READY FOR REINVENTION:

2023 REAL ESTATE TREND REPORT

STREETSENSE

WITH SUPPORT FROM

CBRE

PURPOSE-BUILT SPACES ARE READY FOR REINVENTION.

WE ARE LIVING THROUGH A DYNAMIC MOMENT IN TIME. THE WAYS IN WHICH WE HAVE OCCUPIED THE SPACES WHERE WE WORK, SHOP, PLAY AND LIVE ARE CHANGING BEFORE OUR VERY EYES, PART OF A RAPID EVOLUTION IN HOW CONSUMERS SPEND AND VALUE BOTH THEIR TIME AND MONEY.

Traditionally, commercial districts with large office anchors offered a guaranteed customer base that supported an ecosystem of symbiotic uses. Retail, restaurants, personal services, fitness centers, and the like would emerge and thrive with the reliable spending of daytime in-person workers. Post-pandemic, this traditional relationship has been upended due to office downsizing and increased vacancy. According to Kastle Systems, the average office occupancy as of December 2022 across the top 10 U.S. cities is just under 50% of pre-pandemic occupancy.

Those office workers that have returned tend to do so mostly on Tuesdays and Wednesdays, with the lowest in-person return on Fridays. This trend suggests a pending plateau beneath pre-pandemic levels, where return to office is four days a week or less.

As office anchors downsize, former office and retail spaces are poised to be repurposed for alternative uses. The question we must now ask ourselves is this: if not retail or office, then what?

In this document, we offer insights gleaned from both the work of Streetsense and our partner CBRE, into alternative uses that have caught our eye. These uses demonstrate how assets can be repurposed and uses rebalanced towards new demand drivers.

Looking ahead, we are eager to tackle these challenges with our CBRE partners and help our clients define a path forward.

WHO IS THIS FOR?

This publication is for all parties involved in the real estate ecosystem and urban place management, including but not limited to investors, property owners, tenants, consumers, and the public and non-profit sectors (such as Business Improvement Districts).

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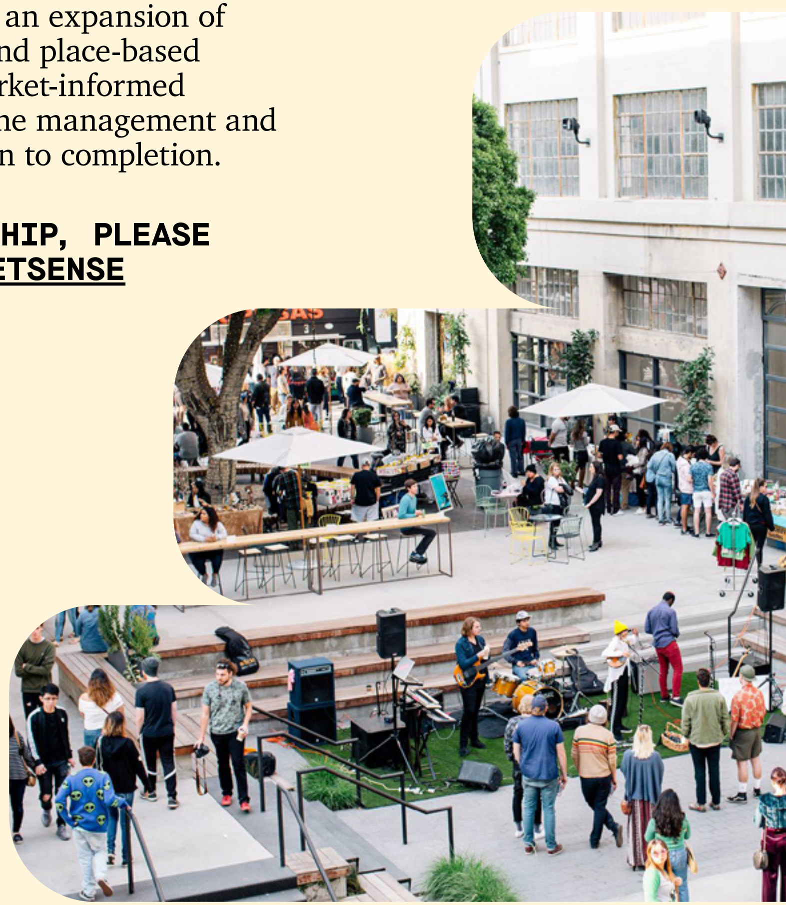
ABOUT STREETSENSE & CBRE

CBRE and Streetsense's joint venture helps unlock value for brands and their customers; reimagine environments where people live, work, and play; drive demand for clients; and foster community and sense of place. Together, we strengthen our ability to connect with end users across industries and geographies, further enabling an expansion of our ability to support real estate and place-based decision-makers, starting with market-informed strategies all the way through to the management and oversight of projects from inception to completion.

