

The Changing Development Landscape

An Industry Overview



TOWN OF
Trumbull
CONNECTICUT

GOMAN+YORK

R. Michael Goman

- 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

- 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, CT Commercial Realtor of the Year
- Board Member, CT Retail Merchants Association



General Overview

“Sea Change” Across all Sectors

Office

- Central Business Districts (CBD) currently +/- 50% occupied
- WFH will continue post-pandemic
- Return to “normal”? – 2024?
- New development depends upon net job growth – e.g. FL & TX
- Outlook:
 - \$17B in office-backed mortgage bonds NY
 - *“Can’t finance a B or C property to save my life!”*
 - Long-term impacts?
 - Mitigating factors will be:
 - Increased unemployment
 - Competition

General Overview

“Sea Change” Across all Sectors

Retail

- On the road to recovery: more openings than closings
- Groceries, general merchandise, building products are strong
- Holiday Season '22: +4 to 6% YOY, shopping earlier
- E-commerce as a % of retail sales: 13%
- Shoppers still prefer physical stores
- Spending, but trading down
- New, experiential concepts
- Emphasis on mobile apps
- Frictionless: BOPIS, Curbside, Delivery

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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**

General Overview

“Sea Change” Across all Sectors

Restaurants

- Staffing shortages, increased costs
- Reduced operating hours
- 30% may never reopen
- Local/casual dining hit the hardest

Hospitality

- Hotels:
 - Resorts/tourist: strong recovery, demand peaking?
 - Business travel: slow recovery, likely to continue

General Overview

“Sea Change” Across all Sectors

Single Family Development

- For Sale:
 - Production remains down significantly, follows population growth
 - Prices cooling, supply increasing, rising interest rates
- **SFR: substantial growth** – southern markets
 - Blackstone - \$6 B -17,000 homes
 - Brookfield, JPMorgan, Rockpoint
 - \$30 B - debt/equity in '21
 - 100,000 homes TY
 - “*best ROI of all property sectors*”

General Overview

“Sea Change” Across all Sectors

Multi-Family Development

- Apartments:
 - Still in favor, but showing signs of weakness
 - Cost increases: 40% in some markets
 - Continued rent growth, esp. in south
 - Empty Nesters, Double Income No Kids (DINKs), New Singles, Recently Retired
 - On the brink: start of a slowdown, overdue

