Urban Land Institute Florida

ULI FLORIDA WEBINAR TRANSCRIPT

Keynote Speaker:
Spencer Levy | Senior Economic Advisor and Chairman of Americas Research, CBRE

Q & A Moderator:
Greg West | CEO, ZOM Living; Chair, ULI Southeast Florida Caribbean District Council

---

The Big Picture

Near Term

Facts of where the economy is going in the near term are well-known. Second quarter GDP forecasts from CBRE and our peers on Wall Street are all terribly negative. The CBRE second-quarter GDP forecast for the United States is somewhere in the negative 25% range. Morgan Stanley, Goldman and JPMorgan have forecasted as far down as negative 40%. All of which is combined with unemployment rates that have more than doubled, tripled or worse. We believe the situation is only going to get worse before the end of the second quarter.

The Shape of the Recovery

The bad news is well known, but we want to talk about some of the good. You have probably heard a lot about the different shapes of the recovery, from V, U, W or an L. CBRE believes we are in fact in a V shaped recovery. We believe, notwithstanding how challenging the 2nd quarter is going to be, there will be a rapid rebound beginning in the 3rd quarter, accelerating into the 4th and into 2021... where GDP is going to be more than double where we had forecasted as recently as February.

The reason why we have that level of relative optimism is 2-fold. The scale and the speed of stimulus that was provided by the federal government, the Fed, the treasury and others is simply hard to understand unless I put it into perspective. Even if you were to take the most pessimistic forecasts on Wall Street today, which I believe is JP Morgan at -40%, that represents a 10% negative GDP on an annualized basis. The amount of stimulus that has gone in so far is about 26% of GDP on an annualized basis. We expect a fourth round of stimulus as soon as this week … and that's on top of the stimulus from the IMF of over a trillion dollars, the UK stimulus of about a half a billion dollars, etc. The speed and scale of the stimulus is truly unprecedented, and it will provide the fuel to bounce back more quickly than in any prior crisis, certainly in the last 40 years.

‘Comps’ from prior crises
I'm a real estate expert and I try to find the ‘comps’ that are most important and relevant to this conversation. The two comps that everybody here is looking at and thinking about are the post-GFC 2009 and the post-”9/11 Tech Bubble” of 2000 comps. If one were to look at those two comps alone, one would reach the conclusion that:

- If you look at the office segment, etc., rents took about two years to crater from peak to trough, and an additional 4 years to come back fully.

- Values bounced back a little quicker and took about 4 years ago to go from peak to peak again.

- But that's not across the board. Industrial assets never declined in value post 9/11-Tech Bubble.

- Of course, if you go market-by-market you will see different variations on that theme.

Lessons learned from Asia
We are also looking beyond these comps to those in Asia. The most relevant or rather the most similar event in recent history to the Covid-19 crisis was the SARS crisis in 2003. There was a terrible fall off in Hong Kong in the economy, in real estate trades, in rents, etc. It lasted for about a year before bouncing back strongly. The fall off wasn't nearly as bad in other Asian countries. Nevertheless, the crisis lasted 6 months to a year before it started bouncing back to par again.

I also point to what's happening today in China during the Covid-19 crisis. A lot of people will say China isn't a good comp because of its different form of government, some question the validity of the information coming out, etc. There is no such thing as a perfect comp.

China as recently as a month ago had basically all industry shutdown, every shopping center closed, every Starbucks closed. Today over 95% of Starbucks are open, over 95% of the shopping centers are open, industrial capacity is back to over a 90% level. We can measure this not only by numbers coming out of the government, but by other measures such as oil and electrical usage all returning to normal. Some of the things that are going to return much more slowly (and we would expect a similar pattern here in the US) include large purchases like automobiles, homes and travel. These purchase categories are most relevant in places like Florida, where travel in particular is a very important industry to several markets.

The bottom line is this -- from a macro perspective we believe we will bounce back quickly because of the stimulus and what these comps help illustrate.

Zooming into the micro-perspective and the real estate industry
Notwithstanding our optimism for a “V shape” recovery on a macro level, we are not as optimistic about as quick of a recovery in the real estate industry. If you want to understand a shape in your mind, expect more of a Nike shape (somewhere between a U and V shaped recovery).

