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## **R.E. development in COVID times: Overhang potential? - by Daniel Calano**

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We have had a lot going in our favor over the last several years in the real estate business. The economy has been growing; unemployment has been at an all-time low; interest rates are at historic lows. On top of that, government has been typically pro-growth, with city mayors enticing new business to their cities. Things couldn't be better, as seen by the historic boom in real estate development.

Then, out of the blue, COVID-19 struck. In March, starting with a stock market crash, things reversed. Businesses closed, unemployment shot to over 11%. People feared not only financial difficulties, but more importantly, health difficulties. Within a few short months, life as we knew it flipped.

What has happened to development in the Boston area, and, what are the longer term results? Some new construction has slowed, or halted where possible. Boston Business Journal reports that several major downtown developments are in limbo. Underway projects will need to be finished. What will be the future overhang of these difficult times? More importantly, how long will it last?

During the construction boom, many millions of s/f have been added to Boston for residential and office use. The Boston Planning and Development Agency moved its goal from 30,000 new housing units by 2030 to almost 60,000. Statistics vary, but according to research groups, there are about 210 current major new residential developments. New office space was estimated in the many millions of s/f. Some worried that there was already some overbuilding, but job and population growth seemed like it could absorb the space.

Now, it is reported that there are 3,000 to 4,000 available apartments/condos in Boston, as well as 25% price drops in both residential and office rents. Landlords are providing incentives in both sectors in the way of several months free rent, better tenant improvements, and/or undisclosed rent drops. Sorry to group these important statistics, but you get the point.

Where do we stand now? There has been some recovery employment, and certain businesses are growing employees working from home. Federal Reserve is still committing to keep rates low at all costs. There will probably be more stimulus from Congress to help smaller businesses survive these times. The silver lining is that businesses are using technology to become more efficient, and people are adjusting.

The question remains as to what is the duration, and how does it affect real estate. While nobody believes that this will last forever, most believe that efficient businesses and the ability to work from home at least partially will reduce office space needs. That said, there will clearly be deficit income make-up for years to get back to pro-forma projections. Further, there are probable structural changes brought on by Covid that will be permanent, and potentially detrimental to growth as we now see it. Think suburban single family migration, remote working, less reliance on transit causing more auto traffic, less work travel all together. Recently projected, some are saying that a office/home work ratio will be as significant as 50/50.

Clearly, a COVID-19 vaccine and or COVID-19 management therapies are the first and most significant factor in finding solutions. But, this is not a light switch that, once turned on, all will be better. No one can tell how long this will take, as it is only conjecture, with little research backing the conclusions. It is a fool's errand to guess. That said, we real estate people are having to bet on guesses all the time. This crisis is not as bad as the financial crisis of 2008, with the collapse of the banking system, which took many years to remedy. That was a different beast. It took longer than we thought. Further, certainty has to do with individual situations. Resolution to the "new-new normal" will be different for all, depending upon health, age, personal finance, and social structure, families and relations. As they say, no one solution fits all.

My safe guess is the "overhang" will not at all be fixed by next fall. If therapies and vaccines are developed and efficacious within the next six months, then distribution is underway, then structural changes to living and working will need to be accommodated. My guess is getting to normal would most likely be well beyond two years. With its promise to keep borrowing rates near zero through 2023, it seems like the Fed concurs.

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