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2019: Forecasting Business Getting More Difficult Every Day

By Alan Nevin

On the surface, everything is still looking good, but I'm beginning to worry, particularly about the real estate market.

Let's look at the basics:

Population: Despite efforts to limit immigration, the U.S. continues to add 2.3 million to the population annually. This year, our population will top 328 million, with 42% of the increase occurring in the "big three" states – California, Texas and Florida. That's a lot of consumers.

Employment: We are still on track to add 200,000 jobs a month nationwide. The big three states continue to account for almost half of all new jobs. The other growing states listed in my book, *The Great Divide*, take up nearly another third. The problem is the other 35 states, including the "Trump states," have not been able to produce jobs in a meaningful way, as shown in the accompanying pie chart, causing out-migration in those states. Goodbye Ford, GM and Harley Davidson.

Unemployment: According to the U.S. Bureau of Labor Statistics, there are more than 7.0 million unfilled jobs. That has led to the lowest unemployment rates in decades. We should note, however, that the labor participation rate is not rising, thereby creating an anomaly. There appears to be a disconnect between the types of jobs that are available and the people available to fill them.

Inflation: I won't dig too deeply into how the inflation rate is calculated, but there are several ways to do this. The basic inflation rate reported every month consists of a "basket" of typical everyday purchases. However, that rate excludes food and energy. Needless to say, that exclusion drives down the inflation rate. When food and energy are included, the rate moves sharply north, well past the 3.0% level.

Interest rates: The Federal funds rate is the basic tool the Federal Reserve uses to manipulate the money market. It propels the prime rate, the T-bill rate and, ultimately, construction loan and mortgage rates. It can also cause recessions to begin when pushed too high.

Net Foreign Investment: Net foreign investment (NFI) has been a substantial factor in California's growth, but it has been slowing down for the past few years. In 2015, NFI in California was \$121 billion. It declined to \$42 billion in 2017. With that said, California still represents 21% of the total NFI in the U.S. ▶

What's Next?

With these factors as background, let's turn to real estate and construction.

Rising interest rates are already causing a slowdown of existing home sales, even in very healthy economies like California. In 2019, there is a reasonable chance that existing home sales will decline 10-20%.

This means that home prices will not remain on their upward trajectory of the past few years. History tells us that a 6.0% interest rate is the tipping point. We're not quite there yet and lenders are doing their best to keep interest rates down on mortgages. (They have to keep their point-making machines going.) However, the rising rates make it more and more difficult to qualify for loans.

In the new home market, we already see slowdowns in traffic and sales, particularly at the upper end of the market. It's tough to trade up to a new house if your mortgage interest rate is going to balloon and your property taxes accelerate. It would be better to stay put until things cool down. Not a good thing for homebuilders, but great news for remodelers.

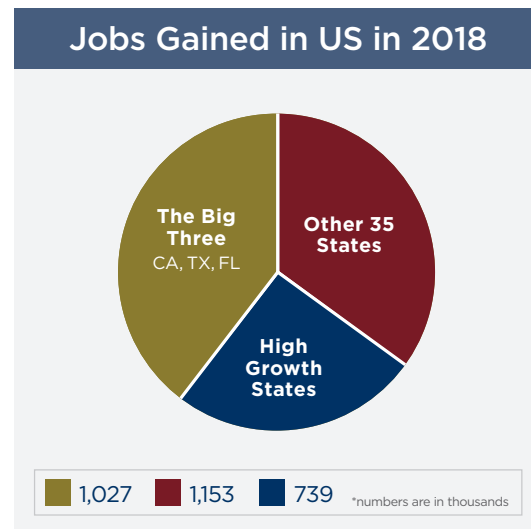
The price of construction continues to rise as a result of several factors

- ▶ Skilled labor shortages (that inevitably cause wages to rise)
- ▶ Tariffs on steel, aluminum and other imports
- ▶ Overall inflation
- ▶ The cost of borrowing
- ▶ The cost of holding land longer than anticipated
- ▶ Accelerating costs of moving goods

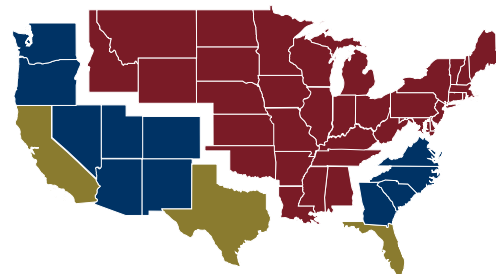
This last factor is rarely discussed, but we are experiencing a massive nationwide shortage of long-haul/construction vehicle drivers. Over 90% of all the materials in construction arrive by truck.

