



CELEBRATING
55 YEARS

nerej

Open the schools to improve business conditions - by Valerie Pontiff

February 12, 2021 - Appraisal & Consulting

Chair

Valerie Pontiff, CRE

Mohr Partners, Inc.

Businesses do not exist to serve real estate. Instead, real estate exists and derives value from underlying business demand. New England states aggressively tax commercial real estate, and the revenue is largely directed to schools. This bargain is quickly unraveling. Leaders at all levels must step forward to improve business conditions, starting with reopening the schools for full in-person learning.

A December 30th article in the Wall Street Journal showcased the economic carnage in downtown Boston. Approximately 40% of commercial occupants were permitted to return, although only 7% had chosen to do so. The article featured a list of permanently closed small businesses that had formerly served our bustling New England hub. How do we turn this around? Many businesses have announced that employees will return to the office in phases over the summer. Assurance should be made that this decision is final and will not be delayed. Confidence is contagious and must be widespread.

As a public-school parent, it is not an understatement to say that many believe our whole society has been tragically harmed by the shuttered schools. Business leaders must demand that schools reopen in full in the fall for all grade levels. Hybrid school is functionally equivalent to no school from the perspective of working parents. In addition to offering partial in-person education, hybrid school permits school leaders to intermittently close the schools—for any reason (threats, influenza, weather) or no reason. School closure decisions are often made late in the evening the day before the closure, resulting in missed work by the parent. Hybrid school harms working parents, children, and businesses. It must be rejected. Our business leaders should support working parents and students through insisting that schools be open in full in the fall for all grades. Our businesses pay significant real estate taxes through rent and deserve functioning schools.

Speaking of real estate taxes, it's worth considering building valuations vis à vis real estate taxes,

particularly in expensive urban cores. A third-quarter 2020 report by a major brokerage company, reflecting only the first six months of the pandemic, indicated that sublease space had increased in the United States by 52%. Stated differently: only six months into the pandemic, sublease space had surpassed that available in the Great Recession of 2009. This is not a good omen. The same report showed leasing activity had nearly ground to a halt, declining from over 80 million s/f in the second quarter of 2019 to just over 30 million s/f in the third quarter of 2020. But even that read is too rosy. Of the leases signed, over a third were renewals (50% higher than normal), and of those, approximately a third were for terms of 12 months or less. Yes, Amazon is taking space in Boston's Seaport, but business conditions, as evidenced by real estate demand, are not good.

What happens when occupancy rapidly declines? Values decline. According to Globe Street, office values in the United States declined during the Great Recession from \$314 per s/f in 2008 to \$186 per s/f in 2010, or a decline of 40%. Only by 2016 did values recover. There are people who are planning on a quick rebound, and that confidence should be applauded. But history shows that recoveries are often a painful, long slog. There is always resistance to giving real estate tax relief even in the face of declining values. If taxing authorities expect businesses to continue funding real estate taxes at aggressive levels in the face of significantly difficult business conditions, the least they can do is deliver education opportunities for the children of existing workers. Getting students back in the education saddle will in turn produce the educated workforce on which regional businesses so rely. It's time for all of us to focus the mind and open the schools, in full, in person, and for all grades. Only when accomplished will the great New England business engine be able to ignite on all cylinders.

Valerie Pontiff, CRE, CCIM, MAI is the managing partner of the Boston office of real estate brokerage and advisory firm Mohr Partners, Inc. and the 2021-2022 chair of the New England Chapter of the Counselors of Real Estate.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540