SPECIAL REPORT | JANUARY 2021

2020 ROUND-UP, POST-ELECTION OUTLOOK, & WHAT A VACCINE MEANS FOR CRE

After a turbulent 2020, full of closures, stay-at-home orders, and a lost holiday season, it is evident that the COVID-19 pandemic has devastated entire industries and brought incalculable financial loss. As we look forward to 2021, it is expected that the first half of the year will follow the trends and trajectory of 2020. It will bring the continued expansion of e-commerce and online shopping, extensions in work-from-home policies, the vaccine's rollout, and a new administration in the White House.

HOW CRE WAS IMPACTED IN 2020

Many businesses began 2021 recognizing the need to adjust business models to be more resilient and adaptable as the coronavirus pandemic raged on. Continued uncertainty froze transaction deal volume in 2020, and the virus is likely to affect commercial real estate throughout 2021 and beyond. **Here are the trends that defined the year and how the pandemic has changed the commercial real estate landscape.**

SHIFTING RETAIL HUBS

Generally, grocery-anchored shopping centers have remained stable – but traditional malls have suffered. Shopping centers where department stores have permanently closed their doors are being repurposed for non-retail uses including, residential, office, mixed-use developments, fulfillment centers, etc. Numerous cities may find benefits in repurposing these properties for other uses. 15% of mall stores closed in 2020, according to a Barclays Investment Bank report. If the e-commerce trend persists, 15 to 17% of malls will fail and may need to be redeveloped for other uses.

ACCELERATED MOVING TRENDS

For the second year in a row, Idaho was named the top moving destination. Idaho's ratio of move-ins and move-outs included 70% moving into the state, while New Jersey, for example, had the same percentage moving out. According to a study from United Van Lines, Delaware topped the retiree's list, followed by Florida, South Carolina, Arizona, and Wyoming. For the states with the most people moving out, New York, New Jersey, Illinois, Connecticut, and California were the top five.

THE E-COMMERCE TRAIN

While many other real estate owners and landlords were stuck on the sidelines, industrial owners and warehouse tenants continued full steam ahead with nothing in the way to derail its continued growth. Retailers have been losing foot traffic for years as e-commerce takes an increasing share of sales. COVID-19 has sharply accelerated this trend

THE UNKNOWN FOR OFFICE

Due to the extended work-from-home period, the workplace has changed drastically. Will people continue to work from home, or will they go back into the office? This is the question everyone seems to be asking. If Google and Facebook push their return to the office until later in 2021, it is anticipated that many other companies will follow suit. Consulting firm CREtech found that nearly 60% of U.S. employees expect to be back in their respective offices for a least a few days a week by the end of March. A Wall Street Journal report suggested offices may achieve a widespread return by late Spring or early Summer.

HOW CRE WAS IMPACTED IN 2020

CONTINUED

INEXHAUSTIBLE DATA CENTER DEMAND

A widespread shift to remote work and school placed new demands on cloud computing and, in turn, data center infrastructure. Along with the increase in demand, data center investment and development increased. For many businesses, it felt like years of change packed into a matter of months.

SUBURBANIZATION

For many, suburban life became a lot more attractive during the height of the pandemic, as it is more spread out, less dependent on public transportation, and more affordable than many urban cities. Employees were also no longer tethered to their work locations. Many businesses are also finding success in the hub-and-spoke model.

OVERALL RENT PAYMENTS REMAINED HIGH

The National Multifamily Housing Council's Rent Payment Tracker found over 90% of renters made a full or partial rent payment by the end of each month in 2020. Increased unemployment benefits, economic impact payments, and other legislation may have played an important role in keeping these rent payment percentages high.

CONSTRUCTION SPENDING RISES TO RECORD-HIGH

In November, construction spending rose to a record in 2020. According to the Commerce Department, total construction rose 0.9% from October to an annual figure of $1.46 trillion. This is the highest since the government first started tracking the data in 2002. Construction spending is 3.8% higher than in November 2019, a CoStar article reported.

POST-ELECTION OUTLOOK | What To Expect From The Biden Administration

Following the results of Georgia's senatorial runoff elections, the Democratic party will control both the Senate and House of Representatives, which raises the odds that the Biden Administration will be able to implement much of his campaign initiatives. However, it's important to note that the political division in both houses of Congress will greatly restrict legislative reform.

As the nation entered 2021, the surge in COVID-19 cases impacted the economy, leading to the second stimulus pandemic relief package. For commercial real estate, a robust economy is a critical factor for growth. Therefore, the speed and strength of the economy moving past the health crisis are essential for growth prospects. With Democrats poised to control the Senate, it is likely that a third, and larger pandemic-relief bill seems certain. Joe Biden unveiled a $1.9 trillion COVID-19 relief plan, the "American Rescue Plan" which aims to provide additional relief to individuals and businesses, stimulate the economy and provide funding for critical costs related to COVID-19 testing and vaccinations. Nonetheless, healing cannot continue until the vaccine distribution reaches the masses, so consumers and businesses trust it is safe to return to a resemblance of normalcy.

