

*A Changing Economic Development Landscape*  
*An Industry Overview*



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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
- Board Member, CT Retail Merchants Association



- 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



## Agenda

- Industry Overview
- Some Predictions
- Industry & Project Considerations
- The Development Process
- Advice for Municipalities
- 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

## “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

## “Sea Change” Across all Sectors

### Restaurants

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

### Hospitality

- Hotels:
  - Resorts/tourist: recovering
  - Business: in trouble, likely to continue
- Travel/airlines – down +/-70%

## “Sea Change” Across all Sectors

### Single Family Development

- For Sale:
  - Remains down significantly, follows population growth
- BTR: substantial growth – southern markets

### Multi-Family Development

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

## **“Sea Change” Across all Sectors**

### **Construction**

- Material shortages
- Price volatility
- Land use/growth restrictions

### **Warehouse/Logistics**

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



## State of the Industry

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- Expecting a bumpy “W” shaped recovery
- Duration is likely a lot longer than initially thought
- Impacts will be dramatic and long term
- Have not felt the full impact
- Many businesses re-thinking their business model

## 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
- By Now Pay Later (BNPL)
- Stockpiling
- By Online Pickup in Store (BOPIS), curbside pickup
- Store prototypes changing

# CRE Debt & Equity

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- “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
- 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
- Shopping centers – specialty/local retail and/or restaurants

### Long-Term

- Municipalities – assessed values of Commercial Real Estate

*Pay particular attention to older assets: +30, 40, 50 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**

## 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
- 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

# A Changing Economic Development

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## Landscape

- 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

## Impact on 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)**

## Redevelopment Focus: Conversions

Conversions will include more Mixed Use

- Not just theaters and health clubs
- Medical, office, community centers
- Schools and housing of all types
- Driving ranges, sports & activities of all kinds
- Parks/activity parks
- Farmer's markets, outdoor concert venues, hotels
- True implementation of live, work, learn & play!

## Redevelopment Focus: Conversions

- Food & Beverage
- 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



# Redevelopment – Open-Air Mixed Use





## 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

## Advice for Municipalities

- Be as flexible as you can be, e.g.: Ancillary housing, changes in use
- 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 community
- Disposition strategies: focus on creating tax revenue
- Appreciate the value of “halo” businesses



## Advice for business owners:

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

- Customers don't think in terms of "channels"
- They think, 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

## 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
- Watch & Listen: the plural of anecdote is data

## **Closing Thoughts:**

- It's the end of a cycle, not the end of the world
- There is great opportunity in this environment
- New paths are made by walking, not waiting

## Questions & Answers

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City of Bristol, CT

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