

The Changing CRE Landscape
An Industry Overview



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GOMAN+YORK

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- Goman+York Property Advisors, LLC
- Principal, Advisory Services
- Commercial Real Estate Development
- Clients:
 - Municipalities & Government Agencies
 - Institutional Owners & Investors
 - Lenders
 - Developers
- 40+ Years in Commercial Real Estate
- +55 million s.f.; +\$4b portfolio of Commercial Real Estate



- Distinguished Service Award
- University of Shopping Centers - Lecturer
- Master Developer designation
- Past State Director
- Past Government Relations Chairman – U.S. Northeast

- Licensed Broker: CT, MA, NY, NC, FL
- National Assoc. of Realtors, Commercial Realtor of the Year
- Board Member, CT Retail Merchants Association



Agenda

- Industry Overview
- Some Predictions
- Industry & Project Considerations
- Advice for Municipalities & Businesses
- Q&A

“Sea Change” Across all Sectors

Office

- Central Business Districts (CBD) currently +/- 30% occupied
- Changing how offices are designed – more flexibility
- WFH will continue post-pandemic
- Return to “normal”? – 2024?
- New development depends upon net job growth – e.g. FL & TX
- *“Can’t finance a B or C property to save my life!”*

“Sea Change” Across all Sectors

Retail

- Record retail *closings* in specialty goods, Department Store Type Merchandise (DSTM)
- Record retail *openings* in general merchandise, home improvement
- Groceries, general merchandise, building products are strong
- Holiday Season '21: **+8.5% YOY** (excl. auto's)
- In-store: +8.1%
- On-line: +11%
- Growth of E-commerce:
 - 2019 – 14.6% of total
 - 2020 – 20.6%
 - 2021 – 20.9%
- Shopping earlier in holiday season

“Sea Change” Across all Sectors

Restaurants

- 30% may never reopen
- Local/casual dining hit the hardest
- Labor shortages
- Cost increases

Hospitality

- Hotels:
 - Resorts/tourist: strong recovery
 - Business: in trouble, likely to continue, slow recovery
- Travel/airlines – fewer flights but flights are full

“Sea Change” Across all Sectors

Single Family Development

- For Sale:
 - Production remains down significantly, follows population growth
 - High prices, low supply, rising interest rates
- **SFR: substantial growth** – southern markets
 - Blackstone - \$6 B -17,000 homes
 - Brookfield, JPMorgan, Rockpoint
 - \$30 debt/equity in '21
 - 100,000 homes TY
 - *“best ROI of all property sectors”*

“Sea Change” Across all Sectors

Multi-Family Development

- Apartments:
 - Continued substantial growth
 - Empty Nesters, Double Income No Kids (DINKs), New Singles, Recently Retired
 - New product
- Condominiums: stable, but at low production levels