FOR MORE ON OUR PARTNERSHIP, PLEASE VISIT US AT CBRE.US/STREETSENSE



ABOUT PLACE CONSULTING AT STREETSENSE

The Place Consulting practice is composed of subject matter experts with deep backgrounds in development, brokerage, asset management, market research, urban design, and planning. We are an uncommon collective of place experts who envision creative solutions and turn these into recommendations that support our client's vision and goals.

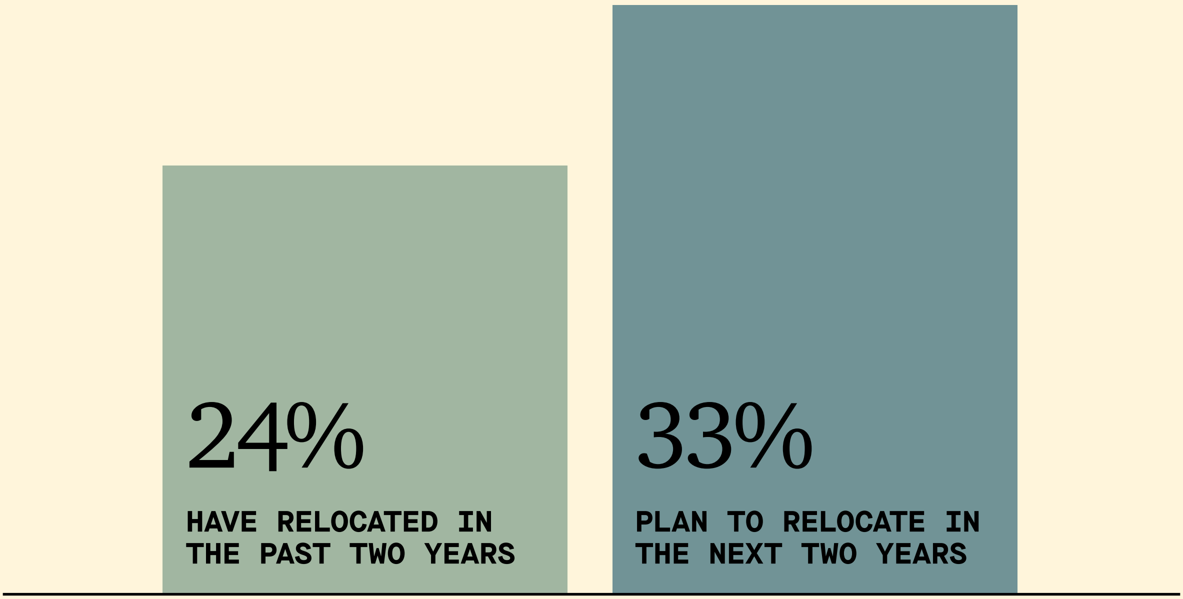
The Place Consulting team works to identify, analyze, and solve real estate and place-based challenges from the perspectives of key stakeholders in the real estate ecosystem, including investors, property owners, tenants, and consumers. We also have a special team dedicated to working on behalf of public and non-profit sector clients, who frequently play an important role as place-based stewards.

We take pride in our award-winning diagnostic methodology, one that begins with uncompromising research: identifying unmet potential and diagnosing the hurdles in the way to meeting it. Our diagnostic ensures we have defined and fully understood the challenges, while also educating our clients and setting us up for highly executable solutions and recommendations that support return on investment—however it is measured.

TRENDS

Multifamily residential assets in urban and mixed-use places continue to fit the bill for a growing demographic that is finding it increasingly difficult to enter the housing market as owners. Moreover, consumers of all stripes continue to express interest in housing close to city centers, suggesting a lingering market opportunity that may play into the repurposing of obsolete and/or vacant office buildings into housing. Interest in office to residential conversions, in light of the growth of hybrid work, is growing—and cities are increasingly looking to remove regulatory barriers that unnecessarily restrict flexibility and hamper an owner's ability to pivot to uses for which there is demonstrated market demand.

The same trends towards hybrid work that are changing the dynamics of the office market are resulting in diminished demand for retail, particularly in office-centric environments where a decline in office workers has meant less daytime spending. While some retail environments are recovering, our field work has found elevated vacancy rates in office-dominant downtown districts where low double digit vacancy rates were the pre-COVID-19 norm. While retail to residential may not be wildly popular, we believe that structural market conditions suggest some exploration of retail to residential conversions are worthy of consideration. With careful design guidelines in place, including "real door" entrances, raised windows, landscaping, tree coverage, etc., these ground floor residential units might very well make a meaningful and positive contribution to the urban landscape.



IN A SURVEY OF 20,000 INDIVIDUALS LED BY CBRE, NEARLY ONE-THIRD PLAN TO MOVE IN THE NEXT TWO YEARS—INTEREST RATES NOTWITHSTANDING—AND MANY CONTINUE TO PREFER LOCATIONS CLOSER TO CITY CENTERS.

→ THIS SUGGESTS THAT DEMAND FOR RESIDENTIAL IN VIBRANT CITIES WILL REMAIN STRONG AND CONTINUE TO FUEL INVESTOR INTEREST.