I am not implying a collapse of the housing market, but definitely a softening, especially in high-priced markets.

In the world of apartments, construction will continue unabated, except for a few markets that are overbuilt with high-end apartments, such as San Diego and Orange County. In those markets, I anticipate high-end projects that were scheduled to move forward in 2019 will take a breather until the developers are convinced that newly completed units are being rented, and without serious concessions and at rental rates that match their pro formas. Apartment lenders



The Great Divide



are tightening their requirements and calling for more equity and more assurance of demand.

Existing apartments will continue to do quite well in terms of occupancy (95%+), but it will not be possible to push up rents as vigorously as in years past. I project that existing apartment rental rates in Southern California will move up at a paltry 3-4% annually in 2019, if that.

On the non-residential side of the ledger, business should continue to be vibrant with construction of hotels and industrial space reaching new highs throughout the West Coast. Modest construction can be anticipated in office and retail space, although substantial funds will be expended on renovating and adding product to regional centers.

San Diego should be particularly blessed with federal government expenditures relating to the military and technology. In addition, there will be substantial funds expended throughout California on its aging infrastructure.

Overall, 2019 will be a perfectly decent economic year, but without the raw enthusiasm of the past decade. It will be interesting to see how the White House handles a slowing economy.

Lastly, 2019 should be a field day for economists and a time for reflection at the Federal Reserve Bank.

Alan Nevin is director of economic and market research for Xpera Group. He can be reached at anevin@xperagroup.com.

New Leadership Roles for Steve Grimes and Ted Bumgardner



We have some exciting news to share about the Xpera leadership team as we kick off our 10th year in business in 2019.

Steve Grimes is the new president of Xpera. As many of you know, Steve has been an integral member of our team since he joined us as director of construction services in 2016. His roots in San Diego's construction industry run deep, including over 30 years with Roel Construction, H.G. Fenton and Nelson & Sloan, as well as running his own consulting firm. He will continue to play a key role in Xpera's Building Envelope group and marketing efforts, while also providing leadership for the firm's other specialty consulting services, including Quality Assurance and Real Estate/Development Services.

"I am humbled and honored to take on the role of president at Xpera," said Grimes. "It's never easy to follow in the footsteps of such a respected and successful president, let alone the company founder. However, I look forward to the challenge and to continuing the entrepreneurial spirit that has served

Xpera so well for almost a decade."

Rest assured, our fearless leader and company founder isn't going anywhere. He is simply changing hats. **Ted Bumgardner** will now serve as Chairman of Xpera, staying actively involved in big-picture strategy and overall direction for the company. He will also focus his efforts on growing Xpera's highly successful construction forensics business, which has long served as the cornerstone of the company.

"I've been working as an expert witness for almost 30 years and I truly love it," said Bumgardner. "Over the past year, with the help of my amazing team, our forensics business has experienced incredible growth and we see much more opportunity on the horizon. I'm excited to be able to focus more of my time in this sector of the business, which feels like my 'baby' in many ways."

We believe the timing is ideal for this new chapter at Xpera. We have never had a better team in place, momentum is strong and operations are firing on all cylinders. We feel incredibly lucky to have found success in doing what we love each day, with people we cherish.

Thank you for joining us on this journey. The best is yet to come!

SERVICE SPOTLIGHT: BUILDING ENVELOPE GROUP

It's no secret that water intrusion can spell disaster for a building. In fact, leak damage is the single biggest driver of construction defect litigation. As projects and regulations become increasingly complex, it is more difficult than ever to maintain quality control across multiple building systems in order to prevent leaks.

