

# The Daily Dispatch

## Weekly Special Feature

February 24, 2021

### *As Buildings' Life Spans Shrink, Developers Try to Adjust*

By: Kevin Williams—The New York Times (*Published on February 23, 2021*)



A century ago, buildings like the Coca-Cola Bottling Plant in Indianapolis could have many uses over their existence. Today, buildings have shorter lives.

In 1931, glass bottles of sparkling soda began rolling off the assembly line at the Coca-Cola bottling plant in downtown Indianapolis. It's unlikely that the factory's architect gave much thought to the possibility that shifting consumer habits would make the glass bottle a relic within a couple of generations.

Instead of slipping into obsolescence, the factory went on to have multiple lives. After the Coke factory closed in 1971, the building was briefly used to house Indy 500 racecars, then spent decades as a school bus garage before becoming a 139-room boutique hotel anchoring a new entertainment district last year.

A century ago, developers didn't give the future much thought, but today, they don't have the same luxury. A combination of pandemic disruptions and constantly changing technology has brought the hazy, distant horizon much closer.

As a result, a growing number of projects are racing against the clock as profitability and utility are squeezed into the ever-shortening life of a commercial building. Statistics illustrating the acceleration of building life cycles are scarce, but experts in the industry are starting to take heed.

"The cycle of changing is becoming shorter," said Jefferson Duarte, associate professor of real estate finance at Rice University. Projects that developers once could have collected rents on for half a century or more don't allow that anymore.

"Twenty years ago, we didn't think about it," Professor Duarte said. There was just an assumption that an office building would still be functioning a century later.

Some still are. Few developers think the Empire State Building is going anywhere soon as it approaches its centennial at the end of the decade.



The former bottling plant opened last year as a boutique hotel anchoring a new entertainment district.

A premium spot or landmark status can overcome obsolescence: Areas like Midtown Manhattan or Chicago's Magnificent Mile seem likely to remain coveted spots where short shelf life would not be an issue.

"You could build a barn in Midtown Manhattan and you'd fill it up, because that is such a prime location," said John Gallander, an independent real estate consultant in Costa Mesa, Calif., who has overseen commercial development portfolios throughout his career.

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Developers are thinking as much about the future as they are about the present, said Christopher R. King, president and chief executive of DPC, a commercial property developer based in Denver. DPC just opened a 250,000-square-foot office development in Phoenix and hopes to hold on to it for six to 10 years.

Mr. King echoed the concerns of many in the industry that the pandemic had accelerated trends that could shorten the lives of buildings. Consumer and worker needs are changing more quickly than they used to, driven by technology, shifting supply chains and expectations of greater amenities. Such rapid cycling has been common in retail and food service, but it is relatively new to commercial real estate.

This shortening shelf life has left architects, developers and investors in a conundrum: How do you build for today without becoming obsolete tomorrow?

“I think we are being forced to think about it now,” Mr. King said, adding that his firm is trying to peer into the future by looking at things as diverse as parking garages, office density and ventilation technology.

“Everybody in the industry is talking about it but sort of circling around it,” said Gilles Duranton, a real estate professor at the University of Pennsylvania’s Wharton School. “There are all sorts of questions, but few answers.”

The core problem is that commercial construction is an industry producing highly durable goods in a world that is asking for greater flexibility with changing tastes and economic conditions, Professor Duranton said.

He added that the industry would have to address the shortening life span through a blend of approaches, including modular elements and construction methods that would let buildings be disassembled or demolished easily.

“Sometimes the right thing will involve tearing things down and rebuilding from scratch,” Professor Duranton said.

The acceleration of the natural progression in office space is similar to what has been happening for decades with sports stadiums and malls, which reach the end of their

lives much faster than in previous generations, said Mr. Gallander, the real estate consultant.

Developers, though, are in a bind. If they stock an office building with too many specific amenities, they run the risk that the latest technologies will quickly become outdated. (Fax-friendly offices of the 1980s and ’90s with numerous phone hookups come to mind.) But if they don’t include enough amenities, they take the chance that potential tenants might look elsewhere.



The developer of the Bottleworks Hotel said the pandemic had demonstrated the value of diversification as a hedge against shorter building life spans.

In some ways, the tenant can save the developer, Mr. Gallander said. During the rise of the internet in the late ’90s, for instance, developers weren’t ready to address the growing need for connectivity. But in many cases, tenants pushed ahead with redesigns (most leases allow for liberal office redesign) and additional amenities to meet the challenges of an increasingly wired world. And most law firms transformed the layouts of their offices to adapt to shifting technological needs. That may happen again, he said.

The shorter life spans of buildings may force developers to recoup their money faster by selling earlier than planned, Mr. Gallander said.

“You may be looking to hit the exit gate after three to five years instead of seven, 10, 15 years,” he said.

Raising rents is not an option, he said, because the higher cost could push tenants to lower-price alternatives.

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Developers may also explore other ways to recoup their investments faster by taking on partners.

