



TRACKING THE COVID-19 REAL ESTATE MARKET IMPACTS

MAY 28, 2020



- ▶ Bleakly Advisory Group, Inc. is an Atlanta-based real estate and economic development consulting firm
 - ▶ Founded in 2001
 - ▶ Nine-member professional team
- ▶ Our practice covers public, private, and non-profit sectors:
 - ▶ Real Estate Market Analysis
 - ▶ Real Estate Economics
 - ▶ Development Consulting
 - ▶ Financial Analysis
 - ▶ Incentives & Public Finance
 - ▶ Housing Analysis



Ken Bleakly, Founder

Geoff Koski, President
Geoff@blagroup.com
@geoffkoski

www.bleaklyadvisory.com
404.845.3350

COVID-19 REAL ESTATE IMPACTS: ON A BRIDGE, IN A FOG

■ Bridge

- Transition coming, haven't gotten there yet

■ Fog

- Unsure about the current
- Firm footing on the other side (?)
- The sun always wins



WHEN THE FOG LIFTS

Is your city well-positioned
for what's next?



TRACKING THE COVID-19 REAL ESTATE IMPACTS

3 Lenses

Epidemiological



“Is the curve bending?”

- New Cases
- New Deaths
- New Test

Economic



- Employment Levels
- Gov’t Response
- Commercial Real Estate/Housing

Demographic



Short Term

- Retail Spending
- Long Term**
- Pop/HH Growth

Impact on cities?

Density Debate

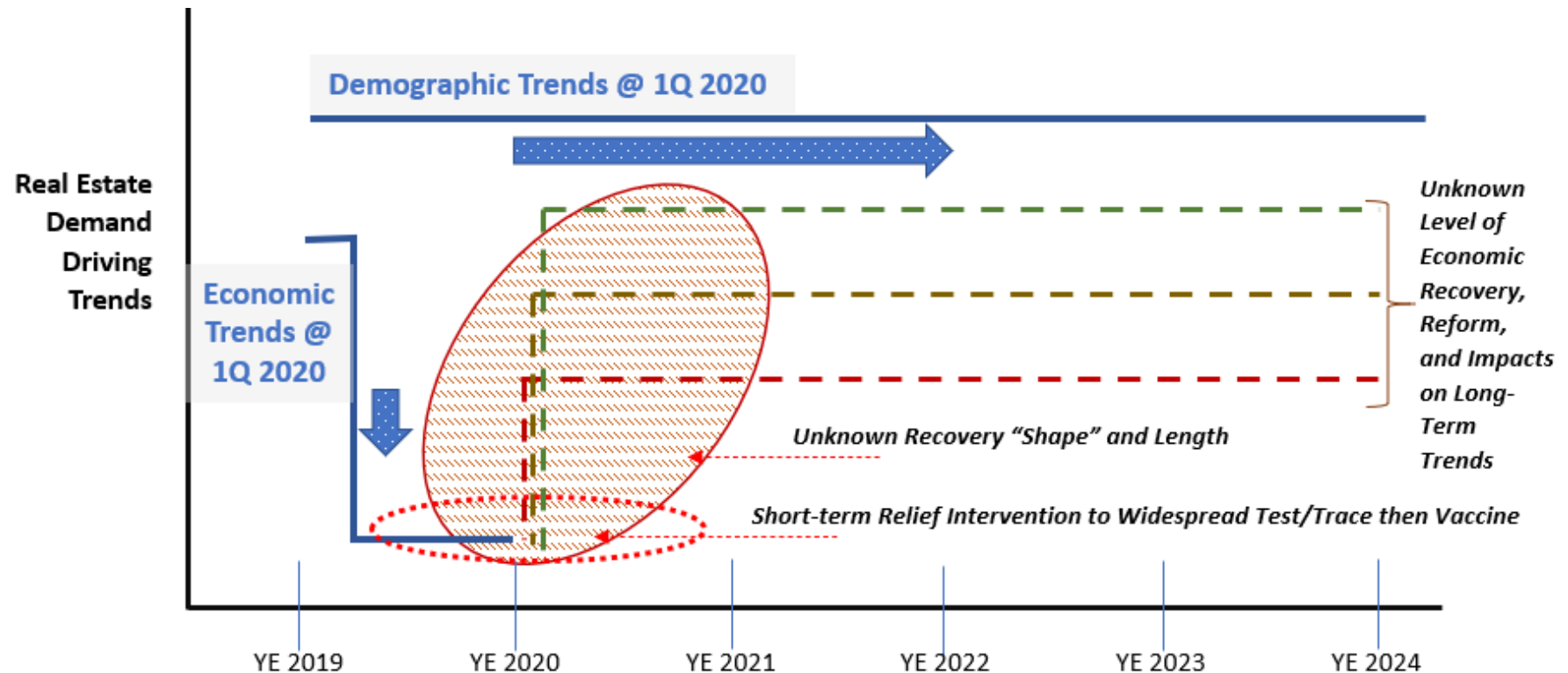
Consumer Preference Shifts?

