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15 PREDICTIONS

ABOUT THE FUTURE OF SOUTH FLORIDA REAL ESTATE

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INDUSTRIAL

One expected bright spot in the post-coronavirus economy could be the industrial real estate market, experts say. From a continued need for food storage and refrigerated facilities to increased demand for warehouse space dedicated to e-commerce, sales will likely grow in this segment in the future.



THE EASTON GROUP

◀ "Each cruise company leases approximately 200,000 square feet of industrial space in the local market to support its onboard operations. Since cruising has ground to a halt now, and for the foreseeable future, companies won't need all of that space. And it's hard to predict what they will need once this crisis ends."

ED EASTON SR., chairman, The Easton Group

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ABOUT THE FUTURE OF SOUTH FLORIDA REAL ESTATE

Before the novel coronavirus infected the South Florida real estate industry, it was always clear whether it was a buyer's or seller's market. But, like most industries, it's a sector of the region's economy that's not immune to the virus, formally known as Covid-19. An abundance of confidence in South Florida's most valuable sector has morphed into a wealth of unpredictability in recent weeks. The *Business Journal* reached out to local experts — many of whom have weathered previous downturns — to get

their take on what the future might look like for each segment of the region's booming real estate industry: residential, industrial, office, retail and hospitality. We also asked professionals how the coronavirus affected their deal flow. The results of a *Business Journal* survey offer a rough picture of an industry at a standstill. From small companies to large ones, a majority told us that the pandemic greatly slowed or halted deal flow. Most say that's because of uncertainties among buyers and sellers.



MCCRANEY PROPERTY CO.

▲ "E-commerce is somewhere around four years ahead of where we projected it to be based on life living online. We believe that the industrial warehouse market will come out of this crisis very strong, and the growing pent-up demand expected over the next six months will lead to a very strong 2021."

STEVEN MCCRANEY, president and CEO, McCraney Property Co.

"At the moment, the retail shutdown is boosting the industrial sector. Distribution, manufacturing, food production, freezer and cooler facilities will remain in demand, in spite of Covid-19."

LARRY W. GENET, senior VP, CBRE



CBRE



RESIDENTIAL

Uncertainty spurred some sellers to take listings off the market, cutting into local brokers' commissions. Travel bans and advisories stopped out-of-state and international buyers from viewing properties. However, experts say South Florida living is still a major commodity, so opportunities remain to make deals now and in the months to come.



COLDWELL BANKER REALTY

▲ "Worst-case scenario, it will take six months to get back to where we were. We were on a pretty strong surge of demand coming into this situation, and those drivers are still there. It's a question of at what volume and ferocity it will come back."

NANCY K. COREY, Southeast Florida regional VP, Coldwell Banker Realty

"It's a 'pocket market,' meaning inside each subdivision or building, there are opportunities. In some cases where a lot of owners pulled their properties off the market, the trend may be more on the seller's side. If an owner has to sell immediately, that may be an advantage for a buyer."

JILL EBER, broker-associate, The Jills Zeder Group



THE JILLS ZEDER GROUP



FORTUNE INTERNATIONAL GROUP

◀ "Clients reconsidered listing their units because if travel restrictions are lifted, having a second home in the U.S. will be a very important asset. They're going to come to the U.S. during our summer and their winter, when things could potentially be worse. So, the appreciation is going to happen."

EDGARDO DEFORTUNA, CEO, Fortune International Group

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HOSPITALITY

With orders to shutter hotels to guests aside from essential workers such as hospital personnel and government officials, occupancy has plummeted from highs of 80% to 90%, typical for this time of year, to 20%. With few options but to hold onto as much cash as they can, local hotel owners could potentially default on billions of dollars in loan payments. Still, experts say that investors in hotels are gambling on the long-term recovery potential of the region's travel sector.



"You will be seeing some [hotel] transactions taking place, but it'll be more of people trying to salvage a bad

situation, not because they wanted to sell. Now is not the right time to sell. Right now, cash is king and, as a result, people [with cash on hand] are able to come in and take advantage of deep discounts."

CARLOS RODRIGUEZ SR., CEO, Driftwood Capital



"We're a land-constrained market, and there are a lot of natural amenities that [make] it a worldwide travel destination.

There is a large buyer base that will be bullish on the long-term [prospects] of South Florida, so I don't think that the price just continues to go through the floor here."

RYAN NEE, Fort Lauderdale regional manager, Marcus & Millichap



"I do think that we're going to have a gap in new inventory delivery. But, in some instances, we actually had too much supply in the market, so I think this will allow existing supply to grow once it gets its footing."

JARED GALBUT, managing principal, Merin Hospitality



OFFICE

Office buildings and coworking spaces are sitting empty, which is not a good indicator for the office market in a post-coronavirus world. But experts say that even though companies and their employees have adjusted to working from home, they will return - unless the company goes out of business.



"Coworking firms have been the largest consumer of office space in many markets. They aren't going to expand. The coworking sector is definitely challenged, but I don't believe it's a fad. In order for the coworking sector to have more of an existential crisis, you have to say the gig economy has diminished. But, it's still in the early innings of growth for the gig economy."

MUKANG CHO, CEO and managing principal, Morning Calm Management



"There will be a slightly higher vacancy rate because some companies will totally fail. Some tenants will renegotiate their rent. Some see it as a way to preserve cash."

NEIL MERIN, chairman, NAI Merin Hunter Codman

"Two things are being evaluated: What are our policies, in terms of allowing our teams to work remotely, and which functions of the company can be effectively handled on a remote basis? It will accelerate an evaluation of the cost and the use of office space, but I don't think the outcome of this is physical offices will not be needed any longer."

TERE BLANCA, chairman and CEO, Blanca Commercial Real Estate



PASCAL OLLINGER



RETAIL

Essential businesses such as grocers and convenience stores remain open, and they're about the only places consumers can buy goods in person. Restaurants reduced operations to delivery and takeout, while other nonessential retail stores remain closed. It is unclear when foot traffic will return to these businesses, which creates an uncertain future for many of them.

"The place where we're going to see the most changeover is with tenants that were just hanging on and weren't bringing a lot of traffic to the [shopping] center. This could be a good thing [for landlords], as it's out with the old and in with the new. I think that, in the long term, landlords will see it as a good thing, but in the short term, they're still concerned."

KATY WELSH, senior VP of retail services, Colliers International South Florida



"Where I would have anticipated Broward County [retail] occupancy to be in the 90% range, I would not be surprised if, on average, the market gets down to 85% in the third quarter. A 5% drop is significant, as that's about 3 million square feet of space. Think about a Publix store that has 50,000 square feet: That's 60 Publixes' worth of vacant space incoming to Broward."

JOSHUA LADLE, CEO, 11th St. Capital



11TH ST. CAPITAL



"Generally speaking, rent compression will create opportunity for tenants that haven't been able to enter markets they've been priced out of. [This] will 100% lead to shorter lease agreements until the market corrects itself, because I think that's how you have to manage your assets in the short term. The ability of landlords to be nimble is going to be super important."

LYLE STERN, president, Koniver Stern Group