

# COVID-19: CROSS-CUTTING TRENDS TOWARD A NEW REALITY

## PART I: TEMPORAL OR STRUCTURAL?

Prepared for: LAI

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Economic & Planning Systems, Inc.  
*The Economics of Land Use*

Oakland ■ Sacramento ■ Los Angeles ■ Denver  
[www.epsys.com](http://www.epsys.com)

## OVERVIEW

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- The crisis and recovery timeline
- The response – a work in progress
- From the temporal to the structural – toward a new (ab) normal
- Cross-cutting real estate trends (next session preview)



## THE CRISIS AND RECOVERY TIMELINE

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# PUBLIC HEALTH VERSUS THE ECONOMY?

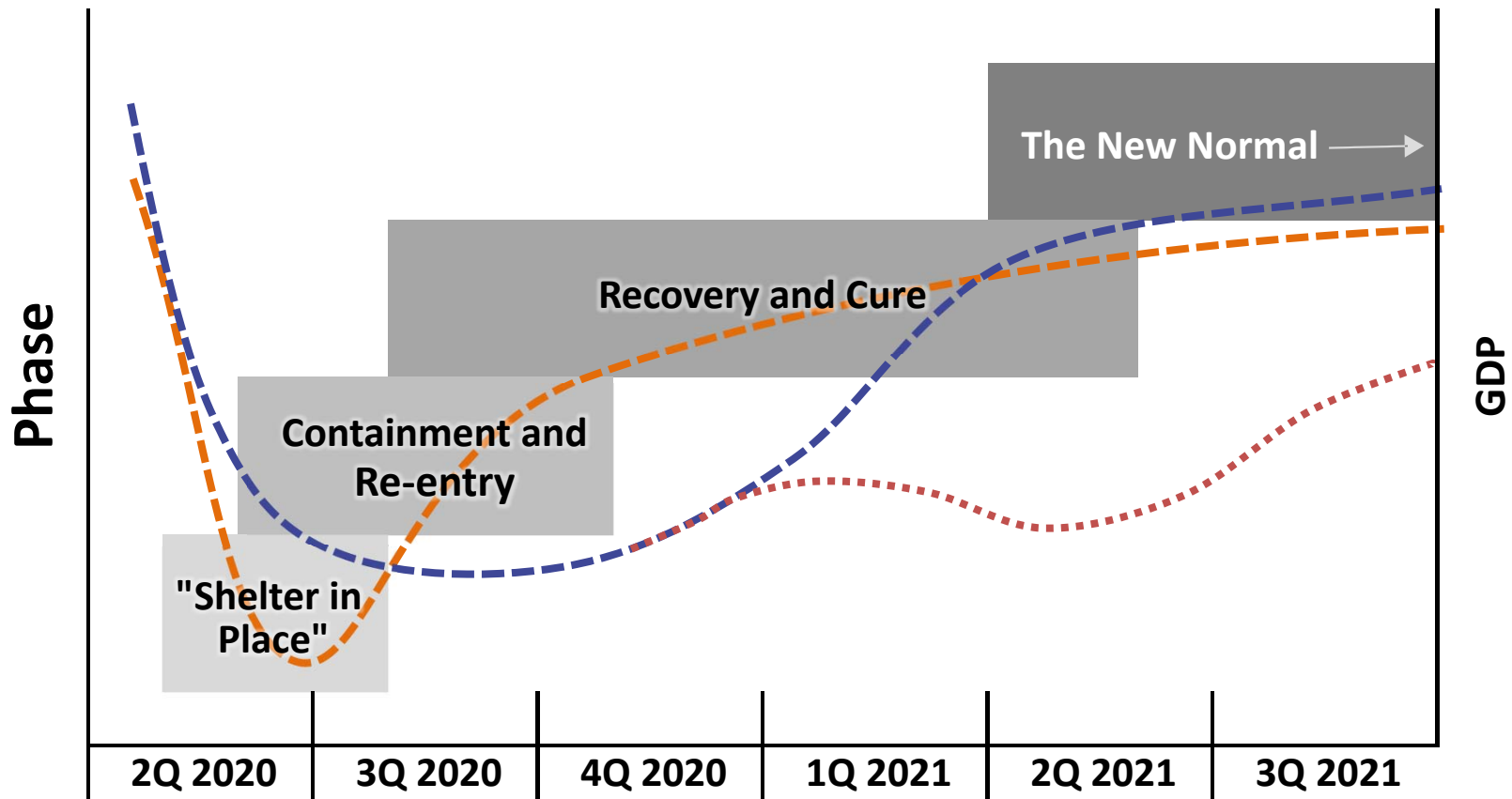
*Human interaction* is critical to most economic activity

Social distancing and public health concerns:

- Restrict access to places where goods and services are produced / consumed
- Reduce consumer and producer confidence
- Creates downward ripple effect on spending



# THE SHAPE OF THE CURVE?



# THE BULLS, THE BEARS, AND THE REST

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## The Bulls

- **Marie Owens Thomsen, Indosuez Wealth Management:**  
*"I am attached to the notion this is a temporary crisis. You hit the pause button, and then you hit the start button, and the machine starts running again."*
- **Dean Mon, NAHB:** *"...there is an undercurrent of long-term positivity in the housing market that will likely allow for a strong rebound."*
- **Donald Trump, POTUS:** *"We're going to have, just a tremendous surge. I think it's gonna be like a rocket ship. I really believe that"*
- **Elon Musk:** *"Take the Red Pill!"*

## The Bears

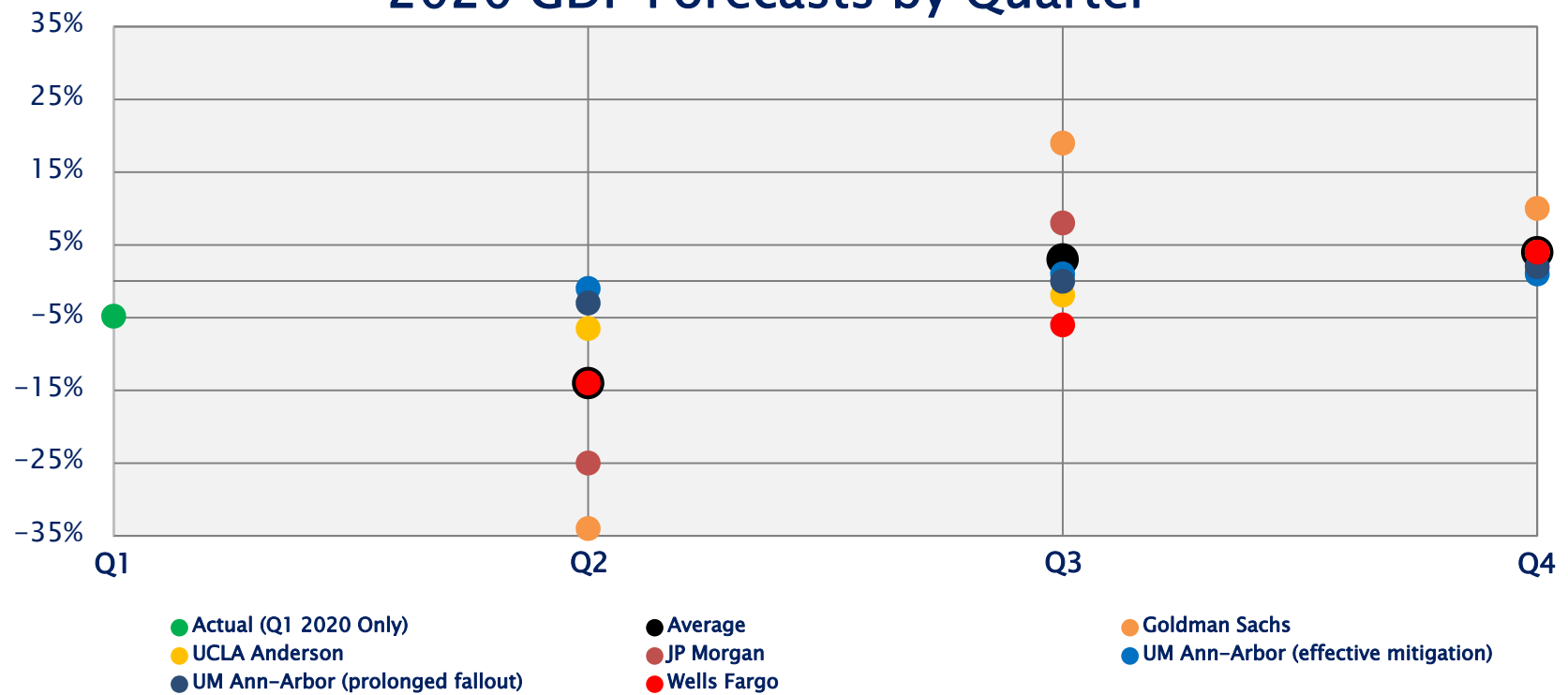
- **Thomas Wright and Kurt Campbell, Brookings:**  
*"COVID-19 lays bare the weaknesses of the American system for all to see."*
- **IHS Markit, recent research note:** *"It will likely take two or three years for most economies to return to their pre-pandemic levels of output."*
- **Jes Staley, Barclays:** *"I would be surprised if corporations in professional services kept more than 50% of their real estate..."*
- **Sam Zell:** *"Part of the problem is lack of deals... Sellers...still remember the prices that were available seven or eight weeks ago. The buyers are looking at a very different world and expecting to see significant discounts. When you've got that big a spread, nothing happens."*