That's why Xpera Group has devoted an entire specialty group to ensuring the integrity and performance of the Building Envelope.

Under the leadership of **Steve Easton** since 2012, our highly qualified Building Envelope team has decades of hands-on building experience, combined with invaluable insights gained from hundreds of forensic building failure analyses. We work with developers, architects and general contractors to act as an extra set of eyes focused specifically on preventing, identifying and solving potential water intrusion issues throughout the design and construction process.

Peace of Mind at Every Stage

Most of the group's projects are what is known as "over-podium," with a multi-level concrete structure topped with a mid- or high-rise framed building above. Xpera's role typically begins with the design for the below-grade waterproofing systems, followed by physical inspections to ensure everything has been installed correctly and is performing optimally. The team then follows the project as it moves above ground, reviewing each of the many interrelated systems that impact the integrity of the Building Envelope, including masonry, window assemblies, wall claddings and roofing products.

Oftentimes, a full-size lab mockup or site mockup is built to provide an opportunity to test the entire system prior to production to see if it performs as intended.

Beyond these quality assurance processes, the Building Envelope Group also offers field performance testing services for exterior cladding assemblies, to ensure they will perform to applicable industry standards for water and air intrusion.

Rapid Response

Based in San Diego and primarily focused on the Southern California region, the Building Envelope Group is able to provide its clientele with quick, responsive service.

"One of the things our clients appreciate the most is our ability to respond quickly to what is happening on the job site," said Easton. "If there is a waterproofing condition that needs to be reviewed or some other issue that needs to be



Steve Easton

“One of the things our clients appreciate is our ability to respond quickly to what is happening on the job site...That makes a huge difference in keeping the project on track and ensuring it is executed correctly.”

addressed right away, we can typically get someone onsite the same day. That makes a huge difference in keeping the project on track and ensuring it is executed correctly.”

Diverse Team of Specialists

A point of distinction for the Building Envelope Group is its diverse crew, with each member of the eight-person team bringing a unique set of skills to the process, including two licensed architects for plan reviews and contractor-level waterproofing specialists for site inspections. The team is primarily comprised of company employees rather than outside contractors.

"We have to be prepared to move quickly and we can't do that if we aren't able to manage people's schedules," said Easton, who hopes to add two more people to the team soon.



East Village, San Diego: K-1 by Richman Group (left) and Alexan ALX by Trammel Crow (right)

Project Highlights

Easton and his team are involved in a number of exciting new projects in San Diego and Orange County, including:

- ▶ **K1** – A 22-story apartment project for Richman Group
- ▶ **The Alexan ALX** – A 19-story apartment project for Trammel Crow Residential
- ▶ **Broadstone Makers Quarter** – A seven-story apartment project for Alliance Residential
- ▶ **Carté Hotel** – A 14-story boutique hotel (part of Hilton's Curio Collection)
- ▶ **UC San Diego** – Nuevo West & Nuevo East – 10 mid- and high-rise graduate student housing buildings
- ▶ **UC Irvine** –
 - Middle Earth Housing Expansion – Two five-story residential towers over a two-story podium
 - Interdisciplinary Science and Engineering Building (ISEB) – Six-story multi-disciplined science and research facility

“Kudos to our entire Building Envelope team for their hard work and dedication to this important service niche in our industry,” said Xpera Chairman Ted Bumgardner. “As those of us on the forensics side of the business know all too well, when it comes to waterproofing, an ounce of prevention is worth much more than a pound of cure. It certainly pays to build it right the first time. Our Building Envelope team is the embodiment of our company tagline: *Experience. Your best solution.*”

To learn more about Xpera's Building Envelope Group, contact Steve Easton at seaston@xperagroup.com or Steve Grimes at sgrimes@xperagroup.com.

