

A KeyBank Executive Assesses the Risks Ahead

Retail and office face questions that will linger for years.

JANUARY 5, 2021 | BY LES SHAVER

As Norm Nichols, national business leader of Project Finance and Affordable Housing Divisions for KeyBank Real Estate Capital, looks at the year ahead, he's keenly aware of the risks lingering in the market.

Whether it is market risks around primary, secondary and tertiary markets or the outlook for the various property classes, there is a lot of uncertainty in the market. Some of these concerns, like the rise of e-commerce, were around even before COVID. Once COVID hit, that transition accelerated.

In its lending portfolio, KeyBank has essential retail, like groceries and drug stores, that help buffer it against some of these trends. To further protect itself against the rise of e-commerce, it has added retail spaces with an experiential focus to its portfolio. But COVID has also exposed issues within this segment.

"Our retail portfolio is constructed largely around experiential retail that couldn't be replicated on e-commerce online," he says. "That translated into a lot of restaurants and spas and places where people had to go to consume things. And of course, that's exactly what has been most dramatically impacted by the pandemic."

Once there are widespread vaccinations and the economy stabilizes, Nichols thinks things will improve.

"I'm confident that demand for those types of services will come back post-pandemic," Nichols says. "People like to eat out, and people like their spa treatment. Whether it's a bowling alley or some other sort of use, I think the demand for that comes back."

Now, Nichols thinks many people in CRE are focused on the risk around the mid- and long-term demand for office space.

"There is a sense that work from home is perhaps more feasible than people thought it would be," Nichols says. "I think that is something that's going to get a lot of attention."

But it could be awhile before we know if widespread work from home takes hold in corporations across the country.

"Particularly in the office sector, it's going to take years to play out because the reality is that these buildings are leased and there are contractual obligations in place," Nichols says. "So some of the decisions for downsizing and reducing the overall demand for office space will take time to actually play out."

If work from home sticks, other urban segments of CRE will suffer.

"A big question for those cities and for our country is about the future of big urban, urban markets," Nichols says.

Nichols points to parking garages as a segment of real estate that could be hit hard by the "combination of the potential for driverless vehicles in the future and not as many people are going into cities to work and what's the demand for a parking space."

If urban areas are losing people, Nichols also wonders about who ultimately benefits.

"Does the suburban market around the big city benefit or does the actual secondary city benefit?" he says. "It's a really interesting question."

Like many questions about how COVID reshuffled, there won't be permanent answers anytime soon.