

NEW REAL ESTATE REALITIES

Arthur C. Nelson, Ph.D., FAcSS, FAICP
Emeritus Presidential Professor, U. of Utah
Emeritus Professor, U. of Arizona

NEW REALITY ESTATE REALITIES (*redux*)

- **BRIEF ECONOMIC REALITIES**

Since the early 1980s, **constant prosperity** is the normal expectation.
Rethink the Fed's **2% inflation** target?

- **NEW REAL ESTATE REALITIES**

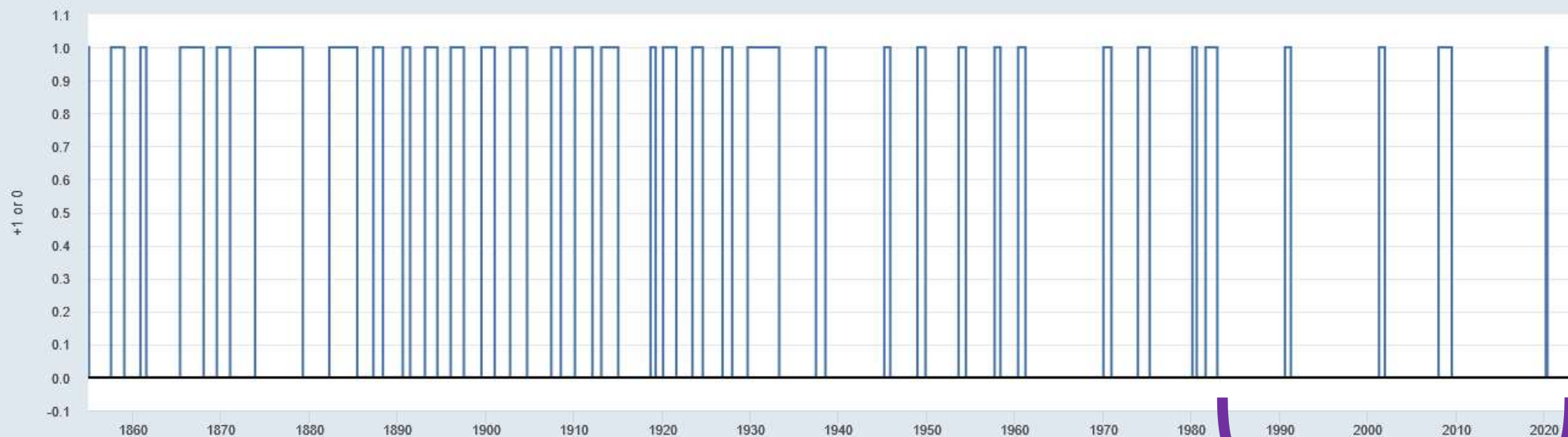
Office has been overbuilt but **recovery and conversions** on the way.
The death of **brick & mortar retail** has been exaggerated.
Reinventing residential.

- **PULLING IT TOGETHER**

- **INTRODUCTION OF PANELISTS**

BRIEF ECONOMIC REALITIES

FRED — NBER based Recession Indicators for the United States from the Period following the Peak through the Trough



Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org

5 years of Recession in the last 40—a Record of Prosperity.
Unemployment @ 3.4% → technically “full employment”.

BRIEF ECONOMIC REALITIES

FRED — Consumer Price Index for All Urban Consumers: All Items in U.S. City Average
— 30-Year Fixed Rate Mortgage Average in the United States



Shaded areas indicate U.S. recessions.

Sources: Freddie Mac; U.S. Bureau of Labor Statistics

fred.stlouisfed.org

Inflation should be a **leading indicator of mortgage rates but with this Fed it is not.**

BRIEF ECONOMIC REALITIES

Rethink the Fed's 2% inflation target?

2% was an **off-the-cuff** late 1980s TV interview with New Zealand's Finance Minister, Roger Douglas.

Formally **adopted** by Japan, Europe and US without analysis.

During 2010s, Japan and Europe experienced periods of "**deflation**". US came close.

A 2% inflation target invites deflation where a dollar today is worth more than tomorrow. Prices fall. Productivity **stagnates or falls**. Unemployment rises.