Property Conditions Assessments Critical When Acquiring Older Buildings

By Justin Cox and Ron Whitehead

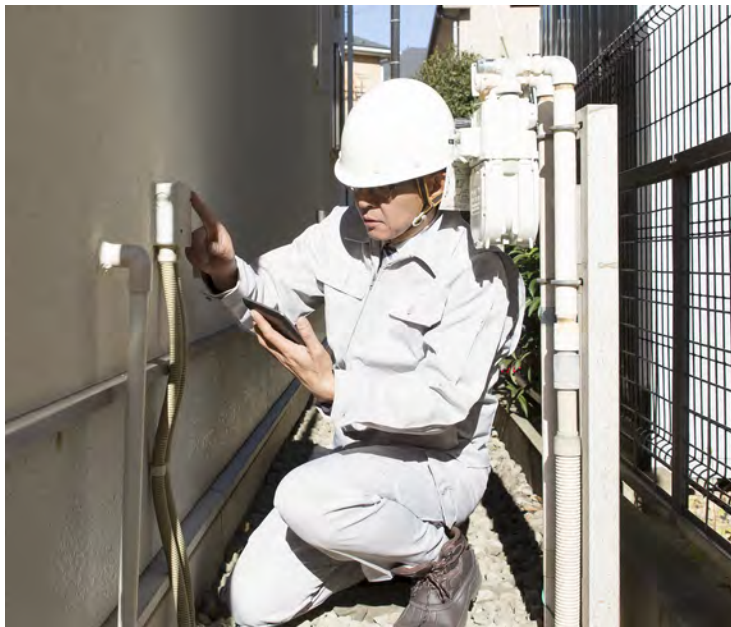
As construction professionals, we tend to focus a lot of our time on new buildings. It can be easy to forget that they represent a very small segment of the overall industry. Most people live and work in structures that were built decades ago, benefiting from the legacy of past craftsmen.

For real estate developers and investors, there are many factors that make older houses and buildings appealing. They are usually lower priced, can have a unique “vintage” character, and are often located in desirable established communities. Due to California’s housing shortage, many personal homebuyers, as well as flippers, are increasingly turning their attention to older homes and apartments as well. While these aging properties can sometimes make for a smart investment, they can also pose a high degree of risk.

We’re all familiar with “money pit” horror stories, of the endless string of expensive repairs that can spell financial ruin. Whether a property has been recently renovated or sold “as is,” prudent buyers and investors will benefit greatly from more due diligence to ascertain the detailed state of an older building, ideally with a **Property Condition Assessment (PCA)**. Here’s why:

Building Life Cycle

Whether it’s a single-family custom home, or a multi-story apartment building, every man-made structure is comprised of many components and systems. Each of those elements has a cost and life expectancy, beginning with installation, continuing through ongoing operation and maintenance, and



ending with removal, demolition and/or waste treatment. The holistic view of all of this is what we call the building life cycle. This term is most often heard in the sustainability field, where consultants perform whole building life cycle assessments (LCA) on new projects aiming to achieve LEED or another sustainability certifications.

For older buildings, building life cycle management can greatly impact the total cost. A Property Condition Assessment can help prospective buyers determine which major building components and systems are at (or near) the end of their life cycle, so replacement costs can be factored in for anything currently operating on borrowed time.

In real estate, roofing is one of the best examples of a system lifecycle. Most existing and prospective homeowners are aware that a roof has a certain life span, typically 15 to 30 years for homes built since the 1920s with asphalt shingles. Most older homes have gone through one or more roof replacements.

Renovation Scope & Quality

Most older buildings have been modified to some degree since the time they were originally built. The California real estate market is no stranger to house-flipping or property/asset repositioning. In many cases, the investor or buyer is purchasing a property that has undergone renovation recently.

If that is the case, the prospective buyer should ask the seller for the scope of the work that has been done. This ties in closely with the above-mentioned building life cycle. By reviewing the scope of the renovation and comparing it with the property condition report, the prospective buyer can learn if the building has been well cared for or if the seller simply put “fresh lipstick on a pig.”

Another item to check is whether or not a renovation contractor has a quality assurance program. This is especially important in this day and age when there is a shortage of skilled labor. Without a QA program, there is an increased risk of poor workmanship. Many reputable remodeling contractors have quality control processes in place.

