2020 SPECIAL ISSUE:
PART ONE

The COUNSELOR® & REAL ESTATE ISSUES®

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IN PART ONE

THE COUNSELORS OF REAL ESTATE®

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The
COUNSELOR®
&
REAL ESTATE ISSUES®

To Our Readers:

Turbulent times produce uncertainty and fear of the unknown. A cloudy crystal ball can not only fuel apprehension but also increase the potential for irrational decision making.

As the COVID-19 pandemic continues to upend the daily lives of people and wreaks havoc on business operations and financial markets around the world, real estate investors, financiers and public and private sector decision makers need seasoned advice and guidance concerning the pandemic's immediate and lingering effects - what to look out for; what to do; and how to avoid the pitfalls and seize the opportunities that will most certainly emerge.

As the world's foremost real estate thought leaders, members of The Counselors of Real Estate (CREs) have been tenaciously evaluating circumstances and devising strategies to solve problems and capture opportunities for their clients and communities throughout the world amidst unprecedented turmoil.

As a premier forum for the discussion of innovative ideas, novel strategies, and intriguing commentary, *Real Estate Issues*, in tandem with its sister publication *The Counselor*, has prepared this joint edition posing a few salient questions to a panel of experts from various disciplines to brainstorm on the quandaries that we face. The result: readers gain perspective and insight from their collective experience as the world begins to seek a gradual return to normalcy and reopen for business.

Humanity has encountered seemingly insurmountable obstacles in the past, and yet, through ingenuity and resilience, has persevered. Our prediction: the same will be true post-COVID-19.

The Counselor and *Real Estate Issues* each pledge to continue our pursuit and publication of relevant and astute information, assisting our readers in surviving and thriving during challenging times ahead.

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THE BLACK SWAN

Black Swan alert! No one saw this coming. Many were not prepared. These two statements apply equally to the economic and social impacts of the pandemic. We recommend that you read the profound Real Estate Issues article by Hugh F. Kelly, PhD., CRE® published on March 21, 2018 titled "Black Swans – The Original *Rara Avis*". We asked **Hugh Kelly, Ph.D., CRE®**, and **Alex Ruggieri, CRE®**:

What role are you playing with your clients today? What is their mood? What opportunities do you see arising from this crisis? What areas will experience a total fail?

A Few Reprised Observations from "The Black Swan"

By Hugh F. Kelly, Ph.D., CRE®
Special Advisor | Fordham University Real Estate Institute At Lincoln Center

Beware of speculative pictures of the future, however widely endorsed.

Many "conventional wisdom" expectations of post-9/11 futures turned out to be 180 degrees off. Tall buildings still attracted tenants. Large and dense city centers prospered. Firms based their location choices on maximizing revenues rather than minimizing expenses. Even in the COVID-19 disruption we should not expect knee-jerk re-writing of business practices and strategic principles.

I recently came across an essay I wrote for *SIOR Professional Report* (Nov.-Dec. 1991) entitled "Are You Kidding? Commitment to Real Estate Investment in the 1990s".

That piece began, *"With the investment community avoiding real estate with the icy disposition of a spurned lover, the early Nineties may seem to be the wrong time to bring up the subject of a long-term commitment."*

It concluded, *"A good captain not only needs to work his ship carefully past the shoals threatening his ship today; he must also chart a course for a longer voyage. In that longer view, I see legitimate reasons to believe in the case for real estate investment in 1992 and beyond."*

I dare say that those who adopted and acted on this perspective, even in the depths of the RTC crisis of the 1990s, did rather well in the ensuing decade.

The primary lesson I've learned is to maintain independence of judgment, avoid the temptation to leap to conclusions, and be extremely disciplined in analyzing the complex network of cause-and-effect in coming to an assessment of the range of possible future courses of events.

Yes, it's bad now, far beyond what was considered the "worst case scenario." Who thought we'd see Great Depression-level job losses inside of four weeks? Nevertheless, there is no merit in passivity and short-term thinking focused on week-to-week, quarter-to-quarter statistical releases. The key questions are:

- What can I do to maximize assets and minimize liabilities through the Fall?
- And, what can I do to identify opportunities in an economy that is "semi-normal" for the next year or so, and resumes moderate growth (albeit in an altered state) from mid-2021 through (say) 2024?