“Sea Change” Across all Sectors

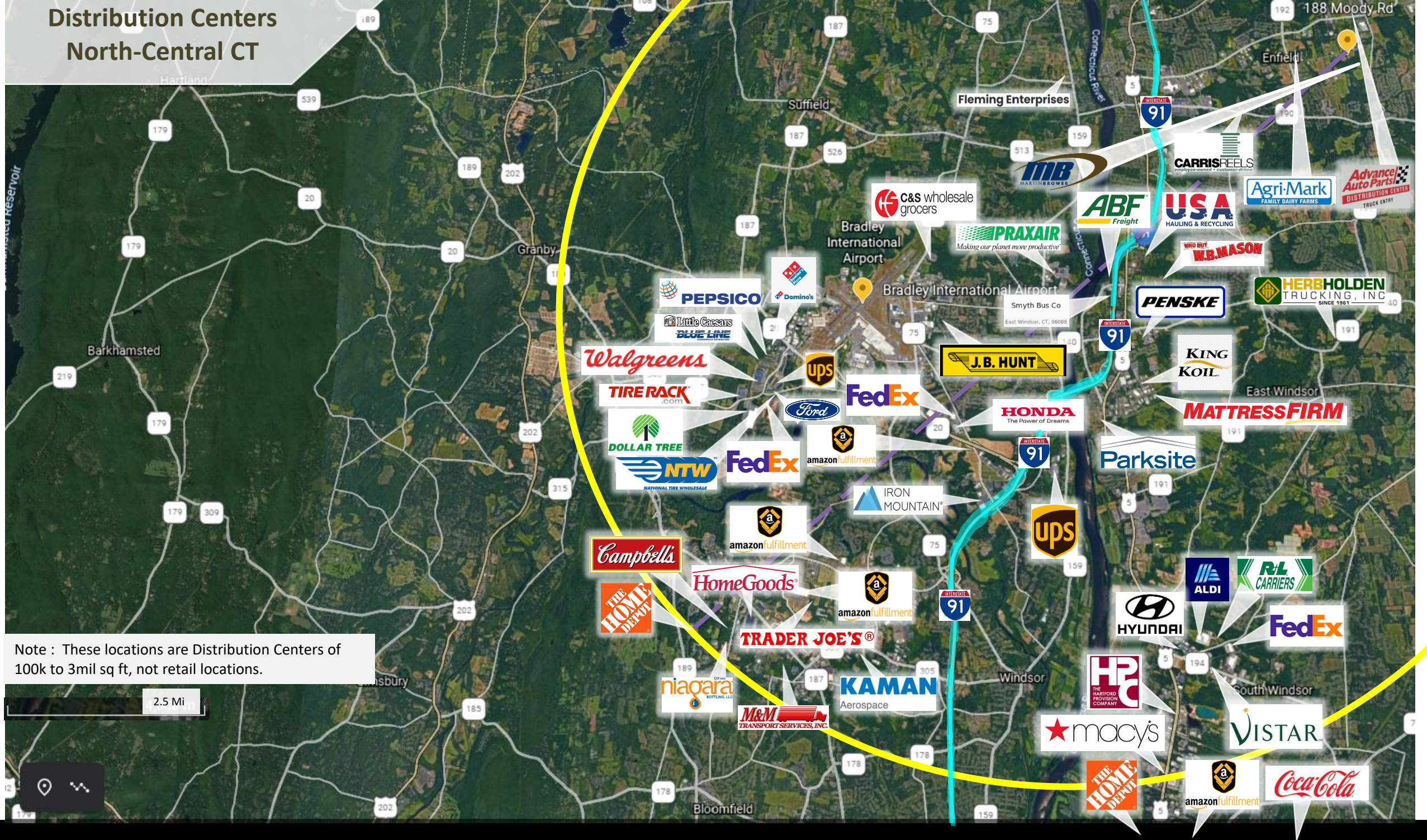
Self Storage

- Continued growth
- Climate controlled

Warehouse/Logistics

- Substantial demand for new s.f. - +300 mm s.f./year
- Must be modern, high bay
- All sizes: 3.6 mm s.f. – 35,000 s.f.
- Refrigerated/cold storage

Distribution Centers North-Central CT



Note : These locations are Distribution Centers of 100k to 3mil sq ft, not retail locations.

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“Sea Change” Across all Sectors

Engineering & Construction

- nonresidential spending growth - weak for 2021
- educational, office, transportation, health care, and commercial facilities saw largest YoY decline in July 2021
- residential - \$1.57 trillion in July 2021, 12% higher than 2019
- Outlook: strong residential & nonresidential - \$1 trillion IJA
- Material & labor shortages
- Price volatility

State of the Industry

- Expecting a bumpy “W” shaped recovery
- Duration is likely a lot longer than initially thought
- Impacts will be dramatic and long term
- Have yet to feel the full impact
- Many businesses re-thinking their business model
- Long term planning = 6 months?