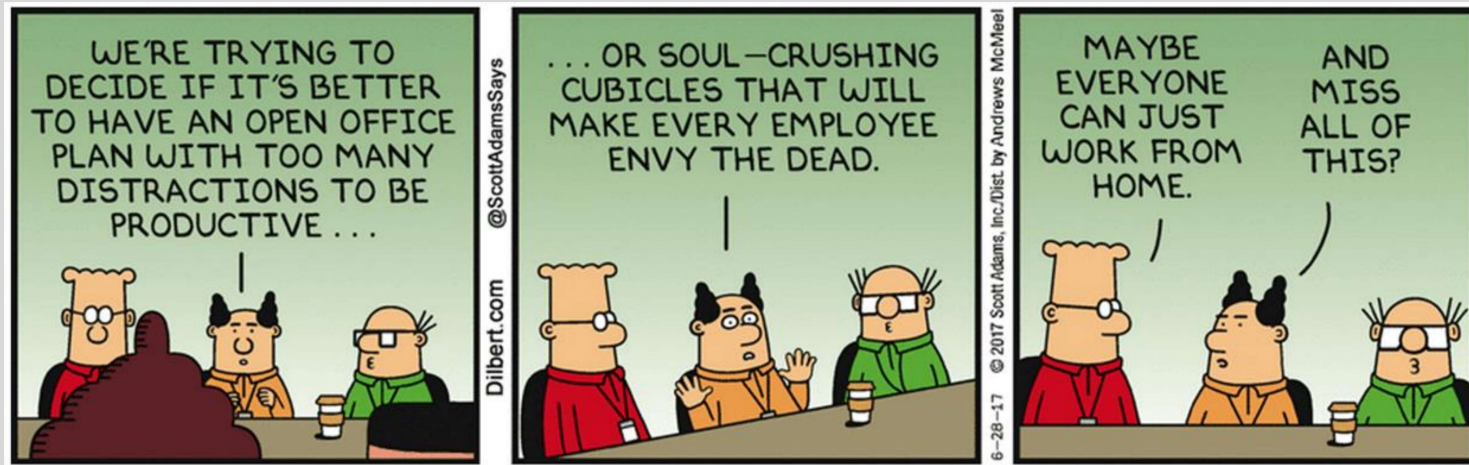
Prominent economists prefer **3%** based on actual studies.

After 2025, mortgage rates should range **4-5%** regardless of the target inflation rate.



NEW REAL ESTATE REALITIES

- Reinventing the **office** as if workers mattered.



- Rumors of the death of **brick-and-mortar** retail are premature.
- The future of **residential** is way beyond the Baby Boom.

Reinventing the Office as if Workers Mattered

Pandemic induced **work-from-home** (WFH).

(WFH) has long been **available** but not advanced.

Why? **Managers** who insisted on office work.

COVID-19 allowed workers to **trade-off**
long commutes and crowded/noisy open
offices for the amenities of home.

To lure workers back, firms are converting
noisy open offices for private offices plus
ample time to work from home.

Office workers can **commute longer** distances if they work less at the office.



<https://www.theguardian.com/money/work-blog/2014/sep/29/open-plan-office-health-productivity>

Working cheek-by-jowl is bad for productivity and well-being.

The Future of the Office Building is not Always Office

With recovery into late 2020s, office **vacancy rates** will be higher than historical.

One solution is to **convert** older towers and Class B offices into residential units.

These are older, smaller floor plates, often in need of **reinvestment**.

Gupta, Martinez, and Van Nieuwerburgh (2023) estimate 500M sq.ft. can be converted into **400,000k units** by the private sector now (https://www.nber.org/system/files/working_papers/w31530/w31530.pdf).