There is reason to believe a surge of pent-up demand will occur once the economy fully reopens. As such, hotels, entertainment venues, theaters, theme parks, bars, restaurants, and brick-and-mortar retailers will begin to see pre-COVID-19 foot traffic again. According to Propmodo, the primary headwind to economic growth and property demand is not consumer spending, which has held up remarkably well overall during this period, rather the constraints on the supply side of the economy. Countless small businesses have closed temporarily due to the pandemic, but many have now shuttered permanently, destroying millions of jobs in the process. Once the surge in COVID-19 has stabilized, Biden will shift focus to the initiatives mentioned below. The impact of Biden's economic policies on each property type will vary.

Biden's Initiatives to Keep An Eye On

(Note: Tax changes in the entirety are improbable given the division in Congress)

- **The Biden Tax Plan** – Proposes increased taxes on business revenue and wealthier households through higher tax rates and the reduction or elimination of some 1031 Exchange tax write-offs
- **Increased Federal Spending in Key Areas –** Infrastructure, healthcare, and education
- **Reversal Of Trump's Business-Friendly Regulations –** The energy and financial sectors are likely to see less favorable regulation treatment
- **Expanding Immigration Policies –** An increase in the number of refugees and asylum seekers allowed in the U.S. will increase the pool of workers in sectors suffering from shortages such as construction and nursing
- **"Made in America" Program –** The "re-shoring" of American jobs to include government purchases of American-made products
- **Build Back Better Agenda –** The reform of the Opportunity Zone Program
- **Building Sustainability –** Upgrading buildings, weatherizing homes, and constructing sustainable living units
- **Emergency Action Plan –** Could raise the $600 stimulus checks to $2,000 per family member, extend unemployment benefits beyond March, and provide fiscal relief to state and local governments
- **Revised HEROS Act –** Though not explicitly endorsed by Biden, a similar provision could be included in any future stimulus package

WHAT DOES A VACCINE MEAN FOR CRE?

After a year of bleak facts and figures, news in early November announced that a coronavirus vaccine has been developed by Pfizer and BioNTech and was more than 90% effective. A key priority of the incoming Biden Administration is rolling out the vaccine to the masses. However, it is anticipated that the rollout of the vaccine will be complicated, fraught with potential delays, and have an uneven impact on the recovery of various markets and sectors nationwide. A vaccine-fueled recovery will remove the exogenous forces that are currently constraining commercial real estate.

The hardest-hit landlords, especially those who own and operate office buildings, are among those most desperate to get workers back into the office as surges in infections have curtailed on-site work in downtown markets across the country. However, the U.S. Equal Employment Opportunity Commission ruled in December that companies can mandate vaccinations as a condition of work, suggesting landlords may be asked to help implement strict access policies sometime in the coming months. However, landlords are balancing whether the population will reach some safe threshold of immunity before making those changes.

OPPORTUNITIES THAT LIE AHEAD

As with any economic downturn, investment opportunities arise. Beyond specific asset classes, here are the trends that may pick up steam in 2021.

SHIFTING RETAIL HUBS

Investors are utilizing CRE technology to explore investment opportunities beyond their immediate market. For example, Commercial Real Estate Exchange Inc (CREXI) has observed an increased interest in smaller, hyper-local markets. In 2021, this is likely to continue as investors diversify their portfolios and seek opportunities in secondary and tertiary markets. Investors will continue looking for hidden gem markets that are currently proving their resilience in the face of the pandemic-related lockdowns.

CONSTRUCTION SPENDING RISES TO RECORD-HIGH

While urban populations' departure to suburbia bodes well for investors focused on smaller regional markets, urban markets have proven resilient. Metro markets, such as New York, Los Angeles, and San Francisco, are no strangers to natural disasters. They have withstood the Great Financial Crisis, earthquakes, and hurricanes, coming out stronger. While future performance isn't guaranteed, investors are eyeing opportunities at discounted rates. As the COVID-19 pandemic runs its course, and the economy starts to recover, these metros will re-solidify their market positions.

ACCELERATED MOVING TRENDS

Attention has been rerouted to the affordable housing crisis as the pandemic has further expanded the gap between the haves and have nots. Although measures to preserve affordable housing have been enacted, such as an eviction moratorium and rent control, the growing homeless population proves otherwise. Moving into 2021, many are rethinking how affordable housing is built to decrease construction costs and make affordable housing a reasonable project for developers.

THE E-COMMERCE TRAIN

Overall, the commercial real estate industry has been slow to adopt digital solutions. As of late, the industry has embraced and integrated technology with digital treasury solutions, such as online rent payments and vendor invoicing. Other technology trends include touchless technology, data-driven decision making, and robotic automation.

The COVID-19 pandemic accelerated many trends occurring in the commercial real estate space, and these trends are carrying over into 2021. A consistent policy outlook paired with an effective vaccination rollout will help enhance the economy and commercial real estate performance. Further, Federal Reserve statements imply that interest rates will remain low, emphasizing the value proposition of many commercial property investments. Investors should focus on resiliency protocols while looking toward future opportunities to enhance consumer interactions.

For more information, please contact a **Matthews™ specialized agent.**

For more trends occurring in the commercial real estate space, **click here.**

Disclaimer: This information has been produced by Matthews REIS™ solely for information purposes and the information contained has been obtained from public sources believed to be reliable. While we do not doubt their accuracy, we have not verified such information. No guarantee, warranty or representation, expressed or implied, is made as to the accuracy or completeness of any information contained and Matthews REIS™ shall not be liable to any reader or third party in any way. This information is not intended to be a complete description of the markets or developments to which it refers. All rights to the material are reserved and cannot be reproduced without prior written consent of Matthews REIS™