

My predictions prove (almost) spot-on



Will an industrial development sprout at your neighborhood Sears store? Limited inventory in 2022 could lead to new opportunities in 2023.

Happy New Year, dear readers!

2023. Wow. A full three years since the pandemic's outset. Who believed COVID 19 — and its variants would still be in our collective conversations in 2023? I'm not seeing many hands raised. You, like I, couldn't fathom its offspring would still be wreaking havoc.

Yet it's one of the three amigos — along with the regular flu and RSV — causing all that hacking. Well, let's move on to some happier conversations, such as my commercial real estate predictions from 2022 and how they fared.

Here were my words this time last year ...

Industrial rents: They'll increase. Next bullet point. However, I've got a few more words to add, so stay with me.

We track Class A inventory for an upcoming assignment. What's that, you ask? We describe Class A inventory as buildings constructed since 2000. In this way, we're able to weed out functionally obsolete structures that exist in the market.

In Orange County, there were eight new developments proposed or under construction for a combined 2.7 million square feet. That's a staggering number until you factor in what's available today. Ummm. That would be one. That's correct! One available building! Demand is still strong, so there's nowhere for rents to go but up. Prediction update: Nailed it.

Developer appetite: With industrial rents increasing and interest rates still low (that will change this year), there will be plentiful capital seeking a place to reside. An acute shortage of land from which to produce concrete caverns will mean the conundrum continues. An industrial development at your neighborhood Sears store? A campus built for industries who've left the area? All will be targets this year. Prediction update: Quite prescient was I.

The office: Recently, I read this with interest in these pages: "A new report from Ladders, a career site for high-paying jobs, predicts that 25% of all professional jobs that pay \$80,000 or more will be remote by the end of 2022." Wow! My suspicion is it will be greater than that.

Anecdotally, take our office as an example. We own a 21,700-square-foot, two-story building. We occupy the upstairs and a portion of the down for about 13,000 square feet. When locked and loaded, 49-52 folks commuted to work each day. Now? Probably half of that number regularly are on-site. My team works remotely, as do others.

Adjusting to this change will be smaller footprints and more multiuse spaces. Prediction update: This story is still unfolding. But we appear to be headed toward a permanently hybrid workforce.

Retail slowdown? We all know that, big fella. How's that a prediction? Actually, what slowed during our two-year, pandemic-fueled sabbatical were trips to the store. Retail sales actually increased as we bought tons of stuff from our home keyboards. But one of our clients, corporately based in New York, is a tremendous gauge on brick-and-mortar retail business. By that I mean, destinations such as Wal-Mart, Costco, Burlington and the like. He's sensed a real dip and predicts more to come. So we'll see. Prediction update: Yes! Most large retailers are de-inventorying.

Stagflation: What on Earth is that? According to Wikipedia, stagflation or recessionary inflation is a situation in which the inflation rate is high, the economic growth rate slows and unemployment remains steadily high. It presents a dilemma for economic policy, since actions intended to lower inflation may exacerbate unemployment."

Hmmm. Inflation rates, high? Check. Economic growth slowing? Check. Unemployment high? Check. By the way, you may be thinking — 'I thought unemployment was low?' Actually, the percentage of the workforce NOT working is high thanks to folks opting not to work or retiring or they were laid off. Prediction update: We heard this mentioned a bit but not to the extent I believed. Inflation increases are slowing, employment is strong along with wage growth and economic growth is also returning. I'd rate this prediction a miss.

Four out of five ain't (sorry, Miss Penney, my seventh grade English teacher) bad!

Next week, I'll share some bold 2023 predictions.

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