Transactional & Development Activity

- Deals were on hold – activity slowly returning
- Activity concentrated in specific sectors
- Bid/Ask gap wider than typical
- Leases: lower rents, free rent, flexible terms
- Focus:
 - Strongest markets, tenants, properties
 - Reliable Net Operating Income (NOI)
 - Resiliency
 - Industrial, logistics, Multi-family rental residential (MFRR)

Retail – Consumer Behavior

- Health & safety remain a priority
 - Masks, disinfecting, Plexiglas barriers
- Delivery
- Buy Now Pay Later (BNPL)
- Stockpiling
- Buy Online Pickup in Store (BOPIS), curbside pickup
- Store prototypes changing

CRE Debt & Equity

- 4Q20 – 4Q21
- Commercial & Multi-Family – YoY activity 4Q20 – 4Q21
 - Hotels: +67%
 - Office: +122%
 - Industrial: +113%
 - Retail: +109%
 - Multi-Family: +57%
 - Health care: -17%

CRE Debt & Equity

- “An unprecedented amount of capital to be deployed”
- Trends:
 - Investing with Intent
 - Race to Core: Flight to quality
 - Industrial, Multi-family, select office (Life Sciences)
- Availability has narrowed – B & C properties
- Increased focus on acquiring existing vs building new
- Pressure from increasing costs – harder to make projects make financial sense

Sectors to Watch

Short-term:

- Business hotels, conference centers
- Casual dining & locals – traditionally low liquidity
- Specialty retailers – low liquidity
- Companies tied to travel industry

Mid-term:

- Office buildings – particularly Central Business Districts
- Retail – B & C, specialty, local retail/restaurants

Long-Term

- Municipalities – assessed values of Commercial Real Estate

Pay particular attention to older assets: +40, 50, 60 years

Summary: State of the Industry

- Most trends started in the '90's
- Too much retail & office square footage
- Covid-19 just made conditions worse:
 - Online has gone from a convenience to a necessity
 - Work from Home (WFH) has accelerated significantly
- Marginal properties will be in the worst trouble

State of the Shopping Center Industry

- Centers > 400,000 s.f.: 2,691
- Centers > 200,000 s.f.: 8,367
- **Top 50 MSA's:** (Birmingham, AL is #50, Hartford is #48)
 - **Class A Centers:** 4 each = 200
 - **Class B Centers:** 4 each = 200
- **Next 50 MSA's:** (Chattanooga, TN is #100)
 - **Class A Centers:** 4 each = 200
 - **Class B Centers:** 4 each = 200
- That leaves 1,891 Centers: **> 400,000 s.f. – Class C or worse**

Predictions

- Specialty retail will continue to see anemic growth
- Owners will face difficulty refinancing:
 - Rental income flat/declining
 - Appraised values flat/declining, depending upon asset quality
 - Interest rates rising – 200 bps?
 - Lenders/investors/buyers: “A” markets & properties
 - Increase in foreclosures
- Unless the market is growing, new retail/office development of any scale will be rare: No tenants, no money
- Conversions of obsolete properties: retail & office

The Likely Future of the Industry

- Changes to building design:
 - Open-air features, greater flexibility
 - Retail, MFR, Office, Hotels
- Increased interest in suburban, lower interest in urban
- More horizontal mixed-use, less vertical
- Increased drive-thru's: esp. Food & Beverage, but all kinds
- Increased focus on free-standing stores across all types
- Delivery-only prototypes
- Continued increase in building technologies;
 - Health, security, environmental control

The Likely Future of the Industry (continued)

- Tougher leases – a tenant’s market, except in “A” markets
- **Greater focus on experiential retail**
- Gas/convenience, auto parts, dollar, cannabis
- Quick Service Restaurants (QSR’s), fast casual
- New & smaller format stores: Target, Ikea, Bloomingdale’s
- **Some projects & developers will fall victim to interest rate increases**