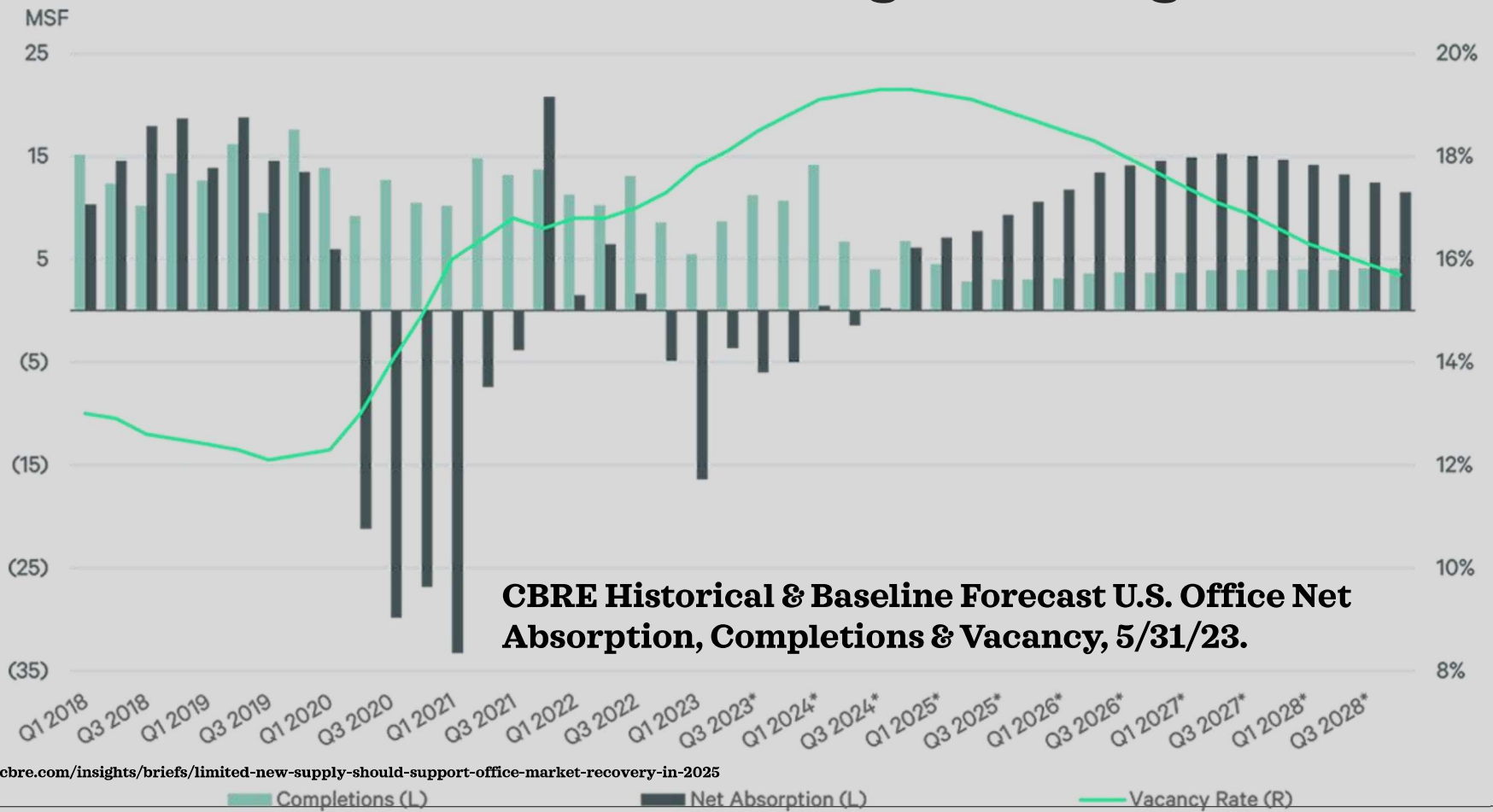
Adding targeted subsidies, Nelson at ULUI (2023) estimates that up to **1,000,000 units** can be added.

Architects are **solving** conversions of 40+FL towers with large plates.



The Tribune Tower, the former headquarters of the Chicago Tribune newspaper, has been converted for residential use. Credit... Getty Images

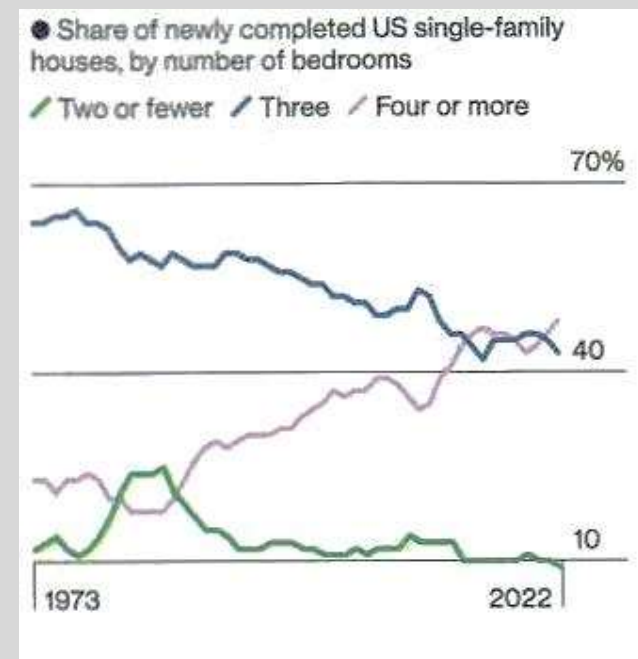
Office Market is Right-Sizing



<https://www.cbre.com/insights/briefs/limited-new-supply-should-support-office-market-recovery-in-2025>