Real estate is always a lagging indicator for the broader economy, as it has been in every crisis, including the SARS event in Asia. Performance will vary by asset class. We track this on a daily basis, including collections, landlord-tenant relations and other factors that can help us gauge present conditions and what real estate is going to look like 90, 120 days from now. In the US, CBRE manages over 7,700 daily transactions, so I watch collections everyday across the board.

The good news is that office, multi-family and industrial have largely outperformed our expectations in terms of collections -- all tracking at or around 90%. Unfortunately, retail has underperformed our expectations, tracking between 20 and 40% in collections. Certain categories, such as restaurants and others that have experiences where people have to congregate, the collection rates are even poorer.

So, what does that mean for the future?
If you track the collections and the mega-trends -- industrial, then multifamily, followed by office will bounce back quicker than retail and hotels.

Hotels have the pent-up advantage of pricing power where they can always price down rates to the point where people will bite. We think leisure travel will bounce back quicker than business travel. This is excellent news particularly for ULI members in Orlando and Miami, which have such a heavy tourist component to their economies. Business travel is going to take some time to come back which will ultimately retard the growth of the hotel industry and keep pricing power down.

In terms of retail, we think it will come back slower. The tragedy of retail is that there's going to be some percentage of retailers, notably restaurants, that will never recover. Based upon a call we had the other day with our Restaurant Group, we believe that the number of restaurants that may never return could approach 20%. The bad news is the terrible human story of the people who lost their livelihoods; the good news is that the government understands this. In fact, this morning Goldman Sachs became more optimistic on their economic and stock market call than they were as recently as a few weeks ago. This is because they know that the government is throwing everything at this -- not only from the PPP program (which is the Payroll Protection Program) but other forms of lending that we believe are not only going to help cushion the fall today, but help push the economy moving forward.

CBRE is talking a lot about how landlords are dealing with the rent crisis. In my business I'm typically looking a year or two down the road, because my investors are 3, 5, 10-year investor holders. Now, I'm looking very closely at the next 90 to 120 days, because I want the market to reopen. The market isn't closed per say -- we are still trading hundreds of millions of dollars of assets a week, we are doing hundreds of millions of dollars of financing every week -- and not all of these are industrial retail. In fact last week, we traded a grocery anchored shopping center and did financing on hotels. So the market is not "closed", but volume is down by about two-thirds.

A disproportionate amount of the investors that are out of the market today are institutional investors, not private investors. The reason for which is two-fold: (1) a thing called the denominator effect -- because their stock holdings have gotten so impaired, they now don't have the percentage of their investment that can go into private real estate; (2) the bigger issue is price discovery. I've had many investors tell me "*I'd like to buy, but I don't know what rent roll I'm* *buying"* -- which is why rent collection analysis is so critical. We need to know when we get to the bottom, so that we can anticipate what things will look like going forward.

Today, people are dealing with rent roll and price uncertainty by employing a couple different strategies. The first and most common strategy is extending closing periods out 45 days or longer. The second strategy we have seen people employ is putting in a cash flow escrow where they will have 6 months to up to two years of cash set aside and they will burn it down depending what your collections are over the next couple of years. Lastly, we of course have seen some repricing activity. So far, we have seen a lot of 'asks' for repricing, we haven't seen a lot of 'gives' on repricing… more often we just see deals falling away. We are aware of a select few deals where we saw material repricing (10%+), but it has only been in circumstances where the seller had a reason to sell (needed cash for another deal, etc.).

What's going to happen to values in the short-term in our business?
Looking to Asia again as an imperfect comp, my good friend and colleague Henry Chen in Hong Kong recently did a survey. He estimated that cap rates would expand in Asia by 50 to 75 basis points in the near term, basically across the board. The exception was industrial, where he saw cap rates were largely flat.

