Real Estate Insights, Forecasts & Strategies
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Strategic Advantage

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2020…The Year That Changed Everything!
The New Real Estate Paradigm

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In This Issue

Please note, due to rapidly changing events, information contained herein may have changed since publication.

Friends & Colleagues:

The United States is a mosaic representing generations of dreams, aspirations and exceptionalism. When those hopes and motivations are confronted by a virus that can't be seen, has no "quick" or readily available cure and carries a deadly potential, the country is left to "take whatever steps necessary" to combat and survive. The core Maslowian-like essentials for human existence [food, shelter and wellness] are manifest in non-traditional behaviors [e.g., hoarding, not paying rent, mortgages or bills and delaying purchases]. **However, optimism and not succumbing to fear, anxiety and depression are inherent in most Americans.** The American Spirit has been observed and experienced during the: Boston Tea Party, the Declaration of Independence in 1776, stock market crash of 1929, the attack on Pearl Harbor in 1941, the assassination of President Kennedy and Martin Luther King in the 1960s, landing on the moon in 1969, the horrific events on 9/11 and now the Coronavirus [COVID-19]. While those seminal events caused us to hunker down and change behaviors, they reignited the American spirit which, for over 200 years, bonded us together. President John F. Kennedy said it best in his inaugural address, ***"Ask not what your country can do for you – ask what you can do for your country."*** President Ronald Reagan echoed those comments when he said, *"Don't let anyone tell you that America's best days are behind her – that the American spirit has been vanquished.* ***We've seen it triumph too often in our lives to stop believing in it now."***

Key Provisions Of COVID-19 Stimulus Bill Enacted March 27, 2020

- Allows 5-year carryback of net operating losses [NOL] for non-REIT business for 2018, 2019 and 2020.
- Increases the limitation on deductible business interest from 30% to 50% of EBITDA for 2019 and 2020.
- Excludes from income the cancellation of debt related to new, emergency small business loans.
- Provides small businesses [tenants] with $367 billion in loan assistance.
- Provides payments to many individuals and families, extends unemployment insurance and other social safety net programs.
- Lifts reductions in paper losses for three years.

GSEs will allow lenders to grant forbearance for up to three months to borrowers experiencing hardship due to COVID-19.

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Source: CEL & Associates, Inc. and NAIOP.

And one of my favorite quotes from Winston Churchill, whose mother was American: ***"Success is not final, failure is not fatal: it is the courage to continue that counts."*** **Courage in these times is a decision, not an option**. Today, the Coronavirus is a war, not a brief, moment-in-time emergency.

Uncertainty creates anxiety and frugality, and generational differences reveal a compendium of emotional pessimism and optimism. Major events, such as **COVID-19, will (re)shape society, public consciousness and the real estate industry for decades [not years] to come.** The post-COVID-19 world will bring clarity to what Nassim Taleb called a "black swan event," i.e., the probability of its occurrence is very low, but the impact is immense.

Financial insecurity, unemployment [real or feared] and how we live have a profound influence on our identity…as individuals and as a society. Where and how we work, where and how we shop, where and how we live and where and how we spend our leisure time is forever changed. **COVID-19 sparked a debate over human rights, property rights, privacy rights, societal rights and government rights**. The pace, impact and lasting changes will reverberate within every market and every asset class. Ironically, or perhaps just great timing, the real estate cycle, which peaked in 2019, was already faced with a tsunami of transformative events occurring simultaneously…**the Coronavirus just accelerated many gradual changes into light speed transformations**. From PropTech to consolidation, from legacy exits to the emergence of new competitors, from business as usual to business with a purpose and from Big Data to AI and AR, the real estate industry in 2020, as a result of COVID-19, will change. What once was is no longer a certainty. What we could rely upon is no longer reliable. What we could "count on," is now a memory. **We are in uncharted waters**. The time to change is now…tomorrow is too late. **Your ability to shape your future should be your #1 priority. You can't change yesterday, but you can seize the moment and create the future you want it to be**.