Home is Where the Office is

- Between 1960 and 2022, households with 1 or 2 persons rose from **41% to 64%**.
- Average household size fell from **3.3 to 2.5** persons.
- The **median size** of new homes remains at pre-pandemic levels.
- Work from home (WFH) most of the week rose from **5% to 30%** during the pandemic.
- Among new home buyers, 72% want **granite** counter tops and a **home office**.
- **More bedrooms** but not larger homes.
- We need to reinvent residential developments to remedy WFH **cabin fever**.

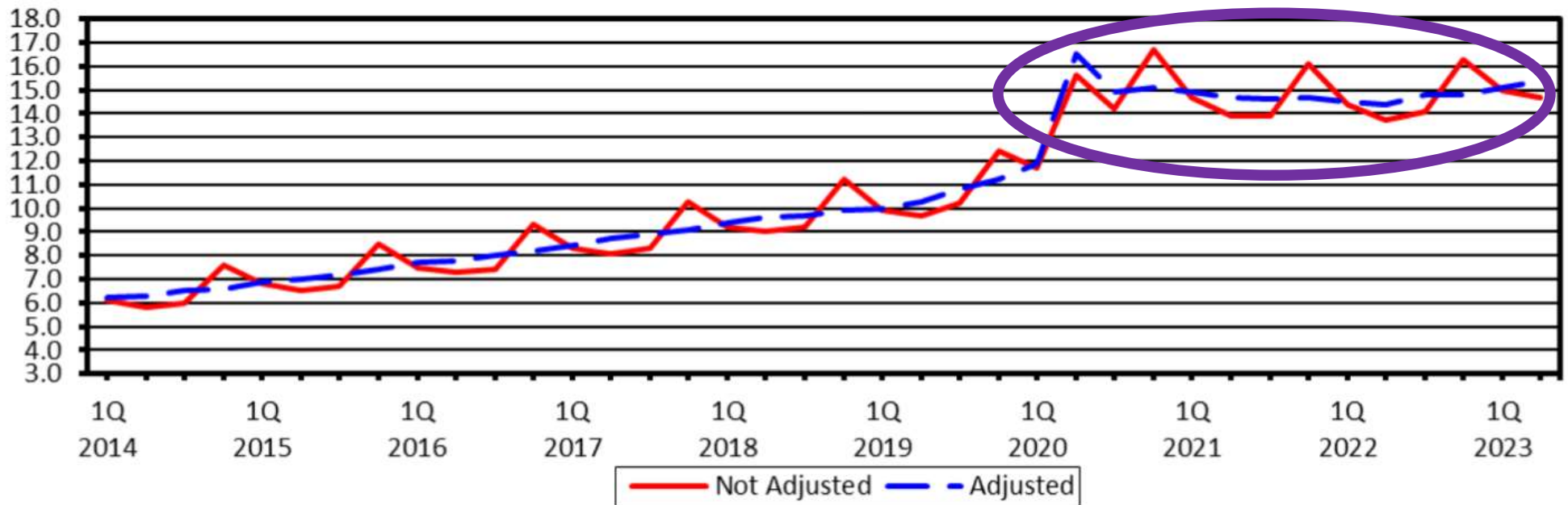


Source: <https://www.bloomberg.com/news/articles/2023-08-21/new-houses-see-demand-for-more-bedrooms-with-rise-of-hybrid-work#xj4y7vzkg>

Brick & Mortar Retail is 80%+ of Sales

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:
1st Quarter 2014 – 2nd Quarter 2023