## The Shrewd:

Warren Buffett, Berkshire Hathaway: ***"Be fearful when others are greedy, and greedy when others are fearful."***

# UNCERTAINTY IS THE ONLY COMMONALITY

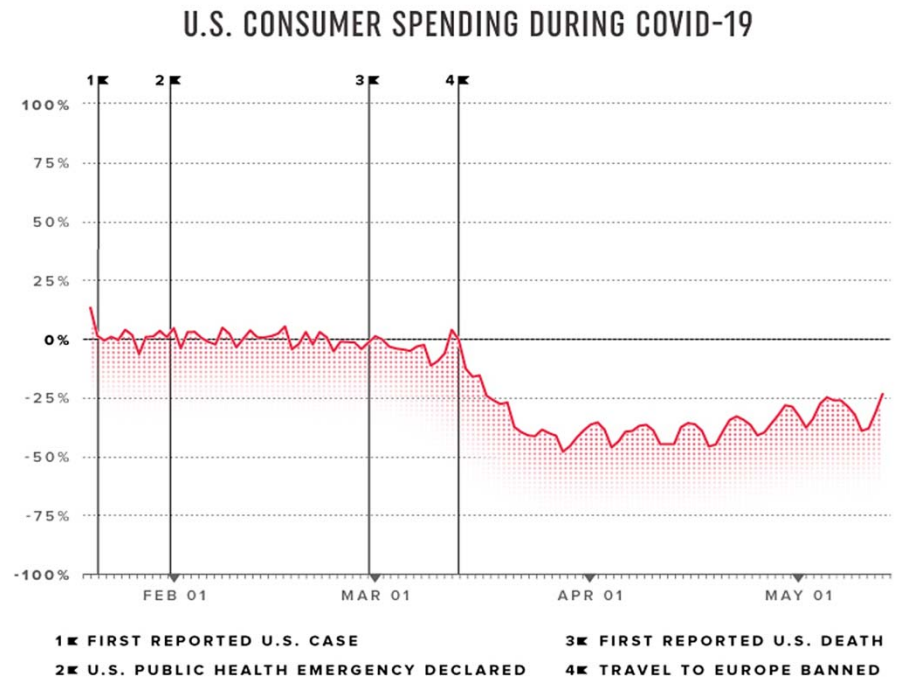
## 2020 GDP Forecasts by Quarter



# BUT IMPACTS ARE IMMEDIATE AND DRAMATIC

≈ 70% of GDP tied to consumer spending

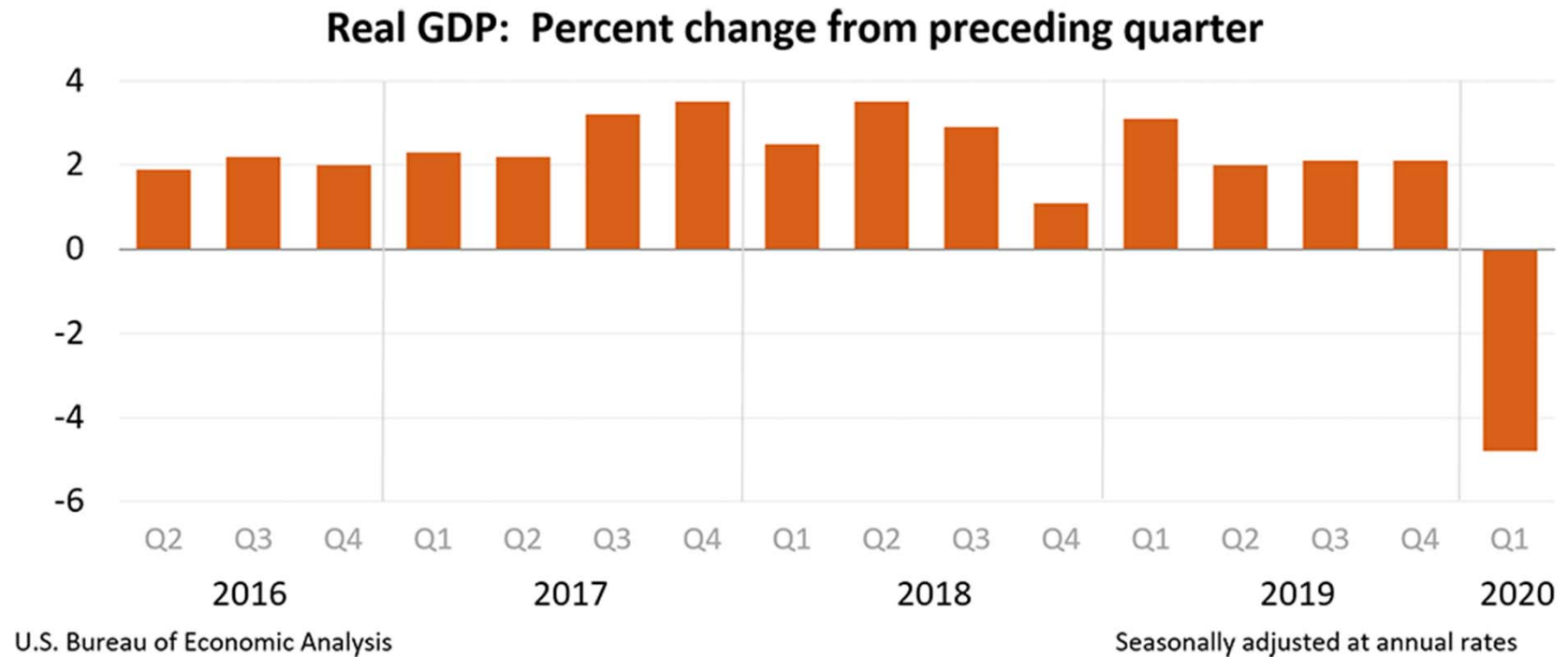
≈ 20% of household spending is discretionary



