

A photograph of a modern, multi-level commercial building atrium. The space features glass railings on the upper levels, potted plants on the railings, and a tiled floor. A large blue box with white text is overlaid on the upper portion of the image. The architecture includes large columns and a glass ceiling.

Sustainability of the Commercial Real Estate Industry

Juliette Russell - Concordia University - COMM 205

The Effects of Technology on the Commercial Real Estate Industry

Prepared for
Professor P. Colas
COMM 205- Section S

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November 3, 2017

Philippe Colas
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Dear Professor Colas,

The attached report, requested by you for my individual report, describes how the innovation of technology in the 21st century has caused unsustainability for the commercial real estate industry. I believe you will find the report will meet the requirements requested by you for my individual report.

This report was created to focus on the components of technology impacting the sustainability of the commercial real estate industry.

Components that influence a consumer's decision to shop online such as accessibility, convenience, cost and ability to receive feedback.

- Online shopping's impact on the retail and commercial real estate industry.
- The movie streaming industry and its direct effect on movie theatres and their vacancies.

The negative effects of an unsustainable commercial real estate industry on the economy.

Sufficient evidence to back up the information in this report is displayed through secondary research that was retrieved from news articles, consumer reports, statistical evidence, and raw data such as the stock market, and public government information.

I am pleased to present you with this report and hope you will find it interesting. I appreciate you taking your time to review my report and will be waiting patiently for feedback.

Sincerely,

Juliette Russell
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Executive Summary

The importance of a sustainable commercial real estate industry, to the economy, has driven this report to focus on the different components of the technology industry, that are creating unsustainability among different sectors of the commercial real estate industry.

This report will discuss:

- How accessibility, convenience, cost and ability to receive feedback has influenced consumers' choices to shop online overall, fueling the success of the online market.
- How the success of the online shopping industry is causing the shutdown of thousands of retail stores and how it is causing unsustainability across the commercial real estate industry.
- The movie industry and its direct effect on movie theatres and movie stores.
- The impacts it will have on the economy

Sufficient evidence to back up the discussions of this report is displayed through secondary research that was retrieved from news articles, consumer reports, statistical evidence, and raw data such as the stock market, and public government information.

The overall findings of this report exhibit the connection between technological innovations of the 21st century, online shopping and movie, and the sustainability of the commercial real estate industry.

Introduction

Commercial real estate is defined as non-residential properties used for the generation of profit (Investing Answers, 2017) consisting of retail space, hotels, office buildings, and industrial complexes (Monica, 2017). The technological advancements of the 21st century have had a negative effect on the demand for commercial real estate; causing the commercial real estate industry to question its level of sustainability. Economic Sustainability is the ability to uphold a certain level of economic stability or growth (Definition of Sustainability, 2017). Therefore, the commercial real estate industry relies heavily on stable or growing profits and low vacancy rates. Vacancy rates are defined as the percentage of rental properties that are currently unoccupied (BLIAQ, 2017). As the tech industry is taking away from these profits and causing the increase of vacancy rates, it leaves the commercial real estate industry wondering what the future has in store.

Purpose & Scope

The aim of this research paper is to analyze the various components of the technology industry that has led to unsustainability within the commercial real estate industry. Considering that the technology and the commercial real estate industry are very broad and diverse, this paper will concentrate on online shopping, the streaming of movies and music and the effect it has on commercial retail and office space. Keeping in mind that this report directs its focus on a small area of the technology and commercial real estate sectors, it does not represent these industries as a whole.

Significance

The significance of sustainability within the commercial real estate industry comes from its input on a large scale to numerous areas of the economy. Professor Albert Sussman Emeritus of the Wharton School of Business once said “Commercial real estate exists to service the economy and society that’s all” (*7 bold commercial real estate predictions*, 2014). If the industry were to grow to a level of total unsustainability as a result of technology, it would send a ripple effect throughout the economy (Thompson, 2017).

Considering 56% of all U.S property taxes come from commercial properties, the amount of incoming property tax dollars would fall drastically, the unemployment rate would be negatively affected and the interest collected by banks from commercial real estate investments would face a large decline (Thompson, 2017). The economy would take a downward spiral heading in the same direction as it did in the great recession of 2006-2008 (Thompson, 2017). As the tech industry moves in as a replacement of retail stores, movie theatres, and office space, it will never be able supply the same amount of jobs and taxes to the economy that is collected through a sustainable commercial real estate industry.

