

ECONOMIC

FORECASTS

FOR INVESTMENTS & DEVELOPMENTS

| BY STEVE LEWIS | SPONSORED BY SIOR FOUNDATION

The newspaper headlines are nearly universal, citing a “Pandemic recession,” with significant job losses, major industries—like travel and entertainment—in a tailspin, and little relief in sight. But a survey of SIORs from different parts of the country indicates that the current market for CRE growth is anything but a monolith. While some observers see recession-like trends stretching well into

the next year, others say they have little to complain about.

“The current market in Montana hasn’t seen a ‘recession,’” says David Mitchell, SIOR, principal at Coldwell Banker Commercial CBS in Billings, Mont. “As office sales/leases have increased, vacancies have decreased, and investment deals are receiving multiple offers within 24 hours.”

While noting that COVID-19 has negatively impacted certain businesses, he says that Montana as a whole has seen growth, expansion, and a higher demand of buyers with a shortage of CRE hitting the market.

Jerry Fiume, SIOR, managing director, SVN | Summit Commercial Real Estate Group, LLC, Akron, Ohio, shares that prior to focusing on brokerage, he was a



developer/builder for 25 years. "I am still involved with many investment projects," he notes. "I lived through the Great Recession and I have an experienced lens to navigate through this recession."

Regardless, however, he says he still sees a lot of CRE investment activity right now, although it may not continue for long. "I do more opinions of value right now as

lenders start to get prepared to begin foreclosure processes," he shares. "I think the economy will slow down more after the first of the year."

In fact, he continues, the first half of 2021 after the election is going to be "ugly," but he expects to see an upturn beginning in the third quarter of next year. "I hope I'm wrong, but the economy is artificially propped up right now."

The one bright spot, he adds, is that because Dodd-Frank "is beginning to work," this recession will be different than the last one. "Banks have enough capital reserves; I have not heard about bank problems," he observes. "That may be a good thing, but at some point, you have to start paying the bills."

Florida's Space Coast, however, is continuing to see "great economic

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Radek Procházka, SIOR
Managing Partner



NAI PROCHAZKA
& PARTNERS

Wenceslas Square 841/3
Prague 1 – New Town
110 00 Czech Republic
Tel.: +420 222 242 342
naiprochazkapartners.com

growth,” according to Brian L. Lightle, SIOR, president/broker Lightle Beckner Robison, Inc., Melbourne, Fla. Much of the future in terms of the economy, he says, depends on who wins the election, as the policies of candidates “could not be more opposite.” He would not get more specific.¹

However, he says, “Statewide, Florida is one of the strongest population growth states in the country and the problems caused by the pandemic in the Northeast have only accelerated this migration south. This growth also drives other service needs from the retail tenants, office spaces for professionals and industrial manufacturing, distribution, and logistics spaces.”

The Space Coast, he adds, is “especially blessed” due to the growing number of high-paying hi-tech jobs being offered by companies such as SpaceX, L3 Harris, Northrop Grumman, Blue Origin, Embraer, and many more. “The high salaries paid by these employers and their growing demand for engineering talent positively impacts every aspect of commercial real estate, as occupancies in all categories remain 90% plus,” he summarizes.

But on Long Island, N.Y., the recession is being strongly felt and will last for quite a while, according to Jack Britvan, SIOR, president of Commercial Realty Services of Long Island, Inc., in Jericho. “I felt the recession six months before COVID hit in March 2020,” he relates. “The New York City/Long Island markets for retail and office will take at least a year to recover after a vaccine is made available. The only development will be conversions from retail and office to industrial, which will be taking place now and going forward.”

Just how bad is it? “Long Island is a suburb of New York City,” Britvan explains. “New York has been hit extremely hard; one landlord that I spoke with said that he has already lost \$150 million. The New York office market may not totally recover in value, but Long Island will come back, helped by tenants leaving the city.”

