

| FEATURED ARTICLE

CRE ON HIGH ALERT

THE IMPACT OF TERROR ATTACKS ECHOES THROUGHOUT REAL ESTATE MARKET.

By Steve Lewis | Sponsored by SIOR Foundation

Although it's been more than 16 years since the terrorist attack on the World Trade Center, reminders of the lessons it has taught real estate professionals are indelibly imprinted on almost every project we see today.

And who can question the impact of that horrible event, and ones that have followed in London, Paris, and Barcelona, or the more recent domestic tragedy in Las Vegas?

Unfortunately, nothing quite compares with the devastation at the World Trade Center. The tragic deaths of over 3,000 will never be forgotten. In terms of the real estate, an unbelievable 30 million SF in downtown Manhattan were lost (14 million) and damaged (16 million), according to a study by Madeline M. O'Donnell at the University of Northern Iowa, published in May 2017, entitled, "The Impact of Terrorism on Commercial Office Real Estate in Manhattan."

Those 23 buildings represented nearly one-third of the Class-A office space in New York, according to CBRE Economic Advisors.

While smaller in scale, ongoing attacks in Europe have nonetheless had a permanent impact on real estate investment, security and planning. "In the past three years, terrorists have killed more than 300 people in attacks in Western cities around the world like Paris, London, Orlando, and Berlin. These attacks represent a new

type of terrorism, a new kind of threat to real estate," writes Mike Phillips, Bisnow London, in "Defense By Design: How Developers are Countering Terrorism."

That threat was made clear nearly immediately after 9/11, and not just in major cities. "We had six former textile facilities under contract to three different buyers on 9/11 and 9/12, and all six cancelled," shares Art Barry III, SIOR, Coldwell Banker Commercial, Eberhardt & Barry, Inc., Macon, Ga. "We had developer/users set up, and I was with my very young family at Disney World enjoying spoils yet to be had. Within 10 minutes [of the attack] I got a call from a billionaire in the Carolinas who said he appreciated all the help we had given him but he had so much uncertainty he could not go forward until that uncertainty was removed."

Planning a Safer Future

That uncertainty, of course, remains to this day. But immediately after 9/11 most were certain of one thing: It would happen again. The key was to make future buildings as safe as possible. After years of squabbling and legal entanglements, the World Trade Center was rebuilt. Its new components currently include One World Trade Center, the reflecting pools, and 9/11 memorial/museum. Future plans include a total of five high-rise office buildings.

But perhaps even more impressive than this ambitious re-creation of the World Trade Center are the detailed security steps taken to minimize the exposure of this, and future buildings. According to Gizmodo.com they include:

- A 90-foot setback for the new tower, compared with the 25-foot setback of the previous buildings;
- An "ultra-strong" reinforced concrete and 70-ton steel beam base for the new tower;
- Multiple levels of redundancy – beams and columns welded and bolted together to resist lateral loads, and a concrete-core shear wall, to help prevent another collapse;
- A subterranean Vehicle Security Center that will screen every vehicle entering the complex for traditional and radioactive explosives;
- Visitors to both the building and the memorial will face metal detectors and X-ray machines and have every bag, briefcase and delivered parcel screened, plus receiving photo ID for the day. Workers will also have security cards;
- More than 400 closed-circuit surveillance cameras provide live feeds to a 24-hour monitoring command center;
- Every elevator is protected within the central core structure, "which is basically a vertical concrete bunker;"
- The stairs are designed in excess of New York building codes – they are 50% wider than required.

Phillips notes that skyscrapers all over the world are now being built in ways that minimize the risk of collapse. In addition, he writes, "Measures to minimize the impact of car bombs, like shatter-proof glazing and reinforced plates built into the ceilings of underground car parks, are now a fairly routine element of major buildings in large cities." In addition,

"Immediately after 9/11 most were

certain of one thing: It would happen again.

The key was to make future buildings as

safe as possible."

“In light of the apparent ongoing risk to terror attacks, protecting your property in such manners has become less of a voluntary thing.”

“Street Furniture,” as he calls it, helps ensure cars cannot get too close to buildings. At London Bridge, he notes “Barriers and bollards have been installed to prevent future attacks using vehicles.”

Even location is taken more carefully into consideration. Note the recent opening of the new U.S. embassy in London, which was moved, among other things, for security reasons.

Again, it is not only major high-rises that have undertaken a dramatic change in security planning. “The dust has settled, but you still see barricades and barristers in downtown areas,” says Barry. “You see cameras in every entry and exit; little things like that.”