Be practical, be flexible, and be creative.

Even if you weren't prepared for this Black Swan, get prepared for the next. Looking forward, it appears that such events can occur with greater frequency and greater amplitude, given the interconnectedness of our complex economy, the speed of technological change that can catch us by surprise, and the systemic risks of so many stresses from climate change to income inequality. In a 2001 essay in *Real Estate Review* I posited four maxims to guide real estate research: Be Attentive; Be Smart; Be Reasonable; Be Responsible. I suggest posting these on your desk, as Harry Truman posted the reminder, "The Buck Stops Here."

Balance data and judgment.

In many ways, the key to making good decisions in this crisis (as always) is asking "What is similar in history? And what is different now?" That's an exercise in open-mindedness.

Seek the insights of others – no one has a monopoly on good ideas. Interestingly, in speaking with executives who have been using technology effectively to manage their staff, the most frequent comment I've heard is "I can't wait to get back to the office, to be with my team." That's a tribute to listening to our colleagues.

(*Continues on **Page 4***)

Hugh F. Kelly, Ph.D., CRE®, is Chair of Fordham University Real Estate Institute's Masters Degree curriculum committee. He served as Chair of The Counselors of Real Estate organization in 2014, and was Chair of the CRE's Ethics Committee 2008 – 2009. He is principal of the consultancy Hugh Kelly Real Estate Economics.

Distinguish between fruitful innovation (future-oriented changes in approach) and foolish improvisation (making changes just because we are uncomfortable).

Thinking Ahead

I would take the present occasion of metastasis to think and to plan for a post-COVID-19 economy – even allowing for an extended "semi-normal" period of transition – that would recognize the demographic, technological, and social changes which point toward a "decelerated" level of decade-long growth, but still take the current disruption as a "teachable moment."

We need to think through and plan for the redeployment of the suddenly unemployed, many of whom may face the likelihood of the permanent evaporation of their positions, in a forward-looking infrastructure development and maintenance program aimed at national growth in the 2030 – 2050 period.

We also should reconsider the U.S. role in the global economy; this would not seek to sever economic interdependence, but focus on mutual benefit in growing world markets while preserving key elements of U.S. autonomy. This would involve a degree of "re-shoring" strategic manufacturing, accepting higher costs as an investment in the national interest. We must alter, though not eliminate, the just-in-time inventory control process to maintain emergency flexibility against key supply shortages.

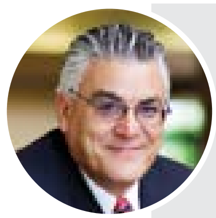
It is important to also re-think stimulus tools beyond the Keynesian model, such that counter-cyclical public spending would be more than a short-run "demand yank" and move in the direction of a steady, long-run expansion of final demand – recognizing the large public benefit of reducing income inequality.

We should re-think the civilian/military relationship, emphasizing the military's capacity to develop skills that are transferable and deployable when needed across the economy (see the tremendous work being accomplished currently by the Army Corps of Engineers).

Finally, we need to prioritize investing in science, as was done in the NASA programs of the 1950s and 1960s, both in "pure" research, and applied research for programs such as the "telemedicine" now being deployed in the COVID-19 emergency.

Preparing for the Unknown

By Alex Ruggieri, CRE®
Vice President | SVN-Ramshaw Real Estate



Alex Ruggieri, CRE®, serves as a senior advisor for SVN-Ramshaw Real Estate specializing in the sale of investment properties in Champaign-Urbana, Central Illinois and beyond. He has more than 40 years of commercial real estate industry experience.

According to Dictionary.com, a Black Swan is an unpredictable or unforeseen event, typically one with extreme consequences.

How can we then possibly plan for an event that by definition is unforeseen? I think the answer is a lot simpler than one might imagine.