It is important to understand the quality and scope of work performed during any renovations, because a poorly executed renovation can negatively impact surrounding building systems, creating new issues or failures that didn't exist before.

Xpera construction expert **Stephen Wilson** explains with this example:

“Let's say you are looking to replace windows in an old house. Depending on the age of the exterior plaster walls, it can be difficult to replace windows because the surrounding weather barrier underneath the lath could deteriorate if it gets disturbed. The windows may be properly waterproofed, but then the walls might develop leaks.”

Disclosures

A Property Condition Assessment can be an important fact-checking tool to verify some of the information in the seller's real estate disclosure form. California happens to have some of the most stringent requirements for disclosing information, so it makes good sense to review the information before commissioning a residential or commercial building inspection.

While we would hope that sellers always operate in good faith, Xpera's construction and real estate experts have often been called in to resolve disputes involving failure to disclose. Unfortunately, in some cases, it appeared the sellers approached disclosures from a “see no evil” mindset.

A property condition report can give buyers a proper “heads up” about possible disclosure issues before they move

forward with the purchase. It can also serve as a strong negotiating tool, since any additional discoveries can be used by the buyer's agent to achieve a better price to offset any immediate or upcoming replacement costs.



Managing Property Acquisition Risk

In a highly competitive and hot real estate market, it takes great discipline to perform proper due diligence before buying. When evaluating older homes and buildings on the market, physical due diligence becomes all the more important with the reasons stated above.

To help real estate owners and investors with their technical due diligence, Xpera Group's consultants can perform Property Condition Assessments and other commercial building inspection services. Utilizing lessons learned from decades of experience in construction forensics, our inspectors can spot subtle—and potentially significant—issues related to the building's condition that may otherwise go unnoticed, empowering buyers to make smarter, better informed purchasing decisions.

To learn more about our PCA services, visit our website or contact Ron Whitehead at rwhitehead@xperagroup.com.



Tall Wood: The New Steel and Concrete

Next generation of high-rise buildings might use advanced engineered wood for structural integrity and sustainability, but what are the risks?



By Brian Hill

My high-school-aged daughter doesn't do much trick-or-treating anymore, but she still needed a costume for Halloween parties. When we asked her what she wanted to be, she said, "I'm going as somebody from the 1990s." Besides making my wife and me feel old, it was a reminder that once in a while even some of the oldest trends come back into style again.

Some of our country's oldest structures are defined by their use of exposed wood structural elements—think pioneer homesteads and Lincoln's log cabin. Eventually, these features went out of style, covered up with plaster, wallpaper and paint. Then, 100 years later, the Craftsman era brought these elements back, with exposed beams, tongue and groove ceilings and wood paneling once again taking center stage.

When it comes to modern high-rise structures, however, concrete, steel and glass have long dominated. That may be starting to change. The move towards more sustainably sourced materials and practices is leading to a renewed interest in wood.

People not heavily involved in green building are often surprised to learn that wood is often a much more sustainable building material than steel. This is because wood is more readily renewable than concrete and steel. Sustainably sourced wood not only requires much less energy to produce, but it actually captures carbon from the atmosphere, thereby creating a positive impact on the environment.

There's a whole new generation of engineered wood products that take advantage of rapidly renewable wood, and in some cases, post-consumer recycled wood. When used in conjunction with adhesives, binders and other elements, they are able to produce very strong structural components. In some cases, these structural components have been proven to be as effective as steel reinforced concrete in resisting the types of forces necessary for high-rise buildings. These proprietary products go under a variety of names, such as cross laminated timber (CLT), glue-laminated timber (glulam), Parallam®, etc.

Red Tape and Other Barriers to Adoption

The biggest obstacle to replacing steel reinforced concrete structures with sustainably sourced wood framed structures has to do with building code requirements currently recognized in most jurisdictions.

Somewhat counterintuitively, heavy wood framed structures are actually more fire-resistant than steel reinforced concrete structures, which require extensive additional fireproofing materials. Fire tests show that both solid wood and engineered wood heavy timber elements form an initial char layer that protects the structural integrity of the wood's core from further damage.