CBRE is the largest appraiser firm in commercial real estate. In speaking with our head of valuations, he doesn't think cap rates will back up as much as we saw in Asia but will be closer to 25 basis points. His more optimistic view of cap rate expansion is due to the fact that the cost of capital is low and likely to get lower (in the form of lower-cost debt and more equity coming in from overseas because the US will be seen as a safe haven). Even if we have a 25-basis point rise in cap rates (which is relatively modest), we still expect values in the short-term to fall anywhere between 10 and 20%, because fundamentals have deteriorated.

There isn't a person on this webinar who believes that rents are going up in the next year or more. They are more likely to fall. We already have objective evidence of this in the multifamily space -- as Costar reported this last week. Our valuation expert believes that in the other asset classes you are at best going to see flat, but more likely lower, rents in the short-term. We hope to see a spike in year 3. Overall, this equates to this 10 to 20% drop. Again, this is asset and market dependent -- some will do much better than that (core stable assets in CBDs) and some that will perform worse (secondary assets/secondary markets).

The After Effect of COVID-19: Secular vs Cyclical Shifts
Has there been a secular shift in the use of office, retail and industrial? Cyclical shifts indicate an up and down, temporary change. Secular shifts indicate this time is different and nothing is going to go back to the way it was before.

Office
The office argument that I'm hearing today is that "*because we are successfully working from home, we're going to continue working from home. We are more likely to do Zoom calls in the future, work outside of the office, etc."*

Here is the counterargument. Up until February of this year, every survey we did of the workplace and why people go to the office said that people are better in the office environment -- 'better' in objective ways in terms of productivity, happiness, and attracting and retaining talent. This is not going to change.

What we may see is the rise of “fluid workplace”. I use that term specifically in contrast to the term “the agile workplace” (i.e. what is going on within the four walls of the office. Open areas for congregating, conference rooms for quiet space and other mixed uses within the workplace). A “fluid workplace” is people working from anywhere at any time (i.e. working from your phone, Starbucks, the back of your car/autonomous vehicle, etc). CBRE recently came out with a report called The Age of Responsive Real Estate: The 2030 Report which talked about how this “fluid workplace” trend was going to rise prior to the COVID-19 pandemic. You can still bet that we still are going to see both the rise of this trend, as well as see people go back to the office.

Anecdotally, if we look at major events like Hurricane Sandy (the devastating 2011 storm that hit lower Manhattan and caused billions of dollars of property damage in the office sector) the office sector reacted by becoming more resilient. Critical infrastructure that was below the flood line was moved above grade, owners made sure to have redundant electrical systems in their buildings, etc. The impact of these changes was born out in 2017’s Hurricane Harvey in Houston and in the Mexico City Earthquake, where most of the office stock was unharmed because the industry had already adapted to change and the risk factors of past natural disasters.t. They got better, they got stronger. Post COVID-19, people will return to the office for the same fundamental reasons as before (productivity, happiness, attracting/retaining talent); however, the office sector may change in the following ways:

- Likely to see a less dense office space. The average square footage per employee has gotten tighter and tighter for the last ten years. We may see the pendulum swing back as people desire more physical separation between one another. This could make the demand for office space go up, not down.

- Upgraded HVAC and other air cleanliness systems, not dissimilar to what you might see in a medical office building. We aren’t going to see surgical level cleanliness in the office environment, but we will see a cleaner environment in both the physical structure (HVAC, etc.) and through other means.

In the context of the impacts on office, a lot of people are asking about the future of coworking post COVID-19. Notwithstanding the challenges of some of the big-name companies like WeWork, etc., we still believe coworking has a very strong future. The next 90 or 120 days are going to be extraordinarily challenging, much like retail, because they have lost most of their tenants in the short-term. However, this doesn’t negate the fact that coworking has proven to be an effective way not only to work, but is also an effective strategy for corporate users. We think this will continue.

Industrial

Industrial has been the net beneficiary of just about every megatrend for the last 20 years, and it is led by ecommerce. Things are now likely to accelerate thanks to the same concept we discussed earlier for office: resilience.