Source: CBRE, "Cross Generational Attitutes That Will Transform the Built Environment"

NOT EVERY GREAT DOWNTOWN STREET NEEDS RETAIL

VANCOUVER, CANADA

This vibrant Canadian downtown features residential uses along streets immediately adjacent to the retail core. Attention to design details makes a difference—including wide sidewalks, tree-lined streets, landscaping perimeters, “real doors” and apartment entrances in the form of maisonettes that line taller apartment towers. All of this helps to make the scale of the street manageable and pleasant.

FINDING WAYS TO OFFER PROPERTY OWNERS MORE FLEXIBILITY

SAN FRANCISCO, CA

Ground floor retail or "active use" requirements are frequently codified in a city's zoning and regulatory framework—too frequently without regard for how much of that space can be reasonably filled with market-supportable uses. San Francisco's zoning policies effectively forced retail and/or commercial uses on a collective 5 million square feet of space in Union Square alone. Additionally, "Active Ground Floor" requirements apply to 7.79 linear miles of street within the district. These requirements effectively force excess space onto retailers that they don't want or need.

These zoning fixes have become a priority for the Union Square Alliance, the Business Improvement District that services the district, and have also been embraced publicly by the Mayor and key city officials, as part of a holistic approach in support of the City of San Francisco's long term recovery.

Streetsense, in partnership with MIG, was engaged by the Union Square Alliance to develop the organization's 2022 Strategic Plan.


SOURCE: CBRE

RESIDENTIAL ENTRANCES ON THE GROUND FLOOR CONTRIBUTE TO A SENSE OF A PLACE

LONDON, UK

Lincoln Square, a 221-unit multifamily building located in the heart of Central London, notably does not feature retail at the ground floor. Instead, it features individual entrances and windows with landscaped window boxes. The regular fenestration and high quality design details make it a welcome addition to the street—which also features underground parking and more than 18,000 sq ft of amenity space, including a swimming pool, screening lounge, private dining room, and resident's lounge.

CBRE was engaged as a development consultant and lead sales agents for the project.

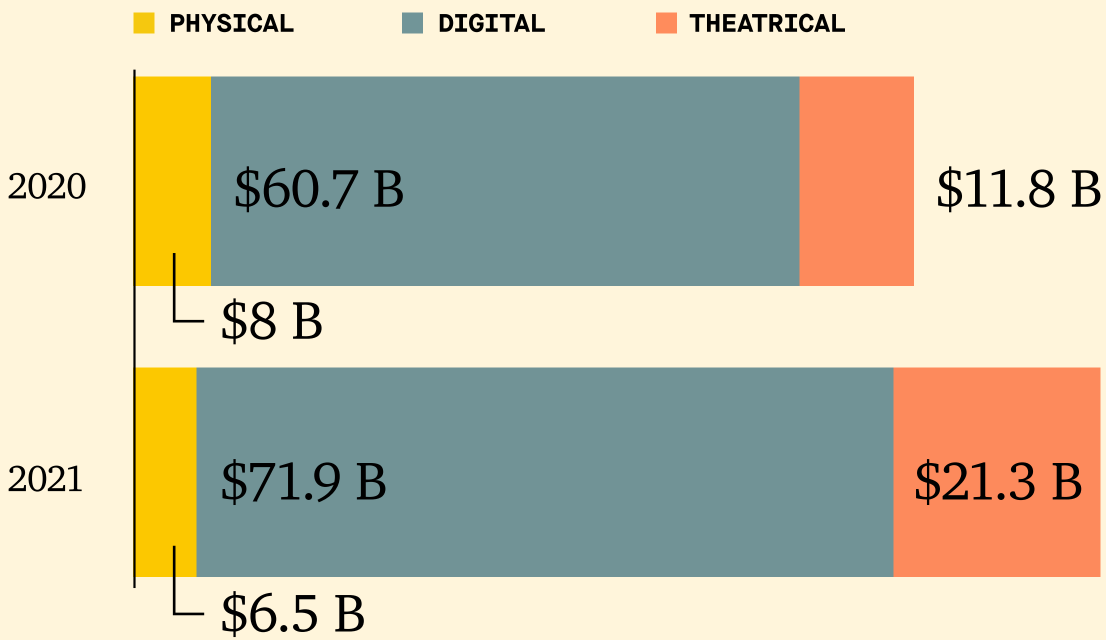
SOURCE: CBRE

Immersive entertainment, eatertainment, and experiential retail have grown in cultural popularity over the past decade. These use types can be appropriate for a range of opportunities; whether looking to fill a large box space with an interim, immersive activation, to activate a vacant development parcel over a couple of years, or to layer in a handful of tenants in smaller spaces. They also drive visitation to proximate businesses and services that benefit from increased foot traffic and sales.