When I was younger I was a Boy Scout. Later, I served as an assistant Scout Master when my four sons were involved in the program. Back then (and still today) the Scout's teach the Scout Motto. What is the Motto? BE PREPARED.

When Lord Baden-Powell was asked, be prepared for what? His answer was simple, "Why any ole thing."

In *Scouting for Boys* in 1908, Baden-Powell wrote that to Be Prepared means "you are always in a state of readiness in mind and body to do your duty."

I think the point is well taken and can be applied to us and our businesses as well.

Doing something as routine as a S.W.O.T.[1] analysis once a year can go a long way for us to plan for the unexpected. In reality there is a lot we can do to prepare for the unexpected.

We can increase reserves, institute contingency plans and review and update them regularly.

Lowers and Associates International risk mitigation partners recommends the following:

1. Conduct Scenario-based Planning
2. Carry Out a Threat Assessment
3. Prepare a Comprehensive Situation Response[2]

We may not know what the next "Black Swan" scenario will be or when, but we can enjoy some relative peace of mind knowing that we have put plans for the unexpected in place.

A great man once said, "If you are prepared, you shall not fear".[3] •

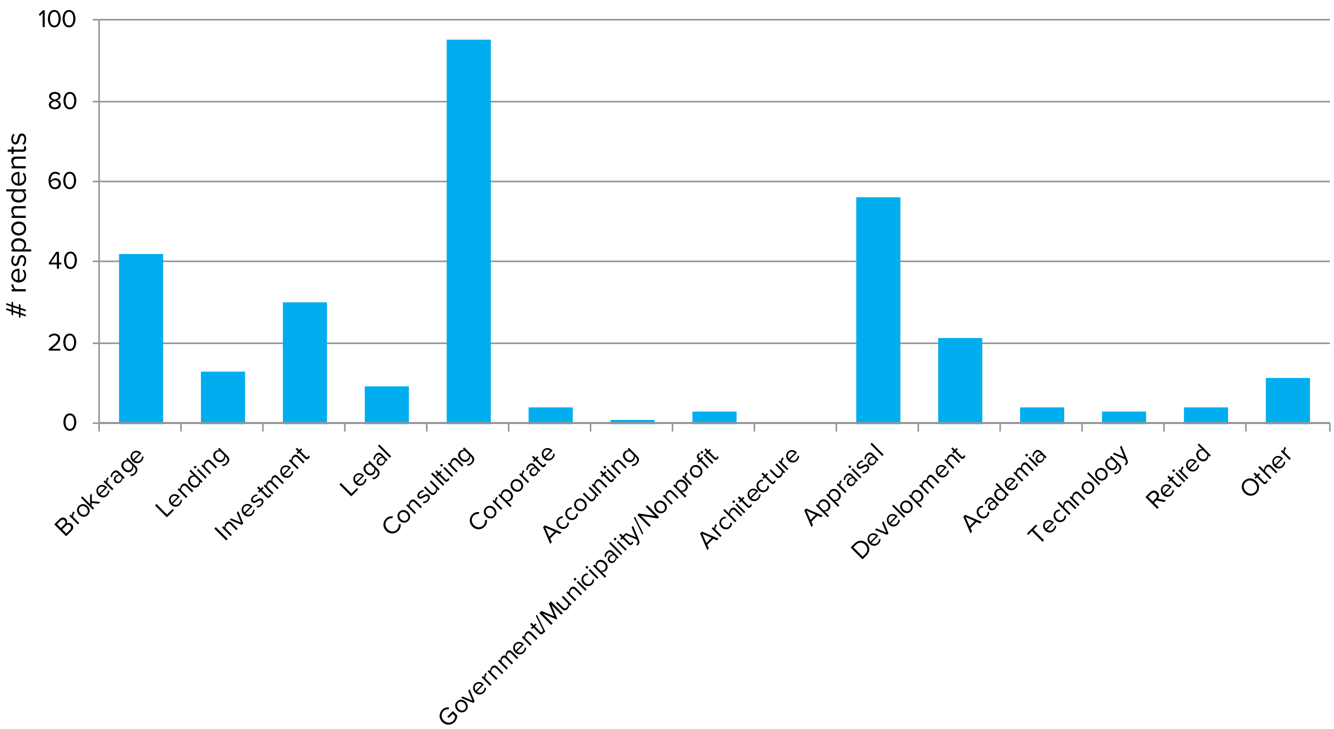
Notes

1. A S.W.O.T. analysis is an exercise where one examines their (or their company's) Strengths, Weaknesses, Opportunities and Threats.
2. https://blog.lowersrisk.com/prepare-black-swan-events/
3. Joseph Smith, First President of The Church of Jesus Christ of Latter-Day Saints