In this issue of *Strategic Advantage*, we will examine, based on the situation which is very fluid, and as we understand it, the resulting impacts from the Coronavirus [COVID-19] on each asset class and the significant changes ahead for company governance, operations and performance. Remember John Kennedy's words, ***"Change is the law of life. And those who look only to the past or the present are certain to miss the future."***

Markets Likely To Experience A Long, Post-COVID-19 Recovery

- ***Florida:*** 127m – 130m visitors per year, over 19% of the population is 65 and older, the annual threat of hurricanes and high cost of living. Could take 24 months or longer to recover [albeit below historical levels].
- ***New York:*** Emerging as the epicenter of coronavirus, compounded by decades of bureaucracy, among the highest state and local taxes in the U.S., nearly $70 billion in unfunded pension liabilities, New York was the #1 "move out" state in 2019 and dependent on nearly 63 million tourists per year. Watch for deal volume to decline, tenants to relocate out of NYC and visitation totals to drop significantly.
- ***Illinois:*** High corporate taxes [45% increase in January, 2020], high property taxes, a net migration rate, a $137 billion unfunded pension liability with a $250 billion obligation that is growing, and that doesn't include $30 billion in unfunded pension liabilities for the City of Chicago. Watch for tenants to relocate all or a portion of their business out of the state.
- ***California:*** Locking down 40 million people for many weeks is economically devastating, high gasoline taxes, unfunded pension liabilities [conservatively $333 billion statewide], ranked #48 of all U.S. states in overall economic freedom, loss of many foreign visitors, and the impact of the reduction in port activity will be challenging. Watch for the "blame game" to occur that will cause many businesses and residents to examine moving elsewhere.
- ***Nevada:*** Around 56 million tourists annually [nearly 50 million visited Las Vegas…6m – 7m were conventioneers], gaming- and entertainment-dependent with dramatic boom/bust cycles. Watch for some small- to mid-size hotels and restaurants to go out of business, and the negative economic multipliers of the "shutdown" could take years to recover. Casinos will experience a sharp decline in visitors.
- ***Airline Hub Cities: Dallas, Atlanta, Chicago, New York City, Denver, Orlando, Washington, DC, Los Angeles, Seattle, Charlotte, Houston and Seattle*** are among the top airports for passenger traffic. It will take 18 – 24 months to "get back to normal," assuming no repeat pandemic occurrence in 2021.
- ***Oil-Dependent Markets:*** The dramatic fluctuation in the crude oil/energy sector [prices, rig counts, oil drilling operations]; shifting energy policy and emergence of alternate energy sources will create multi-year challenges for markets such as Houston and other energy-dependent regions.

Source: CEL & Associates, Inc. and multiple external data sources.

Economic Impact Highlights – COVID-19

Bottomline…the Coronavirus will push the U.S. into a recession. Overall GDP growth in 2020 is expected to decline 10% - 13%...the deepest recession on record. Some expect unemployment could rise in 2020 to 10% - 15%, or higher, assuming a COVID-19 peak occurs by the 3Q. Unemployment in 2Q could reach 30% or higher, as a result of the massive layoffs/furloughs, statewide stay-at-home and quarantine policies of some of the largest employment states [California, New York, Illinois, Florida, Michigan and Ohio] in order to arrest the spread of this virus. There are over 30 million small businesses in the U.S., and a number of them will not survive a protracted, stay-in-place environment. Wages will remain flat in 2020 as employers seek to retain great talent, but not at the cost of bankrupting their business.

Real Estate Sectors Likely To Experience Enhanced Building Operation Regulations*

- Lodging Facilities
- Apartment Communities
- Retail Centers
- Gaming Facilities
- Healthcare
- Office Buildings
- Conference Facilities
- Entertainment Centers
- Outdoor Assembly Venues

* Integrated security systems, onsite cameras, thermal imaging, required "wearable" technology, sensors, screening systems, minimal cleaning standards, employee health certifications, written backup/emergency plans, and adherence to a converged security platform.

Source: CEL & Associates, Inc. and multiple external data sources.

Unemployment claims and applications for SNAP will rise dramatically. Earnings for the S&P 500 probably will, at best, be flat in 2020. Dividend payments will likely be suspended by a number of corporations. The Federal Reserve's balance sheet, now around $5 trillion, could double or even reach $20 - $30 trillion by 2030 in an era of seemingly recurring quantitative easing, bond purchases, main street lending programs and slashing bank lending notes. Will there be a moratorium on margin calls from banks on mortgage debt? The SNL U.S. Equity REIT Index could be down 8% - 12% after REITs posted a nearly 29% total return in 2019. Investment sales [around 50%] could be repriced, delayed or fall out. Buyers are and will continue to reprice. Construction delays [30-90 days] will create challenges for some. Reduction-in-Force (RIF) employees may not be easily replaced. Investors are going to be asking a thousand questions about "their investment[s]."