General Overview

“Sea Change” Across all Sectors

Self Storage

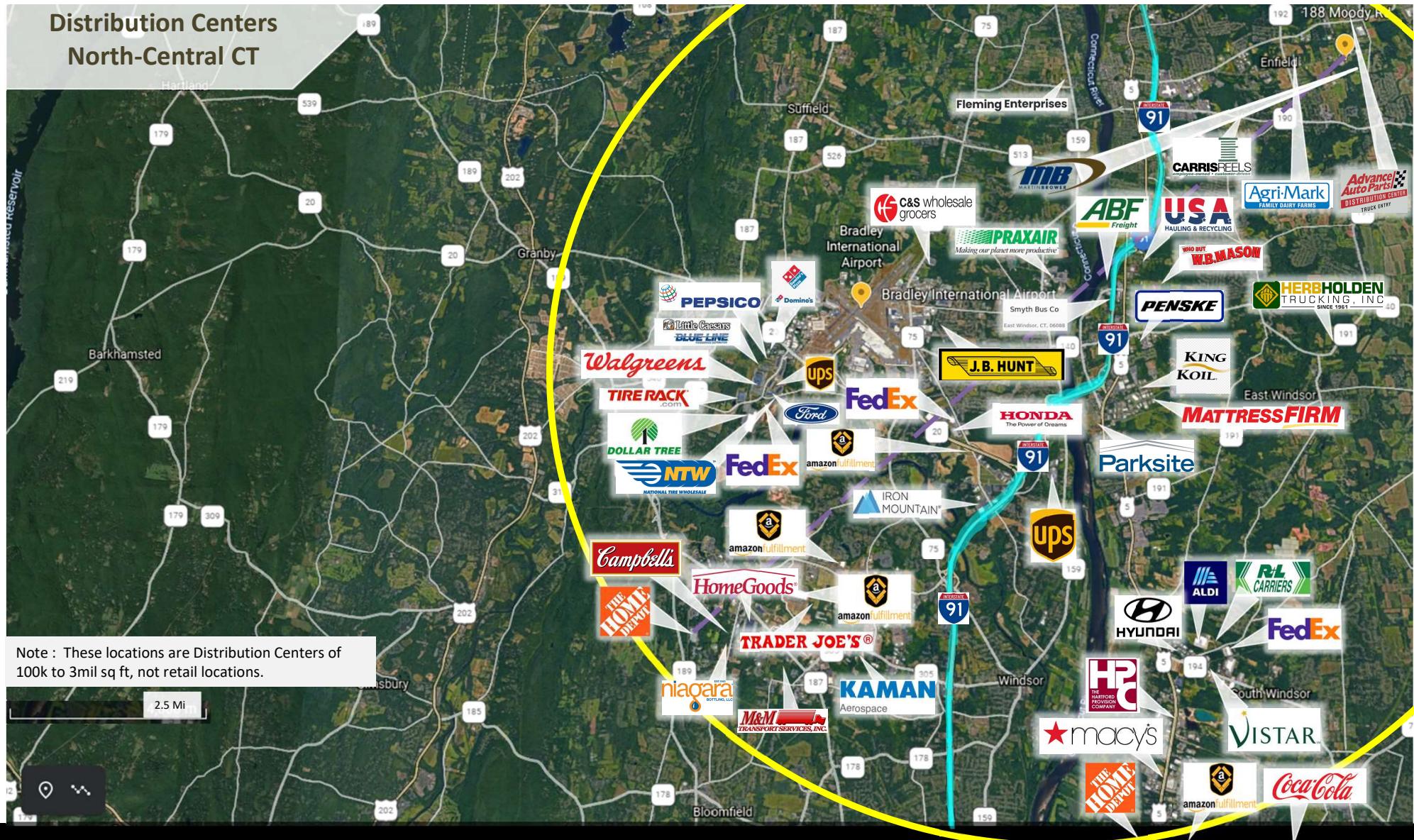
- Continued growth
- Climate controlled

Warehouse/Logistics

- Substantial demand for new s.f. - +300 mm s.f./year
- ATL: 40 mm sf TY
- All sizes: 3.6 mm s.f. – 35,000 s.f.
- Refrigerated/cold storage
- Liquidity, demand, fundamentals
- Price gains

Distribution Centers

North-Central CT



Note : These locations are Distribution Centers of 100k to 3mil sq ft, not retail locations.

2.5 Mi

128

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CRE Debt & Equity

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
- Retail – B & C, specialty, local retail/restaurants

Long-Term

- CBD office
- Regional malls
- Municipalities – assessed values of Commercial Real Estate

Pay particular attention to older assets: +40, 50, 60 years

Transactional & Development Activity

Transactional & Development Activity

- Activity returning
- Concentrated in specific sectors
- Bid/Ask gap still high
- Preference for existing vs development
- Focus:
 - Strongest markets, tenants, properties
 - Reliable Net Operating Income (NOI)
 - Resiliency
 - Industrial, logistics, storage, life sciences, multi-family rental residential
- “An unprecedented amount of capital to be deployed”

State of the Industry

How Did We Get Here?

- Most trends started in the '90's
- Too much retail & office square footage
- Marginal properties were already in trouble
- Covid-19 just made conditions worse:
 - Online was a convenience, now a necessity
 - Work from Home (WFH) is here to stay

State of the Industry

What's Next?

- Expecting a short & shallow slowdown
- Continued strong activity in southern markets
- Headwinds:
 - Market uncertainty
 - Cost volatility
 - Interest rates
 - Cost of debt/equity
 - Flight to quality: markets, products
- 28% of CMBS, \$5.5B – negative leverage – storage & MFRR
- CBRE cutting costs by \$400 mm
- Hiring ↓ 30-50%
- Leases: lower rents, free rent, shorter/flexible terms
- Availability has narrowed – B & C properties

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Some Predictions

Changes to building design:

- Open-air features, greater flexibility
- 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
- Delivery-only prototypes
- Continued increase in building technologies;
 - Health, security, environmental control

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Some Predictions (continued)

- Specialty retail will continue to see anemic growth
- **Greater focus on experiential retail**
- Exponential growth in cannabis-related facilities
- Quick Service Restaurants (QSR's), fast casual
- New & smaller format stores: Target, Ikea, Bloomingdale's
- Locations:
 - Fewer
 - Smaller, different design
 - Billboards, fulfillment centers, showrooms
 - Bricks to Clicks: physical locations drive increased web traffic

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Some Predictions (continued)

