



**COMMERCIAL REAL ESTATE
TRENDS IN 2020 AND
OUTLOOK AHEAD**

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Real estate has been one of the best ways to invest savings and investment properly. However, to make the best choices with sizeable returns, you need to have knowledge of trends in the commercial real estate industry. With significant disruption of COVID-19 this year, real estate investors should adjust to capitalize for the coming days. Here are some of the trends that 2020 saw in the real estate industry that will continue into next year.



RETAIL PROPERTIES

The retail space has been suffering and facing a downward spiral since 2017 and overall has been hard hit in 2020. The current pandemic has seen many brick and mortar retail stores shut down or downsize. According to Forbes, more than 7,000 stores made closing announcements, and 600 filed or are expecting bankruptcy. Many startups and existing companies are going or considering shifting their business online, shifting the demand from brick and mortar stores to warehouses and pick up stations.

While many smaller providers have closed or minimized operations, there are some bright spots in this space. Several big-box retailers and large grocery chains have experienced significant growth during the pandemic. Target, Kroger, Safeway, COSTCO and others have seen revenue increases of 25% on average for the first quarter of this year. Online order and pickup in store along with increased delivery options have helped them weather the storm and capitalize on their operational efficiencies.

Service providers in the medical industry have also been largely invested in retail spaces, with eye clinics, veterinary services, dentistry, and even plastic surgeons have been opening up spaces in malls due to high visibility, ready parking, and convenience that comes with malls. The trend has been working well especially since there has been a 20% increase since 2015. Medical retail seems to be the future of retail properties.

Investors who are interested in retail properties should focus on opportunities that include a big-box retailer as an anchor with a diversified tenant mix of basic goods and essential service providers such as medical clinics, pharmacies, or other related businesses.

OFFICE PROPERTIES

Office spaces have evolved due to different adaptations of careers and the rise of remote working. Millennials are getting more into coworking rather than owning actual office spaces. Tenants who want less than 10,000 square feet have embraced co-working spaces as an alternative. Over five years, coworking spaces in areas like New York and San Francisco have grown and are now almost at par with traditional office leases. People prefer the flexibility, affordability, and ease of access that comes with co-working spaces. Tech tenants are taking up a lot of office spaces due to rise in employment opportunities in the digital era. That said, office spaces are offering more digital-friendly features such as Wi-Fi connectivity and charging ports that are easily accessible.

While some investors may shy away from office properties due to concerns about the rise in at-home work, the office will not be dead. People still need a place to collaborate, meet, and focus on their work. Opportunities in office will be in more suburban areas closer to home and smaller spaces that can accommodate smaller, individual offices.

MULTIFAMILY PROPERTIES

The multifamily sector in real estate has been experiencing a steady growth in demand for the past 10 years and 2020 has seen it spike since people had more time to reconsider their current living situations.

2019 experienced an impressive 96% in occupancy rates. The National Apartment Association of the United States reports that with the recent demand, there needs to be at least 4.6 million multifamily units that should be constructed by 2030. Lower cost of living, proximity to work, an incoming "adulting" era for most millennials, low unemployment rates and availability of capital are some of the factors that have seen an increase in demand for multifamily units in 2020. Multifamily units are what is considered a haven in the real estate industry because they have the least chances of being crippled due to unpredictability.

Apartment renters are demanding new amenities now that they are working from home more than ever. Properties with high-speed internet, Wi-Fi, built-in desks, and enhanced safety protocols have seen increased demand. Investors looking to purchase multifamily properties should look for opportunities that accommodate these shifting amenity preferences or are able to easily modify existing structures.



HEALTHCARE PROPERTIES

Medical facilities, hospitals and clinics have been a big focus this year for obvious reasons. While some individual clinics may not be great long-term opportunities, medical office properties with financial stable tenants and stand-alone medical clinics are worth evaluating for any investor's portfolio. Larger healthcare systems, national franchises and bigger medical related enterprises are the ideal tenants for investors to invest in healthcare properties. Stand-alone chains like CVS or Walgreens which are hybrid healthcare retail properties are also attractive options.

Another area to consider in this sector is life sciences. Labs have been mushrooming in many areas across the United States, especially in urban areas. Life science spaces in the nation require more investment since the demand is high for high-quality manufacturing and lab spaces. Vacancy rates are never below 5% so it is another attractive option to consider.

WAREHOUSE PROPERTIES

Warehousing has experienced a boom especially in the wake of e-commerce where things have gone online, and e-commerce has experienced a boom that has become the new normal. A sharp spike in consumer spending in the first part of the year, especially with everyone being home due to the pandemic has given e-commerce platforms a significant revenue boost. A notable example, e-commerce giant Amazon captured \$88.9 billion in sales in its second quarter and has been looking for and leasing more fulfillment centers. So far, they have increased their square footage of warehouse space by 50 percent in 2020. Chinese e-commerce giant Alibaba invested more than \$141 Million to streamline its logistics network, a move that included building and leasing more warehouses in the United States. Another large company, Fresh Produce experienced a \$205 million in growth from March to May according to 210 analytics, a consumer trend that has seen a rise in demand for cold storage by many suppliers in order to retain freshness while meeting surging grocery demands.