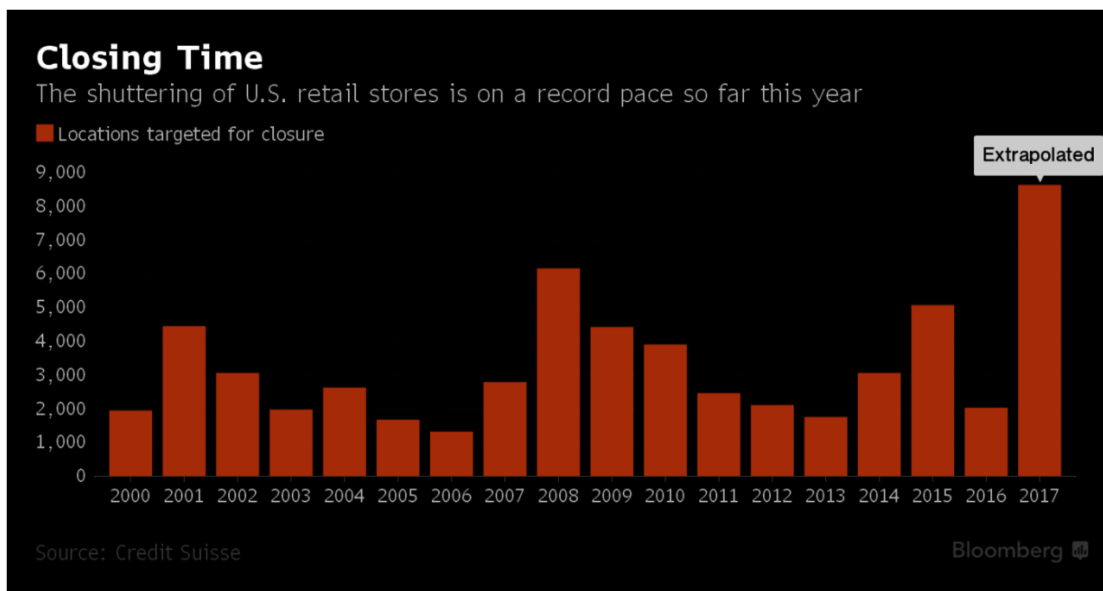
Secondary Findings

The sources and methods that support the discussion, recommendations and conclusions in this report are based on the collection of secondary data. Retrieved from news articles, consumer reports, statistical evidence, and raw data such as the stock market, and public government information. Therefore, there is sufficient evidence to back up claims within this report.

The New Age Marketplace

The new age marketplace also known as online shopping, is a market that was created in 1979 by a man named Michael Aldrich (REITS Impact on the Economy, 2017). This innovative technology was not recognized until the late 90's when companies such as Amazon and PayPal were created (REITS Impact on the Economy, 2017). PayPal created a secure way of paying online to instill a state of trust among consumers. The online shopping phenomenon caught fire in 2003 when the U.S online shopping market hit 50 billion dollars, in the same year Amazon's yearly profits grew to 35.3 million dollars (REITS Impact on the Economy, 2017).. Eventually, leading the shutdown of thousands of retail stores across U.S (Rupp, M., Coleman-Lochner, M. and Turner, M., 2017). Refer to figure 1 below to see the increase in retail store closures from 2016 to 2017.

Figure 1



Illustrates the increase in retail closures from 2016 to 2017 Source: *Rupp, M., Coleman-Lochner, M., & Turner, M. (2017). America's Retailers Are Closing Stores Faster than Ever. Bloomberg.com. Retrieved 3 November 2017, from <https://www.bloomberg.com/news/articles/2017-04-07/stores-are-closing-at-a-record-pace-as-amazon-chews-up-retailers>*

Factors Leading to the Success of Online Shopping

Statistics show that in 2016, approximately 85% of the United States population had access to a computer or handheld device in their household (Chase, 2016; Appendix A). Making online shopping accessible to majority of the U.S population. Along with accessibility, convenience has been a prominent factor in influencing consumer's decisions to leave retail and join the new age marketplace (Osman, Lim, Romle, Abdullah, 2016). At the click of a button, consumers can have a product ordered and delivered to them within a day or two. Cost is an additional factor contributing to the online marketplace (Osman, Lim, Romle, Abdullah, 2016). Applications such as Honeybee have made it so coupons are instantly waiting for consumers at checkout. While shopping online prices can easily be compared to ensure the best deal possible (Osman, Lim, Romle, Abdullah, 2016). The trust of product purchasing that has been built through consumers abilities to rate products, read/write reviews and receive feedback on the quality of products has been a major factor enticing consumers to continue to shop online (Wallace, 2017).