Local Fiscal Impacts

MID-APRIL 2020

COVID-19 ASSESSMENT

“... anyone who is just rolling out their usual ideas without making allowance for the **special nature of the situation** shouldn't be taken seriously.” - Paul Krugman



www.bleaklyadvisory.com

EARLY-MAY 2020

COVID-19 ASSESSMENT

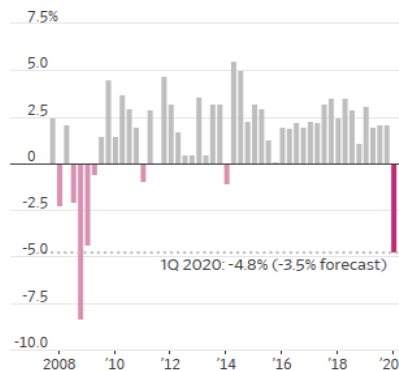
THE WALL STREET JOURNAL.

U.S. Economy Shrank at 4.8% Pace in First Quarter

Gross domestic product recorded steepest contraction since the last recession

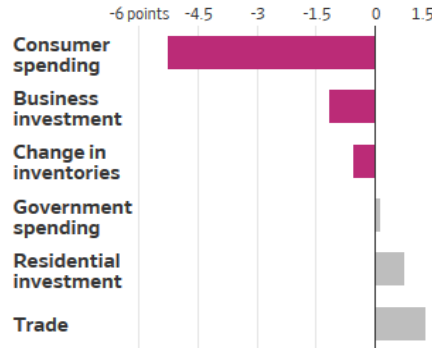


Quarterly change in GDP



Note: Seasonally adjusted at an annual rate
Source: Commerce Department

What contributed to 1Q change in GDP



Note: Seasonally adjusted at an annual rate
Source: Commerce Department

"Today's report presages what we expect will be a significant 38% decline in GDP in 2Q." —Ellen Zentner, Morgan Stanley

"The scale of the hit to economic growth is shocking and suggests it will be well into 2021 at the earliest before the economy recovers to pre-covid levels." —Contingent Macro Advisors

"This data, and those on the way, should finally lay to rest notions of a V-shaped recovery." —Joseph Brusuelas, RSM US

EARLY-MAY 2020

COVID-19 ASSESSMENT

Economic



MAY 2020

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
26	27	28	29		1	2
3					8	9
10	11				15	16
17			20		22	23
24	25	26	27	28	29	30

JUNE 2020

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
1	2	3	4	5	6	7
8	9	10	11		13	14
15	16	17		19	20	21
22	23	24		26	27	28
29	30	1	2	3	4	5



THE CURRENT

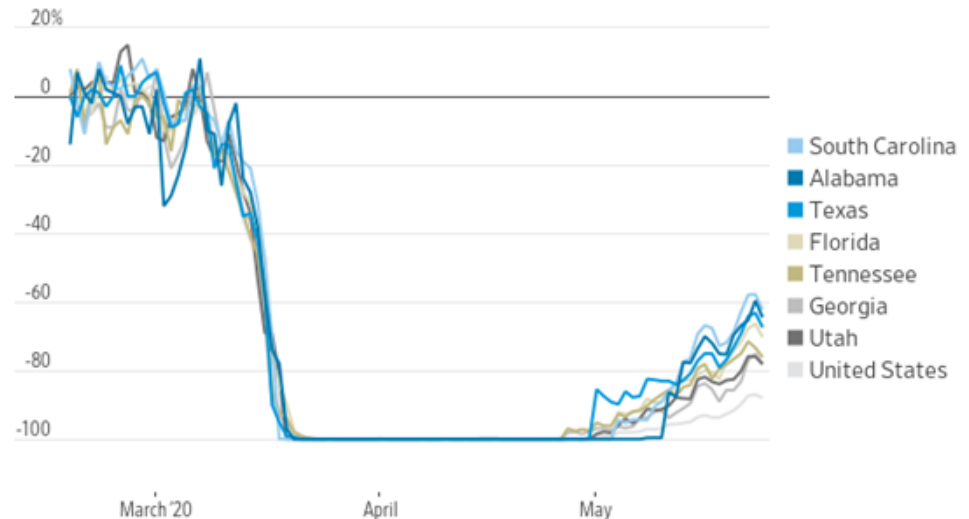
- Green Shoots?
- Commercial RE = not many new trades
 - No price discovery
- Residential
 - For-sale prices down
 - Sales volume up
 - Tenant rents being paid
 - Rent levels have flattened
 - New leases being signed

Demand is present

"Maybe we are near the bottom in terms of the economic downturn, and hopefully we'll start seeing improvement in coming months."

