



# WHAT WILL 2022

# BRING FOR

# COMMERCIAL REAL ESTATE?



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**2021 WAS A TRANSITIONAL YEAR** in which economies managed first to rebound from their decline in 2020, but then saw recoveries slow down with the emergence of the Delta-variant of the COVID-19 virus. For 2022, despite the emergence of yet more variants of concern such as Omicron, there are plenty of signs that we will see a continued economic recovery with many great opportunities for investors in (most) commercial real estate markets.

In this article, we take a look at how different sectors of the commercial real estate market are likely to fare in 2022.

### Retail properties

Investors who are shopping for retail properties will find a market where some of the pent up demand has now been unleashed. Bars and restaurants are joining in the celebrations in a manner that is proportionate to the extent local measures pertaining to COVID-19 are still in place.

### Office properties

The office property market is a high-risk market, but high risks come with high potential rewards for visionaries... We expect white-collar workers in most industries to find their way back to the office, maybe not full time, but at least working in hybrid models that occupy compact office spaces. While it is impossible to predict the future, in no scenario do we foresee much of a future for large commercial office parks. Finally, one segment of the office market that has not been impacted negatively by the pandemic at all are medical offices. Baby boomers getting older (they will all be at least 65 by 2030) is one important cause for the strong performance of this segment.

### Hospitality sector

Hotels are seeing the same pattern of recovery as retail. Both have in common not only that they are highly dependent for survival on local COVID-19 policies, but also that they have plenty of highly leveraged businesses which will continue to struggle to survive through 2022. No small amount will fail, sadly enough.

### Industrial sector

There is a lot of demand for industrial land, driven by a re-shoring of production that started before the pandemic, but has since accelerated with people realizing that the dependence on foreign goods from masks

to microchips and everything in between has made us vulnerable. Notwithstanding that, supply chain issues have impacted the industrial sector negatively in 2021. Even when production is put back on North American soil, many source materials are still needed from abroad.

### Senior housing

Demand for senior housing is growing and governments and private players are rushing to cater to the needs of the elderly. The increased demand is driven by both demographic factors such as ageing populations and by domestic migration streams where the need for additional facilities is urgent. While this is a growing market, a shortage of skilled workers will put limits to the amount of growth that can be achieved in 2022.

On average, the commercial real estate market is showing healthy growth prospects for 2022. Retail, hospitality and the residential housing sectors, in particular, should deliver solid continued growth. There are some headwinds, however, which could still hamper growth for different commercial real estate sectors in a very significant way.

We already mentioned labour in the context of senior housing, but labour shortages also impact other verticals such as retail. Then there is inflation, which could (will) slow demand for some services and products if it is not kept in check. Supply chain issues will continue to rock the industrial market and retail especially. And let's not forget that consumer spending has been subsidized in large part by stimulus payments. Now that these have expired, the question is whether households will be able to replace those monies by regular employment income.

### Bottom line

With plenty of opportunities on the horizon for 2022, investors will do well to keep their heads cool, put in their homework, and carefully weigh the upside and downside potential of their investments in all commercial real estate markets. Investors should also never put their eggs in one basket. This applied before the pandemic, of course, but some have forgotten the importance of this principle. Sufficiently diversifying portfolios should help to weather most storms. 🌩️