Percent of Total



https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

OVERALL VACANCY & ASKING RENT



Source: CoStar, Cushman & Wakefield Research

SHOPPING CENTER NET ABSORPTION



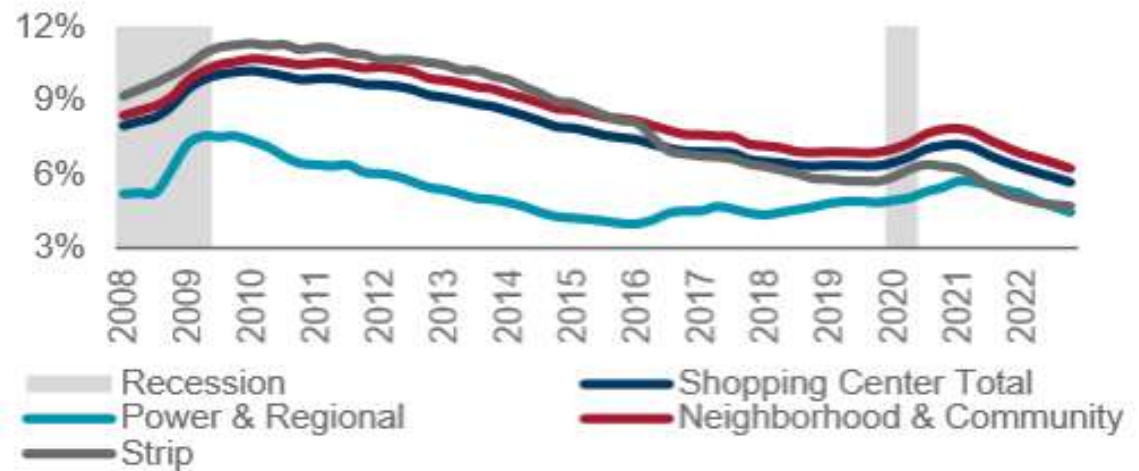
LEASING ACTIVITY BY REGION & TYPE, % OF TOTAL 2022

https://www.crescorealestate.com/wp-content/uploads/2023/01/US_Retail_MarketBeat_Q4_2022.pdf

The Resilience of Brick & Mortar Retail

Tactile | Odoriferous | Social | Psychological

VACANCY RATE BY TYPE Q4 2022



Source: CoStar, Cushman & Wakefield Research

Realities of Brick & Mortar Retail

Strip Centers → The most local but most vulnerable retail land use sector

Strategic market position to become “Amazon Proof” meaning focus on food, personal services, and one-off **Mom and Pop** retail.

Avoid leases with national chains because they can leave and though they still pay rent they will not sublease resulting in a vacant store that can create **strip center blight**.

Sacrifice solid longer-term leases in favor of **flexible shorter-term leases** with a willingness to work with a tenant when needed.

Build better relationships with locally owned tenants who can become **leads** for new tenants.



<https://www.pymnts.com/news/retail/2020/strip-malls-gaining-edge-over-shopping-malls/>

Strip Centers Gaining An Edge Over Traditional Shopping Malls

Emerging Demographic Realities

Growth No Longer Dominated by Large Households

Geography	Persons in HHs 2020	Households 2020	Average HH Size 2020	Persons in HHs 2040	Households 2040	Average HH Size 2040	Persons in HHs Change 2020-2040	Household Change 2020-2040	Net New HH Size
Utah	3,231,277	1,057,252	3.06	4,371,476	1,610,383	2.71	1,140,199	553,131	2.06
Logan Metro	129,589	41,658	3.11	181,144	65,178	2.78	51,555	23,520	2.19
Northern Wasatch*	689,238	223,399	3.09	888,352	327,783	2.71	199,114	104,384	1.91
Central Wasatch*	1,287,483	443,004	2.91	1,598,328	617,449	2.59	310,845	174,445	1.78
Southern Wasatch*	682,110	195,598	3.49	1,056,841	347,958	3.04	374,731	152,360	2.46
St. George Metro	179,515	62,416	2.88	332,728	131,765	2.53	153,213	69,349	2.21

*Northern Wasatch includes Box Elder, Davis, Morgan and Weber counties. Central Wasatch includes Salt Lake, Summit and Tooele counties. Southern Wasatch includes Utah and Wasatch counties.

Source: Analysis by Arthur C. Nelson using projections issued by the Kem C. Gardner Institute, University of Utah.

