

REAL ESTATE DECISION MAKING – TRENDS THAT IMPACT CRE

Professor: Greg Smersh, Ph.D., Guest Speaker: Lacey Willard

OK. Our guest this evening is Lacy Willard, and Lacy is with Building Owners and Managers' Association, or BOMA, and she's also with CBRE. And she's here this evening to talk about trends in commercial real estate.

Thank you so much for the invite. And how exciting is it to be able to say that we can bring the information from these two brands? And just to give a little bit of information and backdrop on the role that I have with both, and so much of the information that we'll be talking about through these segments is fed through CBRE research and BOMA research. And CBRE is a global company, and we are the number one in the realm of commercial real estate leasing, and sales, valuation, investment manager, and outsourcing.

And so we have a lot of data to pull from. We have a lot of focus on research. We have 440 offices globally in 60 countries, and we serve about 85 percent of the Fortune 500s. So when we're talking about occupiers, and we're talking about what is the interest, and why are some of the factors driving these stats and these decisions? it's because we've had that interaction.

We ourselves are on the Fortune 500, S&P 500, and now the Dell sustainability index. So we'll be talking a little bit about some green initiatives. And green initiatives not only are familiar to CBRE, but also to BOMA. And BOMA is a 1907-founded industry organization with a main focus on advocacy, education, research, there's conventions, there's designations, and education with credentials.

And so all of that coming together brings to a very robust research platform that we can engage with academia. And one of the greatest things that we see is the exchange of information. Not only that, we're able to bring of what practitioners are seeing within commercial real estate, but also what academia seeing, and studying. And those partnerships are so important. So the exchanges that we have here are brought back to our white papers in our research departments. And it really fashions and colors how we're able to have these conversations. It's really tapping into a lot of information there.

And so we'll start today with an overview, taking a look first at the national market snapshot in the United States. And it's been awhile since we were able to solidly and completely without a volume of rose-colored glasses say an economic boost is on the horizon. There's been a lot of cautious optimism over several years. We've been watching this and fundamentals. And so this is a stamp that this boost is on the horizon. And we know that because we have a lot of statistics that show this. Fundamentals in the industry.

We have a 14.5%, which is a trending down, a 14.5% vacancy rate. Now Tampa-- that's nationwide. Tampa ranks in at 15.2%, so we're not coming in line with the national average. But that national

average is trending downwards. It's trending downward at a wonderful clip. It's about a 30 basis point reduction, which in the last 30 years has only happened about three times.

So we're seeing these vacancy numbers, and tell you is we talk to brokers in so many markets, and we have them in our ranks, actually. And we've been asking the question, when are we going to start to see that the pricing that's driven is when you start to see these true movement and into vacancies? So when you talk about the economic boost on the horizon, it's because we're seeing these fundamentals.

And talking about rates, \$28.14 is the national rate in office product. And how we rank in Tampa, in the downtown, which is a different framework, different fundamental than suburban. So downtown, 23.26. And then in a suburban, 19.61. So again, just like vacancy, we're not tracking directly in line with the national averages. But on a per-square-foot, we're not exactly up with maybe New York. And so those definitely skew some of those stats.

Absorption. A very important number of the in-commercial real estate that we track very closely on a nationwide basis, is the 15.4 million square feet. Which is again trending up. And new construction. We're going to be talking about this a little bit later when we hit on the terms of densification. But completions on the nationwide scale is at 4.2 million square feet, which is up again. So vacancy down, rates up, absorption going up, and completions going up. So it really makes for a great story for commercial real estate and investment.

And so the next question was we have these stats, and we have this story to tell with the fundamentals. But the question is, why? So if you take a look at office snapshot, if you take a look at some of our publications as it released occupier services, the why is pretty consistent. It's a good why. It's because there's job growth, and it's because there's no new construction. So a lot of these, the existing product is able to house the job growth and the additional personnel that are coming in. And so a subsection of that is improvement in GDP, with a large contributor of that being the personal consumption. Which is just all trending well for not only office product, but also on the retail side.

And how does that relate in Tampa? We always want to look back, because we're here at USF, and we're always interested in how that story comes home and how that relates to us. So Tampa's actually in the top 20 markets for office leasing. And we fit in just between Denver and Nashville. And so there we are the top 20 for office leasing, and where we're not, though, is in the tech. So if we go to the second bullet here, technology fueled global marketplace. I'm going to be talking about more on the tech.