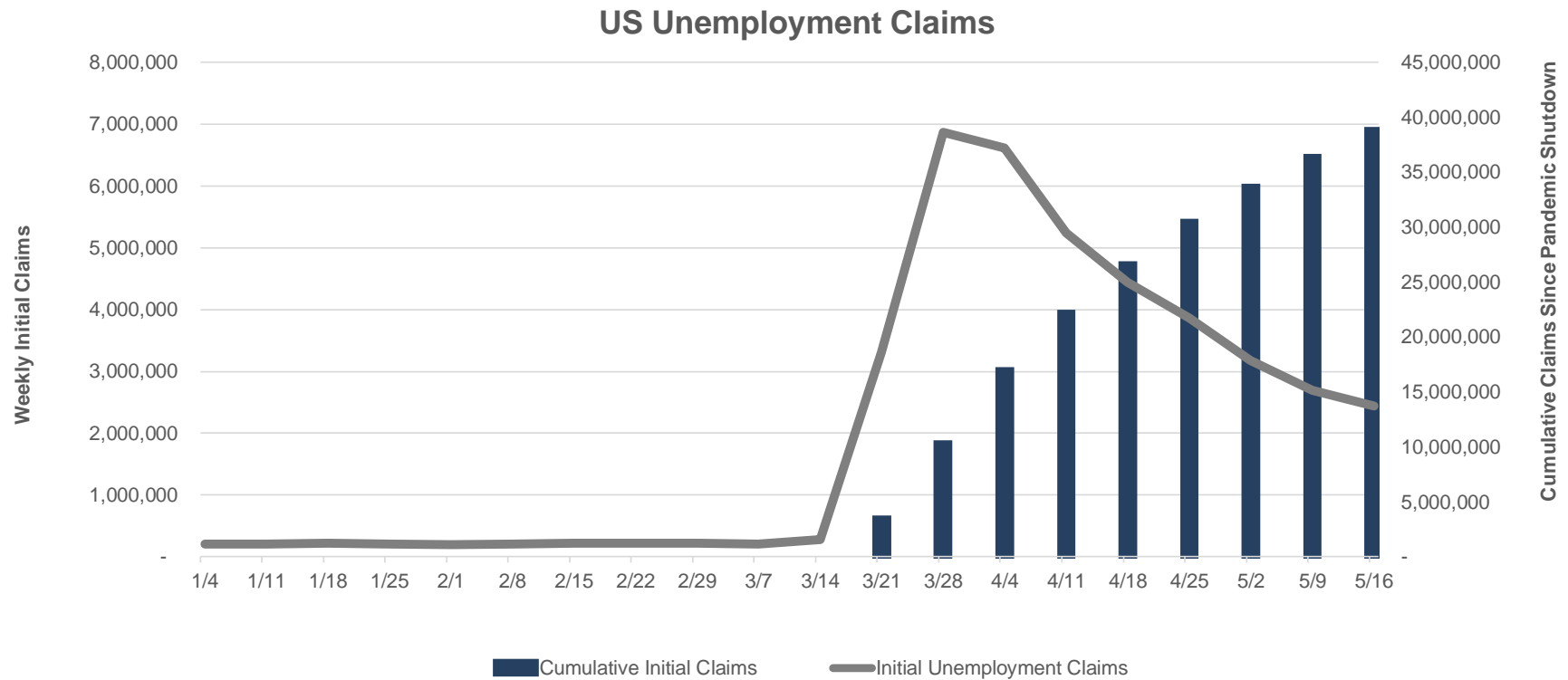
Source: Visual Capitalist; 1010Data



# ...AND WORSE THAN MOST INITIAL PROJECTIONS



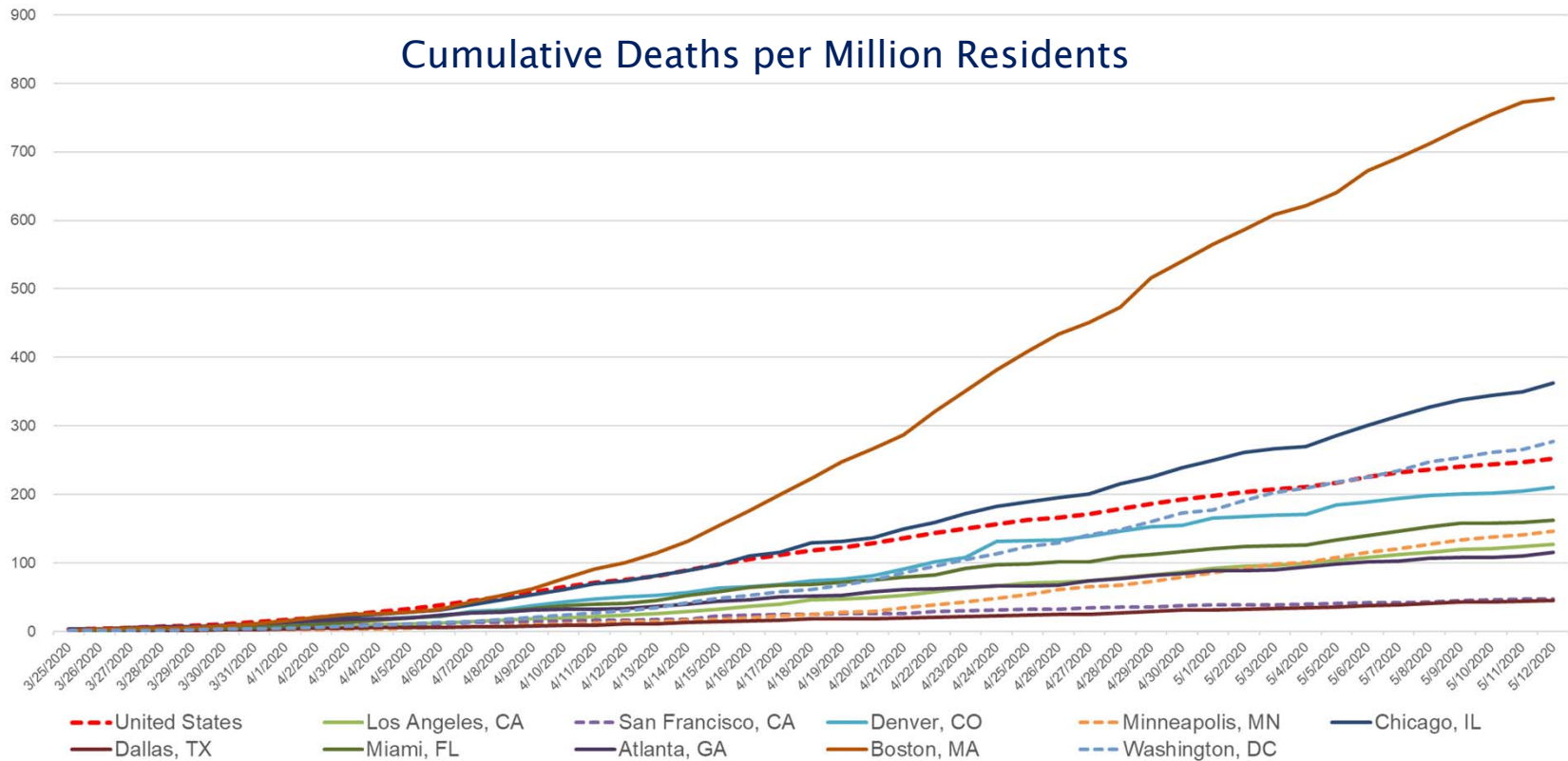
# WITH DEPRESSION ERA UNEMPLOYMENT LEVELS



Source: Federal Reserve Bank of St. Louis.

