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Webinar Series



Post COVID-19 Expectations in Economic Development and Real Estate

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*These are my opinions and not necessarily those of the Georgia Institute of Technology.

Overview/Key Takeaways

- COVID-19 is truly an exogenous event that has reduced supply and demand for goods that "need social interaction to be produced or consumed" (Bigio et al., NBER Working Paper 27118, 2020).
- It has implications for economic development activities.
- It has implications for all real estate asset classes.
- Learning and adapting to COVID-19 pressures will continue for years to come.
- Great opportunities abound!

3

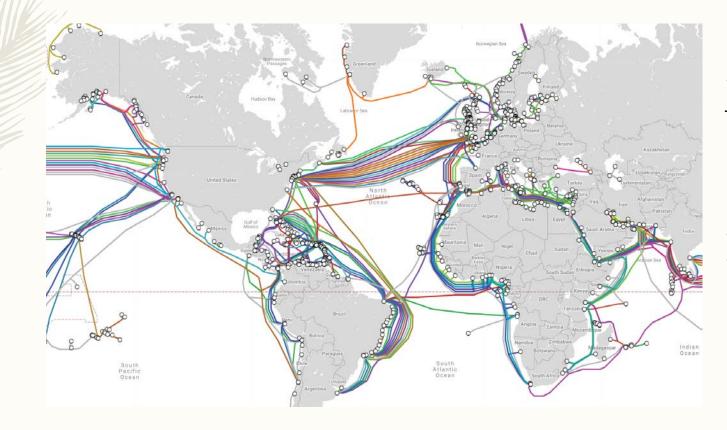
Where Are We Today?

- BEA says Real GDP fell at an annualized rate of 4.8% in 2020-Q1 ("advanced").
- The April 2020 U.S. unemployment rate is 14.7%.
- 39% of households with annual income below \$40,000 lost work since March 2020.
- Home sales are starting to decline, but prices are "sticky downward".
- First American forecasts that prices will slow down but not turn negative.
- Zillow forecasts that sales could drop 60% in spring due to stay-at-home orders, but prices will drop only 3-4% through 2021.
- Large companies were stockpiling cash before COVID-19 in anticipation of a recession; but they didn't anticipate that the impact would be this hard and this fast.
- Businesses now are stress-testing their financial forecasts.
 - One CEO told me in 2008 his firm experienced a 15-18% revenue drop; this time his worst-case scenario is a 30% revenue drop.
 - Deals are being delayed or not consummating at all; price/term renegotiations are common.

Economic Development Implications of COVID-19 (1)

- Deal terms are changing.
 - 60-day due diligence is turning into 120-150 day diligence periods.
- Supply chains with exposure to China will leave and invest elsewhere.
- Spikes in unemployment (33M+ unemployment claims in two months) signals that rehiring will be slow and methodical; remote/flex work is more viable.
- Expect some large infrastructure bill in the next 6-12 months, not only to prop up employment, but to improve the President's re-election chances.
- Internet bandwidth will increase to accommodate a world of telecommuting (or working closer to home).

Worldwide Submarine Cables (www.submarinecablemap.com)



Submarine fiber capacity has increased 32% annually between 2013-2017. Source: Submarine Telecoms Industry report

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6

Economic Development Implications of COVID-19 (2)

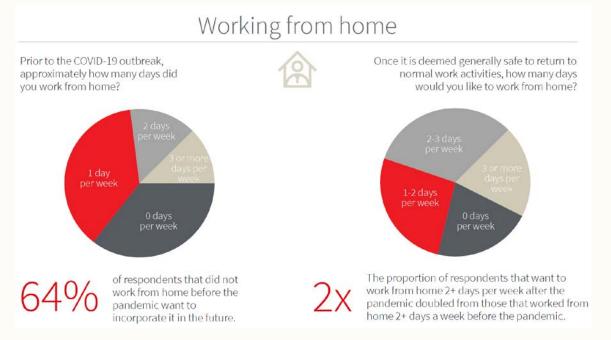
- It's too early to tell if prospect activity has changed (preliminary data from Conway due in Q3).
 - Some good news: Taiwan Semiconductor (TSMC) \$12B project in Arizona, 1600 new advanced manuf. jobs
- State budget allocation to economic development may change.
 - Expect state revenue shortfalls to continue, which will put tax incentives and EDOs on the chopping block
- Companies' economic development budgets have been cut.
 - Only essential travel (e.g. Societe Generale is cutting corporate travel by 80%).
 - Companies are hoarding cash, especially if that capital was going to new office construction.
- Cost efficiencies in the site selection process will become more important, as will a focus on decreasing the cost side of income statements.
- With shift to more online courses, how does this affect businesses wanting to locate to Georgia? Is this a different kind of "brain drain"?

Connection of Economic Development to Real Estate

- It depends on your role in the transaction
- Typical stages are:
 - Pre-development
 - Market, political, and financial feasibility
 - Site and engineering analysis
 - Financing
 - Contractor negotiations and public approvals
 - Construction and marketing
 - Building occupancy and on-site property management
- For an individual, there are RE implications of where you choose to live, work (which simultaneously determines your commute), dine, recreate, worship, travel, etc.

Real Estate Implications of COVID-19 (Office)

 Companies need to recognize the tension between WFH and the call for more office space due to physical distancing



Source: JLL Survey, April 2020

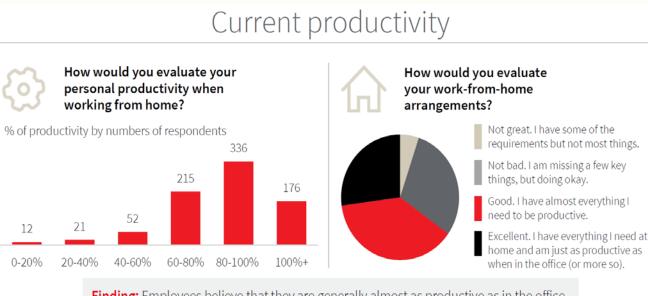
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Real Estate Implications of COVID-19 (Office, cont.)



