It’s been a long and lonely year. The tolls were unimaginable. But real estate learned some things about itself in the past 12 months.

In February of 2020, the Dow Jones Industrial Average had broken 29,000, a record.

Unemployment was at 3.5 percent, a historic low.

“Parasite” became the first South Korean movie to win the Oscar for Best Picture, and WhatsApp got its two-billionth user, making it the second-largest social media platform in the world after Facebook.

Going into the last day of the month, former Vice President Joe Biden was making his last ditch effort to revive a primary campaign that had been humiliatingly shut out of a popular vote win in the first three contests, and many political mandarins were preparing for Bernie Sanders to head the Democratic ticket.

And then came March.
Everybody has their own, personal, COVID-19 pandemic start date — the moment they left their office in March and knew they wouldn’t be back for a while, the minute they second-guessed that beach trip they’d planned or the subway pole they just touched, the first time they coughed and then worried about it.

As we go to print, COVID deaths in the U.S. are approaching 526,000; an incomprehensible figure. Lives have been turned upside down in a way we could never have predicted or imagined.

But, when it comes to our industry, which suffered pandemic casualties of a decidedly different kind, was the past year a lost one? Or did some good things also come out of this most-unprecedented crisis?

**Debt markets held their own**

“As a society, we lost many of our fellow citizens, millions of jobs and community socialization — undeniably, a terrible loss. But, I wouldn’t consider the year to be a lost one,” Steve Kohn, president of Cushman & Wakefield Equity, Debt & Structured Finance, said. “We saw individuals across the country demonstrate tremendous effort and collaboration to overcome a devastating black swan event. Three examples that come to mind include: the dedication of our health care workers and first responders, the speed at which multiple vaccines were developed, and the stimulus packages approved to help mitigate the calamitous financial impact experienced by many people across the country.”

This time around, and unlike the global financial crisis, “the financial markets responded well and did not shut down beyond the initial couple of months of the pandemic — although major money center banks and [commercial mortgage-backed securities] took a bit longer,” Kohn said.

Other than through the first three to four months of the pandemic, investors and lenders generally maintained liquidity, he added. “While many market participants justifiably became more conservative in their underwriting, they still transacted and owners benefited from declining interest rates.”

Mark Fogel, president of ACRES Capital, said the market pause that COVID brought about was, in some ways, a healthy one: “Pre-COVID, we were getting to the ninth inning, and people were worried that things were going to collapse, eventually, somehow. This event accelerated it and actually took care of some negatives in the market.”

On the heels of an overheated market, the virus forced an overdue pricing reset for some asset classes, although others, not so much. “Multifamily is right back to where it was pre-COVID: very heavily bid on, with [loan] rates being driven down to low levels,” Fogel said. “The [collateralized loan obligation] executions are really the impetus behind that, dragging multifamily rates down. Other asset classes, like hotels and offices, received a real reset.”

It also made providers of leverage — via repo or warehouse lines — a little more discerning in how much they were willing to give, and for what. Margin calls rang out early in the pandemic, with some firms requiring rescue capital in order to survive them.

“Leverage providers are certainly being more careful,” Fogel said. “If you have multifamily or self-storage or industrial, it almost feels the same as pre-COVID, but, on other asset classes, they’re being more skeptical. They want to see deals on a one-off basis and understand why you liked these deals. They’re wary about having too much of anything on their lines, because they got stuck with so many hospitality loans during COVID.”
From an investment standpoint, a silver lining of the pandemic is that “it forced people to think about asset classes and their geography in a different way than they always have,” Fogel said. “The gateway cities were once the darlings of people’s portfolios, but now, people are looking at geographies that are more secondary, like Austin, Tampa, and Columbus, Ohio. And, if you look at those markets, historically, they’re generally more well balanced than the urban core cities and the gateway cities, which seem to swing up and down.”

Fogel predicts a Roaring ’20s-style recovery once vaccines are fully distributed. “There’s a lot of capital out there looking to do a lot of things, and investors got to see how well real estate held up through this crisis,” he said.

Justin Kennedy, co-founder of 3650 REIT, has never been busier. “We’ve created a whole new investor pool, and we’re starting to launch products that were completely developed over the pandemic period,” he said. “I think everything in the capital markets and all the leading indicators point to a very robust, broader economic recovery.”

That’s not to say that everything is coming up roses. “Within broader markets within CRE, I think there’s going to be greater variance in performance,” Kennedy said. “I’ve been doing this since the [Resolution Trust Corporation] days, and I think that the concept of a rising tide lifting all boats is a little bit different this time. It’ll float many boats, but not the boats that got a hole in the bottom from a demand shift.”