We proved that we weren't resilient enough for this event when we saw supply chains get strained in China and elsewhere when things got difficult. We need more industrial space, not only for supply chains for domestic manufacturers, but also for things like food and cold storage (an area we have been talking about for over a year now). That being said, the world is moving quickly. I just read a report in The Economist that said despite the fact that we had huge spikes in grocery sales in March, sales have already fallen off dramatically at the moment, due to a "bunker style" purchase sentiment. So even if we believe that cold storage and at-home delivery of goods is the future (and that this trend might accelerate) -- it's not going to accelerate at the pace that you might have thought it would during the shopping surge 3 weeks ago. I think you're still going to see the strongest area of retail has been and always will be the grocery anchored sector. Another area of industrial we like, in addition to cold storage, is the ever-increasing need for last mile.

There is the other secular argument as it relates to how much manufacturing is going to come back into the United States. This is a trend we have been talking about for five plus years. Due to cheapening automation, we believe you're going to see more manufacturing come to high labor cost places like the United States and Europe. We see this accelerating now because of the resilience argument. People are going to want to have more manufacturing here in order to create more secure supply chains.

Retail

The last secular argument I am going to counter is in the retail segment. For the last ten years we have heard the narrative that bricks-and-mortar retail is dead. And now some folks are saying they are never going back to a bar or restaurant.

My colleagues in Hong Kong say today there are already lines of people outside of luxury goods stores and restaurants, a phenomenon that is being termed "revenge retail". There is pent up demand. We are likely to see a surge of people going back to retail places immediately after the doors are reopened.

The restaurant space is going to be constrained likely until early 2021, but it along with gyms, bars, sports games, etc. will come back just as strong as before. These are not secular shifts -- they are short-term problems until the virus is under control.

Austria reopened the doors this week on small shop retail space. They are likely opening the doors next week on large shop retail space, and for restaurants in about 3 weeks. This is probably going to be the same thing we see here in the US eventually.
In the short term, retail will observe social distancing, offices will limit the number of people who can go into an elevator and improve desk spacing within the office, we'll wear masks and gloves, etc. But in the long-term, retail and office will be just fine. Industrial will be a net winner here as well.

Audience Q & A

You spent some time talking about secular changes that may come out of this pandemic. The crisis we are having now did not come from the financial markets, this feels a bit more like 9/11, than 2008. Are there lessons learned from 9/11 that would help inform us as to how we should expect the recovery to happen here?

There are two answers here: the macro answer (what happened to the economy) and the micro answer (what happened to real estate). The terrible tragedy of 9/11 from a human standpoint can't be understated, but from a real estate standpoint we saw in the short-term in New York City that people started paying more to be on lower floors of the building because they were afraid. Eventually people got over that fear factor and normal office usage started to return. I think that example will inform us here to some degree here. You're likely going to see the same fear factor in the way people use commercial real estate. In the short term there will be different ways that people use office, retail, hotels. Eventually normal usage will return.

One of the permanent changes from 9/11 was the use of enhanced security not only at airports, but also in office. We could see things like that happening here, for example things like queue management and enhancements to “skip lines”, especially in healthcare.

Another lesson from the shock of 9/11 is brought to light when we remember that it was second to the tech bubble shock economically. When you take a look at these shocks you need to examine which markets were affected more greatly. Because it was a tech shock, you saw horrible results in San Francisco, Boston and Austin... but these same markets did much better post-GFC 2008 because tech helped lead them out. I see something similar today where the tech business is something that's going to lead out both markets and submarket from this crisis as well.

The hotel and tourism industry is so important to the economy in Florida. Do you sense there will be more secular changes in that industry as well? I wonder if his people's behavior is going to fundamentally change when they think about travel?

I don't want to sugarcoat or understate the near-term reality, it is awful. I just looked at the forecast for our hotel demand in the United States in 2020 and we believe that it's going to be down by 40% for the year. The second quarter down by over 60%. The good news is it's going to start to improve in the third and fourth quarter. People will travel because price matters. People will get back on cruise ships, go back to Orlando and Miami as they are lured by cheap vacations. I see them coming back with pricing power.