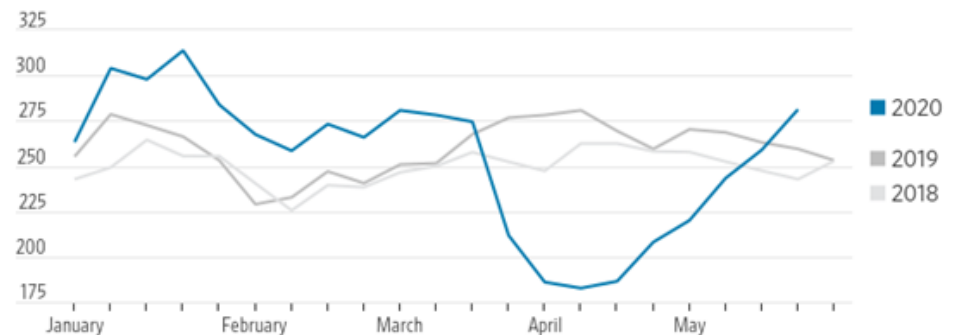
—Federal Reserve Bank of New York President John Williams May 27, 2020

Seated diners at restaurants on the OpenTable network, change from one year earlier



Source: OpenTable

MBA mortgage purchase index



Note: Seasonally adjusted; March 16, 1990=100

Source: Mortgage Bankers Association

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Economic

LATE APRIL:

“I think that we in the apartment industry as a whole, and all of **commercial real estate**, is in a wait and see position.” -Bozzuto Group CEO

CBRE economist calls next several weeks 'probably the most important 45 days in U.S. commercial real estate history'

THE BUSINESS JOURNALS

LATE MAY:

“The free fall started to stabilize in May, but the economy is in a really deep hole” -Naroff Economics president Joel Naroff

Real Estate Sectors: Current Status

Hotel

Retail

Office

For-Rent
Housing

For-Sale
Housing

Industrial

Disastrous =
Long-term negative impact
almost certain

OK for now =
Likely to return quickly depending
on epidemiological response

Positive
Current
Outlook

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Economic



While history suggests that housing activity has helped bolster economic growth following past recessions, **the unprecedented nature of the current crisis and the uncertainty of the public health response make such projections impossible.**

But prior recessions still provide a benchmark for understanding what could happen to housing markets during the present downturn and point to what's possible in the eventual recovery. Both will **depend largely on how well COVID-19 can be contained and its effects on the broader economy addressed.**

For-Rent
Housing

For-Sale
Housing

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Economic

THE BUSINESS
JOURNALS

1. Compared to the retail sector, the office market has dodged the bullet — so far
2. Red flags are increasing
3. Co-working spaces will face a substantial impact
4. To be determined: Will the pandemic throw **gasoline or cold water** on the nation's hottest office markets?

Office

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Economic

THE WALL STREET JOURNAL.

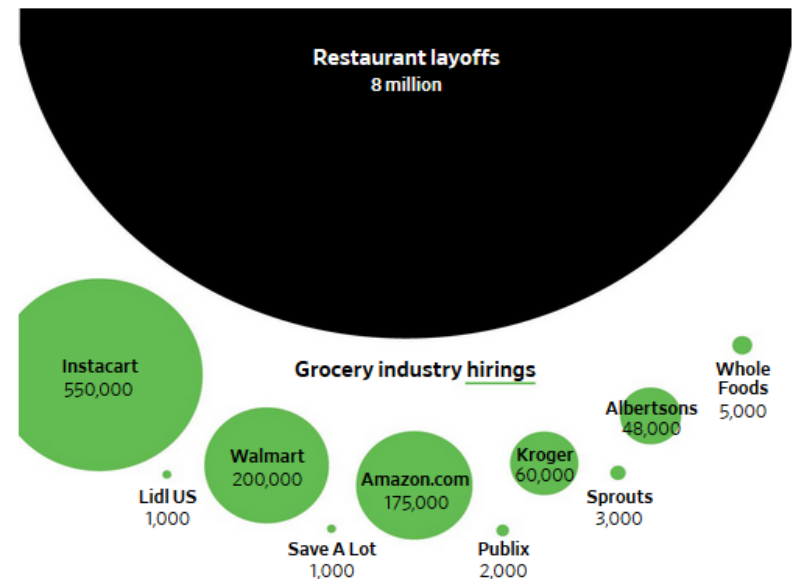
Two Months That Tore Apart the Food Chain

