

RELOCATIONS TO **OUTSIDE** *MARKETS*

DOES A RESIDENTIAL BOOM GUARANTEE THE SAME IN CRE?

Statistics indicate that in recent months, in a trend no doubt aided and abetted by COVID-19, people have been fleeing densely populated areas in droves, flocking to more remote locations. In a recent presentation at NAI's virtual annual meeting, CoStar Managing Director, Robert Calhoun, CFA, said that based on apartment rents, which are falling in urban areas and CBDs, but rising in the suburbs (CoStar owns Apartments.com), he concluded that people are leaving cities in favor of the suburbs or secondary/tertiary locations.¹

In this reporting by Commercial Real Estate News, New York-based Jay Olshonsky, SIOR, president and CEO of NAI Global, said that even before the COVID crisis he had seen some increased activity involving relocations or at least the development of satellite offices. He further noted that while business relocations to Arizona, Texas, and Florida were not all that new, NAI Global's offices in Knoxville, Tenn.; Boise, Idaho; and San Antonio noted an emerging trend of investor and tenant interest from outside markets.

But no trend, however strong, is necessarily universal. Does growing



residential strength inevitably predict the growth of CRE, and if it is a predictor, how long does that take? Does “interest” equal commitment? Not all SIORs are buying that theory—at least not yet. Boise, for example, is currently one of the hottest relocation markets in the country for residential relocation from major metro areas. How will this impact commercial markets?

“I recently read an article in the Statesman saying that we’re seeing a lot of small business relocations; hopefully that will evolve and spur some larger growth,” says Guy J. Levingston, SIOR, principal and associate broker, Intermountain Commercial Real Estate in Boise, Idaho. “The funny thing is we do not have a lot of vacancies in office and industrial. The housing market is turning insane right now, with cash offers and no contingencies, pushing a lot of local people further out to the suburbs and surrounding areas.”

Small businesses do seem to be emerging, he continues. A lot of them are hi-tech firms, which allow owners to leave the larger cities and still function in their business via the Internet. However, “They would need to grow to impact the market—unless we land a big fish.”

Montana is also increasingly attractive to people leaving densely populated cities, with a strong business climate, rapidly expanding air service, no sales tax, and workforce incentives. Like Idaho, it is drawing smaller hi-tech firms. “People are able to move in and bring their jobs

with them,” says Matt Mellott, SIOR, principal/supervising broker at Sterling Commercial Real Estate, Missoula, Mont. “There are attractive places to live, good quality of life, a lot of wide-open spaces, and social distancing is pretty easy.”

In Montana, he adds, this trend has been ongoing for about a decade. “Montana is a relatively small state population-wise,” says Mellott. “The Kauffman Foundation ranks it as one of the top places for tech startups.” As in Idaho, these are not big offices, but “satellites” with about 10-50 employees. “It’s not difficult to sell them,” he notes. “We have the entrepreneurial environment, and we’re relatively cheap compared to cities like Seattle, or Los Angeles, where people leading these firms are from.”

Arlon I. Brown, SIOR, senior vice president, SVN | Parsons Commercial Group in Boston, sees similar trends, although being in a major city he considers the Boston suburbs to be “outside markets.” “We have actually seen some movement out to the suburbs from the CBD [Central Business District],” he says.

Much like his colleagues in Montana and Idaho, Brown continues his sentiments of the Boston suburban market: “Residential is just blazing; the average asking home price is \$475,000, and that gets you a doghouse,” he says, adding, “I think eventually that will translate to office.”

For now, however, he says that people are doing a lot more talking than doing.

“At this point, the mass migration is on the residential side,” Brown notes. “A lot of space is available in the Boston proper office market—15 million square feet, or a 2.5-year supply; we’ve not seen that in 15 years.” Smaller firms, he adds, are coming to the suburbs; large firms have satellite offices for activities like sales. Still, he insists, “The jury is still out.”

TOO SOON FOR OPPORTUNITIES?

Are SIORs repositioning themselves to take advantage of the potential growth for outlying areas? Again, the answers vary. “It’s probably a little too soon to do that,” says Levingston. “We are getting a lot more interactive online with our company and doing video touring; we’re seeing some of those residential marketing techniques flip over. I hear of people buying homes off Zoom without even seeing them.”

His advice is, “Find out what applies to you and your market and apply it.” Levingston says the bottom line is whatever may be coming is not just the result of COVID-19, but “the whole younger generation. We’re a small brokerage house, but if you use technology right it levels the playing field.”

For Mellott, “The biggest thing on the office side is you have remote workers or tech companies moving here, looking for relatively flexible office arrangements—not 10-year leases, but the ability to add or subtract a couple of offices at a time—which are good opportunities,” he

says. “On the industrial side, ‘last mile’ distribution products for warehousing are almost impossible to find, so build-to-suits are almost where we have to spend our time.”

The key challenge in such a market, he continues, is that anybody remotely interested in industrial is “gobbling up” space. “In a building that was designed for distribution, I recently helped a broker lease with the TV show *Yellowstone*,” Mellott shares. “They ate up 70,000 square feet for production, sound stage, props, etc.” The bottom line, he says, is there are far more requirements than space on the tenant side. “Routinely, we can’t accommodate them,” he relates.

Still, Mellott concludes, “The positives absolutely outweigh the negatives.”

“There are definitely opportunities, because there is available space in the suburbs, and even if that space is high, it may go even higher,” says Brown. “We are definitely pivoting and trying to reach those tenants through both marketing and networking.” He says his firm uses its own database for marketing—one, he says, that includes “tons” of suburban law firms, CPA’s, and consultants to target.

LIKELY TO CONTINUE

For the most part, the SIOR experts agree that the demand for outside markets will continue, although Brown was a bit unsure of what the future will hold. “That’s really a billion-dollar question; I feel like Carnac on *The Johnny Carson Show*,” he shares. “In the last 40 years here, there have been a lot of things happening where people have gone to the suburbs and then eventually back to the city, but now it’s an open question with the pandemic; even with

a vaccine, [the future is] unknown. What I’ve been hearing is this may be a recurring type thing like the flu, and that would mean a certain percentage would unfortunately keep being ill and dying, and maybe social distancing will be something we incorporate into our daily lives.”

Mellott notes that while attraction to his area had already been in existence, “it has just accelerated; we’ve put our foot on the gas pedal.” While agreeing that “There has been an awful lot of demand since COVID.” Regardless, he says, the draw of Montana will continue to be strong. “The mountains and rivers will not go away, so the people who want to live here will not go away.”

Levingston has similar expectations, although his feelings about the trend are mixed. “We do have several companies coming in, including a couple of federal offices (COVID-related) from Washington, D.C.,” he notes. “In the long run, I do see a re-emergence combined with small business growth. This kind of reminds me of Orange County, Calif., where I grew up next to orange groves and corn fields. We’re kind of in that cycle; we’re not next to a major, major area but I do see the residential growth, where agents are selling homes off of paper.”

Having lived in the area for 25 years, he touts its major medical facilities, big universities, and an airport where you can “get in and out anywhere you want to go.” In short, he summarizes, “It’s hard to beat, and people have found out about it. We recently got a major HP facility.”

Right now, says Levingston, he sees the trend continuing for a good 10 years.

“There’s room to grow, and it’s a great open attitude, a smaller town feeling—I mean the whole Treasure Valley,” he

shares. “The only bad thing is I live there; although I work in commercial real estate, I’d hate to see the old farms get mowed down—but that’s how I make my money.” ▾

1. <https://thecommercialrealestatenews.com/2020/10/01/the-pandemic-spurs-investor-and-tenant-curiosity-in-non-core-markets/>

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