

CREW RICHMOND



30TH ANNIVERSARY

Economic Recovery, CRE and the Road Ahead

by Laura Lee Garrett

Economic Recovery, CRE and the Road Ahead

Speaker: Spencer Levy, Chairman of Americas Research and Senior Economic Advisor at CBRE

Mr. Levy shared his findings of the latest on the economic situation and industry impact and what we should expect in recovery and the road ahead. The session was presented via Zoom with over 500 participating. Ironically, Mr. Levy tuned in from the Comfort Inn in Richmond, Virginia where he was staying to attend his son's baseball tournament being played here in RVA.

He is optimistic about the U.S. economic recovery from COVID, based on what is going on in China. The economy there is doing well. Retail is back open. In the U.S., we have pent up demand. People are ready to go out and do things, but are adjusting to COVID related issues. Drive up hotels are full. The government stimulus that was provided to boost the economy has raised the bottom of the economic downturn. It is not so bad. Unemployment is bad, but not as bad as it could be due to PPP and other government relief.

As for CRE, Mr. Levy is concerned about the office sector. Delinquencies are on the rise. Big, tall buildings in major cities are in a terrible situation because of the occupants' reliance on public transportation and because people cannot get on the elevators together. Under some social distancing laws, there would be a line a mile and a half long and take all day to get the workers into the building – by the time everyone got in, it would be quitting time. Also TOD is in big trouble, at least temporarily.

Spencer believes the market needs price discovery – no one knows what CRE is worth right now, and we will only know that when we get to the bottom. He thinks we have gotten to the bottom in industrial and retail, that office will hit bottom in a few months, and multi-family will hit bottom in November when unemployment benefits expire.

The economic recovery overall will be V shaped, due to the help provided by the federal stimulus. CRE will have a “swoosh” shaped recovery. Industrial is coming out the best from COVID, because during the pandemic we ran out of goods and products, indicating that we need more inventory. Office will come back more slowly, but it will come back, because people want to go to work at the office. The soft skills developed in the office setting cannot be replicated remotely. 20% of restaurants will never re-open. There will be many bankruptcies.

As offices re-open, those returning to work will see workers cleaning during working hours in the “front of the house.” Whether or not it does any good, it makes people feel more comfortable going into the office. Forced air HVAC systems will be outfitted with mechanisms to laser zap the air to sanitize it. Offices with windows that open to the outdoors will become more sought after. Some of these things will be at odds with green building practices. For example, a building with windows that open and close does not meet LEED standards.

On the CRE finance front, all of the major lending institutions and programs have developed programs for dealing with loan payment deferrals and loan covenant waivers except for CMBS. Mr. Levy stated that the federal government needs to intervene to provide a “liquidity mechanism” to allow for workouts and restructuring of CMBS loans.