# PUBLIC HEALTH: WHERE ARE WE NOW?

## INFLECTION POINTS?



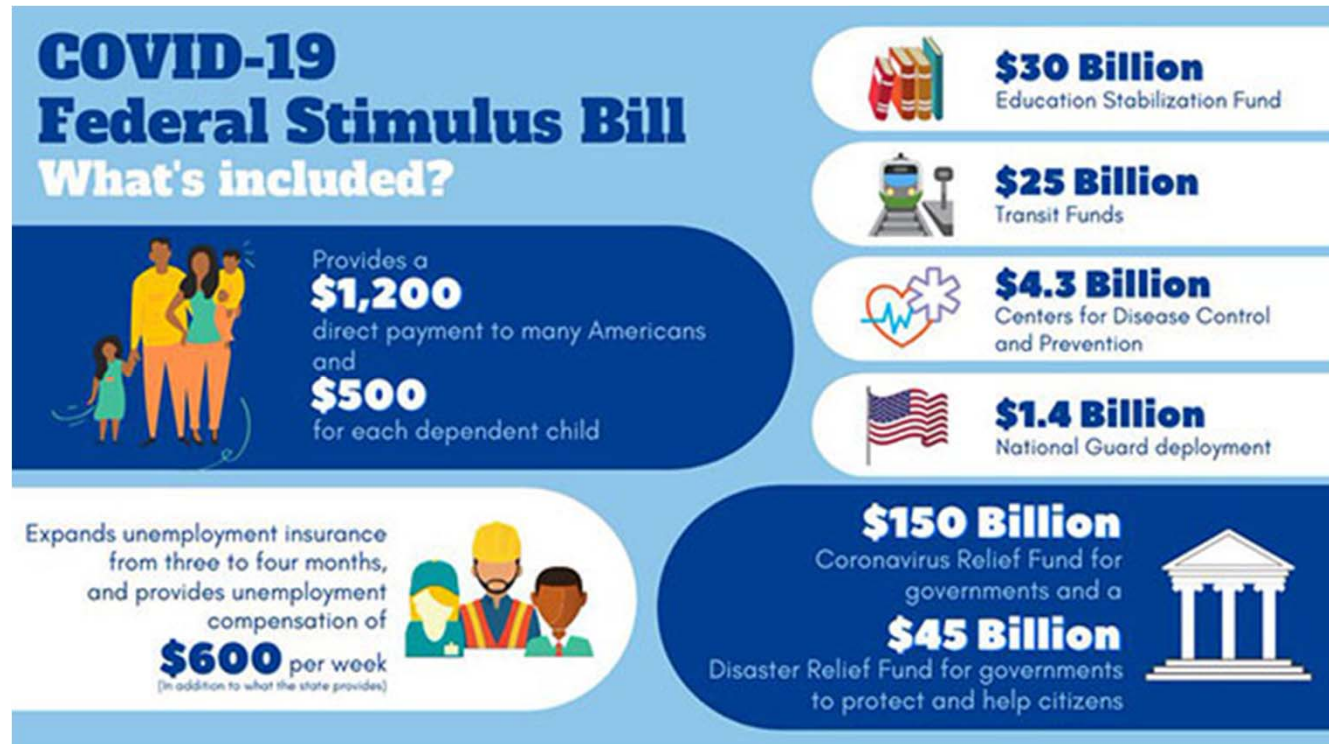


## THE RESPONSE – A WORK IN PROGRESS

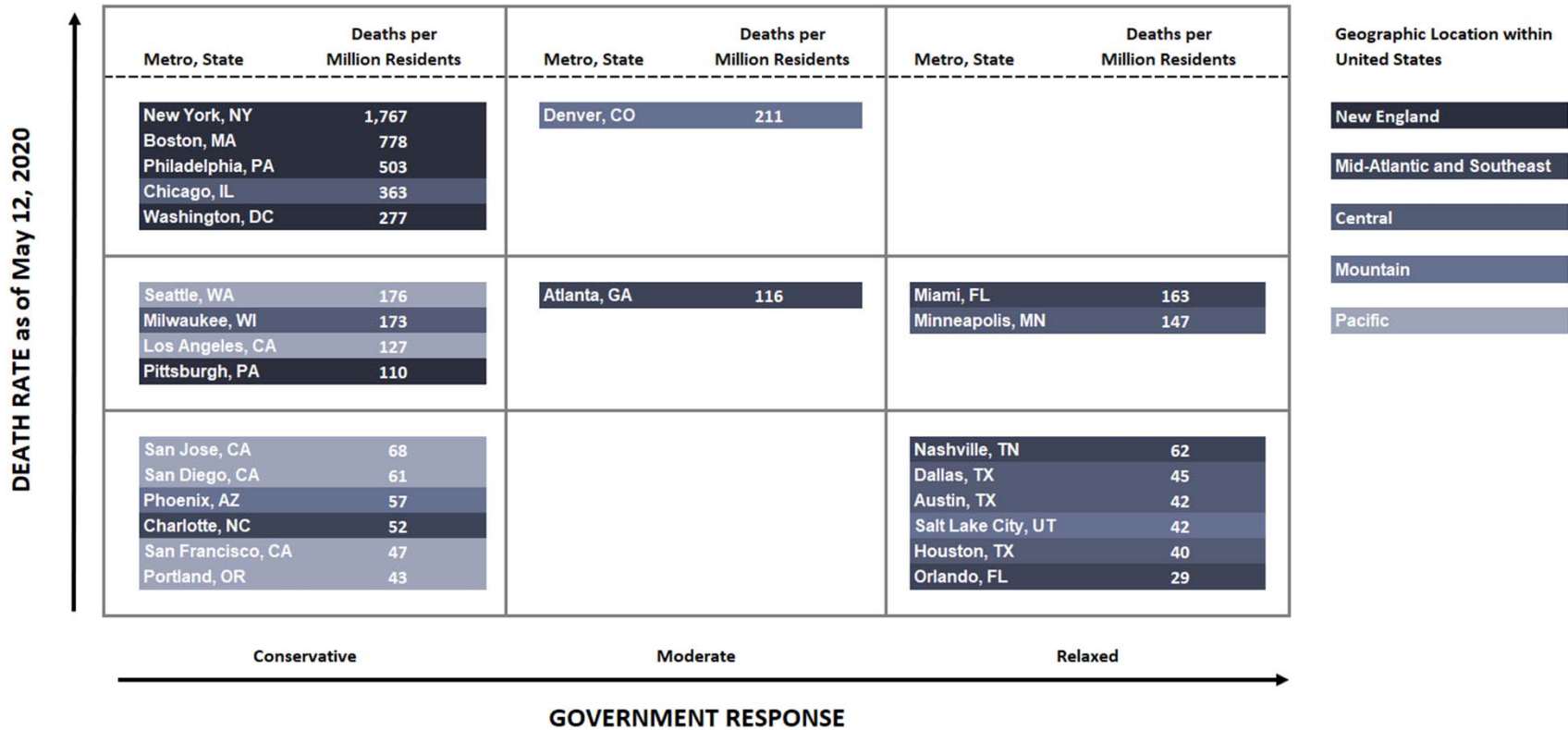
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# FEDERAL ECONOMIC RESPONSE BIGGER / FASTER THAN GFC

- But what's next?
- And will future levers have diminishing returns ("Stagflation?")



# PUBLIC HEALTH RESPONSE LARGELY ON STATES



## **MUNICIPALITIES: MORE RESPONSIBILITY / FEWER RESOURCES**

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### **Local governments have few levers because:**

- Most need to balance their budgets (they can't borrow)
- Revenues largely depend on transactions (e.g. retail sales, hotel stays, gas taxes)
- First round of CARES only provided direct aid to nation's 36 largest cities