Kennedy pointed to the accelerated rate of change that the pandemic has brought about, from Zoom meetings to online grocery shopping to how we use real estate. As a result, “the commercial real estate industry is going to need to think about how we put hands on assets to transform them and maintain their competitiveness,” he said.

**Investors expanded their horizons**

“Overall, I think you can take a lot of positives away from the past year,” Stephen Preuss, a vice chairman in Cushman & Wakefield’s Capital Markets Group, said. “We permutated our business, and we found that as long as you’re nimble and have an open outlook, there are ways to solidify your business — even in a crisis. We looked at different asset classes for the first time, and we’ve gotten a lot smarter on valuations.”

Preuss focuses on investment sales within New York City’s outer boroughs. Going into the pandemic, “Everything stopped. There was shock across the board, in every market, every submarket and within all activity,” he said. “A few months into it, we spent a lot of time playing defense, reopening contracts, and renegotiating them. Overall, we lost about 10 percent of the contracts that we had going into it, which, I think in the overall scheme of what we went through, is a fairly favorable number.”

Although much of New York’s deal activity has plummeted, Preuss has witnessed a new phenomenon in larger equity groups and institutional capital looking outside of Manhattan and taking an interest in Brooklyn and Queens.

“Overall, transaction volume and activity is certainly lower, but our volume of conversations have remained high — which is a good forecast of the breadth of the marketplace, in that, people are getting educated on some of the outer boroughs that maybe they weren’t interested in before,” he said.

Then, there are the discounts and price resets.
“We’re seeing some discounts on hotels, but a lot of people are kicking the can down the road and holding on to those assets,” Preuss said. “We haven’t seen too many hotels trade yet, but that asset class will probably see the largest pricing reset. As far as the products that are actually trading, and the ones that we’re in contract or taking active bids on, it’s development sites.

“We’re seeing a 20 to 25 percent reset of prices from market par, and we’re seeing the largest discounts and more of the luxury areas like Long Island City, Williamsburg, Greenpoint. We’re seeing less discounts to par on some of the more mid-level to affordable areas, which we’ve seen the most activity in and the most desire for.”

**After a brief pause, construction continued**

When asked how he’d describe the past year in a few words, Jeff Pyatt, CEO of Seattle-based Broadmark Realty Trust, laughed.

“There’s the off-the-record words I’d use and the on-the-record words,” he said. “But, I say that tongue-in-cheek. It has been for our company and our segment of the real estate industry — which is primarily single and multifamily, residential construction lending — a surprisingly good year. One that I am very grateful for, given where we are in the world, as compared to so many other industries. Low interest rates have continued to encourage people to buy homes and apartment construction continues to be pretty strong.”

Pyatt has been struck by “just how strong the real estate industry as a whole has remained,” he said. “I feel terrible for the people who have been devastated by this pandemic, and I don’t want to ignore that part, but I think it has provided us a lot of opportunities to also have a big reset in how we look at our workdays and what we expect of our employees as far as coming into an office. I think it’s human nature to find the good in situations like this, and I think with a few years of hindsight, we will find that we made some really positive changes that wouldn’t have been afforded to us if we hadn’t had this enormous shift.”

Additionally, COVID-forced Zoom meetings — incomplete without the catchphrase of 2020, “You’re on mute” — brought some humanity to the workplace, Pyatt said: “You don’t want to accidentally have a cat filter on, but, 18 months ago, if I had been on a video call with you and you heard my dog barking in the background — which you may at any minute now — that would have been viewed as unprofessional. But, today, there’s a realization that we all are human. And it’s one benefit that I really hope continues.”

**Companies are actively eyeing office space again, and subleasing is off to the races**

The pandemic pummeled the office sector, but work-from-home mandates opened our eyes to new, more flexible options than the humdrum 9-to-5.

“One thing that we learned that’s positive is that we work very well remotely,” Lori Albert, director of Manhattan and Long Island research for C&W, said. “I’m not saying that people don’t need their office space, because they do for sure, but I think the flexibility of the future office is a positive thing that came out of this. And I do think New York is going to come back as it always does.”

Office-based employment this time around accounts for 18 percent of job losses, compared with 64 to 79 percent in prior downturns, Albert said. Plus, last year’s activity included some transactions from heavy hitters. “Even though leasing in 2020 was at an all-time low, we still had some big commitments from
Albert said that a diverse roster of tenants are currently seeking to lease space in New York City, although, whether they’ll be taking more or less than usual isn’t clear quite yet.

“I think most tenants right now are figuring out their space needs. They’re waiting to see how everything unfolds,” she said.

An interesting twist is the highly competitive nature of sublease space on the market today. “It’s very different than it was in prior downturns,” Albert said. “Some of it is new construction, and there are some pretty good deals out there. So that’s another positive, right?”