At the end of the 4Q 2019, total mortgage debt was around $15.8 trillion of which $3.7 trillion were in outstanding commercial and multifamily loans. For that sector [commercial facilities funding], banks held 39%; agency, GSE and MBS originators held 20%; life companies held 15%; and others held the balance. Over the past several years, low interest rates have caused borrowing to skyrocket, but **post-COVID-19, the percent of mortgage delinquencies, defaults and restructurings will rise dramatically**. CRE default rates could rise to 7% - 10% (currently 0.4%). Many property-owning REIT stocks were down 40% - 50% during the recent February 21 – March 23 period. Similar to the S&L crisis of 1986 – 1995, during which nearly one-third of savings and loan associations closed, **expect protracted turmoil among lenders during the next four – six years.**

Real estate service company revenues could decline 20% - 35% [in some cases more] in 2020, depending on the mix of recurring to transactional income and geographic location. **However, the action of the federal government, the infusion of a $2.2 trillion fiscal stimulus, continued low interest rates and other financial considerations should keep this recession from a prolonged "U-shape" recovery to a likely "V-shape" recovery [a 55% - 60% probability].** What happens in 2021, after all the subsidies/handouts end, is unknown. Expect the financial pain and operational challenges to remain until slowly recovering by the 3Q. **In an election year, the financial bailout of the consumer will take precedence over benefits to large companies**.

However, the fundamentals of how Americans live, work, shop and play have changed and will not return to historical norms of behavior, consumption and lifestyles. The year 2020 will be analogous to the impacts of and transformative changes resulting from the Great Depression [1929 – 1932], which took more than 10 years to recover.

The Lasting Psychological Impact Of COVID-19

The brain's hippocampus region plays a role in creating short-term memory, then transferring the data to various places in the cortex for long-term memory. **The real or potential trauma of job loss, inability to provide for your family, pay rent, make a mortgage payment, or pay normal living expenses is burned into memory**. The "hidden" impact of catching a deadly virus varies among individuals, based on their vulnerability to avoiding long-term psychological damage. Fear is universal and it can control behavior, letting feelings get in the way of what could happen.

Many who went through the Great Depression 30, 40 or 50 years later were still "saving" leftover meals, looking to spend wisely, carefully "guarding" their money and preferring to "handle things themselves." For those who experienced World War II, the Korean or Vietnam Wars, the lasting memories of camaraderie, brotherhood, Agent Orange, fear and death remain topics at reunions and among friends. Where you were when President Kennedy was shot, when Neil Armstrong first stepped on the moon, for Woodstock Festival in 1969, the gasoline/oil crises in the 1980s, Desert Storm in early 1991, Y2k in 2000, or the subprime mortgage crisis [2007 – 2009] are memories that remain forever in our cache of lasting experiences. **Unexpected events have psychological impacts that last for years, not weeks.**

The psychological and behavioral impacts after traumatic experiences are well-documented. Consumer spending declines, weddings are delayed, birthrates drop and major "life decisions" [buying a home, changing jobs, relocation and making significant investments/commitments] are deferred. **The three most important elements shaping human behavior are food, shelter, and wellness**. Satisfy those three factors, and life is good. **Delaying, interrupting or navigating the uncertainty around each, causes "hunkering down, hoarding."**

The ongoing stress caused by an invisible virus with no immediate treatment or cure in a world requiring social distancing, and sheltering-in-place, can be overwhelming to some, and a lasting "scary" memory for many. Some experts and models project 100,000 to 240,000 deaths may occur due to the Coronavirus. Due to rapidly shifting conditions, these projections may not be accurate.

Critical Infrastructure Sectors

These infrastructure sectors are very likely to receive renewed focus, investment and upgrades, creating direct, adjacency and/or indirect real estate opportunities through 2030.

- Information Technology
- Communications
- Critical Manufacturing
- Energy
- Emergency Services
- Security
- Government Facilities
- Chemicals
- Logistics
- Waste Management
- Healthcare/Biotech
- Pharmaceuticals
- Transportation
- Water Systems
- Food & Agriculture
- Financial Services
- Defense-Related
- Military

Source: CEL & Associates, Inc. and multiple external data sources.

Within the real estate industry, taking an apartment tour or leasing an apartment previously occupied by an "unknown" or perhaps a self-quarantined resident or home seller, will kick-in a "defer now" behavior by prospective renters and buyers. Investors acquiring a building or lenders financing a building may "take a second look" or "delay until things settle down." Owners of retail centers will have daily panic attacks should a COVID-19 patient list their center as a place they spent the afternoon or evening. Retailers will speculate whether their customers will return or continue to increase their online spending. Buyers of real estate assets will wonder whether they will get 6- to 9-month extensions from sellers…will those buyers walk, restructure or revise pricing? Working through rent abatement issues will take all of 2020 to resolve. What will happen when rent expected from a large number of small business tenants or laid-off apartment renters is not paid or is delayed? Warehouse distribution real estate tenants will subconsciously question "where did this package come from" and whether it is safe to handle. Office workers will question whether getting into crowded elevators or working in close proximity cubicles is safe. Working remotely will result in less leased office space. **As you can see, while COVID-19 eventually will be behind us, the lasting psychological impacts and implications are and will be significant…2020 will be the Year That Changed Everything.**

Remember, attitude and optimism are choices. While the scars will become distant memories over time, the behavior changes in how we live, work, shop and play will remain for at least 10 – 15 years. **The real estate industry will be on the front line of this lingering fear of the unknown.** However, as Winston Churchill said, "For myself I am an optimist – it does not seem to be much use to be anything else."

