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Question of the Month: How has the COVID-19 pandemic affected life and commercial real estate markets? - By Bill Norton

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Labor Day has once again come and gone, but it feels much different this year. The disruptions from the pandemic continue to ripple through the economy and our daily lives, like the wake of a big ship passing nearby. Most years, Labor Day is the transition between summer and back to school (technically there are still three weeks of summer left). But this year is different for those of us working from home, or mostly working from home. This summer has been a bust. While I took two trips - one to Virginia on a project for the Navy and one to Philadelphia for a funeral - there was no "vacation" this summer, at least not in the traditional sense.

My son (30) who works for Dell, was in transition to Denver when the pandemic struck. He was camped with me in early February waiting for the moving van to come when everything shut down. Six months later, we packed a U-Haul trailer and he headed west before there might be another COVID-19 surge and an interstate shutdown. While I enjoyed having him here, I was also eager for him to get on with this life and experience new adventures. He is a tech guy (a web site designer team lead). He has worked from home remotely off and on for years. When it was voluntary, it was fun, but when it was mandatory not so much. Designing, like most creative endeavors, thrives on collaboration and mentorship, both of which are hard to achieve remotely. I spoke with a young architect the other day. She was discouraged as she was expecting to have a lot of studio design collaboration and feedback. She did not go through seven years of school to end up being a CAD operator working from her dining room table.

My son works with 30+ people on his team spread all over the world (Cairo, Cork, U.S. and India). Dell, like most big tech companies, tries to source employees (and contractors) in the most cost effective (i.e., cheapest) locations. Sometimes this works and sometimes it does not. Interviewing potential new hires on Zoom is a challenge in itself. My old, seasoned (age 30) son complains about young people on the team who are not fully engaged and who do not have their nose to the grindstone for 8 or 10 hours a day! One new hire e-mailed him that he could not focus on work one day because his cat did not feel well (true story)! The point is that not everyone will thrive in this work from home environment. Many have conflicts and distractions (such as husbands, kids, not enough “office” space, etc.), while others were hired presuming some direct supervision and direction. This will shake out over time. But for companies and organizations thinking this new normal is permanent, they are likely to see a 25% - 30% staff turnover. One company I spoke with announced a “freeze policy” – no new hires and no firings. They were concerned that if they let someone go, they might not find a suitable replacement. This will be their policy until the New Year.

I, too, think that while we have gotten through the past six - sevenmonths, by year-end or next spring, we are going to realize that the loss of productivity (and profitability) is huge! There are some exceptions - some law firms have pivoted nicely and financial firms are riding the highly charged stock market, but most firms and sectors are down 25% - 30% and will take quite a while to rebound. My advice is to not make any significant change until next year. We now need to get through the elections, we need to see the next stimulus package and we need to do some honest bookkeeping and forecasting.

In real estate, I point to the immediate post 9/11 period when no one was going to work in a building more than three stories high. That lasted less than a year! Following the Great Recession, two - three years later we were back on full throttle. That is our nature. This time will likely take longer. We have serious structural faults in our systems. Society, at large, public education, which was struggling before, is now in serious upheaval. Healthcare – ditto.

When an economy is 70% services, including retail, entertainment, eating out… it did not take much of a jolt to knock that train off the tracks… As a Baby Boomer, I would say most of my friends and peers are reluctant to bounce back to their 2019 ways. Eating out, socializing, shopping “live”… these are all evolving. Even so, the pendulums will swing back not to where they were but not where they are now either.

Office use will shrink, but not immediately. The average lease term (time left) for office space in America is four years. That means half the leases are less than four years and half are longer. That sector will sort itself out over time. Retail will shrink significantly across every category. Multifamily will remain strong in many markets, but will the big urban centers see a flattening of demand? The big cities will not “hollow out” but they will see out-migration which will be offset by mild ongoing demand. Industrial/high-bay will thrive (think online shopping, grocery delivery, Blue Apron). Hotels, restaurants and hospitality are likely the hardest hit and will take years to recover. But again, let us not speculate until early next year when the fog of politics and economic stimulus clears and we are through the next flu season.

One last thought, this pandemic is not a one off. With 7.5 billion of us on this Earth, there will be more in the future. Hopefully, we will have woken up and be better prepared. Don’t sit on the sidelines. Vote, live or by mail. Who sits in the White House for the next four years will have a major impact on how the next two - three decades play out.

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