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THE COMMERCIAL REAL ESTATE

MARKET IN 2020: AN OUTLOOK

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INTRODUCTION

As with any industry sector, investors and shareholders need to keep abreast of market trends to identify opportunities and mitigate losses. The Commercial Real Estate market has always been a dynamic sector that is always able to adapt to the changes in demographics, technological shifts and the needs of businesses. As we look to 2020 and beyond, the commercial real estate landscape is shifting due to major expansions, significant population increases, changing tenant requirements, retail closures and interest rate volatility.

The dawn of the new decade does pose some level of uncertainty with the market, for its part, is not a stranger to. With that being said, however, there are patterns in the market that emerged in the end of the 2010s which would ultimately play a role in the CRE market in the years.

MAJOR EXPANSIONS

Urbanization will play a key role in the market for the 2020s. The "great migration" as predicted to occur by the start of the New Millennium is now well underway with cities across the globe swelling in a slow yet noticeable pace.

This would indirectly result in a strong rate of building activity for the rest of the decade. Construction output for both industrial and commercial building projects is expected to soar well over $15 Trillion before 2025. The regions where such increase is going to be felt will be at Asia and the sub-Saharan African states.

However, that does not mean that an increase in building activity will not always ensure an increase in population for certain areas. Factors like poor infrastructure, rampant crime, and an increase in pollution levels will mean that some cities (though having high construction activities) will experience minimal population growth or even experience a gradual decrease.

In line with that, a major factor that would ultimately work against the projected increase in city expansions would be population density. In essence, a city with a rather more than the recommended number of persons per square mile in the 2010s would experience a decrease in population as people seek rural environments and satellite cities.

It is expected that populous countries like India and China will be erecting entirely new cities within their territory in this decade. This is something to consider as Asia alone will experience a population growth from 3 billion to 4.5 billion while the rest of the world would increase from 4.6 billion to 6.3 billion by 2029.

This would either mean that existing cities would become denser in the following years, regardless of construction activity, and the need to create new residential and commercial sectors in between those areas would be stronger.

Either way, the notion of "Build it and they will come" is no longer going to be applicable for this new decade. Individual cities will still have to consider the risk of expanding their cities to decongest their populations.

For CRE companies, this only means that their ability to attract tenants to new commercial spaces would become very vital. It is expected that building owners and contractors would rely on the services of CRE agents to sell their working spaces to anyone wishing to set up a business in a new and potentially profitable business district.

A MASSIVE DEMOGRAPHIC SHIFT

An increase in the global population would ultimately cause ripples in the target demographics for CREs. By the 2020s, the middle class will experience a considerable population increase especially in Asia, Africa, and South America.

Aside from Europe, whose native population is expected to slowly grow or stall at some areas, the rest of the world will see an additional 1 billion people in the middle class (or 180% by its current number) by the end of 2029. At the same time, there will be an increase in the population of the elderly across all markets in the globe by 2.8% per annum during the latter half of the decade.

What does this shift in the demographic profile all mean? To put it simply, each demograph has its own set of preferences which ultimately determines which type of real estate products would dominate the rest of the decade.

There is no doubt that areas like office spaces, industrial facilities, retail shop units, and residential units will remain the primary sectors in the commercial real estate industry. However, they will also face competition from affordable housing units, agricultural areas, healthcare facilities, and retirement housing.

The reasons for this are rather apparent. Firstly, an increase in the global population would lead to an increased demand in food-producing facilities. Secondly, an increase in the population of the elderly would mean that there is an increase for areas where they can be treated and accommodated for.

Helping matters is the fact that billions of dollars have been funneled into venture capital projects for both residential and commercial properties in the late 2010s. Venture capitalists might be taking a more cautious rate for the 2020s but the sizeable funding they offer will remain an attractive offer for those wanting to start on their dream projects as soon as possible.

This means that CRE companies should start looking for ways to diversify their products. Companies should have a healthy portfolio of real estate lots and units that can accommodate various types of commercial operations. Agricultural properties might remain sparse and can come with demanding requirements prior to acquisition but they remain attractive investment options for 2020.

THE TENANT EXPERIENCE

The real estate economy has always been molded by how would-be tenants expect real estate products to be consumed. Aside from that, technology is playing a crucial role in changing the way how a consumer would interact with CREs and the products they offer.

As of now, a survey has shown that the optimal customer experience is not limited to constant interactions between the CRE agent and the tenant. It is about extending the service to a particular tenant so as to make every experience unique to that person.

Tenant preferences have always been changing and the last years have shown that there is now an increase in demand for flexible living/working spaces. Also, technological advancements such as Artificial Intelligence and Internet of Things will influence how would-be tenants interact with CRE Agents.

In essence, it is sensible to expect that the would-be tenant of 2020 and beyond would be far more critical, cautious, and discerning than those who successfully rented properties in previous years.

This only means that CRE companies should change the way they approach or even attract would-be tenants. A considerable portion of the population of would-be tenants would remain in the Millennial category which means an aggressive and tech-savvy approach would still be preferred for this year and the rest of the decade.

THE RETAIL CLOSURE

The mass closure of retail businesses in the late 2010s is expected to still heavily affect the CRE market for this year. In 2019 alone, an estimated 9,000 retail stores closed in the United States alone. That is 100% more than the figure in 2018 and 10% more in 2017.

It also does not help that large retail companies like JC Penney, Sears, and Payless have been closing a lot of their branches around the world. And then there are stories like Toys 'R Us whose 2017 bankruptcy left several thousand feet of prime commercial real estate space in the US abandoned for the rest of the 2010s.

But this can be seen as an opportunity, depending upon one's perspective. For every closure there is a chance for a new business to come in and use the place. In fact, a lot of small online stores have been "invading" the real world by buying retail lots that have been abandoned by their previous tenants.

Of course, the 2020s will remain a particularly good decade for malls and other similar shopping districts. Depending on the case, an established CRE company would have 2,000 to 3,000 square feet of commercial retail space to sell to would-be tenants every year.

MORTGAGE RATES

This may be a rather bold prediction but industry experts are hoping that the mortgage rate will fall further into record lows starting in 2020. As of December 2019, the average interest rate per year for a 30-year fixed rate mortgage is 3.99%, a rather decent (if not manageable) rate for even starting business owners.

However, that is expected to fall further into the 3% or 2% range before 2025. In the US, for instance, the lowest rate ever achieved was 3.3% in 2012. Also, projections for the country are rather good given that the Federal Reserve has not been cutting state funds for 2020 and the overall economy is generally strong if the metrics are to be considered.

For CRE companies, this simply means that there will be no shortage of potential customers as a lot of people would take advantage of the currently low rates to start on their residential and commercial projects. It also happens that a lot of Millennials are entering into the age of adulthood and are eager to start their own businesses and families.

Combine this with the low interest rates, a strong venture capitalist drive, and a generally decent-performing economy, it seems that the notion of living the "American Dream" is still strong in the US. And that still makes for a rather attractive pitch that CRE agents could use for would-be tenants.

ABOUT CIVE

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