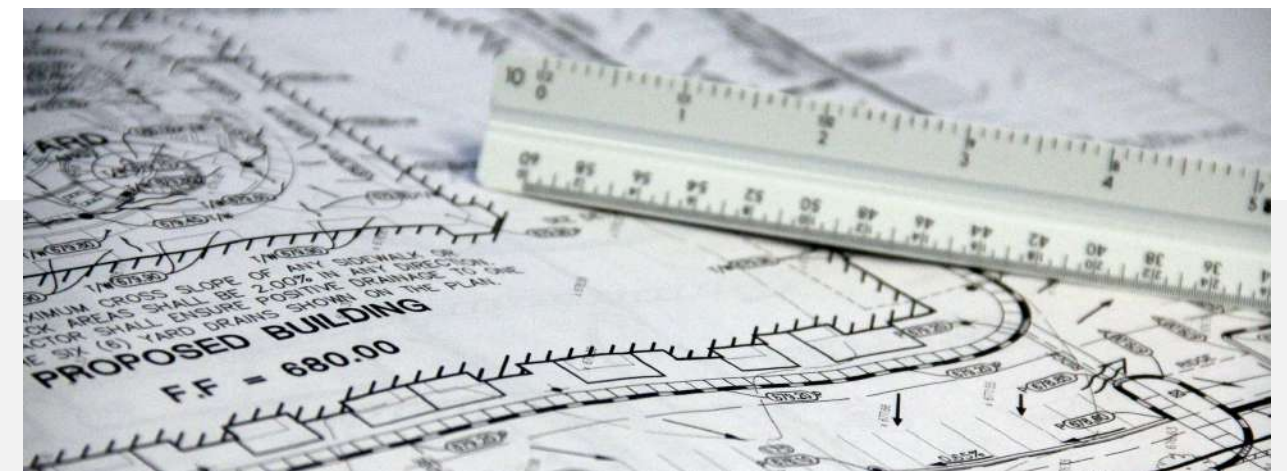
Investors can expect the demand for warehousing to continue. Whether converting existing retail space, building new properties or looking for existing properties, investors would be wise to consider disbursed opportunities located away from industrial areas and focused on properties closer to last-mile distribution.

OTHER COMMERCIAL REAL ESTATE TRENDS IN 2020

Another trend that 2020 has seen grow is the incorporation of both office and multifamily sectors of real estate. Multifamily properties have started to feature amenities that provide the convenience of an office. Additionally, many types of multifamily units feature ground floors that have convenient stores and rental spaces that are used by families. There are other units that feature a co-working space for the residents. Other office spaces, especially those that are located in cities have penthouses on the topmost or the two top floors. The blend of the two is something that has been embraced by people looking for easy access to their home space and work. Due to significant shifts in the way people live and work, the trend towards multi-function space is evident.

Tenant experience is becoming a big player in real estate industry especially in multifamily properties and office spaces. The tenant experience has helped immensely in upgrading and improving the construction and availability of amenities for potential and existing clients. Not all tenant improvements need to include expensive amenities. Leveraging technology such as mobile apps for booking and showing spaces helps developers know what potential clients want with a unit within the price offered. Many developers and real estate agents have had to launch apps and websites to provide virtual services to clients from the comfort of their homes. Many property tours for most of the year have been done virtually, essentially showing the importance of keeping up with technology trends for agents and developers. Other technological improvements like improving accessibility and high-speed internet provide the connectivity that tenants demand.

While somewhat outside the normal commercial real estate investment, public-private infrastructure projects provide some opportunities for investors too. Toll roads, bridges and other civil projects that allow for private investment are expected to increase this year.



CONCLUSION

There are significant commercial real estate opportunities for the coming year. Whatever sector an investor chooses to invest in, they need to identify the latest trends involved and how to take advantage of them to increase their returns and attract better quality tenants. Utilizing the latest technology and materials is a way to adapt and overcome the challenges of the first half of the year. If existing properties are not suitable, then building a new structure that meets tenant demands should also be considered at this time. Integrating new amenities, adopting new safety measures, and focusing on where consumer demand is shifting are important facets that will allow commercial real estate investors to succeed.

ABOUT CIVE®

CIVE® is an upscale Design-Build firm, specializing in top-down build process driven by value engineering – from state-of-the-art design, leading-edge engineering, high-quality construction, and elite project management.

Our strengths lie in a rich mix of talent, experience and ingenuity. Our clients can depend on us to anticipate industry changes and plan for the future, while providing most practical and cost-effective solutions. CIVE® devotes customized, individual service to all its clients, whether large or small.

Specialties: Residential, commercial & industrial design, civil engineering, structural engineering, mechanical engineering, electrical engineering, construction management & project management.



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