These uses, however, should not be treated as a silver bullet. Entertainment uses sometimes possess an excessively niche appeal and present a limited number of opportunities for repeat visits. They also tend to operate only during evenings and weekends, yielding voids in ground plane activity during daytime hours. Entertainment uses can be trendy and tend to have shorter lifespans than traditional retail and F&B uses. Lastly, entertainment uses often generate noise and undesirable behavior that conflicts with quality of life standards for residential adjacencies.

It is critical to evaluate carefully the market context and overarching property objectives to understand appropriateness for each site. A large-scale immersive entertainment use is not appropriate for every market, nor should experiential retail be used as a catch-all strategy for creating a strong sense of place. Quality tenants in this space—ones that can deliver long-term experiential and economic value—represent a fraction of the operators in this category, making competition for coveted tenants fierce.

GLOBAL ENTERTAINMENT MARKET SIZE



THE GLOBAL ENTERTAINMENT MARKET SIZE GREW 24% IN 2021; BOLSTERED BY GROWTH IN THE PHYSICAL, DIGITAL, AND THEATRICAL ENTERTAINMENT INDUSTRIES, CONSUMERS HAVE ENTHUSIASTICALLY INVESTED IN LIVE ENTERTAINMENT, SPORTING EVENTS, AND LEISURE ACTIVITIES.

Source: CBRE New York Tri-State 2022 Film and Television Report; Motion Picture Association of America

FAMILY FUN OFF THE STRIP

LAS VEGAS, NV

An all-day entertainment destination adjacent to the Strip, Area 15 is a unique mixed-use environment that celebrates immersive entertainment, eatertainment, and tech-forward art experiences, with additional plans for residential, office, and retail in the pipeline. The full development of Area 15 will serve a distinct need in the Las Vegas market by providing a place for local residents and regional families to gather, without having to go to the Strip or to a traditional suburban regional shopping center.

EXPERIENTIAL RETAIL

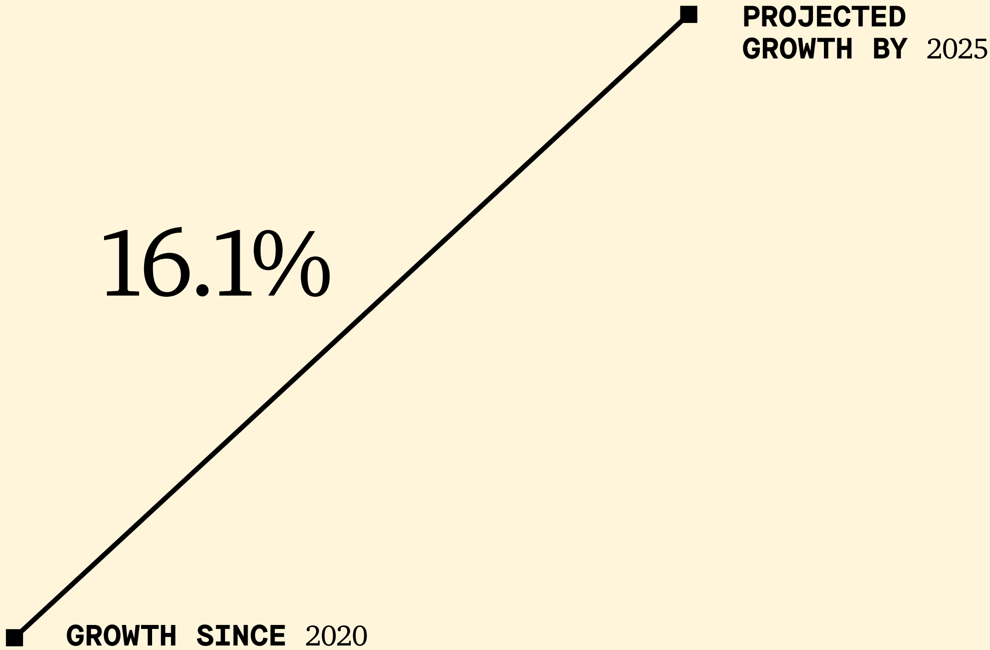
CHICAGO, IL

Chicago's iconic Water Tower Place is located on Michigan Avenue, known affectionately as "The Magnificent Mile." A place for locals and tourists alike, the street was hit particularly hard during the COVID-19 pandemic. The 170k square foot space originally housed a Marshall Field's and later, the space was occupied by Macy's, which shuttered its doors in early 2021. To fill the void, the owners have turned to more creative uses.

This winter season, the Harry Potter Experience, a 30,000 square foot immersive entertainment experience developed by OGX Media Experiences, LLC (formerly Superfly X), has opened to great fanfare. Farther down Michigan Avenue is yet another exhibit entitled Prince: The Immersive Experience, both part of a growing trend that will help reframe the storied street as an international destination for immersive entertainment.

What was once a conversation focused solely on the newest, chicest concepts in boutique fitness is now a conversation (and competition) for the freshest concepts in holistic wellness—where fitness, healthcare, beauty, mental health, and all things pertaining to personal care coexist. In a world and in a time when consumers are increasingly fatigued and overextended, wellness has blossomed into a highly profitable industry. Consumers are eager to invest in themselves through wellness-focused experiences, products, and services, and the line for where wellness ends and hospitality begins is becoming increasingly blurred.

