

## *Deep Dive with Josh Heiney:* *How Rectangle Invests with* *Leasing in Mind*

The Rectangle Team recently sat down with Josh Heiney, Managing Director of Rectangle Investment Management and President of Sprink Construction (Rectangle's integrated general contracting company) to discuss how **our investment philosophy – thinking like an investor while acting like an operator – shapes how we maximize the impact of investments in our properties.** Josh shared insights on how this **integrated approach allows us to deliver value to both our investors and our tenants by combining hands-on operational expertise with strategic financial oversight.**

### **Q: Could you provide a brief introduction of yourself and your role at Rectangle?**

**A:** I grew up in the Denver area and was born and raised into a family of general contractors. My father owns a general contracting business, founded in 1979, so I was on project sites as a kid and worked for my family throughout my teen years. I went to the University of Denver to study Real Estate and Finance, and after school went to work for a real estate investment bank for 11 years, which is where I first met John Comunale. John left the firm to start Comunale Properties (Rectangle's parent company) and later reached out to see if I wanted to join him. I had been wanting to join the principal side of the business and trusted John and his vision. While I did a bit of everything in the beginning – acquisitions, property management, asset management, and more – as the business evolved, I've come to lead our design, development, and asset management efforts, ultimately helping found our general contracting arm, Sprink, where I also act as President.

### **Q: After more than a decade in the industry, what do you consider most important in your role as both an industrial investor and operator?**

**A:** I'd say the most important part would be our long-term focus on relationships and leasing. Leasing is our platform's revenue source—without a revenue source and a strong tenant base, you don't have a business. I think this is an area where we do really well and distinguish ourselves because we truly care and put the work in for our tenants. We've created an inquisitive and analytical culture where we ask the questions, but more



importantly—we listen, are attentive, and are responsive to requests. If you do those things, you'd be shocked how much you can learn about people and their business and create meaningful long-term relationships. This helps inform how we proactively create or adapt spaces to make our tenants and investors happy.

### **Q: How does Rectangle differentiate itself?**

**A:** While some competitors may strictly be numbers-driven, we're truly a boots-on-the-ground operator. We do the work, which means we know how to effectively design and program buildings and office spaces to maximize their appeal to the broadest range of tenants, in turn making them very leasable.

To that end, one of the biggest ways we differentiate ourselves is by strategically investing capital in our properties. This approach helps us attract new tenants, retain existing ones, and command higher rental rates. While other firms may rely on third parties for improving or designing their leasable spaces, we are the ones who come up with – and execute on – plans to improve our assets' quality, functionality, and tenant appeal.





**Q: Could you give an example of this “strategic capital investment” and how it can benefit both your team and the tenants?**

**A:** In our new construction and first-generation spaces, one key measure of success is how quickly we can lease our buildings compared to competitive product in the area. We want to be signing up the area’s best tenants at strong rental rates while keeping our rent concessions (think free rent, tenant improvement allowances) as low as we can.

To help accomplish this goal, we are strong believers in programming speculative suites (spec suites) in all of our developments. We’ve delivered 10+ spec suites across our projects that have all signed a tenant within 60 days of completion. These spec suites – which include some combination of office space, restrooms, conference rooms, and break areas – are built without a known tenant in mind but are ready for immediate occupancy.

We’ve found that most tenants want space that is functional for their business, doesn’t cost much to build out, and, most importantly, is move-in ready. Tenants often can’t afford to wait months for a new space to be designed, permitted, and built out – they need to move in quickly. Spec suites meet these needs by offering a space that’s immediately available. Tenants can occupy the space without waiting for lengthy buildouts, which can take a significant amount of time.

So, in a sense, we’re betting on ourselves and on our ability to understand what tenants want and what they need, because for this strategy to work we need these speculative office spaces to appeal to the broadest set of tenants possible.

**Q: When did you start building spec suites?**

**A:** We worked on our first spec suite in 2017 or so for a project in the Colorado Tech Center. We had one unit that was slower to lease, so we decided to deviate from our initial business plan by building a spec suite. We took a hands-on approach by using a design and assist strategy with our architects and general contractor arm. As soon as we received permit and started construction, our tenant interest increased, and we signed with a tenant shortly thereafter.

This helped us appreciate that tenants, and people in general, love to have a starting point and see a path forward on what they’ll actually be leasing. It can be hard to visualize a built-out space when looking at a blank rectangle—a spec suite helps start the conversation and bring the vision to life. During this process we also learned the urgency with which our tenants look for a space. They typically aren’t planning 6–12 months in advance, so when they are looking for a space, they need it as soon as possible. Since then, spec suites have become a staple of our developments and have proven well worth our time and investment, as our leasing velocity has generally outperformed our competitors.



**Q: How do you justify the increased costs that come with a spec suite strategy?**

**A:** Initially, building spec suites can increase costs compared to our competitors who don’t utilize them and instead offer tenant improvement allowances for new leases. However, in the long term, it saves us money by reducing time. Since the space is move-in ready and functional, both we and the tenant avoid additional capital expenditures.

We focus on shallow-bay assets, which, while having higher per-square-foot development costs than larger buildings, allow us to provide appropriately sized, divisible buildings. These sizes meet the demands of small- to medium-sized tenants, which represent the bulk of leasing activity.



**Q: You've talked about investing capital into new buildings, but how do you handle vacant spaces in existing buildings?**

**A:** As cliché as it sounds, first impressions really are lasting ones, so we are actively improving any available spaces to make sure potential tenants can picture their business thriving in our building as soon as they walk in.

Whenever we know, or even anticipate, that a tenant may not renew their lease, we are always ready and willing to invest in the asset to meet or exceed competitive standards in order to attract quality tenants willing to pay higher rental rates. This is done through our "White & Bright" process, designed to ensure our vacant spaces are presented in the best light possible. We modernize layouts, repaint, update hardware, flooring, and upgrade office and warehouse lighting to energy efficient LED fixtures.

In addition to aesthetic improvements like fresh paint and flooring updates, we ensure that the functionality of the space is at the highest level. This includes updating blinds and accessories to enhance both the workspace and warehouse environments. These upgrades not only meet current standards but often exceed what's typically offered in the market.

**Q: How does Rectangle benefit from Sprink's general contracting expertise?**

**A:** Sprink's integrated design and construction expertise directly supports our acquisition strategy, whether it involves new development or adding value to existing properties.

Through our work with Sprink, we have a deep understanding of what works and what doesn't work when programming a space, allowing us to design more efficient and attractive tenant spaces. This, in turn,

ensures the spaces can be efficiently re-leased when needed, helping justify and monetize our construction decisions. This allows us to provide the Rectangle investment team with information about current and future capital needs within a tight margin of error, ensuring accurate financial planning.

Our team is also able to identify areas for improvement beyond standard property condition assessments (PCA/PCR), which usually focus only on revenue. We find ways to actually enhance and improve a property's value.



**Q: Putting work aside, what do you enjoy doing on the weekends?**

**A:** I love spending time with my wife and two boys. We love to go for bike rides, and perhaps fitting based on my history and career, but you'll often find us at Home Depot. I also love mountain biking, skiing, and snowboarding all over the state of Colorado.