
WE MAY NOT HAVE PREDICTED MURDER HORNETS OR A GLOBAL PANDEMIC, BUT NATURAL DISASTERS SEEM TO FLOOD THE NEWS CONSTANTLY. IT DOESN'T MAKE MUCH OF A DIFFERENCE IF YOUR NATURAL DISASTER IS A FOREST FIRE OR A HURRICANE, THE DEVASTATION IS CONSIDERABLE AND SO ARE THE AFTER-EFFECTS. INSURANCE COSTS RISE AS DOES THE COST OF MATERIALS AND LABOR TO REBUILD. BUT, IT'S THE UNQUANTIFIABLE EFFECTS THAT ARE DIFFERENT.

In 2018, firefighters in Shasta County, Calif., while fighting what was known as the Carr Fire, encountered an unusual phenomenon—a swirling whirl of flames. It has been called a “firenado,” and is a catastrophic fire-generated vortex. The Carr Fire eventually burned 207,000 acres—and this wasn’t even the worst fire in California that year. The Mendocino Complex Fire burned 460,000 acres, which, says Frank Pipgras, SIOR, broker and owner of Frank Pipgras Commercial Real Estate, Inc., Sebastopol, Calif., was



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BY STEVE BERGSMAN | SPONSORED BY SIOR FOUNDATION

the largest fire ever in the state and blanketed much of Northern California with smoke for months.

Steve Kapp, SIOR, executive managing director of Newmark Knight Frank in Oakland, Calif. remembers the smoke blowing through the Bay Area, making it so difficult to breathe, some people took to wearing respirator masks.

Generally, in Northern California the winds come off the Pacific Ocean and blow eastward, but around October the

air flow changes direction. These Santa Ana winds turn westward, coming across the dry interior of the country. “These winds are hot, bone dry, and suck the moisture out of everything, creating fire conditions,” explains Kapp.

The Southeast U.S. must contend with hurricanes during the summer months, but west coast and mountain states have to deal with fires. In the U.S., the path of hurricanes is often through big, coastal cities such as Miami,

New Orleans, or Charleston. In the West, forest fires rip through some of the most rural and rugged areas of the country. Nevertheless, people still live and work in those places. The town of Paradise, Calif., lost 11,000 homes and numerous businesses—including a whole shopping center—from the Mendocino fire. The insurance losses from the Carr and Mendocino fires caused \$845 million in damages.

In some ways, the effect on commercial real estate from forest fires is not much different from that of hurricanes, because the three main things that change are insurance, material costs, and building codes.

"Insurance policy premiums have increased dramatically since the 2018 fires," says Kapp. "New fire maps for Northern California have been issued and these maps show where fire risk is more prevalent, meaning if you build in these locations you can expect to pay a much higher premium."

The difficulty in Northern California, as an example, is that some metro area exurbs are in those high risk zones. Kapp lives in the Oakland Hills, a suburb of Oakland/Berkeley, which in 1991 suffered its own "firestorm" which caused \$1.5 billion in damages. The area is still listed as a high-risk area.

"Insurance has gone up quite a bit already," says Pipgras. "Some companies are trying to pull out of the state and the California insurance commissioner is leaning on them to stay. Other companies are raising rates 10% to 12% a year. There are communities where you can't even get insurance at all."

As to those fire maps, commercial properties in the smaller communities could not be rebuilt in original locations because those sites were listed as fire corridors. Most of the commercial properties lost to the big fires in rural Northern California were apartments and hotels, but there was also a big shopping center with a K-Mart anchor that burnt to the ground. A new developer came in who wanted to build medical office buildings on the land, and that project bumped into the other problem: getting approvals from the local city councils.

"The fire was almost three years ago and the medical center project still has not been approved," says Pipgras. "Sonoma County lost 5,200 residences and studies showed the need for 20,000 homes and apartments. Good luck with that because everyone goes to the podium and says 'I know we need these homes in the community but not in this location.' That's the attitude in much of Northern California."

There was not a lot of industrial development in the land ravaged by forest fires, which was a good thing because, as John Steinbauer, SIOR, president of Steinbauer Associates

Inc., in Miami, notes, "When these big distribution centers get hit by natural disasters such as fires or tornadoes, it can take anywhere from six months to a couple of years to rebuild."

In Northern California, especially around the Santa Rosa area, much of the warehouse space is generally taken up by the wine and cannabis business. The fires missed these buildings and, says Pipgras, "If you wanted to lease here, rents have already doubled."

Before the pandemic, the economy was booming and demand for construction materials was already high, but in the areas where the fire hit hardest, the cost of materials and labor skyrocketed. The unexpected cost in any natural disaster location—whether the damage comes from a hurricane, fire, flood or earthquake—is the "contractornado," when a malicious swarm of specious contractors descend. "All these contractors show up and some are qualified and some are fly-by-night," says Pipgras. "My attorney—who belongs to a full-time, real estate law firm—currently has in excess of 80 cases of contractor non-performance and cases of disappearing from a job, but many of the contractors have already gone bankrupt."

Again, almost three years after the big fires in the state, it's hard to get a construction job done in Sonoma County, says Pipgras. "You can't get a bid and when you do, contractors say take it or leave it to their bid numbers. I'm guessing contractor profit margins are 12% to 20% at a minimum. As a result, a lot of projects that are planned



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The other big change is stricter building codes, including more fire-resistant materials, which are much more expensive. These codes get stricter the closer buildings are to high-risk areas.

Other after-effects from the 2018 fires are harder to quantify. For example, many of the full-time residences who lived in the tiny communities in rural Northern California tended to be low income. The largest city of any size is the university town of Chico. In 2010, the population there was about 86,000 people. After the fires, the population surged to 103,000 due to people who lost homes moving there. Other cities such as Redding, Santa Rosa, and even Sacramento saw similar growth spurts. The problem now is many of these people are homeless.

Pipgras developed a 20,000-square-foot office building in Chico, now fully leased to a bank, social security administration, and the state of California. The homeless population has surged and is growing problematic due to the fire in Paradise. “More than once I’ve had homeless people come into the lobby where they use it as a restroom since security won’t let them inside to use the bathrooms,” he recalled. “Once when the president of the bank was in the building, a homeless man pulled down his pants and urinated on the front door. The local police don’t even show up for those calls. Chico’s city services are over-strained, because of the fires.”

The year 2016 was not a good one for Gatlinburg, Tenn., as the Chimney Tops 2 Fire roared out of the Smokey Mountains on the North Carolina border, destroying part of the town. “2016 was the worst fire season in North Carolina’s history,” says John Culbertson, SIOR, a manager for Cardinal Partners in Charlotte. Although the coast of North Carolina has suffered through many hurricanes, the western part of the state is mountainous and forested, and sometimes prone to fires. Culbertson, who lives and works in the middle of the state, says flooding is the biggest natural disaster in his region. In all these disasters, clients want or need succor.

“The natural reaction is for a client to reach out for advice,” says Culbertson. “They want to circle the wagons and get every consultant and engineer available. It’s a good time to show your client that you can be a worthwhile consultant as well, because you can provide clarity on a broad range of complex issues after a natural disaster.”

Often the commercial real estate client, after a natural disaster, wants to be able to talk to someone about what to do, “and if you can pull in additional resources from government offices or the fire marshal, then that’s a relief,” says Culbertson. “Remember, your clients probably haven’t planned in advance for a catastrophe, so they are—if not freaking out—just being reactive. They’ll want to know what the best practices are for this current situation, what other companies are doing and what is being heard from the SIOR network.” ▼

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