

Condo-Co-op Helpline: Disruption, Technology & Real Estate

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The coronavirus pandemic has accelerated the technological disruption of all aspects of the real estate business, from building to leasing, commercial, retail, and residential. Pre-coronavirus, the technological disruption in the real estate industry was creeping along. Now, shopping has moved online, and small businesses are relocating into co-location or home office space.

Online retail activity is booming. In the United States from 2014 to 2021, the projection is that online retail will increase from \$1.3 trillion to \$4.5 trillion (according to Statista in 2019). Recent statistics of global online activity show page visits increasing, and online customer reviews have basically doubled between May 2019 and May 2020, noted tech consulting firm Bazaar voice.

Lest there be any doubt on the shifting consumer attention to online shopping, consider just brick-and-mortar apparel companies seeking bankruptcy protection to reorganize or sell assets in recent months, as reported by Coresight Research: True Religion Apparel (April 13); J. Crew (May 4); Neiman Marcus (May 7); JCPenney (May 15); Lucky Brand (July 3); Brooks Brothers (July 8); Ascena, which includes Ann Taylor, Loft and Lane Bryant (July 23); Lord & Taylor (August 2); Tailored Brands, which includes Jos. A. Bank and Men's Wearhouse (August 2) and Stein Mart (August 12). These reorganization-type bankruptcies may lead to an increase in Chapter 7 liquidations later this year or in 2021. Lord & Taylor will go out of business after 194 years.

The shift has created pressure on property leasing for retail, including storefronts and malls. According to Coresight, of the anticipated 25,000 store closings, 50% to 60% are expected to be mall-based. This may result in 25% of all malls in the United States closing over the next five years, according to published reports.

Retail real estate is not the only disrupted market. Online residential retail marketing is increasing as well. For example, 70% of home buyers look for new homes online. This use of technology in residential real estate includes using artificial intelligence to sort data and predict leads, virtual reality, and augmented reality to allow “try before you buy” opportunities and Blockchain technology (Bitcoin) for luxury real estate sales. Finally, there is a trend, possibly short-term, away from city living in favor of single-family homes following the pandemic.

Finally, there is the impact of the “work from home” experience on commercial real estate. Stay-at-home orders forced many companies to resort to remote operations during the pandemic. Due to issues with childcare and remote education, many parents are opting to work fully or partly from home. Employers are adjusting. Some large employers are now investigating “hoteling” offices: shared offices with employees sharing desks and chairs in a team arrangement. Others are offering long-term “work from home” solutions. Manhattan has seen a 25% year-over-year decline in leasing volume. Office REITS are showing a loss of value, reflecting the lower leasing volume and slow payments by tenants impacted by the coronavirus.

One aspect of this issue that is not yet clear is the impact on commercial rents. There are reports of drops of 10% to 20% year-over-year in San Francisco. There is soft evidence of rent drops in the 10% to 15% range in New York City, but there is not enough data to be certain of the true impact.

However, if large law and accounting firms decide to allow more work-from-home and hoteling, reduce public spaces such as lobbies and collaborative spaces and have more remote depositions and hearings, then the space requirements for these businesses will drop. Likewise, advertising and research firms may also resort to more work-from-home and hoteling, which will further reduce the demand for office space. This has all been made possible by technology that allows for secure and stable connections from home to office.

In short, technology, whether it's being implemented for working remotely, testing a new home or shopping, is changing the face of the real estate industry. Only time will tell how extensive and permanent these changes will be.

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