We are also witnessing a growth of wellness-focused real estate, with large-scale projects focused on providing wellness experiences across a range of asset types. Developers are increasingly interested in this type of offer, but right-sizing to the market, and ensuring the mix and experience are appropriate for the context, can present challenges. Similar to entertainment, investing in wellness at a large scale requires a considerate touch and level of finesse in order to ensure long-term viability.



THE GLOBAL MARKET OF HEALTH AND WELLNESS INVESTMENTS HAS GROWN BY 22% SINCE 2020, WITH HEALTH AND WELLNESS BECOMING A PRIORITY AND FACET WITHIN NEARLY EVERY INDUSTRY.

→ WELLNESS REAL ESTATE IS PROJECTED TO CONTINUE GROWING BY 16.1% BY 2025.

Source: Global Wellness Institute

HOLISTIC WELLNESS AS THE NEW DESTINATION

FULTON COUNTY, GA

A wellness-focused community outside of Atlanta, Serenbe celebrates healthy lifestyle, connection with nature, and holistic living. It is comprised of a collection of "hamlets," each with their own collection of residences, retail experiences, and amenities. Serenbe also has an inn for out-of-town guests looking for a taste of the experience, offering horseback riding, farmers markets, and wine tastings.

WELLNESS: THE FULL EXPERIENCE

NEW YORK, NY

What started as a holistic wellness hub and urban retreat space is now a collection of wellness experiences expanding as destinations across the world. The WELL is a members-only concept offering access to wellness services, spa treatments, health practitioners, medicine, and more. It provides members in pursuit of whole-body wellness a unique environment to receive consultation, establish new health plans and goals, and have a space where modern medicine and ancient techniques coexist.

Mixed-use environments are often excellent candidates for institutional and educational uses—the proverbial “eds and meds” that include both colleges and universities, as well as medical facilities, hospitals, nursing homes, and doctor’s offices. These institutions are often large, stationary and heavily invested in ensuring that the communities they are in are easily accessible, safe, and amenity rich. The desire for in-person learning and the recognition of its importance to student outcomes has emerged as one of the pressing goals for post-pandemic growth. Educational institutions in particular have come to recognize the disruption to students’ learning and the effects on their mental and emotional health has further fueled interest in a return to the classroom.

Colleges and universities often have significant space requirements—including traditional lecture halls, libraries, amenity spaces, technical and wet laboratories, and common areas, to name a few. Former office space often offers open and adaptable floor plates, sufficient floor to ceiling dimensions, and MEP systems scalable to occupancy requirements of such institutional uses. The conversion of office spaces to higher education spaces offers a new and secure customer base to support the surrounding retail and restaurant uses. While institutional uses cannot replace all former office space anchors, they can aid in the rebalancing of commercial districts.

EMBRACING STUDENTS AS AN ALTERNATIVE TO OFFICE WORKERS

NEW YORK, NY

SOURCE: **MICHIELLI** & **WYETZNER** (**MWA**)

3 Times Square is an existing, 32-story, 855,000 square foot commercial tower located next to Times Square in New York City. Rudin Management leases and operates the full building via a ground lease with the NYC EDC.

After the primary tenant, Reuters, vacated the bulk of the building in 2021, Touro University entered a 30-year lease for the lower nine stories for graduate level courses, including physical therapy and pharmacy studies.

The Touro tenant fit out is a full repositioning of the previous office/data center space occupied by Reuters.

Touro is leasing 11 floors as a “building within a building” and the remaining floors are being leased to more traditional office tenants with modern amenities.