INDUSTRIAL SHOWS GREATEST STRENGTH

SIORs agree that in the face of these economic challenges, the industrial market is by far the strongest. “Obviously, the industrial distribution space is still very strong; we even have some construction projects in our marketplace,” says Fiume. “Hospitality and retail are the weakest. Office is slow right now, but I have the feeling this remote working scenario is temporary.” While people he talks to say they believe they’re more productive at home, he adds, “We know they’re not. Then, people are so tired of dealing with kids, and they want to get back in the office in a more social setting.” With the pendulum “falling somewhere in the middle,” he predicts some sort of hybrid arrangement within the next couple of years, where employees may work from home two days a week. “Because of that, I’m still bullish on the office sector,” he says, although he does anticipate some foreclosures.

“Much like the rest of the country, industrial remains the strongest with a 95% plus occupancy rate,” says Lightle. “Most of our space is geared towards manufacturing instead of distribution/logistics, and in many cases are very large build to suits.”

The sector facing challenges, he continues, is office space, “as many of

our hi-tech employers are still allowing some form of work from home scenarios. While we have already begun to see many returning to the actual office, this uncertainty is placing several office deals on hold until early 2021."

"The higher performers currently are office and industrial," adds Mitchell. "Office has been down (sales and leases) the last several years, but since COVID, condensing and contracting has occurred while expansion needs have come to market. Some tenants have asked for deferred rent, but the majority have weathered the storm well. Retail hasn't been challenged as much, but the retail sector of CRE in Montana has dipped slightly."

"Medical and industrial will continue to perform well," Britvan predicts. "Restaurants and retail in general are getting hurt, with the exception of fast food and takeout, such as pizza."

STRATEGIES ARE ADJUSTING

SIORs are applying their experience, expertise, and wisdom to work towards optimal results given economic challenges. "We're focusing a lot on fundamentals in terms of calls, building our database, focusing a lot on building owners, paying attention to the foreclosure market, and getting back to basics," says Fiume. "That's what it's going to take to get through changes in the economy."

He insists, however, that any time there is a change in the economy it's good for the brokerage market. "It may not be good for all developers, landlords, or tenants, but it's good for brokers because people have a new set of needs to be met," he explains.

"Information and superior data have been critical," says Mitchell. "By information, I mean relevant data to the market—trends, demographics, etc. By superior data, I mean more comprehensive research on site selection, comparative analysis, and recent transactional data. These keep us ahead of the game and influence the market to make informed, and strategic decisions."

"Our main focus has been to increase our communication with existing clients and prospects to let them know we are still here and will continue to serve them through these uncertain times," Lightle shares. "Sending information on everything from PPP Loans to tenant rent issues and letting them know we can help them navigate successfully through 2020 and beyond has been well received."

"My consulting has increased—both locally and nationally," says Britvan. "I am also a partner in a management company, and we have been busy with new assignments in the Tri-State area. I am in constant contact with my customers and have recast numerous leases. I actually signed a restaurant deal a month ago; it's a very strange market."

How long does he anticipate this recession will last? "Certain areas of the country will get better, but large cities will still feel the hurt until a vaccine is made available," he predicts.

"For Montana, I don't think it will see recession-like status," Mitchell insists. "We anticipate we will ride this positive wave through the fall of 2021, and then the market will correct itself back to standard market rates, vacancies, and developments."

"Again, I believe that the election will have the greatest impact on this question," says Lightle. "Until we know who will be in the White House in 2021 and which economic policies will be in play, the markets will not know how to move forward." ▾

1. This article was written prior to the election results. Check back in Q1 2021 for *SIOR Report's* recap of the impacts of Joe Biden's election.

MEET THE AUTHOR

Steve Lewis is a freelance writer and president of Wordman, Inc. He can be contacted at wordmansteve@gmail.com.

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CONTRIBUTING SIO RS



Jack Britvan,
SIOR



Brian Lightle,
SIOR



Jerry Fiume,
SIOR



David Mitchell,
SIOR