

Member Perspective: Breakfast Series 4Q The new realities of retail post COVID-19

By Cheri Brady

REIAC Southwest hosted its 4Q20 Breakfast Series, *New Reality of Retail*, with a panel of experts including Kalen Ricard, SVP of Western Retail Advisors; Jan Fincham, Principal, Lee & Associates; and Judi Butterworth, SVP of ORION Investment Real Estate. Our moderator was Cynthia Hammond, President of Churchill Commercial Capital.

Kalen advised us that vacancy rates ticked up to 7.7% in 2020 vs. 7% at year-end 2019 and described the negative national news – including bankruptcies and failures – “10 years of change happened in 10 months.” However, there is strong demand for well-located retail for essential businesses such as grocery, furniture, automotive and home improvement tenants. The big box restaurants are challenged but smaller ones with patios, drive-throughs and digital-only platforms are doing well. According to Kalen, there is pent-up demand for goods and services and people want to connect. He is bullish going into 2021.

Jan reported that retail investment sales were down during 2020 due to factors such as the online effect, which the pandemic-accelerated, and the lack of available acquisition financing. Cindy added that life companies are lending but require 50% leverage and the center must be grocer anchored. Jan said investors think bargains are coming but there is very little landlord stress because of low interest rates. The landlords that partner with their tenants on marketing programs and website support will be successful because their tenants are successful. In 2021, he expects cap rates will improve and grocer anchored centers will be most sought after.

Judi shared her thoughts on adaptive reuse and the positive effects of strategic alliances such as those formed between ULTA and Target and Sophora and Kohls. She said “my restaurant clients are having their best year ever as customers are used to getting food delivered or picking up at the door.” There is a lot of money on the sidelines as people have accidental savings and exhibit revenge spending. “We are under construction in Arizona” and are uniquely positioned to do well in 2021 and beyond, she said.

The panelists expressed concerns of investors and users about the passage of Prop. 208 and that these businesses are taking a hard look at Arizona. The anti-business policies of the new administration and its reported position on 1031 exchanges and the capital gains rate could have a significant negative effect on us in the coming year. However, the panelists are optimistic about 2021 and beyond and agree that enterprising people will succeed because they are creative.



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