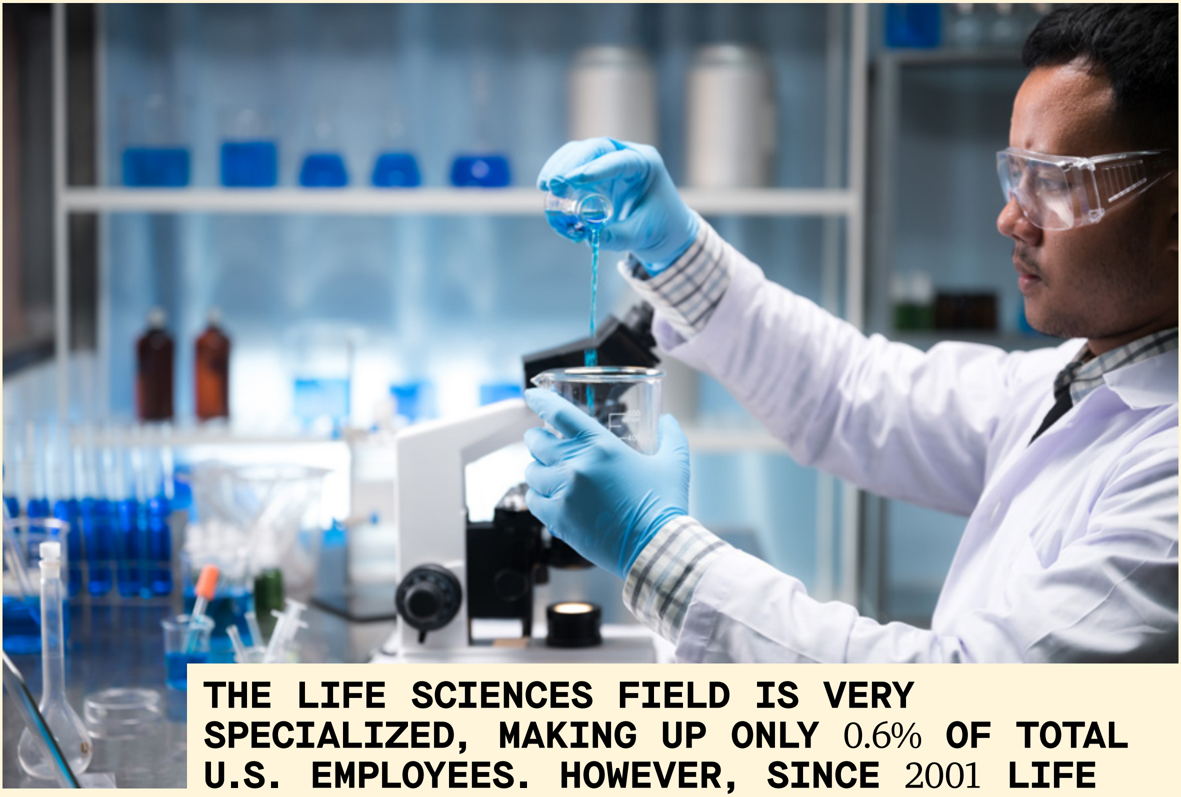
The project includes a new entrance lobby for students and faculty, a public assembly space with prime views of Times Square, and new shuttle elevator cars that take students from the main lobby to a “sky-lobby,” which also includes a café. The remaining floors are dominated by classroom and laboratory space as well as administrative offices and two additional communicating stairs.

MAIN LOBBY / SOURCE: CBRE

CBRE Project Management was engaged by Rudin Management Company as a strategic team member to assist with the management of the repositioning program of 3 Times Square, including extensive base-building improvements, from traditional office space to a state-of-the-art educational facility for their new Tenant Touro College. CBRE Project Management supported Rudin's program from the initial design phase to completion and occupancy and helped bring their repositioning vision to fruition.

Location, funding and access to a deep employee base is imperative for successful life science development. Life science-oriented businesses and enterprises require an expansive population of highly educated employees with very specialized skill sets. Due to these factors, life science space tends to be clustered together within dense metro areas with strong healthcare and educational systems. Life science uses are most successful within or near globally recognized research campuses, where they can benefit from a shared talent pool, streamlined logistics, and a high profile among investors.

Historically, Boston and the San Fransisco Bay Area are by far the strongest markets for life sciences, followed by San Diego, the Greater DC/Baltimore Region, Raleigh-Durham, and New Jersey. However, over the last few years there has been strong talent growth in other emerging markets that traditionally have not been life science-focused, like Nashville, Salt Lake City, and Atlanta. These secondary markets have a strong talent pool but weaker real estate opportunities for life science development, or vice versa. As talent bases or real estate opportunities improve in these areas, life science space will continue to grow outside of their traditional markets, fueling additional interest in aging office buildings, industrial/flex buildings, and even vacant retail anchors that can be converted to life science space. Notably, HBC Properties and Investments is in the process of converting three vacant Lord and Taylor mall anchors into life science space in the Boston region.



THE LIFE SCIENCES FIELD IS VERY SPECIALIZED, MAKING UP ONLY 0.6% OF TOTAL U.S. EMPLOYEES. HOWEVER, SINCE 2001 LIFE SCIENCE JOB GROWTH HAS DRAMATICALLY OUTPACED OVERALL JOB GROWTH IN THE U.S., GROWING 79% OVER THAT PERIOD.

→ THIS LARGE GROWTH IN TALENT, ESPECIALLY IN MARKETS THAT HISTORICALLY HAD LOWER NUMBERS OF LIFE SCIENCE RESEARCHERS, SUGGESTS AN INCREASED NEED FOR LIFE SCIENCE SPACE IN AREAS THAT MAY NOT IMMEDIATELY HAVE APPROPRIATE AVAILABLE SPACE TO KEEP THE GROWING WORKFORCE LOCAL.