So, if heavy wood framed buildings are able to perform structurally in a similar fashion as steel-reinforced concrete buildings, and if they're able to provide similar fire-resistive protection capabilities, why don't we see more heavy wood framed buildings over four stories?

The answer appears to be a combination of factors. For one, the construction industry as a whole tends not be an early adopter of new practices. For another, there hasn't been significant market demand for higher performing buildings using more sustainably sourced material such as wood.

Industry Feedback

Will recent tariffs on steel imports shift demand toward engineered wood products sourced from properly managed North American forests? Would this in turn apply pressure to code development and enforcement bodies?

To answer these questions, I reached out to the American Plywood Association (APA), a trade organization that includes engineered wood products. **Karyn Beebe** is regional manager for APA's Field Services, a LEED Accredited Professional and respected expert on the technical and sustainability aspects of the latest generation of wood structural elements. Here is what she had to say:

"Regarding tall wood buildings, there are some exciting changes in International Building Code (IBC) development. As you may already be aware, there have been several code change proposals for the 2021 IBC that would allow wood structures up to 18 stories in height. These code changes passed at the code hearings in October 2018. The International Code Council (ICC) membership is currently weighing in online for the final vote. That would address the fire and life safety provisions. There will also be code changes proposed for the structural provisions of the building code in 2019.

"California typically adopts the IBC as our model code, so the assumption can be made that these changes would go into effect here as well. Until these code changes become part of our state code, designers are currently allowed to propose a taller wood building per the alternate means and methods provision of the code."

In late-December, shortly after Beebe shared her insights with me, *Construction Dive* published an article offering the following update:

"The ICC has released the preliminary results of its last online governmental consensus vote, and, pending certification of the results, the package of 14 new tall wood construction code change proposals will be incorporated into the 2021 International Building Code.

"Eleven of the proposed changes were debated at the ICC's public comment hearings this past October at the council's conference in Richmond, Virginia, and subjected to online voting. Three, according to a spokesman for the American Wood Council, were approved through the consent agenda at the conference."

I also discussed this topic with Xpera Member **Scott Riffenburgh**, who is a construction project manager specializing in building science and energy efficiency.

"Introducing changes to traditions in the building industry typically creates controversy, and it can take a long time for the building industry to accept new methods and materials," he said. "Builders like to use tried-and-true methods and materials, because they want to minimize the risk of construction defect claims."

So, if heavy wood framed buildings are able to perform structurally in a similar fashion as steel-reinforced concrete buildings, and if they're able to provide similar fire-resistive protection capabilities, why don't we see more heavy wood framed buildings over four stories?

He explained that changing building codes can take years. Even when universal code standards like IBC allow for changes, getting jurisdictions to embrace them can be challenging, particularly for those already dealing with over-burdened staff or financial constraints. On top of that, fire officials are not exactly rushing to embrace the concept of tall buildings made of wood.

Steel and concrete trade organizations are also weighing in against these code changes, with seasoned lobbyists and big wallets. They claim wood is less fire-safe and less durable than their products, and that their recycling processes are making steel and concrete more sustainable.

"Innovations in building science are happening faster and faster, but acceptance of new practices in the real world can often be measured in generations," concluded Riffenburgh.

Pioneering Projects

Besides the tariffs factor, there are other economic advantages to taller wood structures. Several new projects in the United States have recently been built, or are currently in the design or construction stages, that may influence the shift towards adoption of taller wood structures as more economic performance data becomes available.

A truly pioneering project that was recently completed in Portland, Oregon, was featured in a case study by the Urban Land Institute (ULI). The project, known as One North, ▶

...Continued on next page

was a collaboration between two developers, and included three buildings on three adjoining parcels. Comprised of 88,857 square feet of office, 15,712 square feet of retail, with a 14,000 square foot courtyard, the project makes wood a prominent feature in its architectural and structural design. Of course, Portland is a well-established source of wood, so much of the wood used for the project came from local forests. Everything from the exterior cladding to timber ceilings, as well as the glulam beams, 2x6 framing and plywood shear walls, all came from carefully selected and well-managed lumber stock.