- Owners will face difficulty refinancing:
 - Rental income flat/declining
 - Appraised values flat/declining, depending upon asset quality
 - Interest rates rising – how high?
 - Lenders/investors/buyers: “A” markets & properties
 - Increase in foreclosures
- Tougher leases – a tenant’s market, except in “A” markets
- Without population growth, new retail/office development of any scale will be rare: No tenants, no money
- Focus on conversions of obsolete properties: retail & office
- Increased interest in suburban, lower interest in urban
- **Some projects & developers will fall victim to interest rate increases**

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Development Opportunities in CT

- Apartments
 - Inadequate supply – old stock
 - Still substantial demand for upscale, amenity-rich projects
 - Markets with job growth
 - Locations near highway/transit corridors, F&B, recreation
 - Groton/New London, Fairfield County, Hartford, Naugatuck Valley
- Industrial
 - Highway & transportation nodes (ports, airports, rail)
 - Available labor
 - Near similar uses

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Redevelopment Opportunities in CT

- 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

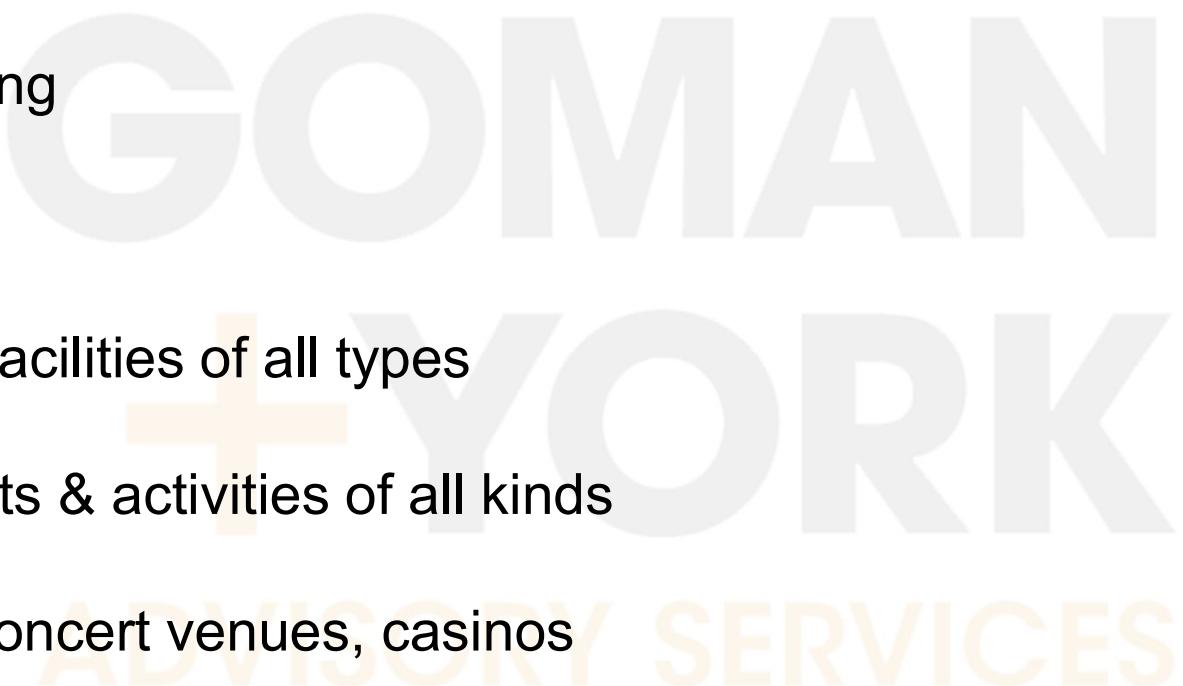
Must be able to buy at low cost per square foot (PSF)

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Redevelopment Opportunities in CT

Conversions:

- Hotels & office to housing
- Retail:
 - not just health clubs
 - medical, bioscience
 - community centers/facilities of all types
 - Schools of all types
 - Driving ranges, sports & activities of all kinds
 - Parks/activity parks
 - Farmer's markets, concert venues, casinos
 - Indoor farming



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Redevelopment Opportunities in CT

Conversions:

- Retail:
 - Food & Beverage: incorporating food halls
 - Experiential - Arts & Entertainment
 - “Last Mile” logistics locations:
 - convert big and baby box retail to delivery points
 - Co-working spaces/Accelerators/Incubators
 - Add multi-family rental residential
 - Enclosed regional malls to open-air, mixed-use properties