SURVEY: REAL ESTATE CONDITIONS DURING THE COVID-19 PANDEMIC CRISIS

In **April 2020**, we surveyed Counselors of Real Estate to learn more about how the COVID-19 pandemic crisis was impacting their business. We received **194 responses** from members living in many regions across the United States, as well as in Canada, Italy, Germany, Turkey, and Japan. Here's what they said:

What type of organization or firm do you work for? Select all that apply.



Here's what Counselors said about how the crisis is impacting their services:

"Until lenders start to lend again, most of my business is stalled. Without lenders, my buyers have pulled in their horns and will sit on the sideline."

"In difficult economic times, the appraisal business generally increases."

"We expect a decline in appraisals for new loans and an increase in volume for asset value monitoring. For our litigation support work, we expect an increase further down the road."

"The courts in California are currently closed for civil litigation. Litigation support and expert witness services are my main source of business."

"More tax appeals. More consulting/same appraisals."

"More emphasis on consulting related to workouts, restructuring."

"Rental collections across all property types and across many states where we are invested, previously never an issue, is becoming a major concern."

"The construction industry will be affected with new working methods that will slow down the pace of construction projects."

"I expect litigation activity to increase as the economy falters."

"I mainly represent investors and tenants. Rents will fall and vacancy increase dramatically the rest of this year."

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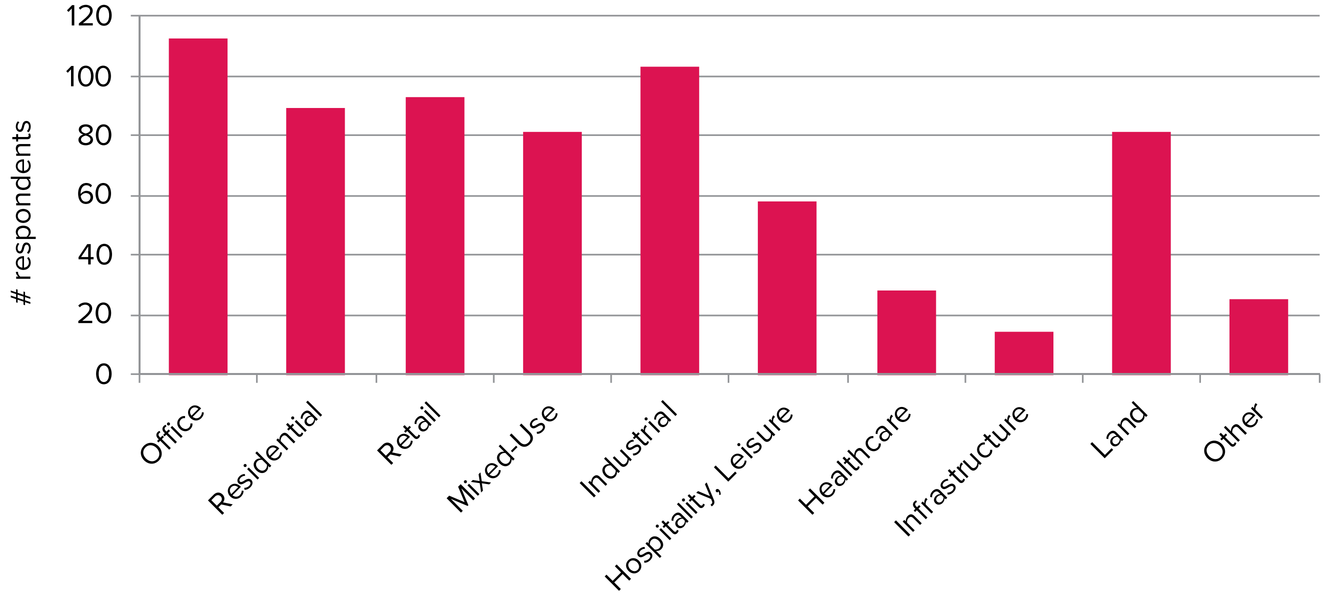
What property type(s) make up the majority of your business?



