



Top 10 Takeaways from 19th Annual Commercial Real Estate Forecast

Dr. Mark Dotzour – The Economy and Commercial Real Estate

Last week a star-studded list of commercial real estate pros gathered online to give their thoughts on this year in the CRE world. Despite the fact that the Coronavirus pandemic drags on, ravaging the economy daily, many interesting and mostly optimistic observations sprang from this brain trust. This summary includes the 10 most salient points raised by Economist Dr. Mark Dotzour of Texas A&M University.

- David Liebman, SIOR, JD

1 Bullish on Economy/Peoples' Ability to Adapt & Recover

People want desperately to get past this and do other things. Dr. Dotzour is still bullish about the near and long term U.S. economy and CRE in general. The national savings rate is much higher than normal. Dr. Dotzour observed, "People are tired of being told what to do. Once I get the 2 shots within 21 days, that's my GO signal!" If more people feel confident they're protected from the virus, they'll feel empowered to go out to restaurants, buy things and travel, among other things.

2 Pent-Up Demand Will Accelerate by Year's End

Supply Chains have been strained by the pandemic, and uneven vaccine distribution is already occurring. But to remedy such problems, increased hiring will take place worldwide to distribute the vaccine, rebuild supply chains in multiple industries, and continue to feed the ecommerce juggernaut. What's more, with shipping costs skyrocketing due to limited goods to/from China and other parts of the world, relief is needed. While the demand could stir temporary Inflation for a year (higher gas prices, hotels, airline tickets, college tuition/housing costs, restaurants), that doesn't necessarily mean CRE prices will increase.

3 The Jobs Recovery Will Happen - but SLOWLY

Low inflation and interest rates appear to be locked in for the near future. This will help us to recover more jobs. But in prior downturns, it took a long time: 47 months in early 2000's, 74 months after 2010 forward, etc. Job recovery will be slow but WILL happen. States and local governments are especially constrained from hiring due to budget shortfalls. There's some basis to believe that some of the new administration's plans (infrastructure and climate change proposals) will attract massive amounts of money and create jobs.

4 Taxes & the Fed: Accommodation is Key

Some of the intended tax plans (capital gains increases) may make investing in stocks less attractive and investing in CRE more favorable, despite rumors of 1031 exchange elimination. Bankers think another Dodd-Frank Act mandate is coming, or an amendment to Federal Reserve Act, which could spark inflation and depress investing. But regardless of who controls government, no one wants the bond market to lose confidence and risk having institutional and off-share investors stop investing in U.S. Commercial Real Estate!

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Commercial Real Estate Outlook: Looking GOOD

Institutional funding is plentiful: Blackstone recently created an \$8 billion fund, the biggest debt fund EVER. Private equity funds are brimming with “dry powder:” PE real estate funds alone have \$204 billion available as of 7/2020 that hasn’t been deployed yet. They’re “distressed buyers:” lots of cash to invest but not enough good real estate to buy! SPACs (special purpose allocation companies) are continuing to be formed raising money. The result: Prices are likely to stay firm and cap rates low. A BIG question: How and when will major cities recover from the pandemic effect? The urban vibe is in jeopardy as more chaos has happened in the urban areas, which is BAD for private property rights, and as businesses leave the cities (i.e., Macy’s closing its Water Tower Place store). It takes YEARS to get those tenants back.

6

Secondary Markets Are Attracting Attention

While primary markets (NY, LA, SF, Chicago, Houston, etc.) have attracted most of the attention from foreign investors, political, economic and social challenges in the big cities are causing investors to start buying in secondary markets, thus raising yields in those secondary markets. Also, the housing market is on fire, the hottest since 2006. There’s a boom in the single-family home market, creating high demand for investment in single-family housing – driving prices higher.

7

The Biggest Unknown: Exit Plan for Loan Forbearance & Lease Restructures

As local governments craft myriad ways to lessen the pandemic’s impact on residential and commercial tenants, they effectively void lease contracts by halting evictions, which interferes with private property rights. The long term solutions to these problems, and ultimate impact of them, is yet to be seen.

8

What Happens to Inflation: 2 Paths

First, excess demand over a long time period creates sustained shortages. That typically raises prices and also, inflation. Because the Fed has sustained a full stop on increased interest rates, there are no signs of inflation...yet.

But in contrast, as the Fed’s “medicine” stops working, what happens? Since real estate assets are hard assets, they don’t respond quickly to changes. But in the last 5-6 months, as the value of the dollar has gone down vs. other currencies, this could bring inflationary pressures to bear, even in CRE. Dr. Dotzour doesn’t see this happening anytime soon; instead inflation is likely to stay low for at least a year.

9

The Critical Impact of the Ongoing Coronavirus Pandemic

In a word, IF the new strain of coronavirus continues to grow and adversely impact the economic recovery, then all bets are off. The effect on the stock market, which impacts our relationship with China, is a mixed bag, and is too tough to call. However, there will be a huge period of entrepreneurship coming due to pent-up demand. Expect to see many business start-ups as soon as the pandemic trails off.

10

Building A New Working Class

Another potentially positive effect of the pandemic: new and increased job skills among multiple demographic groups. U.S. workers must continually invest in themselves to find new career and job opportunities. If they spend just one hour each day in learning something that’s relevant to a new endeavor or to one’s current job, they become world experts! Such skills become transferable and relevant, especially as the world returns to “normal.”



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