Impact On Organizational Governance, Operations & Performance

Prior to COVID-19, most real estate firms believed and acted as if tomorrow was going to be the same as today. Reliable information could be trusted for linear projections. Human behavior and managing people could follow textbook processes and policies. Succession was a need-to-do-sometime process, and organizational architecture could be tweaked but never fully overhauled.

Impacts Of COVID-19 On Development

- Incorporating hands-free amenities [e.g., motion activated doors, restroom faucets, tissue dispensers, parking garage gates/doors, etc.] in building designs.
- Identifying new sources for building supplies and fixtures. China now accounts for 30% of all U.S. building products.
- Utilization of new building materials, technologies and robotics to perform formerly human tasks.
- Inclusion of pandemics in force majeure clauses in construction contracts.
- Upgrades to HVAC systems regarding air quality and circulation.
- Regular onsite health inspections during construction and before Certificate of Occupancy.

Source: CEL & Associates, Inc. and multiple external data sources.

In 2020, that changed…and changed dramatically with an accelerated sense of urgency. Today, urgency with change can define outcomes between the procrastinators and proactive real estate practitioners.

The real estate industry, which has always been the unfinished business of society, has the capability and opportunity to lead a national digital and economic renewal of our infrastructure and cities. **"Without a sense of urgency to change, desire loses its value." Real estate companies now recognize the need for sustained governance** [i.e., forming a true Board of Directors], in-place succession plans for all mission critical positions, and clear charter or position descriptions on roles and responsibilities for the groups or individuals who lead. Real estate companies must revise their compensation plans, set up sufficient operating reserves and build up the balance sheet. **In today's and tomorrow's uncharted waters, the ability to "weather future storms" will take precedent over "more of the same."** Going forward, real estate companies must have "pre-crisis" external and internal operational, communications and brand management strategies in a "ready-to-go" state. Customer, client, investor, employee, vendor and lender crisis communication modules should be created and reviewed/updated quarterly. Every real estate firm will recognize the need to develop recurring sources of income to offset [pay for] 100% of corporate overhead…anything less will put undue stress on the organization and its principals.

In the post-coronavirus era, defining essential and non-essential positions, identifying potential "outsource" opportunities and updating personnel policies to deal with prolonged illnesses/work stoppage become essential operational necessities.

Perhaps the **biggest lasting impact on real estate firms will be the continuation of "working remotely."** In the past, working from home was resisted due to a mistrust of the process, not lack of trust in the employee. **Watch for up to 20% - 30% of today's real estate employees to perform all or a significant portion of work remotely**.

Impacts Of COVID-19 On Tenants / Residents

- Watch for “required” wearable devices that, in addition to automatically opening doors, giving access to elevators and common areas, also will connect with building “disease” and “environmental monitors” [the technology exists today].
- Inclusion of pandemics in force majeure clauses in tenant leases.
- Addition of onsite “health monitoring” stations.
- Addition of a “You Are Responsible” clause in all leases, requiring proof of a “crisis” health/safety plan and mandatory reporting of illness issues.
- Increased requirements for Tenants and Residents to have N95 masks for all individuals working/living in the space.
- Watch for new regulations reducing the number of people who can be in an elevator at one time, along with “Fewer Is Healthier” policies.

Source: CEL & Associates, Inc. and multiple external data sources.

Watch for “work-from-home” policies to assure proper decorum, productivity standards, communication and online protocols. Watch for the adoption of four-day work weeks, shorter workdays and greater reliance on technology for “current” employees. Watch for bonuses attached to deal finders, developers and leasing to be adjusted to retain key performers. Extensions of sick leave “banking” and “healthy-to-come-to-work” standards will be commonplace. Use of Zoom, Go To Meeting and Blue Jeans video conferencing technology will become more popular alternatives than “getting together.” Board management software [e.g., Diligent] and other secure online document management such as DocuSign could electronically account for 70% - 75% of all “approval” transactions. Robust CRM platforms will be used increasingly to interact with customers and clients. **Automation and outsourcing could replace 20% - 30% of real estate employees performing clerical, accounting and administrative functions**. Robust dashboards and online internal document sharing/signing capabilities will be commonplace and extend throughout the organization.

