CRE Outlook is Positive As Economy Ramps Up

business customers CRE

Summary: The annualized GDP rate for Q1 was 6.4% putting us on track for recovery, as vaccinations continue to roll out, infections are down, and businesses open up. The CRE industry is getting a boost too. We share the latest trends affecting retail, hospitality & travel, office space, and industrial industry segments.

Believe it or not, today is National Dance Like a Chicken Day. We are not quite sure how that started. But, if you feel like strutting your stuff and doing the chicken dance, today is the day to do it.

These days, many people may be doing a happy dance along with you. The economy is looking better with an average expected GDP growth rate for this year of 4.7%.It has been reported that Q1 2021 had an annualized GDP rate of 6.4%, putting us squarely on track. Vaccinations are up, cases are down, and businesses are actively opening up. This is good news for everyone, but especially for commercial real estate (CRE) lenders as their borrowers return to pre-pandemic commitments. With so much going on, we give you a quick summary of how the CRE industry is getting back to business.

Retail

Tired after a year of limited spending, consumers are eager to use their savings which is driving much of the economic growth. Inflation-adjusted consumer spending was up 3.6% in March and with all-time high savings levels, people are likely to continue looking for ways to use their money. According to Placer.ai analytics firm, foot traffic at 52 malls was up 86% in March vs. March 2020 and retail rent collection rates are up, some as high as 90%.

Still, it appears that the upswing may not be felt by all businesses. Populations have moved from cities which will affect some high-density, urban businesses. Also, during this transition period, certain products are more in demand than others, such as casual wear, accessories, and jewelry vs formal wear and suits. Those businesses that have been proactive in addressing shifted customer demand will come out on top.

Hospitality & travel

Hospitality and travel, especially hard hit, seem to be making a comeback. For the week ending April 10th, 22MM room nights were sold with an occupancy rate of 59.7%, the highest since the pandemic. While waiting for full occupancy rates, some hotels have even found more business by advertising the availability of “workspaces” (i.e., hotel rooms) for those remote workers finding they need more peace and quiet than the home environment provides. These innovative marketing initiatives could bridge the income gap for hotels as they wait for a full recovery.

Office space

Property managers, CBRE and JLL say they have been able to keep costs down through the pandemic, despite new protocols, which has subsequently helped landlords keep their expenses down. This has helped some landlords with cash flow as tenants are still assessing their office space needs.

According to a survey by JLL, 50% of their clients are redesigning their workspaces as employees return to allow for more space and the flexibility of hybrid work schedules. Also, to incentivize employees to return (and entice new employees), several are reassessing provided amenities, such as workout areas, onsite food options, etc.

That said, many companies are opting for an earlier return to the office. "*Employers have lots to think about, but the narrative is changing favorably for the office sector as a result of vaccines,*" notes Jeff Eckert, president for US agency leasing with JLL. Microsoft, Amazon, JPMorgan Chase, and Citibank, have all announced earlier returns to the office than previously planned. We expect other companies and businesses will follow their lead.

Industrial

While consumer demand is fueling the economy, it is also putting pressure on the supply chain. Semiconductor availability is still largely limited. Yet, one of the main Taiwanese manufacturers said it will be caught up by the end of June with the minimum needs for automakers.

On a positive note, Fed Chair Jerome Powell stated in April that the central bank expected resolution with the supply bottlenecks as businesses found new ways to meet demand. Accordingly, warehouses and distribution centers seem to be humming along, as Amazon recently announced that it will increase hourly wages up to $3 per hour. Overall, the supply chain issues appear to be short-term in nature which gives the industrial sector continued optimism.

As the economy ramps up, so too will CRE. Right now, the growth is somewhat inconsistent. Yet, the expectation is that reasonable growth will be here before long to ensure our thriving communities continue.

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ECONOMY & RATES

Rates As Of: 05/14/2021 08:25AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.02	0.01	-0.07
6M	0.03	0.00	-0.06
1Y	0.05	0.00	-0.06
2Y	0.16	0.00	0.04
5Y	0.83	-0.02	0.47
10Y	1.64	0.01	0.72
30Y	2.36	0.07	0.72

FF Market	FF Disc	IORB
0.06	0.25	0.10
SOFR	**Prime**	**OBFR**
0.01	3.25	0.05

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