### **Local public services responsibilities remain high**

- First responders
- Public safety and enforcement

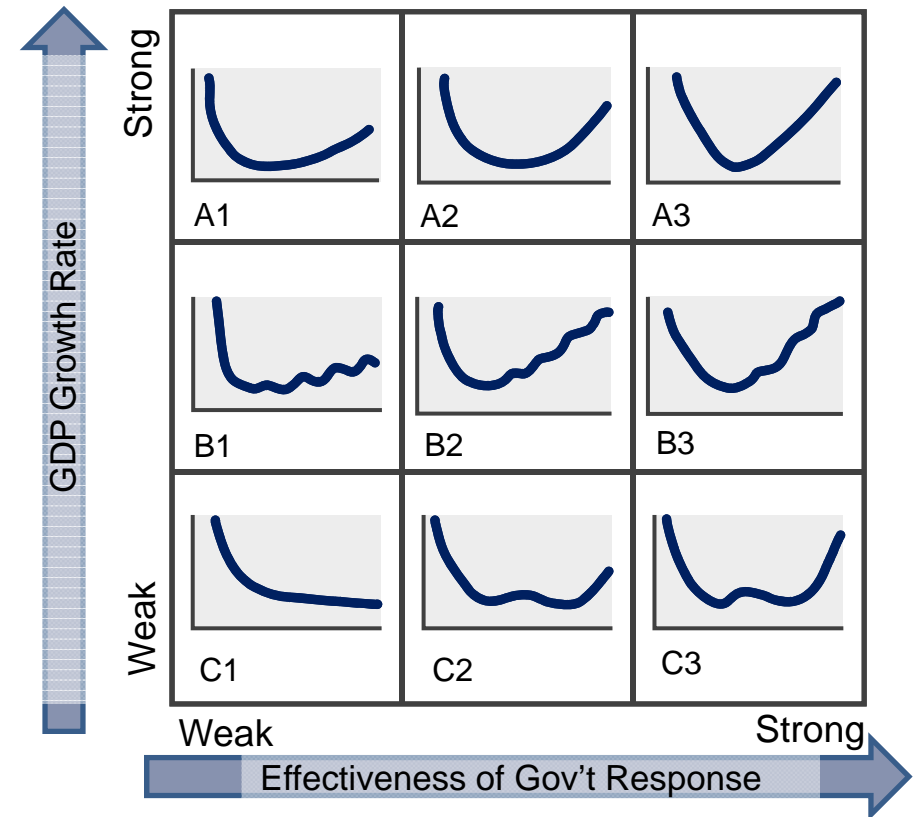
### **Major furloughs and lay-offs already underway**

- Nearly 90% of U.S. cities (and 98% of cities with 50,000 to 500,000 people) are now expecting budget shortfalls

# SUCCESSFUL OUTCOMES REMAIN A WORK IN PROGRESS

Economic recovery depends on length and severity of public health threat

- Models vary on spread, duration, and fatality (will we “flatten the curve”?)
- Full recovery may not occur until vaccine and / or remedy (12 - 18 months)
- Potential for virus return / mutation (pandemics become “the new normal”)

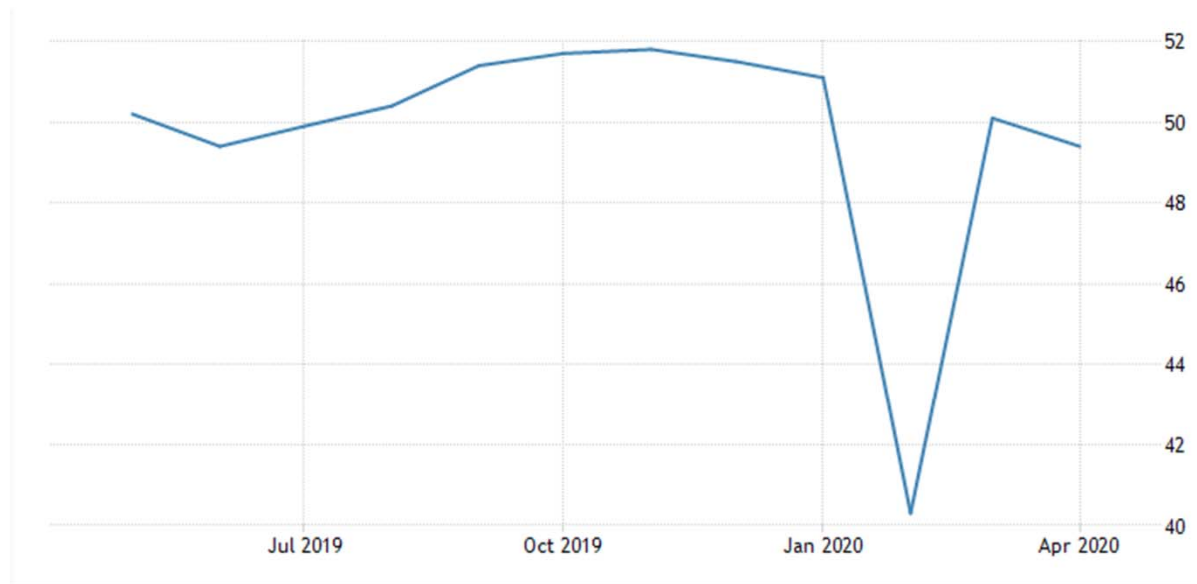


Graphic adapted from the McKinsey & Company.



# LESSONS FROM CHINA

- Manufacturing PMI plummeted but quickly rebounded
- But trend of recovery has yet to be established
- And the U.S. is **NOT** China

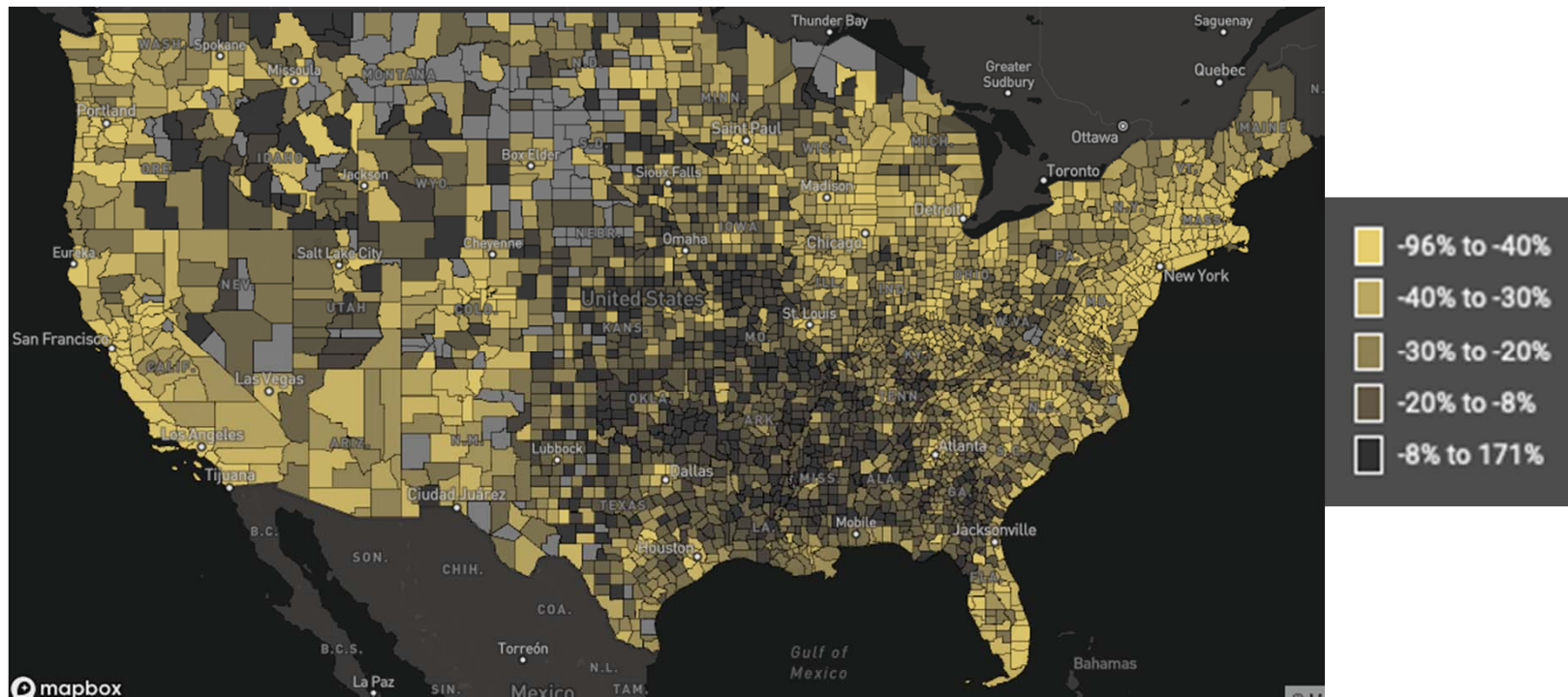


Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
49.40	50.10	52.30	40.30	2011 - 2020	points	Monthly