The Effect of Online Shopping on Retail

Today, in 2017 it is said that eight out of ten Americans prefer to shop online over shopping in physical stores (Natural Publishing, 2017). Consumer preference of online shopping has given companies such as Amazon, Alibaba and Etsy the ability to thrive and dominate the retail industry. Shown In Appendix A, B, and C, is the increase in the public shares of Amazon, Alibaba and Etsy over the past decade. As online shopping dominates the retail industry it has left many retailers given no choice to either hop on the technological bandwagon of the 21st century or declare bankruptcy (Purple, 2015)

Since 2013, retailers such as Macy's, Dillard's, JC Penney, and Sears have closed close to 750 stores combined (Purple, 2015). The commercial real estate industry has an approximate value of 2.1 trillion dollars invested in retail and it takes up 36% of the industry (Monica, 2017). Therefore, as retailers face times of turmoil caused by online markets, the commercial real estate industry struggles to fill storefronts, leaving vacant malls across North America. The beginning of an unsustainable industry can be seen through the present state of commercial real estate companies such as Simon property group, who own 108 malls across north America in figure 1 (Wahba, 2016).

Figure 2

Shows the fall in Simon Property group's stock in the past year.



The Effects of Online Streaming

In the early 2000s, movie stores such as Blockbuster and Hollywood Video were thriving and growing companies that contributed over 10,000 retail stores combined to the commercial real estate industry (Investopedia, 2010). Fast forward 7 years and Blockbuster and Hollywood Video grew to be almost non-existent. In 2013 Blockbuster, who once a company of over 9,000 retail stores worldwide, closed its 300 remaining retail stores (Investopedia, 2010). Refer to figure 2 to see the plummet of Blockbusters stock. The bankruptcy of movie stores had a serious impact on the vacancy rates of commercial real estate (Investopedia, 2010). Movie theatre chains such as AMC and Regal Entertainment have seen record low ticket sales (Gibbs, 2016). In August 2017 their stock was down 25 % (Gibbs, 2016). Companies like Netflix, who has 83 million subscribers, and Hulu have taken over the movie industry (Investing Answers, 2017). Why go out and watch a movie when you can stream almost any movie from the comfort of your own home? When a cinema goes out of business the movies may stop but the commercial property, where the business was once ran, still exists. The profit those properties once generated halt due to higher movie theatre vacancy rates. Overall, taking an effect on the sustainability of this sector of the Commercial real estate industry.

Figure 3:

Blockbuster Inc (BLIAQ)

0.0060 unch (unch) 11/02/17 [OTHER OTC]

QUOTE OVERVIEW for Thu, Nov 2nd, 2017

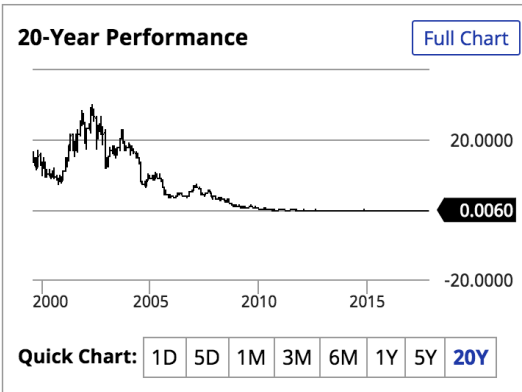


Set Alerts

Watchlist

Trade with:

Day Low	Day High
0.0060	0.0060
Open 0.0060	
Previous Close	0.0060
Volume	3,900
Avg Vol	44,510
Stochastic %K	17.52%
Weighted Alpha	-57.31
5-Day Change	-0.0011 (+17.65%)
52-Week Range	0.0010 - 0.0299



In 2005 you can see the beginning of Economic Unsustainability which eventually led to bankruptcy in 2010.

Source: BLIAQ | Stocks Interactive Chart for Blockbuster Inc. (2017). Barchart.com. Retrieved 3 November 2017, from <https://www.barchart.com/stocks/quotes/BLIAQ/interactive-chart>

Discussion and Secondary Data Analysis

The overall findings of this report exhibit the connection between technological innovations of the 21st century, online shopping and movie/music streaming, and the sustainability of the commercial real estate industry.