Preparing for the worst, not being caught off-guard and anticipating problems before they occur will be the operating focus of real estate companies through 2030. **Watch for 80% of real estate firms to move to a true Board governance structure with Independent Board members and outside Advisors**.

Learning to plan for recurring uncertainty will be the top priority in the 2020 decade. Watch for contingency plans to be a normal part of each year’s budgeting/planning process. Watch for, and very likely expect, a reduction in workforce [automation, IC status and/or freelancer] and overall space needs proportionate to growth in revenues and activities. Watch for organization structures to become more digitally independent, helix-structure, engaging operating platforms that move away from the traditional command-and-control models in many real estate organizations today.

Why Real Estate Will Remain
A Preferred Investment Class, Post COVID-19

- A low interest rate environment increases returns.
- Americans need to live [apartments], shop [grocery-anchored retail] and produce/distribute goods [warehouse/distribution facilities].
- Continued strong demographics [population growth and household formation].
- Favorable tax treatment [1031, Carried Interest, Capital Gains, Opportunity Zones, etc.].
- Capital in non-performing real estate asset classes will shift monies into multifamily, last mile and healthcare.
- Attractive investment option for flight capital.
- Aging population [healthcare asset investing].
- Inflation protection.
- Asset appreciation plus cash flow.

Source: CEL & Associates, Inc.

Perhaps the biggest initiative in 2020 for *all* real estate firms will be a review and restructuring of the strategic and long-term plan. **Whatever strategic plan you had entering 2020 must be reviewed, revitalized and restated to reflect today's and tomorrow's new normal**.

Impact On The Office Sector

Over the past decade, the redefinition of work and the worker has been slowly unfolding. **Work now follows the worker…wherever he/she wants to be and whenever he/she wants to work.** Before COVID-19, around 43% of workers "occasionally" worked from home [vs. 39% in 2012], 62% of workers said they could work remotely, and 80% of workers wanted to work from home at least "some of the time." Clearly, COVID-19 will increase those percentages, spelling rough waters ahead for office landlords. The digitization of the workplace, automation and the work-remotely impetus caused by COVID-19 will result in increased office space vacancies, shorter leases, reduction of space needs from renewing tenants and less money available for tenant improvements. Vacancies will rise dramatically before they slowly decline. With approximately 8.1 billion square feet of office space nationally, the expected addition of another 335 million square feet through 2024 is very much in doubt. In addition, tenants increasingly will expect true 24/7 property management and maintenance services as workers become shift employees [7 a.m. – 3 p.m.; 3 p.m. – 11 p.m.; 11 p.m. – 7 a.m.]. **Why should all employees arrive and depart at the same time?**

The coronavirus may be devastating to companies like WeWork and question the open office, collaborative workspace, and creative office floorplans. Entry and exit doors will become motion activated. Restroom doors will have automated open and close features. Elevators will have "electronic touch" floor buttons. Common areas will need WiFi Bluetooth technology. Office furniture will be replaced by easy-to-clean designs [a task performed by each employee when they arrive and before they leave for the day]. Tenants will expect a more thorough, daily disinfect cleaning of all "touch points." Building operators will need to "certify" that their maintenance/facilities personnel are healthy…every day!

Insurance companies may not provide coverage for virus-related events. Building lobbies will need air purifiers, available hand sanitizer, walk-off mats to remove contaminants and a greater use of "green walls" and natural ventilation. Manufacturers of office furniture will incorporate/utilize antimicrobial technologies. Office building developers/owners will install touch-free, sensor-flush toilets and drinking fountains. **Watch for the future deployment of tenant and visitor infrared fever screening systems placed before entering the building or an elevator**.

These changes will drive up operating costs in a marketplace that is reevaluating the need for "fixed space." If recent studies by McKinsey and others are correct, **owners and operators of office buildings are going to experience a decade-long period of challenge and below historical levels of financial/operating performance**. The older the building, the greater the challenge. Failure to invest in "healthy" upgrades will result in a competitive leasing disadvantage. What happens when today's leases roll over during the next 10 years? Tomorrow's tenant expectations may exceed the ability or capability of many of today's office building owners to survive the transformative tsunami of lasting impacts created and/or accelerated by COVID-19.

The one clear winner in the office sector will be healthcare, medical office buildings and biotech facilities. This sector will grow 10% - 16% annually over the next decade as the entire local, county, state and national healthcare facilities infrastructure and platform are reshaped, integrated and expanded.