Due to the project's reliance on super-insulated building envelopes and fluid-applied continuous waterproofing, thermal bridging and risks of water intrusion are greatly reduced from typically constructed buildings. The end result is an impressive 50% reduction in energy use from similarly sized buildings of the same general occupancy. The total development costs ranged from \$247 per square foot to a high of \$340 per square foot. In the ultimate test of viability, the project is having no trouble attracting fast-growing creative tenants and has been lauded as a model for future development projects by including a variety of project stakeholders (including the public) throughout the process.

One of the developers on One North already has two additional high-rise heavy timber projects in the works, pending the necessary approvals.

Not Always Easy Being Green

The use of advanced engineered wood products doesn't come without risk. In fact, one of the greenest buildings ever built in the United States, according to the USGBC, was rendered in need of significant repairs and remediation.

The Philip Merrill Building, built by the Chesapeake Bay Foundation in Annapolis, Maryland, was one of the first buildings to be LEED Platinum-Certified for new construction. The building made extensive use of Parallam® engineered wood components for both structural integrity and aesthetic design. At the time, it was considered a novel use for such a product, as there had not been extensive research about the ability of Parallam® to perform when exposed to exterior elements.

Due to apparent miscommunication between various manufacturers, suppliers and installers, the Parallam® beams that were exposed to the exterior were not properly waterproofed. This allowed water to penetrate the interior of the beams and led to significant loss of structural integrity. In a lawsuit filed by the organization, they stated: "The structural integrity of the project is in jeopardy and the building is now at risk of collapse."

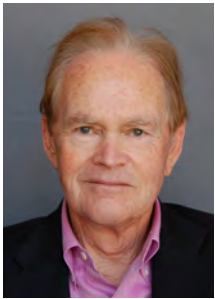
As with every new – or renewed – interest in a building material or practice, certain basic principles still apply. Established design and construction practices become established through extensive testing and proven performance. Designers need to establish clear criteria for structural and building envelope integrity and should always verify the compatibility of various products being specified.

Lastly, when in doubt, make sure you have the right expertise on tap so that you can readily access the knowledge necessary to reduce risk on your current and upcoming projects..

As a construction consultant at Xpera Group, Brian L. Hill draws on two decades of experience helping clients solve complex issues in the built environment. He can be reached at bhill@xperagroup.com.



The Time Has Come to Reconfigure Regional Shopping Centers



By Alan Nevin

Once upon a time, regional shopping centers were king. They were the destination for everyone's shopping. They had a real purpose.

In today's world, 12-15% of retail goods are purchased online. The retail devastation created by online shopping has mandated that regional shopping centers reimagine themselves or disappear.

From a San Diego standpoint, we have too many regional shopping centers. Historically, a community could support one regional center for every 100,000 households. That means, at least in theory, that San Diego could support a dozen centers and each center would produce \$300+ per square foot of sales annually.

Unfortunately, very few of the county's regional shopping centers operate at a \$300 per square foot level, and several operate at \$200-250 per square foot. In several cases, anchor stores have closed – most often Sears and Macy's – leaving large voids in the centers' income streams.

To date, only Horton Plaza has failed completely, but several others are struggling to hold on to relevancy and financial viability.

Horton Plaza was acquired by Stockdale Capital Partners, who hopes to reinvent it as "The Campus at Horton" with a blend of retail, entertainment and office space and a projected employment base of 3,000 to 4,000 people.

Several other centers are undergoing massive renovations to reposition themselves, with UTC as a prime example. It is one of the two highest volume regional shopping centers in San Diego County (the other being Fashion Valley), but it is going through a metamorphosis. Its southwest corner is becoming a handsome 300-unit Greystar high-rise luxury apartment complex. At the east end of the center, which was not owned by Westfield, the defunct Sears store is being converted into a major mixed-use

retail complex by Seritage/Invesco, with 226,000 square feet of food/entertainment space, including a 33,000-square-foot Equinox fitness center.