It's going to be one of the common themes that we'll just see coming up and coming up again. But we don't really tap into that tech. So 19.9% of leasing activity is on the tech side--tech companies, [INAUDIBLE]. But there's an anecdotal stories about that. But really where Tampa is growing, we talked about this a little bit earlier, is we're a retiree magnet, we have the financial services, and we have logistics. And so I just want to some presentations with the local economic development, and

you see that as a wonderful trend, the logistics, the financial services. These are common industries that we're hearing driving.

We're also hearing a great story about incubator space. I mean, it's such a great concept. There are entire tenants of buildings who were put together to be that incubator space. To be that transitional or short-term lease license type of housing. So that when that occupancy or when that demand for that business starts to grow, they can then occupy additional space.

So these are trends that we're seeing. The microloans that are happening up in Pasco County a little bit about Pasco. So the microloans that are happening there is kind of tapping into the entrepreneurial coming out of the recession. An incubator of smaller businesses. And some of that is co-location of very similar type of independent firms who find this collaboration concept and may be fostered to come together. And that might be through a very formalized license presence in a lease with the license, or it might be in a government-sponsored type of incubator project that is grant-funded.

So Tampa is definitely on the radar, and it is coming up. And so I love the positives. If you take a look at some of our research, one of the great topics, and you should be very proud of this, is the draw that USF has to our community. What a statement, to say that the university system is able to have such a presence throughout the Tampa Bay market. We're here on this campus, the downtown Tampa campus. I was just last night at the student center at the St. Pete campus. So we held our leadership awards for the US Green Building Council there, and a beautiful campus, and there's a lot of activity, there's a lot of feeling of the community, we'll be talking about that, too.

So the USF is such a large contributor to the Tampa component of the story. And so I will touch for a moment on this subcomponent under technology, which is the collective consumption. The sharing economy. I was just in Boston, and travel quite often. And the entire time we were traveling by Uber. Anybody? Anybody, a little bit of Uber travel? It is a option for a cab.

It's what we would call a collective or sharing economy. I'm going to give a couple of other examples. Airbnb, HomeAway, again, Uber, Lyft, Car2Go, Bag Borrow Steal, Rent the Runway, LiquidSpace, Couchsurfing. Couchsurfing you might have heard of, it's been around a little while longer. Heard a great piece on NPR this morning that 75% of the Airbnb transactions are probably maybe not legal in the state of New York.

So this great concept is coming, the sharing economy. And we're really seeing that, and seeing the benefit of being on the growth path. And why? It's because we're coming out of recession. Again, we're coming back to that incubator, these great ideas are coming, and let's work with them and see what they do. We've seen technology support it. Technology can do it. Technology is there to support these ideas that are coming out of the recession. And then another thing we'll see here and there, millennials.

And so those three concepts are driving these opportunities. And if you look at Airbnb they have rooms counting at 800,000. If you compare that to Hilton, they have 680,000 worldwide. And so if you're taking a look at it that our concepts of market share, and where technology is taking us, and let me just kind of bring it back full circle to commercial real estate. LiquidSpace is an opportunity for a conference room. Maybe even it's at a university, maybe is at a hotel. Maybe it's at a hotel who's just plain sick with people just using their lobby for meetings all the time, and interviews, and whatever it is. And so they post it on a feed.

So you can go on LiquidSpace and book that space for a fee. And these types of uses of space are trendy, but we see that with a trend that will stick. And so this is all technology-related. You can have a website and an app that can support use of the space at any given moment. And you're not going to see these opportunities. So technology, definitely the educated workforce, and test room with new hires.

I'm on an internship program, actually. Tapped into USF, and many of the other universities. And some of the data that we're going to take a look at later under advocacy issues are drawn from the internship programs that we run. And that is specifically through BOMA, which is an industry. And so not only are these insurance exposed to CBRE, because working in connection with, but every single other large company who is engaged in the state of Florida on discussions for advocacy. So this internship opportunity in the industry of testing new markets is a very positive trend that we're seeing.

And so taking a look at the US is one thing. And I just had two very long conversations about very recently, last couple of weeks, trips to China. And BOMA China has just held their conference. And the amazing part, a doctor that we were talking about earlier. This is just amazing to anybody who goes over there who's ever been involved with commercial real estate. Seven to 10 years, the life expectancy of a building.