Impact On The Retail Sector

Already reeling from the digitization of the retail buying experience, dramatic growth in online sales, and shifting consumption patterns, **the retail real estate sector is taking a major hit with the COVID-19 pandemic**. In 2019, over 9,000 stores closed, up 63% from 2018, and following more than 8,000 store closings in 2017. With nearly 11.6 billion square feet of retail space nationwide, the forecast addition of another nearly 300 million square feet through 2024 will not occur. In 2019, online retail sales of physical goods totaled $365.2 billion. By 2024, online retail sales are expected to grow to nearly $600 billion. Prior to COVID-19 e-commerce sales were expected to grow to 12.4% of all retail sales by 2020. Credit Suisse forecasts 20% - 25% of American malls will close between 2017 – 2022. **UBS estimates that as many as 80,000 retail stores will close by 2026…and this was *before* the impact of the coronavirus**. Remember, consumer spending is around 69% of U.S. GDP…but 84% of GDP growth since 2014. Post COVID-19, **online sales for consumer product goods and grocery items could jump to 20% or more rendering many existing retail centers irrelevant**.

Over the next decade, a new pattern of consumption will emerge. Convenience will dominate the consumer's choice. Discretionary spending will shift. The sharing economy will grow. The shopping "experience" will be at the top of the consumer's decision hierarchy. Customization, personalization, buying locally, simplification of choice, shrinking household size, aging population, a ubiquitous Internet, AI, virtual reality and wearables will accelerate the retail shift from the manufacturer and retailer to the individual. COVID-19 has merely highlighted and created further impetus to the new normal for consumerism. Watch for retail real estate firms to move away from their current year and for-the-moment strategies.

Local, statewide and federal mandates and recommendations to close and/or restrict hours at restaurants, bars, enclosed shopping areas, places where people gather, sporting venues, malls and stores have had significant impacts on consumer and tenant behavior. **Supply chain interruptions will result in future inventory shortages**. Travel restrictions, shelter-in-place and social distancing are redirecting consumers to online shopping and entertainment options. **Expect massive gains in e-commerce and delivery services as a result of Americans "staying at home."** Expect public retailers to cut or suspend dividends as profits drop dramatically. Grocery stores are learning how to cope with a surge in traffic due mostly to consumer stockpiling and panic buying as well as a rise in online sales, demand for same-day delivery and pick up/drive up options. Watch for food and beverage companies to accelerate their pace of industrial, warehouse and distribution leases.

The net result is: [1] an increasing number of tenants not paying rent and/or asking for rent reductions, rent freezes, rent relief and/or rent forbearance; [2] a dramatic increase in retail bankruptcies; [3] rising vacancies; [4] reduced asset values; [5] high TI allowances for renewing tenants; and [6] deferred maintenance. **The repurposing of retail centers over the next 20 years will be significant.** Like office buildings, automatic door openers and closures will be "expected" by shoppers. Lenders will be reluctant to modify retailer and retail real estate loans as they struggle to meet federal "minimum" performance standards. **Retail real estate companies must shift from an asset-centric to a consumer-centric business model...engaging each consumer and each consumer experience on a recurring and repetitive basis.** Owners of retail centers will need to deploy the latest technology to connect and interact with those who visit their centers…while they are shopping and when they have returned home.

A more holistic view of the consumer/tenant/center dynamic will be created around trust, customization or personalization, experience, quality, service and engagement. Innovative retail real estate firms will accelerate their level and scale of strategic partnerships with logistics specialists, consumer product researchers and human behavior experts. Watch for retail real estate companies to move more aggressively into the supply and value chain dynamic with "bolt on" last mile warehouse/distribution and cold storage functions. Drive up, drive through, curbside pick-up, drone delivery and other generic delivery services will be a component of the retail center mosaic of "consumer options." As consumers buy less and buy differently, the GDP falls into negative growth and uncertainty prevails, **the retail real estate sector will experience its largest overall decline in nearly every category for the next two – three years, and it will emerge in 2030 with a completely different industry, delivery system and very different real estate platform**.

Impact On The Multifamily Sector

Approximately 43 million households are renters. Around $81 billion in rent was due April 1. What percent will be delinquent? Thirty-seven percent [37%] of renters live in apartments. Between 1.4 – 1.5 million people live in nursing homes. There are 28,000 assisted living facilities and 21.4 million apartments located throughout 2.25 million rental properties. Rent forbearance, moratoriums on evictions, lease restructuring and, in some cases, rent reduction will reverberate throughout the multifamily industry. Expect apartment brokerage fees/transactions to decline 45% - 55% in 2020.