Emerging Demographic Realities

Growth No Longer Dominated by Households with Children

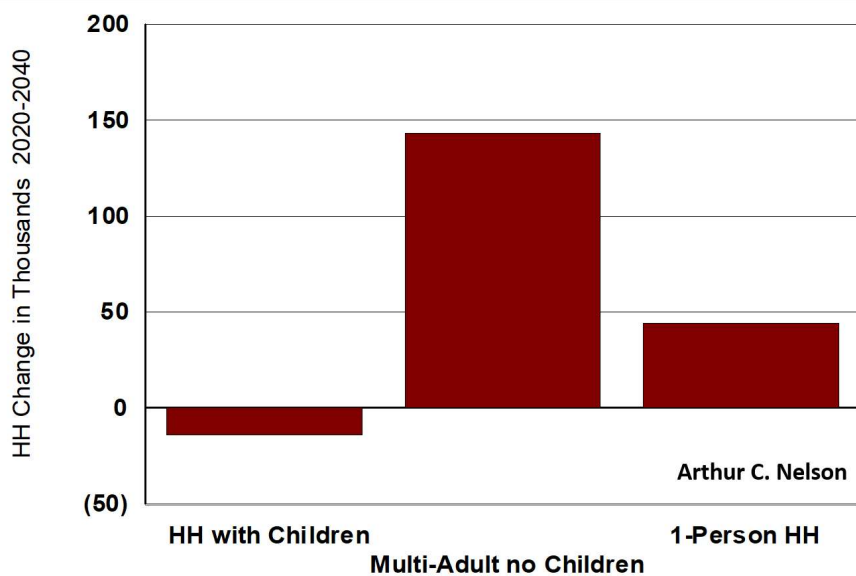
Geography	HH Change 2020-2040	HH with Children Change	Multi-Adult HHs no Children	1-Person HH Change	HH with Children Share	Multi-Adult HHs no Children Share	1-Person HH Share
Utah	553,131	22,475	369,482	161,174	4%	67%	29%
Logan Metro	23,520	2,376	16,422	4,722	10%	70%	20%
Northern Wasatch*	104,384	-1,521	80,684	25,221	-1%	77%	24%
Central Wasatch*	174,445	-13,977	143,878	44,544	-8%	82%	26%
Southern Wasatch*	152,360	28,119	92,571	31,670	18%	61%	21%
St. George Metro	69,349	9,556	43,978	15,815	14%	63%	23%

*Northern Wasatch includes Box Elder, Davis, Morgan and Weber counties. Central Wasatch includes Salt Lake, Summit and Tooele counties. Southern Wasatch includes Utah and Wasatch counties.