The way that the story is told is, the building is built, 42 stories. A more beautiful building is built, 45 stories. Oops, this one's no longer competitive, so it needs 50. And so that type of a concept needs a bit of a workaround, maybe. And so the lead concepts are being embraced. Operational concepts are being embraced post-construction. And so I think there's a real opportunity for that education base.

And so that's going to be-- what is that trend going forward that's going to kind of maybe contradict it? And all of the rows of housing that is being built for expected occupancy. Because these are spec. It's a complete spec type of construction. But they're not underwater. It is not like they're underwater and there's a large amount of debt. So it's not looking like the spec construction that we were subject to perhaps on the housing side.

And so it's not the debt, it's not underwater. And it's the concept of construction that the government will bring in first occupants, the first adapters. They'll bring them in, and then the rest of the population will start to go into these cities. So it's a very interesting concept that we are

trying to understand, and trying to bring some of the best practices that we've seen, for example, in property management, to lengthen the life expectancy of these buildings as they operate.

And to bring years of experience to a country that has like a even 39 year is where we have to have a depreciation of the real estate, and I am certainly an appreciator of historic buildings. Absolutely. And the years and years that we've taken preserving that. So such an interesting part of the conversation with China. And so just wanted to take that and come back to the US. And so what we take a look at quite often in so many of the studies are who are the largest 30 cities, and what are they doing? How are investors seeing them? What are their rental rates? What are their vacancy rates? How do they compare to each other?

We've been very happy for Tampa to make the list for several cycles now. Miami is, of course, on the list as well. And so, always like to bring it back to where these cities are. And if you take a look at Tampa, again the 15.2 on the vacancy, and the 20.13 as the blended asking rate. And the square footage, you probably can't see it, is 45,000 as it's tracking just for Tampa. This one's not taking into consideration for going over to St. Pete, or the great things that are going on in Paschal County. And so if we take a look at some of the national trends, we're able to talk about Tampa and have this discussion here because we're in that top 30.

Popping it back up again to talk a little bit about the national office snapshot. A huge concept right now, and you'll see that front and center. Very first one is the workplace 360. I just got back from our LA office. There are amazing trailers and coverage. Our Orlando office just went through the 360, and it is a concept that is embraced at the highest levels of the organization. Our head of our legal departments, they're in this 360. It's a flexible, community-based, collaborative, high-technology, free addressing, taking advantage of sustainability.

And so the picture that you would see of a 360 or collaborative workspace has a lot of window, a lot of lights, a lot of air quality. And you'll have the free addressing. So you come in to your office, and you will station yourself over here in this cube one day. There's no paperwork that you bring, because everything's been scanned. There's been great competitions, by the way for the people who have the oldest dated documents. You get a gift certificate for going ahead and scanning that in and giving that up.

And so the format for that, though, has been a realization of the fact that not all space is always used. It is a definite workplace shift that we're seeing. And owners of real estate are worried about it. The densification, reuse, repurposing. This is all in the Googlization, so that's all under this concept. Going through 20,000 square feet with 85 employees to 15,000 square feet with 85 employees. Because 85 employees are not always 100 percent of the space.

Not in all industries, because some industries have that static use. We are heavy here in Tampa with call centers. And so that call center environment would not be subject to densification in traditional terms, by incorporating collaborative space. But would be because the square footage per person is shrinking quite considerably. GSA is even down to 150 square feet per person.

So those are some big changes that we're seeing, and those are big things that certainly we're watching. And so when we take a look at a survey of the space use, occupiers space, 47% of the space is utilized. 32% of the space is usually empty, or sort of community-based, and 21% of the time people are away. Because we are a service type of in industries that we have, and they're away from the office engaging with clients, conducting research. And so this concept for the balanced workplace and flexibility supported by tech, and demanded by the millennials. All of these concepts keep coming back together because it's driving so much.

There's a definite differential in market conditions between downtown and suburban markets past the normal parking ratios that we have to worry about. So this is working well where there is the multi-use type of development that we're seeing done so well. The retail multi-housing office. And now you're seeing great schools go in there, too. So we don't want to be like me and panic and move to the suburbs. That's not in the scenario. And so there's so much that is being addressed that is a benefit to the national office market snapshot.

And so the other component of this is always what is going on with interest rates. Lot of capital's been sitting on the side, and continues to in some amounts. But it's being certainly compiled. and so interest rates, we don't think are going to be, even if they raise, are going to be a significant hit to commercial real estate. Because we've seen that it's on that investment.