Source: Trading Economics

# INDIVIDUAL BEHAVIOR – WIDE VARIATIONS

## VEHICLE MILES TRAVELED SINCE INITIAL SHELTERING

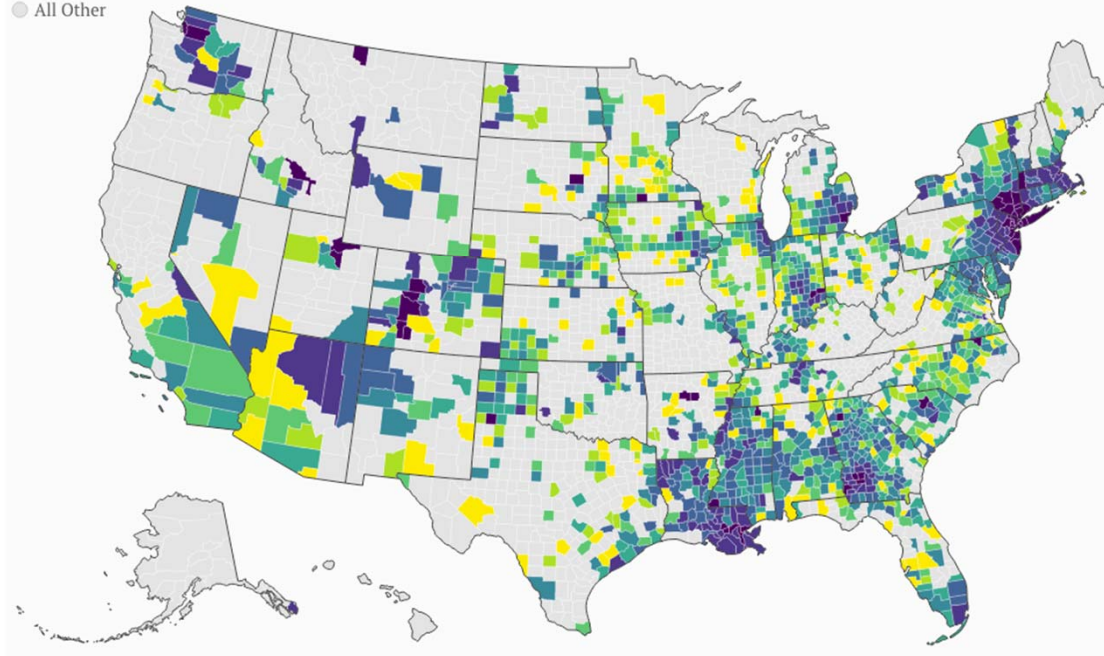


# WITH PUBLIC HEALTH IMPLICATIONS

**Map 1: Weekly spread of high COVID-19 prevalence counties from March 29 to May 17**

**Counties with High COVID-19 Prevalence**

- As of March 29
- New March 30 to April 5
- New April 6 to April 12
- New April 13 to April 19
- New April 20 to April 26
- New April 27 to May 3
- New May 4 to May 10
- New May 11 to May 17
- All Other



Source: Brookings



# FROM TEMPORAL TO STRUCTURAL – TOWARD A NEW (AB) NORMAL

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## LONG TERM CHANGES IN PREFERENCES AND BEHAVIOR?

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Major social, economic or military events of the past (e.g. Great Depression, WWII) left indelible mark on entire generations

- Will prolonged pandemic create engrained habits around “social distancing” with **profound effects on work and consumer preferences** for *space, privacy, security, etc.?*
- Potential for reversing of decade long trends related to:
  - High density multifamily living
  - Shared workspace, open floor plates, extensive common areas
  - Vibrant, mixed-use urban districts
  - Transit Oriented Development
  - The “Experience Economy”

## WATERSHED MOMENT FOR NEW TECHNOLOGIES AND SERVICES?

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**Beta-test** moment for technology and services that reduce the need for face-to-face interaction.

- For E-Commerce: Amazon Prime; “click and collect”; food delivery, curbside pickup
  - For remote social interaction and entertainment: On-Demand content (Netflix); online learning; legal, medical, services; real estate closings
  - For Video-conferencing: (Zoom, Microsoft Teams, Blue Jeans, Google Meet etc.)
- Will the performance and market acceptance of these tools / practices accelerate investment, innovation, and diffusion?
- Home networks struggling to keep up
  - Amazon experiencing delivery hick-ups
  - Blue Apron, the food-delivery service, saw stock price jump 500 percent

# PARADIGM SHIFT FOR WORK SPACE?

## On the one-hand:

- Innovations continue to enhance the quality, reliability, and efficiency of remote communication and information exchange
- About 56% of US workforce hold jobs at least partially compatible with remote work – but only 3.6% works at home half-time or more

## On the other-hand:

- The need for face-to-face collaborations, working in teams, impromptu meetings, mentoring, all central to productivity and worker satisfaction
- A decade + re-emergence of CBD office markets demonstrates importance of urban amenities to location and space preferences of “knowledge workers”

*“The best way to send information is wrap it up in a person.” Robert Oppenheimer*

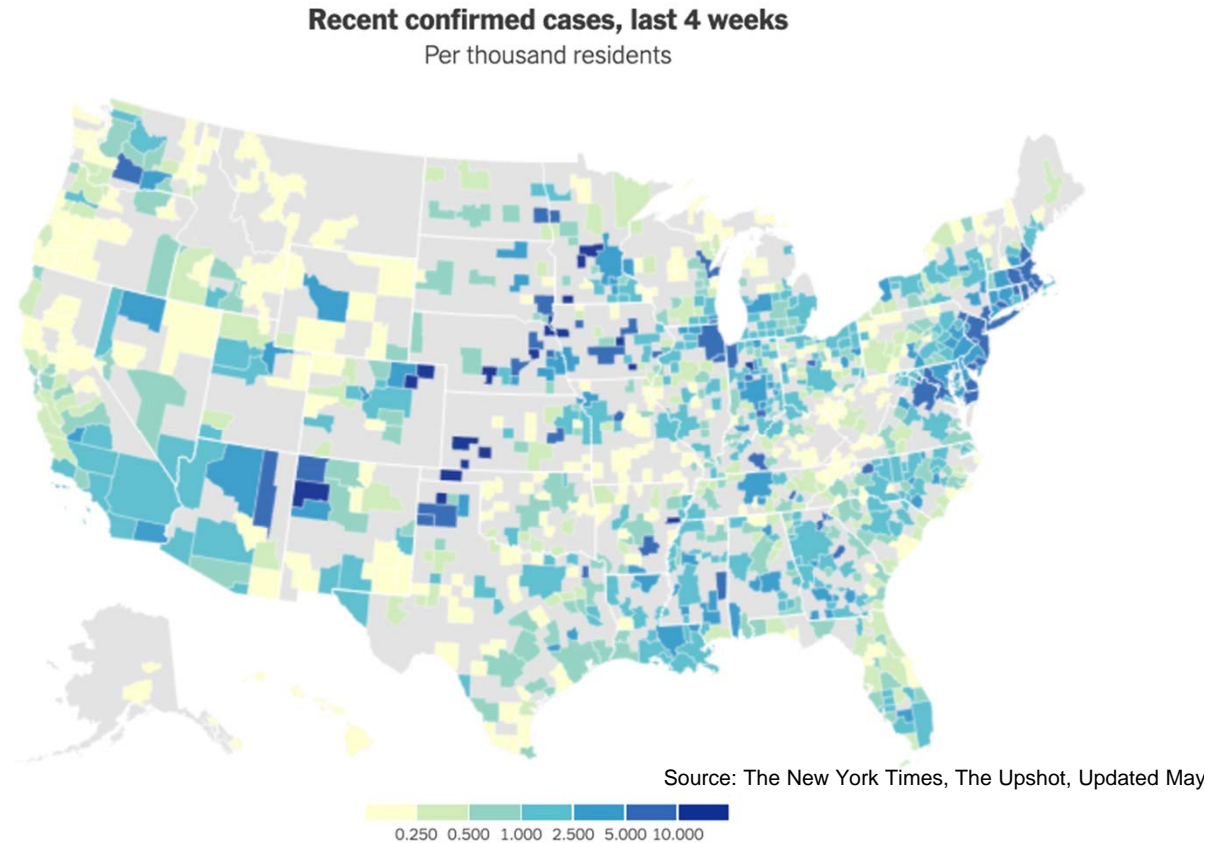


# WILL SETTLEMENT PATTERNS BE DISRUPTED?

## Place-Types

- Gateways vs. hinterlands
- Urban cores versus suburbs or exurbs?

