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## **The past year, reviewed. The next year, forecasted. - by Bill Pastuszek**

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To say that 2020 was an eventful, unprecedented year is to go with the traditional wisdom, which happens to be mostly right. Of real estate and appraisal, COVID created some challenges and gave out some surprises.

As everyone eagerly awaits the vaccine and what a new administration will bring, let's examine some 2020 trends.

The World Mostly Did Not End. While a very difficult time for many, society adapted in unique and interesting ways, mostly out of necessity but with some creative response and surprising results. Virtual interactions became the norm for many, and, for many interactions, face to face contact became overrated or optional. Unfortunately, the technology required was not available to all, so not everyone shared in the advantages.

One interesting trend observed is, that for many events, providing them virtually actually improved attendance as many attended that would not have otherwise done so, COVID or not. This is a good lesson for a Post-COVID environment, where a virtual option should be a part of many of these events.

Working from Home and the Office. For many, offices became optional or unnecessary. As we head towards a post-pandemic landscape, whenever that might be, the role of "traditional" office will become clearer. There is no doubt that for many companies and space sectors, having employees in a central space is important, if not essential.

Working from home for many, who had the space and resources, provided opportunities to leverage their labors positively. For others, lacking space and resources, when working (and learning) from home was the first option, it became formidable.

The office environment will adapt and evolve to meet tenant requirements for better HVAC, flexible spaces, and touchless technologies. Older buildings with obsolete systems and floor plates are likely to be at a disadvantage. Some analysts suggest that remote working will have the effect of shrinking office space demand long-term but others believe it is too soon to tell how remote working and reluctance to work in an office environment will affect space requirements. As leases rollover, the requirements of existing tenants will become clearer.

**The Rebound.** After a steep drop into recession, with a plunging GDP and an accompanying increase in unemployment, most forecasts are predicting positive GDP and employment growth in 2021. Additional, meaningful, stimuli will help.

Full recovery, whatever form that might take, is an interesting concept and will depend, in part, on what business – restaurants, for example – will return to pre-pandemic staffing levels and which won't. Also, what businesses replace those that did not survive the pandemic will have an effect on growth. Again, full- or partial-lockdown conditions have gotten businesses in many cases to become more creative and more reliant on technology, suggesting lower staffing levels and few employment opportunities going forward.

**Surprises in Markets.** Markets bounced back. Residential markets, especially non-urban single-family sectors, enjoyed a banner year. Quiet out of the way rural areas experienced big city type of activity with multiple offers and prices over asking.

With low interest rates and strong demand, plus some churning of demand – e.g., detached housing, housing in outlying markets – 2021 should be another good year for sellers. The pandemic has certainly had an effect on the configuration of 1-4 family housing so as to accommodate home office(s) and study areas. Home upgrading became a strong part of the consumer market.

**Capitalization Rates and Investment Activity.** Capitalization rates increased during the pandemic as activity ground to a halt for a period of time. Certain asset classes – lodging, retail, CBD office – are perceived as high risk – and likely to remain so for several years, and others – life sciences, industrial logistics, for example – have done quite well. Multifamily operated under some conditions of uncertainty but this sector will rebound and continue to thrive.

The large question is which CRE sectors will return to “old normal” pre-COVID conditions and how soon and which will be permanently changed.

**Lending.** Lenders have shown some reluctance to go all in. Interestingly, community banks will continue to thrive and lend on many non-credit transactions that the larger banks are not interested in. Bankers have generally operated with some caution with higher reserve requirements.

**What About 2021?** We should all put 2020 in the rearview mirror. This next year will be one that will entail some digging out. Barring the unexpected, the way forward should be clearer. As there is some clear bifurcation in commercial and residential markets, listening and looking carefully at what markets are doing and avoiding preconceived notions about what markets should be doing. While

short-term indicators should be recognized, the real news is in the details that give meaning to the long-term, the ultimate measures of performance.

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