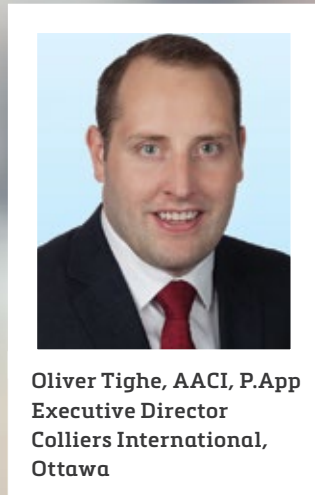


# THE CHANGING FACE of commercial real estate appraisal



**C**hange in our profession is inevitable and ongoing. In fact, the pace of change has accelerated so quickly in recent years that it can be a challenge for appraisers to remain current and to ensure that the services being offered are in tune with the latest marketplace demands. As if those challenges are not enough, when a worldwide event such as the COVID-19 pandemic is added to the mix, the adjustments appraisers must make are even greater still.

*In the case of appraising commercial real estate, COVID-19 has changed the profession that much faster. Oliver Tighe, AACI, P.App, Executive Director of Colliers International in Ottawa, is on the frontlines of the commercial real estate industry. In the following interview, he shares his thoughts on the industry's COVID-19 repercussions.*

## **What are the most significant changes to commercial real estate appraisal since the advent of COVID-19?**

**Oliver Tighe:** In my estimation, there are three areas that stand out. One is the availability, or lack thereof, of recent and accurate sales data. Two, is the drastically accelerated pace of many pre-COVID real estate trends. And three is the increased likelihood that commercial real estate assets will begin to be utilized in completely new ways.

Where sales data is concerned, before COVID, we were able to readily access recent data that was relevant and comparable to the properties we were valuing. Once COVID hit, most transactions



ground to a halt and those that did take place were impacted in a variety of unique and different ways by the pandemic. As a result, recent comparable sales data was in short supply and this made appraising much more difficult. We had to be much more critical of all the attributes of an asset, as now, more than ever, no two assets are the same.

In the area of marketplace trends, the pandemic has resulted in those trends now developing in a matter of weeks or months rather than years. For example, the decline of big box retail and the emergence of online shopping went from a slow shift to a complete flip. In the last eight months, almost 1,000 retail stores across Canada have or are in the process of permanently closing.

I also expect the way office space is being utilized to drastically change. The demand for office space has reduced across Canada. I recently reviewed the Q3 Colliers *Office Market Reports* and noted that office availability increased from Q2 in every major market in Canada and that there was a notable increase in sublease space in most major markets. I do not believe this is a short-term impact of COVID, but rather the start of a long-term trend of reduced demand for office space. It is going to be increasingly competitive to secure office tenants and I fully expect in the coming years to see more office buildings offering turnkey spaces for set gross rental rates with no long-term commitment. Essentially, building owners are going to have to be more flexible in how they lease space to tenants if they want to remain competitive.

From a retail perspective, I also expect that we will see a much larger prevalence of percentage of sales lease agreements in the coming years. Historically, percentage of sales lease agreements tended to be only for large scale enclosed malls, but, as retail vacancy continues to rise, I expect landlords to begin offering percentage of sales leases as a way to attract new and growing tenants. This allows a tenant to benefit from a lower upfront rent cost as their business grows, but also for the landlord to benefit from a higher rental rate if the business finds success. As a result, as appraisers we will have to adapt to the valuation of buildings that are not necessarily being used or leased in the same way as they historically have.

**Do you expect some or all of these changes to be short-term or more permanent?**

**OT:** Change has always been a factor in the ever-evolving commercial real estate industry, albeit at a somewhat slower pace before the pandemic. Now, the changes have come upon us very quickly and I believe most of them are here to stay. For example, I doubt that big box retailing will ever return to the way it was. As well, many employees will now work remotely from home and never again return to an office environment. I also expect that office space is going to be restructured or reconfigured in ways we have not seen before.

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In spite of all this change, I do not see this being all doom and gloom. Not all companies will abandon their office space or structure, and large Class A real estate properties, which tend to have long-term leases with their tenants, will have time to adapt to our ever changing new reality. Whatever the scenario, I believe that landlords will find ways to evolve, so that, while the commercial real estate market might never be the same, it will survive and flourish in new and exciting ways.

## **What are the biggest risks and opportunities for Colliers in this evolving marketplace?**

**OT:** Fortunately, well before COVID, Colliers International had the foresight to understand how technology was impacting the profession and to adapt accordingly. We had implemented a completely new technology platform, which includes software to assist with report writing, a web-based sales database, and a cloud-based file management system. When the COVID lockdown started, we did not miss a beat. Our staff was able to complete a file from their basement just as easily as they could from the office, and that way of conducting our business is likely to continue going forward. Being well positioned to deal with these kinds of challenges, we believe there are many opportunities to grow our business going forward.

## **How are these changes affecting the profession and individual appraisers?**

**OT:** Today's rapidly changing high-tech world certainly brings with it plenty of risk for all appraisers. The marketplace and our clients are demanding cheaper and faster appraisals and there are several AI (artificial intelligence) valuation platforms and companies working to create software that can estimate values using a computer. Since these developments are only going to escalate, appraisers need to meet those challenges head-on in order to not only survive, but to flourish.

I firmly believe that appraisers who are willing to embrace new technology and rethink their processes can have a bright future indeed. The key is to pick a direction, go with it, and be willing to take the upfront 'pain' for the long-term 'gain.' By that, I mean be willing to incur the upfront time and cost to put yourself in position to generate faster and better valuations and to do so working from anywhere (home included). The world we live in is not going to go back to the way things used to be, so it is time to get on with it.

## **What can appraisers do to 'get on with it' as you say?**

**OT:** First, lose the fear of change. Talk to other appraisers to see what they are doing. Seek out seminars, webcasts, blogs, and other resources that can provide the knowledge you will need in these areas. Find third party companies and consultants who can work with you to implement tools and strategies such as Cloud-based files, web-based file systems, and report-writing software. The resources are out there... you need to commit to implementing them and using them.

## **Colliers International employs many appraisers.**

### **In light of the challenges and opportunities we have discussed here, are you looking for appraisers with a certain skillset?**

**OT:** Rather than looking for a specific skillset, our goal is to hire people who are a good fit with the culture of our group. We want appraisers who are adaptable and willing to learn; people who will take the time and put in the effort to understand the processes and put them into practice for the benefit of our clients and our company. Whether we are living through this pandemic or moving forward once it is over, this outlook and approach is critical to success.

## **Do you have any final words for appraisers who may be feeling overwhelmed by today's marketplace environment?**

**OT:** Allow me to re-emphasize that I believe there is still a very bright future for people in our profession, if we continue to adapt. While clients are expecting us to provide our services in a more timely fashion, there will always be great demand for personal service, reliability and a quality product. I feel that, for the most part, appraisal fees have leveled off in the commercial real estate field. Rather than looking for ways to lower those fees, the challenge will be to provide the same high-end product much more quickly. The days of having 4-6 weeks to complete an appraisal will soon be gone, so the use of technology is a must in order to effectively meet these marketplace expectations and demands. Costs incurred and time spent adapting to new technology will be more than gained back in efficiency down the road. Simply put, doing the same job in less time will only increase an appraiser's profit margin. The time is definitely now to 'get on with it.' 📌