At its peak in 1950, the Coca-Cola bottling plant in Indianapolis employed 250 workers and turned out two million fizz-filled bottles of Coke a week. Now, it is home to the Bottleworks Hotel, the center of a mixed-use development that opened in late 2020 with the hopes of rejuvenating a neighborhood.

The developer of the site, Hendricks Commercial Properties, said the pandemic had shown the value of diversification as a bulwark against shorter building life spans. No one could have predicted that a havoc-wreaking pandemic would make gathering places so unappealing, at least in the short term. But by having a mix of offices, retail, hotel and other uses, the risk for Hendricks is spread out. The Bottleworks development has an eight-screen movie theater, for instance, but also a tech incubator.



Gavin Thomas, vice president of development at Hendricks Commercial Properties, says the firm has a long-term vision for the Bottleworks Hotel

The move toward unloading properties quickly may be accelerating, said Gavin Thomas, vice president of development at the firm, but Hendricks is in it for the long game.

“Hendricks’s timeline is not a three- or 10-year-horizon,” he said. “It is much longer than that, and that changes the dynamic and criteria on return perspective.”

But the specter of unanticipated change will color future projects. “Going forward, I’ll be asking how much flexibility we have,” he said.

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Source: Kevin Williams (2021) ‘As Buildings’ Life Spans Shrink, Developers Try to Adjust,’ *The New York Times*. Available at:

<https://www.nytimes.com/2021/02/23/business/as-buildings-life-spans-shrink-developers-try-to-adjust.html> (Accessed 24 February 2021)



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February 26, 2021  
TODAY'S TOP NEWS

## BoP posts \$752-M deficit in January

More dollars fled the country in January, resulting in a deficit in the balance of payments (BoP) as the country paid off foreign debt obligations. The BoP posted a \$752-million deficit after 11 straight months of surfeit. However, the deficit was smaller than the \$1.355-billion gap in January 2020.

## COVID vaccine imports to be exempted from taxes

The Department of Finance (DoF) on Thursday said imports of coronavirus disease 2019 (COVID-19) vaccines will be exempted from taxes and duties, as the government is set to take delivery of the first batch of vaccines on Sunday.

## PHL an 'outperformer' in frontier technology

The Philippines is considered among developing countries that performed better on frontier technologies than their per capita gross domestic product (GDP) would suggest, a 2021 report by the United Nations Conference on Trade and Development (UNCTAD) showed.

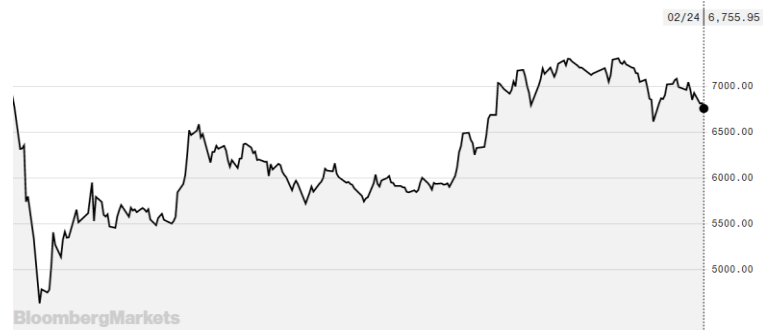
## Cebu Pacific expects delivery of 8 aircraft

Budget carrier Cebu Pacific is expecting to take delivery of eight more aircraft this year despite the ongoing pandemic crisis. To recall, Cebu Pacific took delivery in 2019 of its 13th ATR 72-600 high-capacity aircraft of the 16 it had ordered in France in 2015.

## SN Aboitiz targets 633 MW for 'green' energy

SN Aboitiz Power (SNAP) is targeting to use 633 megawatts (MW) of the total dependable capacity from its three hydroelectric plants in Isabela and Benguet for the country's green energy option program (GEOP), its top official said on Thursday.

## Philippine Stock Market Update



Previous Close:

6,755.95

1 Yr Return:

0.33%

Open:

6,718.06

YTD Return:

-6.34%

52-Week Range:

4,039.15 - 7,432.40

Source:

Bloomberg

## Foreign Exchange

As of Feb. 25, 2021

US Dollar	Philippine Peso
1	48.683

## PDST-R2 Rates

As of Feb. 25, 2021

Tenor	Rate
1Y	1.533
3Y	2.375
5Y	2.930
7Y	3.300
10Y	3.588
20Y	4.220

## Daily Quote

"What you do makes a difference, and you have to decide what kind of difference you want to make."

--Jane Goodall

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## MORE LOCAL NEWS

### Increase in biodiesel blend to 5% backed

A move to increase coco biodiesel blend to five percent will translate into significant cost savings for motorists, according to a petroleum and biofuel expert. The fuel cost savings attributed to mileage gain with B5 is one of the most significant benefits of B5, along with better combustion, and cleaner air.

