CRE FIRMS MUST EMBRACE TECHNOLOGY, ADAPT TO GLOBAL MARKETS IN 2017

With new technologies, new U.S. leadership and new emerging global markets ringing in the New Year, now is the time for commercial real estate firms to get serious about their longevity in 2017 and beyond.

By Mel Wilson

By most accounts the U.S. has the largest economy in the world, followed by the European Union--until Great Britain makes an exit--and next China. The strength of the U.S. dollar is tied to monetary and trade policies, global alliances, economic productivity, and, to a large extent, government tax and regulatory policies. The U.S. dollar is strong today, which offers firms adept in serving global markets a real opportunity to grow.

These growth opportunities are for firms that understand and strategically plan for changing markets. First, commercial real estate brokers and their practitioners must focus on niche markets to realize their growth potential. Second, they must target markets with developing industries, cities with new expansion (or that are implementing adaptive reuse land policies), farms, agribusinesses and jurisdictions that are creatively meeting the insatiable demand in their local housing markets.

Commercial brokers are sitting on a digital divide. The days where commercial brokers once controlled the inventory and had a lock on analytics has long gone. The world we live in has become a virtual platform of digital and mobile technology. Consumers are demanding instant online access to information on platforms that are responsive to their mobile devices.

Big businesses across the globe are flush with cash, yet commercial brokerages are not investing enough in technology-based platforms. Furthermore, they are not replacing their retiring sales staff with younger, technology savvy, multi-lingual sales practitioners at a fast enough pace.

New Industry Standards Are Here

Technology Platforms: Company websites that give access to real estate inventory portals, video and virtual tours, market information, analytics and widgets that allow investors to run capitalization models are here. Although 83 percent of real estate agents feel certain they will be in business in the next two years, more than half of commercial firms cited keeping up with technology as a major challenge, according to the National Association of Realtors' (NAR) Commercial Real Estate Outlook.

Efficiency: Paperless transactions have already infiltrated the residential market. Commercial investors are demanding mobile-friendly, 24/7 remote access to every document involved in their transaction. Small, mid-size and multi-national decision makers are accustomed to doing everything on the go.

Communication: The world is more connected now than ever. Firms that understand the local markets and the culture of their global clients are on the right track. Firms that communicate with clients in real time and in the client's native language will gain a competitive edge.

Demographic Challenges: According to a recent report by NAR, there is an aging population of commercial agents with a median age of 60 years old. As U.S. Baby Boomers retire, Gen X and Millennials will run and will rule the globe. With this age gap also comes a technology gap. The decision makers in the younger generations are comfortable with new technology.

Government Intervention: The U.S. elections resulted in a Republican president, coupled with a Republican-controlled legislature. If campaign promises are kept, regulations and corporate taxes will be reduced, the North American Trade Agreement (NAFTA) will be repealed and the Trans-Pacific Partnership (TPP) will be rejected. However, the global reaction to the repeal of trade deals could begin trade wars that may result in high tariffs that negatively impact import/export markets.

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On the table is the possible reduction or repeal of the IRS 1031 tax-deferred exchange policy. Congress has also been discussing whether to retroactively enact the 15-year depreciation schedule for leasehold improvements. The U.S. government will have to grapple with a policy of fiscal budget reductions or tax relief.

Commercial brokers that are unwilling and/or unable to adapt to technology and global market changes are essentially giving themselves a pink slip, and will be out of business in less than a decade if swift action to evolve now does not commence.

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Multifamily developers, who are offered tax credits in return for building new over-55 projects, or renovating and converting older multifamily developments into units for seniors, are few and far between. That will change dramatically as we enter the next decade, however. Right now, we can count on one hand the number of developers in this sector active in Orange County. While these few developers are profitable and needed, the return on their investments simply cannot equal those of the developers with new and renovated apartments, at least for now. But all of that will change when the year 2020 dawns.

The Baby Boomers have always had a huge impact on everything they touched, and now they are transforming the apartment market. Simply put, they are not dying as fast as many social scientists predicted. That fact alone means their influence and power over everything from e-commerce to multifamily development remains so powerful that many in the commercial real estate market have missed it.

Downsizing is the byword of the Baby Boomer. While that in itself may create a bubble for the single-family home market unless barriers to homeownership are lowered, it will likely create a bonanza for smart, forward-looking multifamily developers who are the first to build, fill and sell well-appointed, subsidized, affordable multifamily units to investors. With Orange County's family centric milieu, there would be no better place to begin that process.