



# nerej

## **Katherine Wellington - The new market will focus on young professionals, seniors and effective use of space**

May 25, 2011 - Spotlights

I am writing from the Las Vegas Convention Center for the ICSC Annual Meeting. The meeting here reflects the market as a whole...moving toward stabilizing at a new normal.

The gathering here has significantly fewer attendees than in the height of the 2006/2007 market but many more than the lows of the 2009 and 2010 meetings.

Transactions and committee approvals are returning but each one is cumbersome and difficult. Economics are thin and all deals are evaluated on a risk averse measure as committees are tough in their review and slow to approve.

Landlords have adjusted to a new normal with stabilized debt at higher vacancy levels. And while most landlords are anxious to complete new leases and spread their overhead drag, landlords continue to be hesitant of new retail concepts and very wary of proposals including large amounts of landlord funded tenant improvements.

Owners are also very focused on limiting transaction costs. Total transactions continue to be approximately 38% lower than the 2007/2007 period according to CoStar. However, the average size of transactions is also down precipitously.

As we move forward in a stabilizing marketplace, the following four factors are significant to the new marketplace: efficient maintenance and utility costs; effective assessment of management strategy, alignment of use with who are the expanding tenants and the highest and best value of the property, effective structuring of the base rent format to provide landlord with necessary debt coverage and also include effective upside such as percentage rent, and minimal transaction cost drag.

The exciting new opportunities in the market include new prototypes with reduced square footage; changing consumer habits, increased focus on millennials and seniors are demographic patterns shift, increased focus on LEED certified buildings to reduce utility consumption; reduced aggregate retail purchasing by consumers which will lead to different purchasing patterns; focus on NNN costs as properties begin to compete on NNN efficiency and reduction in per person office space usage. Additionally, demographics will drive increased health and wellness focus as boomers age and access and ease of use become more of a focus.

In summary, the market we are moving into will stabilize into a new normal which will include more focus on effective use of space, reduced overhead and transaction costs and increased focus on young professionals and seniors.

Katherine Wellington is a Principal with IPS/Investment Property Specialists, Inc., Framingham, Mass.