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Business models have changed and will be very different upon return - by Michael Giuttari

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Well, where do we start? I have been writing articles for the New England Real Estate Journal for as long as I can remember, at least 30 years, and never have I had a simpler, or more difficult time putting together a real estate review. On March 16th of this year, the real estate office as we know it ceased to exist. Everyone was sent home and told to “work from home”, whatever that really meant. We knew what “I’ll be working from home” for an afternoon, or a holiday meant, but not really “working from home”. Do not come into the office. Now we would really put our technology to the test. How good was the Wi-Fi strength in our homes, did all of us understand what a VPN connection was if you hadn’t used one before, and had we ever initiated a Zoom meeting with a new client as the kids and the dogs and the cats climbed around our new “desk”. We were all dumped into this cold turkey, learn, or die. We learned very quickly, as we were all in the same boat. Real estate deals must go on, as the clients demand they do.

On that 16th of March, the retail, and more specifically, the hospitality industry came to a halt. Rhode Island is certainly a food loving state, and closing the restaurants, closed a big portion of the state’s economy. Personally, my wife and I live in downtown Providence. We often walked to Federal Hill where you have a large variety of restaurants and food service venues. Four months later, they are still trying to partially open, but not very successfully, as the patrons are still leery of venturing back in. Many restaurants have remained closed waiting to see what happens to the schools, sports, hotels, and the convention center, all of which remain closed. We are at a point where too much time is passing, and the sound of businesses giving up is growing louder.

The office market remains in limbo. The office users were all sent home that day in March. Four months later, most office users remain home, certainly the bigger companies have kept their employees out of the office. Some of the smaller companies have returned, as we have, but under revised operating procedures. It is a different world now. As an example, we do not use the conference room. We stay in our private offices. We seldom have clients come into the office, and if they do, one at a time, and in our offices, masks on. We have masks on in any common areas outside of our private offices, hand sanitizer on our desks, rules for the elevator regarding only two per ride. We even have our weekly staff meetings via Zoom, in the office.

At this point, office users do not know what the future will bring. How many employees will return or continue to work from home? Will the design of the office space be different considering proper employee spacing, needing more space, or less space if fewer people come into the office? We do not know yet. There are certainly instances where we are already seeing properties being made available knowing their business model has changed and will be very different upon return.

The industrial market has been the bright spot in a strange world. A few comments to set the stage from the many calls and “meetings” we are involved in around the country. Amazon is currently operating at a pace that is 30% higher than their highest rate at any high time, even during the holidays. 50% of this increase are first time users, that you know will be coming back, keeping Amazon operating at a very high level. Given that, they have seven one million s/f requirements active in the Inland Empire area outside of Los Angeles, and a bigger number of million plus square

foot requirements going on in southern Calif. Another industrial comment is that in general, 50% of the new deals / leases that are currently happening are related to what is going on with the virus, medical supplies, support facilities, and the direct to consumer business in general.

The warehouse space demand is better than before March. The direct to consumer business is huge and growing during this time, pushing the need for modern warehousing. Rhode Island has historically had low vacancy, and currently has historically low numbers for our modern buildings. The rental rates are finally edging up. For 30-40 years, the low rental rates have held down any spec construction. Now that rental rates are increasing, construction costs are at historical highs, still holding down new construction. The Rhode Island vacancy numbers are in the 1%-2% range for "modern" space.

I wanted to keep this Rhode Island "update" very broad and try not to give any direct illustrations of the difficulties many companies are going through. Please excuse the lack of examples of businesses or properties shutting down or becoming available.

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