



There are opportunities and innovations emerging in real estate's post-pandemic environment - by Michael Zysman

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Real estate opportunities and innovations are emerging in a post-pandemic environment.

Now that we are in the tail-end of the COVID-19 health crisis, there are many new opportunities that have emerged in the commercial real estate space. In most New York City submarkets, multifamily rents and occupancy have recovered to levels at or just below their pre-pandemic highs. New construction technologies such as 3D printing are set to lower the cost of construction. Buildings that have been deemed functionally obsolete due to societal changes and technological advancements that occurred during the health crisis are ripe for redevelopment. Changes in demographics, consumer behavior and migration have increased demand in new sectors of the real estate market. All these phenomena have resulted in a number of interesting opportunities for real estate investors.

Throughout the COVID-19 pandemic multifamily has proven to be the most resilient asset class. Rents and occupancies are at or near pre-pandemic levels and many people who left NYC due to the pandemic are continuing to return which will put further upward pressure on rents. Purchasing and developing multifamily real estate in the NYC area will continue to be one of the best investment opportunities there is.

One of the most interesting technological advances in the construction business is the advent of 3D printing. As the industry becomes more familiar with the technology and sees its early successes, it will be quickly adopted into the real estate business. Lennar Homes recently announced a joint venture with the 3D printing company ICON to "print" 100 homes in Austin, TX.

Many industry players will be watching this development closely to understand the practicality of current 3D printing technology and the overall success of the project. Unlike prefabricated building, 3D printing should be easier to finance due to the relatively low cost of the 3D printers and the construction will be done onsite which will be easier to collateralized. Prefabricated building has been difficult to finance due most of the construction work being done offsite in factories generally not owned by the developer. It will be exciting to see how 3D printing evolves in practical use in the real estate industry. Developers who integrate new proven building technologies should be able to lower their overall construction costs and increase their returns on investment.

Many office buildings and hotels in New York City have continued to underperform when compared to the multifamily market. Much of this is due to employers' acceptance of work from home policies and the decrease in business travel due to the widespread adoption of virtual meetings. In addition, there has been a dramatic decrease in foreign travel to New York City. Due to prolonged underperformance and anticipated decrease in long-term demand for lower quality office and hotel product, there is a great opportunity to convert these properties to multifamily.

During the pandemic there were some major demographic trends and migrations. A large number of families moved to the New York City suburbs and demand for larger homes has increased due to work from home acceptance. The Federal Reserve estimates that three million+ people retired early due to the COVID-19 pandemic as of August 2021, and the US population growth rate declined to 0.35% in the fiscal year ending in July 2020 due to increased deaths from the pandemic, a decreased birth rate, and strict immigration policies. Building or renovating housing in the suburbs will continue to be an area of high demand due to the lack of housing supply and an aging housing inventory. Demographic trends will increase the demand for housing and commercial uses that cater to retirees. As the Baby Boomer population continues to retire, there should be great opportunity for investment and development of retirement related real estate assets. Real estate investors who understand these demographic trends will find some great investment opportunities that should do well over the long-term.

New York City has come back strong, just like it has in past downturns. Multifamily and industrial properties have shown the most resilience along with other asset types of high quality. New building technologies will decrease the cost of the development which will lead to higher returns for developers. Accelerated demographic trends will create great investment opportunities for owners and developers whose properties cater to the demands of the country's rapidly increasing number of retirees. Post-pandemic, real estate investors and developers with an entrepreneurial spirit will benefit from these and many other opportunities that will continue to emerge from the changes in consumer behavior, technology, and demographic trends.

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