Here's what Counselors said about how the crisis is impacting property sectors:

" The retail business will be forever changed. The retail businesses that survive will be the leaders of the change in how goods and services will be presented. Multifamily design will reflect more stay at home workers. "

" This is an acceleration of what was already happening in retail. "

" Distressed commercial real estate loan work-outs will increase particularly on hotels and retail properties. "

" Price changes depend on property type: Hotels are performing the worst while data centers and some industrial are doing the best. "

" I'm a multifamily syndicator and operator. My business will be in flux two months for each month this continues. "

" People are rethinking the utilization of office space once the issues with COVID decline. I am continuing to watch with real estate lending & loans. "

" Industrial is strong, senior housing is strong, closings are delayed slightly because 3rd party reporting is difficult to complete until COVID-19 declines - but not canceled. "

" Long term impacts of design of retail space and office space will impact the overall real estate industry. "

" We specialize in hospitality and golf. The hospitality industry has been impacted faster than other property types. Lenders are extending mortgage payments for 90 days. If the market does not recover quickly following the current outbreak/pandemic, there is a strong probability that lenders will be looking closely at asset values. If the market does recover quickly, there will likely be pent-up demand for lending/appraisal services."

" Long term impacts of design of retail and office space will impact the overall real estate industry. "

" Tenants have asked us to defer rents until they get government loans or business resumes. Most of our hotels are in secondary markets so we think they will come back sooner than the dense, urban markets. Vacation and business travel will resume first where people can comfortably do so and be socially distant. It will take longer for the dense markets and the dense events (corporate conferences, sporting events, conventions, etc) to resume. "

" Concerned about non-performing commercial and retail properties unable to make payments on CMB loans that aren't set up to make accommodations or short term forbearance agreements will lead to defaults and receiverships."