What do you do when your leasing agents or maintenance personnel refuse to interact with an existing or potential resident? What do you do when a prospective resident demands a "virus free" apartment certification before moving in? What procedural changes must be made to keep common areas and touchpoints virus free? How do you address the problems created by local government-based no-eviction or no-rent-increase policies spanning weeks or perhaps months? These represent business, financial, tenant, operating, customer- and facilities-related issues all rolled into one. Multifamily, with the exception of select student housing and high-risk urban assets, will rebound quickly, but the lingering challenge of collecting past-due rents will continue throughout 2020.

Leasing activity will slow, but housing is an essential human need that will result in a more rapid return to the new normal. Expect an increase in the waiving of late fees, deferring payments, restructuring leases, early renewals and/or implementing payment plans.

Potential Post COVID-19 Risks

- Increased government regulation and regulations regarding onsite personnel, policies and procedures.
- Loss of beneficial tax treatment.
- Rent control and stringent eviction requirements.
- Rising insurance costs [i.e., liability].
- Litigation or "failure to notify" and/or "compliance/safety regulations."
- Increase in federal notification requirements.
- Rising compensation costs to retain key talent.
- Inability to replace furloughed/RIF personnel.
- Requirements to automate "human touch" common area touch points.
- Annual "Wellness" building certification.
- Requirements to stock masks/personal safety gear for all occupants.

Source: CEL & Associates, Inc.

Expect delays and shortages of some supplies and services. Watch for new operating policies for senior and student housing facilities [some may be in response to potential new government regulations]. Staffing levels and schedules will be modified significantly.

Watch for a dramatic restructuring of the resident/owner/manager relationship. Residents will expect motion-free doors in common areas, exercise rooms, mailbox areas and entries to garages. Residents may desire a unit clean bill of health from a certified "health inspector" before leasing a new unit. Residents will expect regular cleaning of all common areas and resident touchpoints. **Use of online leasing, virtual and self-guided leasing tours will replace some, but not all, of the traditional leasing process.** Supplies of hand sanitizer, N95 respirator masks, and other preventive healthcare supplies will be standard onsite amenities. Smart walls can be designed to detect medical emergencies.

Community Managers will increase their vital role as first responders…preventing, attending to, and taking action regarding any significant health-related, force majeure or community-based issue. Watch for a "Community Health" certification requirement for Property Managers. The responsibility to inform, manage and handle the resident experience and resident well-being will be enhanced by greater onsite empowerment. Watch for an increasing call for a "Wellness" rating for each apartment community. Expect select municipalities and states to enact "progressive" policies on rent control, evictions and minimal "living standards." **The roles and responsibilities for a Community Manager just expanded, became more complex, and elevated to the apex of the resident experience**

Impact On The Industrial Sector

Supply chain interruption, inventory shortages, getting goods to the marketplace in a timely manner, and technology integration are current challenges facing the industrial real estate sector. The coronavirus highlights the need for and the problems inherent with the industrial real estate sector. **Just-in-time deliveries do not work when demand exceeds supply**. The U.S. imported $3.1 trillion in foreign-manufactured goods in 2019…nearly all went to a warehouse, distribution or assembly facility. It is clear from the experiences of COVID-19 and "stay-at-home" policies that the demand for large, last-mile and farm-to-market warehouse and distribution centers will grow dramatically. Frankly, watch for local, county, state and federal government mandates on maintaining a network of warehouses to store core ["strategic"] health-, weather- or crisis-related goods [water, medication, portable hospital beds, N95 masks, pre-packed food, toiletries, rain gear and field medical devices]. The entire supply and distribution chain for life-critical medical equipment and supplies will create millions of square feet of warehouse/distribution space nationwide over the next decade.

The U.S. imported $452 billion in goods from China in 2019. COVID-19 has upset the trading relationships with many countries, as according to recent studies the "lifespan" of the coronavirus on a surface can linger for 72 hours or more [less on some surfaces]. **However, getting goods and supplies to market mandates more not less warehouse distribution facilities**. Amazon, a leader in receiving and shipping goods, has watched its stock rise dramatically from a low of $1,676 on March 12, 2020 as a result of online shopping. Getting goods to Americans constrained by travel and congregating restrictions has placed a greater value on online sellers of those goods. Why visit a store or shopping center with the inherent risk of exposure to COVID-19, or any future pandemic or act of nature, when you can shop in the comfort and safety of your home?

Over the next decade, watch for the development of larger, last-mile and cold storage warehouse/distribution facilities to soar. Supply chain resilience will be highly valued. The nearly 17 billion square feet of industrial space could experience demand for another 1 billion square feet well before 2030. Watch for more, not less, demand for warehouses to improve inventory control, store emergency medical supplies/equipment and provide better and prompt consumer access to goods. Watch for robotics to further take over the movement of goods within a warehouse facility. Watch for an increase in "bringing home" critical manufacturing sectors for the well-being of Americans [e.g., pharmaceuticals and healthcare devices, diagnostic machines, and vaccines]. The coronavirus exposed the vulnerabilities in the supply chain for critical healthcare goods. **Over the next decade, watch for an increase in new manufacturing facilities for those critical health-related goods**. In addition, the replacement of "old" warehouse distribution facilities with 36- or perhaps 40-foot ceiling heights will create new investment opportunities.

