

Home Building: the CRE Opportunity in the Residential Crisis



The residential housing market in the US currently has an enormous deficit of stock. According to new research from Realtor.com, single-family home construction is now at its lowest level since 1995 and some 5.24 million homes are needed – meaning the gap has widened by some of 1.4 million homes since 2019.

Realtor.com’s chief economic Danielle Hale told CNBC that the pandemic has exacerbated the problem and that “builders would need to double the new home production pace to make up the gap in five to six years”.

As any astute commercial real estate (CRE) professional knows, though, a gap or a lack is an opportunity, and this one is no exception: there is significant potential for deals and innovation, from both large investors-developers and for agile movers with new ideas.

Thinking Outside the Box

Of course, new housing developments are not small undertakings, but with a surplus of commercial spaces standing empty due to the pandemic, one tactic could be adaptive reuse.

National Association of Home Builders (NAHB) senior VP for economics Dr Robert Dietz told MPA Mag that “remodeling abandoned malls and other commercial spaces hit by the COVID pandemic could alleviate the country’s chronic housing shortage”.

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We've already seen a few such projects coming online recently, like a NAI G2 venture in downtown Atlanta, which will see an office tower reworked into a class-A multifamily residential asset. This is, they told Atlanta Agent magazine, "just the beginning of a trend they expect to see more of as the commercial real estate world adjusts to the post-pandemic reality".

Partial Conversions

Not all commercial spaces lend themselves easily to these kinds of reuse renovation, but with offices and retailers downsizing, there is also an opportunity for partial conversions that will firstly help address the housing shortage and secondly boost retail activity by connecting a buying public to hyper-local retail. Mixed-use developments like these can contribute to creating the feel of a mini-town-center and bolsters the viability of both uses in a property.

Accessing Funding

Strategically, this could also be a smart move for those seeking funding. As Liz Brumer-Smith, writing for the Motley Fool says:

"Investors looking to buy, convert, or develop multifamily real estate in 2021 should consider adding affordable housing to the project, even if it's just a portion of the property. Doing so can increase the likelihood to be approved for long-term financing while helping to increase supply of an asset in high demand."

Challenges to Overcome

Still, a dearth of building supplies and builders will need to be overcome, as well as zoning red tape. As Dietz told MPA in a second interview, there is "a lack of labor, lack of building lots, lending available to builders and developers, long lumber and building material shortages and legal and regulatory costs that make it more expensive to build housing".

Three tactics can be deployed in mitigation: local governments can look for proactive policies to work hand-in-hand with developers to simplify zoning regulations or introduce more flexibility. They could also take a stronger stance and even incentivize commercial property owners through subsidies for conversion, as argued recently on Million Acres. It could be a win-win for cities, creating additional jobs at the same time.

Finally, an opportunity stands for individuals and companies to deploy innovative building solutions that either make the conversion process simpler and faster – think modular builds, 3D printing and green materials – or speeds up the planning process – such as AI, automation and optimization.

The takeaway is that CRE can be a partner in addressing residential market needs, and a savvy investor can unlock value herein too.