

**ULI Chicago**  
**February 25, 2021 Webinar**  
**“2021 Economic Forecast”**

ULI Chicago members and guests gathered virtually in February for a panel discussion, “2021 Economic Forecast”, with leading economists Sam Chandan, PhD, *Larry & Klara Silverstein Chair in Real Estate Development and Dean, NYU’s Schack Institute of Real Estate (Moderator)*; Dr. Peter Linneman, *Founding Principal, Linneman Associates, LLC* and Marianne Wanamaker, PhD, *Associate Professor of Economics, University of Tennessee* and *Former Chief Domestic Economist, Council of Economic Advisers*.

Dr. Linneman began by highlighting that the economy’s decline was not cyclical but rather driven by the pandemic and resulting government mandated closures as well as the related actions taken by individuals regarding their personal safety. As mandates are lifted and individual confidence returns, he predicted significant growth. As an example, he cited recent increases in elective medical procedures. He cautioned that the recovery will not be uniform and described it as taking the trajectory of a butterfly, as in moving in all directions. Dr. Linneman was optimistic that, at the current rate of vaccination, there will be a substantial return to “normalcy” in four to five months. This will result in a repeat of the “Roaring 20’s” and a “red hot” two to three years.

Dr. Wanamaker noted, even today, there are regional variations in recovery driven by differing levels of “lockdowns” embraced by local governments. She described her concerns regarding inflationary pressures from substantial federal government “stimulus” as well as the broad nature of how this “stimulus” is distributed. Dr. Wanamaker added an insightful observation regarding the relative flexibility between consumer demand and labor supply: the former will respond quickly while labor supply will take time to adjust. People may not return to work immediately due to a variety of factors but may begin shopping and localized domestic travel. As an example, female employment, which has been particularly negatively impacted, will be dependent on the resumption of classroom instruction.

As it relates to other fiscal policies, Dr. Wanamaker cautioned against moral hazard. This relates to such concepts as individual payments which discourage returning to the labor force as well as student loan forgiveness.

Dr. Linneman added to the discussion regarding intervention in the economy by the federal government. He stated that, while there is capacity to borrow against the enormous present value of future growth, it is a “waste” to have general relief versus targeted spending in the areas of most need.

The conversation evolved to the future of urban areas. Dr. Linneman provided an illustration by invoking the image of a scale. For many years, the benefits and negatives of urban areas have been delicately balanced. During 2020, the benefits were wiped from the scale leaving only a heightened focus on the negatives. As the positives return, so will the cities. Dr. Wanamaker countered that the prevalence of work from home will increase demand for suburban real estate. She believes there will be an increased demand for single family housing as the pandemic has accelerated a trend already underway as millennials begin establishing families.

In relation to office occupancy, Dr. Linneman put forth the notion that a firm/organization can be maintained remotely but great firms/organizations cannot be created remotely. In person interaction will have a positive advantage to virtual interaction. This applies to sales, hiring, presentations, mentoring and so forth. Natural competitive pressures will lead to an increase in face-to-face interactions.

On industrial real estate, Dr. Linneman believes it is not “over played” yet but that it will be. Given the relative ease of adding new industrial supply, he cautioned that the market is currently adding inventory for a “temporary surge” driven by the pandemic which ultimately will be shown as a deviation from trendline. Interestingly, Dr. Linneman was relatively upbeat on retail. He acknowledged a 20% annual growth in online retail during the pandemic but observed that, taken in context of devastating brick and mortar closures, the online growth might not seem as impressive.

Dr. Wanamaker answered a question regarding the hotel sector and stated that it would be a “long recovery” with two or three years before returning to previous occupancy rates. While there will be conferences in the future, she predicted that a portion of attendees will demand a virtual option. Dr. Linneman predicted a quick increase in business travel. He described conferences as having a partial utility but also being an “untaxed perk” that employees can receive. Both panelists acknowledge that international travel will take time to return.

*Summary written by William R. Flatt, Principal, Free Market Ventures*