



DONALD J. POLAND, PHD, AICP

SENIOR VP AND MANAGING DIRECTOR, URBAN PLANNING

PHONE: 860.655.6897 – E-MAIL: dpoland@gomanyork.com – www.gomanyork.com

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Steven Kleppin
Director Planning & Zoning
City of Norwalk
125 East Avenue
Room 223
Norwalk, CT 06856

Re: North 7 Application – Goman+York Report Question Respons

Dear Mr. Kleppin:

I write this letter as follow-up and response to the Commission's question regarding the impacts of COVID-19 on the findings in the Goman+York *Planning and Municipal Fiscal Impact Analysis*. Specifically, the question inquired about how COVID-19 may impact commercial and residential real estate and if those impacts would further impact the findings of our municipal fiscal analysis. This is an important question and we are pleased to have the opportunity to respond to it.

COVID-19 is impacting all real estate asset classes (i.e. commercial office, retail, industrial, residential, and mixed-use development). For example, most notable has been the impact on the retail sector, including restaurants. Recent industry reports anticipate that 27% of retailers will file for bankruptcy as a result of COVID-19. In addition, there are rising concerns that bankruptcy filings as a measure of impact miss the many independent businesses that will close never having filed for bankruptcy. If anticipated bankruptcy filing and additional undocumented closures translate into new commercial vacancies—on top of existing vacancy rates—we could see retail vacancy rates at or above 40 percent—a devastating number—before recovery begins.

However, it is important to keep in mind that retail was suffering from disruptions long before COVID-19 and would have continued to suffer increased bankruptcies and vacancies regardless of COVID-19. COVID-19 has not caused retail to decline, it has accelerated the already existing decline in retail—the inevitable demise of much bricks and mortar retail that would have taken a decade, is now occurring in one to two years. The same is also true of commercial office and the shift to remote working. From 2000 to 2015 the share of remote workers continuously increased—slowing and plateauing to 2020. The plateau was not the end of the shift toward remote work, but a pause in business-culture adapting to remote work. Shock and disturbance, the disruption of COVID-19 has released pent up demand for remote work and accelerated the cultural transition that was already under way for more than two decades.

As I previously stated, it is too early to definitively know how COVID-19 will ultimately impact our society, way-of-life and work, and real estate property markets. However, based on what we know right now, specifically related to Fairfield County (and Norwalk), it is plausible to assume there will be modest increases in demand for residential real estate—the outcome of those leaving higher-density New York City. While demand for single-family residential properties is already being reported in the media—possibly over dramatized—I anticipate new demand will also be realized for multi-family residential properties. This demand is the outcome of more flexible and remote work opportunities.



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I also anticipate that Fairfield County (and Norwalk) will experience modest increases in demand for commercial office space—the outcome of business relocation from NYC and the need for satellite office space to better accommodate flexible work arrangements. However, I am not confident that such businesses relocations (or satellite offices) will result in meaningful new demand for new commercial office space. For demand for new commercial office space to be realized, existing vacant space (known vacancies and shadow space vacancies) need to be absorbed. Add to this need for absorbing existing space, the shift to flexible work arrangements (various forms of remote work), and the actual realized demand for commercial office space will likely be minimal—especially speculative development/construction.

So how does this impact the Goman+York *Planning and Municipal Fiscal Impact Analysis*?

- *Municipal Revenue (Taxes) Projections:* The North 7 Development is mostly multi-family residential apartments with convenience commercial space aimed at providing amenities and services to the residential units and community. To value the property for the the municipal fiscal impacts, we utilized a construction cost approach. This approach assumes future value based on the cost of construction. Once the properties are occupied and stabilized, we assumed an income approach to value will be utilized by the Norwalk Assessor. While the approaches are different, both approaches consider market rents as potential or realized income. Therefore, property value is set by prevailing rents. Based on the discussion above of property markets and the impacts of COVID-19, I believe it is unlikely that modest increases (or even decreases) in demand will result in meaningful changes in rents or value. Most important, with the likelihood of modest increases in demand, it is unlikely that that rents and/or property value will decrease. Therefore, I anticipate that the estimated and projected property tax revenues for the North 7 development should remain at or above the findings in our report.
- *Municipal Expenditures (Cost) Projections:* The area of our fiscal impact most likely to be impacted by the effects of COVID-19 are the projected school enrollments. Based on current demographic trends and possible trends resulting from COVID-19, I believe it is plausible that our estimated/projected school enrollments are high. My reason for this is that fertility rates in the United States have been declining for decades. The U.S. fertility rate is now 1.73 and it is projected to decline further to 1.71. Connecticut’s fertility rate is even lower at 1.57. That means, in Connecticut, 27 fewer persons are born for every 100 persons who die. During times of crisis and uncertainty, especially economic crisis and uncertainty, births typically decline. Therefore, recognizing substantial negative economic impacts of COVID-19 (substantial job loss and declines in GDP) and reports of a general avoidance of hospitals and health care related activity due to the threat of the virus, I believe it is likely we will see further declines in the fertility rate and actual births in the near-term that will result in further declines in school enrollments that will be realized in five to seven years out from today.

I thank you for your time and I am available to answer any further questions.

Respectfully submitted,

Donald J. Poland, PhD, AICP