This disease is not going to be solved for at least a year, but with testing you have the ability to segregate in much more targeted ways. Which means people observing social distancing can walk into an office building, Disney World, restaurants, etc. and we can protect those most vulnerable. 2020 is going to be rough and it's going to be rough disproportionately for people that are dependent upon travel, tourism, retail, and restaurants, but it's going to bounce back quicker than people think starting in 2021.

Zooming in on multifamily. April rent collections surprised everyone in our company. It outperformed expectations in all three classes, with C being the lagger in the group. We are concerned about what may happen in May. What is your short-term forecast for multifamily across the A, B & C segments? How do you look at it more mid and long-term? When do you expect the recovery to occur?

There was an unfortunate event last week for multifamily. Our friends at the National Multifamily Housing Council put out a report that was misinterpreted by the press that said that only 69% of people had paid their April rent. It was a misinterpretation because they only measured it through April 5th, which was also a Sunday. If they had measured through the end of last week it was closer t0 90% or above. In fact, Equity Residential came out with a report this morning that said 93%. I've been on calls with just about every major multifamily developer in the country. We've been pleasantly surprised that not only in the A space, but even in the workforce and manufactured housing segments, collections were in that same 90% + range.

Most people believe in multifamily and elsewhere, that May is going to be a bigger harbinger of where we are than was April. I'm not as optimistic about May, but at the same time we have seen this PPP program kick in much more quickly than I anticipated. I will tell you I'm not just a spokesman, I'm also the husband of a small business owner. My wife applied and she's already gotten some of these funds. It's moving much more quickly than we thought, and the relevance of that is the ability to pay rent. The government has thrown the proverbial kitchen sink at this and we think that collections will stay strong in multi-family in May. Albeit May is going to be weaker than April. It will hit some of the workforce housing and lower rungs harder because a disproportionate amount of the job loss we are seeing has been in the service industries. Regrettably, Florida has a disproportionate number of people working in those service industries, so your rent may be hit just a little bit harder on a local basis than they might get hit on a national basis.

The good news is CBRE came out with a flash on Thursday which talked about what we see for multifamily vacancy and rents in 2020. We see vacancy increasing by a couple hundred basis points but starting to bounce back in the fourth quarter. For rents, we have seen objective evidence of decline in 2020, but they will start to bounce back in the first quarter of 2021. Multi-family is not immune, but they are a story of resilience as compared to the other asset types. Multi-family will bounce back first, followed by industrial, and then office.

On the theme of secular changes and impact on real estate. Do you see this pandemic having a geographic effect on real estate -- mostly in the context of major markets versus secondary markets? We are seeing the virus hitting the major markets much harder than it is the secondary and tertiary markets. Will that have a disproportionate effect on real estate?

Over the very short term this may be the case. Over the mid to long term, no. Once again, I am going to go back to the tragic example of 9/11. People were concerned about returning to major markets immediately following the event, but they eventually came back when safety precautions were put in place. They also came back because there are places and things that simply can't be replicated. You can't replicate the talent base, capital base or infrastructure of New York or DC, etc. Which is the same for Orlando from a tourism standpoint -- you simply can't rebuild Universal, Disney World, the retail and hotels elsewhere. In Miami, you simply cannot replicate the international element, the Miami airport, etc. Miami is also the number one city in the United States where people are foreign-born vs domestic born. Notwithstanding the fact that a lot of people believe that globalism is going to decline in certain sectors, like manufacturing for example. I do not see globalism going into decline in terms of the flow of capital and immigration. Stopping immigration via a wall or otherwise is not a sustainable plan (I just don't see it happening). Miami is at the forefront of being the net beneficiary of more immigration, which will bring more capital.

Long story short, I do not believe that secondary markets are going to be net beneficiaries. I just don't believe that people will move out to the Suburban Market rather than Urban Market because of the fear factor of the pandemic. It will come back, and it will come back just as strong as it ever was before. I think the urban centers will simply get safer, much like they did post-9/11.

Next, let's touch on senior housing. We know seniors are the most vulnerable group in this pandemic. In some situations, we are seeing facilities that are having a heavy Covid-19 outbreak. Do you see this pandemic having a long-lasting impact on how people view senior housing and the demand for housing in that space?