The industrial real estate sector, as a result of COVID-19, further strengthened its vital national, state and local role in the critical web of manufacturing, assembling, distribution and warehouse providers.

Impact On The Entertainment & Hospitality Sector

The obvious short-term, devasting financial and economic impact on companies who employ, real estate enterprises who serve, and communities who depend on **the entertainment and hospitality sector will likely take 12 – 18 months to recover, and 36 – 48 months to recapture what was lost during COVID-19.** Americans will return to this sector, but will likely: [1] limit international travel; [2] choose pay-per-view options rather than attending a sporting event; [3] utilize video conferencing technology rather than attend conventions or industry meetings [video conferencing has jumped 300%]; and [4] will "stay away' from venues that have the highest propensity for exposure to real or potential viruses [online gaming has increased 400%]. The following list highlights some of the venues and the number of facilities nationwide. No geographic area of the U.S. is immune from the "shut down."

COVID-19 Sector Impact

- Orlando Theme Parks [10]
- State-Sponsored Hall of Fame Facilities
- NFL Stadiums [32…17 million visitors]
- National Soccer HOF, Frisco, TX
- Golf Courses [15,372]
- Country Music HOF, Nashville, TN
- Ski Resort [476]
- Libraries [116,867]
- Cruise Ship Ports [30 million passengers]
- Major Marathons [685]
- Museums [35,000]
- Amusement Parks [400]
- Movie Theaters [40,000…1.3 billion tickets]
- Live-Performance Theaters [3,533]
- College & University Venues [5,300]
- Casinos [1,000]
- Factory Tours [558]
- Rock & Roll HOF, Cleveland, OH
- Campgrounds [13,000]
- National Parks [419]
- MLB Stadiums [30…70 million visitors]
- NBA Arenas [30…22 million visitors]
- Presidential Libraries [13]
- National Heritage Sites [20]
- National Monuments [199]
- State Parks [10,234]
- Coffee Shops [35,616]
- Washington D.C. Attractions
- Indianapolis 500
- South By Southwest Festival, Austin, TX
- Coachella Festival, Indio, CA
- Burning Man Event, Black Rock City, NV
- National Football HOF, Canton, OH
- Baseball HOF, Cooperstown, NY
- World Golf HOF, St. Augustine, FL
- Basketball HOF, Springfield, MA
- Spas [20,000…190 million visitors]
- Convention Centers [255]

Source: CEL & Associates, Inc., published reports based on available data.

In addition, more than 54,700 hotels containing over 5.3 million guestrooms serve more than 1.1 billion guest nights annually in the U.S. The hospitality industry [$218 billion annual revenues] employs over 2.3 million workers. The combined leisure and hospitality industries employ nearly 17 million workers. RevPar, because of COVID-19, is expected to decrease 50% - 55% in 2020. Over 750,000 people are employed in the casino industry [409,000 of whom are employed in Nevada].

There are nearly 661,000 restaurants in the U.S. employing nearly 15.1 million workers. Restaurant sales have dropped 47%, and that number is expected to grow even larger. Seventy percent [70%] of restaurants have laid off employees. The devastating impact of COVID-19 on the entertainment and hospitality sector has been equally challenging to owners of real estate who lease space or own these facilities. CEL & Associates, Inc. projects **that full recovery within this sector will take four – six years to return to historical norms and seven – 10 years to recapture what was lost in the greatest of all recessions.**

Closing Comments

Thomas Paine wrote, **"These are the times that try men's souls. …the harder the conflict, the more glorious the triumph."** These are, indeed, challenging times as we navigate through uncharted waters…with an uncertain ending. While the outcome is currently uncertain, the resolve is high and the resistance unmatched. We will get through this. The real estate industry never will be able to “go back to the way it was”…it can only look forward to the “way it is.” **The real estate industry is the foundation of America’s heritage and the unfinished business of society.** For centuries, real estate has created, [re]shaped and enhanced America’s towns and cities. **Real estate has been the fulcrum from which a society bands together** for common causes, interests and values. Going forward, **the real estate industry must transform itself from a reactor to change or events...to a creator of a better tomorrow. Going forward, “If you want something you once had, you will need to do something you have never done.” Welcome to the New Normal…2020 will be the Year That Changed Everything!**

Regards,

Christopher Lee
Editor

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