To start off, the secondary data displaying the increase in retail store closures from 2016 to 2017, illustrates a larger increase of retail store closures today, than during the great recession of 2006-2008. Showing us the unsustainability commercial retail properties are facing. If we are exceeding the rates of retail closures than those of the great recession, where the economy hit record levels of unsustainability, then the commercial real estate industry must acknowledge the further unsustainability the future may bring. In addition to this, the secondary data showing, that 36% of the commercial real estate industry consists of retail stores, shows that the closure of retail stores will have a huge impact on the commercial real estate industry, considering it is over one third of the industry as a whole.

To continue, the secondary data displaying the components contributing to the success of the online shopping industry, shows us the competitive advantage the online shopping industry has on consumers. Accessibility, convenience, cost and feedback are extremely valuable and unique capabilities that cannot be imitated, in the same way it has been used online, from physical retail stores.

Finally, the secondary data revealing the impact the closure of over 9,000 Blockbusters stores, depicts the impact technology can have on retail stores. If companies such as Netflix can eliminate the entire movie rental industry, including hundreds of thousands of jobs, then what is stopping other technologies from doing the same.

Conclusions

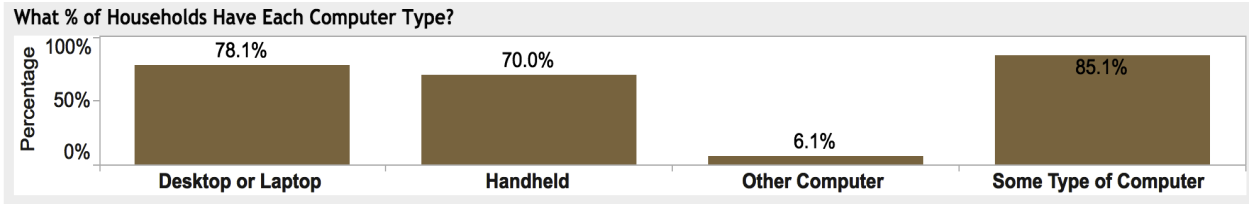
The commercial real estate industry will never completely die but, large sectors of it will, causing a ripple of unsustainability throughout the industry. Considering commercial real estate companies are generating very little profits from the vacant retail store across North America, thousands of jobs are being destroyed and replaced by technology that destroyed them. Just take a walk down Sainte-Catherine's street in Montreal, where there are numerous empty storefronts that were once thriving businesses. Now, either vacant or filled by temporary pop up shops. Leaving the question will one day it be a ghost town of once thriving retail businesses that were wiped out by the technological advancements of the 21st century?

Recommendations

The importance of the commercial real estate industry is too important to the economy's supply of tax dollars and jobs to be ignored. After reviewing all the sources of secondary data illustrated above, there may be some solutions to the unsustainable commercial real estate industry. As technology progresses, the retail and commercial real estate industry must do the same. Below are some recommendations that may not be the solution to the problem but, may lead to one.

1. Considering the new generations are all about experiences. Retail businesses should forget the product they are selling, and move their focus to the experience that consumers have when shopping at their store.
2. Movie theatres can do the same by creating an interactive and social experience that cannot be imitated through streaming a movie online.
3. If retail stores can imitate the convenient, and accessible shopping experience, of online shopping they may be able to revive themselves. They can do this by figuring out a way of making checkouts/ lines non-existent and providing coupons instantaneously to ensure the best price possible.
4. The commercial real estate industry has tried to innovate themselves and generate profits through pop-up shops, but they are only temporary and cannot sustain the industry. It may want to consider moving its focuses on to new properties.

Appendix A



Appendix B

Amazon.com Inc.



Appendix C

Alibaba Group Holding Ltd. ADR

ADD TO WATCHLIST CREATE BABA ALERT

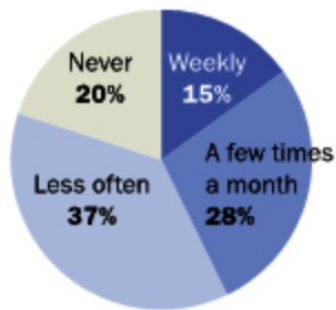


Appendix D

% of U.S. adults who ever buy something ...



% of U.S. adults who shop online ...



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[017/522384/](https://www.theatlantic.com/business/archive/2017/04/retail-meltdown-of-017/522384/)

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