The senior housing space is obviously being hit exceptionally hard for two reasons. Number one, it appears elderly folks are disproportionately more vulnerable. Number two, the consequence of which is that visitation is prohibited. People can't tour these facilities, and certainly there is a stigma attached to them at the moment.

Senior housing is likely going to suffer until this disease is under control (probably for at least a year). The other area that's going to hit seniors with a double whammy is how single-family home prices are going to be impacted. Single-family home prices are going to drop substantially in the short term (likely the next year/year and a half). What we track is the Case-Shiller housing pricing index. The data is not out yet, but as an example, I checked condo prices Miami have already started to fall the last couple of weeks. That's just a leading indicator -- I think single family housing prices will follow. Single family home price decreases are going to be a bigger long-term threat to the senior housing industry than Covid-19 itself. People don't just move into senior housing because they get older; they move into these types of places because they have equity built up in their homes. If that is retarded, then that is going to retard their demand for these places as well.

That's the bad news, the good news is this may also retard new development in the senior housing space. Demographic trends in the USA are so strong for the senior housing space that, while it may take a longer while to recover in the short term (more than any other housing sector), it will recover. It will be very strong in the intermediate term because the demographic demand for this housing isn't going to change … it is only going to get better.

In Florida, real estate development is such an important industry for our economy -- housing of course is the biggest component. What do you think about the building of new real estate projects, not just in the housing sector, but across development? When will that become viable again? How long will the developers be on the sideline?

The truth is I have already had a minority opinion on this. My opinion was actually formed when I was in Jacksonville recently. When I was up there a lot of people in Jacksonville were saying to me: *"you know we can't build in Jacksonville, because average class A rents are $22/$23 bucks a foot… they haven't moved in years."* I am of the opinion you can build. We have seen the phenomenon in places like San Antonio where the average Class A rent there was $23 bucks. They built new and you know what they're getting? ...They're getting high $40s rents for the new build. To the extent that there's any room in this conversation for some of my old expressions, one I used all the time and I'm using again now is that "new is the new new". What that means is that there will always be demand for new product for tenants in market and for drawing tenants from outside the market. The best example of that is Nashville. If you look at all of our models, Nashville overbuilt multifamily and office… but guess what, they are absorbing it all! They have all of these positive drivers there.

Developers are probably going to be limited by their banks' ability to give construction financing (though I will note construction financing is available for good developers. I can point to several deals we have done in the last several weeks). But I think that demand for new product is still going to be strong. I'll go one step further than that. Recall the secular shift that I talked about that's going to happen in the office segment (upgraded HVAC systems, upgraded safety systems related to wellness, etc.). These new products (where there was already a delta being formed -- a gap between new and A- products in the las t5 years) that gap is going to get wider as some of this newer product employs the new wellness systems that will attract even more tenants. There's actually silver lining to this terrible situation where people who will soon have new product coming out of the ground and are just redesigning their spaces today, have the ability to be at the vanguard of changes that are going to become ubiquitous over the next 10 years

Where do you think the distress is going to show up in the real estate industry in the wake of this pandemic? With 2008 being a real state centric crisis, we saw distress almost everywhere (with multifamily and industrial being a bit of an exception). Where will it be in this crisis? Where are there opportunities from that distress that our members can look for?

Sure, I think that the way to look for 'actionable' distress isn't necessarily by asset types but is to look at capital structures. Which is to say to look at different types of lenders. If you look at the hierarchy of the lenders who have been most forgiving in this crisis, the most forgiving have been Fannie Mae and Freddie Mac (which have given formal forbearance programs); Second most is banks (some of whom are giving forbearance on a case by case basis); next are the insurance companies (again case by case); lastly, the least forgiving are the conduit space, the REIT's and the non-bank financial institutions. People who are saddled by conduit, non-bank financial institutions and/or other forms of inflexible debt is where you are going to see the most likely levels of distress. Now a disproportionate conduit debt (to use as an example) is in the retail sector. 30% of all conduit/CMBS debt is in retail. This is a double whammy for the sector, which is already getting crushed from a collections standpoint, and now they have this inflexible capital structure. That's the bad news

The good news is the government is already trying to find a bailout solution for conduit, so you may not see as many distress situations there as you might think.

