WES HAMILTON

Ryan Murray

R.B. MURRAY CO. · VICE PRESIDENT

Ryan Murray joined the longstanding family real estate business at one of the lowest points of the market, post-2007. The upside is he's only since seen it climb.

2018 Projection: Experience-driven retail will redefine that roughed-up sector, while rising e-commerce will create greater industrial and distribution demand.

SBJ: The market has recorded vacancy rates trending up for industrial, to roughly 5 percent, and retail, to nearly 6 percent. What's behind that movement and do you expect it to continue?
Murray: Our industrial market is not massive. The absorption needs to take into account new product. There's been new products come online in the last 24 months that have been positively absorbed but also when it comes online, it has a negative impact. I would think we're probably closer to 93 or 94 percent [occupied] because you have some larger properties out there tilting the scale. But at the same time, I've got a 142,000 square foot building that's for sale and going to close this month, which will then tip the scales. That's big for our market.

SBJ: Brick and mortar retail really took a beating in 2017, namely a record 7,000 store closing announcements and a 30 percent increase in bankruptcy filings. Do you see a silver lining, maybe e-commerce, and what's the effect in Springfield?
Murray: I haven't seen it tallied in such an abysmal way. On the national side, these big guys who have had it their way for so long and failed to adapt, I don't see any end in sight for those who have not reacted. It'll be a reinvention of some of these companies.

In Springfield, luckily, we have the one massive draw in Battlefield Mall. We aren't littered with three different malls (that could) fail. That helps insulate us.

We just happen to be where Bass Pro [Shops] is from. They're growing in an industry where you could probably compete online, but that experience-driven retail is the differentiating part. It's going to have to be some sort of experience to draw and compete, unless it's a discount. In discount, the experience is not part of it – the price is why you're there.

There is a chance for the service-oriented industries to absorb some of this. You're not going to get your haircut on Amazon.

SBJ: This discount theme we've seen – with Burlington, Ross, HomeGoods, Designer Shoe Warehouse – that's been the primary expansion movement for the national brands. Do you expect more of that?
Murray: Not to a great extent, they're going to run out of places to go. The junior boxes take a significant amount of parking area, and they only like to locate in a specific area of town. And most of those guys have covered where they'd like to be in two parts of town.

SBJ: Will office occupancy continue to increase? We're currently around 94 percent occupied in the Springfield area. Do you expect that to hold?
Murray: Office is different than industrial. Industrial comes back, but it comes back in the same way it did when it left. You build a box.

Office took twice as long to recover – we had more inventory, just a plethora of office availability. And when the crunch came, people reinvented the way they did their offices. People now do more with less in offices. There's a different demand for type of office product, as well. On an industrial building, you don't have to appeal to millennials or a quality of life work environment. No one cares if the tire is sitting in daylight or not.

SBJ: How will the president's tax reforms affect commercial real estate, if at all?
Murray: Broadly, the idea of increasing the velocity of money, customarily and historically, has been a success for the economy and the same thing for real estate. If the companies and individuals, alike, are able to have increased velocity of money, they're going to do one of two things with it: Companies either spend it on a new project, which bodes well for real estate, or they can potentially save it, then lenders will have money to lend for new projects. The same thing with people: They'll spend it, which drives sales, or save it and give to banks that will lend it. The public is so much more efficient with their money, than the government is. If you increase the velocity of money and get it in the hands of those who are going to be the best stewards of it, we would think a rising tide would raise all ships in this circumstance on the real estate side.

There is a cut in there to incentivize pass-through income for passive investors, not people who have an S corporation and they work in their S-corp. Say, a passive investor in a shopping mall, retail center or industrial development. That'll be a good incentive for the real estate market. It's a calculation. A lot of companies we work for, this is going to free up capital for them to do projects.

SBJ: Who's driving the market right now, landlords or tenants?
Murray: Landlords are driving the market to an extent they're bringing new product online and able to command a number between $4.35 and $4.50 a foot for a new spec box on the industrial side. Those are competitive numbers. You can get those done now. In the crunch, $3.50-$4 was the norm – but for older product. It's a stabilizing effect.

Interview excerpts by Editor Eric Olson, eolson@sbj.net.

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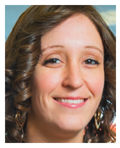
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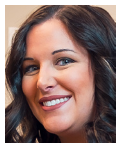
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