



## Three Creative CRE Opportunities For Unused Space

business customers pandemic CRE

**Summary:** Commercial real estate (CRE) has been hit hard. Your CRE borrowers are exploring creative opportunities to sublease their properties. Here are three innovative options that have sprung up.

Fun fact: Bubble wrap was invented by accident by researchers trying to create 3D wallpaper. Creativity can lead to thought-provoking results, even in commercial real estate (CRE).

There is no doubt that CRE prices are falling, especially within certain sectors. Things could get even more difficult as companies re-evaluate their office space. Yet this situation is leading to some creative opportunities.

Indeed, the conventional route of subleasing may not be the most financially feasible right now due to the excess capacity in local markets. For example, close to 30% of total available lease space in Manhattan is sublease space with an average asking rent of about \$63.93 per square foot in September; about 25% lower than the average rent for direct space.

With this in mind, we wanted to share a few areas your CRE borrowers may be exploring.

- 1. On-demand platforms.** Some landlords are considering posting available space on on-demand platforms. Co-working sites like Novel Access Pass, WeWork, and others are now offering on-demand, flexible space options with pay-as-you-go plans. Such arrangements can help remote workers who need office space away from the family. On a monthly basis, access is provided as-needed to spaces quiet enough to make professional calls or finish projects while the kids are at home. One of these providers notes that about half of their occupants are working for employers while the other half are small business owners and entrepreneurs. According to JLL research, 58% of remote workers have significantly missed their office environment. Lending long against short-term contracts creates additional risk which should be considered.
- 2. Nontraditional purposes.** Think about organizations that continue to need space, such as private schools and nonprofits. While some organizations might find that it's more economical to allow workers to continue working remotely, others need space to continue servicing their customers and communities. Just as malls had been reinventing their space even before the pandemic, your CRE customers may find opportunities to expand their options. Stay close to borrowers as their creativity and need for cash could create conflicts with existing loan covenants.
- 3. Industrial real estate.** E-commerce has dramatically increased during the pandemic. According to the US Census Bureau's Q2 2020 report, US retail e-commerce reached \$211.5B, increasing 31.8% from Q1, and 44.5% YoY. While this may balance out a bit after the pandemic, customer behaviors have already changed. So, expect online retail to continue doing well. With that in mind, warehouse and distribution facilities will be needed for the long-term. There could be opportunities to convert strip malls or offices in the outskirts to usable distribution or warehouse space. Not only is there an increased demand for these types of properties, but tenants often sign longer leases and there can be lower maintenance costs. Still, remember that these properties can take longer to fill when vacated and rents are often significantly lower.

Your borrowers are considering these and other options; we encourage you to dig deeper in your discussions with them past cap rates and rent rolls.

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