### SMC continues talks for Ilijan power plant

San Miguel Corp. (SMC) said it would continue to negotiate with the government even after getting rejected for imposing a new condition in its offer to fully settle in advance its monthly payments for the 1,200-megawatt (MW) Ilijan power plant.

### Government plans to borrow P160 billion in March

Despite rising rates, the Bureau of the Treasury (BTr) plans to raise P160 billion from the local bond market next month to take advantage of ample liquidity. National Treasurer Rosalia de Leon said P20 billion in short-dated debt papers would be auctioned every Monday beginning March 1, for a total of P100 billion in March.

### Mining sector recorded 1.13% growth in 2020

Despite disruptions in shipments and operations caused by the coronavirus pandemic, the metallic mining industry was able to remain resilient and posted a 1.13-percent growth last year, the Mines and Geoscience Bureau (MGB) reported.

### Customs says smuggling up due to pandemic

The Bureau of Customs (BOC) is tightening its watch over the country's borders following a surge in illicit imported cigarettes, party drugs as well as fake goods, no thanks to the harder times brought by the prolonged COVID-19 pandemic.

### Ayala Land sets return to bond market

Property giant Ayala Land Inc. (ALI) is poised to return to the local bond market soon and seek P50 billion in fresh bond shelf registration to support refinancing activities and take advantage of the slowdown in local interest rates.

### Vivant Energy expands in Mindanao

Vivant Energy Corp. said it was acquiring equity interest in Bukidnon Power Corp. (BPC) and North Bukidnon Power Corp. (NBPC) of Senator Juan Miguel Zubiri, expanding its investment in Mindanao.

### AP's P30B bond shelf reg, healthcare firm's IPO ok'd

The Securities and Exchange Commission (SEC) has approved a P30-billion bond shelf registration planned by Aboitiz Power Corp. and the P1-billion initial public offering (IPO) of hospital operator ACE Medical Center-Palawan.

### ALI sees sustained business recovery from slump

Property giant Ayala Land Inc. expects businesses to return to pre-coronavirus (COVID-19) pandemic levels in two to three years after the unprecedented business disruptions that dragged down its net profit by 74 percent last year.

### Landbank extends P62.32B loans to help LGUs recover

The state-run Land Bank of the Philippines (Landbank) has extended P62.32 billion in loans for projects aimed at local government units' (LGUs) recovery from the health and socioeconomic crises inflicted by COVID-19.

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## TODAY'S TOP ASIAN NEWS

### Japan's Jan output rises for first time in 3 months

Japan's industrial output rose for the first time in three months in January thanks to a pickup in global demand, in a welcome sign for an economy struggling to shake off the drag of the coronavirus pandemic.

### Olam to list food ingredients business by 2022

AGRI-FOOD giant Olam International on Friday said it plans to list Olam Food Ingredients (OFI) by the first half of 2022 as part of its ongoing business reorganisation.

### Hong Kong tycoon Li Ka-shing plans US SPAC

[HONG KONG] Li Ka-shing, Hong Kong's richest property tycoon, is planning to raise funds for dealmaking by listing a special purpose acquisition company (SPAC) in the US, people with knowledge of the matter said.

### New issuance of Astrea PE-backed bonds launched

AZALEA Asset Management, an indirect subsidiary of Temasek Holdings, is launching a new series of bonds backed by private equity (PE), of which S\$250 million is expected to be open for retail subscription.

### South Korea's central bank holds fire on rates

[SEOUL] South Korea's central bank kept interest rates steady on Thursday, maintaining support for a fragile economic recovery while guarding against upward pressure on bond yields from the government's massive stimulus package.

## TODAY'S TOP GLOBAL NEWS

### Spotify to launch in 85 new markets

Spotify said on Monday it would nearly double its market presence by launching in 85 new markets in the next few days, making the music streaming service available to more than a billion people around the world. The Swedish company is currently available in 93 countries and has 345 million monthly active users.

### Airbnb bookings rebound with weary Americans

Airbnb Inc reported better-than-expected gross bookings on Thursday in its first quarterly earnings report since going public, indicating a strong rebound in demand for vacation rentals in North America as COVID-19 pandemic curbs ease.

### Salesforce full-year profit forecast disappoints

Salesforce.com Inc on Thursday forecast full-year profit that was below market expectations, sending the shares of the online software company down 3.9% in extended trading. Revenue in the quarter ended Jan. 31 rose to \$5.82 billion from \$4.85 billion a year earlier, driven by increased demand for its cloud-based software.

### Beyond Meat clinches coveted deals

Plant-based meat maker Beyond Meat said on Thursday it has signed multi-year supply deals with McDonald's Corp and Taco Bell owner Yum! Brands Inc, underscoring consumers' appetite for vegetable-based alternatives and Beyond Meat's leading position.

### Nature bonds may be next big thing for EMs

EMERGING-MARKET nations are looking at issuing the first nature-linked bonds as part of talks involving the World Bank and major sovereign creditors to make their debt more sustainable.