NoCo Real Estate Summit: Industrial, apartments stay hot, while other segments to struggle

By Dan Mika — June 18, 2020

The coronavirus pandemic radically altered how Americans interact with commercial properties, and NAI Affinity Fort Collins CEO Ryan Schaefer expects the virus to continue reshaping the sector for months and years to follow.

Schaefer spoke at BizWest's Northern Colorado Real Estate Summit by video chat Thursday.

Retail, restaurants, hotels suffer

In-person services, non-essential shopping and dine-in restaurants were among the hardest-hit sectors of the economy overall as much of the U.S. sheltered in place for the past few months.

Schaefer said an estimated 45% of retail tenants nationwide have recently missed a rent payment, with clothing stores, gyms and indoor-mall mainstay companies particularly struggling to make due. He said that likely will cause significant impacts on landlords and lenders, especially if other companies in the same industries follow J. Crew, J.C. Penney Co. and Gold's Gym into bankruptcy.

Dine-in restaurants were also hit hard, with research from the National Bureau of Economic Research estimating that many independent restaurants have just a 30% chance of staying solvent if the pandemic continues in force by next month.

However, some retail and restaurants gained business via shifts in consumer patterns. Grocery stores and quick-service eateries saw higher sales as the average percent of food consumption by Americans at home shifted from about 49% in pre-COVID times to about 75% today. Home-improvement stores saw higher sales as people did renovations to pass the time, while e-commerce gained in general as demand for non-essential goods was fulfilled via the web.

Hotels have also taken a significant beating as many travel plans were cancelled. Schaefer said while the state as a whole is seeing better occupancy rates than the rest of the U.S., Northern Colorado is seeing "staggeringly low" activity in the hospitality sector, with Fort Collins and Boulder seeing about a 14% and a 12.5% occupancy rate respectively. He attributed that to a general abundance of rooms across the region, along with a separate drop in demand for visiting the area after the three major state universities cancelled athletic events.

Industrial continues to heat up

The Denver metro area had its busiest year in industrial and warehouse sales in 2019, with more than 21 million square feet being moved between owners.

Occupancy rates in Northern Colorado have remained around 5.5%, which Schaefer expects to see increase slightly in the coming months as more industrial projects come on line. He believes the shift in demand for e-commerce services will make the area particularly attractive for companies needing large fulfillment and transport hubs due to the proximity of U.S. Highway 34 and Interstate 25.

However, he said the recent downfall in oil prices will hit Weld County and many of its energy-sector companies for the next several years as the travel industry recovers from a near-overnight drop standstill in driving and flights.

Medical, office space shifts to remote work

The experiment of working from home and using telemedicine to replace in-person primary care was forced into widespread reality as stay-at-home became the norm for months. He expects major technology firms such as Apple, Google, Amazon and Microsoft to continue to dominate the market for new class-A properties in tech hotspots such as Denver and Boulder, but thinks the growth curve for office space in cities without major technology presences will be pretty poor for a while.

However, Facebook and Google are allowing employees to work from home through 2020, while Jack Dorsey, CEO of Twitter and digital payments service Square, previously said employees of those companies can work from home forever.

He expects the same for hospitals, which switched quickly from doing primary-care services mostly in person to using telemedicine to keep people with minor ailments from potentially contracting COVID in the building.

“One of our clients had a five-year plan to implement telehealth, and they did it in two weeks during COVID-19,” he said. “The adoption rate is astonishing.”

Schaefer thinks there may be future demand for smaller medical space outside of hospitals from surgery groups that want to decouple themselves from the risk presented by caring for another spike in intensive-care patients suffering from COVID or a new disease.

However, if social distancing and the fear of being close to others persists, that could cause a collapse in interest for new office space.

“That seems like a pretty modest estimate to me compared to what I’m seeing among a lot of sorts of businesses, but that 10% is about 800 million square feet, or about 16% … the amount of space that was absorbed in the United States last year,” he said.

"…To put that another way, is it possible that we have 16 years of supply already built into the U.S. office market without building another building?"

Apartment demand continues, but income shocks abound

Northern Colorado's rapid population growth is nearly overwhelming the amount of multi-family housing it has available, with occupancy rates in class A and B-rated complexes averages occupancy rates above 90%.

Schaefer said class-A apartments have generally fared better as investments amid the historic unemployment Colorado and the country is experiencing, seeing an estimated 5% to 6% in rent delinquencies from tenants who may be struggling with a job loss. However, the B and C-class rentals are being hit somewhat harder in terms of non-payment due to differences in tenant incomes and the types of work that they may be doing.

He also expects a deep but temporary softness in the student housing and senior-living segments as COVID continues.