Redevelopment – Open-Air Mixed Use



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Opportunities in CT - Development or Redevelopment:

Out of State Investors:

- Will see continued interest in CT
- Prices are low vs their home markets
- Less competition
- Aged Product: new product can pull users from old
- Need liquidity and a plan

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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
- Be as flexible as you can be, e.g.: ancillary housing, changes in use

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Advice for Municipalities

- Create resources that can be shared, e.g.: research, data
- Think like a property owner: marketing, management, operations, value
- Close coordination: Political leadership, EDC's, Chambers of Commerce, Main Street, real estate brokerages & development community
- Disposition strategies: focus on creating tax revenue
- Appreciate the value of “halo” businesses

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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**

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Advice for Business Owners

- Think mobile-first, or else
- It's not only about convenience
- Brick and Mortar is here to stay
 - Must be a frictionless experience
- 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

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Summary – Some Assumptions

If no:

- increase in geopolitical instability:
 - Ukraine/Russia
 - China/Taiwan
 - N. Korea
- new pandemic or similar event
- change in interest rate hike expectations
- energy crisis
- unexpected shift in key economic indicators

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Summary

- Good opportunities at lower cost
- Emerging demand for new products & services
- Capital looking for opportunities & ideas
- **Headwinds: Inflation & Interest Rates**
- It's the end of a cycle, not the end of the world
- There's great opportunity in this new environment

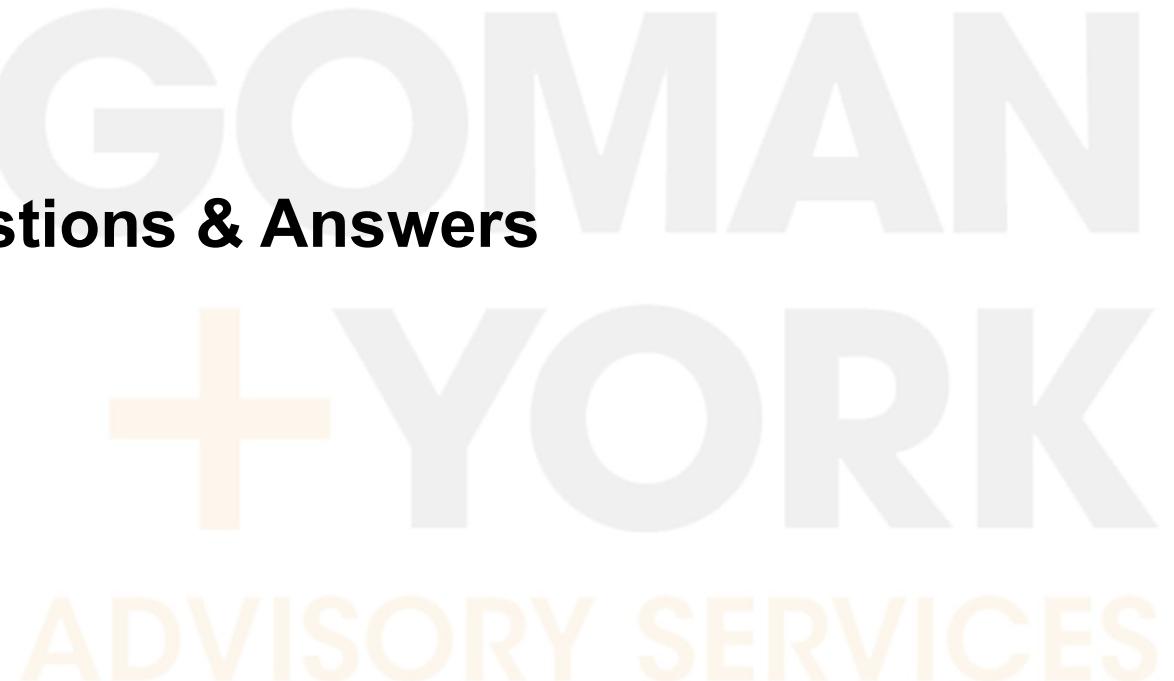
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“It was the best of times, it was the worst of times,
it was the age of wisdom, it was the age of foolishness,
it was the epoch of belief, it was the epoch of incredulity,
it was the season of light, it was the season of darkness,
it was the spring of hope, it was the winter of despair”

A Tale of Two Cities
Charles Dickens

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Questions & Answers



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