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## **The new normal - Real estate post-COVID-19 - by Brett Pelletier**

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COVID-19 has impacted our lives in significant ways. A month ago, we were knee deep in planning responses to new information and a new way of getting business done. Much of it temporary. Reacting to the virus has been immediate and pressing, but what happens next is more important for the long-term health and wellbeing of our projects, our workers, and our society at large. Viktor Frankl spoke passionately on the importance of tragic optimism during difficult times. We see it manifesting through innovation, dynamic problem solving, and planning for what's next. So, what is next, especially for real estate?

These past few months have been and continue to be a learning experience. There is a collective realization that everyone is more significant and important than perhaps previously thought. All jobs are important to the economy, supply chains are important to our lives and are fragile, and macro risk exposure exists even when micro level participants fail to see it. The economy is impacted by the aggregation and agglomerative nature of markets, assets, and activity. Serious participants are taking notes and planning for future management challenges and how behavior will impact real estate use and decision making. Early estimates appear to indicate that absent COVID, the Boston real estate markets were beginning to cool off in the first quarter of 2020. Market corrections tend to be a reflective time and a time for nimbleness and creativity. Are we using assets to their best advantage? Are we using debt and equity tools responsibly? Are we assessing risk adequately? It's still early days, but my guess is that the answer to that last question is probably 'no'.

So how does management change in a post-COVID world? We've heard stories about seniors housing and multifamily property managers making permanent the sterilization measures taken over the past months. Some have made provisions to incorporate more social interactions, communications, and wellness activities. Something as simple as having adequate contact information for tenants and workers should not be taken for granted. There is no replacement for proper planning and preparation. Retail landlords and tenants are making plans for reopening their stores in a gradual way with simple changes to operating procedures that are easy to maintain and

easy to follow. Supply chain management must focus on the reliability and sustainability of those partnerships and linkages. Redundancies and alternatives are essential to maintaining efficiency in retail, industrial, and logistics markets.

COVID's impact on coworking, the share economy, and the gig economy are a major part of the conversation. WeWork has had its share of woes but there are success stories in bespoke solutions in the market. Smaller coworking spaces in multifamily properties have been a major resource for those working remotely. If we see more reliance on telecommuting, there is a case for strategically placed coworking and shared workspaces in more remote markets. Assessing risk on an asset-by-asset and market-by-market basis is essential to effectively deploying capital and managing exposure. New construction and rehab projects need to inject internet infrastructure and access into the feasibility exercise. For too long access to reliable high-speed internet has been an afterthought or even worse, ignored entirely or taken for granted. In parts of New England, the broadband infrastructure is inadequate to support serious use and high-tech and high-demand jobs, which has become apparent to a number of users trying to conduct virtual meetings and web-based conferencing with limited bandwidth. Access to reliable high-speed internet must be a top checklist item for homebuyers, multifamily residential owners, developers, and tenants, and small businesses, and I suspect it will be going forward.

On April 28th, the Wall Street Journal published an article by Tripp Mickle and Preetika Rana titled "A Bargain With the Devil"—Bill Comes Due for Overextended Airbnb Hosts" discussing the sudden tarnishing of the Airbnb shine. Airbnb has long been a case study on risk exposure, value inflation, and moral hazard. Speculation versus investment is at the heart of this conversation for many. For some operators, their businesses look more like a highly leveraged casino than a hotel. Mortgages to the hilt, no operating reserves, insufficient insurance, and speculative sublease arrangements are some of the issues the article considers. Travel and tourism are industries that are feeling the pain from sheltering orders and are unlikely to return to normal as consumer behavior shifts. Recovery expectations may be broadly upbeat, but few believe that a return to normal is going to be quick in the businesses that touch travel and tourism.

There's a lot to think about going forward. That's good. That's what we should be doing. The better prepared we are to react, the less time it takes and the more we're able to keep doing our work. That is the goal of nimbleness. Take some time to think about what's next and how you can tap into Frankl's tragic optimism to make a positive impact on what the 'new normal' will look like for you.

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