Buildings are getting healthier

Joanna Frank, founding president and CEO of the Center for Active Design (CFAD), has had her hands full since the pandemic hit. Her nonprofit was launched at the end of the Bloomberg administration 10 years ago, with a focus on making buildings healthier.

“It was the first time that the public health community had come together with the real estate and building community to translate public health research into practical design and operational strategies that could be used at scale,” Frank explained. “We wanted to work with the private sector to bring about market transformation across the real estate community globally, and to ensure that all buildings were being designed to be optimized for the health of the occupants and the community at large.”

And, boy, did Frank’s team have that opportunity when COVID-19 hit.

“We were inundated, in a very real sense of the word, with requests for help in navigating the sea of information that all of our partners in real estate were receiving,” Frank said. “They turned to us asking how to navigate and translate all of that public health research into something that was directly applicable to their experience, either as building owners, as building operators, building managers, or investors.”

Working with the Centers for Disease Control and Prevention as its research and evaluation partner, CFAD put together a team of academic advisers who were experts in infectious diseases, as well as experts in the mental health and behavioral challenges that come with a pandemic. “We did that because that was what was being asked of us by the industry. My team rose to the challenge. I don’t think we have ever, ever worked harder,” Frank said.

CFAD received input from top real estate owners along the way. In addition to Fitwel, its healthy building certification system, 2020 also saw the launch of CFAD’s Fitwel Viral Response Module, which provides annual, third-party certification of policies and practices informed by the latest public health research on combating infectious diseases within buildings. Heavy hitters, including BentallGreenOak, Boston Properties, Brookfield Properties, DLC Europe, Hudson Pacific Properties, Kilroy Realty Corporation, Nuveen Real Estate and The Tower Companies, have adopted it within their properties.

The growth of Fitwel registrations practically doubled during COVID. At the end of 2019, roughly 390 projects were certified or had pending certification, impacting 845,600 people and 340 million square feet. At the end of 2020, 660 projects were certified, covering 1.3 million people and 609 million square feet (these numbers don’t include viral response module statistics, which aren’t yet publicly available).
Another interesting and, perhaps, long-overdue positive change from COVID is a more direct connection between an investor in a property and the individuals that utilize that building. “There’s now a very obvious string connecting them,” Frank said. “It’s going to have a profound impact on what is prioritized, because everybody has seen the effect that health risks can have on the financial side of the equation.”

An MIT study that was released at the end of last year showed that healthy buildings garner a greater return on investment, something Frank already knew. “We’ve been waiting for that data ever since we started Fitwel four years ago,” Frank said. “There’s finally a direct correlation between healthy building certification and an increased value per square foot. Now, the demand for healthy buildings is so big that we’ve stopped having conversations about return on investment, because it’s so obvious. I no longer need to make the argument.”

The sense of neighborhood community is stronger than ever

While Frank and the CFAD team are operating at a global scale, big, positive changes have been felt on a more granular level. The virus further fostered a sense of community within neighborhoods, something that Jennifer Falk, executive director of Manhattan’s Union Square Partnership, knows all about.

“We’ve gained a greater appreciation for the value of our community,” she said. “In normal times, you want to believe that the clean and safe programs that you provide to your community are having an enormous impact. But, to be honest, sometimes it’s hard to tell. And I think one of the things that this year has really shown us is that our programs have enormous value, and they’ve been instrumental in helping to see the neighborhood through a very difficult time.”

Having been through a couple of economic downturns — “obviously, nothing as dramatic as what we’ve experienced in the last year,” Falk noted — she knew that Union Square businesses would be, in some ways, insulated from the full impact of COVID closures.

“We have incredible neighborhood partners in the Union Square Greenmarket, and one of the things that really has carried the neighborhood through is the fact that the city allowed the Greenmarket to continue to operate. And, it not only provided a sense of normality, but economic activity. It drives foot traffic to the district. And it continues to bolster the neighborhood and provide a feel-good environment, so that on the days it’s open, you sense that there’s something carrying the neighborhood through these dark times.”

It’s part of a broader lesson from the pandemic, Falk said. “If our city and state government partners have the will to reduce the challenges and the barriers for businesses to operate and function, New York City can really make great advancements,” she said. "The idea that you no longer need a license and have to pay to have an outdoor dining setup is a huge benefit to the business operations for our restaurant community.

In closing

May we never forget the human toll of this pandemic. Something school could never have prepared our health care workers for. The mental anguish of those living through this tortured era, and the physical pain of those who had the virus itself. The final goodbyes often said through Facetime on phones held by strangers, hands held through plastic sheets. The constant sound of sirens, day and night. Someone’s daughter, someone’s father.
Even now, as we finally near the end of a very long tunnel, it’s hard to make sense of what we’ve seen and experienced, and even harder to begin to truly compute what we’ve lost.