LIFE SCIENCES AS AN ALTERNATIVE TO TRADITIONAL OFFICE

WATERTOWN, MA

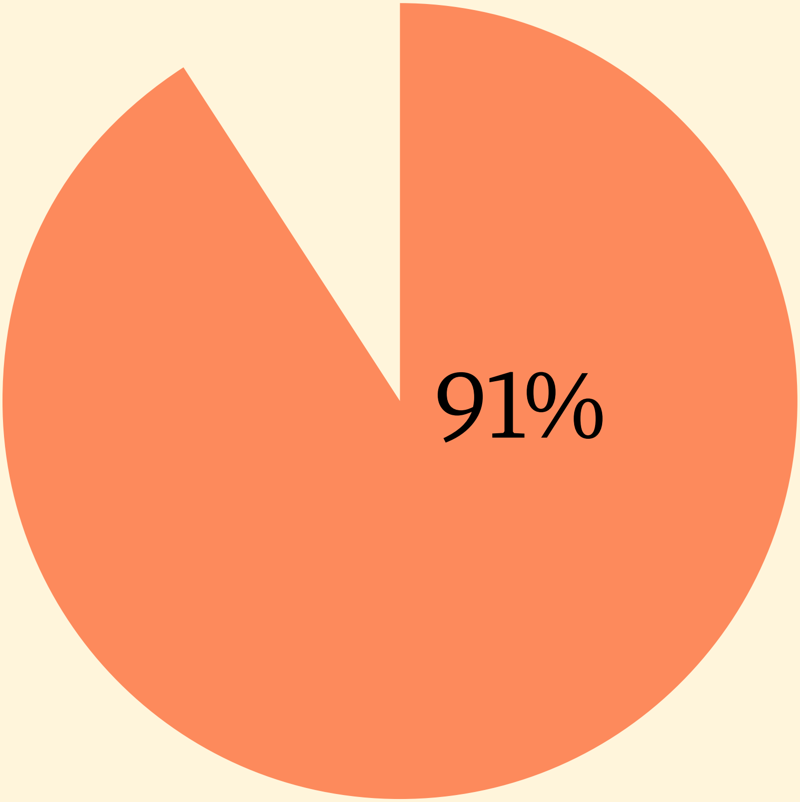
Arsenal Yards, located in Watertown, Massachusetts, is a 1-million plus square foot mixed-use complex that hugs the Charles River and embraces the life sciences as a key destination driver, with 400,000 square feet of new, purpose built lab space across three buildings. The balance of the development includes shops and dining, a hotel, residences and a movie theatre.

Streetsense is conducting a retail and economic analysis in support of the Watertown, MA Comprehensive Plan, which is being led by Stantec's Urban Places team.

Open spaces, in particular streets, have always had a symbiotic relationship with the ground floors of buildings, yet in 20th century city planning, this relationship was often undermined. A street that is well designed with good lighting, street furniture, and landscape can feel safe and comfortable, making the access and experience of walking to a particular use on the ground floor pleasant. At the same time, a building block with articulated facades and active ground floors that "spill-out" and engage with the street can help animate and contribute to the pedestrian experience. Each enhances the other, creating a seamless and fluid indoor-outdoor experience when done well.

One of the silver linings of the COVID-19 pandemic has been the re-establishing of this important relationship in many retail and neighborhood commercial corridors. Across the country we started to see the expansion of restaurants and retail into the sidewalks with outdoor patio dining, merchandise displays, and outdoor classes. This rethinking of streets and open spaces as a catalyst to create sociable spaces, increase urban life and support both retail and restaurants will continue to be critical.

Moving forward, where and how these open spaces interface with and support mixed-use environments will remain a priority. Place managers now face the practical challenges of determining how to turn successful temporary polices governing outdoor activation into something more permanent and sustainable. This means understanding how to address issues of sanitation, maintenance, quality design, and—with respect to outdoor dining—noise considerations (particularly in mixed-use environments with strong residential components).



ACCORDING TO A SURVEY OF 726 RESTAURANT OWNERS AND OPERATORS CONDUCTED BY THE NEW YORK CITY HOSPITALITY ALLIANCE, 91% SAID THE COUNCIL ENACTING PERMANENT OUTDOOR DINING PROGRAM IS "VERY IMPORTANT" TO THE FUTURE OF THEIR BUSINESS.

OUTDOOR DINING IS HERE TO STAY

NEW YORK, NY

During the pandemic, an emergency program was in effect that allowed for the widespread expansion of restaurants into sidewalks and roadways.

The City is currently working to finalize design and operational standards for a permanent outdoor dining program, one that features interagency coordination on enforcement while also ensuring rules are in place to address the appearance and maintenance of structures in the public right-of-way.