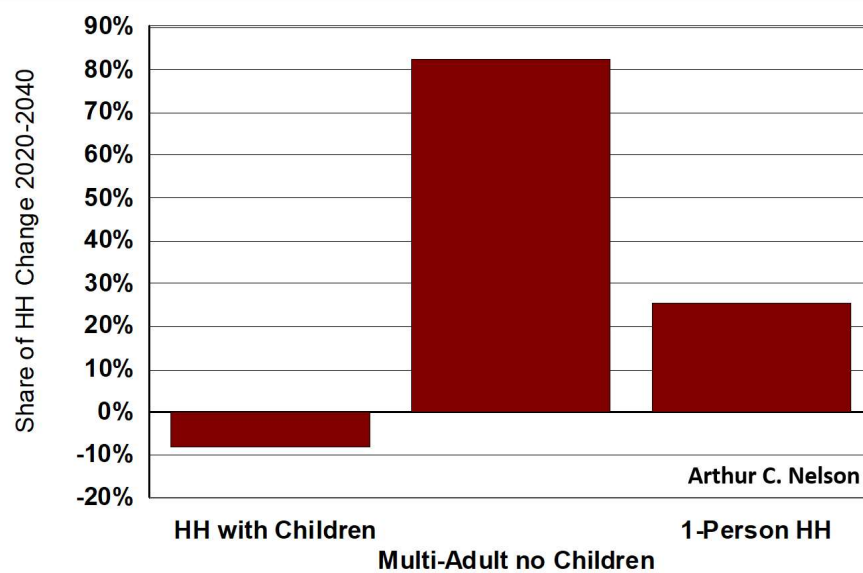
Source: Arthur C. Nelson

Emerging Realities of Residential

Salt Lake County Change by HH Type 2020-2040

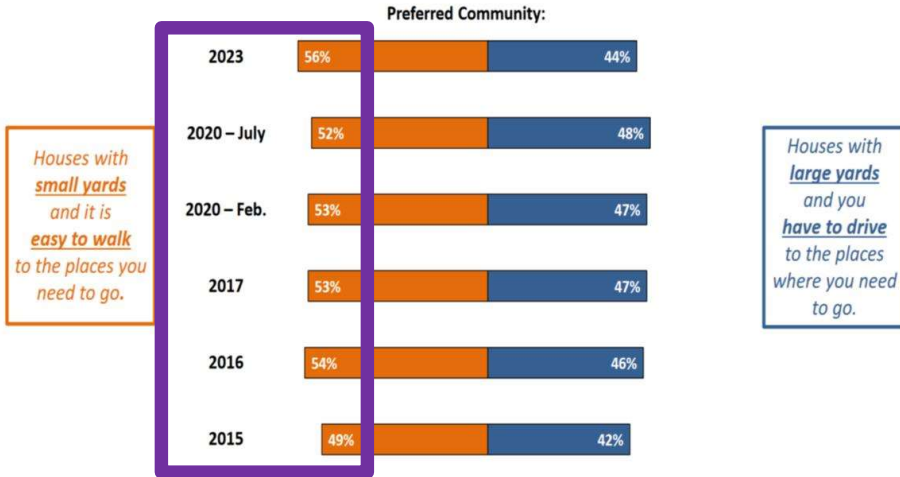


Salt Lake County Percent Share Of Change by HH Type 2020-2040

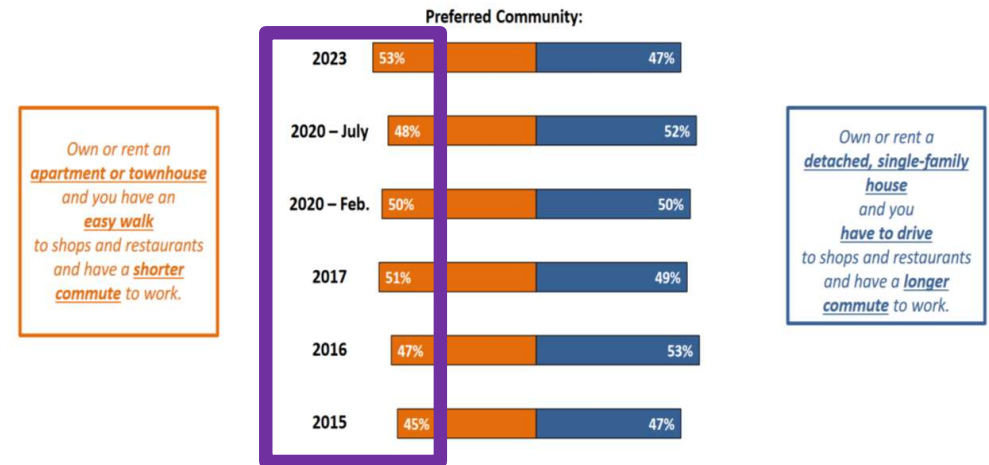


Emerging Demographic Realities

Majority Prefer Houses With Small Yards and More Walkability Over Homes With Large Yards and More Driving



Compared to Previous Years, 2023 Shows Biggest Advantage for Denser More Walkable Communities



NATIONAL ASSOCIATION of REALTORS®

Q.7 Continue to imagine that you are moving to another home. These next questions are about the kind of community where you would like to live. Please select the community that you prefer.

AMERICAN STRATEGIES



NATIONAL ASSOCIATION of REALTORS®

Q.7 Continue to imagine that you are moving to another home. These next questions are about the kind of community where you would like to live. Please select the community that you prefer.

AMERICAN STRATEGIES

Only 13% nationally live in walkable communities.

Julia Koschinsky and Emily Talen (2015). Affordable Housing and Walkable Neighborhoods. *Cityscape* 17(2): 13-56.

Pulling all the New Realities Altogether

Back to real offices for office workers—“**open offices**” on the wane?

70%+ still work full-time work on-site.

Older offices converted into residential.

Households want **more bedrooms** but not bigger homes to work from home.

Retail has stabilized by becoming **Amazon-proof**.

Renewed appreciation for **Mom & Pop** establishments.

Older retail center **conversions** into mixed uses → Class C office and residential.

Massive demographic changes favoring smaller/attached homes in **walkable communities**.

Increasing demand for places such as Ogden Farmers Market and festival events.

Do we need new forms of **financing** to create the communities people want?

Panelists with Commentaries

Dejan Eskic, M.R.E.D.

Senior research fellow and scholar, Kem C. Gardner Policy Institute

New realities in Utah housing



Erin Laney Barr

Managing Director & Market Leader, CBRE's Salt Lake City office

New realities in Utah commercial



Lew Cramer

Utah CEO, Colliers International
Utah Transportation Commission

New realities in Utah economic development