Grocery demand skyrocketed, restaurants shut their doors and distribution became exponentially more dramatic shift in history

Monthly restaurant same-store sales, change from a year earlier



Note: April 2020 data as of April 19
Source: Black Box Intelligence



Note: Data as of April 23
Sources: National Restaurant Association (restaurant layoffs); staff reports (grocery hirings)

Retail

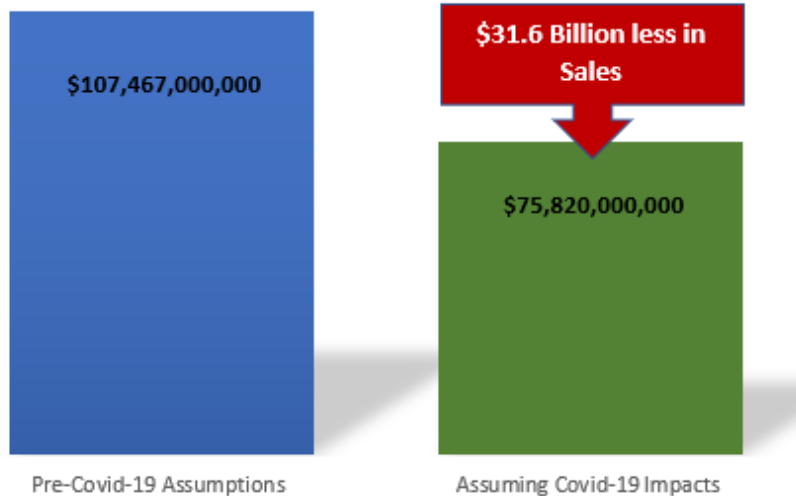
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COVID-19 BLEAKLY RESPONSE

COVID-19 Lockdown Impacts on Atlanta Metro Retail Sales (in \$millions)



www.blagroup.com/blog/2020/4/19/covid-19-impacts-on-atlanta-retail-market-grim-short-term-outlook-from-bleakly-advisory-group



THE NATIONAL OBSERVER

Dive into the stories shaping local business.

By Mark Mensheha · April 21, 2020

"Catastrophic." That was the word used by **Bleakly Advisory Group** in a [new report](#) analyzing the effect the coronavirus pandemic could have on the Atlanta retail market. The report noted that the pandemic could push retail vacancy across that city to at least 40%, which compares to 5% prior to the pandemic.

Such developments might not be limited to Atlanta.

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The Atlantic

The Pandemic Will Change American Retail Forever

1. THE BIG ACCELERATION

The year 2020 may bring the death of the department store

The pandemic will also likely accelerate the big-business takeover of the economy

One survey of several thousand small businesses, including hotels, theaters, and bars, found that just 30 percent of them expect to survive a lockdown that lasts four months.

2. THE FLATTENING OF THE AMERICAN CITY

The growth of online shopping and big business will be hard to ignore for many city residents. It will make cities feel more desolate and less singular, for the next year or longer.

Cities will still be convenient, but their conveniences will be homogenous:

While mom-and-pops and department stores will close, those industries that survive and are resilient to e-commerce encroachment—such as grocers and restaurants—are more likely, in the short term, to be dominated by chains

3. THE END OF THE GOLDEN AGE OF RESTAURANTS

. . . chains have taken \$3 out of every \$4 spent eating out.

retail capacity will be . . .

Reduced: thousands of restaurants will go out of business . . . locations are going to become gyms

Relocated: look to open new locations in the suburbs, or shift their business to a food truck

Repurposed: accelerate the shift to contactless delivery of meals, groceries, and products of all kinds

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The Atlantic

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4. THE ALL-DELIVERY ECONOMY

“If we’re going through 18 months of social distancing, which makes crowded stores impossible, then we need to significantly repurpose our retailers for increased delivery.”

5. AFTER THE FIRE

The American cities waiting on the other side of this crisis will not be the same. They will be “safer” in almost every respect—healthier, blander, and more boring, with fewer tourists, less exciting food, and a desiccated nightlife.

. . . But the near death of the American city will also be its rebirth. **When rents fall, mom-and-pop stores will rise again—**America will need them. . . **Cheaper empty spaces will be incubators for stores that serve up ancient pleasures,** like coffee and books, and novel combinations of health tech, fitness, and apparel. **Eccentric chefs will** return, and Americans will remember, if they ever forgot, the sacred joys of a private plate in a place that buzzes with strangers. **From the ashes, something new will grow,** and something better, too, if we build it right.

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