Overwhelming concentration of Covid deaths in more dense counties, by a factor  $> 3$





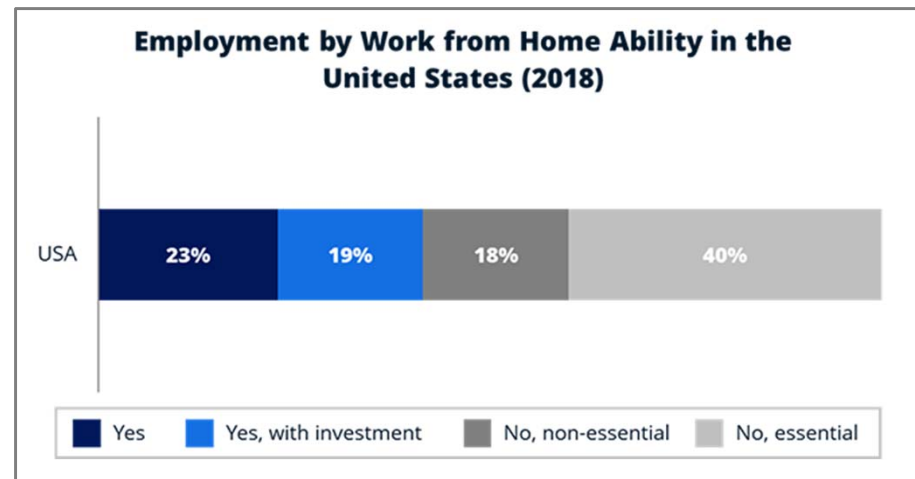
# ACCENTUATING THE DIGITAL DIVIDE

The so-called “**digital divide**” may exacerbate economic disparities and accelerate market consolidation in numerous sectors.

*“It’s a shame it’s taken a pandemic for people to realize if you don’t have internet access you’re cut off from participation in society.”*

– Gigi Sohn, FCC

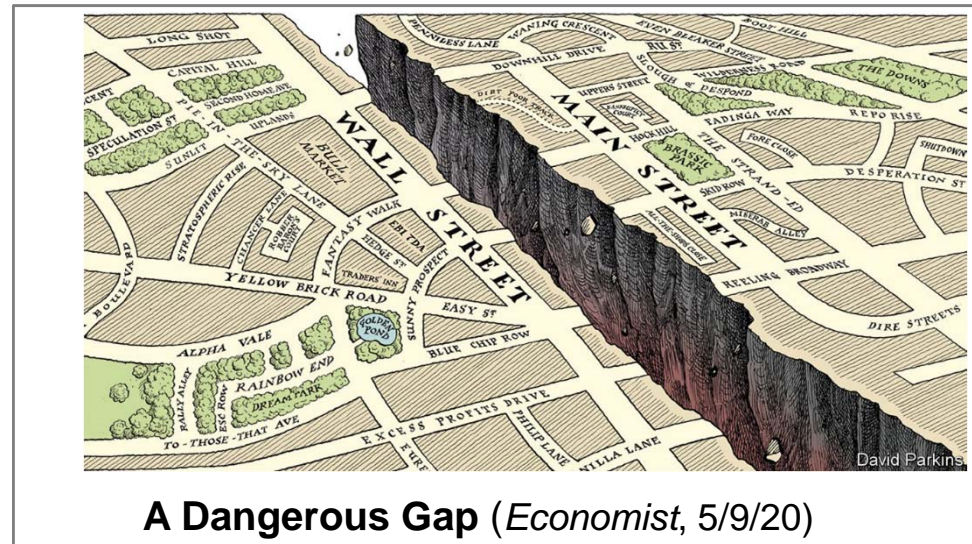
- Pew Research: **53% of Americans say internet has been essential** during the outbreak
- The FCC: **21.3 million Americans are without any internet access at all**



# EXACERBATING THE ECONOMIC DIVIDE

COVID-19 is punctuating the wealth effect, contributing to accelerated bifurcation of societal wealth and culture

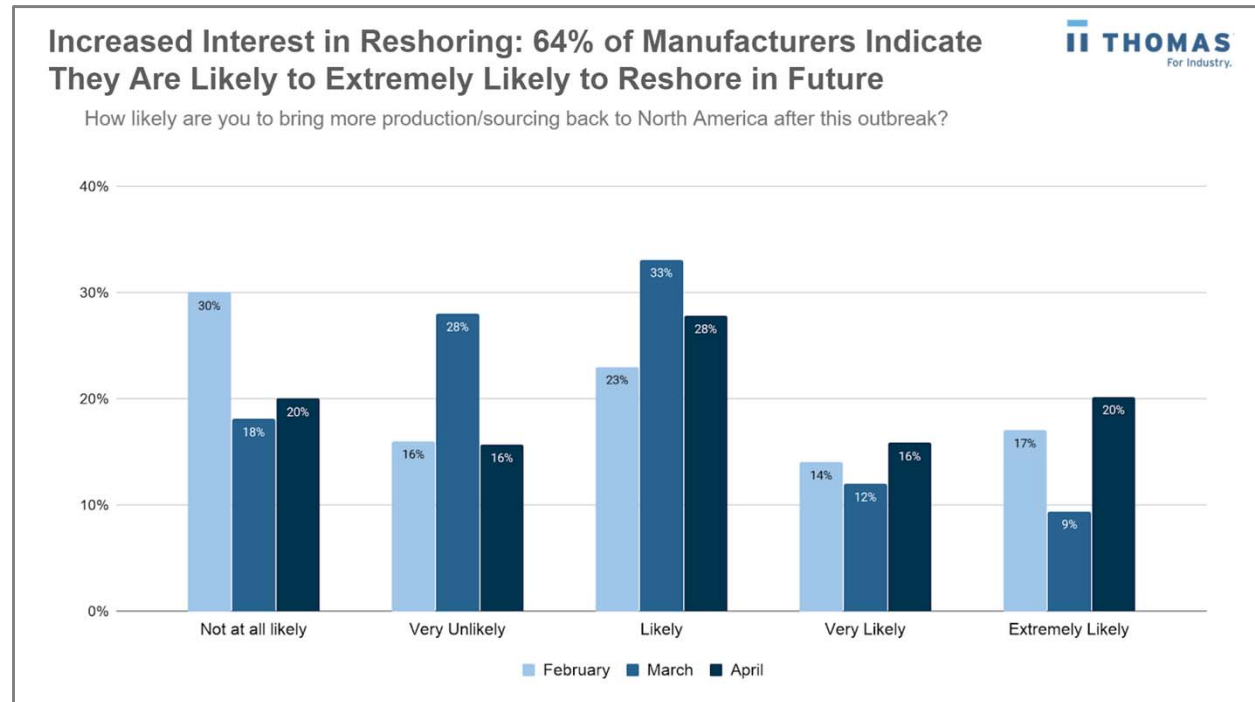
- **≈40 percent of Americans** live paycheck to paycheck with many in sectors highly susceptible to disruption.
- Job losses, erosion of credit, etc. could expand homelessness and “permanent underclass.”
- “Cash rich” investors can use crisis to automate, hire contract workers, increase market share, acquire distressed businesses / assets, etc



# ANOTHER BLOW TO TRADE AND GLOBALIZATION?

Will Pandemic accentuate political trend toward protectionism and isolationism?

