



Oak Brook

## Commercial Real Estate Experts Predict Industry Trends for 2012

By [Taylor Johnson](#) Dec. 20 at 11:47 a.m.

What will the commercial real estate industry hold in 2012? According to national commercial real estate industry experts Paragon Real Estate and Englewood Construction, the outlook for 2012 looks slightly better than 2011, but with an increased emphasis on the needs of the 99 percent – to speak in Occupy Wall Street terms. Listed below are their predictions for certain segments of the commercial real estate market.

The 99 percent – The struggling economy is actually spurring the construction of new stores as well the absorption of vacant space for many value-based retailers, according to Tom Williams, managing partner of Oak Brook, Ill.-based Paragon Real Estate, a commercial real estate firm specializing in development, acquisitions and management.

Retailers like Advance Auto Parts, AutoZone and O'Reilly Auto Parts that help consumers save money by keeping their cars longer will continue do well next year, noted Williams. His firm predicts budget-conscious consumers will also keep Dollar Tree, Family Dollar, Aldi, and Save-A-Lot in growth mode in 2012, while low-cost health clubs like Planet Fitness, Blast Fitness, Zip Fitness and Zio will help absorb non-prime vacant mall spots. Even big box retailers like Best Buy and some pet stores are shrinking their footprint to fit into vacant retail space, Williams said.

“We think new retail construction will remain stable with a slight increase,” Williams said. “However, a lot of those brands have been snatching up the good, strong locations, so now there are not a lot of prime spots left.”

According to William Di Santo, president of Englewood Construction, a national commercial construction firm based in Lemont, Ill., the new sweet spot for retail is 20,000- to 25,000-square-foot stores targeting 99 percent of the population. “Watch brands like Ross Dress for Less and Savers continue to gain momentum,” said Di Santo. “In the Chicago area, Savers has three locations, but we wouldn’t be surprised to see that number increase in 2012.”

Another venue gaining from prudent consumer spending is outlet malls. In the Chicago area, new outlet malls are slated for Rosemont and New Lenox. Hospitality is also focused on the 99 percent by building residence inns and business inns vs. their high-end flagship brands. “Expect to see hotel construction in the extended stay market grow next year with an emphasis on highly amenitized rooms,” Di Santo said.

The 1 percent still matters, too – When it comes to luxury retail construction, Di Santo said high-end brands will likely focus on retail renovations of existing locations. “These established high-end retailers are taking advantage of market conditions to build bigger and better stores,” said Di Santo. “For example, in the Chicago market there is always at least one big Michigan Avenue retail construction project a year and right now Burberry is expanding its Michigan Avenue space from two stories to five stories, plus one basement level.”

Creative Deal-Making – As obtaining financing for commercial construction projects continues to be a challenge, developers that can access private equity will have an advantage in 2012. “We want to use our large amount of capital and grow our market share,” Williams said. “We’re willing to take deals at a slimmer profit margin, but grow our market share for when economy turns around.”

The reasons behind such thin deals, Williams noted, are tenants with extremely picky requirements in regards to location, low rents, and land that’s still priced high.

For quality assets, cap rates will stay low. “Strong locations, strong lease terms, strong credit tenants, if you have those three things, you’ll see low cap rates,” Williams said. “Low interest rates will keep cap rates staying low another year and half, but there’s still a big spread between A assets and B assets.”

Paragon is not alone in its quest to deploy private equity. “We’ll see an uptick in senior housing next year mainly because private equity firms are focused on expanding their portfolio of senior housing,” Williams said. “There’s a lot of competition with private equity REITs, so there’s more and more new construction. The slowdown in lending is mainly impacting a lot of the larger transactions, and private capital is going after the smaller transactions.”

As today’s tough deal-making will likely continue into 2012, commercial contractors like Englewood Construction will be busy next year providing developers conceptual commercial construction budgets. “Developers want to start projects, which is why the number of drawings we are bidding on is back to 2008 levels,” said Di Santo. “But that doesn’t mean all those projects will happen. Developers need to make sure there aren’t any hidden numbers.”

Entrepreneurs are hungry – Necessity entrepreneurship often emerges during a recession. For those who cash out their 401ks, many go into business for themselves in the restaurant franchise market. “The rise in franchise will only continue in 2012, particularly in the restaurant construction of sandwich/hamburger shops,” Di Santo said. “The

Subways, Quiznos, Five Guys and Smashburgers of the world will continue to dominate the value-add franchise sector. And keep your eye on Capriotti's Sandwich Shop, which has plans to add 300 new restaurants in the next five years."

Also look for fast-casual restaurant construction jobs to go smaller – in terms of square footage. Reports from some retailers say the majority of their sales are from take-out, so they are moving to smaller spaces.

Anything Goes – According to Di Santo, the old rule of successful shopping center development was not to mix retail tenants with medical tenants. "Having a restaurant next to a dentist office was suicide for the center," he said. "But now, shopping mall landlords need to fill the space so anything goes, even if the stores may not be the best fit for the mall. A lot of these random tenants are independent retailers, which unfortunately do not place the highest standards on shopping center construction, but they pay their rent and fill vacancies, so that's what matters at the moment."

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