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The Effects of COVID-19 on Industrial, Office, and Retail Properties

By G. Evan Bennett

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Please allow me to reiterate how grateful we are to FIABCI leadership for their participation in this webinar. I'd also like to thank the audience for your attendance, both existing FIABCI members and those who are not yet members. We very much appreciate your interest in the World Council of Experts and Dr. Pornchokchai's research. *(Sopon Pornchokchai, PhD is the 2021-2023 President of the World Council of Experts. At this webinar, Dr. Pornchokchai published the results of a survey completed by 429 real estate professionals around the world. The questions in the survey served to gauge the effects of COVID-19 on the various sectors of the real estate industry.)*

I'm Evan Bennett, Secretary General of the World Council of Experts. I'm also the Founder & Managing Partner of Anthology Capital, a private equity investment company located in the United States, specifically in Seattle, WA. My company focuses on investment properties in three specific asset classes: industrial, office, and retail. As such, I'll limit my very brief comments to those property types. Although my market expertise is primarily in the Pacific Northwest and Northern California, my comments will generally be applicable to many of the U.S. markets.

How has COVID-19 effected the commercial real estate industry? I would suggest that one of its most notable effects was how it served to significantly accelerate preexisting trends. Let's consider a few examples in the asset classes I mentioned.

First, let's consider the current darling of institutional investors, industrial properties.

In fact, industrial has been trending as a preferred asset class of institutional investors for many years, particularly in costal markets that have international shipping ports, like Seattle. What has changed more recently, and was greatly accelerated during the COVID-19 pandemic, is the ongoing rise of e-commerce. As consumers continue to purchase more goods online and expect them to be delivered within shorter time frames, the demand for regional fulfillment centers and last-mile, micro distribution centers has grown, bringing greater attention to the role of logistics in our everyday lives. That demand is not expected to dissipate anytime soon, further helping to solidify industrial's prominence in investment portfolios.

Next, let's consider office properties.

The idea of telecommuting has been around since the 1970s. It was slow to advance because employers had always assumed that employees couldn't be trusted to do their work without constant supervision. As fate would have it, COVID-19 intervened and proved them wrong. With this turn of events, two prevailing and somewhat contradictory ideas are taking hold: 1) companies should reduce their office footprints since employees can work just as efficiently from home; and 2) in-person workplaces are critical for company culture and employee collaboration. Ultimately, we're likely going to wind up somewhere between these two ideas, a hybrid style of working where employees work both in the office and at home or elsewhere, depending on what tasks need to be accomplished on any given day.

What does this mean for the asset class? I believe the inclination of office users to reduce footprints will be somewhat mitigated by lower density expectations going forward and the increased need for areas to collaborate when employees are in the office. Of more significant impact is a critical distinction that will very quickly develop between offices that are future-ready and those that are not. Those office buildings with more effective air filtration systems, touchless doors, elevators, and light switches, and IoT-enabled technology to inform tenants of systems performance and safety concerns in real time – just to name a few of the likely differentiators – will prevail in the coming years. Although the ways in which we use office space are changing, the fundamental need for office space remains strong.

Finally, let's consider retail properties.

Even though the pandemic was disruptive, retail was already struggling in many markets. The United States is significantly over-retailed, meaning that it has far more retail space per capita than any other country. It's a matter made worse in some parts of the country by stagnating income growth and multiple demographic changes that are driving a notable reallocation of funds, in varying degrees across the generations, to healthcare, housing, travel, and recreation. The ongoing rise of e-commerce has of course also hurt the asset class.

Does all of this mean that retail is dead? In some cases, yes. There are a great many retail properties across the country that are no longer improved to their highest and best use. Depending on the opportunity, creative landlords might consider redevelopment or conversion of the existing improvements to other uses. In other markets, those where demographics continue to drive demand for an appropriately sized inventory, the prognosis for retail is much better. What's going to be called for in both situations is a willingness to adapt. For example, it's human nature to seek out social interactions, something that was put on hold during the pandemic, and even before that was not being satisfied through e-commerce. One of the keys to sustainability in the retail sector going forward is to make it experiential and interactive. The most successful retail properties will transcend the mere sale of goods to more deeply engage their customers and serve as hubs for social interaction.

Although my comments on the effects of COVID-19 have been very general in nature, please feel free to contact me if you would like to discuss this topic in greater detail or if you have any specific questions about the Seattle, Portland, or San Francisco markets. You can find my contact information in the FIABCI membership directory. Thank you.

About the Author

G. Evan Bennett *is the Founder & Managing Partner of Anthology Capital, a private equity firm that invests in commercial real estate located in the greater Seattle, Portland, and San Francisco markets. He also currently serves as the Secretary General of the World Council of Experts at FIABCI, the International Real Estate Federation.*