

CoreNet NorCal April Chapter Meeting 2020 Recap

CoreNet NorCal launched its inaugural online chapter meeting on April 16th with great success! The first event of the new 2020-21 fiscal year attracted a virtual crowd of 250 people and included the traditional handing over of the proverbial gavel from outgoing President Robert Teed to incoming President Andrea Tobias. It also included a heartfelt thank you to the outgoing chapter leadership and a warm welcome to the newly appointed officers and co-chairs. Click [here](#) for the full list of this year's leaders.

In their first foray into online events, the Programs Committee produced an extremely relevant and valuable session: "Life after COVID: A Macro View of the Economy after the COVID Crisis". Moderated by Ylva Sanberg, Account Operations Director, CBRE and Programs Committee Co-Chair, the program featured Spencer Levy, Chairman, Americas Research & Senior Economic Advisor at CBRE. A renowned real estate economist with a unique global perspective and an entertaining presentation style, Levy provided sobering yet bullish insights on the impacts of the crisis. He shared his prediction on what "shape" the recovery will take and outlined some of the market trends corporate real estate executives and service providers can anticipate going forward.

Please find his remarks summarized below and click [here](#) to view the program in its entirety.

Levy's Key Insights and Predictions:

Bottom Line

Levy expressed his belief that after a dramatic decline in the 2nd quarter, the U.S. economy will experience a sharp recovery beginning in the 3rd quarter. Ultimately, he believes this means significant opportunities for corporate occupiers and that Northern California will fare very well due to our tech base. He shared his views that the workplace will remain the primary driver for recruiting and retaining talent and that people will "run" back to offices, restaurants and shops once the U.S. gets the "3T's" in place, ***technology, testing and tracing***.

MACRO

Next 90 days will be most challenging in U.S. economic history

- CBRE's house view for Q2
 - GDP – Falls in by 30%
 - Unemployment hits double digits

Looking at global comps to figure out what happens next

- Global Financial Crisis (GFC) and 9/11 comps offer wrong conclusion – longer recoveries than this crisis
 - Office took 6 years peak to peak in rents with 2 year drop

- Bay Area performed extremely poorly after 9/11 / much better post GFC
- Better comps
 - Hurricane Sandy
 - Sars crisis of 2003 - lasted about a year
 - China today with COVID-19 – 90% of retail open, foot traffic higher today than before, property tours at 70% of peak levels

Optimistic recovery predictions

- Q3 – rapid GDP growth
- Q4 – even more rapid GDP growth
- 2021 – 6% GDP growth (highest in decades)

MICRO

Optimism about real estate more muted

- Shape of recovery = not a U or V, more like Nike swoosh (half of each)
- Different asset classes will recover differently in terms of rent
 - Multifamily – one year – rents to rise in Q1 2021
 - Industrial – a little more than one year
 - Office – lags more - two year recovery
 - Retail & Hospitality – about three years

Outlook for the next 45 days – perhaps most important timeframe in the history of the commercial real estate industry

- Markets on pause mode – no one knows what pricing is or rents are
- April collections exceeded expectations for CBRE's 7,700 managed assets in the United States
 - Multifamily, office & industrial = 90%
 - Retail = 20% - 30%
 - Predicts May will be worse (SBA program ran out, people see neighbors not paying rent or mortgage)

Good news = federal government's stimulus

- Why are they able to spend so much so quickly?
 - No villain = more political will to pour money in
- What does it mean?
 - With most pessimist view of 2nd Q GDP (CBRE's -32%, JPMorgan, -40%)
 - The \$5 trillion that's been poured so far in equals about 30% GDP
 - Gives companies a base from which to grow that they were without post 9/11 or the GFC, or the natural disasters

Capital markets perspective

- Forbearance potential by lender type
 - Fannie Mae & Freddie Mac – most forgiving / have formal forbearance programs
 - Banks – less forgiving, offering forbearance case by case

- Insurance companies – less forgiving (state regulated)
- Conduit, CNBS, Non-banks – more strict, most cases no forbearance
- Will likely see bail outs for most troubled assets (hotels, restaurants, sports and concert venues)

What to expect in office market short-term?

- Leasing activity slows until occupiers have more clarity
- Demand will be just fine in 18 months
- Will continue to see short-term extensions, blend & extends
- Will see heightened focus building operations
 - Temperature checks
 - Masks & gloves
 - Elevator protocols

Bullish on Office Market Long-term

- “Offices are, were and always will be maximum driver of attracting and retaining talent”
- Sector has pent up demand
- Pendulum will swing back on density

Changes in Office Market

- New wellness requirements
 - More square feet per person
 - New types HVAC systems – hydronic systems
 - Operable windows

Co-Working will be just fine

- Case for it has been made
- Short-term will have problems like retail
- Landlords will take over / do joint ventures
- Flexibility it affords never more important than right now

Industrial will be big winner

- One word: resilience
- More demand for storage space, especially cold

Retail has been evolving for 400 years and will evolve for 400 more

- Will see real short term pain
- Most tenants and shopping center developers have conduit debt (least flexible)
- Thinks we will see bail out
- Hong Kong – seeing “revenge retail” people lining up at luxury goods stores and restaurants
- People will run back to once we get the 3T’s in place