A Changing Development Landscape

Trends

- Clicks to Bricks
- *The Halo Effect: How Bricks Impact Clicks*
 - opening a location in any market translates to an increase in web traffic of nearly 40 percent
- Fewer locations in a given market
- Locations: smaller, different
- Locations: billboards, fulfillment centers, showrooms
- Commodity transactions – Online
- Advice/discussion – Brick & Mortar location
- Locations must be different & remarkable
- Alignment with a social cause

Redevelopment Opportunities

- Research-based: demographic, socioeconomic, market, competitive, ongoing
- Extensive conceptual planning – conversions from/additions to existing projects
- Community engagement – consultations, requires support
- Minimization of risk – less tolerance

Must be able to buy at low cost per square foot (PSF)

Opportunities in CT

- Apartments
 - Inadequate supply – old stock
 - Still substantial demand for upscale, amenity-rich projects
 - Markets with job growth
 - Locations near highway/transit corridors, F&B, recreation
 - Groton/New London, Fairfield County, Hartford, Naugatuck Valley
- Industrial
 - Highway & transportation nodes (ports, airports, rail)
 - Available labor
 - Near similar uses

Opportunities in CT

Redevelopment: Conversions

- Hotels & office to housing
- Retail:
 - not just health clubs
 - medical, bioscience
 - community centers/facilities of all types
 - Schools of all types
 - Driving ranges, sports & activities of all kinds
 - Parks/activity parks
 - Farmer's markets, concert venues, casinos
 - Indoor farming

Opportunities in CT

Redevelopment: Conversions

- Retail:
 - **Food & Beverage: incorporating food halls**
 - **Experiential - Arts & Entertainment**
 - “Last Mile” logistics locations:
 - convert big and baby box retail to delivery points
 - co-working spaces/Accelerators/Incubators
 - multi-family rental residential

Opportunities in CT

Out of State Buyers:

- Will see continued interest in CT
- Prices are low vs their home markets
- Less competition
- New product can pull users from old
- Need liquidity and a plan

Redevelopment – Open-Air Mixed Use



Improving CT's Investment Climate: Advice for Municipalities

- Be pro-active:
 - Anticipate - don't wait to respond
 - Revise zoning & permitting criteria and processes
 - **Swift, Simple & Certain processes**
- Be prepared to utilize incentives
- Recognize that store & business templates are changing – dramatically
- Be as flexible as you can be, e.g.: ancillary housing, changes in use

Improving CT's Investment Climate: Advice for Municipalities

- Create resources that can be shared, e.g.: research, data
- Think like a property owner: marketing, management, operations, value
- Coordinate closely with EDC's, Chambers of Commerce, Main Street, real estate brokerage & development community
- Disposition strategies: focus on creating tax revenue
- Appreciate the value of “halo” businesses

A Changing Development Landscape

Advice for Business Wwners:

Omni-Channel: Definitely the future, but...

- Customers don't think in terms of "channels"
- They think about, and care about:
 - Solutions
 - Ease of use
 - Simplicity

Customers will use:

- **what's most convenient**
- **what will get the job done**

Think “mobile first” to win in this market

The Big Themes

- Think mobile-first, or else
- It’s not just about convenience
- Bricks and Mortar aren’t going away
- Many users are becoming less “engaged”— but not all...
- Digital-only are the least satisfied
 - Online experiencing deterioration in customer satisfaction
 - Digital offers cost reductions but lower customer engagement
 - Success requires offering personalized service across digital and physical platforms

A Changing Development Landscape

Summary:

Lessons for Customer-Facing Businesses

Structure for digital

- Competitive offering of features & services
- Provide a variety of communication methods
- Create connections, provide experience
- Add social value

Don't doubt the value of a physical presence

- Create a more inviting atmosphere
- More flexible facilities

Summary:

- Good locations at lower cost
- Emerging demand for new products & services
- Capital looking for new opportunities & ideas
- **Headwinds: Inflation & Interest Rates**

Closing Thoughts:

- It's the end of a cycle, not the end of the world
- There's great opportunity in this new environment
- Be cautious – every wave breaks

Questions & Answers

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