In addition, a major \$600 million addition has gone up on the west end of the center, including a new Nordstrom store. Clearly, UTC has moved away from a purely retail-focused center to become a retail, food and entertainment mecca.

The Shoppes at Carlsbad, now a Brookfield property, is considering a massive redevelopment which, when approved by the City of Carlsbad, will shutter a Macy's and Sears store and substitute a major apartment and hotel complex, as well as a Topgolf entertainment center. In the past three years, the center has added a Dave & Buster's, Cheesecake Factory and 15 other eateries, with the ultimate goal of 25 to 30 dining establishments on site. It also has an Edwards theater, reportedly one of the 10 highest-producing Edwards theaters in the nation. The new Shoppes at Carlsbad will have something for everyone.

The original regional shopping center in the county is Mission Valley Center. It is also undergoing a major renovation, largely due to the shuttering of its 363,000-square-foot Macy's store. The vintage structure on the center's east end was designed by Deems/Lewis (the firm behind San Diego's Mormon Temple) in 1961 and has a historical designation. Westfield and its new owner, Unibail, have not yet announced their plans for the store.

In South County, Chula Vista Center on the city's west-side has a Sears that will obviously be going away. There is also Otay Ranch Town Center on the eastern end of town, that will prosper once a few thousand new housing units are built in Otay Ranch. But, for now, it is gravely suffering as many of its major national stores have said goodbye. The latest vacancy store count is 15.

No doubt, the few examples shown here are only the beginning of the evolution of the regional shopping centers in San Diego County. I can think of several others that need to change from retail centers into entertainment and food venues. The food court just doesn't cut it anymore.



2019 California Construction Law Updates

California is no stranger to introducing hundreds of new laws each year. 2018 proved to be even more ambitious than usual, with several areas of legislation impacting the construction and real estate industries.

Here are a few key updates to be aware of in 2019:

New Real Estate & Construction Laws

- ▶ **SB 721** – Balcony and Deck Inspections Law
- ▶ **AB 1565** – Construction Contractor Liability amendment to clarify AB 1701
- ▶ **SB 1465** – Contractors must report Multifamily Construction Judgement awards and Settlements over \$1 million to the CSLB
- ▶ **Laws aimed at increasing housing density:**
 - **AB 2753** – Expediting processing of density bonus applications
 - **AB 2372** – Allows cities and counties to grant developers of transit priority or affordable housing projects a Floor Area Ratio Bonus in lieu of bonus on dwellings per acre
 - **SB 1227** – Extends State Density Bonus Law to apply to student housing projects if 20%+ are affordable to lower income students
 - **AB 2797** – Reconciles State Density Bonus Law with California Coastal Act
- ▶ **Laws focused on removing barriers and streamlining housing production:**
 - **AB 3194** – Housing Accountability Act Amendments
 - **SB 765** – Amendments to SB 35, with explicit statement that CEQA does not apply to agency's determination whether application for development is subject to streamlined approval process
 - **AB 2263** – Reduced parking requirements for historical reuse projects

2018 Construction Bond Measures

We cannot ignore California's statewide election results, which will also have some notable impacts to the construction industry. Here are three propositions that passed and introduce state-level bonds to fund both housing and hospitals.

- ▶ **Proposition 1** – Allows California to issue up to \$4 billion in bonds to a variety of programs focused on affordable housing and veteran programs
- ▶ **Proposition 2** – Opens up to \$2 billion of bonds for support service housing. Revenue will be raised from California's top income earners (over \$1 million)
- ▶ **Proposition 4** – Adds an additional \$1.5 billion of bonds for hospitals focusing on children's healthcare

Keeping up with these ever-changing legislative updates can be challenging. Our team of specialty area experts are here to help navigate them, to ensure your project is positioned for compliance and success. To learn more about our comprehensive suite of consulting services, visit www.xperagroup.com or contact Ron Whitehead at rwhitehead@xperagroup.com or Steve Grimes at sgrimes@xperagroup.com



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