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Real Estate Implications of COVID-19 (Office, cont.)



Finding: Employees believe that they are generally almost as productive as in the office, but some are missing a few key items which would help them be more productive.

Source: JLL Survey, April 2020

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Real Estate Implications of COVID-19 (Commercial)

- "Open concept" floor plans change back to (glass) walls.
- With hotel occupancy rates in the 5-20% range in N. America, new hotel financing freezes and workouts increase.
- Large conferences retool as physical distancing and budgets cannot support travel line-items as in past years.
- Restaurants evolve with cloud kitchens and curb-side pickup (already happening).
- It's the perfect storm for industrial RE (e-commerce, same-day delivery, shrinking urban infill warehouse space, under the radar of most institutional investors).
- Social spaces are reimagined.

Real Estate Implications of COVID-19 (Commercial, cont.)

- Grocery store layouts adapt from exposed produce sections to efficient Instacart- and Kroger Clicklist-type shopping.
- Malls with big anchors continue to succumb to Amazon; other retail will be repurposed according to its locational advantages.
- Movie theatres take a hit because online content offers efficient distribution.
- Agents, brokers, MLS, and proptech consolidate, with buyers focused on distressed opportunities (distressed debt funds, NPLs).
- Drones, virtual RE tours, and virtual sales will grow in importance as out-oftown buyers look to put dry powder to work.

Real Estate Implications of COVID-19 (Residential)

- Urban densification releases pressure to the suburbs (de-densification intensifies).
- Home builders design for multi-generational living, offices, and more gyms.
- "Coworking" may be the hottest new amenity in multifamily housing.
- Vacant (and abandoned?) properties are forming their own submarket.
- Schools accommodate more distance learning options.
 - University System of California is moving online through end of 2020 implications for small university towns, especially rental markets?

15

Real Estate Implications of COVID-19 (Residential, cont.)

– What about policies to curb evictions and keep families in their homes?

TATE 🗢	RENTING POPULATION O	RATING ^	GEORGIA	3,603,768	\$\frac{1}{2}\$
AASSACHUSETTS ()	2,214,898	****	State score: 0.08/5.00		
tate score: 4.15/5.00					VIEW FULL REI
		VIEW FULL REPORT >			
Massachusetts has enacted one or more high-impact policies. Details below.			INITIATION OF EVICTION	A COURT PROCESS	ENFORCEMENT OF EVICTION ORDER
			× No notice to quit	× Hearings suspended	X No removal if tenant has COVID-19 hardship
INITIATION OF EVICTION	A COURT PROCESS	S ENFORCEMENT OF EVICTION ORDER	X No filing if tenant has COVID-19 hardship	X Judgments of possession stayed	× No removal of tenant for nonpayment
No notice to quit	✓ Hearings suspended	✓ No removal if tenant has COVID-19 hardship	× No filing for nonpayment	✓ Deadlines extended or tolled	X No removal of tenant, except emergencies
No filing if tenant has COVID-19 hardship	 Judgments of possession stayed 	 No removal of tenant for nonpayment 	× No filing, except emergencies	× Eviction records sealed	
 No filing for nonpayment 	 Deadlines extended or tolled 	 No removal of tenant, except emergencies 			
' No filing, except emergencies	× Eviction records sealed		SHORT-TERM SUPPORTS	TENANCY PRESERVATION MEASURES	
SHORT-TERM SUPPORTS	TENANCY PRESERVATION MEASURES		X Moratorium extends past emergency declaration	× No late fees	
Moratorium extends past emergency declaration 😋	× No late fees		× No utility disconnection	× No rent raises	
No utility disconnection	× No rent raises		× Free utility reconnection	× Housing stabilization	
Free utility reconnection	✓ Housing stabilization O		X Grace period to pay rent	× Legal counsel for tenants	
Grace period to pay rent	× Legal counsel for tenants		× No report to credit bureau		
No report to credit bureau			× Foreclosure moratorium		
' Foreclosure moratorium					
AST UPDATED 4/28/2020			LAST UPDATED 4/19/2020		

Source: Eviction Lab at Princeton University, https://evictionlab.org/covid-policy-scorecard/

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Things to Consider

- What happens if schools don't reopen but businesses do? What does child-care and education look like in this scenario? Do babysitters become home-based teachers?
- Can the illiquidity of RE actually be a benefit in a pandemic?
- Why is June 2020 (which really means July-Aug due to lags) the month to watch?
 - 60-day window to catch up if you are behind on loan payments.
 - Master servicer can make small changes, but special servicer gets involved when monetary conditions of the loan change.
 - June 30 is end of 2020-Q2, which is when pension and equity funds that own RE will have a revaluation done (possible role for automated valuation solutions here).
 - If funds start divesting their RE assets, others will swoop in [e.g. distressed debt funds that may bring in a new operator or will reposition the asset (hotel to apartment building)].

Summary

- We cannot predict consumer behavior as well as we think, so changes are inevitable and forecasts will be wrong...but how wrong?
- The business of economic development will change, probably in ways we've not contemplated today.
- Real estate changes are inevitable, with some asset classes thriving while others adapt to some new highest and best use (H&BU).
- WFH will be doable for certain types of jobs, but not all (estimates in 30% range).
- Business owners will consider staggered in-office schedules and overlapping work hours (especially across multiple time zones) to meet their needs.



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Webinar Q&A