- De-globalization of supply chains to mitigate risk
- Changed perception of travel
- Tightened immigration policy

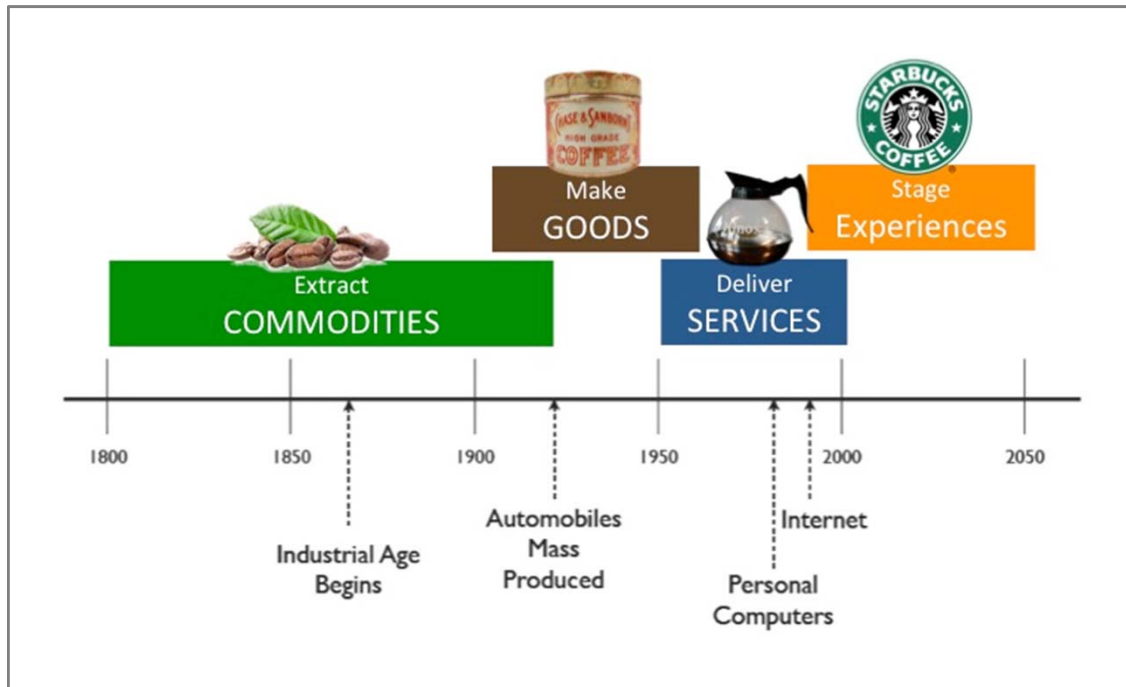


Source: Thomas Publishing Company

# RETRACTION IN THE EXPERIENTIAL ECONOMY?

Experience oriented consumption underpins economics of numerous industries with significant multipliers:

- Entertainment (shows)
- Sports
- Travel & Recreation
- Lifestyle goods and services (dining)
- Accommodations



Source: "Experience Economy" Pine/Gilmore

# DEFINING MOMENT FOR POLITICS AND PUBLIC POLICY?

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## Government Intervention

- How will Federal (or state / local) intervention during this crisis affect public confidence of the governments' ability to address major issues?
- Will crisis create a sense of shared responsibility and heightened awareness of economic, environmental and social issues?

## Politics

- The pandemic and perception of public response will likely affect November election
- A return to region-oriented governance and economics?
  - *“The center of gravity of our politics is moving out of Washington...to local,”* Rahm Emanuel

## DISCUSSION: HOW TO RE-START AND RE-SHAPE ECONOMY

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Best approach to maximizing return on stimulus investment to address overlapping threats and opportunities?

- The **Safety Net**
  - Unemployment insurance
  - Universal income
- A Jobs Program for **Labor Surplus** (includes highly capable younger workers)
  - Re-training initiatives (migration to knowledge-based trades and services)
  - Address Infrastructure deficiencies
  - Broadband (5G) expansion across the “digital divide”
- Adaptation and **Resiliency**
  - Future threats of climate change (e.g. Sea Walls, natural disaster mitigation)
  - Improved health care



# CROSS-CUTTING REAL ESTATE IMPACTS (A PREVIEW)

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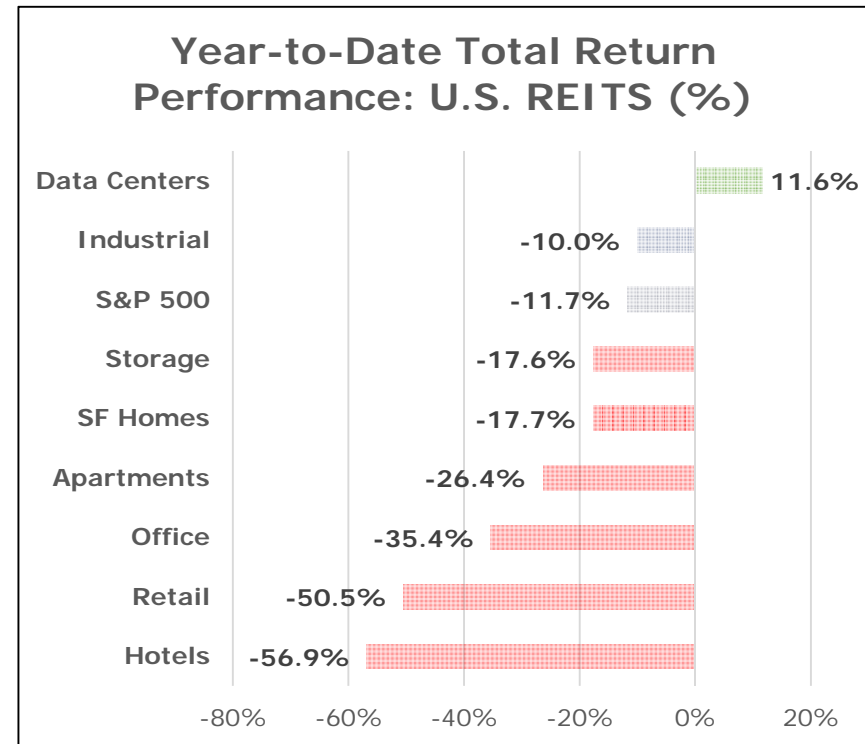
# PANDEMIC'S CROSS CUTTING REAL ESTATE IMPACTS

## “Real time” market activity

- Sale volumes down, but prices “sticky”
- Most REIT values fall faster than S&P
- Low interest rates and demand slump creates opportunities for capitalized investors
- Temporary forbearance (with conditions)

## Supply:
















- “Construction stop” orders vary by locality (Google)
- Long-term planning efforts continue in earnest
- Opportunity to “set the table” in anticipation of recovery “bounce”



Source: FTSE Nareit U.S. Real Estate Index Series Daily Returns, May 14<sup>th</sup>, 2020



# PRELIMINARY TAKE-AWAY

Type of Market Impact	Potential Impact by Real Estate Sector						
	Single-Family Residential	Multifamily Residential	Office / R&D Flex	Essential Retail	Discretionary Retail	Warehouse / Industrial	Hospitality
Short-term							
Structural		 					

## IMPACTS LIKELY TO DIFFER BY LOCATION AND FORMAT

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- **Corridors:**  
Creates opportunities to reposition under-performing and antiquated commercial strip formats, mini-centers, small lot, single-owner, mom & pops, etc.
- **Downtowns / CBDs:**  
How to facilitate bounce back as dining / entertainment hubs with mixed-use office and residential sectors
- **Adaptive reuse of larger retail / entertainment venues:**  
Accelerates closures and on-going re-purposing for mixed-use residential, fulfillment centers / distribution hubs, and other (e.g. high-tech campus and innovation center concepts)
- **Suburban Environments:**  
Potential to capitalized on changing preferences and millennial life-cycle trends

## DISCUSSION AND COMMENTARY

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**Please join us for Session 2 (June 3, 2020 10:00AM PDT): Charting the Course: Sector-specific Impacts!**

*Building on the initial session, EPS will engage with LAI membership to take a deeper dive into the implications for residential, commercial, and mixed-use development. As communities reopen amidst an uncertain viral outlook, how will consumer behavior and preferences adapt, and what are the implications for property classes?*

Provide your questions to David Zehnder at [dzehnder@epssac.com](mailto:dzehnder@epssac.com) and we'll do our best to address them next week!