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Analyzing R.E. futures: More than demand/supply study - by Daniel Calano

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While it may seem obvious, this past year has taught us real estate pundits that our work is fraught with uncertainty. No matter how good our demand supply analysis is, stuff happens that we were not expecting. Enter COVID, with unforeseen impacts on our health, culture, economy, tastes, work, lifestyle…. the list goes on. Already, we have tirelessly tried to predict our post-COVID lives, with visions of retail losses, office reductions, changing house preferences, population shifts. Are we good enough to get it right?

Recently, in my increasingly spare time, I have been following and studying the stock market. You correctly wonder where I am going with this non-sequitur. Oddly, I have concluded that the stock market, which often looks 6 to 12 months ahead for its clues, can give us better insights than traditional real estate study. If not better, it should be at least considered.

First, the main connection between equities and real estate is the availability and cost of money. Fed Chairman Powell has steadfastly said that rates will be low at least into 2022. As a direct result, money has never been cheaper, or more available, to both build buildings and/or invest in companies. While the economy itself is suffering through COVID with entire industries disappearing, the stock market is reaching historic highs. But, the stocks that had been propelled have been “stay-at-home” stocks. They have reflected the closing of gyms (think Peloton), the retreat from downtown office (think Zoom). You get the point.

Now, the pendulum swings again. As I said, the market continuously looks ahead by 6 to 12 months, predicting, or more accurately, placing bets on the future. It now knows that the vaccine will soon improve or conquer the COVID factor. Most recently, and somewhat abruptly, the market is taking money out of tech, and putting it into so-called “reopening”, more traditional stocks. The market is both reflecting the change brought on by COVID, and now the reversal to a new hybrid norm. We should take note. How this all plays out will be reflected in how and when we return to the office, how we get to the office, go shopping, eat out, or take out. Some of the knowns and/or possibilities should help guide us in real estate decisions.

No one can predict the length or amounts of change in any direction. Nonetheless, we will need to do more than calculate demand and supply independently. Moving so quickly, culture, demographics, science, health, tastes, preferences, all need to be considered. At least to my mind, this COVID year, for all of the fear, uncertainty, and pain created, has also shown how quickly and unpredictably things can change. Real estate, by definition, takes time to build and lasts for a long time. It is hard to reconcile the durability of real estate with the fleetingness of its use. We need to continuously look around corners, for unexpected factors, in order to get it right.

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