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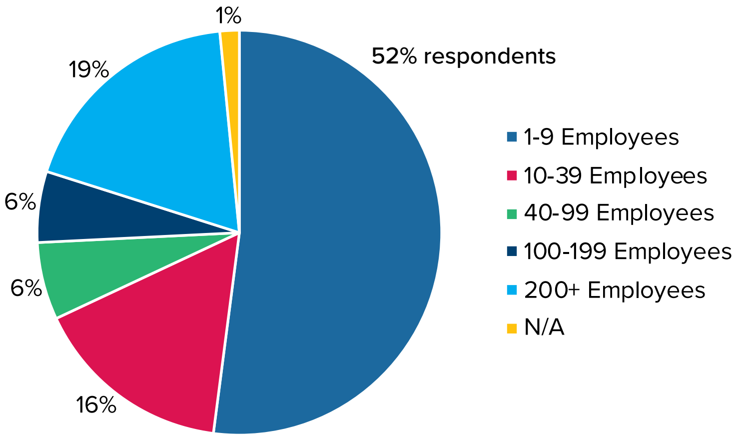
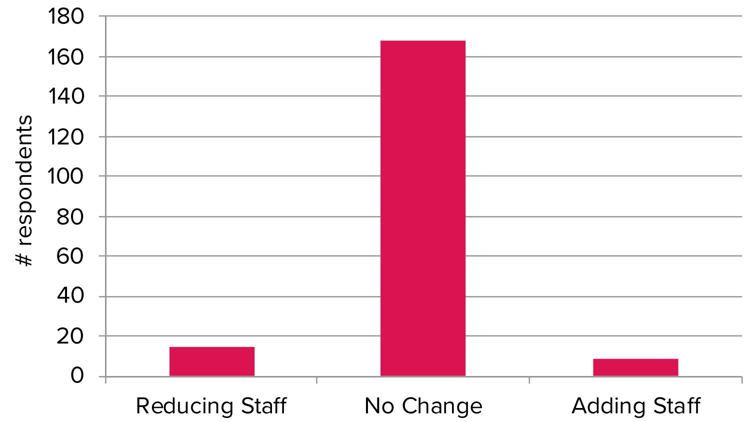
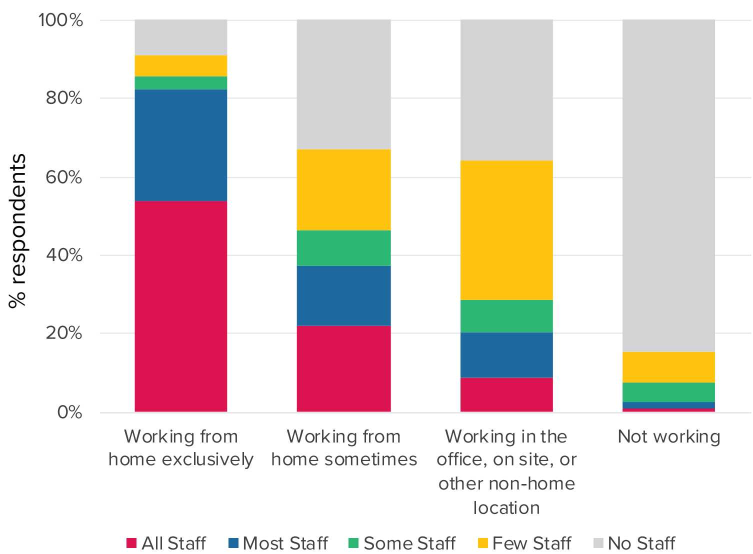
What size is your organization or firm?



What are your staffing plans in the next 30 days?



Currently (in April 2020), what portion of your staff is:



63%

of respondents said that ***prior to the COVID-19 crisis,*** few or no staff worked from home.

Here's what Counselors said about staffing and working from home:

" We will hold staff together until this fiasco is over and return to mostly office staff. We see no change in projects which were in place in mid-March but future projects have been postponed into 2021. "

" Half our staff was immediately furloughed, I would expect that to hold, with maybe some additional cutbacks."

" Everyone is adjusting well to working remotely and using MS Teams and Zoom for meetings."

" We are trying to stay open with similar staff prior to the crisis. "

" We will now all work from home permanently. I gave up my office space that I had for 26 years. "

" 35% of our staff was furloughed on April 1st."

" Working remotely has made us a little more efficient, with more time spent to achieve the completion of assignments."

" Current backlog looks good through May. But if transactions slow, then attention will focus on restructuring and revaluations. This may or may not allow us to retain full staffing so furloughs/lay-offs become a possibility. "