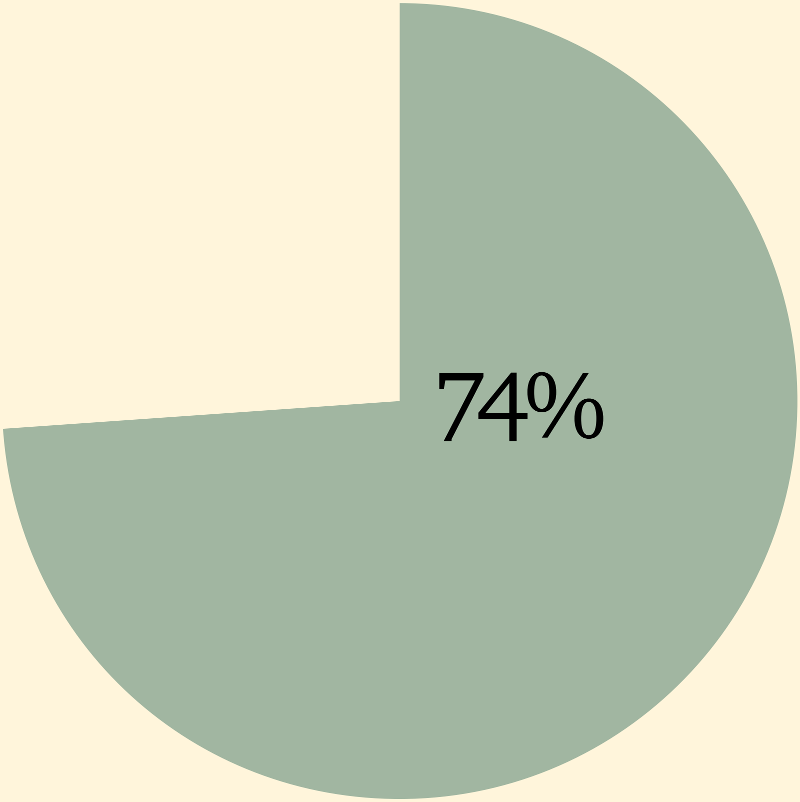
LIGHT INDUSTRY

TRENDS

As small-scale manufacturing becomes cleaner, quieter, and more compact—these uses have become better candidates for vacant storefronts. The term ‘light industry’ and ‘small-scale manufacturing’ are often used interchangeably, and typically refer to a diverse array of activities, from small batch, artisanal manufacturers of specialty food products and consumer goods to warehouses and laboratories. The growth in this sector is a reflection of advancements in technologies that now enable a new kind of industrial use that no longer has the same kind of noxious impact often defined by its predecessors.

Light industrial uses also offer opportunities to enliven retail spaces. Watching something get built or crafted becomes part of the experience that engenders excitement and encourages visitors to return—a true “buy local” opportunity for all involved. Additionally, businesses that fall into this category also benefit from opportunities to reduce transportation costs to customers and proximity to labor.

However, despite the growing synergies between light industrial uses and mixed-use environments, many cities have zoning codes that restrict the co-location of light industry and small-scale manufacturing uses, or fail to distinguish between compatible light industrial uses, such as a bespoke furniture or leather goods makers. Another consideration, not easily dismissed, is that these businesses are often in search of competitive rent that may not reflect landlord expectations. Careful evaluation of the tenant to ensure their compatibility with nearby uses is critical to curating a synergistic and differentiated tenant mix.



SMALL-SCALE MANUFACTURING IS A ROBUST SEGMENT OF THE TOTAL MANUFACTURING SECTOR. ACCORDING TO DATA FROM THE MANUFACTURING INSTITUTE, OVER 74% **OF FIRMS HAVE FEWER THAN** 20 **EMPLOYEES.**

Source: Smart Growth America, "Made in Place: Small-Scale Manufacturing and Neighborhood Revitalization"

WATCHING THE WORK HAPPEN IS PART OF THE THRILL

NORFOLK, VA

SOURCE: DOWNTOWN NORFOLK COUNCIL

Seldon Market is a retail incubator located in the heart of downtown and run by the Downtown Norfolk Alliance, a Business Improvement District. The space was developed as part of an effort to support emerging entrepreneurs, while also creating a cluster of interesting retail offerings in the heart of downtown.

The Market, located in a historic arcade, is home to 11 storefront shops with a focus on handcrafted artistry, food, and merchandise, rotating pop-ups, and local restaurants.

Visitors can watch leather goods being made at Werther's Leather Goods, or jewelry at Lorak Jewelry's workshop, or homemade marshmallows being made and toasted at Downtown Norfolk dessert.

Streetsense completed a retail strategy for the Downtown Norfolk Alliance in 2020 and continues to be engaged as a technical assistance advisor in support of plan implementation.

WHEN YOU CAN'T HIDE IT, EXPOSE IT

NEW YORK, NY

Fashionphile, located in the iconic Starrett-Lehigh Building on Manhattan's far West Side, is a 40k square foot product center and showroom dedicated to the purchase, sale, and consignment of used luxury designer items. Rather than hide the authentication and warehousing functions in back of house areas, these are instead visibile to guests via peek-a-boo windows and vignettes. Merchandise is brought to the client for viewing from the holding area via an industrial conveyor belt like that found in baggage claim—turning shopping into an entertaining experience. The store is the first of its kind interactive customer experience, where customers can get an inside look behind the scenes of the ultra-luxury reseller.

CBRE Project Management was engaged to deliver comprehensive project oversight and management services in support of project completion.

SOURCE: **CBRE**

HOW CAN WE HELP?

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