select markets throughout the country, KBS studies a broad array of information to determine which markets make sense for us to invest in. By doing so, we’re highly aware of the markets where office properties are populating at faster rates.

In the Southeast, for example, where we own a solid portfolio of office assets, we’re seeing 75% occupancy levels on average. We also have some buildings in Texas that have been running at over 90% occupancy for quite a while.

Despite the presence of macro-headwinds, many of the markets where we own have been experiencing strong leasing activity; those include South Florida, Atlanta, Austin, Salt Lake City, Dallas, San Antonio and Bellevue, Washington, to name a few. We’ve seen a slower push toward normal in other markets — they’ll get there, but it will take them longer. These slower-to-recover markets also hold incredible opportunity for growth down the line.

Due to the quality, location and amenities at our properties, KBS prides itself on the ability to lease space in any market. We've been in the industry for 30 years and have seen many cycles during that time — so we've found ways to do just that.

Do you foresee the five-day in-office workweek coming back in 2023, or will it be more of a balance between hybrid and remote schedules?

One aspect we've seen in every market and every office-using industry is that people benefit from being together in the same office. This was true pre-COVID-19 and continues to be true now. It hasn't changed. Companies have found ways to function remotely, but they're aware that it's still not the same as being together.

At most companies, even here at KBS, we had a lot of flexibility in where we worked prior to the pandemic. We traveled, worked from other offices or from home some of the time, but we didn't see a lot of headlines about it before the pandemic. Now that all the research companies are tracking office occupancy levels, we're hyper focused on these policies. While we see a form of hybrid being here to stay, the difference will likely be between hybrid and five days a week in the office rather than between hybrid and remote work.

A combination of working in the office and working outside the office will continue to be part of corporate America's culture. Just as we need flexibility, we also must have a central place for people to come together for work. In addition to strengthening company culture, this is how we build the next generation of leadership — and it's true across all types of businesses. This realization will continue to drive office occupancy levels well into the future and make a central office indispensable in the business world.

“Sitting home by themselves doesn't seem to be a smart decision for anyone who wants to grow in their careers, learn and be successful.”

Speaking of the next generation of leadership, how do you think millennials and Gen Z workers will impact office occupancy rates?

Although it's hard to broad-brush an entire generation, we've found that younger workers want to be in the office. They need to be around others their age and to have mentorship from older, more experienced co-workers. Sitting home by themselves doesn't seem to be a smart decision for anyone who wants to grow in their careers, learn and be successful. It's also not a good way to demonstrate their skills and abilities and advance in the way that being in the office with face-to-face interactions allows.

Environmental, social and governance (ESG) criteria is clearly top of mind for the younger workforce. How do you see it impacting office building operation and management moving forward?

Along with many of our peers, we have incorporated many elements of ESG practices and protocols for a long time. The buzz now is about documenting and reporting on it to the world. This speaks to transparency, which is good, but the practices themselves are nothing new. In addition to recently establishing a dedicated Green Team, our company is working toward more certifications in this regard. In fact, we recently received a very high initial score from one organization before even beginning an ESG program. Doing things the right way has always been a part of who we are as a company.

Shifting to the economy, as the Fed continues to aggressively raise interest rates, how do you think this will affect tenants inking new and/or renewal leases?

It's difficult for businesses to forecast and plan as interest rates fluctuate, which makes now a particularly challenging time for office owners and users. That said, we're still leasing space — especially with many smaller tenants willing to make long-term commitments regardless of the economic climate.

While some may see large single employers as the best tenant targets, the bread and butter of KBS' portfolio is actually, on average, smaller, well-credited tenants given that we're more often than not an owner and operator of multitenant buildings. There are a multitude of local decision-makers willing to commit to

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leases, as office space is critical to their business. This is one reason why our spec suites program of turnkey office space for smaller users has been successful in so many markets.

Moving on to a lighter topic: We're hearing a lot of buzz surrounding "collaborative spaces" for employees, especially with offices repopulating and some owners implementing unique amenities, such as a Porsche Taycan ride service. Which amenities do you feel best provide that vibe for users?

Personally, I think the most impactful office amenities are those that spark collaboration and creativity, such as a great tenant lounge and conference space that truly works for meetings. Also, people like a change of scenery in their workday, making activated outdoor space at an office property highly desirable. People want to be outside more than ever these days, so offering modern indoor space and Wi-Fi-enabled outdoor space at the same asset is ideal.

“It's key to provide attractive, functional workplaces that motivate people to come back to the office. Providing them with unique choices that are tailored to their region's interests provides them with choices in where and how they work.”

Since each building is different and its location doesn't always offer the necessary space for outdoor use, it's key to provide attractive, functional workplaces that motivate people to come back to the office. Providing them with unique choices that are tailored to their region's interests provides them with choices in where and how they work. That's what really resonates for office users today.



515 Congress
Austin, TX

Photo Credit | Craig Washburn | www.craigwashburn.com

What benefits do office assets offer investors looking to diversify their portfolios?

Investment strategies of course vary and change along with the movement in the overall economy. Today, in many cases, office properties can provide investors with upsized current yield against lower-yielding opportunities. While investors in other commercial real estate sectors, such as industrial and multifamily, are counting on rent growth and upside upon sale to achieve positive returns, today's office investors, generally speaking, don't need to rely on these elements as much. We also benefit from the great variety of industries that make up our tenant mix. Office properties — especially multitenant office properties — aren't subject to any one industry experiencing a downturn. Therefore, office will remain an attractive investment in 2023 and beyond. **PK**

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