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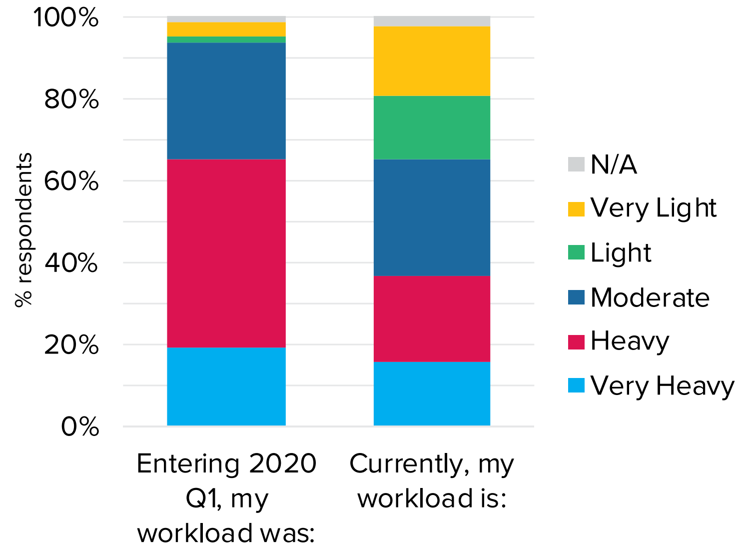
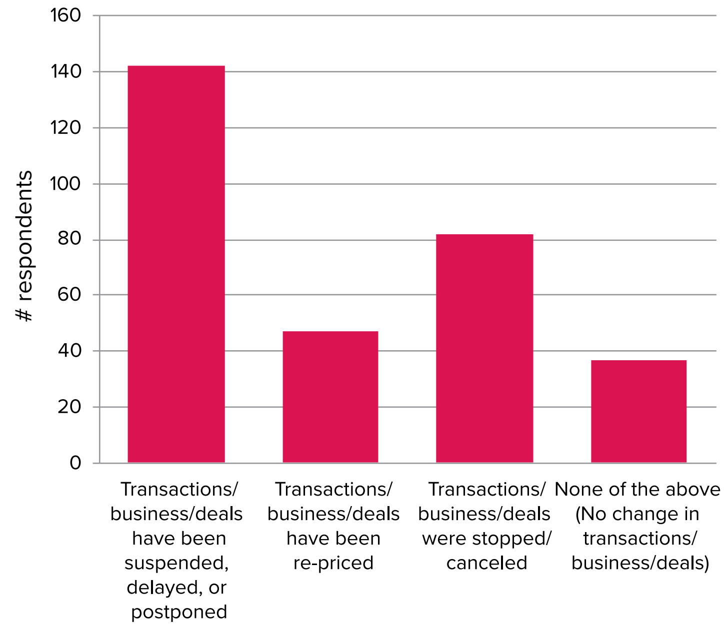
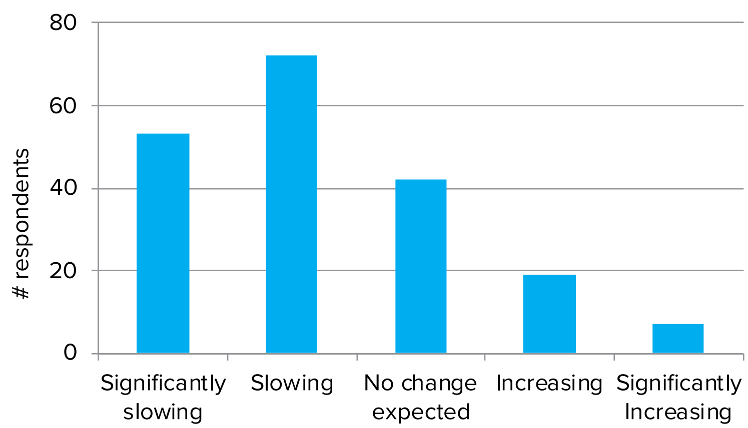
How has your workload changed from the beginning of 2020 to April 2020?



Which of these if any have applied in regard to your business transactions during the past 30 days because of changing market conditions:



Overall, how do you expect business in your area of expertise to change in the next 30 days?



The Real Capital Analytics Commercial Property Price Indices (RCA CPPI) increased by 1.6% from December 2019 to February 2020. How do you think prices will change in the next 3 months?

Here's what Counselors said about the effects on the industry and their business:

" Seeing more business due to still lending in the construction market at higher LTC ratios. Value is difficult to discern with nearly everyone on the sidelines. I expect Bid/Ask spreads to be wide except for assets that are distressed. Back to "is this a recession/depression conversations" that I had 10 years ago. As Yogi Berra said "Deja vu all over again!" "

"The availability of debt is critical. Without liquidity in the debt markets, sales volume will decline significantly."

" We believe that the impacts to our business will be most heavily felt in the summer and fall of this year, not within the next 30 days. "

" Slow comeback. Notable portion of work is discretionary; easily delayed/ cancelled. May get some special circumstance consulting. "

" Too early to assess duration of uncertainty in the market. I anticipate uptick in REO assets and disposition related assignments."

ABOUT THIS ISSUE

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