These considerations, he notes, affect management as much as sales. Shopping malls, notoriously known as “soft targets,” have seen dramatic changes – and he’s seen their approach adopted by manufacturing and industrial owners. “If you can get near one of these buildings you can be sure the load has been vetted,” he says. “Some actually have bomb dogs 450-500 yards from the plant where trucks are stopped and sniffed, primarily by third-party logistics military services providers. It’s not just shopping malls that have taken it to heart.”

Distribution centers consider this a worthwhile investment, Barry continues. “Take a facility of 200,000-300,000 SF; you regularly carry \$100 million worth of inventory per quarter million SF in procurement centers. Out of season it’s not unusual to carry half a billion inventory. Would you rather have an ex-military Special Forces guy at the gate, or some Pinkerton out there eating donuts?”

In light of the apparent ongoing risk to terror attacks, protecting your property in such manners has become less of a voluntary thing, Barry offers. “I don’t know of an insurance company that insures a building over five stories that does not require you to have non-penetration systems,” he says.

In addition, he notes, “You need to be able to keep an eye out and be vigilant; it’s not an insurance requirement but an act of safety and precaution – an important risk management element in enclosed malls and multi-story office buildings.”

Michael S. Weiner, JD, Managing Partner of Weiner & Aronson, P.A., in Delray Beach, FL, adds that you must also be more careful about writing contracts in this new environment. “While not a new issue, force majeure often is the last issue to be considered in a contract’s boilerplate language,” he writes in an article entitled, “A Good Clause,” on ccim.com. “Today, however, with the threat of terrorism and the prevalence of natural disasters, all parties involved with a real estate transaction should take the time to examine the consequences of the clause contained in the contract.”

Have a Plan

Coordinating all of these actions can be overwhelming. That’s why it’s critical to have an overall security plan for your properties, said Orange County, Calif.-based Trestle Property & Association Management’s co-founder Luke Rutherford in an interview with GlobeSt.com.

“The impacts of the recent terrorist attacks change the realm of ‘what’s possible’ at a commercial property,” said Rutherford, in the interview entitled “Terrorism and the Realm of Possibility in Property Management.” “If we learn from the past to forecast and respond

to what’s possible in the future, then property managers, owners and tenants need to know how to respond in the event of a first person shooter or bomb. What that involves is working with owners and tenants to address an emergency action plan (EAP). If tenants and property owners know how to respond in the event of an emergency, then they can better save their own lives and lead visitors in the escape process.”

After evaluating what’s possible at your property, Rutherford noted, the next step is the planning stage. This involves an evaluation of the specific property under consideration (i.e., industrial vs. retail vs. office). The number of factors to consider is virtually endless, he said. “For example, have a look at the genetic make-up of office use: multiple floors, common interior hallways, elevators, stairs, common access control systems (exit and entry for front and interior doors) and park/campus vs. single building/parcel,” Rutherford observed. “Also, study the factors inherent with industrial: loading-dock doors (often open), storage (chemical), and trailers (think bomb) in loading docks.”

Well-prepared property owners, Rutherford asserted, “add value and trust to the owner/tenant/property manager relationship. Safety and protection are paramount in an enduring tenant relationship.”

Barry agrees. “It’s wise for people who have properties to recognize that an ounce of prevention is worth ten pounds of cure,” he says. “Be vigilant, maintain some new level of visibility with guards and cameras, and try to dissuade people.” Tenants, he notes, “want to feel safe.”

However, says Barry, things may never be quite the same. “One of the major components of our industry – dependability – was eliminated when terrorism

became reality," he says. "We used to tell people 'You can take this to the bank,' but if we had, God forbid, another big event, you'd see capital markets go crazy and a real measurable damning effect on the desirability of large-scale retail, hotels, and convention centers for sure."

But O'Donnell might disagree. While vacancy rates in downtown Class-A space increased following 9/11, "the negative impacts were not long-term." Today, she wrote, "Lower Manhattan has transformed into a vibrant live-work-play district, with employment and property values that are higher than ever. Since 2001, over nine million square feet of new office space has been rebuilt at 1, 4, and 7 World Trade Center."

But Barry is not as sanguine. "They do a threat analysis now to measure [risk] with all the institutions through the life insurance companies – [investing in real estate] versus 'Can I just buy a stock and get in and out quick?'" he observes. "I don't see the core people buying real estate now; they buy equities because of the fear of uncertainty. That uncertainty to this day all started from 9/11." ▼

SPONSORED BY



SIOR FOUNDATION

Promoting and sponsoring initiatives that educate, enhance, and expand the commercial real estate community. The SIOR Foundation is a 501 (c)(3) not-for-profit organization. All contributions are tax deductible to the extent of the law.

CONTRIBUTING
SIORS



Art Barry,
SIOR

DUCTILCRETE

The Floor That Sells Your Building.



ductilcrete.com

Disruptive Concrete Technology