Another piece of good news is that you are seeing people being able to buy bad debt. At CBRE we have a very large loan sale group. We are seeing that as another area people are circling now and wondering "can I buy the "bad debt" of many of these distressed companies in conduit or mortgage REITs, etc".

The other thing we are seeing now from an immediate opportunity from a capital standpoint is what is called "rescue capital". I can't tell you how many of my friends in the industry, both large institutions and otherwise, have called me and said "we have $25-500 million of capital available, both at the property and at the operating company level, to be able to help these companies ride out the storm". The good news for some of these operating companies can be seen in examples like that of Hersha Hospitality: a big hotel REIT that just announced last week that their banks gave them not only covenant relief, but some additional liquidity relief (to the tune of something like $100 million). Thus, they don't really have any issues until May 2021. They basically bought a year...and this is in the hotel business that's been creamed by the economic effects of Covid-19. Because we are hearing of this kind of flexibility, I don't think there will be as many distressed opportunities as people on this webinar may perceive based on the macro distress we are seeing today. Unless we see a real solution in the conduit / REIT / non-bank financial space, you will see distress there. That distress will come in the form of foreclosures and opportunities to get assets through that. We are certainly hoping and working to make sure that does not happen...but as of now we haven't found a solution yet in the conduit arena.

When my company put our business plan together for this year, we thought the big event of the year would be the presidential election. In the last election, we saw the financial markets starting to seize up a little around the midpoint of the year in anticipation of the election. What do you think we have in front of us leading up to November in terms of the market's reaction to the 2020 Presidential Election?

I'll tell you what I think and then I'll tell you what I hope. What I think is that I'm really really glad that there's so much stimulus coming in so quickly right now, because I fear as we get closer to the election every decision to put a dollar here or not put a dollar here is going to be politicized by the right or the left. I don't want that.

One of the big fear factors I have is that as we approach November, the political will to give those dollars is going to be constrained by the political realities of the election.

In prior years there has been a slowing down of transaction volume immediately prior to and shortly after the election as people figure out what's going to happen. But I've said this on the record before and will again today, presidential results matter a whole lot less than do local politics. I know this based upon our analysis of major macro events going back 50 years, every war, every 9/11 type of event. The reality is that the presidential election has less impact on our business than local politics. I'm not taking any position on the right or left, Trump or Biden. All I'm saying is that from our Industry's perspective I'm not worried either way.

What I would be worried about if I am on this webinar right now is some of the local changes that will impact your ability to do your business. One of the areas that has been most challenging in the last year is the affordable housing laws; including rent control which has been retarding the ability to put up new housing stock. It is the ability to build new infrastructure or not that is going to have the greater impact on us for sure. I've always said, and stand by my position that local market issues matter more than federal ones when it comes to elections.

In uncertain moments we all seek advice. We are all trying to figure out what we do in the near term. What is the common thread of advice you're giving ppl? What is the common thread of opportunity that they should be thinking about?

The big picture is that this is a very personal crisis that's hit us like nothing before. Everybody's feeling it and thinking first and foremost about their families. But professionally, people should not overreact. If you take a look at this objectively, looking at the comps we've seen before, we've gotten through crises like these faster than other crises... and we've come out stronger on the back end. I will also note that, notwithstanding the fact that this industry for most of my career has been too much of a dog-eat-dog world, I've seen lenders, landlords and tenants communicate today in a way that they've never communicated before. Sure, there's bad actors on both ends of the scale, but most are acting and communicating in ways that are constructive and I think are going to make us structurally stronger in the long term. An example is retail, they are really struggling and are going to have to come up with a lease or payment structure that might be different than a traditional “base rent + some percentage rent” structure… something that is more of a partnership. These seeds of which are being planted today in the form of better relationships between tenants and their lenders.

In summary, personal considerations should come first today. Make sure you and your family are safe and well. Give whatever you can help these First Responders. But, professionally act in ways that are highly communicative with your partners, landlords, lenders, tenants, etc.-- and we will be stronger for it in the long run. I am convinced of that.